



The City of New York

Michael R. Bloomberg, Mayor

Financial Plan Summary

Fiscal Years 2004 — 2008

Office of Management and Budget

Mark Page, Director

January 15, 2004



Summary

FINANCIAL PLAN

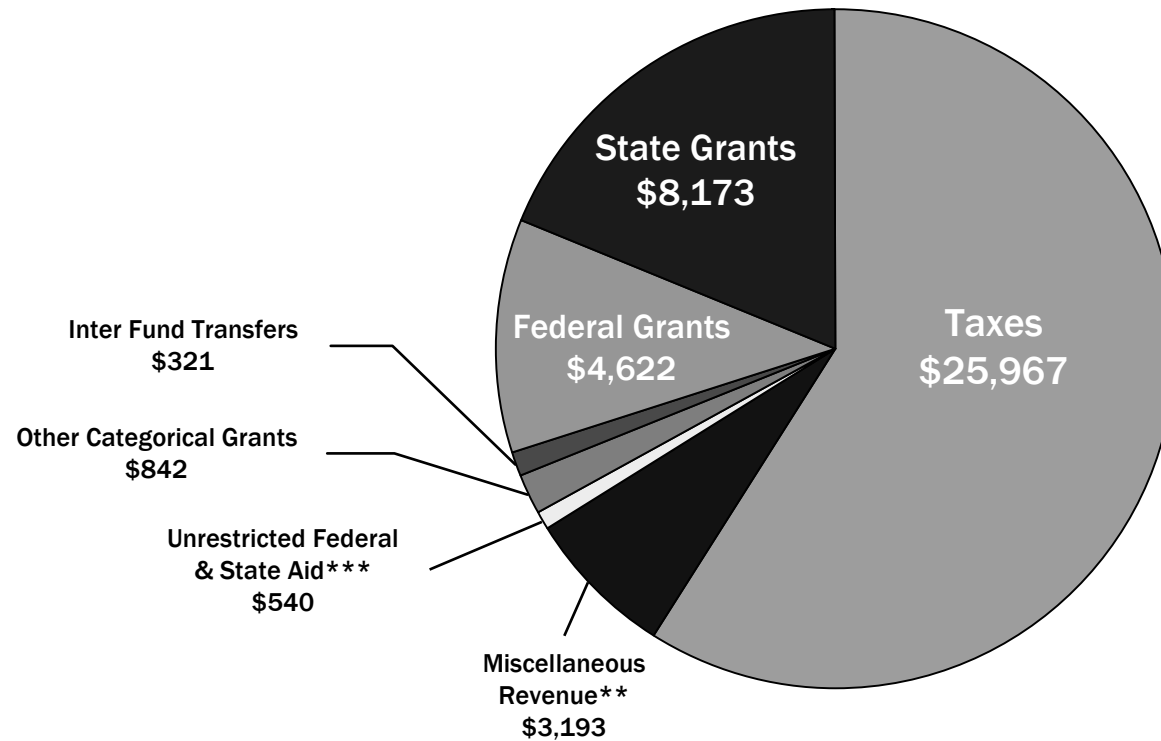
Fiscal Years 2004 – 2008

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I. Overview

2004 Budget* - \$43,658
(\$ in Millions)



* As of June 2003

** Includes Fines and Fees

*** Less Provision for Disallowance

Overview

Today the City's economy has stabilized and revenues are strengthening. Since the City's \$44 billion budget was adopted last June:

- ❖ The tax revenue forecast has been revised upwards by \$765 million in this year,
- ❖ Other non-tax revenues have increased \$290 million,
- ❖ Expenses have increased in this year by \$712 million, \$355 million in agencies and \$357 million in other expenses,
- ❖ Other expense changes have saved \$320 million,
- ❖ Reserves no longer needed have been re-captured, saving \$500 million,
- ❖ Agency actions to decrease spending or increase revenues have totaled \$327 million, and
- ❖ \$100 million has been used for pay-as-you-go capital.

These changes result in \$1.390 billion of funds to be used to balance 2005 and 2006.

New Yorkers have pulled together in a historic way over the past two years in order to bring stability back to New York City's finances.

- ❖ Agencies have put in place programs to reduce the gap between revenues and expenses worth \$3.4 billion in 2004.
- ❖ The City's headcount is now lower than it was in 2001 by 15,000.
- ❖ By virtually all measures, the quality of life in New York City is better today.
- ❖ Vital services have been safeguarded through temporary tax increases.
- ❖ Because revenues are running ahead of plan, \$250 million of these tax increases will be rebated to homeowners in 2005.
- ❖ The sales tax and personal income tax increases will sunset on schedule.

Overview

Since this administration began, we have already reduced spending by \$3 billion. With these savings the 2005 budget has a projected gap for 2005 as estimated last June of \$2 billion.

This \$2 billion budget gap will not be closed by City actions alone. In this plan we have identified an additional \$324 million of agency savings, bringing the total savings since this administration began to \$3.4 billion. However, mandated increases in spending for Medicaid, fringe benefits, pensions, and debt service, outpace forecast revenue growth. The Financial Plan includes actions to contain each of these costs.

- ❖ Medicaid costs, which will grow by over \$400 million next year, must be contained through Federal and State action.
 - As part of the Federal Agenda, we call for the continuation of the increase in the Federal match to local Medicaid spending which has brought the Federal match in NYS from 50% to 53% for the last year.
 - As part of the State Agenda, we call for reform of the current Medicaid financing system to reduce the burden of State mandates on New York City taxpayers. Just the State mandated eligibility expansions for Medicaid since 2001 will cost the City \$179 million next year.
- ❖ Fringe benefit costs will be contained through an already negotiated historic agreement with the City's Labor force, which calls for greater employee participation in health care costs.
- ❖ The Pension system must be reformed to a more rational basis for future employees, while protecting the rights of current employees and retirees.
- ❖ Debt service increases will be contained, despite a historic \$2 billion increase in the school capital program, because the City will fund \$200 million a year of the Department of Education's 2005-09 Capital Plan with pay-as-you-go capital and achieve cuts in other capital spending of \$525 million.

II. Financial Plan Update

Financial Plan Update

	\$ in Millions			
	2004	2005	2006	2007
Gap to be Closed as of June 2003 Plan (Increase the Gap)/Decrease the Gap	\$---	(\$2,014)	(\$3,238)	(\$3,285)
Revenue Changes				
Taxes				
November Plan Tax Revenue Forecast Revision	449	74	47	26
January Plan Tax Revenue Forecast Revision	316	452	460	559
Total Revisions to Tax Forecast	<u>\$765</u>	<u>\$526</u>	<u>\$507</u>	<u>\$585</u>
Other Revenues				
IDA Reimbursement of Stock Exchange Costs	71	---	---	---
Airport Lease Payment Delay	(200)	200	---	---
Receipt of Bond Bank Payment for Education	197	---	---	---
Other Non-Tax Revenue Re-estimates	222	249	136	152
Total Revenue Changes	<u>\$1,055</u>	<u>\$975</u>	<u>\$643</u>	<u>\$737</u>
Expense Changes				
Increases to Expenses				
New Agency Expenses (see pages 8 and 9)	(355)	(381)	(377)	(394)
Medicaid	(248)	(163)	(225)	(418)
Public Assistance	(59)	(69)	(69)	(69)
Employee and Retiree Health Insurance	25	(34)	(33)	(33)
Delay in MTA Take Over of Private Bus Service	(75)	---	---	---
Total Increases to Expenses	<u>(\$712)</u>	<u>(\$647)</u>	<u>(\$704)</u>	<u>(\$914)</u>
Other				
Pension Contribution	75	90	110	139
Debt Service Savings Due to Higher Pre-payments in 2003	110	---	---	---
Other Debt Service Savings	135	127	40	17
Total Other Expense Changes	<u>\$320</u>	<u>\$217</u>	<u>\$150</u>	<u>\$156</u>
Re-capture of Reserves No Longer Needed				
Re-estimate of Prior Years Expenses	300	---	---	---
Reduction of General Reserve to \$100 million	200	200	---	---
Total Expense Changes	<u>\$108</u>	<u>(\$230)</u>	<u>(\$554)</u>	<u>(\$758)</u>
Prepayments (Budget Stabilization Account)	<u>(\$1,390)</u>	<u>\$695</u>	<u>\$695</u>	<u>\$---</u>
Gap to be Closed as of January 2004	<u>(\$227)</u>	<u>(\$574)</u>	<u>(\$2,454)</u>	<u>(\$3,306)</u>

Continued on Next Page

Financial Plan Update

(continued)

	\$ in Millions			
	2004	2005	2006	2007
Gap to be Closed as of January 2004	(\$227)	(\$574)	(\$2,454)	(\$3,306)
Agency Gap Closing Actions (see pages 8 and 9)	327	324	195	194
Federal Actions	---	300	300	300
State Actions	---	400	400	400
Tax Rebate	---	(250)	(259)	(263)
Pay-As-You-Go Capital for Education	(100)	(200)	(200)	(200)
Remaining Gap January Plan	\$--	\$--	(\$2,018)	(\$2,875)

Risks Within the Budget	2004	2005	2006	2007
State Take Over of Outstanding MAC Debt, Subject to Legal Challenge	(\$531)	(\$500)	(\$500)	(\$500)
MTA Take Over of Private Bus Service	---	(150)	(150)	(150)
Uniform Overtime	---	(150)	(150)	(150)
Total	(\$531)	(\$800)	(\$800)	(\$800)

Summary of Expense Increases & Gap Closing Actions - 2004

	\$ In Thousands		
	June 2003 Plan for 2004	New Expenses Since June Plan	Gap Closing Actions Since June Plan
Uniformed Forces			
Police Department	\$3,133,344	\$64,279	(\$46,279)
Fire Department	1,018,124	57,376	(12,748)
Department of Correction	792,815	19,290	(11,042)
Department of Sanitation	945,556	37,785	(34,390)
Health & Welfare			
Administration For Children's Services	527,249	52,935	(9,143)
Department of Social Services	305,912	(4,014)	(5,438)
Department of Homeless Services	155,335	18,750	(4,455)
Department of Health and Mental Hygiene	543,429	11,187	(8,087)
Other Mayoral			
N.Y.P.L. - The Research Library	8,986	---	---
New York Public Library	46,571	---	---
Brooklyn Public Library	34,379	---	---
Queens Borough Public Library	32,775	---	---
Department for the Aging	82,833	(346)	---
Department of Cultural Affairs	118,345	77	---
Housing Preservation and Development	58,484	(237)	(3,615)
Department of Environmental Protection	689,777	(2,150)	(975)
Department of Finance	187,113	(1,032)	(21,050)
Department of Transportation	286,919	28,848	(26,194)
Department of Parks and Recreation	164,370	16,935	(2,500)
Department of Citywide Services	145,398	913	(17,425)
All Other Mayoral	840,433	(40)	(77,342)
Major Organizations			
Department of Education	5,126,152	11,537	(28,380)
City University	297,536	41,637	(5,425)
Health and Hospitals Corp.	99,563	---	(2,987)
Elected Officials			
Office of the Mayor	27,183	999	(815)
All Other Elected	323,764	507	(8,557)
Total	\$15,992,345	\$355,236	(\$326,847)

Note: See Detail Book for descriptions of new expenses and Gap closing actions.

Summary of Expense Increases & Gap Closing Actions - 2005

	June 2003 Plan for 2005	\$ in Thousands New Expenses Since June Plan	Gap Closing Actions Since June Plan
Uniformed Forces			
Police Department	\$3,164,644	\$28,832	(\$72,420)
Fire Department	1,005,211	25,657	(22,273)
Department of Correction	800,838	---	(17,608)
Department of Sanitation	977,974	51,287	(20,951)
Health & Welfare			
Administration For Children's Services	506,922	32,514	(24,221)
Department of Social Services	344,533	33,553	(9,177)
Department of Homeless Services	139,253	25,683	(4,455)
Department of Health and Mental Hygiene	560,534	6,395	(8,087)
Other Mayoral			
N.Y.P.L. - The Research Library	15,391	283	---
New York Public Library	81,517	1,457	---
Brooklyn Public Library	60,104	1,055	---
Queens Borough Public Library	57,204	1,005	---
Department for the Aging	69,825	---	---
Department of Cultural Affairs	93,610	4,849	---
Housing Preservation and Development	58,132	(2,349)	(1,755)
Department of Environmental Protection	668,276	12,405	(975)
Department of Finance	184,001	(2,380)	(6,950)
Department of Transportation	288,463	9,958	(7,785)
Department of Parks and Recreation	147,047	22,366	(4,900)
Department of Citywide Services	150,555	2,849	(2,461)
All Other Mayoral	799,944	24,769	(49,205)
Major Organizations			
Department of Education	5,212,354	55,513	(55,000)
City University	286,074	45,010	(5,425)
Health and Hospitals Corp.	96,637	---	(2,987)
Elected Officials			
Office of the Mayor	26,682	1,199	(728)
All Other Elected	316,170	(718)	(6,783)
Total	\$16,111,895	\$381,192	(\$324,146)

Note: See Detail Book for descriptions of new expenses and Gap closing actions.

Examples of 2005 Spending Decreases and Increases

	\$ in Millions	
	<u>Spending Decreases</u>	<u>Spending Increases</u>
Police		
Overtime Reduction	(\$20)	
Attrition Savings	(\$37)	
City Fund Match for Additional 730 Police Officers		\$15
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Sanitation		
Re-estimate of Fresh Kills Closing Costs	(\$10)	
Increased Basket Collection and Street Cleaning		\$11
<hr/>		
ACS		
Reduced Foster Care Caseload	(\$10)	
Higher Room and Board Costs For Institutional Placements		\$17
<hr/>		
Education		
Lower Sabbatical Costs	(\$34)	
Ending Social Promotion		\$25
<hr/>		
Parks		
Additional Concession Revenue from City Owned Golf Courses	(\$2)	
Seasonal Workers – POP Placements		\$6

Agency Programs to Reduce the Gap Since the Beginning of this Administration Have Totalled \$3.4 Billion

City Funds – \$ in Thousands

	From January 2002 Through June 2003	New Actions	Total Gap Closing Programs From January 02 Through January 04
Uniformed Forces			
Police Department	(\$373,814)	(\$72,420)	(\$446,234)
Fire Department	(113,843)	(22,273)	(136,116)
Department of Correction	(169,584)	(17,608)	(187,192)
Department of Sanitation	(92,935)	(20,951)	(113,886)
Health & Welfare			
Administration For Children's Services	(\$283,462)	(\$24,221)	(\$307,683)
Department of Social Services	(99,594)	(9,177)	(108,771)
Department of Homeless Services	(90,740)	(4,455)	(95,195)
Department of Health and Mental Hygiene	(119,120)	(8,087)	(127,207)
Other Mayoral			
Libraries	(\$47,813)	\$ ---	(\$47,813)
Department for the Aging	(66,914)	---	(66,914)
Department of Cultural Affairs	(32,503)	---	(32,503)
Housing Preservation and Development	(23,045)	(1,755)	(24,800)
Department of Environmental Protection	(6,728)	(975)	(7,703)
Department of Finance	(103,774)	(6,950)	(110,724)
Department of Transportation	(78,241)	(7,785)	(86,026)
Department of Parks and Recreation	(44,670)	(4,900)	(49,570)
Department of Citywide Services	(25,092)	(2,461)	(27,553)
All Other Mayoral	(268,412)	(49,205)	(317,617)
Elected Officials			
Office of the Mayor	(\$13,711)	(\$728)	(\$14,439)
City Council	(1,424)	---	(1,424)
Public Advocate	(1,027)	(37)	(1,064)
Office of the Comptroller	(10,177)	(300)	(10,477)
Borough Presidents	(11,584)	(716)	(12,300)
District Attorneys	(33,512)	(5,730)	(39,242)
Other			
Health and Hospitals Corporation	(\$27,963)	(\$2,987)	(\$30,950)
Department of Education	(808,758)	(55,000)	(863,758)
City University	(14,246)	(5,425)	(19,671)
Total	(\$2,962,686)	(\$324,146)	(\$3,286,832)
Debt Service	(\$75,573)	\$ ---	(\$75,573)
Grand Total	(\$3,038,259)	(\$324,146)	(\$3,362,405)

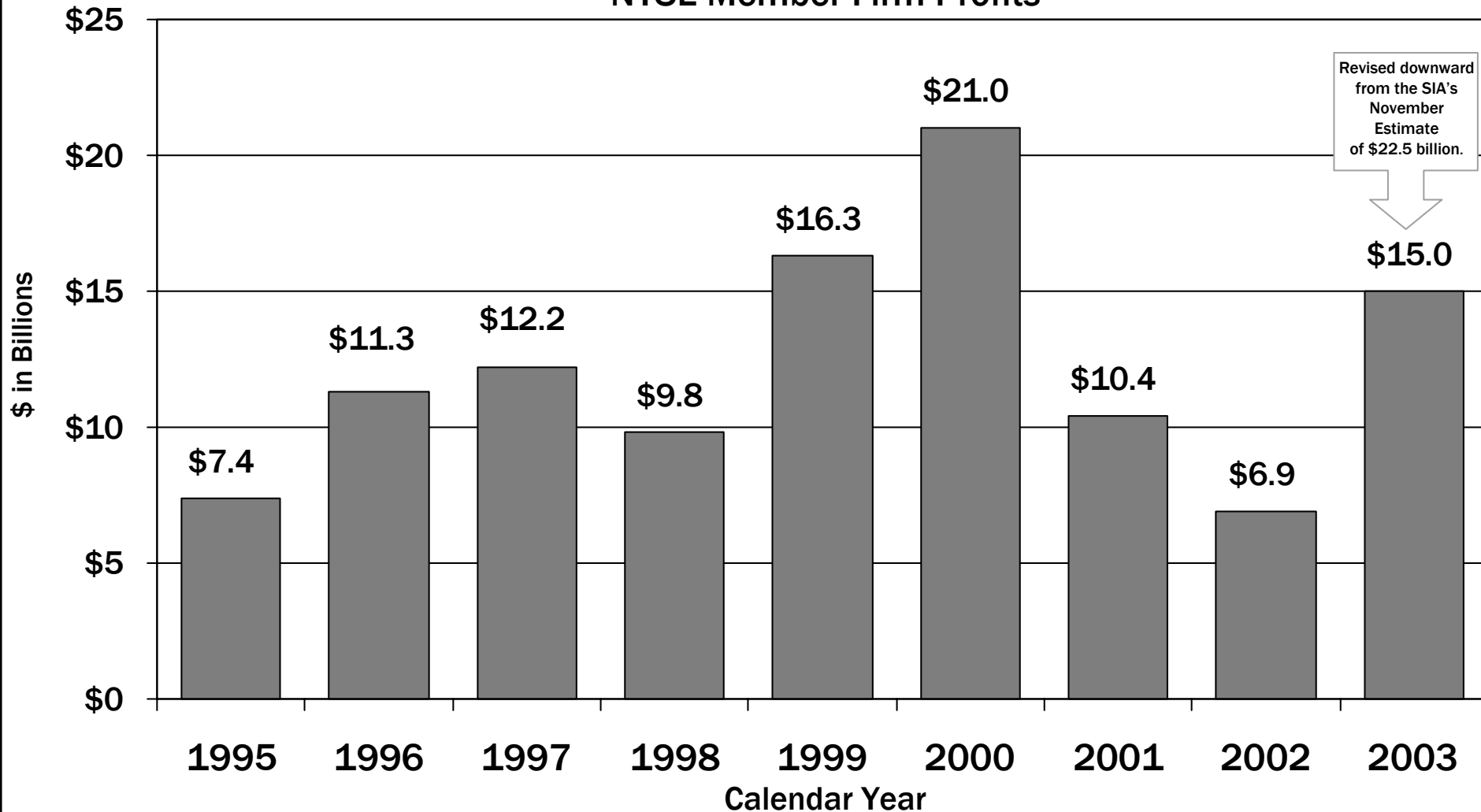
III. New York City's Economy Has Stabilized

New York City's Economy Has Stabilized and Is Set to Grow Modestly in the Near Term

- ❖ **Wall Street has rebounded, with securities firms expected to earn \$15 billion in calendar year 2003.**
- ❖ **Tourism is turning around, with both hotel occupancy rates and tourism-related employment recovering.**
- ❖ **The residential real estate market remains healthy, with permits for new construction and renovation up 12% in calendar year 2003.**
- ❖ **Employment, however, both nationally and locally has yet to see sustained growth.**

In 2003, Wall Street is Expected to Earn \$15 Billion*

NYSE Member-Firm Profits

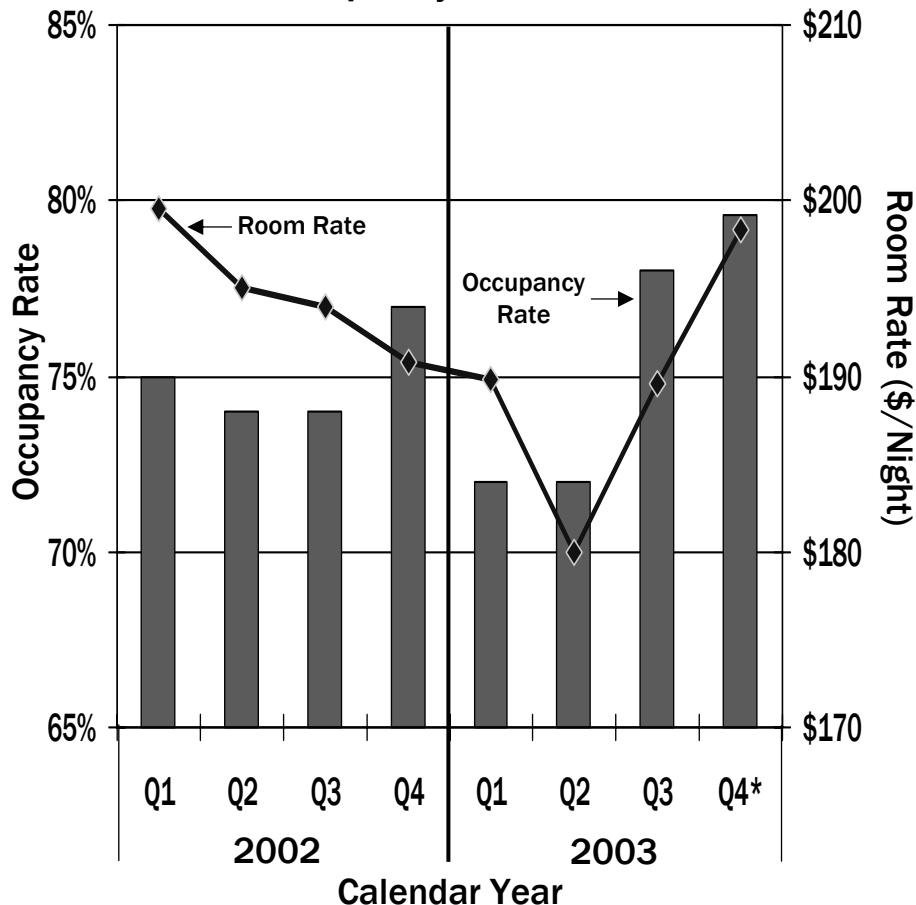


*2003 is an estimate based on actuals through Q3 and an estimated \$3 billion for Q4.

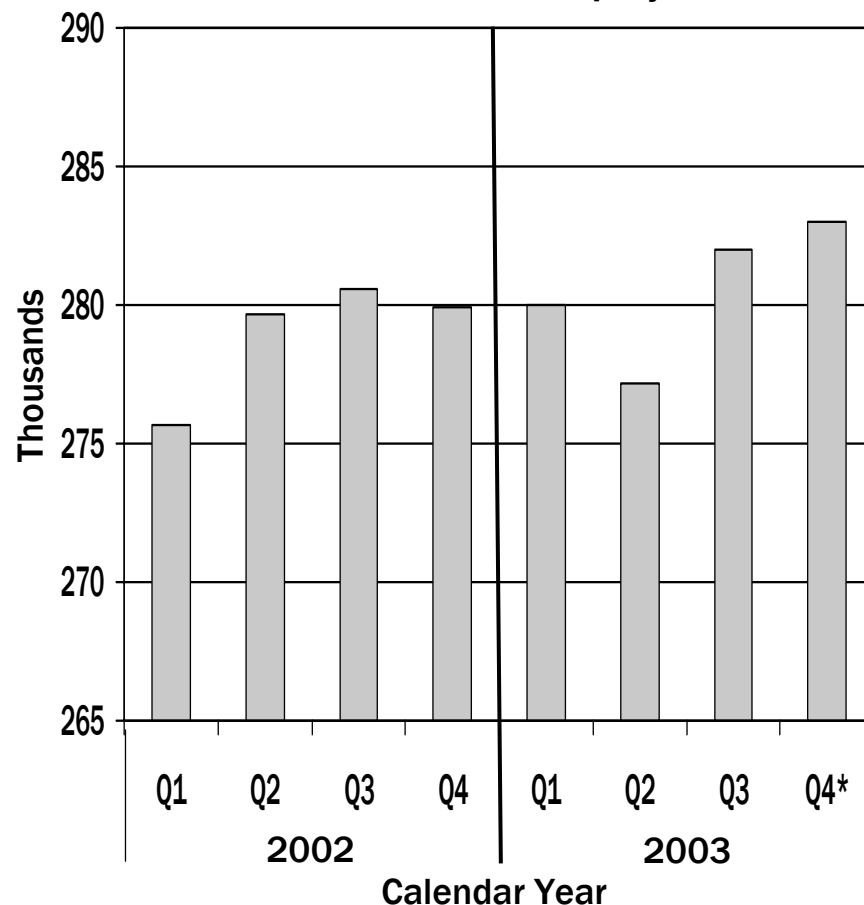
Source: Securities Industry Association

Tourism is on an Upswing, Resulting in Improving Hotel Occupancy, Room Rates and Employment

Hotel Occupancy and Room Rate



Tourism-Related Employment



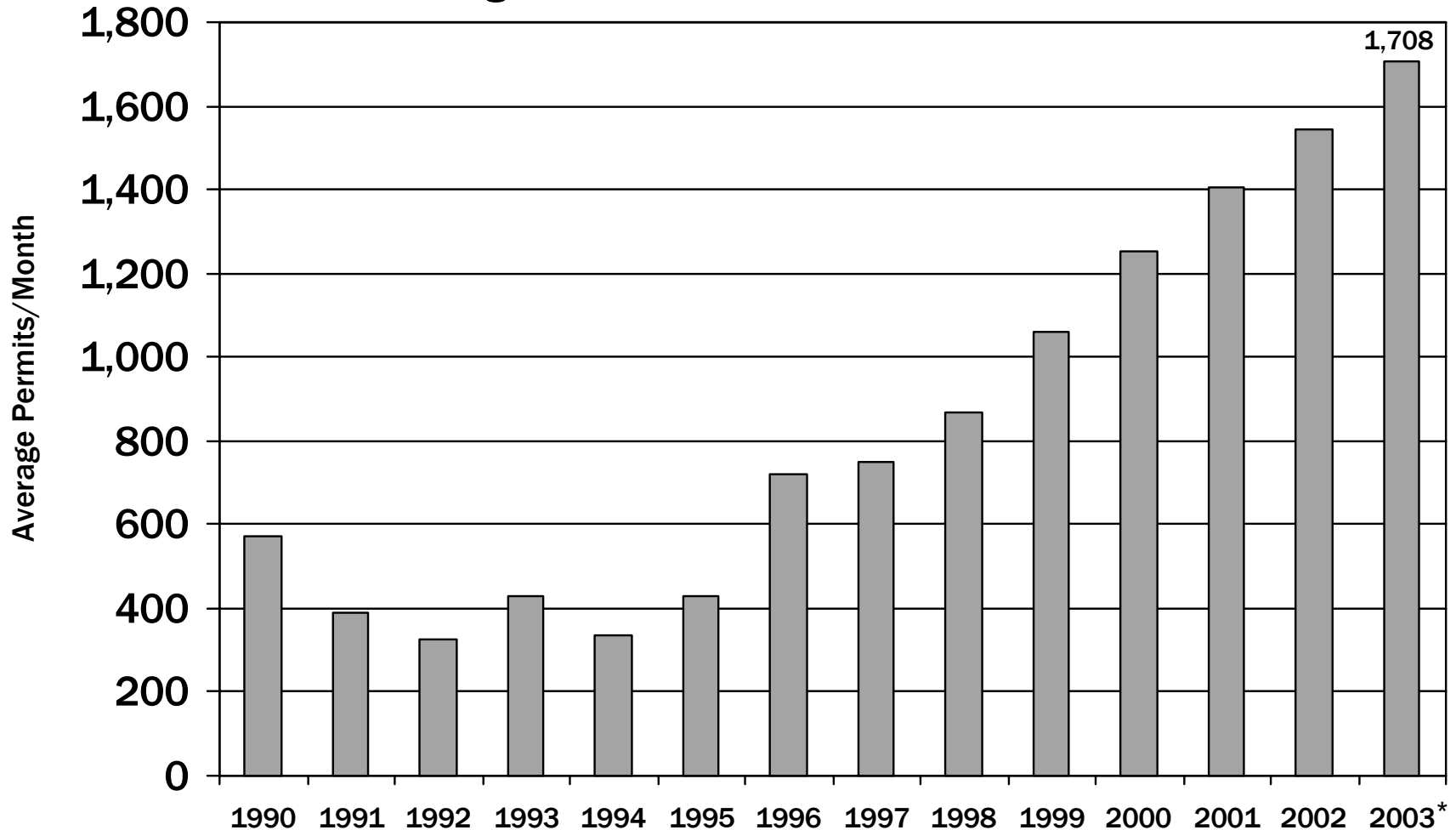
*Q4 hotel occupancy rate, employment and room rate are the averages of October and November.

Notes: Tourism-Related Employment includes hotels, eating and drinking establishments, amusement and recreation services, and air transportation. Data are seasonally adjusted.

Source: Department of Labor, NYC & Company

Housing Permits in the City Hit a Record High in 2003

Housing Permits for Construction and Renovation

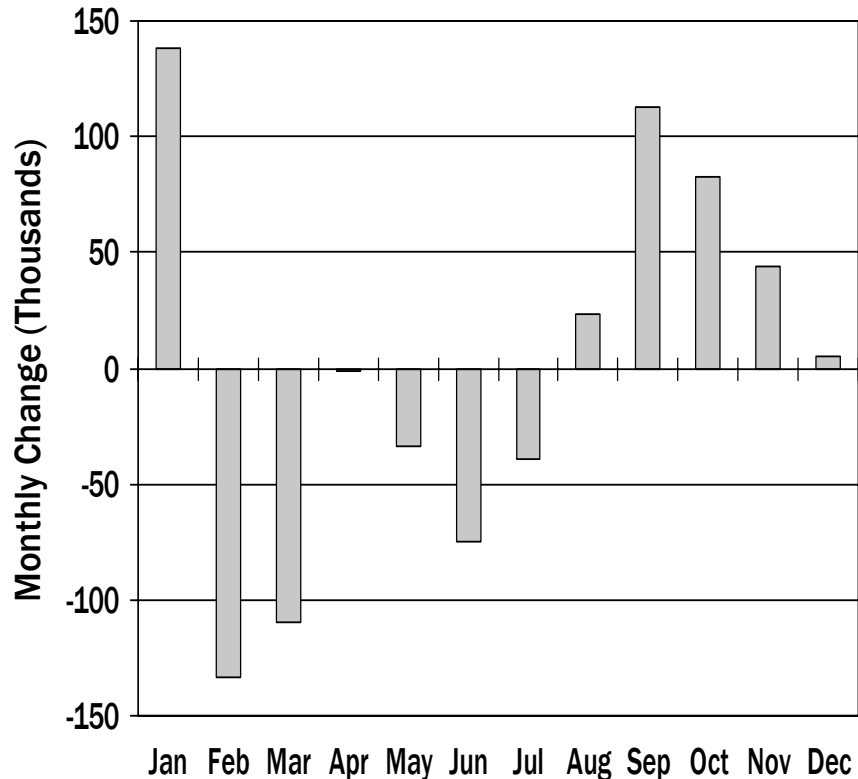


*Average January-November 2003, seasonally adjusted.

Source: Bureau of Census

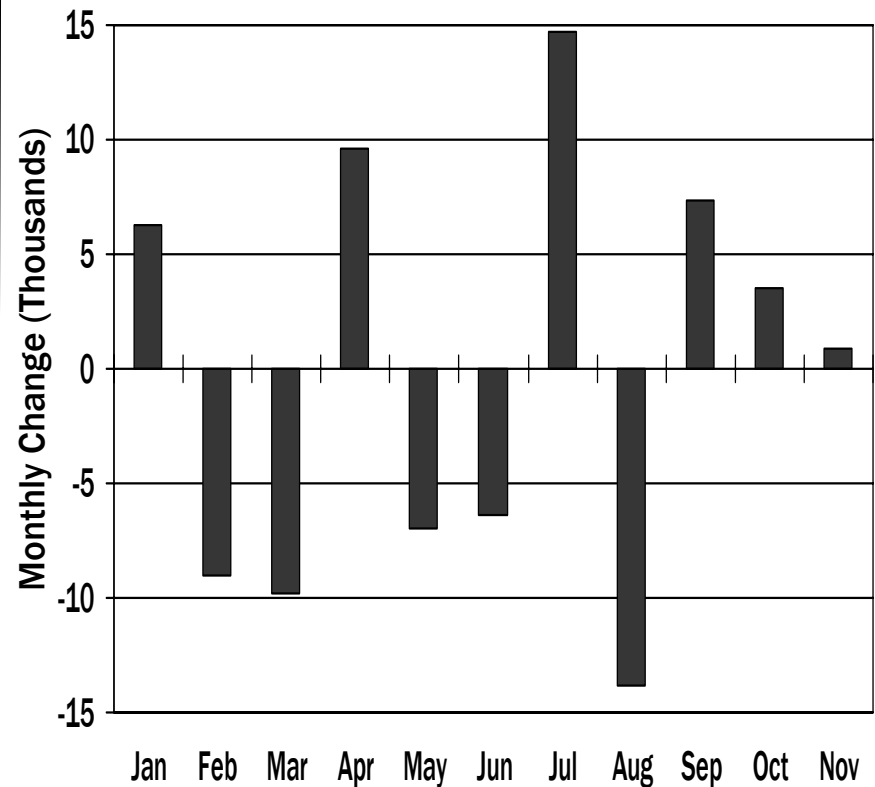
Sustained Employment Growth in the City and the Nation Has Been Elusive in 2003

U.S. Private Sector Employment



2003
Calendar Year

N.Y.C. Private Sector Employment



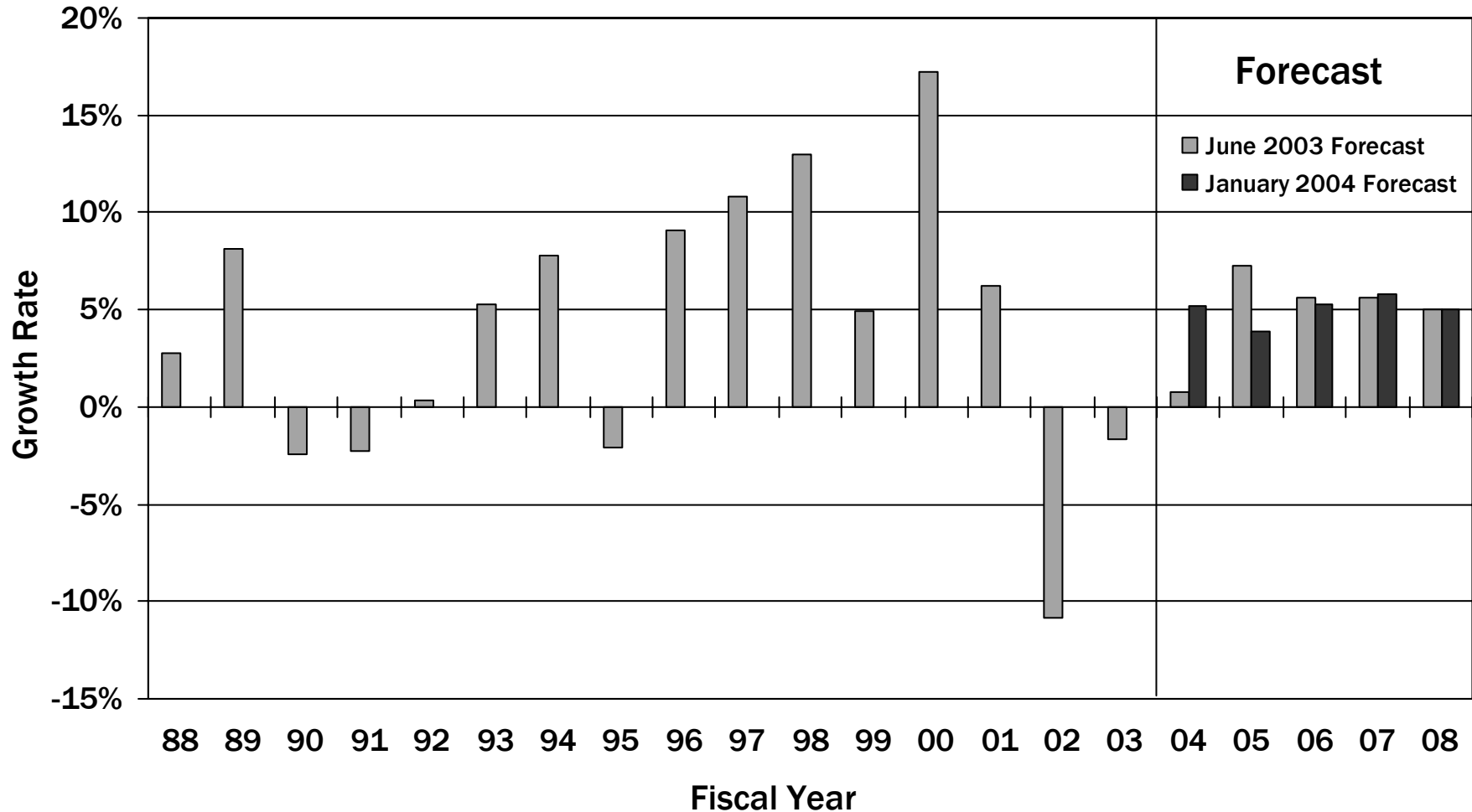
2003
Calendar Year

Note: Data are seasonally adjusted.

Source: U.S. Department of Labor, Bureau of Labor Statistics

Economically Sensitive Taxes Grow By 5.2% in 2004, Up From 0.8% Forecast in June, Due to the Growing Strength of the National and Local Economies

Growth in Economically Sensitive Taxes*

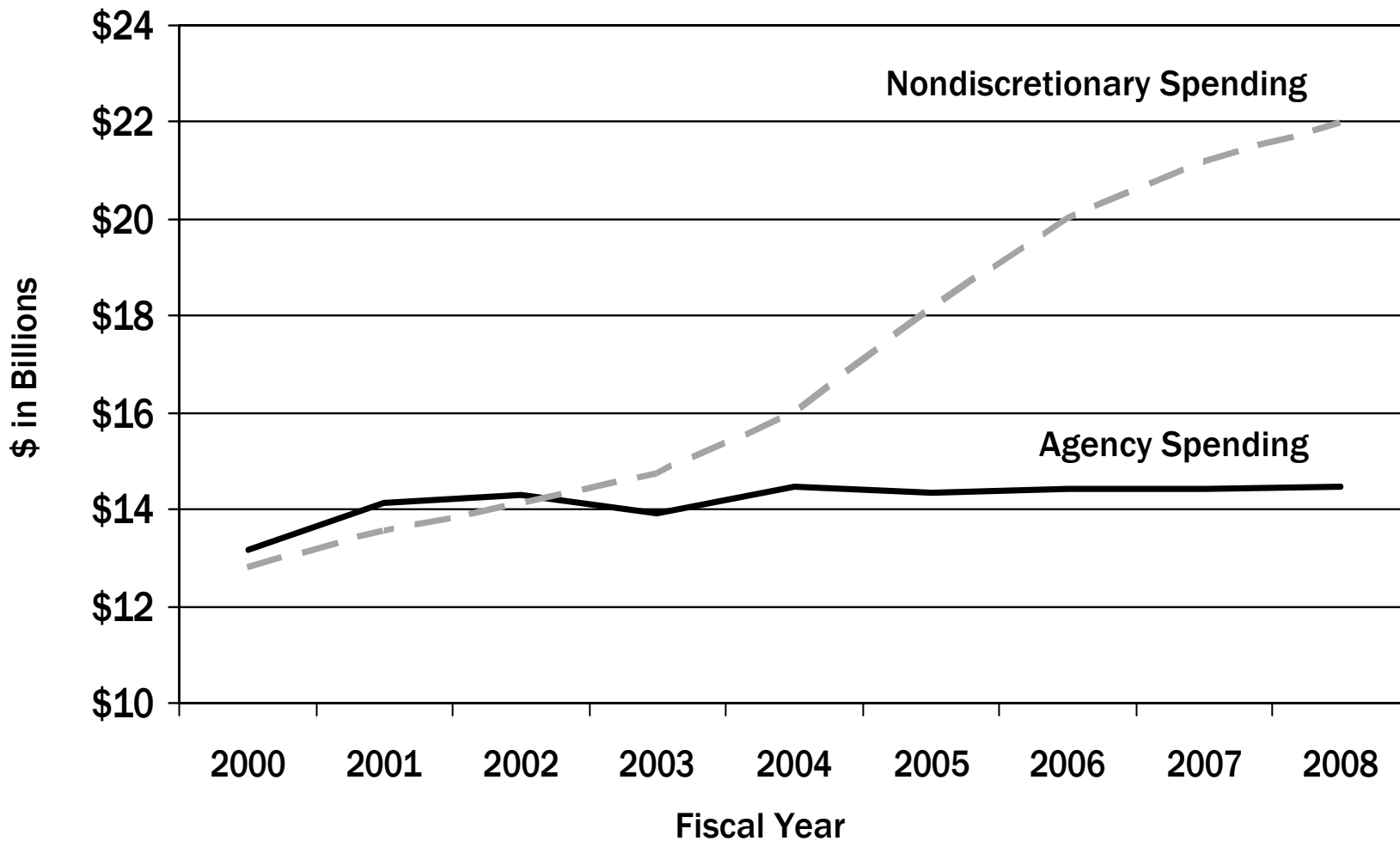


*Excludes property tax

Note: Data are adjusted for tax law changes.

**IV. Increases in Mandated
Expenses Outgrow Forecast
Revenue Increase**

Nondiscretionary Expenses Are Now Larger Than Agency Expenses



City Revenue and Expense Growth*

	\$ in Millions			
	2004	2005	2006	2007
Revenue	\$30,242	\$31,000	\$31,081	\$32,127
<i>Year-to-Year Change:</i>		\$758 2.5%	\$81 0.3%	\$1,046 3.4%
Expenses				
Agency Expenses	\$14,484	\$14,349	\$14,420	\$14,436
<i>Year-to-Year Change:</i>		(\$135) (0.9%)	\$71 0.5%	\$16 0.1%
Nondiscretionary Expenses <i>(see next page)</i>	\$16,002	\$18,109	\$19,998	\$21,187
<i>Year-to-Year Change:</i>		\$2,107 13.2%	\$1,889 10.4%	\$1,189 5.9%
Total Expenses	\$30,486	\$32,458	\$34,418	\$35,623
<i>Year-to-Year Change:</i>		\$1,972 6.5%	\$1,960 6.0%	\$1,205 3.5%

*Excludes November and January PEGs and the impact of prepayments.

Growth in Nondiscretionary Expenses*

(detail)

	\$ In Millions			
	2004	2005	2006	2007
Nondiscretionary Expenses (from prior page)				
Debt Service	\$2,964	\$3,349	\$3,598	\$3,804
	<i>Year-to-Year</i>	\$385	\$249	\$206
	<i>Change:</i>	13.0%	7.4%	5.7%
Pensions	\$2,384	\$2,993	\$3,784	\$4,161
	<i>Year-to-Year</i>	\$609	\$791	\$377
	<i>Change:</i>	25.5%	26.4%	10.0%
Fringe Benefits	\$4,567	\$4,952	\$5,243	\$5,542
	<i>Year-to-Year</i>	\$385	\$291	\$299
	<i>Change:</i>	8.4%	5.9%	5.7%
Medicaid	\$3,942	\$4,395	\$4,602	\$4,799
	<i>Year-to-Year</i>	\$453	\$207	\$197
	<i>Change:</i>	11.5%	4.7%	4.3%
All Other	\$2,145	\$2,420	\$2,771	\$2,881
	<i>Year-to-Year</i>	\$275	\$351	\$110
	<i>Change:</i>	12.8%	14.5%	4.0%
Total Nondiscretionary Expenses	\$16,002	\$18,109	\$19,998	\$21,187
	<i>Year-to-Year</i>	\$2,107	\$1,889	\$1,189
	<i>Change:</i>	13.2%	10.4%	5.9%

*Excludes November and January PEGs and the impact of prepayments.

V. Federal and State Agenda

Federal Agenda

- ❖ Last year, the City requested \$200 million of Federal assistance to help close the budget gap. The Federal government delivered \$342 million of gap closing assistance by increasing the Federal share of Medicaid, providing additional reimbursement for the protection of the UN and foreign missions, and granting additional flexibility in certain grants.
- ❖ The 2005 Gap Closing Program calls for \$300 million of initiatives requiring Federal action which will help close the budget gap. We have provided a menu of over \$400 million of initiatives to achieve this goal.
 - Making permanent the recent increase to the Federal share of Medicaid from 50% to 53% will reduce the City cost by \$242 million for 2005.
- ❖ Over the last two years, the City's lobbying efforts have resulted in an additional \$180 million in High Threat Urban Area Security Funding to compensate for the inadequate distribution formula of State Homeland Security Grants.
 - This year, the State Homeland Security Grant formula must be changed so that it is also distributed on a threat based allocation, rather than a population based formula, gaining the City at least \$400 million.
- ❖ In addition, Congress must provide substantial increases in Federal education aid to assist school districts in meeting the Federally mandated high standards of the No Child Left Behind Act.
 - Education spending at full funding levels would gain the City \$400 million (see page 28).

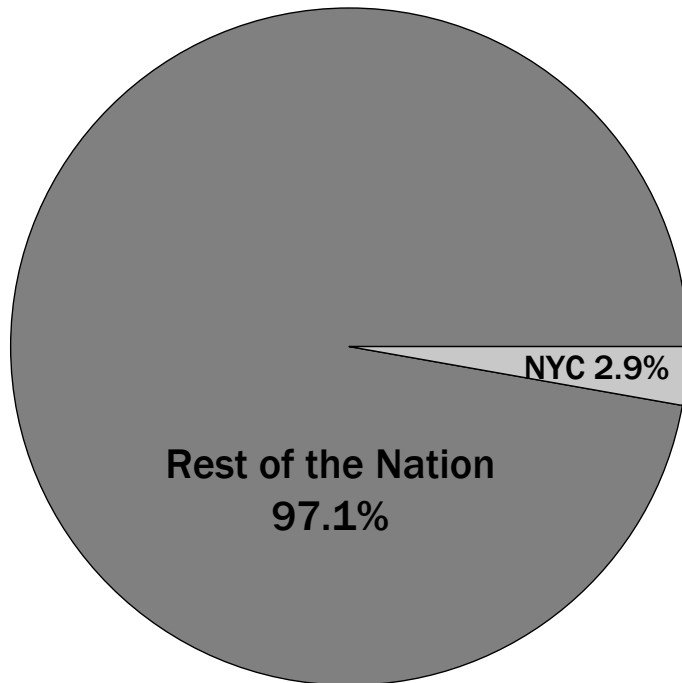
Federal Initiatives to Close the Gap

		\$ in Millions			
		2005	2006	2007	2008
Federal Initiatives to Close the Gap					
❖	Make Permanent the Increase to the Federal Share of Medicaid (Increased for the first time in 2004)	\$242	\$253	\$265	\$277
❖	Increase State Criminal Alien Assistance Program Funding	87	87	87	87
❖	Restore Federal Medicaid Funding for Legal Immigrants	34	35	37	39
❖	Reimburse the City for the Full Cost of Protecting the UN, Foreign Missions, and Millennium Summit*	30	10	10	10
❖	Extend 2 nd Advanced Refunding Authority	20	10	5	5
Total		\$413	\$395	\$404	\$418
Other Federal Initiatives					
❖	Distribute Homeland Security Funds on a Threat-based Allocation	\$400	\$400	\$400	\$400
❖	Authorize Education Spending at Full Funding Levels	400	680	830	830
Total		\$800	\$1,080	\$1,230	\$1,230

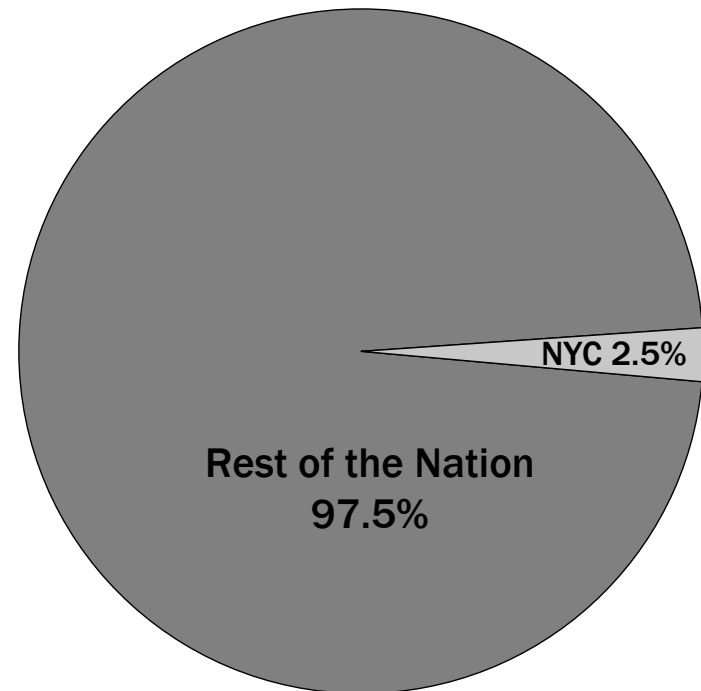
*This is in addition to the \$32 million NYC received last year for expenses incurred in prior years.

New York City Received Only 2.5% of Homeland Security Funding in 2004, Less Than the City's Share of the Nation's Population

Population



2004 Homeland Security Funding for States and Localities \$3.85 Billion



New York City Received Only \$95 Million

Sources:

- 2000 U.S. Census
- Department of Homeland Security Appropriations - Federal Fiscal Year 2004

New York State Receives Fewer Homeland Security Dollars Per Person Than 48 Other States in the Nation

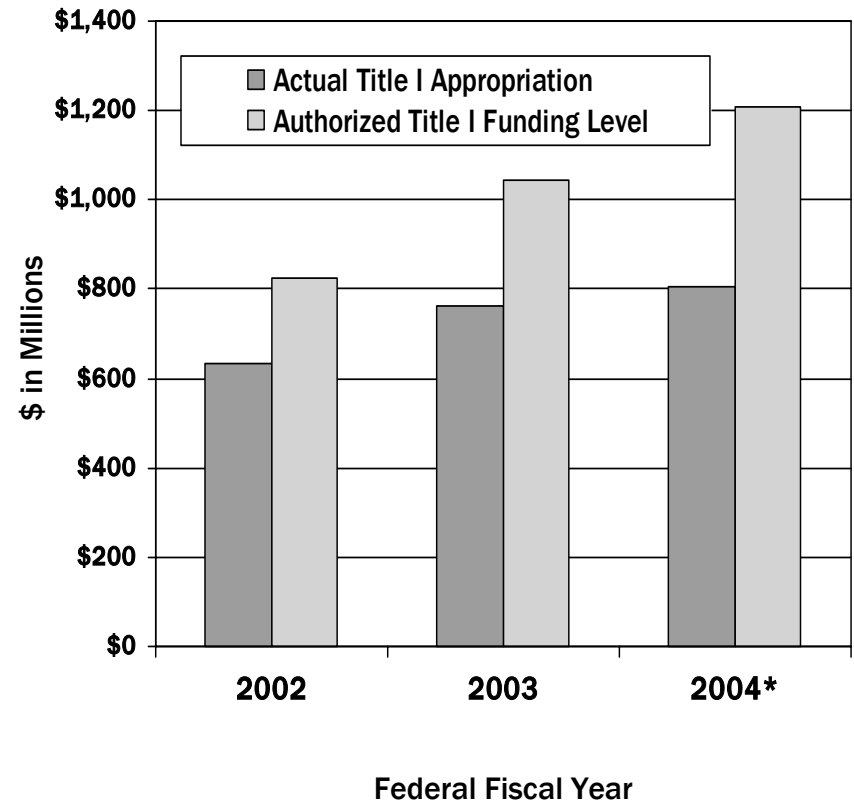
Jurisdiction	State Homeland Security Grant Funding Per Capita
American Samoa	\$101.43
Wyoming	\$38.31
District of Columbia	\$33.65
South Dakota	\$26.65
Arkansas	\$10.84
Mississippi	\$10.45
Connecticut	\$9.51
Pennsylvania	\$5.93
Florida	\$5.80
Texas	\$5.55
New York	\$5.47
California	\$5.21

Source: 2004 ODP State Homeland Security Grant Program

Reforming New York City Schools Requires a Strong Partnership Between the City and the Federal Government

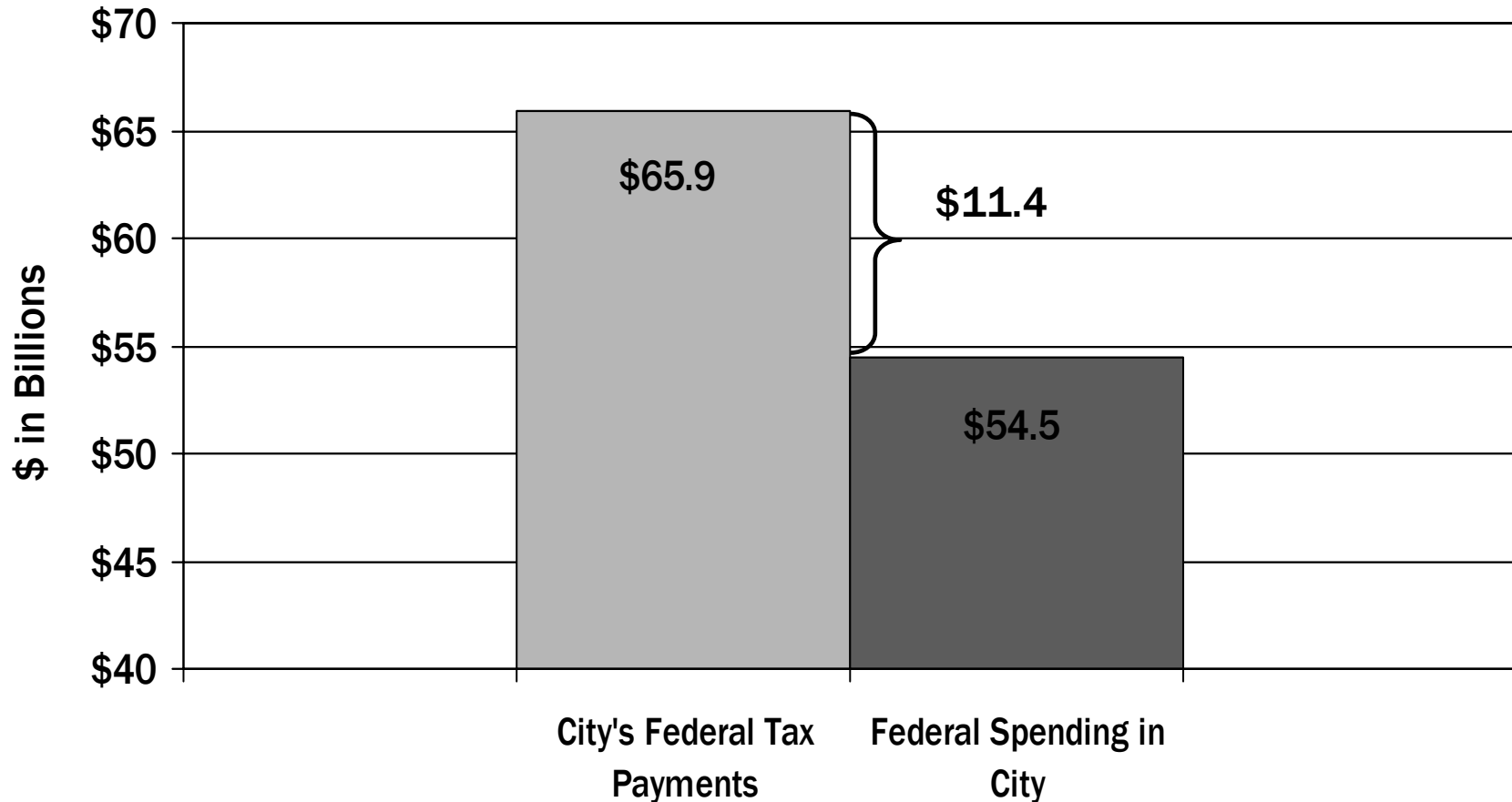
- ❖ The Federal *No Child Left Behind Act of 2001* (NCLB) mandates high standards of achievement.
- ❖ These high standards are necessary, but achieving high performance will be costly.
- ❖ The Federal government has not provided the amount of funding originally determined to be necessary to help districts meet these goals.

Actual Funding is Only 66% of Authorized Levels



*2004 is based on projections

New York City Pays \$11.4 Billion More In Federal Taxes Than It Gets Back In Funding



Source: OMB estimate based on "Tax Foundation Special Report" for Federal FY 2002

State Agenda

- ❖ **Last year, the City worked successfully with the State. Over \$600 million of projected budget cuts to education and social services were restored, over \$500 million of no cost fiscal relief initiatives were developed and legislation relieving the City of \$500 million of annual MAC payments was passed*.**

- ❖ **The 2005 Gap Closing Program calls for \$400 million of initiatives requiring State action which will help close the budget gap. We have provided a menu of over \$900 million of initiatives to achieve this goal.**
 - **Medicaid expenditures by New York City will have increased by \$1.2 billion from 2000 to 2005, a 36% increase in expenditures. The State must reform Medicaid in order to relieve the City from substantial increases in this mandated program.**

 - **State cost shifts to local governments, such as capping reimbursement for detaining State inmates, have historically been used to control State spending. We must reverse these tactics and receive equitable reimbursement for undertaking State functions.**

*Subject to legal challenge.

State Initiatives to Close the Gap

	\$ in Millions			
	2005	2006	2007	2008
Medicaid Reform				
❖ Enact Medicaid Cost Containment	\$200	\$209	\$218	\$228
❖ Takeover the Local Share of Family Health Plus	179	197	217	239
❖ Continue State Takeover of Medicaid Long Term Care	116	237	362	494
Subtotal	\$495	\$643	\$797	\$961
Reverse State Cost Shifts				
❖ Remove State Caps on Reimbursement for Social Services Administrative Expenses	\$152	\$152	\$152	\$152
❖ Increase Reimbursement for State-Ready Inmates and Probation Aid	51	81	102	142
❖ Provide Reimbursement for Foster Care Children Awaiting Placement in State Institutions	8	8	8	8
Subtotal	\$211	\$241	\$262	\$302
Other No Cost Initiatives				
❖ Enact Tort Reform (Cap on pain and suffering, interest on judgments, etc.)	\$50	\$52	\$54	\$56
❖ Reform the Local Finance Laws (swaps, statutory lien, TFA Debt capacity)	40	40	40	40
❖ Enact Collateral Source Legislation	30	30	30	30
❖ Increase Rent Stabilization Fees to Reflect Actual State Charges	28	28	28	28
❖ Allocate Foster Care Block Grant Equitably	21	21	21	21
❖ Department of Finance Administrative Efficiencies and Loophole Closing	18	18	18	18
❖ Increase Fire Insurance Premiums for Out-of-State Companies	16	16	16	16
❖ Increase the Authorization for Red Light Cameras	15	15	15	15
❖ Conform Certain Fees to State Levels (marriage, birth, death certificates., etc.)	13	13	13	13
Subtotal	\$231	\$233	\$235	\$237
Grand Total	\$937	\$1,117	\$1,294	\$1,500

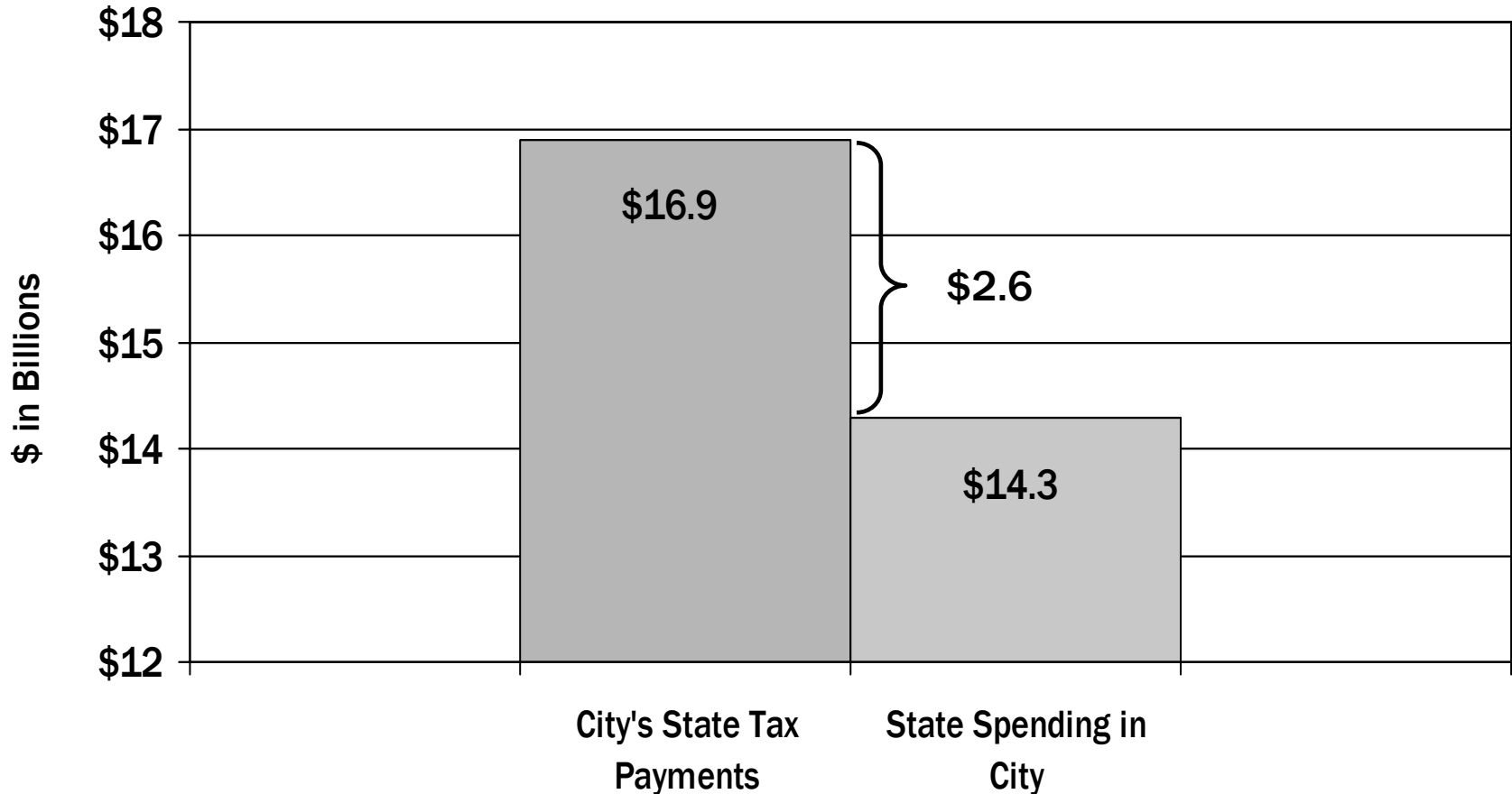
New York City's Tax Burden is Higher Than the Average for the Rest of the State

	Local Tax Burden*	Per Capita Tax
New York City	7.6%	\$2,929
NY State (excluding NYC)	6.5%	\$2,203

* Tax Burden is measured as the ratio of total tax revenue to personal income. For NYC total tax revenue includes NYC taxes and water and sewer charges which are secured by a lien on real property. For NY State (excluding NYC), tax revenue includes County, City, Town, Village, School District and Fire District taxes.

Sources: New York State Comptroller's Special Report on Municipal Affairs, 2001
Bureau of Economic Analysis, Regional Account Data Personal Income, 2001

New York City Pays \$2.6 Billion More in State Taxes Than It Gets Back in Funding

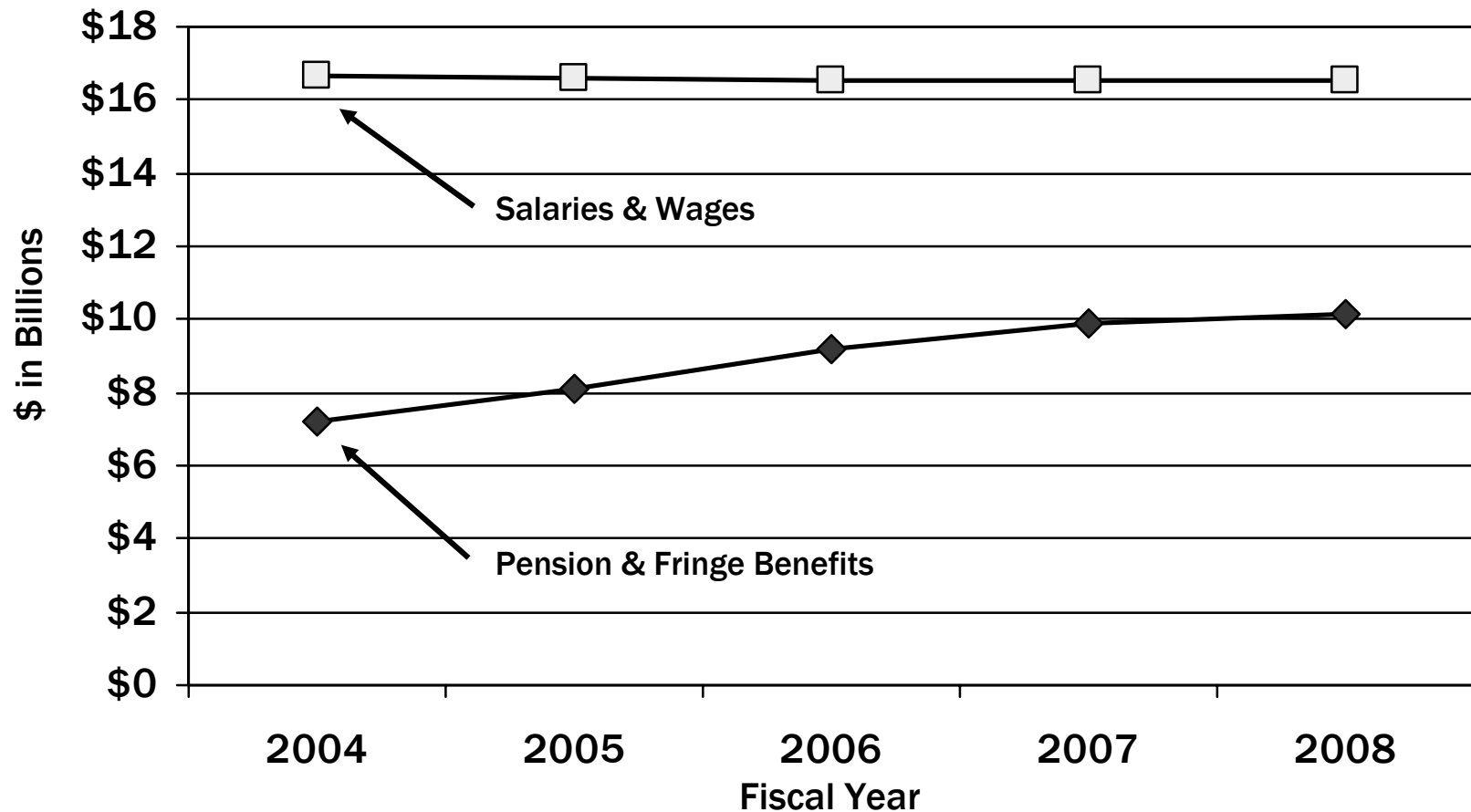


Source: "The Fiscal Balance among NYS Regions," CGR 1999.

VI. Labor Agenda

Growth in Pension and Fringe Benefit Costs

Annual Growth In Pension and Fringe Benefits Is the Equivalent of a 5% Increase in Wages



Future Collective Bargaining Agreements Can Only Be Funded Through Increased Productivity and Other Labor Savings

Showing that such agreements can be made, in December the City reached an agreement with the Municipal Labor Coalition (MLC) covering health benefits which met this criterion.

- ❖ This agreement helps to underwrite the fund that provides coverage for Psychotropic, Injectable, Chemotherapy, and Asthma (PICA) drugs and provides for an increase in the City's contribution to the union welfare funds.**
- ❖ These improvements, made at no additional City cost, were funded by increasing co-pays, establishing an employee paid administrative fee, and introducing other cost saving measures such as mandatory mail order prescriptions.**

Labor Productivity Options

- ❖ Lengthen civilian workweek to 40 hours for all titles
- ❖ Reduce the number of vacation days and holidays given to City employees
- ❖ Revise the rules governing the payment of overtime, union business time, and termination pay
- ❖ Eliminate automatic promotions based on the time spent in a job
- ❖ Enhance flexibility in work assignments
- ❖ Develop more efficient, uniformed employee work schedules
- ❖ Revise work rules to reduce unnecessary payments or inefficient uses of resources

Create a Retirement System for New Employees Which is More in Line With Current Trends

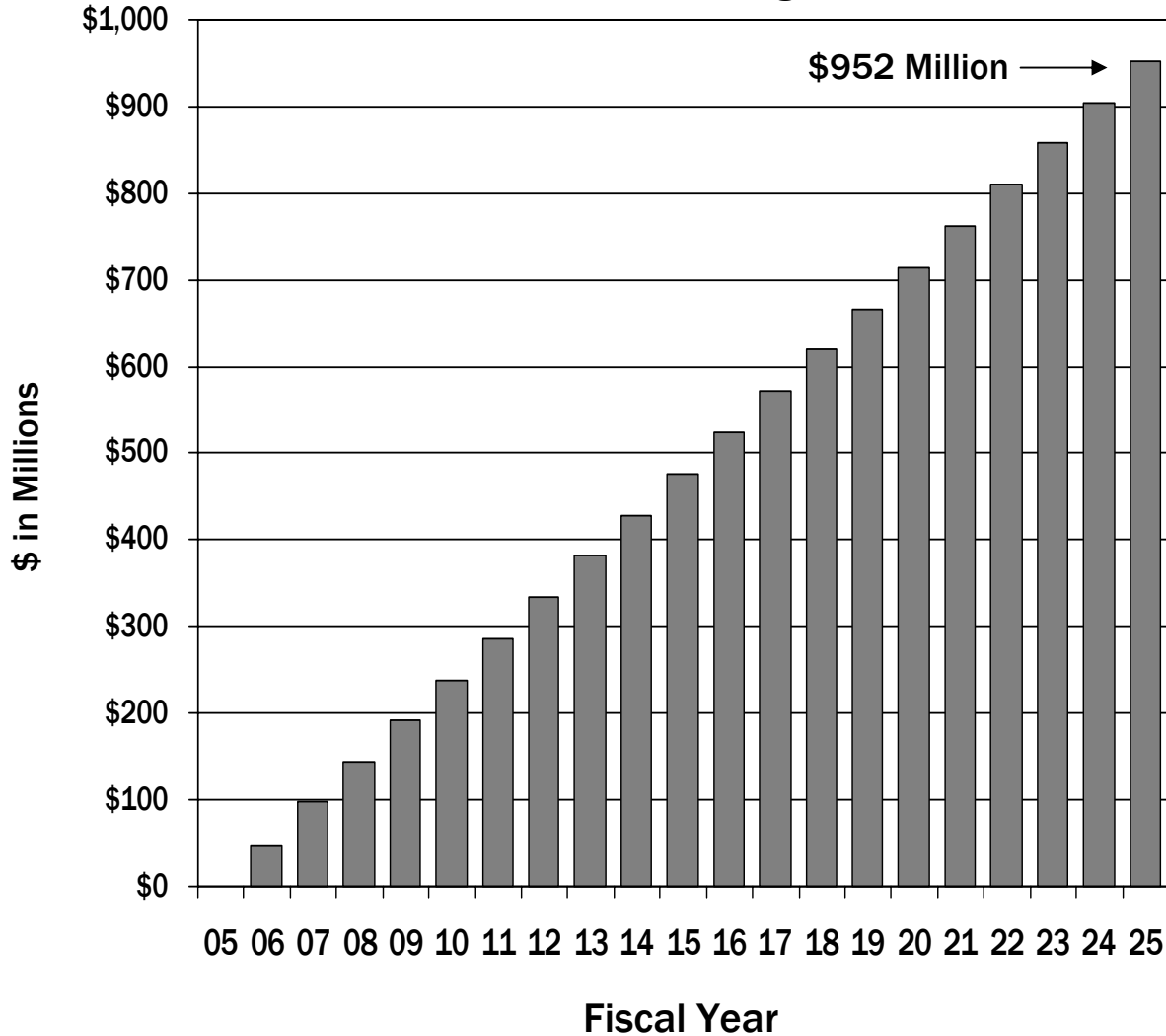
Pensions benefits need to be reformed in order to be more affordable. Some of the key elements of the reforms are highlighted below:

- ❖ Applies only to new employees — 5th Tier (We have restructured the pension system 3 times in the past to bring it in line with evolving trends.)
- ❖ Provides reasonable basic income-replacement levels while removing costly post-retirement supplemental benefits such as “cost-of-living adjustments” and “variable supplements”
- ❖ Requires employee contributions throughout active service
- ❖ Increases age/service requirements in order to help defray the costs from improvements in life-expectancy
- ❖ Standardizes final average salary calculations
- ❖ Re-institute vesting period of 10 years for new employees

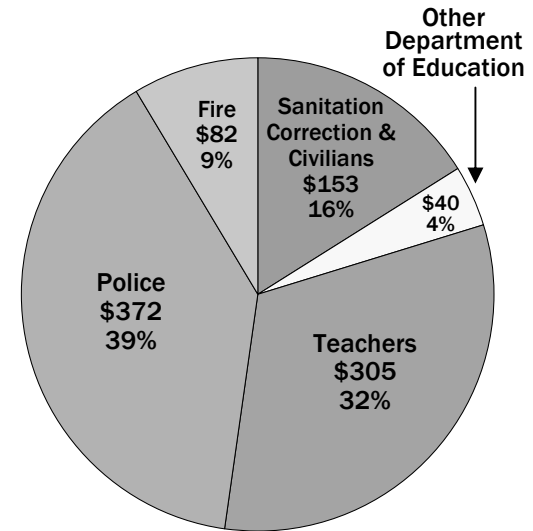
Savings From Proposed Pension Reforms

(All Systems)

Annual Savings



Through Fiscal Year 2025,
\$10 Billion In Savings Will
Accumulate, Reaching
\$952 Million Annually.



VII. Tax Rebate

Annual Property Tax Rebate Program

- ❖ New York City taxpayers sacrificed with higher taxes to protect vital services. With revenues running ahead of plan, each owner occupant of houses, co-ops and condominiums will receive a check for \$400, representing a rebate of their property tax* – a savings Citywide of \$250 million annually.

- ❖ The \$400 rebate will, for the average homeowner, offset the cost of the 18.5% increase.
 - 13.9% of the property tax revenue from the tax rate increase will be returned (\$250 million/\$1,800 million).

 - 1.9% of the total property tax revenue will be returned (\$250 million/\$12,857 million).

 - 0.9% of all City tax revenue will be returned (\$250 million/\$26,479 million).

*The amount of the rebate will be \$400 for taxpayers whose 2005 bill (before rebate) is at least \$400.

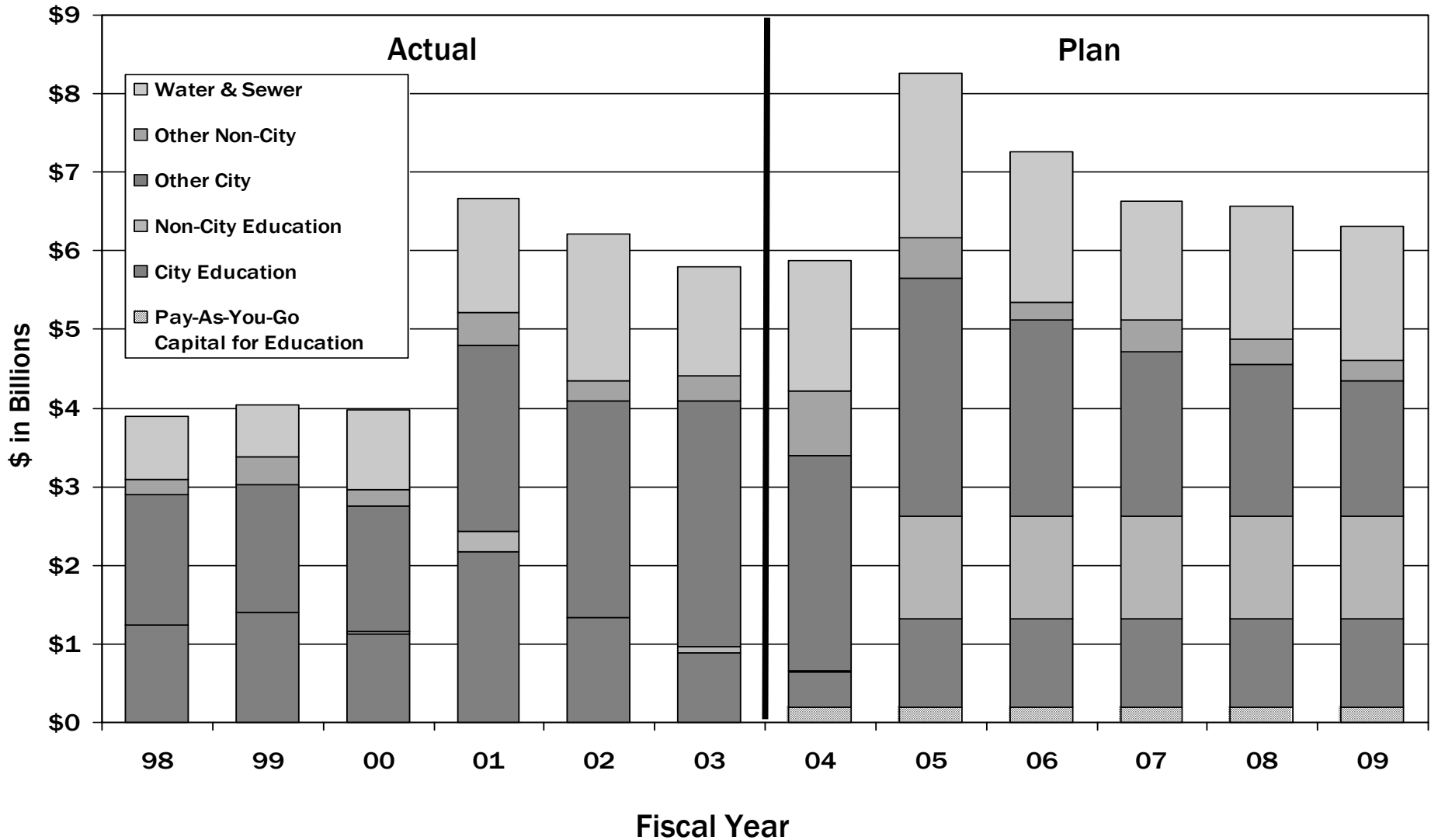
Note: As scheduled, the suspension of the sales tax exemption on clothing expires 5/31/04; the sales tax rate increase expires 5/31/05 and the personal income tax increase expires 12/31/05.

VIII. Capital Plan

Education Reform Cannot Be Accomplished Without a Significant State Commitment to the Capital Budget

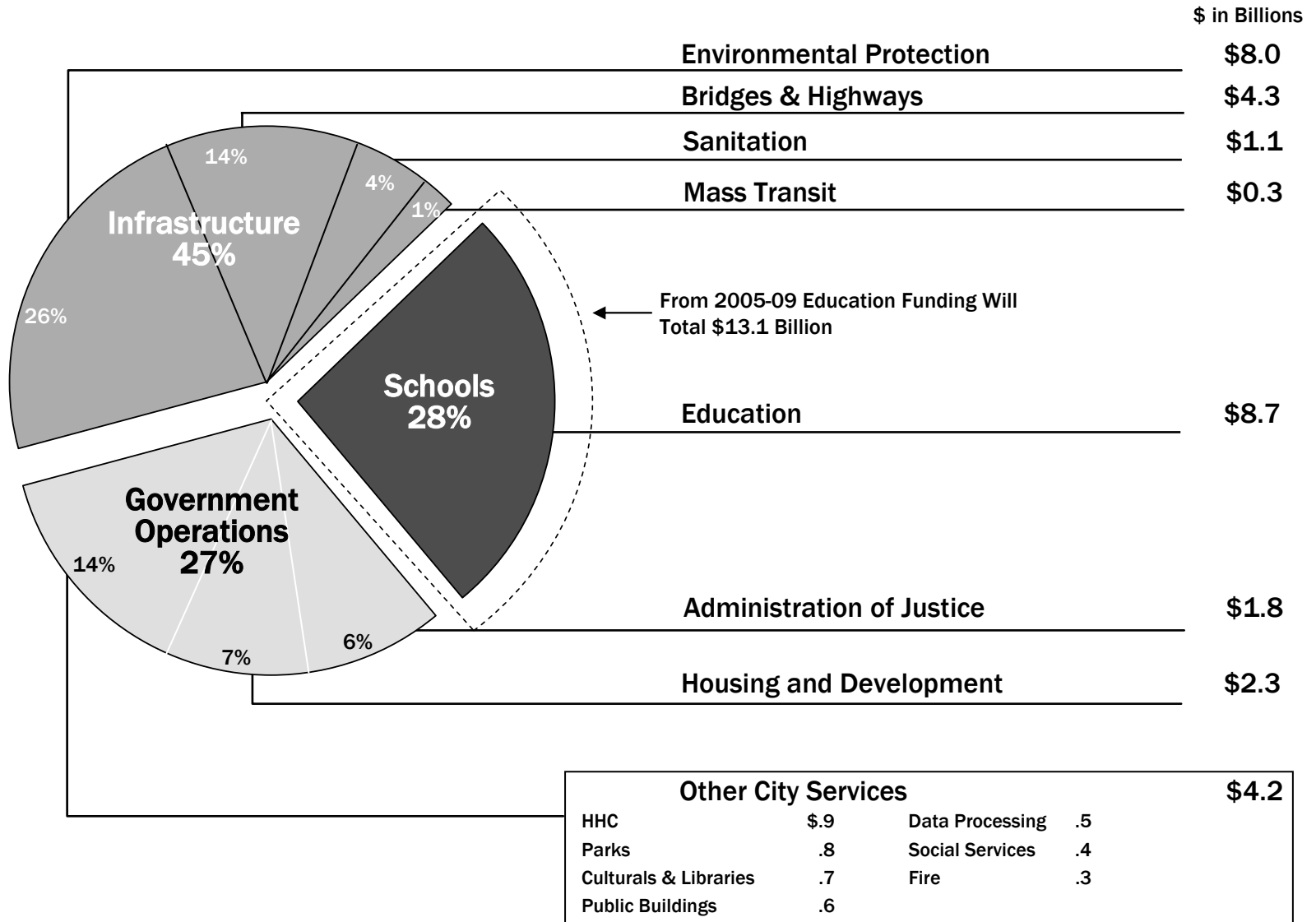
- ❖ The City has proposed a historic \$13.1 billion five-year capital plan for the Department of Education in order to provide the capital expenditures and investments necessary to upgrade, build and maintain school buildings.
- ❖ The City's contribution to the plan will increase almost 45%, from \$4.5 to \$6.5 billion.
- ❖ The City requests that the State support the remaining \$6.5 billion of this plan because the needs of the City school system are so great, the City's fiscal capacity is limited, and the State's building aid formula has historically shortchanged City schools.

Capital Commitments — All Funds



Four-Year Capital Plan

2004-2007 Totals \$30.7 Billion in All Funds



IX. Tables

Financial Plan Revenue and Expenditures

(\$ in Millions)

	2004	2005	2006	2007	2008
Revenues					
Taxes					
General Property Tax	\$11,335	\$11,809	\$12,278	\$12,798	\$13,350
Other Taxes	14,873	13,912	14,336	14,890	15,750
Tax Audit Revenue	545	508	508	509	509
Miscellaneous Revenues	4,371	5,065	4,241	4,209	4,250
Unrestricted Intergovernmental Aid	953	585	585	585	585
Less: Intra-City Revenue	(1,186)	(1,096)	(1,094)	(1,094)	(1,094)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	\$30,876	\$30,768	\$30,839	\$31,882	\$33,335
Inter-Fund Revenues	926	801	828	843	843
Other Categorical Grants	343	330	320	316	316
Total City Funds and Inter-Fund Revenues	\$32,145	\$31,899	\$31,987	\$33,041	\$34,494
Federal Categorical Grants	5,463	5,089	5,041	5,029	5,019
State Categorical Grants	8,393	8,679	8,653	8,726	8,786
Total Revenues	\$46,001	\$45,667	\$45,681	\$46,796	\$48,299
Expenditures					
Personal Service					
Salaries and Wages	\$16,851	\$16,590	\$16,650	\$16,652	\$16,661
Pensions	2,555	3,165	3,958	4,335	4,351
Fringe Benefits	4,803	5,086	5,378	5,676	5,934
Subtotal: Personal Service	\$24,209	\$24,841	\$25,986	\$26,663	\$26,946
Other Than Personal Service					
Medical Assistance	\$4,123	\$4,541	\$4,747	\$4,944	\$5,151
Public Assistance	2,437	2,247	2,254	2,255	2,255
Pay-As-You-Go Capital	200	200	200	200	200
All Other	12,174	12,059	12,282	12,479	12,669
Subtotal: Other Than Personal Service	\$18,934	\$19,047	\$19,483	\$19,878	\$20,275
Debt Service	2,554	3,470	3,719	3,924	4,112
Budget Stabilization	1,390	(695)	(695)	---	---
General Reserve	100	100	300	300	300
Subtotal	\$47,187	\$46,763	\$48,793	\$50,765	\$51,633
Less: Intra-City Expenses	(1,186)	(1,096)	(1,094)	(1,094)	(1,094)
Total Expenditures	\$46,001	\$45,667	\$47,699	\$49,671	\$50,539
Gap To Be Closed	\$ ---	\$ ---	(\$2,018)	(\$2,875)	(\$2,240)