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ANALYSIS OF THE MAYOR'S PRELIMINARY BUDGET FOR 2005

IBO's Reestimate of the Mayor's Preliminary Budget for 2005 and Financial Plan through 2008

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Preface

This report provides IBO's analysis of the Mayor's Preliminary Budget for 2005 and Financial Plan through 2008. It presents an examination of the key tax and budget proposals made by the Mayor, reviewing and, in many cases, reestimating the potential revenue, costs, or savings from these initiatives. The report also includes agency-by-agency reviews of changes in Capital Budget spending.

Because many of the sections contained in this report—in particular the overview and accompanying revenue and expenditure tables—were first released in early March to supplement IBO's testimony at the City Council's budget hearings, they may not reflect all of the latest events and information.

Several notes on the report's format: all years refer to fiscal years unless otherwise indicated; the total budgets for city agencies are always net of intra-city sales (contracts and purchases between city agencies); the term PEGs refers to the Program to Eliminate the Gap and includes initiatives to close the city's budget shortfall by outright cuts of city funds, replacing city funds with federal or state resources, or increasing fee or fine revenue that can replace city tax dollars.

Like the past two years, we also have produced a companion volume to this report, *Budget Options for New York City*. Released in February, the latest report presents nearly 70 options for closing the city's budget gap, along with pros and cons associated with each measure.

This Preliminary Budget report is the product of the expertise and hard work of IBO's team of budget analysts and economists. A list of staff contributors and their areas of responsibility are included at the end of the report. The report was written under the supervision of Deputy Directors Preston Niblack, Frank Poscillico, and George Sweeting. Doug Turetsky served as editor, and Michael Hartmann and Nashla Rivas Salas were responsible for its layout and production.

Ronnie Lowenstein

Director

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Overview

An improving local economy along with a set of tax increases and spending reductions has helped move the city from the fiscal precipice it faced the past two years. Now the city's near-term fiscal outlook is markedly better: IBO projects that under the Mayor's latest budget plan the city will end the current fiscal year with a surplus of $1.6 billion and will end 2005 with $469 million more in revenues than expenditures, which can be used to fund new priorities or meet other needs. This picture could dim, though, if a number of measures assumed in the plan such as revenue from the Battery Park City Authority or wage increases for labor that are funded by givebacks do not materialize.

IBO's review of the Preliminary Budget for 2005 and Financial Plan through 2008 finds the city still faces pressures in the later years of the plan. Although spending for most programs and services is flat throughout the plan, total spending growth will continue to outpace revenue growth and leave the city with sizeable budget gaps in 2006 and beyond.

Some key highlights of our analysis and reestimates include:

- With the local economic recovery underway, IBO now expects tax revenue to be $26.5 billion in 2004—$1.0 billion more than anticipated by the Mayor when the budget was passed last June.
- The budget plan anticipates annual spending growth averaging only 0.4 percent for most city programs and services between 2004 and 2008.
- In contrast, fast-rising costs for debt service, pensions, Medicaid, and some other portions of the budget over which the city has limited control will push city spending to over $50 billion in 2007.
- If a number of key measures in the budget plan are not achieved—from Municipal Assistance Corporation restructuring to expected federal and state aid—the 2005 surplus could become a shortfall and projected gaps of $1.7 billion in 2006 and $2.7 billion in 2007 could increase by over $1 billion annually.

Total Revenue and Expenditure Projections

Dollars in millions

	2004	2005	2006	2007	2008	Average Change
Revenues	$ 46,478	$ 47,423	$ 47,657	$ 48,636	$ 49,947	1.8%
city-funded revenues	*32,551*	*33,242*	*33,476*	*34,319*	*35,501*	2.2%
Expenditures	46,478	46,954	49,329	51,316	52,300	3.0%
city-funded expenditures	*32,551*	*32,773*	*35,148*	*36,999*	*37,854*	3.8%
IBO Surplus/(Gap) Projection	**$ -**	**$ 469**	**$ (1,672)**	**$ (2,680)**	**$ (2,353)**	
Uncertainties						
Anticipated State and Federal Actions	-	(700)	(700)	(700)	(700)	
MAC Restructuring	(491)	(490)	(492)	(494)	(470)	
Pensions	-	(300)	(300)	(300)	(300)	
Private Bus Subsidy Reduction	-	(145)	(148)	(153)	(158)	
Battery Park City - Asset Sale	-	(150)	-	-	-	
	$ (491)	**$ (1,785)**	**$ (1,640)**	**$ (1,647)**	**$ (1,628)**	

SOURCE: IBO.
NOTES: IBO projects a surplus of $1,624 million for 2004, $234 million above the Administration's forecast. The $234 million is used to prepay additional 2005 expenditures, leaving 2004 with a balanced budget. City funded revenues and expenditures exclude State and Federal Categorical Grants. Projections are net of intra-city revenues and expenditures. Uncertainties do not include possible costs for a labor settlement and resolution of the Campaign for Fiscal Equity education lawsuit.

BUDGET GAPS

If the budget plan is adopted as proposed, IBO projects the city will end the current fiscal year with a $1.6 billion surplus (which will be used to prepay some of next year's expenses) and a $469 million surplus in 2005. But the pluses will turn to minuses in the ensuing years. We project a gap of nearly $1.7 billion in 2006 and $2.7 billion in 2007.

The surplus in 2005 could be erased and the gaps in 2006 and 2007 significantly widened if a number of measures in the Mayor's budget plan do not materialize. A partial listing of these "uncertainties" totals $491 million in the current fiscal year, $1.8 billion in 2005 and $1.6 billion in 2006 and 2007 (more details on these uncertainties are provided below).

ECONOMIC AND REVENUE ESTIMATES

After three consecutive years of job losses, the city's economy is finally beginning to grow. IBO expects employment in New York City to rise a modest 21,200 jobs (0.6 percent) this calendar year followed by stronger growth of 59,100 jobs (1.7 percent growth) in 2005. Similarly, after two years of decline, wages and salaries will grow 4.0 percent this year, helping to fuel a 5.8 percent jump in personal income. Wall Street profits, an important marker for the city's fiscal health, reached $15.1 billion in 2003—more than double the year before—and are expected to remain above $15 billion both this year and next.

IBO projects that total city revenue, which includes state and federal aid, fees and fines, and other miscellaneous resources, will grow by nearly $1 billion in 2005 and reach $47.4 billion. Total revenue will continue to rise at an average annual rate of 1.8 percent through 2008 when it is estimated to reach $49.9 billion.

Reflecting the improved local economy, city tax revenue will grow at a steady pace, although well below the growth rates of the late 1990s. IBO estimates that tax revenue will rise by $370 million in 2005 and total $26.9 billion assuming the Mayor's proposed property-tax rebate and repeal of the absentee landlord surcharge are adopted. Tax revenue will grow at an annual average rate of 3.0 percent and reach $29.8 billion in 2008.

Tax increases enacted for 2003 and 2004 account for much of the growth in tax revenue in 2004. Without the increases, tax revenues would have increased by 5.4 percent in 2004, barely a third of the 14.2 percent increase forecast by IBO. Except for the property-tax rate increase, which the Financial Plan assumes is permanent, the other increases are all temporary. The scheduled phase-out of the increases will constrain tax revenue growth in 2005 through 2007. The sunset provisions reduce tax revenue growth in 2005 by nearly 60 percent.

Among the city's major tax sources, property-tax collections will increase the most in percentage and dollar terms. IBO projects property-tax revenue will rise by $553 million in 2005 and total $11.9 billion. Property-tax collections will rise at an annual average rate of 4.8 percent and reach $13.8 billion in 2008. Since the property tax rate increase has already been fully phased in, this increase results from continued strength in local property values.

Growth in personal income tax revenue will be more modest and will remain below the peak—reached in 2001—until 2008. IBO anticipates that personal income tax revenue will rise by $142 million in 2005 and total $5.5 billion. This growth occurs despite the phasing out of increases on upper-income filers. Growing at an annual average rate of 2.6 percent throughout the Financial Plan period, we expect personal income tax revenue to be just under $6 billion in 2008.

This growth in tax revenue is partially offset by declines in sales and mortgage recording tax revenues in 2005. IBO projects sales tax revenue will fall by $165 million in 2005 because of the phase out of the sales tax increase enacted last year; the mortgage recording tax will drop by $78 million in 2005 because higher interest rates will reduce mortgage refinancing activity.

EXPENDITURE ESTIMATES

IBO projects that total city spending will grow by $476 million—or 1 percent—in 2005 and reach $46.9 billion. Over the course of the Financial Plan total spending will rise by $5.8 billion and reach $52.3 billion in 2008. The city-funded portion of this spending will rise steadily as well. IBO anticipates city-funded expenditures to increase from $32.6 billion in 2004 to $32.8 billion in 2005, a $222 million increase. City-funded spending will continue to rise in the following years and reach an estimated $37.9 billion in 2008.

While overall expenditures will grow at an average annual rate of 3 percent, little of this can be attributed to increases in basic city programs and services. On an operating level city spending is flat, growing at an annual average rate of 0.4 percent, although this is partly a result of the fact that the budget includes no funding for wage increases.

enacted in 2004, including shrinking the police force, closing several fire houses, reducing spending on after-school care for children, and other cutbacks have established a new baseline spending level that the Mayor proposes to hold essentially flat for 2005 and the remainder of the Financial Plan period.

Pricing Differences Between IBO and the Administration

Items that Affect the Gap

Dollars in millions

	2004	2005	2006	2007	2008
Revenues					
Taxes					
Property	$ 5	$ 83	$ 387	$ 420	$ 358
Personal Income	122	172	160	132	136
General Sales	27	(113)	(181)	(236)	(275)
General Corporation	73	114	37	(57)	(149)
Unincorporated Business	19	7	(5)	(19)	(31)
Banking Corporation	71	57	59	(4)	(94)
Real Property Transfer	8	74	63	35	23
Mortgage Recording	(46)	(11)	(19)	-	22
Commercial Rent	5	5	6	8	15
	284	388	507	279	5
STaR Reimbursement	(23)	(18)	1	16	13
Total Revenues	**$ 261**	**$ 370**	**$ 508**	**$ 295**	**$ 18**
Expenditures					
Public Assistance	$ 21	$ 41	$ 64	$ 67	$ 67
Medicaid	(23)	(66)	(69)	(72)	(74)
Police Overtime	(25)	(115)	(100)	(100)	(100)
Board of Elections	-	-	(20)	-	(20)
Campaign Finance	-	8	(34)	8	(1)
Department of Buildings	-	(3)	(3)	(3)	(3)
Total Expenditures	**$ (27)**	**$ (135)**	**$ (162)**	**$ (100)**	**$ (131)**

SOURCE: IBO.

NOTE: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps.

Based on the Mayor's Financial Plan, we project that such program areas as education and sanitation will see a modest rise in spending, averaging a little over 1 percent annually. Spending on other services—from fire to correction to children's services—will fall while police expenditures will remain essentially unchanged over the course of the Financial Plan.

The Mayor's 2005 agency program to eliminate the gap imposes few significant new cuts to agency services beyond those already enacted last year. The $2.1 billion in savings

Driving the increase in overall expenditures is a number of factors over which the city has little or no direct control. Interest and principal payments on city-backed bonds, including those issued by the Transitional Finance Authority will rise from $3.5 billion in 2005 to $5.1 billion in 2008, an increase of $1.6 billion. The rise in debt service stems mostly from the city's annual capital spending plan continuing to be larger than it was in the late 1990s.

Expenditures on pensions and fringe benefits—fueled primarily by the rising cost of health insurance—for city employees are also projected to rise steeply. The city's contribution to the five pension funds are expected to rise by $610 million in 2005 and total $3 billion. By 2008, the city's pension spending—driven largely by the need to cover prior-years pension losses as well as state mandated cost-of-living increase—will increase an additional $1.2 billion and equal $4.2 billion. Spending on health insurance and other fringe benefits for the municipal workforce (excluding the education department) will grow by $197 million in 2005 and total $3.1 billion. These costs will grow an additional $662 million by 2008 and total $3.8 billion.

Medicaid also continues to drive up city spending. IBO projects that city Medicaid expenditures—driven largely by growing drug and long-term care costs—will be $4.6 billion in 2005 and grow by $619 million through 2008 and total $5.2 billion. Much of the city's Medicaid spending is carried within the budget of the Human Resources Administration. When the Medicaid portion of the agency's budget is included, Human Resources Administration spending is projected to rise at an annual average rate of 3.1 percent through 2008. If Medicaid is subtracted from the Human Resources Administration budget, the agency's spending *falls* at an average annual rate of nearly 2 percent.

UNCERTAINTIES

If a number of proposals included in the Preliminary Budget are not resolved or aid expectations unmet, the city's 2005 surplus could be quickly erased. Likewise, these uncertainties could swell the city's out-year budget gaps.

State and Federal Aid. The Mayor's budget plan assumes $700 million in state and federal assistance, with $400 million coming from the state. The Governor's budget contains by his estimate $418 million in gap-closing aid for the city. But the single largest portion of it, which would provide the city an estimated $162 million in revenue, is a continuation of the sales tax on clothing purchases for under $110—something the Mayor has said he will not support. State legislative support for the Governor's Medicaid cost-containment proposals, which he estimates would save the city $141 million, is far from guaranteed. If these two proposals are rejected, the city is a long way from realizing the amount of anticipated state aid.

MAC Restructuring. The Financial Plan also assumes a savings of roughly $490 million annually in 2004 through 2007 from the state taking over the payments of the city's debt service on Municipal Assistance Corporation bonds. The takeover plan, which was passed by the state Legislature but opposed by the Governor, is now tied up in court. The Governor has proposed his own takeover plan, but IBO does not expect the plan to generate enough revenue to finance the takeover.

Pension Costs. Based on a biennial review by an independent auditor, the city may need to increase its contribution to the pension funds by $300 million a year. The "experience study," which draws on data from 1988 through 2001, concluded that because of likely salary increases, higher than anticipated overtime, and other factors the city should increase it pension contribution. The city actuary will make the final determination and has not yet decided if he agrees with the recommendations in the study.

Private Bus Takeover. The city has been negotiating with the Metropolitan Transportation Authority to take over the seven private bus franchises operating here and relieve the city of its $145 million annual subsidy of these lines. The negotiations have stalled—the city had previously sought a deal by last December—and given the transportation authority's own budget problems it is unlikely to take over the bus service without some continued city contribution.

Battery Park City Revenue. The Preliminary Budget also includes revenue of $150 million in 2005 from the Battery Park City Authority from the sale of an "asset." Given that no asset has yet been identified, completion of a sale and receipt of the funds by the city in 2005 is very tentative.

Labor Settlements. Two other uncertainties, although harder to quantify in dollar terms, also could affect the city's fiscal balance. Despite nearly all of the city's contracts with its unions having expired, the budget plan includes no funds for wage increases. The Mayor has said that there will be no retroactive pay raises and no raises that are not self-funded by the workforce through changes that provide savings from labor. This may prove a hard bargaining line to hold. Each 1 percent increase in wages for city workers costs $208 million in the first year and more than double that the next.

Education Lawsuit. Additionally, the state's highest court has ordered the Legislature to develop a new education financing system to resolve the lawsuit brought by the Campaign for Fiscal equity. Since the suit seeks to ensure that the city has adequate resources for its schools, many have assumed the settlement would solely involve more state aid. In fact, a new financing arrangement could require the city to spend more than the $5 billion it already allocates for public schools.

CONCLUSION

New York City's fiscal health has improved markedly and we will end the current fiscal year with a substantial surplus, which will be followed by a smaller surplus in 2005. This relatively strong near-term outlook is tempered, though, by a number of uncertainties in the Mayor's budget plan. These uncertainties, ranging from the possible failure to meet the anticipated level of state and federal gap closing aid to the need to cover the cost of settlements with the city's unions, could add significant pressures to the city's fiscal balance. Moreover, keeping spending level for most city programs and services, with or without some additional cost from a labor settlement, could also prove difficult.

Revenue

Economic Outlook

RECENT DEVELOPMENTS

Recent economic data provide some positive signs for the U.S. and New York City economies. The U.S. Department of Commerce reported in the first week of March that real gross domestic product (GDP) grew at an annual rate of 4.1 percent in the fourth quarter of 2003. Although this was a sharp drop from 8.2 percent in third quarter, real GDP grew by 3.1 percent for the calendar year, up from 2.2 percent in 2002. Moreover, while consumers initially fueled the economic recovery, businesses finally started to spend last year. Corporate profits grew by 15.9 percent in 2003. Finally, both inflation and interest rates have remained low.

Not all signs are positive at the national level, however. Although the economy has added some jobs since last fall, the gains have been small. Data from the U.S. Bureau of Labor Statistics for January 2004 show that the private sector had 2.9 million fewer jobs than it had in January 2001. Although household data show an increase in the number of people employed over this three-year period, labor force participation and the employment-population ratio remain down. The University of Michigan reported last week that consumer confidence dropped significantly in February.

The local economic recession appears to have ended, but growth to date has been limited. Private-sector payroll employment expanded last fall, but at a very modest pace. For 2003 as a whole, the city economy lost 47,000 jobs. After declining in 2002, personal income grew in 2003, but by just 1.4 percent. Seasonally adjusted household data for New York City show an unemployment rate of 8.1 percent for December, down sharply from 8.6 percent in January and February 2003. However, the number of New Yorkers employed is also down. Some of the best news for 2003 came from Wall Street. Securities industry profits are expected to total $15 billion for 2003, more than double the total for 2002. On the downside, however, securities employment in December 2003 was down 2,300 from a year earlier and down 37,700 from its peak in December 2000.

NATIONAL ECONOMIC OUTLOOK

IBO projects strong growth for the national economy in 2004, with real GDP growth reaching 4.3 percent for the year. More modest annual growth of 3.1 percent is expected for the rest of the forecast period, however. Thus, the forecast does not include the rapid expansionary growth that typically follows recessions. Projected growth rates remain well below the surging growth of the late 1990s, in particular.

Similarly, IBO's forecast for payroll employment is one of moderate growth. IBO expects employment growth to be strongest in 2005 at 2.1 percent (2.8 million jobs), followed by slower growth averaging 1.4 percent (1.9 million jobs) annually for 2006 through 2008. The unemployment rate is expected to decline gradually, reaching 5.2 percent in 2008.

Given this moderate growth scenario, IBO expects the U.S. inflation rate to be just 1.2 percent in 2004 and 1.4 percent in 2005 and then stay in the 2.1 percent to 2.3 percent range through 2008. This should reduce pressure on the Federal Reserve to raise interest rates, at least in the near term.

LOCAL ECONOMIC OUTLOOK

After three years of annual job losses, IBO expects New York City payroll employment to finally grow this year—albeit with a fairly modest gain of 21,200 jobs (0.6 percent) over 2003. Stronger employment growth will begin in 2005, with the addition of 59,100 jobs (1.7 percent), and continue in 2006 with a gain of 46,300 jobs (1.3 percent). Job gains in 2007-2008 are expected to be moderate, averaging 38,900 (1.1 percent). IBO does not expect the city to reach its pre-recession employment peak—3.8 million jobs—during the forecast period.

IBO projects steady employment growth throughout the forecast period for several major industries. Employment in professional and business services should turn up this year and then grow briskly. The expected gain by 2008 is 63,600 jobs (12 percent). Leisure and hospitality and information are expected to experience moderate job growth, while trade employment is expected to grow slowly starting in 2005. Construction should also grow through 2006, before tapering off. Employment growth in health, education, and social services will remain strong, with a total gain of 85,000 jobs (13 percent) by 2008.

The outlook for employment in financial activities is mixed. IBO expects the sector, as a whole, to grow slowly throughout the forecast period, but the future for securities is less optimistic. As of December 2003, securities employment was down 37,700 jobs (19 percent) from its December 2000 level. Looking ahead, the industry is not expected to add many jobs. By 2008, securities employment is expected to be slightly

IBO versus OMB Economic Forecasts

	2003	2004	2005	2006	2007	2008
National Economy						
Real GDP Growth						
IBO	3.1	4.3	2.7	3.4	3.2	3.0
OMB	3	4.7	3.8	3.3	3.3	2.8
Non-farm Employment Growth						
IBO	-0.2	1.0	2.1	1.6	1.3	1.3
OMB	-0.2	1.6	2.4	1.5	1.4	1
Inflation Rate (CPI-U)						
IBO	2.3	1.2	1.4	2.1	2.3	2.3
OMB	2.3	1.7	1.6	1.7	2.1	2.2
Personal Income Growth						
IBO	1.3	2.8	2.7	2.5	2.5	2.4
OMB	3.2	5	5.7	5.7	6	5.6
Unemployment Rate						
IBO	6.0	6.1	5.8	5.5	5.3	5.2
OMB	6	5.7	5.4	5.5	5.5	5.7
10-Year Treasury Bond Rate						
IBO	4.0	4.9	5.3	5.8	5.9	5.9
OMB	4	4.8	5.6	5.6	5.6	6.1
Federal Funds Rate						
IBO	1.1	1.4	3.7	4.9	5.0	5.0
OMB	1.1	1.3	2.4	3	3.2	4.1
NYC Economy						
Non-farm New Jobs (thousands)						
IBO	-47.0	21.2	59.1	46.3	38.1	39.7
OMB	-46.6	39.9	51.3	30.7	45.1	34.8
Employment Growth						
IBO	-1.4	0.6	1.7	1.3	1.0	1.1
OMB	-1.3	1.1	1.4	0.8	1.2	0.9
Inflation Rate (CPI-U-NY)						
IBO	3.1	1.8	1.0	1.9	2.3	2.3
OMB	3	2.4	1.8	2	2.4	2.5
Personal Income ($ billions)						
IBO	309.6	327.7	341.0	353.1	365.7	379.5
OMB	317	333.7	350.2	368.6	390.1	411.7
Personal Income Growth						
IBO	1.4	5.8	4.1	3.5	3.6	3.7
OMB	2.4	5.3	4.9	5.3	5.8	5.5
Manhattan Office Rents ($/sq.ft)						
IBO	50.95	51.06	52.81	54.57	56.25	57.99
OMB	48.4	48.1	48.87	49.96	51.97	54.41

SOURCES: IBO, Mayor's Office of Management and Budget.
NOTE: All rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal.

lower than it was last year.

Manufacturing and transportation are also expected to continue losing jobs in the years ahead. Of the nearly 200,000 jobs lost in New York City between 2000 and 2003, roughly one out of four was in manufacturing. IBO expects manufacturing employment to continue on its downward trend, losing another 5,000 jobs (3.8 percent) by 2008. In transportation, job losses are expected this year and again in 2006-2008, leaving the industry with 2,100 (2.1 percent) fewer jobs than 2003.

IBO forecasts a large jump in personal income growth to 5.8 percent this year, up from 1.4 percent in 2003, and moderate annual growth of 3.6 percent in 2005 to 2008. Growth of 4.0 percent in wages and salaries this year, after two years of declines, will help fuel the strong growth in personal income expected in 2004. Consistent with its employment forecast, IBO projects stronger growth of 5.5 percent for wages and salaries in 2005 and more moderate growth of 4.2 percent to 4.7 percent in 2006-2008. Investment earnings are also expected to grow strongly this year and in the later years of the forecast period.

Profits in the securities industry are expected to rise to $15.8 billion in 2004 and remain above $15 billion in 2005. These levels are higher than the levels assumed in the Preliminary Budget. Office vacancy rates and asking rents are expected to remain near their current levels in the year ahead.

On balance, IBO's local forecast is slightly less optimistic than that of the Mayor's budget office. While the Mayor projects a larger employment gain in 2004, IBO projects a larger gain in 2005, and expected job gains by 2008 are the same. IBO forecasts greater growth in personal income in 2004, while the Mayor's budget office is more optimistic about personal income growth in 2005-2007.

Risks to IBO's forecast include continued uncertainty about the extent of decentralization in the financial activities sector, potential changes in tax policy at the federal level, and significant growth in the federal deficit in the years ahead.

Taxes and Other Revenues

INTRODUCTION

The city's revenue outlook, particularly from tax sources has brightened over the course of the 2004 fiscal year, sparked by the beginning of a local economic recovery. IBO projects that revenue from all sources (taxes, miscellaneous city revenues, state and federal categorical aid and other revenues including unrestricted aid) will total $46.5 billion in 2004 and $47.4 billion in 2005, an increase of 2.0 percent. Because the revenues from non-tax sources are expected to grow more slowly than taxes, and even decline in some cases, revenues from all sources are expected to grow from 2005 to 2008 by only 1.8 percent annually, well below the growth rate for taxes for the same period, which will average 3.2 percent annually.

The bulk of this chapter presents IBO's forecast of tax revenues, which is built up from our forecasting models for 11 major tax sources. The chapter also includes a brief overview of the outlook for revenues from other sources.

IBO Revenue Projections

Dollars in millions

	2004	2005	2006	2007	2008	Average Change
Tax Revenues						
Property	$ 11,384	$ 11,937	$ 12,712	$ 13,266	$ 13,757	4.8%
Personal Income	5,390	5,532	5,575	5,599	5,975	2.6%
General Sales	3,939	3,774	3,795	3,938	4,121	1.1%
General Corporation	1,527	1,681	1,720	1,729	1,732	3.2%
Unincorporated Business	899	933	961	987	1,013	3.0%
Banking Corporation	312	348	417	399	333	1.6%
Real Property Transfer	487	518	531	538	558	3.5%
Mortgage Recording	526	448	459	511	560	1.6%
Utility	294	278	278	284	284	-0.9%
Hotel Occupancy	209	230	247	261	273	6.9%
Commercial Rent	425	435	447	464	485	3.4%
PILOTs	238	177	173	150	150	-10.9%
Other Taxes and Tax Audits	919	879	879	874	872	-1.3%
Total Taxes Before Proposals	26,549	27,170	28,194	29,000	30,113	3.2%
Tax Proposals						
Property Tax Rebate	-	*(250)*	*(259)*	*(263)*	*(267)*	*n/a*
Absentee Landlord Surcharge Repeal	*(44)*	*(45)*	*(47)*	*(48)*	*(49)*	*n/a*
Total Taxes After Proposals	*26,505*	*26,875*	*27,888*	*28,689*	*29,797*	*3.0%*
Other Revenues						
STaR Reimbursement	654	697	723	786	819	5.8%
Miscellaneous Revenues	3,185	3,969	3,147	3,115	3,156	-0.2%
All Other	2,207	1,701	1,718	1,729	1,729	-5.9%
Total Other Revenues	6,046	6,367	5,588	5,630	5,704	-1.4%
State Categorical Aid	8,422	8,726	8,785	8,931	9,073	1.9%
Federal Categorical Aid	5,505	5,455	5,396	5,386	5,373	-0.6%
Total Revenues	$ 46,478	$ 47,423	$ 47,657	$ 48,636	$ 49,947	1.8%

SOURCE: IBO.
NOTES: Personal Income Tax includes Transitional Finance Authority (TFA) dedicated personal income tax. All other non-tax revenues include unrestricted intergovernmental aid, other categorical grants, inter-fund revenues, and disallowances. Miscellaneous revenues are net of intra-city revenues.

TAX REVENUE FORECAST

With local economic recovery underway, IBO's tax revenue forecast is now higher. Collections for 2004 are expected to total $26.6 billion, which is nearly $1 billion more than was expected by the Mayor when the budget was adopted last June. Tax revenues in 2004 will be 14.2 percent higher than in 2003. For 2005, when some of the temporary tax increases enacted last summer begin to sunset, IBO projects tax revenues of $27.2 billion, an increase of only 2.3 percent over 2004. In 2006 through 2008, tax revenues will maintain this modest pace, averaging 3.5 percent per year.

These projections are IBO's baseline forecast without taking into account the effects of the Mayor's property tax proposals. If the proposed changes were enacted, tax revenues would be lower by $44 million in 2004, by $295 million in 2005 ($26.9 billion), and by $316 million in 2008 ($29.8 billion). If enacted, the proposals would lower the annual tax revenue growth rate to 3.0 percent from 2005 to 2008.

The major tax increases enacted for 2003 and 2004 account for much of the growth in tax revenues in 2004. Without a property tax rate increase (worth $1.9 billion in 2004), an income tax increase (worth $784 million in 2004) and sales tax changes (worth $297 million in 2004), total tax revenues in 2004 would be $23.5 billion, which would be only 5.4 percent above 2003 revenues (after adjusting for the first half of the property tax rate increase which took effect in 2003). Thus, over three-fifths of the tax revenue growth expected in 2004 is attributable to tax increases rather than economic growth.

Although the Financial Plan assumes that the property tax rate increase will remain permanent, the other increases are all temporary and will begin to phase out this year. The scheduled phase out of the increases will constrain tax revenue growth in 2005 through 2007. Without the sunset provisions, tax revenue growth from 2004 to 2005 would be nearly 60 percent higher (3.9 percent rather than 2.3 percent); growth in 2006 would be nearly 75 percent higher.

- IBO projects that tax revenues in 2004 will be $26.6 billion, an increase of $3.3 billion from 2003, due in large part to the tax increases enacted for 2004.
- The forecast calls for revenues to grow by $618 million (2.3 percent) for 2005. Revenue growth will be slowed as some of the 2004 temporary tax increases phaseout or sunset.
- Tax revenue growth picks up in 2006 through 2008, pushed by strong increases in the property tax. Other tax sources continue to show the effects of the slow recovery in the local economy. Personal income tax (PIT) revenue, even with the temporary rate increase in effect for 2004-2006 is not expected to surpass its 2001 peak until 2008. Business income taxes do not regain their peak until 2006 and growth remains weak after that.
- IBO's tax revenue forecast exceeds the Bloomberg Administration's Preliminary Budget forecast for 2004 by $283 million and by $384 million for 2005. The difference widens to $508 million in 2006 before narrowing in 2007 and 2008. IBO's projections for property tax and income tax are consistently higher than the Mayor's.

REAL PROPERTY TAX

IBO projects that property tax revenue will reach $11.9 billion in 2005, up 4.9 percent from the 2004 level. From 2005 to 2008, property tax revenue will continue to grow strongly. The average annual growth rate is expected to be 4.8 percent. Much of this revenue growth will be due to the "pipeline" of assessment increases that are phased-in over five years for apartment buildings and commercial properties. A substantial pipeline of deferred increases has been built up during the run-up in market values in recent years. IBO's property tax forecast is higher than the Bloomberg Administration's Preliminary Budget forecast for 2005 by $83 million, and then nearly $400 million for each year from 2006 to 2008.

The Mayor's Preliminary Budget includes two proposals to change the property tax: a repeal of the absentee landlord surcharge that was adopted last summer, and to provide $400 rebates to owner-occupants of one-, two-, three-family houses, and coop and condominium apartments. If both are adopted, tax revenue would be reduced by $44 million in 2004, $295 million in 2005, and $316 million in 2008.

Background. The amount of tax owed on real estate in New York City depends on the type of property, its value for tax purposes (as calculated by the city's Department of Finance from estimated market values), and the applicable tax rate.[1]

Under the property tax law, every parcel is assigned to one of four tax classes: class 1, consisting of one-, two-, and three-family homes; class 2, composed of apartment buildings, including cooperatives and condominiums; class 3, made up of the real property of utility companies; and class 4, composed of all other commercial and industrial property.

Because assessment ratios (the share of market value actually subject to tax) and, to a lesser extent, tax rates vary from class to class, there are wide differences between classes in terms of shares of total market value, assessed values, and tax burdens (levies). On the 2004 assessment roll, class 1 homes account for 49.7 percent of market value in the city, but only 11.4 percent of assessed value for tax purposes and 13.5 percent of the tax levy. In contrast, the other three classes each account for greater shares of the assessed value than of market value, and therefore bear a disproportionately large share of the property tax burden.

Tentative Assessment Roll for 2005. In January, the Department of Finance released the tentative 2005 assessment roll. Because of the timing of the assessment process, the market values on the 2005 roll largely reflect economic conditions in calendar year 2003, when the real estate market continued to show surprising strength in the face of the local recession. After taxpayer challenges and other department adjustments are processed, the values will be finalized in May and used for setting 2005 tax bills.

Market values on the 2005 tentative roll show an overall growth rate of 17.2 percent over 2004, with class 1 showing the largest increase at 21.7 percent, followed closely by class 2 at 21.2 percent; class 4 market values grew 7.3 percent. For class 2, the growth was nearly six times larger than the 3.7 percent growth on the 2004 roll. This was largely due to very high growth rates of 28.3 percent for rental properties (small rental buildings in classes 2A and 2B, in particular) and 20.2 percent for condominiums. However, press reports indicate that there will be a major revision downward in assessments for condominiums between the tentative and final rolls this year, which is expected to bring the overall growth rate for class 2 down significantly. For class 1, the growth of aggregate market value on the 2005 roll was nearly three-fifths higher than growth on the 2004 roll. The growth for class 4, led by increases for commercial condos and office buildings, was slightly higher than last year's rate.

Outlook for Market and Assessed Values in 2005. IBO projects that total assessed value on the final 2005 tax roll will grow to $104.6 billion, 5.9 percent over the 2004 roll, which is considerably lower than the increase in market values. The required phase-in of assessment increases for classes 2 and 4 accounts for part of this difference. A second constraint on assessment growth is the cap on annual assessment increases in class 1, which are limited to 6 percent in one year and a cumulative 20 percent increase over five years. While class 1 market values on the 2005 assessment roll grew by 21.7 percent, class 1 assessed values show growth of only 4.1 percent, largely because of these caps on assessment increases.

While the city eventually captures the phased-in assessment increases in classes 2 and 4, much of the market value growth lost to the caps in class 1 is essentially lost forever. When class 1 market value increases exceed the assessment cap, assessed values fall further and further short of the target assessment rate of 8 percent of market value. (Even in weak real estate markets, values rarely fall so far that assessments "catch up" to the target assessment rate for class 1.) When assessment increases for some properties in class 1 hit the caps, the tax rate for the class as a whole must be increased because under the state law governing the city's property tax system the same amount of revenue must be raised from the class regardless of the total assessed value in the class. Thus, owners of properties that did not hit the caps bear a higher burden than they would if the caps did not exist.

Outlook for Market and Assessed Values in 2006-2008. IBO expects assessments to grow in 2006, 2007, and 2008, due largely to the continued phase-in of recent increases in assessments for commercial property and apartment buildings. IBO projects that market values in class 1 will again grow by 4.1 percent for the 2006 assessment roll, and then grow by an average rate of 2.3 percent in 2007 and 2008. Class 2 market values are expected to rise by 4.0 percent on the 2006 assessment roll and then grow by an average rate of 3.1 percent in 2007-2008. Class 4 market values are expected to decline by 1.3 percent in 2006, as slow growth for Manhattan office buildings is more than offset by a decline for other class 4 properties. Between 2006 and 2008, class 4 values are expected to grow by an average rate of 2.2 percent.

With slowing growth in class 1 market values through 2008, growth in class 1 assessments is also expected to slow. IBO expects annual increases in class 1 assessments to average 2.5 percent in 2006 to 2008. The pipeline of previous growth will keep assessments in classes 2 and 4 growing, albeit at diminishing rates, despite the decline in class 4 market values expected in 2006 and the slow growth in market values in 2007-2008. IBO projects that class 2 assessments will grow by 9.4 percent in 2006, 5.2 percent in 2007, and 4.5 percent in 2008. Class 4 assessments will grow by 5.6 percent on the 2006 assessment roll, 4.6 percent in 2007 and 3.8 percent in 2008. Overall, assessment growth for all classes of property will average 5.0 percent annually during 2006-2008.

Revenue Outlook. After the Department of Finance has completed the assessment roll, the actual property tax levy is determined by the City Council when it sets the tax rates for each class. Before raising the overall property tax rate by 18.49 percent, the City Council had observed an informal freeze in the average tax rate since 1992. IBO's property tax revenue forecast assumes that a freeze in overall rate will be re-imposed at the 2004 average tax rate, which has the 18.49 percent increase fully phased in. The levy for 2005 and subsequent years is assumed equal to 12.28 percent of the aggregate assessed value for tax purposes on the assessment roll, up from the old frozen average rate of 10.366 percent.

The amount of net property tax revenue in a fiscal year is determined not only by levy, but also by the delinquency rate, abatements granted, refunds for disputed assessments, and collections from prior years. Taking these other factors into account, IBO projects that net property tax revenue for 2004 will total $11.4 billion, 14.5 percent above revenues for 2003. For 2005, revenue will grow by 4.9 percent to $11.9 billion. For 2006 through 2008, growth will average 4.8 percent, with revenue totaling $13.8 billion by the last year of the forecast period.

IBO's property tax revenue forecast is similar to the Bloomberg Administration's in the early years and much more optimistic in the later years of the forecast. IBO's revenue forecast is essentially the same as the Bloomberg Administration's Preliminary Budget forecast for 2004 and there is only a modest difference for 2005 (IBO is $83 million higher than the Mayor). The differences are much larger in 2006-2008 when they average nearly $400 million each year. IBO's higher revenue forecasts for those years stem from a more optimistic view of assessment growth that is subject to taxation.

Property Tax Policy Proposals. IBO's baseline property tax revenue forecast does not assume enactment of two tax policy proposals included in the Mayor's Preliminary Budget. The Mayor proposes to spend $250 million on rebates for homeowners as compensation for the 18.49 percent rate increase enacted in 2003. The Mayor also proposes repealing the recently enacted absentee landlord surcharge. If repealed, tax revenue would be reduced by $44 million. Both of these proposals would require the state Legislature and the Governor to pass and sign legislation.

Homeowner Rebate. The Mayor's Financial Plan includes a proposal to provide property tax rebates to homeowners in 2005. Specifically, owner occupants of houses and cooperative and condominium apartments will receive $400 checks. The Mayor's intention is to "return" the 18.49 percent rate increase to homeowners, although all property owners—including owners of rental and commercial property—were subject to the rate increase. The Mayor's budget office projects that over 420,000 house owners and over 180,000 cooperative and condominium apartment owners would receive the rebate, at a total cost of $250 million in 2005.

Using Department of Finance data, IBO has found that for most class 1 recipients, the proposed rebate of $400 would actually exceed the increase in their property taxes attributable to the 18.49 percent increase by about $50. For most cooperative and condominium apartment owners, however, the rebate would be significantly less than the increase in their property taxes attributable to the increase in tax rates.

Repeal of Absentee Landlord Surcharge. As part of the Adopted Budget for 2004, the Mayor and Council agreed to impose a surcharge of 25 percent for owners of one- to three-family homes who rent out their properties. The Mayor's budget office expected the surcharge to generate $44 million in 2004. Since that time, the Bloomberg Administration has claimed that implementation of this absentee landlord surcharge is extremely difficult and proposed that the surcharge be repealed. However, billing for the surcharge is currently scheduled for March 1, with the entire 2004 charge being billed in a single quarter. The Mayor's Financial Plan assumes that the surcharge will be repealed and anticipates no revenue from the initiative.

City Council Tax Proposal. The City Council has released an alternative property tax reduction proposal. Under the Council's proposal, which would cost an estimated $238 million in 2005, the overall property tax rate would be reduced by 2 percent, with the benefits flowing to all property owners. While the reduction for homeowners under the Council's plan would be smaller than the $400 benefit under the Mayor's rebate plan, the savings for owners of rental and commercial buildings could potentially yield savings for the broader population of residential and commercial tenants. Because the property tax rate is solely at the discretion of the City Council, such a reduction does not require approval from Albany. The Council also would create a new abatement for senior citizen homeowners on fixed incomes, which would fully offset last year's 18.49 percent rate increase. The Council estimates that the abatement would benefit 140,000 seniors at a cost to the city of $50 million in 2005. Unlike the rate reduction, the abatement would require legislation from Albany.

PROPERTY-RELATED TAXES

Revenues from three taxes, the commercial rent tax (CRT), the mortgage recording tax (MRT), and the real property transfer tax (RPTT), are closely related to the state of property markets in the city. As a group, revenues from these taxes are expected to show virtually no change from 2003 to 2004, when they will total $1.4 billion. They are expected to dip slightly in 2005, and then experience strong growth, averaging 4.6 percent annually in 2006, 2007, and 2008. By the last year of the forecast, revenues from the three tax sources will exceed $1.6 billion.

Commercial Rent Tax. Between 1994 and 2001, a series of tax policy changes significantly altered the incidence of the commercial rent tax and reduced the revenue from over $700 million in 1994 to $377 million in 2001. As of June 1, 2001, the tax is now only assessed on commercial tenants in Manhattan south of 96th Street, with annual rents over $250,000 (liability is phased in for rents between $250,000 and $300,000). Tax liability is computed using an effective rate of 3.9 percent of the rent. Given the $250,000 threshold in place since 2001, many prior CRT payers with lower rents have been removed from the tax rolls. In 2003, about 5,900 businesses (some with more than one lease) remained subject to the tax. The median rent for these remaining taxpayers is approximately $525,000 per year.

CRT revenue has been surprisingly strong in 2004, due in large part to the 18.49 percent property tax rate increase, which was passed through to many commercial tenants who have tax escalation clauses in their leases. IBO projects 2004 CRT revenues of $425 million, 7.0 percent above the 2003 level. Revenue growth will be slower in later years. IBO projects 2005 CRT revenue of $435 million (an increase of 2.2 percent). For 2006 through 2008, revenue growth will average 2.6 percent each year, with collections growing to $485 million by 2008. IBO's CRT forecast is very slightly higher than the Financial Plan estimate for each year from 2004 to 2008.

Mortgage Recording Tax and Real Property Transfer Tax. Revenues from these two taxes have been surging in recent years but the conditions sustaining such growth have now largely abated. IBO projects that mortgage recording tax collections will be $448 million in 2005, 14.8 percent below the expected 2004 level. Real property transfer tax revenue is expected to be show a different trend in 2005, growing by 6.4 percent from their 2004 level to reach $518 million. These two closely related revenue sources are levied at opposite ends of residential and commercial real estate transactions. The real property transfer tax is levied directly on the sale price and is typically paid by the seller. The MRT is levied on the mortgage used to finance the purchase (usually the sale price less the down payment) and is paid by the buyer. The portion of a mortgage refinancing that involves new money ("cash out") is always subject to the MRT. Refinancing that involves a change of lender is usually subject to the MRT in their entirety, unless the first lender agrees to "assign" the mortgage to a second lender, in which case the tax is levied only on the new money. Refinancing is exempt from the RPTT, as no transfer of property is involved. Sales of coop apartments are subject to the RPTT but are exempt from the MRT because coop financing loans are not technically mortgages.

While sensitive to business cycle changes, the two transfer taxes are also influenced by mortgage rates. Low mortgage rates effectively decrease housing costs, and thus increase incentives to purchase property. Low rates also provide incentives for mortgage refinancing. Conversely, higher mortgage rates deter mortgage refinancing, and discourage purchases by effectively raising property costs. During the past year mortgage rates increased and then declined slightly, but remain at historically low levels. IBO's forecast of mortgage rates calls for a gradual increase through 2006, with 30-year rates then stabilizing at around 7.4 percent.

MRT and RPTT revenues have remained strong in recent years, even as the economy has gone through a downturn. The poor performance of the stock market during 2001-2002, combined with low interest rates, made investments in real estate relatively attractive. The low interest rate environment has also stimulated refinancing activity.

After both taxes reached all-time highs in 2003, IBO projects that MRT revenue will remain unchanged in 2004 at $526 million, while RPTT revenue will decline to $487 million, 5.1 percent below its 2003 level. In 2005, slowly rising mortgage rates will depress MRT revenue, although the continuing economic recovery will stimulate RPTT collections. MRT revenue is forecast to decline by 14.8 percent, to $448 million in 2005, while RPTT revenue will grow by 6.4 percent to $518 million. MRT revenue is expected to begin a recovery in 2008, reaching $560 million by 2008. RPTT revenue will continue to rise slowly in 2006 through 2008, reaching $558 million in 2008.

With the exception of 2004, when IBO's forecast for MRT revenue is $46 million less than the estimate in the Financial Plan, there are only modest differences in the two forecasts for the mortgage tax, with IBO slightly lower in 2005 and 2006, and slightly higher in 2008. In contrast, IBO's forecast for the RPTT exceeds the Bloomberg Administration's for each year from 2004 to 2008, with the most significant differences in 2005 and 2006.

PERSONAL INCOME TAX

Personal income tax receipts have been growing strongly since July and are forecast to reach $5.4 billion in the current fiscal year, a 20.9 percent increase over 2003 revenue following two years in which collections declined by a total of 22.4 percent. The retroactive, three-year tax increase enacted last spring is adding an estimated $784 million to 2004 PIT collections, though the resumption of local economic growth in general and a doubling of profits in the securities industry are also adding to current revenue growth. Without the tax increase, projected PIT growth from 2003 to 2004 would be 3.3 percent. With no additional tax increases after 2004, revenue growth will moderate to an estimated 2.7 percent in 2005, and in the following years the scheduled termination of the tax increase will constrain revenue growth further, to 0.8 percent in 2006 and 0.4 percent in 2007. In 2008, the forecast of PIT collections nears $6 billion, surpassing for the first time the $5.7 billion record received in 2001. IBO's PIT forecasts exceed the Mayor's budget office in each year, by $122 million to $172 million, with the largest difference in 2005.

Background and Recent Changes. The personal income tax is levied on the incomes of city residents. PIT liability is generally determined by two components: a base with a progressive rate structure, in which income in higher tax brackets is taxed at higher rates, and a 14 percent surcharge.[2] A temporary, three-year tax increase affecting upper-income filers enacted last spring, however, formally combined the base and surcharge into one rate structure. Prior to the increase, the combined tax rate (i.e., incorporating both the base rate and surcharge) was 2.907 percent for the lowest of the four brackets, compared with 3.648 percent for the highest bracket.[3] The increase for tax years 2003 through 2005 created two additional tax brackets at the top: a fifth bracket with a rates varying from 4.05 and 4.25 percent (depending on the year) and a top bracket for taxable incomes greater than $500,000 with a rate of 4.45 percent. The increase raises the PIT liabilities of taxpayers by an estimated $514 million in calendar year 2003, $539 million in 2004, and $563 million in 2005, with the effect of adding to city revenue in fiscal years 2004 through 2007.

By fiscal year 2001, a number of tax cuts and credits enacted in the previous five years—including the elimination of the commuter tax, the STaR program's PIT credit and rate cut, a temporary reduction in the 14 percent surcharge, and the expiration of the 12.5 percent "criminal justice" surcharge—together reduced collections by almost a quarter of what they would have been in the absence of the cuts. In spite of this substantial loss of revenue, PIT collections grew by an average of 3.7 percent annually from 1998 to 2001, buoyed by the prolonged economic expansion and a soaring stock market that continually surpassed expectations. Stock market increases fueled PIT revenue by boosting both the capital gains realizations of city residents and the profits of securities firms which in turn increased their year-end bonus compensation to employees.

In the first half of calendar year 2001, however, the national economy weakened, Wall Street's bull market had ended, and local employment growth came to a halt. The September 11 attack on the World Trade Center was another blow to New York City's economy that—coupled with a loss of confidence in corporate accounting—had a particularly negative impact on employment and profits in the financial sector. As a result, PIT receipts plummeted 20.5 percent from 2001 to 2002, to $4.5 billion. And in 2003, as the local economy continued to lag behind the nation's anemic recovery and Wall Street's slump largely continued, PIT growth did not resume and receipts declined slightly to their lowest level since 1997.

Revenue in the Current Year. Through February of this fiscal year, PIT collections are 18.2 percent greater than in the comparable period a year ago. This strong upturn in PIT revenue results from the resumption of local employment growth, the doubling of Wall Street profits from 2002 to 2003, and, most significantly, the mid-year tax increase enacted in 2003.

Withholding receipts, by far the largest component of PIT collections, have increased every month this fiscal year in comparison to the same month in the previous year and by 17.3 percent in total so far this fiscal year. To account for the three-year tax increase, which was made retroactive beginning in January 2003, the withholding tables used by city employers were adjusted in July, with extra amounts withheld from some taxpayers to cover the additional PIT liability incurred from January to June. Also, the jump in Wall Street profitability is swelling bonus compensation paid by securities firms by an estimated 20 percent to 25 percent over the previous year, which in turn has contributed to a 27.2 percent surge in withholdings during the bonus-paying quarter (December to February), compared to the same period in fiscal year 2003. With a downward adjustment in January of the withholding tables and the end of the bonus-paying season after February, withholding growth is expected to moderate in the coming months.

Revenue from quarterly estimated payments, the second largest component of the PIT, has also increased strongly, up 28.1 percent so far in the fiscal year. Estimated payments are made primarily by self-employed city residents and taxpayers with substantial income from financial assets. The reversal in the past year of the stock market's slide during calendar years 2001 and 2002 had led many taxpayers to increase their estimated payments, in expectation of realizing more substantial capital gains. Also contributing to estimated payments is the significant growth in calendar year 2003 of business proprietors' income, in contrast to a decline in wage and salary income earned in the city. In the remainder of the current fiscal year, estimated payments will remain strong, particularly in April when the first installment payment for tax year 2004 liability will be made, largely on the basis of 2003 liability. Due to the underlying growth from 2002 to 2003 in residents' total PIT liabilities, fewer refunds and more payments with final returns are expected in March and April, compared with last year.

When all PIT components are taken into consideration, IBO forecasts net PIT revenue (after refunds) to reach $5.4 billion in the current fiscal year, a projected 20.9 percent increase over 2003 revenue. (These and all other collection figures reported in this section include PIT receipts dedicated to the Transitional Finance Authority.) Without the tax increase, projected PIT growth from 2003 to 2004 would be 3.3 percent. IBO's 2004 PIT forecast exceeds that of the Mayor's budget office by $122 million—2.3 percent of the total—with more revenue from withholding and final returns (but less from estimated payments) expected relative to the Mayor's current projections.

The Forecast for 2005 and Beyond. IBO forecasts a moderate, 2.7 percent, increase in PIT collections, to $5.5 billion, in 2005. Employment growth is expected to accelerate throughout calendar year 2004 and continue into 2005, averaging over 15,000 in each of the four quarters comprising fiscal year 2005, while personal income growth is projected to be four times as great in calendar year 2004 as in the previous year. As a result, withholding collections will continue to increase, though at a slower if still healthy 6.0 percent pace. With an expected further expansion of capital gains realizations in calendar year 2004, estimated payments are also projected to increase in fiscal year 2005, though, like withholding, at a much slower pace. The growth in projected PIT revenue from 2004 to 2005, however, is dampened by a forecasted rise in refunds and decline in payments made with final returns. IBO's 2005 forecast is $172 million (3.2 percent) greater than the Preliminary Budget estimate, due primarily to a higher withholding forecast which in turn results from a somewhat stronger employment projection.

For the two years after 2005, IBO forecasts only slight growth in PIT revenue-by 0.8 percent in 2006 and 0.4 percent in 2007—caused primarily by the scheduled termination of the three-year tax increase at the end of calendar year 2005, which will constrain withholding growth. The loss of revenue from the expiration of the three-year increase will largely offset the increases in underlying liability resulting from the projected continuation of employment and income growth in these years—growth at slightly slower rates in comparison to the previous years. The forecast of net PIT receipts in 2006 and 2007 is $5.6 billion for each year. For 2008, when the tax increase's expiration no longer has an effect, relatively strong, 6.3 percent revenue growth is forecast, and IBO projects PIT collections to reach nearly $6.0 billion. IBO's forecasts of net collections in 2006, 2007, and 2008 exceed the Mayor's by $161 million, $132 million, and $136 million, respectively, though the projected revenue growth after 2005 is somewhat slower than what the Mayor's budget office predicts.

BUSINESS INCOME TAXES

New York City levies taxes on the net income of general corporations, banking corporations, and unincorporated businesses (the latter including limited liability companies). After falling almost 25 percent over the past two years, business tax revenues are surging in 2004 and by year's end should have recouped about two-thirds of the losses of 2002 and 2003. Projected total collections in 2004, $2.7 billion, are $454 million (19.9 percent) higher than collections in 2003. IBO projections indicate that revenue growth will tail off over the rest of the Financial Plan period, falling to 8.2 percent in 2005, 4.6 percent in 2006, and virtually nothing in 2007 and 2008.[4]

General Corporation Tax. New York City is one of the few localities in the United States to levy a tax on corporate income. About three-quarters of general corporation tax (GCT) revenue comes from a tax of 8.85 percent imposed on the portion of net income that corporations allocate to New York City. The rest comes from three alternative bases for calculating city corporate tax liability: (1) capital allocated to the city, (2) net income plus compensation paid to major shareholders, and (3) a minimum tax of $300. The alternative bases apply when they yield a higher liability than the net income base.

IBO projects GCT collections to climb to $1.5 billion in 2004, $290 million (23.4 percent) higher than in 2003. The rebound reflects the stabilization of the city's economy and a strong recovery in securities industry profits. The importance of Wall Street is reflected in the fact that while the finance and insurance sector accounts for typically one fifth of all GCT collections, this sector was responsible for half of the 2002-2003 drop in collections.

In calendar 2003, Wall Street profits more than doubled the previous year's $6.9 billion; profits are expected to top $15 billion in calendar 2004 and again (though not by as much) in 2005. This will help boost GCT collections another 10.1 percent in 2005, to a projected $1.7 billion. Corporation tax collections are projected to grow only 2.4 percent in 2006, however, and then remain flat in 2007 and 2008. This is primarily due to a projected dip in securities industry profits, which are forecast to slip back under $12 billion by 2008. Overall private-sector employment growth is also expected to decelerate, adding to the constraint on GCT revenue growth.

Unincorporated Business Tax. New York City levies a 4 percent unincorporated businesses tax (UBT) on the income of sole proprietorships, partnerships, and (since 1994) limited liability companies. Most UBT revenue comes from partnerships in the legal services (about 30 percent), financial (25 percent), and professional/technical services (10 percent) sectors.

UTB collections were only slightly clipped by the city's economic slump in 2002, and 2003 collections ($832 million) actually surpassed the previous peak. Robust 8.0 percent growth in 2004 will bring collections up to $899 million. The UBT growth rate will roughly halve in 2005 (to 3.8 percent), but thereafter is projected to hold relatively steady at between 2.7 and 3.0 percent per year over the rest of the Financial Plan period. As a result, UBT collections are projected to top $1 billion by 2008.

The comparative stability in unincorporated business tax collections growth reflects the fact that legal and professional services earnings have been relatively impervious to the recent swings on Wall Street and in other sectors of the city economy.

Banking Corporation Tax. New York City imposes a separate tax on banking corporations doing business in the city. Like the GCT, the banking corporation tax (BCT) requires three alternative calculations, including a 9 percent tax on net income allocated to the city. In recent years foreign banks have accounted for almost half of all bank tax collections and commercial banks another quarter. BCT revenue has always shown a pattern of sharp year-to-year jumps and declines. Much of this flux stems from overpayments and underpayments based on losses and gains not recognized until a year or more after they occur; in 2003 for example almost a fifth of gross bank tax collections came from liability years prior to 2000. Other contributing factors are the underlying volatility of bank profits in this rapidly restructuring industry, and the relatively small number of payers accounting for the majority of BCT liabilities.

But over the past five years, the pattern has been dominated by declines. Collections in 2003 fell to half of the 2001 level, and were almost 60 percent below the 1998 peak. IBO expects this string of declines to end in 2004. Indeed, in less than half a year, actual 2004 collections have almost reached the level of collections for all of 2003. By year's end, bank tax collections are projected to jump $100 million (46 percent) in 2004, to $312 million. IBO projects that over the subsequent two years collections will rise by another $105 million, increasing to $348 million in 2005 and then to $417 million in 2006. Given typical patterns of BCT ebbs and flows, collections are then expected to decline again in 2007 and 2008.

GENERAL SALES TAX

Households and businesses in New York City currently pay an 8.625 percent tax on the final sales of most retail goods, utility charges, and a variety of personal and business services. The tax is composed of a 4.125 percent city tax, a 4.25 percent state tax, and a 0.25 percent Metropolitan Transit Authority regional surcharge.[5] After a precipitous fall in city sales tax revenues in 2002 and an only partial recovery in 2003, IBO projects double-digit growth in 2004 revenue-followed, however, by another sharp decline in 2005 and only modest growth over the following three years.

City sales tax revenue is broadly a function of household spending of city residents along with consumption expenditures by businesses, commuters, and tourists.

Household spending, in turn, is primarily determined by disposable income and the level of consumer confidence. However, in addition to these basic drivers, two sets of overlapping tax policy changes have had and will have significant impacts on growth in sales tax collections in 2003 and in projected collections in 2004, 2005, and 2006. First, the city's sales tax rate was increased by a 0.125 percent surcharge effective June 1, 2003 and is scheduled to revert back to 4.0 percent as of May 31, 2005. (New York State's concurrent 0.250 percent surcharge will expire at the same time.) Second, the exemption for apparel priced under $110 that was instituted in March 2000 was repealed effective June 1, 2003. The city's clothing tax exemption, however, will be restored on June 1, 2004. (The state's tax on clothing will remain in place.) In the interim, there were clothing tax free weeks at the end of August in 2003 and the end of January in 2004.

IBO projects a $404 million (11.4 percent) jump in sales tax collections in 2004, to over $3.9 billion. But absent the addition of the city sales tax rate surcharge and the repeal of the clothing tax exemption, 2004 collections would be only $98 million (2.9 percent) higher than last year's. In fact, year-to-date 2004 collections are up less than 2.0 percent after adjusting for tax policy impacts. This slow growth reflects the lingering impacts of the recession and September 11 on the New York City economy.

In 2005 and 2006, the policy impacts are reversed. Collections in 2005 are projected to fall by $165 million (-4.2 percent), to under $3.8 billion. But restoration of the year-round clothing tax exemption will cost the city $265 million; otherwise 2005 collections would be $100 million (2.5 percent) higher than in 2004. Collections in 2006 are projected to rise by just $21 million (0.6 percent). But expiration of the 0.125 percent rate surcharge will cost the city $114 million; otherwise collections would be $136 million (3.6 percent) higher than in 2005.

Finally in 2007 and 2008, sales tax collections growth will not be affected by any currently scheduled tax policy changes. Growth is forecast to pick up to a still relatively modest 3.8 percent in 2007 and 4.7 percent in 2008. Overall, sales tax collections are to be just 16.6 percent higher in 2008 than they were in 2003. This is a far cry from the 36.6 percent (45.3 percent without the clothing tax exemption) city sales tax revenue growth over the five years preceding the September 11 attack and recession.

OTHER REVENUES AND CATEGORICAL GRANTS

Other Revenues. IBO's estimate of revenue from sources other than taxes for 2004 totals $6.0 billion. Other revenues include funds from unrestricted intergovernmental aid, STaR reimbursements, other categorical grants, inter-fund capital transfers, and miscellaneous revenues from recurring and nonrecurring sources. Because of two unusual transactions anticipated in the Preliminary Budget for 2005, these revenue sources are expected to grow to $6.4 billion in 2005. They will decline in 2006 through 2008 with revenues averaging about $5.7 billion per year.

Airport Rent. The Preliminary Budget anticipates receiving rental income (counted as among "miscellaneous revenue") from the Port Authority of New York and New Jersey for JFK and LaGuardia airports of $690 million in 2005. The amount of back rent owed to the city by the port authority, as well as the terms of new leases going forward have been the subject of disputes and arbitration between the two entities for nearly a decade. At present, it appears that the disagreements have been resolved. Last year, the Mayor and Governor announced that the port authority would pay the city $690 million in back rent for the city-owned airports and would sign a new lease. Although the port authority's board has not approved the terms of the new lease and has not yet set a date to address the issue, the Bloomberg Administration is confident that the city will receive the funds in 2005.

Battery Park City Asset Sale. The Preliminary Budget assumes that the Battery Park City Authority will buy an as yet unidentified asset from the city for $150 million in 2005. (Asset sale proceeds are counted as miscellaneous revenue in the budget.) A similar transaction was anticipated in the 2003 budget, although it was eventually dropped from the Financial Plan. Although no asset has as of yet been identified for sale, the city remains confident that the transaction will occur.

Categorical Grants. Categorical grants received from the state and federal government to fund specific programs account for approximately 30 percent of all funds spent by the city each year. IBO projects that state and federal categorical grants will total $8.7 billion and $5.5 billion, respectively, in 2005. For some types of categorical grants, such as education and welfare, IBO has developed forecasts based on changes in programs and caseloads. IBO's forecast of categorical grants in other parts of the budget is based on a methodology that takes the grant level in current year and adjusts for historical trends and programmatic changes.

IBO's forecast of state categorical grants is $49 million higher than projected in the Preliminary Budget. This increase is due primarily to higher projections of transportation, police, homeless services, and education aid. The increase is offset in part by lower estimates in public assistance caseload projections.

IBO's forecast of federal categorical grants is $364 million higher in 2005 than the Preliminary Budget forecast, and then are approximately $350 million higher for each year from 2006 through 2008. IBO's higher forecast is mainly attributable to greater anticipated federal aid for children's services, public health, and transportation programs.

END NOTES

[1]When IBO refers to market values and assessments, the reference includes only taxable property. The assessed value for tax purposes (also referred to as billable taxable value) reflects the required phase-in of assessment changes for apartment, commercial, and industrial buildings.

[2]A separate PIT surcharge equal to roughly 12.5 percent of base liability was instituted in 1990 but allowed to expire at the end of 1998. For much of its history, revenue from this second surcharge had been dedicated to criminal justice spending.

[3]For example, for a married couple filing jointly, the lowest bracket ends at $21,600. Until the 2003-2005 increase, the highest bracket began at $90,000. For other types of filers, the income thresholds are lower.

[4]Not included in the figures given here, the city also collects a significant amount of audit revenue from business income taxes. General corporation tax audits are expected to bring in about $300 million in 2004, and around $275 million per year over the rest of the Financial Plan. Bank tax audit collections are projected to run at about $100 million per year. Unincorporated business tax audits will net roughly $50 million per year. Audit receipts are segregated from their individual taxes and shown as a separate tax revenue source in city budget documents.

[5]The sales tax base exempts most food products, medical services and supplies, mortgage and rental payments, and interstate and international telephone services. Internet and mail order sales to New York City purchasers by nonlocal establishments, a rapidly growing category, are also not captured by sales taxes.

Expenditures

Department of Cultural Affairs (DCA)

PRELIMINARY BUDGET OVERVIEW

The 2005 Preliminary Budget proposes for the Department of Cultural Affairs total spending of $98.5 million, a $4.8 million (4.9 percent) increase from the level in last June's Financial Plan. The increase stems from restorations of a little over $4.8 million. Even with the restorations, the budget in 2005 will be $20.7 million lower than what is projected for 2004. In each of the past four years the Council has added more than $20 million to the DCA budget as part of negotiating the Adopted Budget for the coming years. If history repeats, DCA will be funded in 2005 at a level equivalent to 2004.

Key budget actions for 2005 include:

- $4.2 million to restore funding for institutions that had previously been cut. The restoration would be a permanent addition to DCA's baseline budget.
- $601,000 to partially restore funding that had been cut last year for a set of cultural organizations that had been cut from last year's budget. This restoration would also be baselined in the budget.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$93.6
PEG Restoration	4.8
January Plan	$98.5
Headcount	
June 2003 Financial Plan	35
January Plan	35
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$513.8
January 2004 Plan	$484.0

EFFECTS OF BUDGET PROPOSALS

Background. The Department of Cultural Affairs is charged with supporting and strengthening New York City's cultural institutions. This is accomplished by providing public funding for nonprofit cultural organizations throughout the city. DCA is funded virtually entirely with city funds.

Programmatically, funding for the agency can be divided into two sections: the Cultural Institution Groups (CIGs) and Cultural Program Services (CPSs). CIGs are cultural institutions housed within city-owned property. The 34 CIGs also receive operating cost assistance for essential services like basic maintenance—which accounts for about 75 percent of the city contribution—and utilities. In return for this support, these institutions operate as publicly owned facilities with a mandate to provide cultural services accessible to all New Yorkers. CIGs (which include such notable institutions such as the Metropolitan Museum of Art and Lincoln Center) are typically much larger than organizations funded through the CPS program. The CPS program administers funds that provide support for roughly 500 arts and cultural organizations. These grants support a vast array of programs and activities provided by citywide cultural organizations as well as community-based groups.

The smaller CPS organizations have fared somewhat better than the larger CIGs during the city's recent period of budget retrenchment. Over the past four years (2001 to 2004), the budget for the CIGs was cut by 9.7 percent while Cultural Program Services bore a 5.2 percent cut. The larger, more renowned organizations that make up the CIGs are generally better able to absorb cuts by turning to alternative sources of funding.

2005 Budget Changes. The 2005 Preliminary Budget contains relatively modest changes from last June's Financial Plan. The Mayor's Preliminary Budget restores $4.2 million for Cultural Institution Groups funding and $601,000 for CPS programs. These actions replace money that was removed as part of last year's Executive Budget plan. The restorations are currently considered "across the board" funding increases to the programs taken as a whole. So far, no particular areas within these two programmatic funding groups have been targeted for special funding initiatives.

CAPITAL PLAN

The current Capital Budget would decrease capital commitments in 2004 through 2007 by 6 percent from the September capital plan. The reductions are spread across numerous capital projects, with no single program taking up a significant percentage of the reductions.

Department of Small Business Services (DSBS)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2005 calls for an $85.9 million appropriation for the Department of Small Business Services, slightly more than the amount planned for 2005 in last June's Adopted Budget. The department's budget is more than double what it had been just two years ago because it now incorporates spending on dislocated worker and other adult employment programs federally funded through the Workforce Investment Act (WIA)—programs funded in the past through the former Department of Employment. A couple of city-funded spending reductions introduced since June—including shifting some Empowerment Zone spending to the capital budget—have trimmed the expense budget, though they have been offset by increases elsewhere in the DSBS budget.

- The DSBS budget for 2005 includes $55.3 million in WIA-funded spending on employment programs for adults, $1.7 million of which has been added since last June. WIA is due to be reauthorized by Congress in the coming months, and when this occurs, the amount of WIA-funded spending incorporated in the DSBS budget baseline, for 2005 and beyond, may change.

- The city is receiving a three-year grant from the New York Business Action Center (NYBAC) for DSBS's Minority- and Women-Owned Business Enterprise (MWBE) programs, increasing the department's budget by $500,000 in 2005.

- The $790.0 million capital plan for economic development projects from 2004 to 2007 is only slightly less than the amount that had been budgeted last June with the Adopted Budget. Two-thirds of the commitments are for 2004.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$85.1
Vacancy eliminations	(0.1)
Film Office positions	0.2
Grant for MWBE funding	0.5
Rollover of WIA funds	1.7
EZ funding swap	(1.5)
January Plan	$85.9
Headcount	
June 2003 Financial Plan	162
January Plan	183
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$800.3
January 2004 Plan	$790.0

EFFECTS OF BUDGET PROPOSALS

Background. In 2002, the city's Department of Business Services was renamed the Department of Small Business Services to more closely identify the agency with the businesses it typically serves. In addition to the operations of the department itself, the DSBS budget also includes funding for: the Mayor's Office of Film, Theatre & Broadcasting; contracts with the Economic Development Corporation (EDC), which tends to serve larger companies than does DSBS; NYC & Co. (formerly the NY Convention and Visitors Bureau); and the local Empowerment Zone (EZ). Finally, at the end of the last fiscal year, responsibility for dislocated worker and other adult employment programs federally funded through the Workforce Investment Act was transferred from the now defunct Department of Employment to DSBS.

The incorporation of WIA-funded employment programs has more than doubled the DSBS budget since 2003, and the Preliminary Budget for 2005 now projects $85.9 million in expenditures. With WIA reauthorization pending in Washington, the department's future budgets are likely to change.

Total DSBS expenditures in the coming year may also vary significantly from the most recent projection given the nature of many DSBS programs. A large share of the money appropriated for DSBS is used for loans, grants, and other benefits to businesses; because it is often difficult to forecast the amounts needed for such programs during specific periods of time, the DSBS budget has fluctuated greatly in the last 20 years. The activities and funding needs of DSBS and EDC expanded greatly after September 11, 2001, and a large portion of the unusually high levels of spending in the months since then has been financed by the Federal Emergency Management Administration, the federal Community Development Block Grant, and the city's Transitional Finance Authority.

The 2005 Budget and Changes since Last June. The Preliminary Budget for 2005 calls for $85.9 million in DSBS spending, an amount little changed since June but somewhat less than the $116.8 million currently projected for 2004. The addition of WIA-funded spending has swelled the DSBS expense budget in general, though a lot more funding was added to the 2004 budget than to the out-year budgets. Similarly, since last June, other non-city funds (mostly from the Community Development Block Grant) for various DSBS programs were recognized for 2004 but not for the out-years, resulting in an increase in the department's current budget relative to that of the out-years. If more federally funded spending is budgeted in the future, DSBS spending in 2005 will be higher than the amount contained in the recent Preliminary Budget.

No changes have been made to DSBS's revenue budget since June. But the department's expense budget for 2005 has increased slightly, by $800,000. This change is the net result of $1.7 million annual increase in WIA funding, a substitution of capital funds for DSBS spending on the city's local Empowerment Zone, and several other headcount changes involving city and non-city funds. The specific changes, all of which are relatively small, are detailed below, following an account of the incorporation of WIA funding into the DSBS budget.

Background and Budget for WIA-funded Programs. Through 2003, the city's Department of Employment (DOE) spent federal funds for employment training. The federal Jobs Training Partnership Act (JTPA) provided funds to DOE for employment training until Congress replaced JTPA with the Workforce Investment Act, which took effect in calendar year 2000. Whereas JTPA aimed to identify individuals' training needs and provide appropriate services, the focus of WIA programs is on the needs of potential employers, with an emphasis on industry- and employer-specific training programs. Congress is expected to reauthorize WIA in the coming months.

At the end of fiscal year 2003, the Bloomberg Administration decided to eliminate the Department of Employment and transfer the budgets for WIA-funded programs to the Department of Small Business Services and the Department of Youth and Community Development. While the latter is now responsible for funding youth employment programs, WIA dollars for programs aimed at dislocated workers and other adults, such as public assistance recipients, are now being spent through the DSBS budget. DSBS was chosen as the agency to spend adult WIA dollars because industry-based training programs and other WIA-funded activities are believed to fit well with the department's general mission to provide services to New York City businesses.

The addition of WIA-funded activities has almost tripled the DSBS budget from $42.3 million in 2003 to $116.8 million currently projected for 2004. At $85.9 million, the Preliminary Budget for 2005, however, is somewhat less than the 2004 projection. When the 2004 Adopted Budget was finalized last June, $53.6 million of WIA-funded spending was baselined in the department's budgets for this year and each of the out-years of the Financial Plan. Since then, another $1.7 million in WIA funding for 16 positions has been added to the spending baseline. However, another $15.1 million of WIA funding was added to the 2004 budget, but not to the out-year budgets. Until the act is reauthorized, it is uncertain how much WIA money the city will receive in the future, and the Mayor's budget office has chosen to be fiscally cautious by not yet including additional WIA funding in 2005 and subsequent years.

The DSBS budget for WIA-funded activities for 2005 and subsequent years does not currently provide any programmatic details. When the decision to transfer WIA-related funding to DSBS was made just before last June's budget adoption, the Mayor's budget office placed the WIA funding streams in a few general categories of spending, such as "Personnel Services" and "Program Funds," with the intention of creating and transferring money into more detailed budget categories. Since June, more specific categories of WIA-spending have been used, but only for 2004. For example, $8 million of WIA funds has been budgeted in 2004 for the Consortium for Worker Education, a nonprofit organization providing employment training programs and other services for dislocated workers and public assistance recipients. Another $5 million is now earmarked in the 2004 budget for individual training vouchers that people can spend for vocational training. But beyond the current year, no spending is budgeted specifically for the consortium, vouchers, or any other program.

Other Categorical Funding for MWBE Programs. A three-year grant to the city from the New York Business Action Center for DSBS's Minority- and Women-Owned Business Enterprise programs has increased the department's budget since June by $500,000 in 2005 and 2006 each, and by a slightly higher amount in 2004. NYBAC is a nonprofit corporation that works to relieve local unemployment, encourage business retention, and provide employment training. Its grant will add two positions to the department's MWBE division. In addition to publishing a directory of the minority- and women-owned businesses it certifies, DSBS offers classes on marketing, finance, city procurement, and other business skills to minority and women entrepreneurs; it also hosts events bringing businesses together with purchasers at government agencies and private companies.

City-funded Headcount Changes. In addition to new WIA funding and NYBAC's grant for MWBE programs, two other changes on the spending side affect the department's budgeted headcount. These changes, however, offset each other exactly in terms of the number of full-time DSBS positions. The elimination of two vacant positions in the department decreased DSBS's annual budget by $123,000. But two new account executive positions in the film office will be funded by the city dollars, increasing the budget by $150,000 each year, starting in 2004.

Empowerment Zone Funding Swap. The 2005 budget has been reduced by $1.5 million in city-funded spending on the local Empowerment Zone, which encompasses sections of Upper Manhattan and the South Bronx. Businesses locating in the federally designated EZ are eligible to receive a number of benefits, which are administered by the New York Empowerment Zone Corporation (NYEZ), a nonprofit group funded equally by the city, state, and federal governments. The city is required to fund a total of $100 million over the life of the EZ, which has been extended through 2009, with some discretion as to the timing of the payments. The reduction in the DSBS budget is being made because spending on the West Harlem Piers has been deemed "capital eligible," enabling the city to spend money out of its capital budget, correspondingly reduce its spending through DSBS out of the operating budget, and still meet its funding obligations to the EZ. This funding swap does not affect state and federal government spending on the city's EZ.

CAPITAL BUDGET

The capital plan accompanying the Preliminary Budget calls for $790.0 million in spending on economic development projects from 2004 through 2007. DSBS manages almost all of these projects, which include a large number of commercial and industrial development projects and many related to waterfront improvement. City funds account for almost 84 percent of the planned capital expenditures.

As part of its total, the economic development capital plan contains lump-sum commitments that act as placeholders for projects in EDC's 10-year capital plans. The categories of these commitments are Commercial Development, Industrial Development, Neighborhood Rehabilitation, Modernization and Reconstruction of Markets, Waterfront Development, and Pier Reconstruction. When EDC identifies a specific capital project, funding is added to the Capital Budget for that project and an equivalent amount is taken out of the corresponding lump-sum category. Very little of the $219 million total in 2004-2013 lump-sum funding in the latest commitment plan is for spending before 2008—only $26 million, mostly on waterfront and piers projects—leaving little room in the current plan to fund new projects in the next few years unless spending on other projects is eliminated, reduced, or deferred.

Total economic development capital commitments for 2004-2007 are only $10.3 million less than the $800.3 million included in the plan accompanying last June's Adopted Budget. Some relatively small projects, none involving more than $1 million, have been removed from the plan while spending on others was trimmed. Also, lump-sum commitments for the four years were reduced. But some new projects and additional spending commitments to already existing projects partially offset the reductions.

Two-thirds of the total economic development capital commitments for 2004 through 2007 are scheduled for the current year. If capital spending on economic development projects were to proceed according to the current plan, there would be a significant decrease in spending starting in 2005. But deferrals of capital spending in recent years suggest that the timing of actual spending is likely to differ from what is being planned. The Capital Commitment Plan a year ago was also heavily weighted toward what was then the current year (2003), with only $161 million of commitments authorized for 2004. Much of the spending that was planned for 2003 last year, however, did not occur and was subsequently reauthorized for 2004.

By far the largest addition to the plan since June is the commitment to spend $10 million of non-city funds in 2004 to improve security and facilitate pedestrian and vehicular traffic flow around the area of the New York Stock Exchange. Funded by the Lower Manhattan Development Corporation, the project entails the design, construction, and installation of permanent and retractable security barriers, other barriers directing the flow of pedestrian and vehicle traffic, security booths on critical streets, and other streetscape elements.

As recently announced, the city will receive another large infusion of non-city funds for the construction of a state-of-the-art track and field stadium on Randall's Island. The private foundations of financier (and Far Rockaway native) Carl Icahn have committed $10 million toward the stadium's construction, expected to be complete by this autumn. The new facility will be named Icahn Stadium in exchange for the gift, reportedly the largest ever from a private donor to a city park facility.

Many of the most costly economic development projects in the latest Capital Commitment Plan involve the city's waterfront. The majority of the capital commitments for these waterfront projects is for 2004, with the exception of the last item in the following list:

- Modernization of the West Side Passenger Ship Terminal ($61 million);
- St. George Ferry Terminal renovations ($58 million);
- Whitehall Ferry Terminal reconstruction ($44 million);
- Brooklyn Navy Yard Movie Studio development and Navy Yard infrastructure ($34 million); and
- Battery Maritime Building Roof Support ($29 million, mostly in 2005 and 2006).

Other significant economic development projects include:

- Fulton Fish Market relocation to Hunts Point and the Hunts Point Market expansion ($83 million total, all in 2004);
- Staten Island Railroad restoration ($40 million for various projects, mostly in 2005 and 2006); and
- BAM (Brooklyn Academy of Music) Cultural District development ($39 million for various projects, mostly in 2005 and 2006).

Debt Service and Labor Costs

The city projects that outstanding debt, including general obligation and Transitional Finance Authority (TFA) bonds, tobacco bonds, and Municipal Assistance Corporation (MAC) debt is projected to increase from $47.5 billion in 2004 to $50.9 billion in 2008. Approximately 14 percent of the outstanding debt is variable rate debt and 96 percent is tax exempt. In addition, less than 1 percent is derivative borrowing; that is, financial instruments whose value is derived from the value of an underlying asset or index.

DEBT SERVICE

The Mayor's Preliminary Budget projects debt service in 2005 of $3.7 billion, including interest and principal payments on city general obligation (GO) debt, Transitional Finance Authority and Municipal Assistance Corporation debt, lease purchase debt service, and short-term borrowing. Because IBO forecasts a larger surplus in 2004, used to prepay debt service due in 2005, our own estimate of debt service costs in 2005 is lower by $234 million.

In order to calculate the rate at which debt service is rising, it is necessary to adjust for the city's practice of using budget surpluses in one year to prepay debt service due the next year. Adjusting for these inter-year transfers presents a clearer picture of the underlying growth trend. Between 2004 and 2008, IBO projects that debt service, thus adjusted, will grow at an annual average rate of 7.6 percent—well above the rate of growth of any other major category of city expenditures except pension contributions.

Debt Service Rising Rapidly

Dollars in millions

	2004	2005	2006	2007	2008	Growth
Mayor's Plan	$ 4,089	$ 3,749	$ 4,006	$ 4,907	$ 5,101	5.70%
IBO projected surplus	234	(234)	-	-	-	
IBO Projection	$ 4,323	$ 3,515	$ 4,006	$ 4,907	$ 5,101	4.20%
Adjustment for prepayments	(519)	929	695	-	-	
Adjusted Debt Service	**$3,804**	**$4,443**	**$4,700**	**$4,907**	**$5,101**	**7.60%**

SOURCE: IBO.

Thus adjusted, payments on the city's outstanding debt in 2004 will cost $3.8 billion, or 14 cents of every city tax dollar, rising to $5.1 billion, or 17 cents on the dollar by 2008, assuming full implementation of the city's capital plan. Under current city plans, and assuming that tax revenue growth continues at historical average rates, the city's debt service burden should reach a plateau at about this level for the foreseeable future.

The city has realized savings from the low interest rate environment and from the use of variable-rate debt instruments. Savings of $58.6 million will be realized in 2005 largely due to lower than projected interest rates. The city will also save $17.8 million from interest rate swaps that were part of 2003 and 2004 general obligation bond issuances.

FEDERAL AND STATE INITIATIVES

The city is asking the federal and state governments for several debt reform measures that would result in expected annual savings of approximately $66 million.

Extend Second Advance Refunding Authority. In 2002, the federal government, as part of the September 11 recovery package, granted the city the authority to issue an additional advanced refunding of tax-exempt debt—normally allowed only once under federal law. Advance refunding of the city's debt enables the city to take advantage of declining interest rates to decrease debt service costs. The city is requesting that this authority be granted for an additional five years, providing a savings of $20 million in 2005 for the city.

Variable Rate Swap Authority. Beginning in 2003, the city has taken advantage of a financing tool known as "interest rate swaps" or "swaptions," under temporary authority granted by a state law. An interest rate swap is a contract between two parties (called the "counterparties") to exchange interest rate payments at specified dates in the future, allowing one party to pay a fixed rate and the other to pay a variable rate without reissuing the underlying debt. The variable rate is typically reset periodically—from daily to monthly—and because they are generally lower than fixed rates, allow at least short-term interest savings. The total underlying value of the swaps the city has completed is $1.63 billion.

The city is asking the state for a permanent extension on its current authority to enter into interest swaps (which will expire this coming July 15) and is also asking for an enhancement that would allow it to continue to deal with a counterparty—typically a bank—that has slipped into the third-highest credit rating category, as long as the counterparty collateralizes the obligation. This requirement has been part of each swap agreement so the city is asking that this potential arrangement be in put into law. The city is estimating a savings of $25 million annually from extending and enhancing the variable-rate swap authority.

Transitional Finance Authority Reform. The Transitional Finance Authority was created in 1996 to allow the city to continue to issue long-term debt to finance its capital program at a time when the constitutional debt limit—based on a five-year average of the market value of city property as measured by the state—had fallen sharply. The city was ultimately given total TFA borrowing authority of $11.5 billion (excluding extraordinary borrowing in the wake of September 11). The city plans to issue the last $145 million under the present cap this year.

The city is proposing that the limit on TFA borrowing be relaxed to allow for a combined total of outstanding general obligation and TFA debt up to the city's general obligation debt limit. In essence, the city is seeking to substitute less expensive TFA bonds for planned future issuance of GO debt. Interest rates paid by the city on TFA bonds are generally lower because repayment is backed by a first lien on city personal income tax revenue collected by the state. Assuming a complete substitution of TFA bonds for planned GO issuance of roughly $3 billion a year, the city estimates that the change would provide annual savings of $15 million. Such a wholesale swap might, however, tend to narrow the current 40 basis point spread between TFA and GO debt.

General Obligation Bond Statutory Lien. This proposal would strengthen the city's credit by creating a statutory lien in the city's debt service fund for the city's bondholders, as well as creating a pledge by the state to city debt bondholders stating that the general debt service fund and the lien will be preserved. Having a statutory lien means that if the city were to default on a debt service payment, the bondholders would have a legal claim against the city's debt service fund. This reduces the risk for investors and thus increases the city's credit quality. The city estimates savings of $3 million from this provision.

Omnibus Periods of Probable Usefulness Currently, when the city issues debt with a term of greater than 30 years, it must state the specific purpose of the spending financed from the proceeds, and the proceeds can only be used for that purpose. For debt with a term of 30 years or less, however, no such specific statement is necessary and the city may structure its bond issues based on weighted average periods of probable usefulness of the assets purchased or acquired. The city is proposing that this same flexibility in structuring its bond issues be extended to assets with periods of probable usefulness greater than 30 years. The city estimates that this proposal would save approximately $3 million annually.

MAC REFINANCING

The Municipal Assistance Corporation was created in 1975 in order to provide the city with access to the credit markets, which had refused in the spring of that year to lend the city any more money. MAC bonds were used both to stretch out short-term debt payments so the city could balance its books, and to help restart the city's capital program. Debt service on the MAC bonds—ultimately about $500 million per year—was paid with a portion of city sales tax receipts collected by the state and pledged first to repayment of MAC debt, before being turned over to the city. The last MAC bonds fall due in 2008, after which MAC would cease to exist.

The MAC Refinancing Act. In response to the city's recent fiscal crisis, the state and city sought to develop a plan by which the city would be relieved of its $500 million annual obligation. The refinancing act, passed by the state Legislature over the Governor's veto, allowed the city to refund the remaining $2.5 billion in MAC debt obligations with 30-year bonds backed by annual payments of $170 million from the state Local Government Assistance Corporation (LGAC).

LGAC was set up to convert the state's short-term debt into long-term debt in order to eliminate the so-called "spring borrowing" by accelerating aid payments to local governments before the end of the state fiscal year. It is funded through a contractual agreement with the state. Each year, LGAC certifies its financial needs to the state Comptroller who then pays LGAC from the Local Government Tax Assistance Fund, which is funded from a portion of the state's sales tax. If these funds are insufficient to cover LGAC's expenses, the balance is appropriated by the Legislature for this purpose. LGAC is administered by a representative of the Governor, the state Comptroller, and the director of the state Division of the Budget.

The MAC Refinancing Act directed LGAC to make an annual payment of $170 million to the city through 2034. It allowed the Mayor to assign any or all of the payments to a local development corporation that would in turn issue bonds, backed by the annual payments, to refund outstanding MAC debt. The city set up such a corporation, the Sales Tax Asset Receivables Corporation (STARC), and on August 11, 2003, STARC started a preliminary offering of $532 million in bonds to mature in 2029.

LGAC Seeks to Block Bond Sale. LGAC sought and received a preliminary injunction against the city and STARC, on the grounds that the MAC Refinancing Act unconstitutionally exempted the $170 million payment from annual appropriations, as required under the state's Public Authorities Law. LGAC also argued that the assignment by the city of the LGAC payment to STARC is impermissible because the city would be obligating future sources of revenue for immediate cash to satisfy short-term indebtedness without pledging the city's "faith and credit." Under the state Constitution, if a locality contracts indebtedness it must pledge its faith and credit backing the debt. Finally, LGAC argued that the act "impaired the rights of the LGAC bondholders" by potentially not being able to cover payments to the bondholders while paying the $170 million to the city.

Appeals Court Supports City. In August 2003, the state Supreme Court ruled against LGAC's claims. LGAC appealed to the state Appellate Division. On March 4, 2004 the state Appellate Division issued the latest decision regarding these claims. On the first issue—that of the constitutionality of not requiring an annual appropriation—the court agreed that it was unconstitutional to exempt the payment from the annual appropriation process. However, the court stated that requiring an annual appropriation would uphold the legislative intent of the bill. Therefore, the city will be allowed to go forward subject to an annual appropriation clause.

On the second point, the court ruled that the city is not directly contracting indebtedness and therefore is not required to back the debt with a pledge of its "faith and credit." Rather, the city is simply assigning the payments from LGAC to a legally separate entity, STARC. The debt created is that of STARC, not of the city, and the city would have no legal obligation in the case of default. That is, if LGAC failed to make a payment to STARC, bondholders would have no recourse against the city.

The final issue concerns whether the STARC payment from LGAC will negatively impact LGAC bondholders. The court points out that nothing in the act explicitly requires that the $170 million payment be made at the expense of the LGAC bondholders. Since, under the court's ruling, an appropriation is now required, if an annual appropriation is less than needed in a given year to meet all of LGAC's obligations, LGAC is not required to make up the shortfall. A dissenting opinion argues that the act does in fact make it plain that LGAC must pay STARC regardless of the appropriation amount, thereby potentially reducing funds available for LGAC bondholders. This is most likely the strongest argument LGAC will have against the city in its appeal to the state Court of Appeals.

LGAC immediately appealed the decision to the state Court of Appeals. The city has cross-appealed on the issue of an annual appropriation being required by the state Legislature.

LABOR COSTS

Although wages and salaries of city workers are projected to remain flat through 2008 in the Mayor's Financial Plan, other components of labor costs are rising much more rapidly—notably pension contributions and health insurance premiums for city employees.

Pensions. Pension costs are rising rapidly due to the need to cover prior losses in pension fund investments as well as cost-of-living adjustments required by the state. The city's contributions to its five pension funds are projected to grow by $609 million in 2005 and total $3.2 billion. Even if the pension funds achieve their 8 percent assumed return on investments in 2005, pension costs are expected to grow at an average annual rate of 14 percent, and total nearly $4.4 billion in 2008.

One important factor driving this increase is the recent underperformance of assets, for which the city will have to compensate with increased contributions over the next few years. The city must also continue to phase in a permanent increase in annual contributions to cover the COLA benefit enhancement enacted by the state in 2000. Finally, the city must make increasing payments to finance liabilities resulting from collective bargaining agreements in 2000, 2001 and 2002.

There is some good news regarding pensions. The city has reestimated the fees it will be paying its investment managers, and now projects that annual fees will be $40 million lower than expected beginning in 2004. The investment management fees are expected to total around $80 million in 2004, or just over 3 percent of 2004 city pension contributions. In addition, the Department of Education has applied for and received more state and federal aid for the Teachers' Retirement System, resulting in a savings of $16 million annually beginning in 2004.

Possible Revisions Could Raise Contributions Further. A recent study of the city's pension system raises the possibility that the city will need to raise its contributions beyond the increase projected in the Financial Plan. The City Charter requires an outside auditing firm to periodically review the assumptions and methods used to calculate the city's pension contributions. The most recent so-called "experience study," completed in October 2003, concluded that more realistic, conservative assumptions regarding in particular the amount of overtime worked and salary growth would require adding roughly $300 million to the city's annual contribution.

The auditors' study draws upon city labor data from the years 1988 through 2001 to project trends in the near future, including the rate of growth in the pensionable salary base. The study concludes that the city would need to increase contributions by $340 million just to cover the liabilities likely to result from future changes to the salary scales through collective bargaining. In addition, the auditors conclude that the city has underestimated the liabilities due to the likely overtime credits of future retirees, requiring another $67 million annually. Other recommended changes to the actuarial assumptions would decrease amortized liabilities by roughly $105 million annually. It is important to note that the auditors' conclusions are not necessarily more valid than the Actuary's, and the decision to accept the outside audit's recommendations and to propose changes to the actuarial assumptions rests with the Office of the Actuary.

Other Benefits. Also increasing at a fast pace are the cost of fringe benefits for city employees—particularly health care. Spending for fringe benefits will rise by an estimated $197 million in 2005, and total $3.1 billion (excluding public school employees). Fringe benefits are expected to grow at an average annual rate of 6.6 percent from 2004 through 2008, reaching $3.8 billion in 2008. Health insurance premiums, which constitute nearly a third of all fringe benefit costs, are projected to rise at an average annual rate of 10.5 percent.

The city faces a potential budget risk from the planned conversion of the nonprofit health insurance company HIP of New York ("HIP") to for-profit status. Currently the city pays health insurance premiums for each employee equal to the regulated premiums charged by HIP—regardless of which insurer the employee chooses. After the conversion, HIP will not be constrained by not-for-profit status, and the state will not have as much authority to regulate HIP premiums. As a for-profit entity, HIP may try to bargain more aggressively with the city during negotiations of premium levels.

Wage Settlements. The Financial Plan does not have any provision for future wage increases for the municipal workforce. Almost all union contracts have already expired. The Mayor has said that there will be no retroactive pay raises and no raises that are not self-funded by workers through additional productivity savings. This may prove a hard bargaining line to hold. If the city ends up granting pay raises to its workforce, it will cost the city $208 million for every 1 percent increase.

Department of Finance (DOF)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2005 calls for a $183.8 million appropriation for the Department of Finance, $2.2 million (1.2 percent) less than planned for 2005 in last June's Adopted Budget. The department is expected to realize more substantial savings to the city's budget through a number of revenue initiatives whose impacts total $7.1 million in 2005. Since June, DOF's full-time headcount has increased by 130, almost entirely as a result of converting many temporary clerical workers to full-time city employees.

- The Preliminary Budget includes a $2.3 million annual reduction in DOF's expense budget, for 2005 and subsequent years, resulting from converting 218 per diem (temp) clerical workers in DOF's Parking Violations Bureau (PVB) to regular, full-time city employees. The DOF budget cut reflects money being transferred to the city's miscellaneous budget to cover the fringe benefits costs of the new city employees and thus does not indicate any cost savings to the city as a whole. This action increases the department's budgeted headcount by 131 positions, less than the number of new employees because a previous change has already increased the headcount.

- Responsibility for collection of outstanding Taxi and Limousine Commission (TLC) judgment debt due from cabbies is being assumed by DOF. This action is expected to generate an additional $1 million in annual revenue because DOF's other revenue collection functions are believed to make it able to collect the debt more effectively than the TLC.

- DOF's 2004 budget includes an unusual $15 million pre-payment to Business Improvement Districts (BIDs) for a portion of the BID assessments that DOF receives along with regular property tax payments. This pre-payment has no net effect on the DOF budget because it is being funded by the BID assessments DOF collects.

- The most recent Capital Budget commits roughly $40 million in spending on a number of the department's data processing projects.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$186.0
TLC Debt	$0.2
PVB Staff Conversion	($2.3)
Personnel Transfer to DoITT	($0.1)
January Plan	$183.8
Headcount	
June 2003 Financial Plan	2,136
January Plan	2,266
Revenue PEGs	$7.1
Capital Commitments	None managed by DOF. See text

EFFECTS OF BUDGET PROPOSALS

Background. The Department of Finance is responsible for activities related to New York City revenues, and in recent years the City Sheriff and Parking Violations Bureau have been incorporated into the Department. DOF administers and provides information about city taxes, collects real estate and business taxes, and audits tax returns. It assesses the value of real property and maintains property records. And it collects revenue from other sources, including parking summonses and lienable charges assessed by other city agencies, and it provides a forum for the public to dispute tax and parking violations. Its expenditure budget is funded almost entirely by city funds—all but $2 million of $183.8 million projected spending in the upcoming fiscal year (2005). The amount of revenue the department generates (just over $14.5 billion expected in 2005 from collections of the major business taxes and the property tax alone) dwarfs its expenditures, and increasing revenues rather than cutting spending is generally the means by which DOF is expected to realize budgetary savings. DOF does not maintain its own capital budget, but there are significant commitments in the capital plan for a number of projects entailing data processing equipment and systems for DOF operations.

The 2005 Budget Changes Since June. The Preliminary Budget's projection of DOF spending in the current fiscal year is $204.1 million, though the 2004 total includes a recently added $15 million pre-payment to the city's various Business Improvement Districts of the city's receipt of BID assessments along with property tax collections. Leaving aside this unusual jump in DOF's budget, there is a $5.8 million decrease in the department's expense budget from 2004 to 2005, to $183.8 million. Planned expenditures for 2005 are now $2.2 million less than what had been projected at budget adoption last June. Most of this spending decrease results from replacing temp clerical workers in the Parking Violations Bureau with full-time employees, an action which will increase DOF's headcount but not generate any budgetary savings to the city.

The department's 2005 program of revenue PEGs is far more modest in scale than the current year's program, which features two initiatives (Tax Amnesty and increased auditing of business taxpayers) that together are projected to boost city revenues by close to $95 million. Still, the 2005 initiatives, a number of which aim to improve the efficiency of collecting revenue, are together expected to generate $7.1 million for the city's general fund. Details of these revenue-raising initiatives, none of which require legislative authorization, are presented below, followed by information about changes to the department's expense budget.

More Effective Business Tax Auditing. Several revenue PEGs are expected to boost 2005 tax collections by $3 million through more effective auditing of business taxpayers. New computer programs will help DOF better select which tax returns of small and mid-sized corporate and unincorporated businesses are most likely to yield additional revenue from audits; these are expected to increase general corporation tax receipts by $1 million and unincorporated business tax receipts by $0.5 million. In addition, a recent Tax Tribunal decision allowing the city to deny deductions for certain payments of corporate partners of unincorporated businesses will boost unincorporated business tax audit revenue in 2005 by an additional $1.5 million.

Improving Parking Summons Processing. The processing of parking violations summons will be made more efficient by standardizing the description of vehicles in the parking violations database to make verification of vehicles more effective. The improved efficiency is expected to increase PVB revenue by $1.5 million in 2005.

Collecting TLC Judgment Debt. DOF is assuming responsibility for collecting unpaid Taxi and Limousine Commission fines ("judgment debt") against cab drivers, with the expectation that improved efficiency will boost city revenue by $1 million in 2005. A small portion of the revenue gain will be offset by an increase in DOF's expense budget—$150,000 in 2005—to fund the department's new collections responsibility, though there are no new personnel associated with the added funding. Because TLC is able to deny renewal of taxi licenses to cab drivers with unpaid fines, DOF's collection efforts will be aimed at drivers who do not attempt to renew their licenses. DOF has more general experience in collecting revenues than TLC, as well as possible enforcement advantages. For example, DOF has the potential to notify the Department of Motor Vehicles which city residents have TLC judgment debt, along with outstanding parking violations, which in turn could be used to compel residents to pay all fines before obtaining a renewed license. A November 2003 City Comptroller's audit criticized TLC for failing to employ rigorous efforts to collect a total of $97 million in outstanding TLC fines; it also estimated that "rudimentary steps" to collect this debt would generate about $4 million to $8 million in revenue.

Increasing Charges and Fees. Efforts to better collect the existing "Credit Card Convenience Fee" ($2 for Internet and telephone payments) is expected to generate $1.5 million in annual revenue to offset the cost of payments processing. The charge for writing bad checks will be increased from $15 to $20, as currently authorized under Municipal Law, providing an estimated additional $100,000 in revenue.

Supervisor Transfer to 3-1-1 Call-In Center. In addition to the new funding to cover collecting TLC judgment debt, two other changes to the 2005 expense budget have been made since June, both of which reduce DOF spending. First, the new 3-1-1 Citizen Service Center, funded through the Department of Information Technology and Telecommunications budget, is now assuming the duties of answering questions related to parking violations formerly handled by DOF, as well as assisting in the processing of payments over the phone. A DOF supervisor is being transferred to DoITT's to help oversee call takers, reducing DOF's 2005 budget by $78,000 (and raising DoITT's budget by an equal amount).

PVB Personnel Conversion. In the Parking Violations Bureau, DOF will replace per diem (temp) workers doing clerical work with full-time staff members. Unlike last year's proposal to convert 87 of PVB's per diem administrative law judges (ALJs) to full-time status, this personnel conversion does not require state legislative approval. (Approval was not granted for the ALJ conversion.) Though this action reduces DOF's expense budget by $2.3 million in 2005, it does not generate any cost savings to the city because the money is being transferred to the miscellaneous operating budget to cover the cost of fringe benefits. The action also increases DOF's full-time, budgeted headcount by 131 even though 218 positions full-time clerical positions are being created. This is because the department's headcount was increased by 87 last year when ALJ conversion was proposed but not subsequently reversed when authorization was not forthcoming.

BID Pre-Funding through the DOF Budget. As noted above, the 2004 DOF budget includes, for the first time, a $15 million expenditure representing the city prepaying a portion of the money it collects for Business Improvement Districts—the organizations of commercial, retail, or industrial districts designated by the city to provide extra sanitation, maintenance, public safety, and other services and capital improvements within their boundaries. BIDs are funded by special assessments paid by property owners within each district. Payments of BID assessments are received by DOF along with owners' property tax payments and ultimately turned over to the BIDs themselves.

Because there had been concern about the length of time it took for payments to be received by the BIDs, in the current fiscal year DOF pre-funded the BIDs $15 million—about a fourth of their total annual budgets—in anticipation of collecting BID assessment payments. These payments are, in turn, accounted for in the DOF budget as a $15 million other categorical grant, so the pre-funding has no net effect on the city's budget. The DOF budgets for 2005 and subsequent years do not currently include BID pre-funding expenditures or matching grants because at the time of the Preliminary Budget, it had not been decided if and how a permanent mechanism of BID pre-funding would be established.

Capital Projects. The Department of Finance does not maintain its own capital budget, though a number of projects benefiting DOF are managed by other agencies, such as the Department of Citywide Administrative Services. These projects generally entail purchasing and installing data processing equipment and systems intended to provide services more efficiently and integrate DOF operations with those of other city agencies. The largest of the DOF-related projects listed in the January 2004 Capital Commitment Plan are:

- A commitment to spend a total of $6.2 million by the end of 2004 on DOF equipment for NYCSERV, the wide-scale project to consolidate collection, payment, licensing, and adjudication processes across several city agencies. This total includes $5.9 million in new capital funding, added to the capital budget since the city budget was adopted last June.
- The plan commits a total of $43.5 million through 2008 in spending on data processing equipment for ACRIS, a project to convert deeds, mortgages, and other records from paper to digital images and make them available on-line to the public, improving service to the public as well as cutting costs. The bulk of the commitments—$29.6 million—are for 2004. Fees paid by users accessing ACRIS cover the capital outlays and other start-up costs (notably creating digital images of documents) associated with ACRIS.
- The plan also includes $4.8 million for spending in 2004 on SPAZM, the acronym for "Street, Properties and Zoning Map." The map is intended to be used by DOF's property tax division, in coordination with other agencies such as the Department of City Planning.

Department of Parks and Recreation (DPR)

PRELIMINARY BUDGET OVERVIEW

The preliminary 2005 Department of Parks and Recreation budget is $193.4 million, an increase of 14 percent over the projected 2005 budget of $169.1 million in the June 2003 Financial Plan.

- Over half of this increase—$15.3 million—reflects simply a change in the sources of funds, not an increase in services provided. Certain parks maintenance supervisors will no longer be funded through the city's Human Resources Administration, but will instead be funded by DPR directly. There will be no associated change in headcount.
- Another quarter of the increase is a restoration of funding for seasonal positions. The department will spend $6.3 million to partially restore last year's $7.4 million cut in annual funding for seasonal workers, sufficient to maintain 180 full-time equivalent positions in 2005.
- An expanded roster of capital projects in the coming year has prompted the hiring of 40 additional architects and engineers, costing $2 million in 2005.
- The department will spend $825,000 to operate the new Chelsea Recreation Center, set to open before the start of the new fiscal year.
- Concessions revenue will increase by $3.8 million, reflecting higher bids for restaurant, golf course, and other concessions. A ticket price increase at Yankee Stadium and the scheduling of more special events at Shea and Arthur Ashe Stadiums will further boost revenue by $1.1 million.

Based on average state funding in previous years, IBO projects that in 2005, DPR will receive $700,000 from the state for various ecological projects and program grants. This raises the Bloomberg Administration's estimate—which includes no state funding—to $194.1 million.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$169.0
Chelsea Recreation Center	0.8
Seasonal Workers	6.0
Parks Maintenance Supervisors	15.0
New Hires for Capital Projects	2.0
January Plan	$193.0
IBO Repricing	0.7
IBO Reestimate	$193.7
Headcount	
June 2003 Financial Plan	1,842
January Plan	1,916
Revenue PEGs	$4.9
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$708
January 2004 Plan	$819

EFFECTS OF BUDGET PROPOSALS

Increase in Spending for Seasonal Workers. The condition of parks and their acceptability ratings are closely related to the number of workers maintaining parkland. A shrinking full-time and seasonal workforce in the Department of Parks and Recreation has meant renewed challenges to maintain acceptable cleanliness and condition ratings for the city's 1,500 parks. Beginning with the November 2002 Financial Plan, the annual budget for seasonal workers was cut by $7.4 million. This funding was partially restored last June for 2004 only, along with nearly $6.3 million for six-month renewals of Parks Opportunity Program (POP) workers' contracts. The January plan has added the same amount to the 2005 budget, for unspecified seasonal workers.

The employment of POP workers has for the past several years partially offset the impact of cuts to DPR's full-time staffing levels. The department has received TANF funding to employ former welfare recipients whose benefits have recently run out for 11-month, 40-hour per week contracts. This program, along with the Work Experience Program, or WEP, in which current welfare recipients work part-time at the parks department, have recently helped to sustain parks acceptability ratings. As of December 2003, POP workers at the department numbered 2,496—a 40 percent increase over one year ago—and WEP workers numbered 446.

Despite ongoing negotiations with the state, it is not certain that TANF funds will continue to materialize for the POP program. The Preliminary Budget adds $6.3 million in city funds to DPR's budget to pay for seasonal workers in 2005. It is at this point uncertain whether these positions will be filled by POP workers or by other seasonal parks employees.

Shift in Funding for Parks Maintenance Supervisors. These positions had been funded through the Human Resources Administration. They entail supervisory responsibility for POP and WEP workers, as well as maintenance workers on DPR's standard payroll. Beginning in 2004, the city no longer receives state and federal funding for these supervisory positions. The burden of funding these positions shifts to city funds. This $15.3 million increase to the parks department budget, therefore, does not reflect any increase in service, only a shift in funding source.

Headcount Increase. For the first time in several years, the January plan reflects an increase in full-time personnel at the parks department. Of the 74 new positions added, 34 are required to operate the Chelsea Recreation Center, opening in Manhattan during 2004. Architects and engineers fill the other 40 positions, newly hired to handle DPR's expanded list of capital projects. One project cited in particular as demanding an architectural/engineering staff increase is the design and planning of parks in Lower Manhattan.

Pruning Contracts Reduction. There are approximately half a million trees growing on New York City streets. The 2004 parks department budget includes $1.85 million for street tree pruning contracts, providing for the pruning of an estimated 28,000 trees. This is a greatly reduced budget from prior years, in which about 50,000 trees were pruned annually, resulting in a 10-year pruning cycle. The reduced budget of 2004 effectively stretches the pruning cycle out to 20 years. Pruning contract funding for 2005 and beyond was cut at the same time as that for 2004. However, the $1.85 million was restored in the Adopted Budget last June for 2004 only. As of the January plan, pruning contract funding has not been restored for 2005 or subsequent years.

Funding for Zoos. Funding for zoos has actually increased in 2004, but remains uncertain for 2005. The $5.8 million taken out of the parks department annual budget last April threatened the closure of the Prospect Park and Flushing Meadow Park zoos. In June, $4.8 million was restored to allow the zoos to continue operating in 2004. Another $1.3 million was later added for 2004, in the form of a subsidy to the Wildlife Conservation Society, the organization that runs the Central Park Zoo, the Prospect Park Zoo, and the Bronx Zoo. At this time, however, none of this funding has been restored for 2005.

Increased Concessions and Fee Revenues. Higher bids for a variety of concessions will mean $3.8 million more revenue for the parks department in 2005. Restaurants will bring in an additional $1.1 million yearly. Other concessions, such as snack bars and pushcarts, will produce $300,000 more. New bids for seven of the city's 13 golf courses—two in the Bronx, one in Brooklyn, two in Queens, and two in Staten Island—will increase total revenues by $2.4 million per year. Total concession revenue is now expected to be $45.2 million in 2005 and thereafter.

Starting in 2005, ticket price increases at Yankee Stadium will net the city $900,000 more every year, bringing the Yankees' total payment to the city up to just over $1 million per year. (Yankee Stadium revenues—previously projected at $148,000—are net of the cost of maintenance, which the Yankees provide. In contrast, the parks department maintains Shea Stadium, and therefore collects gross ticket and concessions revenues from the Mets.) Concerts and other special events at Shea and Arthur Ashe Stadiums are expected to bring in an additional $200,000 per year, on top of the $2 million already expected from event fees in 2005.

CAPITAL PLAN

The January four-year Capital Commitment Plan increases funding by $110.3 million—or 16 percent—since September. The greatest increases in funding occur in 2004 and 2005 with growth of $81 million and $32 million, respectively. Various citywide parks improvements receive the greatest boost in total four-year capital funding, rising $86 million from the September plan. Approximately one-quarter of that increase is new funding from the Lower Manhattan Development Corporation for the design and construction of projects in Lower Manhattan in 2004.

Yankee Stadium rehabilitation will cost the city $13.3 million in capital funds, up from $8.5 million in September. Approximately $5 million more has been committed in the January plan for improvements to Shea Stadium, rising from $3.5 million in September. Other projects receiving sizable increases in capital funds are East River Park bulkhead construction, citywide street and park tree planting, and Flushing Meadow Park improvements and pool construction.

Some other projects received small increases in funding, still others' timetables for construction shifted somewhat, and a few projects experienced a decrease in funding compared to September's Capital Commitment Plan.

Department of Sanitation (DOS)

PRELIMINARY BUDGET OVERVIEW

The preliminary Department of Sanitation budget for 2005 is $1.0 billion, an increase of 3.4 percent from the 2005 budget projected in last June's Financial Plan.

- Last April's Executive Budget called for a decrease in refuse collection frequency in parts of the city, reducing the uniformed workforce by 338 positions and saving the city $11 million. When the proposal was abandoned in June, funding was restored for 2004 only. The January plan restores this funding and the 338 positions for 2005 through 2008.
- The department will be hiring 410 new sanitation workers—160 immediately to meet current operational needs and reduce overtime spending, and 250 next year to restore weekly recycling.
- The department has confirmed that it will resume weekly collection of recycling, including glass, on April 1, 2004. The department has budgeted $16.2 million for recycling processing fees for metal, glass, and plastic recyclables.
- The department projects that uniformed overtime costs will rise by $22.9 million in 2005.
- Annual snow budget funding was increased by $7 million in the January plan to reflect average cost of the last five years.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$1,002.0
Funding Restoration for Refuse Collection Frequency	11.0
Overtime	23.0
Delays in Fresh Kills Closure	(10.0)
Snow Budget Funding	7.0
Methane Gas Companion Contract	1.0
All Other Changes, Net	2.0
January Plan	$1,036.0
Headcount	
June 2003 Financial Plan	
Uniformed	6,949
Civilian	2,046
January Plan	
Uniformed	7,261
Civilian	2,017
Revenue PEGs	($3.0)
Capital Commitments	
Total, 2003-2006	
September 2003 Plan	$1,213
January 2004 Plan	$1,126

EFFECTS OF BUDGET PROPOSALS

Return of Glass and Weekly Recycling. The city has publicly committed to the restoration of glass and weekly recycling on April 1, 2004. The Financial Plan funds the restoration of glass to the recycling stream for April through June, at a cost of $1.5 million. This figure assumes a processing contract cost of $51 per ton and an increase of 74 uniformed personnel. As of the January Financial Plan, funding for weekly recycling pick up in 2004 and 2005 has not been restored. The department has announced plans to hire approximately 250 new sanitation workers to handle the restoration of weekly collection service.

Contract negotiations with the selected recipient of the 20-year contract for the city's recyclables have not yet been finalized. Under the current contract, the city has been receiving $5.10 per ton for its metal and plastic. When glass enters the recycling stream, the city will have to pay the vendor $51 per ton to take its combined metal, glass, and plastic recyclables (MGP). The department reports that the budget for MGP processing costs is adequately funded in 2005, at $16.2 million.

Increased Overtime. Although the Mayor ordered an across-the-board 10 percent reduction in overtime for all uniformed agencies in 2005—$5.8 million in the case of the Department of Sanitation—the department expects an overall net increase of $22.9 million in overtime costs. Overtime spending will rise by $17.4 million due to two factors: 1) refuse tonnage is running 3 percent to 4 percent higher than last year; and 2) there has been higher than expected attrition of the uniformed workforce. The department also added $11.3 million in overtime costs to continue the extra basket collection and street cleaning instituted in response to last summer's complaints about overflowing street baskets and dirty streets. The resulting total projected overtime cost for DOS is $70.9 million.

Rise in Fine Revenues. The first half of fiscal year 2004 (July through December, 2003) saw increases in recycling and other sanitation fine revenues collected by the Environmental Control Board compared to the same period last year. Fine revenue for recycling citations rose 27 percent to $1.2 million, while other sanitation citations brought in 24 percent more revenue, rising from $8.2 million to $10.2 million. However, these increases occurred for different reasons.

Increased revenue from recycling fines have been driven by a rise in the number of citations, while increased revenue from other sanitation violations are attributable to increases in the base level of fines. Recycling violations were cited 16 percent more often in the first half of 2004, rising to 56,362 citations from 48,545 in the first half of 2003. Citations for other sanitation violations, such as littering or improperly storing garbage receptacles, actually dropped by 28 percent—from 204,135 in 2003 to 147,568 in 2004. Revenue nonetheless rose because the base fine for most sanitation violations was increased at the start of 2004, from $50 to $100. The recycling violation base fine has remained at $25 since the program's inception.

Methane Gas Companion Contract. Until recently the city has had a revenue contract with a private firm handling methane from Fresh Kills landfill. The firm siphons off the methane and sells it to energy providers. However, the firm was not interested in renewing this contract with the city because the methane has not been fetching a high enough price in the market to be profitable. If the methane is not efficiently collected, however, the result could be flare-ups at the landfill, and fines by New York State. DOS has therefore negotiated a new, mixed revenue/expense contract with the firm handling the methane. In 2004, the city pays $800,000 and receives approximately $4.5 million in revenue. In 2005 and beyond, the city will pay $1.1 million annually and receive no revenue, reducing previously anticipated revenue by $3 million per year.

Delays in Fresh Kills Closure. Design changes to closure plans at Fresh Kills landfill are pending approval at the New York State Department of Environmental Conservation. This delay will push some closure operations out to later years, saving the city $9.6 million in 2005.

Other Changes. In 2005, the Department of Sanitation will save $1.7 million by reducing planned civilian hiring. Fifty percent of non-critical civilian vacancies (23 positions) will not be filled.

Other new costs to the department in 2005 include $1.3 million for payouts (for example, accumulated sick leave and annual leave) to civilians who had opted last year for early retirement, and a $2.1 million contract for legal services in preparing the new Solid Waste Management Plan, expected to be released in the first half of 2005. Also, the city will pay an extra $171,000 annually as a result of collective bargaining negotiations.

CAPITAL PLAN

For 2004-2007, DOS's capital budget totals $1.1 billion, a 7.2 percent decrease from the September capital plan. Much of this decrease is associated with a postponement in garage construction on East 73rd Street, in Manhattan. Over $100 million in construction costs slated for 2006 in the September plan have been moved to 2008 in the January plan. Because the current four-year capital plan only covers the period through 2007, the deferral of costs to 2008 brings down the total capital dollars committed in this plan.

The largest commitment in the January plan, as in the two prior plans, is for the long-term Solid Waste Management Plan proposed by the Bloomberg Administration in July 2002. Under this plan, trash will be containerized at the city's eight marine transfer stations (MTSs) for long-distance transport by barge and rail. To facilitate containerization, MTSs require not only internal retrofitting, but also extensive reconstruction and expansion of the buildings' footprints. Total capital costs for the long-term plan are currently projected to be $534.9 million. This accounts for 47.5 percent of DOS's 2004-2007 capital budget and includes $405 million for construction, $90 million for container purchases, and $39 million for rehabilitation of barges and other related costs. The bulk of these commitments ($493 million) are planned for 2005.

The city is exploring the possibility of substituting or augmenting two MTSs' capacity with that of privately owned and operated transfer stations. In January, three Requests for Proposals (RFPs) were issued to accept, containerize, and transport waste from three areas of the city. Waste generated in all districts of the Bronx—formerly accepted at the South Bronx MTS—is specified in one RFP. Waste formerly delivered to the Greenpoint MTS in Brooklyn is specified in the two other RFPs; separate contracts would handle waste from Brooklyn and waste from Queens. If bids reveal that the private sector can provide acceptable containerization and disposal of this waste at less cost to the city than its own costs of reconstructing and operating the South Bronx and

Greenpoint MTSs, then the sanitation department will reconsider its plans for this project and capital costs of MTS reconstruction could be lowered.

Garages and other facilities account for 28.3 percent ($318.1 million) of the agency's capital spending through 2007, and 22 percent ($246.2 million) is for vehicle acquisition and maintenance. The remaining 2.4 percent ($26.7 million) is for other projects, including $18.2 million for ongoing monitoring and leachate control at Fresh Kills and other former city landfills, and $9.3 million for electronic data processing equipment.

Public Libraries

PRELIMINARY BUDGET OVERVIEW

The preliminary budget for 2005 for the city's library systems proposes total spending of $218.6 million, a $4.2 million (2.0 percent) increase from the level in the June 2003 Financial Plan. Much of the increase is due to the partial restoration by the Mayor of reductions that had previously been imposed. This restoration still leaves the 2005 libraries budget well below what it was expected to be before a series of cuts were imposed beginning in November 2002.

Key budget actions for 2005 include:

- $3.8 million to restore some of the funding that had been previously cut. These restorations are a permanent addition to the library systems' baseline budgets.
- $619,000 to cover the cost of collective bargaining salary increases.

2005 Budget Summary

Dollars in millions

Expense Budget	New York	NYPL Research	Brooklyn	Queens	Total
June 2003 Financial Plan	$81.5	$15.4	$60.1	$57.2	$214.2
PEG Restoration	1.5	0.3	1.1	1.0	3.8
Collective Bargaining	0.2	0.0	0.2	0.2	0.6
January Plan	$83.2	$15.7	$61.4	$58.4	$218.6
Capital Commitments					
Total, 2004-2007					
September 2003 Plan	$115.2	$14.3	$52.0	$34.7	$216.2
January 2004 Plan	$112.6	$13.8	$53.5	$35.3	$215.2

EFFECTS OF BUDGET PROPOSALS

Background. New York City provides general operating support to each of the city's three public library systems. Each system has extensive autonomy in deciding how to budget these funds. The library systems faced major budget cuts in 2003 and 2004, which led to reductions in services, although each library system implemented the cuts differently.

Budget Changes and Effects. The 2005 Preliminary Budget contains little change in comparison to last June's Financial Plan. The Mayor proposes to partially restore funds to the 2005 budget that had been removed from the system during last year's budget process. In November 2002, libraries had $23 million cut in funding for fiscal year 2004 and future years, followed by another $6.8 million reduction in January 2003, to total $29.8 million in cuts from planned spending for 2004 and later. When the 2004 budget was adopted last June, these cuts were partially offset by Mayoral restorations of $15.6 million and City Council restorations totaling $196,000. However, these actions only affected the 2004 budget. No adjustments were made for 2005 and beyond in the Financial Plan. The Mayor now proposes to restore $3.8 million for 2005 and subsequent years, about one-eighth of the total removed from planned spending for 2005. The other significant action in the Preliminary Budget is an increase of $619,000 to cover the costs of previously negotiated collective bargaining agreements.

Library Spending Trends

Dollars in millions

	2000	2001	2002	2003	2004
NYPL Research Library	$14.7	$25.6	$9.2	$24.3	$9.0
NY Public Library	$89.0	$146.2	$46.9	$128.4	$46.8
Brooklyn Public Library	$66.1	$107.7	$34.8	$94.8	$34.6
Queens Public Library	$62.7	$103.4	$32.9	$90.2	$32.9
	$232.5	$382.8	$123.8	$337.6	$123.3
Prepayment Adjustment		($131.0)	$131.0	($107.0)	$107.0
Adjusted Expenditures	**$232.5**	**$251.8**	**$254.8**	**$230.6**	**$230.3**

SOURCES: IBO, Comptroller's Comprehensive Annual Financial Reports, Mayor's Office of Management and Budget.
NOTE: 2004 spending is projected.

EXPENDITURE TRENDS

Library spending has fluctuated in recent years. Adjusted for prepayments by the city, spending has grown from $233 million in 2000 to a high of $255 million in 2002, before declining in 2003 to $231 million. IBO expects the adjusted 2004 spending to remain near the 2003 level.[1]

Even with the restoration of $3.8 million for 2005, the lack of additional funds to cover past cuts will leave the libraries with fewer resources than in the recent past. With the proposed restoration, under the Mayor's Preliminary Budget, spending in 2005 would be nearly $219 million, about $11 million less than the expected level for 2004.

CAPITAL PLAN

The current Capital Budget would increase total capital commitments for the four years by 8.9 percent over the September commitment plan. The increase is due to changes in a number of smaller projects rather than a single large project. This increase is in marked contrast to last year's January Capital Commitment Plan, which cut funding by 27 percent.

END NOTES

[1] Because the city is not allowed to close a fiscal year with a surplus, in years when revenues exceed expenses it prepays some future year expenses to, in effect, transfer the surplus to future years. Because general operating expenses of city agencies are not eligible for prepayments, the city instead prepays such items as debt service, and payments to independent agencies including the Metropolitan Transportation Authority, and the three public library systems.

Administration for Children's Services (ACS)

PRELIMINARY BUDGET OVERVIEW

The preliminary 2005 Administration for Children's Services budget is $2.1 billion, an increase of $23.4 million from the amount planned in June 2003. The increase results from two needs that will require additional spending of $42 million, partly offset by about $19 million attributable to lower than expected caseloads, and funding shifts. The Preliminary Budget also delays implementation of the social services restructuring, which among other changes would have shifted funding for after-school child care from ACS beginning in 2004.

IBO estimates that spending will be $77.0 million more than projected in the Preliminary Budget with the difference attributable to a higher forecast for federal categorical grant revenue.

Key budget actions for 2005 include:

- A $14.1 million new need to increase reimbursement rates for foster care providers under a new, performance-based system.
- A $28.1 million new need to increase funding for institutional schools that accommodate students with special needs.
- $21 million savings from projected lower caseloads; the single largest reduction is $15 million in foster care services.
- $6.6 million in additional spending due to a change in the Foster Care Block Grant allocation formula. New York State gave less money to the city, which had to be made up by city tax levy.
- A savings of $4.8 million due to a shift of child welfare services from city funds to federal Temporary Assistance for Needy Families and Title XX funds.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$2,056
Expenditure Reestimates	(21)
New Needs	42
All Other Changes, net	2
January 2004 Financial Plan	$2,079
IBO Repricing (see text)	77
IBO Reestimate	$2,157
Headcount	
June 2003 Financial Plan	6,057
January Plan	6,438
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$90
January 2004 Plan	$88

EFFECTS OF BUDGET PROPOSALS

Increase Foster Care Rates. The Preliminary Budget includes $14.1 million ($9.2 million in city funds) to increase reimbursement rates for foster care providers under a new performance-based system developed by ACS. ACS administers funds to private foster care agencies on an annual basis. Foster care providers were traditionally reimbursed for expenses based on an agency-specific per-diem rate calculated using a formula created by the New York State Office of Children and Family Services (OCFS). Each agency's per-diem rate was limited to the Maximum State Aid Rate (MSAR) established by OCFS. Since 2001, ACS has been paying below the MSAR. Some providers have complained that with the city paying below the maximum, they have been undergoing financial hardship.

In December, ACS announced a new performance-based rate payment system for foster boarding home services effective January 1, 2004. Under the new system individual agency reimbursement for foster care services now will be tied to the agency's scores on "EQUIP"—the ACS performance evaluation system. The system will set a $24 per day base payment for agencies scoring satisfactory (74.00 – 79.99); a $1 increase above the $24 base for those agencies scoring "very good" (80.00 – 84.99); and a $2 increase for those agencies achieving an excellent score (85 and higher). Programs receiving an EQUIP score below 74.00 will lose $0.50 from the base payment and receive $23.50 per day. This methodology is expected to raise reimbursement rates for most foster care agencies and has been praised by many within the foster care community as an effective way to reward high-quality foster care service and raise the rate floor standard.

Institutional Schools. The budget proposes spending an additional $28.1 million ($17.2 million in city funds) each year from 2005 through 2008 on institutional schools. Through this program ACS administers funds to pay for "special needs" children to attend schools that accommodate their disabilities. ACS pays for the tuition, room, and board of these children at specialized schools located across the United States. ACS has virtually no control over this program portion of their budget; parental requests for placement of their children into one of these institutions are funneled through the Department of Education's Committee for Special Education. Unlike foster care, parents retain their full parental rights. The program has elements that make expenditure forecasts difficult, most specifically the variation of disability types, numbers of children, and time spent within the program.

Foster Care Reestimate. ACS expects to save approximately $15 million (1.7 percent of total foster care spending) due to a reestimate of foster care caseloads. The foster care caseload has decreased significantly over the past several years, falling by 33 percent—from 38,441 children in 1999 to 25,622 in 2003. However, while the caseload has decreased, agency spending for foster care has not. An analysis of foster care spending shows that program expenditures held relatively steady between 1999 and 2003, growing just 0.3 percent in five years. According to ACS, higher costs per child served offset much of the caseload reduction.

Delay in Shifting After-School Child Care. The 2004 Adopted Budget assumed that as part of a larger restructuring of social services, responsibility for the after-school child care program would be shifted from ACS to the Department of Youth and ***Community Development.*** The initiative has encountered difficulties and implementation will be delayed. The January Financial Plan restores $38.1 million to the Out of School Program for 2004 to avoid service interruptions while a new after-school program is developed.

2004 Child Care Dollars Shifted. While child-care enrollment in ACS has remained relatively steady over the past several years, the end of calendar year 2003 saw enrollment down slightly by 1.7 percent compared with the prior year. Meanwhile, enrollment in Human Resources Administration (HRA)-subsidized child care mushroomed by 22.4 percent over 2002. HRA officials credit this increase, in part, to more effective outreach and improvements in enrollment procedures in the last year. In response to this caseload increase, the November 2003 plan transferred $10 million in city funds from ACS to HRA for 2004. At the same time, the state's Child Care Block Grant funding in HRA was increased by $30 million.

Headcount Increase. As shown in the Preliminary Budget, during the first half of 2004 full-time headcount grew by 381 positions from the level in June 2003. Some 154 positions were converted from per diem lines to per annum. Within the daycare program, 69 positions were transferred to ACS from HRA to bolster case management, outreach, and enrollment functions. ACS also replaced 126 temporary staff provided by contractors with full-time city workers to minimize reliance on temporary staff.

City University of New York (CUNY)

PRELIMINARY BUDGET OVERVIEW

The proposed 2005 budget for the City University of New York is about $41 million or 9.0 percent more than anticipated in the June 2003 Financial Plan. The increase is almost entirely funded by a 12 percent rise in tuition for students at the community colleges. Key budget actions include the following:

- Increase tuition by a total of $39 million per academic year to help cover general expenses that have been increasing.
- Cut $5 million from community college programs at the discretion of the colleges.
- Eliminate $5.5 million worth of Peter F. Vallone Academic Scholarships, which would end a student aid program introduced by the City Council in 1999.
- An increase in the authorized headcount of over 300 positions in a technical adjustment that will not result in any new hiring.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$455
Tuition Increase	39
Program Cuts	(5)
All Other Changes, Net	7
January Plan	$496
IBO Technical Adjustment	(35)
IBO Reestimate	$461
Headcount	
June 2003 Financial Plan	3,684
January Plan	3,979
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$187
January 2004 Plan	$178

NOTES: The city's accounts include community college funding, plus support for associate degree programs at senior colleges as well as city and state funding for the Hunter Campus schools. Technical adjustment removes state funds for senior colleges annually budgeted but by design never spent.

EFFECTS OF BUDGET PROPOSALS

Background. The City University of New York is the nation's largest municipal university system enrolling over 200,000 full-time, part-time, undergraduate and graduate students, close to 70,000 of who attend the junior colleges. CUNY receives roughly three-fifths of its $1.4 billion operating budget from the city and the state, with tuition and fees accounting for the remaining two-fifths. Compared to most universities and colleges, public and private, CUNY receives relatively little philanthropic support.

Because the city and the state have different areas of financial responsibility within the CUNY system, only a portion of the total university budget is included in the city's budget. The state funds the four-year degree programs, plus the graduate, law, and medical schools. Both the city and state contribute funds to the community colleges and the associate degree programs in four senior colleges. The state and federal governments further subsidize tuition for low- to moderate-income students through grants, loans, and tax credits. This analysis focuses on CUNY spending recorded in the city's accounts.

For the past decade, annual state budget legislation has contained a maintenance of effort provision compelling the city to provide the community colleges with at least the same subsidy as the previous year, exclusive of tuition and fees. The January plan satisfies the maintenance of effort requirement. The city is not obligated to maintain current services when costs rise.

Tuition Increase. For the 2003-2004 school year, CUNY initiated a 25 percent tuition increase at the senior colleges and a 12 percent tuition increase at the community colleges. Tuition for full-time students at the community colleges is $2,800 a year, up by $300 since last year. The reasons cited for raising tuition included increased enrollment, increased costs, and the fact that tuition has not been increased since 1995. As a result of the tuition increase, the community colleges will bring in an additional $40 million in 2004.

From 1999 through 2003, city funding for CUNY, exclusive of tuition and fees has increased 23.1 percent, while state funding has risen 6.8 percent. Over those five years, revenue from tuition and fees increased 10.8 percent due to growth in enrollment, which is up nearly 10 percent since 1999, and higher fees rather than higher tuition charges.

Overall expenses for CUNY have increased by 18.5 percent since 1999. Over 90 percent of CUNY's expenses are used for instruction and central administration and the budgets for both of these areas have grown since 1999. However, administrative expenses have increased at twice the rate as instructional expenses (30 percent versus 14 percent).

Vallone Scholarships. The January plan would eliminate the Peter F. Vallone Academic Scholars program. The program rewards students who graduate from a city high school with a B average or better and maintain a B average or better in bachelor and associate degree programs while attending a CUNY institution. Vallone scholars receive grants of $1,000 per year, which covers 25 percent of senior college tuition or 35.7 percent of community college tuition. The program has provided a total of $5.5 million to CUNY students each year, at both the junior and senior colleges. For the past several years, although the January plan has not included the Vallone scholarships, the City Council has restored the program each year.

Other Budget Cuts. The January plan would reduce the city's general support for the six community colleges by a total of $5.4 million each year starting in 2004. In order to achieve these cuts, the colleges have proposed eliminating six full-time and 32 full-time equivalent pedagogical employees, as well as 13 full-time and 32 full-time equivalent non-pedagogical employees. The remaining $4.1 million in reductions come from non-personnel costs.

Headcount Increase. The November plan outlined an increase in the overall CUNY headcount of over 300 people—split evenly between pedagogical positions and non-pedagogical positions. The increase is a technical adjustment of the city's headcount numbers. No new positions were added as a result of this adjustment and the budget did not change because of the increased headcount.

CAPITAL PLAN

Capital Investment. The city's latest four-year (2004-2007) Capital Commitment Plan cuts higher education funding by $9 million compared to the September capital plan. The commitments are $90 million, $22 million, $41 million, and $25 million for the fiscal years 2004, 2005, 2006, and 2007, respectively. The substantially higher level of capital commitment in the first (or current) year of the plan is typical. However, prior years demonstrate that spending does not usually occur at the projected level. For example, in January 2003, the Capital Commitment Plan projected spending $138 million in 2003. However, by the end of 2003 only $32 million was spent.

The city's capital plan makes up roughly 20 percent of the total CUNY capital program. The city and state equally share the responsibility for funding the capital program for the six community colleges and one senior college, Medgar Evers College (MEC). The state assumes virtually all of the capital funding responsibility for the other 10 CUNY senior colleges, graduate center, law school, and medical school. The city capital budget does not fund senior college and graduate school projects, except when earmarked by City Council Members or Borough Presidents. In 2004, 5.1 percent of city funding for CUNY is slated for the senior colleges; for 2005 and later, the share is 1 percent.

Rebuilding BMCC. CUNY's capital needs include the replacement of Fiterman Hall, which housed Borough of Manhattan Community College (BMCC) classrooms and the university's research foundation. The skyscraper located at 30 West Broadway was severely damaged in the trade center attacks. CUNY estimates that it will cost $278 million to replace the building and its equipment and expects the entire cost to be recovered through insurance payments and federal disaster relief. BMCC has stated its intent to demolish what remains of the existing structure and replace it with a new building; the college is currently negotiating with the building's insurance carrier.

For the next 10 years, the college has rented 186,000 square feet at 75 Park Place, across the street from the original Fiterman building, in which to offer classes (classes this year were held in temporary trailers on the west side). Classes are anticipated to begin at the new space in September 2004. The new space will cost the college $75 million for a 10-year lease. The state is helping to subsidize these costs.

Largest Commitments for Renovations and Updating. The current Capital Commitment Plan earmarks the largest share of city funds for improvements and renovations. For example, in fiscal year 2004 the three largest projects—all described as systemwide improvements or renovations—make up $52 million out of the city's total $90 million commitments.

Medgar Evers College Status. When MEC became a four-year-degree institution in 1994, state lawmakers did not change the school's capital funding status from that of a two-year college. The city has repeatedly requested that state lawmakers change MEC's classification to be the same as all other senior colleges, requiring the state to pay 100 percent of its capital costs. However, to date, the state has not taken any action.

Department for the Aging (DFTA)

PRELIMINARY BUDGET OVERVIEW

The preliminary budget for the Department for the Aging for 2005 is $198.8 million, $25.7 million less than the current budget for 2004. Federal and state funding are expected to make up 40.2 percent and 9.9 percent, respectively, of the agency's 2005 budget. City funds will make up 35.1 percent and the remaining 14.1 percent will come from other sources. IBO's projections of federal and state funding for the agency in 2005 are greater than the Bloomberg Administration's by $1.7 million, raising IBO's forecast of the agency's 2005 budget to $200.5 million. No additional cuts to DFTA's operating budget were proposed in the city's January 2004 Financial Plan for fiscal years 2005 through 2008, compared to the level planned in the budget adopted last June. The agency's proposed full-time headcount for 2005 is 282, with 36 positions funded by the city.

2005 Budget Summary
Dollars in millions

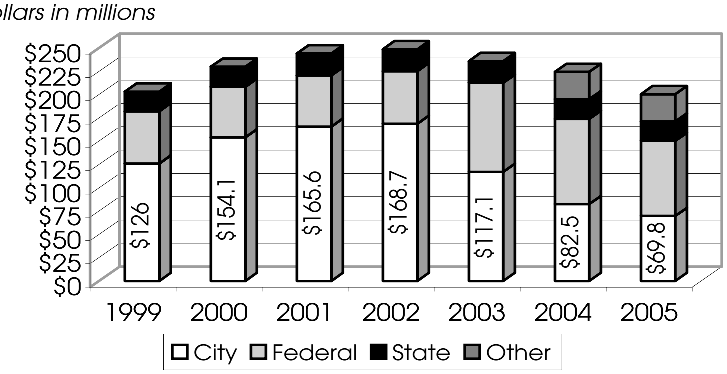
Expense Budget	
June 2003 Financial Plan	$198.8
January Plan	$198.8
IBO Repricing (see text)	1.7
IBO Reestimate	$200.5
Headcount	
June 2003 Financial Plan	282
January Plan	282
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$31.3
January 2004 Plan	$31.3

EFFECTS OF BUDGET PROPOSALS

The Mayor's Preliminary Budget does not recommend additional cuts to DFTA's operating budget for the financial plan period starting in 2005 and ending in 2008. The city has sharply reduced its support for the agency in the last two years although funding from other sources has made up some of the difference. In the current year, city funds represent 36.8 percent of the agency's total operating budget; this is down from 49.6 percent in 2003 and 67.9 percent in 2002. The agency's total operating budget has been protected by the city's ability to draw on other revenue sources. Beginning this year the New York City Housing Authority is providing DFTA with $29.4 million annually to support 105 senior centers located in housing authority facilities. In addition, in 2003 the city began shifting $32.4 million each year in federal Title XX Social Service Block Grant funds from the Administration of Children Services to DFTA in exchange for the same amount in agency city-tax levy dollars. Even with such fund-swapping offsetting some of the reduction in city tax-levy support, the agency's total operating budget has declined by nearly 20 percent from its peak of $248.5 million in 2002, compared to the agency's proposed 2005 budget.

According to the city's January 2004 Financial Plan, DFTA's total operating budget for 2005 is expected to decline by $25.7 million (11.4 percent) compared to 2004. Close to half of the $25.7 million cut in total agency funds is explained by the fact that City Council restorations to DFTA's adopted 2004 budget were not baselined or extended to subsequent years covered in the city's financial plan. Funding for various senior services including nine information and referral contracts, 128 programs providing roughly 7,500 weekend meals each week, and programs supported by the City Council was only restored in 2004. The other half of the $25.7 million cut in total agency funds is primarily due to the Bloomberg Administration's lower expectations for federal and state aid.

DFTA's Total Operating Budget Began to Decline in 2003
Dollars in millions



SOURCES: IBO; January 2004 Financial Plan; Financial Management System.
NOTE: Exludes intra-city sales.

AGENCY PROGRAMS

DFTA provides a broad range of services, both directly and through contracts with community-based organizations, for the city's elderly (60+) population, which based on the 2000 U.S Census currently totals 1.3 million. In 2003, the agency spent a total of $229.5 million.[1] Spending for personnel expenses and other administrative costs (for example, rent, utilities, and equipment) accounted for $42.5 million. Of the remaining $187 million, $73.6 million (32.1 percent) went towards the provision of nutrition services. A total of 12.4 million meals (including home delivered) were provided last year through the city's 336 senior centers.

At senior center locations, the city's elderly can also access a variety of social services including educational and recreational activities. Last year DFTA spent $48.8 million (21.3 percent) for the provision of social services. The agency also spent $23.9 million (10.4 percent) to provide 1.6 million hours of home care services for frail seniors and $13.0 million (5.7 percent) on case management services for seniors with functional impairments. In addition, $7.7 million (3.4 percent) was spent on transportation services for seniors. Finally, $20.0 million (9.0 percent) was spent on central insurance (for example, property insurance and workers compensation) for delegate agencies and one-time payments to senior centers, including funds for equipment needs.

DFTA's program priorities were virtually the same in 2002 compared to 2003 despite changes in the agency's total operating budget. For instance, the agency spent $72.6 million (31.4 percent) in 2002 on nutrition services—only 0.7 percent less than in 2003. Similarly, the agency spent $48.9 million (21.1 percent) for social services. DFTA is in the process of revamping its budget structure in order to make spending by program or service type more transparent.

CAPITAL PLAN

Total funding for DFTA's four-year capital plan (2004-2007) remained virtually the same compared to the September 2003 Capital Plan; only one-sixth of 1 percent, or a total of $50,000, was cut from the plan. The four-year capital plan, which includes a number of rehabilitation projects of senior centers and vehicle and computer purchases for centers, is currently funded at $31.3 million. Although the change in overall funding for DFTA's capital plan was minimal, funding for several capital projects was reduced and/or deferred to later years including the JCC of Staten Island, Move Hammel, and Betances centers as well as several City Council-supported projects. On the other hand, the capital plan provided additional funding for the Gun Hill and Sunnyside Community Center renovation projects and for the renovation of DFTA office space and purchase of office equipment

[1] Includes intra-city sales but excludes any adjustments made to prior-year payables after the year closed.

Department of Education (DOE)

PRELIMINARY BUDGET OVERVIEW

In June 2003, the Department of Education's 2005 budget was projected to be $12.5 billion. In January the estimate increased to $12.7 billion because the Mayor's January Plan recognizes an additional $226 million of federal funds for the Department of Education.

IBO has estimated that the DOE budget will reach $12.8 billion in 2005. This is a $93 million increase over the city's estimate. Most of the difference can be explained by IBO's adjustments to state and federal aid. IBO adjusted state and federal aid for inflation and at the same time, reduced state aid by $62 million—the so-called fiscal stabilization grant.

While this year's Preliminary Budget contains few large actions, DOE is in the midst of multiple programmatic changes at the local, state, and federal levels and these initiatives may lead to significant changes in spending in future years.

Locally, DOE established a new systemwide curriculum and reorganized its administrative structure at the beginning of this school year. At the federal level, this is the second year of implementation of the No Child Left Behind Act, which requires DOE to provide tutoring services, student transfers and other assistance to troubled schools. Finally, by July 1, 2004, the state is required to overhaul its formulas for providing school aid to the city's schools under the terms of the Campaign for Fiscal Equity lawsuit ruling.

Key budget points:

- New spending of $25 million for summer school services in an effort to end social promotion for third graders.
- Decrease of $5 million for traditional summer school services to be redirected to efforts to end social promotion.
- Decrease of $34 million to continue the DOE's policy of reducing voluntary teacher sabbaticals.
- The city’s latest capital plan for schools would increase the Capital Budget for the department in 2004-2007 by $5.5 billion and total $8.5 billion.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$12,515
Ending Social Promotion	25
Summer School Reprogramming	5
Reduction of Voluntary Sabbaticals	(34)
All Other Changes, Net	226
January Plan	$12,737
IBO Repricing (see text)	87
IBO Reestimate	$12,824
Headcount	
June 2003 Financial Plan	181,171
January Plan	181,817
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$3,069
January 2004 Plan	$8,545

EFFECTS OF BUDGET PROPOSALS

Ending Social Promotion for Third Graders. In the January 2004 State of the City address, Mayor Bloomberg announced a new plan to end social promotion of third graders. So far, DOE has only outlined the program in broad strokes; third graders who score in the lowest cohort of the third grade standardized test will not be promoted to fourth grade. These students will be eligible for summer school classes and will be able to take the exams again at the end of the summer. DOE expects 15,000 third graders will not score high enough to be automatically promoted. The 2005 DOE budget includes $25 million in new expenses to pay for increased summer school services for these 15,000 students, or an average of nearly $1,700 per student. No details on the contents of the new summer school program have been released, but on a per pupil basis, it appears to be a much more expensive program than other summer programs. For example, last year, $21 million was cut from the Encouraged Students Summer Program, reducing openings in the program by half, or 43,000 students, which implies that the program cost roughly $500 per student. The differences in cost may have to do with the age of the students served and the length and intensity of services.

Since the unveiling of this initiative, the Schools Chancellor has announced the addition of $8 million to assist students in danger of failing third grade. The education department will use these funds to provide targeted small group instruction during the school day, tutoring outside of normal school hours, and to facilitate communication with parents. The Chancellor also plans to establish an appeals' process for those students who are left back.

Depending on how the plan to end social promotion is implemented, the initiative could potentially increase overcrowding and class sizes in third grade. Furthermore, because students who are left back will require an additional year of schooling, there also will be a cost to the city equal to the amount spent per student for a year of third grade multiplied by the number of student ultimately held back and repeating third grade.

New York City has attempted to end social promotion several times in recent history under both Mayors Koch and Giuliani. Although politically popular, the results from ending social promotion are not clear. Critics of efforts to end social promotion argue that rather than force students to repeat the same grade and the same material, there is a need for increased services to prevent children from falling behind in the first place. These critics also point out there is little evidence that holding a student back increases the likelihood that he or she will successfully graduate from 12th grade. At the same time many opponents of social promotion argue that promoting unprepared kids not only hurts those children, but will slow an entire class by requiring a teacher to take extra time for students who are not prepared for the work.

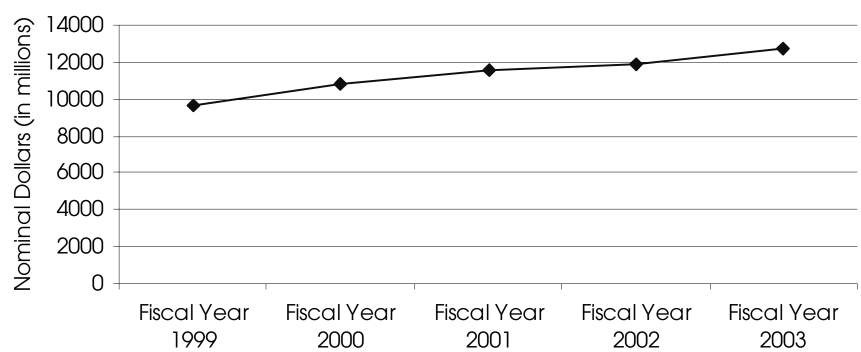
Reduction of Voluntary Sabbaticals. For the current school year, the Bloomberg Administration reduced the number of voluntary sabbaticals granted to teachers, projecting budgetary savings of $34 million. At the beginning of the school year, the teachers union sought arbitration on the denied sabbaticals, citing rights under the contract. In the January plan, DOE has proposed extended the reduction of sabbaticals through 2008, resulting in a $34 million savings each year. However, the arbitration regarding this year's sabbatical denials has not yet been settled, and depending on the outcome, this reduction may be smaller than anticipated.

Potential Layoff of 486 Skilled Trade Workers. The November plan contained an initiative to lay off 486 skilled trade workers and replace them with contracted private service providers. The initiative was assumed to be budget neutral; the private contracts would have cost the same amount as paying the workers. According to DOE, the impetus for replacing the union workers with outsourcing came from reports that skilled trade workers were taking advantage of work rules governing their responsibilities. In January, this initiative was reversed. Although DOE intends to eventually go ahead with the layoffs, there is current litigation regarding whether or not privatization of certain services violates union contracts. Pending the outcome of this issue the layoffs may be rescheduled.

HISTORICAL SPENDING

Between 1999 and 2003; education department spending has increased by 30 percent; in 1999, expenses in nominal dollars totaled $9.6 billion; in 2003, expenses totaled $12.7 billion.[1] These significant increases affected almost every expense category in the department's budget. The largest single year of spending growth (11.7 percent) was 2000. Growth slowed to just 2.3 percent in 2002. IBO estimates that the fiscal year 2004 budget will total around $12.75 billion and the 2005 budget will only reach $12.8 billion—less than 1 percent growth. This is a marked change from the increases that the department has been experiencing and represents a significant leveling off of expenditures.

DOE Total Expenses



SOURCES: IBO; Financial Management System.

For this same period, the state's share of total funding remained constant and made up 42 percent of the budget, while city funding decreased by 2 percentage points to 40 percent and federal funding increased by 2 percentage points to 13 percent of the total budget.

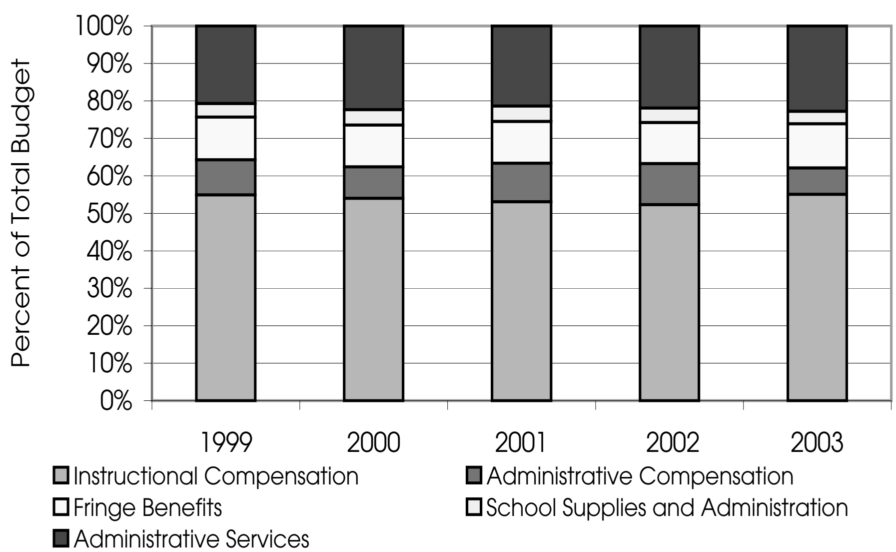
Although the increase in DOE spending affected almost all aspects of the budget, the increases were not uniform. Total spending for instructional positions (excluding fringe benefits) increased by 33 percent, while spending for administrative positions (excluding fringe benefits) decreased by 5.7 percent and fringe benefits increased by 35.6 percent. School supply expenses increased by 19.0 percent and all other administrative expenses grew by 46.2 percent.[2]

The rate at which spending for instructional positions changes is a large driver of changes in the entire budget because compensation for instructional positions represents such a large percentage of the budget (55.1 percent in 1999 and 55.5 percent of the budget in 2003). As a result, individual categories of spending comprised close to their same share of expenses in 1999 as in 2003. For example, spending on administrative compensation made up 9.5 percent of the budget in 1999 and 6.8 percent of the budget in 2003—this is the largest change as a portion of the budget, but this category experienced the smallest overall change (a 5.7 percent decline). Despite the increase in spending of 46.2 percent for administrative expenses, they made up 20.4 percent of the budget in 1999 and 22.7 percent of the budget in 2003—an increase of just 2.3 percentage points.

Spending for instructional positions increased from $5.3 billion to $7.0 billion—growth of $1.7 billion from 1999 to 2003. Several factors seem to have driven this increase, including the principals' contract, the recent teachers' contract, an increased number of positions, and automatic seniority increases. Since 1999, DOE has added roughly 11,000 positions—a 10.5 percent increase—in the instructional categories. An analysis of spending and hiring annually reveals that the per head cost for these positions increased by 11.8 percent in 2003, which is the year that the new teachers' contract was put into place. This is the largest increase in per-head costs since 2000 when the per-head cost rose by 5.3 percent.

Administrative expenses, which include school facilities, pupil transportation, nutrition and food services, energy and leases, payments for non public school students, and administrative expenses for central administration grew 46 percent between 1999 and 2003. Some administrative expenses, such as pupil transportation and non public school payments, are driven by the number of students eligible for these services and the contract and tuition costs associated with these programs. With the exception of non-public school payments, most of the growth in this category occurred between 1999 and 2001. To the extent that these services are contracted out, personnel costs are accounted for in this administrative category. However, compensation for administrative positions that are not contracted out including central administration, district offices, superintendencies, food services, and transportation decreased by 5.7 percent. Most of this decrease was caused by the contracting out of school safety services in 2000.

DOE Spending by Function



SOURCES: IBO; Financial Management System.
NOTES: Dates are for fiscal years. Administrative Services includes food services, safety, transport, central administration, non-public school spending. School Supplies and Administration includes supplies, rent, telephone, computer equipment. Administrative Compensation includes districts, high schools, and central administration. Instructional Compensation includes pedagogical and non-pedagogical.

In contrast to the spending growth from 1999 through 2003, the Adopted Budget for the 2004 fiscal year anticipates a small decrease in spending of around $200 million or 1.5 percent. Many of the changes to the education budget this year have to do with shifting money from administration to instruction or recategorizing certain grants, rather than adding resources. There are no large scale initiatives such as early grade class size reduction, universal pre-kindergarten, Project Arts, and Project Read that contributed to much of the growth in recent years. One issue that could cause education spending to rise in 2004 and 2005 is the Campaign for Fiscal Equity case that has the potential to provide the schools with significant, additional funding. The federal No Child Left

Behind Act could also potentially add new funding streams to the education budget, but given the President's budget for 2005, this seems unlikely.

CHILDREN FIRST REFORM AGENDA

In an effort to remake and substantially improve the educational system of New York City, the Chancellor and the Mayor have established the Children First Reform Agenda (Children First). The change in governance legislation two years ago shifted much of the control for the city's schools to the Mayor from the Board of Education and the Community School Districts. Children First is the overarching title for the reforms and restructuring of the system established by the Mayor and the Chancellor. Currently, the Children First Reform Agenda consists of four elements: adoption of a single curriculum, creation of a new parent support and communication network, leadership training for principals, and the restructuring of the system's administrative bureaucracy.

Much of the agenda was put into place at the opening of the current school year. Each school was provided money to hire a parent coordinator. Parent coordinators are full-time positions developed to help involve parents in their children's education. A uniform curriculum was established for the kindergarten through third grade that stresses basic reading, writing and arithmetic skills. Additionally, schools were provided literacy and math coaches to assist teachers and students with the new curriculum. Finally, when school opened in September 2003, district offices and district and high school superintendencies had been replaced with regional offices and local instructional superintendents. The 32 community school districts were replaced by 10 regions and each regional superintendent managed between 10 and 12 local instructional superintendents.

When Children First was announced last spring, leadership and safety were key agenda items. The Leadership Academy was established to provide recruiting, training and retraining for principals charged as the instructional leaders of their schools. Additionally, school safety issues were addressed by establishing the Office of Youth Development and School-Community Services and the New Beginnings schools to address school safety issues. Sixteen New Beginnings Schools opened this year to serve those students who were disruptive but not violent. However, school safety became a major concern this year when schools reported difficulty suspending dangerous students. The Bloomberg Administration responded by assigning school safety officers to the most dangerous schools to help remedy the problem. The budget does not yet reflect the costs of these additional officers.

System Reorganization. A major goal of Children First is to reorganize and streamline the administrative structure of DOE. The Bloomberg Administration has claimed that the reorganization will yield substantial savings—$250 million a year—and that these savings will flow directly to the schools. The savings come from dismantling the 32 district offices plus the high school superintendencies, and replacing them with 10 regional offices. The spending to be redirected, $250 million, is about 3 percent of the $7.5 billion total spent on instructional programs.

In the 2004 Adopted Budget, no money was budgeted for community school districts. New budgets were established for regional offices and the local instructional superintendents, but these budgets were approximately $100 million less than the prior year district office and high school superintendent budgets. This $100 million was supposed to be redirected to instruction in the schools. In fact, from the 2004 Executive Budget (April 2003) to the January 2004 Financial Plan, planned instructional expenses have increased $225 million. Because final accounting for the 2003-2004 school year will not be complete until the fall of 2004 and it is normal for there to be significant shifts between spending categories during the school year, it is too early to determine whether the savings from the administrative restructuring will result in the intended increase in resources for instructional purposes.

Besides saving money, the elimination of district offices has changed many DOE processes, including dramatic changes in how money is allocated to the schools. Now, instead of allocating money to district offices which then decide how to distribute the funds to each of the schools in the district as was done in the past, DOE is allocating money directly to each school based on the number of pupils in different programs. It is too early to judge the effectiveness of this streamlined process. On the one hand it creates a flow of funds process that is much more transparent and may lead to greater accountability. The school principals receive their school's allocation directly from DOE and, in theory, have more control over these allocations. However, the process may require more effort from principals to manage the financial requirements of his or her school without the support or guidance of the district offices and high school superintendents.

New Curriculum. Sweeping curriculum changes are rarely free, and the new program required some new spending, but also used existing dollars in the budget typically slated for curriculum needs. Approximately 69 percent of the cost of new textbooks for Children First was paid for by the New York State Textbook Law, under which each public and private school student is entitled to $57.30 of state money for textbooks. Data on professional development costs for the new program are not available, but the school year was shortened by three days to allow for additional teacher training at the beginning of the year. Additionally, voluntary training sessions were offered to teachers last summer. Although the teacher's time was not paid there no doubt were some city costs associated with the sessions.

Two easily identifiable new costs are the parent coordinators and the academic coaches. The schools were allocated $50 million to pay for parent coordinators and $120 million to pay for academic coaches. These are new positions and new money for the schools—no existing teachers or administrators were replaced by these positions or shifted into these positions. This totals $170 million, a large portion of the increased $225 million for instructional programs in the 2004 budget.

GOVERNOR'S EXECUTIVE BUDGET

According to the state Division of the Budget's calculations, school aid for New York City, in the Governor's 2004-2005 budget is $56 million higher than the total for the same aid in 2003-2004. There are three notable proposals in the Governor's Executive Budget: establishing Flex Aid, the New York City Sound Basic Education Grant and the elimination of fiscal stabilization.

Flex Aid. The Governor has proposed combining seven aid formulas into one category, Flex Aid. As proposed, Flex Aid for New York City would equal $3.8 billion, the same amount as the total of all seven aids currently anticipated for this school year. Whether or not this new category of Flex Aid would decrease or increase funding for the city in the future is not known as the Governor's budget does not provide information on how Flex Aid would be calculated in future years.

New York City Sound Basic Education Grant. The Governor also proposed providing New York City with a matching grant of $100 million to assist in the funding of a sound basic education, which is the standard used in the Campaign for Fiscal Equity case. In order to receive the grant, New York City must provide $100 million for sound basic education activities in the schools with the highest proportions of low-income students. In the January plan, city funds for education would increase by more than $100 million for 2005; as a result, it is not yet clear whether the city would be required to put in additional money to qualify for the grant. Furthermore, it is not clear what programs may qualify as sound basic education activities. DOE is currently working with the state to clarify the grant requirements.

Fiscal Stabilization and the Municipal Bond Bank Authority. In 2002, New York State agreed to authorize a bond offering by the state's Municipal Bond Bank for two purposes. The proceeds would, first, go to pay back prior year receivables—money the state owed to the city for past services—and, second, assist the city in meeting the costs of the new teachers' contract. The city would then be permitted to use future state aid to pay the debt service on these bonds. In 2003, the Legislature's budget, which was adopted over the Governor's veto, authorized the bond offering and expanded it to yield additional savings for the city by allowing the capitalization of the first year's interest in the borrowing.

The bond sale was delayed until December 2003. Because of the delays, the city had been forced to allocate $200 million in additional city funds to the Department of Education at the end of the city's 2003 fiscal year to cover the portion of the teachers' contract costs that had been slated to be paid with bond sale proceeds. When the sale finally occurred, $228 million of the bond proceeds were used to pay the open receivables and the remaining proceeds of $203 million were recognized as unrestricted state aid for the city.

In the current fiscal year, New York City is budgeted to receive $62 million in fiscal stabilization aid; with the Municipal Bond Bank sale it was expected that this aid would be redirected to provide the debt service on the bonds.

The Governor's 2005 budget request does not include any fiscal stabilization aid for New York City. In the past, this aid had been used to pay off a portion of the old state aid receivables. It is the state's position that fiscal stabilization aid is to be used either to pay for old, outstanding receivables or to pay interest on the bond issue. Because of the delays in completing the bond sale, interest on the bonds is not due until 2006 and therefore, according to the state, the city is not owed fiscal stabilization money for 2005. Members of the state Assembly, however, claim that as part of the original bond bank deal, the state agreed to provide fiscal stabilization grants for general operating costs and therefore the 2005 state budget should include an additional $62 million. Furthermore, in the current fiscal year, New York City was originally budgeted to receive $62 million in fiscal stabilization aid—the city has not yet received this money. The state's calculation that the Governor's budget provides a $56 million increase in state aid ignores the loss of the $62 million. If the loss of $62 million is included in the comparison, then the Executive Budget is actually $6 million *lower* than last year's budget.

Campaign for Fiscal Equity. In June of 2003, the New York State Court of Appeals agreed with the findings of the trial court that New York City schools do not receive enough funding to provide a sound basic education. However, both the trial and the appeals court decisions leave the task of shaping a solution in the hands of the state Legislature. The appeals court decision, in particular, does not dictate whether it is the state or the city that should bear the greater responsibility for the cost.

The state was ordered to begin to provide a remedy by July 1, 2004. In the Governor's budget, the New York City Sound Basic Education Grant is an initial attempt to begin to address this issue. The Governor has also proposed that state revenue from new Video Lottery Terminals be used to support the sound basic education requirements set forth in the state Court of Appeals decision. In the 2004-2005 school year, revenue from the machines is projected to be $325 million; the state projects that this revenue will grow to $2 billion in five years.

The Governor has established the State Commission on Education Reform, headed by Frank G. Zarb, in order to address the Court of Appeals decision. The commission was supposed to report its recommendations on reforming the education funding system for the entire state by March 1, 2004. However, as of March 1, the commission has requested another two weeks to prepare its recommendations. Additionally, the Campaign for Fiscal Equity and the New York State School Boards Association initiated a New York Adequacy Study, which was released in February 2004. The study estimates that New York State must provide an additional $6.2 billion to its annual education aid budget in order to provide a sound basic education for all New York State students. New York City alone would require $3.62 billion of this money.

Beyond the estimates of the costs of a sound basic education, New York City education leaders have been quick to identify programs for which Campaign for Fiscal Equity money could be used. The Bloomberg Administration's recent five-year capital plan funds half of its $12 billion outlays with potential money from the lawsuit. Chancellor Klein has stated publicly that money from the suit could be used to pay teacher bonuses, fund higher salaries for math, science, and bilingual teachers, or fund higher salaries for teachers in difficult school districts.

NO CHILD LEFT BEHIND

The No Child Left Behind Act of 2001 is the reauthorization of the 1965 Federal Elementary and Secondary Education Act. The full fiscal and policy implications of the act for New York City and the rest of the country are still emerging. In response to the President's fiscal year 2005 budget, the charge that the act is an unfunded mandate has been levied from states and lawmakers across the country. In his budget address, Mayor Bloomberg claimed that the act is funded at only 66 percent of its authorized levels. Although appropriations may not equal the original authorizations of the act, a more difficult analysis is to determine what No Child Left Behind requirements actually cost and how that compares with the additional funding the President claims is being funneled to the program. Since it has only been in place since January of 2002, it is difficult to determine if actual funding increases, linked with the act, have been sufficient and have enabled New York City and other municipalities to fully comply with the law.

Federal Approval. States are required under the new legislation to submit Adequate Yearly Progress plans to the U.S. Department of Education, and must receive federal approval for those plans. The yearly plan is an assessment of student and school progress as measured by standardized test scores. New York City has adopted New York State's plan, which was approved by the federal education department.

Although the state's progress plan has been approved, the city education department's preferred reading program, Month by Month Phonics, is not listed as an approved language arts curriculum and as a result the city is not eligible for the maximum amount of federal funding from the Reading First program, which is part of No Child Left Behind. In January 2004, Chancellor Klein announced that 49 schools, with some of the lowest test scores, would drop Month by Month Phonics and use a federally approved reading curriculum in order to qualify the city for the $34 million in No Child Left Behind funding.

Student Transfers and Tutoring. Under No Child Left Behind, transfers and tutoring services are provided to students in schools that are not achieving the criteria outlined in New

York State's yearly progress plan. Any school receiving federal Title I funds that fails to make adequate yearly progress two years in a row must be placed on the state's Schools in Need of Improvement list (SINI) and is considered a SINI year one school. SINI year two schools have been identified as SINI schools for a second year; in other words, these schools have failed to make adequate yearly progress for three years. Finally, "Schools in Corrective Action" have continually failed to make adequate yearly progress.

Students in SINI year one schools are eligible for a transfer to a non-SINI school. Students in SINI year two schools are eligible for a transfer or they may remain in their school and receive tutoring services (referred to as supplemental educational services). No Child Left Behind requires school districts to set aside up to 20 percent of their Title I funds to provide tutoring services and transportation if needed for transferring students. (If necessary, transportation to tutoring services must be provided by local funding sources.) Schools in Corrective Action must offer transfers, supplemental services, choose from a menu of organizational changes and develop a restructuring plan to address the school's needs.

As of September 2003, 116 New York City schools were SINI year one, 46 were SINI year two, and 212 were in corrective action.

As of June 2003, DOE estimated that over 200,000 students in New York City would be eligible for tutoring services in the 2003-2004 school year. As of November, over 40,000 students had signed up for these services. At the beginning of the school year, it was estimated that 8,000 parents had requested transfers. Updated numbers and costs for tutoring programs and transfers for this school year are not yet available.

Teacher Certification. No Child Left Behind requires that by 2005 all classroom teachers in schools receiving Title I funding must be "highly qualified." Although the federal act does not specifically require state certification, New York State has adopted certification as its standard of a highly qualified teacher. Under a previous New York State Regents policy, all teachers in the state are supposed to be state certified by September 2003. The city was able to obtain a limited extension on the state certification requirements. Last year, New York City had a total of 9,875 uncertified teachers in the system, or 12.6 percent of all teachers. As of November 2003, DOE reported that only 839 uncertified teachers are on the payroll. The New York teaching fellows are not part of the 839 uncertified teachers and are qualified by the state under an "alternative certification" process.

Unfunded Mandate. The charge that No Child Left Behind is an unfunded mandate refers specifically to whether or not federal spending has increased adequately, since the passage of the act, to account for all of the increased requirements and responsibilities set forth in the law. New York City Title I funding—the act's major funding stream—has increased significantly since 1999. However, it is too soon to document whether the increases since 2002—when the act was signed into law—are adequate to cover the new requirements of No Child Left Behind.

Since 1999, federal Title I revenue received by the city has increased from $470 million to $650 million in 2003, an increase of roughly 38 percent. Overall federal education aid to New York City increased 57 percent over the same time period, with much of that increase concentrated in the last two fiscal years. In addition to Title I, almost every other federal education program experienced large funding increases. Of particular note were special needs education and after-school programs; funding more than doubled for both programs. The introduction of several new programs, such as early grade class size grants, the Reading Excellence Act, and programs for immigrant students also contributed to the increased funding stream.

Although increases since 1999 in the Title I income stream have been significant, the relationship between these increases and No Child Left Behind is still unclear. The act was signed into law in January of 2002 and the President's fiscal year 2003 budget request contained the first appropriation specifically for No Child Left Behind. Due to the timing of the federal, state, and city fiscal years, some of the initial act money would be spent by the New York City schools in both the 2002-2003 school year and the 2003-2004 school year. As a result, whether or not the increase in Title I income to New York City associated with the act is significant or adequate is difficult to determine until there has been several years of spending under No Child Left Behind.

Despite the delay in the act's funding due to mismatched fiscal years, DOE was still required to provide No Child Left Behind services, such as tutoring and school transfers, for the 2002-2003 school year. According to the act, the schools that are required to offer school transfers and/or tutoring services must set aside 20 percent of the Part A Title I allocation for these services. Part A represents the vast majority of Title I allocations. Once the district has provided transportation for students with transfers and tutoring for all the students who requested it, the district can spend whatever remains of the 20 percent set aside. During the 2002-2003 school year, districts were not able to spend any remaining money until late in the year. As a result, the set aside may prevent schools and districts from using significant funds until such a late date that it becomes a de facto funding cut.[3] An increase in funding of at least 20 percent the affected schools and districts, could help to ease the effects of the set aside. However, in New York City federal funds for education in 2003 (excluding World Trade Center money) only increased by 18 percent over the prior year.

The President's fiscal year 2005 budget request does not include large funding increases and in aggregate slows the growth of federal education funding to 2 percent. This is much different than the close to 20 percent increases the education budget received in 2001 and 2002. How these smaller increases will impact New York State and City and how they will affect New York City's capacity to meet the mandates set forth in No Child Left Behind will take several years to determine.

CAPITAL PLAN

The city's latest four-year (2004-2007) Capital Commitment Plan increases the education department's capital budget by $5.5 billion (178 percent) to $8.5 billion, compared to the level planned in September 2003. City capital funds account for 27 percent of the $5.5 billion increase while the remainder is expected to come from the state as part of the settlement of the Campaign for Fiscal Equity lawsuit. School construction and repair projects now comprise 19 percent or $4.6 billion of city funds capital commitments for all agencies and 28 percent of the total all funds capital commitments for all agencies according to the January 2004 plan for fiscal years 2004 through 2007.

Under the city's plan, the DOE capital budget would be increased by $7 million in 2004, $2.0 billion in 2005, $1.8 billion in 2006 and $1.6 billion in 2007. The additional funds would bring the department's capital budget to $663 million in 2004 and to $2.6 billion each year thereafter. The Capital Commitment Plan also includes $105 million in discretionary capital dollars for 2004 and 2005 added by the Borough Presidents and the City Council to support particular school projects (for example, playground upgrades and computer purchases) in their borough or district.

The School Construction Authority (SCA), which is responsible for carrying out the department's capital plan, is funded at $78 million in 2004 using capital budget dollars.[4] The total headcount for SCA is currently 565; this includes 45 former employees of the DOE Division of School Facilities.[5] Last year, the Chancellor folded the capital planning functions performed by the division into SCA as part of a larger restructuring of the city's public school construction process. SCA is now solely accountable for planning, budgeting, and site acquisition as well the construction of new school facilities and capital improvements to existing buildings.

DOE Five-Year Capital Plan. Unlike other city agencies, the Department of Education follows a five-year capital planning cycle, which is mandated by state education law. The department is in the last year of its current Five-Year (2000-2004) Capital Plan, which is currently funded at $6.6 billion. As a result of capital funding changes and project cost overruns, the 2000-2004 plan has been amended three times and numerous projects have either been eliminated or deferred until the next five-year plan. The most recent amendment of the 2000-2004 plan, which took place in May 2003, led to the deferral of nearly $2.0 billion worth of new capacity and capital improvement projects.

The process of developing and adopting the department's next five-year capital plan for 2005-2009 is currently underway. On February 9th, DOE's Panel for Education Policy (the reconfigured Board of Education) voted on and unanimously approved the Chancellor's revised February 2004 plan. The Chancellor's original proposal, *Children First Ten-Year Needs Assessment and Proposed 2005-2009 Capital Plan* released in November 2003, was submitted to each of the city's 32 Community School Boards, which held public hearings and then made recommendations on the plan before January 1st. After receiving public feedback, the department revised the 2005-2009 plan and submitted it to the Panel for Education Policy in February. The City Council is also required to review and approve the department's capital plan, which will be submitted to them by the Mayor as part of his Capital Budget for 2005.

The Chancellor's proposal includes three key areas for education capital spending: adding capacity, restructuring existing schools, and repairing deteriorated facilities. It allocates $4.2 billion on projects to expand school capacity. Approximately 66,000 new schools seats would be created under the revised plan, compared to 63,000 in the Chancellor's original proposal. The additional 3,000 school seats would result from the construction of two additional schools in District 6 and one new school each in Districts 19, 25, and 29.

The DOE 2005-2009 plan aims to alleviate overcrowding systemwide by the year 2012. Last year nearly 50 percent of city public school students attended overcrowded schools due to a shortfall of 68,000 seats. By creating 66,000 new seats, the department aims to address overcrowding as well as eliminate the use of transportable classrooms, replace mini-schools over 20 years old, and expand the early grade class size reduction initiative. Achieving the latter also will depend on an anticipated decline in student enrollment over the next decade.

In addition to adding capacity, there are two other major components of DOE's 2005-2009 capital plan. It allocates $4.6 billion to create smaller schools within existing school buildings, construct science labs and libraries and upgrade computer technology in these reconfigured smaller schools, and provide facilities for 50 new charter schools. Additionally, the plan allocates $4.3 billion in capital improvements to repair and upgrade existing school buildings.

The Chancellor requested $13.1 billion for the 2005-2009 plan, which goes into effect on July 1, 2004. Total funding for the plan remained the same between the Chancellor's original November 2003 proposal and the February 2004 revision, although roughly $200 million was shifted from the capital improvement program to the capacity program. The city and the state would each contribute about half of the $13.1 billion for the plan. The city's portion would be comprised of $5.5 billion in city general obligation bond funds and $1.0 billion in pay-as-you-go capital/expense budget funds. The state's portion would depend on the resolution of the Campaign for Fiscal Equity suit, which calls for an overhaul of the state's school finance system. If all of the state funding cannot be obtained, the DOE 2005-2009 plan will have to be reworked.

New School Seats: Comparing the Plans

Borough	Seats Needed in Overcrowded Schools As of 2002-2003	New Seats in Chancellor's Revised Plan (Feb. 2004)	New Seats in Chancellor's Original Plan (Nov. 2003)	New Seats in City Council Proposal (Oct. 2003)
Bronx	15,440	19,410	19,425	N/A
Brooklyn	17,529	15,738	15,115	N/A
Manhattan	8,596	3,590	2,331	N/A
Queens	23,296	23,326	22,274	N/A
Staten Island	3,216	3,540	3,542	N/A
Total	**68,077**	**65,604**	**62,687**	**33,600**

SOURCES: IBO; Department of Education 2002-03 Blue Book data; education department's revised and original 2005-2009 plan, released in February 2004 and November 2003; and City Council October 2003 report.

The City Council also offered a plan for education capital spending over fiscal years 2005 through 2009 in a report titled *Capital Punishment: The Decay of New York City's Public School Buildings*, released in October 2003. Their plan calls for slightly less spending, $12.9 billion over the next five years. Of the $12.9 billion, $3.4 billion would be set aside for the construction of 49 new schools providing a total of 33,600 seats. The remainder would be set aside for capital improvements and school modernization including art, music, and gym room upgrades, technology infrastructure, and science labs.

END NOTES

[1] Expense data is not complete until after the close of the fiscal year. Therefore, only expense data through fiscal year 2003 was analyzed. Fiscal year 2004 expense data will not be complete until the fall of 2004.
[2] This category includes pedagogical and non-pedagogical employees who are categorized as having responsibilities for instruction.
[3] Sunderman, G.L., & Kim, J. (2004). *Increasing Bureaucracy or Increasing Opportunities? School District Experience with Supplemental Educational Services*. Cambridge, MA: The Civil Rights Project at Harvard University.
[4] This figure was obtained from the supplemental capital commitment plan for education, which accounts for project-level commitments differently than the main Capital Commitment Plan.
[5] Although part of the SCA, the 45 former DSF employees are funded out of the DOE expense budget.

Department of Health and Mental Hygiene

PRELIMINARY BUDGET OVERVIEW

IBO projects that DOHMH will spend $1.35 billion in 2005, with 40 percent of the funding provided by the state and city. City-funded expenditures for the department are expected to total $565 million in 2005, a figure which has not changed since the June 2004 plan. The November plan and the Preliminary Budget proposals for DOHMH include $8 million in city savings in 2005, mostly through funding shifts and leaving vacancies unfilled. Key budget actions include:

- Program cuts of $250,000 in mental health, mental retardation, and chemical dependency initiatives provided by contract through the Health and Hospitals Corporation (HHC).
- Savings of $320,000 when HHC assumes a portion of the costs of operating the child health clinics.
- Restoration of $1.8 million for pest control services and lead poisoning prevention programs for each fiscal year 2005 through 2008.
- Savings of $3 million when vacancies across the agency remain unfilled.
- Productivity savings of $1.4 million by redeploying employees in the tuberculosis clinics and District Public Health Offices to areas of greatest need.
- Additional funding of $4.6 million in 2005 for rodent abatement, additional food inspectors, and the Office of the Chief Medical Examiner.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$1,331
Cuts to HHC	(0.57)
New Employee Needs, Food Inspectors, OCME	4.5
Agencywide unfilled vacancies	(3)
Restorations, Pest Control and Lead Poison Prevention	1.8
All other changes, net	13
January 2004 Financial Plan	$1,347
IBO Repricing	144
IBO Reestimate	$1,491
Headcount	
June 2003 Financial Plan	3,611
January Plan	4,065
Capital Commitments	
Totals, 2004-2007	
September 2003 Plan	$117.45
January 2004 Plan	$177.46

EFFECTS OF BUDGET PROPOSALS

The Preliminary Budget actions for the Department of Health and Mental Hygiene programs appear less severe in 2005 than in 2004 when the agency faced $13 million in program cuts. This year, DOHMH is expected to realize $8 million in agency savings, the majority of which will come in the form of funding shifts and allowing vacancies to remain unfilled. The Preliminary Budget also restored $1.8 million to programs cut in prior plans and identified $4.6 million in new funding needs for the department.

Cuts to HHC Contracts. The department will cut $250,000 in intra-city funding to the Health and Hospitals Corporation for the provision of mental health, mental retardation, and chemical dependency services. The majority of the reduction ($230,000) will come from mental health initiatives.

The department will also reduce the intra-city funding it provides the Health and Hospitals Corporation for the support of the child health clinics by $320,000. Despite the cut, HHC has announced that services at the clinics will not be affected. Instead, the hospitals corporation expects to absorb the impact of the reduced funding by converting more uninsured children to Medicaid, thereby increasing revenue for HHC.

New Employee Needs. In the Adopted Budget for 2004, the city approved several changes to the adjudication procedures for violations by licensed food establishments as well as increases in the fines schedule for such violations of the city's Health Code. Specifically, minimum fines for operating a food establishment without a license were increased, and fines for failure to appear at an Administrative Tribunal hearing were doubled. According to the Preliminary Budget, the city expects that the higher fines will increase revenue in 2004 by $5 million over 2003.

As a result of these stricter regulations and higher fines for sanitary violations, however, the city expects more restaurant owners to contest violations. In addition, the department has indicated that it will need to hire 42 additional food inspectors to adequately enforce this regulatory change. In all, the Preliminary Budget for 2005 places the cost of hiring additional inspectors and increasing the number of Administrative Tribunal hearings at $2.25 million in 2005.

These additional costs mean that the city will net about $2.75 million in additional revenue in 2005 as a result of these changes in the adjudication procedures and the fine increases.

The Preliminary Budget also calls for $2.2 million in additional funds for the Office of the Chief Medical Examiner for 2005. These funds would be used to cover the cost of hiring five new full-time employees and issuing new contracts to outside labs in order to accelerate DNA testing on World Trade Center victims' remains.

These new employee needs will be partially balanced by the nearly 30 positions in administration and program implementation that will remain unfilled at DOHMH. These 30 positions are currently vacant, and they are not concentrated in any specific area. The department expects to save just over $3 million as a result of this initiative.

Restorations. The 2005 Preliminary Budget restores $1.8 million in pest control and lead poisoning prevention programs originally cut in the fiscal year 2004 budget. This measure will restore $1.3 million in pest control funding in each of the fiscal years 2005 through 2008, allowing the department to reinstate 47 positions as well as to complete approximately 200 more site clean ups annually. Another $500,000 will be restored for lead-poisoning prevention programs. These funds will permit the department to restore the contract for the Ridgewood-Bushwick lead safe house as well as fill vacancies in the division arising from attrition.

Increasing Revenue. The city will ask the state Legislature to increase the fees for birth and death certificates from $15 to $30. The Preliminary Budget estimates that the fee increase would generate $10.6 million in additional revenue for the city annually. A more modest fee increase—from $15 to $20—was proposed in the 2004 Preliminary Budget, but the measure was denied by the state Legislature. The state, which handles all birth and death certificates issued outside of New York City, currently charges $30 per certificate.

Trends: Early Intervention Program. In 2004, Early Intervention, a program providing services to children under three with developmental disabilities, is projected to cost the city $540 million, or nearly 42 percent of the entire DOHMH budget. In comparison, mental health expenditures, the department's second largest programmatic function by budget, are expected to total $220 million in 2004, or 17 percent of the DOHMH budget. It is not surprising, then, that the program has become the focus of cost containment efforts in recent years.

Since fiscal year 1999, when the cost of providing Early Intervention services in New York City was $200 million, the program's budget has increased by nearly 160 percent. Much of this growth can be explained by the rapid increase in the number of children participating in the program. From 1999 to 2002 (the latest year for which data is available), the number of children receiving Early Intervention services grew from 26,500 to nearly 41,000, a 55 percent increase.

Perhaps the most significant attempt to reign in the costs of the Early Intervention program was the initiative implemented in 2004 to move all Early Intervention clients who were eligible to Medicaid. Prior to implementation of this initiative, Early Intervention was funded solely by the state and local governments. Although moving these children to Medicaid resulted in a $6.6 million increase in city-funded Medicaid expenditures in 2004, the initiative allowed the city and the state to share the cost of the program with the federal government, netting a $10 million savings for the Department of Health and Mental Hygiene in Early Intervention expenditures for the current year.

While the Preliminary Budget for 2005 did not contain any cost containment initiatives relating to the Early Intervention program, the Governor's 2004-2005 budget did propose an initiative aimed at reducing Early Intervention expenditures. The Governor proposed instituting co-pays for families earning 250 percent of the Federal Poverty Level and higher, as well as increased payments for services through private insurers. If implemented, the city would save an estimated $34 million in Early Intervention costs in 2005.

CAPITAL PLAN

The Department of Health and Mental Hygiene's capital plan provides funds for the purchase of equipment and for the construction, rehabilitation, and modernization of departmental buildings. The January 2004 Capital Commitment Plan provides a total $177.5 million in capital funds for DOHMH through 2007, a $60 million increase from the previous plan in September 2003. Almost all of this increase will be put toward general improvements to city-owned health facilities throughout the city.

Department of Homeless Services (DHS)

PRELIMINARY BUDGET OVERVIEW

- The preliminary 2005 DHS budget is $628.2 million, an increase of 3.8 percent over the projected 2005 budget of $605.3 million in the June 2003 Financial Plan.
- DHS expects to spend $13.4 million on new shelter capacity, primarily for single adults.
- DHS must pay $10.1 million in court-ordered fines to families who were forced to spend the night in the Emergency Assistance Unit (EAU). The fines will be spread over two fiscal years: $6 million in 2004 and $4.1 million in 2005.
- DHS will spend $2.2 million to handle intake for childless couples at the 30th Street shelter, rather than at the EAU. This is expected to relieve congestion at the EAU.
- DHS will save $4.5 million in city funds in 2005 by using federal and state funds to cover fringe benefits for employees, and by maintaining a high public assistance enrollment rate among families in the shelter system.
- The agency is converting 697 per diem positions to annual employees. Although most of these positions are already filled and the net budget effect is zero, this conversion appears to dramatically increase the DHS headcount.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$605.3
New Shelter Capacity	13.4
Fine Payments to Families	4.1
Revenue Maximization Team	2.8
Adult Couple Intake	2.2
All other changes, net	0.5
January Plan	$628.2
IBO Repricing (see text)	19.4
IBO Reestimate	$647.6
Headcount	
June 2003 Financial Plan	1,440
January Plan	2,299
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$95.3
January 2004 Plan	$100.5

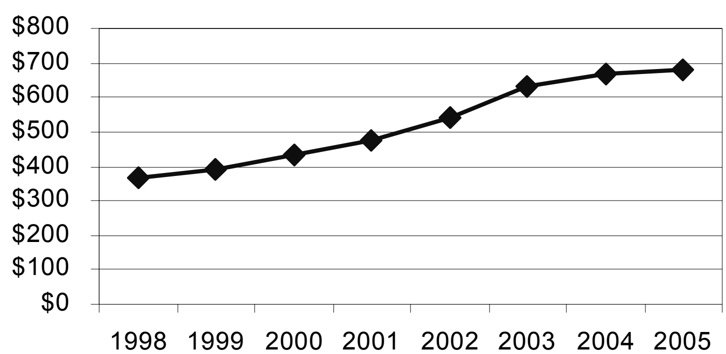
EFFECTS OF BUDGET PROPOSALS

Background. DHS's primary mission is to provide emergency shelter to homeless families and individuals. New York City is legally obligated to provide shelter to anyone who requests it and who has no other place to go. Meeting this requirement consumes more than 80 percent of DHS's budget annually.

From fiscal years 1999 to 2003, the DHS budget grew an average of almost 12 percent per year, from $392.9 million in 1999 to $632.4 million in 2003 (including intra-city funds). This increase has been largely fueled by growth in the number of people seeking shelter, particularly families. However, IBO projects that in 2004, and again in 2005, spending will level off.

The Preliminary Budget compares changes from Financial Plan to Financial Plan—for example, the 2005 budget at the point of 2004 adoption to the 2005 budget in the Preliminary Budget. The January plan DHS budget projects growth of 3.8 percent relative to the plan in June of 2003. This growth rate is substantially lower than either of the last two years, when the agency budget grew 8 percent between adoption and the Preliminary Budget plans.

DHS Total Spending
Dollars in millions



SOURCE: IBO.
NOTE: 2004 and 2005 are projected.

The leveling-off of spending largely reflects the stabilizing of the number of homeless families. The number of families in the shelter system has remained relatively constant over the last year. In the fiscal years 2001-2003, for example, the number of families grew an average of 17 percent per year. In the first half of 2004, the number of families in the shelter system has fallen 2 percent.

DHS Initiatives. The DHS budget can generally be separated into six functional categories: emergency shelter for families, shelter for adults, permanent housing, outreach, homelessness prevention, and other activities, including administration.

DHS Spending by Program Category

Dollars in millions

Description	1999	2000	2001	2002	2003	2004
Family Shelter	$ 180.6	$ 204.1	$ 225.2	$ 273.0	$ 344.8	$ 327.9
Individual Shelter	168.3	151.8	166.1	177.5	190.3	201.6
Permanent Housing Initiatives	4.2	18.1	22.1	26.7	32.2	45.9
Outreach	0.9	19.0	17.7	16.7	17.2	20.4
Prevention	-	-	-	-	-	12.7
All Other Total	38.9	40.4	44.6	46.5	47.9	47.6
TOTAL	**$ 392.9**	**$ 433.5**	**$ 475.7**	**$ 540.3**	**$ 632.4**	**$ 656.1**

SOURCE: IBO

NOTES: 2004 is budgeted, and excludes IBO projections of additional state and federal assistance. The prevention line does not include a pending modification that would reduce the budget by $1.45 million. These funds were erroneously transferred to DHS at adoption.

There are agency initiatives going on in many of these program areas, some of which are reflected in the current budget, while others will not appear until future budgets.

Emergency Shelter. Providing shelter for families is the largest piece of the DHS budget, both because there are more homeless people in families than there are individuals, and because families require more space and often more services. After several years of rapid growth in the number of families in the shelter system, the number of families seems to have plateaued. As a result, the agency has had to add only $800,000 for family capacity in 2005.

Despite the leveling off of the family shelter population, it is possible that there could be some cost increases in the future. Commissioner Linda Gibbs has announced an effort to discontinue the use of scatter site apartments—privately owned, generally for-profit apartments rented by the city on a per diem basis—and instead house families in Tier II shelters, which are typically nonprofit run and provide more services. There are arguably good reasons for reducing the city's reliance on scatter sites—it is harder to provide services to families in apartments all over the city, living conditions are often poor, and the city has been criticized for spending significant sums of money without entering into contracts. Nevertheless, scatter sites are actually less expensive than the other shelter options. In fiscal year 2003, the average nightly cost for a scatter site unit was $79.65, while a Tier II—in which more intensive services are typically provided to resident families—averaged $114.99. (Hotels, the third shelter option for families, averaged $92.45 per night.) The DHS budget does not include more funding for family shelter as a result of the phaseout of scatter sites, but because DHS hopes to reduce the number of homeless families, maintaining a relatively level budget for family shelter could cover the higher per diem rates.

Unlike the family shelter system, the number of single adults in the shelters has continued to climb slowly. In 2005, the agency anticipates spending an additional $12.5 million to provide 355 new and replacement beds for homeless individuals, 80 new winter capacity placements, and an extension of all winter capacity from six months to eight months. Although the cost for most single adult shelter beds is shared evenly between the city and state, these expenses will be entirely city funded, because the city has exceeded the state's cap on shelter reimbursement.

Permanent Housing. Although DHS's core mission is to provide emergency shelter, the agency has been devoting increasing attention and resources to permanent housing initiatives. According to Commissioner Gibbs, the reason the family shelter population has remained relatively level over the last year is that the agency has been able to place more families in permanent housing, primarily using Section 8 vouchers and public housing vacancies.

In the agency's own budget, the share of funding devoted to permanent housing has risen from about 1 percent in 1999 to 7 percent in 2004. In 2004, the agency expects to spend close to $46 million on different permanent housing programs, including:

- bonuses for landlords who accept families with Section 8 vouchers
- the new "long-term stayer" program that provides the first month's rent and other moving expenses—in conjunction with up to five years of rental subsidy paid through the Human Resources Administration (HRA)—for families who are ineligible for Section 8
- funding for Single Room Occupancy housing used to pay for some building operating costs in supportive housing projects
- support services to follow up with families after they have been placed in permanent housing.

Prevention. In the past, homelessness prevention programs were located at the Human Resources Administration, the Department of Housing Preservation and Development (HPD), the Office of the Criminal Justice Coordinator

DHS Spending on Permanent Housing
Dollars in millions

	1999	2000	2001	2002	2003	2004
EARP/Long-Term Stayer	$ -	$ -	$ 3.4	$ 7.1	$ 10.6	$ 18.1
SRO Operating Assistance	-	14.8	13.8	13.7	13.9	15.9
Moving Expenses	2.9	2.9	3.0	2.8	3.2	4.4
After Care	-	-	-	-	1.6	4.1
Rental Assistance (adult and family)	-	-	1.6	2.8	2.7	2.6
Other	1.4	0.5	0.4	0.3	0.2	0.9
TOTAL	**$ 4.2**	**$ 18.1**	**$ 22.1**	**$ 26.7**	**$ 32.2**	**$ 45.9**

SOURCE: IBO
NOTE: 2004 is budgeted. Program categories may include several initiatives. For example, "moving expenses" includes both "Lend-a-Hand" and "Furnish a Future."

(OCJC), and the Administration for Children's Services (ACS). DHS was not directly involved in any of these prevention efforts.

As part of the adopted 2004 budget, $11.3 million in anti-eviction legal services was moved to the Department of Homeless Services budget from HRA, OCJC, and HPD, giving the department direct involvement in homeless prevention activities for the first time. However, the bulk of homeless prevention funding—about $150 million annually—remains at HRA, and is used for one-time payments and ongoing rent supplements (see IBO *Inside the Budget*, "Homeless Prevention Spending Flat, But Programs Are Changing." October 23, 2003).

On January 30, 2004 Commissioner Gibbs announced that the agency would spend $12 million to fund contracts with six neighborhood-based nonprofit organizations to identify families at risk of homelessness, and provide these households with a variety of prevention services. According to DHS, this $12 million is new funding, and will likely be reflected as a "new need" in the Executive Budget in April 2004.

DHS is currently involved in two long-term planning and policy efforts. As part of a settlement in the ongoing litigation about the rights and responsibilities of homeless families, the city formed a Special Master Panel to evaluate the functioning of the family shelter system and make recommendations for improvement. Second, DHS is working on a 10-year plan to end chronic homelessness. The plan is due this spring, and like the work of the Special Master Panel, is expected to focus on preventing homelessness, among other things. Recommendations will be implemented in future budgets.

CAPITAL PLAN

DHS spends about $15 million to $20 million annually on capital projects, primarily renovation of city-owned adult and family shelters, and the purchase of equipment for the agency. The January 2004 DHS four-year capital plan calls for commitments of $100.5 million, an increase of 5.5 percent, or $5.2 million, since September 2003. This growth reflects an $11.8 million increase in planned spending for equipment—primarily computer network-related—for use by DHS, and a $6.6 million reduction in funding for shelter renovation. Renovations in adult shelters account for the majority of the DHS capital budget ($52.9 million), and also the bulk of the reduction ($5.3 million).

Department of Youth and Community Development (DYCD)

PRELIMINARY BUDGET OVERVIEW

The Department of Youth and Community Development's preliminary budget for 2005 is $184.8 million, $49.6 million less than the budget for this year. In 2005, federal and state funding is expected to make up 38.2 percent and 7.5 percent of the agency's operating budget, respectively. IBO's projection of federal and state funding for the agency in 2005 are greater than the Bloomberg Administration's by $13.8 million, which raises our estimate of the agency's budget to $198.6 million. DYCD's proposed full-time headcount for 2005 is 338, with 133 positions funded by the city. The Mayor's Preliminary Budget proposes cutting the agency's budget by $660,000 from the level planned last June for 2005 and by $848,000 each subsequent year through 2008. Key actions in the proposed budget include:

- Eliminating city funds for various youth and community development programs for a total savings of $848,000 each year beginning in 2005. For 2005 only, the additional savings is offset by a federal grant in the amount of $188,000 for the Youth Abilities Project.
- Providing an additional $450,000 annually for Beacon Centers to compensate for a shortfall in federal Community Development Block Grant funds.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$185.5
Program Cuts	($0.8)
All Other Changes, Net	$0.2
January Plan	$184.8
IBO Repricing (see text)	$13.8
IBO Reestimate	$198.6
Headcount	
June 2003 Financial Plan	338
January Plan	338

EFFECTS OF BUDGET PROPOSALS

Eliminating City Funds for Various Programs. The Mayor's Preliminary Budget proposes reducing city funds for various youth and community development programs by $848,000 annually, beginning in 2005. The Youthlink program, which focuses on substance abuse and truancy prevention, is being reduced by $102,000 each year to $1.3 million. The proposed budget also includes a 16.4 percent cut across the board for 11 organizations—Big Brothers/Big Sisters, Heartshare, Institute for Student Achievement, Multi-Talent, Neighborhood Assistance Corporation, NY Junior Tennis League, Ridgewood-Bushwick Senior Citizens Center, Sports and Arts Foundation, Variety Boys and Girl Club, Virtual Y, and NYA/Street Outreach. In addition, in 2005 the agency will receive $188,000 for the Youth Abilities Project, a demonstration project funded with federal Workforce Investment Act money, for the purpose of increasing the participation of youth with disabilities in existing employment and job-training programs.

Increasing City Funds for Beacons. The proposed budget provides an additional $450,000 annually for Beacon Centers to make up for a shortfall in federal Community Development Block Grant funds. Beacons Centers, which are located in city public schools, offer a variety of educational and recreational programs for young people and their families. In the current year, the total operating budget for the city's 80 Beacon centers is $41.2 million with city funds accounting for 70 percent or $29.0 million. The balance is derived from federal block grant funds ($6.3 million) and intra-city funds ($5.9 million) with the latter coming from the city's Administration for Children's Services to provide foster care preventive services at the centers.

Changes for 2004. DYCD's budget for 2005 is $49.6 million less than the agency's budget for 2004. This difference is due in part to restorations in funding made to the agency's 2004 budget that were not "baselined" for subsequent years. These include one-time restorations for the Youth Development and Delinquency Program ($10.0 million) and Beacon Centers and After-Three programs ($10.6 million). In addition, one-time adjustments to federal and state aid due to the rollover from 2003 to 2004 of federal Workforce investment Act and Community Services Block Grant funds and $5.2 million in new state and federal funding for adult literacy services that is expected only for 2004, account for some of the difference between the 2004 and 2005 budgets.

OTHER CHANGES

Restructuring Social Services. The Mayor's 2004 Executive Budget, released last spring, proposed consolidating and restructuring the delivery of various social services, including job training and after-school care for children to save the city approximately $75 million annually beginning in 2004. The proposal included eliminating the Department of Employment, the agency that oversees the city's workforce development system, and dividing its youth and adult programs between DYCD and originally the Human Resources Administration. On July 16, 2003 the employment department ceased to exist when Mayor Bloomberg signed Local Law No. 52; however, its adult employment programs were transferred to the Department of Small Business Services instead of the Human Resources Administration.

DYCD is now responsible for the youth employment and job-training programs that had been previously run through the employment department. In the current year, approximately $89.0 million of DYCD's total operating budget is reserved for youth employment and job training programs.[1] Included in the $89.0 million is $43.1 million in total funds for the Summer Youth Employment Program. Most of the summer employment program funds for 2004 have already been committed as services were delivered to young people during the summer of 2003. Approximately 34,600 young people obtained summer jobs through the program.[2] The Mayor's consolidation proposal also included the transfer of after-school day care services currently delivered by the Administration of Children's Services to DYCD. The transfer has been postponed to 2005 and none of the anticipated cuts in total program funding ($44.0 million) have been implemented. Currently, the Bloomberg Administration is working with the respective agencies and program contractors to restructure citywide after-school programs and out-of-school time services.

Federal and State Actions. The President's proposed budget for federal fiscal year 2005 increases funding for job training and employment programs for youth by $5.9 million to $1.0 billion nationwide. Congress is currently debating several proposals to reform the workforce development system via the reauthorization of the Workforce Investment Act. Both the House and Senate have adopted bills (H.R.1261 and S.1627) that would increase the level of funding proposed by the Bush Administration for 2005 by $250 million. In addition, the federal Community Services Block Grant program is reduced by $147 million to $495 million nationwide in the President's 2005 budget. The block grant is used by states to fund a variety of anti-poverty activities including some programs at DYCD.

The Governor's Executive Budget would reduce the level of federal Temporary Assistance for Needy Families (TANF) funding for summer youth employment programs by 40 percent to $15 million statewide. Since the city received 60 percent (or $15 million) of the total state TANF allocation for summer youth employment programs last year, this could mean a loss of $6 million or more for the city.

Actual Spending for Key Programs Over Last Five Years
Dollars in thousands

	1999	2000	2001	2002	2003
Agency Total	**$113,518**	**$128,551**	**$142,842**	**$153,014**	**$157,461**
Youth Services Division					
Beacon Centers	$32,697	$38,843	$40,679	$39,782	$40,042
Youth Development and Delinquency Prevention Program	$20,247	$27,689	$29,723	$27,085	$31,596
City Tax Levy (Miscellaneous)	$8,160	$5,745	$11,134	$15,221	$12,014
City Tax Levy (After-Three Program)	$5,000	$8,500	$10,525	$10,500	$10,500
Runaway and Homeless Youth Services	$3,142	$3,141	$3,644	$2,959	$3,493
Youthline	$446	$401	$384	$395	$388
Community Development Division					
Community Services Block Grant	$27,672	$28,414	$28,251	$37,107	$36,431
Adult Education	$1,745	$1,856	$2,054	$2,046	$7,101
Borough Needs	$3,603	$3,695	$5,069	$7,296	$5,616
Citizenship NYC	$3,342	$3,471	$4,189	$4,338	$3,181
Home Energy Assistance Program	$1,744	$766	$280	$131	$9

SOURCES: IBO; Financial Management System.
NOTE: Intra-city sales are included.

AGENCY PROGRAMS

DYCD spent a total of $157.5 million in fiscal year 2003, nearly 40 percent more than in 1999. The agency is divided into two functional areas—youth services and community development. Close to two-thirds of the agency's total expenditures in 2003 were for the provision of youth services while one-third supported community development activities. The distribution in total agency spending between these two areas has remained the same over the last five years.

In 2003, the youth services division spent $104.9 million, including $4.5 million for personnel costs. Of the remaining youth services balance ($100.1 million), 78.3 percent was spent on after-school activities (for example, structured recreation, tutoring, remedial education, and cultural enrichment) provided through the Beacon Centers, the Youth Development and Delinquency Program, and the After-Three Program. Another 11.4 percent was spent on numerous youth organizations using discretionary city tax-levy dollars added by the City Council.[3] Overall spending on key services for youth has steadily increased since 1999. However, some programs such as Youthline, a 24-hour information hotline, and some city-funded initiatives such as Youthlink and Street Outreach experienced budget cuts in 2003, compared to 2002.

The community development division spent $52.5 million in 2003, including $9.4 million for personnel costs. Of the remaining balance ($43.1 million), 69.4 percent was spent on programs supported by the federal Community Services Block Grant, which aim to reduce poverty, revitalize low-income communities, and empower poor individuals. The agency also spent 13.5 percent on programs that provide adult-literacy services (for example, basic reading and writing and English for Speakers of Other Languages). To assess and address unique service needs in each borough, the agency designated 10.7 percent of its community development operating budget. An additional 6.1 percent was spent on the Citizenship New York City program, which helps immigrants become naturalized citizens and transition to life in the U.S. Like spending for youth services, overall agency spending on community development activities has also grown at a steady pace since 1999. However, funding declined in 2003 for Community Services Block Grant-supported programs, CNYC and programs targeting borough needs. The change in agency spending for the Home Energy Assistance Program is due in part to the fact that the administration of the program has been slowly shifting to the city's Human Resources Administration.

END NOTES

[1] This figure is based on the agency's total operating budget as of February 9th and includes intra-city funds.
[2] DYCD also provided over 3,400 summer jobs this past summer through its Summer Pre-Employment and Academic Enrichment Program, which is primarily funded with federal Community Service Block Grant dollars.
[3] This excludes the roughly $10.5 million each year for the After-Three Program supported by the City Council. After-Three money is counted in the after-school category above.

Health and Hospitals Corporation (HHC)

PRELIMINARY BUDGET OVERVIEW

The New York City Health and Hospitals Corporation projects expenditures in 2005 of $4.4 billion while revenues are projected to total $3.9 billion, leaving an operating gap of $435 million. HHC expects to start 2005 with a positive opening cash balance of $120 million, much of which will be exhausted during the year. To avoid a deficit at the end of the corporation's fiscal year, further steps will be needed. HHC expects to be able to close the deficit through $180 million in state and federal actions as well as $140 million in productivity savings and revenue enhancements. Implementing all of these measures would allow HHC to close 2005 with a positive cash balance of $4 million.

One of the primary causes of HHC's fiscal stress is care for the uninsured. In calendar year 2003, HHC provided health services to nearly 470,000 uninsured children and adults. HHC estimates caring for the uninsured cost $900 million, for which the corporation received $500 million in reimbursements.

Key Preliminary Budget actions affecting HHC's 2005 budget include:

- HHC debt service payments from the city will decline by a total of $3 million in 2005.
- The Department of Health and Mental Hygiene (DOHMH) contracts with HHC for mental health and child health clinics were reduced by $570,000 since last June when the 2004 budget was adopted.
- HHC estimates a net loss of more $48 million in 2005 if the Governor's proposals to contain Medicaid expenditures are implemented.

EFFECTS OF BUDGET PROPOSALS

Lump-Sum Payment. The city makes an annual lump-sum payment to HHC. The Preliminary Budget for 2005 provides for a lump-sum payment of close to $860 million in city funds to HHC including $765 million for the city's share of Medicaid costs at HHC facilities and $95 million for debt service and other expenses. The projected lump-sum payment to HHC has been reduced by $3 million since the June 2003 Financial Plan due to an expected decline in the city's payment for HHC's debt service.

Nearly all of HHC's revenues come from third-party payers such as public assistance programs (Medicaid and Medicare), managed care organizations, and other insurance companies. HHC's third-party payments, which include the city's Medicaid share, are projected to total $3.4 billion in 2005, approximately $70 million less than expected third-party payments for 2004. In addition to the city's lump-sum payments, HHC expects to receive third-party payments in 2005 from state and federal Medicaid reimbursements ($1.6 billion), Medicaid managed care providers ($390 million), state-administered Bad Debt and Charity Care pools ($565 million), Medicare ($490 million), and health maintenance organizations and other payers ($320 million). Of the $70 million decrease in expected receipts in 2005, $55 million results from declining Bad Debt and Charity Care payments. The other $15 million is related to lower receipts from Medicare and health insurers.

In addition to third-party payments, HHC will receive $89 million in 2005 under the federally funded Community Health Partnership program, which helps hospitals transition from Medicaid fee-for-service to mandatory managed care. Payments to HHC under the partnership will fall to $21 million in 2006 and then decline further as the state retains an increased share of the program funds and distributes less to hospitals.

Debt Service Reductions. In 2002, HHC entered into an agreement with the city to pay for its own medical malpractice costs. In exchange, the city agreed to takeover the corporation's debt service payments. In 2005, HHC's medical malpractice liability is capped at $189.9 million. If costs are higher, the city will make up the difference.

The Preliminary Budget reduces the city's payments to HHC for debt service by $3 million in 2005 compared with the levels forecast last June. This measure is in addition to the $13.3 million reduction in city payments for debt service HHC took in 2004 as a result of the June 2003 plan. In 2004, HHC realized the $13.3 million debt service savings through a bond refinancing in 2004. Since additional refinancing for 2005 is unlikely, the corporation may have to absorb the entire $3 million debt service reduction.

Reduction in DOHMH Contracts with HHC. The Department of Health and Mental Hygiene will cut $250,000 in intra-city funding to the Health and Hospitals Corporation for the provision of mental health, mental retardation, and chemical dependency services in 2005. The majority of the reduction ($230,000) will come from mental health initiatives. DOHMH also plans to reduce by $320,000 the funding it provides to the Health and Hospitals Corporation for the support of the child health clinics. Despite the cut, the Health and Hospitals Corporation has announced that services at the clinics will not be affected. Instead, HHC expects to cover the cost of the reduction by enrolling more uninsured children in Medicaid, thereby increasing revenue for the Corporation.

OTHER ISSUES

State Budget Actions. Under the Governor's budget proposals, HHC stands to lose $50 million in 2005. The proposals likely to have the most significant effect on HHC are part of the Governor's Medicaid cost-containment package that affect service providers. They include a 0.7 percent assessment on gross hospital receipts, the elimination of the rate add-on for nursing homes with more than 300 beds, and the change in the hospital-based nursing home differential rate.

Federal Budget Actions. The new federal Medicare Prescription Drug Benefit, which added prescription drug coverage to the range of Medicare services available to beneficiaries, contains several provisions likely to benefit the Health and Hospitals Corporation. Of particular importance to HHC is the temporary increase in the Disproportionate Share Hospital (DSH) payments detailed in the new law. DSH payments are additional Medicare and Medicaid payments provided to states by the federal government to compensate those hospitals that serve a disproportionately large number of low-income patients. The Medicare Prescription Drug Benefit legislation provides for a 16 percent increase in DSH payments to states beginning in federal fiscal year 2004. HHC can expect a $50 million increase in DSH funds in federal fiscal year 2004 as a result of this provision.

Trends. Between 2004 and 2008, HHC projects total expenditures to increase by 9.4 percent and total receipts to increase by only 1.0 percent. Annual operating deficits will grow from $435 million in 2005 to more than $600 million by 2006 and beyond. HHC assumes that federal and state actions will produce additional revenues of roughly $175 million in 2004, rising to $480 million in 2006. But even under the assumption that HHC receives all of this additional federal and state aid, its opening cash balance is expected to shrink to $4 million by 2006, compared to the $270 million it had at the start of the current fiscal year. There is little chance that the large Medicaid and Medicare claims settlements that produced the accumulation of cash during the late 1990s will be repeated. If current trends continue and the additional state and federal resources are not available, HHC will soon have insufficient resources to cover its expenses without city subsidies above the current lump-sum payment. It is unclear, however, whether or not the city would be responsible for providing these additional subsidies to HHC if a shortfall occurs.

CAPITAL PLAN

HHC establishes its own 10-year capital program, separate from the city's capital planning process. The 10-year plan has focused on expanding current facilities to meet increased demand, modernizing aging hospital facilities, and upgrading clinics, emergency rooms, and specialty units. The city's January 2004 Capital Commitment Plan has maintained the total city contribution to HHC's capital program, holding funding at $691 million for the 2004 through 2007 plan period.

In addition to city capital funds, HHC issues debt through the Dormitory Authority of the State of New York as well as on its own behalf. Major HHC capital projects currently in progress include the expansion and renovation of the Emergency Medicine Services department at Elmhurst Hospital, the construction of a new 340-bed inpatient facility at Jacobi Medical Center, and a major modernization project at Kings County Hospital.

Human Resources Administration (HRA)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2005 proposes total agency spending of $6.6 billion, an increase of $359 million from the level in the June Financial Plan. The increase results from $376 million in proposed new needs and other adjustments, of which $266 million are city funds. These new needs and other adjustments are offset, in part, by proposals that would reduce total funds by $17 million, including $9 million in city funds.

IBO estimates that spending for 2005 will be $10 million less than the Preliminary Budget anticipates. We project an additional $66 million in Medicaid spending and $26 million more in federal categorical grants, offset by $102 million in lower public assistance spending.

Key budget actions include:

- An increase of $163 million in city funds to cover rising Medicaid costs due in part to significant increases in enrollment.
- An additional $148 million in total funds and $69 million in city funds to cover higher than expected public assistance caseloads and grant expenditures.
- A separate addition of $35 million in total funds and $14 million in city funds to pay for the recent increase in the shelter portion of the public assistance grant for families with children.
- A replacement of $3.1 million in city funds with federal Medicaid funds to cover hospital expenses for city prisoners who are admitted to Health and Hospitals Corporation facilities.
- A savings of $4.5 million, including $2.3 million in city funds, by eliminating payments for vacant units in the supportive housing system for people with AIDS.
- A savings of $2.8 million in total funds and $1.4 million in city funds from moving to a new uniform rate for single-room-occupancy buildings and hotels used by HRA, the Department of Homeless Services and the Department of Housing Preservation and Development.
- An increase of $10.9 million in total funds, including $2.7 million in city funds, to cover a 3.5 percent increase in payments to providers of domestic violence shelter. This rate increase is mandated by the state.

2005 Budget Summary
Dollars in millions

Expense	
June 2003 Financial Plan	$6,204
Eliminate payments for vacancies	(5)
Uniform rate for SROs	(3)
Medicaid cost projection	163
Public assistance projection	148
Increase in PA shelter grants	35
Increase domestic violence shelter rates	11
Expenditure reestimate PEGS	(10)
All other changes, net	19
January Plan	$6,563
IBO Repricing (see text)	(10)
IBO Reestimate	$6,553
Headcount	
June 2003 Financial Plan	12,161
January Plan	15,085
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$102
January 2004 Plan	$121

EFFECTS OF BUDGET PROPOSALS

Increased Funding for Public Assistance and Medicaid. The Preliminary Budget includes $6.0 billion in funds for public assistance and Medicaid, or 91 percent of the total agency budget of $6.6 billion. These two entitlement programs also account for 96 percent of all city funds in the agency's budget. The budget acknowledges expected increases in city costs for these programs. For a detailed discussion of these changes, see the Public Assistance and Medicaid sections of this report.

Shelter Grant Increase. The budget includes $13.6 million in new city funds and $35.2 million in total funds to cover the new costs associated with the recent decision by the state to increase the shelter portion of the public assistance grant for families. This increase is part of the effort to reach a settlement in the Jiggetts case, in which the plaintiffs claim that the present shelter grant is inadequate for the New York housing market. It is unclear if this increase will bring about a permanent settlement of the case.

Growth in Child Care Enrollment. Recent child care enrollment figures show a change in the pattern of service usage. In 2003 the average number of children enrolled in HRA child care increased by 8,000 from the previous year to 43,537, while average enrollment in Administration for Children's Services child care decreased by 1,000 children to 59,751. Initial data for 2004 suggest that the upward trend at HRA is continuing. HRA provides child care to families in welfare-to-work programs or who are transitioning from the welfare rolls to employment. While the reasons for the HRA increase are not clear, agency officials believe that a major factor is an improvement in the administrative process of providing information and assistance to eligible families.

As a result of these enrollment increases, actual child care spending at HRA increased by $21 million in 2003 to $173 million. So far in 2004, $30 million in state Child Care Block Grant funds have been added to the HRA budget and $10 million in city funds have been transferred from ACS. The Preliminary Budget does not include similar increases for 2005, but it is likely that these will need to be added at a later date.

Headcount Increases. Since the 2004 Adopted Budget, the agency has increased its 2005 headcount by 2,924, or about 24 percent. A total of 1,993 of these additional positions are needed to convert per diem lines to per annum, while another 1,000 were added to enable the agency to convert contracted temporary staff to regular full-time positions. Neither of these headcount additions will result in any net cost to the city.

CAPITAL PLAN

HRA's four-year Capital Commitment Plan has been increased to $121 million from $102 million in the September 2003 plan, a 19 percent increase. Planned commitments for 2004 have been reduced from $44 million to $42 million. The January plan preserves agency construction and renovation projects, while increasing funding for projects intended to upgrade agency computer and telecommunications systems. Highlights of the plan include:

- Continued upgrading of computer and telecommunications systems, including imaging projects to eliminate paper records and streamline agency operations, and the continued development of computer network systems and increased Internet access to provide greater connectivity among personnel, contractors, and clients. In addition, new funds have been provided for the development of an integrated case management system. Overall four-year commitments for computer and telecommunication systems have been increased since the September plan from $65 million to $85 million.

- Continuation of a wide variety of construction and renovation projects intended to improve agency facilities including the Agudath Israel Service Center, the Coney Island Vocational Training Center, and the Office of Employment Services facility on E. 16th Street. Overall four-year commitments for design, construction, renovation, and furniture for agency facilities total $36 million.

Medicaid

PRELIMINARY BUDGET OVERVIEW

IBO estimates the city's total 2005 Medicaid liability at nearly $4.5 billion. The 2005 Preliminary Budget projects city-funded Medicaid expenditures administered by the Human Resources Administration (HRA) will total $3.6 billion, $200 million more than forecast in last June's Financial Plan. In 2005, city payment to the Health and Hospitals Corporation (HHC) for Medicaid services will be $760 million. Important budgetary changes for 2005 include:

- An increase of $163 million in expected Medicaid expenditures due to higher than expected prescription drug costs and greater caseloads in traditional Medicaid and Family Health Plus.
- An increase of $10.4 million to cover a state-approved increase in health insurance costs for home health care workers.
- Savings of $1.1 million in transportation costs for methadone patients that will now be covered by the patients' managed care providers.
- Savings of $3 million by shifting the cost of inpatient medical care for prisoners to Medicaid.

2005 Budget Summary
Dollars in millions, city funds only

Expense Budget	
June 2003 Financial Plan	$3,467.6
Through HRA	$764.3
Through HHC	$4,231.9
Total	
January 2004 Financial Plan	
OMB Reestimates	163.1
All other changes, Net	6.1
Through HRA	$3,636.5
Through HHC	$764.3
Total	$4,400.8
IBO Reestimate—January 2004 Plan	
Through HRA	$3,636.5
IBO Repricing (see text)	65.6
Through HHC	$764.3
Total	$4,466.4

BACKGROUND

Medicaid is a federal- and state-funded health care safety net program covering more than 40 million low-income individuals across the country. In New York State alone, there are approximately 3.6 million individuals enrolled in Medicaid, 2.4 million of whom live in New York City. Currently, Medicaid is a means-tested entitlement program that provides health care services to individuals whose income and resources fall below certain established thresholds. Throughout most of the country, Medicaid is funded jointly by the federal and state governments. Each state participating in the Medicaid program is entitled to receive federal matching funds, known as the Federal Medical Assistance Percentage (FMAP), for actual expenditures. The FMAP varies from 50 to 77 percent, depending on the state's per capita income. New York State's federal matching rate is 50 percent.

While Medicaid is a federal- and state- funded program in most other states, New York State requires localities to share the cost of providing Medicaid services. Localities in New York are currently required to contribute 25 percent of the cost of providing acute care services and 10 percent of the long-term care costs. For New York City, this equates to a total contribution of approximately 18 percent of all Medicaid expenditures made on behalf of city residents.

HRA and Medicaid. The $3.6 billion in HRA-related Medicaid costs for 2005 represents a 5.8 percent increase over 2004, adjusting for the temporary federal assistance provided this year. The Financial Plan projects Medicaid expenditures of $3.8 billion in 2006 rising to $4.3 billion in 2008, an annual average growth rate of 5.2 percent.

Adjusting for the temporary federal assistance provided in 2004, IBO estimates city-funded Medicaid spending through HRA will grow by 7.0 percent in fiscal year 2005 to total $3.7 billion. This figure is $66 million, or 1.8 percent, greater than the Preliminary Budget estimate, and it results from IBO's projection of more rapid increases in enrollment and somewhat higher pharmacy costs over the plan period. IBO also estimates a 5.2 percent annual growth rate in expenditures for fiscal years 2006 through 2008. During this time period, city-funded Medicaid expenditures through HRA are expected to rise from $3.9 billion in 2006 to $4.3 billion in 2008.

HHC and Medicaid. The city's contribution for Medicaid services delivered at the New York City Health and Hospitals Corporation is treated differently than the reimbursements to other service providers. For all providers other than HHC, HRA is billed by the state for the city's share of Medicaid costs. In the case of HHC, however, the city pays HHC directly for the city's share of the Medicaid services delivered at HHC facilities. The state makes payments to HHC for the state and federal share of Medicaid expenditures. In 2005, the city payment to HHC for Medicaid services is budgeted at $760 million, which accounts for the bulk of the city's $860 million lump-sum payment to HHC. Combining HRA payments and HHC direct payments, IBO estimates the city's total 2005 Medicaid liability at nearly $4.5 billion.

EFFECTS OF BUDGET PROPOSALS

Home Health Care Workers. The November plan projected an additional $10.4 million in Medicaid expenditures due to the provision of health insurance benefits and wage increases to home health care workers. These new benefits were approved by the state in June following negotiations between the state and 1199 SEIU, the New York-city based health care employee's union. Although the state is not the direct employer of these workers, it provides much of the funding through Medicaid reimbursements that pays their salaries and benefits.

Shifting Costs. In the Preliminary Budget, the city laid out its plans to maximize access to federal Medicaid matching funds. First, the city expects to take advantage of federal rules to bill Medicaid for inpatient services provided to prisoners at the Health and Hospitals Corporation's facilities. Without this initiative, these inpatient services would be the responsibility of the city. By accessing Medicaid, the city will be able to shift some of the burden to the state and federal governments as well, saving the city an estimated $3.1 million annually in 2005 through 2008. This proposal is the extension of a similar initiative enacted in 2004, which saved the city $5 million in Medicaid funds. The city also seeks to save $1.2 million annually by shifting the cost of providing transportation to methadone maintenance clients from the city to their Medicaid managed care providers. Like the previous initiative, this proposal is the extension of a proposal adopted for 2004; both measures require renewal in 2005.

These two initiatives are examples of the type of Medicaid cost-saving measures the city has favored in recent years—cost shifting. The most significant recent example of this strategy was the initiative implemented in 2004 to move Early Intervention clients who were eligible to Medicaid. Prior to implementation of this initiative, Early Intervention, a program providing services to children under three with developmental disabilities, was funded solely by the state and local governments. Although moving these children to Medicaid resulted in a $6.6 million increase in city-funded Medicaid expenditures in 2004, the initiative allowed the city and the state to share the cost of the program with the federal government, netting a $10 million savings for the Department of Health and Mental Hygiene in Early Intervention expenditures for the current year.

Medicaid Reestimate. The November plan included a $163 million Medicaid reestimate for 2005. The Mayor's reestimate was based on higher than expected enrollment and increasing prescription drug costs (see below). No further reestimate was made in the Preliminary Budget in January.

MEDICAID TRENDS

The cost of providing Medicaid services to New York City residents has been steadily increasing. Since fiscal year 2001, the cost to the city of providing Medicaid services has risen 35.0 percent overall, from approximately $2.5 billion in 2001 to just over $3.4 billion in 2004, adjusting for the temporary federal aid awarded in 2004. In other words, the city's Medicaid expenditures have been growing at an average annual rate of 10.8 percent. The rapid growth in New York's Medicaid expenditures mirrors that of the United States as a whole; nationally, Medicaid expenditures have also been growing at an average annual rate of about 11 percent. In New York, the primary drivers of the growth are long-term care costs, increasing pharmaceutical costs, and more recently, rising enrollment.

Increases in Medicaid Enrollment. Since September 2001, Medicaid enrollment in New York City has increased by almost 750,000 to nearly 2.4 million city residents. There are two major contributors to this increase: the creation of the Disaster Relief Medicaid (DRM) program and the implementation of the Family Health Plus (FHP) program in New York City.

The Disaster Relief Medicaid program was created immediately after Medicaid's computer system was incapacitated in the attack on the World Trade Center. DRM featured a simplified, one-page application and minimal documentation requirements. Prospective beneficiaries needed only to attest that they would meet the eligibility requirements of Family Health Plus. During the four-month enrollment period that ended in January 2002, an estimated

380,000 New Yorkers enrolled in Disaster Relief Medicaid. Beginning in January 2002, the city's Human Resources Administration initiated a transition process that attempted to enroll as many DRM participants into traditional Medicaid as were eligible. The process was essentially completed in December 2002, and reports indicate that approximately 38 percent of DRM clients kept their required Medicaid interview appointments. Data is not yet available on how many of these DRM clients who went through the transition program were ultimately found eligible for traditional Medicaid.

In addition to creating Disaster Relief Medicaid in the wake of the attack on the World Trade Center, a federal waiver was issued allowing for the automatic recertification of Medicaid coverage for those Medicaid beneficiaries who were already enrolled in the program and were due for recertification between September 11, 2001 and January 31, 2002. The regular recertification process was reinstated in January 2003. The reenrollment process requires Medicaid beneficiaries to attend an interview with Medicaid eligibility staff and submit extensive documentation of their eligibility. Typically, half of all Medicaid beneficiaries are disenrolled during the recertification process. Disenrollment does not necessarily indicate that applicants are not eligible; beneficiaries can be removed from Medicaid if they fail to keep their interviews or do not have proper documentation. These individuals often resolve these issues and reenroll in Medicaid later in the year. Since January 2003, the Medicaid caseload has continued to grow, albeit at a slower pace than in previous years. In 2002, Medicaid caseloads increased by 23.5 percent, while in 2003, Medicaid caseloads increased by 11.7 percent. This slower growth rate could indicate a return to the sort of cyclical enrollment typical of the regular recertification process described above.

The Family Health Plus program, a statewide managed care initiative aimed at low-income working parents and other adults whose incomes fall above regular Medicaid eligibility levels, has provided an additional boost to Medicaid enrollment. FHP was launched in New York City in January 2002, and by November 2003 (the latest month for which data is available), enrollment had grown to almost 260,000. When Family Health Plus was first implemented, income eligibility levels were set at 133 percent of the Federal Poverty Level (FPL) for parents and 100 percent for single adults and childless couples. As originally designed, the income eligibility requirements for parents were loosened further in October 2002, rising from 133 percent of FPL to 150 percent. The income eligibility level for single adults and childless couples remains at 100 percent of FPL.

Finally, the local economic downturn has contributed to enrollment growth. National studies indicate that each 1 percentage point increase in the unemployment rate translates into a 3.6 percent increase in Medicaid enrollment, as job losses reduce the income of many households to the point where they can qualify for Medicaid. Since January 2001, the city's unemployment rate has grown from 5.2 percent to 7.9 percent in December 2003, an increase of 2.7 percentage points. During that same period, Medicaid enrollment grew by 49.6 percent, more than five times the unemployment rate to enrollment ratio noted above. Thus, while increasing unemployment in the city has undoubtedly contributed to the caseload growth, the data suggests that Family Health Plus, Disaster Relief Medicaid, and other policy changes are probably contributing even more.

Increasing Pharmaceutical Costs. Although states are not required by the federal government to offer prescription drug benefits to their Medicaid beneficiaries—it is considered an optional service—New York State made the decision early on to provide this service. Since 1999, prescription drug prices nationwide have been rising at an average annual rate of approximately 15 percent. Driven by the combination of rapid increases in both prices and enrollment, Medicaid prescription drug expenditures in New York City have grown at an average annual rate of 22.0 percent over the same period. In 1999, the city's share of Medicaid prescription drug expenditures totaled $280 million; by 2003, that figure had grown to $640 million. These rapidly increasing pharmaceutical costs combined with the higher than expected Medicaid caseload are the driving forces behind the growth in the city's expected Medicaid expenditures.

STATE AND FEDERAL ACTIONS IMPACTING CITY MEDICAID SPENDING

State Actions Effecting City Medicaid Spending. As in previous years, the Governor's proposed 2004-2005 state budget includes several Medicaid cost containment initiatives aimed at reducing the Medicaid burden for both the state and local governments. The Governor claims that this year's proposals would save the state over $1 billion in the next state fiscal year. While the Governor's budget outlined several initiatives designed to reduce the Medicaid burden, the proposals that would likely have the largest impact on New York City are a reform of the Family Health Plus program and a state takeover of Medicaid long-term care costs.

The Governor's budget proposes a restructuring of the Family Health Plus program to require beneficiaries to contribute co-payments for pharmaceuticals, physician visits, and hospitals stays. In addition, the proposal would eliminate the dental and vision services currently provided to FHP beneficiaries. The state estimates these reform measures, along with a few smaller cost containment initiatives, will result in savings for the city of $140 million in 2005. Without the FHP changes, IBO estimates the city's cost of providing services to Family Health Plus beneficiaries will total $180 million in 2005.

The cost of providing long-term care has recently become a point of strong contention between the state and local governments, with county elected officials publicly calling for relief. Although localities are only required to contribute 10 percent of the cost of Medicaid long-term care services provided to its residents, long-term care is one of the most expensive components of Medicaid. In 2005, IBO estimates that long-term Medicaid costs to the city will total approximately $600 million, or almost 18 percent of the city's total Medicaid expenses.

The Governor's budget proposes a state takeover of all localities' long-term care costs, phased in over a period of 10 years. If the proposal is adopted, the city will save $32.5 million in 2005; by 2014, when fully implemented, IBO estimates the city would save nearly $1 billion.

The Governor's budget also includes a proposal aimed at reducing the cost of providing prescription drugs to Medicaid beneficiaries through the creation of a preferred drug list, also know as a drug formulary. The drugs included in the formulary would be selected based on clinical effectiveness and cost by a panel of independent clinicians, practitioners, and pharmacists. Certain drugs, however, such as anti-retrovirals, atypical anti-psychotics, anti-depressants, and anti-rejection drugs would not be subject to the preferred drug list. If adopted, the Medicaid drug formulary would go into effect in fiscal year 2005. Although implementing such a measure is could result in substantial Medicaid savings for the city, the magnitude of the potential savings is as yet unclear.

Federal Actions Effecting City Medicaid Spending. Concerns over the soaring costs of Medicaid have also become an issue on the national level. Last year, the Bush Administration introduced a proposal to grant states more freedom over the services provided to optional Medicaid beneficiaries in exchange for the conversion of Medicaid to a block grant program. Currently, Medicaid is an open-ended program requiring the federal government to match a certain percentage of each state's actual Medicaid expenditures.

Details of the block grant proposal were scarce, and most state governments expressed strong opposition to the initiative. The block grant proposal was not acted upon last year, but it was reintroduced in the President's proposed budget for 2005. Because New York State has taken advantage of many federal waivers and aggressively expanded its Medicaid program through initiatives such as Family Health Plus, opting in to the President's program could prove expensive for the state—and the city—in the long run. Unless the proposal provides a much higher level of aid—similar to the current TANF block grant—it remains unlikely, given the intense opposition previously expressed for this initiative, that a block grant system will replace the current open-ended reimbursement system.

The federal government has provided, however, some additional Medicaid assistance to New York recently. The largest of these assistance provisions was the temporary increase in the Federal Medical Assistance Matching Percentage (FMAP) passed by Congress in 2003. The measure increased the FMAP for all states by 2.95 percentage points for a period of 15 months, beginning in April 2003. As a result, New York's federal matching rate increased to 52.95 percent, saving the city nearly $60 million in Medicaid expenditures in fiscal year 2003 and over $230 million in fiscal year 2004. The FMAP will return to 50 percent at the beginning of fiscal year 2005 (July 1, 2004), and although both the city and state governments are lobbying for a renewal of the FMAP increase, such an event is far from certain.

The new Medicare Prescription Drug Benefit will also provide some Medicaid relief to the city. The new law, which added prescription drug coverage to the range of Medicare services available to beneficiaries, contains several provisions likely to have an impact on New York City's budget. The most important of these provisions is the new law's designation of Medicare as the sole insurer of the "dual eligibles," those Medicare beneficiaries with low incomes who are also eligible for Medicaid.

The savings, roughly $34 million in federal fiscal year 2006, will derive from the new drug benefit covering the cost of prescriptions for the roughly 350,000 city residents who are eligible for both Medicare and Medicaid. Once the law goes into effect, the new Medicare Prescription Drug Benefit shifts the responsibility for providing prescription drugs to these dually eligible beneficiaries from Medicaid, which is partially funded by the city, to Medicare, which is entirely federally funded. The resulting fiscal relief for the city is smaller than anticipated, however, due to the existence of the "clawback" clause in the drug benefit legislation. The clawback provision essentially requires states to reimburse the federal government for much of the expenditures they would have made if the new law had not been enacted. In 2006, the reimbursement rate will be equal to 90 percent of the state's estimated prescription drug expenditures on dual eligibles. Without this clawback, New York City would have realized approximately $300 million more in savings in 2006.

The new Medicare Prescription Drug Benefit also contains a provision likely to benefit the Health and Hospitals Corporation: a temporary increase in the Disproportionate Share Hospital (DSH) payments. DSH payments are additional Medicare and Medicaid payments provided to states by the federal government to compensate those hospitals that serve a disproportionately large number of low-income patients. The Medicare Prescription Drug legislation provides for a 16 percent increase in DSH payments to states beginning in federal fiscal year 2004. HHC can expect a $50 million increase in DSH funds in federal fiscal year 2004 as a result of this provision.

Public Assistance

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget projects that the overall number of people receiving public assistance will slowly increase from 433,000 in October 2003 to 459,000 in June 2005, and then level off after that point. Based on this modest caseload growth, the Bloomberg Administration projects that federal, state, and city expenditures for public assistance grants will increase from $1.2 billion in 2004 to $1.3 billion in 2005 and remain largely unchanged in later years. The city's share of welfare spending is forecast to rise from $487 million in 2004 to $539 million in 2005 and then level off for the remaining years of the plan.

CASELOAD PROJECTIONS

Mayor's Projections. The budget includes separate caseload projections for the three categories of recipients: Family Assistance (FA), which receives federal Temporary Assistance for Needy Families (TANF) funding; basic Safety Net Assistance (SNA) for single adults; and 60-Month Converted to Safety Net (C-SN) for those families who have reached their federal five-year limit and are now on the SNA program, which like basic SNA, is funded by the state and localities with no federal contribution. (C-SN has sometimes been referred to as SNA-5-Year.) In December 2001, the first month that any FA beneficiaries could hit the five-year limit, 82,000 Family Assistance recipients reached their five-year federal limit and were shifted to C-SN. By October 2003, the number of C-SN recipients had increased to 133,000. The Bloomberg Administration projects that this number will grow to 141,000 by June 2005 and then level off. The combined number of persons on either FA or C-SN is projected to increase slightly from 338,000 in October 2003 to 361,000 by June 2005 and remain flat after that point. Similarly, the Bloomberg Administration expects the number of people on basic SNA to increase modestly from 95,000 in October 2003 to 98,000 by June 2005.

IBO Projections. IBO projects that public assistance caseloads will remain largely unchanged through the first half of calendar year 2004. Modest caseload decreases will resume in the second half of calendar year 2004 as the city's job market begins to gain strength, and continue through calendar year 2005. Based on these caseload projections we expect total expenditures for public assistance grants to decrease from $1.2 billion in fiscal year 2005 to $1.1 billion in 2006, and remain largely flat after that point. Similarly, we project that city expenditures will decrease from $498 million in 2005 to $479 million in 2006 before leveling off in the remaining years of the financial plan. IBO's projections for city-funded expenditures are lower than the Bloomberg Administration's forecast by $41 million in 2005, and about $65 million in 2006 and later years.

CASELOAD TRENDS

The number of people receiving public assistance in the city began a long steady decline in March 1995. The start of the downward trend began with the implementation of new local welfare policies and continued during a period of economic growth in the city—particularly in local employment. From March 1995 through September 2001, the number of public assistance recipients decreased from 1.161 million to 464,000, a reduction of 60 percent. Initiatives such as intensive screening of new applicants, work requirements, and the use of job-placement firms to aggressively push recipients into the paid workforce were critical pieces of the city's welfare reforms. Combined with changes in state and federal welfare policies, the new local policies played a major role in the caseload reduction over several years.

The strong local economy also contributed to the decline in the caseload. From the early part of calendar year 1995 through 2000, there was a net increase of more than 400,000 jobs in New York City. With firms competing to fill job vacancies, the pool of individuals unable to find work and in need of government assistance declined, reducing the number of new public assistance cases. In addition, it became easier for current recipients to find jobs and leave the rolls, either through their own efforts or through the city's job-placement programs.

The recent economic downturn provided a new challenge to the city's welfare reform policies. Starting in early 2001 the city experienced a significant economic contraction, and the attack on the World Trade Center delivered an additional shock leading to heavy job losses. From December 2000 through December 2003 the city experienced a net loss of about 240,000 jobs. Employment data for the last few months indicate that this downward trend has ended, and the city is entering a period of renewed job growth, although not at the exuberant levels of the late 1990s.

The large job losses of the last three years have not had the same impact on the public assistance caseload as those that occurred in the previous economic downturn. During the recession in the early 1990s, job losses were associated with significant increases in the welfare rolls. Between 1989 and 1993, the city suffered a net loss of about 350,000 jobs, nearly 10 percent of total employment at the beginning of the period. Over this same time frame the number of individuals receiving public assistance increased by 274,000. Overall, for every 10 jobs lost in the city about 8 individuals were added to the welfare rolls. Welfare reform policies implemented in the intervening years have made it more difficult to move onto and stay on the welfare rolls. Therefore, it is not surprising that the relationship between lost jobs and caseload growth during the current recession would differ somewhat from the last recession. Nevertheless, the extent of difference has surprised many analysts—including IBO—who expected the large job losses experienced over the last three years to lead to significant short-term increases in the number of individuals receiving public assistance.

At this point in time, however, the recent economic downturn has had only a modest impact on welfare caseloads. The number of people receiving basic SNA, which had dropped from 297,000 in March 1995 to a low point of 76,000 in September 2001, began to increase in the fall of 2001, reaching 87,000 in March 2002. Since then it has slowly increased to 96,000 in December 2003. IBO projects that the SNA caseload will peak at 99,000 in June 2004. In the second half of calendar year 2004 we expect improvements in the job market to lead to a resumption of the longer-term downward trend, with the number of SNA recipients declining to 90,000 by December 2005.

The impact of the economic downturn on the family caseload, which now includes both FA and C-SN, has also been modest. While the downturn has not led to caseload increases, it does appear to have significantly slowed the rate of decline, and more recently to have halted it altogether. The family caseload dropped sharply from 863,000 people in March 1995 to 387,000 in September 2001, an average decrease of over 6,000 recipients per month. After a period of rapid shifts in late 2001 and early 2002, which included the movement of the first large cohort of families from FA to C-SN, the combined family caseload began a slower downward trend. From April 2002 through December 2002 the family caseload decreased from 353,000 to 335,000, an average decline of about 2,000 people per month. During calendar year 2003 the combined family caseload stabilized, so that by December 2003 it remained at 335,000. IBO projects that it will remain at this level through June 2004. As with SNA, in the second half of calendar year 2004 we expect improvements in the job market to lead to a resumption of the longer-term downward trend, with the combined number of FA and C-SN recipients declining to 303,000 by December 2005.

The Effect of Federal Time Limits. Under the 1996 federal welfare act, there is a five-year limit on recipients' eligibility for federally supported public assistance. In December 2001 the first cohort of FA recipients reached their five-year limit, shifting 82,000 people from FA into New York's C-SN program. By December 2003 the number of recipients receiving C-SN had reached 132,000. After growing rapidly in the first few months of this program, the C-SN caseload has stabilized, with the number of individuals converting each month from FA roughly equaling the number leaving the program. We project that this stability will continue through June 2004, followed by a modest caseload decrease in the latter half of calendar year 2004 and in 2005.

Taken by itself, the shift from FA to C-SN will have significant budget implications for New York City, due to the difference in the way that the two programs are funded. For C-SN the state and city are responsible for the entire cost of the program, with a city share of 50 percent. For FA the federal government covers half of the costs, with a city share of 25 percent. For this reason any shift of recipients from FA to C-SN will require additional city expenditures. The incremental cost to the city of shifting up to 132,000 persons from FA to C-SN will reach $64 million in fiscal year 2004, and continue at that level in 2005.

Federal Spending Requirements. Putting an actual price tag on this shift between public assistance programs, however, is complicated by the federal maintenance of effort (MOE) requirement. Under the 1996 federal welfare law, New York's state and local governments together must spend at least 75 percent of what they spent on needy families in federal fiscal year 1995, an annual MOE of about $1.7 billion. As the FA caseload and grant expenditures have decreased, the state and the city have chosen not to spend all of the resulting savings on other programs targeted to low-income New Yorkers.

In the last few years state officials have projected potential MOE spending shortfalls. To reach the required MOE level they have stepped up state spending and required local governments to spend more. For state fiscal year 2000-2001, state officials projected a potential statewide MOE spending shortfall of $225 million. In order to bring spending up to the MOE level, they increased the state's share of spending on Family Assistance, and assessed a "surcharge" on local governments. The local government surcharges were withheld from their federal reimbursement for grant expenditures, forcing the localities to also bear more than their usual 25 percent of the FA cost, while the federal share dropped to under 50 percent. The city's surcharge for that year was about $78 million.

The shift of families from FA to C-SN, however, significantly increases state and local spending against the MOE. Under federal rules, each additional dollar spent in shifting families to C-SN reduces the MOE shortfall by an equal amount. The city will still be responsible for satisfying its share of the statewide MOE, whether it accomplishes this by paying a surcharge or through higher grant costs from shifting recipients from one program to another. As a result, at least under the current circumstances, the additional costs of shifting recipients to the C-SN program are not expected to affect the city's overall liability.

The increased state and local spending due to the movement of families from FA to C-SN is expected to eliminate any potential MOE spending shortfall over the next few years.

The Impact on Recipients. While shifting recipients from FA to C-SN may have little impact on the city budget in the near term, it does have an impact on recipients. Once they are shifted to C-SN, most of their benefits will be distributed in the form of vouchers, and eventually through debit cards, rather than as cash. (Although SNA recipients generally receive cash benefits during their first two years on the program before being shifted to a voucher arrangement, those recipients shifting from FA to C-SN are assumed to have exhausted their cash-benefit period and are immediately assigned to the voucher plan.) Vouchers and debit cards cannot be as widely used as cash, which may help reduce problems with benefits being used inappropriately. On the other hand, they may limit the possibilities for recipients to stretch benefits by shopping at tag sales and other informal markets. While the city has begun to use vouchers to pay for the housing costs of C-SN recipients, the implementation of the debit-card program has been indefinitely delayed as a result of technical problems.

THE TANF SURPLUS AND REAUTHORIZATION

An issue of extreme importance to both the state and city is reauthorization of the federal welfare system, currently under consideration by Congress. The welfare law was set to expire in September 2002 but has been extended through March 2004. Under the 1996 law, Temporary Assistance for Needy Families funds are distributed to each state as a block grant based on the state's welfare spending in federal fiscal years 1992 through 1995. Because caseload levels in New York State have declined significantly relative to those base years, New York—and many other states—has been receiving more TANF dollars than are required to maintain the programs that were incorporated into the block grant. The excess is often referred to as the "TANF surplus."

Over the last few years New York City has made increasing use of these surplus funds allocated by the state to support ongoing child welfare programs such as foster care and preventive services, as well as expansions of the city's welfare-to-work initiatives including employment programs, child care, and transitional services. The city's Financial Plan assumes that the TANF block grant will be reauthorized at least at its current levels to continue funding these services. Recent indications suggest that current TANF funding levels are likely to be maintained as part of the reauthorization.

Of greater local budgetary concern are the increased work requirements for TANF recipients included in the version of the reauthorization bill recently passed by the House of Representatives. If they become law, these increases in work quotas and required work hours could result in increased costs for work programs and child care for the city. It is not at all certain that the new law would provide enough additional funds to cover these new costs.

Decisions made by state officials in allocating the TANF surplus over the last few years have created additional risks for the city's welfare and social service budgets. In state fiscal year 2002-2003, state officials expanded the TANF surplus to $2.59 billion, primarily by using up the entire $662 million reserve fund that had been specifically set aside from prior years' TANF surpluses. They then used these one-time funds for new fiscal relief initiatives to help close the state budget gap. In 2003-2004, with no contingency fund to draw on, the state's adopted budget included a reduced TANF surplus of

$2.02 billion. But even this reduced level of surplus relied on over $400 million in a one-time addition brought about by postponing TANF transfers to the Child Care Block Grant.

Based on the recent caseload trends and the unavailability of one-shot additions to the surplus, the Governor's Executive Budget for 2004-2005 projects a significantly reduced TANF surplus of $1.48 billion. For the most part the proposed budget would limit reductions in TANF surplus allocations to localities, by instead eliminating the use of surplus funds for state fiscal relief. The city, however, could expect some reductions in funds for child welfare programs, and a continuation of the reduced funding for employment programs of the last few years. Barring a decision by Congress to increase the TANF block grant, future surpluses are likely to remain relatively flat while the costs of the programs that they fund continue to rise.

Department of Environmental Protection

PRELIMINARY BUDGET OVERVIEW

The preliminary 2005 Department of Environmental Protection budget is $718.3 million, an increase of 2 percent over the 2005 budget as projected in the June 2003 Financial Plan. IBO estimates that the department will receive an additional $3.0 million in state aid, consistent with previous years' experience.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$705.9
Customer Service Increased Staffing	1.7
Temporary Workers Contract Termination	(0.4)
Water Supply New Needs	2.1
Increase in Upstate Real Estate Taxes	7.0
All Other Changes	2.0
January Plan	$718.3
IBO Repricing	3.0
IBO Reestimate	$721.3
Headcount	
June 2002 Financial Plan	6,045
January Plan	6,340
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$8,044
January 2004 Plan	$8,015

EFFECTS OF BUDGET PROPOSALS

Background. The majority of DEP's budget is for the operation of the city's water and sewer system and is financed by charges to system users. Water and sewer charges, as well as non-operating activities, are projected to produce revenue of $1.77 billion in 2004. From this revenue, the New York City Water Board, the system's governing body, will pay the city $786 million for system operations (including funding for statutorily required reserves for future year operations) and $115 million as a lease payment for the city-owned water and sewer infrastructure. Another $654.8 million will go primarily for debt service on Municipal Water Finance Authority-issued debt, and for water board and authority expenses. The remaining revenue funds reserve accounts.

City funds account for only 4 percent of DEP's budget, including the Environmental Control Board (ECB) and the Bureau of Environmental Compliance (BEC). The ECB (discussed below) adjudicates hearings on notices of violations issued by various city agencies, while BEC inspects in-progress asbestos abatements for all city-owned properties, investigates air quality and noise complaints, and monitors facilities containing hazardous waste. These activities are viewed as being "fee and fine" supported and are thus rarely targeted for budget cuts.

Other DEP revenue is derived from environmental quality permits (industrial air emissions permits, for example), the sale of hydro-energy to upstate power utilities, property rentals, and the collection of fines by the Environmental Control Board.

The department will reduce spending by $400,000 million from terminating the contracts of 34 temporary workers, as required by a legal decision at the city level concerning per diem employees that applies to all city agencies. The workers held positions in the customer service department in-city and upstate, and in the environmental compliance section.

There were roughly $10 million in new needs identified by the department between 2004 adoption and the 2005 Preliminary Budget.

DEP will spend $1.7 million to fill 95 new positions in its customer service department, in order to increase staffing during peak and odd-calling hours.

Slightly higher contract costs for water and sewer system vehicle storage yards will cost $2.1 million.

The remaining new funding need is due to an 8 percent increase in the real estate taxes paid to the upstate watershed communities in which the city owns the land outright or holds a conservation easement to the land. This $7.0 million increase will bring the total paid to upstate communities each year for real estate taxes to $90 million.

Environmental Control Board Fine Revenues Down. The Environmental Control Board is an administrative tribunal operated by DEP that adjudicates hearings on notices of violations issued by numerous city agencies for quality-of-life infractions of the city's laws and regulations. The issuing agencies include the sanitation, fire, buildings, and transportation departments, among others. (Parking violations are handled by the Department of Finance and are not included here.)

The city projects a 7 percent increase in ECB fine revenues from 2003 to 2004, rising from $51.7 million to $56.1 million. The increase results from higher fines enacted last year for several types of violations, including sanitation, health, and vending.

Despite the increase in fines, collections are down 4 percent through the first six months of the fiscal year compared to the same period last year. The reason is that the number of citations issued during the first six months of this fiscal year (July 1 to December 31) was down 14 percent compared to the same period last year.

The drop in citations can be attributed to fewer non-recycling sanitation violations, such as street cleaning violations and putting garbage out for collection too early, which typically make up over half of ECB's caseload. This decrease is at least partly due to weather conditions that have impeded street cleaning and thus decreased the number of alternate side of the street parking violations. Citations issued in a number of other categories, including food and general vending, and health code violations, also declined. In contrast, several other categories of violations have increased, including parks, fire, buildings and recycling violations.

The Bloomberg Administration projects that ECB fine revenues will decline to $47.9 million in 2005. The lower projection is largely the result of conservative assumptions by the Office of Management and Budget.

Environmental Control Board Citations Adjudicated and Revenues

	2003	2004	Change	Percent change
Citation Type				
Sanitation (non-recycling)	204,135	147,568	(56,567)	-27.7%
Recycling	48,545	56,362	7,817	16.1%
All Other	98,262	98,057	(205)	-0.2%
Total Citations	**350,942**	**301,987**	**(48,955)**	**-13.9%**
ECB Revenues (millions)	$28.00	$26.80	($1.1)	-4.1%

SOURCES: IBO; Environmental Control Board.
NOTE: Figures are for first half of each fiscal year (July 1 to Dec. 31).

CAPITAL PLAN

In April of last year DEP issued a $17.2 billion 10-year capital plan. The plan focuses on addressing the urgent needs of the city's century-old water conveyance system that brings water from upstate into the city and distributes it to commercial and residential users. Because the aging system lacks redundancy in many critical areas, there is a risk of a catastrophic failure of water supply.

The plan also addresses the requirements of federal and state clean water mandates, and proposes a new strategy for meeting them that will require a successful renegotiation with the state and federal governments of current agreements. If the city is unable to renegotiate the current requirements, DEP estimates that the total cost of implementing the plan could reach $24 billion total.

DEP funds 98 percent of the capital program through debt issued by the Municipal Water Finance Authority. The remaining funding is derived from state and federal grants and other sources.

There are five categories in DEP's capital plan—water supply and distribution, water quality, water pollution control, sewers, and equipment.

Water Supply and Distribution. One-third of DEP's long-term plan is committed to water supply and distribution projects. By far the largest project in this category is the Kensico Tunnel, which will bring water 16 miles from the Kensico Reservoir to the Van Cortlandt Park Valve Chamber in the Bronx. The current plan includes $1.7 billion in funding; completion is projected for 2020.

DEP also projects spending a total of $1.2 billion on the study and construction of alternative water supplies. The major project under consideration will be the possibility of pumping water into the Brooklyn/Queens Aquifer, storing between 300 million and 400 million gallons there until drought conditions require supply.

Water Quality. About 16 percent of the total capital funding—roughly $2.8 billion—will be spent on water quality projects. All the projects in this category are driven by state and federal mandates and include funding for the Croton Filtration plant ($1.4 billion) and the Catskill/Delaware ultraviolet light filtration facility ($588 million).

Water Pollution Control. This component of the plan—roughly 40 percent of the total—is for water pollution control projects. They include the continued upgrading of the water pollution control plants and combined sewer overflow projects. The capital plan increases the funding for four major water pollution control projects—Newtown Creek, Hunts Point, North River and the Ward's Island facilities. The additional needs in this area are driven by mandated upgrades as well as infrastructure needs due to the age of the wastewater facilities, some of which are 50 years old.

DEP is also projecting a total of $625 million on Combined Sewer Overflow (CSO) projects—during periods of heavy rainfall, a combination of stormwater and sewage bypasses treatment and is released into the city's waterways via the CSOs.

Finally, the capital plan includes $1.9 billion in funding for sewer construction and replacement and general equipment needs systemwide.

Department of Housing Preservation and Development (HPD)

PRELIMINARY BUDGET OVERVIEW

- The preliminary 2005 HPD budget is $386.1 million, a decrease of 0.8 percent over the projected 2005 budget of $389.4 million in the June 2003 Financial Plan.
- The bulk of the reduction—$2.3 million—is a transfer of HPD rent funds to the Department of Citywide Administrative Services. Overall, this does not represent a budget cut, since the full $2.3 million will be spent through the administrative service department budget.
- HPD has reduced its budget for emergency housing services by $500,000, to just over $25 million, in the expectation that demand for shelter will decline. If this expected reduction in demand does not occur, HPD will use Federal Community Development Block Grant funds to pay for the shelters.

2005 Budget Summary

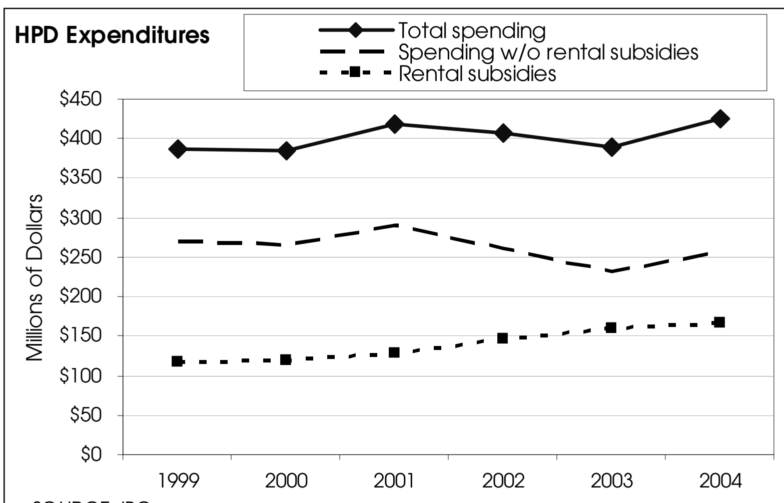
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$389.4
Reestimate of Emergency Shelter Needs	($0.5)
Transfer of Rent to DCAS	($2.3)
Other Changes	($0.5)
January Plan	$386.1
IBO Repricing (see text)	$8.6
IBO Reestimate	$394.7
Headcount	
June 2003 Financial Plan	2,568
January Plan	2,568
Revenue PEGs	$1.2
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$1,583.8
January 2004 Plan	$1,458.6

EFFECTS OF BUDGET PROPOSALS

While the November and Preliminary Budget plans included only minor changes to the HPD budget, the HPD expense budget has grown almost 10 percent between actual expenditures for 1999 and the 2004 budget. However, a substantial portion of the HPD budget is federal rent subsidies, such as Section 8 and Shelter Plus Care. HPD receives these rent subsidies from the federal government and passes them through to tenants. The city administers the rental subsidies in accordance with plans approved by the federal government, and has little discretion in how to use these funds. Spending on these rental subsidies has grown an average of 7.5 percent annually since 1999, while spending on other programs has declined an average of 0.5 percent a year.

HPD Expenditures



SOURCE: IBO.
NOTE: 2004 is projected all other years are actual spending.

In the discretionary portion of the HPD budget, the most significant change has been the reduction in spending on *in rem* operations. At the end of 1999, there were almost 22,000 units owned and managed by the city, while at the end of fiscal year 2003, there were fewer than 9,500 units in central management. As a result, spending on operation of these units has fallen almost 50 percent, from $100.4 million in 1999 to $52.7 million in the 2004 budget.

Code enforcement and the Emergency Repair Program, two of HPD's core expense budget programs, have both grown since 1999. The increased spending on these programs reflects the higher demand for inspections and emergency repair work. Code enforcement activities grew

25 percent, from $16.7 million to $20.9 million between 1999 and 2004. Emergency Repair Program (including lead) spending grew more than 40 percent from 1999 to 2003, from $13.4 million to $18.9 million. (Because the Emergency Repair Program for lead hazard reduction is consistently over-budgeted, use of the figure budgeted for 2004 would be misleading)

HPD Code Enforcement and Emergency Repairs

	1999	2000	2001	2002	2003*
Inspectors	295	303	312	318	304
Inspections Completed	164,989	161,295	204,919	214,821	245,369
Emergency Repair Jobs	9,816	9,438	15,611	17,219	24,745

SOURCES: IBO; *Mayor's Management Reports.*
NOTES: Inspectors are as of June 30 for the given year. *In 2003, the city changed the way it documents the number of inspections completed in the Mayor's Management Report, from the number of complaint inspections done to the number of problem inspections done. One complaint can encompass multiple problems. IBO has assumed that each complaint has two problems and has adjusted the 2003 Inspections Completed accordingly.

The fiscal year 2004 HPD expense budget includes $3.5 million for two of the homeownership initiatives included in Mayor Bloomberg's December 2002 housing plan. The Employer Assisted Housing program, a $10 million initiative to partner with employers to subsidize downpayments for workers, is funded at $1 million for 2004. The HomeFirst Downpayment Assistance program also subsidizes home purchases, and is funded at $2.5 million for 2004 (the total program is expected to cost $25 million).

HPD Expenditures by Program Area, Excluding Rental Assistance

Dollars in millions

	1999	2000	2001	2002	2003	2004*
In Rem Operations & Privatization	$117.6	$114.2	$119.5	$96.7	$77.6	$76.4
Code Enforcement	16.7	17.7	18.4	21.0	20.0	20.9
Emergency Repair Program	13.4	14.1	21.6	19.0	18.9	29.8**
Housing Litigation Division	3.8	4.6	4.6	4.6	5.1	6.4
Lead	7.9	8.3	9.9	10.1	7.6	10.7
Anti-Abandonment and Article 7A	8.6	9.6	10.9	9.8	9.6	9.3
Emergency Housing Services	19.5	26.6	22.2	22.9	23.0	25.9
Homeownership	4.0	1.4	2.4	3.1	3.5	5.2
Administration, Policy & Planning	42.8	45.9	46.3	43.8	40.8	39.4
Other	35.4	23.2	33.8	30.0	24.9	33.4
TOTAL	$269.8	$265.5	$289.6	$260.9	$230.9	$257.4

SOURCES: IBO; Department of Housing Preservation and Development.
NOTES: *Budgeted. **Emergency Repair Program is consistently over-budgeted.

Other aspects of the HPD expense budget include major program areas such as emergency housing, and much smaller initiatives, such as the Article 7A program and fair housing counseling and education.

CAPITAL PLAN

In December of 2002, Mayor Bloomberg announced a five-year, $3 billion plan to create or rehabilitate 65,000 units of housing. A portion of this plan is being funded through the HPD Capital Budget, which has led to significant changes in the capital plan over the last year. However, most of these changes have now been made, and the January 2004 Capital Commitment Plan looks much like the September 2003 plan. The primary exception is the New Venture Incentive Program; HPD initially intended to spend $200 million on this loan program to fund site acquisition and cleanup, but private banks have contributed the funding, so the only public subsidy necessary is a loan guarantee, which will be offered by the Housing Development Corporation. As a result, the January capital plan removed the incentive program from the HPD capital plan.

One of the more controversial aspects of Mayor Bloomberg's housing plan is the share of units devoted to low-income households. Advocates have charged that too many of the units are targeted to relatively wealthy households, while HPD has reported that almost half of the units are for households earning less than 80 percent of Area Median Income.

The estimates diverge because HPD included its existing programs—the "maintenance of effort"—while IBO did not. Over the last 10 years, about half of the units built or rehabilitated by HPD have been affordable to low-income households. This is comparable to HPD's own analysis of the units to be funded through the Mayor's housing plan, including the maintenance of effort component of the plan, which includes many of HPD's existing programs.

However, when IBO looked at the housing plan units by income group, we found that only 21 percent of the units were targeted to low-income households. IBO looked only at the new and reallocated funding streams—not the maintenance of effort. Many of HPD's existing programs fund rehabilitation of extremely dilapidated housing. Even if these programs do not have formal income ceilings, because the housing is in poor condition, it is highly likely that the tenants are low income. As a result, including the maintenance of effort component of the housing plan—which represents two thirds of the total dollars—significantly increases the share of low income households served.

Distribution of Units in Mayor's Housing Plan by Income Class

	HPD Actual, 1993-2002	IBO Analysis of Mayor's Plan	HPD Analysis of Mayor's Plan
Low Income	51.1%	21.3%	46.0%
Moderate Income	32.5%	21.1%	38.0%
Middle Income	16.4%	57.6%	16.0%

SOURCES: IBO, Department of Housing Preservation and Development: *The New Housing Marketplace: Creating Housing for the Next Generation, Progress Report 2003*.
NOTES: Low Income is defined as up to 80 percent of Area Median Income (AMI), or $50,200 for a family of four. Moderate Income is up to 100 percent of AMI, or $62,800; Middle Income is up to 250 percent of AMI, or $157,000.

Department of Transportation (DOT)

The proposed expense budget of DOT for 2005 is $431.8 million, an increase of $11.9 million (2.8 percent) over the $419.9 million projected for 2005 in the June 2003 Financial Plan.

Typically, actual state and federal funding for DOT is considerably higher than the levels contained in either the proposed or adopted budgets. IBO projects that actual state and federal funding will be $52.9 million greater than currently projected, giving a total budget for DOT of $484.7 million.

Highlights of the operating budget include the following:

- There are additional expenditures of $5.85 million on the Staten Island Ferry, some of which are a response to the accident of October 15, 2003.
- The Manhattan commercial parking program is expanded at a cost of $800,000. Additional revenue of $2.5 million is anticipated. Other DOT initiatives will bring in an additional $2.5 million in revenue, at a cost of $400,000.
- State funding of $2.6 million will replace city funding for bridge repair, parking and meter maintenance, and pavement marking. Federal funding of $1 million will replace city funding for bridge inspectors.
- The January 2004 Financial Plan continues to assume that the Metropolitan Transportation Authority (MTA) will take over the operation of the private franchise buses in 2005, saving the city around $150 million annually.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$419.9
Increased Staten Island Ferry expenditures	5.8
Expansion of commercial parking	0.8
Signal maintenance contract	3.8
Other Adjustments	1.5
January Plan	$431.8
IBO Repricing	52.9
IBO Reestimate	$484.7
Headcount	
June 2003 Financial Plan	3,873
January Plan	3,969
Revenue PEGs	$5.0
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$4,876
January 2004 Plan	$4,610

EFFECTS OF BUDGET PROPOSALS

Staten Island Ferry. In the wake of the accident of October 15, 2003, DOT is instituting increased security training and random drug testing for ferry crews, at a cost of $1.2 million. DOT has also contracted with the United States Merchant Marine Academy to perform a review of ferry operations and procedures ($350,000). While DOT evaluates its ferry operations, it has delayed its planned contracting out of night service. This will result in an additional expenditure of $1.12 million in 2005, and a change in planned staffing of 16 positions. Finally, in anticipation of lawsuits related to the accident, DOT is spending $127,000 to hire additional legal staff.

Other ferry initiatives are not directly related to the accident. The planned service reduction from four to three boats per hour during rush hour will be rescinded for 2005, just as it was for 2004. The cost of the service restoration is $2.3 million, to fund 32 new positions and other costs. In addition, the higher staffing requirements for the new Molinari class boat will require the hiring of 14 additional crew, and $840,000 in additional expenses.

Manhattan Commercial Parking and Other Revenue Initiatives. DOT is expanding its commercial parking program to include the area from 33rd to 59th Streets between Second and Ninth Avenues. The program restricts parking in designated areas to commercial vehicles Monday-Friday between 7 a.m. and 6 p.m. The program prices each additional hour of parking at a higher rate, in order to encourage turnover of spaces. DOT will spend $800,000 for the program expansion in 2005 and expects to collect an additional $2.5 million in revenue. Other DOT revenue initiatives include charging utility companies more for adjusting the level of manholes when streets are resurfaced ($1 million), charging Con Edison higher fees for placing transformers on public property ($1 million), and opening the parking lot on Leonard Street in Lower Manhattan to the public on weekdays ($490,000).

Signal Maintenance Contract. The amount paid to private contractors for maintaining traffic signals will be increased to reflect inflation and market rates. The additional cost will be $3.8 million in 2005.

Subsidized Private Buses. The city is still assuming that the MTA will take over the subsidized private bus lines in 2005, and that the city subsidy, currently around $150 million per year, will be discontinued. This subsidy is paid out of the miscellaneous budget. Press reports suggest that the city and the MTA are still negotiating details of a possible takeover.

CAPITAL PLAN

DOT's January 2004 Capital Commitment Plan for 2004-2007 totals $4.61 billion, a decline of around 5.6 percent compared with the $4.88 billion of commitments contained in the September 2003 Capital Commitment Plan. Around 75 percent of the latest plan—$3.1 billion—is city-funded. City-funded commitments have declined 7.4 percent since the September plan, while non-city funded commitments have remained constant. As was the case with the September plan, the largest commitments in the January 2004 plan are for highway bridges ($1.4 billion), highways ($1.3 billion), and waterway bridges ($0.9 billion). Together, highways and bridges make up around 77 percent of the total commitments.

Although highway commitments are essentially unchanged, total planned commitments for both highway and waterway bridges have declined since the current budget was adopted last June. The highway bridge capital program has been cut by 10 percent since adoption, from $1.55 billion to $1.4 billion. City commitments are down by $73 million, while non-city commitments are down $82 million. Total commitments for waterway bridges have declined 13 percent since adoption. City commitments are down $191 million (a drop of 26 percent), while non-city commitments have risen by $65 million (an increase of 25 percent).

Some individual projects have experienced large declines in planned commitments. According to DOT, in some cases planned commitments are being shifted to later years because of funding constraints, while in other cases the reasons are logistical—e.g., difficulties in finding enough qualified contractors to let several large projects simultaneously. Highway bridge projects with large commitment declines include Mill Basin (-$23 million city, -$96 million non-city), Harlem River Drive (-$61 million city), and the Atlantic Avenue/LIRR Bridge (-$75 million city). Capital commitments for the Mill Basin and other Belt Parkway bridges have been pushed out to fiscal year 2008, while work on the Harlem River Drive and Atlantic Avenue/LIRR bridges has been delayed until fiscal year 2010.

With the exception of the Willis Avenue Bridge over the Harlem River, waterway bridge projects have experienced significant changes in the level and timing of city commitments since adoption. There current plan foresees a reduction of $76 million in city commitments for the Queensboro Bridge in 2005, but this cut is largely compensated for by an increase of $67 million in non-city commitments. City commitments for the Brooklyn Bridge are cut by $60 million in 2007, with planned work moved to 2008 and beyond. Finally, commitments for minor work on the Rikers Island Bridge (currently around $6 million in city funds) have been moved up to 2005 from 2006, while plans for major reconstruction (around $40 million) have been moved past 2010.

New York City Housing Authority (NYCHA)

The New York City Housing Authority is an independent entity that owns and manages New York City's public housing, and coordinates the bulk of the city's Section 8 housing vouchers, which assist households in renting private-sector housing. There are about 181,000 units of public housing in the city, and close to 90,000 households receiving Section 8 vouchers through NYCHA. There is effectively no city operating subsidy for the housing authority.

NYCHA BUDGET

The NYCHA budget, which runs on a calendar year basis, is approximately $2.5 billion per year. The housing authority has had to close an operating shortfall in each of the last two years—$74.3 million in 2002 and $174.7 million in 2003—and projects shortfalls to continue through 2007. NYCHA is taking actions to close the gap for 2004, although some gaps remain for the out-years.

Although NYCHA reports that it will be able to make these spending cuts without affecting the services delivered to residents, that may prove to be difficult. For example, the $68.8 million dollar cut to contracts—typically for maintenance services—represents 26 percent of the total contract budget, and comes on top of a 10 percent cut in 2003.

Similarly, the elimination of 686 positions in 2004 and an additional 297 positions in 2005 represents a cumulative 6.4 percent reduction in headcount. Prior to the 2004 reduction, the housing authority had 15,357 authorized positions. The 983 jobs that are being cut will come from across the agency—the precise positions are still being finalized. These headcount reductions, combined with a 30 percent reduction in overtime, means that there will be many fewer people available to carry out NYCHA's work. It seems likely that reductions of this magnitude will eventually have some effect on the quality of NYCHA housing and services delivered to tenants.

NYCHA Budget, 2004-2007

Dollars in millions

	2004	2005	2006	2007
Initial Expenses	$2,433.9	$2,466.5	$2,500.2	$2,522.2
Initial Revenue	2,130.9	2,171.0	2,199.6	2,229.7
Shortfall	*($303.0)*	*($295.5)*	*($300.6)*	*($292.4)*
Expense Reductions				
Contract Cuts	($68.8)	($68.8)	($68.8)	($68.8)
Reduce Supply Purchases	(49.2)	(49.2)	(49.2)	(49.2)
Reduce Headcount by 686 Positions	(40.4)	(47.6)	(47.6)	(47.6)
Reduce Headcount by 297 Positions	-	(17.4)	(20.5)	(20.5)
Reduce Equipment Purchases	(18.6)	(18.6)	(18.6)	(18.6)
Cut Overtime Use by 30%	(17.0)	(17.0)	(17.0)	(17.0)
Other	(28.8)	(38.4)	(42.9)	(34.7)
TOTAL EXPENSE REDUCTIONS	($222.7)	($256.9)	($264.5)	($256.3)
Revised Expense	**$2,211.2**	**$2,209.6**	**$2,235.7**	**$2,265.8**
Revenue Increases				
Funding Shift: Capital to Operating	74.4	-	-	-
FHA Vacant Home Sales	4.4	-	-	-
Additional Section 8 Revenue	-	9.5	19.0	19.0
Other	1.5	1.8	1.8	1.8
TOTAL REVENUE INCREASES	$80.3	$11.3	$20.8	$20.8
Revised Revenue	**$2,211.2**	**$2,182.3**	**$2,220.4**	**$2,250.5**
Shortfall	*0.0*	*(27.3)*	*(15.3)*	*(15.3)*
New Needs with Offsetting Revenue	107.0	NA	NA	NA
Final Expenses	**2,318.1**	**2,209.6**	**2,235.7**	**2,265.8**
Final Revenue	**2,318.1**	**2,182.3**	**2,220.4**	**2,250.5**
Shortfall	*$0.0*	*($27.3)*	*($15.3)*	*($15.3)*

SOURCES: IBO; New York City Housing Authority.

FEDERAL HOUSING BUDGET

NYCHA receives about 65 percent of its operating budget from the federal government, and is therefore significantly affected by changes in federal policy. President Bush's proposed budget for 2005 for the Department of Housing and Urban Development (HUD), includes several changes that, if enacted, would directly impact NYCHA.

Most significantly, President Bush has again proposed major changes to the Section 8 Program. Section 8 is a federal program which funds vouchers that allow low-income households to rent private apartments that meet HUD rent and quality standards. Currently, Congress sets annual appropriations for Section 8 based on estimates of the average cost of a voucher and the number of vouchers in use. This methodology, coupled with reserve funds to accommodate increases in cost or voucher utilization, is intended to ensure that all the vouchers in use—and some which have been authorized but not yet used—can be paid for. President Bush has proposed giving public housing authorities a lump sum that no longer reflects voucher cost or the number of vouchers in use. In addition, the Bush Administration proposal would cut the total funding available for vouchers from $17.5 million in federal fiscal year 2004 to $16.9 million in federal fiscal year 2005.[1]

If we assume that voucher costs will hold steady into 2005, the 3.5 percent reduction in Section 8 would mean NYCHA would lose funding for about 3,100 vouchers next year.[2] However, it is highly unlikely that voucher costs will remain constant. The Congressional Budget Office is estimating an average growth in voucher cost of 2.6 percent annually over the next 10 years. At this rate, NYCHA would lose 5,200 vouchers next year. If the growth in cost was 5 percent, the city would lose 7,100 vouchers. NYCHA has assumed its Section allocation will *increase* in 2005, 2006, and 2007. If these funds do not materialize, the housing authority will have to reduce the number of families served or target its vouchers to higher-income households to avoid even larger budget gaps.

Bush's proposed HUD budget also cuts funding for both the Public Housing Operating and Capital funds. The operating fund would be reduced from $3.579 billion to $3.573 billion nationwide. The proposed 2005 appropriation includes $15 million for new performance bonuses, bringing the effective reduction in general operating support to $20.8 million. The Public Housing Capital Fund would be reduced from $2.696 billion to $2.674 billion. In percentage terms, these cuts are small: $5.8 million, or 0.2 percent for the operating fund, and $22.2 million, or 0.8 percent for the capital fund. However, these cuts would come after several years of stagnant growth or decline. In inflation adjusted terms, the operating fund has grown an average of 0.4 percent annually since 2001 (including the proposed 2005 appropriation) and the capital fund has fallen an average of 4.8 percent annually in that same period. During this time, some operating costs, such as fuel and insurance, have grown much faster than the rate of inflation. As a result, even these relatively small cuts for 2005 would be difficult for public housing authorities—including NYCHA—to absorb.

END NOTES

[1] All comparisons to the federal 2004 budget are after the across the board 0.59 percent rescission to all programs.

[2] The President's proposed budget includes a $1.6 billion rescission to the Section 8 program for 2005. If this rescission was applied evenly across all the subprograms that are part of Section 8, the loss of Section 8 vouchers in New York City could be as high as 10,000, even without an increase in the per voucher cost.

MTA New York City Transit (NYC Transit)

OPERATING BUDGET OVERVIEW

New York City Transit is the largest component agency of the state's Metropolitan Transportation Authority (MTA). NYC Transit receives substantial financial assistance from the city, and its operations have a direct impact on city residents. The MTA's fiscal year coincides with the calendar year.

- The approved operating budget of NYC Transit for 2004, including projected debt service, is $4.71 billion. This represents an increase of 4.4 percent over estimated expenses of $4.51 billion in 2003.[1]
- NYC Transit projects a closing cash balance of $34 million for 2004, but has large budget gaps in the out-years, $545 million in 2005, $1.02 billion in 2006, and $1.31 billion in 2007. These gaps are caused by rapid growth in debt service, pensions, and health and welfare benefits—and by the use of one-time revenue measures such as the recent debt restructuring.
- Fare revenue is expected to reach $2.54 billion in 2004, an increase of around 7 percent ($176 million) over 2003. The increase is due to the higher fares instituted in May 2003. The higher fares did not reduce ridership by as much as the MTA originally projected.
- Tax-supported subsidies and surplus bridge and tunnel tolls available to support NYC Transit operations are expected to total $1.35 billion in 2004, about $39 million less than 2003. Significant declines are expected in toll revenue transfers and mortgage recording tax (MRT) collections, while petroleum business tax (PBT) receipts are expected to rise substantially.
- NYC Transit's December 2003 adopted budget for 2004 counted on $121 million in revenue from "increased governmental assistance and other." At the time the MTA acknowledged that the aid might not be forthcoming. The MTA's February 2004 financial plan eliminates all but $9 million of the aid, but offsets the loss with a lower estimate for debt service based on recent interest rates.

Budget Summary
Dollars in millions

	2003 (prelim. actual)	2004 (projected)	2005 (projected)
Operating Budget			
Expenses (excluding depreciation)			
Wages and Salaries	$2,483	$2,507	$2,583
Pensions	$198	$306	$444
Health and Welfare	$538	$561	$608
Other Fringe	$197	$185	$193
Debt Service	$356	$379	$513
All Other Expenses	$1,093	$769	$787
Total Expenses	**$4,509**	**$4,707**	**$5,128**
Revenues			
Farebox Revenue	$2,368	$2,544	$2,571
Tax-Supported Subsidies	$1,236	$1,215	$1,156
State and Local Operating Assistance	$316	$325	$316
Surplus Bridge and Tunnel Tolls	$153	$126	$84
Miscellaneous Revenue	$217	$211	$218
Total Revenues and Subsidies	**$4,290**	**$4,421**	**$4,345**
Operating Budget Balance (revenues less expenses)	($219)	($286)	($783)
Opening Cash Balance	$14	$57	$34
Adjustments to Reflect Actual Cash Flows	$262	$263	$204
Closing Cash Balance (surplus/(deficit))	**$57**	**$34**	**($545)**
Capital Program			
Annual Capital Commitments, NYC Transit (excluding network expansion)	$1,342	$1,126	
Total value of NYC Transit Capital Program as of Jan. 1 (includes network expansion)	$12,472	$13,621	

SOURCE: IBO; Metropolitatn Transportation Authority.
NOTE: The Metropolitant Transportation Authority's fiscal year coincides with the calendar year.

EFFECTS OF BUDGET PROPOSALS

Expenses Up Sharply. NYC Transit projects significant increases in the cost of debt service, pensions, and health and welfare benefits. Taken together, these costs are expected to increase by $158 million from 2003 through 2004, and by $768 million from 2004 through 2007. As explained below, only modest growth in existing revenue streams is expected during this period, and as a result NYC Transit will likely face large deficits.

Debt Service. Rising debt service is the biggest contributor to NYC Transit's looming budget gaps. In 2002 the MTA began a restructuring of its existing debt, which is now complete. The restructuring has generated around $4.5 billion in short-term budget relief for the MTA, through interest rate savings, lower annual debt service payments in the short run, and the release of reserve funds that are not required under the new bond covenants. These additional resources filled the gap in the financing of the capital program that occurred when the Transportation Infrastructure Bond Act failed to pass in November 2000, and relieved pressure on the operating budget during 2002 and 2003. At the same time, however, the restructuring has pushed debt service payments further into the future. MTA documents show that the authority's debt service on its existing obligations will remain stable at over $1 billion per year until after 2030. As the MTA issues new debt to support its capital programs, total annual debt service will rise sharply. The MTA projects that debt service paid out of NYC Transit's operating budget will increase from $356 million in 2003, to $379 million in 2004 and $513 million in 2005. By 2007, NYC Transit's debt service is projected to reach $723 million. As a share of total expenses (not including depreciation), debt service will increase from 8 percent in 2004 to 13 percent in 2007.

Growing Pension and Benefits Costs. NYC Transit's pension costs are projected to increase from $198 million in 2003 to $306 million in 2004 and $444 million in 2005. By 2007, annual pension costs are expected to reach $574 million, an 88 percent increase over 2004. The increase in pension costs is driven by a decline in pension system earnings (a trend that could reverse if the stock market continues its present recovery), and the cost of legislatively imposed benefit enhancements.

NYC Transit also faces sharp hikes in the cost of health and welfare benefits. From $538 million in 2003, these costs are projected to rise to $561 million in 2004 and to $717 million by 2007.

Revenues. Total revenues (including subsidies) are projected to reach $4.4 billion in 2004, an increase of $131 million over 2003. Farebox revenue is forecast to grow $176 million, primarily due to the May 2003 fare increase.

Declining Subsidies. Tax-supported subsidies are expected to fall slightly to $1.2 billion in 2004, $21 million less than the 2003 level. Revenues from the taxes that support transit, including several property-related taxes and a portion of the state petroleum business tax, have continued strong despite weakness in the city and state economies. The MTA projects increases of around $13 million in revenue from Metro Mass Transit Operating Account taxes (state taxes dedicated partially or completely to transit) and roughly $38 million from the petroleum business tax. In contrast, the amount of mortgage recording tax revenue transferred to NYC Transit is expected to fall by $61 million, a decline of around 20 percent. The projected decline in MRT revenue is the result of the fall-off in mortgage refinancing activity, which is anticipated as interest rates begin to climb.[2]

The amount of surplus toll revenue transferred from MTA Bridges and Tunnels to NYC Transit in 2004 is expected to be $126 million, down from $153 million in 2003. Surplus toll revenue is first used to pay debt service on bonds that are issued by MTA Bridges and Tunnels to fund transit and commuter rail projects. The remaining surplus, consisting of toll revenue plus investment income, is transferred to the agencies' operating budgets. Beginning in 2004 an increasing amount of toll revenue will be required to pay off debt service, for both the agency's own capital projects, as well as NYC Transit projects. As a result, less money will be available for transfer to NYC Transit's operating budget.

NYC Transit receives $158 million per year in operating assistance from the city, and an equivalent amount from New York State. The approved NYC Transit budget for 2004 counted on $121 million in "increased governmental assistance and other." The MTA's February 2004 financial plan acknowledges that this aid is unlikely to be forthcoming and eliminates all but $9 million of it. This loss is compensated for by an equivalent reduction in estimated debt service.

Other direct payments to NYC Transit from the city include $45 million in reimbursement for transportation of school children, and $14 million in reimbursement for the senior discount fare. There is also a city subsidy for paratransit, projected to be around $25 million in 2004.

Franchise Bus Operations. The city's Financial Plan assumes that the private buses currently subsidized by the city will be handed over to the MTA by the start of city fiscal year 2005. The city would save around $150 million per year if it were able to divest itself completely of the subsidy payments and the administrative costs of overseeing bus operations. The MTA has indicated that it is willing to take over the bus service, but only if it receives adequate compensation for the increased expenses. An earlier proposal that would have provided extra revenue to the MTA in exchange for taking over the buses is no longer under active consideration. Under this proposal, the city would have transferred operation of the four East River bridges to the MTA, and would have allowed the MTA to charge tolls on these crossings.

Paratransit. The paratransit program continues to grow in terms of both ridership and cost. The cost of the program is expected to be $181 million in 2004, an increase of 21 percent over the preliminary 2003 cost of $151 million. The number of trips made on paratransit reached 2.6 million in 2003, a 16 percent increase over the previous year. The city provides the MTA with partial reimbursement for the Access-a-Ride program based on a formula. IBO projects the city payment at around $25 million in 2004.

CAPITAL PLAN

The total value of the MTA's current five-year capital program for 2000-2004 is $20.1 billion, of which $13.6 billion corresponds to NYC Transit, $5.4 billion to the commuter railroads, and slightly over $1.0 billion to bridges and tunnels.

The MTA capital plan for 2000-2004 was amended twice in 2003. In February, the MTA board approved minor project revisions that increased the value of the transit and commuter rail programs by $9 million, and the value of the bridge and tunnel program by $6 million. In December, the bridge and tunnel program was adjusted downward by $6 million, while the transit and commuter rail programs were increased by $1.2 billion. The bulk of this increase corresponds to two projects planned for Lower Manhattan, to be funded entirely through the federal Lower Manhattan Recovery Act. The Fulton Street Transit Center will provide for better connections between the 12 subway lines that serve the area around the World Trade Center site. The transit center also will facilitate transfers between the subway and PATH trains. The estimated cost of the project is $750 million. The South Ferry Terminal project, with an estimated cost of $400 million, involves improvements that will allow faster turnaround time and a greater throughput on the 1/9 subway lines. The terminal also will provide a free transfer between these lines and N/R trains. Other December revisions to the MTA capital program provide a net addition of $53 million.

Most of the planned spending in NYC Transit's 2000-2004 capital program is for replacement or rehabilitation of existing infrastructure. The bulk of construction costs for projects such as the Second Avenue subway and East Side Access (Long Island Rail Road connection with Grand Central Terminal) will correspond to future capital programs.[3] The MTA faces major challenges as it seeks to fund these expansion projects. Under the most optimistic scenarios, federal transit aid can only pay for a small share of the total cost. A new five-year plan covering 2005 through 2009 is expected to be introduced in July.

Until 2003 the city of New York committed around $105 million annually to NYC Transit's capital program, plus $1 million to the Staten Island Railway, another MTA component agency. In addition, the city has an arrangement with the MTA by which the authority gave the city $345 million from its sale of the New York Coliseum in exchange for the city issuing an equivalent amount of debt on behalf of the MTA.

In 2003, the city announced a reduction in its annual commitment to the MTA by 30 percent, to $75 million. However, because of timing issues the commitment in any given year may be more or less. The city's January 2004 Capital Commitment Plan commits $116 million to the MTA in 2004, $72 million in 2005, and $68 million in 2006 and 2007.

END NOTES

[1]Excluding depreciation of $895 million in 2004, which is not a cash expense.
[2]IBO is projecting a 15 percent decline in MRT collections in city fiscal year 2005.
[3]MTA Chairman Peter Kalikow was recently quoted as saying that the MTA might participate in funding for a rail connection between JFK Airport and lower Manhattan.

Civilian Complaint Review Board (CCRB)

PRELIMINARY BUDGET OVERVIEW

The preliminary CCRB budget for 2005 is $9.3 million, up about $200,000 (or 2.2 percent) from the level budgeted in the June 2003 Financial Plan. Key changes include:

- A total of $521,000 is being added to CCRB's budget each year from 2005 through 2008 to fund the restoration of 12 investigator positions and one assistant deputy executive director for investigation. These positions had been scheduled for elimination next year, but are being restored as a result of a rise in the number of complaints of police misconduct being received by CCRB.
- The CCRB's preliminary budget for 2005 includes about $300,000 less than planned last June for a yet to be established unit within the agency that would assume responsibility for prosecuting police officers found to have committed acts of misconduct. About $400,000 remains in the agency's proposed 2005 budget to staff six positions in the unit.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$9.1
Restoration of Investigative Positions	0.5
Reduce Size of Proposed Administrative Prosecution Unit	(0.3)
January Plan	$9.3
Headcount	
June 2003 Financial Plan	160
January Plan	169

EFFECTS OF BUDGET PROPOSALS

Restoration of Investigative Positions. Being restored is $521,000 for 12 investigator positions and one supervisory investigator position that were scheduled to be cut next year. As a result, the agency's 2005 budget would support 121 investigative positions rather than the previously planned 108. As of December 31, 2003, CCRB had 128 investigators working at the agency. The 13 investigative positions are being restored to next year's budget as a result of the rise in the number of complaints of police misconduct being received by CCRB. The number of complaints rose by 21 percent between calendar years 2002 and 2003, from 4,612 to 5,581. The latter represents the most complaints received by the agency since 1995.

Impact of Staffing Levels on Agency Performance. A report issued by IBO in July 2002, *Rise in CCRB Funding Leads to More Completed Investigations*, found that increases in CCRB's funding and staffing in recent years had allowed the agency to complete more investigations in a timely manner. Increasing the timeliness with which complaint cases are investigated helps to improve the board's chances for reaching a conclusive determination as to whether an allegation of misconduct is credible. Delays in investigating complaints, on the other hand, reduce the chance of conclusive outcomes as a result of increased difficulty in finding witnesses and gathering evidence. It is also critical that substantiated complaints of misconduct be forwarded to the police department with sufficient time for the Police Commissioner to review and decide on appropriate discipline, if any, before expiration of the statute of limitations. Except in rare cases, police officers can not be disciplined if more than 18 months has elapsed from the date of occurrence of a substantiated CCRB complaint. Formal discipline has been imposed in a growing number of cases referred from the CCRB to the police commissioner. In 2002 the Police Commissioner disciplined officers in 66 percent of the cases substantiated by the CCRB, up from 32 percent in 1997.

Administrative Prosecutions Unit. The transfer from police department to CCRB of responsibility for prosecuting police officers that are the subject of substantiated complaints of misconduct was first scheduled to take effect in June 2001, but was delayed due to legal challenges filed by unions representing uniformed police personnel. However, in January 2003 a Manhattan appeals court ruled that the shift of prosecutorial responsibility could go forward. Barring an appeal of that ruling to a higher court, the administrative prosecutions unit is to be established within CCRB in the coming year.

Although the original plan called for the administrative prosecutions unit to have a staff of 21, subsequent financial plans had reduced planned staffing to 10. The 2005 Preliminary Budget proposes a further reduction, leaving only six positions remaining for the unit scheduled to be staffed next year. The six positions include four attorneys, one chief attorney, and one investigator.

Roughly $400,000 remains in CCRB's proposed 2005 budget for the administrative prosecutions unit—about $300,000 less than planned last June.

Department of Correction (DOC)

PRELIMINARY BUDGET OVERVIEW

- The Mayor's Preliminary Budget proposes spending $823.0 million in 2005, a decrease of 2 percent over last June's Financial Plan.
- High turn-over among correction officers will result in lower salary and benefit expenditures for a younger workforce.
- Because most inmates are in detention for relatively short periods of time, the department is shifting from providing inmate services during incarceration (educational, drug abuse, and vocational programming), to an expansion of discharge planning and post-release assistance services.
- Funds from the federal government for detaining arrested undocumented immigrants are under threat in the President's proposed budget.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$838.5
Overtime Reduction	(5.0)
Longevity Surplus	(1.0)
Continue Civilian Hiring Freeze	(3.6)
All Other Changes	(5.9)
January Plan	$823.0
Headcount	
June 2003 Financial Plan	11,116
Civilian	1,647
Uniformed	9,469
January Plan	10,934
Civilian	1,465
Uniformed	9,469
Revenue PEGs	
Telephone Call Per Minute Rate	$1.0
Other Inmate Fees & Charges	0.9
Total	$1.9
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$473
January 2004 Plan	$436

EFFECTS OF BUDGET PROPOSALS

New Recruits Yield Savings. The department's high annual attrition rate (8 percent) and low retention rates (19 percent remain after 20 years), has led to a uniformed workforce that is on average younger, and hence lower paid. The department reestimated its personal services costs for 2005, lowering costs by $1 million. The department also anticipates overtime savings of $5 million in 2005 from a combination of projected declines in the inmate population and increased staffing from future recruit classes.

In 2004, 73 DOC officers who were members of the Armed Forces Reserves were on active duty in Iraq, costing the department an additional $6.1 million in overtime (10 percent of total overtime expense in 2004). Iraq war costs have yet to be recognized for 2005.

Shift to Post-Release Programs. In an effort that began last year, the Department of Correction has shifted emphasis from rehabilitation programs during incarceration, including educational, vocational, and substance-abuse programs), to an emphasis on discharge planning and expanded post-release, community-based social services. These include drug treatment, job-placement assistance, and actual employment opportunities for a limited number of former inmates.

Federal Budget Cuts. The President's budget proposes cutting the State Criminal Alien Assistance Program (SCAAP), which reimburses local governments for the imprisonment of undocumented immigrants. In both of the last two federal budgets, the Bush Administration has proposed ending this program. Although last year the funding was restored, the cut has been proposed again by the Bush Administration. The city received $42.9 million in SCAAP funds in 2002, which fell to $15.0 million in 2003. DOC's budget anticipates $20 million in 2004 and $15 million in 2005.

Inmate Charges Yield Increased Revenues. A combination of fee increases for everything from telephone calls to haircuts is expected to yield $1.9 million in additional revenues in 2005.

CAPITAL PLAN

The 2004-2007 Capital Budget for the Department of Corrections is $436 million, down $36.2 million compared to the September 2003 plan.

Construction and Rehabilitation Cuts: Some 50 percent of the cuts to the Capital Budget affect activities related to the rehabilitation and construction of facilities, which makes up 88 percent of the department's capital plan.

DOC's long-term strategy remains the rehabilitation of aging infrastructure and the replacement of temporary prison beds with more permanent facilities. The Department intends to maintain the current capacity of 21,000 beds, although inmate numbers have dropped significantly.

Computer, Communications, and Security Investments. DOC will spend $37.4 million for the improvement of electronic facilities that make prisons secure and help them function.

Department of Juvenile Justice (DJJ)

PRELIMINARY BUDGET OVERVIEW

The Mayor's Preliminary Budget proposes spending $97.7 million for the department of Juvenile Justice, essentially unchanged over last June's Financial Plan. The department plans to spend over $30 million for secure detention and over $10 million for non-secure detention.

- Increased personnel costs arising from labor settlements will largely be offset by savings in payments to the state Office of Children and Family Services for detention of New York City juveniles. The savings will arise from two sources: a decline in the overall caseload, as well as expansion of the Department of Probation's Juvenile Intensive Supervision Program.
- The department projects maintaining its current staffing (down from 825 in the June 2002 Financial Plan) largely because the average daily populations in both secure and non-secure detention has dropped. The department attributes the reduced average length of stay to expedited processing of paperwork. In the first four months of the current fiscal year, however, the average stay has spiked due to a number of youth having multiple cases.
- Like the Department of Correction, DJJ is shifting from programs for persons in detention to an emphasis on discharge planning and post-release referrals to community organizations.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$97.7
Increased Personnel Costs	1.0
Reduced Payments to State	(1.0)
January Plan	$97.7
Headcount	
June 2003 Financial Plan	651
January Plan	651
Capital Plan, 2004-2007	
September 2003 Plan	$15.6
January 2004 Plan	$15.6

EFFECTS OF BUDGET PROPOSALS

Increased Personnel Costs. DJJ will incur an additional $990,000 in personnel costs from contractual obligations. About half of this total is state-funded.

Reduced Payments to State. The city reimburses the state Office of Children and Family Services for the detention and care of youth from New York City. Payments are made from the Department of Juvenile Justice's expense budget. The Department of Probation will expand the Juvenile Intensive Supervision Program—an alternative to releasing juveniles into state custody—in 2005, at a cost of $346,000. The expansion will lead to a lower city payment by DJJ to the state family services office of the same amount. This reduction is in addition to anticipated savings of $660,000 in the city Office of Children and Family Services payments from the November Plan, due to an anticipated reduction in juveniles eligible for state custody.

Shift To Post-release Programs. In a continuing effort, the department has shifted emphasis from rehabilitation programs during incarceration, including educational, vocational, and substance-abuse programs, to an emphasis on discharge planning and post-release referrals to community-based social services. These include drug treatment and job-placement assistance.

CAPITAL PLAN

The 2004-2007 Capital Budget for the Department of Juvenile Justice is $15.6 million, unchanged compared to the September 2003 Plan.

The capital plan earmarks $7.7 million for continued renovation of the Bridges Detention Center (formerly the Spofford facility).

The department will also spend various sums for other renovations, upgrades, and repairs, including $897,000 for the upgrade of security systems, $685,000 for wall repairs and $310,000 for upgrades to the kitchens in various facilities. Another $1.4 million is set aside annually for a number of smaller facilities renovations.

Department of Probation (DOP)

PRELIMINARY BUDGET OVERVIEW

The Mayor's Preliminary Budget proposes spending $74.0 million for the Department of Probation, an increase of 4.4 percent over last June's Financial Plan.

- The department continues to shift resources to more intensive supervision of probationers with a high likelihood to commit crimes, while cutting back to a minimal program for others.
- The proposed merger with the Department of Correction continues to be delayed in Albany.
- Capacity remains stable in DOP's Alternative-to-Detention program, despite a previously planned expansion.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$70.9
Increased Personnel Costs	2.8
New Programmatic Responsibility	0.4
January Plan	$74.0
Headcount	
June 2003 Financial Plan	1,269
January Plan	1,276

EFFECTS OF BUDGET PROPOSALS

Increased Personnel Costs. Due to scheduled contractual benefit increases, the department will spend an additional $2.8 million for personnel costs in 2005, including $876,000 in state contributions.

Intensive Supervision. In 2003, the department began to focus additional resources on those most likely to commit crime. These high-risk individuals, who make up about 30 percent of the roughly 38,000 probation cases, are assigned to the department's 900 probation officers for more intensive supervision. The remaining 70 percent are assigned to a monthly check-in system that includes random drug testing. While these changes do not affect total 2005 spending, the department believes the initiative is a more efficient and effective use of existing resources.

Responsibility for Juvenile Intensive Supervision Program. The department will spend $347,000 to hire seven new staff members to supervise juveniles who would otherwise be transferred to state custody. (This will yield corresponding savings for the city from reduced payments to the state Office of Children and Family Services, paid from the budget of the Department of Juvenile Justice.)

Increased Use of Alternative-to-Detention for Juveniles. The department operates an Alternative-to-Detention program, which serves qualified juveniles who have committed an offense that would constitute a crime if committed by an adult. The program allows juveniles to remain in the community with their families, in lieu of being placed in detention facilities, while their cases are pending. The department had planned to increase ATD capacity, but the planned expansion has yet to take place, and the program's capacity remains at 255 participants. However, the average length of time participants spend in the program has fallen, which will allow the department to stretch existing capacity.

Continued Delay in Department of Corrections Merger. Due to continued difficulties in the passage of necessary legislation in Albany, this potential cost savings—$504,000 in city funds from the elimination of 15 positions in the probation department, including one deputy commissioner—has once again been postponed.

New York City Fire Department (FDNY)

PRELIMINARY BUDGET OVERVIEW

- The Mayor's Preliminary Budget for 2005 proposes spending $1.1 billion, an increase of 1 percent over last June's Financial Plan.
- The increase is principally to partially restore earlier reductions, including funds for the restoration of the fifth firefighter position in 49 engine companies, and continued funding for two firehouses previously withdrawn from the closing list.
- New hires will increase the ranks of uniformed firefighters to pre-9/11 levels.
- Overtime costs have dropped due to a marked decrease in sick-leave rates, from $134.3 in 2004 to $83.5 million estimated in 2005.
- The city has increased capital commitments to address the department's decaying infrastructure.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$1,105.2
Restoration of Two Fire Companies	2.8
Restoration of 5th Firefighter Post	12.2
Increase in EMS Revenue	(6.3)
All Other Changes	6.3
January Plan	$1,120.2
Headcount	
June 2003 Financial Plan	15,117
Civilian	4,266
Uniformed	10,851
January Plan	15,445
Civilian	4,282
Uniformed	11,163
Revenue PEGs	
Increase in Fines for Summonses	$1.5
Tax on Fire Insurance Premiums	3.0
Total	$4.5
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$265
January 2004 Plan	$296

EFFECTS OF BUDGET PROPOSALS

Reversal of Cuts. In 2004, the Bloomberg Administration sought to close eight firehouses (two of which were re-opened in an agreement with the City Council), and cut staffing at 49 engine companies from five firefighters to four per shift, pursuant to a provision in the city's contract with the firefighter's union. When introduced by the Mayor these cuts were presented as productivity enhancements with minimal service impacts.

The Preliminary Budget provides the necessary funding ($2.8 million) to keep Engine 44 in Manhattan and Engine 293 in Queens—the two companies removed from the original list of eight to be closed—open in 2005.

Restoration of the Fifth Firefighter in 49 Engine Companies. Under a 1996 contract provision the city is allowed to cut five-member teams when departmentwide sick-leave rates exceed 7.5 percent annually. High sick-leave rates in the wake of 9/11 triggered this provision on June 4th, 2003. More recently, sick-leave rates have dropped below the threshold rate. The Mayor therefore replaced the fifth firefighter in the 49 engine companies, bringing the number of five-person companies to 60, and four-person companies down to 137, and resulting in $12.2 million in additional costs in 2005. Following the tragic loss of over 300 firefighters on 9/11, and the wave of retirements that followed, the department has a workforce that is on average lower paid. The department has reestimated its personnel costs for 2004 to provide $5 million in savings. Savings for 2005 have yet to be estimated, although they are expected to be lower due to reduced turn-over and recent hires receiving grade increases.

Increase in EMS revenue. The FDNY has hired an outside collection agency to collect EMS charges. The expedited processing leads to higher payment rates. Previously, months would pass before debtor's receipt of invoice ($6.3 million in increased 2005 revenue).

Policy Issue: Hiring Diversity. The FDNY is among the least diverse fire departments of any large city: 3.9 percent black, 4.7 percent Hispanic, and 0.28 percent women. The FDNY's recruitment unit receives an annual allocation of $1.6 million, but elimination of the FDNY Cadet Corps last year deprived public college students of a fast track to a firefighter position. Critics assert that elimination of the corps makes racial and gender integration of the FDNY more difficult. Academics and activists warn that the department risks lawsuits unless it can increase diversity in the hiring process.

CAPITAL PLAN

The 2004-2007 Capital Budget for the FDNY increased by $27.5 million over the September 2003 plan, an increase of over 10 percent.

Firehouse Improvements. Improvements to firehouses systemwide represent the biggest increase ($40 million) over the September plan, following the Mayor's promise to address the poor condition of firehouses. Facility improvements now make up 51 percent of this capital plan, compared to 41 percent in the September 2003 plan.

Proposed 911 merger. The department proposes to merge the FDNY's 911 functions with the police department. Estimated capital costs are $8.6 million. Currently, the merger is not expected to lead to lower operating expenses.

Follow-through on Fire Alarm Boxes. An expenditure for the upgrade of alarm boxes citywide to working condition ($3.0 million).

Follow-through on Communications Devices. In an effort that addresses post 9/11 concerns regarding radio communication failure, this expenditure completes the purchase of the Motorola handheld radios, all of which have been repaired after previous lapses in effectiveness. ($1.8 million). The department is also purchasing improved radio communications for fire engines ($7 million).

Purchase and Upgrading of Fire Boats. The January plan provides for a large increase in capital spending for rehabilitating the existing fleet of fireboats, from $92,000 in the September plan to $2.2 million. Many of the department's vessels are reaching the end of their useful life. The department is awaiting the outcome of a grant proposal submitted to the Urban Area Security Initiative before programming the purchase of new boats.

New York City Police Department (NYPD)

PRELIMINARY BUDGET OVERVIEW

The preliminary NYPD budget for 2005 is $3.5 billion, up $66 million from the level budgeted in the June 2003 Financial Plan.

- The city will use federal grant money awarded in 2001 to partially fund 730 police officer positions over the 2004-2008 period. The grant was originally intended to partially fund a total of 1,230 uniformed positions, but the city filled only 500 positions and was granted permission to defer filling the remainder.
- The Mayor's Financial Plan proposes scheduling two new classes of recruits each year, rather than one, in order to prevent the size of the police force from falling below 35,088. Peak police staffing of 36,988 would occur twice a year with the admission of each new class of recruits. Under the previous schedule uniformed staffing was projected to fall to a low of 34,774 once each year.
- The Mayor's Preliminary Budget for 2005 includes $210 million for uniformed and civilian overtime expenditures. However, IBO projects that an additional $115 million (or a total of $325 million) will ultimately be expended by the agency on overtime next year. In the current fiscal year, NYPD overtime expenditures—initially budgeted at $189 million—are on pace to reach $387 million.
- Budgeted civilian staffing within the NYPD is to fall to 9,396 next year, primarily as a result of the agency's plan to keep 291 positions vacant at least through 2005, thereby saving $10.1 million.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$3,392
Lower Average Pay from Increased Attrition	($37)
Federal COPS Grant	$46
Republican National Convention Security	$30
Leave Civilian Positions Vacant	($10)
Planned Overtime Reduction	($20)
Collective Bargaining Increases	$55
Other changes, Net	$2
January Plan	$3,458
IBO Repricing: Additional Overtime	$115
IBO Reestimate	$3,573
Headcount	
June 2003 Financial Plan	
Uniformed	34,774
Civilian	9,532
Total	44,306
January Plan	
Uniformed	35,088
Civilian	9,396
Total	44,484
Revenue PEGs	
Wireless E-911 Surcharge	$1
Pistol and Long Gun License Increase	$1
Total	$2
Capital Commitments	
Total, 2004-2007	
September 2003 Plan	$324
January 2004 Plan	$350

EFFECTS OF BUDGET PROPOSALS

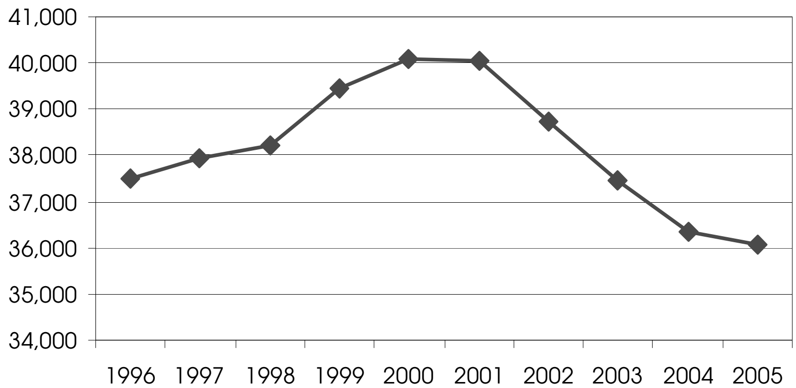
Police Officer Staffing. A previously unplanned class of 730 new police officers entered the Police Academy in late January 2004. The new officers will be partially funded over the 2004-2008 period with federal dollars left over from a 2001 grant received from the Department of Justice Community Oriented Policing Services (COPS) program. Over the course of 2004-2008, the 730 positions will be funded by a combination of $91 million in federal funds and $126 million in city funds. The class of new officers that began training in January will graduate from the Police Academy in July 2004 and be available to assist with providing security at the August 2004 Republican National Convention.

The Mayor's Financial Plan also proposes a restructuring of plans for the hiring of police officers, resulting in two points during the coming years in which force size will decline to 35,088 as opposed to the previous plan to allow uniformed staffing to fall as low as 34,774 by June of each year. Peak uniformed staffing of 36,988 officers will be attained each July and January; in contrast the previous plan was to attain maximum police staffing of 37,210 once a year by hiring only one very large class of police recruits each July.

Average police staffing will drop again next year for the fifth consecutive year. Some observers have expressed concern that the decline in police staffing could invite a resurgence in crime, particularly given the added burden of anti-terrorism duties since September 2001. Thus far, however, major crime statistics continue to fall.

Increased Rate of Police Officer Attrition. The Mayor's budget office projects that the rate of police officers leaving the force each year, or the "attrition rate," will increase to 3,800 annually from 2005 through 2008. The growth in the attrition rate in the past few years is tied to the fact that officers are eligible for retirement with full benefits after 20 years on the job. Because the early to middle 1980s was a period in which the city was rebuilding the ranks of the NYPD after the layoffs and unreplaced attrition of the fiscally distressed 1970s, the many thousands of police officers that joined the force two decades ago have or will soon reach 20 years on the job. Although the loss to retirement of so many experienced police officers no doubt presents operational challenges to the agency, the replacement of more senior (and therefore more costly) personnel with new police officers will yield budgetary savings, including $37 million in 2005.

Average Uniformed Police Staffing



SOURCES: IBO; Figures for 2004 and 2005 are projected.

Containing Police Overtime Remains a Challenge. IBO projects that NYPD overtime expenditures are currently on pace to reach $387 million this year. About $85 million will be spent on Operation Atlas, the agency's terrorism prevention effort initiated following the United States invasion of Iraq in March 2003. The 2005 Preliminary Budget proposes appropriating a total of $210 million next year for police overtime, $25 million of which is made up of federal funds the city will receive for the provision of security at the Republican National Convention in late August 2004. Given the likelihood that terrorism prevention and preparedness will continue to demand considerable attention from the NYPD next year, as will conventional crime fighting, IBO projects that an additional $115 million (or a total of $325 million) will ultimately be needed in 2005 to cover NYPD overtime expenditures. One part of IBO's projection is our assumption that NYPD will be unable to meet its goal of reducing overtime by $20 million.

Changes in Certain Federal Grants. As mentioned above, the 2005 Preliminary Budget discloses that the city expects to receive certain forms of federal assistance next year for the needs of the NYPD. This includes $31 million in funding to cover a portion of the cost of 730 police officers, as well as $25 million for police overtime expenditures expected to be incurred as a result of the Republican National Convention.

However, the baseline for the federal Local Law Enforcement Block Grant to the NYPD will be cut again in 2005, from $11.2 million to $6.9 million. The block grant, which had provided the NYPD with about $20 million annually until 2003, is used to partially offset the cost of 911 emergency call takers. Given the critical function performed by 911 operators, each cut in block grant funds previously obtained from Washington must be replaced by the city with other resources.

In addition, many members of the city's Congressional delegation have decried the Bush Administration's plans to eliminate the Universal Hiring Program component of the federal COPS program. Since its inception, the NYPD has received about $415 million in federal hiring program funds, which has directly subsidized the city's hiring of over 4,700 police officers. However, the $91 million the city is to receive over the 2004-2008 period to partially fund 730 police officer positions represents previously awarded hiring program funds, and would therefore not be jeopardized were the program eliminated.

Homeland Security Funding. The Bloomberg Administration is seeking $400 million in federal Department of Homeland Security (DHS) funding in 2005. In the current year, the city is to receive $95 million in total homeland security funding, less than 2.5 percent of the nationwide total and less than one-third the NYPD's actual anti-terrorism expenditures of $240 million.

In his proposed 2005 federal budget, President Bush included $1.45 billion for the High Threat Urban Area portion of the DHS budget, double the amount from the current year. The Mayor and many other local officials contend that relative to nearly every other place in the country, New York City is a highly likely target for another terrorist attack. Consequently, the city should receive a disproportionately large portion of federal "high threat" funding. In making the case for more federal funding for the NYPD, many also have stressed the extent to which guarding against terrorism diverts the agency's resources from traditional crime-fighting activities. In the two years before the September 2001 attack on the World Trade Center, the city had over 40,000 officers able to dedicate nearly all their time to traditional crime fighting. Now the force has about 36,500 officers and the added burden of remaining vigilant against the possibility of terrorism.

NYPD Civilian Staffing. Budgeted civilian staffing within the NYPD is to fall to 9,396 next year, primarily as a result of the agency's plan to keep almost 291 positions vacant at least through 2005, thereby saving $10.1 million. According to the Mayor's budget office, the civilian positions to remain vacant are non-critical, meaning they do not include 911 emergency operators or other civilian personnel performing functions considered integral to the agency's core mission. Some observers of NYPD operations have argued that inadequate civilian staffing in the agency has led to police officers performing tasks that do not require law enforcement expertise, diverting them from crime-fighting. A February 1999 report by the City Comptroller found that the NYPD could utilize the services of almost 9,900 civilian personnel, with each civilian hired up to that level making possible the redeployment of a police officer to law enforcement duties.

CAPITAL PLAN

Planned capital commitments over the 2004-2007 period have been increased by $26 million (or 8.1 percent) since the September plan, from $322 to $348 million. The increase restores funding for construction of a back-up 911 call answering center. The city has yet to finalize its choice for the location of the back-up facility.

Department of Buildings (DOB)

PRELIMINARY BUDGET OVERVIEW

- The preliminary 2005 DOB budget is $53.1 million, an increase of 4.3 percent over the projected 2005 budget of $50.9 million in the June 2003 Financial Plan.
- DOB will spend just over $1 million in 2005 to add 10 construction inspectors, four plumbing inspectors, one plumbing license reviewer, and five plan examiners to cope with workload increases associated with the current high levels of construction in the city. These positions phase out in 2006 on the assumption that the department's workload will decrease.
- DOB is hiring 10 construction inspectors and five civil penalty coordinators at a cost of $1.1 million, to handle the current high level of construction-related complaints associated with both the accessibility of the 311 system and the level of construction activity. This funding phases out in 2006, when DOB anticipates that the level of complaints will decrease along with construction.
- DOB is also adding a position to coordinate the department's response to emergencies, and to serve as a liaison to other agencies, such as the Office of Emergency Management. In the past, this responsibility has rotated between DOB officials, which has hindered efforts to develop a coordinated emergency response plan.
- IBO estimates that DOB will spend an additional $2.8 million in 2005 to contract out elevator inspections. This is a routine expense which is usually not reflected in the budget until the Executive Budget.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$50.9
Construction Permit Staff	$1.0
Code Violation Inspection Staff	$1.1
Dir. of Safety and Emergency Mgmt.	$0.1
January Plan	$53.1
IBO Repricing (see text)	$2.8
IBO Reestimate	$55.9
Headcount	
June 2003 Financial Plan	854
January Plan	890

EFFECTS OF BUDGET PROPOSALS

Since 1999, the Department of Buildings budget has risen an average of 8.2 percent per year. Although it appears that the budget will fall in 2005, it is likely that funds will be added over the coming year, as has happened in the past.

Areas of significant growth include plan examination—the number of employees working in this area has almost doubled, from 44 in 1999, to 83 in 2003—and the Building Enforcement Safety Team (BEST) Squad, which has grown from nine people to 22, people over the same period.

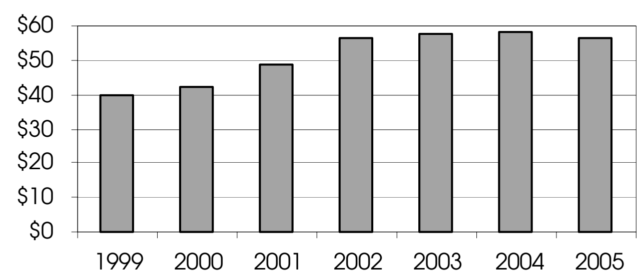
MANAGEMENT INITIATIVES

DOB has been plagued with charges of inefficiency and corruption. The department is currently implementing a number of organizational changes intended to address these problems. Although many of these management initiatives have no direct effect on the budget, they are nevertheless important.

For example, in February 2004, DOB introduced the Plumbing Inspections Portable Entry System. The system uses handheld computers to centrally schedule appointments, print out inspection receipts, download inspection data into the Building Information System, and otherwise make plumbing inspections more efficient.

A much larger initiative is the department's effort to streamline the entire interaction between a builder and DOB, from the point when a set of plans is filed, to

DOB Budget Has Risen Substantially
Dollars in millions



SOURCE: IBO.
NOTES: The 2004 and 2005 amounts are projected. The 2005 plan includes an estimated $2.8 million for an elevator inspection contract.

when a Certificate of Occupancy is issued. This process is underway, and some initial steps have been implemented—for example, a pilot program that shortens the timeframe for getting a Certificate of Occupancy. IBO expects that a comprehensive overhaul of the filing to Certificate of Occupancy processes—which, according to DOB, affects 80 percent of the department's operations—will eventually be reflected in the agency's budget structure and funding priorities. At this time, however, these initiatives are being carried out within the existing budget structure.

A citywide initiative, the 311 center, has also affected DOB. Violations issued by the buildings department increased by 20 percent in the first half of fiscal year 2004 as compared to the same period last year. According to the department, the accessibility of the 311 system has led to an increase in complaints and that the inspections done in response to these complaints often result in violations. In addition, the volume of construction activity is up, so DOB is responsible for more construction inspections and hence issues more violations.

INTERNATIONAL BUILDING CODE

Another major project underway at the Department of Buildings is the proposed adoption of the International Building Code. The International Building Code is a standardized building code used by 44 states (including New York State, although New York City maintains its own code). The city has been studying the feasibility of using the International Building Code, and in June of 2003, Mayor Bloomberg accepted the recommendation to do so.

There are now 13 technical committees working to adapt various aspects of the International Building Code to New York City's specific needs. The code will eventually have be adopted by the City Council; the department hopes to have the technical revisions done by June 2004, write the legislation over the summer, and have it introduced in the Council in the fall of 2004.

Department of Consumer Affairs (DCA)

PRELIMINARY BUDGET OVERVIEW

- The preliminary 2005 DCA budget is $13.5 million, an increase of 7.1 percent over the projected 2005 budget of $12.6 million in the June 2003 Financial Plan.
- The agency will use $191,000 to hire staff to handle new sidewalk café license applications, which are expected to rise as a result of a change in the law that simplifies the process for getting a café license. At least a portion of this new need will be offset by higher licensing revenue in a future budget plan.
- DCA is promoting a change in New York City's cabaret laws, which it expects to lead to an increase in applications for nightclub licenses. In anticipation of this change, DCA will use $666,000 to hire 12 new people to handle these applications. The agency expects to generate $934,000 in new revenue from these applications, leading to a net savings of $268,000.

2005 Budget Summary
Dollars in millions

Expense Budget	
June 2003 Financial Plan	$12.6
Cabaret License Restructuring	0.7
Sidewalk Café Applications	0.2
January Plan	$13.5
Headcount	
June 2003 Financial Plan	242
January Plan	257
Revenue PEGs	$0.9

EFFECTS OF BUDGET PROPOSALS

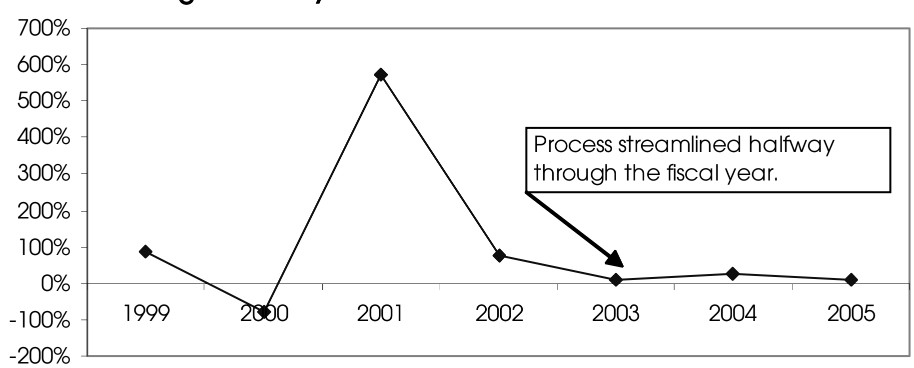
Sidewalk Cafés. In January 2003, the City Council passed legislation that streamlined the process for applying for a sidewalk café license, as well as raised the fees for these licenses. According to DCA, prior to this streamlining, it took 465 days to process the average sidewalk café license application. The new legislation imposes a statutory maximum of 110 days for the city to process an application. As a result, DCA expects to see an increase in the number of applications for sidewalk café licenses, despite the increased costs to restaurants. The department is hiring three new staff to handle the expected higher workload.

In the past, the lengthy path to approval created backlogs of applications in process, and as a result, dramatic swings in the number of newly licensed sidewalk cafes. For example, in 1999 the Mayor's Office of Contracts became significantly involved in the review process, which slowed applications further, and created a backlog in 2000. Most of these applications were not approved until 2001, resulting in a major spike in the number of newly licensed cafes. The revised procedures are expected to speed up the process and eliminate these swings in the number of applications approved.

Cabaret Licenses. In January 2004, DCA proposed a wholesale reform of the city's cabaret laws. Currently, bars and similar establishments are required to have a cabaret license if any dancing takes place on the premises. If an inspector finds patrons dancing in a bar without a cabaret license, the owner can be fined.

Under DCA's proposal, the current system would be replaced by a requirement that any facility open after 1 a.m., with a capacity of 75 people (residential neighborhoods) or 200 people (commercial/ manufacturing neighborhoods), and has sound greater than 90 decibels, must obtain a nightlife license.

Percent Change in Newly Licensed Sidewalk Cafes



SOURCES: IBO, Mayor's Management Reports.
NOTE: 2004 and 2005 are targets.

Each establishment would set its own maximum decibel level, and would have to submit a certified statement that it is taking all necessary acoustical measures to comply with New York City's noise laws at their chosen decibel level. DCA would do inspections, and would have the power to issue noise violations.

This proposal is already facing opposition; for example, the New York Nightlife Association is opposing the proposal because it will apply to many more establishments than must currently get cabaret licenses, and because it is feared that the proposal will force many bars and lounges to close at 1 a.m. There also is some concern that the proposed change in law would not actually eliminate the restriction on dancing in bars in residentially zoned neighborhoods.

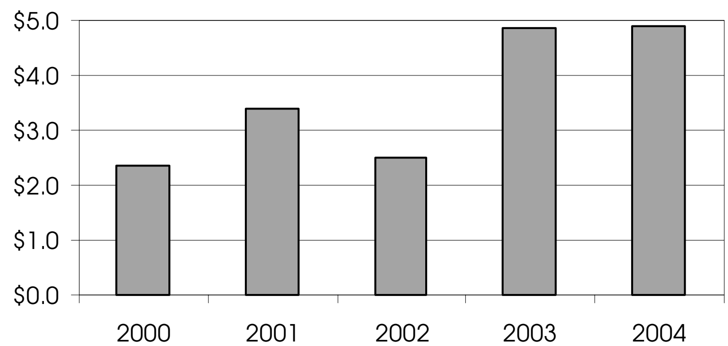
Mayor Bloomberg has publicly said that he would likely not seek to introduce the legislation this year, although some media reports suggest that legislation could be sent to the City Council this spring (*Time Out New York*, February 12-19th, 2004).

Nevertheless, DCA's budget includes $666,000 in 2005 for 12 new staff people to handle the anticipated increase in applications and the necessary inspections. The agency also is anticipating $934,000 in new revenue from additional applications. Although DCA has not yet specified a fee for the new nightlife license, because more establishments would be required to get a license, the proposed policy is expected to bring in more revenue than the current cabaret licenses, which start at $600 (and can be more, depending on capacity).

Adjudication of Violations. DCA currently can issue violations both to those businesses that it is responsible for licensing and those over which it does not have license authority. When a violation is issued, the agency first attempts mediation; if this is not successful, the case goes to court. The process for businesses licensed by DCA differs from that for non-DCA licensed businesses. Violations by DCA-licensed businesses may be handled by DCA's administrative tribunal. But the department must pursue non-licensed business violations in state court. Similarly, DCA has no docketing authority (the ability to record a judgment and place a lien) for non-licensed businesses.

Going to court is more time-consuming and more costly than handling these violations in an administrative tribunal, and has a direct effect on city revenue collection. The collection rate on fines issued pursuant to violations is generally higher for DCA-licensed businesses than it is for non-licensed businesses, which DCA attributes to its lack of docketing power over such businesses. The department estimates that $1.1 million in fines went uncollected from 2000 through 2002 due to the lack of docketing authority.

DCA Fine Revenue
Dollars in millions



SOURCES: IBO, Department of Consumer Affairs.
NOTE: 2004 is projected.

The city has sought legislation in Albany that would allow DCA to handle violations from non-licensed business in a tribunal, but has made little progress. The bill was introduced in the State Senate in January of 2003, and as of January 2004, had been sent back to the Committee on Local Government. The New York City Charter Revision Commission included a comparable proposal on the ballot in November 2003, as part of a larger question regarding government administration, but the question was defeated. DCA would still like to pursue legislation that would allow it to adjudicate non-licensed business violations through a tribunal. Because the City Charter proposal failed, according to the department the only avenue remaining to change the law is a continued effort to pass state legislation.

The department attributes its growth in fine revenue in 2003 to stepped-up inspections of stores selling cigarettes to minors—the number of inspections has grown from 5,602 in 2000 to 12,515 in 2003. In 2002, fine revenue was particularly low, in part because of the failure to implement regular bill payment notices and in part due to post-September 11th absenteeism at DCA.

Appendices

Appendix A

IBO Expenditure Projections

Dollars in millions

	2004	2005	2006	2007	2008	Average Change
Health & Social Services						
Social Services:						
Medicaid	$ 3,419	$ 3,858	$ 4,049	$ 4,250	$ 4,458	6.9%
All Other Social Services	2,868	2,693	2,648	2,653	2,653	-1.9%
HHC:						
Medicaid - HHC	747	764	783	783	783	1.2%
All Other HHC	96	94	93	93	93	-0.8%
Health	1,474	1,490	1,516	1,545	1,546	1.2%
Children Services	2,256	2,157	2,156	2,158	2,158	-1.1%
Homeless	653	648	647	650	651	-0.1%
Other Related Services	460	399	399	399	399	-3.5%
Subtotal	11,973	12,103	12,291	12,531	12,741	1.6%
Education						
DOE	12,741	12,819	13,090	13,315	13,469	1.4%
CUNY	467	460	457	455	455	-0.6%
Subtotal	13,208	13,279	13,547	13,770	13,924	1.3%
Uniformed Services						
Police	3,476	3,452	3,474	3,475	3,477	0.0%
Fire	1,198	1,150	1,153	1,147	1,142	-1.2%
Correction	844	824	829	827	827	-0.5%
Sanitation	1,001	1,036	1,052	1,052	1,052	1.3%
Subtotal	6,519	6,462	6,508	6,501	6,498	-0.1%
All Other Agencies	4,448	4,426	4,515	4,468	4,523	0.4%
Fringe Benefits (excluding DOE)	2,950	3,147	3,348	3,553	3,809	6.6%
Debt Service	4,323	3,515	4,006	4,907	5,101	4.2%
Pensions	2,419	3,029	3,822	4,199	4,215	14.9%
Judgments and Claims	643	676	713	752	794	5.4%
General Reserve	100	100	300	300	300	n/a
Pay-As-You-Go Capital	200	200	200	200	200	n/a
Expenditure Adjustments	(305)	17	79	135	195	n/a
Total Expenditures	$ 46,478	$ 46,954	$ 49,329	$ 51,316	$ 52,300	3.0%

SOURCE: IBO.

NOTES: Debt service expenditures, if adjusted for prepayments, would grow at an annual average rate of 7.6 percent. A one-time increase in the Federal Medical Assistance Matching Percentage (FMAP) saved the city $230 million in Medicaid expenditures in 2004. When adjusted for this measure, Social Services Medicaid expenditures would grow at an annual average rate of 5.1 percent. Debt service includes Transitional Finance Authority (TFA) debt service expenditures. Expenditure adjustments include energy, lease, non-labor inflation estimate, and prior year adjustments. Estimates exclude intra-city sales.

Appendix B

Contributors to this report:

David Belkin	Business income taxes, sales taxes
Rachelle Celebrezze	Public health, Health & Hospitals Corporation, Medicaid
Theresa Devine	Economic outlook, property tax
Elisabeth Franklin	Sanitation, parks
Darnell Grisby	Fire, correction, probation, juvenile justice
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Derek Kershaw	Labor and pensions
Joel Kraf	Children's services, cultural affairs, libraries
Paul Lopatto	Social services, public assistance
Matina Madrick	Education, City University of New York
Bernard O'Brien	Police, Civilian Complaint Review Board
Molly Wasow Park	Housing, public housing, homeless, buildings, consumer affairs
Merrill Pond	Environmental protection, debt service
Alan Treffeisen	Transportation, NYC Transit, property transfer taxes
Ana Ventura	Education (capital), youth services, seniors

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