New York City Council
Finance Division

BUDGET REPORT

The Mayor's Fiscal Year 2010 Executive Budget

Financial Plan Overview
Economy, Revenue and Debt Service

May 11, 2009

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PREFACE

On May 11, 2009, at 10 a.m., the Committee on Finance, chaired by the Hon. David I. Weprin, will hold a hearing on the Mayor's Executive Budget for Fiscal Year 2010. The Director of the Mayor's Office of Management and Budget will testify on the Expense, Revenue, and Capital budgets for 2010, as well as on Community Development Block Grants, which will be heard jointly with the Committee on Community Development, chaired by the Hon. Albert Vann. Members of the public will also testify.

The City Charter (§236) requires the Mayor to submit by April 26 an Executive Budget for the upcoming fiscal year. The Charter (§247) also requires the Council to hold hearings on the Executive Budget. The Charter allows for changes to the submission dates by local law. This year, by Local Law 26 of 2009, the date for the submission of the Executive Budget was changed to May 1, and the date for the Council's response to April 8th.

This report, prepared by the staff of the Finance Division's Revenue Unit, under the direction of Deputy Director and Chief Economist Ray Majewski, provides an overview of the 2010 Executive Budget, a review of the state of the national and local economies and their impact on projected tax and other revenues, and an overview of the financing program for the City's capital program.

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FINANCIAL PLAN OVERVIEW

The Fiscal 2010 Executive Budget is $59.4 billion, a decrease of $1.7 billion – 2.8 percent – compared to projected 2009 spending.

Table 1: Overview of the Financial Plan

Fiscal Year *(in millions)*	**2009**	**2010**	**2011**	**2012**	**2013**
City Funds	$41,313	$39,901	$42,087	$43,595	$45,441
Total Revenues	$61,179	$59,443	$61,907	$62,786	$65,270
Total Expenditures	$61,179	$59,443	$66,485	$67,948	$70,687
Gap to be Closed	**$--**	**$--**	**($4,578)**	**($5,162)**	**($5,417)**

Source: City Council Finance Division, NYC Office of Management and Budget

Falling tax revenues are the reason for next year's smaller budget. Total taxes are forecast to decline 6.0 percent from Fiscal 2009 to 2010, to $34.3 billion. Taxes represent about 58 percent of total revenues, with the rest deriving from non-tax revenues (fees, fines, and other miscellaneous revenue sources), and from federal, state, and other categorical grants).

Personal services spending, including salaries and wages of City employees and the pensions, health insurance, and other benefits for both active and retired employees, comprises 61 percent of all spending. Spending on other than personal services (OTPS) – including supplies & materials, contractual social and other services, energy, rent, and other non-labor costs – makes up the rest. Also included in OTPS spending are Medicaid and debt service on City borrowing used to finance the capital program.

One-Time Resources Balance Fiscal 2010: Out-year Gaps Remain Large

Although the 2010 budget is balanced on paper, 2010 revenues are not in fact sufficient by themselves to support 2010 spending. Without the use of prior-year surpluses and federal stimulus aid, the 2010 gap would be $6.6 billion.

In addition, the Mayor's proposed 2010 budget will only be balanced if two other things happen: First, the Mayor assumes $400 million in concessions from the municipal labor unions. Second, the Mayor has proposed a nearly $1 billion sales tax increase, and a nickel tax on consumer plastic bags. Since the Council must by law adopt a budget that is balanced according to strict accounting standards, if the Mayor's proposals are not enacted something else will have to take their place.

Even with a sales tax increase and further concessions from City employees, the projected gaps in 2011 and subsequent years remain dauntingly large: $4.6 billion in 2011, $5.2 billion in 2012, and $5.4 billion in 2013. The one-time resources that help balance 2010 – federal stimulus funds and the 2008 and 2009 surpluses – will be largely gone in 2011, and completely gone by 2012.

Changes Since Fiscal 2009 Adoption

When the Fiscal 2009 Budget was adopted last June, the Mayor's Office of Management and Budget (OMB) was projecting a gap of $2.3 billion for Fiscal 2010, rising to over $5.0 billion in 2011 and beyond.

At the time, OMB, the Council, and nearly all other observers of the local and national economies anticipated a slow-down in the extraordinary growth of the previous several years, even a recession – although at the time it was unclear if the U.S. economy had yet entered a recession. Many observers were particularly concerned about the degree of unregulated, highly-leveraged financing activity and the risks that it had become too detached from the underlying assets that were supposed to give the financial products their value.

Table 2: Tracking the Gap to be Closed

(in Millions)	2009	2010	2011	2012	2013
GAP TO BE CLOSED - JUNE 2008 PLAN	**$0**	**($2,344)**	**($5,158)**	**($5,108)**	**($5,108)**
Revenue Changes					
Tax Revenue Forecast	($448)	($4,121)	($3,812)	($4,099)	($2,350)
State Budget Revenue Impact	-	17	13	13	13
Non-Tax Revenue	209	111	(49)	(7)	(30)
Total Revenue Changes	**($239)**	**($3,993)**	**($3,848)**	**($4,093)**	**($2,367)**
Expense Changes					
Pensions	($96)	$110	($348)	($615)	($888)
Retiree Health Benefit Trust	-	82	395	672	-
State Budget Expense Impact	(44)	(162)	(112)	(116)	(121)
Energy	94	134	63	13	-36
Re-estimates & Reserves	760	-	-	-	-
Debt Service	188	47	130	232	(47)
Surplus Roll	104	(104)	-	-	-
Other Expense Changes	(171)	(381)	(249)	(255)	(1,133)
Total Expense Changes	**$835**	**($274)**	**($121)**	**($69)**	**($2,225)**
Total Changes Since June Plan	**$596**	**($4,267)**	**($3,969)**	**($4,162)**	**($4,592)**
REMAINING SURPLUS/(GAP)	**$596**	**($6,611)**	**($9,127)**	**($9,270)**	**($9,700)**
Gap Closing Program					
Agency Programs	$507	$2,225	$2,120	$2,079	$2,101
Mid-year RPT Increase and End Rebate	576	256	256	256	256
Federal Matching Percent (FMAP)	447	850	295	-	-
Health Benefits Savings; Tier V	-	200	557	586	618
Sales Tax and Plastic Bag Fee	88	1,046	1,141	1,187	1,248
Total Gap Closing Program	**$1,618**	**$4,577**	**$4,369**	**$4,108**	**$4,223**
Roll 2009 Surplus	(2,214)	2,034	180		
GAP TO BE CLOSED - EXEC 2010 PLAN	**$0**	**$0**	**($4,578)**	**($5,162)**	**($5,477)**

Source: City Council Finance Division, NYC Office of Management and Budget

In September 2008, the financial bubble finally popped with the failure of one of Wall Street's oldest investment houses, Lehman Brothers, quickly followed by an astonishingly rapid series of failures, near-failures, and coordinated rescues of other banks and financial institutions. By the fall, it was clear that the country had dipped into a recession.

It was less clear if the New York City economy was yet in recession, but the degree to which the City's revenue base was reliant on the financial services sector quickly made itself clear. In October, OMB ordered agencies to cut their Fiscal 2009 budgets by 2.5 percent, and 5.0 percent for 2010. Additional Program to Eliminate the Gap (PEG) actions were taken in the Preliminary Budget. Finally, most agencies took another 4.0 percent cut in the Executive Budget. The exceptions were the uniformed services (Police, Fire, Sanitation, and Correction, which took a 0.5 percent cut) and the Department of Education, which identified $100 million in savings.

THE ECONOMY

The National Economy

***"Even if policy actions are taken expeditiously and implemented as intended, the deleveraging process will be slow and painful with economic recovery likely to be protracted."* IMF** [1]

Since the summer of 2007 American households have seen their net worth, the difference between their assets and their liabilities, fall by 20 percent or $13 trillion. About 70 percent of this is due to reductions in the value of households' real estate, corporate equity and mutual fund holdings. Faced with this, households are doing what you might expect, trying to decrease their debt, which fell by 2 percent in the fourth quarter of 2008, and to increase their savings. In the fourth quarter 2008 households saved 8 times as much as they did same time in 2007.[2] While this deleveraging makes sense for the individual household, it is a problem for the economy as a whole. People who save and pay down debt don't buy things.

That problem is made all the worse because it is not limited to the household sector: the financial sector has suffered devastating losses. To get a scale of these losses consider the market capitalization of investment banks and brokerages, which has fallen by 70 percent since the summer of 2007.[3] The ability of the financial system to provide capital and credit to American households and firms is severely impaired.

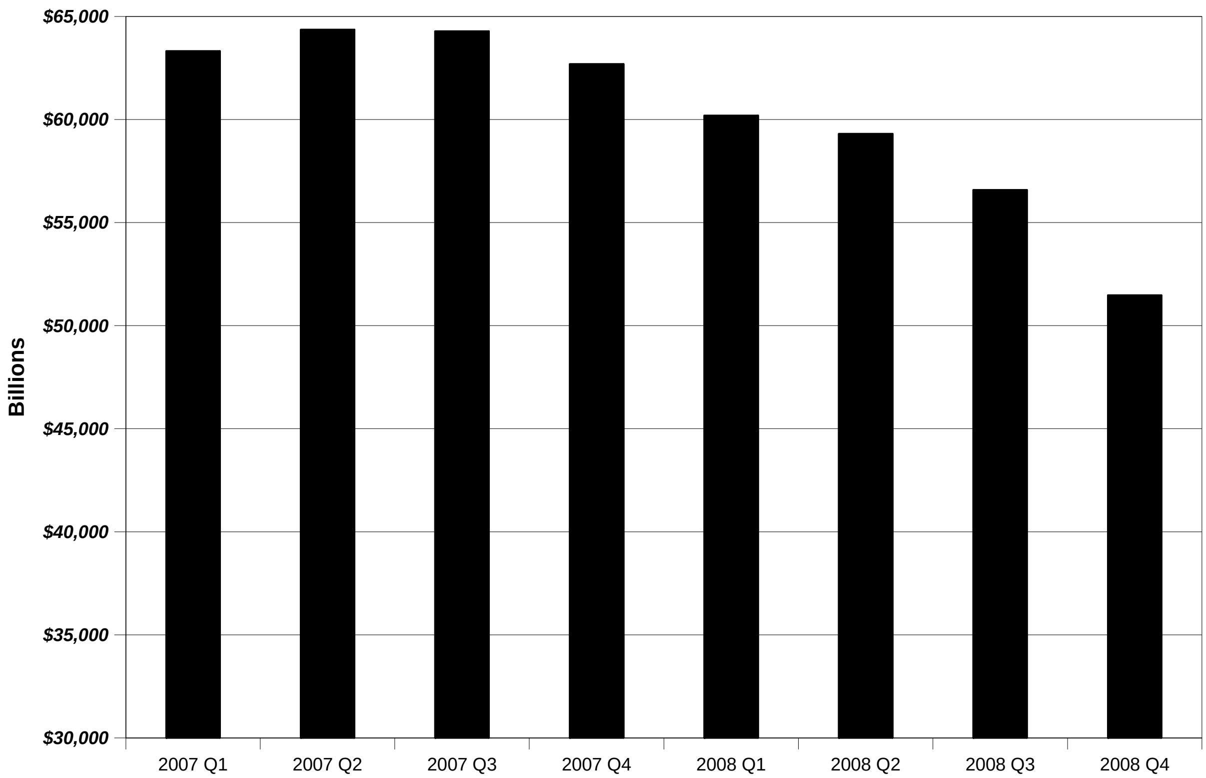
Real GDP fell at an annualized rate of more than 6 percent for two quarters in a row. In the fourth quarter of 2008, consumption, exports and investment were weak. In the first quarter of 2009, consumption looked a bit better, but remarkably, investment fell by over 50 percent.

There are both positive and negative forces at work in the economy. On the downside, besides the deleveraging process, we are seeing downward adjustments in the size of the housing, construction, auto and financial service sectors. These sectors, inflated during the housing and credit bubbles, are likely to be smaller when the economy recovers. On the upside are the automatic stabilizers—some of them created by policy, like unemployment insurance. Other automatic stabilizers are part of market behaviors—like the willingness of investors and households to buy 'bargain' assets, such as houses and equities, when they think the market has bottomed out. There are other things on the plus

[1] "Responding to the Financial Crisis and Measuring Systematic Risks," International Monetary Fund Global Financial Stability Report, April 2009.
[2] City Council Finance Division calculations from Federal Reserve Flow of Funds Accounts, Fourth Quarter 2008. Net worth is the difference between the value of assets, such as real estate, stocks, bonds, savings accounts; and liabilities, such as mortgages, credit cards, and car loans. The calculations are for households and nonprofit organizations.
[3] Council Finance calculations based on Standard & Poor's 500 Investment Banking & Brokerage (sub industry) Market Capitalization.

side. Low interest rates for certain kinds of mortgages and for some short-term loans help. Low oil prices will continue to help the consumer. Of particular importance are the vigorous actions of the Obama administration. OMB believes that the $787 million stimulus package will add 0.8 percent to real GDP in 2009 and 1.3 percent in 2010. At the moment, the balance of these forces is pushing the economy downward. That is likely to change soon, and the recession will end.

Figure 1: Net Worth of Households and Nonprofit Organizations



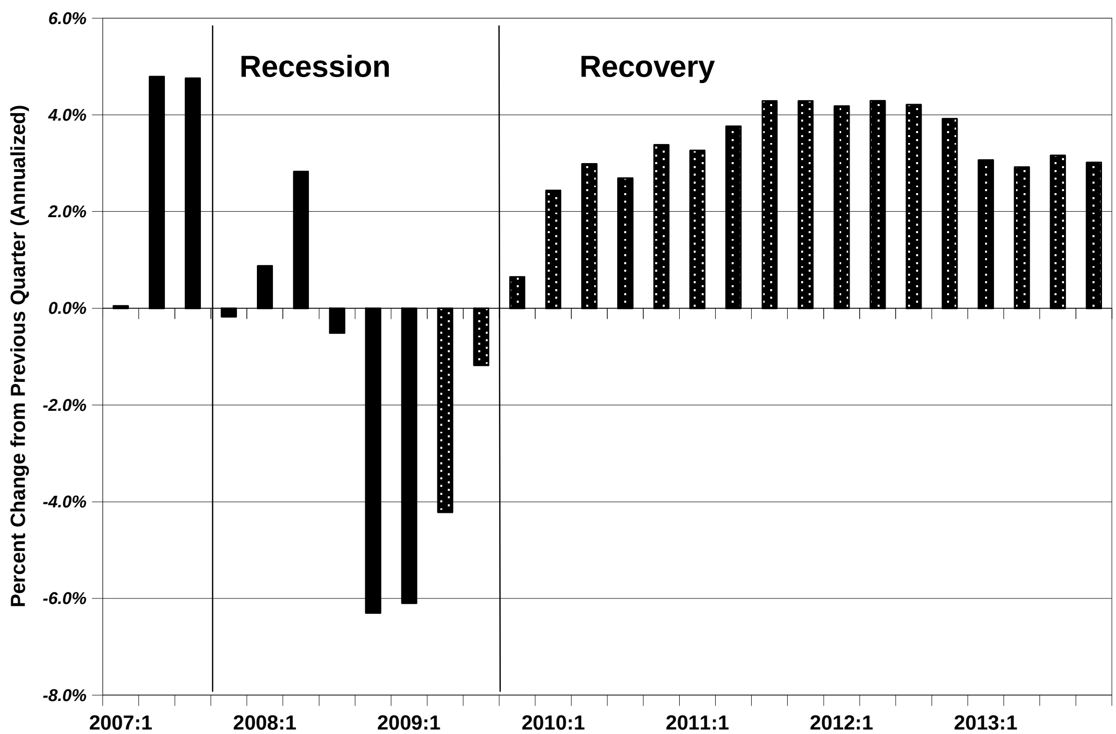
Source: Federal Reserve Flow of Funds Accounts, Fourth Quarter 2008.

Economists in the April's Wall Street Journal Economic Forecasters' survey were evenly divided on when the recession would end and the economy begin to grow in either the third or fourth quarter of 2009, with a smaller but significant number of forecasters believing the recession would continue through the end of the year. Council Finance, in its April 1st forecast and OMB in its Executive Budget forecast, both believe that the economy will start to grow in the fourth quarter of 2009.

While recovery will start this year, it is unlikely to be robust. Often immediately following a recession there is a period of rapid growth, made possible because of all of the slack in the economy. For example, in the third quarter of 2003 the economy grew 7.5 percent. Neither OMB nor the Finance Division expects this to happen this time. The damage to the financial sector and to household balance sheets is going to take time to work out, and will be a drag on growth for some time to come. In the Finance

Division's April 1st forecast, which is roughly similar to OMB's, we did not expect a return to normal growth till the end of 2010 (see the figure below). Job loss and rising unemployment will continue well after the economy starts to grow. OMB expects that ultimately 7 million jobs will be lost, and the Finance Division believes that unemployment will peak at 10.3 percent in the third quarter of 2010.

Figure 2: Real GDP – Finance Division Forecast



Source: Global Insight

There are 'green shoots', many of them in financial markets. Equity markets appear to be recovering, perhaps in anticipation of a growing economy. Since early March the S&P 500 index is up by close to 30 percent. A number of major financial institutions, including Goldman Sachs, JP Morgan Chase and Citigroup reported better than expected earnings in the first quarter. Changes in accounting rules contributed to this, but so did low short-term interest rates. Measures of strain, such as the TED spread between LIBOR and the Treasury bill, have fallen from the extreme level of last autumn. But there are still huge problems. The IMF has expressed concern about the dramatic fall in international lending.[4] The Public/Private Partnerships that are a part of the Obama Administration's Financial Stability Plan do not yet exist, and it is unknown whether or not they will succeed in removing toxic assets from bank balance sheets. At the time of writing, the release of the banking stress test had been delayed, and it is unclear what

[4] "Responding to the Financial Crisis and Measuring Systematic Risks," International Monetary Fund Global Financial Stability Report, April 2009.

institutions will need additional capital and how they will raise that capital. Yes, things look better, but there is a lot that can still go wrong.

OMB's Forecast of the National Economy

OMB's national forecast is now more pessimistic than in their Preliminary Budget forecast. GDP falls by a full percentage point more in 2009 and recovers more slowly in 2010 than in the Preliminary Budget forecast. OMB's national forecast is well within the mainstream of forecasts and is slightly more optimistic about 2009 than the Finance Division Preliminary Budget Response forecast.

Table 3: Forecast of Selected Economic Indicators

	2008	2009	2010	2011	2012	2013
National Economy						
Real GDP *Percentage Change*	1.1	(3.5)	1.4	3.5	40	3.3
Non-Agricultural Employment *Percentage Change*	(0.4)	(3.6)	(0.8)	1.5	2.4	2.2
Wage Rate *Percentage Change*	3.4	2.9	2.1	2.2	2.4	2.9
New York City Economy						
Real Gross City Product *Percentage Change*	(4.5)	(12.0)	(1.9)	3.2	3.4	2.2
Non-Agricultural Employment *Change in thousands*	47	(172)	(129)	9	39	42
Wage Rate *(not corrected for inflation)* *Percentage Change*	0.5	(7.0)	(1.6)	2.9	3.2	3.5

Source: NYC Office of Management & Budget

New York City Economy[5]

Several months after the nation slipped into recession, New York City's economy still maintained its positive momentum – but no longer. While U.S. private employment growth turned negative in January 2008, payroll employment in the City only began dropping in November 2008 compared to the same month the year below. While average U.S. home prices started their descent in the middle of 2006, prices in Brooklyn and Queens began falling as late as the 4th quarter 2007, and Manhattan coop and condo prices even more recently in the 3rd quarter of 2008.[6]

The City's economy is now fully in the throes of the national recession. The nearly complete freezing of credit markets in September 2008 has weakened all cyclical sectors of the City's economy. The plummeting wages in the financial sector, New York's

[5] Unless otherwise cited, employment forecasts are from OMB; all actual employment numbers are from the New York State Department of Labor, Current Employment Survey (CES).

[6] Manhattan coop/condo prices, City Council Finance Division calculations from Miller Samuel data, www.millersamuel.com/data.

biggest spender, has especially dragged down all areas of consumption, including housing, retail and leisure. Major sectors dependent on Wall Street, such as professional and business services, have also been hit. This has produced a self-reinforcing cycle of business contraction, layoffs, and reduced consumption. According to the New York State Department of Labor, the City's total private employment in March showed a 82,600 decline since the same time the previous year.

OMB, which projected 294,000 lost City jobs peak-to-trough in the January plan, now forecasts a net loss of 328,000 jobs in the Executive Budget, 105,000 of which (one third) having already been lost through the 1st quarter. Breaking it down by year, 172,000 jobs will be lost in 2009 with an additional 129,000 lost in 2010. OMB expects a tepid recovery by the end of 2010, with only 9,000 net jobs recovered in 2011, growing to around 40,000 positions in each of 2012 and 2013. The real average wage rate in the City is estimated to have fallen by 0.5 percent in 2008. OMB forecasts it will fall an even more precipitous 7.0 percent in 2009, with the drop decelerating to 1.6 percent in 2010, and positive growth returning in 2011.

Six sectors represent the main drivers of the City's economy. As of March 2009, four of these sectors showed negative job growth compared to the same time the previous year:[7]

- Finance (down 24,000 or -5.1%)
- Business Services (down 19,100 or -3.2%)
- Information (down 2,600 or -1.6%)
- Leisure and Hospitality (down 4,400 or -1.5%)
- Health Care (up 6,400 or 1.1%)
- Education (up 8,200 or 4.9%)

Financial activities took the lead in reducing City employment, having reached its peak as early as August 2007. The securities subsector also peaked in August 2007, having shed 22,600 jobs through the end of March 2009 (down 11.8 percent).[8] OMB forecasts a total peak-to-trough loss of 27,000 jobs in securities, with total finance sector employment dropping by 75,000. The average wage in securities is expected to fall by 20 percent in 2009 and drop by another 6 percent in 2010, while total securities industry wages are expected fall by $30 billion from 2008 to 2010.

Professional and business services include, among others, attorneys, accountants, advertisers, architects and temp office workers who are heavily dependent on Wall Street activity. Layoffs from accounting firms to temp agencies are well under way, having lost 26,000 jobs since July 2008. This sector is expected to lose 72,000 jobs by 2011.

The information sector is also feeling the recession, with the publishing industry especially hard pressed. While the loss of advertising income is driving some of these losses, much of it stems from the structural challenges facing newspapers and magazines

[7] City Council Finance Division calculations based on March over March growth data, New York State Department of Labor establishment survey.
[8] Securities Industry and Financial Markets Association (SIFMA), 'Research Report', April 24, 2009

due to the growing preference for the electronic media over print. OMB expects the information sector to lose 19,000 jobs in the next two years.

Construction activity has sharply slowed as financing is no longer available. Demand for residential structures has also dried up due to continued falling home prices and lower income expectations. There's less demand for commercial fixed investment as businesses are retrenching and employing fewer office workers. On the supply side, developers are unable to access credit for large scale developments. Construction employment has already fallen by 14,000 from its peak in February 2008, and OMB projects 30,000 additional jobs lost in the next two years.

Retail employment had been holding up through October but is now decreasing. New Yorkers are following the national trend in reducing consumption, highlighted by poorer than expected sales during the holiday season. 7,300 jobs were lost in March compared to the same time last year. OMB expects employment to decline by 17,000 in 2009 and by another 14,000 in 2010.

The City's leisure and hospitality sector witnessed employment growth throughout most of 2008, but is now losing steam, having lost over 10,000 positions since September 2008. OMB expects the sector to lose a combined 29,000 jobs over the next three years as New Yorkers spend less and tourism begins to wane. The Hotel subsector maintained slower but positive job growth through most of 2008, but began to show negative growth in November compared to the same time last year. OMB cites that the seasonally adjusted hotel occupancy rate fell sharply from 90 percent in August 2008 to 73 percent in February 2009. Average room rates fell from $335 in September to only $260 in February 2009.

The health care and social assistance sector, which is less vulnerable to cyclical forces than others, increased its employment by 8.0 percent in 2008. OMB expects the sector to brave this recession as it did the previous two with employment increasing by around 7,000 jobs per forecast year. The Obama Administration has made federal investment in health care and education a major priority, and the City will likely reap a significant dividend. The health care industry will likely fill at least part of the economic vacuum from the restructuring of Wall Street. Education services is also relatively less responsive to business cycles, and is expected to increase employment by around 2,000 jobs per forecast year.

The sharp impact of the recession has negatively affected the City's real estate market. The Midtown office market, with a high proportion of financial firm tenants, has seen its vacancy rate jump from 5.1 percent in the first quarter of 2007 to 10.9 percent in the first quarter of 2009. This increase in vacancy has forced landlords to lower asking rents by nearly 15 percent over the last six months. With a lower proportion of financial firms, the Downtown Manhattan office market has not fared quite as badly, but the vacancy rate is up to 7.3 percent in the first quarter of 2009 and is expected to rise. The freezing of the credit market has virtually shut down the commercial real estate investment market; the only sales that are happening now are those of distressed properties, such as those of the crumbling Macklowe real estate empire. OMB expects the market to remain moribund through early 2010.

The residential market is nose-diving as well. OMB estimates that 1-3 family home sales will have dropped 64 percent from its peak in 2005 by the time it levels off at the end of 2009. Prices for the houses will drop 34 percent from their peak in 2007 by the time the bottom is hit in 2011. Coop and condo sales are also dropping, with the condo market being hit particularly hard. The recent boom brought a surge of condo development, and in recent years new condos made up roughly half of all new development. More units that were begun before the bust are expected to continue to come online, further depressing the condo market. OMB expects condo transactions to stay weak through 2012, with average price declines to register 44 percent, peak-to-trough.

New York City entered the recession around three quarters after the U.S. as a whole. Its strong real estate market insulated itself from the crumbling national housing market, but when the failing subprime mortgages infected Wall Street, the contagion reached the City. Positive employment growth in the City is not expected to return until the end of 2010. OMB expects growth to be lackluster in 2011, regaining moderate momentum in 2012. What form the restructured financial sector will take and its income earning potential is still uncertain. While credit conditions have improved slightly since late 2008, and the City's banks have been helped by government aid, there is concern that more help is needed and that more stringent bank regulations may further dampen a recovery. The growth and importance of other sectors is also uncertain in a more diversified City economy.

REVENUE BUDGET

Overview

The Revenue budget is a story with three major themes: the unexpected depth of the recession which reduced our expected tax revenues; policy responses designed to help fill the gap; and the Federal stimulus, the American Recovery and Reinvestment Act (ARRA), which is making filling the gap much easier.

The City's revenue budget policy response began in a major way with December's fiscal 2009 budget modification MN-2 which recognized $296.4 million in new revenues, mostly from a $576 million increase in revenue from the half-year effect of rescinding the 7 percent property tax cut .

April's Fiscal 2009 budget modification MN-4 was driven by the economy, without major policy. It reduced revenues by $136.8 million. This was a function of a decrease of $727.4 in the tax revenue forecast, and an anticipated decrease of $85.3 million in unrestricted State aid. These were offset by $500 million savings in prior year payables and $175.9 million in miscellaneous revenues. The general reserve was reduced by $136.8 million to adjust for this fall in revenues.

Turning from budget modifications to financial plans, revenues for Fiscal 2009 in the Executive Budget were increased by $1.1 billion since the January plan and $2 billion since the budget was adopted in June. Most of the increase since the January plan is in taxes, which will be discussed in more depth below. But the increase since the January plan is primarily due to some unusual activity in the bank tax and strong audit collections that occurred over the past few months. For the year as whole taxes are positive because of the rescinding of the 7 percent property tax increase in December 2008. Federal stimulus money does not appear on the revenue side of the budget in Fiscal 2009, though $447 million in FMAP money will reduce the City's Medicaid costs on the expense side.[9]

Revenues for Fiscal 2010 are $610 million above the January Plan and $842 million below the Adopted Budget. On the plus side are Federal categorical grants, up $1.1 billion in the Executive Budget. About $950 million of this is ARRA Federal stimulus money going to the Department of Education (DOE). This continues in Fiscal 2011 where DOE Federal categorical grants were also increased by $1 billion, $960 million of which was Federal stimulus money going to the DOE. There is also $10 million a year in stimulus money for preventive maintenance on the Staten Island Ferry in Fiscal 2010 through Fiscal 2012.[10] On the down side are reductions in taxes that are entirely due to the decline in the economy. The tax estimate for Fiscal 2010 is down $2.2 billion since budget adoption, despite changes to the property tax that added $1.5 billion to Fiscal

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[9] FMAP – Federal matching aid percentage.

[10] In Fiscal 2010 ARRA provides $48 million in Community Block Development, which is discussed in detail in the briefing book for the Committee on Community Development hearing on May 11th.

2010 revenues and a $946 million tax program that includes increasing the sales tax and eliminating the exemption for clothing and footwear.

Table 4: Revenue Plan Changes from the Adopted Budget to the Executive Budget

(In Millions)	Adopted Budget to Nov. Plan	Nov. Plan To Jan. Plan	Jan. Plan to Exec. Budget	Total: Adopted Budget to Exec. Budget
Fiscal 2009				
Total Taxes	$551	($987)	$655	$219
Federal Categorical Grants	450	221	161	832
State Categorical Grants	142	363	52	557
Other Categorical Grants & Interfund Agreements	47	42	4	93
Unrestricted / Anticipated State & Federal Aid	0	(86)	86	0
Total Miscellaneous	150	124	186	460
Net Disallowances & Transfers	(69)	(24)	(58)	(151)
Total: Fiscal 2009 Changes	**$1,271**	**($347)**	**1,086**	$2,010
Fiscal 2010				
Total Taxes	($460)	($1,102)	($693)	($2,255)
Federal Categorical Grants	16	27	1,096	1,139
State Categorical Grants	7	(317)	(12)	(322)
Other Categorical Grants & Interfund Agreements	14	22	37	73
Unrestricted / Anticipated State & Federal Aid	0	(86)	86	0
Total Miscellaneous	160	276	235	671
Net Disallowances & Transfers	6	(15)	(139)	(148)
Total: Fiscal 2010 Changes	**($257)**	**($1,195)**	**$610**	($842)

Source: NYC Office of Management and Budget

American Recovery and Reinvestment Act

The ARRA provided much needed budgetary relief for Fiscal 2010 and in some cases for Fiscal 2011 and 2012. Among the more significant areas of funding currently reflected in the Executive Budget are education and Medicaid reimbursement, with education receiving nearly $2 billion and Medicaid receiving over $1 billion in the next two fiscal years. The Community Development Block Grant (CDBG) and the Foster Care and Adoption Reimbursement are two of the other formula grants to receive additional funding in the next two fiscal years and are currently in the Executive Budget at $47.3 million and $29.6 million, respectively.

Table 5: ARRA Funding Appropriated in the Expense Budget

PROGRAM *(in Millions)*	2009	2010	2011	2012
Community Development				
Shelter & Services	*$ -*	*$ 5.6*	*$ -*	*$ -*
Repair Buildings / Violations	*-*	*10.0*	*-*	*-*
Job Training	*-*	*1.0*	*-*	*-*
Fringe Benefits for ARRA Funded Staff	*-*	*1.1*	*-*	*-*
Graffiti Removal	*-*	*2.8*	*-*	*-*
Building Repairs and Neighborhood Preservation	*-*	*26.0*	*-*	*-*
Graffiti Removal / Charlton Garden Restoration	*-*	*0.8*	*-*	*-*
Subtotal Community Development	$ -	$ 47.3	$ -	$ -
Education				
DRA Restoration	*$ -*	*$ 361.9*	*$ 361.9*	*$ -*
PRE-K Restoration	*-*	*97.2*	*106.3*	*-*
Title 1	*-*	*334.8*	*334.7*	*-*
IDEA / Related Services & Schools	*-*	*157.7*	*157.6*	*-*
Subtotal Education	$ -	$ 951.6	$ 960.5	$ -
Foster Care & Adoption	-	19.6	10.0	-
Ferry Transit / Maintenance	-	10.0	10.0	10.0
Funding for NYC - Education (State Aid)	-	13.7	-	-
TOTAL EXPENSE BUDGET	**$ -**	**$ 1,042.2**	**$ 980.5**	**$ 10.0**
BUDGET RELIEF - Medicaid/FMAP	$ 447.0	$ 850.0	$ 295.0	$ -
GRAND TOTAL	**$ 447.0**	**$ 1,892.2**	**$1,275.5**	**$ 10.0**

Source: City Council Finance Division, NYC Office of Management and Budget

In addition to areas of funding already reflected in the Executive Budget, there are several other budget items that are anticipating additional funds in the near future, but have not yet received an exact budget allocation. Among them is the Emergency Shelter Grant, expected to receive $74.9 million, the Workforce Investment Act grants totaling at $60.7 million for Youth and Adult programs, and the Community Services Block Grant estimated at $47 million and essential to the administration of social services programs across several different City agencies.

Table 6: ARRA Funding Not Appropriated in the Expense Budget

(In Millions)	2009	2010	2011	2012
Emergency Shelter Grants	$ -	$ 74.9	$ -	$ -
Child Care & Development Block Grant	-	30.0	30.0	-
Workforce Investment Act - Youth	-	29.0	-	-
Workforce Investment Act - Adult	-	31.7	-	-
Community Services Block Grant*	-	47.0	-	-
Justice Assistance Grants*	-	29.0	-	-
Vocational Rehabilitation (Title I)*	-	-	-	-
Senior Nutrition Programs (III-C1 & C2)*	-	-	-	-
Head Start/Early Head Start*	-	-	-	-
SNAP (Food Stamps) Administration*	-	22.0	-	-
Child Support Incentive Fund*	-	-	-	-
Education for Homeless Children (McKenny-Vento)*	-	-	-	-
TOTAL	**$ -**	**$ 263.6**	**$ 30.0**	**$ -**

Source: City Council Finance Division, NYC Office of Management and Budget

The table below identifies several of the budget areas that have not yet been reflected in the Executive Budget, but are likely to be reflected in the Adopted Budget once our exact share becomes available. They are divided into formula grants that the City receives annually, and competitive grants that were made available only through the ARRA for a limited time. The New York City allocation for many of these is still uncertain, or needs to be further clarified and updated. The table marks them with an asterisk (*) while waiting to receive clarification and/or guidance from the appropriate federal or state agency administrating the funds.

Table 7: ARRA Competitive Grants

PROGRAM	National Approp.	City Approp. 2010	2011	2012
Community Oriented Policing Services (COPS)*	$ 1,000.0	$ 70.0	$ -	$ -
Office of Violence Against Women*	225.0	-	-	-
Neighborhood Stabilization Program*	1,980.0	-	-	-
Economic Development Assistance Programs*	150.0	-	-	-
Energy Efficiency and Conservation Block Grants*	3,200.0	81.0	-	-
Broadband Technology Opportunities Program*	4,700.0	-	-	-
State and Tribal Assistance Grants - Brownfields*	100.0	-	-	-
TOTAL	**$ 11,355.0**	**$ 151.0**	**$ -**	**$ -**

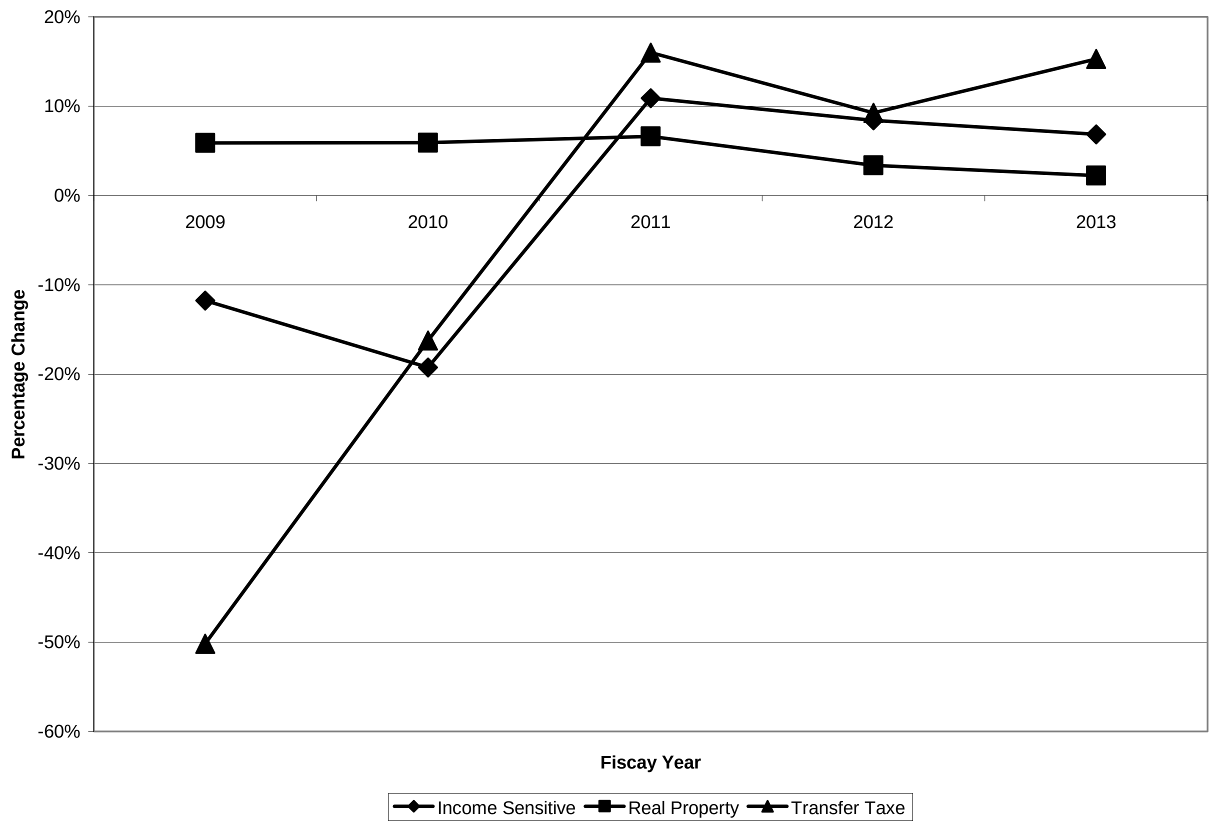
Source: City Council Finance Division, NYC Office of Management and Budget

Tax Revenues

The recession is having a powerful effect on City revenues. The income sensitive taxes—the business, personal income and sales taxes—have already felt the impact of the recession. As of March they are down by more than 9 percent, and both OMB and the Finance Division expect this will get worse in Fiscal 2010 (see Tables 8 & 9). These taxes recover with the economy in Fiscal 2011 and, by Fiscal 2012, at a normal if not especially robust pace. The situation for the transactions taxes is even worse—down 48 percent in Fiscal 2009 year-to-date because of the freeze in the real estate markets. Transaction tax revenues continue to fall, though at a slower rate in Fiscal 2010. Once again, the general recovery in the broader economy spreads to the real estate market and restores growth to a moderate level. Fortunately for the City's budget, the City's property tax takes time to react to changes in the economy. Figure 3 removes the effect of rescinding of the 7 percent property tax reduction and the end of the homeowner $400 rebate that will occur in Fiscal 2010.

The slowdown in growth is gradual, which helps the City pay its bills in Fiscal 2010. But it also means that the City will still feel the impact of the recession in Fiscal 2012 and Fiscal 2013 as growth in the property tax slows down.

Figure 3: Growth of Selected Taxes Adjusted for Changes in Tax Policy



Source: City Council Finance Division calculations, NYC Office of Management and Budget forecast.

The City has been through a remarkable period from Fiscal 2003 through Fiscal 2007 when City tax revenues grew at an annual rate of over 12 percent. Initially this was aided by tax increases implemented after 9/11, but in the later years, growth continued despite the sunset of the 9/11 tax increases. Nowhere in the forecast do we see anything like this (see the table below). The Finance Division believes that this is reasonable. Home of the securities industry, the City benefited in an extraordinary way from the credit bubble. The profits made and bonuses paid, securitizing loans, creating financial derivatives, and financing mergers and acquisitions happened here. They flowed into our economy and into our tax revenues. Like the rest of the City the industry will recover. But it is typical in the aftermath of a financial crisis and recession for investors to be more conservative, to satisfy themselves with lower returns for lower risks. The soaring revenues of the boom are unlikely to happen again anytime soon.

Table 8: Tax Revenue Growth Rates in the Financial Plan

Fiscal Year	2008	2009	2010	2011	2012	2013
Real Property	0.8%	10.3%	11.9%	6.5%	3.4%	2.2%
Personal Income	13.8%	-17.9%	-18.0%	15.3%	6.5%	6.3%
General Corporation	-6.2%	-19.0%	-14.7%	15.5%	15.7%	8.9%
Banking Corporation	-48.4%	32.7%	-42.7%	35.8%	9.6%	4.8%
Unincorporated Business	11.0%	-2.6%	-19.3%	0.4%	9.2%	5.8%
Sales	5.4%	-5.6%	-11.4%	3.3%	6.3%	6.6%
Commercial Rent	6.3%	4.5%	-4.6%	-2.2%	-0.6%	1.7%
Real Property Transfer	-18.3%	-44.7%	-21.3%	5.9%	9.1%	12.1%
Mortgage Recording	-27.5%	-50.2%	-16.2%	16.0%	9.3%	15.3%
Utility	8.9%	6.3%	-6.2%	7.4%	3.3%	1.2%
Hotel	16.3%	-4.7%	-8.9%	0.6%	-5.1%	-6.1%
All Other	7.5%	-2.3%	-21.7%	0.7%	2.8%	5.1%
Audits	-6.3%	-3.6%	-39.2%	0.0%	-0.2%	-0.2%
Total Taxes	**0.6%**	**-5.5%**	**-6.2%**	**7.9%**	**5.4%**	**4.5%**

Source: NYC Office of Management and Budget

Table 9: Tax Revenue in the Financial Plan *(in millions)*

Fiscal Year	2008	2009	2010	2011	2012	2013
Real Property	$13,062	$14,408	$16,127	$17,173	$17,762	$18,150
Personal Income	8,748	7,186	5,893	6,793	7,232	7,685
General Corporation	2,932	2,374	2,024	2,338	2,705	2,947
Banking Corporation	628	834	478	649	711	745
Unincorporated Business	1,852	1,804	1,455	1,461	1,596	1,689
Sales	4,868	4,593	4,069	4,205	4,469	4,762
Commercial Rent	545	569	543	531	528	537
Real Property Transfer	1,408	779	613	649	708	794
Mortgage Recording	1,138	567	475	551	602	694
Utility	392	417	391	420	434	439
Hotel	379	361	329	331	314	295
All Other	1,797	1,756	1,374	1,384	1,423	1,496
Audits	1,016	980	596	596	595	594
Total Taxes	**$38,765**	**$36,628**	**$34,367**	**$37,081**	**$39,079**	**$40,827**

Source: NYC Office of Management and Budget

Note: Taxes do not include the Mayor's tax program. Personal income tax is before TFA retention, and 'all other' taxes include STAR reimbursement.

Personal Income Tax

OMB's Executive Budget forecasts personal income tax (PIT) revenues to decline by 17.9 percent in Fiscal 2009, a $1,562 million drop compared to the previous year. This is only $17 million over the January plan. This follows the 13.8 percent revenue increase in Fiscal 2008. Collections, up through April, show a 21.4 percent drop from the same period a year earlier.

Total withholdings are expected to fall 5.3 percent in Fiscal 2009 after 7.5 percent growth in Fiscal 2008. This reflects a loss in wage income stemming from the accelerating losses in payroll employment which turned negative in November 2008. OMB estimates that in calendar year 2009, there will be a 172,000 reduction in total nonagricultural employment. Bonus payments are estimated to suffer around a 44 percent decline, reflecting huge Wall Street losses and write-offs in calendar year 2008. [11]

Installment payments in Fiscal 2009 are expected to fall 19.3 percent. This drop in nonwage income reflects a more than 50 percent fall in capital gains realizations in tax year 2008 after trillions of dollars worth of equity value was wiped out. Nonwage income from dividends, interest payments, rents and unincorporated business profits also declined. Real estate commissions also suffered from the downturn in the residential commercial markets.

Fiscal 2010 PIT revenue is forecast to continue its slide and drop by 18.0 percent over Fiscal 2009, a $1,293 million fall. This represents $186 million over the January Plan. Refunds are shown as decreasing by $236 million between plans. There is, however, a very important qualifier in interpreting the net revenues and refunds. The State has rescinded the Middle Class STAR Credit, whose cost had been reflected in larger refunds. The rescinding of the Credit gives the appearance of inflating PIT Revenues by reducing refunds. If fact, the State offsets the costs of the Credit through state aid, and will discontinue that aid when the Credit is retired. In short, the revenue reported for Fiscal 2010 is effectively inflated by the cost of the Credit which is $359 million. Fiscal 2010 revenues would actually fall by 23.0 percent.

PIT withholdings are estimated to decline another 9.6 percent as layoffs in the City continue and bonuses, based on still worse asset performance in calendar year 2009, fall further. Fiscal 2010 installment payments are projected to fall another 29.2 percent from the previous year. This largely stems from OMB's 15 percent expected fall in capital gains in tax year 2009. The other nonwage components (dividends, interest, rent, business profits and commissions) are also expected to drag down installments.

PIT revenues in 2011 are expected by OMB to recover at 15.3 percent growth. This rebound might be partially attributed to larger than usual estimated payments, as taxpayers realize assets before facing higher capital gains rates expected in tax year 2011. Revenue growth in Fiscal 2012 and 2013 is expected to moderate to 6.4 percent annually.

[11] New York State Comptroller, "Review of the Financial Plan of the City of New York," March 2009.

Business Income Taxes

OMB forecasts that business income tax revenues (general corporation, banking corporation, and unincorporated business taxes) will fall by 7.4 percent in Fiscal 2009, a $401 million decline. This amounts to $393 million over the January plan. Fiscal 2008 showed a 10.0 percent decline in total revenues. Collections for the first nine months of Fiscal 2009 show a 13.9 percent fall from the same period the previous year. Business income tax revenues will sharpen their fall at 21.5 percent in Fiscal 2010, due to continued job losses, reduced wages, and writing down bank assets. Business revenues are expected to recover at over 12 percent in Fiscal 2011 and 2012.

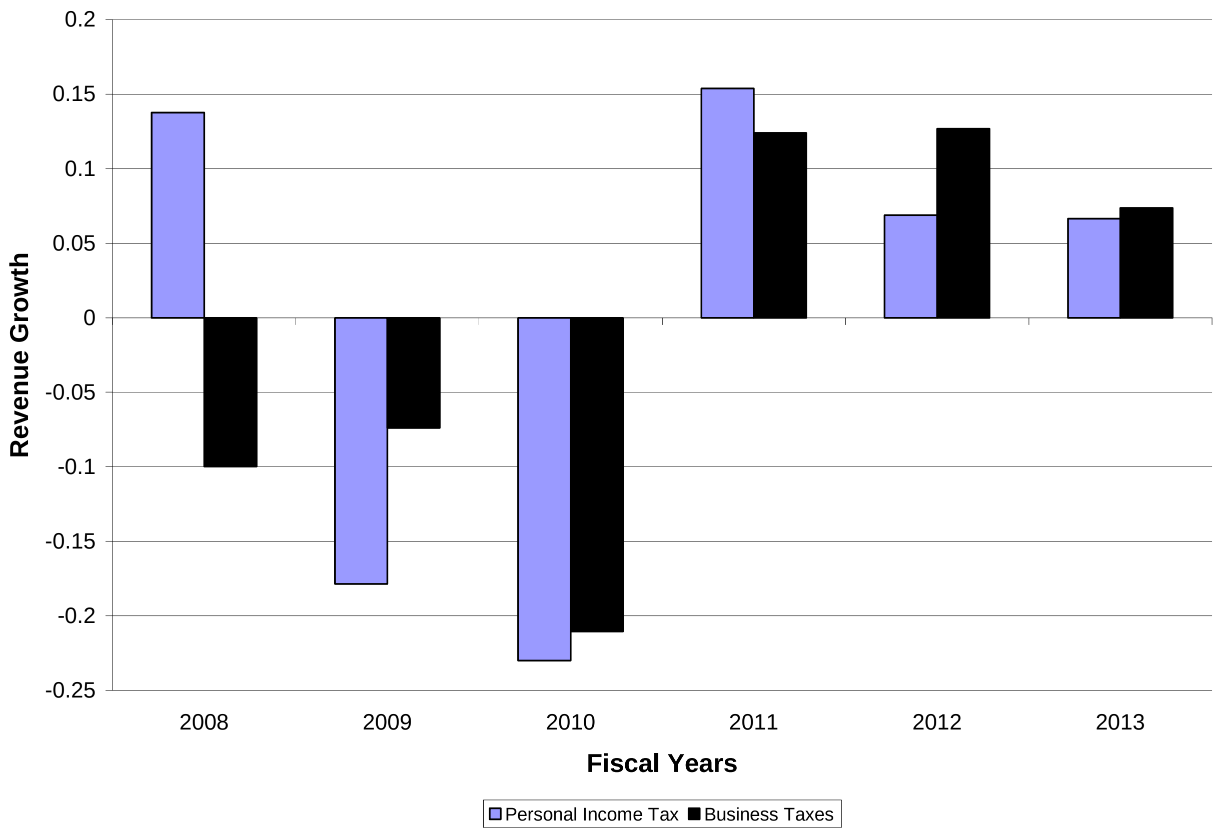
The financial firms' huge losses began in the second half of calendar year 2007, when the sub-prime mortgages backing the securities they held defaulted in record numbers. As a result, the members of the New York Stock Exchange (NYSE) began reporting net losses, starting with $3.8 billion in the 3rd quarter 2007. As losses from financial firms increased non-financial firms, unable to receive affordable credit from the damaged financial sector, also began to suffer losses. September 2008 began a quick succession of events that severely accelerated the downturn. Lehman Brothers filed for bankruptcy; Fannie Mae, Freddie Mac, and AIG were taken over by the government due to insolvency; Merrill Lynch sold itself to Bank of America also due to insolvency issues; and Goldman Sachs and Morgan Stanley became bank holding companies with tighter limits on leveraging. OMB estimated $1.6 trillion in asset write-downs, making banks redirect funds from loans to repairing their capital. Equities, which had been doing poorly up to then, plummeted as credit markets totally froze. As layoffs increased, a retrenchment in consumption has reduced business revenues, squeezing profits further.

OMB forecasts general corporation tax revenues to fall by 19.0 percent in 2009, a second straight year of declines. The first nine months of collections in Fiscal 2009 show a 24.7 percent decline over the same period last year, reflecting large refunds. These losses largely reflect those of the securities industry, incorporated professional and business services and other non-financial firms. Corporation tax revenues are projected to decline by 14.7 percent in Fiscal 2010. The continued double digit drop is attributed to the use of the "safe harbor" provision to pay more than required in tax year 2008, and spread the reduced tax liability to successive years.

Banking corporation tax revenues are expected to grow by 32.7 percent in Fiscal 2009. This follows a 48.4 percent drop the previous year. The positive growth may be impacted by the delay in writing-down bad assets as well as the extensive aid from the Troubled Assets Relief Program of 2008 (TARP) and the American Recovery and Reinvestment Act of 2009 (ARRA). Revenues are projected to fall by 42.7 percent, due to continued asset write-downs and credit markets still not functioning properly.

OMB forecasts unincorporated business tax revenues will fall 2.6 percent in Fiscal 2009. This mild decrease is due to smaller entities that pay the tax having less invested in the toxic securitized mortgages. The first nine months of collections show an increase of 6.7 percent, which is also due to meeting the "safe harbor" provision for tax year 2008. Subsequent collections are expected to plummet. In Fiscal 2010 revenues are expected to fall by 19.3 percent, as a result of additional job losses, wage reductions and recalibrating downward the revised safe harbor payments.

Figure 4: Personal and Business Income Tax Revenue Growth Rates



Source: NYC Office of Management and Budget, City Council Finance Division
Note: The personal income tax rates exclude the reduced refunds from repealing the Middle Class STAR credit.

Real Property Tax

Both the Fiscal 2010 Executive and Preliminary Budgets take into account the rescinding of the 7 percent property tax reduction, which took effect in the second half of Fiscal 2009, and granting of the $400 homeowner rebate in Fiscal 2009. Both budget plans assume the continuation of the property tax increase—the full-year effect will begin in Fiscal 2010—and the elimination of the annual $400 rebate in Fiscal 2010 through 2013.

Real Property Tax Levy. The biggest change from plan to plan is a downward reestimate of the Fiscal 2010 levy. There was no change in OMB's estimate of the levy for Fiscal 2009 or for the levies in Fiscal 2011 through 2013 from the Preliminary Budget. The Fiscal 2009 levy remains at $15,903.5 million and includes the mid-year tax increase of $576 million. The levy is projected to increase by 10.8 percent from Fiscal 2008.

However, in Fiscal 2010, OMB lowered the estimate of the levy by $100 million from the January plan to $17,512.8 million. This decrease is based upon an uptick in applications for assessment reductions filed with the Tax Commission and reductions already granted since the tentative roll was published in January, when compared to the same period last year. Most of these applications and reductions are for class four commercial and industrial properties. Even with the downward adjustment, the levy is still anticipated to experience double-digit growth, increasing by 10.1 percent from Fiscal 2009. But nearly four percent of this growth is due to the full-year effect of the tax increase.

With the continuing decline in the economy and the freezing up of the real estate markets, OMB forecasts that levy growth will average 3.7 percent a year from Fiscal 2011 through 2013. In Fiscal 2011, the levy growth drops to 5 percent, to a total of $18,492.9 million. Then by Fiscal 2012, the levy totals $19,132.0 million for a year-over-year growth of only 3.5 percent. By Fiscal 2013, growth in the levy has declined to 2.0 percent, for a total levy of $19,515.2 million.

Real Property Tax Revenue. In the Executive Budget, OMB raised the estimate of revenue from the real property tax in Fiscal 2009 by $51 million from the Preliminary Budget. Revenue is now projected to total $14,408 million, for a 10.3 increase from Fiscal 2008. Most of the increase is due to a refund adjustment and an increase in anticipated revenue from prior year payments of $20 million, most likely due to the "tax-lien sale" effect. OMB carries the $20 million increase in prior year payments throughout the plan period. OMB moved $50 million of anticipated refunds from Fiscal 2009 to 2010. In 2008, Con Edison won a court case that permitted property value reductions based on the acceleration of depreciation of certain utility property due to functional obsolescence brought about by technological innovation. Anticipating that other utilities would win similar lawsuits, in last year's Executive Budget OMB increased refunds by $85 million in both Fiscal 2009 and 2010 to cover these refund claims. Several of these suits will not be settled until Fiscal 2010 causing OMB to move the remaining unclaimed refund money to Fiscal 2010. Year-to-date collections through March of prior year payments are $22 million above the January plan, and refunds are coming in $31 million below plan.

The increases in Fiscal 2009 revenue were offset by a decrease in lien sale proceeds. The Administration has delayed the June lien sale until later this year, moving $33 million in anticipated proceeds from the sale to Fiscal 2010. OMB has postponed the June lien sale to the following fiscal year several times in the past, most recently in Fiscal 2008 when the Fiscal 2007 sale was delayed, often to help close the budget gap in the succeeding fiscal year when the current year was running a surplus.

In Fiscal 2010 OMB anticipates that revenue will decline by $119 million from the Preliminary Budget estimate. Even with this reduction, the levy still shows a robust growth of 11.9 percent from Fiscal 2009, primarily due to the full-year effect of the elimination of the 7 percent property tax reduction. The main components of the decrease include the $100 decrease in the levy and an additional $50 million in refunds, discussed above. Offsetting the decreases are increases in prior year payments of $20 million and lien sale proceeds of $46 million. The additional lien sale proceeds include the $33 million from the delayed Fiscal 2009 lien sale and $13 million in baseline lien sale proceeds. The baseline was reestimated to reflect a slightly higher delinquency rate and the full-year effect of the tax rate increase on the levy. The baseline increase was carried throughout the plan period, resulting in an increase in lien sale revenue of about $10 million annually from Fiscal 2011 through 2013.

In Fiscal 2011, growth in revenue drops to 6.5 percent as the rescinding of the 7 percent property tax reduction is fully-phased in. The cumulative effects of the reserve readjustments result in declines of only $5 million a year in revenue estimates for Fiscal 2011 through 2013 from the January plan. Revenue growth is anticipated to increase at an average annual rate of 4.0 percent from Fiscal 2011 through 2013.

Market Value. On the Fiscal 2010 tentative assessment roll released by DOF, the market value of the City's one million parcels of taxable real estate decreased by 1.2 percent over the prior year, the first decrease in several years. This follows an anemic increase of only 1.9 percent last year—evidence that the City's property values are starting to reflect the softening in the real estate markets. The total value of taxable real estate is still high, at $801.2 billion.

For the second year in a row, the market value of class one properties declined—by 5 percent following a 1 percent decline in value last year. After eight years of double digit growth, evidence continues that home prices are softening, since changes in market value closely mirror the trend in sales prices. The market value of class two residential properties decreased by 1.1 percent from last year, the first decline in years. However, most of this decrease was felt in the rental market, where the value of rental properties has declined by more than five percent. Based on the tentative assessment roll, which does not reflect the most recent economic conditions, the condo market, bolstered by new construction, is still holding up, with a 15.5 percent increase in market values. The market value for class four commercial properties increased by more than 7 percent from last year. However, DOF uses the income capitalization approach to value commercial property which tends to lag economic conditions. The most recent income information on the Real Property Income and Expenses statements submitted for the Fiscal 2010 roll is based on 2007 data. OMB anticipates that class four market values will begin to show evidence of current declining market conditions on next year's roll.

Overall property values dropped in the Bronx, Queens and Staten Island because of the high concentration of class one homes in these boroughs. Sharp declines in the value of rental properties also contributed to the decrease in values in the Bronx. Growth in value continues in Manhattan, the borough with the highest concentration of commercial property and newly constructed high-end condominiums, although at a slower rate from last year. The change in Brooklyn market values remained flat, bolstered by strong growth in the value of condos.

Table 10: Market Value Growth by Tax Class Since Fiscal 2002

Fiscal Year	All	Class 1	Class 2	Class 3	Class 4
2002-2003	9.5%	13.5%	9.4%	4.7%	3.9%
2003-2004	8.6	13.6	3.6	2.7	4.5
2004-2005	15.8	21.7	18.9	6.6	3.0
2005-2006	13.6	14.6	13.4	13.5	11.6
2006-2007	9.8	12.9	7.3	6.8	5.2
2007-2008	18.1	16.3	24.7	- 2.9	19.0
2008-2009	1.9	- 1.0	5.9	14.1	3.6
2009-2010F	- 1.2	- 5.0	- 1.1	1.4	7.1
2002-2009	**106.7%**	**134.0%**	**116.5%**	**54.0%**	**61.8%**
2002-2010F	**104.2%**	**122.4%**	**114.1%**	**56.1%**	**73.4%**

Sources: New York City Department of Finance, Annual Report on the NYC Real Property Tax, Fiscal Year 2008, Tentative Assessment Roll, Fiscal Year 2010, City Council Finance Division.

While strong growth in market value for class one residential properties relative to the other classes increased its share of total market value in Fiscal 2009 to nearly 52 percent from 46 percent in Fiscal 2002, the share drops to 50 percent on the 2010 tentative roll. Conversely, the share of class four commercial properties decreased from 28 percent in 2002 to 22 percent in Fiscal 2009, but increases to 24 percent on the 2010 roll.

Billable Assessed Value. The total taxable or billable assessed value (BAV) on the tentative roll, before accounting for the STAR and veterans exemptions, increased by $10.6 billion from Fiscal 2009 for a total of $143.6 billion. This 8.0 percent increase in value is somewhat higher than the 6.8 percent growth experienced last year, though growth on the final roll will more than likely be lower than the tentative roll growth. However, the continued growth in BAV for class two and four properties reflects strong market value growth over the past several years. During periods of economic growth, increases in market value result in a substantial “pipeline” of accumulated assessed value that is phased-in for classes two and four (assessed value increases are phased in over five years for these two classes of property).

Large yearly increases in market value for class one properties are rarely captured in BAV growth because State law caps class one growth in assessed value at 6 percent a year and 20 percent over five years. However, after a long period of high market value growth, the cap on assessment increases effectively lowers the actual assessment to market value ratio. In Fiscal 2010, this ratio will drop to about less than 4 percent. The “target” assessment ratio for class one is 6 percent. While the cap on assessment increases acts as a break on steep increases in assessed value in any one year, the assessments can still increase up to the cap even when market value is declining, until the target assessment ratio is reached. This is the case with class one properties in the upcoming fiscal year. Even with continuing decreases in market value, class one’s BAV on the tentative roll increases by 4.4 percent. Contrast this with Fiscal 2008, when class one experienced a growth in market value of more than 16 percent, yet assessed value only increased by 4 percent.

However, the final assessment roll, released on May 25th each year, is always lower than the tentative roll, due to Tax Commission actions, DOF changes by notice, and completion of exemption processing. In the Executive Budget, OMB projects that the final roll BAV will be $2.221 billion or 1.5 percent less than the tentative roll. OMB estimated in the January plan that the change in the final roll would be lower by $1.3 billion. The additional reduction of $927 million is based on an increase in Tax Commission settlements for class four properties. The final roll is now projected to increase by 6.2 percent from Fiscal 2008, with the growth in class four's BAV now anticipated to be 7.4 percent rather than the 8.8 percent projected in the January plan.

OMB has not changed its forecast of the BAV in Fiscal 2011 through 2013 from the January plan. Because of the high growth in market value from prior years resulting in a large accumulation of assessed value in the pipeline for classes two and four, OMB has carried through the growth in the BAV throughout the plan period, though at a declining rate to account for OMB's forecast of a slowdown in the real estate markets and a "drying up" of the accumulated value in the pipeline. OMB anticipates that the BAV will increase at an annual average rate of only 3.7 percent from Fiscal 2011 through 2013. See the table below for OMB's forecast of rates of change in the BAV for the plan period.

Table 11: Billable Assessed Value Growth by Tax Class Since FY 2002

Fiscal Year	All	Class 1	Class 2	Class 3	Class 4
2002-2003	5.6%	4.4%	7.7%	4.7%	4.4%
2003-2004	5.7	4.5	6.8	2.7	5.7
2004-2005	3.8	4.3	5.2	6.7	2.3
2005-2006	7.5	4.9	7.6	13.5	7.1
2006-2007	4.6	4.0	4.9	6.8	4.1
2007-2008	8.0	4.0	7.8	-3.9	11.2
2008-2009	6.8	4.5	6.4	9.9	7.2
2009-2010F	6.2	3.8	6.0	4.0	7.4
2010-2011F	5.6	2.1	4.6	2.2	7.6
2011-2012F	3.4	0.6	2.8	2.2	4.5
2012-2013F	2.2	0.2	1.6	2.2	3.0
2002-2009	**50.1%**	**35.0%**	**56.5%**	**46.8%**	**49.8%**
2002-2010F	**59.4%**	**40.1%**	**65.8%**	**52.8%**	**60.9%**

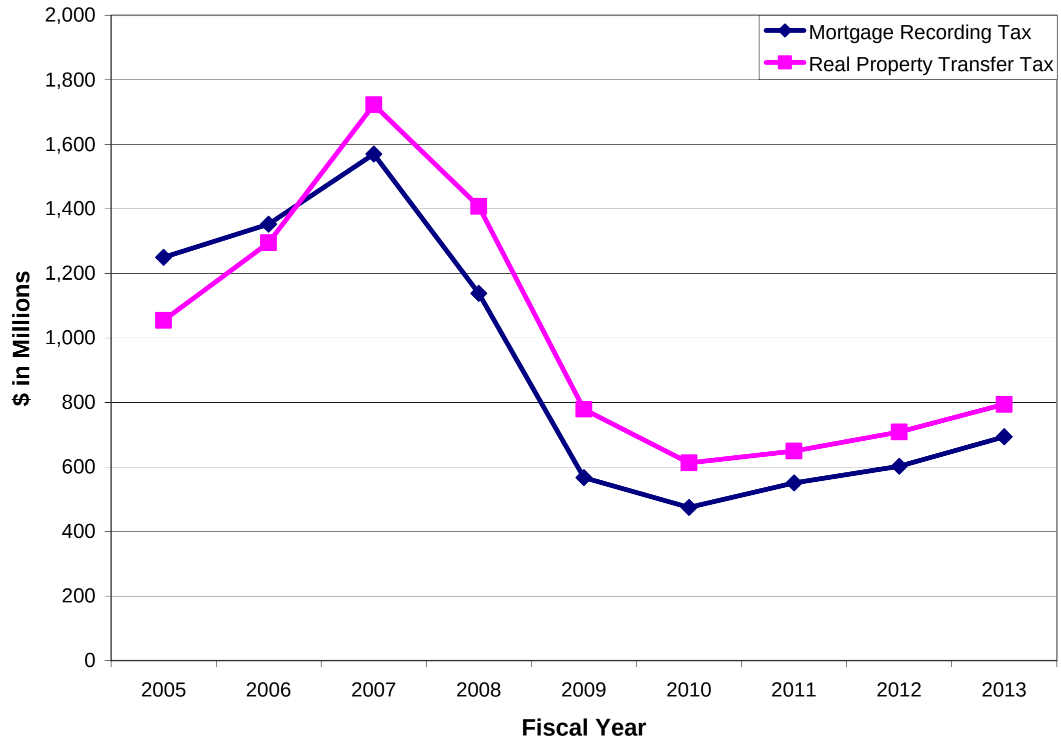
Sources: New York City Department of Finance, Annual Report on the NYC Real Property Tax, Fiscal Year 2008; Tentative Assessment Roll, Fiscal Year 2010; OMB's forecast of BAV for Fiscal 2010-2013, City Council Finance Division.

Other Real Estate Taxes

<u>Real Property Transfer and Mortgage Recording Taxes</u>

New York's real estate market has continued to worsen since the January plan. As a result, collections of the two taxes that are dependent on this market – the real property transfer and the mortgage recording – have declined significantly. With year-to-date collections through March of the transfer tax down 43.2 percent from the prior year, OMB has revised their projections down from the January plan.

Figure 5: Decline of Real Estate Tax Revenues



Source: NYC Office of Management and Budget

The transfer tax is now expected to bring in $779 million for Fiscal 2009 or $49 million less than forecast in January. Fiscal 2010 looks even worse, with declines of 21.3 percent in the transfer tax to collections of just $613 million. The tax is largely driven by transactions in the residential market and the sales of high-value commercial real estate (those with sales prices of $500 million or greater). OMB does not expect the bottom of the residential market to be reached until the first quarter of 2010, and even as activity begins to recover after that, prices will continue to decline, stalling recovery in revenue of the transfer tax from the residential market. Revenues from the residential market will not rebound until 2012. The commercial market has been even hit harder than the residential market. Thus far, there have only been three high-value commercial transactions in Fiscal 2009, a severe drop when compared to the recent fiscal years of 2007 (22 transactions) and 2008 (14 transactions). OMB expects revenues to drop further in 2010, with a rebound in commercial revenues helping the overall transaction tax revenues to bounce back beginning in 2011.

The real estate market downturn has hit the mortgage recording tax even harder, and as a result OMB knocked $112 million off their forecast for a new total of just $567 million in Fiscal 2009. For the most part, performance of the mortgage recording tax is related to that of the transaction tax, and will therefore generally follow the same trend. However, OMB believes that the currently low interest rates will help drive an increase in mortgage refinancings in the last quarter of 2009, helping prevent the recording tax from falling even further (see sidebar). The recording tax will mimic the transfer tax by continuing to fall in Fiscal 2010, albeit less steeply. Revenues are projected to be $475 million, or 16.2 percent below 2009. By 2011, OMB expects that the credit market turmoil will have been mostly stabilized, allowing the recording tax to return to growth.

Refinancing & the Mortgage Recording Tax

One threat to OMB's forecast of the mortgage recording tax is that it assumes a bump in residential mortgage refinancing spurred on by low interest rates. This is something that the Mortgage Bankers Association has forecast to occur on a national level, and recent evidence has indeed shown this to be happening – nationally, refinancing transactions in the first three months of the year leaped 92 percent over the corresponding period last year. However, New York State saw only a small hop of 6 percent in that same period. So, why are New Yorkers not taking advantage of the low interest rates to refinance like others in the rest of the country? One big reason might be the mortgage recording tax itself. An individual will refinance when the savings they would realize from a lower mortgage rate becomes greater than the cost of refinancing. The mortgage recording tax is levied on refinances as well as mortgages originated for purchases, and thus raises the cost of refinancing for New Yorkers. So while the cost/savings threshold may have been reached in the rest of the country, it appears to not have been reached in New York City. Considering that many households refinanced earlier in the decade, when 30 year conforming mortgage rates were only about a percent higher than they are now, and that most analysts doubt that rates are capable of going much lower than where they are now, it looks unlikely that New York City will see the same spate of refinancings that are occurring in the rest of the country.

Commercial Rent Tax

The commercial rent tax is imposed on commercial tenants that are located below 96th Street in Manhattan and have rents of at least $250,000 a year. The weakening of the commercial office market in Manhattan has slowed the growth of the commercial rent tax, though not stopped it. OMB's forecast for Fiscal 2009 predicts commercial rent tax revenues of $569 million, up a modest $13 million from the January plan. This continued growth is mostly attributable to the extraordinary rise in commercial rents in the middle of the decade – between 2004 and 2007, average asking rents rose by over 50 percent to reach $72 per square foot. However, with a prediction of a sharp contraction of in employment by office using sectors, commercial rent tax revenues will fall by 4.6 percent in Fiscal 2010. OMB expects revenue from this tax to remain flat from 2011 through 2013.

Sales, Utility and Other Taxes

Sales

Fiscal 2009's rosy first quarter is behind us. We have now experienced two consecutive quarters of decline, and although retail sales are starting to firm up nationally, the City is still seeing large declines in settlement months at the close of the quarter. Although sales tax collections exceeded plan in January and February, almost matching collections from last year, they faltered again in March, dragging collections for the quarter down, 8 percent below last year. March collections alone were 16 percent below plan, 20 percent below last year. This drop is even worse than in December, which was 12 percent less than the year before. Cumulatively, collections are slightly ahead of the Executive Budget plan, and about 3 percent below last year.

The March drop is partially due to two unusual calendar shifts. Easter fell in April rather than March this year, shifting a sales-boosting holiday from one month to the other, and March had one fewer Saturdays relative to last year. According to the International Council of Shopping Centers, chain store sales were down 2.1 percent in March, relative to last year, but after accounting for these calendar shifts, sales actually increased about 1 percent.

But the City's 20 percent drop in March collections is far greater than 2.1 percent; calendar shifts do not fully explain it. Retail trade and accommodation & food services are the two largest parts of the City's sales tax base, accounting for about half of it. With rising unemployment and lower asset values (homes, stocks) there are fewer paychecks to spend as well a disinclination to buy things other than necessities. Travel continues to decline, impacting accommodation and food services. The slide in visitor volumes that started last fall is ongoing. According to preliminary data from NYC and Company, the number of hotel room nights sold in March was about 15 percent lower than last year. Bearing this out, preliminary hotel occupancy data for the calendar year through March was 66 percent, more than 14 percentage points below last year's exceptional 81 percent. Occupancy rates have not been so low since calendar year 2003. Declining sales tax receipts reflect these weak conditions. Also, the credit crisis and the weak real estate market continue to affect real-estate related expenditures on goods and services.

Like the Preliminary Budget, the Executive Budget anticipates lower sales tax revenues for Fiscal 2009, and even lower revenues for Fiscal 2010. While the Fiscal 2009 estimate corrects somewhat with an increase of $38 million to $4,593 million, the 2010 estimate is $70 million lower at $4,069 million. Even with the correction for Fiscal 2009, fourth quarter revenues would have to decline an annualized rate of 13.2 percent to meet plan. On a common rate and base Fiscal 2009 sales tax revenue is forecast to fall by 5.6 percent and Fiscal 2010 by 11.4 percent. Job losses and reduced visitor volume will continue through 2010. Given the State's 2009-2010 Enacted Budget and its three sales tax base broadening measures (cracking down on tax avoidance; expanding the definition of "affiliate nexus sales" to include those internet sales made by companies that are independent of, but affiliated with New York-based companies; and including transportation-related spending on for-hire and chartered travel), these figures improve somewhat: Fiscal 2009 decreases by 5.5 percent and 2010 by 11.1 percent. The labor, tourism and real estate markets will eventually stabilize and resume growth, and from Fiscal 2011 through 2013, sales tax revenue will grow at an average rate of 5.4 percent a year.

Utility

The utility tax revenue forecast for Fiscal 2009 is $417 million, an annual growth of 6.3 percent, and $20 million more than anticipated in the Preliminary Budget. Through March, collections are up 25 percent, relative to the first three quarters of Fiscal 2008. However, after accounting for the fact that March cash payments in 2008 were delayed until April, and Con Edison's 4.7 percent rate increase took effect in April 2008 as well, year-to-date collections are a still impressive 9.4 percent higher than in Fiscal 2008. This is due to last year's high electricity and natural gas prices, and a colder winter. Natural gas and electricity prices have since fallen, and demand for energy is down due to the economic contraction. As in the Preliminary Budget, Fiscal 2010 revenue is forecast at $391 million, a 6.2 percent decline. Growth should return in Fiscal 2011. From Fiscal 2011 through 2013, the forecast is 3.9 percent average growth.

Cigarette

Cigarette tax revenue is forecast at $101 million for Fiscal 2009 in the Executive Budget, $1 million less than in the Preliminary Budget and 18.2 percent less than Fiscal 2008. Starting in the first quarter of Fiscal 2009, the State cigarette tax increased from $1.50 per pack to $2.75 per pack. Then in the third quarter the Federal excise tax also increased, from $0.39 per pack to $1 per pack. These two increases bring the combined Federal, State and City cigarette tax to $5.25 a pack from $3.39. This increase further reduced cigarette sales in the City. People are buying less or buying elsewhere. Although these price increases do increase the retail price of cigarettes and therefore sales tax revenue, the sales tax revenue increase is slight: pennies more per pack. In Fiscal 2010, the revenue forecast is $96 million, down 5 percent from Fiscal 2009, and from Fiscal 2011 through 2013 the average annual decline will be 2.1 percent.

Hotel

With declining visitor volume and an increasing supply of rooms, hotel occupancy and room rates both continue to decline from their exceptional summer peaks. According to preliminary data from NYC and Company occupancy rates for the calendar year through March are as low as in calendar year 2003, at about 66 percent, rather than last year's 81 percent, and room nights sold were down 12 percent through March. The average room rate will be well below $300 for some time.

Fiscal 2009 hotel tax revenue totals $361 million, $21 million less than in the Preliminary Budget, and a decline of 4.7 percent from Fiscal 2008. The forecast gives a decline even though the hotel tax was just raised. Local Law 65 of 2008 increased the hotel tax rate by 0.875 percentage points from 5 percent to 5.875 percent, effective from March 1, 2009 to December 1, 2011, or from the last quarter of Fiscal 2009 through the middle of Fiscal 2011. Otherwise, on a common rate and base, revenue would drop by 8.7 percent. Similarly, Fiscal 2010 revenue is forecast at $329 million, an 8.9 percent decline that would be a 22.8 percent decline without the rate increase. Fiscal 2011 will see the sunset of the rate increase, and what would be a 3.4 percent annual growth from 2011 through 2013 due to eventual economic recovery will instead be a 3.6 percent decline due to a steep drop in revenues in 2011.

Other Taxes

The Fiscal 2009 forecast for the other consumption and use taxes is $467 million, $21 million above the Preliminary Budget estimate largely due to an increase PILOTs. Fiscal 2010 revenues are forecast to decline to $400 million, a 14.1 percent decrease.

Tax Enforcement Revenue

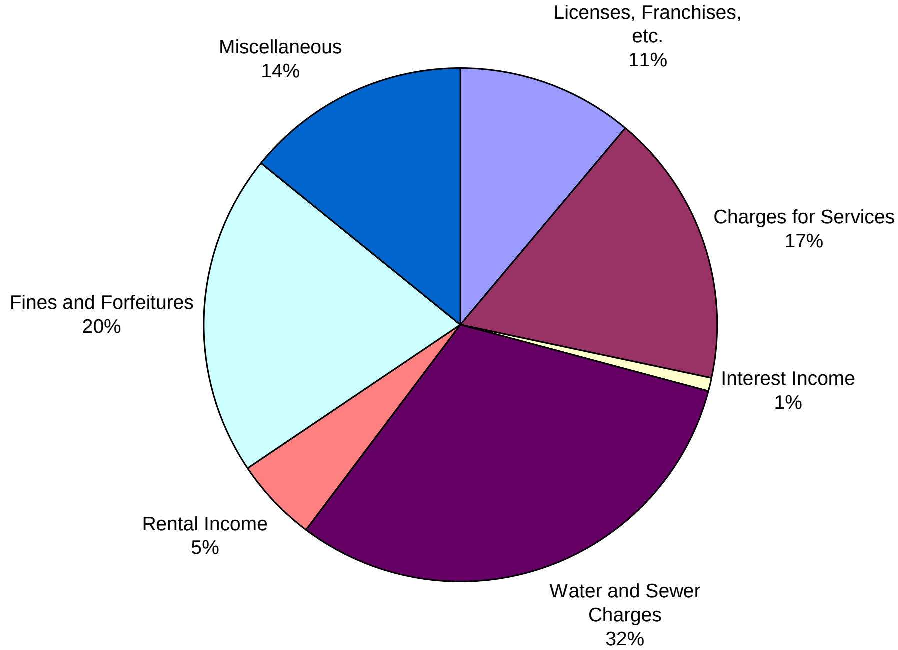
Fiscal 2009 audit revenues are forecast at $980 million in the Executive Budget, a jump of $300 million from the January plan. This jump is a result of successful action by the Department of Finance in pursuing delinquent tax payers through audit activities. This increase was a one-time gain, and as a result, tax enforcement revenues are expected to decline $384 million to $596 million in Fiscal 2010. This amount is unchanged from the January plan. From 2011 through 2013, the forecast holds fairly steady at $596 million, $595 million, and $594 million, respectively.

Miscellaneous Revenue

The budget for miscellaneous revenue is separated into various classes, with more detailed descriptions available in briefing books for the appropriate agency. The City operates under the guidelines that it can charge a fee to provide services according to the cost required to perform the service. The approval process for establishing fees is spelled out in the City Charter: When a fee increase is requested, the agency responsible must provide the appropriate approving bodies a cost analysis that spells out the actual cost incurred in providing the service. There are some fee levels that are not cost driven, but are based on competitive bidding at auction.

Overall, the Executive Budget increases anticipated miscellaneous revenue by $186 million in Fiscal 2009 and by $235 million in Fiscal 2010 compared to estimates made in the January plan. Below are the more significant contributors to this net change.

Figure 6: Miscellaneous Revenue Breakdown – FY2010



Source: NYC Office of Management and Budget

Licenses, Permits and Franchises. The Executive Budget anticipates a decrease of $4 million in fees from Licenses, Permits and Franchises in the current fiscal year to a level of $480 million. This decrease comes from drops in methane gas collection revenue (-$2 million) and park concession revenues (-$5 million), which were only slightly offset by small increases in a number of areas.

In Fiscal 2010, the Executive Budget recognizes about $5 million more in revenues from Licenses, Permits and Franchises than was projected in the January plan. This modest bump to $481 million in revenues is a result of slight increases in projected revenue from several of the fees, with a revised estimate of Disposition Permit Fee (+$1 million) and an increase in the Mayor's Office Fee for Commercial and Promotional Special Events (+$1 million) being the largest increases.

Charges for Services. The Executive Budget increases Fiscal 2009 revenue from charges for services to total $642 million, an increase of $11 million over the January plan targets. One third of the increase comes from 421-a program fees (+$4.5 million). Increased revenues from the sales of hydroelectric power upstate and from fees because of an increase in civil service exam takers (+$1.8 million each) constitute about another third. The remainder of the increase is attributable to various changes in a number of agencies.

Looking forward to Fiscal 2010, revenue from this category is estimated to rise by $120 million to $762 million. This represents an increase of $114 million over the forecast in the January plan. The vast majority of this increase is the $100 million in expected revenue from the Mayor's plastic bag fee which was previously listed under the miscellaneous section of miscellaneous revenues. The remainder of the increase comes from multiple items from a number of agencies, with increased revenue from multi-space parking meters (+$3.3 million).

Rental Income. For Fiscal 2009, the Executive Budget increases rental income to $248 million, $20 million over the January plan. Much of this increase comes from an additional $14.5 million in accelerated rental payments for Yankee and Shea stadiums. Additional commercial rent revenue is projected to bring in another $4.8 million.

OMB projects revenue from this category to be $220 million in Fiscal 2010 or $28 million less than Fiscal 2009. This represents $8 million more than forecast in the January plan, and is mostly a result of additional commercial rent revenues (+$7.3 million).

Fines and Forfeitures. For Fiscal 2009, the Executive Budget increases fines and forfeitures revenue by $10 million, for a total of $792 million. Increases stem mainly from Environmental Control Board fines (+$5.4 million), Department of Buildings fines (+$3.8 million) and traffic enforcement (+$3 million). Lower revenues from motor vehicle fines (-$4.6 million) offset some of these increases.

Revenue from this category is expected to reach $894 million in Fiscal 2010. While this is an increase of $102 million over Fiscal 2009, it is $111 million less than was expected in the January plan. This decrease in the forecast is predominately due to a decrease in revenues from the red light camera program (-$115.8 million) that was a result of State legislation giving the City only a fraction of the requested number of cameras and denying the doubling of the fine. This decrease is slightly offset by a few small increases in a number of agencies.

Interest Income. For Fiscal 2009, the Executive Budget estimate for interest income of $113 million is $23 million higher than the January plan. This rise is attributable to better and more aggressive management of the City's accounts by the Department of Finance and the Comptroller's Office.

In Fiscal 2010, OMB forecasts that interest income revenues will be just under $30 million - a drop of $83 million from the previous year. This forecasted drop is a result of a lower expected cash balance and low interest rates. As interest rates begin to rise in the out years, interest revenues will rise as well.

Water and Sewer Fees. Items in this category are directly related to expenses from operations performed the Water Authority. In the Executive Budget, Fiscal 2009 revenue decreases by $12 million from the January plan for a total of $1,300 million. This decrease is mostly due to utility rollovers to the following fiscal year (-$18.3 million) and a decrease in Water Board rental payment (-$10.8 million). These decreases, along with several other smaller ones, are partially offset by increased payments for Water Board operation and maintenance (+$24.6 million).

In Fiscal 2010, the Executive Budget projects revenue collections of $1,368 million, up $68 million from Fiscal 2009, and $115 million higher than in the January plan. This increase from the January plan is attributable to a number of areas, including rollovers from Fiscal 2009 (+$18.3 million) and increases in Water Board operations and maintenance (+$37.3 million).

Other Miscellaneous Revenue Sources. This category of revenue serves as a catchall for all revenue sources not classified in one of the above categories. For Fiscal 2009, the Executive Budget adds $80 million to the January plan for a total of $867 million. The most significant adjustments are increases of $125 million in district attorney restitution revenues stemming from settlements in lawsuits with Lloyds TSB and Tyco International Ltd. and $11 million in asset sales. These increases are offset by $71 million less in HHC payments from the State that are now expected to be collected in the following fiscal year.

This revenue source decreases by $249 million in Fiscal 2010 compared to Fiscal 2009, to a level of $618 million. This is $45 million less than forecast in the January plan. Most of this drop is a result of the reassigning of the Mayor's plastic bag fee (-$100 million) to the charges for services category, partially offset by payments by the State to HHC (+$71 million) that were expected in 2009.

Tax Policy

Mayor's Executive Budget Proposals

Sales Tax

The Executive Budget's sales tax program is similar to the Preliminary Budget but with a major change to adjust for a weaker economy and changes in the State's 2009-2010 Enacted Budget. The State's Budget does not include most of the sales tax base-broadening revenue actions proposed in the State's 2009-2010 Executive Budget. Since the City had anticipated revenue from these actions, the City now has a net loss in anticipated sales tax revenue of about $180 million per year. Rather than raising the sales tax rate by a quarter of a percentage point, the Administration now seeks to raise it by a half a percentage point, and it retains the proposal to replace the apparel and footwear exemption with two one-week tax holidays for items below $500. Both proposals would require State legislative approval.

These policies would make City sales tax more regressive and less competitive with neighboring states and counties.

The current proposal aims to realize slightly more than $1 billion per year, rather than the $700 million per year of the Preliminary Budget's similar program. The Administration would like both proposals to take effect on June 1, 2009. Anticipated additional revenue from the rate increase is $52 million in Fiscal 2009, and $552 million, $572 million, $608 million and $646 million in Fiscal 2010 through 2013, respectively. The replacement of the apparel and footwear exemption with two tax holidays should generate $36 million in Fiscal 2009, and $394 million, $409 million, $439 million and $462 million in Fiscal 2010 through 2013, respectively.

Raising the sales tax is regressive because people with lower incomes generally spend a greater share of their income than do people with higher incomes. In other words, in proportion to income, this tax weighs more heavily on the poor (see the table below). Currently, the City sales tax does not tax, food, clothing and shelter, life's necessities. According to Finance Division estimates, taxing clothing and footwear under $110 is even more regressive than the sales tax in general.

Table 12: Annual Impact of Additional Sales Taxation – By Income

	NY MSA Avg	First Quintile	Third Quintile	Fifth Quintile
Avg. Income before Taxes	$ 76,022	$ 10,531	$ 46,213	$ 158,388
Cost under Mayor's Program	$ 169	$ 60	$ 127	$ 287

Source: City Council Finance Division, NYC Office of Management and Budget, Bureau of Labor Statistics Consumer Expenditure Survey.

Increasing the sales tax to 4.5 percent would also raise New York City's sales tax even higher than in Nassau and Suffolk counties. Also, repealing the exemption for clothing and footwear would further disadvantage the City against our lower-tax neighbors New Jersey and Connecticut. And, New Jersey has no tax on clothing and footwear and Connecticut has no sales tax on clothing and footwear below $50. In looking over historic data in regard to apparel and footwear exemptions in the City, Council Finance estimates that eliminating the exemption now would cause retail employment in apparel and footwear to contract by about 1,200.

Table 13: Local Sales & Use Tax Rates *(Percentages)*

State or County	State	County & City	MCTD*	Total Current	Total After Policy
NJ	7	none	N/A	7	7
CT	6	none	N/A	6	6
NYC (5-Boroughs)	**4**	**4**	**3/8**	**8 3/8**	**8 7/8**
Nassau	4	4 1/4	3/8	8 5/8	8 5/8
Suffolk	4	4 1/4	3/8	8 5/8	8 5/8
Westchester**	4	3	3/8	7 3/8	7 3/8
Rockland	4	4	3/8	8 3/8	8 3/8
Putnam	4	4	3/8	8 3/8	8 3/8
Dutchess	4	3 3/4	3/8	8 1/8	8 1/8
Orange	4	3 3/4	3/8	8 1/8	8 1/8

**MCTD – Metropolitan Commuter Transportation District*
***County rate. Mount Vernon and New Rochelle both have a combined rate of 8 3/8.*
Source: NYS Dept of Taxation and Finance, Connecticut Department of Revenue Services, New Jersey Department of the Treasury.

However, the sales tax base is broad, which gives it the advantage of raising the tax a little on a large number of people. It also means that some of the increases would be borne by commuters and tourists, as well as residents. OMB estimates that tourists pay about 18% of the City sales tax and commuters pay about 9 percent of the tax.

Elimination of Middle Class STAR Rebates

The State's 2009-2010 Enacted Budget repealed the middle class School Tax Relief (STAR) rebates that were scheduled to be issued in the fall of 2009 and each year thereafter. This action was taken as a budget relief measure, to help reduce the State's enormous budget gap. However, this action has no direct impact on the City's budget.

1. The Middle Class STAR rebate checks mailed to all homeowners, including owners of co-op and condo apartments, who received either the Basic or Enhanced STAR property tax exemptions, were eliminated. The amount of the rebate was determined by a formula based on the owner's income level. Owners with household incomes of $250,000 or more were not eligible for the rebate. Last year, City residents received checks ranging from $62.76 to $131.52. Seniors qualified for the Enhanced STAR exemption got $144.42.

2. The school tax or STAR credit against the City's personal income tax (PIT) was reduced for New York City residents—homeowners and renters who filed income tax were eligible for this credit. However, the credit is not available to residents with household incomes of $250,000 or more, although the income level is indexed to inflation beginning in tax year 2010. The credit was rolled back to the pre-middle class STAR program level—$125 for married couples filing jointly and $62.50 for all other filers. The credit had been increased to $290 for married filers and $145 for all others in tax year 2008, and was slated to increase to $310 for marrieds and $155 for all others in 2009.

In SFY 2010, the State will realize statewide savings of about $1.6 billion from the elimination of the STAR rebate checks to homeowners and $379 million from the reduction in the City's PIT credit. OMB estimates that City residents will lose $359 million in the City's fiscal year 2010 from the PIT STAR credit reduction, rising to $408 million annually in Fiscal 2011 through 2013.

The elimination of the Middle Class STAR rebates does not result in any lost revenue to the City. The rebate checks were mailed directly to City homeowners by the State's Department of Taxation and Finance. The State reimbursed the City for the foregone PIT revenue from the STAR credit. However, OMB shows the impact of the STAR credit on City personal income tax collections. (See the discussion on the City's personal income tax revenue in this document.)

The budget legislation did not affect the STAR Basic and Enhanced property tax exemptions.

Plastic Bag Fee

In the Preliminary Budget, the Administration proposed that stores be required to charge customers a 5 cent fee for each carryout plastic bag. This proposal remains in the Executive Budget and anticipates raising $100 million in revenue in Fiscal 2010. The revenue estimate increases to $160 million in Fiscal 2011 and then remains at $140 million annually in the outyears. In addition to raising revenue for the City, the proposal is intended to reduce waste and litter and encourage the use of reusable bags. More than 5.2 billion plastic bags are disposed of annually through the City's municipal waste stream.

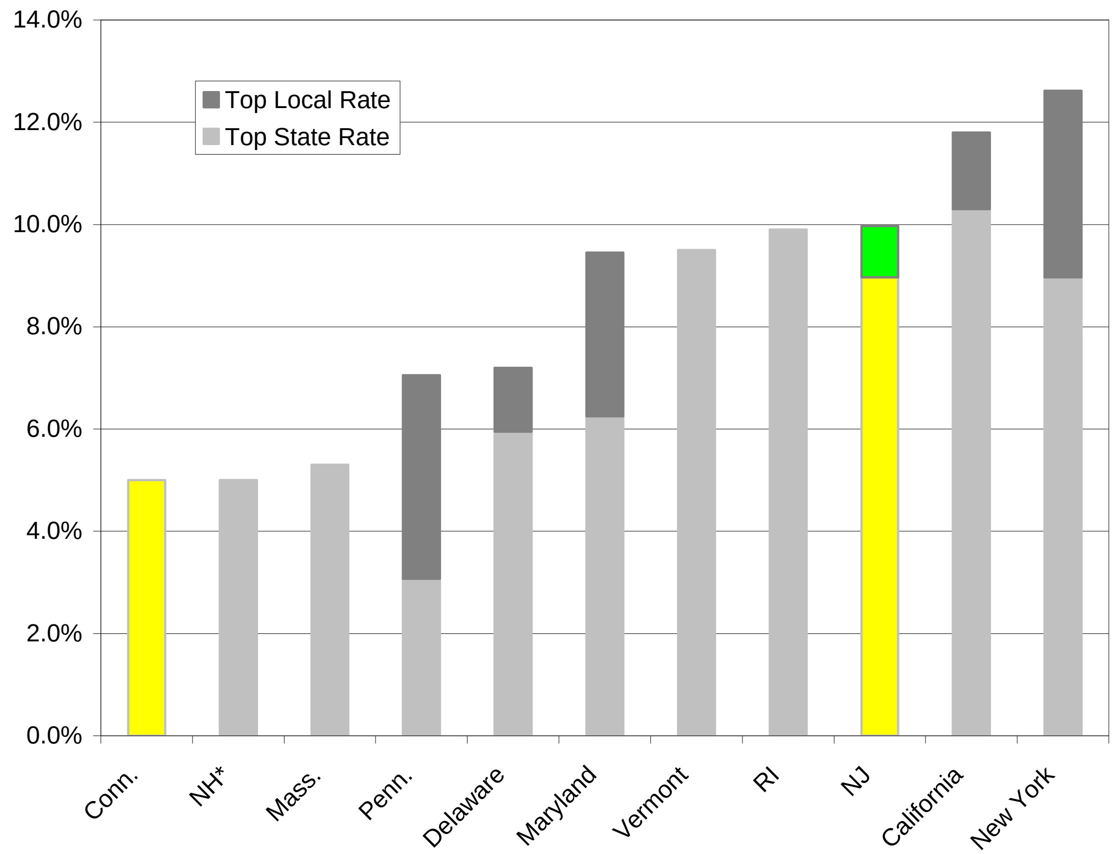
In order to implement this fee, the City would require State legislation. Senate bill S.4866 (Seranno) and Assembly bill A.7844 (Kellner) have been introduced to do this. In addition to these bills, another bill has been introduced in the New York Senate, S.5067 (Schneiderman), which would levy a 5 cent fee on plastic bags statewide. Should both bills be enacted, the fee for plastic bags in New York City would be 10 cents, with 5 cents going to the City and 5 cents going to the State.

The State's Personal Income Tax Reform and the City's PIT

The New York State 2009-10 Enacted Budget reforms the state personal income tax (PIT) by adding two top brackets, making the tax structure more progressive. Prior to the change, the top marginal income bracket was 6.85 percent and applied to taxable incomes as low as $40,000 if married filing jointly or $20,000 if single. The two new brackets include a 7.85 percent rate on taxable incomes between $300,000 (married filing jointly) and $500,000, and a top 8.97 percent rate on incomes over $500,000. This raises the State's top PIT rate by 2.12 percent. This tax change will affect 4 percent of taxpayers and will sunset in three years.

While these changes place more tax effort on those state residents best equipped to contribute, they do present an added challenge in reforming the City's PIT. Combining the new State and current City top rates, New York City's 12.6 percent is already the highest in the country. Only the combined San Francisco-California rate (11.8 percent) comes close. New Jersey is close at 8.97 percent. Neighboring Connecticut's top rate is only 5.0 percent and has a track record of drawing higher earners who work in the City. With the highest tax rates in the U.S., the City will have to exercise caution in reforming its PIT.

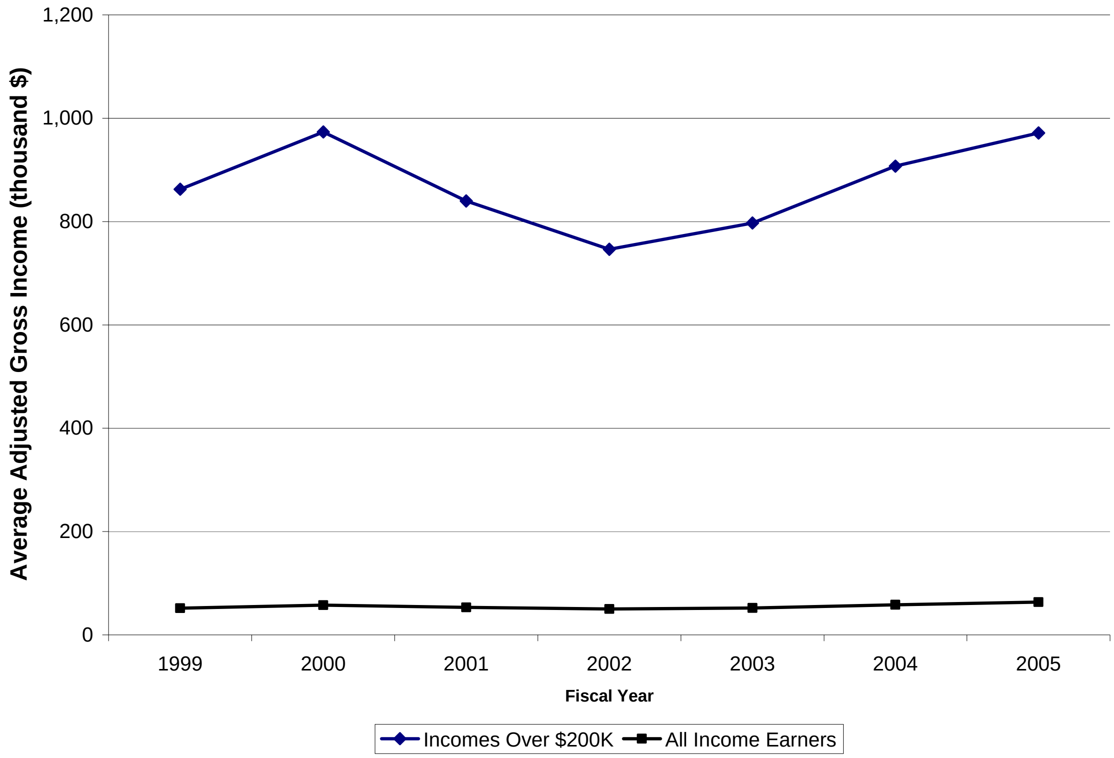
Figure 6: Top State and Local Personal Income Tax Rates in the Northeast and California



Source: Tax Foundation. Local tax rates are for the highest locality in the State. Local withholding taxes treated as income taxes. New Hampshire income tax is for interest and dividends only.

On the other hand, high income earners profited disproportionately from the City's boom years from 2004 to 2007, and should now be called upon to help during these difficult times. Among affluent households living in New York City is considered a significant amenity, making them more willing to absorb a tax hike than if they resided elsewhere. Reforming the City's PIT by adding one or two top brackets could still be feasible, providing the top rates are raised moderately.

Figure 7: City Households Earning Over $200,000 Did Especially Well During Boom Years



Source: New York State Department of Taxation and Finance, Table 4, "Income Tax Components of Full-Year Residents by Size of Income and County," 1999-2005.

State Enacted Budget Impact on New York City Tax Revenues

Many of the proposed tax reforms and actions in the Governor's 2009-10 Executive Budget are not in the State's 2009-2010 Enacted Budget, particularly the proposals to tax entertainment-related spending, to narrow the definition of capital improvement, and to extend sales tax to cable and satellite television and radio. Taken together the proposed actions would have broadened the State's sales tax base, and therefore the City's base as well, by more than the enacted actions do. The City's Executive Budget scales back anticipated revenue from State revenue actions accordingly. The table below lists those actions that are in the Enacted Budget, and the Council Finance estimate of their effect on City tax revenues in Fiscal 2010.

Table 14: Council Finance Fiscal 2010 City Fiscal Impact of State 2009-2010 Enacted Budget Revenue Actions
(In Millions)

Revenue Action	FY10 Impact
Extend Sales Tax to Transportation-Related Spending (Limousine Service)	$15
Expand Definition of Affiliate Nexus for Internet Sales	4.5
Prohibit Certain Sales Tax Avoidance Schemes	1.6
Various Cigar, Cigarette, Beer and Wine Excise Tax Increases	0.6

Revenue Estimates: City Council Finance Division

CAPITAL BUDGET, FINANCING PROGRAM AND DEBT SERVICE

Capital Commitment Plan

The 2010 Executive Capital Budget includes new appropriations of $9.46 billion, of which $7.45 billion are to be funded from City sources. This is an increase of $623 million over the Preliminary Capital Plan's Fiscal 2010 new appropriation total of $8.84 billion. A large portion of these new appropriations are the result of increased Federal funding for the City's capital plan through the American Recovery and Reinvestment Act of 2009. $280 million of the additional appropriation is additional funding over the $7.17 billion City-funded portion of the Preliminary Capital Plan.

The new appropriations, together with available balances from prior years, authorize total commitments of $11.33 billion for 2010, of which $8.93 billion will be City-funded. This is an increase of $1.45 billion in the City-funded planned commitments over the $7.48 billion planned in the Preliminary Capital Plan.

Table 15: Ten Year Capital Plan: Preliminary and Executive Budget
(in millions)

Prelim	FY09	FY10	FY11	FY12	FY13	FY14-19	FY09-19	FY10-19
Total Capital Plan	$15,648	$7,480	$6,016	$4,357	$7,529	$30,017	$71,047	$126,445
DEP	3,262	1,717	1,886	1,330	1,638	7,732	17,565	31,868
Total Minus DEP	$12,386	$5,763	$4,130	$3,027	$5,891	$22,285	$53,482	$94,577
Exec	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14-19**	**FY09-19**	**FY10-19**
Total Capital Plan	$13,315	$8,928	$5,028	$3,971	$5,833	$23,244	$60,319	$107,323
DEP	3,442	1,656	1,553	1,307	1,313	7,010	16,281	29,119
Total Minus DEP	$9,873	$7,272	$3,475	$2,663	$4,520	$16,235	$44,039	$78,204
$ Change Prelim - Exec	($2,513)	$1,509	($654)	($364)	$1,371	($6,050)	($9,443)	($16,374)
% Change Prelim - Exec	-20.29%	26.19%	-15.85%	-12.02%	-23.27%	-27.15%	-17.66%	-17.31%

Source: City Council Finance Division, NYC Office of Management and Budget

In January the Mayor announced his intention to reduce the City's capital plan by 30 percent. The objective of the capital cut is to reduce the amount of the City's general obligation (GO) debt service as a percentage of total revenues. The 30 percent reduction in the Ten-Year Capital Plan Fiscals 2010 – 2019 would reduce the long-term average annual growth in debt service costs to 3.4 percent, equal to the level of forecast growth in City revenues. The 2010 Executive Capital Budget includes $47.0 billion in planned commitments for Fiscal 2010 through 2019 (see table below). This total includes $12.84 billion in commitments for capital projects for the Department of Environmental Protection (DEP) which are funded primarily by non-GO debt. The GO-funded portion of the Fiscal 2010 – 2019 Executive Capital Plan is $34.17 billion; this is $6.93 billion or 16.86 percent less than the $41.1 billion Preliminary Fiscal 2010 – 2019 Capital Plan. Taking into account the current fiscal year increases the total cut to $9.44 billion, or 17.66 percent of the planned commitments laid out in the Preliminary Ten Year Capital Plan.

Debt Service

The City's Fiscal 2009 debt service budget, as presented in the Executive Budget totals $1.8 billion, an increase of about $155 million over the Preliminary Budget. (Total debt service for purposes of this discussion consists of general obligation and Transitional Finance Authority long-term debt service, interest on short-term debt, lease purchase debt. Also included is the Budget Stabilization Account, used to hold budgeted surplus funds.)

Table 16: Debt Service Budget Breakdown

(In Millions)	**2009**	**2010**	**2011**	**2012**	**2013**
G.O. Debt	$160.4	$392.0	$4,341.3	$4,773.5	$5,052.9
TFA Debt	170.3	109.6	587.9	1,157.4	1,157.8
Short-Term Debt	--	74.6	74.6	74.6	74.6
Lease Purchase Debt	192.3	137.0	251.0	247.4	245.2
Total Debt Service	**$523.0**	**$713.2**	**$5,254.8**	**$6,252.9**	**$6,530.5**
Budget Stabilization Account	1,285.2	--	--	--	--
Total Debt Service & BSA	**$1,808.2**	**$713.2**	**$5,254.8**	**$6,252.9**	**$6,530.5**

Source: NYC Office of Management and Budget

The Budget Stabilization Account will stop being funded in Fiscal 2010, rather than later in Fiscal 2011, further reducing the debt service burden in Fiscal 2010, but making the jump to Fiscal 2011 even greater. By 2011 debt service costs will no longer be reduced by accumulated surplus prepayments. The effects of the economic downturn will no longer produce surplus City revenue rolls for the remainder of the plan period. Without prepayment annual debt service will be far higher.

In spite of lower variable rate debt service costs, Fiscal 2009 debt service is up; prepayment from the Budget Stabilization Account is up $279 million, and there is a new prepayment of $110 million for lease purchase debt. Increasing the Budget Stabilization Account prepayment reverses a change made in the Preliminary Budget. Because planned prepayment into Fiscal 2010 is now greater and there is no longer any prepayment from 2010 into 2011, the debt burden in 2010 is significantly less; it is projected to decrease by over a half from about $1.6 billion to $713 million. However, by Fiscal 2011, budgeted debt service jumps by over 600 percent to $5.3 billion, then increases by nearly 19 percent to $6.3 billion in 2012, before returning to growth of around 4 percent in 2013.

In Fiscal 2009 and 2010, prepayments reduce general obligation debt service costs by more than $3 billion and $3.4 billion, respectively. Because of the City's practice of rolling budgetary surpluses from one year into the next by pre-paying debt service (and often other lump-sum payments as well), the budgeted debt service figures can present a confusing picture of actual debt service growth. Reversing the effect of these actions presents a truer picture of the burden of debt service on the City's budget and its growth; debt service for outstanding, long-term debt issued against City revenues grows at a rate of 15 percent in Fiscal 2010, then by 7 percent per year in Fiscal 2011 and Fiscal 2012, and by 4 percent in Fiscal 2013.

The Mayor's Executive Budget also measures the City's debt burden by comparing debt service costs as a share of tax revenues and total revenues. For Fiscal 2009, debt service payments are 12.5 percent of total taxes and 7.6 percent of total revenue. By 2013 these figures rise to 15.6 percent of total taxes and 9.8 percent of total revenue.

Capital Financing Program

Since September 2008, with the failure of Lehman Brothers, the issuers of City debt have been less able to sell large bond issues. In response, the City has increased the number of bond issues, but they are smaller in size. Borrowing costs have also increased, but the increases have not exceeded the amounts provided for in the City's debt service budget. In order to reduce financing costs, the City has requested State legislation to alter the New York City Transitional Finance Authority (TFA) borrowing cap for City-backed debt. The City's chief means of capital finance are general obligation debt backed by property taxes, and, until recently, TFA debt backed by personal income taxes. The TFA issued debt against City personal income tax revenues, and can still issue separate school construction debt against State Building Aid revenue. Currently its cap on City-backed debt is $13.5 billion. It is cap on issuance. TFA realized this cap in Fiscal 2007. State Senate Bill 4940 (Kruger) requests that the cap be changed from a cap on issuance to a cap on debt outstanding, and that the City be able to issue TFA debt instead of general obligation, GO, debt, so long as the sum of TFA and general obligation debt is beneath the existing GO debt limit. The TFA has been a source of diversification in the financial markets as well as a source of financing savings because TFA bonds generally have a lower interest rate than GO bonds, usually 20 to 30 basis points lower.

Barring an increase or a change in the nature of the TFA's bonding capacity, the City anticipates financing $27.7 billion of its capital program through the use of GO debt in the period from Fiscal 2009 though 2013. This represents about 70 percent of the total financing program for the plan period, if one includes Water Authority debt, which is paid with water rates, rather than City tax revenues. Otherwise, GO debt represents nearly all City-revenue backed financing. So far this year, the City has completed eight sales for a total of about $4.9 billion. The solitary refunding issue of $250 million should realize $20 million in debt service savings over the plan period. The City plans to issue $600 million more in GO bonds for capital purposes, this year. If the State legislature were to increase the TFA cap, the City would issue through TFA up to half of what would have been raised through GO bonds, producing significant savings in financing costs.

Table 17: Financing Program: Sources of Funds
(In Millions)

Source of Funds	2009	2010	2011	2012	2013	Total
City General Obligation Bonds	$ 5,291	$ 6,450	$ 6,000	$ 5,300	$ 4,720	$ 27,761
Transitional Finance Authority*	-	-	-	-	-	-
TSASC Bonds	-	-	-	-	-	-
Water Authority Financing	2,772	2,373	2,055	1,861	1,656	10,718
Total Funds	**$ 8,063**	**$ 8,823**	**$ 7,161**	**$ 6,376**	**$ 6,025**	**$ 38,479**

**This excludes TFA Building Aid Revenue Bonds, BARBs, issued against State Building Aid for education.*
Source: NYC Office of Management and Budget.

Variable Rate Debt. The City has issued variable rate debt in order to realize cost savings in the capital program. More than $9.6 billion of floating rate bonds are currently outstanding, issued by the City and its related entities. Although floating rate debt can realize lower debt service when variable rates are below the City's fixed debt rate, it is a source of exposure to credit market. Certain events could cause unexpected increases in costs, such as rising interest rates, changes in the tax code, and deterioration of the City's credit. These events would not increase the costs of fixed rate debt. However, fixed rate debt borrowing costs are often higher than variable short-term debt, and fixed rates cannot benefit from declines in interest rates. The City has acted conservatively in issuing floating rate instruments. The proportion of variable to fixed rate debt (consisting of GO bonds; city-backed TFA, TSASC bonds and conduit debt) is currently 17.3 percent. However, taking into account the short-term assets of $3.6 billion in the General Fund, which are offsets to floating rate liability, the City's ratio drops to 10.8 percent.

TFA Financing for the Department of Education. In April 2006, the State authorized TFA to issue up to $9.4 million in Building Aid Revenue Bonds (BARBs) to fund the Department of Education's capital costs. Since the inception of the program, TFA has issued $3.67 billion in BARBs. The State legislation provided for the bonds to be secured by State Building Aid that had previously been paid directly to the City. The current financial plan includes issuance of $2.5 billion, $250 million, $800 million, $700 million, and $750 million in Fiscal 2009 through 2013, respectively.

QSCB & QZAB General Obligation Financing for the Department of Education. The American Recovery and Reinvestment Act of 2009, ARRA, includes two programs that would allow the City to issue school-related bonds for which the Federal government will pay the entire cost of interest: Qualified School Construction Bonds, QSCBs, for public school construction and land acquisition, and Qualified Zone Academy Bonds, QZABs, for public school rehabilitation or programs in disadvantaged areas. They are part of thee of the Federal Government's Qualified Tax Credit Bond program: bonds for which the Federal government pays the interest due bond holders with federal income tax credits. The Treasury sets their interest rate. QSCBs are new, and the City's allocation of them is $699 million per year for calendar years 2009 and 2010. QZABs have existed since 1998. The City used them last in 2003. The State's allocation of these bonds is about $26 million in calendar year 2009, and about $90 million in Fiscal 2010. The City intends to issue their allotment of QSCBs as general obligation debt. If necessary, it will issue QZABs as well. If the QSCB program is renewed for another two calendar years, the City would like to issue a further $295 million of QSCBs in Fiscal 2011, for a total of $1.7 billion of federally subsidized bonds. The capital program reflects this, and anticipates debt service savings of $22 million in Fiscal 2010, and of $79 million, $98 million and $108 million in Fiscal 2011 through 2013, respectively.

Although QZABs have existed for a decade, the amount outstanding is relatively miniscule as the entire national allotment had been $400 million per year up until the ARRA increased the calendar year 2009 and 2010 allotments to $1.4 billion each. QSCBs are similar to QZABs. These “tax-credit” bonds are unusual. QZABs have priced at a discount in the past or required interest rates above the rate set by the Treasury in order to sell, effectively reducing the value of the subsidy and possibly causing the issuer to pay that portion of the interest in excess of the set rate. If this occurs, the City would not realize its full allotments of these bonds, and therefore would not realize the entire cost savings associated with the allotments. However, ARRA has also introduced other larger, national partial tax-credit bond programs, which may aid market acceptance of QSCBs and QZABs, and help them realize sale at their face value.