The City of New York

NOVEMBER 2002 FINANCIAL PLAN

Fiscal Years 2003–2006

SUMMARY

The City of New York
Michael R. Bloomberg, Mayor

Office of Management and Budget
Mark Page, Director

November 14, 2002

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

November 14, 2002

To the Citizens of the City of New York
Members of the City Council
Members of the Financial Control Board

My Fellow New Yorkers,

Historically New York City has been challenged by budget deficits. However, the 1975 fiscal crisis is the benchmark against which all other budget difficulties are measured. The City is still paying almost $500 million annually in Municipal Assistance Corporation debt service largely for deficit financing from this period. The deleterious impact on our streets, children and economy has only recently been swept away. Fortunately, while the magnitude of today's budget gap is substantial, the City is not in the same predicament as in 1975.

Unlike the mid-1970s the economic foundation of New York City remains strong. Population is at an all time high of over eight million citizens and the City is recognized as a vital and cutting-edge place to do business. Major media corporations, including AOL Time Warner, Hearst, the New York Times and Bloomberg LP, are constructing new Manhattan headquarters. Hotel occupancy rates have recovered to pre-September 11th levels. Although suffering an economic downturn, personal income in New York City is still notably high and our local tax burden has shrunk by one-third since 1975. Office vacancy rates in New York are estimated at nine percent this year, lower than any other major city in America. Since January 2002, welfare cases are down by over 33,000. And continuing a more than decade long trend, crime has continued to drop an additional five percent in 2002 alone. Finally, the restructuring of governance of the City's school system presents exciting new opportunities for improvements in the classroom.

In addition to positive economic underpinnings, the financial information and fiscal planning reforms implemented after 1975 are strong and effective. These reforms require the City to regularly monitor its actual receipts and disbursements, review its forecasts of revenues and expenditures and to estimate the size of prospective deficits for upcoming fiscal years. Unlike 1975, this knowledge affords the City the opportunity to avert what could, in the absence of action, potentially become a crisis by taking immediate steps to implement responsible solutions. By looking back at the legacy and lessons of the fiscal crisis, the City is positioned to formulate better and smarter solutions to current fiscal concerns.

THE PROBLEM

The Fiscal Year 2003 budget, when adopted last June, closed a gap of almost $5 billion and projected a shortfall of $3.7 billion for Fiscal Year 2004. The financial picture has since eroded significantly with projected gaps now widening to $1.1 billion and $6.4 billion for Fiscal Years 2003 and 2004, respectively. The change in estimates is due primarily to a reduction in anticipated revenues resulting from a continued softening of the economy. In addition to decreasing revenues, the revised financial plan reflects growth in the relatively unchangeable fixed cost components of the budget such as debt service, the City's unique share of Medicaid, pension fund contributions, and health benefits. In contrast to the 31 percent increase in fixed costs, agency related spending has been essentially held at the level anticipated in the adopted budget.

Tax collections from non-property taxes dropped 11 percent last year as a result of September 11th and the national recession and are expected to fall another one percent this year. This two-year drop in non-property taxes has not occurred in the City since 1990-1991, when the cumulative two-year decline was 4.7 percent, compared with the current cumulative two-year reduction of 12.2 percent. The stock market decline this summer and the ongoing lack of confidence among investors have contributed to this retrenchment. Mergers and acquisitions activity has declined along with initial public offerings, eroding Wall Street profitability. One-third of the City's economy and 20 percent of its wage income is tied either directly or indirectly to the securities industry. Wall Street profits for calendar year 2002 are expected to be much lower than originally anticipated, shrinking from a forecast of $12 billion to $8 billion.

There is no silver bullet to address the $7.5 billion budget shortfall facing the City over the next twenty months --- $1.1 billion in Fiscal Year 2003 and $6.4 billion in Fiscal Year 2004. By any standard, the magnitude of the deficit precludes any single measure from curing the entire problem without causing serious harm to New Yorkers. Taxes alone cannot bridge the shortfall, nor can the need be responsibly met solely through service reductions. Even record growth, which the City has no reason to expect, would not provide sufficient tax revenue to balance Fiscal Year 2004. It is clear that the City must begin now to address the fiscal situation that it will be facing in Fiscal Year 2004. Waiting will only exacerbate the problem, making the choices more difficult, if not impossible. The sooner spending cuts and revenue increases are implemented, the less stringent they will have to be to accumulate the total value needed to bring this year and next into balance. Filling the budget gap will require a series of sacrifices from all those who have a stake in New York City --- the individuals that provide municipal services, those that rely on these services, and those who pay for them.

PROPOSED BUDGET MODIFICATIONS

The November Modification to the Financial Plan proposes an early action program that manages the City's reduced resources in a way that minimizes its adverse impacts. The specific elements of this proposal and the financial plan ramifications are summarized in the table below, and include the following four components: (1) reductions to the City's expense and capital budgets, (2) reformation of City taxes, (3) municipal workforce productivity improvements; and (4) assistance from the federal government and the State of New York.

Program to Close the Budget Gaps
($ In Millions)

	Fiscal Year 2003	Fiscal Year 2004
Revised Budget Gap	**$(1,073)**	**$(6,360)**
Gap Closing Program		
City Agency Expense Reductions	**844**	**1,108**
Property Tax	**1,133**	**2,335**
State Initiatives	**-**	**1,413**
Federal Initiatives	**-**	**200**
Workforce Productivity	**-**	**600**
Total Gap Closing Program	**1,977**	**5,656**
Increase General Reserve	**(100)**	**(100)**
Prepayments	**(804)**	**804**
Remaining Gap/Surplus	**$ -**	**$ -**

City Agency Expense Reductions: Nearly two-thirds of the City's $42 billion budget is mandated spending. Of the remaining $15 billion that is discretionary, more than half is spent on education, policing and court-ordered mandates. Nonetheless, the adopted Fiscal Year 2003 budget trimmed $1.5 billion from agency resources. The November modification proposes to deepen these cuts, imposing an additional 7.5 percent targeted reduction Citywide for the remainder of Fiscal Year 2003, and then trimming another 2 and 4 percent respectively for Fiscal Years 2003 and 2004 for nearly all agencies, with the exception of those employees providing the most basic municipal services --- public safety and education. The cumulative effect of the agency reductions that were adopted with the Fiscal Year 2003 budget and those proposed in this modification total more than $2.3 billion.

The magnitude of the reductions required by this plan will impact City services. Every effort will continue to be made to absorb these reductions by finding ways to more efficiently deliver vital services; however, certain programs and projects will be postponed or eliminated until they can be afforded. The number of uniformed police officers will be reduced, fire engine companies will be closed, certain senior citizen centers will be consolidated, and others will see service curtailed by one day a week. Non-safety related capital projects may also be impacted by a proposed 30 percent targeted reduction in the City's capital program beginning in Fiscal Year 2003.

Taxes: The immediate aftermath of the September 11th terrorist attack forced the City to deal with new economic realities including the immediate loss of 70,000 private sector jobs. Given the impact of this disaster and the fragile condition of the City, tax increases and layoffs were not considered as a means of balancing the budget. The City could not afford to add to its trauma. Today the situation has steadied in terms of both business retention, and public confidence. And while tax increases are never desirable, the City is in a better position a year after the attack to weather the burden.

Moreover, the need for taxes as a contributing source to remedy the budget gap is more compelling. Despite implementation of deep and recurring spending cuts, a huge problem remains. Significantly deeper cuts in agency related spending would prove counterproductive. Police, firefighters, schoolteachers and sanitation workers are funded entirely with City tax dollars. Comparatively, employees providing social services receive only a fraction of their salaries from City revenues. Realizing substantially greater agency-related savings would disproportionately affect the City's most vital services, ultimately doing more harm than good and driving out businesses and people.

Property Taxes: Like other jurisdictions, including Nassau and Westchester Counties, the City plan proposes an increase in the property tax. The November modification proposes a 25 percent increase in the real property tax rate --- the maximum amount permitted under the State Constitution --- that will generate $1.1 billion in Fiscal Year 2003, growing to $2.3 billion in Fiscal Year 2004. The property tax, the rate which has not been raised in over a decade, is the only levy that the City can alter without prior State approval. It can therefore be adopted immediately, and along with spending cuts, is the key to taking early action to address the City's financial difficulties. Property taxes can also be deducted from federal and state income taxes for those individuals that itemize their taxes. Moreover, a property tax increase, coupled with the large reduction in agency spending, will demonstrate to Albany and Washington the City's willingness to make tough decisions before turning to them for help.

Personal Income Tax Reform: The November modification proposes to reform the personal income tax structure to: (1) raise revenues, (2) introduce equity into the City's tax system and (3) mitigate the impact of higher property taxes on City residents. The personal income tax is currently levied only on residents, with a maximum rate of 3.65 percent. In 1999 the State Legislature repealed the "commuter tax", eliminating the earnings tax on people who work in, and reap the benefits of New York, but live outside of the City limits. The proposed restructuring, which would require approval in Albany, is rooted in the principles of equity and fairness and would treat everyone who works or lives in New York City the same. <u>This approach mirrors the methodology employed by New York State to impose its personal income tax, which is levied equally on all individuals working within the State regardless of residency</u>.

Restructuring the City's personal income tax base to include income earned in New York City by non-residents will provide an immediate across the board reduction to the City's personal income tax, reducing the top rate from 3.65 to 2.75 percent. And because three-quarters of corporate employees that work in New York, live in New York and pay local income taxes, tax reform will minimize any long-term impact on City employment.

In the short-term, this measure will generate over $1 billion in Fiscal Year 2004. However, the need to generate increased revenues from the personal income tax is temporary. Over the next several years the maximum rate will be ratcheted down to 2.25 percent, the rate at which no additional personal income tax revenues will be collected over and above the amount collected under today's tax structure.

The net effect of these tax changes is that the adverse impact of the property tax will be offset substantially by the restructuring of the personal income tax. Taken together, the combined impact of these tax changes to many residents will be relatively modest. A head of household with two dependents, earning $55,000 per year and owning a one or two family house, will pay only $151 more annually in taxes under this proposal.

Workforce Productivity Improvements: Municipal employees and their unions must share in the solution to the City's current financial difficulties. Labor costs represent 72 percent of the discretionary portion of the budget --- the largest single component. Savings associated with workforce productivity are a major ingredient of the November modification. In the absence of productivity improvements or other responsible alternatives, layoffs may become inevitable. The value of the productivity savings reflected in this modification is the equivalent cost of 12,000 City jobs.

Moreover, any future wage increases for the City workforce will have to come after achieving the balance of revenue and spending set forth in this plan and must be funded through productivity. More effective use of the workforce will be required to fund those increases without throwing the City back into deficit. These changes must be achieved through conventional collective bargaining and any City savings would not begin until an agreement is struck. Departing from past practices then, since productivity improvements are the basis for any wage increases – and productivity cannot be done retroactively (unlike straight City wage increases we no longer have money for) contract changes from now on cannot apply to past periods.

One of the many lessons learned from the 1975 fiscal crisis is the tremendous consequence of large-scale layoffs in the municipal workforce. The fiscal crisis resulted in a total reduction in the City payroll of over 65,000 employees through layoffs, attrition and state transfers, or nearly a quarter of the City workforce. Almost 6,000 uniformed personnel and 11,000 teachers were abruptly laid off. Along with these cuts came disruption, the radical altering of services, and a degradation of the quality of life for New Yorkers for years to come. Teachers changed in virtually every class, often repeatedly in the same year, as the cascading effects of seniority job protection took effect. Within four years after the fiscal crisis, crime increased by nearly 20 percent. This is not the model that the City should follow.

Productivity savings from the municipal workforce are a better and smarter approach. There are a number of measures that could be considered to maximize the productivity of the uniformed service and civilian labor force including extending the civilian workweek to conform with State practice, increasing employee health insurance co-payments, containing City pension contribution costs and for the uniform services in particular, optimizing workforce deployment.

Federal/State Initiatives: To date, the City's efforts in Albany and Washington to obtain gap-closing assistance have been relatively successful. More than $550 million of relief has been provided. Sustaining this support will be viewed within the context of local effort. If adopted immediately, the proposed spending reductions and property tax adjustment will deliver a strong message that the City has done all it can, by itself, to address its budget deficit.

In addition to the personal income tax proposal, the City will work with the State Legislature to seek the following changes:

- Greater Efficiencies in Regional Transportation - For the first time in 37 years, the Metropolitan Transportation Authority (MTA) proposed a sweeping restructuring that will require approval by the State Legislature. As part of this discussion, the City will advance proposals to foster greater efficiencies in the provision of regional mass transportation including transferring the operational and financial responsibility for the New York City private bus system to the MTA. Additionally, tolls on all the Manhattan crossings will provide vital support to maintain and improve the mass transit and vehicular traffic infrastructure for the City.

- State Takeover of Medicaid – New York City is the only city in the State that pays the local share of Medicaid costs. The City will seek a State takeover of this $4 billion financial burden.

- Other State Initiatives- The City will seek an additional $200 million of gap closing initiatives, which include Medicaid cost containment, tort reform, and debt finance reform. The City has prepared a menu of over $1 billion of state initiatives to meet this goal, of which over $700 million is of no additional cost to the State government.

- State Education Aid - Over the last year, the State has approved a new system of education accountability, set aside additional resources to prevent budget cuts in the classroom and provided the City with access to the Municipal Bond Bank and other one-time revenue sources to fund the new teacher's contract. Building on last year's State commitment to education, the City will seek a continuing, annual appropriation of $275 million to support the cost of the extended day associated with this contract.

The City will also be pursuing with Congress the following measures:

- Federal Initiatives: The City has prepared a menu of over $1 billion of federal initiatives, of which approximately $300 million will have no additional cost to the Federal government. The City will seek $200 million of theses initiatives to help close the budget gap in 2004. Included in this menu is an increase in the Federal Matching Percentage in the Medicaid program, flexibility in hazard mitigation and first responder funds for uniform operating expenses, and an increase in the City's reimbursement for incarcerating illegal aliens.

- New Emergency Preparedness Spending: Congress has set aside approximately $3.5 billion for a new First Responder program as it relates to homeland security. These funds are to be allocated to localities in order to help prepare for new terrorist threats. The City seeks approximately $700 million of these new funds in order to purchase new emergency response equipment, upgrade communications technology, provide training for first responders and enhance security at a number of emergency facilities.

CHOICES

The cost of services the City would like to provide will always outstrip available resources and ability to pay. However, government has the responsibility to reconcile the balance sheet and set priorities to align resources and spending for each fiscal year. The deficit forecast for next year poses a particularly vexing challenge. New Yorkers must take up this challenge now by spending less and by working harder and smarter to mitigate the effects of reduced spending in every way.

The City must show its resolve, taking the first step in reforming taxes by increasing the real property tax --- the only source of tax revenue under local control, and reducing our expenditures down to the lowest tolerable level consistent with keeping this the greatest City in the world. By taking these first steps the City will be in a strong position to seek the vital help of the state and federal governments to enable us to move New York City forward on a reliable and stable fiscal foundation. The months before us will demonstrate the strength of resolve locally to realign spending and revenues to address fiscal balance now for next year and our future.

Sincerely,

Michael R. Bloomberg
Mayor

Budget Summary

November 2002 Financial Plan
Fiscal Years 2003 – 2006

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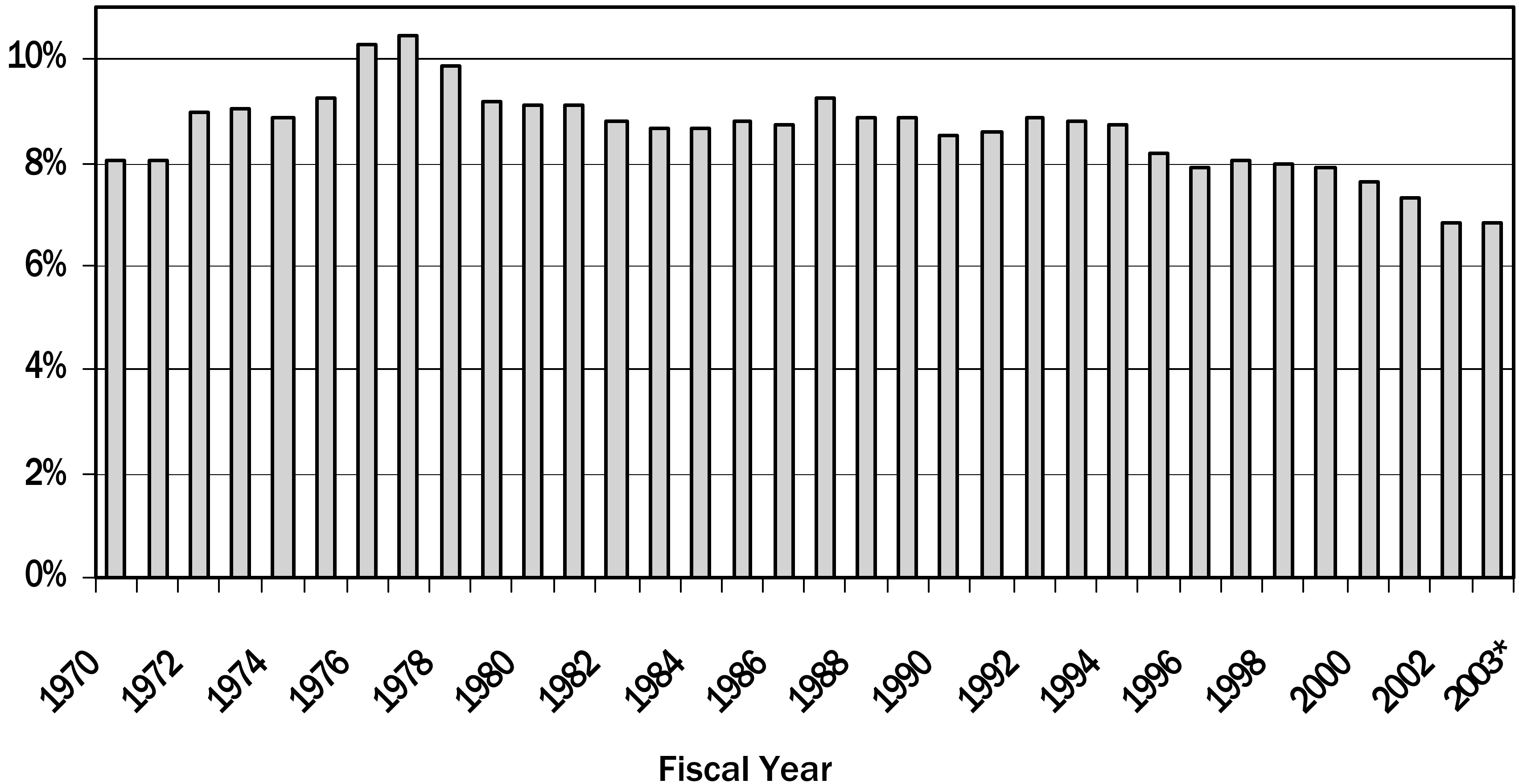
Overview

Overview

- The City is not in the same predicament as in the 1975 fiscal crisis:
  - City population is at an all time high at 8 million and has recovered the one million people lost during the 1970s.
  - New York City is now recognized as a vital and cutting edge business location. Four major media businesses — AOL Time-Warner, Hearst, the New York Times and Bloomberg — are now constructing new headquarters.
  - Tourists and business travelers, both nationally and internationally, now look at New York City as a prime destination. Hotel occupancy has recovered to pre-9/11 levels.
  - Although rising, the vacancy rate for Midtown commercial office space at 9% is almost half the rate of cities like Seattle, San Francisco, Dallas, Atlanta and Chicago.*
  - Unlike the mid 1970s, the City has outstanding financial and accounting systems and a well-earned reputation for financial management and planning.
- The local tax burden has shrunk by one-third since the mid 1970s.

*Data: Torto Wheaton Research

The City Tax Burden Remains Below Historical Levels



Note: Tax burden measures the tax yield compared to the size of the local economy and is expressed as a ratio of total taxes to personal income.

*2003 is estimated.

Overview

- Although the budget was adopted just a few months ago, growing weakness in the City's securities industry which we are highly dependent on, along with increases in fixed costs have opened up a projected gap of $1.1 billion in the current year, with the projection of the gap in 2004 rising to $6.4 billion.
  - One-third of New York City's economy is tied either directly or indirectly to the securities industry. The periodic downturns in this industry have a major consequence for our local economy and tax revenue.
  - Although July through October tax collections in aggregate are on forecast, the stock market decline over the summer and a loss of investor confidence has limited deal making on Wall Street, eroding profitability and leading to a reduction in the tax forecast for the remainder of this fiscal year of $697 million and $1.1 billion for 2004.
  - Increases in fixed costs in 2004 are led by a rise in debt service, pension costs, employee fringe benefits and medicaid.
- The plan for closing the projected gaps will require a series of sacrifices from all those who have a stake in New York City — the individuals that provide municipal services, those that rely on these services and those who pay for them.

November 2002 Financial Plan

For Fiscal Years 2003-2006

November 2002 Plan

- The first part of the plan for closing the gaps of $1.1 billion in 2003 and $6.4 billion in 2004 is within the City's control.
- Expenses will be reduced through an agency program of expense cuts and revenue enhancements of $844 million in 2003, essentially closing this year's budget gap. This is in addition to the $1.5 billion program already implemented in the adoption of this year's budget. All agencies will contribute. Cuts of $1.1 billion in 2004 will reduce the 2004 gap to $5.3 billion.
- Agency cuts will reduce City funded headcount by 8,000 by June 2004.
- The property tax will be increased, effective January 1, 2003, generating $1.1 billion in 2003 and $2.3 billion in 2004, further reducing the gap to $1.9 billion.

November 2002 Plan

- A major element of the plan is reform of the City's Personal Income Tax by broadening the base to include all current income earners in New York City, allowing for a substantial rate reduction for all taxpayers. In addition to contributing to a balanced budget, tax reform will reduce the burden on those living in the City.

  New York State personal income taxes are based on where the income is earned, not where the taxpayer lives. We want to reform the personal income tax by conforming it to the State's. As a result, personal income taxes paid by City residents will go down, to a great extent offsetting the increase in the property tax. This base-broadening change will raise $1 billion initially in 2004 even while the rate is cut by 25%. As other elements of the plan become fully effective, tax rates will be reduced so that by 2007 no additional personal income tax revenue is raised.

November 2002 Plan

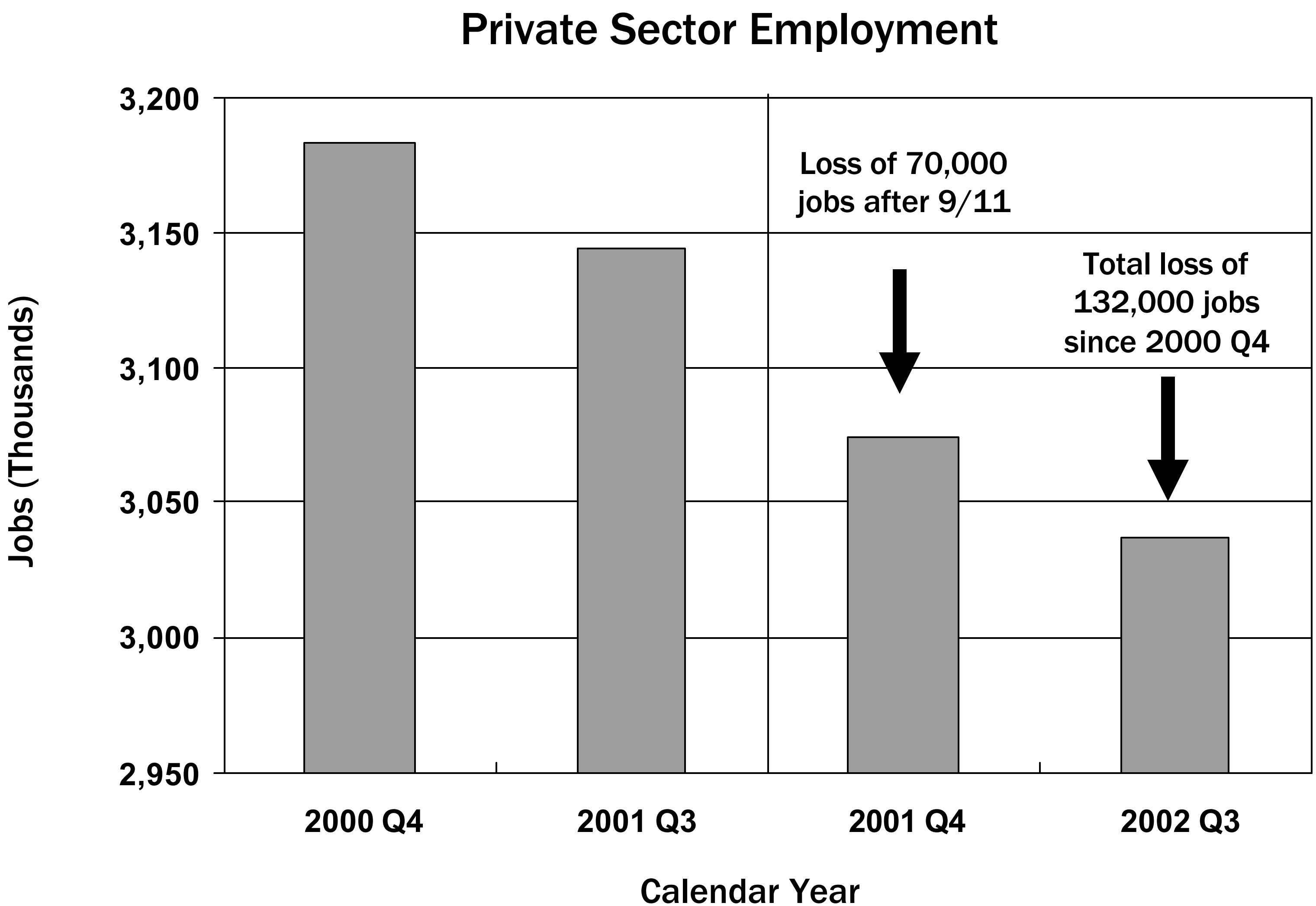
- In addition to the reform of the personal income tax which reduces the burden on those who live in the City, we will seek some gap-closing aid from the State and $275 million to help pay for costs in the Department of Education for the additional classroom time which began this year.
- Under the Federal Medicaid program, states determine benefits and how the non-Federal share of the costs is financed. In New York, unlike most states, the State requires that localities, usually counties, pay half the non-Federal share. New York City is the only city that pays a local share. State take-over of this funding responsibility would benefit the City by $4 billion in 2004.
- We will seek to rationalize the provision of regional mass transportation. The portion of the City bus service now the responsibility of the New York City private bus system should be transferred to the MTA, thereby removing the need for a City subsidy. Using advanced technologies, bridge tolls will yield revenue to maintain and improve the mass transit and vehicular traffic infrastructure of the City.

November 2002 Plan

- Additional funding will also be sought from the Federal government. A portion will be used for closing the budget gap and we will seek funding for a new emergency preparedness program.
- Finally, workforce productivity improvements to generate $600 million in savings must be developed with the municipal labor force to complete our plan for balance. Actions of this kind are also the only way to provide resources for future wage increases. Productivity is a smarter alternative to the massive lay-offs the City has been obliged to resort to in addressing deficits in the past.
- The plan relies on recurring resources and cost reductions, demonstrated by the substantial reduction of out-year gaps.

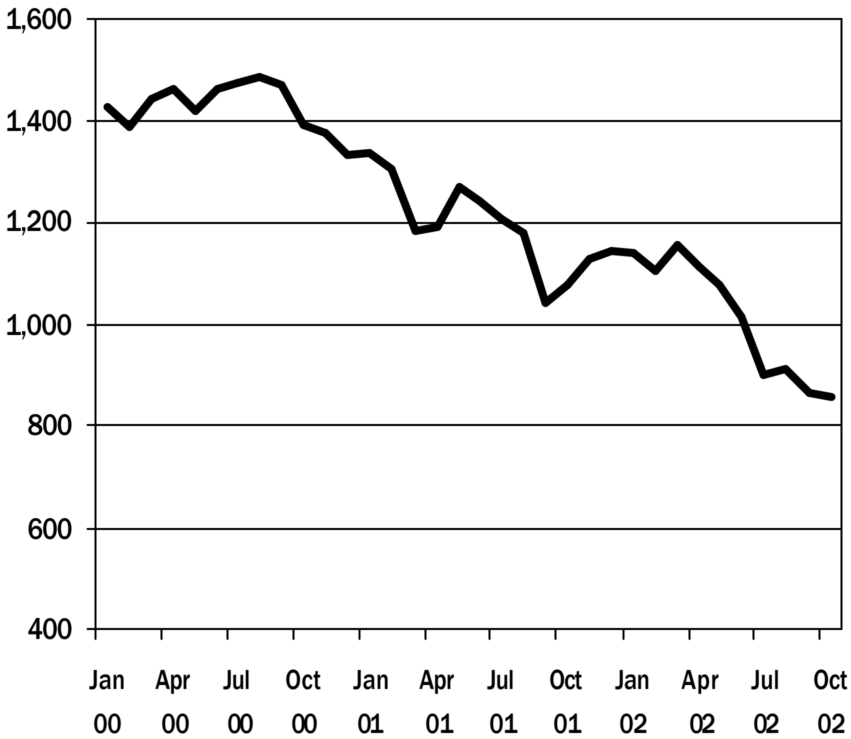
A Lingering National Recession Combined with the Effects of 9/11 and Declining Profitability on Wall Street Has Cut Estimates of Future Tax Revenue Growth

Employment in New York City Has Continued to Decline as a Result of the Recession, Impacting the City's Tax Collections



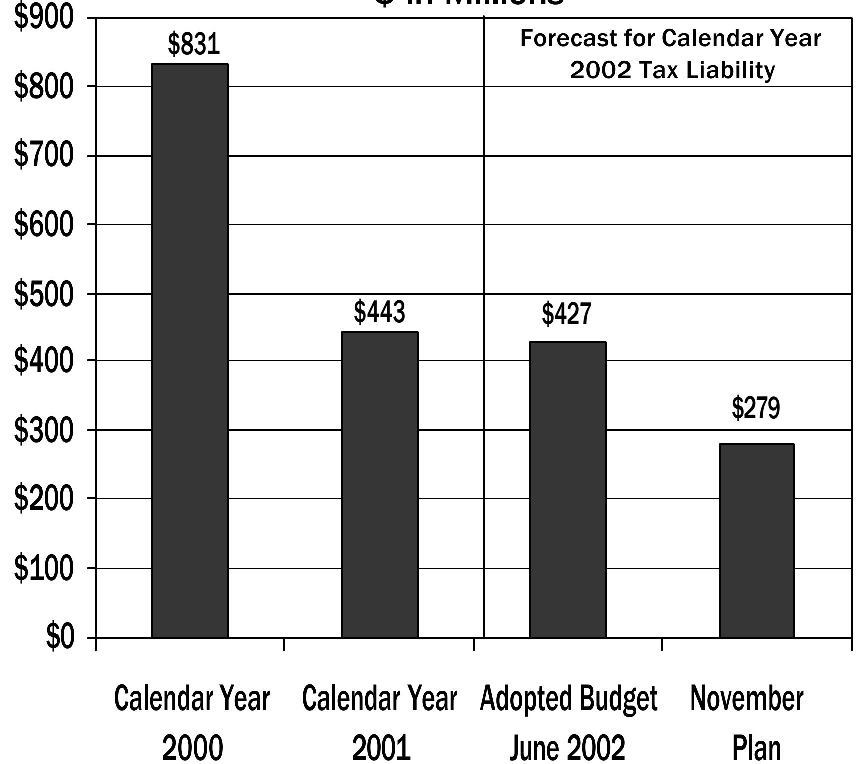
With the Decline in the Stock Market, Tax Revenue from Capital Gains Income Has Fallen by Two-Thirds Since 2000

S&P 500 Index



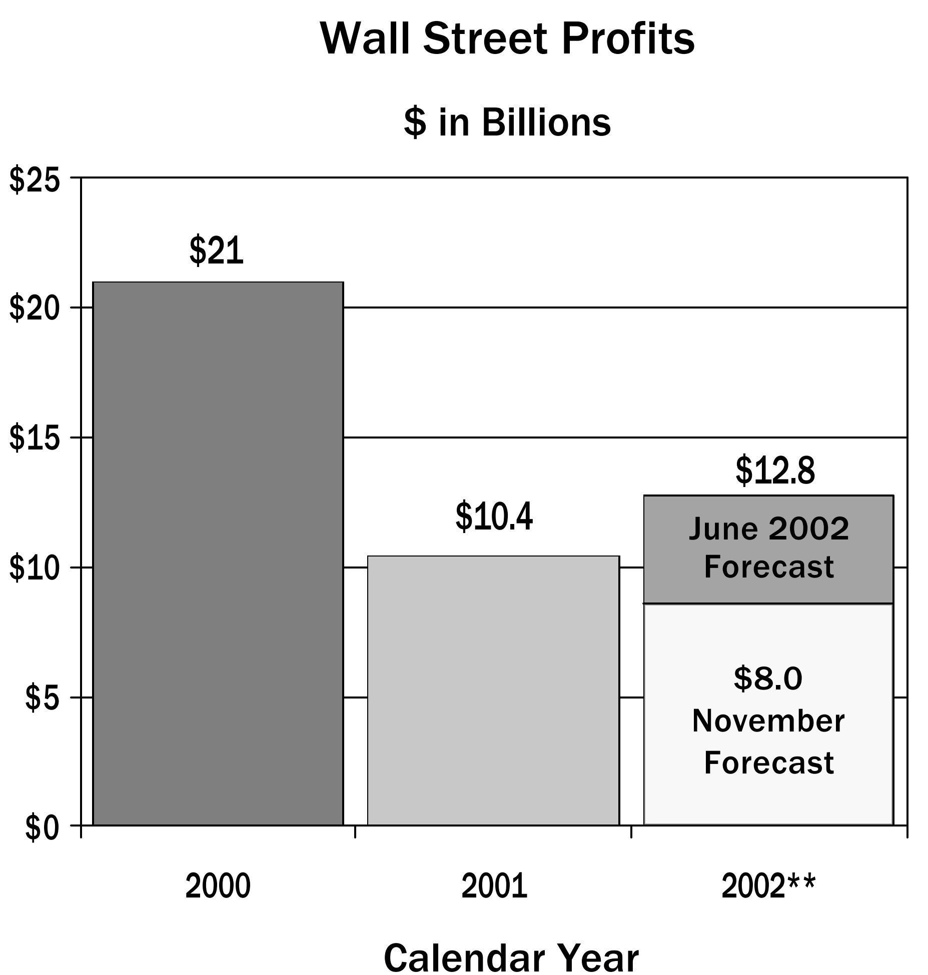
Capital Gains Taxes

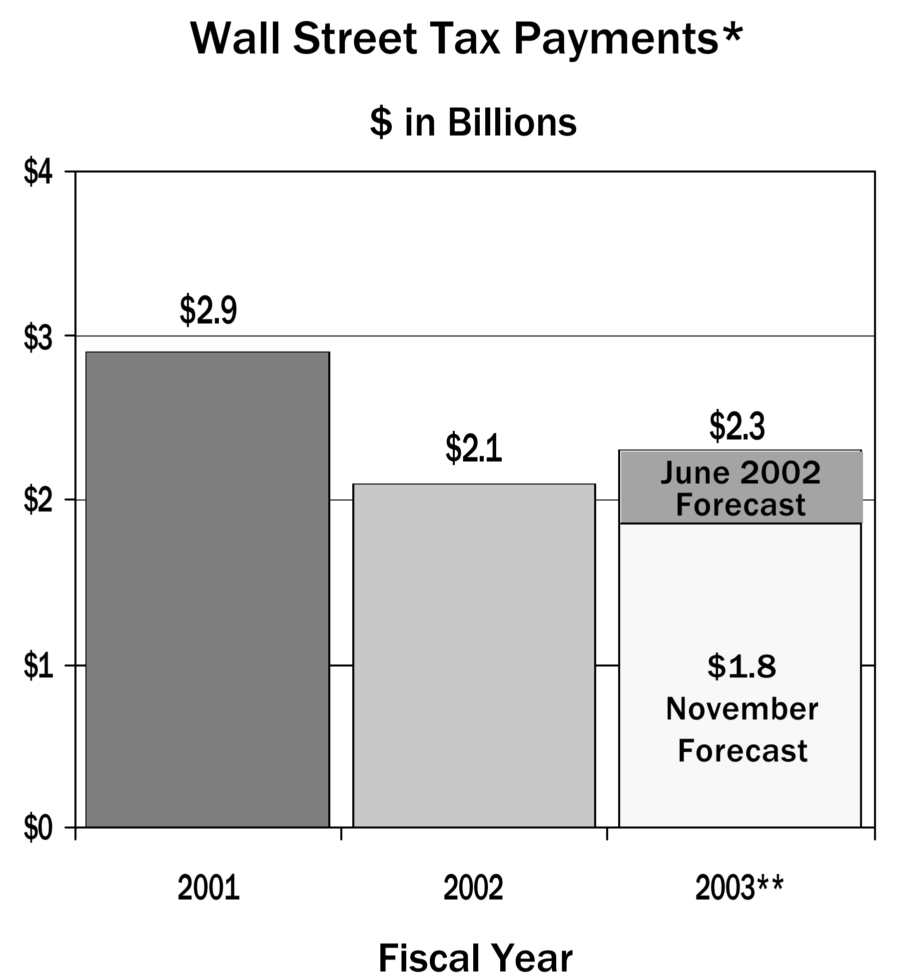
$ in Millions



Calendar Year

The Stock Market Decline and Loss of Investor Confidence Have Limited Deal Making on Wall Street, Eroding Profitability and Leading to a Reduction in the Tax Forecast





* Includes general corporation, unincorporated business, banking corporation and personal income tax payments (including capital gains).

** 2002 Calendar Year Wall Street Profits and Fiscal Year 2003 Wall Street Tax Payments are projections.

July Through October Collections from Non-Property Taxes in Total are Basically on Plan. Higher Tax Revenue on Real Estate Transactions Has Offset Weakness in Business and Personal Income Taxes. This is Not Expected to Continue.

$ in Millions

	Plan	Actual	Variance from Plan
Personal Income Tax, includes Capital Gains	$1,318	$1,297	($21)
Business Income Taxes*	610	523	(87)
Sales Tax	1,098	1,074	(24)
Real Estate Transaction Taxes**	360	471	111
All Other Economically Sensitive Taxes***	231	230	(1)
Total	$3,617	$3,595	($22)

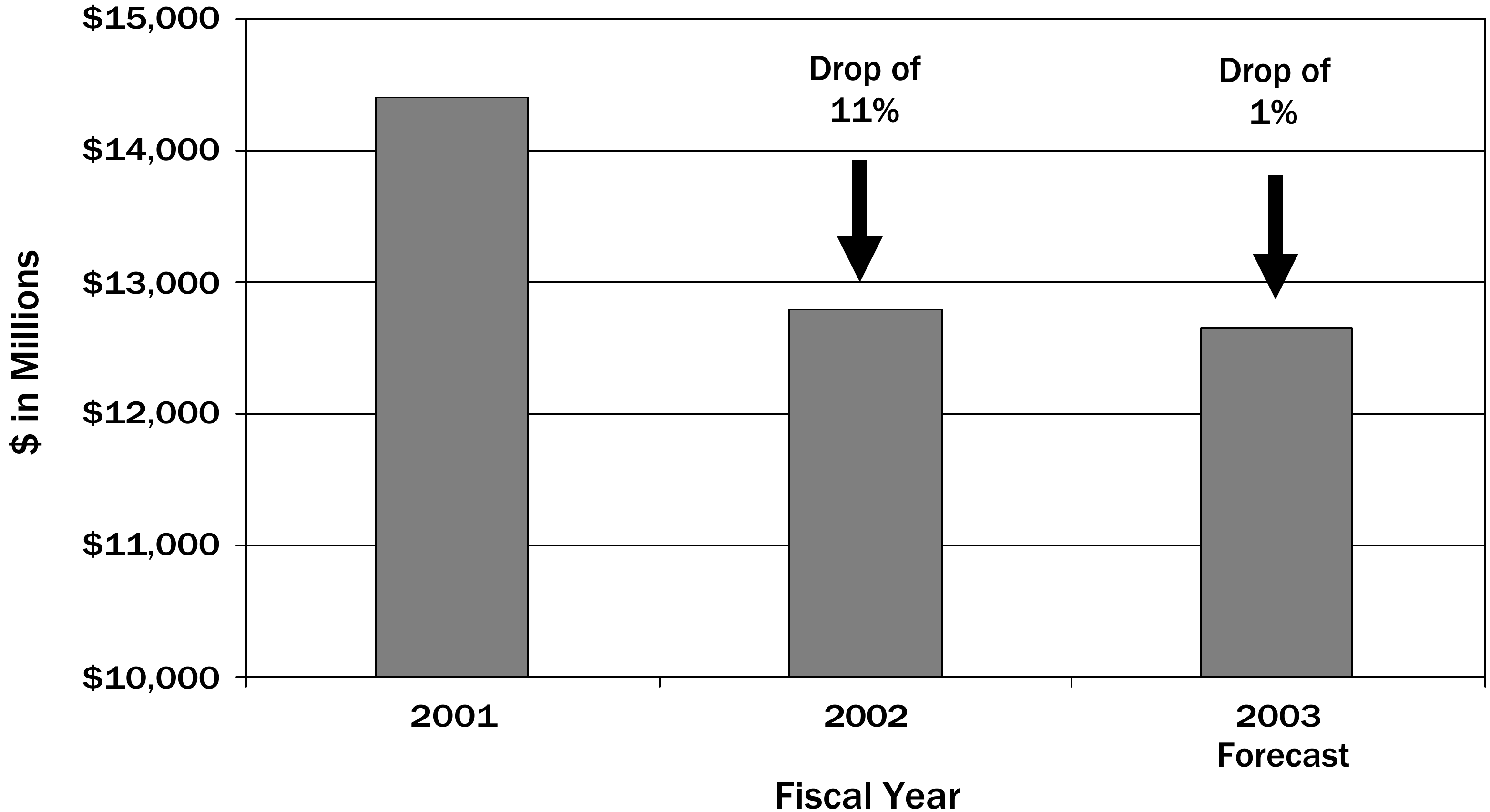
* General Corporation, Bank and Unincorporated Business Taxes.

** Mortgage Recording (estimated), Real Property Transfer (estimated) and Commercial Rent Taxes. These taxes have recently been buoyed by the sale of several large office buildings.

*** Includes Utility, Hotel, Cigarette, Auto Use, Commercial Motor Vehicle and Beer and Liquor Taxes.

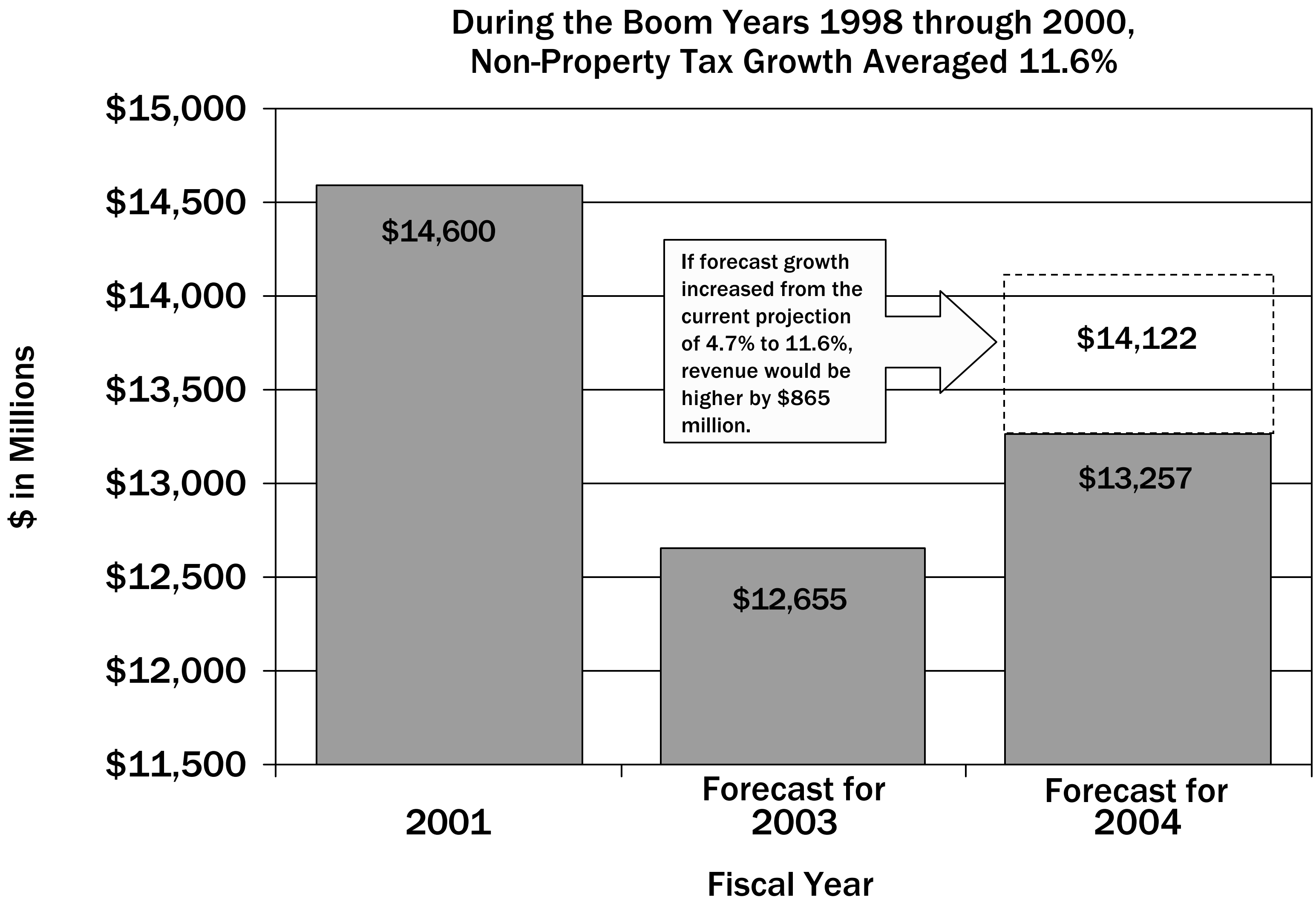
The Impact of 9/11 and Subsequent Deterioration of Profits on Wall Street Has Led to a Second Consecutive Year of Decline in Non-Property Tax Payments*

The last time there was a back-to-back decline was in 1990 and 1991, but at that time the cumulative decline was 4.7% compared to 12% now.



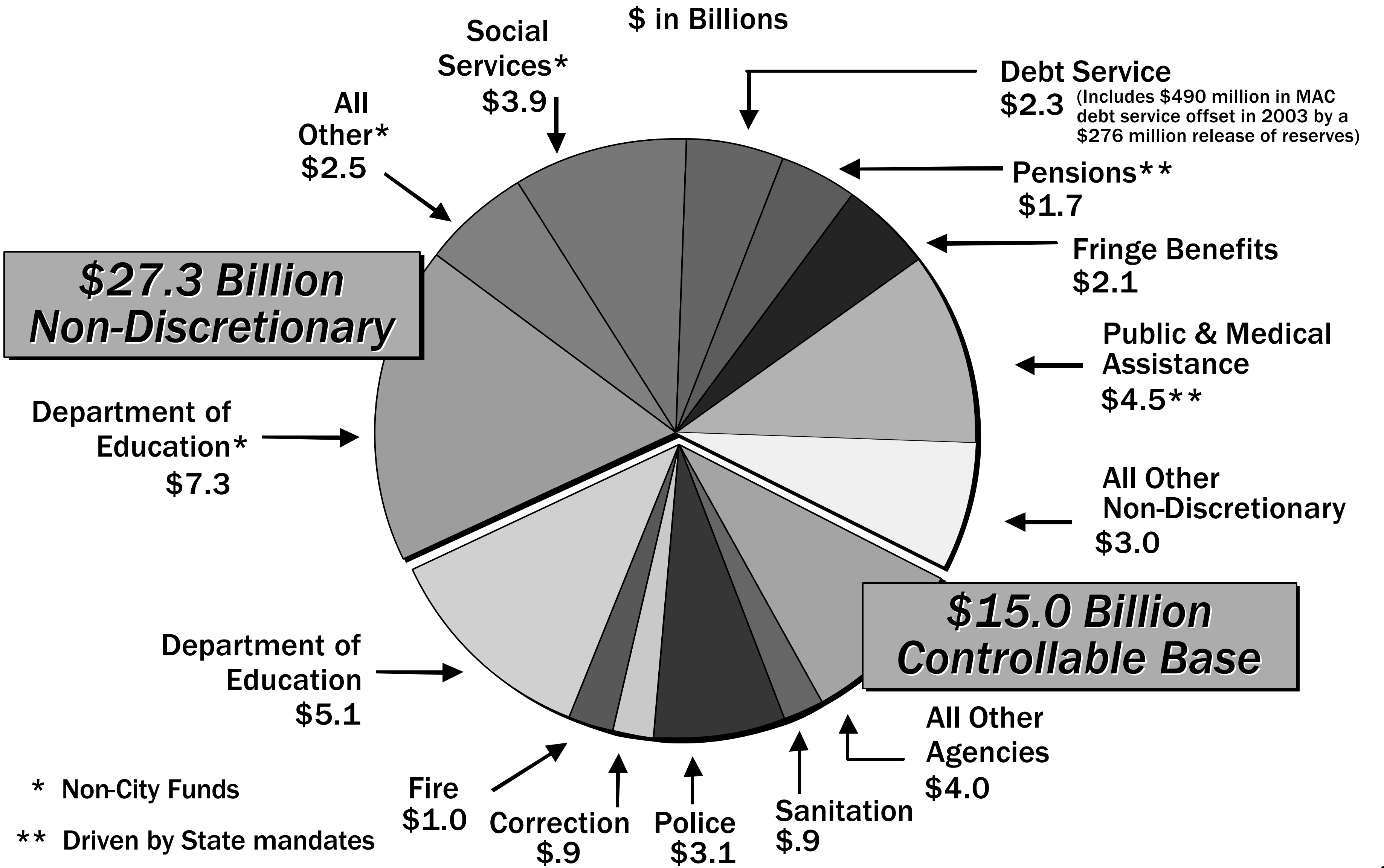
* Non-property tax collections, common rate and base.

If in 2004 Non-Property Taxes Grew at the Highest Rate Achieved Historically, the $6 Billion Gap Would Only Be Reduced By $865 Million — Taxes Would Still Not Reach the Peak of 2001



Financial Plan Update

$27 Billion of the 2003 Adopted Budget Is Mandated or Non-Discretionary Spending



Current Projected Budget Before Implementing the November 2002 Gap Closing Program

$ in Millions

	2003	2004	2005	2006
Projected Revenues	$28,445	$26,486	$27,610	$29,041
Projected Expenses				
Debt Service	$2,226	$3,773	$3,919	$4,168
Pensions	1,734	2,570	3,272	4,154
Other Fringe Benefits	2,159	2,557	2,850	3,057
Medicaid	3,781	4,095	4,232	4,374
Agency and All Other Spending	19,618	19,851	20,073	20,308
Total Expenses	$29,518	$32,846	$34,346	$36,061
Gap Prior to Gap Closing Program	($1,073)	($6,360)	($6,736)	($7,020)

NOTES:

Debt Service increases due to $663 million of prepayments of 2003 costs in 2002. 2003 also reflects savings in MAC Debt Service of $276 million from release of reserves and $432 million from refinancings. Balance of the increase is the result of increased outstanding debt resulting from the City's Capital Program.

Pension costs increase due to phase-in of losses in investments of assets as well as costs of recent benefit improvements enacted by the State legislature.

Other Fringe Benefits are projected to increase by approximately 7% per year, primarily driven by increases in health insurance costs, and savings from prior agreements that do not annualize beyond 2004. Health insurance costs are mandated by City Administrative Code and collective bargaining agreements.

Medicaid increases in 2004 reflect increase resulting from Family Health Plus expected to provide health care for 150,000 individuals.

Changes Since the June 2002 Financial Plan

Only $85 Million of the $2.7 Billion Increase in the 2004 Projected Gap is Due to Agency Spending

	$ in Millions			
	2003	2004	2005	2006
Increases /(Decreases)				
Fire	$ 41	$ 1	$ 1	$ 1
Sanitation	10	7	7	7
Homeless Families	33	36	35	35
Buildings	6	3	3	3
Transportation	18	18	18	18
Board of Elections	4	---	---	---
All Other	25	20	14	18
Total Expense Changes*	$137	$85	$78	$82

*Overall City-funded expense budget is $30 billion.

Changes Since the June 2002 Financial Plan

	$ in Millions			
	2003	2004	2005	2006
(Increases in Gap)/Decreases in Gap				
June 2002 Gap to be Closed	$ - - -	($3,729)	($4,224)	($4,590)
Tax Revenue	(697)	(1,067)	(1,092)	(924)
Sale of OTB	- - -	(250)	- - -	- - -
Other Non-Tax Revenue Changes	(182)	(381)	(327)	(58)
Total Revenue Changes	($879)	($1,698)	($1,419)	($982)
Pensions	(64)	(294)	(500)	(747)
Debt Service	97	(44)	(8)	10
Fringe Benefit Cost Containment	- - -	(296)	(291)	(412)
Allocation of Early Retirement	(50)	(100)	(100)	(100)
Medicaid/Family Health Plus	(28)	(74)	(76)	(77)
Judgment and Claims	(12)	(40)	(40)	(40)
Agency Expense Changes*	(137)	(85)	(78)	(82)
Total Expense Changes	($194)	($933)	($1,093)	($1,448)
November Gap To Be Closed	($1,073)	($6,360)	($6,736)	($7,020)

*See prior page for details

Gap Closing Program

November 2002 Plan Gap Closing Program

	$ in Millions			
	2003	2004	2005	2006
(Increases in Gap)/Decreases in Gap				
November Plan Gap to be Closed	($1,073)	($6,360)	($6,736)	($7,020)
City Actions				
Agency Spending Reductions and Revenue Increases	780	1,067	1,055	1,055
Debt Service Savings From Capital Plan Reductions and Refundings	64	41	75	150
Total Agency Program	$844	$1,108	$1,130	$1,205
25% Mid Year Property Tax Increases	$1,133	$2,335	$2,433	$2,535
State Actions				
Include Non-Residents Income in PIT and Reduce Top Rate to 2.75%	$ ---	$1,013	$684	$239
Regional Transportation Initiatives	---	200	600	800
Other Gap Closing Initiatives	---	200	200	200
Continuation of Funding for Extending School Day	---	275	275	275
Allocation of Funding to Education	---	(275)	(275)	(275)
Total State Actions	$ ---	$1,413	$1,484	$1,239
Federal Actions				
Gap Closing Initiatives	---	200	250	250
Emergency Preparedness Funding	---	700	---	---
New Emergency Preparedness Program	---	(700)	---	---
Total Federal Actions	$ ---	$200	$250	$250
Labor Productivity Actions	---	600	600	600
Total Gap Closing Program	$1,977	$5,656	$5,897	$5,829
Increase General Reserve	(100)	(100)	(100)	(100)
Prepayments	(804)	804	---	---
Remaining Out Year Gaps	$ ---	$ ---	($939)	($1,291)

Examples of Agency Cut Program

(Cuts Already Included in the Plan for 2004 and Additional Actions)

Education

Reductions include cuts to central administration, purchasing, district and high school administration, the teacher mentor program and summer camps ($200 million) in addition to a $360 million reduction already in place.*

CUNY

Reductions include cuts to scholarship programs, administration, Hunter Campus Schools and research ($15.9 million), in addition to a previously implemented $1.5 million cut in scholarships.

Small Business Services

Lower Empowerment Zone funding ($1.2 million), in addition to a $6.7 million reduction already imposed.

Children's Services

Cut day care slots by 2,500 out of a current level of 65,000 ($9 million) and reduce the 14,000 slots for preventive services aimed at preventing abuse and neglect by 2,000 ($5.8 million), in addition to an elimination of a day care expansion of 5,000 slots already in place ($46 million).

Aging

Close 32 out of 340 senior centers by consolidating services ($2.2 million) and eliminate weekend meals ($1.8 million) in addition to a $4 million reduction for weekend meals already included in the plan. Close remaining senior centers one day per week ($7.4 million).

*Impacts on the classroom were averted in the Adopted Budget for 2003 through $200 million of incremental state aid and $100 million of one-time DOE resources (primarily from settlements of outstanding litigation and insurance proceeds).

Examples of Agency Cut Program

(Cuts Already Included in the Plan for 2004 and Additional Actions)

Youth

Eliminate preventive services in 16 Beacon Schools ($2 million).

Fire

Close eight fire companies ($10.8 million) and reduce manning in 49 companies from 5 to 4 firefighters ($12.0 million).

Police

Reduce July 2003 recruit class by 1,900 officers ($73.6 million), in addition to uniformed officer reductions of 1,600 already in the plan ($60 million).

Transportation

Increase private express bus fare from $3 to $4 ($8.0 million) and eliminate weekend express bus service where other public transport is available ($4.2 million).

Culturals

Reduce funding by 11.5% ($15.0 million).

Sanitation

Reevaluate collection frequency and optimization of collection routes ($41.8 million).

Corrections

Reduce 2003 recruit classes by 756 officers and reduce overtime costs ($42.1 million), in addition to correction officer reduction of 511 and overtime savings already in the plan ($30.5 million).

2003 Agency Program

City Funds -- $ in Thousands

	June 2001 Plan for 2003	Agency Program to Reduce Gap: Already Included in 2003 Budget	Additional Actions	Total Agency Program
UNIFORMED FORCES				
Police	$3,033,319	($146,567)	($84,236)	($230,803)
Fire	1,025,060	(75,418)	(22,722)	(98,140)
Correction	864,010	(81,871)	(46,223)	(128,094)
Sanitation	981,248	(149,026)	(21,565)	(170,591)
HEALTH AND WELFARE				
Admin. for Children's Services (1)	742,492	(108,088)	(61,082)	(169,170)
Social Services (1) (2)	331,961	(72,543)	(28,681)	(101,224)
Homeless Services (1)	163,459	(17,710)	(15,562)	(33,272)
Health and Mental Hygiene	580,064	(70,480)	(28,620)	(99,100)
OTHER MAYORAL				
N.Y.P.L. – Research Library	18,964	(948)	(1,751)	(2,699)
New York Public Library	99,647	(4,981)	(9,106)	(14,087)
Brooklyn Public Library	73,269	(3,665)	(6,667)	(10,332)
Queens Borough Public Library	70,240	(3,512)	(6,366)	(9,878)
Aging	165,785	(14,827)	(14,870)	(29,697)
Cultural Affairs	127,518	(6,135)	(12,393)	(18,528)
Housing Preservation and Dev.	71,177	(14,575)	(10,073)	(24,648)
Environmental Protection	644,561	(7,117)	---	(7,117)
Finance	191,112	(19,365)	(76,834)	(96,199)

2003 Agency Program

City Funds -- $ in Thousands

	June 2001 Plan for 2003	Agency Program to Reduce Gap: Already Included in 2003 Budget	Additional Actions	Total Agency Program
OTHER MAYORAL (cont'd)				
Transportation	$281,709	($29,430)	($27,510)	($56,940)
Parks and Recreation	170,538	(20,275)	(8,754)	(29,029)
Citywide Admin. Services	134,677	(16,472)	(15,259)	(31,731)
All Other Mayoral	720,152	(178,602)	(49,391)	(227,993)
ELECTED OFFICIALS				
Office of the Mayor	38,771	(5,324)	(3,257)	(8,581)
All Other Elected	353,652	(25,885)	(11,308)	(37,193)
OTHER				
Health and Hospitals Corp. (2)	125,740	(5,861)	(7,960)	(13,821)
Total	$11,009,125	($1,078,677)	($570,190)	($1,648,867)
MAJOR ORGANIZATIONS (3)				
Education	11,722,691	(360,603)	(200,118)	(560,721)
City University	444,421	(19,228)	(9,752)	(28,980)
Total	$12,167,112	($379,831)	($209,870)	($589,701)
Debt Service Savings From Capital Plan Reductions and Refundings			(64,109)	(64,109)
Grand Total		($1,458,508)	($844,169)	($2,302,677)

(1) Excludes Public Assistance (2) Excludes Medicaid (3) Reflects total funds for June 2001 Plan for 2003

2004 Agency Program

City Funds -- $ in Thousands

	June 2001 Plan for 2004	Agency Program to Reduce Gap: Already Included in Plan for 2004	Additional Actions	Total Agency Program
UNIFORMED FORCES				
Police	$3,082,657	($99,840)	($182,364)	($282,204)
Fire	1,027,408	(48,808)	(50,175)	(98,983)
Correction	864,148	(73,240)	(85,419)	(158,659)
Sanitation	981,006	(52,156)	(57,262)	(109,418)
HEALTH AND WELFARE				
Admin. For Children's Services (1)	748,706	(78,832)	(72,633)	(151,465)
Social Services (1) (2)	333,234	(37,382)	(36,971)	(74,353)
Homeless Services (1)	163,802	(14,521)	(20,085)	(34,606)
Health and Mental Hygiene	580,334	(43,802)	(34,014)	(77,816)
OTHER MAYORAL				
N.Y.P.L. – Research Library	18,964	(948)	(1,751)	(2,699)
New York Public Library	99,647	(4,981)	(9,104)	(14,085)
Brooklyn Public Library	73,269	(3,665)	(6,667)	(10,332)
Queens Borough Public Library	70,240	(3,512)	(6,366)	(9,878)
Aging	165,785	(14,736)	(25,398)	(40,134)
Cultural Affairs	127,518	(6,129)	(15,001)	(21,130)
Housing Preservation & Dev.	71,687	(7,242)	(7,688)	(14,930)
Environment Protection	641,106	(6,728)	---	(6,728)
Finance	190,874	(12,185)	(78,133)	(90,318)

2004 Agency Program

City Funds -- $ in Thousands

	June 2001 Plan for 2004	Agency Program to Reduce Gap: Already Included in Plan for 2004	Additional Actions	Total Agency Program
OTHER MAYORAL (Cont'd)				
Transportation	$281,880	($21,259)	($36,518)	($57,777)
Parks and Recreation	170,538	(11,959)	(18,616)	(30,575)
Citywide Admin. Services	138,781	(6,532)	(15,003)	(21,535)
All Other Mayoral	720,137	(110,856)	(68,869)	(179,725)
ELECTED OFFICIALS				
Office of the Mayor	38,770	(5,324)	(3,942)	(9,266)
All Other Elected	353,614	(26,761)	(11,967)	(38,728)
OTHER				
Health and Hospitals Corp. (2)	122,740	(4,486)	(6,712)	(11,198)
Total	$11,066,845	($695,884)	($850,658)	($1,546,542)
MAJOR ORGANIZATIONS (3)				
Education	11,849,148	(354,021)	(200,118)	(554,139)
City University	444,421	(2,500)	(15,857)	(18,357)
Total	$12,293,569	($356,521)	($215,975)	($572,496)
Debt Service Savings From Capital Plan Reductions and Refundings			(41,115)	(41,115)
Grand Total		($1,052,405)	($1,107,748)	($2,160,153)

(1) Excludes Public Assistance (2) Excludes Medicaid (3) Reflects total funds for June 2001 Plan for 2004

State Gap Closing Initiatives

- For 2003, the State provided the City with authorization to realize $400 million to close the gap. These savings were accomplished by the passage of a debt finance reform bill and by increases to the cigarette tax, E-911 telephone fees and certain parking violations fines.

- The 2004 Gap Closing Program calls for an additional $200 million of initiatives which require State action. In addition we are seeking $275 million to fund the on-going costs for extending the school day.

- We have a menu of State gap closing initiatives which includes $700 million of initiatives that have no additional cost to the State government.

Menu of State Gap Closing Initiatives

	2004	2005	2006
	$ in Millions		
No Cost Proposals			
Medicaid Cost Containment*	$250	$214	$221
Establish an Early Intervention Pool (2.4% Assessment)*	150	150	150
Tort Reform	100	103	106
Debt Finance Reform/Refinance Community College Debt	80	30	30
Increase the Authorization for Taxi Medallions	65	65	65
Bond Act Funds for Municipal Recycling	30	- - -	- - -
Flexible Use of Child Care Funding	25	25	25
Nighttime Thoroughbred Racing at OTB	15	15	15
Increase the Authorization for Red Light Cameras	4	23	23
Subtotal: No Cost Proposals	$719	$625	$635
General Proposals			
Complete State Takeover of Medicaid	$4,095	$4,232	$4,374
Relief from Social Services Administration and Reimbursement Caps	$125	$125	$125
Restoration of the Stock Transfer Incentive Fund Payment	$114	$114	$114
Equity in Correctional Reimbursement	$41	$74	$107

* Savings for both the City and State

Financial Impact of Recent State Actions

	$ in Millions			
	2003	2004	2005	2006
SFY 99-00				
Repeal of Commuter Tax	($405)	($438)	($476)	($519)
Elimination of Funding for Housing State Prisoners	(8)	(8)	(8)	(8)
Repeal of Medicaid Managed Care Takeover	(24)	(24)	(24)	(24)
SFY 00-01				
Permanent Pension COLA Increases (1)	($363)	($480)	($586)	($604)
Rent Regulation Administration (2)	(25)	(25)	(25)	(25)
State Imposed Tax Reductions (3)	(63)	(94)	(114)	(127)
Implementation of PINS Mandate	(7)	(10)	(10)	(10)
SFY 01-02				
Elimination of the Stock Transfer Incentive Fund Payment	($114)	($114)	($114)	($114)
Elimination of CHIPS O&M	(13)	(13)	(13)	(13)
Elimination of Local Law Enforcement Funds	(5)	(5)	(5)	(5)
SFY 02-03				
Personal Income Tax Administration (4)	($23)	($23)	($23)	($23)
Health Care Reform Act Amendments (HCRA)	(52)	(76)	($91)	($91)
TOTAL	($1,102)	($1,310)	($1,489)	($1,563)

(1) This cost reflects the actuarial fiscal note as submitted upon original enactment.

(2) Includes transfer of administration costs to NYC and increases in program costs from SFY 00-01 through SFY 02-03.

(3) Includes the cost of phase out of sales tax on utility transmission and distribution, the college tuition deduction, marriage penalty reform and web hosting exemption.

(4) Includes the total impact on the City's budget since 1997.

Federal Agenda

- For 2003, the Federal government provided the City with $170 million in savings. This was accomplished by obtaining the authorization to refinance additional tax exempt debt and by receiving a Community Development Block Grant waiver.
- The 2004 Federal Agenda calls for $200 million of gap closing initiatives and an additional $700 million from the Federal government to fund new emergency preparedness spending.
- We have a menu of Federal gap closing initiatives totaling over $1.1 billion, of which approximately $300 million have no additional cost to the Federal government.

Menu of Federal Gap Closing Initiatives

	$ in Millions 2004	2005	2006
No Cost Proposals			
Flexibility in Hazard Mitigation Grant or First Responder Funding for Uniform Operating Funds	$250	$250	$250
Federal Welfare Spending Mandate Relief	40	10	10
Flexible Use of Community Development Block Grant	20	20	---
Subtotal: No Cost Proposals	$310	$280	$260
General Proposals			
Increase in Federal Share of Medicaid Funding for Children to 65%	251	260	269
Increase in Federal Share of Medicaid Funding by 3%	241	250	259
Provide Medicare Drug Benefit	145	145	145
Reimbursement of Costs for Protecting Foreign Dignitaries and the UN	80	50	54
Increase in State Criminal Alien Assistance Program Funding	60	60	60
Restore Social Services Block Grant Cuts	54	54	54
Restore Federal Medicaid Funding for Legal Immigrants	26	26	26
Subtotal: General Proposals	$857	$845	$867
FEDERAL INITIATIVES TOTAL	$1,167	$1,125	$1,127

Tax Reform

Tax Reform: Conforming the City's Personal Income Tax to the State's Requires State Approval

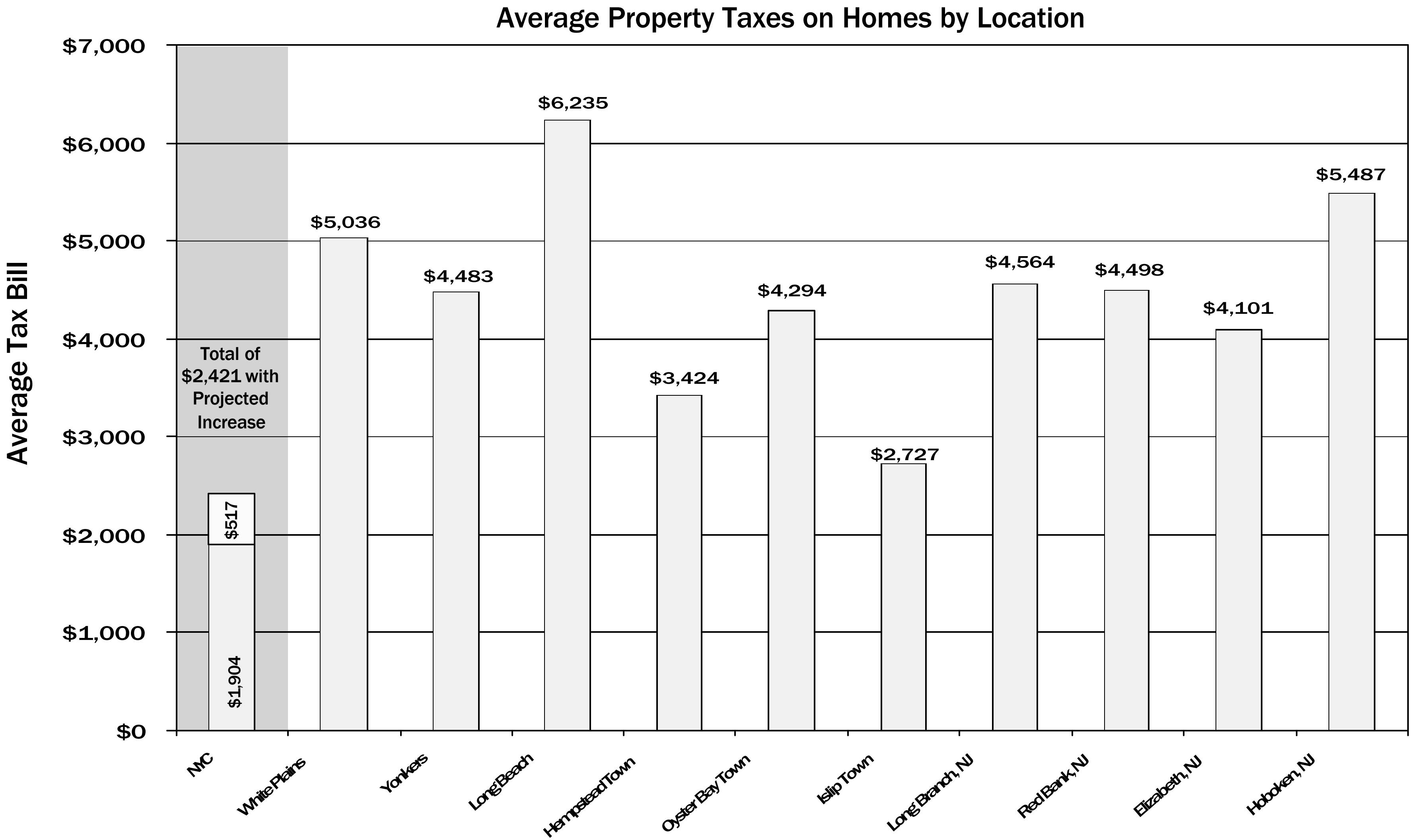
	$ in Millions			
	2004	2005	2006	2007
REVENUE IMPACT	$1,013	$684	$239	$0

- New York City's personal income tax will conform to New York State tax treatment of nonresident income and will include all NYC source income, effective July 1, 2003.
- Tax reform reduces the current personal income tax rates by 25% effective July 1, 2003 and by almost 40% by 2007.
- Top tax rate falls from 3.65% in tax year 2002 to 2.75% effective July 1, 2003 and to 2.25% by 2007.
- Tax reform will save resident taxpayers on average $500 in tax year 2004.

TAXPAYER LIABILITY

Filer Type	*Income*	*Current Resident Tax*	*2004 Tax*	*Initial Tax Change*
❖ Single	$25,000	$543	$409	($134)
	$50,000	$1,437	$1,083	($354)
❖ Married,	$50,000	$1,045	$788	($257)
2 Dependents	$75,000	$1,936	$1,459	($477)
❖ Head of Household Filers,	$35,000	$705	$531	($174)
2 Dependents	$50,000	$1,239	$934	($305)

Even With the Proposed Increase, the Average Property Tax Bill of $2,421 on NYC Homes Will Be Much Lower Than in the Surrounding Region



Note: NYC data is for projected 2004 with a 25% increase. NY Data includes 1-3 family homes and is for 2001.
NJ data includes 1-4 family homes and for Long Branch and Red Bank is for 2001 while the rest of NJ data is for 2002.

Combined Impact of Tax Program Initiatives

	2003	2004	2005	2006
	$ in Millions			
❖ Personal Income Tax Reform	$ ---	$1,013	$684	$239
❖ Property Tax Increase	$1,133	$2,335	$2,433	$2,535

- ➢ *The property tax increase maximizes the local property tax effort.*
- ➢ *The personal income tax reform mitigates the impact of the property tax increase for residents*.

	Filing Status/ Adjusted Gross Income	*Property Tax Increase*	*Income Tax Reform*	*Net Change in Taxes*
❖ Brooklyn Homeowner	Head of Household/2 dependents with AGI of $55,000	$500	($349)	$151
❖ Queens Homeowner	2 income family/2 dependents with AGI of $100,000	$531	($698)	($167)
❖ Manhattan Co-op Owner	2 income family/1 dependent with AGI of $130,000	$1,034	($975)	$59

Regional Transportation Initiatives

- ❖ Transfer responsibility for the NYC private bus system to the MTA
- ❖ Generate revenue from bridge tolls using advanced technologies
- ❖ Provide vital revenue support to maintain and improve the mass transit and vehicular traffic infrastructure

Labor Productivity Actions

- We are seeking $600 million in labor productivity actions, the equivalent of 12,000 City workers.

- Savings can be achieved by any combination of more efficient deployment of the workforce or reductions in pension or benefit costs associated with City employment.

- Productivity is a smarter alternative to the massive layoffs the City has been obliged to resort to in addressing deficits in the past.

Financial Plan

Financial Plan Revenue and Expenditures

($ in Millions)

	2003	2004	2005	2006
Revenues				
General Property Tax	$10,204	$11,675	$12,160	$12,670
Other Taxes	12,720	14,103	14,523	15,070
Tax Audit Revenue	502	502	502	502
Miscellaneous Revenues	4,229	3,733	3,745	3,767
Transitional Finance Authority – 9/11	1,500	- - -	- - -	- - -
Unrestricted Intergovernmental Aid	790	580	555	555
Anticipated Federal & State Aid	230	- - -	- - -	- - -
Other Categorical Grants	716	447	430	431
Less: Intra-City Revenue	(1,104)	(1,037)	(1,034)	(1,033)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$29,772	$29,988	$30,866	$31,947
Inter-Fund Revenues	331	320	320	320
Total City Funds and Inter-Fund Revenues	$30,103	$30,308	$31,186	$32,267
Federal Categorical Grants	4,950	4,886	4,149	4,153
State Categorical Grants	8,296	8,547	8,637	8,706
Total Revenues	$43,349	$43,741	$43,972	$45,126
Expenditures				
Personal Service	$23,017	$23,158	$24,183	$25,367
Other Than Personal Service	18,154	18,373	17,600	17,754
Debt Service	1,964	2,947	3,372	3,537
Budget Stabilization Account and Prepayments	804	- - -	- - -	- - -
MAC Debt Service	214	- - -	490	492
General Reserve	300	300	300	300
Subtotal	$44,453	$44,778	$45,945	$47,450
Less: Intra-City Expenses	(1,104)	(1,037)	(1,034)	(1,033)
Total Expenditures	$43,349	$43,741	$44,911	$46,417
Gap To Be Closed	$ - - -	$ - - -	($939)	($1,291)