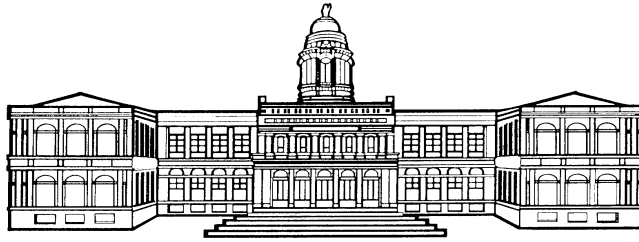


New York City Council



BUDGET NOTE

Finance Division

November 17, 2008

Hon. Christine C. Quinn
Speaker

Preston Niblack, Director
Jeffrey Rodus, First Deputy Director

Hon. David I. Weprin
Chair, Committee on Finance

FY 2009 NOVEMBER FINANCIAL PLAN

The Mayor released the FY 2009 first quarter financial plan modification, as required by the Financial Emergency Act and City Charter, on November 5, 2008. The FY 2009 Adopted Capital Commitment Plan was released at the same time. Because of the crisis in the financial markets and the widening national recession, the November Plan – usually consisting of technical modifications and corrections to the Adopted Plan – contained a substantial program of agency cuts, savings and non-tax revenue increases; and proposed repealing the 7% Real Property Tax (RPT) cut effective January 1, 2009 – six months earlier than anticipated in the June Plan – and rescinding the \$400 property tax rebate.

This Budget Note reviews first the Expense Budget Plan and then the Capital Commitment Plan.

Expense Budget

Overview

The FY 2009 Adopted Financial Plan projected gaps of \$2.3 billion in FY 2010, and \$5.1 billion in subsequent years. The FY 2010 gap was smaller due to actions taken in prior years, including the anticipated roll of \$1.8 billion from FY 2009, and the retirement in FY 2008 of debt due in FY 2010.

The November Financial Plan projects tax revenues declining by \$285 million in the current year relative to the June projection, and \$1.2 billion in FY 2010. Coupled with small changes in non-tax revenues and spending, the November Plan projects a gap of \$300 million for FY 2009 and \$3.7 billion in FY 2010. The Finance Division's own revenue forecast is largely consistent with that of the Office of Management and Budget (see accompanying Revenue Note).

To address this combined \$4.0 billion gap, the Mayor's November Plan proposes actions in three broad categories. First, a PEG program resulting in \$462 million in savings and new non-tax revenues in FY 2009 and \$1.1 billion in FY 2010. Second, a repeal of the 7% cut in property tax rates—enacted by the Council in FY 2008—effective January 1, 2009, raising \$576 million in FY 2009. (This would not raise additional revenue in FY 2010, since the Adopted Financial Plan had already assumed the Council would approve an increase in property tax rates in FY 2010). Finally, the Mayor also proposed rescinding the \$400 property tax rebate, beginning with the FY 2008 rebate, due to be mailed to homeowners this fall, for annual savings of \$256 million. The sum of these proposed actions is \$2.6 billion, leaving a projected gap of \$1.3 billion for FY 2010. Because of the decline in projected tax revenues, the outyear gaps remain at around \$5 billion, despite recurring savings projected from the PEG program of \$1 billion annually, and permanent rescindment of the rebate.

NOVEMBER FINANCIAL PLAN OVERVIEW
(millions of dollars)

	FY 2009	FY 2010	FY 2011	FY 2012
Gap as of June 08 Financial Plan	\$ --	(\$2,344)	(\$5,158)	(\$5,108)
Change in Tax Revenue Forecast	(\$285)	(\$1,272)	(\$1,105)	(\$1,025)
All Other Changes, Net	(18)	(51)	(52)	(35)
Revised Gap, Nov. 08 Plan	(\$303)	(\$3,667)	(\$6,315)	(\$6,168)
November Gap Closing Plan				
Agency Program	\$462	\$1,083	\$1,032	\$991
Mid-Year Property Tax Increase	576	--	--	--
Rescind \$400 Property Tax Rebate	256	256	256	256
Total Gap-Closing Program	\$1,294	\$1,339	\$1,288	\$1,247
Prepay FY 2010 Expenses	(\$991)	\$991	--	--
Gap to be Closed, Nov. 08 Plan	\$ --	(\$1,337)	(\$5,027)	(\$4,921)

Forecast Risks and Offsets

Whereas in past downturns it has often been possible for the City to address its budget gaps with assistance from other levels of government, the circumstances this year preclude much optimism on that score. The State faces tremendous deficits, as do the Metropolitan Transportation Authority, the Health and Hospitals Corporation, and the Housing Authority (NYCHA). The problems faced by the City and its partners are compounded by continued significant risks of further revenue downturns, as discussed in the accompanying *Revenue Note*, and losses suffered by the City's pensions funds.

State Budget. Governor Paterson has submitted a package of proposals to cut the State budget deficit this year and next by \$5.2 billion. The Legislature will consider the Governor's proposal at a special session called for November 18. The State Division of the Budget estimates an impact on the City of \$330 million (including \$255 million in School Aid) – none of which has yet been reflected in the Mayor's Financial Plan. Even with the cuts proposed by the Governor, the State still projects an \$8.8 billion deficit for SFY 09-10.

The Governor has announced his intention to submit next year's budget in mid-December. Additional cuts will undoubtedly be made that will affect City programs and services, especially since the Governor has continually emphasized his reluctance to raise taxes. Even so, tax increases seem likely. Increases in taxes that overlap with City taxes, such as the personal income tax, the sales tax, or business income taxes, will constrain the City's revenue options.

Pension Liabilities. The November Plan begins to take into account the over \$20 billion in losses recently suffered by the City's Pension Funds. These losses must be made up over time, with a phase-in beginning in FY 2011. To offset these costs – totaling \$1.1 billion over the next three years – the Mayor proposes drawing down balances in the Retiree Health Benefit Trust Fund (RHBTFF, or the Trust Fund).

A second issue, and one with potentially more immediate impact, is the possibility of a change in the assumed return on pension investments used by the City Actuary in calculating needed contributions to the funds. Reducing the current assumption of an 8% annual return to 7% would cost as much as \$1 billion per year, beginning in FY 2010.

Additional Resources. The November Plan does not yet recognize certain resources that are likely to become available in FY 2009 which could be used to help further reduce the FY 2010 gap, including the \$300 million General Reserve, and the write-off of reserves for bills due from prior years (prior-year payables). Together, these should yield at least \$600 million in additional funds in FY 2009 which could be used to pre-pay FY 2010 expenditures, and hedge against the substantial downside risks that have yet to be quantified and reflected in the budget.

Program to Eliminate the Gap

In order to address the projected FY 2010 gap, the Mayor in September directed agencies to submit budget cuts equivalent to 2.5% of their adjusted City funds budget for FY 2009, or approximately \$500 million, and 5% for FY 2010 – approximately \$1 billion. PEGs, or Programs to Eliminate the Gap, are actions that reduce the City's budget gap by either reducing an agency's City Tax-Levy Expense Budget or increasing City revenues. The PEG program presented in the Financial Plan was \$461.6 million for FY 2009, and \$1.08 billion for FY 2010 (including non-tax revenue proposals).

The Finance Division's analysis classifies PEGs in one of 5 categories: (1) Cuts – reductions in spending that reduce total resources available and used by the agency, and which may impact service delivery; (2) Revenue PEGs – increases in non-tax revenues proposed by agencies in lieu of reductions in spending; (3) Funding Swaps, in which non-City funds such as State or Federal grants are substituted for budgeted City funds (usually with no overall loss in resources); (4) Re-estimates of budgeted spending needs; and, (5) Vacancies and Accruals, which represent surplus funding levels, elimination of budgeted but vacant positions, and the like. A preliminary estimate of totals by category are summarized in the table below.

In both years, spending cuts constitute the majority of PEG proposals, constituting 58% of the value of the PEG program. Revenue PEGs add another 15% in FY 2009 and 18% in FY 2010.

NOVEMBER PLAN PEGS BY TYPE (millions of dollars)

	FY 2009	Percent of total	FY 2010	Percent of total
Cuts	\$265.4	58%	\$625.9	58%
Revenue PEGs	\$68.8	15%	\$200.2	18%
Funding Swaps	\$38.8	8%	\$39.2	4%
Re-estimates	\$31.4	7%	\$105.8	10%
Vacancies and Accruals	\$57.1	12%	\$112.0	10%
TOTAL	\$461.6	100%	\$1,083.1	100%

NOTE: Revenue PEGs are presented net of any associated spending increases necessary to produce the revenues, which are contained in agency expense PEG programs. For example, in order to raise approximately \$74 million in FY 2010 from "block-the-box" traffic violations, the City proposes hiring 234 new traffic enforcement agents at a cost of \$14 million. We carry the value of this initiative as a Revenue PEG of \$60 million.

* The base against which PEGs are measured is City funds less "uncontrollable" or "non-discretionary" costs, which include pensions and fringe benefits, debt service, Medicaid, and other costs. See Office of Management and Budget, [November 2008 Plan: Budget Summary](#), pp. 36-39.

Among some of the more prominent cuts for FY 2009 are the following:

- A 1.3% reduction of OTPS spending in schools, to be determined by principals: \$103.6 million in FY 2009 and \$265.1 million in FY 2010. Other DOE cuts total \$76.9 million this year and \$129.2 million next year.
- A delay in the Police recruit class scheduled to begin in January 2009 would save \$36.1 million this fiscal year and \$80.6 million next year. A reduction of 292 vacant Police Department civilian positions would save \$5.3 million this year and \$14.2 million next year.
- Over \$15 million in cuts to the Administration for Children's Services that potentially impact children in foster care or adoption services.

A number of cut proposals would not take effect until FY 2010, such as:

- A citywide fleet reduction initiative (a proposal also put forward by the City Council): \$20 million.
- Elimination of some DOHMH mental health contracts: \$4.4 million; and closing of Dental Health clinics (\$2.5 million).

Revenue proposals include:

- Hire 234 new traffic enforcement agents to enforce "block-the-box" violations: \$60 million net in FY 2010.
- Charge a 5 cent fee for consumer plastic bags: \$16 million. This will likely require State approval.
- Eliminate the fee exemption for Fire Department inspections of not-for-profit and charitable organizations: \$3.0 million.
- Double the fire insurance premium tax from 2% to 4%: \$21.0 million.
- Sale of advertising space on Department of Sanitation vehicles and wastebaskets (an idea proposed by the Council): \$2.0 million

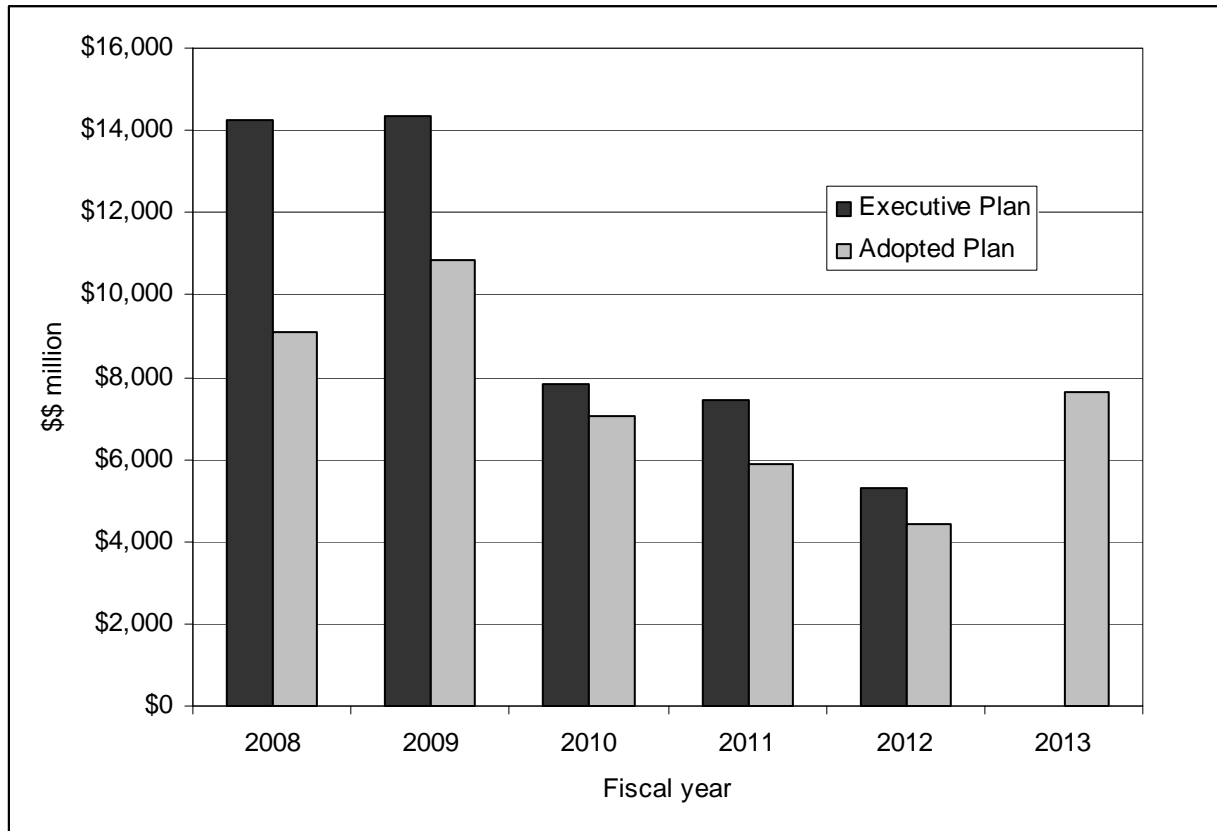
The full PEG program will be reviewed in oversight hearings and between the Council and Administration during the coming weeks. The Finance Division will work with Members and staff to continue development of alternative cuts and savings to propose in lieu of Administration-proposed cuts that the Council finds undermine core services and priorities.

Capital Plan

In his Executive Budget, the Mayor proposed a "stretch-out" of the Capital Plan – in essence, taking the four-year plan for FY 2009–2012 and spreading it over five years, FY 2009-2013. This would reduce annual capital commitments by an average of 20 percent. However, no details were released, and the Council approved the FY 2009 Capital Budget with the understanding that changes to the Adopted Capital Commitment Plan would be reviewed by the Council and subject to change, once the Plan was released.

Excluding the "roll" of planned but uncommitted funds from FY 2008, planned commitments for FY 2009 – 2012 are down by 19 percent (Fig. 1 on next page). A more detailed table by project type is included in the Appendix.

Fig. 1—Comparison of FY 2009 Executive Budget Capital Commitment Plan and Adopted Plan



NOTE: FY 2008 Adopted Plan figure represents preliminary actual commitments. FY 2009 Adopted Plan commitments exclude estimated \$5.15 billion "roll" of uncommitted funds from FY 2008.

Unfortunately, any debt service savings resulting from the stretch-out in the short term are likely to be swamped by the rise in the City's borrowing costs in the last several weeks as a result of the freeze-up in credit markets, which has affected even highly-rated borrowers like the City.

Appendix

Comparison of Executive and Adopted Capital Commitment Plans

Agency	FY 08	FY09-12			FY09-13		
	Roll	May	Nov	Variance	May	Nov	Variance
Environmental Protection							
Equipment	47.6	682.8	573.1	(109.7)	968.6	627.0	(341.5)
Sewers	37.3	1,082.5	755.0	(327.5)	1,552.3	1,042.0	(510.3)
Water Supply	(1.4)	765.3	1,058.3	293.0	1,310.0	1,498.4	188.4
Water Mains, Sources & Treatment	181.8	3,080.5	2,922.6	(157.9)	3,965.3	3,336.3	(629.0)
Water Pollution Control	111.7	3,844.9	2,885.0	(959.9)	6,103.6	3,328.0	(2,775.6)
Subtotal	\$377.0	\$9,455.9	\$8,193.8	(\$1,262.1)	\$13,899.7	\$9,831.8	(\$4,068.0)
Transportation							
Waterway Bridges	(28.8)	447.6	318.5	(129.1)	536.4	354.6	(181.8)
Ferries	40.1	116.7	109.9	(6.8)	129.0	140.2	11.2
Highway Bridges	41.3	1,714.5	1,382.0	(332.5)	2,399.9	1,891.7	(508.2)
Highways	122.2	1,752.1	1,593.7	(158.3)	2,350.4	1,910.0	(440.5)
Equipment	35.8	35.5	80.9	45.4	40.3	85.7	45.4
Traffic	23.1	299.5	190.1	(109.4)	362.4	212.8	(149.6)
MTA Bus	28.4	7.8	36.2	28.4	7.8	36.2	28.4
MTA-NYCTA	34.1	320.8	272.0	(48.8)	389.3	351.4	(37.9)
MTA-SIRTOA	3.6	1.9	3.8	1.9	2.4	4.3	1.9
Subtotal	\$299.8	\$4,696.5	\$3,987.3	(\$709.2)	\$6,218.1	\$4,986.9	(\$1,231.1)
Education							
DOE	(62.6)	5,097.6	4,140.2	(957.4)	6,470.1	5,175.2	(1,294.8)
CUNY	169.4	168.1	269.4	101.3	173.0	316.9	144.0
Subtotal	\$106.7	\$5,265.7	\$4,409.6	(\$856.1)	\$6,643.0	\$5,492.2	(\$1,150.9)
Housing & Econ. Development							
HPD	325.0	1,488.8	1,423.6	(65.2)	1,795.5	1,797.1	1.5
NYCHA	75.3	126.2	124.8	(1.3)	138.3	156.0	17.8
Economic Development	1,045.8	1,096.3	1,547.5	451.3	1,160.6	1,905.1	744.5
Subtotal	\$1,446.1	\$2,711.2	\$3,096.0	\$384.8	\$3,094.4	\$3,858.2	\$763.9
Administration of Justice							
Correction	42.2	1,281.7	1,089.6	(192.1)	1,321.1	1,353.3	32.2
Courts	170.0	515.1	516.2	1.1	526.3	645.2	119.0
Police	124.8	1,548.6	1,319.3	(229.2)	1,651.7	1,668.8	17.1
Subtotal	\$337.0	\$3,345.4	\$2,925.2	(\$420.2)	\$3,499.0	\$3,667.3	\$168.2

Cont'd ...

Agency	FY 08 Roll	FY09-12 May	FY09-13 Nov	Agency	FY 08 Roll	FY09-12 May	FY09-13 Nov
Health & Human Services							
Children's Services	61.8	70.4	98.4	28.0	80.7	123.0	42.3
DFTA	29.4	11.9	15.2	3.3	15.3	19.0	3.6
Health & Mental Hygiene	135.7	330.7	331.5	0.8	344.3	412.3	68.0
HHC	365.4	462.3	641.9	179.6	530.0	802.4	272.4
Homeless Services	35.8	94.6	101.3	6.7	120.1	126.6	6.5
HRA	34.1	75.2	74.2	(1.0)	76.5	92.0	15.6
Juvenile Justice	<u>3.5</u>	<u>12.4</u>	<u>12.7</u>	<u>0.3</u>	<u>13.6</u>	<u>15.9</u>	<u>2.2</u>
Subtotal	\$665.7	\$1,057.5	\$1,275.2	\$217.7	\$1,180.5	\$1,591.2	\$410.6
City Operations & Facilities							
Cultural Affairs	239.5	609.6	664.3	54.6	635.1	851.8	216.7
NYPL-Research	32.6	3.7	20.2	16.5	3.7	23.8	20.2
New York Public Library	65.9	15.8	54.8	39.0	17.1	60.7	43.6
Brooklyn Public Library	10.7	33.0	33.9	0.8	34.1	40.1	6.0
Queens Borough Public Library	32.9	17.5	24.8	7.3	18.6	30.2	11.6
DCAS - Buildings	235.8	867.2	812.1	(55.1)	868.0	1,067.3	199.3
DCAS - Equipment	252.9	904.4	924.0	19.6	904.4	1,155.0	250.6
DCAS - Real Property	5.0	22.0	12.5	(9.6)	27.7	15.1	(12.5)
DOITT	357.7	1,032.5	1,112.2	79.7	1,032.5	1,390.2	357.7
Fire	114.5	582.7	555.4	(27.3)	663.1	695.0	31.9
Parks & Recreation	501.4	1,684.1	1,569.0	(115.2)	1,851.7	1,933.6	81.9
Sanitation	<u>69.1</u>	<u>1,808.5</u>	<u>1,591.0</u>	<u>(217.5)</u>	<u>1,808.5</u>	<u>1,878.1</u>	<u>69.6</u>
Subtotal	\$1,918.1	\$7,581.0	\$7,374.0	(\$207.0)	\$7,864.3	\$9,140.8	\$1,276.5
TOTAL	\$5,150.3	\$34,113.3	\$31,261.1	(\$2,852.2)	\$42,399.0	\$38,568.3	(\$3,830.7)