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Analysis of the Mayor's Preliminary Budget for 2007

IBO's Reestimate of the Mayor's Preliminary Budget for 2007 and Financial Plan through 2010

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Preface

This report provides IBO's analysis of the Mayor's Preliminary Budget for 2007 and Financial Plan through 2010. It presents an examination of the key 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 were first made available in conjunction with the City Council budget hearings that began March 6th, they may not reflect all of the latest events and information.

This report generally follows the standard Preliminary Budget and Financial Plan format of presenting budgetary changes on a plan-to-plan, or quarterly, basis. In a number of instances, however, we note that savings or spending initiatives in the Preliminary Budget do not fully reflect all of the changes budgeted for the next few years. Some of these changes are provisions of prior Financial Plans that have been carried forward, or embedded, in the new plan.

For example, in last June's Adopted Budget, money for libraries was added at the City Council's initiative for only the 2006 fiscal year. Unless these funds are restored for 2007 by the Council or the Mayor, library funding will decline from this year to next. Because the city's budget is constructed on a plan-to-plan basis, this reduction is not identified as a cut in the Preliminary Budget.

To help New Yorkers get a clearer view of how city spending has changed over time, IBO recently inaugurated a new Web-based review detailing year-to-year changes in spending on major city programs. This review, "NYC Agency Budgets by Program," is available at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

As we have over the past five years, IBO has also produced a companion volume to this report, Budget Options for New York City. Released in February, the latest report presents more than 60 ways to reduce costs to the city and to raise revenue. For each of the measures we review, IBO discusses its pros and cons along with our projection of savings or revenue.

Two notes on the report's format: all years refer to fiscal years unless otherwise indicated and the total budgets for city agencies are always net of intra-city sales (contracts and purchases between city agencies).

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, with the help of Assistant Deputy Directors Molly Wasow Park, Nicole Fleming, and Paul Lopatto. Doug Turetsky served as editor, and Nashla Rivas Salas coordinated production and distribution with the assistance of Rebecca Wenstrom.

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Overview

IBO projects the city will end the 2006 fiscal year with a surplus of $3.1 billion. This surplus, which follows a $3.5 billion surplus in 2005, is being driven by better-than-expected tax revenues—$2.8 billion higher than the Bloomberg Administration's estimate last June, mostly from the income and property transfer taxes—along with two one-time accounting and actuarial changes that save the city $1.4 billion in 2006.

Although IBO's surplus projection for 2006 is slightly below the Mayor's and we anticipate a relatively small shortfall of $445 million in his 2007 budget, our gap projections are substantially less than the Bloomberg Administration's estimates for 2008, 2009, and 2010. And in a departure from trends in most years, our gap estimates decline successively in each of these years.

The city's near-term fiscal strength has allowed the Mayor to propose two unusual measures in the Preliminary Budget. He plans to use $1 billion in 2006 and another $1 billion in 2007 to fund a retiree health insurance trust fund in anticipation of Government Accounting Standards Board rules that go into effect in two years. Although the rules do not require funding these liabilities, as must be done for pensions, credit rating agencies will likely look at these liabilities when judging the creditworthiness of the city and other state and local governments. The Mayor is also planning to delay the receipt of more than $350 million in tobacco revenues. Instead, the city would get the money in 2008, when the Bloomberg Administration anticipates a budget gap of more than $3 billion.

These steps underlie the inherent caution in the Mayor's budget plan and the temporary nature of a large portion of the revenue and savings creating the surplus. The accounting and actuarial changes helping to generate this year's surplus are plainly one-time events. The changes stem from two separate actions: proposals by the city's actuary on assumptions and timing of city pension contributions and an accounting windfall that results from the state's implementation of an annual cap on the growth in the city's share of Medicaid costs. The pension changes will save the city an estimated $925 million in 2006 and $571 million in 2007, but will increase the city's costs in later years. The Bloomberg Administration estimates the Medicaid accounting switch will save $450 million in 2006.

Although the one-time nature of the pension- and Medicaid-related savings is clear, less clear is how much of the tax revenue that has exceeded expectations over the past couple of years is part of a new, higher baseline and how much is a short-term spike in collections.

With the assumption that much of these "surplus" revenues, as well as the savings, are fleeting, the 2007 Preliminary Budget and the Financial Plan through 2010 has little in the way of new spending on city services or on tax cuts. Nor, for that matter, does it contain many spending reductions. The Mayor's budget plan largely seeks to manage the use of the surplus in a way that does not commit the city to recurring expenditures or to tax reductions that could be difficult to sustain in future years.

Some key highlights of our analysis and reestimate of the 2007 Preliminary Budget and Financial Plan through 2010 include:

Total Revenue and Expenditure Projections

Dollars in millions

	2006	2007	2008	2009	2010	Average Change
Revenues	$ 53,645	$ 53,100	$ 55,473	$ 57,087	$ 59,035	2.4%
City-funded Revenues						
Taxes	*32,379*	*32,023*	*33,702*	*35,609*	*37,155*	3.5%
Other Revenues	*6,257*	*6,121*	*6,582*	*6,041*	*6,257*	0.0%
Expenditures	$ 53,645	$ 53,545	$ 57,956	$ 59,498	$ 60,738	3.2%
City-funded Expenditures	*38,636*	*38,589*	*42,767*	*44,061*	*45,115*	4.0%
IBO Surplus / (Gap) Projection	**$ -**	**$ (445)**	**$ (2,483)**	**$ (2,411)**	**$ (1,703)**	

SOURCE: IBO.
NOTES: IBO projects a surplus of $3.1 billion for 2006, $137 million below the Bloomberg Administration's forecast. The surplus is used to prepay some 2007 expenditures, leaving 2006 with a balanced budget. Estimates exclude intra-city revenues and expenditures.

- If the budget plan did not include money for starting the retiree health insurance trust fund and delay the receipt of tobacco revenues, this year's budget surplus would be $4.3 billion—$1.2 billion higher.
- IBO estimates that in 2008, 2009, and 2010 the city's budget shortfalls are roughly $1 billion a year less than the Bloomberg Administration has projected.
- IBO's lower budget gap estimates stem in part from our higher forecast of property tax revenues, which are $313 million higher than the Mayor's in 2007 and grow to $1.2 billion above his projection for 2010.
- Although city spending will rise by an average of 3.2 percent annually, expenditures by most city agencies will be relatively flat. As in recent years, spending growth is mostly in a few discrete areas of the budget over which the city has limited near-term control.
- The city's recent fiscal strength may make it difficult to keep future union settlements at the levels currently funded in the labor reserve. Wage increases at the rate of inflation—roughly twice the level currently budgeted—would cost about $300 million more than is in the reserve for 2007 and increase to $1 billion more for 2010.

ECONOMIC AND REVENUE ESTIMATES

In spite of rising energy costs, interest rate hikes, and Hurricanes Katrina and Rita, the U.S. economy grew 3.7 percent in calendar year 2005 (adjusted for inflation), and it is now beginning its fifth year of expansion since the 2001 downturn. While consumer spending and the housing market appear to be softening, business investment remains strong, and steady economic growth is projected to continue through the third quarter of this year. Growth will then begin to slow, but the slowdown in the next few years is expected to be gradual and an economic recession is not forecast.

In the last couple of years, the city economy has benefited from the nation's economic growth, and more specifically from a renewal of Wall Street's good fortune, soaring real estate prices, and a record number of visitors. Local employment and income growth accelerated in calendar year 2005, and their strength is expected to continue in the coming months before moderating at the end of the year. The city's economy will grow a bit faster after calendar year 2007, but its growth rate through 2010 will be less than its current pace.

Based on this overall economic outlook, IBO projects city tax revenue to total $32.4 billion in fiscal year 2006, 5.9 percent above the 2005 total and $2.8 billion (9.5 percent) above what the Bloomberg Administration assumed when the 2006 budget was adopted last June. Because of the slowing economy in calendar year 2006 and the expiration of the last of the temporary tax increases that were enacted in 2003, IBO expects fiscal year 2007 tax revenues to be slightly lower than in 2006, totaling $32.0 billion (a decline of 1.1 percent). Tax revenue growth is expected to resume in 2008, with revenues growing at an average of 5.3 percent annually to reach $37.4 billion by 2010.

IBO's revenue forecast is slightly lower than the Bloomberg Administration's for 2006 and essentially equal for 2007. Beginning in 2008, the differences grow to over $1 billion each year. The sharp divergence is due to differences in economic forecasts. IBO expects growth in the local economy to slow late in calendar year 2006 and continue at a slower pace through 2008. The Mayor's budget office expects growth to slow somewhat later and the slowdown to be more pronounced. A second factor contributing to the differences in the revenue forecasts stem from changes to the 2007 property tax assessment roll subsequent to the release of the Preliminary Budget. IBO's forecast reflects these changes, which result in an additional $200 to $300 million dollars in property tax revenues each year from 2007 to 2010.

The outlook for most taxes shows an increase from the Adopted Budget for 2006, but the increases are most striking in the income taxes and the property related taxes. Fueled by higher than expected Wall Street bonus payments and capital gains, the personal income tax is now expected to yield $7.1 billion this year, 18 percent ($1.1 billion) above the forecast last June. Higher earnings by national and multinational firms with operations in the city and firms in the city's securities and business services industries are expected to push business income tax revenues up 14.9 percent ($519 million) from the levels expected last June to $4.0 billion.

The real estate market appears to be cooling off somewhat, but it was still stronger during the second half of calendar year 2005 than had been anticipated. Rather than falling significantly from their all-time highs in 2005, the tax revenues generated from the sale and financing of real property are now expected by IBO to total $2.3 billion. Although this is virtually unchanged from last year's total, it is $878 million (60.5 percent) above the revenue anticipated last June when the current budget was adopted.

Pricing Differences Between IBO and the Bloomberg Administration

Items that Affect the Gap

Dollars in millions

	2006	2007	2008	2009	2010
Gaps as Estimated by the Mayor	**$ -**	**$ -**	**$ (3,447)**	**$ (3,500)**	**$ (2,711)**
IBO Pricing Differences					
Revenues					
Taxes					
Property	(25)	313	693	923	1,179
Personal Income	88	(127)	285	214	(167)
General Sales	(1)	(33)	62	41	14
General Corporation	49	(142)	(40)	43	39
Unincorporated Business	(23)	(46)	44	32	24
Banking Corporation	(11)	8	30	2	(58)
Real Property Transfer	(121)	(13)	(45)	(4)	6
Mortgage Recording	27	36	(36)	(60)	(73)
Hotel Occupancy	4	2	25	53	87
Commercial Rent	7	-	(1)	(1)	(2)
Cigarette	2	2	1	-	1
	(4)	-	1,018	1,243	1,050
Tax Program	-	-	(12)	(17)	(22)
STaR Reimbursement	(2)	(85)	76	(92)	74
Total Revenues	**(6)**	**(85)**	**1,082**	**1,134**	**1,102**
Expenditures					
Public Assistance	8	28	33	33	33
Department of Education	(114)	(173)	(73)	-	-
Police Overtime	(25)	(75)	(75)	(75)	(75)
Campaign Finance	-	-	-	-	(49)
Buildings	-	(3)	(3)	(3)	(3)
Total Expenditures	**(131)**	**(223)**	**(118)**	**(45)**	**(94)**
Total IBO Pricing Differences	**(137)**	**(308)**	**964**	**1,089**	**1,008**
Prepayment Adjustment	137	(137)	-	-	-
IBO Surplus/(Gap) Projection	**$ -**	**$ (445)**	**$ (2,483)**	**$ (2,411)**	**$ (1,703)**

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

Looking ahead, property tax revenue is expected to continue growing briskly, averaging 6.9 percent annually from 2007 to 2010. The increases are attributable to IBO's projection of continued growth in property values, although at a bit more moderate pace than in the recent past, combined with the large pipeline of recent assessment increases that are still being gradually phased in. Growth in the income taxes is expected to be more moderate, while revenues from the property transfer taxes are expected to be 37.6 percent below their 2006 level in 2010.

SPENDING TRENDS

IBO projects that under the Mayor's current Financial Plan total city spending will rise by an average of 3.2 percent annually, growing from $53.6 billion in 2006 to $60.7 billion in 2010. Despite this increase of more than $7 billion over five years, spending by most agencies is relatively flat (in part because agency budgets do not include funds for any future wage increases). For example, IBO projects Department of Education spending to increase by an average of 1.3 percent annually—roughly half the rate of inflation. Similarly, sanitation spending would rise at an even lower rate, growing from $1.1 billion in 2006 to $1.2 billion in 2010. Spending by the Administration for Children's Services would *fall* at an average rate of nearly 1 percent annually, decreasing from $2.2 billion in 2006 to $2.1 billion in 2010.

Much as in recent years, the growth in overall spending is in a few discrete portions of the budget over which the city has limited near-term control. Based on the January 2006 Financial Plan, the fastest growing of these items is debt service, which is projected to rise by an average of 10 percent annually (adjusted for the use of some of the 2006 surplus to prepay a portion of 2007 debt service). These principal and interest payments on the money the city borrows for capital projects will grow from $4.5 billion in 2006 to $6.2 billion in 2010. The Mayor's use of $200 million annually in pay-as-you-go capital in 2006 through 2010 slightly eases the growth in debt service (although in past years the Bloomberg Administration has also budgeted pay-as-you-go capital funds but then used them for other purposes).

The city's pension contributions for city employees are also continuing to rise at a fast pace over the Financial Plan period, in part because of the savings in 2006 and 2007. Rising at an average annual rate of nearly 10 percent, the city's pension contributions are expected to grow from $3.9 billion in 2006 and level off at $5.6 billion in 2010. Likewise, the cost of health care and other fringe benefits for the municipal workforce also continues to climb, rising from $5.5 billion in 2006 (not including the $1 billion earmarked for the retiree health insurance trust fund) to $6.7 billion in 2010.

Medicaid also continues to be a significant cost for the city, although the recent state takeover of Family Health Plus and Albany's new cap on the annual growth in the local share of Medicaid spending means the burden has eased somewhat. Total city spending on Medicaid, based on projections by the Mayor's budget office, is expected to grow from $4.5 billion in 2006 to $5.4 billion in 2010.

The budget plan also recognizes some significant new and anticipated costs. With the labor contract with the city's biggest union, District Council 37, already expired and others to end soon as well, the Mayor has set aside $310 million in 2006 growing to $1.3 billion in 2010 to cover wage increases at roughly half the rate of inflation. Due to the sharp rise in energy costs, the budget also includes spending of roughly $100 million more than previously anticipated in 2006 and 2007 for utilities and fuel.

The Preliminary Budget for 2007 contains a relatively small plan of $262 million for agency-based gap closing initiatives. About half these measures would come from generating new revenues from measures such as increasing the city's efforts to issue tickets for violating parking rules; completing a new franchise agreement for public toilets, bus shelters, newsstands and other "street furniture"; and charging fees at more city recreation centers and raising the admission cost at zoos. Most of the rest of the gap-closing plan includes cost reestimates and supplanting city funds with federal or state dollars as well as a small number of spending reductions, including cuts in the subsidies to libraries and cultural organizations and programs for youth and seniors. Based on similar spending reduction proposals in recent years, these funds are likely to be restored.

UNCERTAINTIES

There are a number of issues that could substantially affect the city's budgetary picture, ranging from expectations of state and federal assistance to budget shortfalls in the city's public hospital system. Among the major issues:

Education. Several different factors could alter spending projections for the city's schools. The Preliminary Budget assumes about $300 million more in state education aid than the Governor included in his budget proposal. President Bush's budget plan for the upcoming federal fiscal year could result in less aid for the city's schools. Over the past few years Title 1, the main source of federal education aid, has increased for the city. But his recent budget proposal would reverse that trend and cut Title 1 aid to the city.

The recent decision to cancel $1.8 billion in school construction and repair projects because the state has not provided funds the city sought for its five-year school construction plan may prove hard to maintain. Last year, when the state failed to provide the requested funds, the city "advanced" $1.3 billion of its $6.5 billion share of the $13 billion school construction plan.

Resolution of the Campaign for Fiscal Equity lawsuit, while not apparently imminent, could occur during the Financial Plan period. Based on comments by a state Supreme Court judge as well as some of the proposed solutions, in addition to more state aid the city would likely have to increase its spending on schools as well.

Labor. The Mayor has provided enough funds in the city's labor reserve to cover future wage increases with municipal labor unions at roughly half the rate of inflation. Given the pattern of recent settlements with city unions and the city's current fiscal strength, the funding in the reserve may prove to be insufficient to cover future contract agreements. If the Bloomberg Administration and the unions were to reach settlements at roughly the rate of inflation, the cost would be about $300 million more than is in the labor reserve for 2007 and $1 billion more than is in the reserve for 2010, barring any significant productivity givebacks.

Health and Hospitals Corporation. The city's public hospital system is projecting a budget shortfall of more than $500 million in 2007 that grows to nearly $900 million in 2010. The hospital corporation's plan to close this shortfall includes more than $380 million in federal and state aid in 2007, increasing to more than $640 million by 2010. If the Health and Hospitals Corporation is unable to obtain this aid or substitute other measures, there will be increasing pressure on the city to help close the hospital system's budget gap.

State and Federal Actions. The Preliminary Budget includes $350 million in gap-closing assistance from the state and federal governments. Last year's Preliminary Budget anticipated $750 million in similar aid, but in the Mayor's subsequent Executive Budget the expectation was cut in half. The city's large surplus last year and nearly as large surplus anticipated for this year may make it hard to leverage assistance from Washington and Albany.

Medicaid. Unlike the issues cited above, Medicaid may prove to be somewhat less costly for the city than as projected in the Preliminary Budget. Technical details for the implementation of the new cap on the local share of Medicaid expenditures are still being worked out. But IBO estimates that the city's share of Medicaid costs will be upwards of $100 million *below* the projection of the Bloomberg Administration for 2007.

CONCLUSION

The 2007 Preliminary Budget and Financial Plan through 2010 take a cautious approach to the city's current budget surplus. With the assumption that much of the surplus is from temporary revenue spikes and one-time savings actions, the budget plan largely seeks to use the surplus in ways that do not commit the city to recurring expenditures or tax reductions that could be difficult to sustain in the future.

In doing this, the Bloomberg Administration has sought to take money "off the table" through steps such as the creation of the retiree health insurance trust fund and the deferral of tobacco revenues. These are steps that manage the use of the surplus prudently and can help to reduce the burden of rising health insurance costs or cyclical declines in the local economy in future years.

But these are not the only means for achieving those goals. For example, using more of the surplus for pay-as-you-go capital would not commit the city to recurring expenditures. But it could help meet the need for housing, schools, transportation, and other capital investments while also reducing the growing cost of debt service in future years. How the Mayor and the City Council determine to best use the surplus while remaining fiscally prudent will have effects beyond the city budget for years to come.

Revenue

Economic Outlook

RECENT DEVELOPMENTS

Now entering its fifth year, the expansion of the national economy since the 2001 downturn has not been especially fast. But it has been resilient. In spite of severe hurricane damage and soaring energy prices, real (inflation-adjusted) gross domestic product (GDP) grew 3.5 percent in 2005.[1] While this growth rate is less than the 4.2 percent GDP growth in 2004, the economy added 2.2 million jobs last year, the largest gain since 2000.[2] The unemployment rate declined for the third year in a row, to 5.1 percent, while corporate profits rose by an estimated 13.7 percent. Inflation rose to 3.4 percent in 2005, up from 2.7 percent in 2004, as the impact of sharply higher energy prices were partly offset by more modest increases in non-energy costs. Interest rates remained low by historical standards in spite of eight increases by the Federal Reserve Bank in short-term rates, and both consumer spending and investment remained strong.

But the U.S. economy was not without its trouble spots. Recent consumer spending, which outstripped household income in 2005, has been supported in large part by a wave of mortgage refinancings which cannot be sustained, especially if interest rates rise. Preliminary data from the Department of Commerce's Bureau of Economic Analysis indicate that the nation's trade deficit reached a record high of $727 billion, fueled in part by the cost of importing energy. The trade and government deficits continue to put pressure on the dollar and interest rates, and the financing of these deficits is more than ever dependent on the willingness of foreign investors to hold U.S. assets.

New York City's economy also continued to expand in 2005, with personal income rising an estimated 7.1 percent and employment growing 1.0 percent. In all, just over 36,000 jobs were added to the city's economy in 2005, with substantial growth in many areas: health services, 11,200 jobs (2.1 percent); professional and business services, 8,400 jobs (8.4 percent); securities, 6,300 jobs (3.9 percent); retail, 5,800 jobs (2.1 percent); and leisure and hospitality, 3,500 jobs (5.8 percent). Still, there were 145,000 fewer jobs in the city in 2005 than in 2000, including 25,000 fewer jobs in the high-paying securities industry.

Many areas of economic activity are growing vigorously. A boom in mergers and acquisitions and other investment banking activities in 2005 has enriched Wall Street firms, generating record bonuses for their employees-an estimated $21.5 billion in January 2006 alone. This tremendous bonus pool, however, comes at the expense of firms' profit, and IBO expects that the 2005 profits of New York Stock Exchange (NYSE) member firms will be somewhat less than the previous year-about $10 billion when fourth quarter income and expense data are finalized.

A broader and more useful gauge of Wall Street's impact on the city economy may be the industry's net revenue-gross revenue less interest expenses. Net revenues include earnings distributed as profits, regular wage and salaries, bonus compensation, and purchases of goods and services. With interest rates rising, the interest expenses of securities firms more than doubled from 2004 to 2005, generating a slight decline in net revenue from $109 billion in 2004 to $104 billion in 2005.

The accounting and legal industries have particularly benefited from Wall Street's generally good fortune, as have the markets for commercial and residential real estate. There are signs, however, that the rapid escalation of housing prices in the last few years has begun to abate. Finally, record levels of tourism in 2005 have generated substantial increases in hotel occupancy and room rates, leisure and hospitality employment, and retail activity.

NATIONAL ECONOMIC OUTLOOK

In spite of the threats of high energy costs and other potential problems, IBO expects the national economy to continue its steady expansion through the third quarter of the current calendar year. The forecast is premised on the Federal Reserve Bank increasing interest rates at least once more in 2006, continued strength of corporate profits and investment in most industries, sturdy increases in productivity, and export gains fueled by a strong global economy. The U.S. economy will also benefit from a short-term boost in inventory rebuilding and reconstruction in the wake of last year's hurricanes. In the near term, higher interest rates will slow the over-heated market for housing and put pressure on over-leveraged homeowners. Growth rates are projected to decline in the later years of the forecast period, but the decline will be orderly and IBO does not expect an economic recession.

Real GDP is projected to grow 3.7 percent in 2006, slightly

Economic Forecasts: IBO versus Mayor's Office of Management and Budget

	2005	2006	2007	2008	2009	2010
National Economy						
Real GDP Growth						
IBO	3.5	3.7	2.9	3.1	3.2	3.0
OMB	3.5	3.4	2.8	3.3	3.3	3.0
Non-farm Employment Growth						
IBO	1.6	1.8	1.2	1.0	1.4	1.3
OMB	1.6	1.5	1.5	1.4	1.2	0.8
Inflation Rate (CPI-U)						
IBO	3.4	3.2	2.8	2.4	2.3	2.2
OMB	3.4	2.8	2.2	2.3	2.4	2.4
Personal Income Growth						
IBO	5.5	5.5	4.7	4.5	4.7	4.6
OMB	5.4	6.2	5.9	5.8	6.0	5.6
Unemployment Rate						
IBO	5.1	4.9	5.1	5.0	4.8	4.8
OMB	5.1	4.8	4.9	4.8	4.6	4.7
10-Year Treasury Bond Rate						
IBO	4.3	5.2	5.3	5.4	5.6	5.6
OMB	4.3	5.3	5.5	5.6	5.9	5.9
Federal Funds Rate						
IBO	3.2	4.7	4.6	4.5	4.5	4.5
OMB	3.2	4.7	4.8	4.8	5.0	5.2
NYC Economy						
Non-farm New Jobs (thousands)						
IBO	36.0	43.1	29.7	25.4	37.0	36.6
OMB	36.1	35.2	26.0	33.5	39.7	32.4
Employment Growth						
IBO	1.0	1.2	0.8	0.7	1.0	1.0
OMB	1.0	1.0	0.7	0.9	1.1	0.9
Inflation Rate (CPI-U-NY)						
IBO	3.9	2.5	2.6	2.3	2.2	2.1
OMB	3.9	2.9	2.5	2.4	2.4	2.4
Personal Income ($ billions)						
IBO	347.6	371.0	384.1	397.9	413.4	429.2
OMB	345.0	366.0	381.0	398.0	421.0	445.0
Personal Income Growth						
IBO	7.1	6.7	3.5	3.6	3.9	3.8
OMB	5.6	6.0	4.0	4.5	5.8	5.5
Manhattan Office Rents ($/sq.ft)						
IBO	49.29	49.79	51.05	52.30	53.73	55.15
OMB	48.15	49.17	51.07	52.67	54.48	54.91

SOURCES: IBO; Mayor's Office of Management and Budget.

NOTE: 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.

higher than in 2005 but below the annual growth rates of over 4 percent the economy enjoyed the late 1990s and in 2004. At the end of the year, growth is projected to decline moderately, to 2.9 percent in 2007 and to average of 3.1 percent annually from 2007 to 2010. Similarly, total employment is expected to grow at a slightly higher rate in 2006 (1.8 percent) before slowing down from 2007 to 2010. The forecast of personal income growth is 5.5 percent in 2006, before falling to 4.7 percent in 2007 and 4.6 percent on average from 2008 to 2010. The unemployment rate will hover around 5 percent throughout the forecast period, about half a percentage point lower on average than in the preceding five years (2001 to 2005).

The growing number of non-OPEC rigs currently is expected to soon generate an increase in global output of oil and in turn lead to more moderate energy costs. Inflation is projected to remain above 3 percent in 2006 before declining to 2.8 percent in 2007 and an average of 2.3 percent from 2008 to 2010. Interest rates are expected to jump in 2006-to 5.2 for the 10-year Treasury bond rate and 4.7 percent for the Federal Funds rate-and remain at comparable levels through 2010.

The national economic forecast of the Mayor's Office of Management and Budget (OMB) is similar to IBO's in most regards. The most significant differences are that OMB foresees smaller declines from 2006 to 2007 in the growth rates of real GDP, personal income, and employment.

LOCAL ECONOMIC OUTLOOK

IBO expects the city to share in the growth of national economy in the coming years, though local employment and personal income will expand at a slower pace than in the nation as a whole. The city's economy will add jobs each year: annual employment growth during the forecast period is expected to average 1.0 percent, with more rapid growth in the near term. IBO forecasts 1.2 percent employment growth in 2006-43,100 jobs-and the industries expected to add the most jobs are the same as those which grew the most in 2005: health, business services, retail, education, leisure and hospitality, and securities. Personal income growth is also expected to be considerably higher in 2006 than in subsequent years-6.7 percent compared with average growth of 3.7 percent from 2007 to 2010-in part the result of the record level of bonuses being received by Wall Street employees in the first quarter of this year.

The securities industry is expected to add 3,200 jobs (1.9 percent) in 2006. Wall Street employment growth is projected to taper off but remain positive after 2006. In order to take advantage of the record number of mergers and acquisitions projected for 2006 and an increase in underwriting activity beginning in 2007, firms are expected to hire, and a steady increase in securities jobs, averaging 2,100 annually from 2007 to 2010, is forecast. Another factor contributing to the positive employment outlook is the slowdown in the migration of back-office jobs to sites outside the city. The highly favorable business outlook for firms' net revenue in 2006, however, will be offset by the projection of another large rise (24 percent) in firms' net interest expenses. On balance, IBO forecasts a 39 percent boost to the profits of NYSE member firms, to $13.8 billion. There will be much small increases in Wall Street profits in 2007 and 2008, and profits of roughly $14.5 billion are projected each year.

About a fourth of the job growth in 2006 is forecast to come from the business service sector, where employment is expected to grow 2.1 percent, creating 11,600 new jobs. This sector includes law and accounting firms, which generally expand with Wall Street's fortune and account for a quarter of business service jobs, as well as engineering, management, and administrative support firms. The addition of another 40,700 business services jobs is forecast for the 2006 to 2010 period, almost a third of the entire projected job growth for the city.

Two other service sectors, health and education, account for large shares of the projected increase in city employment, both in 2006 and in subsequent years. The forecast for employment growth this year in the health sector-which includes social assistance agencies as well as medical establishments like doctor's offices and nursing services-is 13,800 jobs (2.6 percent growth). Education is expected to add 4,700 jobs (3.2 percent growth) in 2006. For the 2006 to 2010 period, the two sectors are expected to generate almost 43 percent of the increase in jobs in the city-46,600 jobs in health and 8,100 job in education. The sectors are important for the city's economic growth not only for the number of jobs created. They are important because they generally are not sensitive to the business cycle and thus provide a more stable basis of employment growth than most other industries.

Employment in leisure and hospitality industries, whose recent growth has been invigorated by the return of visitors to the city after 9/11, is expected to continue expanding, though at a somewhat slower pace. A projected 3,600 jobs will be added in 2006 (1.3 percent growth), and from 2007 to 2010, employment is expected to grow on average by 3,100 jobs each year. Retail employment is projected to increase by 8,500 (3.0 percent) in 2006. But the merger of Federated Department Stores, Inc. and May Department Stores, two major retail companies that own large numbers of stores, is expected to eliminate many jobs and limit retail employment growth to an average of less than 1,000 jobs per year from 2007 to 2010. The downward trend of manufacturing employment, which was pronounced after 9/11, is expected to slow. From 2005 and 2010, job losses in manufacturing are forecast to be no more than 800 jobs in any one year, 0.7 percent or less of all jobs.

Currently, consumer price inflation in New York City is currently higher than in the nation as a whole. IBO forecasts a substantial decline in local inflation, from 3.9 percent in 2005 to 2.5 percent, followed by a slight rise in 2007 and then drop to an average of 2.2 percent from 2008 to 2010 (slightly less than the projected nationwide rate).

IBO's local economic forecast is generally similar to OMB's. The forecasts of the total number of jobs to be added to the city's economy from 2005 to 2010 are almost the same-172,000 by IBO and 167,000 by OMB. But IBO is forecasting stronger job growth in the near term; IBO projects city employment will rise 43,100 in 2006 and 29,700 in 2007, while OMB forecasts increases of 35,200 and 26,000 in 2006 and 2007, respectively. IBO's forecast of personal income growth is also stronger than OMB's in 2006-6.7 percent as compared with 6.0 percent. While both IBO and OMB forecast the personal income growth will slow in 2007, IBO is projecting a steeper decline. Finally, IBO's inflation forecast is generally somewhat lower than OMB's, and the two forecasts of Manhattan office rents are almost identical for the next several years.

END NOTES

[1]Economic data and dates in this section refer to calendar years.
[2]IBO's forecast has been completed shortly before the March release of the annual benchmarking of payroll employment data by the New York State Department of Labor.

Taxes and Other Revenues

INTRODUCTION

The city's revenue outlook for the current fiscal year, particularly from tax sources, has greatly improved since the 2006 budget was adopted last spring, fueled by continued strength in real estate markets, employment gains, and Wall Street bonuses. IBO projects that revenues from all sources (taxes, fees and fines, state and federal categorical aid and other revenues) will total $53.6 billion in 2006. Although tax revenues are up 5.9 percent this year over last, growth in total revenues is only 0.9 percent because last year's non-tax revenues included a number of one-time transactions such as the receipt of $744 million in airport back rent from the Port Authority of New York and New Jersey.

For 2007, with tax revenues expected to decline slightly from their 2006 levels and some non-tax sources expected to fall sharply, total revenues are projected to equal $53.1 billion, a decline of 1.0 percent. Thereafter, total revenues resume growing, reaching $59.0 billion by 2010. Overall, revenues from all sources are expected to grow from 2006 to 2010 at an average rate of 2.4 percent annually. The baseline tax revenue component of total revenues will grow at a faster rate,

IBO Revenue Projections
Dollars in millions

	2006	2007	2008	2009	2010	Average Change
Tax Revenue						
Property	$ 12,409	$ 13,093	$ 14,379	$ 15,284	$ 16,218	6.9%
Personal Income	7,071	6,765	7,248	7,677	7,704	2.2%
General Sales	4,356	4,443	4,622	4,864	5,120	4.1%
General Corporation	2,192	2,122	2,233	2,436	2,614	4.5%
Unincorporated Business	1,221	1,253	1,310	1,381	1,465	4.7%
Banking Corporation	587	533	538	539	508	-3.5%
Real Property Transfer	1,106	810	725	756	787	-8.2%
Mortgage Recording	1,224	811	691	660	667	-14.1%
Utility	387	348	343	342	331	-3.8%
Hotel Occupancy	302	311	342	383	429	9.2%
Commercial Rent	480	497	514	530	546	3.3%
Cigarette	123	120	116	112	111	-2.5%
Other Taxes and Tax Audits	921	917	909	918	933	0.3%
Total Taxes Before Proposal	32,379	32,023	33,970	35,882	37,433	3.7%
Property Tax Rebate	-	-	(268)	(273)	(278)	n/a
Total Taxes After Proposal	32,379	32,023	33,702	35,609	37,155	3.5%
Other Revenue						
STaR Reimbursement	855	751	932	788	981	3.5%
Miscellaneous Revenues	3,606	3,362	3,749	3,337	3,356	-1.8%
Unrestricted Intergovernmental Aid	490	340	340	340	340	-8.7%
Other Categorical Aid	948	968	980	995	999	1.3%
Anticipated Federal and State Aid	-	350	250	250	250	n/a
Inter-fund Revenues	373	365	346	346	346	-1.9%
Disallowances	(15)	(15)	(15)	(15)	(15)	n/a
Total City Funded Revenue	38,636	38,144	40,284	41,650	43,412	3.0%
State Grants	9,408	9,634	9,872	10,123	10,306	2.3%
Federal Grants	5,601	5,322	5,317	5,314	5,317	-1.3%
Total Revenues	**$ 53,645**	**$ 53,100**	**$ 55,473**	**$ 57,087**	**$ 59,035**	2.4%

SOURCE: IBO.
NOTES: Personal Income Tax includes Transitional Finance Authority (TFA) dedicated personal income tax revenue. Estimates exclude intra-city revenues.

averaging 3.7 percent annually, over the same period.

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.

TAX REVENUE FORECAST

Tax collections in 2006 have been soaring, thanks to the continued strength of the city's real estate markets, high Wall Street bonus payments, and continued recovery of the city's broader economy from the downturn that began in 2001. IBO now projects that tax revenues will total $32.4 billion in 2006, $2.8 billion higher than anticipated by the city when this year's budget was adopted last June. Revenues in 2006 are expected to be 5.9 percent higher than their 2005 level, with much of the increase occurring in the income and property taxes. The forecast for the two property transfer taxes-the real property transfer tax (RPTT) and the mortgage recording tax (MRT)-is now $878 million (60.5 percent) higher than when the budget was adopted, propelling the combined transfer tax revenues very slightly above last year's all time record.

The outlook for 2007 is quite different, however. With the growth in the local economy expected to slow late in calendar year 2006 and remain slow through 2007, revenue from the income taxes is expected to fall. Rising interest rates are expected to put a brake on the real estate markets, leading to fewer transactions and somewhat lower prices. As a result revenue from the transfer taxes is expected to fall 30.4 percent from their 2006 levels, although they will still total $1.6 billion, higher than any year before 2005. The expiration of the last of the temporary tax increases enacted in 2003 is a further drag on tax revenue growth for 2007. Tax revenues begin to grow again starting in 2008 with revenues reaching $37.2 billion by 2010. Over the 2006-2010 period, annual tax revenue growth will average 3.7 percent.

The real property tax accounts for much of the tax revenue growth in the years after 2007, when it is expected to grow by 7.9 percent annually. The growth reflects IBO's assumption that while appreciation of property values will slow, there will not be a collapse in values. A second factor in IBO's projection is the large pipeline of assessment changes in apartment and commercial buildings that remain to be phased in. This pipeline will help keep assessments for tax purposes growing briskly.

The Preliminary Budget's only tax proposal is the extension of the current $400 property tax rebate once the current three-year authorization expires after 2007. The rebate, which is available only to owners of houses and apartments living in the property, is estimated to cost $263 million in 2007. Simply extending it, as the Mayor proposes, will require state legislation to remove a requirement that a renewed rebate benefit other property owners as well. IBO estimates that the Mayor's proposal would cost $268 million in 2008 and $278 million by 2010.

For 2006 and 2007, IBO's tax forecast differs only slightly from the forecast presented by the Bloomberg Administration in the Preliminary Budget. The forecasts diverge sharply beginning in 2008 when IBO's tax forecast exceeds OMB's by $1 billion each year through 2010. Part of the difference can be attributed to the economic outlook underlying the two forecasts. Although IBO and OMB both expect slower local economic growth, the timing and the extent of the slowdown differ. IBO expects growth to slow sooner than OMB, while OMB is forecasting a more pronounced slowdown. These differences explain much of the divergence between the revenue projections for the income taxes. IBO's business and personal income tax forecasts are lower than OMB's in 2007 and then higher in 2008 and 2009.

The other significant difference is in the property tax outlook, although here some of the difference is due to unusual changes to the 2007 assessment roll that became evident after the Preliminary Budget was released. These changes, which IBO was able to build into its property tax forecast, are expected to add between $200 million and $300 million to property tax revenues each year. While adjusting for these changes narrows the gap between IBO's and OMB's forecasts, IBO's property tax forecast remains hundreds of millions of dollars higher in 2008 through 2010.

- IBO projects tax revenues for 2006 will be $32.4 billion, up 5.9 percent from the prior year and $2.8 billion from the level assumed when the budget was adopted in June.
- Revenue growth this year is fueled primarily by the property tax (up 8.2 percent), business income taxes (up a combined 7.8 percent), and the personal income tax (up 8.7 percent).
- Although real property transfer taxes in 2006 are now expected to be slightly higher than last year's record level, this forecast is 60.4 percent above the amount anticipated when the budget was adopted.
- Revenues will fall by 1.1 percent in 2007-the first full

year with none of the 2003 temporary tax increases in effect.

- Revenue growth resumes beginning in 2008, with revenues expected to increase by 6.1 percent, followed by gains of 5.6 percent in 2009, and 4.3 percent in 2010.
- The Preliminary Budget contains a single tax proposal: extending the $400 property tax rebate once its initial three-year authorization expires after 2007.
- For the 2006-2010 period, baseline revenue growth will be sustained by the property tax, which is expected to grow by an average of 6.9 percent annually thanks to a forecast of moderate growth in property values and the pipeline of earlier assessment increases still being phased in.
- Business and personal income taxes and the general sales tax are expected to grow at more modest annual rates (averaging 4.3 percent, 2.2 percent, and 4.1 percent respectively) over the 2006-2010 period, consistent with IBO's outlook for continued moderate growth in the local and U.S. economies.

REAL PROPERTY TAX

IBO projects that property tax revenue will reach $13.1 billion in 2007, up 5.5 percent from its 2006 level of $12.4 billion. From 2007 to 2010, strong growth in property tax revenue is expected to continue, with annual growth averaging 7.4 percent. IBO's forecast for property tax revenues is more optimistic than OMB's forecast, which projects growth of 2.8 percent in 2007 and average annual growth of 5.6 percent in 2007-2010. Part of the difference between the two forecasts reflects new information; since the Preliminary Budget was released in January, there have been substantial revisions to the values on the 2007 tentative assessment roll that are reflected in IBO's forecast but not in OMB's.

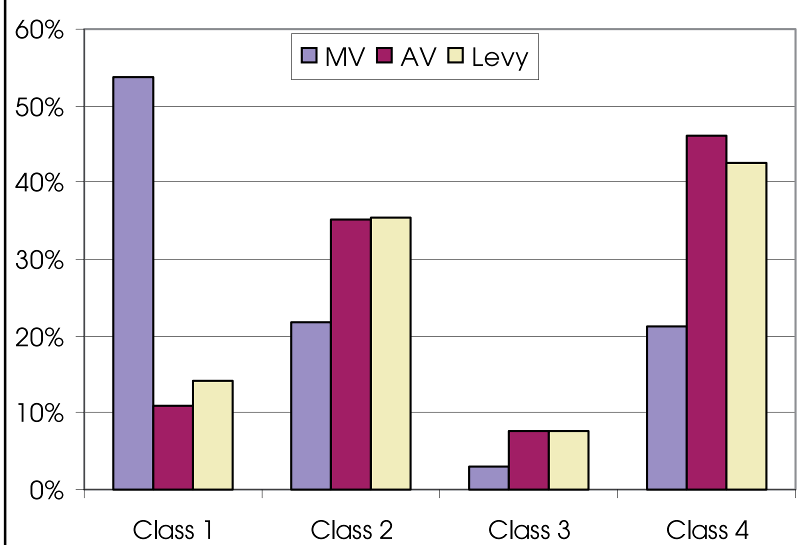
Background. The amount of tax owed on real estate in New York City depends on the type of property, its value for tax purposes (as calculated by the city's Department of Finance from estimated market values), and the applicable tax rate.[1]

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. Each tax class can have its own assessment ratio (the share of market value actually subject to tax). Tax rates also vary somewhat from class to class.

The tax classes also differ in how market value appreciation is reflected in assessments. In class 1 and the portion of class 2 consisting of apartment buildings with ten or fewer units, annual assessment increases are capped, regardless of how rapidly market values are rising. In class 1, increases are limited to 6 percent per year and no more than 20 percent over five years. For the small residential properties in class 2, the limit is 8 percent in one year and no more than 30 percent over five years. In class 4 and the balance of class 2, there are no limits on annual assessment increases, but for computing the amount subject to tax, increases are phased in over five years.

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 and the smaller residential buildings in class 2 is essentially lost forever. When market value increases for capped properties exceed the assessment cap, assessed values fall further and further short of the target assessment rate for the class (6 percent of market value in class 1 and 45 percent in class 2). Even in weak real estate markets, values rarely fall so far that assessments "catch up" to the target assessment rate for class 1.

Shares of Market Values, Assessed Values, and Levy, Fiscal Year 2006



SOURCES: IBO; Office of Management and Budget.

Although owners of rapidly appreciating properties benefit from a lower tax burden, they do bear a slight increase in their burden when slower appreciating properties with increasing assessment ratios reach the target assessment ratio. Under the state law governing the city's property tax system, the shares of the tax levy are based largely on shares of market value. When properties in class 1 do hit the target assessment ratio, the tax rate for the class as a whole must be increased because 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 target assessment ratio bear a higher burden than they would if the target ratio were higher.

With the process for determining assessed value in each class varying so greatly, there are wide differences between classes in terms of shares of total market value, assessed values, and tax burdens (levies). On the 2006 assessment roll, class 1 homes account for 52.9 percent of market value in the city, but only 11.0 percent of assessed value for tax purposes and 14.9 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.[2]

Tentative Assessment Roll for 2007. In January, the Department of Finance released the tentative 2007 assessment roll. Because of the timing of the assessment process, the market values on the 2007 roll largely reflect economic conditions in calendar year 2005. Market values on the 2007 tentative roll showed an overall increase of 9.3 percent over 2006, with class 1 showing the largest increase at 13.0 percent. Assessed value for tax purposes (billable taxable assessed value) showed an increase of 4.0 percent, with growth for class 1 and class 4 both exceeding 5 percent. After taxpayer challenges and other department adjustments are processed, the values will be finalized in May and used for setting 2007 tax bills.

This year, the changes from the tentative to the final roll are will be much larger than usual because the finance department has adjusted values for most tax class 2: buildings with 10 or fewer apartments. There are approximately 61,200 of these properties.

The first adjustment is necessary to correct for a data processing error that caused market values for approximately 13,000 of these properties to be set too low. Correcting this mistake raises market values for the affected properties by 123 percent from the tentative roll values, restoring a total of $7.2 billion in market value and over $600 million in assessed value to the 2007 assessment roll.

The second adjustment reverses a finance department policy initiative to lower the overall class 2 target assessment ratio of 45 percent for these small residential properties to a maximum of 15 percent of market value. The limits on annual assessment increases for the small residential buildings mean that their assessment ratios fall when market value growth exceeds the permissible annual increase in assessed value. With the strong market value growth in recent years, assessment ratios for most of these small properties have fallen well below the 45 percent target for class 2 as a whole. In 2006 the median assessment ratio for these small residential properties was 13.2 percent.

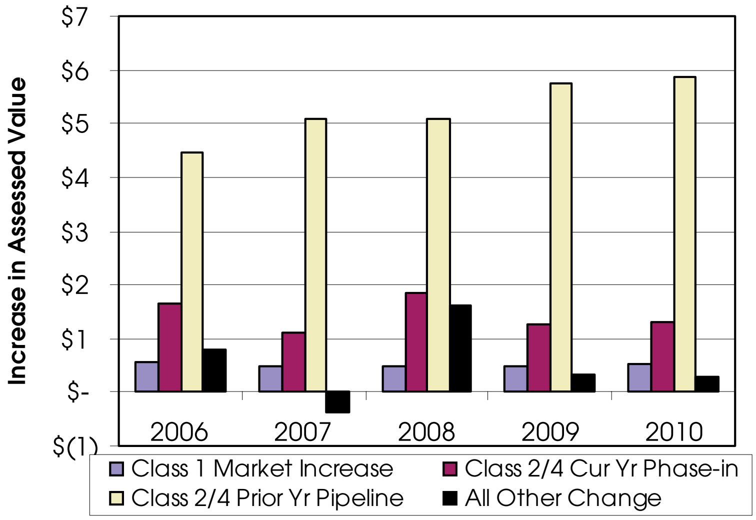
Neighborhoods with rapid appreciation have seen their assessment ratios fall However, assessments ratios in neighborhoods where appreciation has been less than the increases permitted under the 8 percent annual assessment increase cap have continued to grow as long as they are below the target assessment ratio for the class. Therefore, lowering the target assessment ratio would reduce inter-neighborhood disparities in tax burdens among owners of small residential properties.[3]

Because of the complexity of the city's property tax system, however, it is difficult to make such changes in isolation without affecting other groups of taxpayers as well. First, unless the city decided to raise the overall property tax rate, the lower target for small class 2 properties would have resulted in a loss of approximately $140 million in the tax levy in 2007, with additional losses in subsequent years. The revenue loss is due to foregone assessed value from properties that would have had assessment ratios above the new target. If market value appreciation were to slow in the future, assessment growth would be constrained, resulting in less total assessed value for the city. Although tax rates could be raised to compensate, the city has generally avoided such action, particularly since state law precludes raising the rate on a single class without raising it for all four classes.

Second, the department's policy change would result in somewhat higher taxes for those in class 2 whose assessments were not reduced as a result of the lower assessment ratios. Under another section of the state law, the share of the tax levy borne by each class is determined by its share of market values rather than assessments. Therefore, lowering the assessments within a class means that the class tax rate will have to be higher in order to yield the same share of tax

Pipeline of Prior Assessment Increases Is Driving Projected Growth in Billable Assessed Value

Dollars in billions



SOURCES: IBO; Department of Finance.
NOTE: 2006 actual all other years projected.

revenue from the class.

Finally, although the finance department's Commissioner has discretion to set the target assessment ratio within each class, the presumption has been that the state law's requirement for uniform treatment within tax classes requires use of a single target assessment ratio for each class. Owners of class 2 buildings with more than 10 units that still faced an assessment ratio of 45 percent might have been able to demand a 15 percent assessment ratio based on uniformity grounds. Although the legal strength of such an argument is untested, if successful such an outcome could result in significant losses of assessed value.

In the face of this uncertainty, the city decided to roll back the use of the 15 percent target ratio for small class 2 properties pending further analysis and, if necessary, change state law to explicitly permit such differences within class 2. IBO estimates that this second adjustment restores about $1.2 billion in assessed value to the 2007 assessment roll.

Outlook for Market and Assessed Values in 2007. IBO projects that total taxable assessed value on the final 2007 tax roll will grow to $117.5 billion, 5.6 percent more than the 2006 roll. While class 1 market value on the 2007 assessment roll is expected to grow by 13 percent, class 1 assessed value shows growth of only 4.6 percent, largely because of the caps on assessment increases. Class 2 market value growth is also higher than assessment growth, although the difference is smaller: 8.3 percent versus 7.5 percent. In class 4, market value is expected to show little change, but assessments-thanks to the pipeline of previous assessment changes still being phased-in-will be 5.2 percent higher in 2007 than in 2006.

Outlook for Market and Assessed Values in 2008-2010. IBO expects taxable assessments to grow strongly from 2008 to 2010, reflecting market growth in all classes. IBO projects that market values in class 1 will grow at an average annual rate of 11.9 percent over the three years, with growth in class 2 and class 4 market values both averaging 5.0 percent annually over the same period.

Despite strong growth in class 1 market values through 2010, growth in class 1 taxable assessments is expected to average only 4.0 percent annually from 2008 to 2010. Again, this is a result of the caps on assessment increases. In contrast, IBO expects strong growth in class 2 market values to translate into strong assessment growth at an annual average rate of 7.6 percent over the same period. For class 4, the pipeline from strong market growth in 2006 and previous years will keep assessments growing at an average rate of 6.8 percent from 2008 to 2010, despite slower growth in market values in those years. Overall, annual taxable assessment growth for all classes of property from 2008 to 2010 will average 6.6 percent.

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 property tax rates by 18.49 percent in 2003, the City Council had observed an informal freeze in the average tax rate since 1992. IBO's property tax revenue forecast assumes that the 2005 average tax rate, which includes the increase from 2003, will be maintained at 12.28 percent of the aggregate assessed value for tax purposes on the assessment roll.

The amount of property tax revenue in a fiscal year is determined not only by the levy, but also by the delinquency rate, abatements granted, refunds for disputed assessments, and collections from prior years. For 2007, IBO's total revenue forecast also reflects the cost of third year of the homeowner property tax rebate. (Under current law, authorization for the rebate expires after 2007.) Taking these other factors into account, IBO projects that property tax revenue for 2006 will total $11.5 billion, 0.82 percent above revenues for 2005. For 2007, revenue will grow by 7.5 percent to $12.4 billion. From 2008 to 2010, growth will average 7.4 percent, with revenue totaling $15.3 billion by the last year of the forecast period.

IBO's property tax revenue forecast is quite similar to OMB's for 2006, differing by only $26 million. When comparing the forecasts for 2007 through 2010, it is important to keep in mind the fact that OMB's projections were made before the recent changes to the tentative assessment roll. Taking these into account narrows the annual difference between the two forecasts by approximately $250 million. Thus, IBO's forecast for 2007 would probably exceed OMB's by less than $100 million if the OMB estimate was adjusted to account for the changes since January. Similarly, the differences from 2008 through 2010 would be reduced somewhat, although still large. IBO's estimate of the pipeline of previous assessment changes still being phased-in for classes 2 and 4 account appears to be larger than OMB's. The bigger pipeline combined with IBO's outlook for continued strong market value growth (averaging 5.0 percent annually) accounts for most of the remaining difference in the forecasts.

Tax Policy Changes. The Mayor has proposed extending the rebate for homeowners begun in fiscal year 2005, and some uncertainty remains over the previously postponed surcharge for absentee landlords.

Homeowner Rebate. The Mayor's Financial Plan assumes that owners of houses and apartments, provided they reside in these properties, will once again receive $400 rebates in 2007. Over 420,000 house owners and over 180,000 cooperative and condominium apartment owners received the rebate in 2006, at a total cost of $256 million. IBO projects that a small increase in the eligible population will raise the cost of the rebate in 2007 to $263 million.

In the Preliminary Budget, the Mayor proposed to extend the rebate, which was initially authorized for only three years (2005-2007). As a result of the negotiations needed to secure passage of the initial rebate, a provision was inserted in the law requiring that any extension beyond the first three years would be allowed only if it were linked to a reduction in the overall property tax burden, which would benefit all taxpayers, not just the homeowners who currently are only ones eligible for the rebate. Although draft legislation has not been released, the fact that the Preliminary Budget includes the cost of a rebate extension without the cost of an overall rate reduction implies that the city will seek to have the extension provisions amended. IBO estimates that a simple extension as proposed by the Mayor would cost $268 million in 2008 and $278 million by 2010.

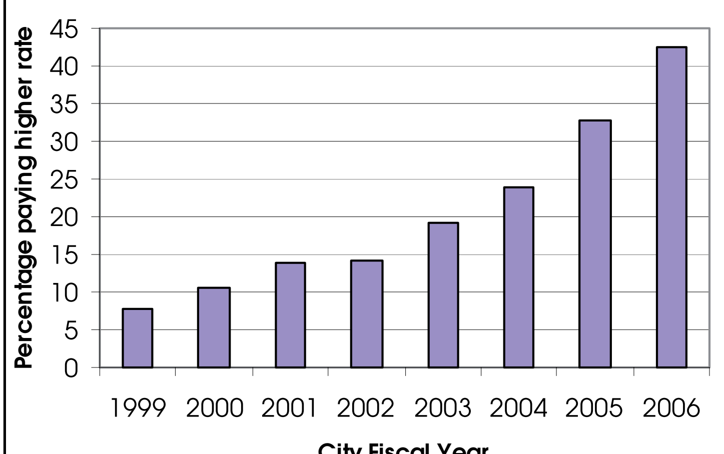
Uncertainty about Absentee Landlord Surcharge. As part of the Adopted Budget for 2004, the Bloomberg Administration included a surcharge of 25 percent for owners of one- to three-family homes who rent out their properties. The Mayor's budget office expected the surcharge to generate $44 million in 2004. Subsequently, the Bloomberg Administration claimed that implementation of this absentee landlord surcharge would be extremely difficult and proposed that the surcharge be repealed. Before the 2004 bills came due, legislation was enacted which postponed the effective date of the surcharge until 2007. The Mayor's current revenue forecast assumes that the surcharge will be repealed before 2007 and projects no revenue from the surcharge.

PROPERTY-RELATED TAXES

Commercial Rent Tax. IBO expects commercial rent tax (CRT) revenue to total $480 million in 2006, an 8.0 percent increase over 2005. Lower vacancies, particularly in midtown Manhattan are responsible for much of the increase. We project a smaller increase for 2007, with revenues reaching $497 million.

Background. The CRT is paid by commercial tenants, with liability based on the amount of annual rent paid. Between 1994 and 2002, a series of tax policy changes significantly altered the incidence of the CRT and reduced the revenues

Share of Residential Sales Subject to Higher RPTT Rate



SOURCES: IBO; Office of Management and Budget.

from over $700 million in 1994 to $380 million in 2002. 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 former CRT payers with lower rents have been removed from the tax rolls. In 2003, about 7,300 businesses (some with more than one lease) remained subject to the tax. The median rent for these remaining taxpayers was approximately $525,000 per year.

Despite the decline in commercial occupancy during the post-2000 downturn, CRT revenues remained surprisingly strong, with annual growth averaging 4.2 percent from 2001 to 2005. This was due in large part to the 18.49 percent property tax rate increase enacted in November 2002, which was passed through to many commercial tenants who have tax escalation clauses in their leases. CRT revenues grew from $377 million in 2002 to $445 million in 2005.

Last year additional targeted CRT cuts were enacted as part of the city and state aid package for lower Manhattan. These new benefits, which replaced some expiring benefits dating from the mid-1990s, are expected to reduce CRT revenues only slightly in 2006, although the cost will grow to $7 million in 2007 and $21 million by 2010.

Forecast. With the impact of the property tax rate increase for most commercial tenants now fully reflected in existing rents and with rents for new leases expected to grow only moderately in the next few years, IBO projects slower growth in CRT revenues. After 2007, CRT revenue growth will average 3.2 percent annually, with revenues reaching $546 million in 2010. IBO's commercial rent tax forecast is very similar to OMB's. Our outlook for 2006 is 1.4 percent higher than the Preliminary Budget estimate, virtually identical for 2007 and slightly lower for each year from 2008 to 2010.

Mortgage Recording Tax and Real Property Transfer Tax. Revenues from the mortgage recording tax and the real property transfer tax reached an all-time high in 2005. While their growth is slowing, their combined total is projected to set a new record again in 2006. IBO projects that revenues will then decline sharply in 2007, fall again in 2008, and then remain relatively stable through 2010. The expected decline is due primarily to higher interest rates leading to an overall slowdown in real estate transactions after several years of particularly intense activity. IBO projects that mortgage recording tax collections will be $811 million in 2007, 34 percent below the expected 2006 level. Similarly, real property transfer tax revenue is expected to decline 27 percent, to $810 million. The decline in MRT continues through 2009, with revenues reaching $660 million and then edging up to $667 million in 2010. RPTT revenues are projected to bottom out at $756 million in 2009, and then rise to $787 million in 2010.

Background. The MRT and RPTT 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 sales 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 activity that involves a change of lender is usually subject to the MRT in its 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 general business cycle changes, the two transfer taxes are also highly sensitive to actual and anticipated changes in 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 inched up gradually, but still remain at relatively low levels by historic standards. IBO forecasts the 30-year rate to reach 7.0 percent towards the end of 2006, a level last reached in 2002. The rate is then expected to hover around 7.0 percent for the rest of the decade.

MRT and RPTT revenues remained strong even through the local economic downturn of 2001-2003. MRT revenues have grown at double-digit rates every year since 2001, while RPTT experienced just one decline, a fall of 10 percent in 2002. The poor performance of the stock market at the beginning of this decade, combined with low interest rates, made investments in real estate relatively more attractive. Low interest rates also stimulated refinancing activity.

Forecast. Higher interest rates are expected to lead to lower revenues from these two taxes. However, IBO is not projecting a sudden, sharp fall in the average value of transactions. Instead, there is likely to be a decline in the number of transactions as buyers and sellers try to find the "corrected" price. Moreover, several features of the two taxes make it unlikely that revenues will return to levels that prevailed just five years ago, even if the number of transactions and prices fall. While the extraordinary revenues of 2005 and 2006 will not be sustained, it is likely that a new higher baseline level of "normal" revenues will be established. One feature behind the higher baseline is the structure of the RPTT, with rates that are 42 percent higher for residential transactions over $500,000. Many transactions are now well above that threshold and a significant portion is likely to remain above it even if overall price levels decline. Thus, much of the revenue gain attributable to this "bracket creep" is likely to be sustained thanks to the resulting higher average rate for the residential portion of the tax.

For both MRT and RPTT, actual collections through January represent just under two-thirds of the IBO forecast for the entire year. Because of lags between when sales occur and when the revenue is processed by the city, much of the collections recorded so far this fiscal year come from sales that occurred in the first three quarters of calendar year 2005. Other data suggest that sales prices and volume decline in the fourth quarter. IBO expects transfer tax revenues in the balance of this fiscal year to slow from their torrid pace earlier in the year.

Compared to OMB, we forecast slightly higher revenue for MRT in 2006 ($1,224 million versus $1,197 million), and considerably lower revenue for RPTT ($1,106 million versus $1,227 million). IBO's projections for 2006 reflect actual collections for the first seven months of this fiscal year (July 2005 through January 2006). IBO and OMB both forecast a moderate drop in MRT and RPTT revenues in 2008, and then fairly stable values. IBO projects a slight upturn in RPTT revenues beginning in 2009, while OMB projects that the upturn will begin in 2010. Both IBO and OMB expect that the recovery of MRT revenues will not begin until 2010.

PERSONAL INCOME TAX

Personal income tax (PIT) receipts have continued to grow this fiscal year and are forecast by IBO to reach $7.1 billion in 2006, an 8.8 percent increase over the previous year. (This and other figures for PIT collections in this section net out refunds and include PIT receipts dedicated to the Transitional Finance Authority.) This growth rate is impressive because it is occurring at the same time that the three-year tax increase is expiring. Slower economic growth in the city, expected to begin by the end of calendar year 2006, will depress revenue, and IBO forecasts a 4.3 percent decline in PIT collections in 2007. Revenue growth will resume in 2008, growing at an average annual rate of 6.5 percent through 2009 to reach $7.7 billion, with virtually no growth projected for 2010.

IBO's current year forecast of PIT revenue is $88 million higher than OMB's. IBO and OMB both expect local economic growth to slow in the coming years, with IBO forecasting an earlier slowdown than is OMB. As a result, IBO's forecast is lower in 2007 though higher in 2008 and 2009.

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.[4] Currently, the combined tax rate incorporating both the base rate and surcharge is 2.907 percent for the lowest of the four brackets, compared with 3.648 percent for the highest bracket.[5] These rates have been in effect since January 2001, with the exception of calendar years 2003 to 2005 when two additional tax brackets were created 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 resulting tax increase for upper-income filers boosted city revenue by an estimated $541 million in fiscal year 2005 and is expected to generate less revenue ($399 million) in 2006 because the added brackets expired at the end of December 2005.

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 compensation-including year-end bonuses-for their 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 effect on employment and profits in the financial sector. As a result, PIT receipts plummeted 20.5 percent to $4.5 billion in 2002. In 2003, as the local economy continued to lag behind the nation's anemic recovery and Wall Street's slump largely continued, PIT receipts edged further down to their lowest level since 1997.

PIT growth resumed in 2004, when receipts increased by 23.3 percent over the previous year. This strong upturn resulted from the resumption of local employment growth, a doubling of Wall Street profits from 2002 to 2003, and, most significantly, the rate increase for high-income taxpayers enacted in the middle of 2003. PIT revenue again grew strongly in 2005, rising 17.6 percent-impressive growth given that there were no new rate increases to boost collections. Collections from estimated payments also grew as capital gains realizations began to increase in calendar year 2004, for the first time since 2000.

Revenue in the Current Year. PIT collections to date this fiscal year are about 10.5 percent greater than collections in the comparable period last year, reflecting continued employment and, especially, income growth in the city economy. Through the first seven months of the fiscal year, withholding collections are 7.0 percent greater than the comparable period in 2005. Withholding receipts in December and January, months when securities firms and other businesses typically pay year-end bonus compensation, also were particularly strong, the result of the record-high Wall Street bonus pool. Estimated payments made quarterly by investors and the self-employed are up 24 percent over 2005 payments, resulting in part from capital gains realized in equity markets and in real estate. A weakness evident in current PIT collections is a more than doubling of both the number and total dollar amount of refunds issued for 2005 tax liability, relative to last year. The average refund paid so far this year has been 14 percent greater than a year ago.

For the entire 2006 fiscal year, IBO forecasts 8.8 percent growth of PIT collections, to $7.1 billion. In the remaining months of the fiscal year, when collections will be relatively unaffected by bonus compensation, the expiration of the three-year tax hike will dampen withholding growth. Estimated payments for the remainder of the year will continue to be high, the result of continued growth in realized capital gains, made particularly strong by soaring real estate values. Also, first quarter estimated payments due in April for the new calendar year are likely to be high because they are largely determined by liability for 2005.

Because withholding and estimated payments for tax year 2005 were strong, final returns payments accompanying 2005 returns (which are received mostly in the latter half of fiscal year 2006) are not expected to be large, and IBO projects only a 2.8 percent increase in collections with final returns for 2006. IBO also expects the pace of refunds to taper off and that total refunds paid in 2006 will be slightly lower than in 2005.

IBO's forecast of 2006 PIT revenue is $88 million (1.3 percent) greater than OMB's. While IBO projects less revenue from estimated payments and final returns than does OMB, we expect more withholding receipts and a lower level of refunds.

The Forecast for 2007 and Beyond. IBO forecasts a 4.3 percent decline in PIT revenue from 2006 to 2007, to $6.8 billion. In 2007, there will be virtually no boost to PIT revenues from the 2003-2005 tax increase, unlike in 2006, when the increase was in effect for the first half the fiscal year. Withholding revenue in particular will be affected by the slowdown in employment and income growth IBO expects in calendar year 2007. IBO projects that withholding will edge down 0.4 percent in 2007. Estimated payments are expected to decline more sharply-the result of slower growth of proprietor's incomes and a softening of the real estate market. With underlying tax liability generally weaker in 2006, IBO projects a decrease in final returns payments in 2007 and an even larger increase in refunds.

IBO's 2007 forecast is 1.9 percent ($127 million) lower than OMB's. The gap is due in part to different assumptions regarding the path of local growth in IBO's and OMB's economic forecasts. Both assume a moderate slowdown in growth in the next few years, but IBO projects that it starts sooner. These differences result in OMB having a much higher forecast of withholding and lower projected refunds in 2007.

IBO expects PIT growth to resume in 2008, when revenue is projected to increase to $7.2 billion-a 7.2 percent increase over 2007. Withholding and estimated payments are expected to grow significantly, though this upside to revenue will be offset in part by a second year of increasing refunds. The increase in withholding is fueled by the resumption of somewhat stronger economic growth. The expected rise in estimated payments rise is due to the anticipated speed-up in capital gains realizations during calendar year 2008 as taxpayers seek to lock in the lower capital gains tax rates that are scheduled to expire at the end of that year. IBO's 2008 forecast is $285 million (4.1 percent) higher than OMB's. OMB's economic outlook forecasts slower local growth late in 2007 and 2008 which constrains the growth of 2008 collections in the OMB forecast to only 1.0 percent.

In 2009, IBO projects that PIT revenue will grow 5.9 percent. Withholding growth will slow, but estimated payments will continue to increase as in the previous year, again driven largely by higher capital gains realizations during calendar year 2008, in advance of the scheduled increase in capital gains tax rates halfway through the 2009 fiscal year. Realizations will fall off sharply in the following calendar year, leading to a steep reduction in estimated payments in fiscal year 2010 and hardly any increase in PIT collections. The 2009 and 2010 forecasts are $7.7 billion each year-$214 million above the OMB forecast for 2009 and $166 million below its 2010 projection.

BUSINESS INCOME TAXES

Business taxes revenues are expected to total $4.0 billion in 2006, $519 million (14.9 percent) higher than the amount anticipated when the budget was adopted last spring, and 7.8 percent above the revenues from the prior year. Revenues in 2007 are expected to decline slightly to $3.9 billion and then grow at an annual average rate of 5.5 percent after 2007, reaching $4.6 billion in 2010.

Background. New York City levies three entity-level taxes on business net income, the general corporation tax (GCT), the banking corporation tax (BCT), and the unincorporated business tax (UBT). About 55 percent of total city business tax revenues are derived from "flow-through entities" (S-corporations taxed under the GCT; limited liability corporations, partnerships, and proprietorships taxed under the UBT) whose net income is for the most part subject only to personal income taxation at the federal and state levels. Conversely, insurance corporations are subject to federal and state but not city taxation. In 2005, business income taxes, excluding audit revenues, generated over $3.7 billion, 12.4 percent of total city tax revenues. The business income taxes differ from the city's other tax sources in that audit revenues account for a significant portion of revenues. With audits included, business taxes yielded over $4.2 billion in 2005, 13.8 percent of total tax revenues. (Note that all the revenue figures below exclude audits.)

After declining sharply in the two years following the 9/11 attack, business tax revenues rebounded to post unprecedented back-to-back gains of 25 percent in 2004 followed by 30 percent 2005. The total business tax revenue declines of 2002 and 2003 ($696 million) have been offset more than twofold by the gains of 2004 and 2005 ($1.4 billion). On top of these large advances, revenues have continued to grow in 2006, up 15 percent over the previous year's pace from September through January. (Note that because July and August business tax transactions are accrued to the previous fiscal year, the business tax fiscal year effectively starts in September.) IBO expects, however, this strong tide of new revenues to finally start to ebb over the remainder of the year. Business tax revenues are projected to grow just under 2 percent over the rest of 2006, and then decline slightly (2.3 percent) in 2007, before resuming their growth at a moderate pace from 2008 to 2010.

IBO's total business tax forecast is $15 million higher than OMB's in 2006 but $180 million less in 2007. A lower GCT forecast, explained below, accounts for most of the latter difference.

General Corporation Tax. New York City's GCT is unusual in two respects: it is one of the few locally levied taxes on corporate profits, and nearly half of the tax liability is borne by S-corporations (a type of firm required to pass essentially all net earnings directly through to stockholders). Over three-fourths of the tax is collected through an 8.85 percent tax on entire net income allocated to New York City; the remainder is collected through alternative tax bases: income plus compensation, capital allocated to the city, and a $300 minimum tax. (Almost 60 percent of GCT filers pay only the minimum tax.) Finance, real estate, and professional and business services account for about half of GCT liabilities; manufacturing and trade generate another quarter.

GCT revenues increased over 60 percent ($757 million) over 2004 and 2005, more than recouping the cumulative declines ($541 million) of the previous three years. The current fiscal year has also started out strong, with revenue up 18 percent through January. But IBO projects growth of only 3.7 percent over the remainder of the year, resulting in a 10 percent ($198 million) increase in revenue for 2006 as a whole. Our forecast of $2.192 billion for the current year is $50 million higher than OMB's January Plan forecast.

In 2007 a pause in collections growth combined with a surge in refunds is expected to reduce GCT revenues by $70 million (3.2 percent). The weakening collections growth through the rest of 2006 and 2007 may express the impact of rising interest rates, particularly on the city's pivotal securities industry, where as noted earlier sharply increased interest expenses are cutting into industry net revenues. The expected jump in tax refunds, on the other hand, follows from the large increases in gross collections of the past few years. IBO's 2007 forecast of $2.1 billion in GCT net revenue (after refunds) is $142 million less than OMB's; about half of the difference is due to our lower collections forecast and half to our higher refunds forecast.

IBO forecasts resumed growth of both gross collections and net revenues in 2008. GCT revenues are projected to average 7.2 percent annual growth over the out-years of the Financial Plan.

Unincorporated Business Tax. New York City imposes a 4 percent tax on the income of partnerships, proprietorships, and (since 1994) limited liability corporations, which are entities structured and taxed like partnerships, although the members or partners have the same liability protection enjoyed by officers and shareholders of regular corporations. Again, this tax is unusual in that it is very rarely levied by a locality, and it is imposed on income that is not taxed at the business entity level by the federal and state governments. Because all of the firms' earnings are passed through to the partners and subject to individual income taxes, the city's entity-level UBT subjects the same income to double taxation, although for partners residing outside the city the income there is only a single layer of city tax since they are exempt from the city's personal income tax . New York City somewhat attenuates double-taxation of partners who live in the city by providing a partial credit in its personal income tax for UBT liabilities of city residents. Legal and business services account for about half of the tax.

UBT collections have tended to be more stable in the face of economic shocks than either GCT or BCT collections. Revenues grew "only" 34 percent over 2004 and 2005-but this was after actually sustaining small gains (rather than, as with the other business taxes, large declines) during the prior recession. IBO expects collections to slow over the course of the current fiscal year, but still yield 9.2 percent revenue growth for 2006 as a whole. IBO's $1.221 billion forecast for 2006 is $24 million below OMB's.

IBO expects UBT revenue growth to further slow during 2007 (2.7 percent) before moderately picking up again from 2008 through 2010 (averaging 5.3 percent). Our 2007 forecast of $1.253 billion is $45 million less than OMB's forecast.

Banking Corporation Tax. New York City taxes banking corporations separately from other corporations, but the principal rate and base of the BCT is similar to that of the GCT. Over four-fifths of collections are derived from a 9 percent tax on entire net income allocated to the city, the remainder from alternative net income, asset base, capital, and minimum tax bases. Generally a little more than one-third of BCT liabilities are generated by foreign banks and a bit under one-third each by domestic commercial banks and thrift institutions. These shares, however, may vary considerably from year to year.

BCT net revenues are highly unstable. This volatility is exacerbated by large fluctuations in refunds, the result of adjustments for overpayments and underpayments based on losses and gains not recognized until a year or more after they are incurred. Inclusive of refunds, BCT net revenue changes have averaged 35 percent annually since 1987. Changes in gross collections, which exclude refunds, averaged 27 percent, over the same period.

In 2004 a 20 percent increase in gross collections combined with 61 percent drop in refunds yielded a 95 percent jump in BCT net revenues. In 2005 net revenues grew 45 percent, but this encompassed a 42 percent increase in gross collections. (Refunds grew 27 percent, but off of a very small base.) As with the other business income taxes, both gross collections and net revenues have slowed through January. IBO expects BCT gross collections to grow 3.3 percent but net revenues to end up down 2.2 percent in 2006; our $587 million revenue forecast is $11 million less than OMB's. A further 9 percent net revenue decline, to $533 million, is projected for 2007. IBO's forecast for that year exceeds OMB's by $8 million. Over the remainder of the Financial Plan, IBO expects BCT revenues are expected to remain relatively flat.

GENERAL SALES TAX

In 2006, sales tax revenues are forecast to total $4.4 billion, virtually unchanged from the 2005 level. The halt in sales tax revenue growth this year-after growth of more than 8 percent in 2005-is largely explained by changes in tax policy: the reversion of the sales tax rate to 4.0 percent from its temporarily higher level and the restoration of the exemption for clothing items costing less than $110. Absent these changes in tax law, revenue would have grown at a strong rate of 9.2 percent.

In 2007, IBO expects sales tax revenue to grow by $86 million to $4.4 billion, a 2.0 percent growth rate. In the three subsequent years (2008 through 2010), revenue growth is expected to pick up, averaging 4.8 percent annually, with revenues reaching $5.1 billion by year 2010.

There is virtually no difference between IBO's and OMB's forecast for 2006 and for subsequent years the differences are small; IBO's estimate for 2007 is 0.7 percent lower than OMB's ($33.3 million) and slightly higher in each year 2008 through 2010.

Background. Sales in the city of most retail goods, utility charges, and a variety of personal and business services are subject to a combined sales and use tax rate of 8.375 percent. The tax is composed of a 4.0 percent city tax, a 4.0 percent state tax, and a 0.375 percent Metropolitan Commuter Transportation District surcharge. As of last September, clothing items costing less than $110 are once again exempt from the city portion of the tax.

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.

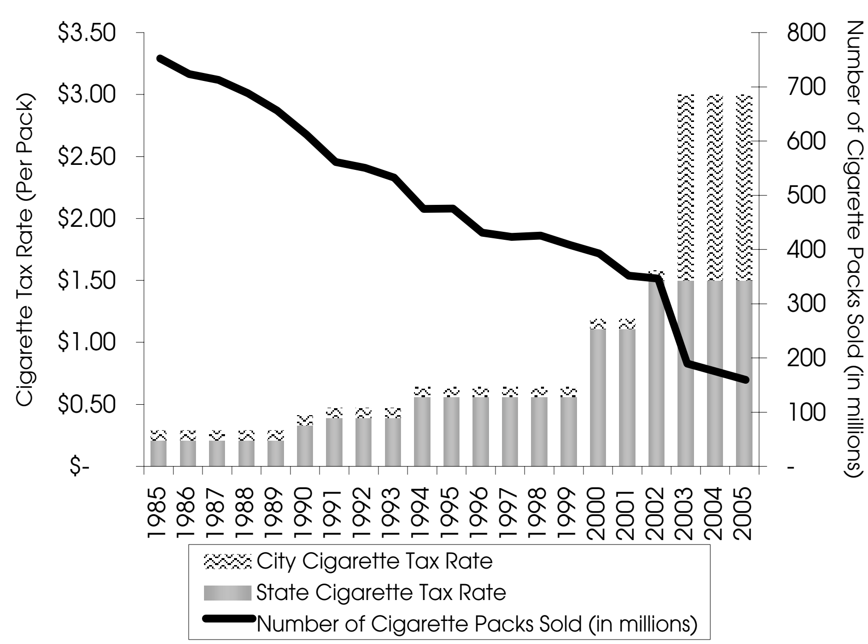
In addition to these basic factors, two sets of tax policy changes have had significant impacts on growth in sales tax collections in 2004 and 2005 and on projected collections in 2006. A temporary rate increase, in effect from June 2003 through May 2005, raised the city rate to 4.125 percent and the state rate to 4.25 percent. The sales tax on clothing items priced under $110 was temporarily restored as well. Effective September 1, 2005, the city's sales tax rate of 4.0 percent was once again eliminated for purchases of clothing and footwear under $110. The New York State tax rate of 4.0 percent, as well as the Metropolitan Commuter Transportation District rate of 0.375 percent (increased from 0.25 percent in 2005) remained in effect, making the total tax imposed on these purchases 4.375 percent.

Aside from underlying economic factors, future sales tax revenue may be further affected by proposed changes in state tax law. In his 2006-2007 Executive Budget, Governor Pataki proposed repealing the scheduled restoration of the state's clothing exemption. This would effectively repeal the city's exemption as well. The exemption on clothing and footwear under $110 would be replaced with two one-week periods of exemption for clothing items costing $250 and below. The proposal would increase city sales tax revenues, net of the revenue forgone during the two tax holidays, by $288 million in 2007, with the amount of additional tax growing to $333 million by 2010.

CIGARETTE TAX

IBO's estimate of cigarette tax revenue for 2006 is $123 million, a decline of 1.9 percent from the 2005 level.

Decline in Cigarette Sales Quickens After Last Tax Increase



SOURCES: IBO; Office of Management and Budget.

The decline in revenue is expected to continue each year through 2010. Assuming no changes in tax policy, cigarette tax collections are forecast to fall to $120 million in 2007 and to continue falling to $111.4 million by 2010, an average decline of 2.5 percent annually from 2006 to 2010. IBO's estimates are slightly higher than OMB's in each year of the Financial Plan, with the difference never exceeding 2 percent.

The cigarette tax has been partially transformed into an anti-smoking tool. In 2002, when the city tax was raised from eight cents per pack to $1.50, one justification offered was that it would discourage smoking, particularly by young people. Indeed, some of the decline in the number of taxable sales of cigarette packs, and hence lower tax revenues, is likely due to the decrease in smoking. But higher prices also appear to be encouraging some smokers to seek alternative sources of non-taxed cigarettes through the Internet, out-of-state sellers, or smugglers.

In his 2006-2007 Executive Budget, Governor Pataki proposed an increase in the state cigarette tax from $1.50 to $2.50 per pack. Under the proposal, the state would take $1.00 per pack that is currently levied for the city's tax to boost the state's portion of the tax to $2.50. The city's tax would effectively be lowered to 50 cents per pack, from $1.50. The proposal leaves the combined city and state cigarette tax unchanged at $3.00 per pack. The Governor's Executive Budget includes language to hold the city harmless for the revenue loss, which the state estimates would be $86 million, by adjusting some of the fees and assessments it charges the city for administering other city taxes.

As an alternative, Mayor Bloomberg proposed to increase the combined city and state cigarette tax to $3.50. Under the Mayor's plan the city would be allowed to levy a $1.00 per pack cigarette tax, instead of 50 cents. After accounting for some loss in potential new revenue through evasion and out-of-state purchases, the Mayor's proposal is estimated to bring in $33 million in new cigarette tax revenue for the city in 2007.

OTHER REVENUES AND CATEGORICAL GRANTS

Other Revenues. IBO's estimate of revenue from sources other than taxes for 2006 totals $6.3 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. Some of these sources, particularly miscellaneous revenues, can fluctuate due to unusual or one-time transactions. Other revenues are expected to fall slightly next year to $6.1 billion and to remain near these levels through 2010.

Categorical Grants. Categorical grants received from the state and federal governments 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 $9.6 billion and $5.3 billion, respectively, in 2007. 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 the current year and adjusts for historical trends and programmatic changes.

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] New York State law compels the Department of Finance to estimate market values for coops and condos as if they were rental properties. IBO has estimated market values for these properties based on apartment sales prices. Using these more realistic market values, the tax class 1 share of market value falls from 52.9 percent to 35.8 percent, while the class 2 share increases from 21.4 percent to 49.8 percent.

[3] In press accounts of the finance department's discussion of the rationale for lowering the assessment ratio, officials also claimed that the change would help equalize the tax burden between small coop and condo buildings and small rental buildings. Although state law requires the finance department to treat coops and condos as rental properties for assessment purposes, they are more properly valued using sales prices. IBO's estimates of sales-based market values for coop and condo buildings with ten or fewer units yield assessment ratios of about 5 percent, well below the ratios for similarly sized rental buildings, and only slightly higher than the 4.2 percent ratio for class 1 houses.

[4] 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.

[5] For example, for a married couple filing jointly, the lowest bracket ends at $21,600. The highest bracket begins at $90,000. For other types of filers, the income thresholds are lower.

Expenditures

Expenditure Outlook

IBO projects that under the Mayor's current Financial Plan total city spending will rise by an average of 3.2 percent annually, growing from $53.6 billion in 2006 to $60.7 billion in 2010. Despite this increase of more than $7 billion over five years, spending by most agencies is relatively flat (in part because budgets for individual agencies do not include funds for any future wage increases).

Much as in recent years, the growth in overall spending is in a few discrete portions of the budget over which the city has limited near-term control. Based on the January 2006 Financial Plan, the fastest growing of these items is debt service, which is projected to rise by an average of 10 percent annually (adjusted for the use of some of the 2006 surplus to prepay a portion of 2007 debt service). The city's pension contributions for its workforce are also steeply rising through 2009. While

IBO Expenditure Projections

Dollars in millions

	2006	2007	2008	2009	2010	Average Change
Health & Social Services						
Social Services	$ 6,760	$ 7,158	$ 7,301	$ 7,448	$ 7,583	2.9%
HHC	728	955	938	924	942	6.7%
Health	1,558	1,483	1,496	1,510	1,509	-0.8%
Children Services	2,220	2,149	2,148	2,148	2,148	-0.8%
Homeless	737	697	692	682	672	-2.3%
Other Related Services	557	458	457	457	457	-4.8%
Subtotal	12,560	12,900	13,032	13,169	13,311	1.5%
Education						
DOE (excluding labor reserve)	14,696	14,912	15,022	15,281	15,491	1.3%
CUNY	554	494	493	493	493	-2.9%
Subtotal	15,250	15,406	15,515	15,774	15,984	1.2%
Uniformed Services						
Police	3,767	3,860	3,854	3,835	3,810	0.3%
Fire	1,354	1,312	1,311	1,304	1,297	-1.1%
Correction	886	852	846	843	839	-1.4%
Sanitation	1,136	1,176	1,187	1,183	1,179	0.9%
Subtotal	7,143	7,200	7,198	7,165	7,125	-0.1%
All Other Agencies	5,259	5,373	5,387	5,406	5,497	1.1%
Other Expenditures						
Fringe Benefits (excluding DOE)	3,254	3,440	3,675	3,920	4,182	6.5%
Retiree Health Benefits Trust Fund	1,000	1,000	-	-	-	n/a
Debt Service	4,463	1,594	5,444	5,826	6,166	8.4%
Pensions	3,881	4,750	5,474	5,710	5,576	9.5%
Judgments and Claims	601	647	690	743	793	7.2%
General Reserve	100	300	300	300	300	n/a
Labor Reserve:						
Education	24	24	24	24	24	n/a
All Other Agencies	310	572	829	1,010	1,254	n/a
Pay-As-You-Go Capital	200	200	200	200	200	n/a
Expenditure Adjustments	(400)	139	188	251	326	n/a
Total Expenditures	**$ 53,645**	**$ 53,545**	**$ 57,956**	**$ 59,498**	**$ 60,738**	**3.2%**

SOURCE: IBO.
NOTES: Debt service expenditures, if adjusted for prepayments, would grow at an annual average rate of 10 percent. Debt service includes Transitional Finance Authority (TFA) debt service expenditures. Expenditure adjustments include energy, lease, prior year payable adjustments, and non-labor inflation estimates. Estimates exclude intra-city expenses.

the local share of Medicaid—the largest component of city social service and Health and Hospitals Corporation spending—continues to be a significant cost for the city. Additionally, the budget plan sets aside funds for future settlements with the city's unions—$310 million in 2006 growing to $1.3 billion in 2010 to cover wage increases at roughly half the rate of inflation.

The Preliminary Budget for 2007 contains a relatively small plan of $262 million for agency-based gap closing initiatives. About half these measures would come from generating new revenues from actions such as increasing the city's efforts to issue tickets for violating parking rules; completing a new franchise agreement for public toilets, bus shelters, newsstands and other "street furniture"; and charging fees at more city recreation centers and raising the admission cost at zoos. Most of the rest of the gap-closing plan includes cost reestimates and supplanting city funds with federal or state dollars. There are a relatively small number of spending reductions such as cuts in the subsidies to libraries, cultural organizations, and programs for youth and seniors as well as a decrease in the number of investigators to look into charges of police misconduct. Based on similar spending reduction proposals in recent years, these cuts are likely to be restored.

Department of Cultural Affairs (DCA)

PRELIMINARY BUDGET HIGHLIGHTS

- **Funding Reduction for Cultural Institutions and Cultural Programs.** The Preliminary Budget proposes a decrease in funding of $2.2 million in 2006 and $3.2 million in 2007.
- **Rent Savings.** The Preliminary Budget proposes a decrease in funding of $517,000 for 2007, resulting from the agency's move into city-owned offices.
- **Council Member Items Adjustment.** The Preliminary Budget proposes an increase in funding of $682,000 for 2006.

EXPENSE BUDGET

Agency Overview. Under the Preliminary Budget, DCA spending would fall from $139.7 million in 2006 to $102.6 million in 2007, a decrease of 26.6 percent. The Department of Cultural Affairs provides two broad categories of operating support: subsidies to the Cultural Institutions Group (CIG), 34 organizations housed within city-owned property, some of them world-renowned such as the Metropolitan Museum of Art and others smaller such as the Brooklyn Children's Museum; and Cultural Program grants given to roughly 600 cultural organizations, some of them offering citywide programs and others community-based.

The Cultural Institutions Group will face a funding decline from $114 million this year to $87.6 million in 2007, a 23.4 percent decrease. The program groups will see their budget decrease from $21.4 million in the current plan to $11.9 million in 2007, a 44.4 percent decline. These declines are much larger than the reductions identified in the Preliminary Budget because some cuts in previous years were "baselined," or embedded, in the DCA budget while the City Council's restorations to offset those cuts have been for one year at a time. It is likely that as part of the budget negotiations between the Mayor and the City Council this spring, sufficient funds will once again be added to the agency's budget to avoid steep declines in support for the CIGs and the Cultural Program groups.

Effects of Budget Proposals

Reductions to Cultural Institutions and Cultural Programs. This initiative would impose reductions in the subsidies for CIGs, although the size of the reduction depends on which of two tiers an individual institution falls in. For this budget initiative, the cultural institutions were divided into two tiers: those with budgets of over $16 million and those with budgets below $16 million. The upper tier consists of 10 institutions: the American Museum of Natural History; the Brooklyn Academy of Music; the Brooklyn Museum of Art; Carnegie Hall; Lincoln Center; the Metropolitan Museum of Art; the New York Botanical Garden; the New York State Theater; and two facilities operated by the Wildlife Conservation Society, the Coney Island Aquarium and the Bronx Zoo. The remaining CIGs are in the lower tier.

For 2006, institutions in the higher tier received a 2.8 percent reduction, while institutions in the lower tier, as well as Cultural Program groups, received a 1.7 percent reduction. For 2007 and the years following, institutions in the higher tier received a 5.4 percent reduction, while institutions in the lower tier, as well as Cultural Program groups, received a 3.6 percent reduction in funding. The savings would total $2.2 million for 2006 and $3.2 million annually, beginning in 2007.

Rent Savings. The decrease in funding for savings comes from DCA's upcoming move into 31 Chambers Street, which is a city–owned office building. The move will be completed during the first half of 2007. The rent savings are estimated at $690,000 annually, although some of the savings will be redirected to other DCA expenses yielding a net budget reduction of $517,000.

Council Member Items Adjustment. This adjustment is broken down into two separate pieces: Programs and CIG Security.

Department of Cultural Affairs

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Administration	$2.6	$3.0	$2.3
Institutions	100.2	114.4	87.6
Materials for the Arts	0.8	0.8	0.7
Percent for Art	0.1	0.1	0.1
Programs	18.6	21.4	11.9
TOTAL	**$122.3**	**$139.7**	**$102.6**
Full-Time Personnel	33	38	
Capital Commitments:	$140.0	$561.0	$569.2

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time Personnel: June 30 actual for 2005; Nov 30 actual for 2006.

The net effect of these adjustments is to increase the DCA budget by $682,000 in 2006.

Programs. As in past years, last June's 2006 Adopted Budget included awards of additional funding for a large number of program groups designated by the City Council. According to DCA, 23 groups designated for funding last spring did not fill out the necessary paperwork with the department to receive the money. As a result, the City Council revoked the awards for these programs. The money will be redirected to other cultural programs. The net result is an increase of $82,000 in the budget for Council-designated grants.

CIG Security. Four CIGs—Carnegie Hall, the Metropolitan Museum of Art, City Center, and the Brooklyn Museum of Art—received $600,000 in funding from the Council to enhance security operations at the institutions. Information on how the money would be spent has not been provided.

CAPITAL BUDGET

Agency Overview. The Department of Cultural Affairs is responsible for maintaining facilities occupied by the approximately 65 cultural organizations housed in city-owned buildings. These organizations are a combination of CIGs and large cultural programs. In the January 2006 Capital Commitment Plan, the Bloomberg Administration provides a total of $816 million in commitments over four years. Planned commitments for 2006 total $561 million. The four-year total in the commitment plan increased just 0.8 percent since the September plan, but increased 30 percent from a year ago.

Key Capital Projects

Lincoln Center Redevelopment. The commitment plan provides $114 million for significant renovation and expansion of several Lincoln Center facilities as well as new amenities for the public, including improvements to the north plaza's reflecting pool and the addition of cascading water. The project also includes improved access to the facility with: wider sidewalks, reduced traffic lanes, a transparent footbridge, improved signage and new entrances to the Julliard School, Film Society of Lincoln Center, Alice Tully Hall, Lincoln Center Theater, and the Samuel B. and David Rose Building. Garage entrances will also be relocated.

American Museum of Natural History. A total of $38.6 million is included in the commitment plan for the museum. The plan provides $18.6 million for restoration of the 77th Street façade, replacement of the roof for the Ocean Hall of Life and $20 million for a program to modernize the facility.

New York Zoological Society. The plan includes $32.2 million for such projects as the construction of both a Wildlife Health Center and a transportation facility.

Snug Harbor. The commitment plan includes $21.5 million for improvements such as construction of a music hall, renovation and restoration of several buildings, and replacement of the HVAC system.

Queens Museum of Art. Most of the $18.9 million commitment will fund the expansion of the museum, nearly doubling the facilities current size.

The Capital Commitment Plan for DCA also funds projects for the hundreds of programs that are located in buildings that the city does not own. The current plan allocates $107 million for these projects. The projects often include renovation and expansion of existing space and equipment purchases, such as new lights for a stage or an improved sound system.

NOTE: A detailed review of DCA spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Small Business Services (DSBS)

PRELIMINARY BUDGET HIGHLIGHTS

- **Governor's Island Preservation and Education Corporation.** The Preliminary Budget provides $5.0 million in 2007 to support the corporation's general operating expenses.
- **Compliance with Executive Orders.** The 2007 Preliminary Budget includes increased funding of $660,000 to assist the agency's compliance with Executive Orders 50 and 71.
- **Minority- and Women-Owned Business Enterprise Program.** The Preliminary Budget would increase funding for the minority- and women-owned business program by $500,000.
- **311 for Business.** The Preliminary Budget would provide $270,000 in new funding for the creation of a 311-style information line for businesses.
- **General Support Reductions.** Under the Preliminary Budget proposal, city tax-levy funds will be reduced by a total of $1.0 million annually beginning in 2007. The reductions will be spread across several DSBS-supported entities, including NYC & Company and the Mayor's Office of Film, Theatre, and Broadcasting.

EXPENSE BUDGET

Agency Overview. The Mayor's Preliminary Budget proposes $95.1 million for the Department of Small Business Services in 2007, a $37.9 million decrease over current spending projections for 2006. City-funded expenditures are projected to equal $31.5 million in 2007, or 33.1 percent of the agency's total budget.

DSBS typically receives a significant amount of federal aid that is not fully reflected in the Preliminary Budget. IBO projects DSBS expenditures for 2007 will equal $99.1 million once all federal funds are received. This estimate does not reflect, however, potential rollovers of unspent federal Workforce Investment Act (WIA) funds. While IBO expects that some WIA funds will be rolled over from 2006 to 2007, we cannot estimate the size of the rollover at this time. Much of the variation in the agency's budget in the past few years can be explained by these annual rollovers of WIA funds.

Effects of Key Budget Proposals

Governor's Island Preservation and Education Corporation. The Preliminary Budget proposes $5.0 million for the general operating support of the Governor's Island Preservation and Education Corporation (GIPEC). The city has provided $5.0 million to GIPEC each year beginning in 2005, when control of the island was transferred from the federal government to the state- and city-run Governor's Island Preservation and Education Corporation. The $5.0 million will be used by GIPEC to maintain the island in its current form. Once a development plan for Governor's Island has been selected, however, DSBS expects the amount of city operating support required will be adjusted to meet the needs of the specific development plan.

Compliance with Executive Orders. The 2007 Preliminary Budget includes just over $660,000 in new funding for 2007 to help the Department of Small Business Services comply with two Executive Orders. The plan proposes increases of $35,000 in 2006 and $158,000 in 2007 and each year thereafter to bolster DSBS's compliance with Executive Order 50. Executive Order 50, which gives the agency the authority to monitor Equal Employment Opportunity compliance and workforce diversity on both public contracts and certain private commercial projects receiving public assistance, is administered by the agency's Division of Labor Services.

Department of Small Business Services
Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Direct Business Assistance	$3.6	$4.4	$4.2
Neighborhood Economic Development	11.8	19.3	10.4
Economic Development Corporation	18.0	15.1	8.7
Workforce Development	60.5	78.0	57.5
Miscellaneous and Administration	14.4	16.2	14.3
Unallocated Financial Plan Changes			0.1
TOTAL	**$108.3**	**$133.0**	**$95.1**
IBO Adjustments			
Federal Grants		$0.0	$4.0
IBO Projected		**$133.0**	**$99.1**
Full-Time Personnel*	211	201	224
Capital Commitments	$675.3	$538.0	$866.8

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

The Preliminary Budget also includes $17,000 in 2006 and $510,000 in 2007 for Executive Order 71, which charges the agency with establishing a goals-based program for city agencies and their chief contractors to increase the pool of minority-and women-owned businesses that are employed when government contracts are available. These funds, which decrease to just over $300,000 annually from 2008 to 2010, would support six new staff members.

Minority- and Women- Owned Business Enterprise Program. In addition to the increased funding provided to the Minority- and Women-Owned Business (MWBE) program for Executive Order 71, the Preliminary Budget proposes an increase of $513,000 in 2007 and $643,000 in 2008 through 2010 for the MWBE program. The city funds would maintain current staffing levels for the MWBE program after private grant funding, which sustained the program in 2005 and much of 2006, expires.

311 for Business. The increased funding of $72,000 for 2006 and $270,000 each year for 2007 through 2010 would support the creation of a 311-style information line for businesses. The funds would support four employees in 2006 and five employees beginning in 2007. The 311 for business program will act in a manner similar to 311 for city residents, providing businesses with one phone number where they can get all the information they need about operating a business in New York City.

The increased funding included in the 2007 Preliminary Budget for the 311 for Business initiative, the MWBE program, and compliance with Executive Orders 50 and 71, accounts for the majority of the increase in overall spending on direct business assistance. With these additions, the budget for direct business assistance is expected to grow significantly. In 2005, expenditures for direct business assistance totaled $3.6 million. Under the Preliminary Budget, expenditures for 2006 are expected to grow to $4.4 million, an increase of 21.0 percent over 2005, and then dip in 2007 to $4.2 million. The 2007 figure is likely to rise in future financial plans, as the slight decrease in funding from 2006 to 2007 is entirely attributable to federal funding for street vendor programs that has not yet been recorded.

General Support Reductions. Beginning in 2007, the Preliminary Budget proposes annual decreases of nearly $600,000 in city funding for two DSBS-supported entities and $440,000 in annual reductions to city funds provided for neighborhood economic development.

Under the plan, total DSBS support for NYC & Company (formerly the New York Convention and Visitors Bureau) would be reduced by 3.3 percent in 2006, or $234,000, and 7.0 percent beginning in 2007, or $439,000 annually. These changes would bring the total funding provided to NYC & Company down from $7.2 million in 2005 to $6.9 million in 2006 and $6.4 million in 2007.

The 2007 Preliminary Budget includes similar reductions—a decrease of 3.3 percent in 2006 and 7.0 percent from 2007 on—to the Mayor's Office of Film, Theatre and Broadcasting. This cut is somewhat offset, however, by increased funding to support two new positions at the office. Taking these two initiatives as a whole, total funding for the office is expected to increase by 11.2 percent in 2006, rising from $1.5 million in 2005 to $1.7 million. In 2007, the effects of the cut, which grows to 7.0 percent, will begin outweighing the increased funding for personnel, with funding projected to decline by 4.8 percent from 2006 to $1.6 million.

Beginning in 2007, the Preliminary Budget also calls for a $440,000 annual reduction in city spending on neighborhood economic development, specifically to be realized from decreased empowerment zone funding. In addition, the Preliminary Budget includes a one-time reduction of $522,000 in 2006 to the budget of another neighborhood economic development program, the Office of Industrial and Manufacturing Businesses. With the planned reduction, the Office of Industrial and Manufacturing Businesses is expected to receive $3.5 million in funds from DSBS in 2006. The industrial office did not receive any funding from DSBS from 2003 through 2005 and there are no funds currently budgeted for the support of this office in 2007. Despite this proposed cut to the Office of Industrial and Manufacturing Businesses, the total budget for neighborhood economic development programs in 2006 is expected to reach $19.3 million, a 63.4 percent increase over 2005 expenditures. Due to as yet unrecorded federal funding and these two initiatives—the reduction in empowerment zone funding and the lack of support for the Office of Industrial and Manufacturing Businesses—total funding for neighborhood economic development programs in 2007 is projected to fall below 2005 funding levels to $10.4 million.

CAPITAL BUDGET

Agency Overview. The capital plan accompanying the 2007 Preliminary Budget calls for $1.95 billion in capital spending on economic development projects from 2006 through 2009. City funds account for $1.77 billion, or 90.8 percent, of the planned capital expenditures. Federal funding for the redevelopment of Lower Manhattan accounts for the bulk of the non-city capital commitments. The comparable four-year (2005 through 2008) plan total from a year ago was $1.76 billion, of which 87.8 percent were city funds. As with the current year, the majority of the non-city capital funds included in last year's capital plan were reserved for lower Manhattan. The nearly $200 million increase in capital commitments over last year's plan is not linked to any specific project, rather the funds are spread across a variety of economic development projects.

DSBS manages almost all of the city's economic development projects, with commercial development projects accounting for the majority of the agency's capital commitments. The types of capital projects supported by DSBS include industrial development, market development, neighborhood revitalization, port development, rail development, and waterfront development.

Key Capital Projects

Javits Center Expansion. The capital plan issued with the most recent Preliminary Budget calls for $350 million in city funds to be appropriated for the expansion of the Javits Center in 2007. By far the single largest commitment in the DSBS capital plan, these funds represent the total current city commitment to the Javits Center expansion project.

Modernization and Reconstruction of Piers Citywide. Under the current plan, $281.8 million will be spent on capital improvements to piers across the city between 2006 and 2009. Just over 60 percent of these funds—$172.7 million—will be used to upgrade passenger cruise ship piers and terminals, particularly in Brooklyn. Other piers slated for modernization and reconstruction include Hunt's Point and Pier 79 in midtown Manhattan. The size of the capital commitment for modernization and reconstruction of piers is comparable to last year's four-year commitment plan, which called for $292.2 million in funding for these projects.

Atlantic Yards. As in last year's plan, the current capital plan calls for $100 million in city funds for site development of Atlantic Yards. The funds are scheduled for $50 million to be committed for the project in both 2006 and 2007.

Governor's Island Preservation and Education Corporation. The capital plan commits $37.5 million in city capital funds to support reconstruction projects on Governor's Island in 2006 and 2007. GIPEC will use these funds to restore the infrastructure already on the island. Additional capital funds for new construction projects are expected in later capital plans, once a comprehensive development plan is selected for the island.

NOTE: A detailed review of DSBS spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Finance (DOF)

PRELIMINARY BUDGET HIGHLIGHTS

- **Enhanced Collection of City Register Fees** .The city's currently brisk real estate market has fueled the sale of City Register documents in general, increasing the DOF non-tax revenue budget by $18.8 million in 2006, followed by smaller amounts in subsequent years.
- **Commercial Sale of City Register Documents.** Upgrades to the ACRIS system are enabling DOF to sell to subscriptions of premium, digital images of City Register documents to commercial entities, increasing DOF revenues by $250,000 in 2006 and $1 million each year thereafter.
- **Sheriff Office, Kendra's Law.** The Preliminary Budget also adds $608,000 to 2006 DOF spending in the Sheriff's office in recognition of additional intra-city funds received from the Department of Health and Mental Hygiene for enforcement of Kendra's Law.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $202.3 million for Department of Finance spending in 2007, $1.6 million (0.8 percent) less than the current projection for 2006. The 2007 budget, however, is likely to increase slightly during the upcoming fiscal year when additional intra-city funds for the services of the Sheriff's office are recognized. ($600,000 of these funds were just added to the 2006 budget; see below.) With the exception of $2 million in state aid for DOF's administration of the state's STaR (School Tax Relief) program and other assessment work, the 2007 budget is entirely funded by the city (including $2.2 million in intra-city funds).

Since 2004, when there was an atypical $15 million payment to the Business Improvement Districts, DOF's budget has been fairly stable, both in total expenditures each year and the proportions devoted to various programs. The Management Information System budget, which had grown significantly though 2004, has become the largest area of spending, accounting for 35 percent of the 2007 budget. The budgets for 2008 to 2010 are only $69,000 higher than that for 2007.

Effects of Key Budget Proposals

Sheriff's Office, Kendra's Law. The Sheriff's office, a division of DOF, contracts with the Department of Health and Mental Hygiene (DOHMH) to help enforce Kendra's Law—the state law that allows courts to order mandatory outpatient treatment (such as the taking of medication) for certain people with mental illnesses. The Preliminary Budget has added $608,000 to 2006 DOF expenditures in recognition of additional intra-city funding the department has received from DOHMH from the contract. As in past years, neither the additional funding nor the expenditures it supports were added to DOF's budget until the contract with DOHMH is finalized during the fiscal year.

Position Transfer to DSBS. One position in the tax policy division of DOF is being transferred to the Mayor's Office of Film, Theatre and Broadcasting, a division of the Department of Small Business Services whose mission is to promote filming in New York. The position involves the administration of the tax credit incentive for film and television production in the city enacted a year ago. As a result of the transfer, the DOF budget has been reduced by $24,000 in the current year and then by $74,000 annually. This Preliminary Budget change follows the November Plan's transfer of three positions from DOF, two to DoITT and one to the Tax Commission.

Department of Finance

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Real Property	$24.5	$25.3	$25.3
Parking Violations	12.1	14.2	14.2
Other Revenue	60.4	64.7	62.6
MIS Operations	74.3	70.7	71.4
Other & Administrative	30.9	27.9	27.7
Financial Plan Savings	--	1.1	1.1
TOTAL	**$202.1**	**$203.9**	**$202.3**
Total Revenue	**$1,309**	**$1,173**	**$1,184**
Full-Time Personnel	2,155	2,178	2,255
Capital Commitments	$2.4	$45.4	$18.3

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007. Revenue totals include tax receipts from DOF audits and excludes intra-city funds.

Transfer of Senior Citizen Rent Increase Exemption Program (SCRIE). The Bloomberg Administration has proposed transferring the administration of the SCRIE program from the Department for the Aging (DFTA) to DOF. Because DOF has better computerized information systems and easier access to tax records, it is believed that the department would be able to administer SCRIE more efficiently than DFTA and realize budget savings. The Preliminary Budget presented expenditure and headcount reductions for DFTA, starting in 2007, but not any increases in the DOF budget. The details of how to implement the transfer are currently being ironed out, and it is hoped that the proposal will be fully developed in the coming weeks so that Executive Budget can incorporate any needed additional resources to the DOF budget, as well as further changes in DFTA spending.

REVENUE BUDGET

Most of the taxes DOF collects are formally the responsibility of the Mayor's office, and the forecasts of tax receipts are part of that office's revenue budget, not DOF's. But the department also has its own revenue budget, comprising receipts from many other sources. Tax receipts resulting from DOF audits and parking violations fines account for most of DOF's budgeted revenue—90 percent of a total of $1.3 billion in 2005. Other major revenue sources include moving violation fines, City Register fees, sidewalk assessments, and some Environmental Control Board fines. DOF usually realizes budgetary savings through revenue initiatives, not expenditures cuts. In the Preliminary Budget the department's revenue modification dwarfs its spending changes, and the two major revenue initiatives in the budget are detailed in the sidebar above.

Key Revenue Budget Proposals

Enhanced Collection of City Register Fees. The volume of activity in the city's strong real estate market has been unexpectedly high, as has the demand for City Register documents. In turn, the projected amount of City Register fees has been increased, by $18.8 million in 2006, $10.0 million in 2007, and $5.0 million in each of the out-years.

Commercial Sale of City Register Documents. The City Register is a division of DOF that records, files, and preserves all records of property transfers, such as deeds, mortgages, and leases, for all boroughs except Staten Island. In recent years DOF has committed a large share of its resources to the creation and development of ACRIS (Automated City Register Information System), which makes digital images of City Register documents available on line for research and sale to the public. Upgrades of the system now enable it to produce enhanced images of documents that can be reformatted by users. The department plans to sell premium subscriptions of these images to information services companies that repackage the data for sale to other firms. The Preliminary Budget incorporates the estimated revenues for DOF from these subscriptions: $250,000 in 2006 and $1 million each year thereafter.

CAPITAL BUDGET

Agency Overview. DOF does not have its own capital budget, but a number of data processing projects formally managed by the Department of Information Technology and Telecommunications affect the department's operations. These projects generally entail purchasing and installing data processing equipment and systems in order to provide services more efficiently and integrate DOF operations with those of other city agencies. They are funded entirely by the city, and planned capital commitments on them total $45.4 million in 2006 and $18.3 million in 2007. Actual commitments during these fiscal years, however, are likely to be much lower. Most of this year's planned commitments had been deferred from 2005, when only $2.4 million of commitments were actually made. The two largest projects, ACRIS and NYCServ, have each been underway for several years and are now operating and providing services, so funding for them increasingly comes from DOF's operating budget, not the Capital Budget.

Key Capital Projects

ACRIS. This project is converting deed, mortgages and other City Register documents from paper to digital images, to make them available to the public on line. As noted above, the ACRIS system has developed to the point where enhanced images and data will soon become available for sale to commercial firms. Planned commitments from the Capital Budget in 2006 total $17.7 million (80 percent of which is deferred from 2005) and $3.3 million in 2007. Fees paid by users accessing ACRIS are intended to cover project costs.

NYCServ. NYCServ is a wide-scale project to consolidate collection, payment, licensing, and adjudication processes across several city agencies. Planned commitments for it total $24.9 million in 2006 and $15.0 million in 2007.

SPAZM. The Street Properties and Zoning Map, or SPAZM, is intended to be used by DOF's property tax division, in coordination with other city agencies, such as the Department of City Planning. The planned commitment for capital spending on the project is now $2.0 million in 2006, less than the $4.8 million commitment in 2005 planned for, but never made, a year ago.

NOTE: A detailed review of DOF spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Parks and Recreation (DPR)

PRELIMINARY BUDGET HIGHLIGHTS

- **Out of School Program.** The 2007 Preliminary Budget adds $3.3 million in 2006 for after-school and weekend programming. The total 2006 budget for the program is now $5.3 million; it is not funded in 2007.
- **Recreation Center Fees.** The 2007 Preliminary Budget proposes charging fees at recreation centers that are currently free of charge, and uses the anticipated $2 million in fee revenue to offset city expenditures.
- **Zoo Fee Increase.** The 2007 Preliminary Budget anticipates a savings of $869,000 as a result of increased fees at three zoos operated by the Wildlife Conservation Society. The 2007 budget for payments to zoos is $8.6 million, $1.3 million less than in 2006.
- **Collective Bargaining for Parks Opportunity Program Workers.** The 2007 Preliminary Budget adds $1 million in 2006 to increase the wages of Parks Opportunity Program workers from $7.50 an hour to $8.00 an hour. The wage increase is not funded in 2007.
- **Fowler Recreation Center.** The 2007 Preliminary Budget includes an addition of $599,000 for a new recreation center in Flushing, Queens. The 2007 budget for recreation services in Queens is $1.9 million, the same as in the current fiscal year.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $268.2 million for the Department of Parks and Recreation in 2007, $38.4 million less than in 2006. This agency typically receives a significant amount of private grants and state aid. The Preliminary Budget does not fully reflect these private and state funds.

Certain programs are not fully funded in the 2007 budget at this time. The 2007 budget for the Parks Enforcement Patrol (PEP) is $5.7 million, just over half of the 2006 budget of $10.8 million. The drop in PEP funding makes up the bulk of the decrease in the "Urban Park Services" line in our table on DPR's budget. In fiscal year 2006, the City Council added $2 million to support 50 PEP officers for one year, which accounts for some of the difference. The remainder of the difference in "Urban Parks Service" is private grant funding, which will likely be added in future budget cycles.

The City Council routinely adds funding to the DPR budget when adopting the budget, including about $7.3 million for seasonal aides, gardeners, and playground associates (Maintenance and Operations) and $2.1 million for tree pruning (Forestry and Horticulture). Council members also allocate funding directly to specific parks, which adds to the DPR budget.

Effects of Key Budget Proposals

Out of School Program. DPR, in conjunction with the Department of Youth and Community Development, offers after-school and weekend programs for children ages 6-13 at recreation centers. The DPR component of the program has traditionally been funded at about $5 million annually by the Human Resources Administration. The Human Resources Administration can no longer support the program, so DPR is funding it directly. The 2006 Adopted Budget included $2 million for the fall semester, and the 2007 Preliminary Budget adds an additional $3.3 million for the remainder of 2006. At this time, it is not clear how this program will be funded in 2007. The total 2007 budget for recreation services is $12.4 million, $6.9 million less than in 2006. The difference is largely attributable to the lack of funding for the Out of School program in 2007.

Recreation Center Fees. Beginning in 2003, the parks department began charging mandatory membership fees at 22 recreation centers: adult membership is $50 annually ($75 at centers with pools); membership for seniors age 55

Department of Parks and Recreation

Dollars in millions Program Area	2005 Actual	2006 Modified	2007 Proposed
Maintenance & Operations	$196.8	$208.1	$188.3
Recreation Services	18.2	19.4	12.4
Forestry and Horticulture	7.2	11.0	7.1
Urban Park Services	11.7	11.9	6.5
Administration	53.2	54.6	52.1
Unallocated Financial Plan Changes		1.7	1.7
TOTAL	**$287.1**	**$306.6**	**$268.2**
IBO Adjustments			
Other Categorical Funding		$0.7	$11.2
State Funding		0.0	0.5
IBO Projected		**$307.3**	**$279.9**
Full-Time Personnel	1,838	1,835	1,989
Capital Commitments	$211.4	$577.3	$639.3

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

and up is set at $10 for centers with or without pools; membership for youth under age 18 remains free. The Preliminary Budget proposes extending membership fees to the department's six Community Development Centers (CDCs)—recreation centers funded by federal Community Development Block Grants (CDBG). The CDBG funds would be reprogrammed to provide funding for all centers in eligible areas.

Membership fee revenues at the 22 recreation centers that currently charge brought in $2.0 million in 2005. The city anticipates that it will raise an additional $2.0 million in revenue from extending membership fees to the six CDC's. IBO estimates, however, that revenues are likely to be no more than half the projected $2.0 million in the first year, if usage patterns roughly follow those that occurred at recreation centers when fees were first imposed in 2003.

Zoo Fee Increase. DPR subsidizes three zoos operated by the Wildlife Conservation Society—Flushing Meadows, Prospect Park, and Central Park—to cover shortfalls in ticket revenues. The 2007 budget for payments to zoos is $8.6 million, $1.3 million less than in 2006. Beginning in March 2006, DPR is allowing a fee increase at these three zoos. Adult admission at the Central Park Zoo will rise from $6 to $8. At the Prospect Park and Flushing Meadow Zoos, adult admission will rise from $5 to $6. As a result, DPR anticipates that it will reduce its subsidy to zoos by $869,000 in 2007.

Collective Bargaining for Parks Opportunity Program Workers. DPR operates the Parks Opportunity Program, a transitional employment program for individuals receiving public assistance. The 2007 Preliminary Budget adds $1 million to the DPR budget in 2006 to increase the wages of Parks Opportunity Program workers from $7.50 an hour to $8.00 an hour. The wage increase is not funded in 2007.

Fowler Recreation Center. DPR is opening a new recreation center is Flushing, Queens. The Department of Environmental Protection built the Fowler Recreation Center as part of the mitigation effort for a combined sewer overflow facility the agency is constructing in the area. The center is scheduled to open this spring, the cost of which will be partially offset by revenue from membership fees.

In 2006, DPR has added $150,000 to its budget for Fowler Recreation Center operations. In 2007 and later years, DPR needs $599,000 annually to cover the cost of operating the center. The 2007 budget for recreation services in Queens is $1.9 million, however, the same as in the current fiscal year.

CAPITAL BUDGET

Agency Overview. The Department of Parks and Recreation capital plan allocates $639.3 million in 2007, and $1.6 billion over the four-year period 2006-2009. The majority of DPR's capital projects are relatively small improvements to individual parks and playgrounds around the city.

Some of the agency's major projects include development of the High Line Park in Manhattan, which is budgeted at $82.1 million over the four-year plan period; construction of a pool and hockey rink in Flushing Meadows Park in Queens ($40.2 million); development of a park in Williamsburg/Greenpoint in Brooklyn ($100.4 million); site development at the Fresh Kills Park in Staten Island ($29.8 million); and $74.2 million for the Hudson River Trust and the park along the river.

DPR also helps to support Shea and Yankee Stadiums. In addition to allocations for ongoing improvements at the stadiums, the January capital plan includes $148.8 million for infrastructure associated with the new Yankee Stadium, and $103.8 million for infrastructure for a new Mets stadium.

NOTE: A detailed review of DPR spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Sanitation (DSNY)

PRELIMINARY BUDGET HIGHLIGHTS

- **Collective Bargaining.** The Preliminary Budget for 2007 adds another $20.6 million in 2006 and $19.6 million in 2007 for salary increases for sanitation workers as a result of collective bargaining agreements. This brings the total cost of the recent agreement with the Uniformed Sanitationmen's Association to $56.3 million in 2006 and $58.4 million in 2007.
- **Waste Export.** The Preliminary Budget for 2007 adds $15.1 million for increased waste export costs. The 2007 budget for waste export contracts is $294.0 million, $15.9 million higher than the 2006 budget.
- **Recycling.** The Preliminary Budget for 2007 anticipates a savings of $2.0 million in processing costs from lower than anticipated recycling of metal, glass, and plastic recyclables, as well as $1.5 million in increased revenue from both higher volume and higher prices for paper recyclables.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $1.2 billion for the Department of Sanitation in 2007, $39.7 million more than in 2006. The 2006 budget is now projected to exceed 2005 spending by $120.2 million—9.9 percent—driven predominantly by a labor settlement with the uniformed sanitation workers and the signing of new waste export contracts at substantially higher prices.

Effects of Key Budget Proposals

Collective Bargaining. In October of 2005, Mayor Bloomberg announced a contract settlement with the Uniformed Sanitationmen's Association, covering the period November 23, 2002 through March 1, 2007. The cumulative wage increase over the four-year period is more than 17 percent.

The November budget plan added $35.7 million to the 2006 budget, and $38.8 million to the 2007 budget. The Preliminary Budget adds an additional $20.6 million in 2006—for a total of $56.3 million—and $19.6 million in 2007—for a total of $58.4 million. The cost of the settlement is projected to decline in subsequent years, however, because of negotiated productivity enhancements, notably lower starting salaries.

The department will realize savings in 2006 and 2007 due to revised estimates of uniformed overtime and productivity differentials—bonuses paid to sanitation workers for higher trash collection productivity. Overtime savings are budgeted at $5.0 million and $2.0 million in 2006 and 2007, respectively, and productivity differential savings will total $1.4 million and $2.4 million.

Waste Export. The 2007 budget includes an additional $8.9 million for interim waste export contracts in Queens. Since the closure of the Fresh Kills landfill, the city has operated under an "interim export program," in which the city has paid private companies to dispose of its garbage. As part of the solid waste management plan (see below), the city hopes to enter into longer-term contracts in order to hold down the rate of growth in disposal costs. In the meantime, however, as existing contracts expire, costs have escalated from an average of $74.70 per ton to $90.45 per ton.

The Preliminary Budget also adds $6.2 million for the long-term Staten Island waste export contract. The final contract has not yet been signed, and cost estimates have been revised upwards. The transfer station necessary to implement the Staten Island contract should open before the end of fiscal year 2006; the city Department of Design and Construction must complete a rail link to the station before it is

Department of Sanitation
Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Cleaning & Collection	$498.8	$563.2	$563.3
Waste Disposal	300.5	327.1	369.7
BWPRR*	25.8	25.3	26.3
Enforcement	11.1	13.2	13.2
Snow Removal	43.7	31.7	36.9
Administration & Support	155.0	176.6	167.4
TOTAL	**$1,034.9**	**$1,137.1**	**$1,176.9**
Full-Time Personnel**	**9,529**	**9,686**	**9,875**
Uniformed	7,619	7,772	7,760
Civilian	1,910	1,914	2,115
Capital Commitments	$137.0	$172.1	$603.2

SOURCES: IBO, Mayor's Office of Management and Budget.
NOTES: *Bureau of Waste Prevention, Reuse and Recycling. **Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

Department of Sanitation Personal Services (P.S.) Costs
Dollars in millions

	2005	2006	2007	2008	2009
P.S., June 2005 Plan	$628.1	$642.9	$641.8	$641.8	$641.7
Collective Bargaining (Unif.)		56.3	58.4	54.2	49.9
Other Changes		-3.9	-0.1	4.3	4.4
P.S., Jan. 2006 Plan	$628.8	$695.3	$700.0	$700.3	$695.9

SOURCES: IBO; Mayor's office of Management and Budget.
NOTE: Other changes include reestimates of overtime and productivity differentials, pay increases for managers and other non-unionized civilian employees, snow budget reestimate, and Staten Island transfer station reestimate.

operational.

Recycling. DSNY anticipates both expense savings and increased revenue through its recycling program. New Yorkers have not been recycling as much metal, glass, and plastic (MGP) as anticipated. Because the city pays MGP processors a fee for each ton of recycled material, the lower tonnage will save the agency $2 million in 2007.

In contrast, the city receives revenue from the sale of recycled paper. DSNY has adjusted its revenue expectations for its contract with Visy Pulp and Paper, which processes recycled newspapers, because New Yorkers are recycling paper more than had been projected. In 2004, Visy processed 144,000 tons of recycled newspaper; in 2005 this rose to 149,000 tons. Assuming newspaper recycling remains at this level, DSNY expects to receive an additional $797,000 in 2006.

DSNY will generate more revenue from other paper processors as well, because the market price for recycled paper materials has risen. The 12-month rolling average price for recycled paper is between $58 and $69 per ton. The city has revised its estimate of revenue from paper recycling based on an estimated sale price of $65 per ton, of which the city receives between $9 and $21 per ton. As a result, the city expects to generate an additional $1.7 million in 2006 and $1.5 million in 2007.

In total, DSNY expects to generate about $5.1 million from recycled paper sales in 2006, and $4.3 million in 2007.

Snow Removal. The City Charter requires the budget for snow removal to be calculated each year as an average of the previous five years' expenditures. Updating the calculation to reflect 2006 spending, the Preliminary Budget adds $5.2 million for snow removal in 2007. The 2007 budget for snow removal is $36.9 million.

Landfill Closure. DSNY is responsible for the engineering, remediation, closure construction, and environmental management of Fresh Kills landfill in Staten Island. As a result of engineering issues and delayed state permits, the city has reestimated the amount needed for landfill closure in 2007, and the Preliminary Budget includes a cut of $7.8 million in 2007. This reduction is not expected to have any programmatic impact on Fresh Kills closure. The 2007 budget for landfill closure is $46.6 million, $27.5 million more than in 2006.

Garage Security. Security at DSNY garages is currently provided by sanitation workers. Those workers guarding the garages on Sundays receive overtime pay. DSNY plans to contract out Sunday security, thereby saving $2.2 million in the Collection, Street Cleaning, and Field Support program, which is budgeted at $345.0 million in 2007, the same as 2006. Because security had been performed entirely on overtime, there will be no change in the DSNY headcount as a result of this action. Additional adjustments are expected in the Executive Budget.

Solid Waste Management Plan

Although land use actions for four marine transfer stations (MTS) that are part of the Mayor's proposed solid waste management plan (SWMP) were approved in June 2005—including the controversial East 91st Street MTS—the City Council did not give its final approval to the overall plan. Major sticking points remain the status of the West 59th Street MTS, which the Bloomberg Administration envisions using for Manhattan's commercial waste, and the proposed Gansevoort recycling facility at Pier 52. In addition, there is a pending lawsuit challenging the reopening of the East 91st street facility, which could further complicate implementation of the SWMP.

Reducing the flow of commercial waste—40 percent of which is generated in Manhattan—to transfer facilities in other boroughs, especially Brooklyn, was a major goal of the proposed SWMP, and the West 59th Street MTS is the linchpin in the plan. Using the West 59th Street facility, however, is contingent upon moving recycling operations from there to a new facility to be constructed on the Gansevoort pier at West 14th Street. This, in turn, faces

Department of Sanitation Capital Plan, 2006-2009
Dollars in millions

	2006	2007	2008	2009	Total
Garages	$57.0	$80.7	$263.2	$6.9	$407.7
Vehicles	55.5	148.4	85.1	91.7	380.8
Marine Transfer Stations	50.1	360.8	0.6	-	411.5
Other	9.5	13.3	10.5	9.0	42.3
TOTAL	**$172.1**	**$603.2**	**$359.3**	**$107.6**	**$1,242.3**

SOURCES: IBO; Mayor's Office of Management and Budget.

considerable obstacles, especially from the Hudson River Park Trust, which opposes the facility, and which contends that using the pier for this purpose would violate the state legislation creating the Hudson River Park.

The Council remains concerned that the commercial waste problem, in particular, be solved before giving its approval. Negotiations continue, and once a final plan is approved by the Council, it must be reviewed and approved by the state Department of Environmental Conservation.

CAPITAL BUDGET

Capital commitments for the Department of Sanitation are expected to total more than $1.2 billion over the period 2006 through 2009.

Over the four-year span of the capital plan, funds are divided almost evenly between garage construction, sanitation vehicle replacement and acquisition, and reconstruction of marine transfer stations as part of the SWMP. The DSNY capital plan allocates an average of $89 million in 2007 to each of four marine transfer stations: Southwest Brooklyn, East 91st Street in Manhattan, North Shore in Queens, and Hamilton Avenue in Brooklyn.

In addition to retrofitting the marine transfer stations, implementing the SWMP requires some investments in trucks and garages. In total, $78.2 million in 2006 and $360.2 million in 2007 of DSNY's planned capital commitments are for SWMP-related projects.

NOTE: A detailed review of DSNY spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Public Libraries

PRELIMINARY BUDGET HIGHLIGHTS

- **Public Libraries Reduction in Funding.** The Preliminary Budget proposes an across-the-board reduction in city support for the public libraries of $4.3 million (1.7 percent) in 2006 and $7.9 million (3.5 percent) in 2007.
- **CASA - Libraries After-School.** The Preliminary Budget includes $900,000 to fund a new after-school program in 2006.

EXPENSE BUDGET

Agency Overview. New York City provides general operating support to each of the city's three public library systems: the New York Public Library (NYPL) including the research libraries, the Queens Public Library, and the Brooklyn Public Library. Each system has extensive autonomy in deciding how to budget those funds.

With the Preliminary Budget changes, the city contribution to the four library systems in 2006 will total $259.4 million, 3.4 percent higher than in 2005. The current projection for 2007, which reflects previously scheduled reductions in city support as well as the new cut from the Preliminary Budget, is for spending to fall to $217.3 million, a decline of 16.2 percent from the 2006 level.

Year-over-year library spending by the city has fluctuated somewhat during the past five years, although when measured from the 2002 level to the 2006 level there was little change, with the city subsidy increasing by 1.9 percent over the period. Library subsidies fell nearly 10 percent in 2003, but then rebounded, rising 2.7 percent in 2004 and 5.8 percent in 2005. The Preliminary Budget changes leave 2006 spending 3.7 percent higher than in 2005 and 12.2 percent above the level three years ago.

IBO's figures are adjusted for prepayments by the city. The city's subsidy payments to the independent library systems are one of the expenses that the city can prepay when it is looking to transfer surpluses from one fiscal year to the next. In recent years, with the city experiencing large surpluses, a portion of the library systems' subsidies have often been prepaid before the start of the fiscal year. In 2006, the library systems had a combined prepayment of $224.6 million.

Effects of Key Budget Proposals

Public Libraries Reduction in Funding. The Preliminary Budget includes an across-the-board reduction in funding to the library systems. City funding for each of the four library systems would be reduced by 1.7 percent in 2006 and 3.5 percent in 2007, for total reductions of $4.3 million and $7.9 million in 2006 and 2007, respectively. Individual system reductions are below:

- New York Public Library - Research: $307,000 in 2006, $558,000 in 2007
- New York Public Library: $1.6 million in 2006, $3.0 million in 2007
- Brooklyn Public Library: $1.2 million in 2006, $2.2 million in 2007
- Queens Public Library: $1.2 million in 2006, $2.1 million in 2007

If enacted, the reductions in funding would contribute to an overall decrease of 16.2 percent in spending from 2006 to 2007. The actual year-to-year reduction in spending is steeper than the across-the-board reductions shown in the Preliminary Budget because of how previous budget cuts and restorations are accounted for in the city's four-year Financial Plan.

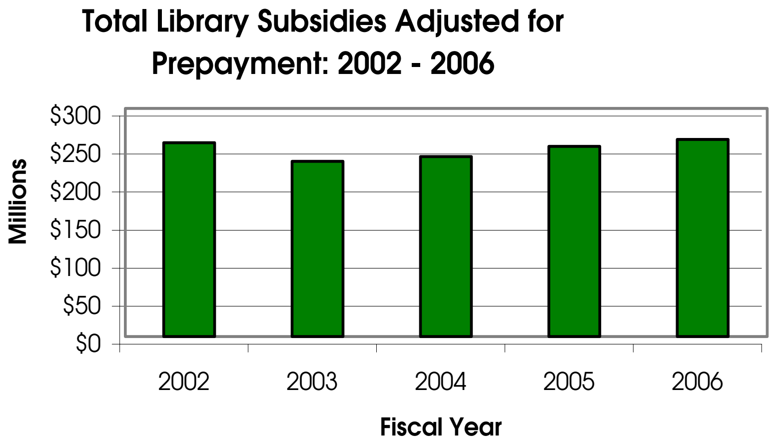
The budget for the libraries is one of the areas where cuts proposed by the Mayor in the Preliminary Budget are usually either partially or fully restored for the Adopted Budget. In last year's Preliminary Budget, the Mayor proposed a 6 percent across-the-board-cut that was fully restored when the 2006 budget was adopted last June. The City Council also added another $21.8 million to the Libraries' 2006 budgets, partially restoring cuts that had occurred in fiscal

New York City Public Libraries

Dollars in millions

Library System	2005 Actual	2006 Modified	2007 Proposed
New York - Research	$18.2	$18.6	$15.4
New York	94.8	98.6	81.8
Brooklyn	70.3	72.4	61.2
Queens	66.9	69.8	58.9
Total	**$250.2**	**$259.4**	**$217.3**
Capital Commitments	$41.4	$162.8	$57.2

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTE: Expenditures have been adjusted to account for prepayments of library subsidies.



SOURCE: IBO.

years 2003 and 2004.

Despite these additions, some of the 2004 cuts remain "baselined," or carried forward, in the city's Financial Plan. Neither the restoration of the Mayor's proposed reduction, nor the Council's additional restoration offsetting the effects of the 2004 cuts were baselined in the Financial Plan beyond 2006, leaving spending scheduled to revert to the lower levels in 2007. If this year proves typical, some or all of these planned reductions for 2007 will be avoided during the budget negotiations between the Mayor and the Council.

CASA – Libraries After-School. The city will give $300,000 each to the New York, Brooklyn, and Queens library systems in order to create additional after-school programs. The libraries were given wide latitude on how to spend the money and have used it for various purposes including after school programs for teens and educational performances of different cultural groups that reside in New York City.

CAPITAL BUDGET

The current capital plan has total capital commitments for 2006 through 2009 totaling $229.5 million, a 1 percent increase over the September commitment plan and a 22 percent increase over last year's January commitment plan.

The majority of the capital funding for all three library systems goes to the renovation of existing facilities as well as site acquisition and construction, including: $21.2 million for the reconstruction of the New York Public Library's Central Building, $3.9 million for new branch construction in Mariner's Harbor, $3.5 million to expand an existing branch in Stapleton and approximately $30.6 million and $50.3 million in renovations of various branches in the Brooklyn Public Library and the Queens Library systems, respectively.

Capital Program, Financing, and Debt Service

OVERVIEW

The Capital Commitment Plan accompanying the Preliminary Budget and covering the period 2006 through 2009 projects $40.7 billion in spending on the city's capital program. As in the past, the majority of spending is concentrated in three broad areas: education, environmental protection, and transportation. The education capital program, however, depends on the availability of state funding that may or may not ultimately materialize.

The city would issue $25.7 billion in bonds to finance the capital program over the next four years, including $6.4 billion by the Municipal Water Finance Authority (NYW) and $19.3 billion in general obligation (GO) bonds. The latter are repaid from the city's expense budget. The cost of debt service is projected to rise from $4.2 billion this year (adjusted for prepayments), to $6.1 billion by 2010—an average annual rate of growth of almost 10 percent. Debt service, which represents 13 cents of every tax dollar this year, would rise to consume 16.2 percent of tax revenues by 2010. IBO projects the ratio of debt service to tax revenues to begin to decline after 2010.

The city has restructured debt issued through the Tobacco Settlement Asset Securitization Corporation (TSASC), the entity created in 1999 to issue bonds backed by tobacco settlement revenues. The restructuring would release reserves required to be set aside following the downgrade to junk status of the debt of a major U.S. tobacco manufacturer. Because of the city's currently favorable fiscal condition, however, the reserves and residual tobacco settlement revenues will not be released by TSASC to the city's general fund until 2008.

The city continues to pursue various initiatives at the state level in order to reduce its financing costs, including the authority to substitute Transitional Finance Authority (TFA) bonds for a share of city general obligation bonds. TFA bonds carry a higher rating than city GO debt, and hence lower borrowing costs.

CAPITAL COMMITMENT PLAN

The city's Preliminary Capital Commitment Plan for 2006-2009, presented in January with the 2007 Preliminary Budget, projects $40.7 billion in total funds to finance the city's extensive capital program. This projection is comprised of $31.6 billion in city funds and $9.1 billion in non-city funds. The capital strategy is concentrated in three categories—education, environmental protection, and transportation—that total $24.9 billion in total funds, representing over 61 percent of the entire capital plan.

Education projects, which are primarily for school construction, expansion, and rehabilitation, constitute over 28 percent of the total commitments over the course of the four-year plan. The plan assumes the availability of $6.6 billion in state funding for the education capital program, or over 57 percent of the total. This funding is contingent, however, on the resolution of the Campaign for Fiscal Equity school finance lawsuit, and represents the city's projection of the state's capital contribution resulting from this lawsuit. At this stage, there are serious questions about whether the state will act in time to provide the budgeted capital funds for 2006 or even in the later years.

Environmental protection projects, which are primarily for the

Fiscal Year 2006-2009 Commitment Plan

Dollars in millions

	Total	City Funds	Non-City Funds	Percent of Total Funds	Percent of City Funds
Education	$11,488	$4,910	$6,578	28.2%	15.5%
Environmental Protection	7,933	7,635	298	19.5%	24.1%
Transportation	5,486	4,268	1,218	13.5%	13.5%
General Services*	4,445	4,363	82	10.9%	13.8%
Housing	2,117	1,604	514	5.2%	5.1%
Economic Development	1,947	1,767	180	4.8%	5.6%
Health & Social Services	1,818	1,772	46	4.5%	5.6%
Public Safety**	1,690	1,645	45	4.1%	5.2%
Parks	1,627	1,508	120	4.0%	4.8%
Courts	1,145	1,143	3	2.8%	3.6%
Culturals & Libraries	1,042	1,020	23	2.6%	3.2%
TOTAL	**$40,740**	**$31,636**	**$9,104**	**100.0%**	**100.0%**

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: *Includes the capital programs for sanitation, public buildings and real estate, and citywide computer equipment. **Includes the capital programs for corrections, police, fire, and juvenile justice.

city's water and sewer systems, make up 19.5 percent of the capital plan while transportation projects, which are primarily for the construction and rehabilitation of bridges, roads, and the transit system, make up 13.5 percent of the capital plan. Among the remaining categories, projects related to general city services, which include the capital programs for sanitation, public buildings, and computer and technology equipment, constitute almost 11 percent of the capital plan while housing and economic development projects constitute 10 percent of the capital plan. The remaining 18 percent of the Capital Commitment Plan is devoted to public safety; health and social services; and parks, cultural affairs, and libraries.

CAPITAL FINANCING PROGRAM

The city's financing program projects $25.7 billion in long-term borrowing to support the Preliminary Capital Commitment Plan. The two main vehicles for long-term borrowing are general obligation bonds and New York Municipal Water Finance Authority bonds. The city finances the environmental protection capital program by issuing bonds through NYW, which secures the debt with revenues collected from water and sewer rates. An estimated $6.4 billion in NYW bonds are expected to be issued over the course of the capital plan to finance city-funded environmental protection commitments. The remaining $19.3 billion in planned borrowing, representing 75 percent of total borrowing, will be implemented through GO bonds, which are general purpose bonds that are secured by the full faith and credit of the city and are repaid from general city revenues through the operating budget.

Debt Profile. The Bloomberg Administration projects that debt outstanding will increase from $51.2 billion in 2005 to $64.3 billion in 2010. (This includes outstanding GO, Transitional Finance Authority, and tobacco settlement bonds and conduit debt, and excludes NYW bonds.) At the end of 2005, GO debt made up over two-thirds of the city's overall debt outstanding and the vast majority of this debt, approximately 95 percent, is tax-exempt. Over 49 percent of the city's total GO debt is scheduled to be retired within the next 10 years.

Approximately 17 percent of current outstanding GO bonds are variable-rate, including the value of derivative transactions whose aggregate notional amount is approximately 9 percent of current GO debt outstanding. The city's variable rate bonds are frequently involved in these transactions, which leverage financial products whose values are derived from the values of underlying assets or indices.

DEBT SERVICE BUDGET

The Mayor's Preliminary Capital Commitment Plan estimates a debt service budget of $4.6 billion in 2006. This includes interest and principal payments on GO and TFA bonds, appropriations for debt service for conduit bonds issued on behalf of the city by certain public benefit corporations, and residual payments for Municipal Assistance Corporation (MAC) administrative expenses. Debt service on NYW and TSASC debt service are excluded because these payments do not actually flow through the city's budget.

In order to accurately calculate the annual rate of growth for debt service, it is necessary to adjust for the city's practice of using budget surpluses in the current year to prepay debt service due in the following year. Hence, IBO's estimates adjust for prepayments of GO, TFA, and conduit debt service to allocate them to the year in which they are actually due. As a result, we forecast the adjusted debt service to be $4.2 billion in 2006 and increase to $6.1 billion in 2010. The projected average growth in the debt service budget of almost 10 percent annually over the next five years is considerably larger than the rate of growth of most other major city expenditures. Based on our forecasts for adjusted debt service and tax revenues, 13 cents of each city tax dollar in 2006 will be devoted to debt service and this is projected to increase to over 16 cents by 2010.

To take advantage of a favorable interest rate environment, the city has periodically refinanced existing debt to realize significant debt service savings. In 2005, the city issued

Debt Service
Dollars in millions

	2006	2007	2008	2009	2010
Mayor's Plan	$4,600	$1,383	$5,369	$5,751	$6,092
IBO surplus adjustment	(137)	137	-	-	-
IBO Projection	4,463	1,520	5,369	5,751	6,092
Adjustment for prepayments*	(245)	3,329	-	-	-
Adjusted Debt Service	$4,218	$4,848	$5,369	$5,751	$6,092

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTE: *Reallocating debt service prepayments to the year in which they were originally due. Includes net affect of prepayments made in 2005 for 2006 and 2007 debt service, including TFA, and prepayments projected to be made in 2006 for 2007 debt service. Does not include short-term borrowing.

$2.9 billion in refunding bonds to redeem outstanding GO debt. This resulted in debt service savings of $1 million, $100.4 million, and $26 million in 2005, 2006, and 2007, respectively. The city also leverages variable-rate debt instruments to exploit lower short-term interest rates. During 2006, the city estimates annual savings of over $110 million from lower interest rates on variable-rate bonds and derivative transactions.

TSASC Refunding. The Tobacco Settlement Asset Securitization Corporation is a special purpose corporation that the city created in November 1999 to provide financing for the city's capital program. The city transferred to TSASC its 3.4 percent share of the national Tobacco Settlement Revenues (TSR) to be paid annually pursuant to a Master Settlement Agreement (MSA) between states and major U.S. cigarette manufacturers. TSASC, in turn, issued bonds, which are not subject to the statutory debt limit, secured by TSRs to support the city's general capital plan. TSASC retains sufficient TSRs to cover its debt service and operating expenses before transmitting the residual amounts to the city's general fund.

TSASC was originally authorized to issue $2.76 billion worth of bonds, and ultimately issued a total of $1.32 billion. In addition, TSASC dedicated a portion of TSRs to repay loans awarded by federal Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). TSASC drew approximately $188 million from the TIFIA loan, which is payable over 30 years and is secured by TSRs on a parity basis with TSASC bonds.

In May 2003, a "trapping event," as defined in the original TSASC bond indenture, occurred after the credit of RJ Reynolds, one of the four major tobacco manufacturers involved in the MSA, was downgraded below investment grade. Furthermore, the Non-Participating Manufacturer's market share in calendar year 2003 was reported to exceed 7 percent based on the MSA Independent Auditor's report, dated April 14, 2004, which triggered another trapping event for TSASC. As a result, TSASC was required to begin depositing a portion of the annual residual TSRs—approximately 48 percent, equal to the ratio of the $1.32 billion in TSASC bonds actually issued to the total $2.76 billion authorized—into a trapping account. TSRs were to have been retained until the trapped funds totaled 25 percent of the outstanding TSASC bonds—approximately $320 million. Approximately $137 million had been trapped by this mechanism by the end of 2005.

In January 2006, TSASC refinanced all the bonds issued under its original indenture to release the trapped funds from the trapping account. Under the amended indenture of the refunded bonds, a fixed share of 37.4 percent of TSRs is pledged to TSASC to fund debt service and operating expenses while the remainder will flow to the city. Any pledged TSRs remaining after meeting these requirements will be retained to defease the new TSASC bonds. The amended indenture does not include provisions for a trapping account and the previously trapped funds are now available for release to the city.

However, given that the Preliminary Budget forecasts an overall $3.3 billion budget surplus in 2006 and a balanced budget in 2007, the Bloomberg Administration determined that there was no immediate need for cash flows from TSASC in the next two years and that these funds would be more beneficial if released in 2008 to help close a projected budget gap. The amended indenture thus provides for the retention by TSASC of the $137 million in trapped funds and the scheduled residual TSRs for 2006 and 2007—totaling approximately $290 million—until 2008, when they are to be released to the city. From 2008 on, the residual TSRs will regularly flow to the city on an annual basis.

DEBT AFFORDABILITY

Measured in terms of the total debt outstanding relative to the economic resources available to support repayment and also in terms of the burden of repayment on the city budget, the city's debt burden has grown steadily in recent years as the capital program has accelerated. Under current plans, the city's debt burden ratios will continue to grow in the next five years but are expected to improve through 2015.

Debt Outstanding. At the end of 2006, the city's total debt outstanding, which supports the general capital program, will reach $53.1 billion. (This includes outstanding GO, TFA, and TSASC bonds, and conduit debt; and excludes NYW and MAC bonds, which were defeased in November 2004.)

Total personal income and full market value of taxable real property are two indicators of a city's underlying revenue-raising capacity and are commonly used as measures of overall debt capacity. The city's total debt outstanding represents 14.7 percent of personal income and 6.3 percent of full market value. In comparison, debt outstanding was 14.0 percent of personal income and 9.0 percent of full market values in 1995.

Debt Outstanding Measures
Dollars in millions

	2006	2007	2008	2009	2010
GO bonds	$36,762	$39,866	$43,255	$46,169	$48,577
TFA bonds	12,323	11,984	11,574	11,134	11,134
TSASC bonds	1,269	1,252	1,235	1,209	1,209
Conduit debt	2,719	2,599	2,484	2,371	2,295
TOTAL	**$53,073**	**$55,701**	**$58,548**	**$60,883**	**$63,215**
Ratio of Debt Outstanding to:					
Total City Personal Income	14.7%	14.7%	15.0%	15.0%	15.0%
Full Market Value of Property	6.3%	6.2%	6.1%	5.8%	5.7%

SOURCES: IBO; Mayor's Office of Management and Budget.

These ratios indicate that debt outstanding has grown faster than personal income, but considerably slower than property values over the past 10 years.

The Preliminary Capital Commitment Plan is expected to result in an average annual growth rate of 4.7 percent in the city's total debt outstanding over the next five years. Debt outstanding is forecast to increase at a slightly faster rate than personal income, growing to 15.0 percent of personal income by 2008 before leveling off through 2010. In contrast, debt outstanding growth is expected to continue to be slower than full market value growth and debt outstanding as a percentage of full market values is forecast to decrease to 5.7 percent by 2010.

Based on longer-term forecasts, IBO projects that both debt outstanding ratios will decrease through 2015.

Debt Service. The city's debt service payments totaled $4.1 billion in 2005. (This includes GO, TFA, conduit, and MAC debt service and excludes NYW and TSASC debt service.) Total debt service increased by almost 6 percent annually over the past decade and currently represents 13.3 percent of total tax revenues and 1.23 percent of total personal income. In comparison, the city's debt service in 1995 stood at $2.3 billion, which was 12.8 percent of tax revenues and 1.07 percent of personal income.

Debt service growth is projected to accelerate over the next five years, resulting in an average increase of over 10 percent annually. Total debt service payments are projected to reach $6.1 billion in 2010, which would represent 16.2 percent of tax revenues and 1.45 percent of personal income.

Part of the reason for the rapid growth results from the city's decision to pay the interest on bonds to be issued by the Hudson Yards Investment Corporation to finance the redevelopment of the far west side of Manhattan. The interest payments begin with $51 million in 2006 and rapidly grow to $162 million in 2009 before tapering off in the later years. This increase is expected to result in almost $1 billion in additional debt service payments for the city over the next 10 years.

In addition, over the past four years, the city took advantage of a very favorable interest rate environment and federal legislation to refinance significant amounts of outstanding debt. As a result, the city realized considerable savings and reduced the growth in debt service over this period. As a standard practice, however, the city does not include future refundings in its capital financing forecasts even if it typically undertakes several refinancing transactions every year. Hence, the debt service forecast in the Preliminary Capital Commitment Plan excludes any savings from potential future refundings, which would lower future debt service.

Based on longer-term IBO projections, both debt service ratios are expected to level off after the next five years before decreasing through 2015.

DEBT REFORM

The Mayor is asking the state for several debt reform measures that would improve its debt management and result in reduced debt service costs. There are no federal initiatives currently pending.

Transitional Finance Authority Reform. TFA was created in 1996 to issue debt at a time when the city's outstanding GO debt had reached its constitutional debt limit. The statutory limit is based on a five-year average of market value of city property as measured by the state and it had fallen sharply in the mid-1990s after the recession earlier in the decade. TFA currently has the authority to issue up to $11.5 billion in bonds (excluding extraordinary borrowing in the wake of September 11), which are secured primarily by a first lien on city personal income tax receipts. These bonds enjoy a higher credit rating–and therefore lower borrowing costs–than the city's GO bonds. The debt limit was reached in 2004 and the TFA currently does not have any authority to issue additional debt.

Debt Service Measures
Dollars in millions

	2006*	2007*	2008	2009	2010
General Obligation	$2,971	$3,597	$3,993	$4,383	$4,747
TFA	947	904	981	986	985
Conduit debt	291	337	385	382	360
MAC	10	10	10	-	-
TOTAL	**$4,218**	**$4,848**	**$5,369**	**$5,751**	**$6,092**
Ratio of Debt Service to:					
Tax Revenues	13.0%	15.1%	15.7%	15.9%	16.2%
Total City Personal Income	1.2%	1.3%	1.4%	1.4%	1.5%

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTE: *Adjustments are made for prepayments of 2006 and 2007 debt service that occurred in 2005 and 2006, respectively. Does not include short-term borrowing.

For the past few years, the city has sought an increase in TFA bonding capacity to take advantage of its lower borrowing costs. If the city's petition to increase the cap on TFA debt is permitted, up to half of the debt currently scheduled to be issued using GO bonds will be replaced with TFA bonds, which would reduce the city's financing costs.

Revising the Assessment of State Recovery Costs for Public Authorities and Public Benefit Corporations. Under Public Authorities Law 2975, public authorities and public benefit corporations are required to reimburse the state for indirect governmental costs attributable to the provision of services to these entities. In 2003, amendments to this law increased the aggregate amount that the state can assess public authorities from $20 million to $40 million and shifted the responsibility for determining the amount assessed on each public authority to the state's Director of the Budget. Previously, statutory language tied assessments of fees to each public benefit corporation's share of the total debt for all public benefit corporations.

The change in the law resulted in significantly increased assessments of state recovery costs on the Battery Park City Authority (BPCA) and MAC. State recovery costs have increased from $225,000 in 2003 to $3.6 million in 2006 for BPCA and from $600,000 in 2003 to $1.6 million in 2005 for MAC. The city is seeking an amendment to the law to restore the pre-2003 proportional methodology for calculating the fees, which would significantly reduce the amount of state recovery costs assessed to the city. Furthermore, the city is requesting a full and detailed accounting of state oversight costs that correspond to the state recovery costs.

General Obligation Bond Statutory Lien. The city is proposing to make certain provisions of the Financial Emergency Act permanent and to create a statutory lien on the city's debt service fund in favor of bondholders. This proposal would also authorize a pledge by the state to city bondholders to preserve the general debt service fund and the statutory lien. Establishing a statutory lien would provide bondholders with a legal claim against the city's debt service fund in case it defaults on a debt service payment. This would reduce the risk for investors and consequently strengthen the city's credit quality.

Administration for Children's Services (ACS)

PRELIMINARY BUDGET HIGHLIGHTS

- **Enhanced Foster Parents Support.** The Preliminary Budget proposes an increase of $127,000 in 2006 and $12 million a year in 2007 through 2010 to help children remain with their foster home families.
- **Youth Placement Initiative.** The Preliminary Budget proposes $11.5 million annually for this new program beginning in 2007 to provide special services for children in trouble for truancy or criminal activity and whose families have had some involvement with ACS child welfare programs.
- **Congregate Care Reinvestment.** The Preliminary Budget includes a $10.7 million savings by placing more foster children in family-based care rather than congregate care.
- **Child Protection Initiatives**. The Preliminary Budget includes a series of initiatives to improve the city's response to allegations of child abuse and neglect. The budget for these initiatives equals $4.2 million in 2006 and $15.8 million in funding annually in 2007 through 2010.
- **Child Care Funding**. The budget projects a decrease of $75 million in funding for child care—equal to about 9,000 slots—largely due to expectations of less state and federal aid.

EXPENSE BUDGET

Agency Overview. The Mayor's proposed 2007 Preliminary Budget for the Administration for Children's Services is $2.15 billion. IBO projects that federal funding in 2007 will be $25 million greater than the amount currently included in the Preliminary Budget, raising our estimate for the agency's total 2007 budget to $2.18 billion. The proposed 2007 operating budget represents a 3.0 percent decline in projected expenditures compared with the current modified budget of $2.24 billion for 2006; the bulk of the decline is in the agency's child care programs. Spending on foster care has also declined because of a substantial reduction in the caseload since 2005.

Head Start. The Preliminary Budget projects a decrease for Head Start of 14.5 percent from the current modified budget for 2006. This expense reduction is due to federal aid that IBO anticipates will eventually be received but which has not been recognized in the Preliminary Budget. IBO projects an additional $25.0 million in overall funding for this program area, bringing the total to $177.6 million, a slight 0.6 percent decline from the 2006 current modified budget.

Child Care Funding. Child care in New York City is provided through two agencies, ACS and the Human Resources Administration (HRA). Although the Preliminary Budget projects a spending decrease of $75 million, or 15.8 percent, for ACS's child care programs, there is no indication that the number of children in these programs is decreasing as well. The $75 million funds about 9,000 child care slots. Although it is likely that funding will be increased in order to provide a similar number of child care slots as are available today, IBO cannot accurately predict which funding streams will show increases.

The two biggest revenue sources for child care are the Child Care Block Grant (CCBG) and city tax-levy dollars. CCBG combines the state's allocations of the federal Child Care Development Fund, state child care funds, and surplus federal Temporary Assistance to Needy Families (TANF)

Administration for Children's Services

Dollars in millions, all funds

	2005 Actual	2006 Current Mod	2007 Proposed
Program Area			
Administration	$139.6	$144.7	$146.2
Adoption	351.2	325.5	324.4
Child Care	488.5	477.2	402.0
Foster Care	794.7	739.0	718.3
Head Start	197.1	178.8	152.7
Office of Child Support Enforcement	0.4	0.2	0.2
Preventive Services	157.6	191.5	214.9
Protective Services	153.8	171.8	186.4
Unallocated Financial Plan Changes		15.0	6.0
TOTAL	**$2,282.9**	**$2,243.7**	**$2,151.1**
IBO Adjustments			
Federal Grants		$0.0	$25.0
IBO Projected		**$2,244**	**$2,176.1**
Full-Time Personnel	6,429	6,933	
Capital Commitments	$3.8	$68.8	$24.8

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006.

funds that the state decides to use for child care. Due to various fiscal pressures on the state budget, the level of surplus TANF available for child care has been constrained. As a result, CCBG funding in the city's child care budget has declined 4.4 percent from 2005 to 2006, with the Bloomberg Administration projecting a decline of 2.4 percent for 2007.

The Community Development Block Grant (CDBG) is a federal funding stream that has recently played a greater role in child care. Before 2003, due to legal limitations on spending CDGB funds for social services, the city budgeted about $3 million annually for child care services. After the 9/11 terrorist attack, federal officials granted a temporary waiver, since extended through 2006, which allowed more CDBG funds to be used for social services. The funds designated for child care in the city increased substantially, with $23.5 million budgeted in 2006. However, due to uncertainty about continuation of the waiver and the availability of CDBG for social services, the city has budgeted only $3.3 million of these funds for child care in 2007.

City-funded support has also decreased by approximately 14.5 percent for all child care in New York City for 2007. Due to the various federal and state funding constraints affecting child care, in order to maintain the current service levels the city may have to increase funding using its tax dollars to make up the difference.

Family Day Care Reduction. In the Adopted Budget for 2006, the City Council appropriated $10 million for an expansion of family day care, a form of child care that takes place within the homes of service providers. Although this action represented continuation of a City Council initiative in the previous year's Adopted Budget, there is no provision for sustaining the program after 2006 and there is no funding budgeted for the expansion of family day care in the Preliminary Budget for 2007.

Preventive Services. The total 2007 proposed budget for child welfare preventive programs is $215 million, a 12.2 percent increase from the 2006 current modified budget. ACS has centered its focus on preventive services over the past several years with the goal of strengthening families and decreasing the abuse and maltreatment of children. By focusing on preventive services, ACS tries to avoid removing children from their families. This approach seeks to eliminate two costs: one fiscal—spending on foster care placements—and the other emotional—the trauma of separating children from their families.

In recent years the number of children in preventive care provided through contracts with private social service agencies has grown sharply, from 23,855 in 2001 to 28,781 in 2005, an increase of nearly 21 percent. This has coincided with a dramatic 38.5 percent decrease in contract foster care during the same five-year period. The city benefits fiscally from focusing its resources on preventive services rather than foster care. The average annual cost of preventive care is roughly $6,500 per case while the average cost of foster care is more than four times as high at approximately $28,000 per year.

But the city may find it has a shortfall in funding for child welfare for some of the same reasons as those for its child care programs. With no TANF surplus funds specifically available for child welfare programs under the Governor's budget plan, the city may have to allocate some of its state Flexible Fund for Family Services block grant to child welfare—putting these programs into competition with other services that had been funded with the surplus—or fill any potential shortfall with city dollars.

Effects of Key Budget Proposals

Enhanced Foster Parents Support. This initiative provides funding for a new preventive services program for foster care parents to reduce the number of children who are shifted from family-based home foster care to congregate care each year. The Preliminary Budget would provide services for approximately 800 families annually at a cost of $12 million a year beginning in 2007. For many foster parents, taking care of foster children presents a unique set of challenges. Many of the children have experienced long-term abuse and neglect; some also have psychological or other developmental problems. Because of these challenges, some foster care placements have to be withdrawn. In a typical year, approximately 750 children move from a family setting to a congregate placement due to difficulties staying in their foster parents' homes.

The Enhanced Foster Parents Support program will provide additional funding to the child welfare agencies already under contract to give administrative and other support to foster parents. The program aims to assist these agencies in identifying and stabilizing the placement of children in danger of having to move from the homes of foster parents into congregate care. For example, with this money, child welfare agencies might target recruitment campaigns to attract foster parents specifically for teens, hire foster parent advocates, create a 24-hour support line for foster parents to assist them with concerns, or provide a foster teen with mental health services.

In addition to the emotional and developmental benefits to the foster children that are believed to result from home-based care, there are also fiscal benefits to the city. By targeting supportive resources towards foster parents, ACS expects to reduce the number of parents who terminate the foster relationship. With congregate care costs averaging between 260 percent and 360 percent more—depending on the institutional setting—than home-based care, ACS expects this initiative to result in net savings.

Youth Placement Initiative. The Preliminary Budget includes funds for community-centered services through a special ACS facility for youth who have had some involvement with the child welfare and criminal justice systems. This newly established program will provide services to the families of young people whose interactions with the legal system can range from arrest for criminal activity, to designation as a person in need of supervision (PINS), to school truancy. This program aims to strengthen community-based services as an alternative to institutional placement for youth when appropriate. ACS anticipates that between 500 and 750 youth will be served by this initiative.

Congregate Care Reinvestment. The long-term trend in placing foster children in family-based home care rather than in congregate care facilities has resulted in significant savings for the city due to the cost differences between the types of settings. The average rate paid for family-based home care was $47.13 per child per day in fiscal years 2000 to 2005, while the average daily cost for congregate foster care was $162.11 over the same six-year period. The Congregate Care Reinvestment initiative will eliminate approximately 190 congregate care slots and the savings will be invested in intensive support for foster families and youth. The Bloomberg Administration expects this initiative to save the city $10.7 million annually.

Child Protection Initiatives. In January, after the death of 7-year-old Nixzmary Brown, Mayor Bloomberg announced a range of initiatives and investments that are designed to strengthen the city's response to child abuse or neglect, with a particular focus on enhancing interagency coordination. Protective services, the program area containing the majority of the initiatives prompted by Nixzmary's death, has a proposed budget of $186.4 million for 2007. This represents an overall increase in projected spending of 8.5 percent above the 2006 current modified budget and 21.2 percent above the 2005 level. Major components of this initiative include:

- *Expand Intensive Family Services Unit.* This initiative expands ACS oversight of some families for whom previous investigations of child abuse and neglect had concluded that removal of a child was not warranted, but had identified a need for ongoing preventive services and supervision. Now, more cases will be kept open, enabling longer-term oversight. Staffing for the Intensive Family Services Unit, part of ACS' child protective team, will be increased with an additional 250 child protective workers who will supervise an additional 7,000 cases annually. The annual cost of this enhanced child protection service is $11 million.
- *Strengthen Child Protection Management.* According to ACS, caseworkers and supervisors in the Nixzmary Brown case failed to react to warning signs of a "crisis mounting in the household." Attempting to prevent similar lapses in the future, ACS will enhance child protection field office supervision by hiring an additional 35 new senior child protective managers to oversee and guide the work of frontline child protection staff. The annual cost of this supervision is $2.3 million.
- *Family Court Attorneys.* ACS will hire 32 attorneys to ensure that Children's Services hastens the judicial proceedings in child protection cases and to make attorneys more available to consult with Children's Services child protective workers, supervisors and managers. The annual cost of these new hires is $1.5 million.

Other initiatives include the creation of an ombudsman's office for preventive services to respond to concerns about the progress of investigations and better coordination and collaboration among ACS and the education and police departments.

CAPITAL BUDGET

Agency Overview. ACS is responsible for over 200 facilities including: the ACS Children's Center, child care centers, congregate foster homes, program field offices, and administrative offices. Major capital improvement plans for the agency include renovating and expanding child care centers, upgrading and expanding telecommunication and computer technology to improve service delivery and management, and upgrading field and administrative offices.

The current four-year Capital Commitment Plan for ACS calls for $115.5 million in total commitments for 2006 through 2009. Planned commitments total $66.8 million, $24.8 million, $13.2 million and $10.7 million for 2006 through 2009, respectively. The commitment plan increased just 0.1 percent since the September plan, but is 25.5 percent larger than the plan from one year ago.

The increase in capital funding is attributed, in part, to changes in city regulations that make it easier for ACS to fund capital projects located in buildings the city does not own. The current four-year plan includes $16.7 million in commitments for capital projects located in non-city owned buildings. These include the renovation of numerous community, day care, Head Start, and learning centers.

NOTE: A detailed review of ACS spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

City University of New York (CUNY)

PRELIMINARY BUDGET HIGHLIGHTS

- **Community College and Hunter Campus School Health Insurance Increase.** The 2007 Preliminary Budget includes an addition of $170,000 in city funds for a 3 percent increase in health insurance costs for the community colleges and the Hunter Campus School.
- **Community College Collective Bargaining for Carpenters and Plumbers.** The Preliminary Budget includes $263,000 in new city funds to cover the cost of a collective bargaining increase for carpenters and plumbers at the community colleges.
- **Rising Enrollments Boost Revenues and Costs.** The Preliminary Budget includes $5 million in additional funds from tuition and fees associated with increasing enrollment at the community colleges. These funds will be used to cover the increased costs of educating additional students.

EXPENSE BUDGET

Agency Overview. CUNY is the nation's largest municipal university system enrolling over 218,000 full- and part-time undergraduate and graduate students, a number that has been growing steadily since 1999. CUNY receives nearly three-fifths of its operating budget from the city and state, with tuition and fees accounting for the remainder. Compared to most universities and colleges, public and private, CUNY receives relatively little philanthropic support, although recent efforts have been made to increase this funding source.

Because the city and 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 and law schools. Both the city and state contribute funds to the community colleges. The state and federal governments subsidize tuition for low- to moderate-income students through grants, loans, and tax credits. IBO focuses on the part of CUNY spending recorded in the city's accounts.

The Preliminary Budget proposes $535.7 million for CUNY in 2007, $101 million less than in 2006. After we adjust for the pass through of state funds initially recorded in city budget accounts to senior colleges, the Preliminary Budget projects spending growth of 4.5 percent in 2006 and a decrease of 16.8 percent in 2007. Future Financial Plans are likely to make significant additions to the 2007 budget, however. The November 2005 modification and the Preliminary Budget added $40 million in intra-city funds to the 2006 CUNY budget to reflect agreements between CUNY and various city agencies. This process will likely be repeated for 2007. In addition, many programs favored by City Council members typically get added in as part of the process of adopting the new budget in June of each year. These city fund additions are usually for only one year, meaning that this process must be repeated on an annual basis for the programs to be sustained. Last year's Adopted Budget added about $54 million in city funds for CUNY in 2006 that were not included in the Financial Plan for 2007 and beyond.

A prime example of this process is the Peter F. Vallone Academic Scholars program. The program rewards students

City University of New York

As reflected in city budget, dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Community Colleges	$337.3	$334.9	$244.0
Central Administration	191.4	220.0	223.2
Hunter Schools	11.9	11.9	11.8
Adult Continuing Education	6.0	5.3	5.3
Technology	8.3	6.6	6.6
Language and Special Programs	1.6	1.3	1.0
Programs Funded With Non-Government Aid	2.9	1.4	0.0
INVEST Program	0.4	0.3	0.0
Other	15.8	46.2	35.0
Unallocated Financial Plan Changes	0.0	8.8	8.8
TOTAL	**$575.6**	**$636.6**	**$535.7**
IBO Adjustments			
State Pass-thru to Senior Colleges		($35.0)	($35.0)
IBO Projected		**601.6**	**500.7**
Full-Time Personnel	4,349	4,346	
Capital Commitments	$19.9	$257.6	$53.6

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006.

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 to cover a portion of their tuition. In 2005 the program provided a total of $7 million to CUNY students at both the junior and senior colleges. The 2006 Executive Budget did not include any funds for this program, but as part of the budget adoption process the Council funded the program for 2006 only, at the enhanced level of $11.4 million. The 2007 Preliminary Budget includes no funds for the Vallone scholars program, but some funding is likely to be restored in the Adopted Budget.

Additional evidence of how much the 2007 CUNY operating budget is likely to grow beyond the Preliminary Budget proposals can be gleaned from the evolution of the 2006 budget. A year ago the 2006 Preliminary Budget proposed $520.8 million for CUNY. Over the course of the last year this has grown to $636.6 million, an increase of over $115 million. These later additions to the CUNY budget can have a major impact on some program areas. For example, over the last year the 2006 budget for community colleges has grown from $244 million to $334.9 million, an increase of over $90 million.

Effects of Key Budget Proposals

Additional Funds for Health Insurance Increase and Collective Bargaining Increase. These new funds are necessary to cover ongoing increases in the cost of supporting CUNY's pedagogical and nonpedagogical staff. The total number of full-time personnel at those areas of CUNY that fall within the city's budget was 4,346 as of November 2005.

Rising Enrollments Boost Revenues and Costs. This action recognizes the impact of rising enrollment at the six CUNY community colleges. The total number of full-time and part-time students at the community colleges increased from 68,044 in the fall of 2002 to 73,308 in 2004, the most recent year for which information is available. The enrollment increase has resulted in increased revenue from tuition and fees, along with the increased costs of providing services to the additional students.

CAPITAL BUDGET

Agency Overview. The four-year Capital Commitment Plan calls for $410 million in total commitments for CUNY in 2006 through 2009, an average of over $102 million a year. Planned commitments total $258 million in 2006 and drop to $54 million in 2007. The four-year commitment plan has increased by a modest $3 million since the September 2005 plan. Actual commitments for any given year can vary significantly from the plan, however. For instance, a year ago the plan projected $114 million in commitments for 2005; actual commitments totaled only $20 million.

The city's capital plan makes up roughly 22 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, and law school. The city Capital Budget does not fund senior college and graduate school projects, except when funds are earmarked by City Council Members or Borough Presidents. In 2006, about 4 percent of city capital commitments for CUNY are designated for senior colleges; in later years of the plan the share is less than 1 percent.

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 the other senior colleges, requiring the state to pay 100 percent of its capital costs, but the state has yet to act on this request.

Key Capital Projects

Fiterman Hall. 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. Located at 30 West Broadway, the skyscraper was severely damaged in the trade center attacks. The city now estimates that it will cost about $202 million to replace the building and its equipment. The vast majority of the needed funds have now been identified. Insurance payments will provide $67 million, city funds $80 million, state funds $20 million, Lower Manhattan Development Corporation funds $15 million, and the 911 Fund $5 million.

The project is currently in the design stage, with an estimated project completion date of April 2009. Until the project is completed, the college has rented classroom space at 75 Park Place, across the street from the original Fiterman building. Classes began at this location in September 2004. The state is helping to subsidize these costs.

Academic Building 1. This project, at Medgar Evers College, will construct a new building at Crown Street and Bedford Avenue. The new building will house the School of Science, Health, and Technology as well as classrooms, laboratories and faculty offices used by all disciplines.

The project is currently in the design stage, with an estimated completion date of May 2010. The total estimated cost is $159 million, of which $147 million has been funded, split about equally between the city and state.

Department for the Aging (DFTA)

PRELIMINARY BUDGET HIGHLIGHTS

- **Consolidation of Information and Referral Services.** The 2007 Preliminary Budget proposes consolidating DFTA's information and referral services into the 311 Citizen Service Center for a $1.6 million annual savings.
- **Transfer of Senior Citizen Rent Increase Exemption Program.** The Preliminary Budget includes the gradual transfer of DFTA's Senior Citizen Rent Increase Exemption program to the Department of Finance for a savings of $800,000 in 2007 and $2.0 million in each subsequent year.
- **Borough President Discretionary Funds.** The Preliminary Budget includes a reduction in city funds designated by Borough Presidents to support and enhance senior services; $427,000 is cut in 2006 and $533,000 is cut in 2007 and each subsequent year from DFTA's expense budget.
- **City Funds for Home Energy Assistance Program.** The Preliminary Budget includes $4.0 million in additional city funds for the Home Energy Assistance Program, which would be used to increase outreach and disburse grants to eligible seniors.

EXPENSE BUDGET

Agency Overview. The preliminary budget for the Department for the Aging for 2007 is $225.8 million (including intra-city funds), $38 million less than the budget for the current year. Federal and state funding are expected to make up 46.5 percent and 11.3 percent, respectively, of the agency's 2007 budget. City funds will make up 42.1 percent. (The share of federal funding in DFTA's budget appears artificially higher than last year. A technical change was made by the Mayor's budget office this year that reclassified New York City Housing Authority funds as federal funds instead of intra-city funds.) IBO's projections of federal funding for the agency in 2007 are greater than the Bloomberg Administration's by $1.1 million, raising IBO's forecast of the agency's 2007 budget to $226.9 million.

In examining DFTA's expense budget at the program level, it appears that four key program areas would be affected by the decline in the agency's budget from 2006 to 2007—meals; case management; health information, safety and other services; and general administration and other expenses. In 2007 the agency's budget for meals would be reduced by $25.1 million; for case management by $4.0 million; for health information, safety, and other services by $3.1 million; and for general administration and other expenses by $16.5 million. At this point it is hard to determine the extent of the impact on DFTA's contractor community and the elderly clients they serve if the proposed 2007 budget is enacted.

About 85 percent of the difference in DFTA's expense budget between 2006 and 2007 is accounted for by a reduction in city funds while the rest is explained by the Bloomberg Administration's lower expectations for categorical aid (federal, state, and other). Actions in the 2007 Preliminary Budget reduced the agency's city funds for

Department for the Aging

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Meals	$72.3	$83.9	$58.8
Social Services and Transportation	41.6	54.1	60.8
Home Care	23.4	23.9	26.1
Case Management	13.4	15.9	11.9
Central Insurance and Equipment Purchases	19.9	14.8	17.9
Employment Opportunities and Services	6.1	6.7	5.9
Family Caregiver Program	4.8	4.2	4.2
Health Information, Safety, and Other Services	1.7	3.5	0.4
General Information and Referral Services	3.5	1.2	1.2
Home Energy and Weatherization Assistance	1.5	1.2	0.7
General Administration and Other Expenses	43.0	54.7	38.2
Unallocated Financial Plan Changes	N/A	(0.3)	(0.3)
TOTAL	**$231.2**	**$263.8**	**$225.8**
IBO Adjustments			
Federal and state repricing		$1.1	$1.1
IBO Projected		**$264.9**	**$226.9**
Full-Time Personnel	376	382	N/A
Capital Commitments	$4.9	$39.0	$5.5

SOURCES: IBO; Mayor's Office of Management and Budget; Comptroller's Annual Financial Report; Monthly Transaction Analysis Report; and January 2006 Capital Commitment Plan.
NOTE: Full-time personnel: June 30 actual for 2005; November 30 actual for 2006.

2007 by $2.7 million, so most of the year-over-year reduction in city funds is due to the fact that some program funds were previously added to 2006 but not 2007 or later years.

Consistent with the past practice, DFTA's baseline budget was not adjusted in this year's Preliminary Budget. Any restoration is likely to come when the 2007 budget is adopted later this spring. Typically, each year at budget adoption additional city funding is added for program restorations and service enhancements, although usually only for one year. For example, at the adoption of the 2006 budget, $19.1 million in city funds was added to DFTA's 2006 budget and in the Adopted Budget for 2005, $12.3 million was added to the agency's 2005 budget. Similar restorations this spring could eliminate much if not all of the difference between the DFTA budget proposed for 2007 and the current budget for 2006.

Effects of Key Budget Proposals

Consolidation of Information and Referral Services. The Bloomberg Administration proposes consolidating DFTA's information and referral services with the city's 311 Citizen Service Center administered by the Department of Information Technology and Telecommunications (DOITT). The Preliminary Budget calls for the transfer of 34 DFTA personnel to the call center and cuts $1.6 million from DFTA's expense budget in 2007 and in each subsequent year. According to DFTA, the budget proposal does not require staff layoffs. At this time there is no corresponding increase in DOITT's budget. (This budget action does not affect DFTA's extended service contracts with community organizations that provide information and referral assistance to individuals.)

The 311 Citizen Service Center introduced by the Bloomberg Administration in 2003 provides non-emergency government information and services. In 2005 the call center handled a total of 6.6 million inquiries for 43 agencies, according to the Mayor's Management Report. The volume of calls ranged from a high of 1.1 million (Department of Finance-related) to a low of 50 (Office of Administrative Trials and Hearings-related) and the median number of agency-related inquiries was roughly 24,000. DFTA-related inquiries were close to 45,000, with the most common related to housing information, assistance with rent and utilities, and other senior benefits. DFTA is currently working with DOITT and the Mayor's budget office to iron out the details of the proposal.

Transfer of Senior Citizen Rent Increase Exemption Program. The Bloomberg Administration has proposed transferring the administration of the Senior Citizen Rent Increase Exemption (SCRIE) program from DFTA to the Department of Finance. This budget proposal cuts $800,000 in 2007 and $2.0 million in 2008 and each year thereafter from DFTA's expense budget. It also calls for the gradual transfer of 36 DFTA personnel to the Department of Finance; half of the staff will be transferred in 2007 and the rest will be transferred in 2008. According to DFTA, the budget proposal does not require staff layoffs. The city is expected to achieve these savings through increased automation and coordination with tax records under the Department of Finance.

SCRIE is a rental assistance program for seniors living in rent-regulated apartments in New York City. Currently, in order to qualify, an applicant must be 62 or older, have an annual household income of not more than $25,000, and be paying one-third or more of his or her income in rent. When rents are increased, senior tenants eligible for SCRIE do not have to pay the increased rate. Instead, property owners are provided property tax abatements equal to the amount they forgo in rent. In 2005 the City Council enacted legislation raising the maximum annual income for eligibility for SCRIE in annual increments of $1,000 to $29,000 by fiscal year 2010. The Mayor signed the legislation on August 9, 2005.

There were approximately 45,500 senior households participating in the SCRIE program during 2005, according to the Mayor's Management Report. DFTA received 8,100 new applications for SCRIE in 2005, 8.8 percent more than in 2004. In addition, DFTA reduced the average processing time for SCRIE applications by more than half, from 37 days in 2004 to 18 days in 2005. The accelerated processing was made possible by the completion of an initiative to convert active SCRIE paper files into an electronic imaging program.

Borough President Discretionary Funds. The Preliminary Budget proposes cutting Borough President discretionary funds used to support and enhance senior services. A reduction of $427,000 or 5.6 percent is proposed for 2006, which leaves $7.2 million in Borough President discretionary funds remaining in DFTA's expense budget. The agency plans to deal with the funding cut in 2006 through program accruals (surplus funds due to under spending elsewhere in DFTA's budget).[1] The budget plan also cuts $533,000 in Borough President discretionary funds in 2007 and each year

Home Energy Assistance Program (HEAP)

	2000	2001	2002	2003	2004	2005
NYC Federal HEAP Funding (000s)*						
DFTA	$535	$600	$503	$128	$213	$258
DYCD	$625	$638	$0	$100	$112	$148
HRA	$32,208	$32,860	$27,243	$31,269	$32,046	$32,793
Total	**$33,368**	**$34,098**	**$27,746**	**$31,497**	**$32,371**	**$33,199**
NYC Households Served						
DFTA	18,178	20,355	7,559	9,078	9,607	7,146
DYCD	10,228	7,484	9,551	8,347	7,320	N/A
HRA	333,983	352,884	330,236	354,118	397,257	432,672
Total	**362,389**	**380,723**	**347,346**	**371,543**	**414,184**	**439,818**

SOURCES: IBO; Comptroller's Annual Financial Report; Mayor's Management Report.
NOTE: *Does not include small amount of city funding provided to support and expand services.

thereafter. According to the agency, the Borough Presidents would determine how the proposed cuts for 2007 and the remaining plan years will be applied.

City Funds for Home Energy Assistance Program. The Preliminary Budget includes $4.0 million in additional city funds for the Home Energy Assistance Program (HEAP) in 2006. The funds are to be passed through to the Metropolitan Council on Jewish Poverty, which was named by the City Council as the contract recipient. The nonprofit organization plans to hire temporary staff to do outreach to make seniors aware of the assistance for elderly homeowners or renters and to oversee payments to clients of the city's Human Resources Administration (HRA) Home Energy Assistance Program and clients of the Department of Finance Senior Citizen Homeowner's Exemption Program. DFTA is currently ironing out how much of the HEAP funds will be set aside to provide grants to households. (DFTA and the Department of Youth and Community Development both handle outreach for HEAP while HRA processes the applications and disburses the HEAP grants.)

HEAP helps low-income homeowners and renters pay bills for heating fuel, equipment, and repairs. The household grants range from about $50 to $400 per year. Since 2000 the number of New York City households participating in HEAP grew by 21.4 percent to about 440,000 in 2005, according to the Mayor's Management Report. Although the number of participating households has grown, federal funding for New York City's Home Energy Assistance Program has remained roughly the same at about $30 million each year. This suggests that the average household HEAP grant has declined over time.[2]

Federal and State Actions

The President's 2007 budget proposal may have an impact on four DFTA revenue streams. The proposed federal budget calls for a reduction of 29.4 percent for the Social Services Block Grant. In city fiscal year 2005 DFTA received $28.8 million in Social Services Block Grant funds. The federal budget provides no funding for the US Department of Agriculture Commodity Food Program from which DFTA received $8.2 million in 2005. The federal budget provides an increase of 27.0 percent for the Home Energy Assistance Program while at the same time reducing funds for the Weatherization Program by 32.5 percent. States and localities are allowed to transfer and use up to 25 percent of home energy assistance funds for weatherization purposes. In 2005 DFTA received $257,000 in federal home energy assistance funds and $1.6 million in federal weatherization funds. (IBO made slight adjustments to the Mayor's revenue forecasts for DFTA's home energy assistance and weatherization grants. At this time it is not certain whether the federal budget proposals will be adopted.)

The Governor's Executive Budget for 2006-2007 provides $15 million in additional funding for the Expanded In-home Services for the Elderly Program (EISEP). This would bring the state budget for the program to about $50 million in 2006-2007 and serve approximately 50,000 clients throughout the state. Last year the state disbursed a total of $34.9 million for EISEP and DFTA's share was $8.6 million, or about 25 percent. IBO estimates that DFTA will receive a similar share of the increase, which means at least $3.75 million in additional EISEP funds. In addition, the state budget includes a total cost of living adjustment of $2.3 million, or 3.3 percent more, for three programs—EISEP, the Community Services for the Elderly Program, and the Supplemental Nutrition Assistance Program. As a result, IBO estimates that DFTA will receive a total of $627,000 in additional state funding for the three programs. (IBO did not make any adjustments to the Mayor's revenue forecast for DFTA state aid.)

CAPITAL BUDGET

Agency Overview. The city's January 2006 Capital Commitment Plan provides $48.7 million for fiscal years 2006 through 2009 for approximately 100 DFTA capital projects, including the renovation of several senior centers, the purchase of vans and computers for senior centers, and improvements to DFTA information management systems. This represents a modest increase of $40,000 for DFTA's capital program, compared to the level of funding provided for 2006-2009 in the September 2005 Capital Commitment Plan.

The city's four-year Capital Commitment Plan provides $39.0 million in 2006, $5.5 million in 2007, $2.1 million in 2008, and $2.1 million in 2009 for DFTA's capital program. DFTA will be responsible for carrying out most of its capital program or 69 projects out of a total of 98. The rest of the projects will by managed by the Department of Design and Construction (18 projects), the Department of Small Business Services (five projects), the Department of Citywide Administrative Services (three projects), and the Department of Housing Preservation and Development (three projects).

This year the city's Capital Commitment Plan includes a significant amount of capital funding for renovations and equipment purchases for facilities not owned by the city but which provide services for the elderly. Of the $48.7 million provided for the agency's capital program, $23.1 million was set aside for renovations and equipment purchases for 45 service programs not located in city-owned buildings. This was made possible by a Memorandum of Understanding, dated December 10, 2004, and signed by the Mayor's Office of Management and Budget and the Finance Division of the City Council. The purpose of the agreement is to enable the city and recipient agencies to meet legal requirements of New York City capital financing and to ensure that both existing and new projects are appropriately supervised and expeditiously carried out. Prior to the agreement it was very difficult to obtain city capital funds to make improvements and equipment purchases for facilities that were not owned by the city.[3]

While the city commitment plan provides $39.0 million in the current year, DFTA is only expected to commit $24.5 million or 63.0 percent. This estimate is based on a commitment target set by the Mayor's budget office and it is effectively a ceiling on how much an agency can spend. Last year DFTA was authorized to commit $18.6 million and the agency's commitment target for 2005 was $11.7 million or 63.1 percent. In fact, DFTA actually committed $4.9 million or 26.3 percent of the total amount authorized for 2005. City agencies can fail to meet 100 percent of their commitment targets for a number of reasons, including changes to project scope, unrealistic project schedules, and insufficient capacity to manage their capital program.

Key Capital Projects

- Bronx Community Protestant Church, $5.5 million
- Bronx FA – Co-op City Baptist Church, $4.1 million
- Manhattan Education Alliance – Project ORE, $2.8 million
- Bronx Gun Hill Senior Center, $2.2 million
- Bronx St. Raymond's Community Outreach Center, $1.0 million
- Replacement of computers for various senior centers, $5.8 million
- Reengineering DFTA grants management system and uniform benefits system, $3.6 million
- Improvements and equipment purchases for DFTA offices, $1.7 million

NOTE: A detailed review of DFTA spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

END NOTES

[1] City agencies may vary in their ability to fully spend program operating budgets for a number of reasons, including insufficient capacity or other implementation issues.

[2] Additional information on the program can be found in IBO's November 2004 report, *Home Heating Assistance Program Provides Little Comfort for Many City Residents*.

[3] The agreement, which applies to all capital projects funded in fiscal year 2006 and thereafter, outlines new capital funding requirements for outside organizations, including a $500,000 threshold for individual capital projects. When the city's contribution is 50 percent or less of total project costs the managing agency is the Economic Development Corporation; the Department of Design and Construction (DDC) is the managing agency when the city's contribution is greater than 50 percent of total project costs. Capital projects managed by the School Construction Authority, the Department of Education, and the DDC on behalf of the Department of Cultural Affairs are exempt from the agreement.

Department of Education (DOE)

PRELIMINARY BUDGET HIGHLIGHTS

- **New School Safety Agents.** The education department intends to hire 286 new school safety agents in 2007. The cost of this change will be $11.3 million in 2007.
- **Administrative Reductions and Efficiencies.** The 2007 Preliminary Budget projects savings from the department's central, regional, and citywide special education administration of $45 million per year between 2007 and 2010.
- **Nonpublic Schools.** The Preliminary Budget includes an increase of $87.6 million for students with special needs and charter schools beginning in 2006 and continuing each year through 2010. When associated savings on public school general education are included, the increases are $83.7 million each year.
- **Medicaid.** Beginning in 2006, the Preliminary Budget includes a total of $55 million a year to cover the cost of special education services previously paid for by Medicaid. Although the city will fund the full $55 million a year from 2007 on, in 2006 funds owed to the city by the state's Office of Mental Retardation and Developmental Disabilities will provide $16 million.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget includes $14.9 billion for the Department of Education in 2007, $148 million more than in 2006. DOE will spend nearly 90 percent of these funds on services to schools, while 4.8 percent and 6.6 percent will be spent on systemwide costs (including central administration) and nonpublic schools, respectively.

In 2007, classroom instruction comprises 59 percent of spending for services to schools, followed by noninstructional support services (18 percent), instructional administration (14 percent), and instructional support services (10 percent).

The department's recent contract with the United Federation of Teachers includes a provision to extend four school days a week by 37.5 minutes each starting in February 2006. With some exceptions, schools must use this additional time for tutorials, test preparation, or small group instruction. This change in the middle of the school year has required changes to school schedules and activities for some students and a preliminary estimate by DOE projects that the additional bus service necessitated by the new schedule will cost $24 million from February through June 2006. DOE plans to update its assessment and adjust its budget accordingly in the next Financial Plan.

A number of other recent policy changes will affect the budget and will likely be reflected in a subsequent Financial Plan. First, Mayor Bloomberg plans to open 36 new small junior high and high schools in the 2006-2007 school year. These schools will enroll approximately 4,800 students in September 2006, increasing the number of students attending new small schools to over 50,000. Second, the department is expanding its Autonomy Zone program in 2006-2007. This program, created as a pilot in 2004, gives schools increased authority over their budgets and other school decisions in exchange for meeting specific performance criteria. In 2005-2006, 58 schools participated in this program and the expansion would add 150 schools. Finally, in February 2006, DOE committed to increase its annual funding of translation and interpretation services for non-English speaking parents from $10 million to $12 million.

Finally, despite pressure from elected officials and advocates, there is still no resolution to the Campaign for Fiscal Equity (CFE) case. The Appellate Division heard the state's appeal of the February 2005 Supreme Court ruling that ordered spending increases for New York City schools of $5.6 billion for operating expenses and $9.2 billion for capital expenditures. The Appellate Division is expected to rule by

New York City Department of Education
Dollars in millions, all funds

Program Area	2006 Modified	2007 Proposed
Services to Schools	$13,036.5	$13,191.7
Systemwide Costs & Obligations	736.2	710.8
Nonpublic Schools	956.6	974.3
TOTAL	**$14,729.2**	**$14,876.8**
IBO Adjustments		
City Funds	114.0	172.5
State Aid	(127.7)	(200.1)
Federal Aid	12.9	94.4
IBO Projected	$14,728.4	$14,943.7
Full-Time Personnel	119,212	119,550
Capital Commitments	$1,371.0	$3,113.0

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: Nov. 30 actual for 2006; budgeted positions for 2007.

Services to Schools
Dollars in millions, all funds

	2006 Modified	2007 Proposed
Classroom Instruction	$7,576.3	$7,735.2
Instructional Support Services	$1,130.0	$1,287.3
Instructional Administration	$2,002.0	$1,862.4
Noninstructional Support	$2,328.2	$2,306.8
TOTAL	**$13,036.5**	**$13,191.7**

SOURCES: IBO; Mayor's Office of Management and Budget.

the summer of 2006.

State Budget. The Governor's budget for state fiscal year 2006-2007 includes $16.9 billion for elementary and secondary education, an increase of $634 million over the 2005-2006 state aid levels. There would be no increase, however, in general operating aid. Excluding the Sound Basic Education (SBE) reserve fund (discussed below), New York City would receive $6.3 billion, or 38 percent of state aid. This is $103.9 million more than 2005-2006 and 40 percent of the statewide increase in aid. The city would receive no increase, however, in general operating aid, consistent with recent years when the yearly increases in operating aid for the city have fallen from just over 4 percent in 2001 to zero in 2005. In contrast, the city's Preliminary Budget assumes 9.5 percent growth in operating aid in 2006 and 6.9 percent in 2007. This increase includes the assistance that the city anticipates from the state for the new United Federation of Teacher's contract. It is still unclear what portion of the contract the state actually will fund. As a result, IBO estimates that general operating aid will be less than Preliminary Budget projections by $114 million in 2006 and $173 million in 2007.

Sound Basic Education Aid. The Governor proposes to continue the SBE grant, first provided in 2005, which takes its name from the state constitutional standard for education used in the CFE case. The Governor plans to fund this grant with revenue from video lottery terminals placed throughout the state. In 2005-2006, the state allocated $325 million in SBE funds using a formula based on educational and economic need but also ensuring that every district received at least $25,000, regardless of need. New York City received $195 million (60 percent) of these funds in 2005-2006. The state Executive Budget anticipates distributing the same level of funding using the same formula in 2006-2007.

The Governor plans to increase Sound Basic Education funding by $375 million in 2006-2007, with the increase to be "placed in a reserve to be allocated pursuant to a plan to promote the provision of sound basic education in schools throughout the state." If the city receives the same share of these funds as it currently gets, it will get an additional $225 million and its share of total state funding would increase to 38.5 percent. Since the Governor did not outline a specific plan for distributing the additional $375 million, it is unclear what share New York City will receive.

School Tax Relief (STAR). The state Executive Budget also proposes expanding the STAR program, which provides property tax relief to homeowners. The state Division of the Budget estimates that in state fiscal year 2005-2006, the STAR program will provide $2.5 billion to property taxpayers throughout the state, with 6.4 percent of this aid flowing to New York City. Because the city has an unusually high share of renters, who are not eligible for STAR property tax rebates, the program also will give New York City residents an additional $692 million in income tax relief. When the income tax relief is combined with the property tax relief, the STAR program costs the state $3.2 billion, with New York City receiving 24 percent.

The state separates STAR from other school aid funds, thus masking the true distribution of aid to the various school districts in the state. Excluding STAR, New York City currently receives 38 percent of state funds for elementary and secondary education. When school aid and STAR property tax funds are included, New York City's share drops to 33.7 percent; adding New York City's income tax relief raises the city's allotment to 35.8 percent of state funds for schools.

The new STAR Plus program would provide $400 property tax rebate checks to residents in school districts that limit their spending increases to the lesser of 4 percent or 120 percent of the consumer price index. The program would make exceptions for districts with enrollment increases, voter-approved capital expenses, certified emergencies, and other special circumstances. The Governor's budget estimates that STAR Plus would provide approximately $530 million in savings to taxpayers throughout the state in 2006-2007—although the program specifically excludes New York City from participating.

Income Tax Credits for Education Expenses. Finally, the Governor wants to create a $500 refundable income tax credit for families earning less than $90,000 in school districts with struggling schools, including New York City. Families would be able to use the credit to help pay for private and parochial school tuition, textbooks and school supplies, tutoring, after-school programs, summer programs, and certain other education expenses. The Governor estimates that the credit would cost $400 million in the 2006 calendar year. This proposal is controversial. Some have praised it as a means to help low- and middle-income families afford the same educational support services and alternatives to failing schools available to upper-income families. Others have criticized the plan on a variety of grounds, arguing that it is an indirect attempt to provide school vouchers and that it is illegal under the so-called "Blaine amendment" to the New York State Constitution, which prohibits state support of parochial schools.

The Senate and Assembly each included child tax credits in their budget proposals. The Senate's plan would provide a credit to taxpayers who have a child in school, including pre-kindergarten. The credit would equal one-third of the federal child tax credit and would cost the state $420 million. The Assembly's would give the credit to all taxpayers with children under 17. A typical family would receive $300 per child, but the credit would be phased out gradually for taxpayers with incomes over $110,000. This plan would cost $620 million.

Federal Budget. The Bush Administration's budget request for federal fiscal year 2007 proposes to spend $36.3 billion on elementary and secondary education. This would be a $1.6 billion decrease from 2006. Despite the overall decrease, the President's budget includes $24.4 billion for programs that are part of the No Child Left Behind Act of 2001 (NCLB), a 4.6 percent increase over 2006. New York State would receive $1.8 billion of these funds, a 1.8 percent increase, with around half going to New York City.

NCLB requires schools that receive NCLB funds to make "adequate yearly progress." Any school that fails to do so is given a designation based on the number of years it has not met the federal standard. As of November 2005, 52 New York City schools are schools in need of improvement (SINI) year one (two years of failure). An additional 52 schools are SINI year two (three years of failure); 48 are in need of corrective action (four years of failure); 17 are planning for restructuring (five years of failure); and 104 are restructuring (occurs in the sixth and seventh years).

According to NCLB, DOE must offer students in all of these schools transfers to schools that are making adequate yearly progress. In addition, DOE must set aside up to 20 percent of their federal Title I funds to provide supplemental services (tutoring) and transportation, if needed, to students in failing schools (other than those in SINI year one).

DOE notified 183,960 students of their right to apply for a transfer before the start of the 2005-2006 school year and slightly more than 11,000 applied for transfers. Lack of space and other issues led DOE to offer transfers to only 3,614 students. Of these, 1,554 accepted and 2,078 decided to stay in their schools because they were unable to transfer to a school of their choice. DOE provided a second opportunity for students to transfer in the middle of the school year. At this time, 124,415 students were eligible to apply for transfer and 4,604 applied, including 962 prior applicants. DOE offered transfers to 3,517 of them, including 757 of the repeat applicants, and 1,626 actually transferred.

NCLB also requires DOE to provide supplemental education services (tutoring) to students in schools that are SINI year two, in need of corrective action, planning for restructuring or restructuring. In the 2005-2006 school year, 223,387 students were eligible for tutoring services and, by the end of February 2006, 73,833 (33 percent) had enrolled.

Effects of Key Budget Proposals

New School Safety Agents. DOE plans to hire 286 new school safety agents in 2007. This includes 241 general agents, five mobile task force and scanning group agents, 31 first line supervisors, and nine new supervisors. The department projects that the additional staff will cost $11.3 million in 2007, $11.4 million in 2008, and $11.5 million in fiscal years 2009 and 2010. These changes contribute to an increase in total school safety costs, an element of the noninstructional support services program area, from a projected $203 million in 2006 to the estimated $222 million in 2007.

Administrative Reductions and Efficiencies. As part of DOE's continuing Children First initiative, the Mayor and the Chancellor recently pledged to transfer at least $200 million from central and regional administration to schools. The Broad and Robertson Foundations have committed $5 million for consultants to help DOE redirect funds each year from 2007 through 2010. So far, the Preliminary Budget estimates that $27 million a year will be cut from central administration and $18 million will be cut from regional and citywide special education administration. These estimates will be updated as the consultants continue their work. DOE has not specified

Proposed Administrative Changes

Dollars in millions

	2006 Modified	2007 Administrative Reforms	2007 Other Changes	2007 Preliminary Budget
Central Administration				
Office of School Food (PS)	$5.0	($4.0)	($0.2)	$0.8
Division of School Facilities (PS)	3.5	(3.0)	0.0	0.5
Misc. Central Administration (PS)	4.5	(3.5)	0.0	1.0
Special Commissioner of Investigation (PS)	3.5	(3.0)	0.0	0.5
Div. of Assessment & Accountability (OTPS)	6.3	(5.5)	0.0	0.9
Youth Development & Policy (OTPS)	11.7	(1.5)	(6.4)	3.7
Deputy Chancellor for Teaching & Learning (OTPS)	5.6	(5.0)	0.0	0.6
Division of Finance Operations (OTPS)	2.6	(1.5)	0.0	1.1
Regional & Citywide Special Education Admin				
Youth & Parents (PS)	8.0	(4.0)	0.0	4.0
Citywide Special Education Admin (PS)	8.0	(5.0)	0.0	3.0
Teaching & Learning (OTPS)	4.4	(3.7)	0.0	0.7
Operations (OTPS)	2.9	(1.0)	0.0	1.9
Committee on Special Education (OTPS)	9.4	(4.3)	2.7	7.8
TOTAL	**$75.4**	**($45.0)**	**($3.9)**	**$26.5**

SOURCES: IBO; Office of Management and Budget.
NOTES: Includes only those spending areas identified as part of the 2007 Preliminary Budget administrative reductions and efficiencies initiative. PS stands for personal services and includes all personnel costs; OTPS is other than personal services and includes non-personnel costs such as equipment and contracted services.

what school services will be given the additional funds.

Increases for Nonpublic Schools. The Preliminary Budget includes an increase of $87.6 million for nonpublic schools in 2006 and continuing through 2010. This increase includes expenses for students with special needs and funding for charter schools. DOE is required to pay tuition, services, and transportation expenses for children who have special needs that New York City public schools cannot meet. The Preliminary Budget adds $34.4 million each year for in- and out-of-state schools contracted to serve these students. There is also a $41.4 million annual increase in city funding for tuition and related services for pre-kindergarten special education students attending private school. These city funds account for about 40 percent of tuition, related services, and transportation for pre-kindergarten students, with the state funding the remainder. Both the city and state receive federal funds that offset some of their costs.
The state pays 59.5 percent of tuition, related services, and transportation for the pre-kindergarten students and the city funds the remainder (both the city and state receive some federal funds to offset their costs).

DOE projects significant growth in charter schools. In 2006, 14 new charter schools opened, one public school converted to a charter school, and one existing charter school did not have its charter renewed. This net growth of 41 percent brings the total number of charter schools to 48 this year. The education department projects that the number of students attending charter schools has grown by 35 percent to 11,076 in 2006. Due to this growth, the Preliminary Budget includes an additional $11.7 million for charters in 2006 and beyond, increasing the total budget for these schools to $102.2 million in 2006 and 2007.

When the number of students attending charter schools increases, there is also a decrease in students attending traditional public schools. Thus, the Preliminary Budget projects a $3.9 million savings per year in 2006-2010. The savings do not equal the additional spending because the state-mandated tuition for a student at a charter school is at least three times more expensive than the marginal cost to send the same child to a traditional public school.

New York State law caps the number of charters and, although public schools that convert to charter schools do not count against the cap, this limit was reached in early 2006. Governor Pataki proposed creating 150 new charters for New York State in his 2006 budget address. Similarly, in his State of the City speech, Mayor Bloomberg promised to continue advocating increasing the available number of charters.

Medicaid. DOE expects that certain services provided to special needs children will no longer be eligible for Medicaid reimbursement due to changes at the state and federal levels.

A state audit of the city's Medicaid practices determined that the state would no longer fund the entire cost of services like speech therapy and transportation to support services. In addition, beginning in 2006, the federal government will no longer fund targeted case management for special education students. The Preliminary Budget estimates that the city must add $55 million each year from 2006 through 2010 to fund the ineligible services. For 2006, the city plans to contribute $39 million and use funds owed to the city by the state's Office of Mental Retardation and Developmental Disabilities for the additional $16 million. From 2007 on, however, the city will pay the entire $55 million with city funds.

Changes to City Four-Year Capital Commitment Plans for Department of Education

Dollars in millions

	2005* Actual	2006 Plan	2007 Plan	2008 Plan	2009 Plan	Total 2006-2009 Plan
January 2006 Plan						
City Funds	$2,188	$1,371	$925	$1,010	$1,210	$4,516
State Funds	$0	$0	$2,188	$2,187	$2,187	$6,562
TOTAL	**$2,188**	**$1,371**	**$3,113**	**$3,197**	**$3,397**	**$11,078**
September 2005 Plan						
City Funds	-	$1,371	$925	$1,010	$1,210	$4,516
State Funds	-	$1,816	$1,716	$1,616	$1,416	$6,564
TOTAL	**-**	**$3,187**	**$2,641**	**$2,626**	**$2,626**	**$11,080**
Change						
City Funds	-	*$0*	*$0*	*$0*	*$0*	*$0*
State Funds	-	*($1,816)*	*$472*	*$571*	*$771*	*($2)*
TOTAL	**-**	***($1,816)***	***$472***	***$571***	***$771***	***($2)***

SOURCES: IBO; Capital Commitment Plans.
NOTE: Actual commitments for 2005 are included because the department has a separate capital planning process that spans five years. The department's current five-year plan covers fiscal years 2005-2009.

A recent federal audit of Medicaid claims filed by New York State between 1993 and 2001 resulted in the federal government questioning some of the claims, many from New York City. According to some accounts, the auditors have recommended that New York State repay hundreds of millions of dollars to the federal government. The state is disputing some of the federal findings, so the extent of the state's liability will not be settled immediately. Whether the city will be responsible for any portion of these funds is also unknown at this time.

CAPITAL BUDGET

Agency Overview. The city's January 2006 Capital Commitment Plan, which covers fiscal years 2006-2009, provides $11.1 billion for the Department of Education's capital plan. This represents the same level of total funding as the prior plan published in September 2005 but the current city plan defers $1.8 billion of education capital commitments previously planned for 2006 to 2007 and later years. The deferral of these funds is due to a shortfall in state aid that the city had anticipated receiving as part of the resolution of the Campaign for Fiscal Equity school finance lawsuit.

Besides the Capital Commitment Plan, there is a separate education capital plan, which we discuss in more detail below. That plan spans five years (2005-2009) and allocates $13.1 billion in spending. If the state CFE funds anticipated for 2006 do not become available before the end of the city's fiscal year, the department will have to adjust the scope of work outlined in its current five-year plan. Any change to the department's capital plan must be approved by the City Council. Similar to last year, funding for education capital projects will be a key issue in the budget negotiations between the Mayor and the City Council.

Capital Planning for Education. For most agencies, the city Capital Commitment Plans are the only tool for understanding an agency's capital program, its changing needs and priorities. In contrast, the Department of Education has a separate five-year capital planning process which is mandated by state education law. Planning for city public school construction and repairs is guided by the department's five-year capital plan. Funding for each year of the department's five-year plan is determined at the adoption of the city's Capital Budget in June.

The city's Capital Commitment Plans indicate when appropriations approved under the adopted Capital Budget for a given fiscal year will be committed (when a contract to construct or purchase a capital asset will be registered). Actual spending or cash outlays take place over the life of the capital project. The city's four-year Capital Commitment Plan is first issued in September of each fiscal year and subsequently updated in January and April and it overlaps with the department's five-year capital plan. (For additional information on the city's Capital Budget process see IBO's guide available on our Web site.)

Department of Education 2005-2009 Capital Plan
List of Individual Capacity Projects to be Deferred Due to $1.8 Billion State Aid Shortfall

Region	District	School Name[a]	Estimated Seats	Estimated Completion Date	Funding in 2005-2009[b] ($ in millions)
BRONX					
1	78	New Bronx Leadership Academy	300	Dec-06	$21.0
2	78	High School at Former PS99	612	Jul-08	$25.8
2	78	James Monroe HS Annex	1,000	Jan-09	$75.0
9	78	Mott Haven Campus	1,767	Jun-09	$130.7
Subtotal			***3,679***		***$252.5***
BROOKLYN					
6	18	PS/IS366	504	Mar-09	$39.4
6	22	St. Thomas Aquinas* - Lease	251	Sep-06	$7.2
6	22	Holy Innocents* - Lease	290	Sep-06	$8.1
6	22	Our Lady of Refuge - Lease	400	Oct-06	$17.2
6	78	Midwood HS Addition	340	Jul-08	$30.4
7	20	PS/IS237 at Magen David	1,178	Dec-08	$65.8
8	78	Family Court	1,000	Jan-09	$65.7
8	78	Sunset Park HS	1,650	Jun-09	$95.6
Subtotal			***5,613***		***$329.4***
QUEENS					
3	25	PS244 ECC at Franklin Ave	441	Jul-08	$24.8
3	28	PS/IS167 at Metropolitan Ave	630	Jun-09	$42.4
3	78	New Gateway HS	805	Sep-09	$64.9
4	24	PS/IS110 at Metropolitan Ave	630	Jun-09	$42.6
4	24	PS245 at Seneca Ave	441	Jul-08	$25.2
4	24	PS246 ECC at PS199	441	Feb-10	$21.6
4	30	PS78 Annex* - Lease	41	Apr-06	$4.1
4	78	High Schools at Metropolitan Ave	1,002	Jun-09	$76.4
5	27	PS/IS262 at St. Anthony's	441	May-08	$24.5
Subtotal			***4,872***		***$326.5***
STATEN ISLAND					
7	31	Project at Old PS44 Annex	822	Nov-08	$60.2
7	31	Project at Old PS15	440	Sep-08	$22.3
Subtotal			***1,262***		***$82.5***
TOTAL			**15,426**		**$990.9**

SOURCES: IBO; Department of Education.
NOTES: Asterisks denote project that is city-funded. a)The Panel for Education Policy provided the names of the individual capacity projects that would be deferred. b)This does not represent the total cost for individual capacity projects. Some projects received funding in the previous five-year plan and some projects will require additional funding in the next plan.

The January 2006 Capital Commitment Plan. The city's current four-year Capital Commitment Plan provides the same level of total funding—$11.1 billion—for new school construction and repairs as the prior plan published in September. However, the city's January commitment plan shifts $1.8 billion from 2006 to 2007 and later years to reflect the fact that additional state aid expected as part of the CFE settlement is not expected to arrive this year. As part of the remedy of the CFE case the state was ordered by the court to provide $9.2 billion over five years to address the capital needs of New York City's public schools. The Governor has appealed the ruling and as a result additional state capital aid anticipated by the city did not arrive in city fiscal year 2005 and the city no longer expects it in 2006 either.

Moreover, the Governor's Executive Budget for 2006-2007 does not include additional state funding for New York City to address the capital needs identified in the school finance lawsuit. Nevertheless, the Bloomberg Administration now expects that the additional state aid will become available beginning in city fiscal year 2007, assuming the Senate and Assembly and the Governor can arrive at some agreement. The city's January commitment plan provides $1.4 billion in 2006, $3.1 billion in 2007, $3.2 billion in 2008 and $3.4 billion in 2009 for the department's capital plan. The city's share of the four-year commitment plan is $4.5 billion. The balance of the $11.1 billion or $6.6 billion is expected from the state. The latter amount has not changed, although the timing has; the city now assumes that the additional state funds will be provided over the next three years—2007-2009.

Impact on DOE Capital Plan. In his January 23, 2006 testimony before the Joint State Fiscal Legislative

Committees, the Mayor indicated that the city could not make up the $1.8 billion funding shortfall for 2006. As a result 23 projects to increase the number of seats in city schools budgeted at $990.9 million would be deferred or potentially cut from the plan. In addition, numerous repair projects—over 100 according to DOE—budgeted at $825.1 million are at risk and have been delayed pending state funding. Furthermore, delaying these capital projects may result in added costs for the city later on when the capital work is undertaken because of further deterioration of building components and the rising cost of construction.

Department of Education 2005-2009 Capital Plan: Impact on Capacity Program by Borough and District

	Planned Seats[a]			Seats To Be Deferred		
Borough/ School District	Total	City-Funded	State-Funded	Total	City-Funded	State-Funded
Building Type: Grades Pre-kindergarten-3 or Kindergarten-8						
Manhattan						
2	2,630	0	2,630	0	0	0
6	1,701	503	1,198	0	0	0
Bronx						
9	1,701	0	1,701	0	0	0
10	4,032	0	4,032	0	0	0
11	3,780	1,108	2,672	0	0	0
Brooklyn						
15	630	0	630	0	0	0
18	630	0	630	504	0	504
19	1,030	400	630	0	0	0
20	5,119	0	5,119	1,178	0	1,178
21	1,260	0	1,260	0	0	0
22	2,520	541	1,979	941	541	400
Queens						
24	4,662	996	3,666	1,512	0	1,512
25	441	0	441	441	0	441
26	882	0	882	0	0	0
27	2,597	150	2,447	441	0	441
28	2,520	0	2,520	630	0	630
29	630	630	0	0	0	0
30	1,701	41	1,660	41	41	0
Staten Island						
31	3,542	1,664	1,878	1,262	0	1,262
Subtotal	***42,008***	***6,033***	***35,975***	***6,950***	***582***	***6,368***
Building Type: Grades 8-12						
Bronx	9,912	5,030	4,882	3,679	0	3,679
Brooklyn	5,266	1,512	3,754	2,990	0	2,990
Queens	9,912	2,242	7,670	1,807	0	1,807
Subtotal	***25,090***	***8,784***	***16,306***	***8,476***	***0***	***8,476***
TOTAL	**67,098**	**14,817**	**52,281**	**15,426**	**582**	**14,844**

SOURCES: IBO; Department of Education.
NOTE: a) Information on current planned seats was obtained from the department's proposed 2006 amendment, released in February 2006.

The 23 projects to increase capacity and scheduled to be deferred by the department would provide a total of 15,426 new seats. The deferrals are broken down as follows: four capacity projects in the Bronx providing 3,679 new seats; eight capacity projects in Brooklyn providing 5,613 new seats; nine capacity projects in Queens providing 4,872 new seats; and two capacity projects in Staten Island providing 1,262 new seats.

IBO also examined the impact of the shortfall of $1.8 billion in state aid on the department's program to increase school capacity program by borough and district. The grade configurations of new school buildings differ somewhat from that of many existing school buildings. Buildings are now planned to serve pre-kindergarten through third grade, kindergarten through eighth grade, or eighth through 12th grades.

At the community school district level, the department proposes deferring a total of 6,950 new seats (16.5 percent) previously planned for primary and middle school students. In Brooklyn a total of 2,623 new seats (23.4 percent) for primary and middle school students in districts 18, 20 (the second most overcrowded in the city), and 22 would be deferred. District 18 in Brooklyn is slated for the steepest cut with 80 percent of the 630 new seats previously planned to be deferred. In Queens a total of 3,065 new seats (22.8 percent) previously planned for primary and middle school students in districts 24 (the most overcrowded in the city), 25, 27, 28, and 30 would be deferred. District 25 in Queens would see the steepest cut with 100 percent of the 441 new seats previously planned to be deferred. In Staten Island a total of 3,542 new seats (35.6 percent) previously planned for primary and middle school students would be deferred. No proposed seats would be deferred for primary and middle school students attending districts in Manhattan or the Bronx.

At the high school district level, the department proposes deferring a total of 8,476 new seats (33.8 percent) previously planned for middle/high school students. The steepest cut is proposed for Brooklyn where 56.8 percent or 2,990 new middle/high school seats previously planned would be deferred. The second steepest cut is proposed for the Bronx where 37.1 percent or 3,679 new middle/high school seats previously planned would be deferred. Finally, in Queens 18.2 percent or 1,807 new middle/high school seats previously planned would be deferred. No new middle/high school seats were previously planned for students in Manhattan or Staten Island.

DOE's Five-Year Capital Plan. The 2005-2009 Capital Plan, the department's current five-year plan, called for a total investment of $13.1 billion when it was adopted in June 2004. Between June 2004 and February 2006, the budget for the department's capital plan increased by $17.6 million. This excludes funding for additional projects sponsored by the Mayor, Borough Presidents, and Council members, which are outside the scope of the department's five-year plan. Funding for such projects, which are allocated by city elected officials for school capital projects in their respective districts or for boroughwide or citywide initiatives, increased to $262.7 million over the same period. While DOE capital documents show that funding for the five-year plan has not changed significantly, the department has had to revisit the capital priorities outlined in the June 2004 version of the plan. The 2005-2009 Capital Plan was formally amended once in 2005 and a second amendment process is currently underway. Below we briefly discuss the previously approved 2005 amendment and the proposed 2006 amendment to the 2005-2009 Capital Plan.

The March 2005 Amendment. The Chancellor has submitted two amendments to the 2005-2009 Capital Plan since it was approved in June 2004. This is in keeping with a Memorandum of Understanding signed by the Chancellor, the Mayor, and the Speaker of the City Council that requires the department to formally amend its five-year plan each year so that any changes to the plan can be examined and approved by the City Council. The five-year plan was first amended in March 2005. An initial draft of the amendment was circulated by the department in November 2004 to the Community Education Councils, city elected officials, and other members of the community. Once the draft was reviewed by these stakeholders and their comments were submitted to the department, a revised draft was submitted in February 2005 to the Panel for Education Policy (which is DOE's name for the reconstituted Board of Education, after the Mayor was granted control of the school system by the state). Under state law, formal amendments to the department's adopted five-year capital plan must be approved by the panel, the City Council, and the Mayor.

A key difference between the proposed February 2005 amendment submitted to the panel and the draft provided three months earlier, was that the latter reflected the fact that the CFE money—$1.3 billion—originally anticipated by the city in 2005 would not be provided by the state in time. As part of the February 2005 amendment, the department proposed reducing its capital improvement program to address this shortfall in state aid. The key categories of the capital improvement program that would have been affected were technology, exterior modernizations, lighting fixtures, and playground redevelopment. For more information see last year's IBO report, *Analysis of the Mayor's Preliminary Budget for 2006*. The Panel for Education Policy approved the proposed amendment by a vote of 8-3 on February 28, 2005.

In March 2005 DOE submitted the panel-approved draft to the Mayor and the City Council. The City Council threatened to withhold its approval of the amendment unless the city agreed to restore the five-year plan to its original scope, despite the shortfall in state funds. The Mayor subsequently agreed to fully fund the first year of the 2005-2009 Capital Plan by replacing the missing state funds with city funds. This change pushed city funding for 2005 DOE capital projects in the April 2005 Capital Commitment Plan to $2.7 billion. DOE actually committed 80 percent, or $2.2 billion, of the funds provided for 2005, according to the city's January 2006 Capital Commitment Plan, despite the fact that these funds were restored less than three months before the end of the fiscal year.

The Proposed 2006 Amendment. This year the department followed the same process for amending its five-year plan. An initial draft of the second proposed amendment was circulated by the department to key stakeholders in December 2005. In a break with past practice, for the proposed 2006 amendment, the department identified which individual projects and categories of work in the five-year plan the state is expected to fund. This is the first time projects have been categorized by funding source and it was done in response to requests by the City Council and other key stakeholders. The department then revised the amendment draft and submitted it to the education policy panel in February 2006. The panel voted on and approved the proposed 2006 amendment on February 27, 2006.

Department of Education 2005-2009 Capital Plan
Summary Table of Approved and Proposed Changes to the Plan
Dollars in millions

	Adopted Plan June 2004	First Amendment March 2005	Proposed Second Amendment February 2006			*Change from Adopted to Proposed Second Amendment*
			Total	City-Funded	State-Funded	
Five-Year Plan						
Capacity Program	$4,225.0	$4,189.6	$4,689.5	$1,321.5	$3,368.0	*$464.5*
Capital Improvement Program	8,311.8	8,263.1	7,743.9	4,548.5	3,195.4	*(567.9)*
Miscellaneous (insurance and building surveys)	364.2	474.6	474.3	474.3	0.0	*110.1*
Completion Costs for Prior Plan (2000-2004)	225.0	239.3	235.8	235.8	0.0	*10.8*
Subtotal	***$13,126.0***	***$13,166.5***	***$13,143.6***	***$6,580.2***	***$6,563.4***	***$17.6***
Add-ons						
Resolution A	$0.0	$122.2	$203.0	$203.0	$0.0	*$203.0*
Mayor and City Council	0.0	47.0	59.7	59.7	0.0	*59.7*
Subtotal	***$0.0***	***$169.2***	***$262.7***	***$262.7***	***$0.0***	***$262.7***
TOTAL	**$13,126.0**	**$13,336.0**	**$13,406.2**	**$6,842.8**	**$6,563.4**	**$280.2**

SOURCES: IBO; Department of Education.
NOTE: The proposed amendment does not account for the $1.8 billion shortfall in state aid for city fiscal year 2006.

Unlike last year, the department made no adjustment in the proposed amendment to account for the missing state resources for 2006. Note the city's Capital Commitment Plan (through which scheduled funds flow for the department's capital plan) does reflect the $1.8 billion shortfall in state aid for 2006. Although the proposed 2006 amendment does not reflect this reduction in funding, it makes clear that the department decided to fund a smaller share of the total cost for new capacity projects with city funds than for the capital improvement program. For the latter, the relative proportions are reversed with a larger share of the total cost for repairs funded by the city.

In the proposed 2006 amendment, the department allocates $4.7 billion (35.7 percent of the total five-year plan excluding projects sponsored by elected officials) for the capacity program, which includes the construction of new schools and additions to existing schools, improvements at leased school sites, transportable classroom units, and site acquisition costs. (This plan category also includes $296.3 million in city funds to replace existing buildings but these projects are not expected to provide additional seats.) State funds are expected to make up 71.8 percent of the capacity program while the balance would be provided by the city. With these funds a total of 109 capacity projects creating 67,098 new seats could be built over fiscal years 2005-2009. The city's share of funding would allow 23 capacity projects to be undertaken creating 14,817 new seats. The state's share of funding would allow 86 capacity projects to be undertaken creating 52,281 new seats. Without state funding, only 22.1 percent of the total new seats proposed under this five-year plan would be constructed.

The department also provides $7.7 billion (58.9 percent) for the capital improvement program, which includes rehabilitation of building components (e.g. roofs and windows), safety systems (e.g. emergency lighting), educational enhancements (e.g. science labs), and unspecified emergency projects. State funds are expected to make up 41.3 percent while the balance would be provided by the city. In addition, the department provides $474.3 million, or 3.6 percent, for miscellaneous costs (construction insurance and annual building condition surveys) and $235.8 million, or 1.8 percent, to complete projects begun under the prior five-year plan (2000-2004). The city will fund the total cost for miscellaneous projects and projects initiated under the prior plan; no funds are expected from the state for these two plan categories.

NOTE: A Detailed review of DOE spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Health and Mental Hygiene (DOHMH)

PRELIMINARY BUDGET HIGHLIGHTS

- **Correctional Health Services.** The Preliminary Budget calls for $7.1 million in additional city funds in 2007 to fund the collective bargaining shortfall in the contract with Prison Health Services and to provide for more testing for sexually transmitted diseases among inmates.
- **Diabetes Disease Registry.** The 2007 Preliminary Budget calls for $1.2 million in new city funds for the creation of a diabetes registry.
- **DNA Lab Building Surplus.** The 2007 Preliminary Budget reduces planned expenditures for staff in the Office of the Chief Medical Examiner's new DNA lab by $3.4 million.
- **Facility Consolidations.** The Preliminary Budget proposes $1.2 million in savings in 2007 from closure of the DOHMH adult lead poisoning lab and the consolidation of four oral health clinics.
- **Mental Health Contracting:** DOHMH expects to save $1.5 million in 2007 under the current plan through two mental health contracting initiatives.
- **Early Intervention Initiatives.** The Preliminary Budget includes several proposals for savings in the Early Intervention Program, including saving $1.5 million in 2007 by increasing Medicaid enrollment among the children participating in the Early Intervention Program.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes DOHMH funding of $1.49 billion for 2007, a $78.5 million decrease over current spending projections for 2006. Almost all of this difference can be explained by greater than expected levels of federal and state aid received in 2006. City-funded expenditures in 2007 are projected to equal $573.7 million, or 38.6 percent of the agency's total budget. Overall expenditures are projected to continue growing slowly between 2008 and 2010, rising from $1.50 billion to $1.51 billion.

Department of Health and Mental Hygiene

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Disease Prevention and Treatment	$278.2	$313.8	$275.3
Environmental Health Services	63.2	74.0	62.6
Personal and Community Health Services	123.3	131.8	106.1
Health Insurance and Health Care Access	154.9	164.4	162.0
Mental Health Services	714.8	755.7	761.6
Office of the Chief Medical Examiner	39.4	49.1	52.5
Administration	69.7	75.2	66.1
Unallocated Financial Plan Savings			(0.9)
TOTAL	**$1,443.5**	**$1,563.9**	**$1,485.4**
Full-Time Personnel	3,788	3,867	4,023
Capital Commitments	$51.3	$167.7	$134.3

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

Effects of Key Budget Proposals

Correctional Health Services. The 2007 Preliminary Budget includes just over $7.1 million for two initiatives related to correctional health services. The first initiative adds $3.3 million in 2006, $3.8 million in 2007, and $4.3 million annually beginning in 2008 to fund a collective bargaining shortfall in the contract with Prison Health Services. Although Prison Health Services is a private contractor whose workers are not city employees, its contract with the city calls for Prison Health Services' employees covered by unions that also have city employees, such as District Council 37 and SEIU Local 1199, to receive the benefits of any collective bargaining agreements reached by those unions with the city.

A similar collective bargaining increase for Prison Health Services was included in the January 2005 Preliminary Budget. That earlier increase was related to the retroactive citywide collective bargaining agreement reached with District Council 37 and other city employee unions for 2003-2005. The Financial Plan adopted in June 2005 included $9.2 million in 2006 and $10.8 million beginning in 2007 for collective bargaining increases to the Prison Health Services contract.

The second correctional health services initiative provides $3.3 million in annual funding beginning in 2006 to increase the number of tests administered to inmates for a variety of sexually transmitted diseases (STDs). This level of funding allows DOHMH to purchase 55,000 rapid HIV test kits annually as well as test all males in the correctional system under the age of 35 for chlamydia and gonorrhea. Based on the current correctional population, DOHMH estimates that more than 50,000 men will be tested for chlamydia and gonorrhea annually, approximately 10 percent of whom will test positive for one of the STDs and require treatment.

With the funding for these two initiatives, total DOHMH spending on correctional health services, including contractual services, will equal $141 million in 2006, a 3.7 percent increase over 2005, and $145 million in 2007. The contract with Prison Health Services, which is expected to total $105 million in 2006 and $107 million in 2007, accounts for nearly three-quarters of the correctional health services budget.

Diabetes Disease Registry. The 2007 Preliminary Budget proposes new city funding of $1.5 million in 2006 and $1.2 million in each year thereafter for the creation of a diabetes registry. This new diabetes registry would require clinical labs performing diabetes tests to report the results to the Department of Health and Mental Hygiene. To report diabetes values to the department, labs will use the Electronic Clinic Laboratory System, a Web-based reporting system currently used by the same labs to report confirmed cases of tuberculosis to DOHMH.

DOHMH estimates that results from 1 million diabetes tests will be collected in the registry each year. The funding for this initiative will be used by DOHMH for surveillance and epidemiological research citywide, as well as the creation of a pilot program in the South Bronx District Public Health Office. The pilot program will target approximately 270 providers, 100 medical practices, and close to 40,000 patients diagnosed with diabetes in the South Bronx. Data gathered from the diabetes registry will allow health care institutions and providers to develop patient-specific treatment plans.

Office of the Chief Medical Examiner DNA Lab Building Surplus. The Preliminary Budget reduces personnel funding for the new DNA lab to be operated by the Office of the Chief Medical Examiner by $1.2 million in 2006 and $3.4 million annually beginning in 2007. The new DNA lab, which will be located on the campus of Bellevue Hospital, was originally scheduled to open in April 2005, but construction problems have pushed the lab's opening back to November 2006. The savings will be generated both by the lab's later opening date and the expectation that, once the DNA lab opens, fully staffing the lab will take some time. Similar reductions in personnel funding for the DNA lab have been taken in previous budget plans to account for repeated delays in opening the lab. When fully operational, the DNA lab will employ over 500 people.

Total funding for the Office of the Chief Medical Examiner is expected to reach $49.1 million in 2006, a nearly 25.0 percent increase over 2005 expenditures. Expenditures for the medical examiner's office are anticipated to continue rising, totaling $52.5 million in 2007. Nearly all of the projected increase in 2006 and 2007 is related to the staffing—albeit at a reduced level—of the new DNA laboratory.

Facility Consolidations. Under the 2007 Preliminary Budget, DOHMH would save just over $1.2 million in 2007 from the closure of the adult lead poisoning lab and the consolidation of four oral health clinics. Closure of the adult lead poisoning lab, which tests about 100 specimens each year, will result in annual savings of $302,000. Currently, the lab is used only to monitor the blood lead levels of the police department's firing range staff. After the lab is closed, these tests will be outsourced by the police department to private labs. The consolidation of the oral health clinics is expected to generate $930,000 in annual savings. Although the plan originally called for the closure of four oral health clinics located in Chelsea, Bushwick, Washington Heights, and Fort Greene, the department now intends to achieve the same level of savings by reducing hours at these four sites and implementing what it claims will be a more efficient service delivery model.

The Preliminary Budget also calls for $3.6 million in savings in 2008 and an additional $3.0 million in savings in 2009 from the closure and sale of three clinics. DOHMH does not anticipate a loss of capacity, as services provided at the clinics selected for closure would be relocated to neighboring DOHMH-operated clinics. DOHMH has not yet decided which three clinics it will close and sell.

Mental Health Contracting. The department expects to save $1.5 million in 2007 through two mental health contracting initiatives. DOHMH anticipates city savings of $1.2 million in 2007 and $850,000 in 2008 when the state provides additional revenue for the management of mental health contracts that have recently become funded by Medicaid. The Preliminary Budget also calls for $354,000 in savings in 2007 from streamlining the mental health contracting process. DOHMH projects greater savings from this initiative in each year of implementation; savings in 2008 are expected to equal $707,000 and rise to $1.4 million in 2009. The implementation of the streamlining initiative should have no effect on level of mental health services provided. Currently, the department manages over 300 contracts for mental health services.

Total DOHMH spending for mental health services, almost all of which are provided through contracts, was $714.8 million in 2005. Even with the savings anticipated from these new contracting initiatives, DOHMH projects spending for mental health services will increase in both 2006 and 2007, rising to $755.7 million and $761.6 million respectively. These figures include the cost of the Early Intervention Program (EIP)—a part of the mental health services program area—which is discussed in greater detail below.

Early Intervention Initiatives. As in previous years' budgets, the Preliminary Budget includes savings in the Early Intervention Program, which provides services to children under the age of three with development delays and disabilities. Beginning in 2007, the Preliminary Budget proposes $1.5 million in annual savings from increasing enrollment in Medicaid among children receiving EIP services. The department intends to achieve these savings by identifying low-income families with children receiving early intervention services, whose high medical costs would make them eligible for Medicaid.

The Preliminary Budget also anticipates a one-time EIP savings of $23 million in 2006. DOHMH will recoup overpayments made by the department to the organization in charge of making the city's early intervention payments. In a related initiative, DOHMH proposes terminating the contract with this fiscal intermediary altogether and, beginning in 2008, using the state's billing program instead. Eliminating the fiscal intermediary would save DOHMH nearly $500,000 in 2008 and over $1 million each year thereafter. This initiative conflicts with a proposal in the Governor's Executive Budget that would actually require all counties to use a fiscal intermediary when billing for early intervention services.

Between 1999 and 2004, total EIP expenditures, which include federal, state, and local funds, rose nearly 150 percent, increasing from $209 million to approximately $520 million. This rapid growth in EIP spending can be explained by two factors: the dramatic increase in the number of children served by the program along with steady growth in the unit cost of service provision. In 2005, total expenditures for EIP fell to $464 million, a 10.8 percent reduction, because of a change in the state regulations regarding the transition into the state-funded preschool intervention program from EIP. Beginning in 2006, with continued growth in both enrollment and the cost of service provision per child, total expenditures for EIP are once again projected to increase, rising to $500 million in 2006 and $524 million in 2007.

The Governor's 2006-2007 Executive Budget calls for additional measures to reduce Early Intervention Program costs across the state, including a proposal aimed at increasing private insurance companies' reimbursement levels for EIP services. If approved by the legislature, the measure would save the city an estimated $3.8 million in fiscal year 2007 by shifting costs from the city to insurance companies.

Other State Budget Proposals

In addition to the proposals related to the Early Intervention Program, the Governor's 2006-2007 Executive Budget calls for an increase to the state base grant for public health services. The Governor's budget would also make optional services eligible for the automatic 36.0 percent state matching funds provided through the General Public Health Work program. If these proposals are enacted, the city could receive more than $7 million in additional state aid in 2007.

CAPITAL BUDGET

Agency Overview. 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. Based on a December 2004 agreement between the City Council and the Bloomberg Administration, the department can also direct capital funds to non-city owned facilities, provided the project serves a public health purpose. The capital plan accompanying the Preliminary Budget calls for $388 million in capital spending on DOHMH projects from 2006 through 2009. The comparable four-year (2005 through 2008) plan total from a year ago was $241 million. Almost all of the increase will be put toward general improvements to privately owned health facilities throughout the city.

Key Capital Projects

Construction Projects at Privately Owned Facilities. The current capital plan calls for $90 million to be committed in 2006 and 2007 for capital projects that provide a public health benefit at sites not owned by the city. Among these construction projects funded by the current capital plan are the renovation of the New York University College of Dentistry dental clinic, the purchase of ambulances for St. Vincent's Hospitals, and the construction of the Bed-Stuy Family Health Center. The comparable four-year plan issued in January 2005 included $38 million for non-city owned capital projects, $36 million of which was committed for work completed in 2005. The increase in funds provided to projects at sites not owned the city stems from a memorandum of understanding signed in December 2004 by the City Council and the Mayor's Office of Management and Budget that established guidelines for providing city capital funding for these non-city owned capital projects.

Equipment for the Office of the Chief Medical Examiner. The Preliminary Budget capital plan includes $29 million in funding between 2006 and 2009 for the Office of the Chief Medical Examiner. These funds will be used to purchase general equipment. Because the new DNA lab will be located on Bellevue Hospital's campus, the capital costs associated with the construction of the lab are carried in the city-funded capital program for the Health and Hospitals Corporation.

NOTE: A detailed review of DOHMH spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Homeless Services (DHS)

PRELIMINARY BUDGET HIGHLIGHTS

- **Family Shelter.** The Preliminary Budget proposes a cut of $12.6 million to the family shelter program, bringing budgeted spending for 2007 to $311.3 million, $31 million less than the current fiscal year.
- **Childless Families**. The 2007 Preliminary Budget includes $2.2 million to add a service-intensive Tier II shelter for homeless families without children.
- **Adult Shelter**. The 2007 Preliminary Budget proposes a cut of $3.4 million to the previously planned spending level for adult shelter, bringing budgeted spending for 2007 to $239.3 million—almost exactly the same as in the current fiscal year.
- **Intake for Single Men**. The 2007 Preliminary Budget includes $1.8 million in new spending to decentralize the intake process for homeless men.
- **Aftercare**. The 2007 Preliminary Budget includes an addition of $5 million in state funds to be used for aftercare services. Although these funds have not yet been allocated, IBO expects that 2007 spending on services to help families who have left the shelter system remain in their homes will reach $25 million.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $704.9 million for the Department of Homeless Services in 2007, $43.8 million less than in 2006. Although this agency typically receives a significant amount of state and federal aid, primarily to fund family and adult shelter, the Preliminary Budget does not fully reflect these federal funds. IBO has reestimated the state and federal aid that DHS will receive, as shown in the table on agency spending.

Effects of Key Budget Proposals

Family Shelter. DHS plans to reduce shelter capacity by 717 hotel and scatter-site units in 2007 as a result of the declining family shelter population. These units, which represent about 8 percent of total family capacity, were funded with a combination of city, state, and federal funds. Savings from closing these units will be about $12.6 million from all sources, and the proposed 2007 budget for family shelter is $311.3 million—$31.0 million less than is budgeted for the current fiscal year.

Childless Families. As of the end of February 2006, there were 1,036 childless families in the DHS shelter system. There is currently only one Tier II shelter providing services for these families; the remainder are placed in hotels. DHS plans to spend $556,000 in 2006 and $2.2 million in 2007 to add another Tier II shelter for this population. Shelters for childless families are part of the overall family shelter program.

The Preliminary Budget adds money for this new shelter only through 2007. In later years, the city expects to pay for the additional services through cost savings associated with a lower family shelter population.

Adult Shelter. DHS anticipates reducing adult shelter capacity by about 105 units—about 1 percent of total capacity—as a result of the declining shelter census. This is expected to save $3.4 million in 2007, bringing the total budget for adult

Department of Homeless Services

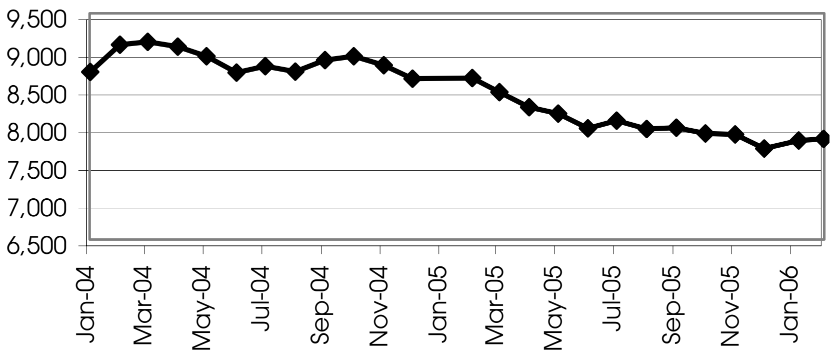
Dollars in millions, all funds

Program Area	2005 Actual Expenses	2006 Current Modified Plan	2007 Preliminary Budget
Emergency Shelter	$591.8	$581.8	$550.7
Families	369.1	342.4	311.3
Single Adults	222.7	239.5	239.3
Permanent Housing	32.9	60.0	58.6
Outreach	24.6	23.0	21.2
Prevention	16.8	20.0	20.0
Operations Support	56.6	62.8	53.3
Unallocated Financial Plan Changes		1.1	1.1
TOTAL	**$722.6**	**$748.7**	**$704.9**
IBO Adjustments			
Federal Grants		$-	$4.6
State Grants		19.6	18.9
IBO Projected		**$768.2**	**$728.4**
Full-Time Personnel	2,242	2,257	2,293
Capital Commitments	$28.5	$61.8	$42.1

SOURCES: IBO; Mayor's office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

The Number of Homeless Families is Falling

Number of families with children in shelter, end of month



SOURCES: IBO; Department of Homeless Services.

shelter services to $239.3 million—$161,000 less than is budgeted for 2006. Although the cost of adult shelter is generally shared between the city and the state, these savings are entirely city funds, since the cost of these 105 beds was over and above the state's contribution cap.

Intake for Single Men. The 2007 Preliminary Budget includes $1.8 million to decentralize the intake process for homeless men. Currently, a homeless single male looking for shelter must go to the 30th Street Intake Center in Manhattan, operated by DHS. The agency plans to release a Request for Proposals for operators of three intake facilities, one each in Manhattan, the Bronx, and Brooklyn. The decentralized intake facilities are intended to emphasize diversion from emergency shelter, speed up the assessment process, and place homeless men in more appropriate shelters.

Men's intake is part of the adult shelter program, which is funded at $239.3 million for 2007.

Aftercare. In 2007, DHS will use $5 million in state funds for aftercare programs, which help families who have left the shelter system to remain housed. Aftercare is part of DHS's homelessness prevention program. (Although the state funds have not yet been allocated in the budget, IBO expects that in 2007 there will be a total of $25 million available for various prevention programs.) The state funds reoccur in 2008; according to the Mayor's Office of Management and Budget, it is not clear whether additional funding will be available in 2009 and beyond.

DHS Permanent Housing Initiatives

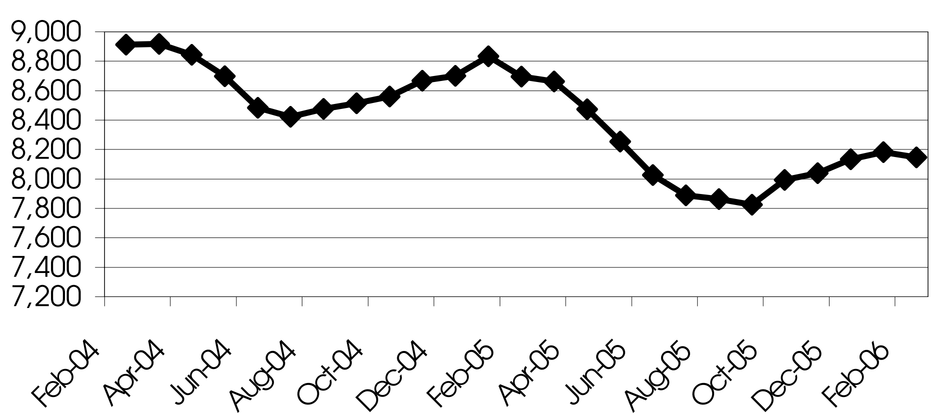
The DHS Permanent Housing Program is budgeted at $60.0 million in 2006 and $58.6 million in 2007. This program includes $15.2 million for the Emergency Assistance Rehousing Program (EARP), which provided bonuses to landlords who rented apartments to homeless families with federal Section 8 vouchers. DHS ended the EARP program in December of 2004, but has not yet reprogrammed the funding. Because of the EARP funding that remains in the DHS budget, the 2006 and 2007 budgets for DHS permanent housing initiatives are higher than actual spending in 2005.

In addition, beginning in 2006, the DHS Permanent Housing Program includes $20 million for the Housing Stability Plus (HSP) Program, described below. The $20 million represents the tax levy-funded portion of the program, which is approximately 25 percent of the total. The state and federal funds for HSP are part of the Human Resources Administration budget.[1]

Finally, the City Council regularly adds $900,000 for the Adult Rental Assistance Program when the budget is adopted. This funding is in the 2006 budget, but not yet in 2007.

The Number of Homeless Individuals is Falling

Average number of single adults in shelter



SOURCE: IBO; Department of Homeless Services.

DHS Permanent Housing Initiatives Spending
Dollars in thousands

	2005 Actual Expenses	2006 Current Modified Budget	2007 Preliminary Budget
Housing Stability Plus (HSP) (TL portion only)*	$0	$20,000	$20,000
Emergency Assistance Rehousing Program (EARP)**	7,782	15,195	15,195
SRO Support Services	16,730	17,372	17,372
Moving Assistance	5,198	5,011	5,011
Rental Assistance	2,393	2,086	1,057
Other	750	286	0
TOTAL	**$32,852**	**$59,950**	**$58,635**

SOURCE: IBO.
NOTE: *In 2005, the city funded portion of HSP came from the HRA budget. **Program ended in December 2004; funds to be reprogrammed.

Housing Stability Plus

Until December 2004, DHS's primary mechanism for placing homeless families in permanent housing was federal Section 8 vouchers. Because of cuts at the federal level, the availability of Section 8 vouchers was curtailed. DHS ended the use of Section 8 for homeless families, and created an alternative program, a time-limited rental subsidy known as Housing Stability Plus. Between December 2004 and November 2005 (the latest date for which data are available) 4,075 families were placed in permanent housing through HSP.

HSP grants phase out over five years. There are two components to the HSP grant: the shelter allowance portion of a family's public assistance grant, and the program-specific subsidy. Although the shelter allowance remains constant, the program-specific share of the subsidy drops by 20 percent annually, translating into roughly a 10 percent drop in total assistance after the first year. Assistance ends entirely after five years. Over the last few months, the first families have had their HSP subsidies reduced. DHS data on families placed in housing who return to the shelter system has only been published through November 2005, prior to the first subsidy reductions, so we cannot yet determine how these families have weathered their rent increases.

Both DHS and advocates for the homeless agree that a major flaw in HSP is the lack of "work support." In order to receive HSP, a family must be receiving public assistance. If a family leaves the welfare rolls, they lose their housing subsidy. Under HSP, therefore, while families' share of their rent increases steadily, they are not allowed to work to accommodate this rising burden without losing the benefit entirely. DHS has petitioned the state to allow families to continue to receive HSP if they leave welfare for work. To date, the state has denied the request.

CAPITAL BUDGET

Capital commitments for the Department of Homeless Services are expected to be $42.1 million in 2007, and $142.2 million over the period 2006 through 2009. The capital plan includes $13.8 million in 2006 and $12.0 million in 2007 for the construction of the Prevention Assistance and Temporary Housing (PATH) office, a replacement for the Emergency Assistance Unit intake facility. The majority of the remaining capital funds will be used to do repairs and upgrades at shelters around the city.

NOTE: A detailed review of DHS spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Youth and Community Development (DYCD)

PRELIMINARY BUDGET HIGHLIGHTS

- **City Council Initiatives.** The 2007 Preliminary Budget reduces discretionary funds designated by City Council members for organizations that provide services to youth and the general community; $435,000 is cut in 2006 and $4.4 million is cut in 2007 and in each subsequent year.
- **Beacon Preventive Services.** The Preliminary Budget transfers $686,000 in state funds for Beacon foster care preventive services from the Administration for Children's Services to DYCD for each plan year, beginning in 2006. In addition, a cost of living adjustment of $927,000 is included for 2006 and $633,000 for 2007 and each following year for Beacon preventive services.
- **CASA Initiative.** The Preliminary Budget transfers $900,000 for the CASA Initiative from DYCD and divides the funds equally among the city's three library systems—the Brooklyn Public Library, the New York Public Library, and the Queens Public Library.

EXPENSE BUDGET

Agency Overview. The preliminary budget for the Department of Youth and Community Development for 2007 is $224.7 million, $79.1 million less than the budget for the current year. Federal and state funding are expected to make up 31.9 percent and 6.5 percent, respectively, of the agency's 2007 budget. City funds will make up 58.2 percent and the rest of the 3.4 percent is intra-city funds, largely from the Administration for Children's Services (ACS) for Beacon foster care preventive services. IBO's projections of federal and state funding for the agency in 2007 are greater than the Bloomberg Administration's by $14.1 million, raising IBO's forecast of the agency's 2007 budget to $238.8 million, still considerably below the level of this year's budget.

In examining DYCD's expense budget at the program level, it appears that the decline from 2006 to 2007 is concentrated in two program areas: City Council initiatives and youth employment services. Most of the decline is attributable to City Council initiatives, which would be reduced by $59.0 million from their 2006 level—a much steeper decline than the $4.4 million cut proposed in the Preliminary Budget for 2007. The discrepancy arises because most of the funding for Council initiatives is added to DYCD's budget each spring only for the upcoming year, rather than "baselined" into the remaining years of the city's Financial Plan. For example, at the adoption of the city's budget in June 2005, $65.6 million in city funds for Council initiatives was added to DYCD's budget for 2006; no funds were added for 2007 and beyond. If this year's budget follows a similar pattern, funding for Council initiatives will be restored to DYCD's budget for 2007—but not for subsequent years—during negotiations between the Bloomberg Administration and the Council this spring.

The other major factor behind the steep decline in DYCD's budget from 2006 to 2007 is a $27.7 million reduction in funding for youth employment services. This decline is largely due to a reduction in state and city funding for the Summer Youth Employment Program (SYEP). Similar to the City Council initiatives, the budget for SYEP is negotiated right up until the program is scheduled to begin in July. In 2005

Department of Youth and Community Development

Dollars in millions, all funds

Program Area	2005 Expenses	2006 Modified	2007 Proposed
After-School Services	$78.7	$100.2	$121.0
Youth Employment Services	70.1	80.4	52.7
Community Development	37.6	33.2	27.7
City Council Initiatives	37.4	63.0	4.0
Runaway and Homeless Youth Services	3.7	5.1	3.7
Youthline	0.3	0.5	0.5
General Administration and Other Expenses	18.4	21.2	14.9
Unallocated Financial Plan Changes	N/A	0.2	0.2
TOTAL	**$246.2**	**$303.8**	**$224.7**
IBO Adjustments			
Federal and state repricing		$14.1	$14.1
IBO Projected		**$317.9**	**$238.8**
Full-Time Personnel	300	334	N/A

SOURCES: IBO; Mayor's Office of Management and Budget; Comptroller's Annual Financial Report.
NOTE: Full-time personnel: June 30 actual for 2005; November 30 actual for 2006.

DYCD's expense budget included $34.0 million for SYEP services and city funds comprised slightly over 50 percent of the program's budget. The rest of SYEP's 2005 budget was made up of state Temporary Assistance to Needy Families (TANF) funds (35.6 percent) and federal Workforce Investment Act (WIA) funds (12.9 percent). With this funding DYCD was able to provide 33,739 youth jobs during the summer of 2005.

Effects of Key Budget Proposals

City Council Initiatives. The Preliminary Budget cuts $435,000 in 2006 and $4.4 million in 2007 and each subsequent year from the current amounts in DYCD's expense budget. The cuts are to funds earmarked by City Council members for organizations that provide services to youth and the general community. The City Council also uses discretionary funds to support agency operations, enhance existing agency programs, and create new programs. Each year the City Council informs DYCD how these discretionary funds will be allocated and DYCD then enters into one-year contracts with the designated providers. At the present time it is not known which community groups would be affected if this budget action were to be implemented. (As noted earlier, the reduction in funding for Council initiatives is far steeper when measured as the change from 2006 to 2007.)

Beacon Preventive Services. The Preliminary Budget transfers $686,000 in state funds for Beacon foster care preventive services from the Administration for Children's Services to DYCD in 2006 and each subsequent year. In addition, the budget includes a cost of living adjustment for Beacon foster care preventive service programs: $927,000 for 2006 and $633,000 for 2007 and each following year. DYCD is currently working with the Mayor's budget office to determine how these funds will be allocated among the 16 Beacon preventive service contracts. Beacons are school-based community centers that offer a mix of educational and recreational activities and family support services. In 2005 the department spent $39.4 million to fund 80 Beacon program sites that served a total of 132,000 youth and adult clients.

CASA Initiative. The Preliminary Budget transfers $900,000 for the Cultural After-School Adventures (CASA) Initiative from DYCD's 2006 expense budget and splits the funds equally among the city's three library systems—the New York Public Library, the Queens Public Library, and the Brooklyn Public Library. The funds were transferred at the request of the City Council, which sponsors the CASA Initiative. In December 2005, DYCD—in partnership with the Department of Cultural Affairs and the City Council—announced the CASA Initiative, which allows nonprofit, cultural organizations and DYCD Out-of-School-Time (OST) providers to offer city youth diverse, cultural experiences.

DYCD made 84 CASA awards for theater, dance, and visual arts programs for the agency's share ($1.9 million) of the CASA funding. According to the agency guidelines for the CASA proposals, each applicant's award will not exceed $150,000 and services are expected to be provided between February 20, 2006 and June 30, 2006. Each applicant's proposed project must be conducted in collaboration with an OST provider. Each project must include as a principal goal a demonstrable cultural activity of recognized quality. It must also address OST Goal 7—to support the exploration of interests and development of skills and creativity. There is an additional $2.6 million in DYCD's 2006 expense budget for the CASA Initiative. The latter have been allocated by Council members to two cultural programs located in public schools in each Council district.

FEDERAL AND STATE ACTIONS

The President's 2007 proposed budget could have an impact on three DYCD revenue streams. First, the federal budget proposes an increase of 27 percent for the Home Energy Assistance Program (HEAP) grant. In 2005 DYCD received $148,000 to perform outreach and make low-income households aware of the assistance for home heating fuel, equipment, and repairs. Second, the proposed federal budget includes a reduction of 13 percent for Workforce Investment Act adult and youth programs. In 2005 DYCD received $41.1 million for WIA youth employment programs and served approximately 12,000 in-school youth and 1,700 out-of-school youth. Third, the federal budget provides no funding for the Community Services Block Grant (CSBG). In 2005 DYCD received $31.2 million in CSBG funds to support 452 Neighborhood Development Area programs that provided services to roughly 100,000 individuals residing in low-income communities.

Unlike prior years, the Governor's Executive Budget for 2006-2007 does not designate separate Temporary Assistance for Needy Families funding for the Summer Youth Employment Program. This year it is up to local governments to decide how much TANF funding, if any, from their state Flexible Fund for Family Services allocation they will use to support their summer jobs programs. The state's flexible fund is supported by the federal TANF block grant and it can be used to fund child welfare, child care, and other services. In 2005 DYCD received a total of $12.1 million in TANF dollars, most of which was used for SYEP. The proposed state budget includes $15.7 million less (a 5.0 percent reduction) in new federal funds for WIA services, compared to the enacted budget for 2005-2006. The proposed state budget does provide $7.3 million more (a 36 percent increase) for the Advantage After-School Program, which would bring total funding for the program up to $27.5 million in 2007. The Advantage After-School Program is administered by the state, however, and funds are allocated directly to providers.

NOTE: A detailed review of DYCD spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Health and Hospitals Corporation (HHC)

PRELIMINARY BUDGET HIGHLIGHTS

- **Staten Island Primary Care Access.** The Preliminary Budget calls for city funding totaling $1.8 million in 2007 to support the development of a Federally Qualified Health Center on Staten Island and the continuation of the Facilitated Enrollment and Community Doctors initiative.
- **Substance Abuse Funding Shift.** The Preliminary Budget provides $4.9 million in city funds to HHC in 2006 for one substance abuse program.

EXPENSE BUDGET

Agency Overview. The New York City Health and Hospitals Corporation projects expenditures in 2007 of $5.2 billion while revenues are projected to total $4.7 billion, leaving a deficit of $510 million. HHC expects to be able to close the deficit through $382 million in state and federal actions as well as $142 million in productivity savings and revenue enhancements. Successfully implementing all of these measures would allow HHC to close 2007 with $14.1 million surplus.

HHC is also facing serious financial challenges in 2006, with the corporation projecting a $573 million deficit. HHC expects to close the deficit using similar initiatives: $510 million from state and federal aid and $77 million in productivity savings and revenue enhancements, including an e-commerce initiative but not staff reductions. The deficit could also be reduced significantly if, as it has done the past two years, the city prepays $150 million of the 2007 lump-sum subsidy in 2006. Advancing these funds would reduce the projected deficit for 2006 to $423 million, but the action would increase the expected 2007 deficit to $660 million.

Receipts. Nearly all of HHC's revenues come from third-party payments: public assistance programs (Medicaid and Medicare), managed care organizations, and private insurance companies. Since 2002, HHC's revenues from third-party payments have steadily increased from approximately $3.4 billion in 2002 to an anticipated $4.2 billion in 2007. Although traditional Medicaid reimbursements have accounted for the bulk of HHC's third-party receipts, they have declined 11.8 percent from $1.9 billion in 2002 to an expected $1.7 billion in 2007.

The major growth in HHC's receipts results from a nearly four-fold increase in Medicaid managed care revenue, which has grown from $124 million in 2002 to a projected $577 million in 2007. This funding shift results from a major Medicaid policy initiative enacted by the state in 2002 that encouraged the enrollment of New York's Medicaid beneficiaries in managed care plans. The remainder of the growth in HHC's third-party receipts since 2002 can be attributed to greater Medicare revenue, which has grown from $472 million in 2002 to an estimated $674 million in 2007, as well as increased receipts from the state's Bad Debt and Charity Care pools that partially reimburse hospitals for the cost of providing care to uninsured patients.

In addition to third-party payments, HHC receives several grants from both government and nonprofit organizations. In 2007, these grants are expected to total $254 million. The city also makes an annual lump-sum payment to HHC. The

Health and Hospitals Corporation

Dollars in millions

	2006 Modified	2007 Proposed	2008 Proposed	2009 Proposed	2010 Proposed
Receipts					
Third Party Receipts	$4,165.1	$4,206.8	$4,310.3	$4,382.0	$4,455.4
All Other Receipts	391.0	539.7	444.6	426.1	427.9
Total Receipts	**$4,556.1**	**$4,746.5**	**$4,754.9**	**$4,808.1**	**$4,883.3**
Disbursements					
Personnel Costs	$ 2,126.9	$ 2,128.8	$ 2,182.6	$ 2,237.8	$ 2,294.1
Fringe Benefits	715.8	783.1	861.4	913.1	931.4
Malpractice Costs	185.9	189.9	189.9	189.9	189.9
Affiliations	643.1	661.8	694.9	729.6	751.5
All Other Adjustments	1,384.8	1,424.4	1,464.8	1505.9	1547.8
Total Disbursements	**$ 5,056.5**	**$ 5,188.0**	**$ 5,393.6**	**$ 5,576.3**	**$ 5,714.7**
Total Non-Operating Expenses	$ 72.5	$ 68.4	$ 64.2	$ 60.8	$ 57.4
Receipts Less Expenses	**($572.9)**	**($509.9)**	**($702.9)**	**($829.0)**	**($888.8)**

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTE: Non-operating expenses are HHC's interest expenses.

Preliminary Budget for 2007 provides for a lump-sum payment of $955 million in city funds to HHC including $786 million for the city's share of Medicaid costs for services provided at HHC facilities. The remaining $169 million contribution includes the city's contribution toward HHC's debt service as well as funding for various services HHC provides through contracts with other city agencies.

Expenses. Although HHC's receipts have been growing steadily since 2002, the corporation's expenditures have been growing at a much faster rate. In 2002, HHC's expenditures totaled $3.9 billion, while 2007 spending is projected to reach $5.2 billion, a 33.3 percent increase. In comparison, total revenues over the same period have grown by only 22.4 percent. Almost all of the growth in expenditures has been driven by two factors: increasing personnel costs and the costs of fringe benefits. In 2002, personnel and fringe costs totaled over $2.2 billion; in 2007, they are expected to cost HHC over $2.9 billion.

Structural Fiscal Imbalance and the Future Outlook for HHC. Between 2006 and 2010, HHC projects expenditures to increase by 12.5 percent and total receipts to increase by 7.2 percent. Annual deficits are expected to grow from $510 million in 2007 to $889 million by 2010. To remedy these expected shortfalls, HHC assumes that federal and state actions will produce additional revenues of roughly $382 million in 2007, rising to $642 million in 2010. If history serves as any indication, the probability of receiving such a large sum in state and federal aid is quite low. In 2004 and 2005, HHC received only $40.8 million and $18.7 million respectively in state and federal aid.

HHC's persistent fiscal woes result from the large number of uninsured patients the corporation serves. While HHC has made significant strides in the past few years to reduce the number of uninsured patients by actively seeking to enroll all eligible patients in Medicaid, the corporation, in fulfilling its mission of providing care to all New Yorkers, regardless of their ability to pay, still provides a great deal of uncompensated care. Between 2000 and 2004, HHC estimates that its efforts to enroll eligible patients in Medicaid resulted in a 23 percent reduction in the number of uninsured patients treated by the corporation, from approximately 565,000 uninsured patients in 2002 to 435,000 in 2005. The state-funded Bad Debt and Charity Care pools provide some assistance, but these pools do not cover the full cost of providing care to the uninsured. In 2005, HHC provided care for roughly 435,000 individuals at a cost of approximately $1.2 billion. The $685 million in Bad Debt and Charity Care funds HHC received in 2005 covered roughly 57 percent of these costs—a shortfall of $515 million.

In 2005, the Mayor increased the city-funded subsidy to HHC by $200 million to alleviate some of the financial strain placed upon the corporation as a result of uncompensated care. Increased funds of approximately $150 million per year were included for 2006 through 2008 as well. If current trends continue and the additional state and federal resources are not available, HHC will soon be unable to cover its expenses despite the increase in the city lump-sum payment. It is unclear, however, whether or not the city would be responsible for providing these additional subsidies to HHC if such an event occurs.

Effects of Key Budget Proposals

Staten Island Primary Care Access. The 2007 Preliminary Budget proposes $1.8 million to continue two initiatives launched in 2006: the application to establish a Federally Qualified Health Center (FQHC) on Staten Island and the Facilitated Enrollment and Community Doctors initiative. An FQHC is a community-based primary care clinic that is eligible for cost-based reimbursement for services from Medicaid and Medicare. If approved, HHC will fund and operate the FQHC in the first few years when the health center is expected to incur large start-up deficits. Once the FQHC is self-sustaining, HHC anticipates turning operational responsibilities over to a separate not-for-profit entity. HHC has identified a site for the FQHC on Staten Island's North Shore, the region with the largest concentration of low-income and uninsured individuals.

A portion of this funding will also support the continuation of the Facilitated Enrollment and Community Doctors initiative launched on Staten Island in 2006. This program provides funding to community-based organizations that assist residents who are uninsured but eligible for Medicaid with the enrollment process. The initiative also reimburses physicians who see low-income and uninsured patients in Staten Island with the goal of encouraging these populations to access primary care services through primary care providers rather than the emergency room.

Substance Abuse Funding Shift. The Preliminary Budget calls for $4.9 million in 2006 and $177,000 annually in subsequent years to support a substance abuse program that was previously funded at $4.9 million through a contract with the city's Human Resources Administration. It will now be supported through a direct city transfer to HHC. These additional funds will only cover the full cost of the program in 2006. Beginning in 2007, the direct city funding for the substance abuse program will be reduced to $177,000 each year.

Sexual Assault Response Team. The Mayor's financial plan released in November 2005 included increased funding for the Sexual Assault Response Team (SART) program operated by HHC. The November plan provided an additional $266,000 for the program in 2006 and $800,000 annually beginning in 2007. The SART program consists of mobile forensic specialists who provide rape victims with counseling as well as collect evidence that can later be used to prosecute the offenders. Currently, the SART program is only available at the three public hospitals located in the Bronx.

State Budget Issues

If the Governor's 2006-2007 Executive Budget is adopted in its current form, HHC stands to lose more than $140 million in 2007. Note that this further reduction in HHC revenue has not been included in the Preliminary Budget figures shown above. The proposal with the greatest potential impact on HHC's budget is the elimination of the automatic annual increase in hospital Medicaid reimbursement rates, which would cost the hospitals corporation almost $55 million annually if enacted. Other initiatives in the Governor's budget that would affect HHC's bottom line include reductions in Graduate Medical Education payments, reimbursement rates for inpatient detoxification services, and various nursing home funding programs. The Governor's budget also includes stricter eligibility rules for the Family Health Plus program that would not have a direct impact on HHC's budget but could have an indirect impact if these changes increase the number of uninsured.

CAPITAL BUDGET

Agency Overview. HHC establishes its own 10-year capital program, separate from the city's capital planning process. The plan has focused on expanding to meet increased demand at certain facilities, modernizing aging hospital facilities, and upgrading clinics, emergency rooms, and specialty units. HHC issues debt through the Dormitory Authority of the State of New York as well as on its own behalf.

In addition to issuing its own debt, HHC receives some capital funding from the city. The capital plan accompanying the 2007 Preliminary Budget calls for nearly $1.0 billion in city capital spending for HHC from 2006 through 2009. The total level of city capital funding designated for HHC has remained essentially unchanged from the comparable four-year (2005 through 2008) plan issued in January 2005.

Key Capital Projects

Harlem Hospital Center and Jacobi Medical Center. Under the current city plan, $225 million in city capital funds will be spent upgrading the Harlem Hospital campus from 2006 to 2009. The plan also commits $63 million in capital funds to the modernization of Jacobi Medical Center. These projects were funded as a result of a Mayoral initiative announced in 2004.

Kings County Hospital Modernization Project. The current city 2006-2009 capital plan calls for just over $145 million for the continued modernization of Kings County Hospital. The bulk of these funds will be used to build a new behavioral health center and upgrade the ambulatory care facility on the hospital's campus.

Ambulance Purchases. The city capital plan also provides $77.4 million for the purchase of new ambulances between 2006 and 2009.

Human Resources Administration (HRA)

PRELIMINARY BUDGET HIGHLIGHTS

- **HASA Housing and Case Workers.** The Preliminary Budget adds $10.7 million in city funds and $36.3 million in total funds to upgrade housing for HIV/AIDS clients, including a shift that replaces federal funds now used for case management services with city dollars and applying the federal aid to housing.
- **Medicaid Budget Realignment.** The budget reduces city Medicaid spending administered by HRA by $222.6 million in 2007, based on the Mayor's projection of the city's share of the cost under the new state cap on increases in local contributions.
- **TANF Adjustment.** The budget plan replaces $43.3 million in city funds with an equal amount of federal funds, based on a reestimate of required city spending under federal welfare law.
- **Public Assistance Reestimate.** The Preliminary Budget includes an addition of $4.2 million in city funds and $50 million in total funds, based on new projections of public assistance caseloads and expenditures and a change in how the city accounts for reimbursements received from the federal government when Safety Net Assistance recipients become eligible for Supplemental Security Income.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget for the Human Resources Administration proposes overall agency spending of $6.8 billion in 2006, a decrease of 5.7 percent from the prior year, and spending of $7.2 billion in 2007, an increase of 6.5 percent over 2006. The divergence in the growth rates is, in large part, the result of reductions in projected city Medicaid spending in the Preliminary Budget and last November's budget modification, totaling $461 million in 2006 and $223 million in 2007. These reductions were made to account for the effects of the shift from an accrual to a cash-based system, and the implementation of the new state cap on the growth in local Medicaid costs. IBO's projection for total HRA spending is $10 million lower than the Bloomberg Administration's for 2006 and $57 million lower in 2007. These budget projections include IBO adjustments to the Preliminary Budget for state and federal categorical grants and public assistance.

While HRA is still one of the largest Mayoral agencies in terms of its annual operating budget, it has become smaller. In the 1990s city officials made a series of decisions to spin off several program areas into two newly constituted agencies: the Department of Homeless Services and the Administration for Children's Services. These two newer agencies currently have a combined annual operating budget of about $3 billion. As a result of these programmatic reorganizations HRA has become an agency centered primarily on the administration of two large means-tested programs, Medicaid and public assistance. Including the costs of administering the program, the Medicaid budget for 2006 is $3.88 billion or about 57 percent of the total HRA budget.

The 2006 budget for public assistance, including the costs of grants, eligibility determination, and administration, is $1.54 billion or about 23 percent of the total agency budget. Thus, these two large entitlement programs account for about 80 percent of HRA's budget, while much of the

Human Resources Administration
Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Medicaid	$4,243.0	$3,884.6	$4,280.1
Public Assistance	1,503.3	1,541.6	1,590.6
Employment Support	367.2	325.5	310.0
Food Support	65.2	64.7	54.3
Child Care	241.1	247.6	244.7
Home Energy Assistance	31.9	33.0	23.3
AIDS Services	185.9	180.5	190.1
Adult Protective Services	28.4	28.6	27.7
Domestic Violence	72.1	77.7	78.9
Child Support	42.6	54.9	57.1
Central Administration	423.3	356.5	380.5
Unallocated Financial Plan Changes	0.0	0.0	(1.6)
TOTAL	**$7,204.0**	**$6,795.2**	**$7,235.7**
IBO Adjustments			
State & Federal Categorical Grants		$0.0	$11.0
Public Assistance		(9.7)	(68.2)
Total		($9.7)	($57.2)
IBO Projected		**$6,785.5**	**$7,178.5**
Full-Time Personnel	14,270	14,427	
Capital Commitments	$11.9	$84.9	$18.3

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006.

remainder is accounted for by supporting programs such as employment programs and child care.

Based on recent history it is likely that the 2007 budgets for some program areas will be adjusted upward as state and federal categorical funds become available, or as mid-year adjustments are made for rising caseloads and unit costs. Additional funds for some programs are likely to be added to the budget on a one-year basis by the City Council as part of the 2007 adoption process.

Effects of Key Budget Proposals

HASA Housing and Case Workers. After a long period of growth the HIV/AIDS Services Administration (HASA) caseload has stabilized over the last few years at just over 30,000 cases. The slowdown can be attributed in large part to improvements in medical treatments for people with HIV and AIDS, which can delay progression from being HIV positive to the onset of clinical AIDS. Eligibility for HASA services is limited to those diagnosed with clinical AIDS. At the same time, these new treatments have significantly extended the survival time of people with AIDS. In response to these developments, HASA has been providing more long-term services to its clients and their families. These efforts have included the development of more non-emergency supportive housing. The additional funds in the Preliminary Budget will help reduce reliance on emergency single-room-occupancy units, by enabling HASA to create 227 new scattersite apartments and 688 congregate units by 2008. The Preliminary Budget includes $27.4 million in total funds in 2006, $36.3 million in 2007, and $47.2 million in 2008 for the new housing units.

Medicaid Budget Realignment. The new projections of city Medicaid costs take into account the implementation of the new state cap on the Medicaid contributions of local governments. For a detailed discussion see the Medicaid section of this report.

TANF Maintenance of Effort Adjustment. This action reverses an adjustment made to an earlier Financial Plan to account for an expected shortfall in city welfare-related spending as measured against maintenance of effort (MOE) requirements in the federal welfare law. Under the 1996 federal welfare reform 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, the year before the implementation of the Temporary Assistance for Needy Families (TANF) block grant. As Family Assistance caseloads and grant expenditures decreased over the years, it became increasingly difficult for the state and local governments to achieve these levels of expenditures. In order to bring spending up to the MOE level, the state began to withhold some federal reimbursement for grant expenditures, forcing the localities to bear more than their usual share of the grant cost. To account for this increased burden, the city adjusted its Financial Plan for public assistance by adding city funds and reducing federal funds by the same amount. As a result of a recent increase in city spending against the MOE, this adjustment is no longer needed, freeing up $43.3 million in city funds in each year of the Financial Plan. For a detailed discussion see the Public Assistance section of this report.

Public Assistance Reestimate. This change reflects new caseload and expenditure projections as well as a technical adjustment. An increase of $4.2 million in city funds and $4.2 million in state funds in 2007 is the result of recent growth in the Safety Net Assistance (SNA) caseload. In addition, federal funds increase $41.6 million as a result of new accounting rules that require the city to reflect in its budget the retroactive reimbursement it receives from the federal government when SNA recipients become eligible for Supplemental Security Income (SSI). In such cases, the city is reimbursed for the SNA grant costs it has incurred from the time the SSI application was filed.

CAPITAL BUDGET

Agency Overview. HRA's four-year Capital Commitment Plan has changed little since the September 2005 plan and calls for $127 million in total commitments for 2006 through 2009, an average of $32 million a year. Similarly, from 2002 through 2005 actual capital commitments averaged $31 million a year. Actual commitments for any given year can vary significantly from the plan, however. For instance, a year ago the plan projected $51 million in commitments for 2005; actual commitments amounted to only $12 million.

Key Capital Projects

Like last year's plan, the new commitment plan encompasses two general areas: upgrades to agency computer and telecommunications systems; and the construction, renovation and furnishing of agency facilities.

Computer and Telecommunication Systems. The agency will continue upgrading its 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, funds have been provided for the development of an integrated case management system. Planned commitments for computer and telecommunications systems total $50 million for 2006, and $82 million over the four years of the plan.

Facility Improvements. HRA is also planning and carrying out a wide variety of construction and renovation projects intended to improve agency facilities, including the Agudath Israel Service Center, the Jamaica Model Office, the Vocational Training Center for Coney Island, and the Office of Employment Services facility on E. 16th Street. Planned commitments for design, construction, renovation and furniture for agency facilities total $33 million for 2006 and $42 million over the four-year period.

NOTE: A detailed review of HRA spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Medicaid

OVERVIEW

According to the Preliminary Budget, total cityfunded Medicaid expenditures—including payments administered by HRA and made directly to HHC—are expected to reach $4.8 billion in 2007 and to grow to over $5.3 billion by 2010.

IBO and OMB Medicaid Estimates. The state-imposed cap on local Medicaid expenditures, which went into effect January 1, 2006, will eliminate the uncertainty surrounding localities' annual Medicaid contributions. In the Executive Budget released in May 2005, the Mayor's Office of Management and Budget (OMB) estimated and recognized nearly $1.0 billion in city Medicaid savings from 2006 to 2009 resulting from the cap.

Because the city will now provide the state with a predictable Medicaid payment, the implementation of the cap has a secondary impact of changing the way in which the city will budget for Medicaid expenditures, moving the city from an accrual accounting system to a cash accounting system. OMB estimates this accounting shift will result in a one-time savings of $450 million in 2006.

The Medicaid estimates included in the 2007 Preliminary Budget are presented on an accrual basis. OMB has delayed presenting estimates using a cash accounting system until after calendar year 2005 expenditures—the base year for computing the cap—are finalized by the state

Because of this anticipated change in accounting systems, IBO has not developed accrual-based Medicaid estimates to compare with those released by OMB in this report and will wait until the state certification is complete to generate a full, independent estimate of Medicaid expenditures on a cash accounting basis. However, using the state's preliminary estimate of New York City's expected Medicaid contribution for calendar year 2006 on a cash basis, IBO believes that there will be significant additional savings to the city—well over $100 million annually—beyond what is reflected in the Preliminary Budget for Medicaid from 2007 through 2010.

Medicaid through HRA. The Preliminary Budget projects city-funded Medicaid expenditures administered through the Human Resources Administration (HRA) in 2007 will total $4.0 billion, an 11.4 percent increase over expected 2006 Medicaid expenditures. The Bloomberg Administration expects Medicaid expenditures to continue growing, rising to $4.5 billion by 2010. The Preliminary Budget makes one adjustment to the 2007 HRA Medicaid budget: a reduction of $222.6 million in annual Medicaid spending created by the state cap.

Medicaid through HHC. The city's contribution for Medicaid services delivered at the New York City Health and Hospitals Corporation (HHC) is treated differently than 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 2007, the city payment to HHC for Medicaid services is budgeted at $786 million, which accounts for the bulk of the city's $955 million lump-sum payment to HHC.

KEY ISSUES AND CHANGES

Background. Medicaid is a federal- and state-funded health care safety net program covering more than 53 million low-income individuals across the country. In New York State alone, there were approximately 4.2 million individuals enrolled in Medicaid as of June 2005, 2.8 million of whom lived in New York City. 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 receives federal matching funds for a portion of actual expenditures. The share matched is determined by a state's Federal Medical Assistance Percentage (FMAP). 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, the total contribution has historically equaled approximately 19 percent of all Medicaid expenditures made on behalf of city residents.

The cost of providing Medicaid services to New York City residents has been steadily increasing over the past few years. Based on IBO's estimates, the cost to the city of providing Medicaid services through HRA and HHC has risen 35 percent overall, from approximately $3.2 billion in 2001 to nearly $4.4 billion in 2006. The primary drivers of the growth in Medicaid expenditures have been the continued growth in Medicaid enrollment, particularly in the Family Health Plus program, increasing pharmaceutical costs, and the expansion of Medicaid managed care.

In recent years, the local share requirement became a strong point of contention between the state and local governments in New York, with county officials across the state publicly demanding relief from the local Medicaid burden. To relieve the burden on county and municipal budgets, the state's 2004-2005 enacted budget included a state takeover of half of the required local contribution for Family Health Plus as of January 2005, and all of localities' Family Health Plus costs as of January 2006. In the enacted budget for 2005-2006, the legislature and the Governor went even further, agreeing to cap the annual growth rate in local Medicaid contributions to a certain percentage of each locality's 2005 actual expenditures, excluding spending on the Family Health Plus program. The growth rate will be capped at 3.5 percent of 2005 expenditures in calendar year 2006, 6.75 percent of 2005 expenditures in 2007, and 9.75 percent of 2005 expenditures in 2008. In other words, the growth rates are noncompounding. Under the agreement, localities must still contribute 25 percent of all acute care costs and 10 percent of all long-term care costs, but the state will be responsible for any expenses incurred in excess of the cap.

Estimating the Value of the State Medicaid Cap. Each locality's capped value will be based on actual Medicaid expenditures made in calendar year 2005. As of January 1, 2006, New York City and the rest of the state's localities have been making Medicaid payments to the state based on estimates of calendar year 2005 spending developed by the New York State Division of the Budget (DOB). The DOB figures are based on each locality's actual expenditures through October 2005 and estimated expenditures for the final two months of 2005.

Using DOB's base year assumptions, the city's total Medicaid liability under the new cash-based accounting system would equal $4.7 billion in city fiscal year 2007, rising to $5.1 billion in 2010. These figures include Medicaid spending through HRA and HHC as well as expenditures on administration. Once the actual spending for November and December 2005 is finalized, these figures will be adjusted, most likely reflecting even greater savings for the city.

Due to the change in accounting methodologies necessitated by the imposition of the cap, the city also realized a one-time savings of $450 million in city fiscal year 2006. The savings represents the funding that would have been set aside in an account for Medicaid services that were expected to be provided in 2006 but not paid until a later date. This matching of funds to the year in which services are provided—which is how Medicaid expenses used to be budgeted—is the hallmark feature of an accrual accounting system. According to the state legislation creating the cap, the base year will only include actual expenditures made during calendar year 2005. Medicaid expenditures made by the localities outside the base year that are related to services provided in 2005 or earlier are not included in the calculation of the base year. Medicaid expenses will now be accounted for when the bill is paid, not when services are provided. This arrangement is referred to as a cash-based accounting system.

State Budget Actions. The Governor's 2006-2007 state budget proposes several cost containment initiatives for the Medicaid program that, if enacted, could save the state more than $1.3 billion annually. Unlike Medicaid savings proposals advanced in previous state budget plans, the city is not expected to realize any savings this year, due to the implementation of the cap on increased local Medicaid liability. Future Medicaid cost containment initiatives could reduce New York City's (and other localities') expected Medicaid contributions, but only if the savings generated would drive the increase in Medicaid liability below the capped level.

Impact of State Budget Actions on HHC. Although the proposals would have no effect on the city's expected Medicaid contributions because of the implementation of the cap on local Medicaid expenditures, these same proposals would cost the Health and Hospitals Corporation more than $140 million in 2007. If enacted, these Medicaid cost containment initiatives, which include eliminating the automatic increase in reimbursement rates for hospital services, limiting reimbursement for graduate medical education, and reducing reimbursement rates for inpatient detoxification services, could have a significant effect on HHC's finances, as the corporation is already facing a $510 million shortfall for 2007. Adding in the cost of the Medicaid proposals, HHC's gap for 2007 would grow to

$650 million, almost 15 percent of its anticipated receipts.

Impact of Federal Actions on City Medicaid Spending. Concerns over the soaring costs of Medicaid have also become an issue on the national level. The recently enacted 2006 federal budget gives states the option to reduce benefits, increase copayments and impose premiums on Medicaid beneficiaries. According to the Congressional Budget Office, these measures, along with strict regulations on asset transfers for individuals seeking to qualify for Medicaid through a spend down program, will reduce federal Medicaid expenditures by $4.9 billion over the next five years. The impact of these initiatives on New York City is likely to be minimal in the near future, as there appears to be little state support for the new initiatives.

Public Assistance

OVERVIEW

The Preliminary Budget projects that the overall number of people receiving public assistance will slowly decrease from 414,000 in December 2005 to 411,000 in June 2006, and then level off after that point. Because of a change in the composition of the overall caseload, however, the Bloomberg Administration projects that total federal, state, and city expenditures for public assistance grants will increase slightly from $1.29 billion in 2006 to $1.34 billion in 2007 and remain unchanged in later years. The city's share of welfare spending is forecast to rise from $482 million in 2006 to $495 million in 2007 and then level off for the remaining years of the plan.

There are three distinct components of public assistance that differ by eligible beneficiary and sources of funding. Those on Family Assistance (FA) qualify for federal Temporary Assistance for Needy Families (TANF) grants. Needy households with children can receive up to 60 months of TANF-funded benefits. The cost of FA is split between the federal government, which pays 50 percent, and the city and state, which each pay 25 percent of the cost. (Prior to the 1996 federal welfare legislation, this category was known as Assistance for Families with Dependent Children.)

Needy single adults and couples without children can receive Safety Net Assistance (SNA) benefits. SNA is funded by the city and state, each of which pays 50 percent of the cost, with no federal contribution. (Prior to 1997, this program was known as Home Relief.) If families still qualify for benefits after their 60 months of federal TANF eligibility expire, they can shift to the 60 Month Converted to Safety Net (C-SN) program, which is funded equally by the city and state. As with basic SNA, there is no federal funding for C-SN.

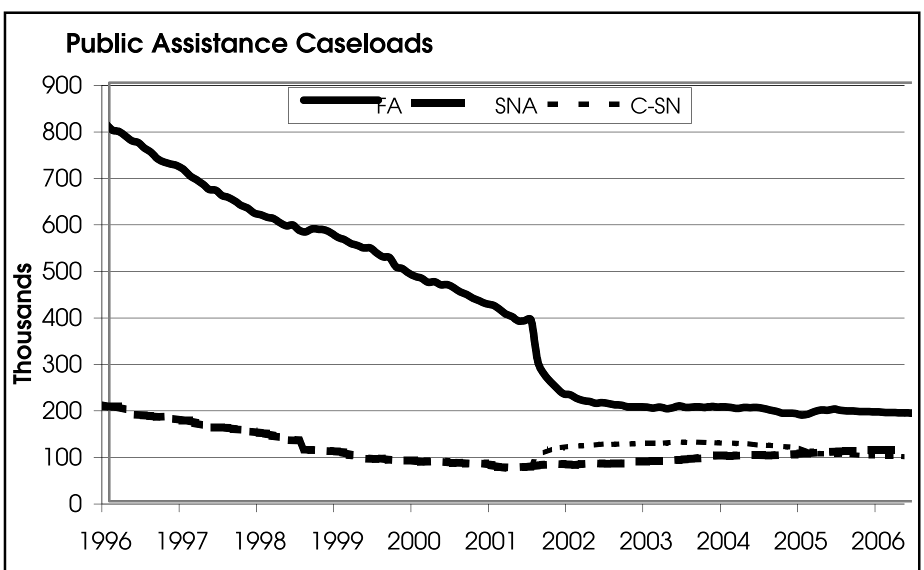
The Preliminary Budget includes separate caseload projections for each of these three groups. While the Bloomberg Administration expects the combined caseload to level off at the end of 2006, IBO projects that public assistance caseloads will continue to decrease modestly through 2007 as the city's job market continues to improve.

Based on these caseload projections we expect total expenditures for public assistance grants to decrease from $1.28 billion in 2006 to $1.27 billion in 2007 and $1.26 billion in 2008, remaining flat after that point. Similarly, IBO projects that city expenditures will decrease from $473 million in 2006 to $467 million in 2007 and $462 million in 2008, 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 $8 million in 2006, $28 million in 2007, and $33 million in 2008 and later years.

CASELOAD TRENDS

A close look at caseload trends over the past decade shows that the 2001 downturn had a different impact on families than on single adults. While the recession slowed but did not reverse the downward trend in the number of families receiving public assistance, the caseload of single adults gradually began to grow—a trend that has continued. IBO projects that a combination of factors, including recent changes in state welfare regulations, will lead SNA caseloads to rise through the end of this fiscal year.

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 nearly 1.2 million to



SOURCES: IBO; Human Resources Administration.

464,000, a reduction of 60 percent. The decline was due to a combination of factors including an improving local economy, reform of state and federal welfare policies, as well as major changes by the city. The city initiatives included intensive screening of new applicants, work requirements, and the use of job-placement firms to aggressively push recipients into the paid workforce.

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. Between December 2000 and December 2003 the city experienced a net loss of about 230,000 jobs.

Contrary to some expectations, the recession 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. This upturn then continued at a slower pace, reaching 96,000 by December 2003. The impact of the economic downturn on the family caseload, which now includes both FA and C-SN, was also modest. While the downturn did not lead to caseload increases, it did slow the rate of decline, and eventually halted it altogether. The family caseload dropped sharply from 863,000 people in March 1995 to 387,000 in September 2001. 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. During calendar year 2003 the combined family caseload stabilized, with 335,000 individuals receiving assistance in December 2003—the same caseload as in December 2002.

Growth in local employment resumed in 2004, with the number of jobs increasing by 38,000 from December 2003 to December 2004, and by another 40,000 from December 2004 to December 2005. This upturn may be starting to have an impact on at least a portion of the public assistance caseload. During calendar year 2004 the combined family (FA and C-SN) caseload decreased by a modest 12,000 recipients, reaching 323,000 in December 2004. In calendar year 2005, with the city experiencing continued job growth, the family caseload decreased by another 22,000 recipients, reaching 301,000 by the end of the year. IBO projects that the family caseload will continue to slowly decrease to 283,000 recipients by June 2007. The Bloomberg Administration forecasts a smaller decline, with the combined family caseload reaching 295,000 by June 2006 and remaining at that level for the rest of the forecast period.

In contrast to the family caseload, the number of SNA recipients has continued to rise from 96,000 in December 2003 to 105,000 in December 2004 and 113,000 in December 2005. This continued growth may reflect in part the relatively slow recovery of some sectors of the economy that are most likely to employ low-skilled men. A recent report issued by the Human Resources Administration indicates that more than half of all adult SNA recipients are male, while the family caseload is overwhelmingly composed of female-headed households. In addition, because of a recent change in state welfare regulations, some families that reach their 60-month limit on Family Assistance are being converted to SNA rather than the usual conversion to C-SN. As a result of these factors IBO projects that the SNA caseload will continue to grow for a while longer, reaching 116,000 by June 2006 and leveling off at that point. The Bloomberg Administration projects a similar pattern for SNA.

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. After rising to a peak of 133,000 in November 2003, the number of C-SN recipients slowly decreased to 107,000 by December 2005. We project that the number of C-SN recipients will gradually decline to 98,000 by June 2007. In contrast, the Bloomberg Administration projects that the C-SN caseload will bottom out at 105,000 in June 2006.

Taken by itself, the shift from FA to C-SN has 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 cost to the city of the shift of public assistance recipients from FA to C-SN will reach $58 million in fiscal year 2006, and decrease slightly to $55 million in 2007.

Federal Spending Requirements. Putting an actual price tag on this shift between public assistance programs 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 decreased, the state and the city chose not to spend all of the resulting savings on other programs targeted to low-income New Yorkers.

Until recently, state officials would annually project potential MOE spending shortfalls. To reach the required MOE level they 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.

IBO expects the increased state and local spending due to the movement of families from FA to C-SN to eliminate any potential MOE spending shortfall over the next few years. As a result, the Preliminary Budget includes a reduction of $43.3 million in city funds that had been set aside each year to cover a shortfall of city spending against the MOE.

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 could have an impact on recipients. Once recipients 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 in 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 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 great importance to both the state and city is the recent reauthorization of the 1996 federal welfare law. The welfare law was set to expire in September 2002 but had been extended several times. Some provisions in the reauthorized law have significant implications for the city. The new law significantly increases work requirements for TANF recipients, while providing few new resources to cover the increased costs of expanded work programs. The Temporary Assistance for Needy Families block grant will be frozen at its 1996 level. Child care funding will be increased by a modest $1 billion nationwide over five years, far less than the new child care costs associated with fulfilling the new work requirements, as estimated by the Congressional Budget Office.

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. While the city's Financial Plan does not assume any increase in the size of the TANF block grant, it also does not take account of any potential cost increases from an expansion of its welfare-to-work programs.

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. Over the years the state's TANF surplus grew as the federally funded portion of the public assistance caseload decreased and fewer funds were needed for grant costs. In the last few years these caseload decreases have moderated and state officials have used up TANF reserves to help close state budget gaps, resulting in smaller annual TANF surpluses. In addition, the city's social service programs have faced increasing competition from alternative uses of the TANF surplus, such as the expansion of the state's Earned Income Tax Credit (EITC).

The Governor's Executive Budget for 2005-2006 proposed to alter the TANF surplus allocation system by creating a $1.0 billion Flexible Fund for Family Services (FFFS) block grant to localities, in place of the specific program allocations of previous years. Under this new system each local government would receive one large TANF surplus allocation, and would have to decide how to allocate it among the specific programs that have come to rely on TANF surplus funds. The state's Adopted Budget for 2005-2006 included a scaled-back version of this proposal, establishing a $600 million FFFS while leaving more TANF-funded programs outside of the FFFS.

The Governor's Executive Budget for 2006-2007 proposes an expanded FFFS of $1.025 billion, which together with the state's EITC would account for virtually the entire TANF surplus. If this proposal is adopted by the state, it would have the effect of shifting the difficult decisions about how to allocate decreasing amounts of surplus funds among competing social programs, from the state government to local officials.

Department of Buildings (DOB)

PRELIMINARY BUDGET HIGHLIGHTS

- **Salary Adjustments**. The 2007 Preliminary Budget adds $2.5 million to boost salaries for "hard-to-hire" positions to help meet recruitment goals across the agency.
- **Temporary Staffing.** The 2007 Preliminary Budget adds $1.4 million to contract for temporary staffing to help the agency meet the demand for its services associated with peak construction levels.
- **Inspection Changes.** The 2007 Preliminary Budget includes a savings of $240,000 through changes in the way low-priority violations and "no access" cases are handled.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $74.3 million for the Department of Buildings in 2007, $9.7 million less than the 2006 budget of $84.0 million. The department had a number of one-time expenses in 2006 that help account for lower projected spending for 2007.

The Department of Buildings regularly adds about $3 million to its budget in the Executive Budget plan to accommodate the coming year's contract for elevator inspectors. IBO has added this expense to the 2007 Preliminary Budget.

Because DOB purchases all its services and supplies centrally, IBO cannot accurately allocate DOB spending to specific programs. Instead, we have broken out the agency headcount by program.

Effects of Key Budget Proposals

Salary Adjustments. The 2007 Preliminary Budget adds $2.5 million to boost salaries for "hard-to-hire" positions to help the agency meet recruitment goals. Private-sector salaries for technical professions are typically higher than city salaries, particularly when construction activity is strong. DOB expects that adjusting salaries will help them compete with the private sector for employees.

DOB is currently hiring plumbing, construction, electrical, and elevator inspectors, as well as plan examiners, fee estimators, and engineers. Although it not clear which of these titles will be affected by the proposed salary adjustments, many of these job postings are almost six months old, and some positions have been posted for over a year.

Temporary Staffing. The 2007 Preliminary Budget adds $1.4 million for a temporary services contract to help the agency meet the demand for its services associated with peak construction levels. The temporary employees—most of whom are clerical—will help augment full-time staff in many of DOB's programs.

Inspection Changes. The 2007 Preliminary Budget includes a savings of $240,000 through changes in the way low-priority violations and "no access" cases are handled. DOB will now inform building owners of class "C" and class "D" violations—which are the least serious classes of buildings violations—by letter, rather than in person. Inspectors will later visit to verify the correction of the violation, but eliminating visits to locate building owners is expected to save $180,000 in 2007. Similarly, when a DOB inspector visits a site and is denied access by those on-site, the agency will now attempt to get access through other means immediately—for example, contacting the building owner—rather than sending an inspector for a second visit. This is expected to save $60,000.

One-Time Needs. A number of one-time needs raised DOB's other than personal services (OTPS) spending in 2006. DOB expects to spend $2.1 million on its office space. This includes $1.5 million to accommodate new staff, primarily in the department's central office, and $600,000 to reconfigure borough offices. These facility costs are in the 2006 budget only, and are part of the reason the 2006 OTPS budget is

New York City Department of Buildings
Dollars in millions, all funds

	2005 Actual	2006 Modified	2007 Proposed
Personal Services	$49.0	$58.5	$62.9
Other than Personal Services	$15.2	$25.5	$11.4
TOTAL	**$64.2**	**$84.0**	**$74.3**
IBO Adjustments			
Elevator Contract		$-	$3.0
IBO Projected		**$84.0**	**$77.3**
Full-time Personnel	893	959	1,117

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

Department of Buildings Full-Time Employees by Program

Program	2003	2004	2005	2006
Plan Examination	83	79	79	93
Construction Inspection	63	63	61	78
Building Systems Inspections	180	198	195	190
Borough Office Management	145	166	182	194
Emergency Response and Other Safety Services	63	57	76	79
Illegal Occupancy	8	9	12	9
Administration and Information Technology	123	131	126	142
Other/Central Units	133	141	162	174
TOTAL	**798**	**844**	**893**	**959**

SOURCE: IBO.
NOTE: 2003-2005 as of June 30; 2006 as of Nov. 30.

significantly higher than 2005 spending or the 2007 budget. Other one-time initiatives in 2006 included $2 million for vehicles for the agency's growing number of employees, and $1.9 million for a contact for information technology services.

Revenues

Department of Buildings revenues have continued to rise as the pace of construction—new building and alterations—has maintained its high level of recent years. Revenue growth is driven both by the amount of construction and by its cost, since construction permit fees are determined by the estimated cost of construction. Because the pace of construction will eventually slow, the city has estimated DOB revenue conservatively, projecting decreases in 2006 and 2007.

Department of Buildings Revenues

Dollars in millions

	2002	2003	2004	2005	2006 Projected	2007 Projected
Construction Permits	$47.1	$51.7	$56.7	$67.7	$71.0	$65.8
Inspection & Other Fees	19.8	21.5	22.3	25.3	22.0	18.2
Other Permits	7.4	7.2	7.6	8.4	8.5	7.3
Trade Licenses	1.1	0.9	1.2	0.9	1.2	0.9
Late Filing/No Permit Penalties	7.7	9.0	11.5	12.1	8.5	6.3
TOTAL	**$83.2**	**$90.3**	**$99.4**	**$114.4**	**$111.2**	**$98.4**

SOURCES: IBO; Mayor's Office of Management and Budget.

Department of Environmental Protection (DEP)

PRELIMINARY BUDGET HIGHLIGHTS

- **More Aggressive Collection of Fines for Street Work.** The Preliminary Budget includes increased expenditures of $225,000 for a new initiative to collect outstanding fines from street work violations. It is expected to yield an additional $1.1 million in fine revenue in 2007.
- **New Hydro-Electric Agreement.** The 2007 Preliminary Budget includes increased spending of $75,000 to monitor new contracts with utility companies that operate power plants at some upstate reservoirs. The new contracts are expected to bring $900,000 in additional city revenue in 2007.

Water and Sewer System Expenditures

Dollars in millions

Program	2005 Actual	2006 Modified	2007 Proposed
Water & Sewer Maintenance and Operations	$129.6	$144.6	$141.2
Water Supply Quality and Protection	181.4	200.6	190.7
Wastewater Treatment	280.6	291.8	285.9
Water Metering and Conservation	40.0	45.9	42.1
Environmental Design & Construction	25.0	25.4	25.5
Water Board	0.8	1.0	1.0
TOTAL	**$657.3**	**$709.2**	**$686.3**

SOURCE: IBO.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $794.6 million for the Department of Environmental Protection in 2007, $33.4 million less than in 2006. The 2006 budget includes $5.1 million in federal Homeland Security funding that is not included in the 2007 plan.

Effects of Key Budget Proposals

More Aggressive Collection of Fines for Street Work. DEP, together with the Departments of Finance and Transportation, is launching an initiative to pursue outstanding fines from utility companies and contractors who tear up the streets while doing work and are issued street violations by the transportation department. These violations are adjudicated at the Environmental Control Board (ECB), an administrative tribunal that provides hearings on notices of violation issued by a variety of city agencies for "quality of life" infractions. DEP will hire six people to work on this initiative at a cost of $225,000 annually. In turn, the agency expects to generate an additional $1.1 million in fine revenue in 2007. The 2007 budget for ECB is $16.7 million, about the same as planned spending for 2006.

Environmental Control Board Fine Revenue

Dollars in millions

2002	2003	2004	2005	2006	2007
$45.0	$51.6	$58.4	$59.4	$58.3	$56.2

SOURCES: IBO; Comprehensive Annual Financial Reports of the Comptroller; Mayor's Office of Management and Budget. NOTE: 2006 and 2007 figures are projected as of the 2007 Preliminary Plan.

New Hydro-Electric Agreement. DEP will renegotiate contracts with upstate utilities that operate power plants in Neversink and Grahamsville in Sullivan County. These contracts expired last year and there was a one year stop-gap agreement while DEP determined how the contracts would be handled going forward. DEP will spend an additional $75,000 annually to monitor the contracts, but revenue will be increased by $900,000 annually.

Department of Environmental Protection

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Water & Sewer System	$657.3	$709.2	$686.3
Environmental Compliance	13.8	14.7	14.0
Environmental Control Board	14.3	16.8	16.7
Agency Administration & Support	70.1	84.1	74.4
Unallocated Financial Plan Changes		3.2	3.2
TOTAL	**$755.6**	**$828.0**	**$794.6**
Full-Time Personnel	5,644	5,639	6,055
Capital Commitments	$2,338.2	$2,587.5	$2,709.8

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

Total DEP spending on water supply quality and protection is expected to be $190.7 million in 2007, $9.9 million less than in 2006. The 2006 budget for water supply programs—$200.6 million—is also higher than 2005 spending ($181.4 million). In 2005 the city added $12.5 million to DEP's budget beginning in 2006 to cover increased real estate taxes for city-owned land in the watershed. The increased taxes will drive up spending on water supply programs in 2006 and beyond. These increases, however, are expected to be partly offset by modest reductions in city spending on the Catskill-Delaware watershed, such as support for upgrades for wastewater treatment facilities.

CAPITAL BUDGET

Agency Overview. Capital commitments for the Department of Environmental Protection are expected to be $2.7 billion in 2007, and more than $7.9 billion over the period 2006 through 2009. DEP's capital plan is divided into five categories: water mains, water pollution control, water supply, sewers, and equipment.

Key Capital Projects

Croton Filtration Plant. The water mains category includes construction of the Croton Filtration Plan, which is budgeted at $77.4 million in 2006, $1.2 billion in 2007, and $91.4 million in 2008. The city is building a filtration plant for the Croton system, which provides about 10 percent of the city's water, pursuant to the terms of a November 1998 federal court Consent Decree, entered into with the federal government and the State of New York. The plant will be located in Van Cortlandt Park in the Bronx. Funding for the filtration plant includes resources for upgrades of parks around the Bronx.

Upstate Watersheds. The New York City watershed extends 1,972 square miles across parts of eight New York counties and Fairfield County, Connecticut. The oldest reservoir system, the Croton, is entirely east of the Hudson River and supplies about 10 percent of the city's daily demand. The Catskill/Delaware watershed, responsible for almost 90 percent of daily needs, is primarily in the Catskill Mountains.

The DEP capital plan includes $1.6 billion over four years for improvements to facilities upstate under the water mains category. Of this total, $578.7 million is for the Catskill/Delaware Ultraviolet Light Disinfection Facility (UV facility) Project in Mount Pleasant, New York. The UV facility will pass untreated water past a network of lamps that emit ultraviolet light, thereby rendering microorganisms in the water harmless to consumers.

Newtown Creek. Newtown Creek is a water pollution control plant in Brooklyn. Newtown Creek is the only water pollution control plant in New York City that does not biologically treat wastewater to remove dissolved organic matter, a process known as "secondary treatment." DEP is upgrading the facility to allow for secondary treatment of wastewater. The project is budgeted at $43.2 million in 2006 and $401.8 million in 2007.

City Water Tunnel #3. City Water Tunnel #3 is the single largest capital construction project in New York City's history. When it is completed, it will span 60 miles and will provide redundancy to city tunnels #1 and #2, allowing for inspection and repair of the aging water supply infrastructure. The current Capital Commitment Plan includes $29.6 million in 2006, $107.1 million in 2007, and $28.7 million in 2008 for the third water tunnel. Planned commitments rise again in later years.

Kensico Tunnel. DEP is also planning a tunnel to run 16 miles from the Kensico Reservoir in Westchester County to the Van Cortlandt Park Valve Chamber in the Bronx. Over the four-year plan period, DEP expects to commit $50 million for the tunnel in 2008 and $100 million in 2009, but planned commitments rise sharply thereafter, to $350 million annually by 2014.

DEP Capital Commitment Plan, 2006-2009
Dollars in millions

	2006	2007	2008	2009	TOTAL	Share of Total
Water Mains	$659.8	$1,636.9	$973.5	$209.6	**$3,479.7**	43.9%
Water Pollution Control	1,267.6	591.0	390.6	356.4	**2,605.6**	32.8%
Water Supply	29.6	190.7	88.8	203.0	**512.1**	6.5%
Sewers	253.1	161.6	169.0	132.5	**716.1**	9.0%
Equipment	377.5	129.5	55.2	57.2	**619.4**	7.8%
TOTAL	**$2,587.5**	**$2,709.8**	**$1,677.0**	**$958.6**	**$7,932.9**	100%

SOURCES: IBO; Mayor's Office of Management and Budget.

NOTE: A detailed review of agency spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Housing Preservation and Development (HPD)

PRELIMINARY BUDGET HIGHLIGHTS

- **Emergency Housing.** The 2007 Preliminary Budget proposes a cut of $3.8 million to the emergency housing program, bringing its budget to $21.3 million, $1.6 million less than the current fiscal year.
- **Restored Homes.** The 2007 Preliminary Budget includes an addition of $856,000 to create a new entity, Restored Homes, to acquire federally foreclosed one-, two-, and three-family homes and oversee renovation and disposition. Additional funds for this initiative are included in the Capital Budget.
- **Housing Finance Staff.** The 2007 Preliminary Budget includes $1.7 million for new staff in the agency's housing finance division. The 2007 housing finance budget is $22.2 million less than the current fiscal year budget of $29.6 million.
- **One-Time Housing Finance Projects.** Several one-time needs—including development funded by the Lower Manhattan Development Corporation and rehabilitation funded with federal up-front grants—have swelled the 2006 housing finance budget to $29.6 million, 22.2 million more than the 2007 budget of $7.4 million.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $487.5 million for the Department of Housing Preservation and Development in 2007, $38.8 million less than in 2006. There are two reasons for the decline. First, although this agency typically receives a significant amount of federal aid, the Preliminary Budget does not fully reflect these federal funds. In addition, the 2006 Expense Budget includes almost $22 million in onetime grants for specific construction and preservation programs.

IBO has reestimated the federal aid that HPD will receive for 2006 and 2007. Projections of HPD's Community Development Block Grant (CDBG) spending generally exceed actual spending levels. As a result, IBO has estimated CDBG spending conservatively for 2006 and 2007, resulting in a drop in the 2006 budget relative to the Bloomberg Administration's projection. IBO projects an increase in other federal grant funds, however, particularly in 2007. IBO's reestimated 2007 budget for HPD is $492.1 million, $6.8 million less than our estimate of the 2006 budget.

Effects of Key Budget Proposals

Emergency Housing. HPD funds emergency shelter for households that have been displaced as a result of fires or vacate orders issued by the buildings or fire departments as well as HPD's code enforcement unit. The Preliminary Budget proposes a cut of $3.8 million to this program, which would make its budget $1.6 million less than the current fiscal year budget of $22.9 million. This proposed cut would reduce capacity by about 97 beds, which, according to the Mayor's Office of Management and Budget, are no longer needed.

Restored Homes. HPD has entered into an agreement with the federal Department of Housing and Urban Development (HUD) to restore up to 360 one- to four-family homes currently owned by HUD. The properties will be purchased by a nonprofit organization, Restored Homes, and rehabilitated using city capital funds and private loans. The homes will then be sold to owner-occupants earning no more than $72,000 for a family of four.

The 2007 Preliminary Budget includes $856,000 to fund the

Department of Housing Preservation and Development
Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Preservation	$78.9	$97.1	$87.8
Housing Operations	$327.9	$330.5	$331.8
Development	$14.9	$43.1	$17.9
Administration	$52.1	$54.3	$46.7
Unallocated Financial Plan Changes		$1.2	$3.3
TOTAL	**$473.9**	**$526.4**	**$487.5**
IBO Adjustments			
Federal Grants		($27.4)	$4.6
IBO Projected		**$498.9**	**$492.1**
Full-Time Personnel	2,582	2,609	2,787
Capital Commitments	$423.1	$615.1	$454.9

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

operating costs of Restored Homes. Restored Homes will be a subsidiary of Neighborhood Restore, a city-sponsored nonprofit organization that takes ownership of properties going through the Third Party Transfer process.

Housing Finance Staff. HPD will hire 27 additional employees to work in the housing finance program in order to implement the Mayor's expanded housing plan. These additional staff will cost $1.7 million in 2007.

Lower Manhattan Development Corporation. The federal package of disaster recovery assistance following the terrorist attacks of September 11, 2001 included almost $3.5 billion in special Community Development Block Grant funds, largely under the control of the Lower Manhattan Development Corporation (LMDC). These CDBG funds have been used for a wide range of purposes, including grants to downtown businesses and residents, reconstruction and enhancement of utilities, and rehabilitation of parks.

The 2006 HPD budget includes $15 million in LMDC funds to develop a site in Tribeca to build about 163 units of housing. These one-time grant funds will be passed through the HPD budget to a housing developer. The funds are included in the housing finance program, which (along with HUD funds discussed below) explain why the 2006 budget for housing finance is $29.6 million—$23.5 million greater than 2005 spending and $22.2 million higher than the 2007 budget.

HUD "Up-Front Grant" Funds. The 2006 budget for the housing finance program also includes $6.6 million in one-time HUD grant funds for rehabilitation of properties originally built with HUD subsidies, including the Gates-Patchen complex in Brooklyn.

When HUD projects fall into significant disrepair, the agency's policy has been to foreclose on the mortgage, and sell the buildings to private developers, often jeopardizing affordability. HPD has worked with HUD to negotiate deals to save some buildings in these circumstances. These HUD funds will support necessary rehabilitation work. Again, the inclusion of these one-time grants in the housing finance program for 2006 brings the budget well above actual spending for 2005 or the plan for 2007.

Lead-Based Paint Spending

HPD's actual and proposed spending on lead-based paint programs has grown significantly in recent years. In January 2004 the City Council passed Local Law 1 of 2004, the "New York City Childhood Lead Poisoning Prevention Act of 2003." In fiscal year 2005, HPD spent $24.6 million on lead-based paint education, inspections, and remediation. This is more than double the spending on lead paint-related activities in 2004, and reflects the new mandates of Local Law 1.

Lead-Based Paint Spending
Dollars in thousands

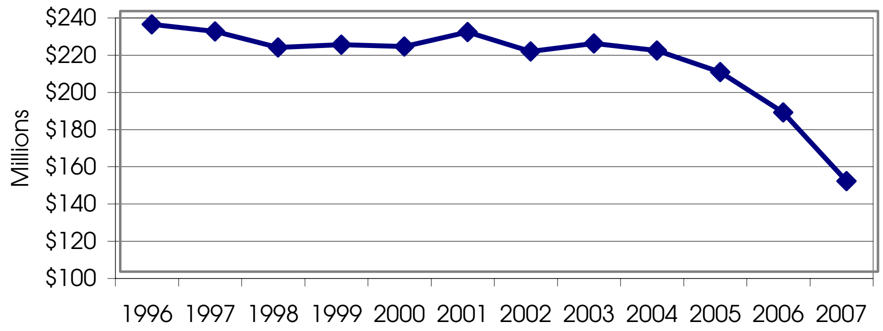
	2004 Actual	2005 Actual	2006 January Plan	2007 January Plan
PS	$6,917	$17,197	$13,786	$8,241
OTPS	4,791	7,436	21,026	17,544
TOTAL	**$11,708**	**$24,633**	**$34,812**	**$25,784**

SOURCE: IBO.

The 2006 budget for lead-based paint programs is $34.8 million, and the 2007 budget is $25.8 million. In both years, the budget for "Other Than Personal Services" (OTPS) is significantly higher than what was actually spent in 2005.

Generally, HPD over-budgets for the OTPS cost of lead-based paint related repairs. In part, this reflects the fact that the agency must have funds on hand to make emergency repairs, regardless of demand. In addition, under the new requirements of Local Law 1, the city assumed an average repair cost of almost $4,500. As reported in the Mayor's Management Report, the actual cost of an emergency lead repair in 2005 averaged $1,934. The average repair cost for the prior four years was $1,585—repairs in 2005 were 20 percent more expensive due to the new rules such as the requirement that workers be certified by the federal Environmental Protection Agency. The 2007 OTPS budget for lead is lower than the 2006 budget, because it does not include HUD lead hazard remediation grants that are typically added to the budget as they are received.

The 2006 and 2007 budgets show an apparent decrease in personnel costs associated with lead-based paint. Under Local Law 1, the total number of personnel working on lead-based paint nearly tripled, to over 400 full-time staff, including about 100 new inspectors. HPD does not anticipate any substantive change from 2005 lead staffing levels; funds will be added to the budget as needed or moved from OTPS to personal services.



SOURCES: IBO; Department of Housing Preservation and Development.
NOTES: Federal fiscal year. 2007 reflects White House proposed budget.

Community Development Block Grant

About 30 percent of HPD's budget comes from federal Community Development Block Grant funds. Across the city, two dozen agencies use CDBG funds, including the Administration for Children's Services (for child care), the Department of Sanitation (for vacant lot cleanup) and the Department of Parks and Recreation (for recreation centers).

President Bush's budget proposal for federal fiscal year 2007 includes a 20 percent cut in CDBG funds. If this passes, IBO estimates that it will mean a loss of $36.8 million to New York City, given the existing allocation formula. The proposed 2007 cut follows a 10 percent drop in the city's CDBG allocation in 2006, and a 5 percent cut in 2005.

The drop in New York's CDBG funding is almost entirely a reflection of lower total appropriations—the city's share of the total has remained relatively constant at 5 percent. But the Bush Administration plans to submit legislation to change the allocation formula for CDBG, which could further hurt New York City.

CAPITAL BUDGET

Agency Overview. Capital commitments for the Department of Housing Preservation and Development are expected to be $454.9 million in 2007 and almost $2 billion over the period 2006 through 2009. The 2006 capital commitment plan, $615.1 million, is artificially high, largely because of planned spending on the remaining city-owned housing units.

Key Capital Programs

Privatization of City-Owned Units. The city has largely completed rehabilitating and privatizing its stock of city-owned housing. As of December 2005, there were 2,285 units remaining in city ownership. After 2006, these remaining units are scheduled to be privatized through the Tenant Interim Lease program, which is funded through 2011. For this year, however, the city's two other primary rehabilitation and privatization programs—the Neighborhood Entrepreneurs Program and the Neighborhood Redevelopment Program—are jointly budgeted at $162.3 million. Funding for these two programs then falls steeply to $8.9 million for 2007; this $153.5 million drop makes up the bulk of the scheduled decrease in HPD's capital plan, and reflects the diminished supply of city-owned units.

New Marketplace Mixed Income Rental Program. Beginning in 2007, HPD plans to put significant resources into the New Marketplace Mixed Income Rental Program (MIRP), which was originally introduced in the Mayor's housing plan as the Homeless Rental Production Program. Under MIRP, developers construct or rehabilitate multifamily units to create affordable rentals, with a set aside of up to 30 percent of the units for formerly homeless families. HPD provides a direct subsidy of up to $50,000 per unit. Through 2005, 575 MIRP units had been started.

The 2007 budget for the program is $51.7 million, and over the three-year period 2007 through 2009, HPD plans to spend $134.8 million on the program. To date, MIRP has been funded through the Housing Development Corporation (HDC). HPD is now taking over financing of MIRP. The funding, including in the Capital Commitment Plan, will be used both to expand the program and to reimburse HDC for its spending.

New Initiatives. In October 2005, the Mayor introduced an expanded housing plan that commits to building and preserving 165,000 units by 2013—an addition of 100,000 units on top of his original plan. Little detail is available at this time on the specific programs that will be included in the plan, although it encompasses HPD's existing capital program, including rehabilitation and privatization of the remaining city-owned housing stock. A number of the new programs introduced as part of this expanded housing plan are also funded in the

Ten Largest New Housing Marketplace Plan Programs

Construction Starts, as of June 30, 2005

Program	Units
Mitchell-Lama Preservation	6,501
8A Loan	3,800
Cornerstone	2,732
Low Income Affordable Marketplace Program (LAMP)	2,547
Participation Loan Program	1,612
New HOP	1,189
Neighborhood Entrepreneurs Program	1,023
421a Affordable	1,017
Neighborhood Redevelopment Program	899
Supportive Housing Loan Program	776
All Other	6,357
TOTAL	**28,453**

SOURCES: IBO; Department of Housing Preservation and Development.

January capital plan beginning in 2007, 2008, or 2009.

For example, the Mayor announced that the city would build 22,000 units of middle-income housing, and the January capital plan includes $20 million in 2009 and 2010 for this initiative. As described above, HPD also plans to renovate HUD foreclosed one-, two-, three-, and four-family homes to create homeownership opportunities for low-income families. This initiative, which will be implemented through Restored Homes, is budgeted at $5 million in capital funds for both 2009 and 2010.

Another major new initiative that is part of the Mayor's expanded plan, a $200 million acquisition fund, will not actually affect HPD's capital budget. Through this acquisition fund, private banks will make available $160 million in loans to affordable housing developers. An additional $40 million—$8 million from HDC reserves and $32 million in foundation grants—will guarantee the loans, thereby reducing the banks' risk. The fund is expected to support the construction of 30,000 units.

Mayor's Housing Plan to Date

Fiscal year 2006 marks the third year of the Mayor's original New Housing Marketplace plan. Through June 30, 2005, HPD had started 28,453 of the pledged 65,000 units, or about 44 percent of the original plan and 17 percent of the units to be built under the 10-year plan. Units have been started under almost 40 different HPD, Housing Development Corporation, federal, and state programs, although the 10 largest programs account for almost 80 percent of the units.

IBO estimates that about 55 percent of the units are preservation, and 45 percent are new construction; because some programs fund both new construction and some types of preservation projects, it is not possible to determine exactly what share of the units are preservation from the available data.

NOTE: A detailed review of HPD spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Transportation (DOT)

PRELIMINARY BUDGET HIGHLIGHTS

- **Weekend Ferry Service.** DOT will increase weekend service on the Staten Island Ferry at an annual cost of $2.1 million, as required by a City Council bill passed in 2005. The total proposed 2007 operating budget of the Staten Island Ferry is $65.1 million.
- **New Street Furniture Franchise Agreement**. The city is negotiating with the firm Cemusa to install, operate, and maintain bus stop shelters, public pay toilets, newsstands, trash and recycling receptacles, and information kiosks. The agreement is projected to generate $4.9 million in new revenue for DOT in 2006, $16.0 million per year in 2007-2009, and $11.1 million in 2010.
- **Expansion of Commercial Parking from 23rd Street to 33rd Street.** DOT will expand the commercial parking zone, which currently runs from 33rd Street to 59th Street, to include the area from 23rd to 33rd streets. The initiative will generate an additional $4.3 million in revenue for DOT starting in 2007.

EXPENSE BUDGET

Agency Overview. The Mayor's proposed 2007 expense budget for DOT is $561.0 million. IBO projects that actual state and federal funding in 2007 will be $54.2 million greater than currently projected, for a total 2007 budget of $615.2 million. This is slightly below IBO's adjusted current modified budget of $623.7 million for 2006.

The proposed 2007 expense budget represents a 9.8 percent decline in spending compared with the current modified budget for 2006. In percentage terms, the program areas with the largest spending reductions are traffic and parking (-11.8 percent) and bridges (-11.2 percent). In dollar amounts, the largest declines are traffic and parking (-$17.2 million) and streets and highways (-$12.2 million). In all cases, the expense reductions are due largely to state and federal aid that is expected but has not yet been recognized in the budget.

Effects of Key Budget Proposals

Weekend Ferry Service. In December 2004 the New York City Council passed a bill mandating increased service on the Staten Island Ferry. The Mayor vetoed the bill on the grounds that transit schedules should not be determined legislatively. The Council overrode this veto. In response to feedback from DOT, however, the Council later repealed its original bill (Local Law 11 of 2005), and replaced it with a scaled-down version, Local Law 55. DOT has already implemented some of the service increases. In 2007 the department will increase the frequency of weekend ferry service by running boats every 30 minutes between 6 a.m. and 11 a.m. on Saturdays, and 9 a.m. and 11 a.m. on Sundays. Currently, half-hourly service does not begin until 11 a.m. on weekends. The annual cost of the increased service is expected to be $2.1 million.

New Street Furniture Franchise Agreement. The city currently has separate franchise agreements for different types of so-called street furniture, such as bus stop shelters and newsstands. In 1997 the city issued a Request for Proposals for a franchise agreement that would encompass not only bus stop shelters and newsstands, but also public toilets, trash and recycling bins, and electronic public information kiosks. In September 2005 the city announced that it was entering into contract negotiations with the Spanish company Cemusa, with the intention of awarding the firm a 20-year street furniture franchise.

Under the terms of the franchise, Cemusa would install and maintain the infrastructure at no cost to the city, and would make payments to the city in exchange for the right to sell advertising space on the structures. The city estimates that revenues from the franchise would total more than

New York City Department of Transportation
Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Streets & Highways	$116.2	$129.9	$117.7
Traffic & Parking	205.5	230.1	202.9
Bridges	66.3	71.2	63.2
Transit	115.8	136.7	126.4
Administration & Operations	50.7	54.3	51.5
TOTAL	**$553.6**	**$622.2**	**$561.0**
IBO Adjustments			
State & Federal Categorical Grants		$1.5	$54.2
IBO Projected		**$623.7**	**$615.2**
Full-Time Personnel	4,081	4,098	n.a.
Capital Commitments	$658.1	$1,001.9	$1,759.3

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

2006-2009 DOT Capital Commitments by Program Area
Dollars in millions, all funds

Program Area	2006	2007	2008	2009
Streets & Highways	$452.5	$450.7	$380.9	$431.4
Traffic & Parking	133.0	123.2	82.9	63.5
Bridges	303.5	1,084.0	599.7	533.3
Transit	98.5	50.8	63.5	22.3
Admin. & Operations	14.3	50.6	18.0	6.0
TOTAL	**$1,001.8**	**$1,759.3**	**$1,145.0**	**$1,056.5**

SOURCE: IBO; OMB: January 2006 Capital Commitment Plan.

$1.0 billion over 20 years. But only a fraction of this amount represents new revenues, over and above what the city receives from its existing franchise agreements. DOT's financial plan projects that the department will receive an increase of $4.9 million over baseline revenues of $15.8 million in 2006, for a total of $20.7 million. New revenues are projected to be $16.0 million annually from 2007 through 2009, and $11.1 million in 2010. The implementation cost of the new franchise agreement is expected to be $0.4 million in 2006, and $0.8 million per year beginning in 2007.

Expansion of Commercial Parking from 23rd Street to 33rd Street. DOT is expanding its commercial parking program to include the area from 23rd to 33rd streets, 2nd to 9th 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, starting at $2 for the first hour and rising to $4 for the third hour. DOT will spend $1.4 million for the program expansion in 2006, $0.7 million in 2007, and $1.0 million annually beginning in 2008. The department expects to collect an additional $4.3 million in revenue annually, beginning in 2007.

CAPITAL BUDGET

Agency Overview. Capital commitments for the Department of Transportation are expected to be $1.8 billion in 2007, a $757.4 million (76 percent) increase over the 2006 level. This huge jump in commitments is due to an increase of $780.4 million in commitments for bridges. There is a decline of $47.7 million in commitments for transit, due to a $47.3 million drop in ferry commitments and a $0.4 million drop in commitments for franchise transportation (private buses). The decline in ferry commitments comes after several years of high investment levels. The elimination of franchise transportation commitments—from $0.4 million in 2006—reflects the transfer of the former private bus companies to the Metropolitan Transportation Authority.

Key Capital Projects

Reconstruction of Willis Avenue Bridge over the Harlem River. DOT is about to begin major work on this bridge, which connects Manhattan and the Bronx. The current plan commits $363.7 million ($264.2 million city, $99.5 million non-city) to this project in 2007.

Reconstruction of Bridge and Approaches at East 153rd Street. This bridge spans Park Avenue and the Metro-North Railroad line. DOT is committing $63.0 million (all city funds) to this project in 2007.

Bridge Rehabilitation, Belt Parkway over Paerdegat Basin, Brooklyn. The plan commits $114.6 million ($23.1 million city, $91.5 million non-city) to this project in 2007. This structure is classified as a highway rather than a waterway bridge, even though it crosses over wetlands. Funding for the project has been rolled over from previous plans, as work has been delayed due to coordination problems and environmental issues.

Reconstruction of Roosevelt Island Bridge over East Channel and East River. This bridge provides the only motor vehicle access between Roosevelt Island and the rest of the city. The structure is classified as a highway bridge, and connects Roosevelt Island with Queens. The plan commits $60.9 million (all city funds) to reconstruction in 2007.

Protection Against Marine Borers, Citywide. The plan commits $63.4 million ($36.0 million city, $27.4 million non-city) in 2007 to repair and guard against further damage to DOT structures along the shoreline of Manhattan and Brooklyn.

After a massive reconstruction effort begun in the 1990s, the East River bridges are generally in a state of good repair, and will not require significant capital commitments in 2007. A $236.4 million commitment, however, for the rehabilitation of the Brooklyn Bridge is scheduled for 2009.

NOTE: A detailed review of DOT spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

MTA New York City Transit (NYC Transit)

OPERATING BUDGET HIGHLIGHTS

- **Labor Settlement.** Members of Transport Workers Union Local 100, which represents the majority of NYC Transit subway and bus workers, are still without a contract as of this writing.
- **Ridership and Revenues Up Despite Strike.** Preliminary results for calendar year 2005 show that despite the strike, total ridership increased by 0.9 percent over 2004. Fare revenues increased by 3.0 percent, due to increases in the price of unlimited MetroCards and the express bus fare.
- **Private Bus Takeover.** The Metropolitan Transportation Authority has concluded its takeover of the private bus lines that formerly operated under a franchise from the city. These lines have been incorporated into a new transportation authority subsidiary, MTA Bus.
- **Tax Revenues Help Close Gaps.** Higher than expected revenues from dedicated taxes have continued to keep the authority's finances strong. The authority's Executive Director has indicated that a fare increase scheduled for 2007 may not be necessary.

EXPENSE BUDGET

Agency Overview. New York City Transit is the largest operating subsidiary of the state's Metropolitan Transportation Authority (MTA). NYC Transit provides subway and local and express bus service within New York City. MTA Bus is a subsidiary created in September 2004 to take over the operations of seven private bus companies that formerly provided service under a franchise agreement with the New York City Department of Transportation.

While they are not city agencies, NYC Transit and MTA Bus receive financial assistance from the city, and their operations have a direct impact on city residents. Because MTA Bus data are not yet contained in the MTA's Financial Plan, the following discussion will focus on NYC Transit.

According to preliminary results for 2005, NYC Transit fare revenue was $2.64 billion, 3.0 percent above 2004 levels. Ridership was 2.19 billion, a 0.9 increase over 2004. Average fare paid per trip on subways and local buses was $1.26, an increase of $0.03 over 2004. Express bus fares and the cost of unlimited-ride MetroCards increased in February 2005, while in November and December a program of holiday fare discounts was in effect.

The February 2006 MTA Financial Plan does not indicate NYC Transit's closing cash balance for 2005, nor does it contain projections for 2006 and beyond. This information may be released in April. The February 2006 plan indicates a positive closing cash balance for the MTA as a whole in 2005 and projects a small surplus in 2006, followed by a small negative balance in 2007.

New York City Transit receives operating subsidies from three sources: dedicated tax revenues that are distributed to MTA subsidiaries by formula; surplus bridge and tunnel revenues, and direct operating assistance and reimbursements from the state and city. NYC Transit received $1.94 billion in revenues from dedicated taxes in 2005, with $1.69 billion projected for 2006 and $1.77 billion for 2007.

Preliminary results indicate that NYC Transit received $207 million in surplus bridge and tunnel tolls from MTA Bridges and Tunnels in 2005. However, this amount is

NYC Transit Operating Budget[1]

Dollars in millions

	2005 Actual	2006 Modified	2007 Proposed
Expenses[2]			
Labor	$3,693	$3,925	$4,056
Debt service	637	795	877
All other expenses	1,042	1,123	1,163
Total Expenses	**$5,372**	**$5,843**	**$6,096**
Revenues			
Farebox revenue	$2,647	$2,795	$2,822
Operating assistance & subsidies	2,477	2,184	2,255
Miscellaneous revenue	267	253	262
Total Revenues	**$5,391**	**$5,232**	**$5,339**

SOURCES: IBO; Metropolitan Transportation Authority.
NOTES: The authority's fiscal year coincides with the calendar year.
The authority's February 2006 Financial Plan did not indicate NYC Transit's closing cash balance for 2005, nor did it contain projections for 2006 and beyond. The Metropolitan Transportation Authority projected surpluses in its November 2005 Financial Plan of $759 million in 2005, $506 million in 2006, and $69 million in 2007. Each year's surplus was used to help balance the subsequent year's budget. [1]Includes Staten Island Railway. [2] Excluding depreciation and reimbursable expenses.

Annual New York City Operating Assistance to NYC Transit
Dollars in millions

Section 18(b)	$158
Reimbursement for free and half fares for school children	$45
Reimbursement for half fare for seniors	$14
Paratransit (2005)	$30
TOTAL	**$247**

SOURCES: IBO; Metropolitan Transportation Authority.

expected to decline to $161 million in 2006 and $144 million in 2007, as more revenue is needed to pay bridge and tunnel debt service—leaving less of a surplus to transfer to NYC Transit.

NYC Transit receives $158 million per year in operating assistance from the city, and an equivalent amount from New York State; operating assistance has remained constant in nominal terms since 1994. 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 the paratransit program, which is administered by NYC Transit. The subsidy is linked to the cost of the program, with the additional provision that the year-to-year increase cannot exceed 20 percent. In 2005 the subsidy was roughly $30 million.

Key Operating Budget Issues

Labor Settlement. Most NYC Transit subway and bus workers are represented by Transport Workers Union Local 100 (TWU-100). The existing labor agreements between TWU-100 and NYC Transit expired on December 15, 2005, without an agreement on a new contract. Early on December 20, the TWU-100 executive board announced a strike against NYC Transit. The strike lasted three days. On December 27 NYC Transit and the TWU-100 board announced a tentative agreement, but in January this agreement was voted down by the TWU-100 membership, by a margin of seven votes. NYC Transit has moved to submit the contract to binding arbitration, but some union members are asking for a second vote on NYC Transit's December 27 offer. As of this writing the final outcome is uncertain.

The labor agreement that the TWU membership narrowly rejected contained wage increases of 3.0 percent for the first year, 4.0 percent for the second year, and 3.5 percent for the third year. The contract years roughly coincide with calendar years 2006-2008. NYC Transit has built into its Financial Plan the assumption that its increase in labor costs will be closely related to the inflation rate, as measured by the consumer price index. The MTA projects inflation of 2.8 percent in 2006, 2.6 percent in 2008, and 2.9 percent in 2008. Overall, it would appear that most of the budgetary impact of wage increases is already contained in the Financial Plan. Other potential elements of the new contract, however, such as the improved medical coverage for retirees contained in the December proposal, are not accounted for in the current Financial Plan. In addition, Governor Pataki has expressed opposition to a plan to return extra pension contributions that were made by transit workers in the 1980s. By some estimates the cost of this measure, which was contained in the December proposed contract, would be around $110 million. If the state refused to pay, the cost would fall on the MTA.

Ridership and Revenues Up Despite Strike. NYC Transit will release a more complete analysis of the impact of the strike in April 2006. Preliminary financial and ridership results made available in February 2006 contain only 2005 totals, and do not break out separate numbers for the month of December. But a comparison of preliminary 2005 totals with results through November gives some indication of the effects of the strike. Through November 2005 farebox revenue was $16.8 million (0.7 percent) below the mid-year (July) forecast. For the entire year of 2005, farebox revenue was $60.2 million (2.2 percent) below the November Financial Plan estimate. A part of this drop is due to the MTA's program of holiday fare discounts. The MTA had estimated that the total cost of the discount program—spanning the period from late November through the beginning of January, and including all of the MTA's transit operators-could reach $50 million.

Preliminary results indicate that ridership on NYC Transit in 2005 was 20.5 million trips (0.9 percent) below the November estimate. The November estimate did not take into account the potential for increased ridership from the holiday discounts, however, so the actual impact of the strike on ridership may have been somewhat larger. In any case, despite the loss of riders due to the strike, total NYC Transit ridership in 2005 was 2.2 billion, the highest level since 1970.

Private Bus Takeover. In September 2004 the MTA created a new subsidiary, MTA Bus, to take over the operations of seven private bus companies. These companies formerly provided service under a franchise agreement with the New York City Department of Transportation. MTA Bus concluded its takeover of the private lines on February 20, 2006, when it assumed the routes of Triboro Coach Corporation. MTA Bus now operates 46 local routes (the majority in Queens), and 35 express bus routes that connect Manhattan with the Bronx, Brooklyn, and Queens.

As part of its arrangement to have the MTA to take over the private companies, the city agreed to pay the difference between actual operating expenses and revenues received (essentially fare revenue and state aid). Thus, despite the takeover by the MTA, the city will continue to provide operating assistance for MTA Bus—with no net impact on the MTA's operating budget. The operations of MTA Bus are not yet included in the MTA's current Financial Plan, but will be included in the future. In city fiscal year 2005, the city provided $222 million in operating assistance to the private bus companies. This amount includes some prepayments for 2006, and for this reason the city projects that its operating assistance to MTA Bus will drop to $198 million in 2006. In 2007 operating assistance is expected to jump sharply, to $261 million. The city is incurring additional expenses of $86.5 million in 2006 related to the purchase of the private companies' assets and the assumption of their pension liabilities.

Tax Revenues Help Close Gaps. NYC Transit receives a large share of its revenue from dedicated state and city taxes. Due to booming real estate and energy markets, receipts from real estate-related taxes and the petroleum business tax have been especially strong. Preliminary results for 2005 indicate that NYC Transit received $1.94 billion in revenue from dedicated taxes in 2005. The MTA projects a decline to $1.69 billion in 2006, due to the softening of real estate markets, and then recover slightly in 2007, reaching $1.77 billion.

A look at past MTA forecasts shows clearly how the unforeseen increase in dedicated tax revenues has helped to plug previously projected budget gaps. In July 2004, the MTA projected that NYC Transit would receive $1.24 million in tax revenues in 2005. By July 2005 the estimate had risen to $1.78 billion, and by February 2006 the MTA could report a preliminary actual amount of $1.94 billion. In other words, the preliminary actual revenues for 2005 are roughly $700 million over the forecast made 19 months earlier. Forecasts of dedicated tax revenues for 2006 and 2007 have also risen over time, although less dramatically. In July 2004, the MTA projected that NYC Transit would receive $1.23 billion in tax revenues in 2006, and $1.28 billion in 2007. By February 2006 the forecasts had risen to $1.69 billion for 2006 (a $460 million increase) and $1.77 billion for 2007 (a $490 million increase). The increase in dedicated tax revenues may allow NYC Transit to forego its scheduled 2007 fare increase.

CAPITAL PROGRAM

The MTA began 2005 with its 2005-2009 capital program still not approved by the state. The program finally approved in July 2005 was about one-third smaller than the version approved by the MTA board in December 2004. The plan assumed $1.45 billion in funding from a state bond issue, which was approved by voters in November 2005.

The approved capital program, plus additional items that do not require state approval, totaled $21.15 billion. With the addition in January 2006 of $138 million for MTA Bus, the 2005-2009 program now stands at $21.29 billion. Of the total, $11.3 billion is for NYC Transit's "core" program. Among the major elements of the core program are $1.8 billion for the purchase of nearly 1,000 new subway cars, and $834 million for the purchase of over 1,300 buses and more than 900 paratransit vehicles.

MTA Bus has made arrangements to purchase over 600 buses under the MTA 2000-2004 capital program. These purchases are still in progress. The $138 million allocation for MTA Bus in the 2005-2009 capital program will be used primarily to upgrade bus maintenance facilities and purchase tow trucks and other vehicles.

System Expansion. The 2005-2009 capital program contains funding for two subway expansion projects: the extension of the #7 line to the far west side of Manhattan, and the Second Avenue subway. The #7 extension has an estimated cost of $2.0 billion, to be funded entirely by the city. In capital

New York City Transit Core Capital Program, 2005-2009
Dollars in millions

Need Category	Amount	Percent of Total
State of Good Repair	$3,697	33%
System Improvement	1,096	10%
Normal Replacement	6,063	54%
Contingency and Other	177	2%
TOTAL	**$11,303**	**100%**

SOURCES: IBO; Metropolitan Transportation Authority.

program documents, the Second Avenue Subway is combined with East Side Access (Long Island Rail Road connection with Grand Central) and a Kennedy airport-downtown Manhattan rail link, to make one project line labeled System Expansion Projects. Total funding for the three projects combined is $2.4 billion, far less than is needed to do significant construction work. Of the three projects, East Side Access has advanced the farthest. The project, which is in the final design stage, has a pending full-funding grant agreement with the Federal Transit Administration. The MTA has requested federal funding for one-third of the $7.8 billion total projected cost. The Second Avenue subway agreement is still in negotiation while planning continues. The MTA estimates the total cost of the first leg of the Second Avenue subway (from 105th Street to 62nd Street) at $3.8 billion.

There are two large NYC Transit capital projects that are not contained in the capital program, because they will be paid for with federal funds earmarked for lower Manhattan recovery. The South Ferry Terminal project will improve turnaround time on the #1 line, as well as provide improved connection with the R and W lines at Whitehall Street. The estimated cost of this project is $451 million. The Fulton Street Transit Center is intended to improve connectivity between the subway lines that serve downtown, as well as provide an aesthetically pleasing environment. The estimated cost is $785 million.

City Capital Contribution. Until 2003 New York City committed around $105 million annually to NYC Transit's capital program, plus $1 million to the Staten Island Railway. In 2003 the city announced a reduction in its annual commitment by 30 percent, to $75 million. This was later increased to $80 million. Because of timing issues, though, the commitment in any given year may be more or less. The city's January 2006 Capital Commitment Plan commits $92 million to NYC Transit in 2006, $78 million in 2007, $81 million in 2008, and $85 million in 2009.

Civilian Complaint Review Board (CCRB)

PRELIMINARY BUDGET HIGHLIGHTS

- **Reduction in Investigator Positions.** The 2007 Preliminary Budget cuts 24 budgeted investigative positions from the Civilian Complaint Review Board, reducing the agency's budget by $1.2 million as compared to the current year.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $9.0 million for the Civilian Complaint Review Board in 2007, $1.2 million less than currently budgeted for 2006.

Effects of Key Budget Proposals.

Reduction in Investigator Positions. The Mayor's proposed reduction of 24 investigative positions would reduce CCRB's total budgeted staffing from 184 to 160. This marks the third straight year that the Bloomberg Administration has proposed such a cut in investigator staffing, but the City Council has restored the 24 positions to the CCRB budget each year. The proposed reduction comes at a time when the number of complaints of misconduct on the part of police officers is on the rise. Complaints of police misconduct have increased each year from 2002 through 2005. Furthermore, the increase shows signs of continuing–there were 2,386 complaints in the first four months of this year, 14 percent more than during the same period last year.

Another concern is that the share of cases fully investigated prior to being closed has declined from 50 percent in 2001 to 41 percent in 2005. Instances in which cases are closed without a full investigation (i.e., truncated investigations) often stem from alleged victims/complainants withdrawing complaints, or being impossible to locate, or being unwilling to give a formal statement to investigators. The steady rise in the number of complaints per full-time staff member may have played a role in reducing the share of cases that receive full investigations prior to being closed.

At the same time, the average number of days needed to complete full investigations has increased from 243 days in 2003 to 293 in 2005. Timely investigations help to improve the chances for reaching a conclusive determination as to whether or not a given allegation of misconduct is credible. Delays reduce the chance of conclusive outcomes by making it more difficult to locate witnesses and gather 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. Police officers cannot be disciplined if more than 18 months have elapsed from the date a substantiated incident occurred.

CCRB: Selected Performance Indicators

	2001	2002	2003	2004	2005
Full-Time Staff (as of June 30th)	161	172	166	177	179
Complaints of Police Misconduct Received by CCRB	4,356	4,122	5,089	5,948	6,358
Percentage of Cases Fully Investigated Prior to Closure	50.2%	44.4%	45.1%	41.4%	41.3%
Average Number of Days to Complete Full Investigations	277	282	243	270	293

SOURCES: IBO; Mayor's Management Reports; Civilian Complaint Review Board.

Civilian Complaint Review Board

Dollars in millions, all funds

	2005 Actual	2006 Modified	2007 Proposed
TOTAL	**$9.7**	**$10.2**	**$9.0**
Full-Time Personnel	179	174	160

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

Department of Correction (DOC)

PRELIMINARY BUDGET HIGHLIGHTS

- **Collective Bargaining Increases.** Labor settlements will increase spending by $55.8 million in the current year, $44.8 million in 2007, and by declining amounts through 2010, as productivity initiatives produce savings.
- **Ingles Litigation.** Compliance with an out-of-court settlement increases spending by $112,000 in 2006 and $225,000 annually in 2007 through 2010. The increased spending will pay for three information technology specialists.
- **Discharge Planning.** Funding for discharge planning is reduced by $300,000 annually in 2006 through 2010. The initial contract called for an annual payment of $750,000.
- **Commissary Cut Restoration.** Restoration of a previously planned cut based on outsourcing of the prison commissary increases spending by $5.1 million in the current year.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $845.8 million for the Department of Correction in 2007, $41.2 million less than budgeted in 2006. The Department of Correction traditionally receives significant federal and state grants; however, not all of these receipts are recognized in 2007. Assuming that previous trends continue, the department will receive an additional $5.0 million in federal grants and $2.0 million in state grants in 2007.

Effects of Key Budget Proposals

Collective Bargaining Increases. In September 2005, the city entered into a labor agreement with the Correction Officers' Benevolent Association. The city also agreed to salary increases for steamfitters, welders, and managers. The agreement increases spending by $55.8 million in 2006, $44.8 million in 2007, $42.3 million in 2008, and $39.2 million in 2009. The amount declines each year due to a variety of productivity enhancements, including lower salaries and reduction in vacation days for new employees, elimination of an annual personal leave day for all employees, and changes in the scheduling of vacations that will reduce overtime spending. These productivity measures are expected to help fund the contract, particularly in the out-years.

The total DOC budget for personnel costs is $742.6 million in 2007—down from $761.5 million this year, but well above the $714.9 million spent in 2005.

Ingles Litigation. Compliance with the Ingles litigation settlement will increase department spending by $112,000 in the current year, and $225,000 annually thereafter. The city settled out of court on this class-action suit that alleges abuse and excess use of force. Surveillance cameras must now record over longer periods of time, and must be placed in hundreds of additional locations. The cameras are mostly paid for out of capital funds; these expense funds are for three additional information technology staff.

Discharge Planning. Spending for discharge planning will be reduced by $300,000 annually from the current year through 2010. According to the Mayor's Office of Management and Budget, the Department of Correction will not meet its goal of providing 5,000 discharged inmates with employment services and job placement through the Center for Employment Opportunities because fewer inmates than anticipated are participating in the program. The original contract called for spending $750,000 annually.

Commissary Cuts Restored. A prior Financial Plan cut was restored due to delayed outsourcing of the prison commissary. This restoration will increase budgeted spending

Department of Correction

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Jails	$568.1	$463.1	$446.0
Operations	147.3	330.0	310.6
Health and Programs	38.5	34.1	30.7
Administration	66.2	61.8	62.0
Unallocated Financial Plan Changes	n.a.	(2.0)	(3.5)
TOTAL	**$820.0**	**$887.0**	**$845.8**
IBO Adjustments			
Federal and State Aid		$0.0	$7.0
IBO Projected		**$887.0**	**$852.8**
Full-Time Personnel	**10,868**	**10,768**	**10,852**
Uniformed	9,477	9,261	9,312
Civilian	1,391	1,507	1,540
Capital Commitments	**$47.9**	**$225.1**	**$128.3**

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

by $5.1 million in the current year, to $57.3 million.

Protective Vest Replacement. The replacement of protective vests will increase DOC spending by $2.8 million in 2006 and 2007. The warranty is up on 9,400 vests; this multiyear process will replace these vests. The costs are anticipated to drop to $595,000 annually in 2008-2010.

Civilian Hiring Delay. A delay in civilian hiring will save DOC $450,000 in the current year. The department is delaying 50 percent of hires that are not mandated by court settlements, or other legal requirements, as DOC cannot find qualified candidates.

CAPITAL BUDGET

Agency Overview. Capital commitments for the Department of Correction are expected to be $128.3 million in 2007, $96.8 million less than in 2006. The four-year capital program totals $765.8 million.

Key Capital Projects

Capacity Replacement Program. The department's program to replace temporary modular housing with permanent housing continues in 2007. The modular replacement program will not change the overall bed capacity of the jails, but will improve its operations, security, and environmental health. The construction of 1,720 dorm beds and 112 cell beds will be ongoing from 2006 through 2010. In 2007, the costs are estimated at $77.0 million.

Building Systems, Infrastructure, and Support Space. The department will continue to undertake improvements to building systems, infrastructure, and support space. These improvements are estimated to cost $30.2 million in 2007. The department has budgeted $7.1 million in capital funds in 2006 to comply with the Ingles litigation, which calls for additional video surveillance equipment to ensure inmate safety.

Equipment. DOC's program to upgrade or replace vehicles, computers, security equipment, and communication systems is estimated to cost $17.7 million in 2007.

NOTE: A detailed review of agency spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Juvenile Justice (DJJ)

PRELIMINARY BUDGET HIGHLIGHTS

- **Critical Needs.** This proposal would provide additional critical personnel, at a cost of $1.4 million in the current year and $1.9 million thereafter.
- **Reduce Houseparent Workweek.** This action seeks to reduce the average workweek for houseparents from 60 hours to 40 hours by doubling the houseparent staff. This will increase spending by $1.3 million annually from 2007 through 2010; overtime savings are not yet recognized.
- **Houseparent Back Pay.** These funds address a union grievance, providing workers with six years of pay adjustments as a one-time payment. This action will increase spending by $3.8 million in 2006.
- **Food Service Restoration.** Planned efficiencies in food delivery will not occur this year, increasing spending in 2006 by $666,000.
- **Additional State Revenue.** The state will reimburse the department for certain construction-related costs, reducing the need for city funds by $2.4 million in the current year and $3.2 million annually in 2007 through 2010.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $103.5 million for the Department of Juvenile Justice in 2007, $3.1 million less than budgeted in 2006. The Department of Juvenile Justice traditionally receives significant federal and state grants; at this early point in the budget cycle, however, not all of these receipts are recognized. Assuming that previous trends continue, IBO projects the department will receive an additional $2.0 million in federal grants and $300,000 in state grants in 2007, for a total $105.8 million in expenditures in 2007.

Effects of Key Budget Proposals

Critical Needs. This action addresses critical personnel needs including a director of admissions, social workers, contract managers, and budget analysts. Filling the total of 28 positions will increase spending by $1.4 million in the current year and $1.9 million annually 2007 through 2010.

Houseparent and Senior Houseparent Shift Conversion. The department proposes hiring 31 additional houseparents and senior houseparents-who supervise youth in nonsecure detention-in order to reduce the average workweek from 60 hours to 40 hours. The conversion is expected to reduce the reliance on overtime and improve the morale of workers. This action will increase costs by $1.4 million annually in 2007 through 2010; however, savings in overtime spending are not reflected in the budget.

Houseparent Back Pay. Following a grievance filed by their union, houseparents will receive six years of back pay adjustments in a single payment, costing $3.8 million in 2006.

Food Service Restoration. The department has not been able to achieve previously planned savings due to unresolved problems in the plan for streamlining food distribution. The original plan called for the Department of Correction to prepare and deliver food to DJJ, but juvenile justice staff would still have to distribute the food. The department is still working on resolving this issue. This restoration increases current year spending by $666,000.

Additional State Revenue. The State of New York has agreed to reimburse the city for debt service associated with the construction of the Crossroads and Horizon detention facilities as well as the renovation of the Bridges facility,

Department of Juvenile Justice

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Detention	$51.9	$59.2	$54.9
Juvenile Incarceration	36.1	39.2	41.7
Alternatives to Placement	0.3	1.0	0.3
Discharge Planning	1.4	1.3	0.3
Administration	6.1	4.5	4.3
Unallocated Financial Plan Changes	n.a.	1.4	2.0
TOTAL	**$95.8**	**$106.6**	**$103.5**
IBO Adjustments			
Federal & State Grants		$0.0	$2.3
IBO Projected		**$106.6**	**$105.8**
Full-Time Personnel	783	843	929
Capital Commitments	$4.7	$9.3	$2.2

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

fulfilling an obligation made 10 years ago. This action reduces city expenses by $2.4 million in the current year and $3.2 million annually in 2007 through 2010, with the state aid credited to the department's budget.

Pay Increases. Higher salaries for managers will increase spending by $76,000 annually. Total personnel spending for the Department of Juvenile Justice is budgeted at $36.4 million.

CAPITAL BUDGET

The four-year capital program for the Department of Juvenile Justice totals $14.8 million. The department's primary capital focus will continue to be on the renovation of its secure detention facilities and security upgrades.

NOTE: A detailed review of agency spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

Department of Probation (DOP)

PRELIMINARY BUDGET HIGHLIGHTS

- **Relocation of the Alternative to Detention Program.** The Preliminary Budget proposes relocating two of the Alternative to Detention program sites. This would reduce the probation-funded portion of the program by $1 million.
- **Delayed Merger.** The Preliminary Budget adds back $735,000 in previously anticipated savings because the city continues to be unable to obtain necessary legislative action to merge the Departments of Probation and Correction.

EXPENSE BUDGET

Agency Overview. The Department of Probation anticipates spending of $78.1 million in 2007, which is $3.2 million less than 2006. At this time, the reductions in spending appear to be largely in agency operations and administrative functions, although some changes have not yet been programmed.

Effects of Key Budget Proposals

Relocation of the Alternative to Detention Program. The Alternative to Detention Program (ATD) provides services, including education, counseling, and supervision, to juveniles awaiting disposition of changes before the Family Court, thereby allowing them to avoid incarceration before a decision is reached. Because of structural problems in buildings at two ATD locations (Bronx and Brooklyn/ Queens), the programs will be relocated to city-owned properties, thus saving leasing costs. This will save $1 million annually. The program is budgeted for $3.1 million in 2006 and $3.2 million in 2007.[1]

Delayed Merger. The city must postpone plans to merge the Departments of Probation and Correction because the state did not pass legislation necessary to do so. The 2007 Preliminary Budget adds back $735,000 in anticipated savings.

Reducing Reliance on Incarceration. DOP has three programs designed to reduce the number of young people in city Department of Juvenile Justice and state youth incarceration facilities: Alternative to Detention, the Enhanced Supervision Program (ESP) and Esperanza. The programs provide services to youth at different points in the criminal justice system, in order to keep these young people in their communities, rather than placing them in institutions.

DOP recently restructured its "alternative to placement" programs—creating two programs, ESP and Esperanza, which both serve high-risk youth who have been referred by the court system. Esperanza, which is operated by the Vera Institute of Justice, provides broad family therapy services "designed to enhance families' strengths and encourage communication." ESP is more focused on supervision of juvenile offenders, and includes unannounced home visits by probation officers, mandated community service, and drug testing where needed.

The budget for the alternative to placement programs includes $2.1 million transferred from the Administration for Children's Services, which is drawing on state preventive services funding.

Incarceration is very expensive; placement in a state facility, for example, costs about $75,000 per year. The city, through the Department of Juvenile Justice, pays the state for these costs. Because the city is now sending few youth to state-operated placement programs, the Department of Juvenile Justice reports savings in its budget of $8.9 million annually.

Department of Probation

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Adult Services	$41.7	$43.4	$43.4
Family Court Services	17.9	17.0	17.1
Shared Services	3.3	5.3	4.6
Administration	15.4	14.6	14.1
Unallocated	n.a.	1.1	(0.9)
TOTAL	**$78.4**	**$81.3**	**$78.1**
IBO Adjustments			
Federal		$0.0	$0.1
IBO Projected		**$81.3**	**$78.2**
Full-Time Personnel	1,286	1,280	1,292
Capital Commitments	n.a.	n.a.	n.a.

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

DOP Programs to Reduce Youth Incarceration

	Alternative to	**Alternatives to Placement**	
Program	**Detention**	Enhanced Supervision	Esperanza
Stage of Process	Awaiting trial or other disposition	Sentencing	Sentencing
Population Served	Low Risk	"Low Asset" (significant risk factors)	"Low Asset" (significant risk factors)
Services Offered	Education, counseling, supervision	Intensive supervision, counseling	Counseling, family-centered case management
2005 participation	1,436	357	151
2007 Budget *(millions)*	$3.2	$2.0	$3.2

SOURCES: IBO; Mayor's Management Report; Department of Probation.
NOTE: These DOP programs operate within a complex legal framework of options for juvenile offenders. This table is intended to summarize the programs, and does not reflect the full range of legal distinctions within the Family Court Services area.

END NOTES

[1]This figure includes only the Alternative to Detention program, while previous IBO analyses have combined spending for a variety of DOP services designed to reduce incarceration levels.

New York City Fire Department (FDNY)

PRELIMINARY BUDGET HIGHLIGHTS

- **Collective Bargaining Agreements.** The Preliminary Budget includes further increases due to collective bargaining agreements. In total, labor settlements have added $93.3 million to FDNY costs in 2006, $84.4 million in 2007, $73.3 million in 2008, and $67.0 million in 2009. The total budget for personnel costs in 2007 is $1.2 billion.
- **Firefighting Overtime Savings.** The 2007 Preliminary Budget proposes firefighting overtime savings of $6.5 million in 2007, due to a temporary increase in the class size at the fire academy. The 2007 budget for uniformed overtime is $94.6 million.
- **Delay in Emergency Medical Service Tour Reconfigurations.** The 2007 Preliminary Budget reports lost revenue of $1.5 million in the current year due to a delay in obtaining approval for proposed Emergency Medical Service tour reconfigurations.
- **Revenue Initiatives.** Several initiatives, including a proposal to charge charitable and nonprofit organizations for fire inspections, are expected to bring in an additional $5.8 million in 2006 and $9.4 million in 2007.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $1.3 billion for the FDNY in 2007, $80.7 million less than budgeted in 2006. The FDNY traditionally receives significant federal and state grants; however, not all of these expected receipts have as yet been recognized in the 2007 budget. Assuming that previous trends continue, IBO projects the department can expect an additional $40 million in federal grants, primarily for homeland security, and $50,000 in state grants in 2007. Finally, the decrease between 2006 and 2007 is also attributable to overtime spending on Hurricane Katrina in 2006 ($10.2 million).

Effects of Key Budget Proposals

Collective Bargaining. In October of 2005, the city entered into an agreement with the Uniformed Firefighters' Association. The settlement covered the period June 1, 2002 through July 31, 2006, and included a more than 17 percent wage increase, as well as a number of productivity enhancements. In total, the collective bargaining agreement (including firefighters and civilians) is expected to cost $93.3 million in 2006, $84.4 million in 2007, $73.3 million in 2008, and $67.0 million in 2009.

The funding for the wage increases falls each year because the city anticipates that some of the cost of the firefighters' settlement will be covered through productivity enhancements. In particular, starting salaries for new hires will be lower, all employees will have their annual leave reduced, and the department will have more flexibility in scheduling.

The total FDNY budget for personnel costs is $1.17 billion in 2007, $39 million less than projected for 2006, principally due to lower budgeted uniformed overtime.

Firefighting Overtime Savings. The 2007 Preliminary Budget proposes savings of $6.5 million in 2007 because FDNY recently advanced a fire academy class of 700, rather than the 550 budgeted positions. This mostly reverses an increase of $7.0 million to the budget for uniformed overtime made in the November Financial Plan, attributable to higher than expected attrition and Hurricane Katrina (reimbursed by the federal government). The 2007 budget for uniformed overtime is now $94.6 million. Uniformed overtime spending was $132.6 million in 2005, and is budgeted for $130.3 million in 2006.

Fire Department of New York

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Extinguishment	$888.9	$851.8	$858.5
Homeland Security	23.7	44.3	3.1
Investigation & Prevent	30.4	28.4	28.1
Administration/Other	120.6	130.3	113.8
EMS	162.9	172.2	172.2
Unallocated Financial Plan Savings	n.a.	131.9	102.5
TOTAL	**$1,226.5**	**$1,359.0**	**$1,278.2**
IBO Adjustments			
Federal and State		$0.0	$40.1
IBO Projected		**$1,359.0**	**$1,318.3**
Full-Time Personnel	**15,902**	**15,574**	**15,722**
Uniformed	11,488	11,163	11,222
Civilian	4,414	4,411	4,500
Capital Commitments	$43.8	$222.3	$123.2

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

Delay in EMS Tour Reconfigurations. The department has failed to win approval from the Regional Emergency Medical Advisory Council of New York City to allow Advanced Life Support (ALS) tours to be staffed by one paramedic and one emergency medical technician instead of the current two paramedics per tour. ALS tours generally serve the most advanced medical cases and have higher fees because of the advanced nature of the cases. The types of calls requiring the attention of the more advanced tours has spiked and the reconfiguration would have allowed greater capacity to handle the increase. The department would have earned more revenue because patients served by tours staffed by a paramedic are charged more than those staffed only with emergency medical technicians. Because the reconfiguration was not approved, FDNY will lose $1.5 million in anticipated revenue this year.

Revenue Initiatives. Several initiatives are expected to bring in an additional $5.8 million in 2006 and $9.4 million in 2007. Among the initiatives:

- Increased enforcement efforts will result in an increase in notices of violation of the fire code, which are adjudicated by the Environmental Control Board. This will bring in $1.0 million in each of 2006 and 2007.
- Better reporting and an expansion of the department's database of utility locations (such as Con Edison properties) and small restaurants, as well as better collection efforts, will bring in $4.4 million in 2006 and $4.5 million in 2007 from the Bureau of Fire Prevention.
- The fire department will submit for a second time legislation to allow it to charge nonprofit and charitable organizations—currently exempt—for fire inspections. If enacted, the fee, $210 per hour, will bring in $3.0 million annually starting in 2007. The City Council failed to enact a previous attempt.
- The department will require evacuation plans by high-rise buildings to be submitted for review, charging a review fee of $525. This is expected to bring in $500,000 in 2007.

FDNY Capital Commitment Plan
Dollars in millions

	2006	2007	2008	2009
City Funds	$180.9	$123.2	$46.6	$46.9
Non-City Funds	41.4	0	0	0
TOTAL	**$222.3**	**$123.2**	**$46.6**	**$46.9**

SOURCES: IBO; Mayor's Office of Management and Budget.

CAPITAL BUDGET

Agency Overview. Capital commitments for the fire department are expected to be $123.2 million in 2007 and $439 million over the four-year plan period. In 2006, the department received $20 million in one-time federal homeland security grant funds for fireboats. The department anticipates a decrease in capital commitments of $76.6 million in 2008, largely due to the completion of various planned facility upgrades.

Key Capital Projects

Facility Improvements. Planned facility improvements include the renovation of firehouse components such as boilers, electrical upgrades, kitchens, roofs, bathrooms, apparatus doors, floors, and windows. These upgrades will cost $78.8 million in 2007, falling to $15.0 million in 2008 as the projects are completed.

Vehicle and Equipment Purchases. These purchases include fireboat improvements, pumpers, equipment for emergency response vehicles, SUVs, tower ladders, and other equipment. These purchases and rehabilitations are estimated at $34.5 million in 2007.

Emergency Communications Transformation Program. The city is developing an integrated 911 dispatch system that will bolster the emergency response capabilities of the FDNY and the police department. The project, led by Department of Information Technology and Telecommunications (DOITT), includes the development of a consolidated dispatch system, an upgraded telecommunications infrastructure, and redundant call-taking and dispatch centers. Expenditures for the project are $422.3 million in 2007, up from $333.7 million in 2006. All of these funds are in the DOITT capital budget.

New York City Police Department (NYPD)

PRELIMINARY BUDGET HIGHLIGHTS

- **Adjustment of PBA and SBA Collective Bargaining.** The budget includes $20.7 million in additional funding to cover greater than previously projected costs for recent contract settlements with police officers and sergeants.
- **Traffic Management Initiative.** The 2007 Preliminary Budget proposes hiring 117 more traffic enforcement agents at a cost of $4.5 million in 2007. With the additional parking summonses the new agents write, the Mayor estimates net revenue in 2007 of $17.4 million.
- **Reduction in Event Related Police Overtime.** The budget includes savings of $7.4 million in police overtime costs by reducing the number of officers deployed on overtime at various events and requiring producers of special events to reimburse the city for overtime costs. Police overtime is now expected to cost about $370.0 million this year.
- **Hiring of Additional School Safety Agents.** Under the budget plan, an additional 286 school safety agents are to be hired at a cost of about $8.2 million per year through at least 2010.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes $3.7 billion for the police department in 2007, $159.6 million less than currently budgeted for 2006. This agency, however, typically receives a significant amount of state, federal, and other categorical aid during the course of each fiscal year that is not reflected in the Preliminary Budget.

For example, IBO projects that NYPD will receive $214.0 million in additional non-city funds in 2007, and also projects that an additional $75.0 million in city funds will ultimately be needed to cover overtime expenditures. The 2007 Preliminary Budget includes only $254.6 million for police overtime. Our higher overtime projection is based on NYPD overtime spending in recent years and this year, with the latter on pace to reach $370.0 million.

In total, IBO projects that NYPD expenditures in 2007 will reach just over $4.0 billion, $104.4 million more than currently budgeted for 2006.

Effects of Key Budget Proposals

Adjustment of PBA and SBA Collective Bargaining. In June 2005, the New York State Public Employment Relations Board (PERB) imposed a decision pertaining to a contract dispute between the city and the Patrolman's Benevolent Association (PBA), the union representing NYPD uniformed personnel working at the rank of police officer. In October 2005, the city and the NYPD sergeants' union, the Sergeants Benevolent Association (SBA), reached a two-year deal with the city through collective bargaining. In both cases, the pay raises awarded pursuant to these contracts were to be at least partially offset by productivity enhancements that would lessen the net cost to the city, including lower starting salaries for new recruits, and reduced annual leave and sick days.

In the January 2006 Financial Plan the city reestimated the extent to which another productivity enhancement—allowing

Police Department

Dollars in millions, all funds

Program Area	2005 Actual	2006 Modified	2007 Proposed
Precinct and Borough Operations	$1,241.5	$1,046.9	$1,034.2
Central Enforcement Operations	$1,602.0	$1,696.2	$1,523.2
Public Housing	122.5	131.8	130.3
Transit System	182.3	186.6	184.7
School Safety	161.0	174.4	186.1
Traffic Enforcement	142.8	131.5	128.5
Training	123.5	44.4	56.0
Administration	329.4	378.3	376.0
Financial Plan Savings	N/A	110.0	121.2
TOTAL	**$3,904.9**	**$3,899.9**	**$3,740.3**
IBO Adjustments			
Overtime		$25.0	$75.0
Federal, State and Other Funds		0.0	214.0
IBO Projected		**$3,924.9**	**$4,029.3**
Full-Time Personnel	**44,599**	**45,270**	**44,575**
Uniformed	35,489	36,066	34,824
Civilian	9,110	9,204	9,751
Capital Commitments	$42.5	$236.2	$102.4

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Full-time personnel: June 30 actual for 2005; Nov. 30 actual for 2006; budgeted positions for 2007.

Cost of Collective Bargaining Agreements for Police and Sergeants Unions

Dollars in millions

	2006	2007	2008	2009	2010
PBA (July 2005 Financial Plan)	$64.2	$42.8	$28.3	$12.2	$12.2
PBA (November 2005 Financial Plan)	24.1	20.6	21.8	26.5	26.5
PBA (January 2006 Financial Plan)	22.4	14.8	14.8	14.8	14.8
Subtotal PBA	*$110.7*	*$78.2*	*$64.8*	*$53.5*	*$53.5*
SBA (November 2005 Financial Plan)	$29.3	$13.7	$8.4	$0.7	$2.1
SBA (January 2006 Financial Plan)	3.4	5.8	5.8	5.8	5.8
Subtotal SBA	*$32.7*	*$19.5*	*$14.2*	*$6.5*	*$7.9*
TOTAL	**$143.3**	**$97.7**	**$79.1**	**$60.0**	**$61.4**

SOURCES: IBO; Mayor's Office of Management and Budget.

the police Commissioner to reschedule the tours of police officers and sergeants 15 times per year, up from the previous limit of 10—would actually achieve savings. Such rescheduling involves giving an officer or sergeant 24 hours notice that his or her tour will be shifted forward or back by up to three hours, which can in some instances help reduce department costs by avoiding the use of overtime. But the Mayor's Office of Management and Budget (OMB) and NYPD now project fewer opportunities for reducing overtime through rescheduling, with the result being that the average police officer and sergeant will be able to be rescheduled only six times per year rather than the allowable 15. As a result, this adjustment proposes adding $20.7 million to NYPD's budget in each year from 2007 through 2010: $14.8 million for police officers and $5.8 million for sergeants.

Traffic Management Initiative. The 2007 Preliminary Budget's traffic management initiative would increase by 117 the number of NYPD traffic enforcement agents (TEAs), for a total of 2,214 TEAs. The cost to hire the additional personnel is $4.5 million in 2007, the first full year of the initiative. OMB expects, however, that these agents will issue an additional 412,000 parking violations annually, thereby generating net revenue of $17.4 million in 2007 and $20.4 million annually after that.

Reduction in Event Related Police Overtime. The 2007 Preliminary Budget calls for the immediate establishment of an NYPD reduction in event-related overtime initiative. If successful, events overtime would be reduced by $2.2 million in the final four months of this fiscal year and $7.1 million annually beginning in 2007. Spending on events overtime has exceeded $100 million annually in each of the last four fiscal years.

Events overtime is incurred when officers work extended hours or come in on their day off for the purpose of covering many different events throughout the year that require deployment of more than the usual number of police. Events overtime is in turn broken down into planned events, such as parades and street fairs, and unplanned events, including political demonstrations, strikes, and public emergencies. NYPD will seek to reduce events overtime expenditures through several strategies, including:

- Exercising greater care not to staff events with more officers than needed to adequately protect public safety
- Greater redeployment to events of officers working "straight time" elsewhere in the city
- More widespread use of interlocking metal barriers that have proven to more efficiently provide crowd control than the wooden sawhorses previously relied upon by the agency
- Greater usage of closed circuit television for the purpose of monitoring conditions at large gatherings, thereby allowing police personnel to be more efficiently deployed.

Additionally, the agency's reimbursement of overtime initiative will seek a total of $300,000 annually to at least partially offset police overtime expenditures for certain planned "special events," primarily street fairs. Street fair sponsors will be responsible for paying in advance an amount equal to the estimated police overtime expenditures likely to be incurred as a result of their events. Sponsors currently pay a nominal fee for a permit.

Hiring of Additional School Safety Agents. The education department will provide NYPD with $8.1 million to hire an additional 286 School Safety Agents (SSAs) in 2007, with the additional positions to be retained at least through 2010. This action will bring the currently budgeted number of SSAs to 5,090.

Increase in NYPD Violation Towing Revenues. Prior to the release of the January 2006 Financial Plan, the city's projected towing revenues for 2007 through 2010 was $18.9 million annually. But actual towing revenues were $23.2 million in 2004 and $22.6 million in 2005. OMB has therefore increased projected revenues by $3.7 million a year, to $22.6 million.

Federal Aid Changes. The January 2006 Financial Plan proposes adding a total of $10.0 million per year in city funds to NYPD's budget beginning in 2006 to compensate for the elimination of the federal Local Law Enforcement Block Grant, which had provided funding for the police communication technicians who staff the city's E-911 system. In addition, as a result of changes in federal law, OMB proposes adding $5.2 million in city funds to NYPD's 2007 budget to compensate for a reduction in anticipated federal asset forfeiture funds.

Extend Fleet Life of Unmarked Police Cars. NYPD currently has a fleet of about 1,200 unmarked sedans, and in the past has replaced about 230 vehicles per year. Over the 2007-2010 financial plan period, about 30 percent fewer vehicles will be replaced each year, an action projected to save $1.9 million annually.

CAPITAL BUDGET

Agency Overview. Planned capital commitments for the police department total $470.8 million from 2006 through 2009. Planned commitments for 2007 total $102.4 million, down from $236.2 million in 2006. Given that only $14.8 million (or about 6 percent) of the $236.2 million planned for this year had actually been committed as of the release of the January 2006 Financial Plan, it is likely that a great many unattained 2006 planned commitments will ultimately be rolled into 2007.

Key Capital Projects

Construction of New Facility to House a Fourth Police Precinct on Staten Island. The January 2006 capital plan calls for committing a total of $24.9 million from 2006 through 2009 for site acquisition, design, and construction of a fourth police precinct on Staten Island.

Replace Existing 120th Precinct Station House. A total of $42.8 million is to be committed during 2007 and 2008 for construction of new facility to replace the existing 120th Precinct station house on Staten Island, in addition to the $3.3 million scheduled to be committed this year for design costs.

Radio and Telephone Equipment. The agency plans to purchase ultra-high frequency radio and telephone equipment over the 2006-2009 plan period, at a cost of $99.8 million.

Helicopters. NYPD plans to acquire additional helicopters at a cost of $10.9 million over the four-year plan period.

NOTE: A detailed review of agency spending by program is available on our Web site at http://www.ibo.nyc.ny.us/iboreports/AgencyBudgets.html.

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