ORAL REPORT TO THE UNITED STATES
DEPARTMENT OF THE TREASURY
 REGARDING NEW YORK CITY'S FINANCIAL PLANNING
AND REPORTING UNDER THE
NEW YORK CITY HOUSING GUARANTEE ACT OF 1976


Arthur Andersen & Co.
Report to
THE U.S. TREASURY
JUNE, 1979

Arthur Andersen & Co.
Purpose of the Meeting

- Review City's Progress Against 1979 Plan
- Review Mayor Koch's Proposed 1980 Budget
- Review Revised 4 Year Plan
Principal Observations

- The 1979 plan apparently will be achieved.
- Budgetary "balance" in 1980 is subject to various contingencies, including new risks relating to the economy, HHC & other items.
- The uncertainties increase for 1981-1983.
Progress Against 1979 Plan

- General Reserve of $56 million appears to be unneeded

- City has deferred realization of $125 million State aid and other revenues into 1980

- City expects a cash surplus as of June 30, 1979

- Management information systems are being designed and implemented as scheduled
### Four-Year Plan

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>$12,515</td>
<td>$12,367</td>
<td>$12,526</td>
<td>$12,843</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td>11,068</td>
<td>11,209</td>
<td>11,605</td>
<td>11,814</td>
</tr>
<tr>
<td><strong>Funds Available</strong></td>
<td>1,447</td>
<td>1,158</td>
<td>921</td>
<td>1,029</td>
</tr>
<tr>
<td><strong>Debt Service Gap</strong></td>
<td>(1,732)</td>
<td>(1,714)</td>
<td>(1,714)</td>
<td>(1,043)</td>
</tr>
<tr>
<td><strong>GAP</strong></td>
<td>(285)</td>
<td>(556)</td>
<td>(793)</td>
<td>(814)</td>
</tr>
<tr>
<td><strong>Capital Funds</strong></td>
<td>285</td>
<td>150</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Adjusted GAP</strong></td>
<td>$—</td>
<td>$(406)$</td>
<td>$(793)$</td>
<td>$(814)$</td>
</tr>
</tbody>
</table>

*Before accrued pensions of $223 & $175 in 1980 & 1981, respectively*
City Assumptions - Revenue

- Sales and income taxes increase for inflation (no real growth)
- Cap on real estate tax rates - decline in assessments in real terms
- Continuation of existing federal and state aid programs
- Major new aid programs will close the gap
City Assumptions - Expenditures

- No growth in wages for 1981 through 1983
- Higher fringes due to external factors (FICA and insurance)
- Additional pension costs phased in
- Decline in welfare caseload
- 7% inflation on OTPS (Energy - 10%)
- Contingency reserve of $100
How Does the 1980 Budget Compare to the January '79 Peg Program?

<table>
<thead>
<tr>
<th></th>
<th>PEG</th>
<th>1980 BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Growth</td>
<td>$</td>
<td>$105</td>
</tr>
<tr>
<td>Cost Reduction Measures</td>
<td>250</td>
<td>187</td>
</tr>
<tr>
<td>Additional Needs</td>
<td></td>
<td>(141)</td>
</tr>
<tr>
<td>Federal and State Aid</td>
<td>191</td>
<td>205</td>
</tr>
<tr>
<td>ECF Bond Sale</td>
<td></td>
<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$431</td>
<td>$431</td>
</tr>
</tbody>
</table>
Major Budget Contingencies - 1980

- Potential HHC Deficit
- Economic Recession
- Items Requiring Documentation
  (Food Stamps- $72, BOE- $44, OTPS- $23)
- Potential Cost Growth
  (IN-REM, Manning, Energy, etc.)
- Non-Operating Items
  - Westway
  - ECF Bond Sale
  - MAC Debt Restructuring
- Real Estate Tax Refunds
Reserves, etc. for 1980
Contingencies

- General Reserve
- Reserve for 1981 Wage Increase
- Reserve for Disallowances
- Attrition not presently planned
- CPI at 10% vs. 8%
- 1979 underspending not reflected in baselines
- Potential for reduction in HHC receivables, etc.
Why the Growth in Budget Gaps?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Gap, Beginning</td>
<td>$—</td>
<td>$406</td>
</tr>
<tr>
<td>Capitalized Expenses</td>
<td>135</td>
<td>150</td>
</tr>
<tr>
<td>Stock Transfer Tax Phase-Out</td>
<td>32</td>
<td>50</td>
</tr>
<tr>
<td>One Shot Revenues</td>
<td>135</td>
<td>—</td>
</tr>
<tr>
<td>Pensions</td>
<td>63</td>
<td>162</td>
</tr>
<tr>
<td>Non-Pensionable Cash Payment</td>
<td>150</td>
<td>—</td>
</tr>
<tr>
<td>Other Operations, Net of Revenue Growth</td>
<td>(109)</td>
<td>25</td>
</tr>
<tr>
<td>Budget Gap, End of Year</td>
<td>$406</td>
<td>$793</td>
</tr>
</tbody>
</table>
**Proposed Gap Closing Actions**

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>ATTRITION, ETC.</td>
<td>$117</td>
<td>$229</td>
<td>$336</td>
</tr>
<tr>
<td>OTPS COST CONTAINMENT, ETC.</td>
<td>63</td>
<td>66</td>
<td>68</td>
</tr>
<tr>
<td>REVENUE MANAGEMENT</td>
<td>47</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>LEVEL I</td>
<td>227</td>
<td>345</td>
<td>454</td>
</tr>
<tr>
<td>LEVEL II</td>
<td>65</td>
<td>259</td>
<td>182</td>
</tr>
<tr>
<td>TOTAL CITY ACTIONS</td>
<td>292</td>
<td>604</td>
<td>636</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FEDERAL AND STATE AID (LEVEL II)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PROJECTED GAP</td>
<td>$406</td>
<td>$793</td>
<td>$814</td>
</tr>
</tbody>
</table>
Major Budget Contingencies
1981-1983

<table>
<thead>
<tr>
<th>PROJECTED BUDGET GAP</th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$406</td>
<td>$793</td>
<td>$814</td>
</tr>
</tbody>
</table>

| WAGE ADJ. (6% REVENUE INFLATION FACTOR PHASED IN) | 225 | 545 | 865 |

| TOTAL (NOTES) | 631 | 1,338 | 1,679 |

NOTES: (1) A NUMBER OF CRITICAL ISSUES MAY IMPACT THE GAP.

(2) ASSUMES RECURRING VALUE OF 1980 ACTIONS, INCLUDING HHC SUBSIDY REDUCTION AND DEBT SERVICE SAVINGS.

- UNSPECIFIED AND UNSUPPORTED CITY ACTIONS
- UNSPECIFIED FUNDING OF WAGE INCREASES
- GENERAL ECONOMY
- FEDERAL AND STATE AID
- HEALTH COST SAVINGS
- IN-REM
- ENERGY
- FINANCING PROGRAM
- PROPERTY TAX EQUALIZATION
Critical Issues - City Actions

- Whether a hiring freeze can be sustained for 3 years ($233 in 1982)
- Whether demand for new services will arise
- Whether wage increases can be funded from other than lay-offs
- Whether "ITHP" or other "givebacks" can be achieved ($65 million)
- Whether FICA can be reduced ($26 million annually)
- Whether savings can be developed for presently unspecified actions ($140 million in 1982) and OTPS ($66 million in 1982)
- Whether disallowances will decline ($25 million annually)
Critical Issues - General Economy

○ Whether a national recession will impact the local economy ($0-200 million in 1982)

○ Whether the rate of inflation will accelerate and provide benefits in excess of costs

○ Whether welfare caseloads will continue to decline and/or be impacted significantly by changes in the economy

○ Whether the city can revitalize its tax base sufficiently to cover cost growth
Critical Issues - Federal and State Aid

- WHETHER ALL 1980 STATE AID IN BASELINES WILL RECUR ($75 MILLION)
- WHETHER STATE WILL BE ABLE TO PROVIDE AT LEAST $200 MILLION ADDITIONAL RECURRING AID
- WHETHER FEDERAL GOVT. WILL CONTINUE AID TO STATES AND CITIES (REVENUE SHARING, C/D, ETC.)
- WHETHER STATE WILL CONTINUE SSI PROGRAM ($80 MILLION IN 1982)
- WHETHER STATE WILL CONTINUE "SAVE HARMLESS" PROGRAM ($54 MILLION IN 1982)
- WHETHER STATE WILL VOTE INCREASED SUPPLEMENTAL PENSION BENEFITS ($40 MILLION)
- WHETHER STATE WILL INCREASE WELFARE BENEFITS
- WHETHER WELFARE/HEALTH REFORM WILL BE ENACTED
Critical Issues - HHC

- Whether substantial hospital closing costs will be incurred and savings subsequently realized
- Whether 1973 billing problems will recur ($50 million)
- Whether attrition savings will be realized ($23 million)
- Whether FICA costs will increase ($6.41 million)
- Whether gaps in plan will be closed (approx $50 million annually)
- Whether special collection efforts can yield substantial one-shot revenues
Critical Issues - In Rem and Energy

- Whether the 20,000 growth in units from '79 to '82 can be efficiently controlled and managed
- Whether HUD approval will be renewed each year
- Whether repair, fuel and management cost projections can be adhered to
- Whether citywide fuel costs have been adequately provided for
Ment and Understanding
- Continued After Cost Control
- Reduced Borrowing Needs
- Further Debt Restructuring and
  Increases in Federal and State Aid
- Improvements in Local Economy

Will be facilitated by:
Whether Future Gap Closing
# Level of Effort Required in 1981-1983

<table>
<thead>
<tr>
<th>City Funded Expenses As ADJ.</th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,192</td>
<td>$10,898</td>
<td>$11,542</td>
<td></td>
</tr>
</tbody>
</table>

- **Pensions**: $(1,283)$ $(1,445)$ $(1,422)$
- **Debt Service**: $(1,714)$ $(1,714)$ $(1,543)$
- **Welfare, Etc.**: $(985)$ $(1,025)$ $(1,065)$

<table>
<thead>
<tr>
<th>City Funded &quot;Controllable&quot; Expenses</th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,210</td>
<td>$6,714</td>
<td>$7,212</td>
<td></td>
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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>$631</td>
<td>$1,338</td>
<td>$1,679</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of Controllable Costs</th>
<th>10%</th>
<th>20%*</th>
<th>23%*</th>
</tr>
</thead>
</table>

| Percentage - Assuming $200 Million of Additional State Aid | 7% | 17%* | 20%* |

*Cumulative - i.e. 7% or 8% per year*
Notes on MAC Report

- The increased level of effort in 1980 of $65 million and $130 million annualized, is not inconsistent with Mayor’s goals.

- Applying all surplus to debt repayment is inconsistent with City goal of creating a fund for 1981 wage increases.

- Accelerating phase-out of capitalized expenses is equivalent to reduction of debt.

- Excess cash has been used to reduce seasonal loans.
NYC Loan Guaranty Act
Of 1978
June 15, 1979 (memoranda)
MEMORANDA IN SUPPORT OF ORAL REPORT

TO THE UNITED STATES DEPARTMENT OF THE TREASURY

REGARDING NEW YORK CITY'S FINANCIAL PLANNING

AND REPORTING UNDER THE

NEW YORK CITY LOAN GUARANTY ACT OF 1978


Arthur Andersen & Co.
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**Part III**  -- Memorandum on The City's Personal Service Costs, and Appendices.

UNITED STATES DEPARTMENT OF THE TREASURY

MEMORANDUM ON THE CITY'S REVISED FINANCIAL PLAN

FOR THE FOUR YEARS ENDING JUNE 30, 1983

JUNE 15, 1979

This memorandum has been prepared pursuant to and in satisfaction of our arrangements with the Department of the Treasury to review New York City's Financial Plan dated May 11, 1979 covering the four years ending June 30, 1983, which embodies the Mayor's Executive Budget for the City's fiscal year ending June 30, 1980.

Our comments set forth in this memorandum are based upon financial and other information furnished to us by City officials. We have not made an audit of the information included in this report, and accordingly we cannot and do not express any opinion as to the completeness or the accuracy of the historical information or the forecasted information.

On June 15, 1979, we made an oral report to Assistant Secretary Altman and others in the Department of the Treasury. This memorandum represents a summary of that oral report. Reference is made to the charts used in our June 15 presentation.
The 1979 Plan Apparently Will Be Achieved

Based on our review of the Financial Plan statements through March 1979 and a reading of the April Financial Plan statements, it appears that the City will achieve and likely surpass the budgetary goals of its 1979 Financial Plan.

Budgetary "Balance" in 1980 is Subject to Various Contingencies, Including New Risks Relating to the Economy, HHC and Other Items

The City's prospects for achieving its budgetary goals for fiscal 1980 appear favorable in the view of all of the City's monitors. Our review of the 1980 budget has identified a number of issues which could cause difficulties for the City in its efforts to achieve a balanced budget for fiscal 1980. These contingencies, which are listed and discussed under Chart #9 are counterbalanced by various reserves listed on Chart #10. In approaching a review of contingencies for 1980, one should recognize that the possibility of a recession and the potential for cost growth due to major uncertainties with respect to the Health and Hospitals Corporation (HHC) are risks that have not weighed as heavily in the past.

Among the reserves established in the 1980 budget is an $82 million reserve for prefunding a portion of 1981 wage increases. The City's overall strategy is to end fiscal 1980 with as large a surplus as possible to meet future wage costs. It should be noted that when
approving the City's accounting for the "bonus" negotiated in June 1978, the City's auditors accepted the City's accounting treatment of 1978 accrual for payments to workers in 1979 and 1980 on the basis that such costs were applicable to past service. The circumstances at that time were different than they are at present in that workers had undergone wage deferrals and freezes, and there were disputes as to the extent of any productivity payments due the workers. Ultimately, the City's auditors will have to examine the specific agreements negotiated with the workers in the surrounding circumstances to determine whether it is appropriate to charge any portion of payments made in fiscal 1981 to the fiscal year 1980.

The Uncertainties Increase for 1981-1983

The problems in projecting budget balance with certainty increases for each year beyond 1980. This is due in part to the fact that potential problems tend to be more observable and/or capable of measurement than the actions necessary to cope with such eventualities and because nonrecurring revenues and other favorable developments are generally not foreseeable. The uncertainties in the post 1980 period relate primarily to (a) unspecified and unsupported City actions included in the $604 million Level II total of such gap closing actions, (b) unspecified source of funding of wage increases which, if equal to the rate of inflation used to forecast revenues would result in increased City funded expenditures of $225 million in 1981, $545 million in 1982 and $865 million in 1983, (c) the potentially adverse
impact of a recession, (d) the increasing reliance on Federal and State Aid at a time when such higher levels of government are under pressure to reduce expenditures, (d) the ability to reduce subsidies to HHC in amounts ranging from $40 million in 1981 up to $80 million in 1983, which have been assumed in the Plan baselines, (e) the ability to contain costs of the In-Rem program within the Plan baselines and the continued availability of Community Development funds for the bulk of such costs, (f) the possible adverse impact due to the increasing cost of energy, (g) the possible problems in realizing the savings from debt restructuring assumed in the Plan baselines, and (h) the possibility that legal actions or other factors may disrupt the planned level of property tax collections.

**CHART # 4 -- PROGRESS AGAINST 1979 PLAN**

**General Reserve of $56 Million**  
**Appears to be Understated**

The City's April Financial Plan Statements project that 1979 will be balanced in accordance with State law following accounting principles consistent with those applied in the City's 1978 audited financial statements. Based on our inquiries of City officials and analysis of unaudited data made available to us, the City currently expects to be able to increase its general reserve to a level of from approximately $50 million to $150 million, or possibly somewhat higher. This range is based in part on an analysis which shows City encumbrances as of June 30, 1978 to be overstated by approximately $50 million. The City intends to reverse this excess reserve against 1979
expenditures (subject to approval of the City's auditors, who may require that the City's prior period statements be restated). Since the 1979 budget was prepared using the prior year data as a guide, underspending in the current period is also expected. Our agency by agency review confirms only that the budget is expected to be met; insufficient details are available to validate precise spending levels at an interim date.

The City is giving consideration to various ways in which it might utilize any 1979 excess of revenues over expenditures in order to facilitate accomplishment of its ultimate goal of achieving budget balance in 1982. During our meeting we discussed various ways in which this might be accomplished, subject to approval of the City's auditors and legal counsel.

The City Has Deferred Realization of $125 Million State Aid and Other Revenues into 1980

The City's achievement of its 1979 budgetary goals is all the more impressive when considering that it is expected to report a surplus even after deferral of $125 million of revenues originally scheduled for 1979 into subsequent years ($50 million of State Aid and $75 million of ECF bond sale).

The deferral of State Aid results from a change in the State's approach to distributing State Revenue Sharing funds to New York City only. With the concurrence of the City, the State has deferred approximately $50 million of revenue sharing funds originally scheduled
for the City's fiscal 1979 to the City's fiscal 1980, and plans a similar deferral from 1980 to 1981, in which year it is contemplated that no deferral will occur, resulting in $48 million of "extra" revenues in the City's fiscal year 1981. There are indications that this item may be questioned by certain of those monitoring the City's fiscal affairs. However, in our view, based upon the facts made available to us, the City's proposed accounting treatment is in accordance with generally accepted accounting principles. Although there are certain similarities to the accounting issue that arose a few years ago, in which the City and State agreed to change the timing of aid to CUNY, this issue is different since, among other things, it does not involve the concept of matching revenues with expenditures and the aid to be provided by the State is in its following fiscal year (the deferral period is approximately nine months, from June to April).

Although the accounting treatment is appropriate, some may assert that the revenue deferral device is not sound fiscal management since the City suffers the lost utility of the funds and the risk that the revenues will ultimately not be received. This, in effect, is the price the City was willing to pay in order to receive the funds in a year when achieving budgetary balance would otherwise have been that much more difficult to achieve.

City Expects a Cash Surplus

_ as of June 30, 1979_

The City expects that its cash balance at June 30, 1979 will range from $600 million to $800 million. This level of cash, which is
from $100 million to $300 million more than originally projected, should not imply a commensurate reduction in next year's peak seasonal requirements since a portion of the increase is due to timing items.

Management Information Systems Are Being Designed and Implemented as Scheduled

Our review of the IFMS system installation indicates that many of the mechanical problems we noted previously are now resolved. However, a number of management usage problems remain. We have supplied Treasury staff with a memorandum describing these matters in detail.

CHART # 5 -- FOUR-YEAR PLAN

The City's Four-Year Plan is shown in summary form on this chart. Funds available from operations (revenues less operating expenses, exclusive of debt service) have been highlighted in order to show the projected trend in operating results, prior to actions necessary to close the budget gap and before provision for an increase in wages. As noted, for 1980 and 1981, operating expenses do not include $223 million and $175 million, respectively, of accrued pensions, which under State law need not be provided for until 1982 when full accrual of pension costs is required. During this period, the City is also required to phase out its practice of capitalizing expenses which do not qualify as capital items under generally accepted accounting principles.
Revenues decline from 1980-1981 because of nonrecurring revenues included in 1980 of $215 million and lower Federal and State Aid caused by declining public assistance caseloads. Operating expenses increase each year due to inflation of OTPS expenditures, increases in FICA taxes, employee health insurance premiums, etc. and the effect of excluding nonpensionable cash payments from the 1980 budget, which have been provided for in subsequent years. The operating expense baselines assume the recurring nature of City actions implemented in 1980, and further, that additional City actions applicable to HHC subsidy levels and acceleration of real property tax payments will be implemented in 1981 and yield savings of $79 million in 1981, $99 million in 1982 and $119 million in 1983.

Funds available from operations do not grow despite the recognition of a local rate of inflation of 6% per year assumed in the revenue baselines and before any provision for wage increases. This condition is due in part to the fact that total revenues from real property taxes, the largest component of the City's tax base, is not sensitive to inflation.

Debt service has been brought down from the $2 billion per year levels of the 1975-1978 period and the baselines reflect the savings to be realized in connection with the further restructuring to be accomplished by the $4.5 billion financing program. Accordingly, additional savings from debt restructuring, which has been a significant factor in the City's ability to close its budget gaps, will not be available to the City during the period of the Plan.
CHART # 6 -- CITY ASSUMPTIONS REVENUE

Sales and Income Taxes
Increase for Inflation
(No Real Growth)

The City's revenue forecasting model assumes a national rate of inflation of approximately 8% for 1980 declining to 6.3% in 1983 and a local rate of inflation averaging about 6%.

Cap on Real Estate Tax
Rates -- Decline in Assessments in Real Terms

The cap on real estate taxes at $8.75 per $100 of assessed valuation is assumed for the four years of the Plan. Tax yields are projected to increase at only 1% per year from 1980 to 1983 because only commercial properties are reassessed annually and because of declining values outside of Manhattan.

Continuation of Existing Federal and State Aid Programs

The Plan assumes that all major Federal and State Aid programs will continue at their present levels for the period of the Plan. Currently the City is receiving approximately $900 million per year in Federal aid from revenue sharing, CETA and Community Development programs. Total Federal and State Aid is projected at approximately $5 billion per year or approximately 40% of the City's operating budget.

Major New Aid Programs will Close the Gap

The City projects that a majority of the $177 million increase in State Aid included in the 1980 budget will recur in subsequent years. In addition, the City's Level I program calls for higher levels of
Federal and State Aid than projected for 1980: $179 million in 1981, $448 million in 1982 and $360 million in 1983. The Level II program calls for increases relative to 1980 of $114 million, $189 million and $178 million in 1981-1983, respectively. When considering the increase in Federal and State Aid reflected in the baselines of approximately $100 million, the increases contemplated by the Level II program are comparable to the Financial Plan assumptions that were operative at the time the Federal guaranty legislation was adopted.

CHART #7 -- CITY ASSUMPTIONS -- EXPENDITURES

No Growth in Wages for 1981 through 1983

Like all prior plans, no provision has been made for increases in wage rates although inflation has been factored into the revenue projections. The City has included $150 million per year in 1981-1983 to reflect continuation of the nonpensionable cash payments.

Higher Fringes Due to External Factors (FICA and Insurance)

Provision has been made for growth in payroll related expenses which are outside of the control of the City such as higher FICA rates and health insurance premiums.

Additional Pension Costs Phased-In

As stated above, the City has provided for full accrual of pension costs by 1982 and is phasing in the accrual generally in accordance with the recommendations of the Shinn Report. The City has
reflected full funding of the increase required for the Firemen's pension system in 1982. If agreement on funding of these costs is obtained prior to 1982, the City might be required to accelerate the funding of such costs.

**Decline in Welfare Caseload**

The Plan assumes public assistance caseloads will decline by 2.5% in 1980 and smaller annual declines thereafter. The ability of the city to realize the projected reductions is dependent upon a continuation of certain underlying trends and improved management that began during the 1975-1978 period and on avoiding a serious downturn in the economy. The City's goal could also be adversely impacted by an increase in welfare grant levels.

**CHART #8 -- HOW DOES THE 1980 BUDGET COMPARE TO THE JANUARY 1979 PEG PROGRAM?**

This chart reconciles the Mayor's PEG program submitted in January 1979, to the 1980 Executive Budget. The Mayor's program is now being modified by the Board of Estimate and City Council.

Essentially, the Mayor plans to utilize higher than anticipated revenues (due largely to inflation) and nonrecurring revenues from the ECF Bond Sale (deferred from 1979) to eliminate the budget gap that would otherwise have required fulfillment of the 4% attrition rate assumed in the PEG program.
CHART #9 -- MAJOR BUDGET CONTINGENCIES - 1980

This chart lists those issues of primary concern in assessing the 1980 budget. The following chart lists various sources of potential reserves to cope with the contingencies should the need materialize.

**Potential HHC Deficit**

The Financial Plan for HHC reflects budget gaps of $40 million in 1981, $50 million in 1982 and $50 million in 1983, after consideration of a reduced level of City subsidies ranging up to $80 million in 1983 referred to above. There are a number of uncertainties beyond the unspecified actions necessary to close these gaps. At the same time, however, the possibility that HHC may realize significant revenues over and above those projected in the Financial Plan also exists. These issues, which were discussed fully at our meeting, are summarized below.

The Financial Plan makes no provision for costs that may be incurred in connection with the closing of hospitals, if any. Such costs may involve a provision for future payments of debt service associated with the remaining investment in the hospitals, unabsorbed fixed and variable overhead incurred during the wind down of operations and costs of maintenance and disposition of idle facilities, net of any proceeds or salvage value.

The Financial Plan assumes that the billing problems that gave rise to the 1979 shortfall will not recur. This problem has been estimated at approximately $50 million per year. It should be noted that the auditors' report on HHC's financial statements in recent years
has been qualified because of inadequacies in the patient billing system. As auditors for HHC we have recommended that HHC undertake a special project to reduce the time lag in billing and collection and to permanently remedy its billing problems. If HHC were successful in reducing its billing/collection period to the industry average, which is approximately one-half of HHC's actual experience, a nonrecurring revenue in excess of $100 million could be realized. We understand that HHC is in the process of selecting a consultant to assist in such a project, and that the preliminary savings are targeted at $50 million.

The Financial Plan assumes that savings of approximately $25 million per year will be realized from an attrition program, essentially a hiring freeze, initiated in April 1979, to reduce HHC employees by approximately 8%. In the absence of a management plan showing how these savings will be realized without impacting service levels and revenues, it isn't possible to determine whether these savings are feasible.

There are other matters which bring the total range of uncertainties for HHC from zero to approximately $150 million in each year, excluding the possible costs to be incurred in connection with hospital closings. On the other hand, there is also the possibility that nonrecurring revenues could exceed actual cost growth.

In addition to the above, HHC has been notified by the Federal government that it is liable for withholding and payment of social security taxes with respect to 7,700 employees that have not been
treated as covered employees heretofore. The Federal government has not as yet formally asserted its claim. However, we understand that the filing of a claim against HHC for $38 million covering the years 1975-1979 is under active consideration and that a claim for years prior to 1975 is possible. HHC and the City has indicated their intention to fight any assessment in the courts and have indicated that if this claim is asserted, they in turn may assert that approximately 20,000 other HHC employees should not have been considered as covered by social security. The Financial Plan makes no provision for the ultimate outcome of this matter. The City has indicated that if the matter is settled adversely, it will be treated as any "judgement or claim", and any payments will be charged to the period in which the claims are settled (not expected to be resolved through the courts for at least two years). The City's auditors must consider the appropriate disposition of this potential liability in connection with their audit as of June 30, 1979.

**Economic Recession**

Various estimates have been made regarding the prospects, timing and ultimate impact on the City of a possible recession. Currently, the City's tax forecasting model assumes a slowdown in the national economy at the end of the City's fiscal 1979 and a low growth rate of approximately 1.5% for its fiscal year 1980. Should a recession occur, a reduction in City tax collections can be expected. It was for just such a possibility that the City was required to include a $100 million general reserve in its financial plan. It seems prudent to consider this reserve as required for the possibility of a national
recession. It should be noted that the City may have underestimated the impact of inflation and this issue is considered among the possible sources of additional reserve funds.

**Items Requiring Documentation**

The items identified on the chart (Food Stamps—$72 million, Board of Education—$44 million, OTPS—$23 million), aggregating $139 million, represent the more significant items of additional revenues or cost savings assumed in the 1980 budget which have not as yet been documented.

The item designated as "Food Stamps" represents the City's estimate of claim revenues that will be realized in fiscal 1980 applicable to the allocation of costs incurred in administering the Food Stamp program since 1976, measured on a time sharing basis as opposed to an incremental cost basis. We understand that the regulations governing administration of the Food Stamp program provide for 100% recovery of such costs, but that no specific cost allocation procedure is prescribed. We were informed that the City has never allocated any administrative costs to the Food Stamp program and that an allocation on an incremental cost basis would be much less than that obtained under the time sharing approach. In any event, the City could not provide us with details in support of its estimate of the amount of costs incurred under either method. The ultimate realization of these revenues is subject to successful future negotiations with the Federal agencies responsible for administering the Food Stamp program.
The other items requiring documentation are more typical. The City has reduced the BOE budget by an amount that may exceed the savings from expected attrition and a plan for achieving these savings needs to be developed. In addition, the City continues to show $23 million of savings from OTPS expenditures, which essentially represents one half the rate of inflation applied to the City funded portion of administrative OTPS.

**Potential Cost Growth**

There are a number of areas in which some cost growth over and above that provided in the Financial Plan may occur. This concern relates primarily to energy (the principal variable cost for 1980 in the In-Rem program is home heating oil). For example, the City has used 58¢ a gallon in estimating the cost of heating oil and current reports indicate that the cost may average considerably higher, possibly 80¢ per gallon. If such an increase were experienced for all energy costs, the City might experience cost growth of approximately $75 million. On the other hand, the City believes that significant potential for energy conservation exists and that existing contractual arrangements could mitigate somewhat against estimated increases based on projected changes in market prices.

**Nonoperating Items**

The items listed on the chart (Westway-$80 million, ECF Bond Sale-$75 million, and MAC Debt Restructuring-$169 million) represent revenues and savings that depend in part on external factors.
The inclusion of revenues from the sale of rights of way for the Westway project of $80 million in fiscal 1980 continues to be subject to considerable uncertainty. The City has acknowledged this by earmarking the $82 million reserve for collective bargaining to cover Westway, if needed. Should the Westway project move forward, a new appraisal of the rights of way will be obtained, which should reflect a higher value than utilized for the budget.

The City is now projecting the receipt of $75 million from the Educational Construction Fund (ECF) in 1980. The City's auditors consider the proposed treatment of this item as a revenue in 1980 to be appropriate. The realization of these revenues by the City is dependent upon the successful sale of long-term bonds by ECF to the public. Since the bonds would be secured by long-term lease agreements with the Telephone Company, the sale should take place as scheduled.

The savings from MAC Debt Restructuring could not be precisely verified by us because MAC refused to make available the details underlying the calculations showing savings by debt issued. Their reluctance to do so was based upon their concern that the details of any possible public offering be kept confidential. However, we were able to judge the overall reasonableness of the forecasted amounts by alternative procedures. The ultimate realization of the savings from bonding of MAC's capital reserve requirements and refundings of debt is dependent upon the future successful sale of MAC bonds.
Real Estate Tax Refunds

The conditions that required the City's auditors to issue a "subject to" type of audit opinion are still present. The situation has not deteriorated to the point where an "except for" opinion or a reserve requirement is necessary, nor is such a change presently foreseen. The City has increased the annual provision for the reserve for refunds from an annual level of $50 million in 1978 to $70 million in 1979 with slightly greater increases in the years thereafter. The exposure to contingencies with respect to real property taxes stemming from (a) court challenges to the constitutionality of the City's assessment practices, and (b) the impact of full value assessment on the tax base and collection experience, are expected to increase in the post 1980 period.

CHART #10 -- RESERVES, ETC. FOR 1980 CONTINGENCIES

This chart lists the possible offsets to potential additional budget needs described above.

General Reserve

A general reserve of $100 million is provided in the 1980 budget and each subsequent year of the Financial Plan.

Reserve for 1981 Wage Increase

As mentioned above, this $82 million reserve is needed for Westway.
Reserve for Disallowances

This reserve for disallowances of Federal and State Aid had been accumulated at the rate of $125 million per year and in 1979 the rate of accrual was set at $100 million. We understand that the City's auditors will determine that a current rate of $75 million per year is acceptable based on improvements in management systems. Whether a portion of the $400 million accumulated reserve is excessive is conjectural; however, based on inquiries of City officials, a portion of this reserve may be reversed in subsequent periods.

Attrition Not Presently Planned

The City is projecting approximately the same number of City funded employees for June 30, 1980, as are projected to be employed as of June 30, 1979. Although the budget lines will be authorized, we understand that the City intends to force underspending through tight control of its quarterly allocations to the agencies. Accordingly, it is expected that delays in hiring will occur or that positions may not be filled. This could result in savings conceivably as much as $100 million, but more likely in the $50 million range if the controls are implemented at the beginning of the year.

CPI at 10% vs. 8%

As mentioned above, the City has assumed that the national rate of inflation would run at 8% for 1980. A higher rate would likely result in a net increase in the City's net operating revenues for 1980, since wage agreements run until June 30, 1980. While benefiting 1980, an increase in inflation should not be considered as a favorable factor
since a high rate of inflation at the time new wage agreements are negotiated could cause serious problems for the City.

1979 Underspending Not Reflected in Baselines

The City has prepared the 1980 budget using the 1979 budget as a guide. Since it can be anticipated that actual spending for 1979 will be less than the 1979 budget, some impact on 1980 is possible. Care must be taken in evaluating this factor since OTPS cost savings of $23 million are assumed in the Plan and underspending is contemplated to a degree in the attrition item noted above.

Potential for Reduction in HHC Receivables, etc.

As mentioned above, HHC is going to make an effort to accelerate collection of its receivables and improve its billing practices. This project may yield substantial unbudgeted revenues in 1980; however, this is dependent upon the success of a management improvement program that is in the planning stage.

CHART #11 -- WHY THE GROWTH IN BUDGET GAPS?

Looking beyond 1980, we prepared this analysis to show why large budget gaps arise in subsequent years even though no provision for increased wages has been made in the Plan.

Major factors giving rise to the budget gaps in this two-year period are the completion of the phase out of capitalized expenses, stock transfer taxes and cash basis pension accounting. Also of importance is that there are one shot revenues of $135 million in 1980 and
none projected in future years (for purpose of this analysis, Westway revenues in 1980 have been offset against the reserve for collective bargaining). In addition, since 1980 doesn't bear any portion of the 1978 "bonus," but the plan does provide for a continuation of the nonpensionable cash payments in 1981-1983, a budget gap arises in 1981.

CHART #12 -- PROPOSED GAP CLOSING ACTIONS

The City has outlined its plans for closing the projected budget gaps for 1981-1983 assuming differing levels of increased Federal and State Aid. The Level I approach assumes that increases in aid will amount to $179 million in 1981, $448 million in 1982 and $360 million in 1983. These levels of aid are significantly higher than any prior projections by the City. Such increases would require major new Federal and/or State programs. Level II assumes increases in aid of $114 million in 1981, $189 million in 1982 and $178 million in 1983. These levels of aid are comparable to amounts included in all prior Financial Plans after considering increases included in the baselines.

The following summary of 1982 City actions was distributed and discussed at our meeting:

<table>
<thead>
<tr>
<th>1982 City Actions</th>
<th>Level I</th>
<th>Level II</th>
</tr>
</thead>
<tbody>
<tr>
<td>4% attrition</td>
<td>$189</td>
<td>$189</td>
</tr>
<tr>
<td>2% additional attrition</td>
<td>-</td>
<td>44*</td>
</tr>
<tr>
<td>FICA cost reduction</td>
<td>31</td>
<td>31*</td>
</tr>
<tr>
<td>Elimination of ITHP</td>
<td>-</td>
<td>65*</td>
</tr>
<tr>
<td>Reserve for disallowances</td>
<td>15</td>
<td>25*</td>
</tr>
<tr>
<td>Management improvement of revenues</td>
<td>15</td>
<td>15*</td>
</tr>
<tr>
<td>OTFS cost containment</td>
<td>25</td>
<td>25*</td>
</tr>
<tr>
<td>Reduction in judgements and claims</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Unspecified actions</td>
<td>140*</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total City Actions</strong></td>
<td><strong>$345</strong></td>
<td><strong>$604</strong></td>
</tr>
</tbody>
</table>

* Unsupported by a detailed management plan or subject to union negotiation (total $345 million).
The City proposes to start 1981 by adhering to a policy of 3% attrition rate in the BOE and a 4% attrition rate in all other City agencies and would switch to a 6% attrition rate if the higher levels of Federal and State Aid were not received. The historical rate of attrition for the City's work force has been approximately 8% per year. Such experience was developed prior to the extension of the mandatory retirement age, during a period when new hires were at a greater level and during a period of greater national prosperity. Accordingly, it is possible that a 6% attrition rate for 1981-1983 should, for all practical purposes, be considered at or close to a full attrition rate. Such attrition would yield savings of $233 million in 1982 relative to total required City actions of $604 million and a total budget gap of $793 million. Such budget gap is before provision for wage increases and possible other adjustments, some of which may be favorable. As shown by the above summary, the major portion of actions other than attrition are either not documented or require negotiation with the unions ("givebacks"). Given the level of unspecified actions and the potential for growth in the budget gaps, there is a question regarding the extent to which the Financial Plan can be used as a guide to evaluating the various options available to the City in realizing its commitment to balance its budget in 1982.

CHART #13 -- MAJOR BUDGET CONTINGENCIES 1981-1983

This chart shows the overall magnitude of the budget gaps that would result if the unions were successful in negotiating increases in wage rates equivalent to the local rate of inflation assumed in the
revenue baselines. The wage adjustments computed at 6% have been assumed to be effective as of October 1 following the pattern of the June, 1978 agreements. Each 1% increase was assumed to cost the City approximately $50 million, which includes (a) provision for paying HHC employees, (b) normal cost of pensions, and (c) provision for allocation of a portion of such increase to reimbursable Federal and State programs.

The resulting budget gaps of $631 million in 1981, $1,338 million in 1982 and $1,679 million in 1983 assumes the recurring value of actions reflected in the 1980 budget, including $79 million, $99 million and $119 million HHC subsidy reductions and debt service savings from accelerating the collection of real estate taxes and from dropping the Veteran's real estate tax exemption. In addition, the gaps assume the adequacy of the general reserve to cover all of the critical issues that may impact the budget gap (for simplicity of presentation purposes only).

Should the City realize an additional $200 million in recurring Federal and State Aid (over and above certain Federal and State Aid assumed in the baselines, the recurring value of which is uncertain) and if underspending levels anticipated in 1979 of up to $150 million were to be reflected in the baselines, the budget gap for 1982 would be in the $1 billion range and in the $1.3 billion range for 1983. For illustrative purposes, the elimination of a $1.3 billion 1983 gap equates to a reduction of roughly 60,000 employees if all savings
had to be obtained from reducing personal service expenditures. Put another way, the 1983 gap is roughly equivalent to the projected sales tax collections for that year. The City's ability to avoid a combination of measures of such enormity necessary to achieve recurring budget balance will depend upon (a) whether the local economy improves substantially, (b) whether wage agreements can be achieved that are less costly than those indicated above, (c) whether substantial additional Federal and State Aid (welfare reform, etc.) will be enacted and on (d) whether various critical issues that may impact the baselines are favorably resolved.

The progressive increase in budget gaps results from the fact that the City's expenditure base is more sensitive to inflation and susceptible to growth than is the revenue base. This suggests that in addition to strong cost reduction measures, there may be a need for actions to revitalize the City's economic base and/or to restructure the tax system.

**CHART #14 -- SUMMARY OF CRITICAL ISSUES 1981-1983**

The critical issues that may impact budget balance have been summarized here in a general way and in subsequent charts in some detail and can serve as a control list of key issues that should be continually monitored by Treasury staff.

**CHART #15 -- CRITICAL ISSUES -- CITY ACTIONS**

These issues address the City's plan to close the budget gap, which has been previously discussed. The adverse resolution of these issues would not increase the gaps shown on the prior chart (#13) but
new actions would have to be developed if required. Unless otherwise indicated, the adverse resolution of the critical issues listed on the following charts would increase the budget gaps.

**CHART #16 -- GENERAL ECONOMY**

These issues have been discussed above.

**CHART #17 -- CRITICAL ISSUES -- FEDERAL AND STATE AID**

The more significant of these issues have been discussed above. Following is a brief summary of those that have not been referred to elsewhere.

**Whether all 1980 State Aid in Baselines Will Recur ($75 million)**

Included in the package of 1980, State Aid increases of $177 million are a number of State management actions as opposed to new general revenue programs. The recurring value of these additional revenues or cost savings cannot be fully evaluated at the present time.

**Whether State Will Be Able to Provide at Least $200 Million Additional Aid**

This increase in Federal and State Aid refers to Level II of the program to close the gap. Accordingly, the adverse resolution of this item would not increase the gap but would require additional City actions which have not been specified.
Whether State Will Continue SSI Program ($80 Million in 1982)

When the State assumed local SSI costs, it did not do so on a permanent basis. While the City believes that the State would have a difficult time in dropping the program after having borne the cost for three years, new legislation is required to continue State funding.

Whether State will Continue "Save Harmless" Program ($54 million in 1982)

This program provides a locality with no less than the education aid it received from the State for the prior year even though enrollment declined. The Governor has tried in every year of his term to eliminate this provision. While the City's education aid would be cut back, it is possible that the total State funds freed up by the repeal of this law would provide a pool of funds that would benefit the City.

Whether State Will Vote Increased Supplemental Pension Benefits ($40 Million)

We understand that the State legislature is considering a bill that would authorize the City pension funds to utilize excess earnings (amounts earned on investments in excess of 5-1/2% interest assumption) to pay additional benefits to retirees whose benefits have been severely eroded by inflation. The City believes that the use of pension funds for this purpose does not result in a charge to the City budget for 1979 since they are not required to be on a full accrual
basis until 1982. A question may be raised by the City's auditors as to whether the City should not record these costs currently. Moreover, this practice raises a question of whether future costs may be incurred if the State legislature feels it has an obligation to continue the increased level of pensions.

Whether State Will Increase Welfare Benefits

Welfare grant limits have not been increased for several years during which period significant inflation has occurred. Efforts to raise the grant limits in the current State session of the legislature failed. However, pressures for an increase are expected to continue. We understand that any proposal to increase grant limits which provide for City funding would not be supported by the City.

Whether Welfare/Health Reform Will be Enacted

The Financial Plan makes no assumptions with respect to reform in these areas. However, the amount of increased aid called for by Level I of the program to close the gap implies a major initiative in this area.

CHART #18 -- CRITICAL ISSUES -- HHC

These issues have been discussed above.
A significant area of concern is the potential for growth in costs associated with the City's In-Rem housing program. The key issues are as follows:

Whether the 28,000 Growth in Units from 1979 to 1982 Can Be Efficiently Controlled and Managed

The City is projecting an increase of 28,000 housing units under its management during 1979-1982. The enormity of this management challenge cannot be overestimated. The rate of intake of the additional housing units could cause serious control problems and cost estimates to be inadequate. The City's projections of increased units were prepared prior to the recent escalation in fuel prices, which may influence the rate of housing abandonment.

Whether HUD Approval Will be Renewed Each Year

The City projects total expenditures for the In-Rem Housing program of approximately $175 million in 1980 increasing to approximately $275 million in 1982 and expects to utilize Community Development funds for approximately 70% of total expenditures (expenditures other than fuel and utilities). We understand that HUD has given informal approval for use of CD funds in 1979 and that approval for future years is conditional upon a review of a long-term plan for rehabilitation of the housing.
Whether Repair, Fuel and Management Cost Projections can be Adhered To

Management of the In-Rem housing program is big business. It will take time for the City to gain control of the problems inherent in managing properties that have proven to be nonviable in the private sector. The City's projections assume that many of the housing units will eventually be turned back to the private sector. In summary, the ability of the City to stay within its cost projections will depend on its ability to consolidate, rehabilitate, sell or otherwise dispose of the projected units as scheduled and on its ability to control the growth of units and the accuracy of unit-cost projections. In-Rem fuel costs, which are estimated at over $40 million in 1982, may prove to be significantly understated.

Whether Citywide Fuel Costs Have Been Adequately Provided For

This issue, which relates to additional Citywide fuel costs of approximately $200 million, has been discussed above.
In reviewing the City's progress to date in achieving the goals of the original long-term Financial Plan, it is apparent that a number of factors that were not incorporated into the plan contributed significantly to the City's ability to meet its goals. There is a question whether favorable adjustments will continue to develop in these areas, as follows:

**Improvements in Local Economy**

In retrospect, the original Financial Plan was quite conservative in its projections of economically sensitive taxes. The understatement of revenues was due to the inability to foresee the rapid increase in the rate of inflation and the rate of improvement in the local economy. As discussed above, there is considerable uncertainty with respect to the economic picture at the present time.

**Increases in Federal and State Aid**

The increases in Federal and State experienced by the City also contributed significantly to closing of the budget gaps. However, the fiscal problems of these governmental units, recent actions by the Congress to reduce special assistance to urban areas, and the pressures
Federal and State levels, will make it difficult for the City to achieve its goal of substantial increases in Federal and State Aid.

Further Debt Restructuring and Reduced Borrowing Needs

The $4.5 billion Financing Plan provides for funding of MAC's capital reserve requirements and advance refunding of debt to achieve reductions in debt service expenditures. These savings have been reflected in the Plan's baselines. While further savings can be realized, the magnitude of any additional savings during the next four years appears to be insignificant relative to the prior achievements. It should be noted that the Plan assumes $32 million per year in savings in debt service during 1981, 1982 and 1983 from accelerating collection dates of property taxes and using such proceeds to reduce seasonal borrowing requirements.

Continued OTPS Cost Containment and Underspending

The City has been successful in controlling OTPS expenditures and keeping them below budgeted levels. The City's funded portion of such expenditures is currently at a level of approximately $700 million and savings from this area in the future will be increasingly more difficult to achieve. This is especially true since a major element of these costs, fuel and utility costs, may actually increase significantly over budgeted amounts.
Up to this point, we have described the overall level of the budget gaps using the City's own estimates, adjusted for increases in wage rates at the rate of inflation used in the revenue estimates, and have discussed various critical issues that may impact the budget gaps, some of which are potentially favorable. This chart puts the gaps in perspective relative to the controllable costs which must yield the savings. If increases in future net revenues were realized, either through an improved economy, a rate of inflation higher than wage increases, or higher taxes, the required level of cost savings would be reduced. It should be noted that the estimate of controllable costs was not the result of a detailed study.

City funded expenditures were derived by reducing total expenditures by Federal and State aid (other than State Education Aid and unrestricted Federal and State Aid) and by adding the estimated increase in wage costs used to adjust the reported budget gaps. City funded expenses, as adjusted, is reduced by noncontrollable costs (pension costs would be reduced by a policy of lay-offs, but not proportionately, due to prior service costs and seniority rules). The balance, designated as "City Funded Controllable Expenses", represents the pool of costs that is more or less under the City's control. Certain of these costs are actually fixed and may be impossible to reduce in the near term, but no effort was made to isolate such costs. The major portion of controllable costs represents payroll expenses.
Comparing the potential budget gaps to city Funded controllable expenses results in a percentage that indicates the overall level of effort required to achieve budget balance if cost reduction were the only course of action available to the City. A second set of percentages is provided showing the level of the effort required if the increase in Federal and State Aid assumed in Level II of the Plan was realized. It should be noted that the level of effort is approximately 7% - 8% per year, for a cumulative total of 20% - 23%. In other words, by 1983, approximately 20% - 23% of controllable costs must be eliminated (or additional revenues obtained). Failure to achieve 7% - 8% in any one year would add to a future year's burden.

CHART #22 -- NOTES ON MAC REPORT

In connection with our review, your staff furnished us with a draft of MAC's report covering its review of the Financial Plan. This chart summarizes certain overall observations with respect thereto.

These matters, which are generally self-explanatory, were discussed at our meeting.

- - - - - - - - -

During our review, nothing came to our attention that would cause us to believe that the City's Four-Year Financial Plan for 1980-1983, dated May 11, 1979, was not prepared on the basis stated therein, which basis was consistent with prior Financial Plans, or that the accounting principles utilized in the preparation of the Plan were not consistent with those utilized in the preparation of the City's
audited financial statements as of June 30, 1978. While the above issues are critical to the success of the City's Financial Plan, nothing in this letter should be construed as an opinion that the City will or will not be able to realize the assumptions stated in the Four-Year Financial Plan. Appropriate government officials must form the judgments as to whether the assumptions used to project the elimination of deficits are reasonable and funds required are sufficient. Over the last three years, many of the critical issues identified by various monitoring groups have been favorably resolved and the City actions taken to balance its budget have apparently resulted in satisfactory compliance with the original Three-Year Financial Plan. The Mayor has stated that in the event of shortfalls in projected Federal and State Aid, the City will take additional actions to maintain a balanced budget and that the City will take whatever actions are necessary to meet the requirements of Federal and State law.

This report is solely for the information of, and assistance to, the United States Department of the Treasury in connection with its responsibilities under the New York City Loan Guarantee Act of 1978, and should not be used, circulated, quoted or otherwise referred to in connection with any purchase or sale of securities.


Arthur Andersen & Co.

Arthur Andersen & Co.
Report to
THE U.S. TREASURY
JUNE, 1979
Arthur Andersen & Co.
Purpose of the Meeting

- Review City's progress against 1979 plan
- Review Mayor Koch's proposed 1980 budget
- Review revised 4-year plan
Principal Observations

- The 1979 plan apparently will be achieved.
- Budgetary "balance" in 1980 is subject to various contingencies, including new risks relating to the economy, HHC & other items.
- The uncertainties increase for 1981-1983.
Progress Against 1979 Plan

- General reserve of $56 million appears to be unneeded.
- City has deferred realization of $125 million state aid and other revenues into 1980.
- City expects a cash surplus as of June 30, 1979.
- Management information systems are being designed and implemented as scheduled.
# Four-Year Plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>$12,515</td>
<td>$12,367</td>
<td>$12,526</td>
<td>$12,843</td>
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<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td>11,068</td>
<td>11,209</td>
<td>11,605</td>
<td>11,814</td>
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<tr>
<td><strong>Funds Available</strong></td>
<td>1,447</td>
<td>1,156</td>
<td>921</td>
<td>1,029</td>
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<td><strong>Debt Service</strong></td>
<td>(1,732)</td>
<td>(1,714)</td>
<td>(1,714)</td>
<td>(1,943)</td>
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<tr>
<td><strong>GAP</strong></td>
<td>(285)</td>
<td>(556)</td>
<td>(793)</td>
<td>(814)</td>
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<tr>
<td><strong>Capital Funds</strong></td>
<td>285</td>
<td>150</td>
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<td><strong>Adjusted GAP</strong></td>
<td>$---</td>
<td>$---</td>
<td>$406</td>
<td>$793</td>
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*Before accrued pensions of $223 & $175 in 1980 & 1981, respectively*
<table>
<thead>
<tr>
<th>City Assumptions - Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Income Taxes Increase for</td>
</tr>
<tr>
<td>Inflation (No Real Growth)</td>
</tr>
<tr>
<td>Cap on Real Estate Tax Rates - Decline</td>
</tr>
<tr>
<td>Continuation of Existing Federal and State Aid Programs Will</td>
</tr>
<tr>
<td>Close the Gap</td>
</tr>
</tbody>
</table>
City Assumptions - Expenditures

- No growth in wages for 1981 through 1983
- Higher fringes due to external factors (FICA and insurance)
- Additional pension costs phased in
- Decline in welfare caseload
- 7% inflation on OTPS (energy - 10%)
- Contingency reserve of $100
How Does the 1980 Budget Compare to the January '79 Peg Program?

<table>
<thead>
<tr>
<th></th>
<th>PEG</th>
<th>1980 BUDGET</th>
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</thead>
<tbody>
<tr>
<td>Revenue Growth</td>
<td>$</td>
<td>$105</td>
</tr>
<tr>
<td>Cost Reduction Measures</td>
<td>250</td>
<td>187</td>
</tr>
<tr>
<td>Additional Needs</td>
<td></td>
<td>(141)</td>
</tr>
<tr>
<td>Federal and State Aid</td>
<td>181</td>
<td>205</td>
</tr>
<tr>
<td>ECF Bond Sale</td>
<td></td>
<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$431</td>
<td>$431</td>
</tr>
</tbody>
</table>
Major Budget Contingencies - 1980

- Potential HHC Deficit
- Economic Recession
- Items Requiring Documentation
  (Food Stamps - $72, BOE - $44, OTPS - $23)
- Potential Cost Growth
  (IN-REM, Manning, Energy, etc.)
- Non-Operating Items
  - Westway
  - ECF Bond Sale
  - MAC Debt Restructuring
- Real Estate Tax Refunds
Reserves, etc. for 1980
Contingencies

- General Reserve
- Reserve for 1981 Wage Increase
- Reserve for Disallowances
- Attrition Not Presently Planned
- CPI at 10% vs. 8%
- 1979 Underspending Not Reflected in Baselines
- Potential for Reduction in HHC Receivables, etc.
Why the Growth in Budget Gaps?

<table>
<thead>
<tr>
<th>Item</th>
<th>Increase (Decrease)</th>
<th>1981 vs. 1980</th>
<th>1982 vs. 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Gap, Beginning</td>
<td>$ -</td>
<td>$ 406</td>
<td></td>
</tr>
<tr>
<td>Capitalized Expenses</td>
<td></td>
<td>135</td>
<td>150</td>
</tr>
<tr>
<td>Stock Transfer Tax Phase-Out</td>
<td></td>
<td>32</td>
<td>50</td>
</tr>
<tr>
<td>One Shot Revenues</td>
<td></td>
<td>135</td>
<td>-</td>
</tr>
<tr>
<td>Pensions</td>
<td></td>
<td>63</td>
<td>162</td>
</tr>
<tr>
<td>Non-Pensionable Cash Payment</td>
<td></td>
<td>150</td>
<td>-</td>
</tr>
<tr>
<td>Other Operations, Net of Revenue Growth</td>
<td></td>
<td>(109)</td>
<td>25</td>
</tr>
<tr>
<td>Budget Gap, End of Year</td>
<td></td>
<td>$ 406</td>
<td>$ 793</td>
</tr>
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### Proposed Gap Closing Actions

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>ATTRITION, ETC.</td>
<td>$117</td>
<td>$229</td>
<td>$336</td>
</tr>
<tr>
<td>OTPS COST CONTAINMENT, ETC.</td>
<td>63</td>
<td>66</td>
<td>68</td>
</tr>
<tr>
<td>REVENUE MANAGEMENT</td>
<td>47</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>LEVEL I</td>
<td>227</td>
<td>345</td>
<td>454</td>
</tr>
<tr>
<td>LEVEL II</td>
<td>65</td>
<td>259</td>
<td>182</td>
</tr>
<tr>
<td>TOTAL CITY ACTIONS</td>
<td>292</td>
<td>604</td>
<td>636</td>
</tr>
<tr>
<td>FEDERAL AND STATE AID (LEVEL II)</td>
<td>114</td>
<td>169</td>
<td>178</td>
</tr>
<tr>
<td>PROJECTED GAP</td>
<td>$406</td>
<td>$793</td>
<td>$814</td>
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## Major Budget Contingencies

**1981-1983**

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
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</thead>
<tbody>
<tr>
<td><strong>Projected Budget Gap</strong></td>
<td>$406</td>
<td>$793</td>
<td>$814</td>
</tr>
<tr>
<td><strong>Wage Adj. (6% Revenue Inflation Factor Phased In)</strong></td>
<td>225</td>
<td>545</td>
<td>865</td>
</tr>
<tr>
<td><strong>Total (Notes)</strong></td>
<td>$631</td>
<td>$1,338</td>
<td>$1,679</td>
</tr>
</tbody>
</table>

**Notes:**
1. A number of critical issues may impact the gap.
2. Assumes recurring value of 1980 actions, including HHC subsidy reduction and debt service savings.

- UNSPECIFIED AND UNSUPPORTED CITY ACTIONS
- UNSPECIFIED FUNDING OF WAGE INCREASES
- GENERAL ECONOMY
- FEDERAL AND STATE AID
- HEALTH COST SAVINGS
- IN-REM
- ENERGY
- FINANCING PROGRAM
- PROPERTY TAX EQUALIZATION
Critical Issues — City Actions

- Whether a hiring freeze can be sustained for 3 years ($233 in 1982)
- Whether demand for new services will arise
- Whether wage increases can be funded from other than lay-offs
- Whether “ITHP” or other “givebacks” can be achieved ($65 million)
- Whether FICA can be reduced ($26 million annually)
- Whether savings can be developed for presently unspecified actions ($140 million in 1982) and OTPS ($66 million in 1982)
- Whether disallowances will decline ($25 million annually)
Critical Issues - General Economy

- Whether a national recession will impact the local economy ($0-200 million in 1982)
- Whether the rate of inflation will accelerate and provide benefits in excess of costs
- Whether welfare caseloads will continue to decline and/or be impacted significantly by changes in the economy
- Whether the city can revitalize its tax base sufficiently to cover cost growth
Critical Issues - Federal and State Aid

- Whether all 1980 state aid in baselines will recur ($75 million)
- Whether state will be able to provide at least $200 million additional recurring aid
- Whether federal govt. will continue aid to states and cities (Revenue Sharing, C/D, etc.)
- Whether state will continue SSI program ($80 million in 1982)
- Whether state will continue "Save Harmless" program ($54 million in 1982)
- Whether state will vote increased supplemental pension benefits ($40 million)
- Whether state will increase welfare benefits
- Whether welfare/health reform will be enacted
Critical Issues - HHC

- Whether substantial hospital closing costs will be incurred and savings subsequently realized
- Whether 1979 billing problems will recur ($50 million)
- Whether attrition savings will be realized ($23 million)
- Whether FICA costs will increase ($6-44 million)
- Whether gaps in plan will be closed (approx $50 million annually)
- Whether special collection efforts can yield substantial one-shot revenues
Critical Issues - In Rem and Energy

- Whether the 20,000 growth in units from '79 to '82 can be efficiently controlled and managed
- Whether HUD approval will be renewed each year
- Whether repair, fuel and management cost projections can be adhered to
- Whether citywide fuel costs have been adequately provided for
Whether Future GAP Closing Will Be Facilitated by:

- Improvements in local economy
- Increases in federal and state aid
- Further debt restructuring and reduced borrowing needs
- Continued OTPS cost containment and underspending
## Level of Effort Required in 1981-1983

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
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<tbody>
<tr>
<td>City Funded Expenses as AdJ.</td>
<td>$10,192</td>
<td>$10,898</td>
<td>$11,542</td>
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<tr>
<td><strong>Pensions</strong></td>
<td>(1,283)</td>
<td>(1,445)</td>
<td>(1,422)</td>
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<tr>
<td><strong>Debt Service</strong></td>
<td>(1,714)</td>
<td>(1,714)</td>
<td>(1,543)</td>
</tr>
<tr>
<td><strong>Welfare, etc.</strong></td>
<td>(985)</td>
<td>(1,025)</td>
<td>(1,065)</td>
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City Funded "Controllable" Expenses

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potentially Required Actions</td>
<td>$6,210</td>
<td>$6,714</td>
<td>$7,212</td>
</tr>
<tr>
<td>Percentage of Controllable Costs</td>
<td>$631</td>
<td>$1,338</td>
<td>$1,679</td>
</tr>
<tr>
<td>Percentage - Assuming $200 Million of Additional State Aid</td>
<td>10%</td>
<td>20%*</td>
<td>23%*</td>
</tr>
<tr>
<td>Percentage - Assuming Additional State Aid</td>
<td>7%</td>
<td>17%*</td>
<td>20%*</td>
</tr>
</tbody>
</table>

*Cumulative - i.e. 7% or 8% per year
Notes on MAC Report

0 The increased level of effort in 1980 of $65 million and $130 million annualized, is not inconsistent with Mayor's goals.

0 Applying all surplus to debt repayment is inconsistent with city goal of creating a fund for 1981 wage increases.

0 Accelerating phase-out of capitalized expenses is equivalent to reduction of debt.

0 Excess cash has been used to reduce seasonal loans.
UNITED STATES DEPARTMENT OF TREASURY

REVIEW OF NEW YORK CITY'S INTEGRATED FINANCIAL MANAGEMENT SYSTEM

As part of our arrangement to assist the Secretary of the Treasury in determining that the City of New York is in compliance with relevant provisions of P.L.95-339 ("Guaranty Act") and P.L.95-497 ("Pension Legislation") we have reviewed the City's Integrated Financial Management System (IFMS). The primary objectives of this review were to evaluate the reliability and accuracy of data reported by IFMS, and the timeliness and utilization of IFMS reports. We also followed up on problems identified in our previous reviews of IFMS to evaluate their current status.

The review was conducted at the Financial Information Services Agency (FISA), the Office of Management and Budget (OMB), the Office of the Comptroller, and selected agencies. During the review we interviewed senior management as well as staff personnel actively involved in handling the IFMS data and reports.

Reliability and Accuracy of Data

In order to confirm the reliability and accuracy of data input to IFMS as well as the accuracy of the reports produced, we reviewed the validation and control procedures carried out within the agencies. In addition, we examined the calculations made by individual agencies to validate the accuracy of both input transaction listings and output
management reports. Based on these reviews and on our discussions with agency personnel, we concluded that the agencies are following established input/output review and control procedures and that these procedures are working effectively to provide reliable and accurate data on IFMS reports. Input error rates continue to be low and the error correction procedures appear to insure that all rejected data is properly researched and promptly reentered into the system.

Timeliness and Utilization of IFMS Reports

The timeliness of IFMS reports continues to be a problem. The reported data may not completely reflect the end-of-month conditions within an agency and it may take as long as 4-6 weeks after month-end for reports to reach individual agency responsibility center's management thereby nullifying their usefulness. These problems arise because of:

- Continuing delays in completing approvals of budget modifications by the Office of Management and Budget. The current turnaround is about 24 days, down from the 90 days noted in our prior review.

- Keypunching backlog at FISA of 2-4 days, with peaks of up to seven days during periods of high activity.

- Early input cut-off dictated by the heavy resource utilization of the IFMS system. This is particularly evident during the "short" months of the calendar year.

- Payroll schedule which requires all input to be cut off up to 16 days prior to the payroll date. This has a particular impact on the timeliness of overtime and other-than-normal gross payroll data.

- The limited number of report copies provided by IFMS and the multiple copy/distribution requirements of the agencies.

The understanding of IFMS reports has improved since our last review. This is primarily due to a greater familiarity with the system and the cross-pollination of ideas among participants
of User Group meetings conducted by FISA for the OMB, the Office of the Comptroller, and the agencies. Nevertheless, agencies continue to get reports they either cannot or do not use. This is partly due to the lack of timeliness of the data reported and partly due to a continuing lack of knowledge about what reports are available and how they should be used at certain levels of agency staff. In general, IFMS reports are viewed as financial rather than management reports. The agencies reviewed felt that IFMS provides the necessary accounting and financial information but did not have a sufficient operational orientation to serve effectively as a management tool.

Implementation Status

As reported in our previous review, the IFMS budgeting, accounting and purchasing subsystems have been operational since July 1, 1977, and are functioning satisfactorily. The Phase II Payroll subsystem has now been installed in all but one agency and is functioning satisfactorily. The exception is the Board of Education, where it is currently in the process of being implemented, and is expected to be operational by July 1, 1979.

Several other major IFMS enhancements and subsystems are in the development or implementation phase. The scheduled completion dates for these are:

July 1:
1979    Grants Management
1979    Capital Funds
1979    Budget Restructuring
1979 and 1980    Fixed Assets
Beyond 1980    Water and Sewer
There is a continuing need for routine systems enhancements, modifications, or changes which often take from 3 months to over a year to implement. FISA's response has been slow largely due to a high volume of change requests and a relatively high personnel turnover rate. In order to overcome this problem, the OMB and the Office of the Comptroller established a review committee to screen system change requests and prepare a priority implementation schedule for FISA. The committee members will continue to meet over the coming months as required. OMB and the Controller's Office needs generally take priority over the agencies.

**Training**

Urban Academy continues to provide the initial training for new users of the system. Our review indicated that this training has been adequate for learning how to fill out and control the various input documents and for report usage. Procedure manuals, user aids and guides are easily available and kept up-to-date.

There are no provisions to insure that the existing personnel receive formal training to handle routine system enhancements as they are implemented, although there has been some material developed for this purpose.

**Budget Restructure for Fiscal 1980**

On May 16, 1979, the City Council/Board of Estimate approved an OMB proposal for restructuring the budget to correct two major problems that exist currently. The first is the slow processing of the high volume of budget modifications requiring OMB approval under the present
system. This impacts the timeliness of reports as well as an agency's ability to analyze its operations on a monthly basis. The second problem addressed by the budget restructuring plan is the already large number of personal service lines in the budget that would have dramatically increased if the City was required to budget by geographic location under the current system.

Under the budget restructuring plan, each responsibility center within a unit of appropriation will have only one budget line covering both total personnel and total dollars. In the position schedule, each personnel title will have only one line within a unit of appropriation covering total personnel across all responsibility centers. OMB will no longer approve budget modifications within a unit of appropriation, but will perform a post-audit of line changes in the operating budget.

The budget restructure enhancement is scheduled to be implemented by July 1, 1979. It is expected to reduce the personal service budget lines from 35,000 to 15,000, and significantly reduce the number of budget modifications required for personnel transfers within a unit of appropriation. This is expected to greatly improve the timeliness of the reports and reduce the workload at the agencies, the OMB, and FISA.

We recommend that the Treasury Department review the restructured budget and its processing controls subsequent to its July 1, 1979, implementation, to insure that effective budgetary control is maintained under the revised procedure.
**IFMS On-Line Facility**

IFMS has a city-wide communications network to provide agencies with an on-line inquiry capability. Because the IFMS reports are not sufficiently up-to-date, agencies use the inquiry capability to confirm that budget funds are available before entering a purchase transaction. However, the agencies report that response time is too slow and frequently the terminals are inoperative due to system overloading. As a result, the agencies maintain duplicate manual records of transactions in process, and then reconcile these with the IFMS reports when they are distributed. The network problems become particularly significant towards year-end when the agencies approach their absolute budgetary limits. There is no indication that network delays will be significantly reduced in the near term.

**FISA - Staffing Shortages and Turnover**

FISA's original Fiscal 1979 personal service budget allowed for 254 positions. This was later amended to allow for 300 positions, and as of this review FISA has been able to fill 285 of these positions. The approved Fiscal 1980 personal service budget remains at 300 positions even though FISA is projecting a requirement of 350 positions by May, 1980, for maintaining the additional systems which are planned to be implemented over the next year. The shortage of personnel is aggravated by a very high turnover rate of approximately 50% since inception two years ago. These continuing personnel problems are a primary factor contributing to FISA's slow response in implementing
routine system changes. They have also led to FISA's continuing and growing dependence on outside consultants. While the use of outside consultants for operations support has been substantially reduced, their involvement is growing for most major enhancement subsystem design and installation, high technology applications, and systems and user personnel training. The Fiscal 1980 consulting services budget has increased 5% over the Fiscal 1979 budget and constitutes 46% of FISA's total expense budget for Fiscal 1980.

FISA - Data Center Operations

FISA's Fiscal 1980 OTPS budget for Data Processing Equipment Rental is predicated on the acquisition of its currently leased IBM equipment effective the second quarter of Fiscal 1980. The equipment purchase is to be funded out of the City's Capital Funds Budget. The DP Equipment rental budget, therefore, only provides for IBM equipment leasing costs of $733,000 for the first quarter of Fiscal 1980. In the event that vendor negotiations are not successfully completed or Capital Funds are not available prior to the second quarter, FISA could incur OTPS budget overruns at the rate of up to $244,000 a month for a possible maximum of $2.2 million through the end of Fiscal 1980.

FISA has good system recovery and restart capabilities in place for IFMS and all master files are backed up once a week for off-site storage. However, FISA does not currently have a disaster recovery plan or equipment backup agreements with any other data center. A disaster recovery plan is to be prepared during Fiscal 1980. The agency's organization structure provides for the segregation of duties among data center personnel to adequately protect the integrity of data.
FISA - Legal Status

FISA's legal status remains unchanged. It continues to operate by authorization of the Mayor's Executive Order. In summary, FISA performs its functions adequately but is handicapped by lack of resolution of its status as a permanent city agency, excessive dependence on outside consultants, and insufficient recognition of the need for more competitive compensation levels for personnel requiring a high level of specialized technical qualifications.

Summaries of responses at individual agencies visited are appended to this report.
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<th>Agency</th>
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<td>Police Department (NYPD)</td>
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<td>II</td>
<td>Environmental Protection Agency (EPA)</td>
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<tr>
<td>III</td>
<td>Department of General Services (DGS)</td>
</tr>
<tr>
<td>IV</td>
<td>Office of Management and Budget (OMB)</td>
</tr>
<tr>
<td>V</td>
<td>Office of the Comptroller (OOC)</td>
</tr>
<tr>
<td>VI</td>
<td>Financial Information Services Agency (FISA)</td>
</tr>
</tbody>
</table>
REVIEW OF IFMS

AGENCY: POLICE DEPARTMENT (NYPD)

Input Preparation

The Police Department submits IFMS source documents related to a variety of transactions to FISA for keypunching and processing. Personnel transfers, which currently involve budget modification, represent a large portion of the transactions and number between twenty and one hundred on a typical day. Input preparation at the Police Department is well organized and no significant backlog was observed.

Budget modifications involving the reallocation of funds across units of appropriation, between responsibility centers or CETA funds require the review and approval of OMB. This review and approval takes several weeks and impacts the timeliness of IFMS reporting. A high percentage of the budget modifications are of this nature, and typically take four to six weeks to be approved and processed. Thus monthly reports are inaccurate to the degree that these modifications are not reflected. Currently, the Police Department completes their source documents and forwards them to FISA; the transactions are then processed and those requiring OMB approval are identified by the system and forwarded to OMB.
Another problem area involves the preparation of the new budget. There is currently a two to three month time period between the carry-over budget cutoff date and the implementation date of the new budget. During this time period changes are made to the proposed budget by OMB, budget modifications are applied to the current budget, and attrition takes place. Since these changes are not reflected on the carry-over budget, the Police Department has great difficulty establishing the new budget.

**Error Research and Correction**

IFMS provides daily listings of accepted and rejected transactions. Items appearing on the rejection report are corrected informally over the phone. The validation appears to be thorough and most errors are uncovered by the system. The Police Department also compares the listing of accepted transactions against its copy of the source documents to insure that all transactions were processed correctly.

**Input/Output Control**

The Police Department has procedures to insure good control over transaction processing. Transactions are batched with a header and entered into a log. Copies of all documents are retained in files according to their status: pending, accepted or rejected. All transactions must be signed by an authorized person before they will be processed.
Transaction processing is controlled on a batch basis. The use of separate reports for accepted transactions and rejected transactions has not worked well and FISA is in the process of combining the two.

Overall the users expressed satisfaction with data integrity.

**Utilization of IFMS Generated Reports**

The utilization of IFMS reports continues to be a problem. The delay in processing budget modifications causes budget reports to be out of date. Consequently, the Police Department must rely on IFMS payroll reports and on its own Personnel Data System in the Personnel Department to resolve budget questions. The level of detail on OTPS expenditures is not at the sub-object level. Expenditures are therefore reported in classes of goods instead of on a detail basis for the goods itself. In addition, the Department continues to receive a high number of reports which are not used at all. FISA has been unable to suppress the preparation of these reports despite requests by the Department.

**Training**

The training provided by Urban Academy and the associated documentation (consisting of manuals and procedures) were well received. The only negative comment related to the inability of the trainers to answer in-depth questions concerning IFMS processing functions.
Other Issues

We examined the procedures used by the NYPD for validating the accuracy of IFMS listings and reports. Our review indicated that reported data was accurate, but the reports themselves were not timely. The control procedures in place should insure that the reports will continue to be accurate.

The on-line inquiry facility continues to be a source of frustration because it has not been usable a high percentage of the time. Response time, when the inquiry facility is operating, is quite slow. Thus, the usefulness of this facility at this time is questionable.

Summary

The NYPD is using well established procedures for interacting with IFMS. However, because of the time required to affect budget modifications and the problems with the on-line facility, the usefulness of the system for NYPD management purposes is limited.
REVIEW OF IFMS

AGENCY: ENVIRONMENTAL PROTECTION AGENCY (EPA)

Input Preparation

The EPA submits source documents for keypunching and processing to FISA for the budgeting, purchasing, payroll and accounting modules of the IFMS system. Total daily transactions can range from 100-200. A significant percentage of the transactions are budget modifications which generally require OMB approval before they are processed. The Purchasing and Budget Departments do prevalidation before completing the input documents.

In order to prevalidate the input documents for requisitions, the Purchasing Department uses its on-line terminal to check whether sufficient funds are available for the particular budget code. This is especially critical at year-end since all items are budgeted on a yearly basis. However, the on-line network is often inoperative. Consequently, department personnel continue to maintain duplicate manual budget records.

The Budget Department enters budget modifications. These generally require OMB approval and delays of up to 24 days in the review and approval process by OMB affect the timeliness of reporting. To reduce this problem, Budget Department personnel prevalidate the budget modifications against the latest figures for the budget codes to be processed. This insures that necessary funds are available and OMB's review and approval process becomes a
routine procedure with fewer delays. Again, since the on-line network is often inoperative (as much as four days a week), department personnel have to keep manual backup records for each budget code.

The Payroll Department prepares input forms to add new personnel or make changes to the records of existing personnel. The input forms do not contain keypunch columns, which increases the chance of errors on input. However, all input forms are properly authorized and it was stated that the IFMS system is a vast improvement over the old system.

Error Research and Correction

IFMS provides daily listings of accepted and rejected transactions for each department. The error rate is approximately 2-3%. Each line item on the daily reports is compared to the source document to insure accuracy. Rejected items are promptly reprocessed, usually by a phone call to FISA. The procedures for validation seem to be strong.

Input/Output Control

There appears to be good control over the processing of transactions. Source documents are batched with a header, control totals are calculated, and the batch is entered in a log. Batches are sent to FISA daily. On return, batches are matched against the log and input documents are matched against transaction listings.
The Payroll Department is still refining its I/O procedures. Control is maintained to insure that only authorized transactions are entered into the system.

Overall, personnel working with IFMS reports are satisfied with the integrity of the data.

Utilization of IFMS Reports

As noted earlier, the delay in processing budget modifications has led the Budget Department to maintain a duplicate manual variance report which is periodically reconciled with the IFMS reports. The cutoff dates for the IFMS reports are not always known which inhibits their usefulness. Also, many reports are not sufficiently detailed to be useful as management tools.

EPA has a number of responsibility centers at various upstate locations. By the time these centers receive their reports the data is out-of-date by 4-6 weeks and the reports are used only for historical record keeping purposes. In addition, because of a recent departmental reorganization, 50% of the responsibility center reports have to be manually revised before distribution. This has further reduced their usefulness. It may take FISA some time to revise the system and correct this problem.

Training

The training provided by Urban Academy has been well received by the participants. Manuals describing the system are readily available. Overall, the training program seems to prepare the participants adequately for interacting with the IFMS system.
Summary

The EPA seems to be satisfied with the IFMS system, and recognizes the improvements in the reporting of its operations. However, because of problems with the on-line facility (high incidence of downtime and slow response time) and the timeliness of reporting, the IFMS system cannot be used to its full advantage.
REVIEW OF IFMS

AGENCY: DEPARTMENT OF GENERAL SERVICES (DGS)

Input Preparation

DGS submits various types of documents to FISA daily. The Purchasing Department submits requisitions which are carefully reviewed for authorized signatures. The Budget Department prepares budget modifications which are individually signed by the director of the Department. Total daily transactions number 200-600.

The major problem in the processing of requisitions and budget modifications is the significant downtime of the on-line network. For example, the Purchasing Department uses the on-line terminal for determining the amount remaining in a budget code before entering a requisition to IFMS. However, network downtime forces the personnel to maintain manual budget records thus reducing the efficiency of the Department.

A major improvement in the IFMS system since our last review has been the reduction in the time required for processing budget modifications. Control procedures continue to be effective in insuring that only authorized transactions are processed through IFMS.

Error Research and Correction

Batches returned from FISA include a listing of the error messages. Normally, errors encountered when documents are entered
at FISA are corrected based on a phone call to the Department.
Other errors are promptly corrected and submitted to FISA. The
total error rate is approximately 4-5%.

**Input/Output Control**

Procedures seem to be strong for the submission of
documents to FISA and their return from FISA. In the Purchasing
Department, each requisition is reviewed for proper authorization,
entered into a log, grouped into batches of ten, and sent daily to
FISA. Upon return, the documents are checked against the log,
authorized signatures are reviewed, and assuming the requisition
is valid, a purchase order is prepared.

All reports received from FISA are distributed to the proper
personnel. Overall, department personnel are satisfied with the
integrity of the data in the reports.

**Utilization of IFMS Reports**

Department personnel seem to be generally satisfied with
the types of reports received from IFMS. There are 4 or 5 key
reports which are heavily used. Other reports also serve useful
purposes and are used when necessary.

Management is satisfied with the level of detail contained
within the reports. The object code level is adequate for DGS
purposes. There also appears to be no significant problem with the
timeliness of the reports.
FISA is very helpful when the Department requests special reports. There appears to be a good working relationship between FISA and DGS.

Training

The training provided by Urban Academy seems to be comprehensive. Courses are offered at both the managerial and clerical levels. DGS personnel stated that the courses were very effective and Urban Academy personnel were able to respond satisfactorily to all their questions. Documentation is good and manuals are updated as required. Overall, the Department is very satisfied with the training program.

Other Issues

The major problem of the IFMS system continues to be the operation of the on-line facility. Significant downtime has reduced the efficiency of the Department. There have also been discussions between DGS and FISA concerning the on-line input of data. The Director of Administration believes that presently there is no need for on-line input.

Summary

Overall, according to DGS personnel, IFMS has been a major improvement over the old system. Reports are reasonably accurate and produced at the proper level of detail.
REVIEW OF IFMS

AGENCY: OFFICE OF MANAGEMENT AND BUDGET (OMB)

IFMS/Quarterly Allocation System (QAS) Interface

IFMS maintains the official records (books) of the City and is the absolute control mechanism over the City's revenue and expense budgets. The OMB's Quarterly Allocation System (QAS) is used as a monitoring tool by OMB examiners to oversee compliance to the annual budget. QAS, therefore, receives actual monthly data from IFMS, reformats the IFMS data, and reports monthly and year-to-date variances on a broader object code level. There does not appear to be a reconciliation problem between the two systems. The QAS variance reports are sent to the agencies who analyze the variances and report back to OMB the reasons for the variances.

Utilization of the On-Line Facility

OMB uses the on-line facility for inquiry purposes and also has the capability for on-line input of data. On-line input occurs on a limited basis and for priority budget modifications only. On-line network downtime has been significant. However, OMB terminals ordinarily have a high priority assignment and, if needed, the entire on-line system can be dedicated to OMB use exclusively. Consequently, OMB personnel consider the downtime more of an annoyance than a significant business problem.
Training

OMB uses the facilities of Urban Academy primarily for new employees. The personnel at OMB are generally satisfied with the courses given and documentation maintained by Urban Academy. The only weakness in the Urban Academy training programs observed by OMB is that they tend to teach students how to fill out forms rather than emphasizing to students the importance of understanding the purpose of the procedures.

The OMB is able to provide informal in-house training for various user procedures. OMB also plans to take the responsibility for teaching the new budget restructuring methods to the agencies.

Planned Enhancements to IFMS

A major enhancement to IFMS for restructuring the budget was presented for approval to the City Council/Board of Estimate on May 16, 1979. This enhancement is currently in the testing phase and is planned to be implemented by June, 1979. The restructuring of the budget should reduce the total budget lines from 35,000 to 15,000. The budget will contain positions by title in a unit of appropriation. Up until this point, each time an agency transferred an employee within an appropriation unit, a budget modification was necessary. Such budget modifications should no longer be required. IFMS Reports are expected to be more timely and the planning process is expected to be made less complex for the agencies.
OMB plans to change the budget format to simplify input. Headcount data will be synchronized with accounting data so that expenditures can be directly tied to headcounts on the reports.

Planning for the new budget will also be streamlined. For Fiscal 1980, OMB is using elements of the zero based budgeting concept. This will give the agencies more responsibility in developing their new budgets. It is also expected to reduce problems associated with the mid-December preliminary cutoff and mid-February final cutoff procedures currently in use for the carry-over budget.

A new report distribution capability is being designed for IFMS. Each agency will be able to choose the reports it would like to receive. This system is expected to be implemented by early next year.

**Summary**

The personnel at OMB seem very satisfied with IFMS. Budgetary controls are good but are also complex. IFMS reports generally serve OMB's needs. However, the volume of reports is very high.

The rapport between OMB and FISA appears good. FISA adequately serves the needs of OMB and is responsive to changes initiated by OMB.
REVIEW OF IFMS

AGENCY: OFFICE OF THE COMPTROLLER (OCC)

Utilization of the On-Line Facility

In the Office of the Comptroller, the Bureau of Accountancy is the prime user of IFMS. The reports generated by IFMS are used in the preparation of the City's Monthly Financial Plan Statements. Bureau personnel use the on-line facility as an aid during this work. However, the on-line network is not operative much of the time and that reduces their work efficiency. Three months ago the Bureau requested some new inquiry screens that would help their work but FISA has not been able to complete work on them.

Change Request Review Committee

There is a continuing need for routine system enhancements, modifications, or changes. While the highest priority items get done within a reasonable time, other items take anywhere from three months to over a year to implement. FISA's slow response is due to a high volume of change requests and a high personnel turnover rate. In order to overcome this problem, the Office of the Comptroller and the OMB established a Change Request Review Committee to meet once a month. The committee would review and approve all IFMS change requests, and prepare a priority implementation schedule of the approved requests for FISA to work from. The committee has not met in the last few months
because of turnover in FISA's committee liaison position. FISA has hired a new person and committee meetings will resume shortly. The committee also intends to have all submitting agencies or departments cost justify their change requests and identify the benefits expected from the change.

**IFMS Cut-Off Schedule**

Bureau personnel stated that the heavy month-end processing requirements of IFMS made it necessary to close and process the files over a weekend. Consequently certain months in the calendar year were artificially shortened by the processing constraints. This also increased the Bureau's work load during those months because the time available to produce the Financial Plan Statements was proportionately reduced.

**Training**

Urban Academy's training was judged to have been adequate for Bureau personnel. FISA also conducted User Group Meetings for OMB, OOC and agency payroll and purchasing department personnel. The Bureau personnel felt these meetings were good learning tools and cleared up many misconceptions among the users. The cross-pollination of ideas among the participants was also very helpful.
Summary

IFMS has been a great improvement over the previous systems and is providing the Office of the Comptroller with significant help in preparing the Monthly Financial Plan Statements. However, the system's usefulness is reduced because of extended on-line network downtime and FISA's slow response to change requests.
REVIEW OF IFMS

AGENCY: FINANCIAL INFORMATION SERVICES AGENCY (FISA)

Staffing

In its Fiscal 1980 Expense Budget, FISA has requested a staffing level of 300 employees and projects a staffing level of 350 employees by May 1980. The current actual headcount at the agency is 285, as compared to the Fiscal 1979 budget level of 300 employees.

FISA's major problem remains the high personnel turnover rate. In the two years that the agency has been in existence, the turnover rate has been approximately 50%. The high skill areas, such as Technical Services, have been particularly hard hit. Training and skills upgrading are emphasized highly at FISA. Due to the high turnover, the agency has not been able to gain the full benefits of the training it provides its employees.

Unlike most other agencies, FISA has to compete in a highly competitive market for its systems and data processing personnel. Corporate EDP departments can generally offer better salary levels than FISA is able to. Because of the lengthy procedures required for approving new appointments (8-9 weeks), upgrading management positions (8-9 months), and approving salary increases (6-7 months), employees tend to become discouraged and leave.
Outside Consulting Services

FISA's dependence on outside consulting organizations continues to grow. It is particularly evident in the areas of major enhancement design and installation, high technology applications, and systems and user personnel training. The Fiscal 1980 consulting services budget is 5% greater than the Fiscal 1979 budget, and constitutes 46% of FISA's total expense budget for Fiscal 1980.

Implementation Status

The Phase II Payroll subsystem of IFMS has been installed at all but one agency and appears to be operating satisfactorily. The exception is the Board of Education, where the payroll subsystem is currently in the process of being implemented.

Other major IFMS enhancement and subsystems currently in progress, and their scheduled completion dates, are:

- July 1:
  - 1979: Grant Management
  - 1979: Budget Restructuring
  - 1979: Capital Funds
  - 1979 and 1980: Fixed Assets
  - Beyond 1980: Water and Sewer

On-Line Network

FISA maintains an extensive city-wide communications network of approximately 450 terminals to support the IFMS on-line inquiry capability. Fiscal 1980 network costs have been budgeted at $1.4 million.
The network has been encountering significant problems in extended downtimes and extremely poor response times due to a very high volume of inquiries. The situation is compounded by the high turnover of FISA Technical Services personnel who maintain the network.

The Fiscal 1980 network budget includes a program to upgrade the current network to improve availability and response time. FISA is also projecting the need for an additional $719,000 to triple the network starting in late 1979 to satisfy the current backlog of terminal install requests and to handle the increased inquiry volume anticipated due to the up-coming availability of payroll data.

Data Center Operations

Agencies submit their input documents to FISA for keypunching and input to IFMS. FISA uses Data 100 Data Entry Equipment to facilitate this operation. The normal turnaround on the input is 2-4 days, with peaks of up to seven days during periods of high activity. This has an adverse impact on the timeliness of reported data.

FISA operates two large IBM mainframe computers. It owns the IBM 3033 central processing unit (CPU) and leases the IBM S370/168 CPU. Plans are to buy a second IBM 3033 CPU in Fiscal 1980 to replace the leased IBM S370/168 CPU. As it currently stands, FISA's Fiscal 1980 OTPS budget for Data Processing Equipment Rental is predicated on the acquisition of its leased IBM equipment effective the second quarter of Fiscal 1980. The equipment purchase is to be funded out of the City's Capital Funds Budget. The DP Equipment rental budget, therefore, only provides for IBM equipment leasing costs of $733,000 for the first
quarter of Fiscal 1980. In the event that vendor negotiations are not successfully completed or Capital Funds are not available prior to the second quarter, FISA could incur OTPS budget overruns at the rate of up to $244,000 a month for a possible maximum of $2.2 million through the end of Fiscal 1980.

FISA has good system recovery and restart capabilities in place for IFMS and all master files are backed up once a week for off-site storage. However, FISA does not currently have a disaster recovery plan or equipment backup agreements with any other data center. A disaster recovery plan is to be prepared during Fiscal 1980. The agency's organization structure provides for the segregation of duties among data center personnel to adequately protect the integrity of data.

**Legal Status**

FISA's legal status remains unchanged. It continues to operate by authorization of the Mayor's Executive Order.

**Summary**

FISA performs its functions adequately. However, it is handicapped by the lack of resolution of its status as a permanent city agency, excessive dependence on outside consultants, and insufficient recognition of the need for more competitive compensation levels for personnel requiring a high level of specialized technical qualifications.
Our review covers only those payrolls paid by the City's Controller and, therefore, does not include the Transit Authority or the Health and Hospitals Corporation. The period covered by this analysis is June, 1975 through April, 1979. Based upon our review, we have the following observations:

. The City has reduced the number of employees by 43,200 in the period from June, 1975 to April, 1979. The most significant reduction in City personnel of 45,700 occurred during the period June, 1975 to June, 1977. The number of employees has increased 2,500 from June, 1977 to April, 1979.

. The decrease of 8,900 employees at the Board of Higher Education between March, 1978 and June, 1978 is attributable to the transfer of City funded employees to non-City funded employees when the senior colleges became a subsidized agency.

. The total reduction in the number of employees during the period from June, 1975, including Health and Hospitals Corporation and the Transit Authority is approximately 63,200.

. No unusual trends were noted in average regular gross and average total gross payroll costs.

We have performed an update of our review of the City's payroll costs and personnel counts for June, 1978, November, 1978, and April, 1979. Our review indicates that total full-time employment has increased by approximately 2% or 3,400 employees. During this period, full-time employee gross payroll cost has increased 8%, while average
full-time employee salary has increased 6%. The payroll data has been adjusted in order to provide comparable month-to-month data.

During the period between June, 1978 and April, 1979, the only significant variation was noted in the Board of Education where the normalized gross decreased from $173.3 million to $138.8 million, a decrease of $34.5 million or 25% and nonfull-time gross decreased from $68.3 million to $24.7 million, a decrease of $43.6 million or 64%. These decreases are primarily attributable to productivity payments of approximately $40 million paid in June, 1978, for the period October 1, 1976 to August 31, 1977.

Other variations during this period were generally due to productivity payments, employee turnover and overtime.

City funded employees are budgeted to increase slightly from 167,770 projected at June 30, 1979 to 167,912 projected at June 30, 1978. This represents approximately 2,930 and 5,772 positions more than were projected in the January financial plan assuming full implementation of Level I and Level II, respectively. The total City workforce, however, will be reduced by approximately 4,800 positions by June 30, 1978.
Appendix I

New York City
### Appendix 1: Summary of Financial Data

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<td>City-Wide Totals</td>
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<td>Total Gross (in Millions)</td>
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<td>Non-Civil Service</td>
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- The above table presents data on the number of employees within the city's various departments for the years 1969 to 1977. The table includes data on full-time and non-civil service employees, as well as the total gross income for each year.

### Notes

1. This data is subject to revision as additional information becomes available.
2. The data represents the financial performance of the city's departments and may be used to assess the financial health of the city.
NEW YORK CITY

FULL-TIME HEAD COUNT

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<tr>
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<th>City Funded Employees</th>
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<tr>
<td></td>
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<td>June 30</td>
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<tr>
<td></td>
<td>1978(1)</td>
<td>1979</td>
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<tr>
<td>Board of Education</td>
<td>62,080</td>
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<td>Police Department</td>
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<td>Fire Department</td>
<td>11,434</td>
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<td>Sanitation Department</td>
<td>10,851</td>
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<td>Environmental Protection</td>
<td>3,590</td>
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<tr>
<td>Department of Social Services</td>
<td>21,101</td>
<td>19,680</td>
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<tr>
<td>All other</td>
<td>33,019</td>
<td>33,809</td>
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<tr>
<td></td>
<td>169,536</td>
<td>167,770</td>
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</table>

January 15, 1979 PEG

| Level I               |                       | 164,982      |
|                       |                       | 167,137      |
| Level II              |                       | 162,140      |

(1) Represents August 31, 1978 headcount figures.
(2) Estimate.
MODIFICATION OF FINANCIAL PLAN

Subsequent to the rendering of our report to the Department of the Treasury, the Financial Control Board approved a modified Financial Plan. The accompanying schedule shows the reconciliation of the Mayor's Financial Plan to the adopted plan. These modifications do not materially affect the information provided in the memoranda herein.