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This report provides a follow-up to *New York City's Fiscal Outlook*, issued last month by the Independent Budget Office (IBO) to project baseline revenues and expenditures assuming existing spending policies and tax laws are allowed to run their present course. Now that we have established a base against which to measure policy proposals, a logical next step (and one required by section 246 of the New York City Charter) is to perform an analysis of the Mayor's preliminary budget for 1998.

IBO has developed two distinct projections of the City's budget to perform its analysis. These projections—our current services baseline and reestimate of the Mayor's budget—both forecast expenditures and revenues but are very different measures used for fundamentally different purposes. They should not be viewed as competing estimates. Our current services baseline projections serve as a starting point for analyzing the Mayor's budget. The baseline is altered to reflect the fiscal effect of proposals contained in the budget, including spending priorities, gap closing initiatives, and changes to tax policy. Resulting budgetary implications, however, are not identical to those contained in the Mayor's plan because IBO uses different policy, economic, and technical assumptions to derive its estimates. Our reestimate of the Mayor's budget is the focus of this report.

Chapter 1 of the report provides a discussion of IBO's re-pricing of the Mayor's budget, major reestimates, and significant changes from our current services projections. Chapter 2 provides our reestimate of the Mayor's revenue forecast along with a discussion and re-pricing of the Mayor's tax reduction initiatives. Chapter 3 contains an analysis of preliminary budget spending proposals, highlighting changes from 1997 forecasted levels and those areas where significant pricing differences with the Mayor's projections occur.

This report was completed under the supervision of C. Spencer Nelms, Jr. who heads IBO's Budget Analysis Division and Ronnie Lowenstein who leads our Economic Analysis Division. Frank Posillico and George Sweeting coordinated all spending and revenue projections. In addition to their programmatic responsibilities, Martha Prinz served as project manager for the report and Ian Brown as desktop publishing guru. A list of IBO contributors and their respective areas of responsibilities follows at the end of the report.

March 21, 1997

Douglas A. Criscitello
Director

ANALYSIS OF THE MAYOR'S BUDGETARY PROPOSALS
March 21, 1997

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Chapter 1

Overview

In February 1997, the Independent Budget Office (IBO) issued *New York City's Fiscal Outlook* unveiling our newly developed current services baseline. The primary reason for constructing a baseline that keeps current laws and policies unchanged is to provide a meaningful alternative reference point for elected officials, the public, and

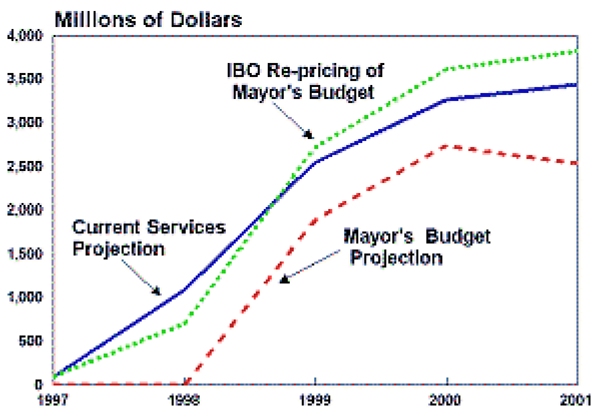
IBO to consider the Mayor's preliminary budget as the annual budget adoption process gets underway. With such a base now established, IBO has prepared this analysis of the Mayor's preliminary budget for 1998 as required by the New York City Charter. This report focuses on IBO's re-pricing (also referred to as our "reestimate") of the Mayor's budgetary proposals and provides a comparison of the Mayor's plans, as reestimated by IBO, with our current services baseline.

In its reestimate of the Mayor's budget, IBO estimates that gaps would occur in each year of the financial plan ranging from $701 million in 1998 to $3.8 billion in 2001. Our gap projections are higher than the Mayor's forecast by $701 million in 1998 rising to $1.3 billion by 2001. While the precise reasons for these higher gap estimates are detailed below, they result, more generally, from varying policy, economic, and technical assumptions that IBO has used to score the Mayor's proposals.

IBO's scoring of the preliminary budget suggests that the Mayor's policies would modestly change the projected gaps that would occur under existing laws and policies. Compared with IBO's baseline projections of revenues and spending, which assume current laws and policies remain unchanged, IBO's reestimate of the Mayor's budget shows that gaps would be $387 million lower in 1998, but higher by $183 million in 1999, $349 million in 2000, and $383 million in 2001.

Although IBO shows a gap of $87 million for 1997 in this report, we do not expect one to occur. A gap is shown because we have assumed $391 million in excess 1997 funds will be used to prepay certain 1998 expenses; an assumption necessary to establish a consistent starting point with the Mayor's budget. If IBO's spending and revenue forecasts for 1997 prove correct, the effect would be to reduce the expected rollover from $391 million to $304 million and to increase our 1998 gap estimate by $87 million.

Figure 1-1.
Projected Budget Gaps



Source: Independent Budget Office

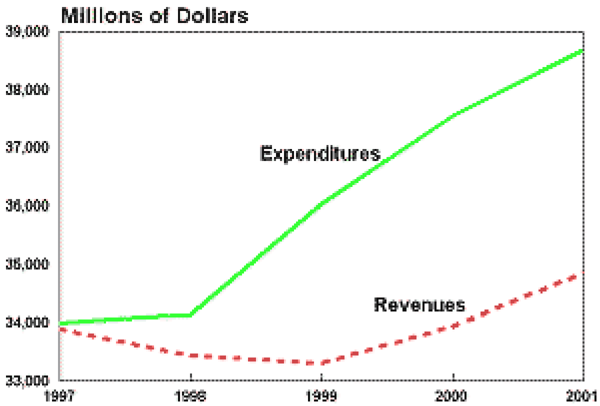
Although the City has managed to balance its books in each of the last 17 years, these large out-year gaps could portend the need to cut services or raise taxes in the years ahead, particularly in the event of an economic downturn. It is important to note that the Mayor's out-year financial plan assumes continued growth in the local economy. In the event of an economic downturn, however, spending needs would likely increase— particularly for social programs—at a time when revenues would likely be decreasing, making future budget gaps substantially larger than projected above. If this were to occur, whoever is Mayor would face the unenviable choice between increasing taxes in a slow economy or reducing spending when it is needed most.

Absent a significant downturn, if history is any guide these out-year gap projections will get smaller as a result of changes to the Mayor's financial plan as each new fiscal year approaches. The negative consequences of last minute, incremental service reductions, tax increases, or an over-reliance on non-recurring revenues (of which there are a finite number) to pay for ongoing expenses, however, highlight the need for the City to adequately plan for its financial future now. While the Mayor's budget contains an out-year gap closing plan, details are very sketchy. A more articulated systematic, long-term plan to close projected gaps would help eliminate budget year balancing scrambles, improve the City's bond rating, and instill confidence in the citizenry that its government is behaving in a fiscally responsible manner.

Budget Summary

The preliminary budget reflects an improving local economy which has allowed the Mayor to propose fewer spending reductions than in recent years coupled with a reduction of certain taxes paid by New Yorkers. IBO projects that both City-funded and overall spending for 1998 would remain roughly at current year levels if the Mayor's budget was adopted in its entirety. As shown in Figure 1-2, beyond 1998 we expect expenditures to grow at a substantially faster pace than revenues, leading to the large budget gaps illustrated in Figure 1-1 above.

Figure 1-2.
Projected Revenues and Expenditures
Assuming Adoption of Mayor's Budget



Source: Independent Budget Office

The Mayor's plan for 1998 benefits from increasing revenues, a carryover of surplus 1997 funds, savings assumed from reforms to entitlement programs, bond refundings from the Municipal Assistance Corporation, and increased unrestricted intergovernmental aid. These items account for an additional $1.5 billion not assumed in earlier financial plan projections. Nevertheless, the budget does propose to reduce agency programs by $558 million in 1998.

Further, the Mayor proposes to reduce the sales tax, the tax on unincorporated businesses, and the commercial rent tax. The fiscal prudence of cutting taxes depends on anticipated spending requirements, the specific taxes under consideration, and on the sustainability of recently strong revenue growth. Although the chosen tax cuts are primarily targeted to stimulate growth, the larger question is whether the City will ultimately be able to afford them. The magnitude of projected out-year gaps calls into question the sustainability of any tax cuts.

Figure 1-3.
IBO's Budgetary Estimate Under the Mayor's Policies (In millions of dollars)

	1997	**1998**	**1999**	**2000**	**2001**
Revenues:					
Taxes	18,806	18,684	19,065	19,714	20,341
Micellaneous Revenues	3,454	2,967	2,486	2,256	2,246
State/Federal Categorical Aid	10,473	10,622	10,728	10,942	11,243
Other	1,174	1,170	1,032	1,029	1,029
Total Revenue	33,907	33,443	33,311	33,941	34,859
Expenditures:					

City-Funded	23,521	23,522	25,314	26,608	27,437
State/Federal Categorical Funded	10,473	10,622	10,728	10,942	11,243
Total Expenditures	33,994	34,144	36,042	37,550	38,680
IBO Surplus/(Gap) Estimate (Revenues-Expenditures)	(87)	(701)	(2,731)	(3,609)	(3,821)

SOURCE: Independent Budget Office.

NOTES: All amounts are before out-year gap closing intitiatives.
Figures do not include intra-city revenues and expenditures.

IBO Reestimates

Figures 1-3 and 1-4 summarize significant differences between IBO’s reestimated projections and the projections contained in the Mayor’s preliminary budget. It must be emphasized that differing estimates of City revenues and City-funded spending have a direct impact on projected gaps, while varying estimates of State and federal aid have no net budgetary impact because such grants are fully expended.

City Funds

Over the 1998-2001 period, IBO projects higher gap estimates in its reestimate of the Mayor's budget than those forecasted by the Mayor. For 1998, IBO's gap estimate is $701 million higher than the Mayor’s budget—which predicts a balanced budget for the coming fiscal year. More specifically, IBO’s re-pricing of the Mayor’s budget yields $258 million in lower City revenues and $443 million in higher expenditures. Much of the difference in revenues results from IBO's view that the City will be unable to realize all of the additional airport rent sought by the Mayor. Most of the difference in spending estimates—discussed in more detail below—can be found in projections for public assistance and Medicaid.

For 2001, IBO’s gap estimate under the Mayor’s policies is $1.3 billion higher than amounts projected in the Mayor’s budget. Our estimate of City revenues is $268 million lower due primarily to IBO's projection of slower growth in property and income taxes, while our spending estimates for public assistance, Medicaid, education, overtime, judgment and claims, and the City's labor reserve fund are $1.0 billion higher than forecasted by the Mayor.

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

	1997	**1998**	**1999**	**2000**	**2001**
Gaps as estimated by the Mayor	-	-	(1,895)	(2,739)	(2,542)
IBO Reestimates:					
Revenues:					
Taxes:					
Property	7	(12)	43	12	(68)
Personal Income	37	41	3	(42)	(170)
General Sales	(22)	(13)	(20)	(19)	(21)
Business Income	53	19	41	30	28
Real-estate Related	-	-	(5)	(6)	(2)
Tax Reduction Program	-	(3)	(14)	(14)	(15)
Miscellaneous Revenues:					
Airport Rent	-	(270)	(215)	-	-
Collections Initiative	-	(20)	(20)	(20)	(20)
Total Revenue	75	(258)	(187)	(59)	(268)
Expenditures:					
Public Assistance	(68)	(103)	(121)	(147)	(206)
Medical Assistance	(6)	(281)	(251)	(266)	(279)
Education	-	-	(111)	(111)	(237)
Overtime	(20)	(25)	(25)	(25)	(25)
Judgments and Claims	(33)	(34)	(37)	(38)	(33)
Transitional Labor Savings	(35)	-	-	-	-
Labor Reserve	-	-	(104)	(224)	(231)
Total Expenditures	(162)	(443)	(649)	(811)	(1,011)

Total Reestimates	(87)	(701)	(836)	(870)	(1,279)
Gaps Under the Mayor's Budgetary Proposals as Estimated by IBO	(87)	(701)	(2,731)	(3,609)	(3,821)

SOURCE:	Independent Budget Office.
NOTES:	Negative numbers indicate increases in the budget gap. All amounts are before out-year gap closing intitiatives. Figures do not include intra-city revenues and expenditures.

Taxes. IBO's forecast of City tax revenue is very similar to the Mayor's budget for most of the financial plan period. In general, the revenue impact of our somewhat more pessimistic economic assumptions is offset by technical factors. IBO's revenue forecast is slightly more optimistic over the near term, with $32 million of additional revenue in 1998 and $48 million in 1999; in both years, IBO's estimates of higher tax revenues are partly offset by our projection that the Mayor's tax reduction program will be somewhat more costly than forecast in the Mayor's budget. In contrast, IBO's forecast for City tax revenue is more pessimistic than the Mayor's for the latter part of the plan period, with $39 million less revenue in 2000 and $248 million less in 2001.

Miscellaneous revenues. IBO forecasts miscellaneous revenues that are $290 million and $235 million lower than the Mayor's budget in 1998 and 1999, respectively. In particular, IBO believes there is considerable risk as to both the size and the timing of airport rents, which is the topic of an ongoing dispute between the Port Authority and the City. IBO also questions the revenue projected by the Mayor for collections initiatives beginning in 1998. These initiatives are part of a long-delayed program to consolidate various activities within the Department of Finance.

Public assistance. IBO forecasts substantially higher spending on public assistance than amounts projected in the Mayor's budget. The Mayor's plan does not take into consideration the full effects of the new federal welfare law, and assumes that recent welfare caseload reductions will continue through June 1998, with no caseload changes thereafter through 2001.

Two provisions of the new law—to increase work quotas for adult welfare recipients and to ban most legal immigrants from federal assistance programs—will likely have a particularly strong impact on future caseloads and expenditures. Work quota increases will require substantial new expenditures for workfare administration and associated child care, especially in the later years of the plan. The restrictions on federal assistance to legal aliens, especially those limiting eligibility for Supplemental Security Income, will significantly increase State- and City-funded Home Relief caseloads as low-income elderly and disabled individuals move off federal welfare rolls. Overall, IBO projects additional City spending on public assistance (above the Mayor's plan) of $103 million in 1998 growing to $206 million by 2001.

Medical assistance. Similarly, IBO projects significantly higher spending on medical assistance than levels reflected in the Mayor's budget. The budget assumes adoption of measures in the Governor's executive budget that would hold down costs of Medicaid by eliminating inflationary increases and taking other cost-saving actions. The Mayor's budget also assumes little growth in overall Medicaid costs. The use of preliminary State estimates of decreased Medicaid costs has proven problematic for the City in recent years, as actual reductions adopted by the State legislature have been less than those proposed in the executive budget. In addition, the growth rates of Medicaid expenditures assumed in the Mayor's budget are low compared to historical trends. Overall, IBO projects additional City spending on medical assistance of $281 million in 1998 and comparable amounts each year thereafter through 2001.

Education. Given that enrollment is a significant factor in determining education spending, IBO has developed a model to forecast Board of Education expenditures. Based on extensive econometric analysis, IBO forecasts that education spending would be $111 million higher than the Mayor's budget in 1999 and 2000, and $237 million higher in 2001. In addition to enrollment, IBO's estimate takes into consideration such factors as pupil-to-teacher ratio, the number of teachers system-wide, and inflation.

Labor reserve. Additional funding needs for the City's labor reserve are forecast to be $104 million in 1999 growing to $231 million in 2001 over amounts assumed in the Mayor's plan. The plan includes no collective bargaining increases for covered organizations beyond the annualized values of increases in 1997 and 1998. While it is the Mayor's position that the covered organizations will have to pay for any additional increases themselves, the City has traditionally funded these collective bargaining increases.

Other spending. IBO also projects substantially higher spending in several other areas of the budget. Uniformed personnel overtime costs are forecast to be $25 million higher annually than the Mayor's plan over the 1998-2001 period. While some of the City's overtime control strategies have been successful, the City has not realized the full savings intended from these measures. Further, IBO forecasts additional spending on judgments and claims of $34 million in 1998 and similar amounts thereafter based on our analysis of expenditure growth showing higher than anticipated growth since 1990.

State and Federal Categorical Aid

IBO forecasts higher State and federal categorical aid over the 1997-2001 period compared with amounts estimated by the Mayor. For 1998, IBO's projection for State categorical aid is $219 million higher than the Mayor's. By 2001 this difference grows to $598 million. IBO's projections for public and medical assistance and education more than account for our higher projections. State categorical aid projections for all other agencies are slightly lower than the Mayor's by $16 million in 1998 decreasing to less than $1 million in 2001. Estimated federal categorical aid is $550 million higher than the Mayor's in 1998, a difference that increases to $741 million by 2001. IBO's projections for education and HPD account for about half of this difference for the period 1998-2001. IBO's categorical projections for health, social services, police, child services and transportation comprise another third of the difference. In the absence of contrary evidence, IBO projections assume the continuation of aid initiatives consistent with recent trends.

Figure 1-5.
IBO’s Reestimate of State and Federal Categorical Grants (In millions of dollars)

	1997	1998	1999	2000	2001
Mayor's Prliminary Budget	10,447	9,853	9,833	9,870	9,904
IBO Reestimate	10,473	10,622	10,728	10,942	11,243
Difference	26	769	895	1,072	1,339

SOURCE: Independent Budget Office.

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

Comparison with Current Services Projections

IBO estimates that enacting the Mayor’s budgetary proposals would modestly change projected gaps from the levels forecasted in our current services baseline. IBO’s reestimate of the Mayor’s tax reduction program projects lower tax revenues than current services by $253 million in 1998 and $553 million by 2001. Offsetting these reductions are increases in miscellaneous and other revenues totaling $353 million in 1998 decreasing to $25 million by 2001. IBO also estimates that agency spending under the Mayor's proposals would be $287 million lower than current services projections falling to $145 million by 2001.

Figure 1-6.
IBO's Current Services Baseline (In millions of dollars)

	1997	**1998**	**1999**	**2000**	**2001**
IBO's Current Services Baseline Gap	(87)	(1,088)	(2,548)	(3,260)	(3,438)
IBO's Scoring of the Mayor's Budgetary Proposals					
Revenues Changes:					
Tax Reduction Program	-	(253)	(477)	(532)	(553)
Miscellaneous Revenues	-	209	24	22	23
Other Revenue	-	144	2	2	2
Expenditure Changes:					
Agency Changes	-	287	268	159	145
Total Changes	-	387	(183)	(349)	(383)
Gaps Under the Mayor's Budgetary Proposals as Estimated by IBO	(87)	(701)	(2,731)	(3,609)	(3,821)

SOURCE: Independent Budget Office.

NOTES: Negative numbers indicate increases in the budget gap.
All amounts are before out-year gap closing intitiatives.
Figures do not include intra-city revenues and expenditures.

City Funds

Revenues. The centerpiece of the Mayor's tax reduction program is the proposed elimination of sales taxes on apparel items priced under $500. IBO estimates that the sales tax cut would decrease City fund revenue by $153 million in 1998 and by nearly twice as much in 2001. Two proposals for further reductions in the Commercial Rent Tax—an increase in the threshold exempting tenants from the tax and a 33 percent reduction in the effective tax rate for remaining non-exempt taxpayers—would decrease revenue by $30 million in 1998 and $173 million in 2001. Finally, the Mayor's proposal to increase the credit for Unincorporated Business Tax filers with relatively small liabilities would cost $57 million in 1998 and comparable amounts each year thereafter through 2001.

Expenditures. Reductions in City-funded spending on police, cultural affairs activities, the Health and Hospitals Corporation, and certain actions anticipated from the State account for 81 percent of the $287 million in spending reductions below current services levels in 1998.

- Police Department funding would total $67 million less than current services projections. This is due in large part to the fact that the 1998 current services estimate assumes the continued funding of 1,841 uniformed and civilian positions slated for attrition in the Mayor's budget. The uniformed headcount would be brought back to the 1997 level in 1999. (Developments subsequent to the issuance of the Mayor's budget suggest that the positions may be restored in 1998).
- Cultural affairs activities would be about $18 million lower, due mainly to reduced funding to cultural institutions and program services in the Mayor's budget.
- HHC funding would be $77 million lower. This is due primarily to the State's proposed entitlement reductions, declining inpatient utilization at public health care facilities, and increasing use of voluntary hospitals by Medicaid beneficiaries.
- Anticipated State actions yield a $68 million savings due to such proposed initiatives as housing loan restructuring, a corrections reimbursement increase, State takeover of CUNY associate degree programs, and increased revenue sharing of the stock transfer tax.

State and Federal Categorical Aid

IBO's projection of State and federal categorical aid, assuming enactment of the Mayor's budget, provides our best estimate of grants to be received by the City. Our current services projection, however, is based on a simple assumption that most aid will be provided at 1997 levels, adjusted for inflation.

Figure 1-7.
IBO's Current Services Baseline: State and Federal Categorical Grants (In millions of dollars)

	1997	**1998**	**1999**	**2000**	**2001**
Current Services Baseline	10,473	10,702	10,894	11,091	11,389
IBO Reestimate	10,473	10,622	10,728	10,942	11,243

Difference	-	80	166	149	146

SOURCE: Independent Budget Office.

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

Chapter 2

Revenue Estimates

Overview

IBO estimates that if the Mayor's policy proposals are adopted, total revenues would rise from $33.9 billion in 1998 to $34.9 billion in 2001. However, the outlook for each of the three primary revenue streams included in total revenues—tax revenues, miscellaneous revenues, and State and federal categorical aid—varies significantly.

This chapter presents details of IBO's forecast of total revenues. The first section—which comprises the majority of the chapter—focuses on tax revenues. The section begins with an overview of IBO's tax revenue forecast, contrasts our forecast with that of the Mayor, and provides a close look at the three major components of the Mayor's tax reduction program. The chapter concludes with brief discussions of miscellaneous revenues and categorical aid.

Tax Revenues

Fueled by record earnings on Wall Street and led by collections from personal and business income taxes, 1997 tax revenues are growing briskly. Although IBO projects that 1998 tax revenue growth will be somewhat less robust as Wall Street returns to a more normal level of profits, we expect continued economic expansion at a more moderate rate to sustain revenue growth through 2001. A significant portion of the projected revenue growth would be foregone, however, if the Mayor's tax reduction program is enacted.

Baseline Revenue Forecast

Overall baseline tax revenues, before accounting for the effects of the tax reduction program, are projected to grow from $18.9 billion in 1998 to $20.9 billion by 2001, an average annual increase of 3.3 percent (see Figure 2-1). Throughout the forecast period, IBO projects that personal income and sales taxes will show the strongest growth. Although earnings and profits from Wall Street will continue to be key contributors after 1998, the growth in these economically sensitive taxes also reflects expansion in other sectors of the City's economy as well as the continuing shift in the City's employment mix from low- to high-wage jobs. While the City's real estate markets are forecast to register moderate growth, the property tax—the City's largest single revenue source—is expected to show virtually no growth until 1999, at which time it will grow at less than half the rate of other taxes.

IBO's baseline tax revenue forecast closely resembles the Mayor's as detailed in the January Financial Plan, which projects growth from $18.9 billion in 1998 to $21.1 billion in 2001. The differences for the major taxes are shown in Figure 2-2. Overall, IBO's estimates are slightly more optimistic through 1999, with baseline tax revenues projected to be $76 million higher in 1997, $34 million higher in 1998, and $62 million higher in 1999. For the last two years of the forecast period, IBO's forecast is somewhat more pessimistic than the Mayor's. We project $23 million less baseline tax revenue in 2000 and $232 million less than the Financial Plan in 2001. The differences are attributable to a combination of modest variations in economic assumptions—IBO projects somewhat slower economic growth in the City—and differences over technical matters such as the timing of estimated payments and the phase-in of property tax assessment changes.

IBO's February Report, *New York City's Fiscal Outlook,* analyzed the City's slow baseline tax revenue growth, focusing particularly on the property tax, which is both the largest and slowest-growing of City taxes. In February we noted that the continued slow growth in baseline taxes relative to growth in the New York City economy has had a much larger impact on overall City tax burdens in recent years than have tax reduction programs. This will continue to be the case over the 1998-2001 financial plan period. Structural factors holding down tax revenue growth over the next four years could lower baseline collections by up to $550 million in 2001. This reduction is as large as the Mayor's proposed tax program, which IBO estimates would cost $553 million in 2001.

Even more so than in past years, the property tax will produce the lion's share of the overall shortfall in tax revenue growth. Projected increases in property tax collections will lag well behind growth in New York real estate markets. Most of the weakness in projected collections is the result of constraints on assessment increases for one-, two-, and three-family homes and systemic under-valuation of cooperative and condominium properties.

Figure 2-1.

IBO's Revenue Estimates Under the Mayor's Proposals (In millions of dollars)

	1997	1998	1999	2000	2001
Tax Revenue:					
Property Tax	7,133	7,163	7,324	7,524	7,719
Personal Income Tax	4,210	4,359	4,557	4,782	4,933
General Sales Tax	2,849	2,956	3,083	3,223	3,369
Business Income Taxes	2,323	2,089	2,179	2,266	2,359
Real Estate-Related Taxes	779	816	853	894	933
Other Taxes (with Audits)	1,512	1,554	1,546	1,558	1,581
Total Taxes Before Reductions	18,806	18,937	19,542	20,247	20,894
Mayor's Tax Reduction Program	-	(253)	(477)	(532)	(553)
Total Taxes After Reductions	18,806	18,687	19,064	19,714	20,341
Miscellaneous Revenues	3,454	2,967	2,486	2,256	2,246
State/Federal Categorical Aid	10,473	10,622	10,728	10,942	11,243
All Other Revenues	1,174	1,170	1,032	1,029	1,029
Total Revenues	33,907	33,443	33,311	33,941	34,859

SOURCE: Independent Budget Office

NOTES: Numbers may not sum exactly due to rounding.
Miscellaneous revenues are net of intra-city revenues.
All other revenues includes unrestricted government aid, other categorical grants, inter-fund revenues, and disallowances.

Figure 2-2.
IBO's Reestimate of the Mayor's Revenue Forecasts (In millions of dollars)

	1997	1998	1999	2000	2001
Total Revenues as Estimated by the Mayor	33,806	32,932	32,603	32,928	33,788

IBO Reestimates:					
Property Tax	7	(12)	43	12	(68)
Personal Income Tax	37	41	3	(42)	(170)
General Sales Tax	(22)	(13)	(20)	(19)	(21)
Business Income Taxes	53	19	41	30	28
Real Estate-Related Taxes	-	-	(5)	(6)	(2)
Other Taxes (with Audits)	-	-	-	-	-
Miscellaneous Revenues					
Airport Rent	-	(270)	(215)	-	-
Collections Initiative	-	(20)	(20)	(20)	(20)
State/Federal Categorical Aid	26	769	895	1,072	1,339
All Other Revenues	101	511	708	1,013	1,068
Total Revenues as Estimated by IBO	33,907	33,443	33,311	33,941	34,859

SOURCE: Independent Budget Office

NOTES: Numbers may not sum exactly due to rounding.
Miscellaneous revenues are net of intra-city revenues.
All other revenues includes unrestricted government aid, other categorical grants, inter-fund revenues, and disallowances.

Tax Reduction Program

The Mayor has proposed a tax program expanding the substantial tax reductions implemented during the last three years. As shown in Figure 2-3, IBO's projected total cost for the Mayor's proposed reductions in sales, unincorporated business, commercial rent, and other taxes is $253 million in 1998 and grows to $553 million by 2001. These reductions would offset more than a quarter of the underlying growth in baseline tax revenues. With the proposed reductions, average tax revenue growth would slow from 3.3 percent per year to 2.9 percent per year. Total tax revenues after accounting for the Mayor's proposals would reach $20.3 billion in 2001.

Clothing Sales Tax Exemption

Retail clothing sales in New York City are now subject to a 4 percent City sales tax, a 4 percent State sales tax, and an 0.25 percent Metropolitan Commuter Transportation District (MCTD) sales tax. The centerpiece of the Mayor's 1998 tax program is a proposal to eliminate (effective December 1997) all sales taxes on apparel items priced under $500. Under the proposal, New York State would enact legislation that would permit localities to eliminate their sales tax on items priced under $500, and the State would drop its own sales tax on such items as well.

There are two main arguments offered in favor of this proposal. First, it would provide especially strong tax relief to lower-income households, who spend disproportionately more of their incomes on clothing; this would make the overall sales tax burden less regressive. Second, the clothing exemption would increase New York's retail competitiveness, especially with respect to New Jersey, which already exempts clothing from its sales tax; this would give a boost to the City's entire economy. It has been suggested that these secondary economic impacts could be very large, perhaps leading to overall increases in City tax revenues large enough to offset the direct costs of the exemption.

Figure 2-3.
IBO's Reestimate of the Mayor's Tax Reduction Program (In millions of dollars)

	1997	**1998**	**1999**	**2000**	**2001**
IBO Estimate of the Tax Reduction Program					
Sales Tax Exemption on Clothing Under $500	-	(156)	(277)	(288)	(300)
Increase in UBT Credit	-	(57)	(63)	(67)	(70)
Additonal CRT Reductions	-	(30)	(127)	(167)	(173)
Other Tax Reductions	-	(10)	(10)	(10)	(10)
Total	-	(253)	(477)	(532)	(553)
Mayor's Estimate of the Tax Reduction Program					
Sales Tax Exemption on Clothing Under $500	-	(157)	(279)	(287)	(296)
Increase in UBT Credit	-	(53)	(57)	(62)	(66)
Additonal CRT Reductions	-	(30)	(117)	(159)	(166)
Other Tax Reductions	-	(10)	(10)	(10)	(10)
Total	-	(250)	(463)	(518)	(538)
Difference	-	(3)	(14)	(14)	(15)

SOURCE:	Independent Budget Office; Mayor's Preliminary Budget for 1998.
NOTES:	Other tax reductions include a real property transfer tax exemption, a vault charge elimination, and an elimination of the coin-operated amusement device tax.

Until now, there has been no quantitative analysis of these feedback effects. In the following section, IBO provides both a reestimate of the direct cost of the City clothing tax exemption and a preliminary estimate of the secondary economic impacts and offsetting revenue gains that could occur in response to the proposed City tax cut.[1]

Direct Cost Estimate. IBO's direct cost projection is based on product sale data provided by the U.S. Bureau of the Census and New York City Department of Finance's estimate that as of 1994, 91 percent of clothing sales receipts were from items costing under $500.[2] Adjustments are made to account for clothing sales that are currently untaxed and for anticipated marketing responses to the new tax exemption (repackaging more expensive ensemble items to take maximum advantage of the exemption). The IBO projection also takes into account difficulties that merchants would have in raising prices when this would push items over the exemption cutoff threshold. As a result, the share of sales going to items priced under $500 is projected to remain roughly constant over the first few years following implementation of the exemption, instead of declining with inflation.[3]

Based on these assumptions, IBO forecasts that the proposed City sales tax exemption for clothing under $500 would directly reduce New York City sales tax revenues by $156 million in 1998 and $277 million, $288 million, and $300 million over the following three years. As shown in Figure 2-3, IBO's direct cost projection is very close to the estimate contained in the Mayor's budget.

Potential Offsets. The following analysis is intended to give only a general sense of the magnitude of potential secondary impacts from the clothing tax cut, not a precise estimate of the offsetting impacts. It assumes that the main effect of the sales tax exemption would be to increase the disposable income of consumers. Most of this increased income would be spent locally, leading in turn to higher demand for goods and services used by local businesses. The total increase in New York City economic output would therefore be some multiple of the initial increase in disposable income created by the tax cut.

The multiplier for sectors producing consumer goods and services in New York City is about 1.5—meaning that $1.00 in additional consumer goods and services sales yield roughly $1.50 in increased total sales or output for all New York City industries. Thus a $300 million rise in disposable income from a City clothing sales tax exemption would lead to an increase of approximately $450 million in total output in the New York City economy. Given the relationship between total City output and City tax revenues, a $450 million rise in total private sector output would bring with it about $17 million in new City tax revenues.

But this doesn't include any possible recapture of clothing sales from New Jersey. The 1992 Census of Retail Trade indicates that New York City and northern New Jersey have approximately equal amounts of clothing sales. New Jersey's share is undoubtedly boosted by the competitive advantage provided by its clothing sales tax exemption, but how much it is boosted remains an open question. Since clothing sales would have to rise about nine percent in New York for the City share of regional clothing sales to equal the City share of regional personal income, we take this as the maximum measure of the potential for sales recapture from New Jersey.[4]

If we take the largest possible clothing retail gap measure, and *if* we attribute all of it to New York City and State sales taxes, then the City sales tax exemption could shift about $375 million in clothing sales from New Jersey to New York City in 2001. Some 40 percent of this ($150 million) would be new local value added—the portion of the final sales price representing payroll, other operating expenses, and capital expenditures of the retailer.[5] With the multiplier, the $150 million in new value added translates into $225 million in additional total output in the City economy. Applying the same total output/tax revenue analysis as before, the sales recapture resulting from the City clothing tax exemption would therefore add at most another $8 million to New York City tax revenues in 2001.

The $8 million from increased clothing retail market share would be in addition to the $17 million from greater disposable incomes. IBO thus estimates that by 2001 increased tax revenues from the secondary economic impacts of the City clothing tax exemption could offset up to $25 million of the direct cost of the exemption, reducing the net cost of the exemption from $300 million to approximately $275 million.[6]

An important caution must be attached to this rough estimate, however. The above analysis assumes that the revenue losses from the tax cut do not require corresponding reductions on the expense side of the City budget. If spending reductions are required, then these must be netted out of the estimated increase in disposable income provided above. This would reduce although not eliminate, the projected offsets to the direct costs of the clothing tax exemption.

City Council Proposal. The City Council has included in its proposed tax reduction program a sales tax exemption for purchases of health-related household necessities. The main justifications offered for the proposal are that it would promote health, make the sales tax less regressive, and benefit businesses selling the exempt items. The Council estimates the direct costs of the household necessities exemption to be about $100 million a year. Secondary revenue gains from this exemption would offset a smaller share of the direct costs than in the case of the clothing exemption, since any tax-driven impacts on the City's share of the regional household necessities market are likely to be minimal.

Unincorporated Business Tax

The Mayor's tax reduction program includes a proposal to increase the credit allowed unincorporated business tax (UBT) filers with relatively small liabilities. While this proposal does not alter the structure of the tax, its fiscal impact is considerably greater than the total impact of other UBT reforms enacted in recent years.

The UBT is a tax on net business income paid by partners and sole proprietors of non-corporate firms operating in New York City. Payers are also subject to City personal income taxes on the same income. In recent years a number of UBT reforms have been enacted to increase the City's economic competitiveness, make more comparable the taxation of corporate and non-corporate firms, help firms (especially manufacturing) that sell a significant portion of their product outside of the City, and generally reduce the UBT tax burden.

Impact of the Mayor's UBT Proposal. The Mayor's proposal to increase the UBT credit follows a similar but smaller increase enacted last year. Under current law, taxpayers whose tax year 1997 (pre-credit) liabilities are $1,000 or less are entitled to a full credit which eliminates their liability.[7] Those with liabilities from $1,000 to $2,000 are entitled to a partial credit against liability, determined by a formula under which the amount of the credit diminishes as liability nears the $2,000 cutoff.

Under the new proposal, pre-credit tax liabilities of $3,600 or less would be eliminated entirely by the UBT credit, and liabilities from $3,600 to $6,000 would be offset in part. If enacted, this proposal would eliminate UBT liability for taxpayers whose business incomes, before allowable deductions or exemptions, are $100,000 or less; the partial credit would be enjoyed by taxpayers with business incomes up to $160,000.

IBO estimates that the proposed increases in the full and partial UBT credit would reduce UBT revenues by $57 million in 1998, and by $63 million, $67 million, and $70 million over the next three years. These projected impacts are roughly 9.5 percent of currently projected UBT revenues (with audits). The estimates are also from $4 million to $6 million greater per year than projections of the revenue loss in the Mayor's preliminary budget (see Figure 2-3). IBO projects greater revenue losses in part because our forecast of UBT revenue growth generally exceeds the Mayor's, but technical differences in projection methods also play a role.

The Mayor's current proposal would greatly reduce the scope of the tax. Over 24,000 out of a total of 31,000 UBT taxpayers would benefit from the proposed increase in the credit—21,000 of whom would have their tax liability eliminated.

Because the UBT liabilities of proprietorships on average are much lower than those of partnerships, the lion's share of the total tax reduction would be enjoyed by sole proprietors.[8] Moreover, because the majority of proprietorships are held by City residents, the increase in the UBT credit would primarily benefit residents of New York City.

The issues of residency and the high tax burden on City residents are central to the debate over UBT reform. A primary rationale for the UBT is that it serves as a means of taxing many high-income commuters, who are currently subject to much lower PIT tax rates than City residents. Moreover, to the extent that the UBT (like the corporate income tax) is a form of double taxation, it is particularly burdensome on City residents because of their high income tax rates.

In order to target tax relief specifically to resident UBT payers, over the years the City Council has often proposed providing a credit against PIT liability for UBT payments made by resident and commuter taxpayers. Since the PIT liabilities of residents are much higher, the value of the Council's credit, if adopted into law, would generally be much greater for residents than nonresidents. The Council is currently re-working its proposal, and the magnitude of its fiscal impact—a decrease in PIT revenues—will depend on the percent of UBT liability that would be allowed as a credit.

Commercial Rent Tax

The tax program includes two proposals for further reductions in the commercial rent tax (CRT): an increase in the threshold exempting tenants from the tax, and a 33 percent reduction in the effective tax rate for the remaining non-exempt taxpayers, bringing the rate to 3.0 percent. These proposals build on a series of reductions enacted over the past three years.

The CRT is paid by commercial tenants based on the amount of rent they pay. Since September 1995, only leases in buildings south of 96th Street in Manhattan have been subject to the tax. Tenants whose base rent is below a threshold are exempt.[9] Tax liability is determined by a single flat rate applied to the base rent. A sliding scale credit, which phases out as taxable rent increases, helps to moderate what would otherwise be a steep rise in the marginal tax paid on rents just over the exemption threshold.

In recent years, the rent subject to the tax has been reduced by a discount factor—currently it is 25 percent—which is applied before comparing the rent to the threshold and computing the tax. Tenants whose discounted rent is less than the $40,000 threshold are exempt from the tax, while the sliding scale credit applies to tenants with discounted rents between $40,000 and $60,000. The discount reduces the effective tax rate from 6.0 percent to 4.5 percent.

Proposed Changes. The first proposal, which would become effective June 1, 1997, would raise the exemption threshold to $100,000, with a sliding scale credit for base rents between $100,000 and $140,000. Unlike the current exemption threshold and credit, the new ones would be determined on actual rent rather than discounted rent.[10]

Using rent distributions supplied by the Department of Finance, IBO estimates that the new higher threshold would exempt an additional 9,200 taxpayers; approximately 3,300 others would benefit from the sliding scale credit. As with earlier increases in the threshold, this would add progressivity to the CRT by removing from the tax rolls smaller tenants for whom the tax burden is likely to be greater.[11]

The second proposal would increase the discount factor from 25 percent to 50 percent, reducing the effective tax rate by one-third. This provision would take effect in September 1998.[12] An across-the-board cut would benefit all taxpayers above the threshold. IBO estimates that approximately 13,000 taxpayers, including those covered by the sliding scale credit, would have their taxes reduced by $11,025 on average. Although all taxpayers would receive the same percentage cut, the dollar value of the cuts is concentrated at the top end of the rent distribution. As a result, roughly 6 percent of all tenants—those with rents over $1,000,000—would receive 64 percent of the tax cut.

Cost Estimate. As shown in Figure 2-3, IBO estimates that the cost of these proposals would be slightly higher in the out-years than is projected in the Financial Plan.[13] In 1999, when the larger discount begins to take effect, IBO estimates that the cost would be $127 million. In 2000 and 2001, when the proposals are fully implemented, the costs are projected to grow to $167 million and then $173 million. These estimates are $8 million higher on average than the Mayor’s, primarily due to differing assumptions on the level of commercial rents, particularly for retail space.

Miscellaneous Revenues

New York City derives a significant share of its own-source receipts from so-called miscellaneous revenues, which consist of nearly 300 different non-tax revenue sources. Miscellaneous revenues include licenses, permits, franchises, service charges, water and sewer charges, rental income, interest, fines, forfeitures, and proceeds from asset sales and other non-recurring receipts.

In effect, miscellaneous revenues are 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 recurring revenue can be accurately forecast, there is much greater uncertainty surrounding the non-recurring portion.[14]

Even if non-recurring revenues are realized in 1998 as planned, they pose difficulties in forging budget balance in later years. A significant portion of the out-year gaps stems from the absence of identified non-recurring revenues after 1998. Unless these revenues are identified in the out-years, the effect can only be to force deeper cuts in a shorter period of time, rather than allowing the City government to cut costs gradually.

For 1998, the Administration has recognized that some asset sales (as well as some State aid and mandate relief) may not be forthcoming. Subsequent to the release of the preliminary budget, the City's Budget Director asked each City agency to cut five percent of its budget for 1998 as a contingency against possible failed asset sales or lower than expected categorical State aid, for a total contingency of $325 million. IBO supports such contingency planning in view of our estimate of a prospective 1998 budget gap.

IBO's Reestimate

IBO has reviewed the projections for many of the largest miscellaneous receipts for the 1998 to 2001 period. While there are many uncertainties as to the amount of revenue that can be expected and the timing of non-recurring payments, IBO has reestimated only two major components of miscellaneous revenues. In these two cases, IBO believes that there is considerable risk both as to the size and the timing of these revenues. Depending on future events, the IBO may reestimate other components of miscellaneous revenues as new information becomes available, but two items need to be considered in particular now.

The first is the rental income that the City can reasonably expect to receive from the Port Authority for LaGuardia and Kennedy airports. The City has questioned several aspects of how the Port Authority computes the airport revenues which serve as the basis for the Authority's rental payment to the City. In dollar terms, one of the largest points of contention between the City and the Port Authority concerns the Authority's portion of the revenue from the $3 airline ticket surcharge. The City contends that it should be considered part of airport income and thus should be included in the rent calculation.

Besides seeking a portion of future proceeds from the surcharge, the City asserts that it is entitled to a retroactive adjustment covering the years since the surcharge was first imposed. The Port Authority has rejected the City's claims and the issue is now before a private arbitration panel. The General Counsel of the Federal Aviation Administration (FAA) has advised the arbitrators that the surcharge was intended to provide funds dedicated to airport improvements and should not be considered part of the general revenue stream generated by the airports.

Although the FAA General Counsel has indicated that his agency's opinion is not binding on the arbitrators, IBO believes that there is significant uncertainty as to whether the City will receive a large retroactive adjustment for surcharge proceeds. Thus, IBO estimates airport rent payments at $40 million in 1997 and $70 million for each subsequent year. This is a $270 million downward adjustment from the Mayor’s budget for 1998 and a $215 million reduction for 1999.

In addition to reestimating expected airport rents, IBO has removed the preliminary budget’s projection of $20 million per year for revenue from new collections initiatives beginning in 1998. This item refers to a long-delayed program to consolidate activities from various agencies within a single unit in the Department of Finance. Legislation in Albany needed to make the program fully effective has failed in recent years, and there is no reason to believe the legislative outcome will change in the near future. Even if the legislation is ultimately enacted, IBO expects that it will take several years for its potential to be realized given the need to modify a number of computer systems.

With these reestimates, IBO estimates that miscellaneous revenues would equal $3.4 billion in 1997 and subsequently fall throughout the forecast period. By 2001, miscellaneous revenues are expected to total $2.2 billion. This falloff in miscellaneous revenues in the last years of the financial plan is partially attributable to the non-recurring nature of many of the larger items in this group. Although the forecast for 1998 includes as much as $380 million in asset sales, it does not contain any asset sales in the out-years of the plan. Based on past experience, however, it is entirely possible that additional assets will be identified for sale in later years, which would bring miscellaneous revenues closer to their levels of the past few years.

Categorical Aid

IBO forecasts higher State and federal categorical aid than estimated by the Mayor for the 1998-2001 period (see Figure 2-2). For some spending categories, such as welfare and education, IBO has developed estimates based on projected programmatic changes and caseloads that affect the level of aid received from the State and federal governments. However, the amount of categorical aid received by the City each year is only partly determined by quantifiable measures such as caseloads and number of students. In reestimating the amount of State and federal aid for other parts of the budget, IBO has generally followed an approach of using 1997 grant levels and assuming the continuation of aid initiatives consistent with recent trends.

For 1998, IBO's projection for State categorical aid is $219 million higher than the Mayor's and by 2001 this difference grows to $598 million. The categories with the largest differences between the Mayor’s and IBO's aid projections are public assistance, medical assistance, and education aid. Excluding these areas, IBO's projection for State categorical aid for all other agencies is $16 million lower than the Mayor's in 1998; the difference decreases to less than $1 million in 2001.

IBO's projection for federal categorical aid is $550 million higher than the Mayor's in 1998, a difference that increases to $741 million by 2001. IBO's projections for education and the Department of Housing, Preservation, and Development account for about half of the difference for the period 1998-2001, with health, social services, police, child services, and transportation making up most of the remaining difference.

Chapter 3

Expenditure Estimates

Overview

The Independent Budget Office estimates that total spending under the policies proposed in the Mayor's preliminary budget would increase from $34.0 billion in 1997 to $34.1 billion in 1998. Under the five-year financial plan proposed by the Mayor, spending would rise to $38.7 billion in 2001.

- The portion funded with City-generated revenues would be $23.5 billion in 1997 and $23.5 billion in 1998, rising to $27.4 billion in 2001. As discussed in Chapter 1, the rate of growth of City-funded expenditures exceeds that of City-generated revenues resulting in significant budget gaps in each year of the financial plan period.
- Spending from State and federal categorical grants would be $10.5 billion in 1997 and $10.6 billion in 1998, increasing to $11.2 billion in 2001. IBO's estimate of categorical aid, while similar to current year levels, is substantially 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 financial plan until received.

Figures 3-1 through 3-3 show our estimates of total, City-funded, and categorical expenditures by program category. Discussion of major agencies within these categories is provided throughout this chapter.

Figure 3-1.
IBO Reestimate of the Mayor's Expense Budget by Category (In millions of dollars)

	1997	1998	1999	2000	2001
Health and Social Services	9,574	9,438	9,493	9,578	9,768
Education	8,541	8,884	9,129	9,565	10,036
Uniformed Services	4,761	4,670	4,698	4,753	4,781
Debt Service	3,402	2,713	3,599	3,690	3,874
General Government and All Other	7,716	8,439	9,123	9,964	10,221

TOTAL	33,994	34,144	36,042	37,550	38,680

SOURCE: Independent Budget Office.

NOTES: Figures do not include intra-city expenditures.

Figure 3-2.
IBO Reestimate of the Mayor's Expense Budget by Category, City Funds (In millions of dollars)

	1997	1998	1999	2000	2001
Health and Social Services	4,942	4,876	5,017	5,164	5,353
Education	3,632	3,785	3,873	4,053	4,247
Uniformed Services	4,592	4,521	4,559	4,611	4,639
Debt Service	3,393	2,704	3,585	3,678	3,862
General Government and All Other	6,962	7,636	8,280	9,102	9,336
TOTAL	23,521	23,522	25,314	26,608	27,437

SOURCE: Independent Budget Office.

NOTES: Figures do not include intra-city expenditures.

Figure 3-3.
IBO Reestimate of the Mayor's Expense Budget by Category, State and Federal Funds (In millions of dollars)

	1997	1998	1999	2000	2001
Health and Social Services	4,632	4,562	4,476	4,414	4,415
Education	4,909	5,099	5,256	5,512	5,789
Uniformed Services	169	149	139	142	142
Debt Service	9	9	14	12	12
General Government and All Other	754	803	843	862	885
TOTAL	10,473	10,622	10,728	10,942	11,243

SOURCE: Independent Budget Office.

This chapter presents the details of our expenditure estimates. The first section provides reestimates of the Administration's proposals for major agencies by program category. The second section focuses on major differences between IBO and Administration estimates.

Health and Social Services

Figure 3-4.
IBO Reestimate of Mayor's Budgetary Proposals for Health and Social Services Agencies (In millions of dollars)

	1997		1998		Change	
	City	State/Fed	City	State/Fed	City	State/Fed
Human Resources Administration	3,249	2,689	3,254	2,602	5	(86)
Administration for Children's Services	348	1,059	352	1,075	5	16
Dept. of Homeless Services	121	271	125	253	4	(17)
Dept. for the Aging	109	56	106	64	(3)	8
Dept. of Employment	8	103	4	107	(4)	4
Dept. for Youth & Community Development	47	44	43	47	(4)	3
Dept. of Mental Health	137	210	139	211	2	-
Dept. of Health	220	200	209	203	(11)	3
Health and Hospitals Corporation	703	-	644	-	(59)	-

SOURCE: Independent Budget Office

NOTE: Figures do not include intra-city expenditures.

Human Resources Administration. IBO estimates that the Mayor's budget would decrease funding for the Human Resources Administration (HRA) by $80 million, from $5,937 million in 1997 to $5,857 million in 1998. City funds would increase by $5.3 million.

The changes in HRA's budget are driven by offsetting reestimates for public and medical assistance. On the one hand, IBO's projection assumes significant declines in the public assistance caseload but also accounts for additional costs of welfare reform, including child care and workfare administration. City-funded public assistance costs are projected to decrease by $103 million from forecasted 1997 levels due largely to the replacement of $77 million in City funds with expected TANF surplus dollars. State funds would decrease by $65 million as a result of declining public assistance caseloads.

On the other hand, IBO estimates that City Medicaid costs will increase by $111 million between 1997 and 1998, reflecting modest expenditure growth rates for certain program areas. This estimate does not assume adoption of the Governor's Medicaid cost containment proposals.

Administration for Children's Services (ACS). The Mayor's budget would increase expenditures at ACS by $20 million, from $1,407 million in 1997 to $1,427 million based on our estimates. The projected increase of $4 million in City funds and $16 million in State and federal funds supports an agency reorganization plan to modernize facilities and improve programmatic operations.

Department of Homeless Services. IBO estimates that the Mayor's budget for the department would result in total spending of $378 million in 1998, a decrease of $14 million from 1997. This figure includes an increase of $4 million in City funds to finance a variety of OTPS needs. Federal funds would decrease by $18 million because the federally funded homeless family shelter system is expected to account for a smaller portion of the department's overall expenditures in 1998.

Department for the Aging (DFTA). The Administration's budget provides minor increases in DFTA's budget, from $165 million in 1997 to $170 million in 1998. The agency would receive $2.7 million less in City funds. Based on recent history, however, it is possible that City funding will be restored later in the budget process. The City also plans to roll over some accrued federal funds into 1998.

Department of Employment (DOE). According to our estimates, DOE spending would remain flat at $111 million in 1998. This figure includes a reduction of $4 million in City funding. Enhanced City funding for the Job Opportunities for Youth program in 1997 is not scheduled to continue in 1998. Federal funding would increase as a result of additional contributions to the Summer Youth Employment Program.

Department for Youth and Community Development. The Mayor's budget would decrease expenditures at the department by $1 million, from $91 million in 1997 to $90 million in 1998 based on our estimates. The decrease in funds is attributable to accrual savings in personal services and the exclusion of City Council local initiatives. Funding for the latter may be added during the budget year.

Department of Mental Health, Mental Retardation, and Alcoholism Services. IBO estimates that the Administration's budget would provide an overall increase from

$347 million in 1997 to $350 million in 1998 for the department. This figure includes an increase of $2.1 million in City funds. City funding changes are, however, somewhat illusory. The Mayor's budget introduced $3.5 million in PEGs comprised primarily of audit recoveries and voluntary sector underspending not carried through 1998. Therefore, an apparent increase of $2.1 million in City funds results only because 1997 levels were adjusted downward.

Department of Health (DOH). The Mayor's budget reduces funding for DOH from $420 million in 1997 to $412 million in 1998 based on our estimates. This includes a decrease of $11 million in City funds. Two PEGs explain most of the City fund reduction in 1998: a PEG of $300,000 reorganizing DOH's clinical services and a PEG of $11 million eliminating DOH funding for the child health clinics, dental clinics, and Communi-Care programs contracted to HHC in 1995.

Health and Hospitals Corporation (HHC). IBO estimates that the Mayor's budget would reduce City funds provided for HHC by $59 million between 1997 and 1998, from $703 million to $644 million. This 8 percent decrease reflects changes made in both components of the City contribution to the Corporation: its subsidy and its share of Medicaid. The subsidy decreases by $9 million because funds to cover collective bargaining increases in 1997 are not included in 1998. In addition, the City share of Medicaid costs is projected to fall by more than $50 million in 1998. This change reflects the impact of proposed entitlement reductions as well as decreased utilization of inpatient facilities and increased use of voluntary hospitals by Medicaid beneficiaries.

Education

Figure 3-5.
IBO Reestimate of Mayor's Budgetary Proposals for Education Agencies (In millions of dollars)

	1997		1998		Change	
	City	State/Fed	City	State/Fed	City	State/Fed
Board of Education	3,387	4,764	3,541	4,951	154	187
City University (CUNY)	245	145	244	148	-	3

SOURCE: Independent Budget Office

NOTE: Figures do not include intra-city expenditures.

Board of Education (BOE). IBO estimates that the Mayor's budget for BOE would increase spending by $341 million from 1997 levels, from $8,151 million to $8,492 million. We estimate that City funding would increase $154 million, from $3,387 million to $3,541 million. These funding increases reflect the net impact of various mayoral initiatives and IBO reestimates of BOE spending. In particular, IBO estimates significantly higher intergovernmental aid than projected by the Mayor. As with most City agencies that receive aid from the State and federal governments, the Mayor's budget provides a more conservative estimate of grant levels.

The Mayor's budget includes new proposals for reading and arts education, new schools for troubled students removed from regular classrooms, per capita funding for overcrowding relief, a number of miscellaneous initiatives from the Chancellor, and the operating cost of new computers and new space initiatives in the capital budget. In addition, the Mayor has announced that he will hold BOE harmless as a source for additional 1997 and future budget savings. As a result, no gap reduction initiatives have been proposed for BOE.

The largest of the new initiatives is an investment of $125 million in an intensive reading program for early grade (1-3) elementary school students to be financed with savings produced from Municipal Assistance Corporation (MAC) bond refundings. The proposed program, called Project Read, only has funding in place for 1998.[16] If the program is a success and continued beyond 1998, the City would have to secure an additional $375 million over the 1999-2001 period. As a supplemental education program, it would be possible to use reimbursable federal Title I funds. However, this would require reducing Title I spending elsewhere in the budget.

A new arts education program, funded partially with a grant secured from the Annenberg Foundation, would be a major part of an effort to restore arts education at schools not presently offering it. It is expected that the annual cost would be $75 million, to be covered in equal shares by private groups, BOE, and the City. The program is still in the planning stages, both in terms of curriculum, resource requirements, and funding development. It is assumed that private funds matching the Annenberg grant would be secured. At this point, the Mayor has budgeted $2.5 million for 1998. Pending development of the plan, $22.5 million would need to be added in 1998 and $25 million each year thereafter to the level of funding now in place. Questions also remain regarding private funding, including whether it would recur. The resolution of these questions could also have an impact on City funding requirements.

The BOE recently adopted a proposal to create three new middle schools and three new high schools in 1998, called Second Opportunity Schools, for students removed from regular classrooms for violent or anti-social behavior. The Mayor's budget proposal provides about $7 million for four schools. Therefore, to support the new plan for six schools, BOE would have to secure more funding, either internally or from the Mayor, or would have to reduce the cost per school originally anticipated to fully implement the proposal.

Full funding generally appears to be in place for other mayoral budget initiatives. Funding is provided for installation, training, and upkeep related to the capital investment in computers for classrooms. After initial start-up costs of $22.7 million and $25.2 million in 1998 and 1999, respectively, the budget includes recurring support of $11.6 million in 2000 and 2001. A total of 59,000 computers would be purchased and wired into schools over the 1998-99 period for a total capital expenditure of $150 million. It is expected that $50 million of that amount would come from private sources, although the funding source has not yet been identified.

The budget includes the rental cost of leased space that is part of the (mostly) capital budget effort to add approximately 60,000 seats of capacity to the system from 1997 through 1999. Total cost rises from $2.0 million in 1998 to $8.7 million in 2001 as the number of leases increases. The leased spaces would also require some capital investment to configure spaces for classroom use. The rest of the capital investment of $717 million over the three-year period is for classroom space that would be provided in the form of modular construction, transportables, air-conditioning retrofits that will make year-round school possible, and new construction.

City University (CUNY). The Mayor's budget request of $392 million represents an increase of $3 million from 1997 levels based on our estimates. Most of this difference reflects IBO's estimate of a $3 million increase in State funding. The Governor has proposed a number of spending reductions in his budget, including an increase in Senior College tuition and a reduction in Tuition Assistance Program (TAP) funding. However, these funds are carried in the State rather than the City budget.

Uniformed Services

Figure 3-6.
IBO Reestimate of Mayor's Budgetary Proposals for Uniformed Services Agencies (In millions of dollars)

	1997		1998		Change	
	City	State/Fed	City	State/Fed	City	State/Fed
Police Department	2,347	104	2,289	68	(59)	(36)
Fire Department	907	1	897	1	(10)	-
Department of Correction	749	55	743	70	(6)	15
Department of Sanitation	589	9	592	10	4	-

SOURCE: Independent Budget Office

NOTE: Figures do not include intra-city expenditures.

Police Department (NYPD). IBO estimates that the Mayor's budget would decrease NYPD spending by $94 million, from $2,451 million in 1997 to $2,357 million in 1998. A major factor contributing to the decline in expenditures is the scheduled drop of 1,589 and 252 in uniformed and civilian headcount, respectively, over the period from the close of 1997 to the close of 1998. The uniformed headcount is expected to be brought back to the 1997 level with a new recruit class in 1999. However, since the execution of a Memorandum of Understanding related to the recent personal income tax surcharge extension, the Mayor has indicated an intent to hire an unspecified number of police officers in 1998, thereby compensating for at least some portion of the attrition that would otherwise occur.

Fire Department (FDNY). The Mayor's budget would decrease FDNY spending by $10 million, from $908 million in 1997 to $898 million in 1998 based on our estimates. This net decrease is due mainly to allocations in 1997 that are either not included in 1998 or are funded at a lesser amount. Funding decreases from 1997 include the following: elimination of a one-time $5 million expense for additional certified first responder (CFR-D) training; elimination of $2.1 million for training to staff four-person trucks; a $1.9 million reduction for the restoration of call boxes; a $1.5 million reduction for overtime costs in the Bureau of Emergency Medical Services (EMS); a $1.3 million reduction in civilian overtime for fire dispatchers and building maintenance staff; and $1 million less for other than personal service (OTPS) expenditures.

Proposed funding increases and other actions include: $2.6 million in additional funds for recertification of engine CFR-D companies; a projected reduction in costs for EMS-leased sites because of an effort to use more City-owned space ($1.2 million); and $500,000 in additional Medicare revenue.

Department of Correction (DOC). IBO estimates that the Mayor's budget would increase DOC spending by $8.9 million from $804.5 million in 1997 to $813.4 million in 1998. With respect to City-funded DOC expenditures, 1998 levels would be lower than 1997 by $6.3 million. A factor contributing to this decline in planned City-funded expenditures at DOC is the scheduled drop (as reflected in the January 1997 plan) of 205 City-funded uniformed headcount over the course of 1998 as compared to 1997. With respect to federally-funded DOC expenditures, the 1997 amount is less than the 1998 estimate by $13.5 million. This difference is due to the fact that DOC anticipates $14 million more in federal crime bill money in 1998 as reimbursement to DOC for the cost of incarcerating illegal aliens in City jails.

Department of Sanitation (DOS). The Administration's budget represents an increase of $4 million for DOS, from $598 million to $602 million based on our estimates. While this increase is slight, it is not indicative of the programmatic changes that are scheduled to occur in the coming year. First, several items, such as recycling education and outreach, additional headcount, and recycling processing costs were included in the 1997 budget but not continued into 1998. Second, the 1998 budget introduces several new items, such as waste exportation from the Bronx, expansion of mixed paper and bulk metal recycling collection to all five boroughs, and composting and waste reduction pilot programs. These two actions offset each other, resulting in the modest increase in the 1998 preliminary budget.

Debt Services

Figure 3-7.
IBO Reestimate of Mayor's Budgetary Estimates for Debt Service
(In millions of dollars)

	1997		1998		Change	
	City	State/Fed	City	State/Fed	City	State/Fed
Debt Service	3,393	9	2,704	9	(690)	0

SOURCE: Independent Budget Office

NOTE: Figures do not include intra-city expenditures.

Debt Service and MAC Debt Service. The Mayor's budget includes a significant decrease in spending related to both City obligation debt service and MAC debt service based on our estimates. For City obligation debt service, expenditures would be reduced $630 million from 1997 levels, from $3,054 million to $2,423 million. For MAC debt service, expenditures would be reduced $60 million from 1997 levels, from $340 million to $280 million. The reduction in debt service is largely due to the impact of the surplus roll, which would be used to prepay $391 million of 1998 debt service, thus increasing 1997 expenditures and reducing planned 1998 expenditures by the same amount. City obligation debt service is expected to rise back to above $3 billion in 1999 and beyond.

On March 20, 1997, the New York Court of Appeals rendered its opinion that the proposed sale of the City's water and sewer system to the New York City Water Board is not permitted under law. As a result, the amounts of $607 million, $200 million, and $200 million of sales proceeds planned for a pay-as-you-go contribution for the capital budget in 1997, 1998 and 1999, respectively, are not available to the City. The City (or the New York City Transitional Finance Authority) would need to issue bonds to substitute for the pay-as-you-go contributions or the City would need to reduce the capital program by such amounts. To the extent the City chooses to issue its general obligation bonds, projected debt service would increase incrementally to reflect the cost of bonds issued.

MAC debt service would be reduced partly from a bond refinancing that would generate $250 million. The savings would be used to finance specific programs, including $70 million for new textbooks in 1997 (announced in the fall), $125 million for a reading program, and $55 million to support another year's continuation of an anti-drug initiative in the Police and Corrections Departments. MAC debt service is expected to increase to $551 million in 1999.

General Government and Other Major Agencies

Figure 3-8.
IBO Reestimate of Mayor's Proposals for General Government and Other Major Agencies (In millions of dollars)

	1997		1998		Change	
	City	State/Fed	City	State/Fed	City	State/Fed
Department of Juvenile Justice	53	24	54	25	2	1
Department of Probation	43	27	45	28	2	2
Department of Environmental Protection	597	1	588	1	(9)	-
Civilian Complaint Review Board	5	-	5	-	(1)	-
Board of Elections	28	-	27	-	(1)	-
Campaign Finance Board	4	-	22	-	18	-
Department of Parks and Recreation	142	4	138	5	(5)	-
Department of Cultural Affairs	94	1	76	1	(18)	-
Libraries	107	-	180	-	73	-
Dept. of Business Services / Economic Development Corporation	21	8	25	8	4	-
Department of Transportation	310	92	317	88	7	(4)
Housing, Preservation	61	382	51	391	(10)	9

and Development						
Department of Buildings	30	-	32	-	2	-
Dept of Citywide Administrative Services	149	12	147	13	(2)	-
Pension Contributions	1,246	79	1,353	79	107	-

SOURCE: Independent Budget Office

NOTE: Figures do not include intra-city expenditures.

Department of Juvenile Justice (DJJ). The Mayor's Budget for DJJ would increase spending by $2.8 million, from $76.9 million in 1997 to $79.7 million in 1998 based on our estimates. City-funded spending would increase mainly because certain reductions taken in prior financial plans, including 1997, would be put back into the 1998 budget. Such items include $881,000 for State Division for Youth payments and $1.1 million in personal services accruals for 97 positions taken as a one-time reduction in 1997. Based on the net changes in programmatic funding, DJJ anticipates receiving approximately $900,000 more in 1998 than in 1997 for juveniles in programs that receive a 50 percent State subsidy. The agency also expects to receive $299,000 more from the federal government in reimbursement for its breakfast and lunch program.

Department of Probation (DOP). IBO estimates that the Mayor's budget would increase DOP's spending $3.6 million from $70 million in 1997 to $73.6 million in 1998. City funds would increase by approximately $2 million in 1998, as a result of funding added to 1998 in prior financial plans.

Department of Environmental Protection (DEP). IBO estimates that the Mayor's budget would result in a decrease of $8.9 million in DEP spending, from $597.9 million in 1997 to $589.0 million in 1998. The decrease is driven by changes in City-funded spending, as certain non-recurring funding and programs end in 1997. These items include a monitoring program funded annually at $500,000 since 1994, which would not be continued in 1998. DEP would spend $751,000 in federal Congestion Mitigation and Air Quality grants to fund five positions for public education and air quality monitoring. Due to current budgetary practices, DEP does not include these funds in its 1998 estimates. However, we expect comparable amounts to be added to the budget when the federal government provides funding over the coming fiscal year.

Civilian Complaint Review Board (CCRB). CCRB spending would decrease from $5.1 million in 1997 to $4.5 million in 1998 based on our estimates. A total of 23 positions would be reduced from CCRB's investigator headcount. This reduction is expected to generate $506,000 in savings.

Board of Elections. IBO estimates that the Mayor's budget would decrease Board of Elections expenditures from $27.8 million in 1997 to $26.7 million in 1998. About $500,000 was a one-time appropriation in the 1997 budget for branch registration and the remainder of the difference was a one-time appropriation in 1997 to cover special elections and various other items. This one-time funding would not be carried over into 1998.

Campaign Finance Board (CFB). The Administration's budget would increase spending for CFB from $3.9 million in 1997 to $21.6 million in 1998 according to our estimates. The increase is due primarily to CFB estimates of costs associated with providing public matching funds for the 1997 election.

Department of Parks and Recreation (DPR). IBO estimates that the Mayor's budget would result in a decrease of $4.3 million in spending for DPR, from $146.6 million in 1997 to $142.3 million in 1998. A reduction of $2.3 million is proposed for seasonal personnel supporting DPR's ability to maintain recreation centers, parks, playgrounds and other properties. Additional proposed reductions involve the reassignment of 15 auto mechanics and 55 Urban Rangers and Parks Enforcement Patrol (PEP) officers to other City agencies, for a savings of $2.2 million. Finally, the proposed termination of two separate privatization initiatives, one each in the Bronx and Queens, due to unsatisfactory performance by the contractor, is expected to produce a combined annual savings of $800,000. A funding increase of $1 million in place from previous plans offsets the overall reduction slightly.

Department of Cultural Affairs (DCA). The Mayor's budget would reduce spending by $18 million for DCA, from $95 million in 1997 to $77 million in 1998 based on our estimates. The reductions are the largest applied to DCA since 1992. The reduction for 1998 would include $11.5 million less for the cultural institutions group (CIGs) and $3.7 million less for program services, declines of 20 percent and 35 percent, respectively, from 1997 operating levels. The CIGs are the larger City institutions, such as the Metropolitan Museum and City Center, that are housed in City-owned facilities. Program services support smaller arts groups. The Cultural Challenge Initiative, intended to leverage private funding of the arts, would be reduced by $250,000.

Libraries. Spending for libraries reflects an increase of $73 million under the Administration's budget, from $107 million in 1997 to $180 million in 1998 according to our estimates. This increase, however, is the result of surplus funds used at the end of 1996 to prepay 1997 subsidies to the New York, Brooklyn, and Queens public libraries. As a result, 1998 funding, which returns the budget to actual subsidy levels, only appears to include large funding increases.

Department of Business Services and the Economic Development Corporation. IBO estimates that the Mayor's budget would result in a spending increase of $4 million for the department from 1997 levels, from $30 million to $34 million. Much of this increase reflects IBO's estimate of an increase of $3 million in federal funding. Funding for 1998 also includes City contributions to the Empowerment Zone that the federal government is establishing in Harlem and the South Bronx. The budget proposal would advance some of those funds from 1998 to 1997 in recognition of the fact that the program is now progressing after having been stalled over questions of program direction and management. Significant reductions are proposed, as they have been in the past, in the Community Revitalization Program (CRP) and the contract for the Convention and Visitors Bureau. All City funding would be taken from the CRP, a program supporting local development corporations.

Department of Transportation (DOT). IBO estimates that DOT spending would increase under the Mayor's budget from $402 million in 1997 to $405 million in 1998. While the Mayor projects a decrease of $36 million in State funds and $16 million in federal funds from 1997 levels, IBO projects only a slight decrease. IBO's projection for State aid assumes one-half ($6.7 million) of a proposed $13.4 million reduction in Consolidated Highway Improvement Program (CHIPs) funding.

DOT's level of estimated spending also reflects $10 million more in PEGs than in 1997. Expenditure reductions for 1998 include $2 million for CHIPs funding of bridge repairs, $2.6 million for the capitalization of streetlight maintenance costs, and $1 million in savings from re-bidding the pre-kindergarten transportation contract. Funding in place from previous years and an increase in Inter Fund Agreement funding more than counters the reductions.

Housing, Preservation and Development (HPD). The Mayor's proposals would reduce HPD's budget by $1 million from $443 million in 1997 to $442 million in 1998 based on our estimates. City funding would be reduced $10 million from $61 million in 1997 to $51 million in 1998, while federal funding would be increased $9 million from $380 million to $389 million. IBO projections are significantly higher than the Mayor's estimates because of the Administration's lower estimate of intergovernmental aid. IBO's analysis of the President's budget indicates that 1998 federal spending would be at roughly the same level as 1997. In the State budget, the Governor is proposing a 76 percent funding decrease in the Neighborhood Preservation Program; however, the full cut, if any, is unlikely.

HPD's share of the Mayor's proposed gap elimination program would save $14.9 million in 1998, but mostly through revenue increases. The primary items are the recapture of interest income from old low-income construction loan funds for $7.8 million and the sale of mortgage in possession (MIP) buildings (foreclosed Mitchell Lama properties) for $6.0 million. The sale of the MIP buildings was delayed from 1997 to 1998 for land use approval. The reduction in the HPD expense budget is largely the result of reductions in place from past years' plans.

Department of Buildings (DOB). DOB spending would increase under the Mayor's budget from $30 million in 1997 to $32 million in 1998 according to our estimates.

Practically all funding is from the City. The proposed gap elimination program would save $2 million in 1998, primarily achieved through increased fee revenues. The expenditure budget would actually increase as personnel are hired to make the new collections. Efforts to expedite the permit application process is expected to eliminate backlog and generate more permits and fee collections. DOB is also proposing to establish fees for a variety of services including temporary public assembly permits, letters of no objection, core certificates of occupancy and post approval amendments. DOB expenditures would increase because of the transfer of resources from DOT and DEP for the Express Permitting Program and deferred 1997 elevator inspector hiring.

Department of Citywide Administrative Services (DCAS). The Mayor's budget would decrease spending by $1.3 million for DCAS from 1997 levels, from $161 million to $160 million based on our estimates. DCAS' budget also includes a large amount of intra-City sales, but of most of this amount is a pass-through covering the heat, light, and power costs of City agencies.

The budget includes numerous small spending increases and gap reduction initiatives. The more significant spending increases are budgeted to start in 1997, including $1.5 million to support recurring maintenance on new fire alarm systems, two years of $1.1 million in personal services for underachieved early-retirement goals, and $500,000 for custodial positions to maintain and clean new City-owned buildings. The gap reduction program accounts for the drop in DCAS spending. In particular, the Mayor proposes to shift a one-shot gap elimination initiative of $1.2 million to audit City leases for overcharging from 1997 to 1998, and increase it by $1 million. The net impact would be $3.4 million.

Pension Contributions. IBO estimates that the Mayor's budget for 1998 would result in an increase of $107 million for pension contributions from 1997 levels, from $1,324 million to $1,431 million. A number of factors produce the net increase, mostly technical adjustments related to assumptions for future headcount and asset returns.

Differences Between IBO and Administration Estimates

Public Assistance

Over the last two years, caseloads for both Home Relief (HR) and Aid to Families with Dependent Children (AFDC, now Temporary Assistance for Needy Families or TANF) have declined significantly. City policy changes, including enhanced efforts to detect and prevent welfare fraud and implement comprehensive work programs for able-bodied adult recipients of cash assistance, have been largely responsible for this decline. The City's financial plan assumes that the inhibiting effects of these programs would continue, generating further caseload declines through June 1998 and preventing any increases after that point. The Mayor's budget projects that the number of HR recipients would fall from 191,000 in December 1996 to 173,000 in

June 1997 and 149,000 in June 1998. Similarly, the budget projects that the number of persons on AFDC (TANF) would decrease from 750,000 in December 1996 to 730,000 in June 1997 and 689,000 in June 1998.

As a result of these expected caseload reductions, the Mayor's budget projects that total spending for HR would decline from $559 million in 1997 to $472 million in 1998 and $438 million in 1999, leveling off after that point. Similarly, total expenditures for TANF would decrease from $1,575 million in 1997 to $1,455 million in 1998 and $1,412 million in 1999, 2000 and 2001.

Unlike IBO's public assistance projections, the Mayor's budget projections do not take into consideration the full effects of the new federal welfare law. (The two sets of projections are compared in Figure 3-9).[17] Two provisions of the new law, to increase work quotas for adult TANF recipients and to ban most legal immigrants from federal assistance programs, would likely have a particularly strong impact on future caseloads and expenditures. Increasing work quotas would require significant new expenditures for workfare administration and associated child care, especially in the later years of the plan. The restrictions on federal assistance to legal aliens, especially those limiting eligibility for SSI, would significantly increase the HR caseload as the low income elderly and disabled move from federal to State assistance programs. Beginning next autumn, tens of thousands of legal aliens can be expected to increase the HR rolls. As a result, IBO projects that the number of HR recipients would reach 203,000 by June 1998, 207,000 by June 1999, 209,000 by June 2000, and 212,000 by June 2001, with corresponding expenditure increases in each year.

Figure 3-9.
IBO Reestimate of the Mayor's Budgetary Proposals for Public Assistance (In millions of dollars)

	1997	**1998**	**1999**	**2000**	**2001**
HOME RELIEF					
Person on Assistance in June					
Mayor	173,000	149,000	149,000	149,000	149,000
IBO	176,000	203,000	207,000	209,000	212,000
Difference	3,000	54,000	58,000	60,000	63,000
Net Cost of Cash Grants (including PEGs)					
City					
Mayor	279	236	219	220	220
IBO	279	283	296	301	305

Difference	0	47	77	81	85
Total					
Mayor	559	472	438	439	439
IBO	559	567	592	602	610
Difference	0	95	154	163	171
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES					
Person on Assistance in June					
Mayor	730,000	689,000	689,000	689,000	689,000
IBO	732,000	709,000	690,000	687,000	684,000
Difference	2,000	20,000	1,000	(2,000)	(5,000)
Net Cost of Cash Grants (including PEGs)					
City					
Mayor	374	273	270	264	262
IBO	374	273	270	264	262
Difference	0	7	6	0	(2)
Total					
Mayor	1,575	1,455	1,412	1,412	1,412
IBO	1,577	1,481	1,436	1,411	1,405
Difference	2	26	24	(1)	(7)
ADDITIONAL COSTS FROM THE NEW FEDERAL LAW					
Adminstrative Costs of New Workers					
Mayor	0	0	0	0	0
IBO	45	45	44	58	85
Difference	45	45	44	58	85
New Child Care Costs					
City					

Mayor	0	0	0	0	0
IBO	24	3	(6)	8	38
Difference	24	3	(6)	8	38
Total					
Mayor	0	0	0	0	0
IBO	48	39	35	58	98
Difference	48	39	35	58	98

SOURCE: Independent Budget Office.

NOTE: Estimated costs from implementing the new federal law assume non-enforcement of the two-year work rule.

Medicaid

The Mayor's budget assumes adoption of a proposal contained in the Governor's executive budget to expand managed care programs and mandatory enrollment for recipients, utilize regional averages rather than individual costs to calculate reimbursement rates, impose a fixed fee for personal services, and eliminate inflationary increases. According to the Mayor's budget, HRA is expected to save $3 million in 1997, $260 million in 1998, and $223 million each year through 2001 if the Governor's proposal is adopted.

The Mayor's budget further expects little growth in overall Medicaid costs. Assuming enactment of the Governor's proposed reductions, the budget projects that Medicaid expenditures would actually decrease 7.9 percent in 1998. After an increase of 6.7 percent in 1999, the growth rate would stabilize for the remainder of the financial plan, rising by 4.5 percent in 2000 and 4.4 percent in 2001. Without the State actions, growth rates remain low throughout the years of the plan.

The preliminary budget's reliance on the adoption of the Governor's proposed budget is problematic. Over the last few years the Mayor's preliminary budget has assumed more Medicaid cost reductions than were ultimately enacted by the State Legislature. For instance, based on similar proposals in the State budget for 1997, the Mayor's preliminary budget anticipated $462 million in Medicaid reductions for HRA. Upon adoption of the City's budget, however, savings dropped 96 percent to only $18 million. Therefore, use of preliminary State estimates during the City's budget adoption process can yield significant gaps in the City's Medicaid plan.

Moreover, the growth rates estimated in the Mayor's budget are low compared to actual historical trends. From 1987 through 1996, the annual growth rate of Medicaid expenditures in New York City ranged from 4.2 percent to 16.1 percent, with an average annual growth rate of 10.6 percent. Over the same period, growth rates for inpatient hospital care, personal care, and other services utilized heavily in New York City have fluctuated even more dramatically.

In conclusion, as shown in Figure 3-10, IBO estimates that Medicaid expenditures at HRA would surpass spending levels contained in the Mayor's budget. Regardless of State cost-containment actions, IBO anticipates that expenditure growth rates would exceed the Mayor's projections particularly for personal care and prescription drugs. The Mayor's budget projects no personal care growth for the entire financial plan, while on the basis of historical trends, IBO estimates that cost containment measures would still result in modest growth rates of 2 percent in 1998 and 3 percent thereafter. IBO also projects higher growth in pharmaceutical costs throughout the plan period due to innovations in drug treatment of chronic illnesses such as AIDS.

Finally, while Medicaid managed care and welfare reform can reduce spending, many health care industry experts have concluded that underlying medical costs are on the rise again. Although the City and State can institute measures to reduce payment rates, our analysis indicates that growing costs are likely to create pressure on the Medicaid programs in coming years.

Figure 3-10.
IBO 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)					
Mayor	2,072	1,908	2,036	2,127	2,221
IBO	2,079	2,189	2,287	2,393	2,500
Difference	7	281	251	266	279

SOURCE: Independent Budget Office.

Board of Education

Board of Education spending is a major component of the City budget. According to our estimates, it will comprise about 24 percent of City expenditures in 1998. This estimate does not include costs associated with BOE pensions, debt service, and collective bargaining increases. More generally, the level and quality of education has a major impact on the future and quality of life in the City. Our review of historical trends over the past ten years indicates that actual expenditures have generally exceeded budget requests in this area for a variety of reasons. As a tool to analyze the Mayor's budget proposals for education, IBO has developed its own models to estimate BOE spending.

Baseline. IBO has developed a set of econometric models to estimate current services baseline spending for the BOE. Separate models were created for personal services and other than personal services for community school districts and high schools, special education, categorical grants,[18] and fringe benefits.[19]

Each of IBO's current services spending projections over the 1998 to 2001 period is based on the assumption that BOE will continue to provide the same level of services per pupil as it does in 1997. Following the practice employed in similar studies, we use pupil-to-teacher ratios to control for the level of per pupil services. This choice was validated by the strength and statistical significance of the variable in the estimating models; the estimations confirm that, all else equal, higher pupil-to-teacher ratios indeed predict spending reductions.

Reestimate. To derive IBO's estimate of the Mayor's BOE budget proposal, the cost of new policy initiatives were added to IBO's current services baseline estimates. As shown in Figure 3-11, IBO's reestimate of total BOE spending is greater than the spending proposed in the Mayor's preliminary budget for each year of the plan; the differential between the two estimates increases from $288 million in 1998 to nearly $1 billion in 2001. IBO's growth rates range between 4.2 and 5.1 percent, in line with the past historical trends. In comparison, the financial plan's growth rates vary between 0.66 and 3.2 percent.

Most of the differences are from non-City funds projections explained by very conservative projections of categorical grants in the financial plan. However, IBO still projects the needs for greater City funds in the later years of the plan.

Figure 3-11.
Difference Between IBO and Mayor's Forecast for Educational Funding
(In millions of dollars)

	City Funds			Non-City Funds			Total Funds		
	IBO	Mayor	Change	IBO	Mayor	Change	IBO	Mayor	Change
1997	3,387	3,387	-	4,763	4,763	-	8,150	8,150	-
1998	3,541	3,541	-	4,951	4,663	288	8,492	8,204	288
1999	3,629	3,518	111	5,104	4,774	330	8,733	8,292	442
2000	3,808	3,697	111	5,356	4,863	493	9,164	8,560	604
2001	4,002	3,765	237	5,629	4,895	734	9,631	8,660	971

SOURCE: Independent Budget Office.

NOTE: Figures do not include intra-city expenditures, pension and debt service costs, and collective bargaining increases.

Special Education

IBO's reestimate of total education expenditures is higher in the out-years than projections in the Mayor's budget. Part of the difference is that our reestimate is based on the historical growth of spending and enrollment trends, which for the BOE special education program have been rather dramatic. Currently, special education comprises about 25 percent of the total BOE budget. The magnitude of special education spending, coupled with the high growth rate in these costs during the past decade, make it an important factor in estimating BOE expenditures.

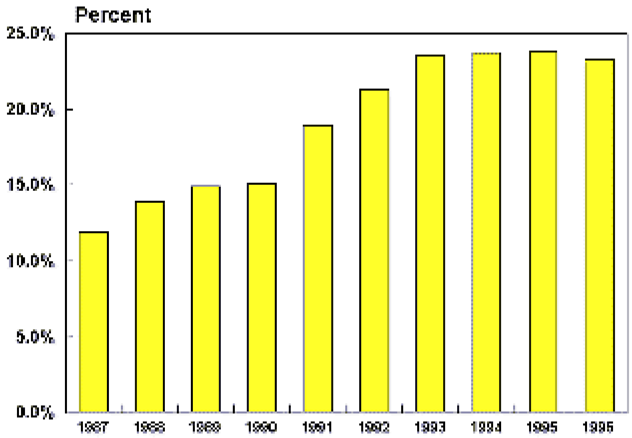
Background. Special education is one of the fastest growing components of BOE's budget. Expenditures in this area grew by 59 percent in constant dollars (adjusted for inflation) from 1987 to 1996. Current expenditure and enrollment trends suggest that these expenditures will continue to grow at a similar rate through the course of the financial plan.

From 1987 to 1996, special education enrollment increased by 32 percent. During this period, students who spent the majority of their time in special education classes in public and private settings grew by 26 percent. The figure rises to 48 percent for students placed in part-time special education settings. Examples of part-time students include those children who attend resource rooms and receive related special education services, for less than half their school week.

In 1996, about 38 percent of special education students were educated in part-time classes as compared to 62 percent in segregated or self-contained special education classes. This relationship has been relatively stable since 1987. The percentage of students in self-contained programs (62 percent) in the City far out-strips the national and New York State average. The most recent data indicates that, on average, 23 percent of U.S. students with disabilities spend the majority of their school day in self-contained classes. In New York state, this figure is about 34 percent.

Moreover, the percentage of full-time special education students taught in expensive private settings has doubled since 1987. Figure 3-12 shows the increase in these placements as a percentage of full-time placements since 1987.

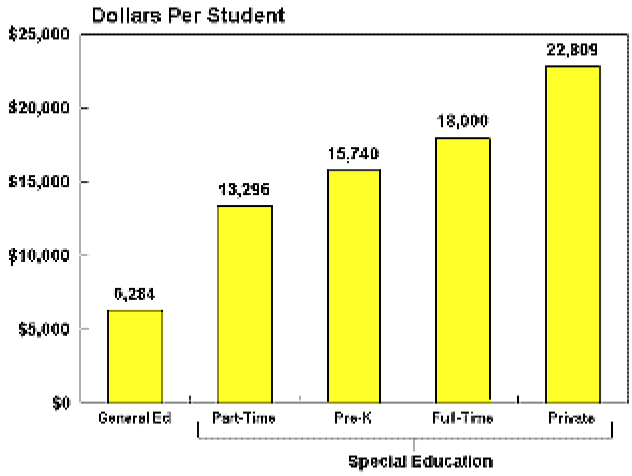
Figure 3-12.
Percentage of Special Education Students Placed in Private Programs



SOURCES: Independent Budget Office; Mayor's Management Report, 1987-1996.

Cost Differentials. There are substantial cost differentials between special education and general education, as well as public and private settings. Figure 3-13 shows average costs for various types of placements.

Figure 3-13.
Average Annual Expenditures for Selected Special Education Students



SOURCES: NYC Board of Education School Based Budget Reports, Fiscal Year 1995-96; Office of Management and Budget.

NOTE: Full-time figure does not include District 75 students.

Notwithstanding the higher costs of educating students in separate, full-time special education settings, State and federal laws mandate that children be educated in the least restrictive environment. Some regulatory relief was provided in the 1996 State legislative session to help the City come into better compliance with these laws.

Recent Reforms. BOE's special education program is a product of the federal Individuals with Disabilities Act, State law and regulations, as well as several judicial decisions protecting the due process rights of students with disabilities. Several pieces of regulatory reform were passed by the State Legislature in recent years to provide BOE the means to educate special education children more efficiently. For instance, legislation was enacted in 1995 allowing BOE to increase resource room class-sizes from 5 to 8 students. It also allowed BOE to overbook classes providing moderate instructional services (MIS) in middle and high schools that have demonstrated low attendance rates by 20 percent.

In 1996, the State Legislature passed significant preschool special education reforms prohibiting evaluators from being voting members of the Committee on Preschool Special Education (CPSE), thereby separating evaluation and placement functions. Critics maintain that the lack of evaluator objectivity in the past may be responsible for the significant increase in private center-based programs. Additionally, legislation enacted in the same year created a continuum of preschool services mandating that the CPSE, when determining a child's needs, consider more ancillary services first before recommending more intensive full-time services.

The impact of these reforms enacted in 1995 and 1996 may eventually result in a slowdown in special education referrals to more costly placements and thus, reduce spending. However, history suggests extracting savings is a difficult and uncertain process even after legal changes are made. Guidelines established by the Jose P. lawsuit and other court cases may provide a check on recent and future reforms in this area.

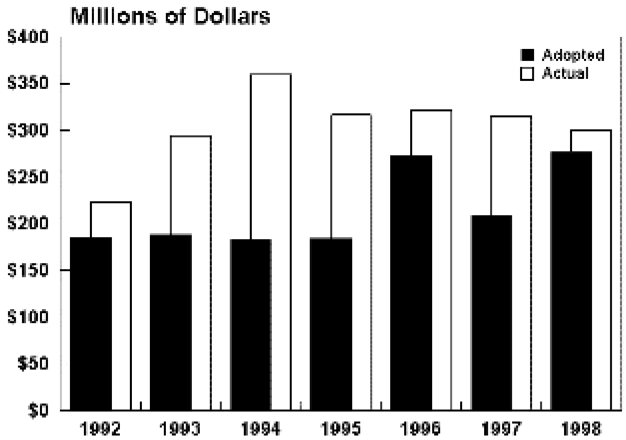
Uniformed Overtime

IBO has analyzed the uniformed personnel overtime expenditures of the Police Department (NYPD), Fire Department (FDNY), Department of Correction (DOC), and the Department of Sanitation (DOS). Beginning in 1992, the first year that uniformed and civilian overtime amounts were budgeted separately, actual overtime expenditures for the uniformed agencies have been consistently higher than budgeted amounts. Actual spending has exceeded budgeted amounts from a low of $38.8 million in 1992, 20.9 percent over the budget, to a high of $177.5 million in 1994, 97.1 percent over budget. For the past year, the amount of actual overtime expenditures exceeded adopted budget levels by $47.1 million, or 17.2 percent.

Figure 3-14 illustrates total adopted budget overtime allocations for the uniformed agencies compared with total actual and projected expenditures from 1992 to 1997.

IBO's reestimate of overtime is based on an analysis of actual expenditures and recent experience.

Figure 3-14.
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 Mayor's Budget estimate as of the January Financial Plan. 1998 actual is IBO's estimate of expenditures.

For the current year, NYPD was expected to achieve total overtime savings of $50 million through a combination of increased efficiencies in arrest processing ($25 million) and various managerial initiatives (also $25 million). Thus far, the full value of the anticipated savings has not been realized. Consequently, $25 million has been added back to the NYPD budget for 1997. There is still some uncertainty regarding the remaining $25 million of expected savings.

The City has also attempted to implement programs to reduce overtime expenditures in the other uniform services during 1997. These efforts, however, have not been successful. Specifically, FDNY was projected to save $10 million by reducing the average medical leave-time, DOC was projected to save $10 million, and DOS was projected to save $12 million by reducing medical leave-time and re-evaluating work assignments. In each case, the projected savings have not been realized and corresponding funds have been restored to the budget.

Based on historical spending trends and the City's recent poor record of reducing overtime costs, we estimate that overtime expenditures will exceed the level proposed in the Mayor's budget by $20 million in 1997 and $25 million in each year thereafter.

Judgments and Claims

Judgments and claims expenditures reflect 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 Mayor's budget estimates expenditures of $299.6 million in 1997 and requests $320.1 million in 1998, $338.5 million in 1999, $362.7 million in 2000, and $395.0 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. Our review of historical data found that actual expenditures for judgments and claims increased from $178.5 million in 1990 to $298.7 million in 1996, an increase of $120.2 million, or 67.3 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 cost.

Our analysis indicates that $235.6 million has been expended for judgments and claims thus far in 1997. Based on the rate of expenditure we expect for the rest of the year, we estimate total expenditures of $332.6 million for the current year. This total would exceed the amount requested in the Mayor's budget by $33.0 million.

For 1998, we estimate that expenditures will exceed the amount budgeted by $33.5 million. For the out-years covered by the Mayor's budget, IBO estimates that expenditures would exceed requested amounts by $37.1 million in 1999, $38.1 million in 2000, and $33.0 million in 2001.

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 expected 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, we estimate that $35 million in 1997 savings, anticipated from the participation of the uniformed employee unions, may not be realized because of the uncertainty of the 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 resulting in transitional labor savings after 1997.

Labor Reserve. The labor reserve provides funds for the costs associated with collective bargaining agreements for City employees and employees of the City's covered organizations. It also provides funds for costs associated with collective bargaining agreements negotiated by organizations whose employees provide services to the City on a contractual basis. The Mayor's budget provides $94 million in 1997, $562 million in 1998, $1,034 million in 1999, $1,649 million in 2000, and $1,721 million in 2001. These funds would eventually be distributed over time to the budgets of the agencies whose employees have reached a collective bargaining agreement with the City. At present, approximately two-thirds of the City's workforce have reached agreement.

The November financial plan included a reduction to the labor reserve of $12.8 million in 1997 due to the City's decision not to fund collective bargaining increases for the covered organizations. The covered organizations include the Health and Hospitals Corporation, Off Track Betting Corporation, Transit Authority, Housing Authority, Fashion Institute of Technology and the community colleges. This decision resulted in budget year and out-year reductions in the following amounts: $85.6 million for 1998, $206.7 million in 1999, and $327.2 million in 2000. These decreases reflect a five year agreement, retroactive to 1994, which included a two year wage freeze followed by annual increases of 3 percent in each of the next two years and 4.75 percent in the final year.

The Mayor's budget would restore funding for collective bargaining increases for the covered organizations in 1997 and 1998 as well as the annualized value of these increases in 1999-2001. However, increases effective in 1999 would not be funded. Therefore, the 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 projects additional costs of $104.0 million in 1999, $224.5 million in 2000, and $230.7 million in 2001.

Health and Hospitals Corporation

The Mayor's preliminary budget would significantly decrease the City's contribution to the Health and Hospitals Corporation (the Corporation or HHC). This contribution is composed of a direct subsidy and a share of actual Medicaid costs. The budget proposes City contributions to HHC of $643.8 million in 1998, an 18 percent decrease from the November forecast of $781.6 million. As noted above, the City's contribution in 1998 would be $59 million less than the 1997 contribution.

The Mayor's budget proposes to revise the methodology used to determine the subsidy.[20] Under current practice, the difference between HHC's expenditures and its revenues equals the City's payment to the Corporation; in effect, the City funds HHC's deficits. Under the proposed methodology, the City would reimburse HHC for providing health care services to prisoners and City uniformed employees as well as for operating the morgue and performing other services. The budget includes $55.2 million for the City's payment to the Corporation.

The budget also proposes to reduce the City's Medicaid contribution and projects that the City share of Medicaid would fall to $589 million in 1998 from $639 million this fiscal year. Three factors produce this decrease: declines in inpatient utilization at HHC facilities due to managed care's emphasis on primary care; increases in the use of voluntary hospitals by Medicaid beneficiaries spurred by intensified competition for these patients; and changes to the Medicaid program proposed by the Governor. The last of these factors accounts for more than half of the Mayor's proposed decrease. The Governor's changes would reduce the 1998 City share of Medicaid by $78.8 million, 96 percent of which would come from revisions to hospital care reimbursement rates.

The effect of these changes on HHC's service provision is unclear. On the one hand, the Corporation's finances are in reasonably good condition. A series of cost-savings initiatives, including the elimination of 7,000 positions since 1995, and the receipt of $200 million from a Medicare rate appeal offset a $300 million decrease in total revenues over the last two years. According to a variety of sources, including the United Hospital Fund, HHC has preserved service quality despite these cutbacks. In the short term, therefore, it is possible that with continued cost-savings initiatives, the Corporation can withstand reductions in the City contribution.

On the other hand, current trends in the health care industry make it difficult to predict the financial condition of the Corporation in the years to come. Revenues may decrease as the number of New Yorkers without health insurance continues to rise and payers, both public and private, pursue cost-containment efforts. This uncertainty is magnified by the new responsibilities that the Mayor's budget proposes to assign to the Corporation. According to this budget, starting in 1998, HHC would face the additional challenges of financing the operation of 43 child health clinics and 61 dental health clinics previously funded by the Department of Health, as well as increases in labor costs as determined through collective bargaining.

Administration for Children's Services

The Mayor's budget seeks funds to implement the Administration for Children's Services (ACS) reform plan, ACS Plan of Action, to address long-standing problems in systems, practices, and organizational culture that have hindered the City in effectively serving its most vulnerable children and families. The plan would establish management accountability systems, prompt the City to report instances of abuse and neglect, and develop a more child-focused and coordinated system. It would also restructure ACS into three major areas: Division of Child Protection, the Division of Family Permanency, and the Division of Legal Services.

The Mayor would increase the agency's budget and headcount to implement the reform plan. The budget includes a total increase of relations unit for the development of networks within communities.

While the reform plan attempts to address the need for more comprehensive child protective services, such services represent only one component of the larger child welfare system. The plan does not include provisions for substance abuse prevention and referral services despite the fact that at least 75 percent of ACS children come from drug-affected homes. Nor does the plan address the need for improved preventive and aftercare services, although 75 percent of children in foster care are returned to relatives. The overarching issue of ensuring that children in New York City have safe and stable homes requires setting goals and developing appropriate practices to address abuse and neglect. Finally, there is no blueprint in either the reform plan or the Mayor's budget for the merger of the Agency of Child Development (ACD) into ACS.

In addition, neither the reform plan nor the budget addresses the new day care needs prompted by welfare reform. Federal law will require large numbers of adult TANF recipients to participate in work assignments causing greater demand for child care services. IBO estimates that over 10,000 new TANF child care slots could be required in 1998, a need not recognized in the Mayor's budget. Given anticipated increases in child care slots and continued efforts by ACS to resolve inadequacies in the child welfare system, 1998 expenditures may surpass the Mayor's budget projections.

Appendix A

Gap Sheet Details

IBO's Reestimate of the Mayor's Budget (In millions of dollars)

	1997	1998	1999	2000	2001
Revenue					
Taxes					
Property	7,133	7,163	7,324	7,523	7,719
Personal Income	4,210	4,359	4,557	4,782	4,933
General Sales	2,849	2,956	3,083	3,223	3,369
Business Income	2,323	2,089	2,179	2,266	2,359
Real-estate Related	779	816	853	894	933
Other Taxes (with Audits)	1,512	1,554	1,546	1,558	1,581
Tax Reduction Program	-	(253)	(477)	(532)	(553)
Total Taxes	18,806	18,684	19,065	19,714	20,341
Miscellaneous Revenues					
(Net of Intra-City Revenue)	3,454	2,967	2,486	2,256	2,246
Other Revenue					
Unrestricted Intergovernmental Aid	584	647	505	505	505
Other Categorical Grants	352	278	283	282	282
Inter-Fund Revenues	253	260	259	257	257
Disallowances	(15)	(15)	(15)	(15)	(15)
Total Other Revenue	1,174	1,170	1,032	1,029	1,029
Total City Revenues	23,434	22,821	22,538	22,999	23,616
State and Federal Categorical Grants	10,473	10,622	10,728	10,942	11,243
TOTAL REVENUE	33,907	33,443	33,311	33,941	34,859
Expenditures					
City Funded (Net of Intra-City Expenditures	23,521	23,522	25,314	26,608	27,437
State and Federal Categorical Grants	10,473	10,622	10,728	10,942	11,243
TOTAL EXPENDITURES	33,994	34,144	36,042	37,550	38,680
SURPLUS/(GAP)	**(87)**	**(701)**	**(2,731)**	**(3,609)**	**(3,821)**

SOURCE: Independent Budget Office.

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

Current Services Projections (In millions of dollars)

	1997	**1998**	**1999**	**2000**	**2001**
Revenue					
Taxes					
Property	7,133	7,163	7,324	7,523	7,719
Personal Income	4,210	4,359	4,557	4,782	4,933
General Sales	2,849	2,956	3,083	3,223	3,369
Business Income	2,323	2,089	2,179	2,266	2,359
Real-estate Related	779	816	853	894	933
Other Taxes (with Audits)	1,512	1,554	1,546	1,558	1,581
Tax Reduction Program	-	-	-	-	-
Total Taxes	18,806	18,937	19,542	20,246	20,894
Miscellaneous Revenues					
(Net of Intra-City Revenue)	3,454	2,758	2,462	2,234	2,223
Other Revenue					
Unrestricted Intergovernmental Aid	584	505	505	505	505
Other Categorical Grants	352	276	281	280	280
Inter-Fund Revenues	253	260	259	257	257
Disallowances	(15)	(15)	(15)	(15)	(15)
Total Other Revenue	1,174	1,026	1,030	1,027	1,027
Total City Revenues	23,434	22,721	23,034	23,507	24,144
State and Federal Categorical Grants	10,473	10,702	10,894	11,091	11,389
TOTAL REVENUE	33,907	33,423	33,928	34,598	35,533
Expenditures					
City Funded (Net of Intra-City Expenditures	23,521	23,809	25,582	26,767	27,582

State and Federal Categorical Grants	10,473	10,702	10,894	11,091	11,389
TOTAL EXPENDITURES	33,994	34,511	36,476	37,858	38,971
SURPLUS/(GAP)	**(87)**	**(1,088)**	**(2,548)**	**(3,260)**	**(3,438)**

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
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Health and Human Services

Paul Lopatto	Medicaid and Public Assistance
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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, Recreation, 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 and Judicial
Bernard O'Brien	Public Safety and Judicial

Other

Betheum Moodie	General Support
Indera Segobind	General Support
Deanice Jenkins	General Support

FOOTNOTES

1 There would be additional secondary impacts on City tax revenues from the accompanying 4.25 percent cut in State and MCTD sales taxes. But these should not be added into the calculation of the secondary offsetting gains from the City sales tax cut. An extended version of this analysis covers the State impacts on City revenues.

2 Source for product sales is unpublished data from the 1992

Census of Retail Trade, Retail Division of the Bureau of the Census, U.S. Department of Commerce.

3 In the long run, growing price distortions at the $500 exemption threshold would ultimately force retailers to make price adjustments lowering the exempt share of total clothing sales.

4 Measured relative to *disposable* income—income less spending on housing, taxes and so on—there does not appear to be much of a clothing sales gap. But even where a significant clothing sales gap is shown, it cannot be assumed that New Jersey retailers' sales tax advantage accounts for all of that gap.

5 The other 60 percent of the final sale price represents the wholesale cost of the apparel purchased for resale. For details see U.S. Department of Commerce, Bureau of the Census report RC92-S-2, *1992 Census of Retail Trade: Measures of Value Produced, Capital Expenditures, Depreciable Assets, and Operating Expenses.*

6 After several years, a slightly higher share of the direct cost of the tax cut—perhaps 10 percent—would be offset by secondary revenue impacts. Property tax revenues do not immediately reflect the full effects of increased economic activity.

7 For the vast majority of UBT payers, the tax year is equivalent to the calendar year.

8 In tax year 1994, the average liability of sole proprietors who paid the tax was $3,242, compared to $57,722 for partners.

9 "Base rent" may be lower than the contract rent paid to the landlord because of certain allowable deductions.

10 Because of this difference, the actual effect of this proposal is to raise the threshold from $53,333 in undiscounted rent rather than from $40,000.

11 The preliminary budget does not indicate if the filing threshold would be raised to reflect the higher zero liability threshold. Unless it is raised somewhat, the already large number of tenants forced to file returns showing no tax liability would grow significantly.

12 Presumably, the decision to begin the reduction in September 1998 rather than at the start of the tax year in June 1998 is driven by the need to moderate the size of the tax cut in fiscal year 1999. However, such mid-year changes add considerable complexity for both taxpayers and the City.

13 In 1998, when only the proposed threshold increase would be in place, IBO's estimate is the same as the Mayor's.

14 Some non-recurring revenues are particularly problematic—even if they do materialize—because they effectively increase future expenditures. The Coliseum sale, for example, commits the City to additional MTA-related debt service spending in future years.

15 The airports occupy City-owned land which is leased to the Port Authority.

16 MAC policy has been to fund only non-recurring City costs with MAC refunding savings.

17 IBO’s public assistance projections are based on the following assumptions: the present HR and AFDC (TANF) programs will emerge essentially intact, grant levels will not be reduced, and the new federal welfare law will not be substantially revised by Congress.

18 Categorical grants represent non-formula State and federal aid provided for specific spending.

19 Explanatory variables include enrollment, pupil-to-teacher ratios, number of teachers, and measures of inflation. Enrollment data for 1999-2001 are BOE projections.

20 It is unclear whether the change in methodology would require revision to the 1992 Memorandum of Agreement between the City and HHC.