ANALYSIS OF THE MAYOR'S EXECUTIVE BUDGET FOR 1998

Table of Contents

Chapter

1

Overview

As required by Section 252 of the New York City Charter, the Independent Budget Office (IBO) has prepared this analysis of the Mayor's executive budget for 1998. In February and March, IBO issued two reports analyzing New York City's long-term fiscal outlook and the Mayor's preliminary budget for 1998 and financial plan through 2001. While the focus of those reports was to provide a long-term view of fiscal issues facing the City, this report centers on more immediate concerns-namely adoption of the City's budget for fiscal year 1998.

Budget Summary

The executive budget reflects an improving local economy that has allowed the Mayor to propose fewer spending reductions than in recent years, though still substantial, coupled with the lowering of certain taxes paid by New Yorkers. IBO projects that both City-funded and overall spending for 1998 would remain at about current year levels if the Mayor's budget is adopted in its entirety.

A number of issues identified by IBO in various reports including our *Analysis of the Mayor's Budgetary Proposals*-prepared in response to the preliminary budget-are addressed in the executive budget.

- IBO projected additional public assistance (welfare) needs of $103 million above amounts contained in the preliminary budget. The executive budget contains an additional $99 million to fund local welfare needs.

- For Medicaid, IBO projected an additional need of $281 million above preliminary budget levels. The plan laid out in the executive budget includes most of these additional funds.
- The Mayor is proposing changes to the Governor's School Tax Relief (STaR) proposal aimed at providing residents of New York City with their proportionate share of benefits under the initiative.

The Mayor's plan benefits from the accumulation of a record surplus during the current fiscal year. Because accounting conventions prohibit the explicit "rolling" of surplus funds from one fiscal year to another, the City effects a roll by prepaying future obligations (typically debt service) in the current fiscal year, thus freeing up resources in the future. While it has been the City's practice to effect a roll one year at a time, the executive budget proposes to stretch its surplus over the next two years by prepaying $856 million of 1998 debt in 1997 and rolling $200 million into 1999 by prepaying debt service for that year.

Given our projections of large budget gaps beyond 1998 (see Appendix A), the Mayor's plan takes a step in the right direction by proposing to use excess 1998 funds to reduce certain expenses in 1999. The City would benefit substantially, however, if it were to establish a rainy day fund to help stabilize revenues over the long run. Such a fund would permit the City to save surplus money from good economic years to help pay for City services in lean years.

The budget includes proposals to reduce the sales tax, the tax on unincorporated businesses, and the commercial rent tax. The fiscal prudence of cutting taxes given large out-year budget gaps depends on the specific taxes under consideration and on the sustainability of the recently strong revenue growth. Although the chosen tax cuts are targeted to stimulate growth and decrease regressivity, the larger question is whether we will be able to afford them.

Much of the reduction in the out-year gap forecasts (as compared with last year's forecast) is based on the assumption that the City will sustain strong revenue growth over the plan period. But the economy will turn down at some point, and, without the benefit of a rainy day fund, whoever is mayor will likely face the unenviable choice between increasing taxes in a slow economy or reducing spending when it is needed most.

Revenue Forecast

With recent data on the national and local economies showing strong economic growth in the current year, we have revised upward our 1998 tax revenue projection by $292 million above IBO's March estimate. Our new forecast of $19.2 billion is $266 million higher than baseline tax revenues projected in the Mayor's executive budget.

As the U.S. economic expansion continues through its seventh straight year, IBO expects the pace of economic activity to moderate and inflation to remain under control as the Federal Reserve gradually tightens monetary policy (see Chapter 2). Because it takes time for changes in monetary policy to affect the economy, growth will not begin to decelerate until the latter part of the current calendar year.

With the City's economic fortunes closely tied to the nation's as a whole, the local economy will remain robust for the current year but will slow to a more moderate pace in 1998 and beyond. Coupled with a return to a more historical level of profits in the securities industry, IBO projects a slowing in the rate of increase in the City's cyclically-sensitive sources of tax revenue.

Chapter 2 provides a detailed discussion of IBO's economic and revenue forecast through 2001 along with our scoring of the Mayor's tax reduction program. The chapter provides a discussion of each of our independent projections of the nine largest taxes in the City (property, commercial rent, mortgage recording, real property transfer, personal income, general corporation, unincorporated business, banking corporation, and sales). Our tax revenue forecast is summarized in Figure 1-1.

Figure 1-1.
Baseline Tax Revenue Forecast
(In millions of dollars)

	IBO	Mayor's budget	Difference
1997	19,191	19,139	52
1998	19,229	18,963	266
1999	19,912	19,581	331
2000	20,785	20,423	362
2001	21,605	21,259	346

SOURCE: Independent Budget Office.

In addition to tax revenues, the City also receives revenues from State and federal grants and miscellaneous revenues. We estimate that these revenues will be $15.1 billion in 1998 bringing total revenues up to $34.3 billion.

Expense Budget

IBO estimates that total spending under the policies proposed in the Mayor's 1998 budget would result in only modest changes from 1997 levels. The budget does, however, propose $660 million in agency gap closing initiatives for 1998. Total spending would be about $34.2 billion, roughly the same level as in 1997.

- The portion funded with City-generated revenues would be $23.3 billion in 1998, slightly less than 1997 levels.
- Spending from State and federal categorical grants would be $10.8 billion in 1998, slightly more than 1997 levels. IBO's estimate of categorical aid, while similar to current year levels, is $581 million higher than the levels forecast in the Mayor's budget. Although some of this additional aid may be anticipated by the Mayor, it will not be reflected in the budget until it is received.

Chapter 3 provides a discussion and analysis of the Mayor's budget proposals for major City agencies.

1998 Budget Issues

In Chapter 4 we present discussions of a diverse assortment of issues with significant implications for the City's 1998 budget. Topics include: the Mayor's proposed State agenda; public assistance projections in the wake of welfare reform; Medicaid growth; recent cost savings initiatives at the Health and Hospitals Corporation; reorganization of the Administration for Children's Services; student enrollment and school capacity; claims for prior-year education aid from the State; Bronx garbage exportation in anticipation of Fresh Kills landfill closure; the elimination of two fare zones for public transportation; costs associated with making the City's computer systems year 2000 compliant; and budgetary considerations for 1997 campaign finance, uniformed personnel overtime, judgments and claims, and labor costs.

Chapter

2

Revenue Estimates

Overview

Recent data on the national and city economies indicate that the strong growth observed in calendar year 1996 has continued into the early part of 1997. IBO's revised economic forecast is based on the assumption that the Federal Reserve will gradually tighten monetary policy, thereby slowing U.S. and local economic growth late this year and into 1998. This lower rate of economic growth will produce slower revenue growth in fiscal year 1998.

This chapter begins with a review of the economic forecasts for the nation and the City. Next, IBO's baseline forecast of tax revenues is presented. The baseline forecasts only consider current law and policy-they do not take into account the Mayor's tax reduction program and proportionate State tax relief proposal. After presenting IBO's baseline and contrasting it with the Mayor's, the major components of the tax reduction program and IBO's estimates of the cost of each initiative are examined. Finally, the chapter reviews miscellaneous and other revenue sources.

The Economic Outlook

Based on stronger than anticipated growth so far this calendar year, IBO has revised upward its 1997 economic forecast for both the U.S. and the City.[1] To forestall any acceleration in future inflation attributable to sustained above-capacity growth, the Federal Reserve (Fed) is expected to tighten monetary policy gradually, thereby setting the stage for slower growth later this year and throughout 1998.

U.S. Economic Forecast

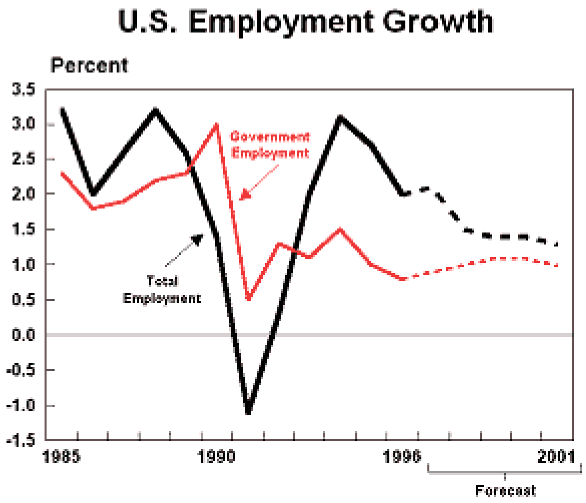
Fueled in part by continuing strength on Wall Street, real gross domestic product (GDP) rose at an annual rate of 3.8 percent in the final quarter of calendar year 1996 and surged a remarkable 5.6 percent (preliminary estimate) in the first quarter of 1997. Unemployment rates for the nation as a whole fell to 4.9 percent in April; ignoring changes in survey methods, this is the lowest rate of U.S. unemployment since 1973. Despite sustained above-trend economic growth, low rates of unemployment, and high levels of capacity utilization, increases in consumer and producer prices remain subdued.

In an effort to forestall any acceleration of inflation, in March the Fed tightened monetary policy by raising the federal funds rate-the interest rate banks are charged on overnight loans. IBO's forecast for the U.S. economy is based on the assumption that the Fed will continue slowly to raise short-term interest rates during 1997. On the assumption that the Fed succeeds in averting an acceleration in inflation, IBO forecasts that the consumer price index for all urban consumers will rise 2.6 percent in both 1997 and 1998 (see Figure 2-1).

Because the Fed is expected to tighten gradually, and because it takes time for changes in monetary policy to affect output, real GDP growth will only begin to decelerate during the second half of 1997. As a result, IBO projects that real GDP will grow 3.5 percent this year, followed by considerably slower growth of 1.9 percent in 1998. Employment growth is forecast to follow a similar pattern, rising 2.1 percent in 1997 and 1.5 percent in 1998, while the unemployment rate increases from 5.2 percent to 5.4 percent over the same period.

Figure 2-1.
U.S. Economic Outlook by Calendar Year

	Actual	Forecast				
	1996	1997	1998	1999	2000	2001
Real GDP						
Billions of 1992 dollars	6,907.2	7,146.6	7,284.8	7,452.7	7,617.1	7,780.0
Percent change, year over year	2.4	3.5	1.9	2.3	2.2	2.1
Personal Income						
Percent change, year over year	5.5	5.8	4.9	4.9	4.9	5.0
Payroll Employment						
Millions of jobs	119.6	122.1	123.9	125.6	127.4	129.1
Percent change, year over year	2.0	2.1	1.5	1.4	1.4	1.3
Civilian Unemployment Rate						
Percent	5.4	5.2	5.4	5.4	5.4	5.5
Consumer Price Index[a]						
Percent change, year over year	2.9	2.6	2.6	2.7	2.7	2.7
Thirty-year Treasury Bond Rate						
Percent	6.7	7.1	6.8	6.5	6.4	6.2
Securities Industry Total Revenues						
Percent change, year over year	25.9	17.0	10.3	10.2	8.8	8.3



SOURCES:	Independent Budget Office; Securities Industry Association; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; WEFA Group.
NOTES:	All data are annual values; growth rates are year over year. a. Consumer price index for all urban consumers (CPI-U); 1982-1984 = 100.

Despite a projected rise in long-term interest rates, IBO expects robust 1997 growth in personal incomes and corporate profits to buoy the financial sector. Earnings statements of major securities firms suggest that first-quarter performance has remained strong. IBO projects that total revenues of the securities industry will rise 17.0 percent in 1997-solid growth, but well below the industry's extremely rapid expansion in 1995 and 1996. In contrast, a slower pace of economic activity in 1998 will cause securities industry revenue growth to decelerate to 10.3 percent, just slightly above its average annual rate of growth over the past decade.

The primary difference between IBO's forecast and OMB's is that we project significantly stronger real GDP growth in 1997-3.5 percent as compared with 3.0 percent. It is interesting to note that IBO's forecast of real 1997 GDP growth is slightly above than the May Blue Chip consensus estimate of 3.3 percent, while OMB's is slightly below.[2]

New York City Economic Forecast

IBO expects the City's pattern of economic activity over the next few years to parallel that of the nation. Because growth isn't projected to slow until later this year, the outlook for 1997 as a whole remains strong (see Figure 2-2). Solid expansion in the securities industry will lead to growth throughout the local economy, with personal income generated in New York City expected to rise a robust 5.8 percent and total City employment projected to increase by nearly 26,000 jobs, or 0.8 percent.[3]

Preliminary evidence suggests that New York City's economy has continued to grow strongly so far this year, with the City gaining roughly 8,000 jobs from January through April.[4]Over the same period, personal income tax withholding-another good indicator of economic activity-increased 9.7 percent on a year-over-year basis, nearly matching last year's rapid pace.

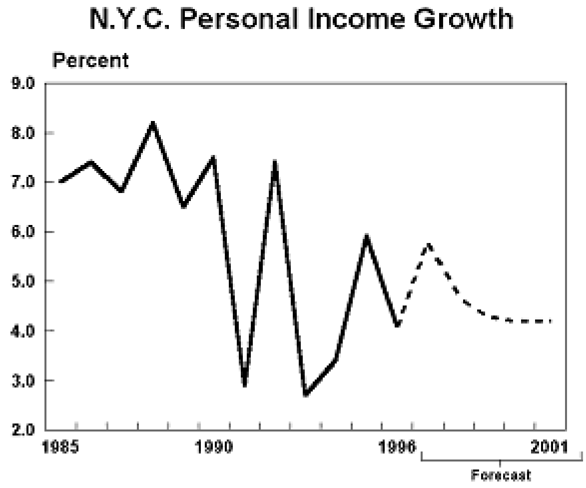
In contrast to the strength projected for 1997, IBO expects New York City's economy to grow more slowly in 1998. City personal income is forecast to rise 4.7 percent in 1998, while the rate of employment growth is projected to be 0.4 percent-just half that of 1997. Slower employment growth, coupled with increased pressure on low-skill employment due to welfare reform, is projected to increase the City's already high rate of unemployment by 0.2 percentage points to 9.2 percent in 1998.

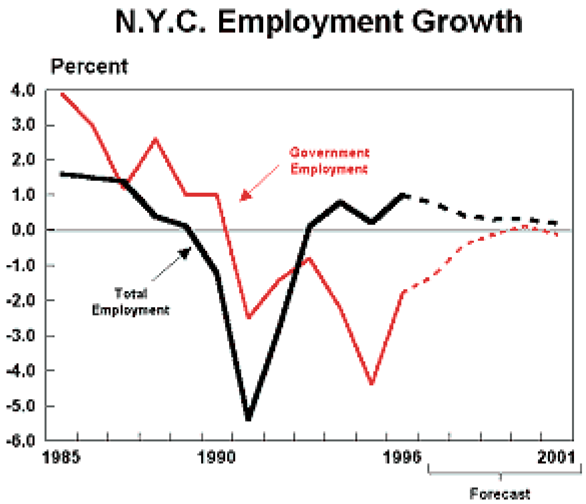
Industries that are projected to add significant numbers of jobs to New York City's economy in 1997 and 1998 include business services, hotels, social services, education, retail sales, legal services, construction, and multimedia. Although employment in healthcare-a longtime source of strength in the New York City economy-is expected to rise, its rate of growth will continue to slow due to hospital restructuring. Similarly, securities industry employment growth will weaken but remain positive, as the industry's profits retreat from their record levels.

New York City employment is expected to decline in the manufacturing, wholesale, banking, and insurance industries over the 1997 to 1998 period. IBO projects that the long-term decline in manufacturing employment will accelerate in 1998 as economic growth slows. Bank mergers and insurance industry restructuring are expected to decrease employment in these important components of the City's financial services sector. Declines in federal, state, and local government sector employment are expected to moderate, with the City losing nearly 7,000 government jobs in 1997 and roughly 2,000 in 1998.

Figure 2-2.
New York City Economic Outlook by Calendar Year

	Actual	Forecast				
	1996	1997	1998	1999	2000	2001
Personal Income						
Percent change, year over year	4.1[P]	5.8	4.7	4.3	4.2	4.2
Total Payroll Employment						
Thousands of jobs	3,357.7	3,383.7	3,397.1	3,408.7	3,417.7	3,426.0
Percent change, year over year	1.0	0.8	0.4	0.3	0.3	0.2
Government Sector Employment						
Thousands of jobs	533.8	527.0	525.1	524.3	524.8	524.4
Percent change, year over year	-1.8	-1.3	-0.4	-0.2	-0.1	-0.1
Retail Sales						
Percent change, year over year	3.0[P]	3.1	3.4	2.8	2.6	2.6
Civilian Unemployment Rate						
Percent	8.7	9.0	9.2	9.2	9.2	9.2
Consumer Price Index[a]						
Percent change, year over year	2.9	2.5	2.6	2.6	2.6	2.6
Manhattan Asking Rental Rate[b]						
Dollars Per Square Foot	33.16	34.22	35.84	37.78	40.13	42.78





SOURCES:	Independent Budget Office; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; WEFA Group.
NOTES:	P. Preliminary 1996 figure. All data are annual values; growth rates are year over year. a. CPI-U for the New York-Northern New Jersey region; 1982-1984 = 100. b. Asking rental rate for prime Manhattan office space.

IBO expects the City's real estate market to continue its recovery from the prolonged slump of the early 1990s. Driven by employment growth and declining vacancy rates, attributable in part to the lack of new office building construction, asking rents for primary office space are forecast to increase by 3.2 percent in 1997 and 4.7 percent in 1998. The continuing tourism boom has spurred the construction and upgrading of hotel rooms, and has contributed to an increase in rents for retail space in primary shopping areas. In the residential sector, demand for both rental and owner-occupied apartments-particularly at the higher end of the market-is expected to increase values and spur new construction. In the conventional home market, the growth in City employment is projected to contribute to increases in median home sales prices of 4.5 percent in 1997 and 5.7 percent in 1998.

Because of the close relationship between economic activity at the national and local levels, IBO's forecast of stronger 1997 U.S. economic growth than projected by OMB also leads to a stronger New York City economic forecast. Although both IBO and OMB forecast slower City economic growth for 1998, it is interesting to note that OMB's estimate of personal income growth is considerably weaker than IBO's-3.9 percent as compared with 4.7 percent, respectively.

Baseline Tax Revenue Forecast

The record earnings of Wall Street firms in calendar year 1996 and their continued strong performance in the first half of this year have pushed fiscal year 1997 revenues more than $1 billion, or 5.8 percent, above the prior year. Growth has been particularly strong in the personal and business income taxes. For 1998, IBO estimates that revenue growth will stall, with total receipts only 0.2 percent above 1997. This sharp decline in revenue growth is largely attributable to IBO's forecast of slower economic growth at both the national and local levels. Tax revenues are projected to total $19.2 billion in 1998 and grow by an average of 4 percent per year to reach $21.6 billion in 2001.

Throughout the forecast period, the cyclically sensitive unincorporated business tax and the personal income tax show some of the strongest growth, averaging 7.6 percent and 5.6 percent per year between 1998 and 2001, respectively. While growth in the real estate-related transaction taxes average more than 6.5 percent for the same period (largely due to growth in market values), the real property tax itself continues to lag all other major taxes with annual average growth under 3 percent, barely matching the rate of inflation. General sales tax growth for the same years will average 3.8 percent, exceeding the average inflation rate by over a full percentage point.

IBO's tax revenue forecast is based on independently developed models for nine major taxes-real property, commercial rent, mortgage recording, real property transfer, personal income, general corporation, unincorporated business, banking corporation, and sales.[5] Forecasts for all other taxes, audit revenues, and tax-related PEGs are adopted from OMB's projections shown in the Mayor's 1998 executive budget.

The following sections review the baseline revenue projections for those taxes independently modeled by IBO and contrast these forecasts with those of OMB.

Real Property Tax

In 1998, property tax revenues are projected to remain virtually unchanged from their 1997 level of $7.2 billion. For the three subsequent years, revenues are projected to grow by approximately 3 percent per year, reaching $7.9 billion by 2001.

Property tax revenues are made up of payments for liabilities under the current year's levy and payment of outstanding liabilities from prior years. The 1998 levy will be based on the assessment roll that was released by the Department of Finance in January 1997. Following Finance Department and Tax Commission adjustments in response to taxpayer appeals, the roll becomes final in late May 1997. The final 1998 assessment roll is expected to show total taxable billable assessed value of $75.7 billion, an increase of only 0.3 percent over the 1997 final assessment roll. Assessments for Class 1 properties (one-, two-, and three-family homes) and Class 2 (apartment buildings with more then three units) showed growth of over 2 percent, while Class 4 (offices and other commercial) showed a decline in assessed value of 0.8 percent.

Figure 2-3.
IBO's Estimates of Baseline Tax Revenues (without Tax Reduction Program)
(In millions of dollars)

	1997	1998	1999	2000	2001
IBO's Estimate					
Property Tax	7,210	7,208	7,381	7,624	7,866
Commercian Rent Tax	405	419	435	455	477
Real Property Transfer Tax	205	219	235	251	267
Mortgage Recording Tax	165	177	189	202	215
Personal Income Tax	4,333	4,481	4,721	5,004	5,281
General Corporation Tax	1,516	1,209	1,248	1,355	1,426
Unincorporated Business Tax	545	547	592	638	682
Banking Corporation Tax	358	362	368	388	397
General Sales Tax	2,923	3,049	3,170	3,282	3,392
Other Taxes With Audits	1,531	1,558	1,573	1,587	1,603
Total Baseline Tax Revenue	19,191	19,229	19,912	20,785	21,605
IBO's Reestimates of Mayor's Forecasts					
Property Tax	(10)	15	70	63	11
Commercian Rent Tax	7	10	5	5	5
Real Property Transfer Tax	4	3	5	5	13
Mortgage Recording Tax	(10)	(7)	(7)	(6)	(1)
Personal Income Tax	17	148	141	144	157
General Corporation Tax	29	45	68	123	158
Unincorporated Business Tax	5	29	16	24	29
Banking Corporation Tax	5	(7)	(4)	6	2
General Sales Tax	5	30	37	(1)	(27)
Other Taxes With Audits	-	-	-	-	-
Total Reestimate of Baseline Tax Revenue	52	266	331	362	346

SOURCE: Independent Budget Office.

NOTE: Numbers may not sum exactly due to rounding.

The 1998 levy largely reflects the state of the real estate market in calendar year 1996, a year in which recovery in the City's real estate market lagged behind growth in the rest of the local economy. IBO's forecast of continued growth in the City's economy over the next several years is expected eventually to be reflected in real estate market values, yielding steadily growing assessments and tax levies for fiscal years 1999 through 2001, with the levy increasing from $8.1 billion to $8.6 billion over that period.

Growth in assessments and tax levy account for only part of the improvement in projected property tax revenues for the fiscal years after 1998. A second key factor is a projected fall in the delinquency rate-the portion of current year levy remaining unpaid at the end of the year. Although stronger economic growth accounts for some of the improvement, the City's sale of tax liens has been a major contributor as well. Collections of outstanding balances have grown as delinquent property owners paid up to avoid having their property included the pool of liens being sold. Given that the City's financial plan calls for annual sales of tax liens, this behavioral change by taxpayers is expected to become permanent. Therefore, the delinquency rate is projected to remain at the 1997 level through 2001, nearly 50 percent below its 1994 level.

The revenue growth due to the increase in the tax levy and the decrease in the delinquency rate is partially offset by scheduled increases in the costs of two recently enacted tax abatement programs. The lower Manhattan commercial revitalization program includes a partial property tax abatement for qualifying buildings with new leasing activity. For 1998 the cost is projected to be $14 million, rising to $50 million in 2001.[6] The coop and condo abatement, which helps bring the tax burden on such buildings closer to the burdens on Class 1 properties, is projected to increase from $8.5 million in 1997 to $70 million in 1998 and $120 million in 1999.[7]

IBO's estimates of the real property tax levy and revenues are slightly higher than the Mayor's. The small differences-less than 1 percent each year-are attributable to modest differences in economic assumptions, with IBO's forecasts of market indicators generally being higher than OMB's, and differing methodologies for translating market value growth into assessment and revenue growth. It appears that IBO's approach in the latter area is more conservative than OMB's.

Property Related Taxes

Because of a series of tax reductions in recent years, commercial rent tax (CRT) revenue has fallen by more than one-third since 1993 to $405 million in 1997. Nevertheless, underlying growth in the tax base has remained strong and 1998 CRT collections are forecast to reach $419 million, a 3.4 percent increase over the prior year. Over the 1999 through 2001 period, thanks to rising office rents and continued robust demand for Manhattan retail space, revenue growth is expected to accelerate, increasing at an average rate of 4.4 percent per year. Collections are projected to increase from $435 million in 1999 to $477 million by 2001. IBO's forecast for CRT collections is slightly higher than OMB's, particularly in 1998, with a difference of 2.4 percent. The differences are partially due to a slightly higher forecast for the balance of 1997 and somewhat higher estimates on commercial rent levels throughout the forecast period.

Collections from the real property transfer tax (RPTT) and mortgage recording tax (MRT) often vary widely from year to year, because of volatility in the City's real estate market. So far in 1997, revenue growth for both taxes has been quite strong and final collections are expected to be well ahead of initial projections, although IBO forecasts that MRT revenues will fall $10 million short of OMB's most recent upward revision. In 1998 this growth is expected to continue: projected revenue is $219 million for the RPTT and $177 million for the MRT.

For fiscal years 1999 through 2001, further increases in the number and value of residential transactions combined with more modest but still significant improvement in the commercial sector, will help sustain continued growth in these two taxes. The RPTT is projected to increase from $235 million in 1999 to $267 million in 2001, which is $13 million above OMB's forecast for the final year. For the same period, the MRT is forecast to grow from $189 million to $215 million. Although IBO's growth rate for MRT collections is higher than OMB's, collections are expected to be lower throughout the forecast period than forecast by OMB because of the projected shortfall in the current year.

Personal Income Tax

Due to the strength of current collections, IBO has raised its forecast of net personal income tax (PIT) receipts in 1997 by $125 million. We now expect 1997 PIT revenues to equal $4,332 million, 10.8 percent greater than collections in the previous year.

IBO has increased its 1997 revenue estimates for each of the three major components of the PIT-estimated payments, final returns, and withholding. The booming stock market has fueled capital gains realizations, resulting in a 16.8 percent year-to-date (through April) estimated payment receipts over the comparable 1996 period. As a result, IBO has increased its forecast of 1997 PIT estimated payments by $70 million. Similarly, taxpayers' final returns payments have swelled, and we have boosted our forecast of 1997 PIT final returns by $35 million. Securities industry firms' record-high profits in calendar year 1996 produced substantial year-end bonuses for industry employees, and IBO expects 1997 withholding receipts to be 8.3 percent greater than in 1996. Since the strength of withholding collections due to year-end bonuses was already evident earlier in the year, IBO has increased its withholding forecast by only $4 million.

Economic growth and the profits of securities firms are expected to taper off by the end of calendar year 1997. However, IBO anticipates that taxpayer liability will be strong enough to lead to further increases in estimated payments and withholding in fiscal year 1998, offsetting a projected increase in refunds and expected decline in final returns payments. Net PIT revenues for the year are now forecast to grow by 3.4 percent to equal $4,480 million. This estimate is $123 million greater than IBO's February forecast, with increased projections of estimated payments and final returns accounting for almost all of the total upward revision.

While IBO's 1997 PIT forecast exceeds OMB's by only $17 million, in 1998 the difference grows to $148 million. Significantly higher projections for each of the three major components of the tax account for the 1998 variance. OMB's lower 1998 forecast results from its projection of slower growth of both the national economy and local personal income in calendar year 1997.

For the remaining years of the forecast period, IBO expects PIT growth to pick up, averaging 5.6 percent annually. The average rate of growth estimated by OMB is only slightly higher, and IBO's forecasts remain greater than OMB's by roughly the same or slightly more than the 1998 difference.

General Corporation Tax

Continued record-high levels of Wall Street profits and strong national and local economic growth have caused general corporation tax (GCT) collections to soar this fiscal year. This has prompted IBO to boost its forecast of 1997 GCT revenues by $107 million-a significant increase over our February revenue forecast. On the basis of collections so far this year and an analysis of historical seasonal patterns, we project net GCT revenues will equal $1,516 million in 1997, 34 percent greater than 1996 collections. Moreover, this tremendous 1997 increase follows solid GCT growth of 12 percent growth in 1996.

Sustained economic growth also has raised IBO's projection of 1998 revenues, though not by as much ($46 million). But with growth in the economy and in revenues of securities firms expected to moderate in the latter half of calendar year 1997, corporate tax liabilities will decline, leading to lower GCT revenues in fiscal year 1998.

As a result, IBO continues to forecast a substantial drop in GCT receipts, to $1,209 million in 1998. Year-to-year changes in GCT receipts of the magnitudes being predicted are hardly unprecedented. Beyond slower 1998 economic growth, there are a number of reasons why IBO expects GCT payments to decline so sharply. While gross tax payments of corporations are projected to decline, refunds are expected to increase. The growing impacts of recently enacted policies, such as last year's redefinition of the income-plus-compensation method of determining tax liability, also explain part of the expected revenue decline from 1997 to 1998. Yet even when

GCT collections are adjusted for the effects of policy changes, the decline in revenues is forecast to be 15 percent. Finally, the consistent under-prediction of 1997 GCT revenues by a number of econometric models suggests that many corporations are over-paying current liability and thus will be able to apply their credit for such overpayments toward 1998 liabilities.

While OMB also increased its projection of 1997 GCT revenues by $123 million, its current forecast falls short of IBO's by $29 million. Likewise in 1998, IBO's forecast is $45 million greater than OMB's, largely because IBO predicts somewhat greater economic growth and securities industry revenues in calendar year 1997 than does OMB. For the out-years of the forecast period, IBO projects more moderate revenue growth, averaging 5.7 percent annually, and IBO's forecasts remain above OMB's in these years.

Unincorporated Business Tax

Current receipts of the unincorporated business tax (UBT) also are stronger in comparison to both 1996 collections and to what had been expected in March. As with the GCT, prolonged economic expansion and the health of the securities industry (which accounts for 14 percent of UBT liability), are the underlying causes of the recent strength in UBT receipts. IBO has increased its forecast of 1997 net UBT revenues by $17 million, to $545 million. The new forecast represents 10 percent growth over 1996 revenues-a second year of solid expansion-and it is $5 million greater than OMB's latest projection.

For 1998, IBO now forecasts $534 million in net UBT revenues, a 5.2 percent increase over 1997. Much of the increase is due to the recently available option for small businesses to organize as limited liability companies (LLC), whose partners pay the UBT, instead of corporations subject to the GCT. When collections are adjusted for LLC growth and other expected policy effects, UBT revenues are expected to remain flat. Slower growth of the local economy and a decline in securities industry profits explain the anticipated weakness of 1998 collections. In contrast to the IBO forecast, OMB now expects underlying (policy-adjusted) UBT revenues to decline by over 5 percent, and its forecast for fiscal year 1998 is $28 million lower than IBO's.

After 1998, UBT growth is expected to pick up again, averaging 7.7 percent per year over the 1999-2001 period. IBO's forecasts exceed OMB's by $15 million to $30 million per year.

Banking Corporation Tax

Unlike the GCT and UBT, collections of the banking corporation tax (BCT) in recent months have failed to match prior expectations. Collections this past March, a month that typically accounts for a large proportion of banks' annual tax payments, were nearly 30 percent lower than the year before. Weak collections have prompted IBO to reduce its 1997 forecast of net BCT revenues by $30 million, to $358 million. This is slightly less than the $361 million collected in 1996 and exceeds OMB's forecast by $5 million.

IBO's 1998 forecast, based on an analysis of long-term trends in the economy and the BCT itself, calls for resumption of moderate revenue growth. Net BCT receipts are projected to equal $362 million, $7 million less than OMB's forecast. Growth is expected to pick up somewhat in the remaining years of the forecast period, averaging 3.1 percent annually. The IBO forecasts are roughly comparable to OMB's, differing by no more than $6 million in any year.

In all likelihood, the pattern of BCT collections in the coming years will be much less stable than either the IBO or OMB forecasts indicate. During the last decade, BCT receipts have increased by as much as 45 percent and decreased by as much as 50 percent from one year to the next, and these swings by their very nature have been extremely difficult to anticipate. These forecasts, therefore, should be interpreted as a guide to the total amount of BCT revenue the City will receive over the forecast period and not as a prediction of specific year-to-year changes.

General Sales Tax

General sales tax revenues have shown exceptionally strong growth in 1997 and are projected to end the year at $2,923 million, a 7.7 percent increase over 1996. This is also a full 5.1 percentage points over the inflation rate, a real growth margin that has been exceeded only twice since 1980. Excluding the impact of the Mayor's proposed clothing sales tax cut, sales tax revenue growth will moderate in 1998 and over the following three years, but will continue to outpace the rate of inflation. Projected 1998 revenues will be $3,049 million, 4.3 percent above 1997. Over the following three years sales tax revenues are projected to rise 4.0 percent, 3.5 percent, and 3.4 percent, bringing sales tax collections to $3,392 million by 2001.

Retail apparel sales is the largest single source of general sales tax revenues, accounting for about 11 percent of reported taxable sales and purchases in New York City. Next in importance are utilities (9 percent), eating and drinking places (9 percent), and business services (8 percent in 1996, rising to an estimated 9 percent in 1998).[8] During the 1980s and early 1990s the rapid growth in taxable business services was offset by slow growth in taxable manufacturing. But manufacturing is now too small a component to exert much of a drag on the overall growth rate of taxable sales. The increasing impact of business services is reflected in our forecast of stronger growth of sales tax revenues relative to personal income than has historically been the case.

IBO's baseline sales tax revenue projections exceed OMB's by $5 million in 1997 and $30 million in 1998. By 2001, however, IBO's forecast is $27 million below OMB's.

This largely reflects our local economic forecast, which shows somewhat stronger near-term economic growth and somewhat slower growth in the out-years.

Other Taxes and Tax Audits

For all other taxes, tax audit revenue, and Department of Finance PEGs, IBO has adopted the projections presented in the Mayor's executive budget.[9] In 1998, these sources are forecast to account for $1.5 billion and by 2001 they are expected to yield $1.6 billion. The largest of the "other" taxes are the utility ($216 million) and hotel occupancy taxes ($172 million). Tax audits are projected to yield $676 million in 1998, and $677 million in each of the following three years. Almost 70 percent of audit receipts are GCT and BCT payments, a significant addition to the forecasted amounts of net tax collections shown above.

Tax Reduction Program

The Mayor's tax reduction program has been scaled back between the preliminary and executive budgets. As shown in Figure 2-4, IBO's projection of the total cost of the revised program is $240 million in 1998, $13 million lower than the cost of the program outlined in January. (See IBO's March 1997 report for greater detail on the specifics and cost estimates of the initiatives included in the preliminary budget.) The three largest initiatives are a sales tax exemption for clothing under $500, an increase in the UBT credit, and additional reductions in the CRT. The budget also includes the potential tax reductions that could occur if the City's share of the proposed statewide property tax cuts were modified to bring the City its proportionate share of total benefits.

Clothing Sales Tax Exemption

The centerpiece of the Mayor's 1998 tax program is a proposal to eliminate (effective December, 1997) both State and City sales taxes on apparel items priced under $500. This proposal has been carried over unchanged from the preliminary budget to the executive budget. It is supported by the argument that a clothing tax exemption would provide especially strong tax relief to lower-income households (who spend relatively more on apparel) and would increase New York City's retail competitiveness, especially with respect to New Jersey, which already exempts clothing from its sales tax.

IBO's reestimate of the direct costs of the tax cut is based on forecasts from Census of Retail Trade data on product sales, and assumes that 91 percent of apparel sales will fall under the $500 cutoff for the tax exemption.[10] Our revised forecast is for $6.9 billion in under-$500 taxable apparel sales in 1998, rising to $7.6 billion in 2001. Reflecting IBO's updated forecasts of economic growth and total taxable sales, these clothing sale projections are somewhat higher than those contained in our March report.

Figure 2-4.
IBO's Reestimate of the Mayor's Tax Reduction Program
(In millions of dollars)

	1997	1998	1999	2000	2001
IBO Estimate					
Tax Reduction Program					
Clothing Sales Tax Exemption	-	(161)	(285)	(294)	(303)
Increase UBT Credit	-	(39)	(42)	(45)	(47)
Additional CRT Reductions	-	(30)	(69)	(85)	(88)
Other Reductions	-	(10)	(10)	(10)	(10)
Total Tax Reduction Program	-	(240)	(407)	(434)	(448)
Proportionate Share of State Tax Relief	-	(47)	(254)	(472)	(722)
Tax Reductions and Proportionate Relief	-	(287)	(661)	(906)	(1,170)
Mayor's Estimate					
Tax Reduction Program					
Clothing Sales Tax Exemption	-	(157)	(279)	(287)	(296)
Increase UBT Credit	-	(40)	(43)	(44)	(45)
Additional CRT Reductions	-	(30)	(65)	(82)	(84)
Other Reductions	-	(10)	(10)	(10)	(10)
Total Tax Reduction Program	-	(237)	(397)	(423)	(435)
Proportionate Share of State Tax Relief	-	(47)	(254)	(472)	(722)
Tax Reductions and Proportionate Relief	-	(284)	(651)	(895)	(1,157)
Difference	-	(3)	(10)	(11)	(13)

SOURCE: Independent Budget Office.

NOTE: Other tax reductions include a real property transfer tax exemption, a vault charge elimination, and an elimination of the coin-operated amusement device tax.

Based on these revised under-$500 sales projections, IBO estimates that the proposed clothing sales tax cut would reduce New York City sales tax revenues by $161 million in 1998 and $285 million, $294 million, and $303 million over the following three years. IBO's direct cost projections are $4 million to $7 million higher than the estimates contained in the executive budget.

IBO's March report also included a preliminary estimate of the impact of the proposed clothing sales tax cut on retail sales, economic output, and other City tax revenues. A more in-depth analysis of the dynamic economic and revenue effects of the proposed cut will be presented in a forthcoming fiscal brief. This report will also estimate the costs of alternative clothing tax cut proposals now under consideration in Albany.

Unincorporated Business Tax

The Mayor's executive budget includes a proposal to increase the credit allowed unincorporated business tax (UBT) filers with relatively small liabilities. Since the preliminary budget was released in January the dollar value of the proposed credit has been reduced, cutting both the cost of the proposal and the number of taxpayers who benefit.

Under the revised proposal, the credit would eliminate the tax for all filers with pre-credit liabilities up to $2,600. Partnerships and sole proprietorships with pre-credit liabilities between $2,600 and $5,000 would receive a partial credit that phases out as liability approaches $5,000. Taxpayers whose business incomes before allowable deductions or exemptions are $75,000 or less would have no UBT liability. Those with business incomes up to $135,000 would have their liabilities reduced by the partial credit.

Using data furnished by New York City's Department of Finance, IBO estimates that the proposed increases in the full and partial credit would reduce UBT revenues by $39 million in 1998, and by $42 million, $45 million, and $47 million in years 1999 through 2001. An estimated 16,000 out of 31,000 UBT payers would have their tax liability eliminated. (This is 5,000 less than under the proposal presented in January.) More than 7,000 more would have their taxes reduced. These estimated costs are quite similar to the projections presented in the Mayor's executive budget (see Figure 2-4). The slightly lower costs in the first two years are attributable to technical differences in projection methods. The higher cost in the final year reflects IBO's more robust growth forecast for the UBT over time.

Sole proprietors, the majority of whom are City residents, account for most of the UBT filers with low liabilities and thus would receive most of the tax savings. Therefore, the proposed increase in the UBT credit would primarily benefits residents. Partnerships-which account for over 90 percent of UBT revenues-generally have much higher liabilities that are well above the credit threshold.

Commercial Rent Tax

The tax reduction program includes two proposals that would continue the recent trend of major reductions in the CRT. Under current law, commercial tenants with rents below $53,333 are exempt from the tax.[11] The first proposal, which would become effective June 1, 1997, would raise the exemption to $100,000, with a sliding scale credit to phase in the tax for rents between $100,000 and $140,000. Using rent distributions supplied by the Department of Finance, IBO estimates that the new threshold would exempt 9,200 taxpayers and that the sliding scale would benefit approximately 3,300 others. By removing from the tax rolls smaller tenants for whom the tax burden is likely to be greater, this proposal would help reduce the regressivity of the CRT.

The second proposal is to reduce the effective tax rate by 13.33 percent.[12] (Under proposals included in the preliminary budget, the effective tax rate would have been decreased by 33 percent.) This across the board tax cut would take effect in September 1998; by starting the tax cut part way through the CRT liability year, less revenue is lost in the first year.[13] However, such mid-year changes add considerable complexity for both taxpayers and the City. Although all taxpayers receive the same percentage reduction in their tax liability, the dollar value of the cut is concentrated at the top. Roughly six percent of all remaining taxpayers-those with rents over $1 million-would receive 64 percent of the tax cut.

In 1998, when only the higher threshold would be in effect, the cost is estimated at $30 million. Beginning in 1999, when the lower effective tax rate would also be in effect for part of the year, the cost grows to $69 million. By 2001, the cost is estimated at $88 million. As shown in Figure 2-4, IBO's estimates for 1999 and beyond are slightly higher than the Mayor's, primarily due to differing assumptions about the level of commercial rents.

Proportionate State Tax Relief

The Mayor's tax reduction program includes a demand that the City receive a "proportionate share" of the new education financing aid the Governor proposes to distribute under his School Tax Relief (STaR) initiative. The executive budget proposes to match the any new school tax relief aid with equivalent reductions in the City's property and personal income taxes. The STaR program and the Mayor's counter-proposal would both be revenue-neutral for the City. In each case, new State-aid would be used to make up revenue foregone through tax reductions.

For presentation in the executive budget, the additional State aid has already been included in the unrestricted intergovernmental aid line, offsetting the proposed reduction in tax revenues. This avoids affecting the balance of the budget. Depending on the fate of the Mayor's proposal, some or all of additional aid revenues may have to be removed from one side of the budget, in which case the associated tax reductions would also have to be trimmed or eliminated.

Under STaR, resident home owners across the State would receive a partial exemption against the school portion of their local property tax. State funds would then be used to replace the revenue lost by local school districts. IBO has estimated that the City would receive less than 9 percent of statewide tax relief under STaR.[14] This share is far below any reasonable benchmark for equitable distribution of benefits: the City raises approximately 30 percent of all local revenues dedicated to education across the State; it educates more than 37 percent of the State's students (with a higher proportion of them requiring more expensive special education programs than elsewhere in the State); it has approximately 40 percent of the State's population; and it accounts for nearly 45 percent of the State's economy and tax base.

The executive budget chooses 40 percent as the appropriate benchmark and estimates that the City should receive $47 million in 1998 as its share of the new tax reduction aid the Governor proposes to distribute. With the statewide aid under STaR growing to over $1.8 billion by 2001, the Mayor's budget indicates that the City should receive $722 million in that year, using the same benchmark share of 40 percent. The executive budget identifies several tax reduction initiatives that would be possible if the STaR program is modified to bring the City a more appropriate share of the statewide benefits. Although the precise form of the initiatives cannot be identified until the amount of available relief is known, it is clear that the Mayor's proposals offer a more equitable reduction in the local burden of support for education than does STaR as it is currently structured.

One option is to equalize the exemption benefit for coop and condo owners with the benefit for one-, two-, and three-family homes in percentage terms. Under the current proposal they are equalized in dollar terms which produces a much smaller reduction in tax burden for apartment owners because of differences in effective tax rates for the two types of properties. A second option is to provide relief to renters, who are excluded from the benefits of the STaR exemption, by establishing an earned income tax credit for the City's personal income tax. Such a proposal would target tax relief at lower income residents, enhancing the progressivity of the City's tax structure.

Non-Tax Revenues

The City has a myriad of revenue sources in addition to taxes. One group of these non-tax sources is identified as miscellaneous revenues in the City's budget; they are projected to total $3 billion in 1998. A second large item, which is forecast to account for $10.8 billion in 1998, is State and federal categorical grants. A final group of non-tax revenues, projected to yield $1.3 billion in 1998, is comprised of other types of public and private aid and grants. The following sections briefly discuss and reestimate these non-tax revenue sources (see Table 2-5).

Miscellaneous Revenues

Approximately 15 percent of the City's own-source revenue (the portion not funded by grants) comes from so-called miscellaneous revenues, which comprise nearly 300 different non-tax sources. Miscellaneous revenues are essentially of two types: the recurring and larger portion from sources such as licenses, fines, fees, and water and sewer charges; and a non-recurring portion that includes the sales of City assets and airport back rent from the Port Authority. While it is possible to construct models to forecast recurring revenue with reasonable accuracy, there is much greater uncertainty surrounding the non-recurring portion of miscellaneous revenues.

In March, IBO identified two items in the non-recurring portion of the miscellaneous revenue budget that appeared unlikely to be realized for 1998.[15] These are a large back rent settlement with the Port Authority for the lease of the City's airports, and revenue from new collections initiatives. The probability for realizing either of these revenues in 1998 has not materially changed in the intervening months. Therefore, IBO's estimate of miscellaneous revenues for 1998 is $290 million lower ($270 million in airport rent and $20 million in collections initiative revenue) than forecast in the Mayor's executive budget. As shown in Figure 2-5, there are smaller adjustments in the later years.

IBO's estimate of total miscellaneous revenues for 1998 is $3.0 billion, declining in subsequent years to $2.4 billion in 2001. Much of the decline is attributable to the non-recurring nature of the larger items included in these receipts. Although the forecast for 1998 includes $200 million from the sale of the Coliseum and $125 million in other asset sales, it does not specify any asset sales for the out-years of the plan. Based on past experience, it is likely that additional assets will be identified for sale in later years, bringing miscellaneous revenues closer to their recent levels.

State and Federal Categorical Grants

The largest revenue item in the City's budget is State and federal categorical grants, which IBO projects will account for $10.8 billion of the $12.1 billion total of grants, aid, and other revenue in 1998. IBO forecasts higher State and federal categorical aid over the 1997-2001 period than estimated by the Mayor. For some types of intergovernmental categorical aid, such as education and welfare, IBO has developed estimates based on programmatic changes and caseload projections that affect the level of aid received from the State and federal governments. IBO's reestimate of such aid in other parts of the budget are based on a methodology that takes the grant levels in the current year (1997) and applies growth factors developed from recent historical trends on an agency by agency basis.

For 1998, IBO's projection for State categorical aid is $148 million higher than the Mayor's. By 2001 this difference grows to $632 million. IBO's projections for education and transportation account in large part for the higher 1998 aid estimate. Similarly, IBO's forecast of federal categorical aid is $493 million higher than the Mayor's in 1998, a difference that increases to $770 million in 2001. IBO's projections for education and health care account for about half of the 1998 difference, while projections for transportation, housing, employment, and social services comprise about a third.

Other Revenue

The remaining other revenue consists of unrestricted intergovernmental aid ($741 million in 1998), private and other categorical grants ($292 million), and inter-fund revenues ($265 million). For these other revenue sources, IBO has adopted the Mayor's executive budget forecasts with one exception: the unrestricted intergovernmental aid category is adjusted to remove-for baseline purposes-the additional revenue assumed under the Mayor's proposal to obtain a more proportionate share of the State tax relief funds. The Mayor's executive budget includes these additional funds in the other revenue category.

Figure 2-5.
Total Revenue Forecasts
(In millions of dollars)

	1997	1998	1999	2000	2001
IBO's Estimate					
Total Baseline Tax Revenue	19,191	19,229	19,912	20,785	21,605
Miscellaneous Revenue[a]					
Airport Rent	-	70	70	70	70
Collections Initiatives	-	-	-	-	-
All Other Miscellaneous Revenue	-	2,890	2,347	2,314	2,308
Total Miscellaneous Revenue	2,997	2,960	2,417	2,384	2,378
State and Federal Categorical Aid					
State	6,243	6,473	6,595	6,720	6,957
Federal	4,418	4,357	4,305	4,327	4,382
Total State and Federal Categorical Aid	10,661	10,830	10,900	11,047	11,339
Other Revenue[b]					
Proportionate Share of State Tax Relief[c]	-	-	-	-	-
All Other Revenue	1,256	1,283	1,141	1,139	1,140
Total All Other Revenue	1,256	1,283	1,141	1,139	1,140
Total Baseline Revenues	**34,105**	**34,303**	**34,370**	**35,355**	**36,462**
IBO's Reestimate of Mayor's Forecast					
Total Baseline Tax Revenue	52	266	331	362	346
Miscellaneous Revenue[a]					
Airport Rent	-	(270)	(215)	-	-
Collections Initiatives	-	(20)	(20)	(20)	(20)
All Other Miscellaneous Revenue	-	-	-	-	-
Total Miscellaneous Revenue	-	(290)	(235)	(20)	(20)
State and Federal Categorical Aid	-	-	-	-	-
State	(0)	148	285	420	632
Federal	-	433	640	711	769
Total State and Federal Categorical Aid	(0)	581	925	1,131	1,401
Other Revenue[b]					
Proportionate Share of State Tax Relief[c]	-	(47)	(254)	(472)	(722)
All Other Revenue	-	-	-	-	-
Total All Other Revenue	-	(47)	(254)	(472)	(722)
Total Reestimate of Baseline Revenue	**52**	**510**	**767**	**1,001**	**1,005**

SOURCE: Independent Budget Office.

NOTE: Numbers may not sum exactly due to rounding.
a. Miscellaneous revenues are net of intra-city revenues.
b. All other revenues includes unrestricted government aid, other categorical grants, inter-fund revenues, and disallowances.
c. Additional State aid anticipated from receipt of City's proportionate share of State tax relief removed from baseline projection of Other Revenue.

Chapter

3

Expense Budget

Overview

The 1998 executive expense budget would result in total spending of $33.5 billion, a decrease of $540 million, or 1.6 percent, as compared to forecasted spending in 1997. As shown in Figure 3-1, the decline in spending would consist of a decrease of $133 million and $407 million in City funds and State/federal funds, respectively. Figure 3-1 also provides a breakdown of the executive budget across major categories of City spending. About $18 billion, or slightly more than half the budget, falls within the categories of health, social services, and education. Figure 3-2 shows that the budget would decrease total headcount by a net of almost 1,500 as compared to the forecast for the close of 1997.

Figure 3-1 reflects one of the most significant budget developments during 1997, the accumulation of a

record surplus and its proposed use in 1998. Because accounting conventions prohibit the explicit "rolling" of surplus funds from one fiscal year to another, the City effects a roll by prepaying future obligations (typically debt service) in the current fiscal year, thus freeing up resources in the future. While it has been the City's practice to effect a roll one year at a time, the executive budget proposes to stretch its surplus over the next two years by: prepaying $856 million of debt in 1997, all of which will be applied to debt payments due in 1998; and rolling $200 million into 1999 by prepaying debt service for that year.

Discussion of the expense budget is provided by category throughout the remainder of this chapter.

Figure 3-1.
1998 Expense Budget by Category
(In millions of dollars)

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
HEALTH AND SOCIAL SERVICES					
City Funds	4,839	4,887	4,907	20	0.4
State and Federal Funds	4,350	4,568	4,381	(187)	(4.1)
Sub-Total	9,189	9,455	9,288	(167)	(1.8)
EDUCATION					
City Funds	3,528	3,707	3,816	109	2.9
State and Federal Funds	4,695	4,954	4,902	(52)	(1.0)

Sub-Total	8,223	8,661	8,718	57	0.7
UNIFORMED SERVICES					
City Funds	4,404	4,633	4,542	(91)	(2.0)
State and Federal Funds	81	189	204	15	7.9
Sub-Total	4,485	4,822	4,746	(76)	(1.6)
DEBT SERVICE					
City Funds	3,055	3,927	2,667	(1,260)	(32.1)
State and Federal Funds	9	9	9	-	-
Sub-Total	3,064	3,936	2,676	(1,260)	(32.0)
GENERAL GOV'T/ALL OTHER					
City Funds	7,234	6,238	7,327	1,089	17.5
State and Federal Funds	786	936	753	(183)	(19.6)
Sub-Total	8,020	7,174	8,080	906	12.6
TOTAL					
Total City Funds	23,060	23,392	23,259	(133)	(0.6)
Total State and Federal Funds	9,921	10,656	10,249	(407)	(3.8)
Total Expenditures	32,981	34,048	33,508	(540)	(1.6)

NOTES: Figures do not include intra-City sales.

Figure 3-2.
1998 Expense Budget; Headcount by Funding Source

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
HEADCOUNT					
City Funds	204,746	203,401	202,730	(671)	(0.3)
State and Federal Funds	27,842	36,665	35,882	(783)	(2.1)
Total	232,588	240,066	238,612	(1,454)	(0.6)

NOTES: Headcount figures reflect budgeted positions as of the last day (June 30) of the respective fiscal year.

Health and Social Services

Human Resources Administration

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
City	3,152	3,206	3,059	(147)	(4.6)
State/Fed	2,656	2,660	2,391	(269)	(10.1)
Total	5,808	5,866	5,450	(416)	(7.1)
Headcount	14,527	15,048	13,702	(1,346)	(8.9)

The executive budget proposes to spend $5,450 million for the Human Resources Administration (HRA), a decrease of $416 million, or 7.1 percent, from the 1997 forecast. Two factors explain much of this decrease. In 1998, HRA will complete its shift of major child welfare programs to the Administration for Children Services (ACS). In particular, ACS will assume oversight of the Agency for Child Development in the upcoming fiscal year, representing a transfer of $318.3 million in total funding. Furthermore, the Department expects that welfare reform initiatives will reduce public assistance expenditures by $59.1 million in 1998. Overall, the executive budget anticipates a spending reduction of $377.4 million on public assistance and related areas at HRA in the coming fiscal year. (For more detail, please see our discussion of public assistance in Chapter 4.)

The Administration expects modest expenditure growth in HRA's Medicaid program and proposes an increase of $56.2 million, which in IBO's view falls slightly below actual need. Since IBO anticipates lower savings from State entitlement reductions and somewhat faster growth rates in particular spending areas, we project that Medicaid spending will require an additional $31 million in City funds for 1998. (For more detail, please see our discussion of Medicaid in Chapter 4.)

Administration for Children's Services

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
City	334	348	492	144	41.4

State/Fed	1,025	1,066	1,316	250	23.5
Total	1,359	1,414	1,808	394	27.9
Headcount	7,429	7,733	8,346	613	7.9

The Mayor proposes to spend $1,808 million for the Administration for Children's Services (ACS) in 1998, an increase of $394 million, or 27.9 percent, from the 1997 forecast. An increase of $144 million in City funds and $250 million in State and federal funds supports the transfer of the Agency for Child Development (ACD) to ACS, implementation of the agency's continued reorganization plan, and the addition of 613 new staff positions.

The proposed increase comprises the following three components: $6.7 million for continued implementation of the reorganization plan; $43.3 million in foster care reestimates reflecting a growing number of children entering foster care as a result of an increase in neglect and abuse cases; and $344.6 million for ACD's transfer into ACS.

In addition to the increase in State and federal funds identified above, we expect an additional $25.8 million in State and federal funds to be added to the agency budget during the year. These amounts are not included in the budget due to the City's practice of not appropriating certain categorical funding sources until they are actually realized.

Health and Hospitals Corporation

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	735	682	702	20	2.9
State/Fed	-	1	-	(1)	(100.0)
Total	735	683	702	19	2.8

The executive budget proposes to spend $702 million for the Health and Hospitals Corporation (HHC), an increase of $19 million, or 2.8 percent, from the 1997 forecast of $683 million. This increase reflects higher City spending on Medicaid due to previously anticipated savings of $78.8 million from the Governor's planned entitlement reductions that do not appear likely to materialize. HHC, however, will not receive the full value of the unrealized savings because the budget removes $21 million to reflect lower than expected year-to-date Medicaid collections.

Despite rate appeals that brought HHC an additional $208 million in revenue, new patterns of utilization focused on outpatient care have reduced gross receipts and forced HHC to take steps to decrease expenditures throughout 1997. Among other things, HHC has realized savings through revision of its affiliation agreements (discussed in more detail in Chapter 4) and headcount reductions. HHC must find additional savings in 1998 to cover the costs of collective bargaining increases and the costs of operating health clinics previously funded by the Department of Health.

Department of Homeless Services

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	120	126	121	(5)	(4.0)
State/Fed	265	269	251	(18)	(6.7)
Total	385	395	372	(23)	(5.8)
Headcount	1,773	2,186	1,700	(486)	(22.2)

The Mayor's budget proposes to spend $372 million for the Department of Homeless Services (DHS) in 1998, a decrease of $23 million, or 5.8 percent, from the 1997 forecast of $395 million. Expected reductions in federal revenue drives the decrease as families in federally funded homeless shelters account for a smaller share of the total shelter population. However, this decrease will likely be offset by nearly $7 million in Emergency Shelter Grant funds that are not currently reflected in the agency totals, but will be added during the year after adoption of the budget. A hiring freeze imposed by the Administration and a community development block grant buyout also explain the decrease in City funded expenditures.

The Administration also proposes a variety of initiatives to expand several services, such as outreach initiatives in the Kingsboro community. It further proposes to provide funding so that Staten Island's drop-in center can operate after 5 p.m. and two adult shelters can each add ten beds.

The Administration has begun to and must continue to explain significant underspending that has occurred at DHS over the past two fiscal years. In 1995 the agency's actual spending totaled $344 million though its budget was $418 million. Similarly, in 1996 the agency spent only $342 million out of its $396 million budget.

Department of Mental Health, Mental Retardation, and Alcoholism Services

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
City	139	146	150	4	2.7
State/Fed	197	218	210	(8)	(3.7)
Total	336	364	360	(4)	(1.1)
Headcount	238	253	238	(15)	(5.9)

The executive budget proposes to spend $360 million for the Department of Mental Health, Mental Retardation, and Alcoholism Services (DMHMRAS), a decrease of $4 million, or one percent, from the 1997 forecast of $364 million. The decrease in funding is largely explained by a decline of $6.5 million in State funding and $1.5 million in federal funding offset by various increases. The decrease in State and federal funds is due to the City's practice of not appropriating certain categorical funds until they are received.

The Administration proposes to increase City funds for DMHRAS by about $4 million. The budget would add $500,000 in funds for a Mental Retardation program supporting work readiness and after-school programs. The remaining proposed City funds increase is explained by a decision not to carry $3.5 million in 1997 audit recovery and voluntary sector underspending PEGs through 1998. About $1 million in lost State funds is explained by greater than anticipated Medicaid eligibility for Early Intervention Program (EIP) children. Thus, Medicaid funds, rather than the $1 million in State funds, will support the same children. We also expect that DMHRAS will receive about $600,000 in additional federal categorical funds as homeless mental health services previously provided in conjunction with the Department of Homeless Services will be consolidated under DMHRAS. While funding for the services remains level, the associated funds will shift from DHS to DMHRAS.

Department of Health

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
City	210	221	222	1	0.4
State/Fed	119	239	121	(118)	(49.4)
Total	329	460	343	(117)	(25.4)

Headcount	2,376	3,125	3,198	73	2.3

The Mayor's budget proposes to spend $343 million for the Department of Health (DOH), a decrease of $117 million, or 25 percent, from the 1997 forecast of $460 million. This decrease is driven by what appears in the budget as a $118 million decrease in state and federal funding. This decrease, however, is due to the City's practice of not appropriating certain categorical funds until they are received. We expect DOH will lose about $1.6 million in State funding during 1998 because it has contracted primary care services to the Health and Hospitals Corporation.

The executive budget proposes to spend $4.8 million in City funds to provide protease inhibitors for HIV treatment to the City's inmates, $2 million in City funds to increase part-time staff at School Health clinics, and $800,000 to expand DOH's DNA laboratory. The City would also increase its prison health contracts by about $2.5 million and would fund a $3.5 million collective bargaining increase. These proposed increases in funding are largely offset by a projected $10.6 million in City savings from primary care service programs transferred to HHC, as well as $400,000 in other than personnel services reductions and $500,000 in savings generated by hiring freezes.

Department for the Aging

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	102	108	109	1	0.9
State/Fed	57	70	58	(12)	(17.1)
Total	159	178	167	(11)	(6.2)
Headcount	350	392	374	(18)	(4.6)

The Mayor's Budget proposes to spend $167 million for the Department for the Aging (DFTA) in 1998, a decrease of $11 million, or 6.2 percent, from the 1997 forecast of $178 million. This reduction consists entirely of an $11 million decrease in State and federal funding. About $5.8 million in State and federal funding is not included due to the City's practice of deferring the appropriation of certain categorical funds into the budget until they are received. The City does, however, expect to receive about $5.3 million less in State and federal grants during 1998 as compared to 1997. This reduction, however, has been offset by $6.3 in additional City funds.

While the Administration's budget proposes to increase City funds for DFTA very slightly, from $108.5 million in 1997 to $109.1 million in 1998, additional funding increases are expected during the budget year. The City historically modifies in additional City funds throughout the year, so actual levels of City spending would likely be higher by the end of 1998. The preliminary budget had originally planned a reduction in DFTA City funds to $106 million in 1998. As IBO projected in March, however, the City has restored the difference in City funding. In addition, the budget would permit senior centers to roll over about $0.7 million in City funds for 1998, remove senior center code violations at a cost of $1.5 million, and renovate the Elmhurst Jackson Heights Senior Center.

Department of Employment

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	5	8	4	(4)	(50.0)
State/Fed	84	103	91	(12)	(11.7)
Total	89	111	95	(16)	(14.4)
Headcount	267	239	239	-	-

The executive budget proposes to spend $95 million for the Department of Employment (DOE), a decrease of $16 million, or 14 percent, from the agency's 1997 budget forecast. The reduction consists of the following three factors. First, City funded expenditures for 1998 will be approximately half of the 1997 level as two programs-Job Opportunities for Youth (JOY) and Local Employment Action Program (LEAP)-would no longer receive enhanced funding. The State's contribution to the 1997 DOE budget will not be renewed in 1998. Finally, the City's practice is to defer the appropriation of certain categorical funding sources in the budget until they are received.

The Mayor proposes to keep funding for DOE's programs for adults, dislocated workers, and year-round youth training at 1997 levels. Meanwhile, the executive budget does account for the recent adjustment in federal funding for the Summer Youth Employment Program. DOE would receive nearly $37 million for this program in 1998, over $11 million more than in 1997. While this would not necessarily cover all of the cost imposed by last year's increase in the minimum wage, initiatives to improve efficiency at DOE would likely permit the number of program participants to be maintained at 35,000 the 1995 level. In addition, it is proposed that DOE benefit from approximately $6 million in accrued savings that would be rolled over from 1997.

Department of Youth and Community Development

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	47	49	51	2	4.1
State/Fed	31	45	34	(11)	(24.4)
Total	78	94	85	(9)	(9.6)
Headcount	231	244	254	10	4.1

The Mayor's budget proposes to spend $85 million for the Department of Youth and Community Development (DYCD), a decrease of $9 million, or 9.6 percent, from the 1997 forecast. This decrease is largely attributable to an accrued savings of $3.2 million in City funds for youth service programs and a $12.1 million reduction in federal funds. These reductions are offset by an increase of $6.9 million in City funds and an increase of $1.8 million in State funds for community development. The DYCD budget reflects the City's practice of not appropriating certain categorical funding sources at the time of adoption, but adding such funds to the budget when they are received. However, we expect an additional $8.4 million from the federal community development block grant and State Youth Development Delinquency Prevention funds in 1998.

The executive budget for DYCD also reflects the new immigration initiative entitled, "Citizenship NYC." The Mayor proposes to spend a total of $9.6 million to assist immigrants, slated to lose Supplemental Security Income benefits, in applying for U.S. citizenship. This funding would result in the creation of six field offices, the addition of 26 full time positions, the hiring of 126 per diem staff members, and the provision of $3 million for 10 citywide contracts to be funded at $300,000 each.

Education

Board of Education

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent

City	3,283	3,463	3,572	109	3.1
State/Fed	4,550	4,807	4,758	(49)	(1.0)
Total	7,833	8,270	8,330	60	0.7
Headcount					
Pedagogic	80,053	80,762	83,459	2,697	3.3
Regular	6,777	6,916	7,088	172	2.5
Total	86,830	87,678	90,547	2,869	3.3

The executive budget for the Board of Education (BOE) proposes to spend $8,330 million, an increase of $60 million, or 0.7 percent, over the 1997 forecast of $8,270 million. This change in funding is the sum of $109 million in increased funding from the City and $49 million in decreased funding from the State and federal governments.

In IBO's *Analysis of the Mayor's Budgetary Proposals*, we forecast that BOE City funded costs would be similar in 1998, but for 1999, 2000, and 2001 would be higher than the Administration's projections by $111 million, $111 million and $237 million, respectively. The new projections in the executive budget moves closer to our estimate and reduces the differences to none in 1999, $13 million in 2000, and $138 million in 2001. IBO estimates that a total of $4,951 million in State and federal aid will be provided in 1998, an increase of $144 million from 1997 forecast levels.

In addition to the initiatives put forth in the preliminary budget (for more detail see our *Analysis of the Mayor's Budgetary Proposals*), the executive budget proposes several programmatic changes. Funding of $25 million would be added for the arts education initiative that was announced-but not funded-with the preliminary budget. According to the Administration, the funding would enable BOE to restore arts education for 140,000 students. BOE's goal is to restore arts education throughout the system over the next three years. To accomplish this goal, however, BOE would have to secure more funding from the City, private recurring sources, or internal self-funding initiatives. The cost of extending the initiative system-wide to all 1,088,000 students projected for fiscal year 2000 (the third year) would be substantial, even given that some students already receive arts education from base level resources. Funding for the other most significant new BOE program in 1998, Project Read, was proposed in the preliminary budget. The one year investment would support early grade reading programs. Literacy is a stated priority of the Chancellor. For 1998, the budget would provide $125 million for Project Read, the after school program to enhance reading skills for school age children.

Some items from the Chancellor's budget submission to the Mayor are not funded in either the preliminary or executive budget. Most school governance initiatives and investments in higher performance standards, called the New Standards program, remain unfunded. The City does propose to provide a potential source of funding for 1998 under an item entitled "Reserve for Register-Related Issues," which is meant to be used for discretionary purposes or unexpected needs. However, more funding would have to be found from other sources if BOE wishes to pursue the investments. At this point, BOE has not eliminated any specific proposals in reaction to the executive budget. Unlike Mayoral agencies, covered agencies like BOE have more autonomy in budget decision-making and prioritizing.

Many of the proposed changes in the executive budget are of a technical nature. Funding of $30 million would be added to support the cost of eliminating administrative duties for teachers, as agreed to by the City in the last contract settlement. As an adjustment for register growth, the City would reduce funding by $18.1 million for general education and increase funding by $14.7 million for special education. For both general and special education, enrollment is projected to increase from 1997 levels (by over 13,000 in general education and 3,000 in special education) and funding is budgeted to increase from 1997 levels. The executive budget decrease in general education is due to the reduction of funding increases put in place when even larger enrollment increases were anticipated.

The Mayor continues to hold BOE harmless as a source for future budget savings for the City. In addition, non-recurring resources, generated from reestimates of program costs and other sources, are proposed to be used to restore budget reduction initiatives from the current year program of $301 million in savings. In 1998, $24.5 million would be added to replace $17 million in unallocated reductions and $7.5 million (which would also be added for 1999) in failed savings initiatives. In 2000, BOE would have to generate any savings internally.

The executive budget also proposes a roll surplus funds from 1997 to 1998. Like last fiscal year, when $77 million in surplus funds was rolled, the funding would be used to offset previously applied per capita reductions and as new funding for the community school districts (CSDs) and high schools. It is likely that the size of the roll will grow as the school year and fiscal year draw to a close, but the amount should be in the range of last year's figure. BOE has requested, and the City has agreed, that surpluses should be rolled from year to year-and returned to those responsible for the savings-to discourage CSDs and high schools from engaging in end-of-the-year spending sprees. While this argument does make sense, it is not clear if educational quality is being sacrificed for the sake of generating the surpluses.

Finally, the executive budget includes an additional expense of $104.5 million in 1998 due to collective bargaining agreements and $13.0 million for increased heat, light, power, and fuel costs. Of the collective bargaining cost increase, $3.1 million is for the Fashion Institute of Technology, which receives funding from the City through BOE's budget.

City University of New York

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
City	245	245	244	(1)	(0.4)
State/Fed	144	146	145	(1)	(0.7)
Total	389	391	389	(2)	(0.5)
Headcount					
Pedagogic	2,202	2,202	2,202	-	-
Regular	1,385	1,385	1,385	-	-
Total	3,587	3,587	3,587	-	-

The Mayor's budget for the City University of New York (CUNY) proposes to spend $389 million in 1998, a decrease of $2 million, or 0.5 percent, from the 1997 forecast. Much of the decrease is due to a reduction in State funds. Nonrecurring funds were provided in 1997 for prior-year reimbursements.

The budget for CUNY contains technical changes of $0.9 million for collective bargaining cost increases and $0.4 million for heat, light, and power cost increases. There is also a proposed spending reduction of $1.4 million to reflect health insurance cost decreases. The net impact of these changes is a slight decrease in funding, enabling the City to satisfy its maintenance of effort funding requirement without increasing spending above 1997 levels. CUNY is still in the midst of contract negotiations and is likely to require additional funding for collective bargaining costs in 1998 as well as the out-years of the financial plan. The Administration has stated that it will cover the 1998 costs, but funds have not been set aside in the labor reserve for this purpose. In addition, funds have not been provided for collective bargaining increases for 1999 through 2001. (For more detail, please see the discussion of the labor reserve in Chapter 4.)

Uniformed Services

Police Department

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent

City	2,280	2,366	2,278	(88)	(3.7)
State/Fed	16	122	121	(1)	(0.8)
Total	2,296	2,488	2,399	(89)	(3.6)
Headcount					
Uniform	37,522	38,310	36,721	(1,589)	(4.1)
Civilian	6,777	8,752	8,258	(494)	(5.6)
Total	44,299	47,062	44,979	(2,083)	(4.4)

The executive budget for the Police Department (NYPD) proposes to spend $2,399 million, a decrease of $89 million, or 3.6 percent, from the 1997 forecast of $2,488 million. Almost all of the net decrease, about $87 million, is due to the City's practice of not including certain anticipated categorical funds at the time of budget adoption. Instead, such funds are added into the budget as they are received during the course of the fiscal year. For example, although NYPD is forecast to receive almost $40 million in asset forfeiture funds in 1997, this category of funds is not yet reflected in the 1998 budget.

The other factor associated with the proposed decrease in the budget for NYPD involves planned overtime expenditures. Despite the fact that NYPD spent $108 million in overtime in 1996, and currently projects $111 million in overtime expenditures for 1997, the executive budget includes only $94 million for overtime. Given the historical pattern and difficulties in reducing these expenditures in recent years, we expect that the City will be required to augment NYPD's overtime budget by at least $10 million during 1998. (For more detail, please see the discussion in Chapter 4.)

With respect to agency staffing, the budget proposes to reduce total NYPD headcount by a net of 4.6 percent over the course of 1998. This decline consists of a 4.1 and 5.6 percent drop in uniformed and civilian headcount, respectively. In March 1997, State officials agreed to a two-year extension of the 12.5 percent surcharge on New York City's personal income tax, conditioned on the City's agreement to maintain a targeted uniformed police staffing level of 38,310 during fiscal year years 1997 and 1998. During the next month (April 1997), and with the assistance of federal "Crime Bill" funds, NYPD hired a total of 1,300 police recruits. As a result, the current fiscal year is now forecasted to close with a uniformed police headcount of 38,310. Given that the executive budget proposes that no new police recruits be hired in the coming fiscal year, attrition is scheduled to bring the size of the uniformed force down to 36,721 by the close of 1998.

The budget also proposes that planned civilian staffing within NYPD decline by a net of 494, or 5.6 percent, over the course of 1998. However, to the extent that the City receives additional grant funding for civilian personnel in 1998, the net decline in civilian staffing could be limited to as few as 189 positions, or 2.2 percent.

Finally, the budget proposes $30 million in funding that would allow NYPD to continue the enhanced drug enforcement efforts it has been conducting in several communities since early in calendar year 1996, most notably in northern Manhattan and northern Brooklyn.

Fire Department

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	882	929	934	5	0.5
State/Fed	1	2	2	-	-
Total	883	931	936	5	0.5
Headcount					
Uniform	10,996	11,282	11,155	(127)	(1.1)
Civilian	4,503	4,419	4,408	(11)	(0.2)
Total	15,499	15,701	15,563	(138)	(0.9)

The Mayor's budget proposes to spend $936 million for the Fire Department (FDNY), an increase of $5 million, or 0.5 percent, over the 1997 forecast of $931 million. This net increase is primarily due to the funding of a collective bargaining agreement with the firefighters, who have been without a contract since January 1, 1995. On April 7, 1997, the City reached a tentative agreement with the leadership of the Uniformed Firefighters Association. The agreement calls for a pay freeze for the first two years retroactive to 1995 and 1996; a 3 percent raise in the third and fourth years, covering 1997 and 1998, and a 6 percent raise covering 1999. The budget adds additional funding of $7.2 million in 1997 and $21 million in 1998 based on the tentative proposal on which the members will vote over the next couple of months.

City funded expenditures would be reduced by $1.3 million in 1997 and $1.4 million in 1998 due to a funding shift to State funds for Certified First Responder-Defibrillation training by the Bureau of Emergency Medical Services (EMS). This State funding would partially cover the cost of training all emergency medical technicians, paramedics, and firefighters.

The executive budget also reflects a number of other projected reductions of City funds in 1998. These include the reduction in costs for EMS leased sites due to an effort to use more City-owned space ($1.2 million); a reduction of auto purchases which are primarily for administrative staff ($330,000); a reestimate of funding needed for heat, light and power in EMS since FDNY will not be housed in the targeted number of ambulance stations originally projected for 1998 ($360,000); and $500,000 in additional Medicare revenue.

The amount requested for civilian overtime in 1998 may be underestimated. The Fire Department had projected at the time that the 1997 budget was adopted that $11.5 million would be spent on civilian overtime. During 1997, however, EMS has received an additional $4.5 million for overtime. This has resulted from a variety of factors including EMS personnel needed to increase the number of tours mandated by the memorandum of understanding between the City Council and FDNY. A civilian overtime need resulted from a failed PEG for outsourcing building maintenance staff. Also, additional funding has been added for fire dispatchers, fire prevention, and fleet maintenance personnel. As a result, total civilian overtime has risen to a 1997 forecast amount of $18.6 million. The Administration now projects that the civilian overtime budget for 1998 would be $11.7 million with $10.5 million of that amount to be allotted to EMS. However, based on the 1997 experience, it is doubtful that FDNY will be able to stay within its 1998 civilian overtime allocation.

Although the FDNY and EMS were officially merged on March 17, 1996, the initiative is still being implemented. The primary goal of the merger was to decrease response times to medical emergencies (especially life-threatening incidents such as cardiac arrest) by increasing the availability of ambulances and improving the coordination of FDNY and EMS resources. A major proposal from the merger was the plan to establish a total of about 60 ambulance stations by the end of 1999, including the existing 16 ambulance stations. To date, only two additional ambulance stations have opened at the following locations: Elmhurst Hospital and Western Queens Community Hospital. FDNY indicated recently that having 60 ambulance stations operational within the original three-year time frame now appears unlikely.

Department of Correction

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	693	753	720	(33)	(4.4)
State/Fed	55	56	72	16	28.6
Total	748	809	792	(17)	(2.1)

Headcount					
Uniform	10,817	11,356	11,408	52	0.5
Civilian	1,564	1,665	1,640	(25)	(1.5)
Total	12,381	13,021	13,048	27	0.2

The executive budget for the Department of Correction (DOC) proposes to spend $792 million, a decrease of $17 million, or 2.1 percent, from the 1997 forecast of $809 million.

A key factor associated with this decrease involves planned overtime expenditures. Despite the fact that DOC spent $75 million on overtime in 1996, and currently projects $82 million in overtime expenditures for 1997, the executive budget includes only $55 million for overtime. These planned overtime expenditures rest on the assumption that the average daily inmate population will be 19,000 in 1998; down slightly from the forecasted average of 19,300 in 1997.

In the event that the average daily inmate population exceeds 19,000, additional funding for overtime and other population sensitive expenditures may become necessary. Such a condition could result from higher than anticipated NYPD arrest activity, or slower than anticipated criminal case adjudication. At present, DOC indicates that the planned hiring of 400 correction officer recruits during 1998 (in addition to the 944 correction officers hired during 1997) will significantly assist the agency's efforts to contain overtime expenditures.

With respect to combined State and federal categorical funding, the executive budget reflects a net increase of $17 million between 1997 and 1998. This increase is attributable to DOC's successful application for federal "Crime Bill" funds designated to reimburse State and local governments for the costs incurred in connection with the incarceration of illegal aliens convicted of criminal charges.

Department of Sanitation

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	549	585	610	25	4.3
State/Fed	9	9	9	-	-
Total	558	594	619	25	4.2

Headcount

Uniform	6,635	6,887	6,807	(80)	(1.2)
Civilian	2,164	2,238	2,215	(23)	(1.0)
Total	8,799	9,125	9,215	(103)	(1.1)

The Mayor's budget proposes to spend $619 million on the Department of Sanitation in 1998, an increase of $25 million, or 4.2 percent, from the 1997 forecast of $594 million. Much of this increase can be attributed to initiatives recommended by the Fresh Kills Task Force as steps necessary to close the landfill by 2002. The executive budget includes a total of $9.6 million for citywide mixed paper and bulk metal recycling collections, as well as a total of $5.3 million for waste prevention and composting pilot projects. The City will also begin to export all residential waste from the Bronx in 1998 at an estimated net cost of $26.6 million. (Please see the discussion in Chapter 4 for further detail.)

The $27.1 million snow budget allocation in the Mayor's budget is higher than the 1997 appropriation of $14.3 million due primarily to extreme winter conditions in 1996. The Charter requires that the snow budget equal the average of actual snow expenditures from the five preceding fiscal years (excluding 1994). The 1998 allocation is the first to include the exceptionally high total from 1996 ($60.4 million) in its calculation. On the other hand, the mild winter this past year has resulted in an anticipated snow budget surplus of $2.2 million for the current fiscal year, reducing 1997 forecasted expenditures to $12.1 million.

The recent contract settlement for DOS civilian workers required collective bargaining increases of $751,000 in 1997 and $3.5 million in 1998. Since DOS has not yet reached agreement with the uniformed workers, funds for uniformed collective bargaining increases remain in the Miscellaneous Budget labor reserve.

Debt Service

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	3,055	3,927	2,667	(1,260)	(32.1)
State/Fed	9	9	9	-	-
Total	3,064	3,936	2,676	(1,260)	(32.0)

The executive budget includes a significant decrease in spending related to City general obligation debt service as compared to the level forecasted for 1997. At the same time, the budget reflects an increase over the 1997 forecast in spending related to MAC debt service. In addition, spending on debt service for debt issued by the new New York City Transitional Finance Authority (TFA) is included in the executive budget. Because MAC and TFA debt service are such a small proportion of total debt service, the overall effect is a 32 percent decrease in debt service over 1997 forecast levels. For City debt service, expenditures would be reduced $1,371 million from 1997 levels, from $3,671 million to $2,300 million. For MAC debt service, expenditures would be increased by $105 million from 1997 levels, from $265 million to $370 million. For TFA debt service, expenditures would total $4.7 million in 1998. The reduction in overall debt service is largely due to the impact of the surplus roll, which would be used to prepay $856 million of 1998 debt service, thus increasing 1997 expenditures and reducing planned 1998 expenditures by the same amount. The Mayor also proposes to roll $200 million into 1999 by prepaying, at the end of 1998, debt service for 1999.

Until the executive budget, the City's budget and planning documents assumed the sale of the City's water and sewer system to the New York City Water Board which included refunding the City's water system-related general obligation debt and canceling the lease payments from the Board that paid the related debt service. Since the Court of Appeals forbade the sale in late March, OMB has revised baseline numbers in the executive budget to unwind the assumptions the City has carried in its Financial Plan since 1995. Thus, baseline debt service costs increase in 1998 by $181 million from prior Financial Plans to reflect the fact that the City will continue to pay debt service on its system-related debt. At the same time however, revenues increase an equal amount from prior Plans to reflect the receipt of lease payments from the Board to pay this debt service.

Until the 1998 executive budget, the City's budget and planning documents also did not reflect constraints related to the City's approaching debt limit. The TFA, an off-budget entity, was created in February to enable the City to borrow capital funds beyond the existing debt limit. The TFA will soon be issuing its own bonds. The executive budget proposes to transfer a portion of general obligation debt service in excess of the debt limit to the TFA. While TFA bonds will require debt service payments in 1998, these payments substitute for what would have been general obligation bonds.

General Government

Miscellaneous Budget

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	3,325	2,590	3,097	507	19.6

State/Fed	140	138	125	(13)	(9.4)
Total	3,465	2,728	3,222	494	18.1

Funds are provided in the Miscellaneous Budget for fringe benefits for City employees and retirees, the labor reserve, transit and housing subsidies and other expenditures which are not be allocated in the budget of a particular City agency. The Mayor's proposal for the Miscellaneous Budget is $3,222 million, an increase of $494 million, or 18.1 percent, from the 1997 forecast. This increase is due mainly to an increase of $249 million in the labor reserve for collective bargaining adjustments, $160 million for the general reserve, and $123 million for fringe benefits.

The budget reflects a continuing decline in City funding for the Legal Aid Society, which is the primary provider of indigent defense services in New York City. In 1996, the City accepted proposals for new criminal defense contracts to provide an alternative to the Legal Aid Society as the primary defender. Three contractors were chosen to begin providing services in 1997. In 1998 four additional contractors will begin to provide indigent defense services for the City. The contractors have essentially been paid through reductions to the Legal Aid Society.

In 1996, total City funded expenditures of the Legal Aid Society were $66.4 million. This was reduced to $60.2 million in 1997 when the City first selected the new. The 1998 proposal for the Legal Aid Society is $54.8 million and would decline further to about $49 million in 1999. (For a discussion of other issues related to the Miscellaneous Budget, please see Chapter 4.)

Pension Contributions

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	1,271	1,293	1,427	134	10.4
State/Fed	78	79	79	-	-
Total	1,349	1,372	1,506	134	9.8

The executive budget proposes to spend $1,506 million for City contributions to pensions, an increase of $134 million, or 9.8 percent, from the 1997 forecast of $1,372 million. A number of actuarial and technical factors, in both the preliminary and executive budgets, combine to make up the change. A minor offset of $281,000 is anticipated to be provided from the pension savings related to other gap reduction initiatives.

Department of Environmental Protection

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
City	598	579	635	56	9.7
State/Fed	-	1	-	(1)	(100.0)
Total	598	580	635	55	9.5
Headcount	5,965	5,956	6,946	(10)	(0.2)

The Mayor's budget proposes to spend $635 million for the Department of Environmental Protection (DEP), an increase of $55 million, or 9.5 percent, over the 1997 forecast of $580 million. This increase is due largely to the new needs of the water and sewer system ($31 million); collective bargaining ($6 million); and a net increase of various technical adjustments ($9 million), including $9 million added to cover heat, light, and power and an offsetting reduction of $6 million from re-estimating water and sewer expenses.

The budget reflects a number of significant program changes including $31 million in proposed new needs. Some of these items include the following: additional spending of $9 million for customer and conservation services; $6 million on water pollution control due to increased sludge volume, start-up costs of new sludge disposal contracts, and increased chemical processing mandated by consent decrees; and $4 million for water supply quality and protection projects including the design of the Catskill/Delaware filtration plant.

Housing Preservation and Development

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast Amount	Percent
City	62	65	52	(13)	(20.0)
State/Fed	330	390	312	(78)	(20.0)
Total	392	455	364	(91)	(20.0)
Headcount	2,971	2,887	2,687	(200)	(6.9)

The executive budget proposes to spend $364 million for Housing Preservation and Development (HPD), a decrease of $91 million, or 20 percent, from the 1997 forecast of $455 million. Eighty-six percent, or $78 million, of this decrease is due to the City's practice of not appropriating certain categorical funding sources at the time of budget adoption. Instead of appropriating these funds, such as Community Development Block Grant (CDBG) money, at adoption, the City adds the funds to the budget during the year as they are received. The remaining 14 percent of the reduction in HPD's budget is City funds which would drop from $66 million in the 1997 forecast to $52 million in the executive budget, a decrease of $13 million, or 20 percent. HPD also proposes a savings program of $1.1 million, primarily replacing City expenditures with CDBG funds.

Of the $92 million decrease in HPD's budget, the Department expects to add back at least $63 million in federal funds after adoption as they are appropriated. The remaining $29 million shortfall is due to workload reestimates ($17.3 million primarily in reduced in-rem stock maintenance), one-time allocations ($10.3 million primarily in Community Consultant and Legal Services contracts), and productivity initiatives ($1.7 million).

The Department will focus on several programs in 1998. Among other things, the number of in-rem or foreclosed properties in City management is expected to decrease further as more units are transferred to private and non-profit entities. The much awaited anti-abandonment and early warning system (EWS) is still under development but, according to the agency, is expected to be operational by the end of summer. Details of the program, however, are sparse at this time and questions remain as to whether the funding is adequate.

The City expects to complete its second property tax lien sale in May 1998. In this program, the City sells a pool of tax liens to an entity that in turn sells them to the asset-backed credit market. The City receives an immediate payment, estimated in the executive budget at $50 million, and a residual interest in the liens. An independent organization then services the liens until the investors are paid. Properties designated as distressed are exempt from the sale. HPD is proposing legislation to commence in-rem actions in targeted neighborhoods on a pilot basis to assist communities in rehabilitating distressed properties and areas.

Restorations made by the City Council last year were not added into HPD's budget for 1998. Consequently, the Community Consultant and Legal Services programs and increased Neighborhood Preservation Consultant Contracts are not proposed to be funded in 1998. These were restored by the City Council in 1997 at $3.2 million and are expected to be restored in 1998 as well.

Over 50 percent of the proposed 1998 headcount reduction of 200 are federally-funded. Many are expected to be added back as federal funds are appropriated. The remaining reduction, of which 58 are City-funded, would be accomplished through attrition, redeployment, workload reestimates and productivity initiatives.

Department of Transportation

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	314	308	323	15	4.9
State/Fed	58	99	40	(59)	(59.6)
Total	372	407	363	(44)	(10.8)
Headcount	3,652	4,232	3,726	(506)	(12.0)

The executive budget for the Department of Transportation (DOT) proposes to spend $363 million, a decrease of $44 million, or 10.8 percent, from the 1997 forecast of $407 million. This decrease is largely due to the City's practice of deferring the appropriation of State and federal grants until such funds are received by the agency during the fiscal year. Similarly, although the executive budget headcount level is 12 percent below the 1997 forecast, staffing will in fact increase as State and federal grants that fund the positions are received.

DOT's proposed spending reflects almost $13 million more in anticipated savings than in 1997. In addition to spending reductions already included in the preliminary budget, such as $2 million for CHIPS funding of bridge repairs and $2.6 million for the capitalization of streetlight maintenance costs, the executive budget proposes to reduce City expenditures by using an additional $5.3 million of State CHIPS capital funding to pay for various tasks related to bridges and highways. Additional anticipated savings include reduced overtime for vehicle maintenance and repair, which is part of the agency's continuing efforts to operate more efficiently.

The executive budget proposes additional expenses of $4.1 million in 1998 due to collective bargaining agreements. The budget also proposes a new expenditure of $111,000 to audit its franchise bus operations, which have been the subject of some criticism.

Public Libraries

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast

				Amount	Percent
City	106	108	185	77	71.3
State/Fed	-	-	-	-	-
Total	106	108	185	77	71.3

The Mayor's Budget proposes to spend $185 million on public libraries, an increase of $77 million, or 71.3 percent from the 1997 forecast of $108 million. The increase, however, is the result of using surplus funds from the end of 1996 to prepay 1997 operating subsidies for the New York, Brooklyn, and Queens Borough public library systems. Hence, the proposed 1998 appropriations for public libraries, which appears to represent a large funding increase, merely returns the libraries to their historical subsidy levels

For 1998, the three public library systems would collectively receive an additional $900,000 for heat, light and power, over 1997 levels. The research libraries, however, would receive $200,000 less toward their energy expenses than in 1997. Increases in the collective bargaining agreement in 1998 are proposed to be met with $3.4 million in additional funds. The executive budget also proposes $280,000 in additional spending to operate the newly renovated Flushing library.

Department of Finance

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	164	164	170	6	3.7
State/Fed	-	-	-	-	-
Total	164	164	170	6	3.7
Headcount	2,509	2,534	2,526	(8)	(0.3)

The Mayor has proposed a $170 million budget in 1998 for the Department of Finance (DOF). This amounts to a 3.7 percent, or $6 million, increase from the preceding year. The executive budget adds over $1.3 million for payment of various leases, including space for the City Sheriff and Parking Violations Operations. The budget also includes nearly $3 million for collective bargaining increases and $500,000 for advertising for the property tax lien sale program. (For further detail on the tax lien sale program, the Housing Preservation and Development Section above.)

Department of Citywide Administrative Services

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	145	148	152	4	2.7
State/Fed	7	16	11	(5)	(31.2)
Total	152	164	163	(1)	(0.6)
Headcount	1,544	1,638	1,668	30	1.8

The executive budget for the Department of Citywide Administrative Services (DCAS) proposes to spend $163 million, a decrease of $1 million, or 0.6 percent, from the 1997 forecast of $164 million. In large part, the net change reflects a decrease of $5 million in State and federal funding offset by an increase of $4.0 million in City-funded spending. Much of this federal and State funding decrease, however, is due to the City's practice of not appropriating certain categorical funding sources at the time of budget adoption. Instead, the City adds such funds to the budget during the year as they are received.

The executive budget would add $3.3 million for new needs, while reducing funding by $4 million in new gap reduction savings proposals, the largest of which are non-recurring. New needs include $1.5 million to support recurring maintenance on new fire alarm systems; this funding is in addition to the $1.5 million increase proposed in the preliminary budget. By early 1998, the City will complete what has been an approximately $40 million capital investment effort to bring all 47 City-owned public buildings into fire code compliance. The proposed level of new operating funding would cover the total annual maintenance cost of the systems. Additional security at City buildings is proposed at a cost of $1.1 million. The specific buildings have not yet been chosen, but it is intended that they include those with a high volume of in-and-out traffic or a history of crime. This investment supplements previous investments in building security that are still in place.

Gap reduction initiatives include two large non-recurring savings items. Postponement of the planned firefighters written and physical exams, from 1998 to 1999, would save $1.2 million. This postponement is driven by new recruit needs, not an effort to produce savings. DCAS also proposes to save an additional $2.3 million, for 1998 only, based on claims made to the State for reimbursement of retroactive charges (going back to 1991) related to the cost of building maintenance and cleaning. The State is now investigating the claims but has not yet committed the funding.

Finally, the executive budget proposes an additional expense of $1.7 million in 1998 due to collective bargaining agreements and $1.1 million for increased heat, light, and power costs.

Department of Parks and Recreation

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	141	146	145	(1)	(0.7)
State/Fed	4	5	5	-	-
Total	145	151	150	(1)	(0.7)
Headcount	2,352	2,362	2,287	(75)	(3.2)

The Mayor's budget proposes to spend $150 million for the Department of Parks and Recreation (DPR), a decrease of $1 million, or 0.7 percent, from the 1997 forecast of $151 million. The programmatic reductions include the redeployment of 55 Parks Enforcement Patrol officers and 15 auto mechanics to other City agencies for a savings of $2.3 million, while an additional $2.3 million would be removed from the agency's seasonal budget for basic maintenance and cleaning. The termination of two privatization contracts, one each in the Bronx and Queens, would result in another $800,000 in annual savings. Finally, the replacement of City funds with federal funding at the Brownsville Recreation Center would produce another $700,000 in savings for the City.

These reductions would be partially offset by new spending in 1998 for maintenance and operations. DPR proposes to budget $723,000 for the hiring of 25 full-time workers, some of whom would include Work Experience Program workers. Increased funding of $1.7 million is proposed in the budget for the care of the City's half million street trees in accordance with a 15-year pruning cycle. The City is also proposing to restore operating subsidies to the main zoos at Central Park, Prospect Park, and Flushing Meadows Park, as well as provide funding for the new children's zoo at Central Park. These funds, which were eliminated in 1997, would total $7.7 million, down from 1996 levels of $8.1 million.

Department of Cultural Affairs

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast

				Amount	Percent
City	94	95	80	(15)	(15.8)
State/Fed	-	1	-	(1)	(100.0)
Total	94	96	80	(16)	(16.1)
Headcount	38	38	38	-	-

The executive budget proposes to spend $80 million for cultural institutions and programs, a decrease of $16 million, or 16.1 percent, from the 1997 forecast of $96 million. Of this decrease, reductions to cultural institutions account for $11.5 million, which represents 15 percent of their total operating subsidy payments. Since across-the-board reductions would not be applied against heat, light, and power (because energy is more an uncontrollable expense), the reduction would effectively result, on average, in a 19.5 percent reduction to payments for basic operating expenses such as security and maintenance. Moreover, in instances where energy makes up a significant portion of total operating subsidy, such as Metropolitan Museum of Art (48 percent) and Carnegie Hall (73 percent), these cuts would be applied toward an even smaller share of the total regular operating subsidy, and thus generate an even greater percentage reduction.

This reduction to cultural institutions would be partially offset by a $2.2 million increase to their energy price reestimates, which is 13 percent, on average, above 1997 levels. Payments to cultural institutions would also include an additional $1.0 million adjustment for collective bargaining increases in 1998.

The executive budget also proposes to reduce program services by $3.7 million, representing a 27 percent reduction from 1997 forecast levels of $13.7 million (excluding Cultural Challenge funding). Now in its fourth year, the Cultural Challenge Initiative, a program intended to leverage private funding of the arts, would be reduced by $250,000, or about 11 percent from 1997 levels.

Department of Juvenile Justice

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	54	63	54	(9)	(14.3)
State/Fed	24	14	25	11	78.6
Total	78	77	79	2	2.6

Headcount	645	588	629	41	7.0

The Mayor's budget proposes to spend $79 million for the Department of Juvenile Justice in 1998, an increase of $2 million, or 2.6 percent, over the 1997 forecast of $77 million. This increase is due largely to a $10 million federal Emergency Assistance to Families grant the agency anticipates receiving in 1998 to pay for juveniles it sends to the State Division for Youth facilities. This payment was supported by City funds in 1997. Instead of reducing the budget by a corresponding $10 million in City funds, $1.6 million of City funds will remain in the agency. The Department also expects to receive $875,000 more from the State in 1998 than in 1997 for juveniles in programs that receive a 50 percent State subsidy.

Department of Probation

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	45	45	46	1	2.2
State/Fed	21	27	23	(4)	(14.8)
Total	66	72	69	(3)	(4.2)
Headcount	1,574	1,622	1,539	(83)	(5.1)

The Mayor's budget proposes to spend $69 million for the Department of Probation in 1998, a decrease of $3 million, or 4.2 percent, from the 1997 forecast of $72 million. This decrease does not reflect the possible loss of $4 million in State probation aid resulting from the Governor's budget proposal to reduce State aid to localities from 32 percent to 26.2 percent. In addition, the budget does not include an estimated $4 million in State grants that we expect to be added to the budget during the year. These grants would be provided for the Intensive Supervision, Juvenile Intensive Supervision, and the Kings Juvenile Offenders programs.

Department of Business Services/ Economic Development Corporation

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	19	22	21	(1)	(4.5)

State/Fed	5	8	7	(1)	(12.5)
Total	24	30	28	(2)	(6.7)
Headcount	168	180	171	(9)	(5.0)

The executive budget proposes spending of $28 million for the Department of Business Services (DBS), which includes the budget for the Economic Development Corporation (EDC). The proposed spending level represents a decrease of $2 million, or 6.7 percent, from the 1997 forecast of $30 million. Much of the decrease is due to the City's practice of not appropriating certain categorical funding sources, such as federal funds, at the time of adoption. Instead, the City adds the funds to the budget during the year as they are received. As proposed in the Mayor's preliminary budget, significant reductions are planned for the Community Revitalization (CR) Program and the contract for the Convention and Visitors Bureau (CVB), in the amounts of $1.1 million and $1.9 million, respectively. The executive budget proposes to remove all City funding from the CR program, a program supporting local development corporations (LDCs), leaving funding only for LDCs that qualify for federal community development funding. In the case of CVB, the $1.9 million reduction represents about 60 percent of the portion of its expense budget that comes from the City.

As a new gap reduction initiative, the executive budget proposes to reduce EDC's City funding by $5.2 million in 1998. Of this amount, $1million is a recurring funding reduction, which the Mayor's office determined was possible based on a more in-depth analysis of EDC financial plans than had been done in the past. The same sort of analysis in January of this year led the administration to draw down what was determined to be a $10 million excess EDC fund balance.

The above reductions would be offset with increases of $700,000 for heat, light, and power and $136,000 collective bargaining costs. In addition, the executive budget proposes to add $600,000 in 1998, and $300,000 annually thereafter, for the maintenance of the Midtown Community Court.

Board of Elections

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	27	31	31	-	-
State/Fed	-	-	-	-	-
Total	27	31	31	-	-

Headcount	312	312	303	(9)	(2.9)

The executive budget for the Board of Elections is $31 million, a decrease of $600,000, or 1.7 percent from the 1997 forecast. This decrease is due largely to an expected reduction in agency headcount.

Campaign Finance Board

	1997 Adopted	1997 Forecast	1998 Executive Budget	Increase/(Decrease) Over 1997 Forecast	
				Amount	Percent
City	3	4	22	18	450.0
State/Fed	-	-	-	-	-
Total	3	4	22	18	450.0
Headcount	36	36	36	-	-

The Mayor's budget proposes to spend $22 million for the Campaign Finance Board in 1998, an increase of $18 million, or 450.0 percent, from the 1997 forecast of $4 million. This increase is driven by the Board's estimate of costs associated with providing public matching funds for the 1997 election. (For more detail, please see our discussion in Chapter 4.)

Chapter

4

Major Issues

This chapter presents discussions of a diverse assortment of issues, each of which has significant budgetary implications for New York City.

State Agenda

The Mayor's budget contains a number of assumptions about State legislative actions that would significantly benefit the City in 1998. These assumptions, carried in the City's budget, would require State legislative action and they form the basis of the City's lobbying agenda in Albany. Specifically, the budget assumes $294 million in savings from legislation the City has requested to increase State support for disabled pre-school students, raise the City's portion of statewide revenue sharing dollars, and reduce local taxes. In addition, the City's budget assumes $128 million in savings attributable to both a larger City share of federal welfare grant funds and State reforms to Medicaid, and $115 million in State legislative actions to restore cuts proposed by the Governor.

The scale of the Mayor's agenda is ambitious, and the legislative viability of some items is questionable, such as a $142 million revenue sharing payment acceleration and a $46 million increase in the revenue sharing program itself. The City, however, could stand to benefit from a surge in State revenues. The Governor recently revised his original projection of State fiscal year 1998 revenues to be $1.5 billion higher than projected in January-significantly closer to the Assembly's revenue projection. Given the flexibility that a State budget surplus provides, it is not unreasonable to expect that at least some of the increased State aid or reforms assumed in the Mayor's budget will be achieved.

Requested Legislation. The largest requested legislative action is the proposal to accelerate the March revenue sharing payment. Commonly known as a revenue spin-up, this proposal would permit the State to produce a one-time revenue benefit to the City of $142 million. The State would accelerate payment of its March 1999 payment to September or December 1998 so that the City could count it as part of its 1998 budget. There seems to be little public policy or accounting rationale to support such a move.

The City is requesting the State increase the total amount of revenue shared by the State with the City under the State's revenue sharing program. Total State revenue sharing funds have not increased since State fiscal year 1994-95. The Assembly's adopted 1997-98 budget bill includes a $78 million statewide increase and allocates $31 million of the additional funding, roughly 40 percent, to the City in 1998. The Mayor's budget assumes the City will receive its historical 60 percent share of the statewide increase ($46 million). The request to increase Stock Transfer Incentive Aid by $25 million is another effort to increase the City's share of an aid source that has not increased since 1992.

The City's agenda contains a tax reduction proposal as an alternative to the Governor's local school tax relief proposal (STaR). STaR would replace local reductions in the school property tax for homeowners with State aid. Application of this statewide initiative to the City's unique tax system and housing structure would give the City a share of aid that is significantly below any reasonable benchmark for equitable distribution. IBO estimates that City homeowners would receive less than 9 percent of total statewide benefits under STaR. (See Chapter 2 for additional information.) The City's alternative tax reduction proposal takes into account the City's unique situation, producing benefits to the City of $47 million, or 40 percent of the statewide total. While the Mayor's budget assumes the $47 million in revenues, an equal offsetting entry in tax reductions would prevent failure to enact the City's proposal from affecting the City's budget balance.

Entitlement Savings Proposals. The Governor's budget contains $338 million in Medicaid savings for the City. The Legislature, however, has historically been unwilling to go along with proposed Medicaid cost containment and savings packages, and this year's budget negotiations promise a familiar stand-off. (The Assembly's budget bill restores nearly all of the Governor's savings.) The Mayor has recognized $51 million of the cost containment measures as achievable, given the current political climate, while IBO estimates Medicaid savings of only $40 million. (See Chapters 3 and 4 for additional information.)

The Mayor has also requested that the State increase the City's share of federal welfare funds under the Temporary Assistance for Needy Families (TANF) program. Because federal grant funds are based on 1995 caseload levels, which have been substantially reduced in New York State over the past two years, a surplus of about $730 million has materialized. Accordingly, the Mayor has budgeted $77 million of these surplus TANF funds to help the City defray its share of welfare-related costs. The prospects of the City realizing these funds may be improving given ever-increasing publicity over their use.

Baseline Restorations. State budget negotiations involve legislative restorations of cuts proposed by the Governor. The Mayor's baseline assumptions depend on legislative budget actions in nine areas to restore cuts proposed in the Governor's budget. For example, the Governor proposes to lower probation aid through a reimbursement rate reduction that would cost the City $4.3 million if not restored by the State legislature. Similarly, the Mayor's budget assumes other State budget restorations for Medicaid overburden aid, local highway improvement (CHIPS), New York City Housing Authority operating aid, and aid for summer school programs. These budgeted baseline restorations total $115 million in 1998.

Public Assistance

While the Mayor's executive budget begins to recognize the effects of the new welfare law, it largely reflects the expectation that caseloads for Home Relief (HR) and Aid For Families with Dependent Children (AFDC), now Temporary Assistance for Needy Families (TANF), will continue to decrease.[16] The budget projects that the number of HR recipients would fall from 188,000 in March 1997 to 183,000 in June 1997, and then rise rapidly to 222,000 in June 1998 before falling again to 214,000 in June 1999. The budget also projects that the number of persons on AFDC (TANF) would decrease steadily from 725,000 in March 1997 to 710,000 in June 1997, 663,000 in June 1998, and 633,000 in June 1999, leveling off after that point.

As a result of these expected caseload changes, the budget projects that total spending for HR would increase from $563 million in 1997 to $625 million in 1998, and then fall to $572 million in 1999, $473 million in 2000, and $474 million in 2001.[17] Total expenditures for TANF would decrease from $1,565 million in 1997 to $1,428 million in 1998, $1,330 million in 1999, and $1,286 million annually in 2000 and 2001. The Mayor's budget projections depart significantly from the public assistance projections in the preliminary budget by more fully accounting for the effects of the new federal welfare law. This brings the Mayor's projections closer to the IBO's public assistance forecasts in our *Analysis of the Mayor's Budgetary Proposals*, prepared in response to the preliminary budget. The two current sets of projections are compared in Figure 4-1.

Figure 4-1.
IBO Reestimate of the Mayor's Budgetary Proposals for Public Assistance
(In millions of dollars)

	1997	1998	1999	2000	2001
HOME RELIEF					
Persons on Assistance in June					
Mayor	183,000	222,000	214,000	215,000	215,000
IBO	182,000	215,000	219,000	221,000	224,000
Difference	(1,000)	(7,000)	5,000	6,000	9,000
Net Cost of Cash Grants (Including PEGs)					
City					
Mayor	282	312	286	237	237
IBO	282	291	286	245	248
Difference	0	(21)	0	8	11
Total					

Mayor	563	625	572	473	474
IBO	563	583	572	489	495
Difference	0	(42)	0	16	21
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES					
Persons on Assistance in June					
Mayor	710,000	663,000	633,000	634,000	634,000
IBO	713,000	690,000	671,000	668,000	665,000
Difference	3,000	27,000	38,000	34,000	31,000
Net Cost of Cash Grants (Including PEGs)					
City					
Mayor	371	260	244	233	232
IBO	371	269	266	255	253
Difference	0	9	22	22	21
Total					
Mayor	1,565	1,428	1,330	1,286	1,286
IBO	1,566	1,465	1,417	1,376	1,370
Difference	1	37	87	90	84
TOTAL PUBLIC ASSISTANCE					
Persons on Assistance in June					
Mayor	893,000	885,000	847,000	849,000	849,000
IBO	895,000	905,000	890,000	889,000	889,000
Difference	2,000	20,000	43,000	40,000	40,000

Net Cost of Cash Grants (Including PEGs)					
City					
Mayor	653	572	530	470	469
IBO	653	560	552	500	501
Difference	0	(12)	22	30	32
Total					
Mayor	2,128	2,053	1,902	1,759	1,760
IBO	2,129	2,048	1,989	1,865	1,865
Difference	1	(5)	87	106	105

SOURCE: Independent Budget Office.

While the overall trend is still downward, the Mayor's projections now include an assumption that 58,000 individuals will join the HR rolls in the fall of 1997 as a result of federal welfare provisions making most legal aliens ineligible for Supplemental Security Income (SSI). IBO's assumptions are slightly more optimistic, assuming that 50,000 persons will transfer from SSI to HR at that time, resulting in a June 1998 projection of 215,000 compared to the Mayor's 222,000. In the out-years of the financial plan, IBO projects somewhat higher HR caseloads than the Administration due to the ongoing effects of the federal welfare law on future immigrants.

Similarly, the Mayor's projections now take into account the likely movement of significant numbers of persons from SSI to TANF as a result of the new welfare law, but they assume that this will be more than offset by continued rapid decreases in the family assistance rolls over the next two years as a result of City policy changes. The Mayor projects a June 1998 TANF caseload of 663,000. IBO, however, forecasts less rapid decreases resulting in a caseload of 690,000, or 27,000 persons higher than the Mayor's projection.

While caseloads for both HR and TANF continue to decrease, a high degree of uncertainty accompanies future caseload projections given both the failure of the State to implement its welfare reform plan and the possible changes to the new federal law resulting from the recent budget agreement. These issues are discussed below.

Albany. At the time this analysis was completed, there were two formal welfare plans under consideration by the Legislature: one proposed by the Governor last November and one developed by the Assembly and approved by that body as a one-house bill on April 1. The significant differences between the two plans make it difficult to predict the outlines of a final agreement. These differences are summarized in Figure 4-2.

Both of the welfare reform plans would increase the number of public assistance categories from the current two to three in the case of the Governor's plan and five in the case of the Assembly plan. Both plans would place time limits on eligibility for certain cash assistance programs. The Governor's plan would also decrease benefit levels over time for family cash assistance while the Assembly plan would maintain current benefit levels. In both plans some categories of recipients would be limited in whole or in part to non-cash forms of assistance.

Washington. On May 2, 1997, the Clinton Administration reached agreement with the Republican Congressional leadership on a plan to balance the federal budget in five years. The agreement includes funds to preserve SSI for many disabled immigrants who were scheduled to lose their benefits in August as a result of a provision in the new federal welfare law.

The details of the agreement are still not clear. However, preliminary information obtained from the Congressional Budget Office indicates that the agreement could exempt up to 80 percent of the legal aliens who were scheduled to lose SSI in the coming months. Nationwide, this would include 200,000 disabled recipients as well as an estimated two-thirds of the 300,000 individuals who are currently qualified on the basis of age but are now expected to qualify as disabled. These figures include only legal aliens who entered the country prior to the passage of the welfare law. It is not clear if the agreement covers immigrants who arrive after that date, but recent statements attributed to Congressional leaders suggest that it does not.

If the SSI provision of the budget agreement is implemented it would have a significant impact on the New York City budget, reducing total welfare expenditures by as much as $80 million in 1998.

Figure 4-2.
Summary of New York State Public Assistance Plans

Current System Governor's Plan Assembly's Plan

Two-tiered system including AFDC for families with minor children and HR for others.	Three-tiered system including: NY Works for most families; TDA for those aged 60-64, the temporarily disabled, and caretakers for the disabled; and Article XVII Safety Net for others.	Five-tiered system including: TEAF for families for five years; SNAF for families beyond five years; TEA for childless adults for two years; SNA for childless adults beyond two years; and DSA for those aged 60 and over, the disabled, and caretakers for the disabled.
No time limits on eligibility or benefit levels.	Five year limit on eligibilty for NY Works. Benefit levels for NY Works start to decline after 18 months. After five years families could receive Article XVII Safety Net.	Five year limit for TEAF; then families move to SNAF. Two year limit for TEA; then childless adults move to SNA. No time limits on benefit levels.
Grants are in cash, except in cases of direct payments to landlords.	Grants are in cash for NY Works and TDA. No cash assistance for Article XVII Safety Net; recipients would receive in-kind or voucher	Grants are in cash for TEAF, TEA, and DSA. For SNAF and SNA, utilities would be paid by direct vendor payment, and rent would be paid by

	assistance to cover such basic needs as food and shelter.	two-party check or by direct vendor payment to landlord. For the remaining grant, called basic needs assistance, at least 80 percent would be accessible only through an electronic transfer system.
Numerous statewide special grants are available for eligible recipients.	Individual special grant categories are proposed by localities and approved by the State. There is a cap on total State funding for special grants.	All special grants are maintained, without caps.

PROGRAM DEFINITIONS:	AFDC (Aid to Families with Dependent Children)- the current system of cash grants to families with minor children. HR (Home Relief) - the current system of cash grants to individuals and families without minor children. NY Works (New York Works) - proposed system of cash grants to families with minor children. Limited to five years. TDA (Temporary Disability Assistance) - proposed system of cash grants to those 60-64, the disabled and their caretakers. Article XVII Safety Net Assistance - proposed system of non-cash assistance to those ineligible for NY Works or TDA. TEAF (Transitional Economic Assistance for Families) - proposed system of cash grants to families with minor children. Limited to five years. SNAF (Safety Net Assistance for Families) - proposed system of mostly non-cash assistance to families with minor children who reach TEAF limit. TEA (Transitional Economic Assistance) - proposed system of cash grants to individuals and families without minor

children. Limited to two years.
SNA (Safety Net Assistance) - proposed system of mostly non-cash assistance to individuals and families without minor children who reach TEA limit.
DSA (Disability Support and Assistance) - proposed system of cash grants to those 60 and over, the disabled and their caretakers.

Medicaid

The Mayor's executive budget for the Human Resources Administration's (HRA) Medicaid program has undergone significant changes since the preliminary budget. The preliminary budget assumed adoption of the Governor's budget proposals to contain Medicaid costs. As a result, HRA was expected to save $3 million in 1997, $260 million in 1998, and $223 million each year through 2001.

The executive budget, however, reflects more modest expectations of State savings and brings the Mayor's projections much closer to IBO's estimate. The Administration now projects savings due to State actions to range more conservatively from $51 million in 1998 to $104 million in 2001. Consequently, the executive budget projects that the City will spend $2,119 million on Medicaid in 1998, $2,184 million in 1999, $2,258 million in 2000, and $2,341 million in 2001.

IBO continues to project that Medicaid expenditure growth rates will increase at a slightly faster pace than estimated by the Mayor. IBO projects that overall City expenditures on Medicaid will grow by 3.67 percent annually over the Financial Plan period while the executive budget provides for an average yearly growth rate of 3.06 percent. More specifically, we expect that expenditure growth for areas such as personal care and prescription drugs will outpace the Mayor's projections. As a result, IBO estimates City spending on Medicaid will total $2,150 million in 1998, $2,217 million in 1999, $2,306 million in 2000, and $2,402 million in 2001. The difference between the Mayor's and IBO's Medicaid projections are illustrated in Figure 4-3.

IBO's current Medicaid projections have incorporated modest cost savings based on our assessment of several initiatives. Given the likelihood of Medicaid managed care and the probability of legislative approval of a few of the Governor's proposals, IBO projects that these initiatives will decrease City expenditures by $40 million in 1998 rising to $99 million in 2001 compared to our reestimate of the preliminary budget. Although the State still awaits the federal waiver necessary to mandate the enrollment of Medicaid recipients into managed care plans, it appears highly likely to be granted in time to affect 1998 spending. In addition, IBO expects that certain initiatives proposed by the Governor to produce minor savings in hospitals and nursing homes will be enacted by the State legislature. In contrast, the Mayor's executive budget still anticipates savings-namely from unspecified fraud prevention activities and rate appeal moratoria-that we expect will either not be adopted or not achieve the estimated levels of reductions in Medicaid spending.

More generally, whether the conversion of the Medicaid program from a fee-for-service system to a managed care environment will generate the desired savings and maintain quality is uncertain at this time. On the one hand, the centerpiece of the City's Medicaid managed care initiative is mandatory enrollment and the participation of Home Relief clients and the subsequent increase in federal revenue is likely to reduce City Medicaid expenditures. On the other hand, more attention must be paid to factors beyond enrollment if managed care is to prove successful in reducing costs without eroding service quality. These factors include but are not limited to provider incentives, quality assurance, and administrative oversight, all of which carry programmatic and budgetary ramifications for a successful Medicaid managed care program, but have not been fully addressed.

Figure 4-3.
IBO's Reestimate of the Mayor's Budgetary Proposals for HRA's Medicaid Program
(In millions of dollars)

	1997	1998	1999	2000	2001
Medicaid Cost Projections (City Funds)					
IBO	2,080	2,150	2,217	2,306	2,402
Mayor	2,076	2,119	2,184	2,258	2,341
Difference (IBO - Mayor)	4	31	33	48	61

SOURCE: Independent Budget Office.

HHC's New Affiliation Contracts and Health Care Quality Assessment

The executive budget proposes to increase New York City's total contribution to the Health and Hospitals Corporation (the Corporation or HHC) to $702 million from the 1997 forecast of $682 million. This $20 million increase, however, follows nearly $350 million in reductions in the City's total contribution since 1995. Overall, the budget projects that HHC's gross revenues, which were $3.6 billion in 1995, will fall to $3.2 billion in 1998.

In order to reduce expenditures to meet falling revenues over the past few years, the Corporation has successfully implemented multiple cost saving initiatives. While these initiatives have improved HHC's financial condition, concerns remain about the effects they have had on the quality of care. One of the most noteworthy of these initiatives is the revision of HHC's affiliation agreements-contracts in which HHC pays private medical institutions for the operation of municipal beds. The new contracts will save the Corporation at least $180 million over the next four years and introduce productivity measures that will permit assessments of the impact of managed care and budget changes on the performance of the affiliates.

***Background*.** Two primary factors prompted the revision of the contracts in the last year.[18] First, many of the HHC facilities did not communicate effectively with their affiliates, producing a situation that has been characterized as having "a pervasive sense of mistrust."[19] Among other things, HHC could not confirm concerns about affiliate operations because there were limited auditing opportunities for investigating how the affiliates used HHC's dollars. Second, there were concerns that productivity at Corporation facilities was not on par with national averages. The United Hospital Fund cited the following instance: "An affiliate had 165 physicians on the payroll providing the level of patient services that actually required only 54 physicians."[20]

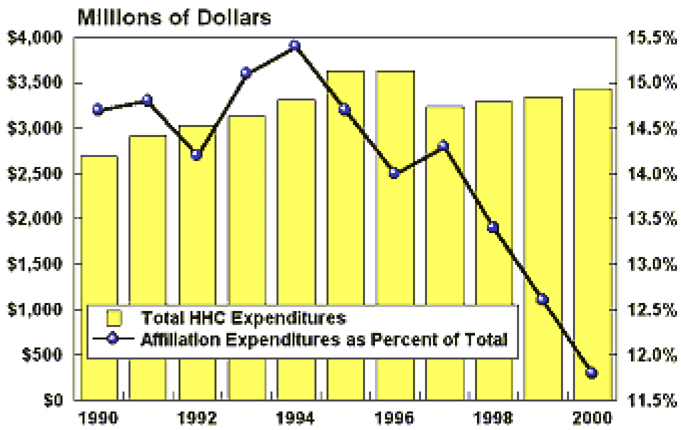
In order to address these issues, the new contracts revise the methodology used to determine the payment HHC provides the affiliates. The affiliates formerly received a flat fee not linked to the volume of services provided and had discretion over the money they received. Under the new methodology, Relative Value Units (RVUs) will determine the level of payment the Corporation will provide each affiliate. The RVU methodology, devised initially for the Medicare program, will permit HHC to evaluate the quantity of resources used by the affiliates.

With this new payment methodology, HHC gains greater control over its affiliates which are themselves restructuring to survive in the new health care environment. In addition, according to these new contracts, the Corporation can, on a monthly basis, evaluate its affiliates to observe whether they are meeting productivity targets which the Corporation and each affiliate selected collaboratively. Fines may also be levied by the Corporation on an affiliate should it fail to meet the established targets.

***Cost Savings*.** The Corporation's actual payments to its affiliates were $534 million in 1995 and $508 million in 1996. When the 1997 budget was adopted, it was anticipated that affiliation agreements would cost $486 million in 1998 and $500 million in 1999. The 1998 executive budget now estimates that the new contracts will cost significantly less: the Corporation is expected to pay the affiliates $440 million in 1998 and $420 million in 1999.

According to projections made by the Administration together with HHC budget staff, the revised affiliation contracts generate the only savings the Corporation will be certain to capture in the years to come. As can be seen in Figure 4-4, these projections anticipate that, in each of the next couple of years, costs from the new contracts will represent a smaller portion of total expenditures. Personnel costs, including fringe benefits, are projected to grow steadily from $1.9 billion in 1998 to $2.1 billion in 2000. Likewise, costs for non-personnel items will increase from $732 million in 1998 to $770 million in 2000. Therefore, with decreased revenue ensured as managed care continues to favor reimbursement for less expensive care, the expected savings from the revised affiliation agreements will be critical for the Corporation to avoid annual deficits.

Figure 4-4.
Affiliation Agreement Expenses and Total HHC Expenditures



SOURCE: Independent Budget Office.

The new contracts may also have positive implications for patient care. In the past, affiliates have been charged with focusing more on their teaching needs than on patient care. By measuring productivity, HHC can monitor the affiliates to ensure that patients' needs come first. Problems with these measures, as with most of the available systems of health care performance measurement, however, may inhibit evaluations of quality of care at HHC.

Assessing Quality in Health Care. Managed care and concerns about the growth of health care costs spurred the creation of systems of health care quality measurement. One widely used is the Health Plan Employer Data and Information Set (HEDIS) measures constructed by the National Committee on Quality Assurance (NCQA) and designed for employers and health plans. Meanwhile, as a major purchaser of health care, the federal government has developed its own quality of care indicators. For example, the Health Care Finance Administration (HCFA) has developed statistical models to evaluate quality through surveys of mortality rates.

While there is variation in the new contracts, most of the contracts contain "quality of care performance indicators," including the number of two-year-olds fully immunized documented (at least 95 percent) and the number of women between 51 and 64 who have mammograms performed (at least 90 percent). The new contracts' "quality of service" indicators will track the number of timely emergency consults and the number of charts completed within thirty days of discharge.

The new contract's productivity measures, like the more established models, however, demonstrate the difficulties in measuring health care quality. Quality of care can be a very subjective concept. If one relies on consumer satisfaction, quality of care is subject to the varying preferences of individuals. A more consistent source might be a physician's adherence to technical standards, although even this may fluctuate dramatically given resources available, the setting where the care is given, and the case history of the patient. Additionally, performance indicators are often described in medical terminology that may not be understood by non-physicians.

Even the quality of care models such as the HEDIS measures face substantial hurdles. The focus of many of these models is not on outcomes, which refer to the end results of care, because they can be ambiguous. For example, a patient's death does not necessarily reflect lower quality of care. A patient may die despite receiving the best care possible. Meanwhile, process measures, which describe the nature and quantity of care provided, tend not to account for variations in patient characteristics. A consumer may also find it difficult to assess a hospital's service if it receives a high score for one process and a low score for another.

Finally, these models do not address possible variations in the population a hospital serves. Public hospitals provide a disproportionate share of health care to the indigent,[21] who are likely to be sicker than other population segments. Failing to account for this variable does not permit a fair comparison between public hospitals and their private counterparts. These models also rely on the ability of a hospital to collect a huge range of data on patients. A hospital simply may be disinclined or unable to do this consistently and accurately. Moreover, the advent of managed care has aggravated problems with performance measurement in health care. Treatments for some diagnoses may have changed, for example, given managed care's emphasis on outpatient care rather than on inpatient care. The result, then, is too few cases available from new or altered care settings-an insufficient sample size-to determine the cause of the outcome achieved.

Taken together, the revision of the affiliation contracts facilitates the assessment of the performance of the Corporation. The projected cost savings and their impact on the City budget can be monitored and tracked. In addition, while better measures would be difficult to find, the productivity measures initiated as part of these affiliation contracts represent a significant step towards permitting evaluations of quality of care.

Administration for Children's Services

The agency's reform plan, entitled *ACS Plan of Action*, addresses long-standing dysfunctional systems, practices, and organizational culture that have prevented the City from effectively serving its most vulnerable children and families. Implementation of the Plan has been underway since its release in December 1996.

The executive budget proposes $35.7 million for continuing costs to implement the reorganization plan. This new funding would provide additional resources for automation support and other program enhancements. ACS would receive $949,000 to provide staff with support for using the State Child Welfare Automated Information System. This system is used to automate child welfare information for purposes of tracking cases through the system and providing data for calculating the City's reimbursement from the State. The remaining $5.8 million are for an additional 13 new positions and various programmatic improvements such as enhancement of the medical unit for comprehensive health and mental health assessment, and the development of an interagency unit designed to facilitate ACS' collaborations with other City agencies. Funding for preventive planning to help create strong neighborhood network services and protect children before abuse occurs remains unchanged at its 1997 level of $939,754.

Total funding requested for the ACS restructuring initiative is $37.7 million over two years: $2.4 million in 1997, and $35.7 million in 1998. Through the new funding and reform plan, the agency has made strides in modernizing its work environment. Among other things, the agency's technological capacity has been enhanced, paper work backlogs have been reduced, and more effective operations within the divisions of child protection, family permanency, and legal services have been facilitated. However, some areas of concern persist.

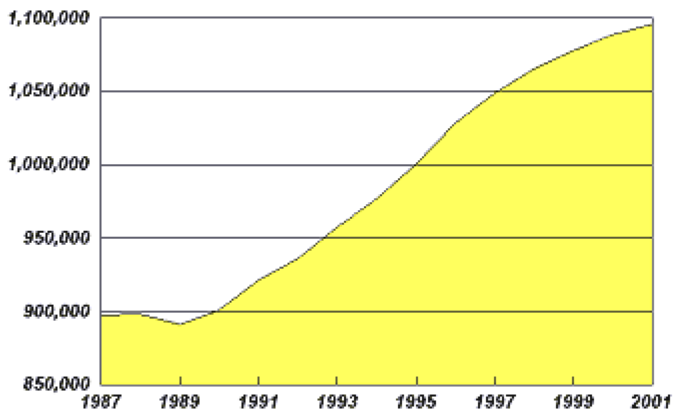
The agency's responsibility for child care will increase substantially as a result of the transfer of the Agency for Child Development (ACD) into ACS. While ACS was previously responsible for child protective services, foster care, adoption and Head Start, it will now have the additional responsibility of providing child care to about 60,000 children in New York City. This number represents the total population currently in ACD group day care, family day care, informal care, and Head Start. Given that recent estimates indicate that only 16 percent of eligible children in the City receive publicly subsidized child care, the agency will need to address anticipated child care needs of low income families and public assistance recipients.

The child care requirements resulting from recent changes in welfare programs raise issues regarding the types of child care the City provides as it implements the new law. The executive budget proposes to spend $17.8 million for 8,700 new day care slots related to the work requirements of the Temporary Assistance for Needy Families program. These slots, however, are allocated to the Office of Employment Services (OES), which administers day care slots for the children of parents who are either on public assistance and involved in employment-related activities or who have recently left public assistance.

The new slots are expected to be provided primarily through informal day care arrangements.[22] On average, informal day care costs 51 percent less than group day care slots and 24 percent less than family day slots, both of which are regulated. While about 88 percent of children receiving publicly funded day care through OES are in informal day care, less than one percent of children receiving day care through ACD are served through such arrangements. Among other things, the expansion of informal day care due to welfare reform may place even more children in day care environments without the safeguards of ACD and Department of Health regulations or monitoring.

Student Enrollment and School Capacity: September 1997 Condition and Beyond

Figure 4-5.
Actual and Projected Student Enrollment, 1987-2001



SOURCE: Independent Budget Office; Office of Management and Budget.

Public school enrollment is expected to continue to grow through the duration of the financial plan period and beyond. In the last five years, Board of Education (BOE) enrollment has grown by over 100,000 students to 1,049,000 in 1996-97 (excluding long-term absences). This growth has contributed to what BOE estimates was an overload of more than 86,000 students when schools opened in September 1996, despite the addition of more than 18,000 new seats over the previous year.[23]

For 1997-98, BOE and the Administration project an increase of over 16,000 new students, bringing total enrollment to 1,065,000. Teachers and guidance counselors are being added to the operating budget to support this increase. Some operating resources are also provided to lease new space. Most of the resources for new space, however, are found in the capital budget and do not produce new seats immediately.

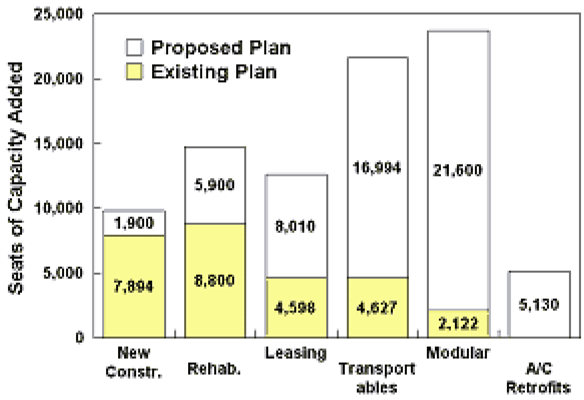
While the Mayor proposes new capital budget spending for the 1997-99 fiscal year period, there is likely to be continued overcrowding for the foreseeable future. The additional new seats planned in September 1997 will provide for expected growth but only slightly reduce existing overcrowding. In 1999 and 2000, the Mayor's plan may have a greater impact, depending on enrollment growth patterns.

Implications of Overcrowding. Even though overcrowding is often discussed in units of seats, overcrowding in schools does not mean that students are without desks. It means that more students are present than the educational facilities were designed to support. As a result, some schools have had to conduct classes in libraries or makeshift arrangements in spaces, such as cafeterias or gymnasiums, that were not designed to act as classrooms. In other cases, class sizes have been increased; this strategy, however, has prompted the teachers' union to file several thousand grievances for overcrowding. A third measure, employed in a few cases around the City, is the implementation of double-session schools, where some students attend school in the morning for an abbreviated day of four hours and others attend in the afternoon for the same period of time.

Besides the possible negative educational impact of each of the above strategies-especially the double-session schools where students are actually receiving less instructional time-overcrowding generally strains the capacity of buildings to adequately serve students. It should be noted that overcrowding is affecting many more than 86,000 students this year; the total population of overcrowded schools is much larger.

Projection of September 1997 Condition. The Mayor's budget would add significantly to existing plans to spend $418 million for 28,000 seats of new school capacity from 1997 to 1999. Specifically, the Mayor would add $717 million for an additional 60,000 new seats.[24] Because the proposal is concentrated on transportable and modular units and leased and rehabilitated space, the seats would be available sooner and at less cost than would be possible with new school construction. On the other hand, the seats would also probably have a shorter useful life than would be possible with new construction.

Figure 4-6.
New Capacity By Type, 1997-99



SOURCE: Independent Budget Office; Board of Education.

Of the 88,000 projected new seats in the plan, a total of 24,000 are planned to be available by September 1997 for the new school year. Given existing overcrowding of 86,000 students and the 16,000 new students expected, BOE can still expect an overload of at least 78,000 students. The remaining 64,000 seats are projected to be provided by the beginning of the 1999-2000 school year. Over the same time period, enrollment is expected to increase by 23,000. Thus, while overcrowding might be reduced by as much as 41,000 students; the system would still face an overload of 37,000 students for the 1999-2000 school years.

Exacerbating Factors and Other Considerations. In addition to enrollment growth, other factors, such as the uneven nature of enrollment growth, exacerbate current and future conditions. In recent years, enrollment has grown disproportionately in certain districts while holding steady or even dropping in others. The pattern is expected to continue as enrollment is projected to grow most where overcrowding is already a problem. If BOE's projections are accurate, the pattern of enrollment growth will be such that *more* seats will be needed than simply the *net* number of students entering the system. There is expected to be an increase of students in overcrowded districts and a decrease of students in underutilized districts.

An additional difficulty is the magnitude of BOE's other capital investment needs. Major investments are required for basic state of good repair needs (for example, replacing leaky roofs) and facility upgrades (such as installation of electrical and telecommunications wiring necessary to support computers). Although efforts are being made on all three fronts-state of good repair rehabilitations, facilities upgrades, and capacity increases-limited capital funds have forced BOE and the City to make difficult choices in the capital plan, to the extent more funds for rehabilitation means less for enrollment.

In fact, despite enrollment growth, capacity needs have had to remain a secondary consideration and facility upgrades have gotten even less priority. BOE's current five-year (1995-99) capital plan focuses most of its attention and dollars on rehabilitation. But unattended state of good repair needs can both reduce existing capacity and become much more expensive over time. In recognition of this need, the entire $1.39 billion added to the capital budget last year by the City Council and Mayor is devoted to work on building envelopes, including windows, exterior walls, and roofs.

Claims for Prior-Year Education Aid

The issue of State reimbursement of prior-year education expenditures remains unresolved, but may be addressed by the State legislature in the 1997-98 session. At stake for the City are millions of dollars in claims with significant implications for the City's budget.

Background. State law provides a mechanism for the State to partially reimburse school districts for expenditures made in prior years related to a variety of services such as transportation and special education. But getting reimbursed can be a long and arduous process. Historically, school districts have not submitted their claims in a timely manner. Making matters worse, the State approves and pays these claims only they have made their way through a process that often takes years to complete. As school districts fell increasingly behind in submitting their claims, it became increasingly difficult for the State to plan its expenditures for the year.

In response, the State established a schedule of deadlines in the 1994-95 State budget for school districts to submit their prior-year claims. There was, however, no provision in the new law to require the State to provide reimbursement to school districts in a more timely manner. Thus, while the Board of Education (BOE) and other school districts have been filing their claims expeditiously given the new statutory deadlines, the State has not been coming up with the money to pay for the increase in claims. The effect of the deadline has been to increase the amount of claims submitted without increasing the outflow of reimbursement funds, exacerbating the backlog of prior-year expenditure reimbursement.

Implications for the City Budget. The State's failure to increase the appropriations to pay for claims authorized by the State has significant implications for localities, like the City, that carry these reimbursements for prior-year claims as receivables on their balance sheets.

Hurdles to Resolving this Issue. A major obstacle to resolving the issue lies in the state aid formula itself, which limits the total amount of statewide prior-year reimbursement to only $21.8 million in the current year. Current law further limits the City's share of these funds to 40 percent, or a maximum of about $8.7 million per year. Given the large sums of money owed to the City, this created limitation would stretch reimbursement of the City's submitted claims over a 75-year period.

Difficulty in resolving this issue is compounded by apparent differences between State and City officials over the amount of money owed by the State. According to the State Education Department (SED), the State owes the City $108.8 million in aid for prior-year claims for services provided between 1989 and 1991, based on audits that have been completed to date. The SED still must audit an additional $547.5 million worth of City prior-year claims made between 1989 and 1995.

According to BOE and the City Comptroller, however, the State owes the City a total of $900 million in prior-year claims retroactive to 1989, including $244 million in past special education expenditures which are reimbursed through a separate formula. The summation of those claims audited and approved to date, those claims that still need to be audited, and the special education claims equal the $900 million in prior-year aid estimated by BOE and the City Comptroller.

Resolving this issue remains on the agenda in Albany. Given a recently strong revenue stream, the State now has an opportunity to clean up prior-year expenditures for the City. An agreement to schedule annual appropriations for the City could resolve the problem over a number of years and provide assurance to the financial community that the State will pay prior-year receivables carried by its localities.[25]

Bronx Garbage Exportation

As part of its effort to close the Fresh Kills landfill by the end of 2001, the Department of Sanitation (DOS) is preparing to implement the first stage of residential waste exportation. When Fresh Kills ceases operations, all waste that is not recycled must be sent either upstate or out of state for disposal. The City will soon issue contracts to private waste companies for transportation and disposal of the 1,750 tons of trash per day generated in the Bronx. The program is scheduled to begin in July 1997 with expansion to the other boroughs incrementally over the next four years.

Exporting garbage will cost the City more than the current practice of dumping at Fresh Kills. Funds have been added over the past two years at different stages of the budget process. Figure 4-7 summarizes the funds included in the executive budget for this purpose and their sources.

Figure 4-7.
Funding for Waste Exportation
(In thousands of dollars)

January 1996 Financial Plan	7,500

1998 Preliminary Budget	12,366
1998 Executive Budget	10,000
Total funds for waste exportation	*29,866*

SOURCE: Independent Budget Office.

Figure 4-8 details the various components and projected costs of the waste exportation program. The costs of privatizing waste disposal in the Bronx has two components. First, private companies hired to export the garbage will charge the City on a per-ton basis established by the forthcoming contracts. While the final figures are not yet available, the City received bids ranging from $46.64 to $66.50 per ton. In addition, DOS must hire 34 additional staff to manage and monitor these contracts.

However, exporting waste is expected to produce some offsetting savings in DOS. The City will close the Bronx marine transfer station (MTS) and reassign uniformed MTS personnel currently at the facility to other areas of the Department, resulting in overtime savings in those areas. The reduced flow of residential garbage to Fresh Kills should also result in lower landfill operating costs, including reductions in headcount (due to attrition) and savings in overtime for workers at the landfill.

Figure 4-8.
Estimated Net Cost of Waste Exportation from the Bronx
(In thousands of dollars)

Estimated Costs:	
Waste export contracts	28,216[a]
Contract management	1,650
Total Costs	29,866
Estimated Savings:	
Overtime savings due to redeployment of MTS staff	(1,155)
Headcount reduction at landfill	(1,126)
Overtime savings at Fresh Kills	(1,025)
Total Savings	(3,306)
Estimated Net Cost	26,560

SOURCE: Independent Budget Office.

NOTE: (a) Assumes export of 1,700 tons of garbage per day, 302 days per year.

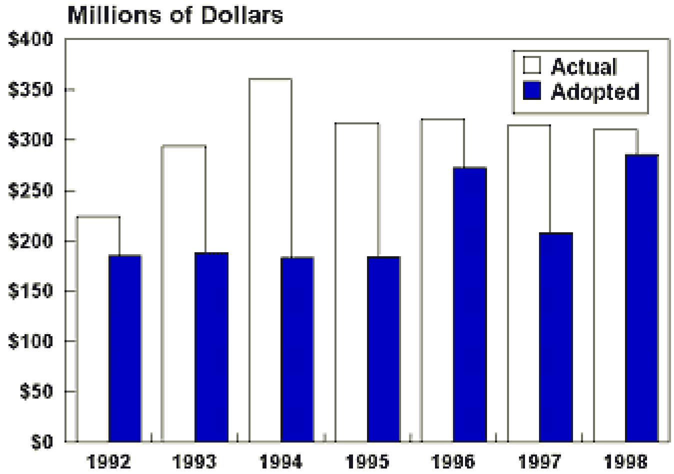
Based on the estimated amount of the waste export contracts, the per-ton cost would be about $55, which is within the lower range of the bids received by the City. Assuming this price applied to all of New York City, exporting all residential waste would cost about $145 million to $210 million, depending on the tonnage. Future exportation costs, however, will depend on the success of waste reduction and recycling initiatives and the market for landfills and incinerators outside of New York City. To the extent that contract costs are higher, the total DOS budget could possibly increase by as much as 40 percent. For a more detailed discussion of possible cost scenarios, please refer to IBO's *New York City's Fiscal Outlook*, February 14, 1997, pages 46-48.

Uniformed Personnel Overtime

IBO has analyzed the uniformed personnel overtime expenditures from 1992-1997 of the Police Department (NYPD), Fire Department (FDNY), Department of Correction (DOC) and the Department of Sanitation (DOS). The first year that uniformed and civilian overtime amounts were budgeted separately was 1992. Since then, actual overtime expenditures have been consistently higher than budgeted amounts. The amount by which actual expenditures have exceeded budgeted amounts has ranged from a low of $38.8 million, or 20.9 percent, in 1992 to a high of $177.5 million, or 97.1 percent, in 1994. The executive budget allocates about $286 million for uniformed overtime in 1998.

Figure 4-9 illustrates total uniformed personnel overtime allocations compared to total expenditures from 1992 to 1998. IBO's reestimate of overtime is based on an analysis of actual expenditures and recent experience.

Figure 4-9.
Uniformed Personnel Overtime
Adopted vs. Actual, 1992-1998



SOURCES: Independent Budget Office; NYC Comprehensive Annual Financial Report of the Comptroller, FY 1992-1996.

NOTES: Uniformed personnel includes NYPD, FDNY, DOS, and DOC. 1997 actual is an estimate based on Financial Information Systems Agency data. 1998 adopted number is from the executive budget. 1998 actual is IBO's estimate of overtime expenditures.

For 1997, a total of $208.3 million was included for uniformed personnel overtime at budget adoption. In our analysis of the 1998 preliminary budget, we estimated that uniformed personnel overtime would be $315 million in 1997. In the executive budget, the Administration has revised its forecast of uniformed personnel overtime and now expects such expenditures to be about $310 million.

Based on historical spending trends and the current difficulties in reducing overtime, IBO estimates that overtime expenditures will exceed the level proposed in the executive budget by about $25 million.

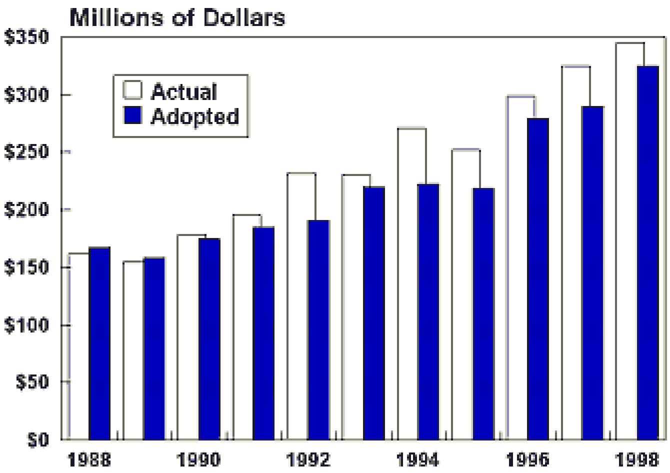
Judgments and Claims

Spending for judgments and claims reflects the City's costs for personal injury and property damage tort claims as well as certain contract liabilities. The City is self-insured, meaning that claims are paid from available resources. It accounts for these costs on a settlement basis-essentially "pay-as-you-go." The executive budget estimates expenditures of $304.6 million in 1997 and requests $325.1 million in 1998, $348.5 million in 1999, $372.7 million in 2000, and $405.0 million in 2001.

Spending associated with tort claims stems from the number of incidents resulting in settlements against the City and the award attributed to them. As can be seen in Figure

4-10, expenditures for judgments and claims increased from $161.7 million in 1988 to $298.7 million in 1996, an increase of $137.0 million, or 84.7 percent. During this time period, settlements and judgments with a value of $1 million or greater have had a significant impact on this increase. Although they account for a small proportion of the total number of personal injury settlements, they account for a large share of the cost.

Figure 4-10.
Judgments and Claims
Adopted vs. Actual, 1988-1998



SOURCES: Independent Budget Office; NYC Comprehensive Annual Financial Report of the Comptroller, FY 1988-1996.

NOTES: 1997 actual is an estimate based on Financial Information Systems Agency data. 1998 adopted number is from the executive budget. 1998 actual is IBO's estimate of expenditures.

Our analysis indicates that although the average cost for personal injury and property damage settlements for the first ten months of 1997 has declined as compared to the same period in 1996 and 1995, the volume of claims settled has increased significantly. For the first ten months of the current year, 7,730 personal injury and property damage claims have been settled. This compares to a total of 7,028 claims settled in the first ten months of 1996 and 4,986 claims settled in 1995. Even more significant is the fact that, although the settlement volume as well as the number of claims disposed of without any monetary liability have increased, there are over 80,000 cases outstanding. While only a portion of these cases will eventually result in monetary judgments against the City, they nonetheless represent a significant potential liability to the City.

In order to identify areas of improvement in managing these issues, the City has engaged the consulting firm of Price Waterhouse to conduct a comprehensive examination of the policies, methods, and procedures for processing and litigating claims. The study is expected to be completed by August 1997 and will identify areas for improving the current litigation process and reducing the budgetary impact of tort claims on the City. Pending our review of the report and the implementation of its recommendations, IBO estimates that actual expenditures will exceed budgeted amounts by approximately $20 million annually.

Labor

Transitional Labor Savings**.** At the adoption of the 1996 budget, the City, working in partnership with labor, anticipated budgetary relief through transitional productivity efficiency and labor savings. This budgetary relief consisted mainly of health benefits savings, pension savings, rescheduled welfare fund contributions and an early retirement program. At that time it was estimated that $600 million would be saved in 1996, $400 million in 1997, and $200 million in 1998.

Most of the components of these initiatives have been put in place and will be successfully implemented. However, IBO estimates that $35 million in 1997 savings, anticipated from the participation of the uniformed employee unions, may not be realized because of the uncertainty of current contract negotiations. For example, the Patrolmen's Benevolent Association and the City have agreed to binding arbitration to settle their contract impasse. This process could take several months and the value of the transitional labor savings associated with the eventual contract settlement cannot be determined. A failure of the City to reach agreement with the uniformed employee unions on a part or all of the anticipated savings could reduce the amount of the current year surplus the Administration plans to use to prepay 1998 expenses.

Labor Reserve**.** The labor reserve provides funds for costs associated with collective bargaining agreements for City employees and employees of covered organizations, as well as for costs associated with bargaining agreements negotiated by organizations whose employees provide services to the City on a contractual basis. The executive budget provides for the transfer of $256 million from the labor reserve to the budgets of various agencies and covered organizations to pay the cost of collective bargaining agreements between the City and municipal unions in 1998.

The City's financial plan has also been adjusted so that the annualized cost of pay increases received by City employees in 1997 and 1998 are included in the 1999, 2000 and 2001 financial plan of the agencies, as opposed to being carried in the labor reserve. The cost of any increases effective after 1998 as well as the annualized value of those increases are carried in the financial plan of the labor reserve.

The Administration, however, has not used this method of funding for the collective bargaining adjustments of covered organizations (Health and Hospitals Corporation, Off Track Betting Corporation, Transit Authority, Housing Authority, Fashion Institute of Technology and the Community Colleges). The executive budget provides funding for collective bargaining increases effective in 1997 and 1998 for the covered organizations as well as the annualized value of these increases in 1999-2001. However, increases effective in 1999 and subsequent years are not funded in the labor reserve, as is the case for City agencies, or in the financial plan of the covered organizations. As a result, covered organizations would be required to self-fund collective bargaining increases that have traditionally been provided by the City. Based on our review of the proposal, IBO assumes that the City will ultimately be responsible for paying the bargaining increases resulting in additional costs to the City of $104 million in 1999, $224.5 million in 2000, and $230.7 in 2001.

Public Transportation Fare Changes

Public transportation in the City will undergo a number of significant changes based on recent announcements of the Metropolitan Transportation Authority (MTA) and the Administration.

MTA Proposals**.** The MTA plans to eliminate two-fare zones for bus and subway riders, beginning in July. Under this plan, riders who take both a bus and a subway to reach their destination will be provided a free transfer. According to the MTA, elimination of the bus to subway transfer is estimated to result in lost income of about $160 million per year. While it will not have a direct impact on the City's budget, this amount represents almost 10 percent of New York City Transit's (NYCT) total income from passenger fares. In addition, NYCT will also face increased operating costs to run additional service for the increased demand that is anticipated.

In January, the MTA plans to offer eleven rides for the price of ten to MetroCard users, thereby lowering the customer's per-ride cost from $1.50 to $1.36. The MTA has also indicated that it is working on plans to tie MetroCard with the commuter railroads and New Jersey Transit commuters who transfer to the subways.

Administration Proposals**.** The Mayor has proposed two major transportation initiatives. First, the preliminary budget included a proposal that would duplicate the MTA's free transfer program for private bus users. This would result in a $27 million revenue loss for the City. Second, the Mayor recently announced his intention to eliminate the 50 cent fare on the Staten Island Ferry beginning in July of this year to coincide with the elimination of two-fare zones for bus and subway riders.

The proposal to eliminate the Staten Island Ferry fare comes on the heels of decades of efforts to raise the fare. Staten Island Ferry riders paid 5 cents from 1905 to 1972. In 1972, the fare was increased to 10 cents and remained at that level until 1975. The fare was then increased to 25 cents, where it remained for the next fifteen years.

During the period of the late 1970s through the 1980s there were various proposals to further increase the fare as a revenue producing measure during economic downturns and periods of fiscal stress. Finally, the fare was increased to the current amount of 50 cents in August of 1990. Subsequent proposals to further increase the fare were unsuccessful.

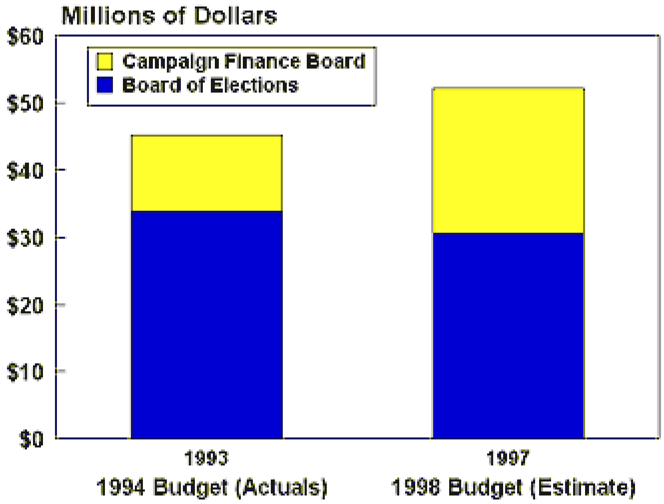
At present, the ferry has a total annual operating cost of $25 million. The fare brings in about $5 million in revenue to offset a portion of operating expenses. The remaining costs are paid with general City revenues. The Administration has stated that elimination of the fare will cost the City no more than $1 million per year. The $4 million difference is based on the assumption that revenue would have been lost anyway with the introduction of a free transfer to the ferry. However, it is not clear that the City budget reflects an adjustment for this $4 million revenue loss. The elimination of the Staten Island Ferry fare means that the City will now fully subsidize the entire cost of operating the ferry and will suffer a $5 million annual revenue loss.

There are reasonable grounds to question and support both the MTA's and the Administration's proposed changes in the price of the City's public transportation services. On the one hand, while it may seem unfair for people to pay two or three fares, the market adjusts for the effects of multiple fare zones, location, and other factors in prices for homes and other goods that benefit residents. Such a change in fare structure also represents a somewhat arbitrary transfer of wealth to a particular subset of people that includes both the wealthy and the poor. On the other hand, to the extent that the changes in fare structure make driving less appealing, they may result in increased use of public transportation. The reduction in the traffic congestion and air pollution caused by driving would reduce the external costs associated with the present commuting options faced by residents.

Campaign Finance

The Mayor's executive budget requests a total of $52.2 million in 1998 for the primary and general election needs of the Board of Elections (BOE) and Campaign Finance Board (CFB). This represents an increase of $18 million, or 51.4 percent, from the combined 1997 forecast for both agencies. The majority of the City's costs for the 1997 election will be funded in the 1998 budget via appropriations to the BOE, which manages the City's elections process, and the CFB, which implements the City's campaign financing law.[26] The last citywide election, which occurred in fiscal year 1994, was funded mainly through the 1994 budget. As can be seen in Figure 4-11, the 1998 request of $52.2 million represents an increase of $6.9 million, or 15 percent over actual 1994 expenditures of $45.3 million.

Figure 4-11.
City Spending for the 1993 and 1997 Elections



SOURCE: Independent Budget Office.

Board of Elections. The Administration requests $30.5 million for the BOE in 1998. These funds would be spent on meeting BOE's State and federal legal mandates such as examining candidate petitions, registering voters, and keeping current voter registration lists, in addition to costs more closely associated with election day such as transporting voting machines to polling sites. The requested appropriation represents a decrease of $3.3 million or 10 percent from 1994 spending levels. The projected decrease in spending is largely the result of lower costs resulting from increased computerization which has improved efficiency of BOE operations.

Campaign Finance Board. The Administration requests $21.7 million for the CFB to oversee the City's campaign financing law and provide matching public funds to candidates. This amount represents an increase of $10.2 million, or 88 percent, over CFB spending in 1994. Of the total requested, $15 million would go directly to candidates for citywide office (Mayor, Comptroller, Public Advocate), Borough President, and City Council, who participate in the City's matching public funds campaign financing program. The remaining $6.7 would go to administration and other agency expenses.

According to the CFB, the budget request is driven by the expectation that there will be an overall increase in the competitiveness for various offices, resulting in higher campaign spending. As of April 30, 1997, the final filing date for participating in the program, 186 candidates have requested to participate in the City's public campaign financing program. The number of participants who have filed for public funding is about the same as in the 1993 election. The first disbursement of public funds are scheduled to go to candidates on July 15, 1997.

New York City's Year 2000 Challenge

The "year 2000 problem," also known as the "millennium bug," refers to the inability of older computers, or legacy systems, to properly interpret dates after 1999. Due to the high costs associated with slow processing speeds and limited memory of first-generation mainframe computers, early software generally stored dates as six-digit fields (mm/dd/yy), rather than eight-digit fields (mm/dd/ccyy).

While this format has served us well since the 1960s, it poses considerable problems for date-related functions after 1999. Because the year 2000 is treated as "00" in a six-digit field, non-compliant computer systems will interpret 2000 as being less than 1997, 1998, and so forth. Computations involving the years 1997 to 2000, for example, may produce results based on a period of 98 years as opposed to the actual four years.

Since many of the City's functions depend on complex information technology (IT) systems, some of which may not be 2000 compliant, critical public services could be compromised. Some of the services that may be affected include Emergency Medical Service dispatch, birth certificate processing, and traffic management. The possibility of large-scale data corruption or system failure makes it imperative for the City to address the year 2000 challenge as expertly and expediently as possible.

IBO projects that the total cost of the City's efforts to correct the date recognition problem could range as high as $150 million to $200 million dollars over the next three years. Assuming that these costs would be spread evenly within this period, the plan would require the City to budget an average of $50 million to $67 million in each of the fiscal years from 1998 to 2000.

Cost Estimates of the City's Year 2000 Plan. There are two basic factors that determine the total cost of the City's year 2000 plan: *size* (number of lines of code) and *per unit rate* (cost to repair each line of code).

Figure 4-12.
Initial Total Cost Estimates of the Year 2000 Plan
(In millions of Dollars)

Number of Lines of Code	Average Cost per Line of Code				
	$0.42	$0.64	$1.10	$1.50	$2.00
75 million	31.5	112.5	150.0	48.0	82.5
100 million	42.0	110.0	150.0	200.0	64.0
125 million	52.5	137.5	187.5	250.0	80.0

SOURCE: Independent Budget Office.

Lines of Code. An initial cost estimate of the City's year 2000 problem is $110 million, based on 100 million lines of code (LOC) and a per unit price of $1.10.[27] IBO's research indicates that estimates of LOC can be greatly overstated. For example, the State of Minnesota found that the initial estimate of LOC in its systems was overstated by more than 50 percent. If the above estimate were off by this degree, the cost of the City's year 2000 plan would be $55 million, at the per unit price of $1.10.

Conversely, if the actual number of lines of code were greater than the above estimate, the final project cost would also increase substantially. If the actual number of LOCs in the City's systems were 125 million, for example, the total costs associated with the City's year 2000 plan would be $137 million, assuming the per unit price is accurate.

The Administration's audit of the City's computer systems is presently underway and should be completed this June. While our research indicates that the current estimate of 100 million lines of code is not unreasonable;[28] at present, the major factor we believe would increase the current cost estimate is that the per unit rate of $1.10 appears to be understated.

Per Unit Price. Our research found per line costs that were both lower and higher than the $1.10/LOC estimate. At the low end, New York City Transit reported a cost of $0.42/LOC in its year 2000 compliance initiative. Transit's low cost is partly due to earlier modifications to its central control system, and the fact that a substantial portion of the code conversion and testing process was done in-house. Similarly, the State of Minnesota reported a cost of $0.64/LOC. At the higher end, the Gartner Group, an IT advisory firm, recently reported labor costs of $1.50/LOC.[29] Some quotes were as high as $5-$8/LOC, although they did not appear to be representative.

Other Factors. There are a number of other factors that could increase the cost of New York City's year 2000 plan, but cannot be priced out at this time. First, the sheer vastness of the City's computer system makes it more difficult to fix than the other systems in our survey. Second, complex IT systems, such as New York City's, require massive amounts of data to be shared between city, state and federal agencies. Over time, this situation has created huge stores of code linkages (which allow programs to interface with one another), that must also be amended and tested for compatibility.

Third, the City operates a preponderance of legacy systems, many of which have not been upgraded nor even adequately maintained since their inception. Fourth, competition for increasingly scarce programming resources in the private sector and the possible loss of personnel from the City's technology-literate workforce will increase year 2000-related labor costs, which are up 30 percent in the last year alone. Finally, the City must also be prepared to purchase more powerful hardware and non-computer durables that would be capable of processing the more advanced code.

Conversely, there are mitigating factors that might decrease the cost of the year 2000 plan. These factors include the degree to which the City's systems do not need repair.[30] For example, a number of applications in use at City agencies are already 2000-compliant. A second factor would be the effort to reduce the number of data centers operated by the City. The recent consolidation of a number of IT systems into the Department of Information Technology and Telecommunications (DoITT) may lower costs by centralizing the efforts needed to achieve year 2000 compliance. Lastly, the use of in-house resources as opposed to procuring such services in the private sector can also reduce the final project cost. For example, New York City Transit found that the cost of using internal staff was 50 percent less than that of private contractors for the same job.

IBO expects that the per unit price will more likely fall between $1.50/LOC and $2.00/LOC. The lower end cost quotes noted above are unlikely to be realized by the City as a result of various factors such as the age, size, and complexity of its current systems. The two higher end figures are more current and more accurately reflect the effects of supply and demand for the service as the deadline approaches. While quotes in the $5 to $8 range per line of code were found not to be representative of the going rate, rates of this magnitude suggest that the average price per LOC could be higher than anticipated.

Based on the above information and using the estimate of 100 million LOC, IBO projects that the cost of the City's year 2000 plan is likely to be between $150 million and $200 million over the next three years, averaging $50 million to $67 million in each fiscal year from 1998 to 2000.

Appendix

A

Gap Sheet Details

IBO's Budgetary Estimates

(In millions of dollars)	1997	1998	1999	2000	2001
Revenue					
Taxes					
Property	7,210	7,208	7,381	7,624	7,866

Personal Income	4,333	4,481	4,721	5,004	5,281
General Sales	2,923	3,049	3,170	3,282	3,392
Business Income	2,419	2,118	2,208	2,381	2,505
Real-estate Related	775	815	859	907	958
Other Taxes (with Audits)	1,531	1,558	1,573	1,587	1,603
Tax Reduction Program	-	(240)	(407)	(434)	(448)
Proportionate State Tax Relief	-	(47)	(254)	(472)	(722)
Total Taxes	19,191	18,942	19,251	19,879	20,435
Miscellaneous Revenues					
(Net of Intra-City Revenue)	2,997	2,960	2,417	2,384	2,378
Other Revenue					
Unrestricted Intergovernmental					
Aid Proportionate State Tax Relief	-	47	254	472	722
All Other Unrestricted Aid	641	741	599	599	599
Other Categorical Grants	386	292	292	293	294
Inter-Fund Revenues	244	265	265	262	262
Disallowances	(15)	(15)	(15)	(15)	(15)
Total Other Revenue	1,256	1,330	1,395	1,611	1,862
Total City Revenues	23,444	23,232	23,063	23,874	24,675
State and Federal Categorical					

Grants	10,661	10,830	10,900	11,047	11,339
TOTAL REVENUE	34,105	34,062	33,963	34,921	36,014
Expenditures					
City Funded (Net of Intra-City Sales)	23,471	23,323	25,171	26,784	27,573
State and Federal Categorical Grants	10,661	10,830	10,900	11,047	11,339
TOTAL EXPENDITURES	34,132	34,153	36,071	37,831	38,912
SURPLUS/(GAP)	**(27)**	**(91)**	**(2,108)**	**(2,910)**	**(2,898)**

SOURCE: Independent Budget Office.

NOTE: IBO's budgetary estimates are based on adoption of the policies and programs proposed in the Mayor's 1998 executive budget. All amounts are before out-year gap closing initiatives.

IBO's Reestimate of the 1997 - 2001 Financial Plan

(In millions of dollars)	1997	1998	1999	2000	2001
Gap as Estimated By Mayor	-	-	(1,990)	(2,881)	(2,704)
IBO Reestimates					
Revenues					
Taxes					
Property	(10)	15	70	63	11
Personal Income	17	148	141	144	157

General Sales	5	30	37	(1)	(27)
Business Income	39	67	80	153	189
Real-estate Related	1	6	3	3	16
Tax Reduction Program	-	(3)	(10)	(11)	(13)
Miscellaneous Revenues					
Airport Rent	-	(270)	(215)	-	-
Collections Initiative	-	(20)	(20)	(20)	(20)
Total Revenues	52	(27)	86	331	313
Expenditures:					
Public Assistance	-	12	(22)	(30)	(32)
Medical Assistance	(4)	(31)	(33)	(48)	(61)
Education	-	-	-	(13)	(138)
Overtime	(5)	(25)	(25)	(25)	(25)
Judgments and Claims	(35)	(20)	(20)	(20)	(20)
Transitional Labor Savings	(35)	-	-	-	-
Labor Reserve	-	-	(104)	(224)	(231)
Total Expenditures	(79)	(64)	(204)	(360)	(507)
Total Reestimates	(27)	(91)	(118)	(29)	(194)
Gaps Under the Mayor's Executive Budget as Estimated by IBO	**(27)**	**(91)**	**(2,108)**	**(2,910)**	**(2,898)**

SOURCE: Independent Budget Office.

NOTE: All amounts are before out-year gap closing initiatives.

Appendix

B

Major Contributors to the Revenue and Expenditure Projections

The following Independent Budget Office staff prepared the revenue and expenditure projections in this report:

Economic Analysis Division

Michael Jacobs	Business and Personal Income Taxes
George Sweeting	Property Taxes
Luan Lubuele	Econometric Modeling and Education
David Belkin	Sales Taxes

Budget Analysis Department

Terri Matthews	Debt Service
Tim Mulligan	State and Federal Categorical Aid
Frank Posillico	Budget Projections

Health and Human Services

Paul Lopatto	Medicaid and Public Assistance
Deborah Ahrens	Health and Social Services

Jonathan Cortell	Health and Social Services
Ritta McLaughlin	Social Services
Sofía Quintero	Medicaid

Housing, Education and Infrastructure

Patrick Killackey	Board of Education
Eric Dixon	Housing and Buildings
Nancy Penska	Board of Education and City University
Martha Prinz	Transportation Services
Joyce Sun	Libraries, Parks, and Culturals

Uniformed Services

Richard Greene	Overtime, Judgments and Claims, and Labor Reserve
Ian Brown	Sanitation
Paul Greaves	Public Safety and Judicial
Jenell Horton	Environmental Protection, Judicial, and Elections
Bernard O'Brien	Public Safety and Judicial

<u>Other</u>

Beth Moodie	General Support
Indera Segobind	General Support
Deanice Jenkins	General Support

FOOTNOTES:

1 All economic data are reported on the basis of calendar years, while all revenue data are on a fiscal year basis.

2 The Blue Chip consensus forecast is based on a survey of 40 to 50 private-sector economists.

3 Because New York City has a mature economy with a relatively stable population, long-run City employment growth is generally lower than employment growth nationwide.

4 Seasonally adjusted payroll employment. Source: Federal Reserve Bank of New York.

5 Unless otherwise noted, the revenue forecasts for specific taxes do not include audit payments. Audit payments for all taxes are projected by OMB as a separate tax revenue item.

6 The estimated cost of the lower Manhattan program's tax abatement has increased since the preliminary budget was released in January. The 1998 cost is $1 million higher; for 2001 it is $15 million higher. Given that the increase is included in the baseline, one might conclude that the higher cost is attributable to revised estimates as to the number of properties participating in the program. In reality, the increased cost assumes that new legislation extending and expanding the program's benefits will be enacted. Rather than identify these changes as part of the tax reduction program, the executive budget obscures the fact that any changes are contemplated by simply including the higher costs as part of the baseline budget with no explanation for why they differ from the preliminary budget.

7 Technically, the budget also distorts the baseline in its treatment of this program. The coop and condo abatement was enacted as a three-year interim program beginning in 1997, pending development of a longer-term solution leading to full equalization of tax burdens for all owner-occupied housing. Although the abatement expires in 1999, the cost remains in the baseline for 2000 and 2001.

8 County and industry data on taxable sales and purchases is reported biannually by the New York State Department of Taxation and Finance, Office of Tax Policy Analysis.

9 PEGs refer to new initiatives undertaken as part of the Program to Eliminate the Gap. In most areas of the budget they represent expenditure reductions. However, in the revenue budget they usually represent new tax enforcement projects.

10 Product sale data for New York City were provided by the Retail Division of the Bureau of the Census, U.S. Department of Commerce.

The estimate of the under-$500 share of apparel sales comes from the New York City Department of Finance.

11 At present the exemption is measured after applying a 25 percent discount factor so that the exemption level is usually expressed as $40,000. Under the new proposal, the exemption would be computed before applying the discount factor.

12 Rent subject to tax is discounted by 25 percent under current law. The proposal would increase the discount to 35 percent. The tax is then computed as six percent of the discounted rent. Because of the discounting, the effective tax rate would decline from the current 4.5 percent to 3.9 percent under the proposal.

13 The CRT liability year covers June 1st to the following May 31st. September 1, 1998 marks the start of the second quarter of the 1998/99 CRT liability year.

14 IBO, *School Tax Relief and Education Aid Proposals: Impacts on New York City,* April 1997.

15 IBO, *Analysis of the Mayor's Budgetary Proposals.*

16 Both the Mayor's and IBO's projections assume that the present HR and AFDC (TANF) programs will emerge essentially intact or that these populations will merely be redistributed into three or five categories with no impact on the overall census or cost. They also assume that grant levels will not be reduced, and the new federal welfare law will not be substantially revised by Congress. The recent federal budget agreement casts some doubt on the latter assumption.

17 Projected expenditures for HR and, to a lesser extent, AFDC drop substantially in 2000 and 2001 due to the inclusion of a PEG based on the City's new naturalization initiative known as "Citizenship NYC" which would assist legal immigrants in becoming American citizens. The PEG assumes that by 2000, 75 percent of legal aliens who would lose federal SSI benefits due to their citizenship status will regain these benefits by attaining citizenship and thus leave the HR or AFDC rolls. The effects of this PEG are included in the Mayor's expenditure projections but not in the caseload projections.

18 To date, seven of the affiliation agreements have been revised. The Corporation has renegotiated contracts with the following affiliates: New York Medical College, Saint Barnabas Hospital, Woodhull Medical Group, Montefiore Medical Center, Columbia University College of Physicians and Surgeons, Mount Sinai School of Medicine, and the New York University Medical Center.

19 Barondess Commission. Review of the City's Hospital System. New

York: 1993, p. 43.

20 Report of the City Hospital Visiting Committee. The State of New York City's Municipal Hospital System FY 1996. New York: United Hospital Fund, 1996, p. 10.

21 It has been reported that despite representing 20 percent of the health care system in New York, HHC accounts for over 39 percent of Medicaid inpatient days and nearly 35 percent of all uninsured or self-pay days. Charles Brecher. Privatization and the Public Hospitals. New York: Twentieth Century Fund, 1996.

22 Informal day care is unregulated home-based care provided by a relative or acquaintance. Providers enroll with ACD or OES to receive payment but are not licensed, monitored, or required to meet the health and safety standards required of ACD family and group day care providers.

23 "Chancellor's 1997-98 Budget Request," p. 15.

24 The preliminary budget describes the investment as $500 million for over 64,500 seats from 1997 to 1999. However, 5,000 seats will be drawn not from capital investments but from implementing year-round education at schools that have air-conditioning to support it. The actual cost of the seats is estimated to be $717 million. The City arrives at $500 million by subtracting $387 million in costs covered by funds shifted forward from 2000, adding $161 million in costs for investments in new computers and lead abatement, and rounding.

25 It should be noted that, in the case of the City, these appropriations would probably be directed to the City's coffers, not BOE's, since the City has covered BOE for its anticipated reimbursements of prior-year expenditures.

26 The Board of Education and the Police Department provide critical support on election day. The Board of Education opens public schools across the City from 6am to 9pm and cleans the facilites after the polls close. The Police Department assigns one police officer to each polling site to observe during voting hours and to transport the election results, in addition to providing guard duty for the counting of the paper ballots. The Department's computers generate poll information seen on television.

27 Eristoff, Andrew S., "Preparing the City's Computers for the Year 2000: Summary of Oversight Findings and Recommendations," *Task Force on Technology in Government,* December, 1996, pg. 9.

28 The 100 million LOC size estimate covers only IT systems that belong to *mayoral* agencies; it does not include year 2000-related needs of covered agencies, such as Board of Education, Health and Hospital

Corporation, Transit Authority, and City University of New York. A full analysis of the City's year 2000 plan should also include the cost of repairing the date recognition problem within the systems of the covered agencies.

29 Caldwell, Bruce and Bob Violino, "Year 2000 Costs Climb," *Information Week,* April 7, 1997.

30 The City's year 2000 plan will also not include the cost of the IFMS 2000 plan, which is a separate technology initiative to upgrade the City's financial accounting system. The 1998 capital budget proposes an additional $185 million for this purpose.