



Fiscal 2009 Preliminary Budget Hearings

❖ Committee on Finance

March 2008

- *Revenue and Debt Service Report*

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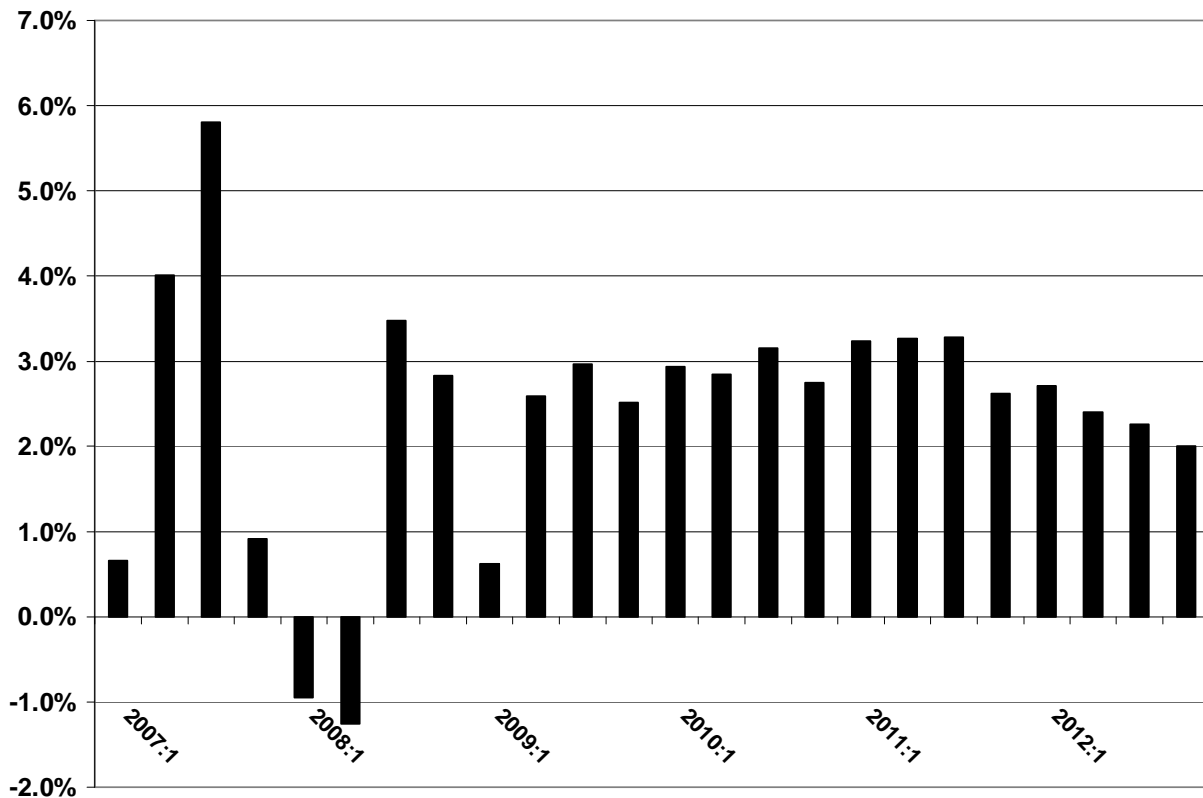
The Economy

THE NATIONAL ECONOMY: RISK ESCALATES

The economic news over the last two months has not been very good. The national economy is slowing down, growing at the rate of only 0.6 percent in the fourth quarter of 2007. The unemployment rate is rising, the number of jobs in the economy, consumer confidence, housing starts and housing prices are falling, and there is evidence that the non manufacturing sector is shrinking. News from the financial sector is mixed, but large losses continue to be reported and the credit crunch continues. Reacting to this, economists have been revising their forecasts downward. In mid November the economists in the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters pegged the risk of a negative growth in the first half of 2009 at less than 25 percent. In the mid February survey the risks were pegged at 47.3 percent for 2009Q1 and 42.9 percent for 2009Q2. While the evidence of a recession is not cast iron, the odds are close to 50-50 that we are now in a recession.

Global Insight, the econometrics firm used by both Council Finance and OMB, also changed its view of the economy between December and February. Their December forecast was far from rosy, but they believed there was a 60 percent chance the economy would avoid a recession, experiencing four quarters of slow growth instead. By February they forecast that the economy was, in all likelihood, in a mild recession, and there was a 25 percent chance that recession would be severe.

FIGURE 1: GROWTH IN REAL GDP



Source: Global Insight February 2008

The sources of this recession are well known, two shocks:

- The fall in the housing market and the related problem of the credit crunch;
- Oil prices approaching \$100 a barrel.

The problem now is the interaction between the financial sector and the rest of the economy. The banking system has capital write-offs of around \$125 billion related to housing and credit conditions. As a rule of thumb reductions in bank capital reduce the amount of loans available by a multiple of 10 or 12. With less available to lend and greater concern about risk, banks are tightening their lending standards especially in the residential and commercial real estate markets. This weakens the housing market and the general economy, which in turn increases losses in the financial system. Problems are not restricted to real estate related activities. Recent weeks have seen problems with bond insurers, the municipal bond market, and increasing credit card and auto loan delinquencies.

A recession could cause banking system write-offs to rise to \$250 - \$300 billion and a severe recession could result in write-offs of \$400 billion, similar to that of the S & L crisis of the 1980s.¹

The Federal Reserve has reacted to this problem by reducing the federal funds interest rate by 2.25 percent. Lower short term interest rates tend to help financial institutions by lowering the cost of obtaining funds and improving their profitability.

FEDERAL STIMULUS

One of the channels by which Federal Reserve interest rate cuts aid the economy is by making it cheaper and easier for the financial system to make loans. But banking system losses weaken their ability to make loans and thus make it harder for the Fed to have the desired impact. This is where a fiscal stimulus can be of use.

Congress has recently enacted, and the President has signed, the Economic Stimulus Package Act of 2008. The Act provides an income tax rebate of up to \$600 for head of household and \$1,200 for a married couple filing jointly, with an extra rebate of \$300 per child.² This will be paid to households in the late spring - early summer of 2008. It also provides for extra depreciation for businesses, and allows Fannie Mae/Freddie Mac (FNMA/FMC) to buy larger mortgages. The program will provide a boost in the third and fourth quarters of 2008, helping to end the recession. The extra depreciation will mostly have the effect of moving forward business equipment spending that would have occurred in the first quarter of 2009 into the end of 2008. This is one of the sources of the slowdown forecasted in 2009Q1 in figure 1 above. Overall, the stimulus boosts growth in 2008 by 0.4 percent according to Global Insight, at the cost of slightly slower growth in 2009.

OMB'S NATIONAL FORECAST

OMB's national forecast was completed by January 2008, prior to downward revisions of many national forecasts. They see the economy having a soft landing, avoiding a recession. Economic growth will be slow through 2008. The economy recovers in 2009 and growth in 2010 and 2011 will

¹ Estimates of banking system write-offs are from Global Insight February 2008.

² The credit phases starts to phase out at AGI \$75,000 (\$150,000 for married filing jointly). Taxpayers with AGI over \$87,000 (\$174,000 for married filing jointly) will receive no rebate. There is a minimum rebate of \$300, for those who had at least \$3,000 in qualifying income in 2007. Taxpayers whose 2007 tax was less than the \$600 maximum credit will not receive the full credit. They will receive the tax they paid or the minimum credit whichever is higher. This keeps some low income households from fully benefiting from the credit.

be similar to what we experienced in 2006. Job creation slows significantly in 2008 and the unemployment rate will rise, peaking in 2009. Corporate profits will fall in 2008, and will remain below the 2007 level through the forecast period. OMB's forecast is a plausible one, and similar to the forecast used by Council Finance in November. The range of national forecasts is unusually large right now. OMB's forecast is within the central tendency of forecasters at the Federal Reserve as reported in Minutes of their January 29th meeting. Council Finance is currently using a more pessimistic forecast based on Global Insight's February forecast in Figure 1.

NEW YORK CITY ECONOMY³

Despite the national slowdown, New York City's economy has maintained robust growth up through most of 2007, but is beginning to show symptoms of decelerating. According to the City Comptroller, the City's performance for 2007 surpassed the nation as a whole, with Real Gross City Product (GCP) growing by 3.0 percent compared to Real Gross National Product (GNP) at 2.2 percent.⁴ Through early 2007, the City's fortunes have been relatively insulated from the weakening housing market nationwide. Its residential real estate prices held up admirably, fueled by the demand for living in the City. It was also not dependent on the afflicted construction and manufacturing industries.

Since the late summer of 2007, however, the subprime mortgage meltdown, and the resulting plummet of asset-backed securities, has severely crippled the intermediary function of banking, a major sector in the City. The result has been a severe credit crunch and ongoing Wall Street losses. After NYSE member firms amassed stellar profits of \$20.9 billion for 2006, the Third Quarter 2007 reported losses of \$3.8 billion, the heaviest decline on record.⁵ Consequently, the net earnings of the first three quarters of 2007 amounted to only 62 percent of the same period in 2006. Fourth Quarter earnings are expected to be appreciably worse, with the seven principal U.S. investment banks reporting losses of \$17 billion.⁶

Consequently, OMB expects a palpable slowdown in the City's economy for 2008 and 2009, with downside risks of it becoming more severe. The City is already slipping into a recession in 2008, with annual GCP projected at -4.2 percent. 2009 shows a very mild recovery with a slow improvement in the outyears. During this time, employment growth is expected to drop from 1.5 percent in 2007, to 0.1 percent in 2008, slowly recovering in the outyears, but remaining below 1 percent through 2012. OMB forecasts the wage rate to drop 2.5 percent in 2008, increasing by only 0.2 percent in 2009.

On the other hand, bonuses in the finance and insurance sector for 2007-2008 are projected by the New York State's Division of Budget (DOB) as falling by only 5.5 percent compared to a year ago.⁷ Also, last December and January's personal income tax withholdings, representing the available wage data for the bonus season, is still 2.46 percent above levels a year ago. This suggests that the City's wage performance will at least not be a disaster.

³ Unless otherwise cited employment data is from OMB.

⁴ OMB has a much lower GCP forecast, 0.3 percent. This seems excessively pessimistic about the second half of 2007 and out of line some other parts of OMB forecast.

⁵ SIFMA December 2007. City budget documents usually discuss NYSE member profits.

⁶ Council Finance calculation based on fourth quarter reports of major investment banks.

⁷ DOB 21 Day Amendment Forecast.

Up to now, the City's private employment growth is still holding up, growing by a healthy 1.4 percent in December 2007 compared to the same time the previous year. 2007 witnessed the addition of 54.4 thousand private sector jobs.⁸

There are six sectors that represent the main drivers of the City's economy. As of December 2007, five of these sectors still showed positive job growth compared to the same time the previous year, with education services suffering losses.⁹

- Finance (up 10,500 or 2.26%)
- Business Services (up 15,400 or 2.63%)
- Information (up 400 or 0.24%)
- Leisure and Hospitality (up 5,700 or 1.96%)
- Health Care (up 9,700 or 1.75%)
- Education (down 3,200 or -2.00%)

Most job losses are concentrated in the goods producing sector, which employs a small percentage of City workers.

With Wall Street losses, financial firms are already announcing layoffs. OMB expects finance sector employment to contract by as many as 12,000 jobs by 2009. It also forecasts an 11.1 percent reduction in finance sector wages in 2008 and by another 5.0 percent in 2009.

Professional and business services are highly dependent on Wall Street's demand for legal, accounting and other professional services. OMB projects that after steady employment growth averaging 15,000 jobs for the past three years, 2008 will witness job growth of only around 6,000.

The Leisure and Hospitality sector has been powered by the strength of tourism in the City. In 2007 a record 46 million tourists visited the City, a 4.5 percent increase from 2006. This was helped by the weak dollar attracting foreign visitors. This surge aided the hotel industry; by the late summer occupancy rates reached 90 percent, while room rates averaged \$337 per night. OMB expects sector employment to continue to increase by 4,000 for each of the next three years.

Health Care and Education have been steady sectors in the City's economy, being fairly independent of business cycles. Their strength has been responsive to the City's growing population and the increasing attractiveness of living, working, studying and doing business in the City.

Turning to real estate, last year's growth in office-based employment and the limited availability of office space (especially Midtown) has pushed overall Manhattan office rents to \$65 per square foot in December 2007, a 29 percent increase year-over-year. Corresponding vacancy rates dropped to 5.7 percent, compared to 6.7 percent the year before.¹⁰ There is relatively little new office space under construction in Midtown and major additions downtown will not become available before 2009. Consequently, OMB expects overall vacancy rates in 2008 to stay within 6 and 7 percent.

The City's housing values have largely maintained their value through most of 2007, balking the

⁸ Finance Division calculations from New York State Department of Labor establishment survey.

⁹ Council Finance calculations based on December over December growth, data New York State Department of Labor establishment survey.

¹⁰ Cushman & Wakefield

downward trend nationwide. Prices have begun to drop, however, toward the end of 2007, as mortgage conditions tightened and defaults increased. The Case-Shiller Home Price Index dropped by 4.8 percent in November 2007 compared to the same time the previous year. OMB estimates that single-family home sales have decreased by 25 percent in 2007, and will drop by 20 percent in 2008. Between 2008 and 2009, home prices are estimated to fall by around 10 percent.

The Manhattan condo and coop market has been especially strong through 2007. The average sales price of a one bedroom coop was \$716,480 in the 4th Quarter 2007, a 17.5 percent increase year-over-year. Condos were \$861,860, a 4.9 percent increase.¹¹ With reduced bonuses and other income sources, demand is expected to slacken in 2008. Sales of coops and condos are expected to drop about 10 percent in both 2008 and 2009, according to OMB. Prices are predicted to drop by 15 percent in 2008.

New York City is finally showing signs of an economic slowdown, a few months after the U.S. as a whole. This is largely due to the subprime mortgage and other high risk credit contagion spread by Wall Street. Incomes of New Yorkers are expected to decline this year, both directly from the finance sector and indirectly through the unavailability of credit and decreased investment. After the City added 54,500 jobs in 2007, OMB expects only 3,000 additional jobs in 2008. Total wage earnings are expected to decline by 2.8 percent.

TABLE 1: OMB FORECAST OF SELECTED ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012
National Economy						
Real GDP <i>Percentage Change</i>	2.2	1.8	2.7	2.8	3.0	2.6
Non-Agricultural Employment <i>Percentage Change</i>	1.3	0.8	1.1	1.2	1.3	1.1
Wage Rate <i>Percentage Change</i>	4.3	3.2	3.5	3.5	3.5	3.7
New York City						
Real Gross City Product <i>Percentage Change</i>	0.3	-4.2	1.5	2.4	2.5	2.1
Non-Agricultural Employment <i>Change from previous year (thousands of jobs)</i>	54.5	5.2	14.6	25.2	29.0	24.4
Wage Rate (not corrected for inflation) <i>Percentage Change</i>	8.2	-2.5	0.2	3.8	3.9	4.1

Changes to the Financial Plan

The Fiscal 2009 Preliminary Revenue Budget recognizes an additional \$1.567 billion in Fiscal 2008 resources compared to estimates made in the Adopted Budget. These resources will be used to prepay Fiscal 2009 expenses to help close the Fiscal 2009 budget gap that has grown considerably in the last six months. Of this amount, \$1.3 billion or 81 percent is attributable to special budget actions taken this year. These special actions include an additional \$500 million in tax enforcement revenue, a

¹¹ MillerSamuel

reduction in prior year payables totaling \$500 million, a reduction in the general reserve by \$200 million, and elimination of the \$100 million earmarked for pay-as-you-go capital spending.¹² The remaining \$267 million net increase in resources consists of savings from a 2.5 percent agency gap closing program of \$543 million, offset by reduced estimates of other revenue sources of \$136 million and increases in other agency spending of \$140 million.

At the time of adoption of the Fiscal 2008 budget, the projected budget gap for Fiscal 2009 was estimated at \$1.55 billion. During the first six months of the current fiscal year, the subprime mortgage crisis has extended into other areas of the finance sector leading to significant downward revisions in tax revenue starting in Fiscal 2008 and growing considerably thereafter. As a result, proposed downward revisions in tax revenue since budget adoption in June total \$1.47 billion in Fiscal 2009, \$1.24 billion in Fiscal 2010 and \$1.24 billion in Fiscal 2011. This marks a clear departure from the post 9/11 era when tax revenue revisions were consistently on the positive side.

On the expense side of the budget, estimates for collective bargaining costs, debt service, pension costs, energy costs and agency new needs as a group have increased significantly, especially in the out-years. These areas have increased modestly in Fiscal 2008 by \$140 million, and by \$88 million in Fiscal 2009 when compared to adoption. However, in Fiscal 2010, these expenses increase by \$1.1 billion. In Fiscal years 2011-12 these expenses increase by \$1.5 billion, and \$3.3 billion respectively.

The weakness in revenues and increased expenses for the current year and beyond required the Administration to 1) eliminate the funding for the SMART program as well as eliminate the proposal to reduce the double taxation faced by S-Corporations, 2) extend the agency PEG program implemented this year to save \$885 million in Fiscal 2009, 3) propose increased employee health contributions to save \$200 million annually, and, 4) seek an additional \$100 million in federal assistance. These actions, combined with the additional resources from Fiscal 2008, bring the Fiscal 2009 budget into balance.

The above actions are insufficient to close the budget gaps starting in Fiscal 2010. At budget adoption, the Fiscal 2010 budget gap was \$3.4 billion and increased to \$4.4 billion by Fiscal 2012. The updated budget gaps as presented in the Preliminary Budget add approximately \$1 billion to each out-year budget gap. The Preliminary Budget provides options to address the out-year budget gaps, such as reducing expenditure growth to the rate of inflation, additional unspecified agency and programmatic reductions, debt service/asset sales, additional State and federal assistance, and reversing the 7 percent property tax rate reduction implemented in Fiscal 2008. Changes to the financial plan since adoption and the proposals to eliminate the budget gaps are presented in Table 2.

¹² The Financial Plan also anticipates prepaying Fiscal 2009 TFA debt service in the amount of \$546 million

TABLE 2. CHANGES TO THE FINANCIAL PLAN SINCE JUNE 2007 PLAN

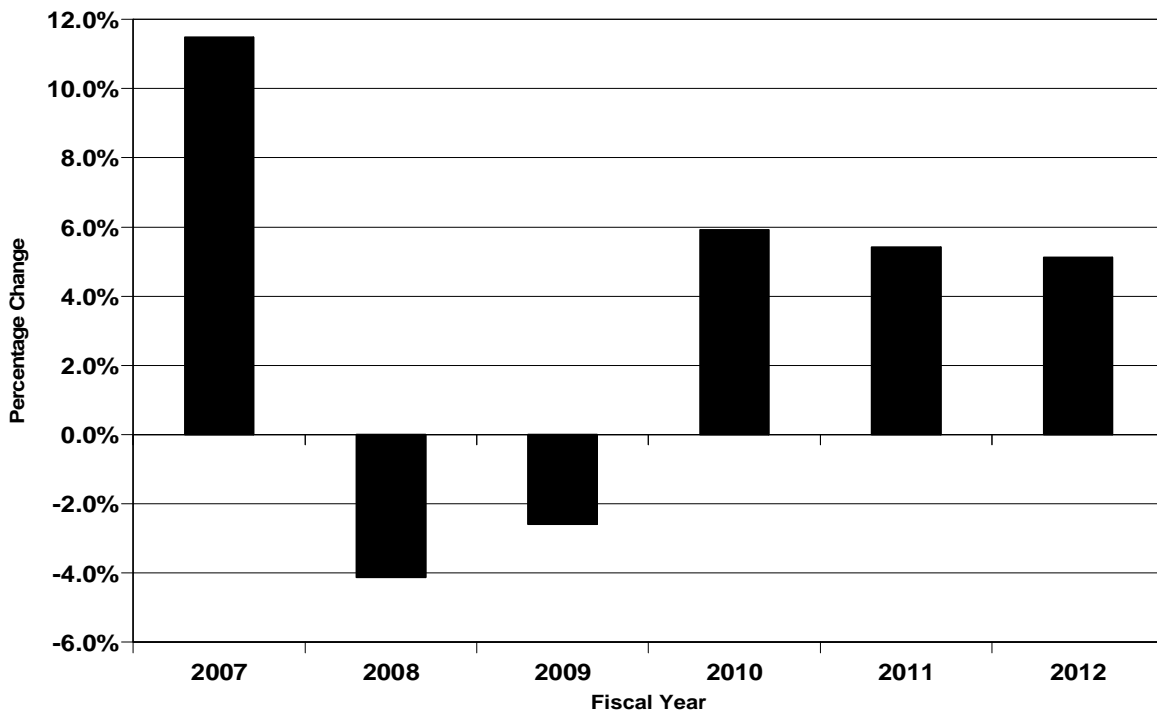
In Millions	2008	2009	2010	2011	2012
Budget Gap at Adoption	\$0	(\$1,550)	(\$3,397)	(\$4,369)	(\$4,369)
Revenue Adjustments					
Tax Audits	\$500				
SMART Fund Reversal	\$50	\$220	\$260	\$275	\$275
Non Tax Revenue	\$60	\$160	\$19	\$13	\$22
Property Tax	\$15	(\$181)	(\$237)	(\$313)	\$489
Other Tax Revenue	(\$261)	(\$1,289)	(\$1,007)	(\$929)	\$317
Total Revenue Adjustments	\$364	(\$1,090)	(\$965)	(\$954)	\$1,103
Expense Adjustments					
Eliminate Pay-Go Capital	\$100	\$200	\$200	\$200	\$200
Reduce General Reserve	\$200				
Reduce Prior Year Payables	\$500				
Collective Bargaining	(\$92)	(\$438)	(\$1,075)	(\$1,610)	(\$2,264)
Pension Reestimates	(\$22)	\$153	\$12	\$210	\$413
Debt Service	\$32	\$108	\$149	\$97	(\$490)
Energy Costs	(\$27)	(\$78)	(\$152)	(\$183)	(\$187)
New Needs / Other	(\$31)	(\$57)	(\$42)	(\$30)	(\$738)
Total Expense Adjustments	\$660	(\$112)	(\$908)	(\$1,316)	(\$3,066)
Net Adjustments	\$1,024	(\$1,202)	(\$1,873)	(\$2,270)	(\$1,963)
Budget Gaps / Surplus After Adjustments	\$1,024	(\$2,752)	(\$5,270)	(\$6,639)	(\$6,332)
Gap Closing Program Fiscal 2009					
Agency Cuts	\$543	\$885	\$746	\$741	\$708
Additional Fed /State Aid		\$100	\$100	\$100	\$100
Increased Employee Health Contribution		\$200	\$200	\$200	\$200
Total Gap Closing Program for 2009	\$543	\$1,185	\$1,046	\$1,041	\$1,008
Prepayment of 2009 Expenses	(\$1,567)	\$1,567			
Remaining Budget Gaps	\$0	\$0	(\$4,224)	(\$5,598)	(\$5,324)
Gap Closing Program 2010					
Reduce Agency Growth to Inflation			\$1,000	\$1,900	\$2,100
Additional Agency Program Reductions				\$1,300	\$1,400
Debt Service / Asset Sales			\$500		
Reverse 7% Property Tax Reduction			\$1,223	\$1,298	\$1,359
Additional State and Federal Assistance			\$1,500	\$1,000	\$1,000
Total Out-Year Gap Closing Actions			\$4,223	\$5,498	\$5,859

Tax Revenue

After several years of double digit growth, the City's tax revenues are slowing down. As of January, collections from the major taxes were approximately 1.3 percent ahead of the same time last year and \$241 million over the Fiscal 2009 Preliminary Budget Plan. For comparison, in the first seven months of Fiscal 2007 collections were 8.5 percent ahead of Fiscal 2006.¹³ Some of this slowdown is due to changes in tax policy. Last year the Council, working with the Mayor and (for some taxes) the State Legislature, reduced the City's property tax by 7 percent, created a new child care credit, exempted all clothing and footwear from the sales tax, reduced double taxation on City residents that pay the unincorporated business tax, and enacted a set of business tax reforms aimed at small businesses. All together these will reduce City tax revenues by nearly \$1.3 billion in Fiscal 2008. But a part of the slowdown is due to the economy. As one might expect from the economic analysis above, the first taxes affected by the slowdown are those related to banking and the sale of property. The mortgage recording tax collections are down 18 percent and the bank corporation tax collections are 23 percent behind the same time last year. Most other taxes are holding up well, and personal income tax (PIT) collections have been a pleasant surprise. PIT withholdings are up 6.8 percent so far this year and bonus season collections in December and January are up 2.5 percent from last year.

OMB expects the last five months of the Fiscal Year to be slower still, with collections falling about 15 percent compared to the same period last year. Much of this will be due to decreases in the still resilient general corporation (GCT) and unincorporated business (UBT) taxes as well as a weak April for the PIT.

FIGURE 2: OMB TAX REVENUE FORECAST



¹³ Council Finance calculations for the City's major taxes without audits.

Going forward, OMB forecasts two weak years; Fiscal 2008 and 2009 with a modest recovery in Fiscal 2010 (see Table 3). Note that Fiscal 2008 is not as weak as it seems. Without the changes in tax policy, OMB's forecast would be down only 1.1 percent, instead of the 4.1 percent decline. City tax revenues are taking their worst economic hit in Fiscal 2009. The forecast follows OMB custom of conservative revenue forecasting. It is considerably more conservative than the Fiscal 2008-09 New York State Executive Budget 21 Day Amendment Supplement which sees a 4.1 percent growth in the State tax base in Fiscal 08-09.¹⁴ There is considerable downside risk in revenue forecasting under current conditions, especially for the business taxes, which will be discussed below. But there may be some upside risk in OMB's forecast, especially in Fiscal 2008. Council Finance is in the early stages of its forecast and will respond in detail to OMB's forecast in the near future.

TABLE 3: FISCAL 2009 PRELIMINARY BUDGET TAX FORECAST GROWTH RATES

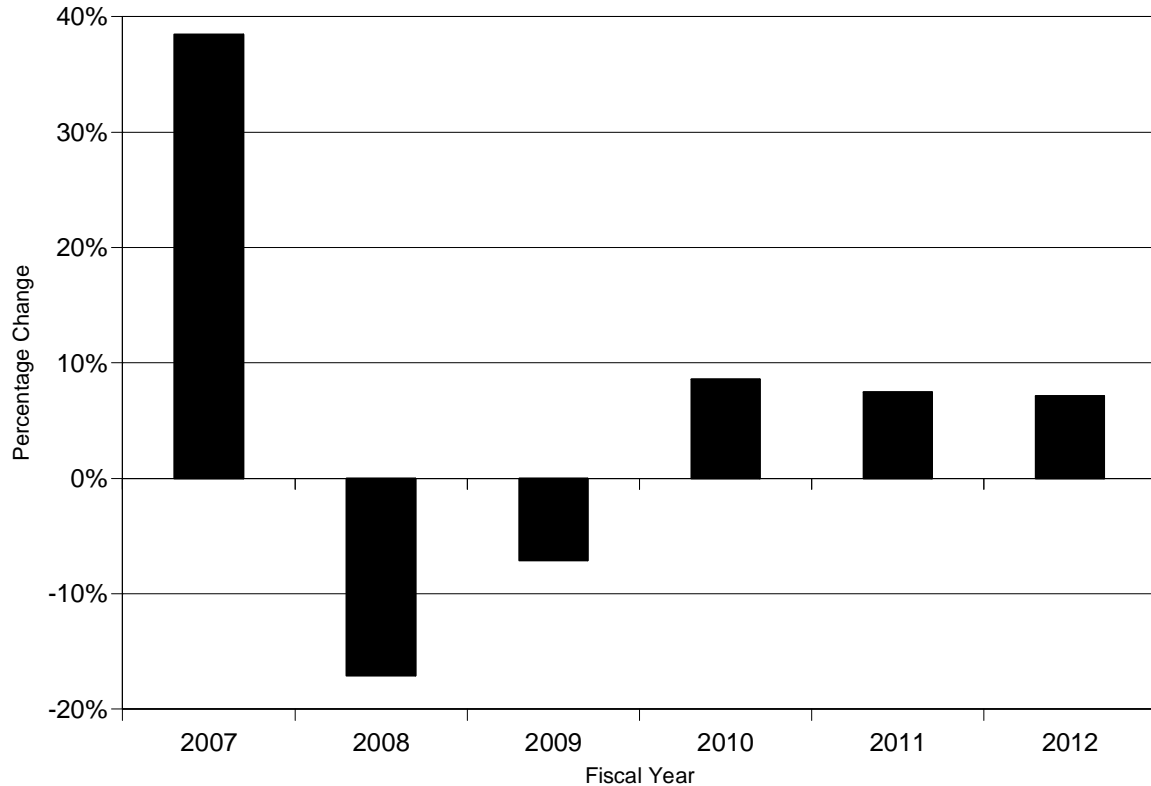
Tax	2007	2008	2009	2010	2011	2012
Real Property	3.9%	0.3%	7.1%	7.4%	6.1%	5.1%
Personal Income	5.1%	-2.5%	-6.6%	5.3%	6.4%	4.7%
General Corporation	31.3%	-11.9%	-3.1%	6.9%	7.2%	7.0%
Banking Corporation	85.7%	-42.9%	-28.6%	23.3%	10.8%	7.1%
Unincorporated Business	27.6%	-8.0%	-4.6%	6.7%	6.6%	7.4%
Sales	4.6%	1.8%	-1.3%	5.5%	5.0%	5.9%
Commercial Rent	7.4%	7.4%	2.9%	3.0%	3.1%	3.7%
Real Property Transfer	33.1%	-14.4%	-24.2%	-1.6%	-1.5%	4.2%
Mortgage Recording	16.0%	-26.5%	-17.8%	-1.8%	-1.3%	4.2%
Utility	-8.0%	0.0%	4.2%	4.3%	4.1%	2.9%
Hotel	9.9%	12.3%	5.7%	8.8%	6.2%	5.4%
All Other	17.1%	6.8%	2.3%	2.5%	1.5%	2.9%
Audits	40.0%	-2.5%	-47.2%	0.2%	0.0%	0.0%
Total Taxes	11.5%	-4.1%	-2.6%	5.9%	5.4%	5.1%

BUSINESS AND INCOME TAXES

Collectively, the City's business taxes—the unincorporated business tax (UBT), general corporation tax (GCT) and banking corporation tax (BCT)—are holding up surprisingly well, up 4.6 percent through January compared to the same time last year, and are about \$107 million over plan. OMB expects these taxes to decline by 17.1 percent during Fiscal 2008, off their unprecedentedly high Fiscal 2007 levels. This requires decreases of 55 percent for the BCT and more than 19 percent for the GCT and UBT. The volatile bank tax has changed to this extent, having grown by 85 percent in Fiscal 2007. A 19 percent change is also not unknown for the GCT. It would, however, be an unusual fall for the UBT.

¹⁴ There are significant differences in the two tax bases and State 08-09 includes the last quarter of City Fiscal 08 and the first three quarters of City Fiscal 09.

FIGURE 3: COMBINED BUSINESS TAX GROWTH RATES



Going forward, the business taxes do not return to their Fiscal 2007 levels within the forecast period, with the worst years being Fiscal 2008 and 2009. While some of this results from the uniqueness of New York City's economy with its heavy reliance on the hard hit financial sector, it is also similar to a more general phenomenon. Global Insight forecasts that nationally, state and local corporate income taxes will fall 11 percent in Fiscal 2008 and will not recover until Fiscal 2010, with tepid growth in Fiscal 2011 and 2012. This is a product of expected weak growth in corporate profits.

The difficulty in forecasting business taxes and, to a lesser extent the personal income tax, comes from the nature of losses in the subprime/credit markets. The full scale of these write downs is still unknown, and the write downs are not necessarily losses for tax purposes. So when (and if) these losses translate into tax losses is hard to judge. OMB estimates that losses reported by the major investment and commercial banks in the second half of 2007 will reduce city tax revenue by \$660 million.

The City's personal income tax is holding up well. Through January, collections are up 8.25 percent compared to the same time last year, with a strong performance of both withholding and estimated payments. As mentioned above, the bonus season is fine or at least not a disaster. OMB expects the PIT to decline by 2.5 percent in Fiscal 2008. This requires that over the next five months PIT collections fall by 16 percent, with flat withholdings and dramatic falls in estimated payments and final return payments (the checks sent with the tax form in April). Council Finance is still in the early stages of it own forecast, but OMB is probably underestimating the PIT for Fiscal 2008.

The PIT declines sharply in Fiscal 2009. This is a product of a fall in withholdings due primarily to a

fall in financial sector employment and a weak 2008-2009 bonus season. There is an especially sharp fall of over 22 percent in estimated payments. This is due largely to a decline in capital gains realizations, from weaker equity, credit and real estate markets. This decline is much stronger than is being expected at the national level by the Congressional Budget Office. The CBO expects personal income tax liabilities from realized capital gains to fall by a total of 11 percent in 2008 and 2009 but to exceed 2007 levels by 2010.¹⁵ The City's income tax recovers slowly and does not reach Fiscal 2007 levels till Fiscal 2011.

REAL PROPERTY TAX

The growth in market values and assessed values on the revised tentative assessment roll for Fiscal 2009 released by the Department of Finance (DOF) on January 16th was lower than OMB anticipated in either the Fiscal 2008 Adopted Budget or October Plan, due to slower growth in the commercial and residential real estate markets. As a result, in the Preliminary Budget OMB decreased the property tax levy by \$167 million in Fiscal 2009 from the October Plan estimate, for a total levy of \$15,388 million.

MARKET VALUE: The market value of the City's nearly 1,000,000 parcels of taxable real estate increased only 2.8 percent on the tentative roll over the prior year, evidence that the City's property values are beginning to experience some of the softening in the real estate markets. The total value of taxable real estate is still high, at \$818.4 billion. With the exception of class one properties which experienced its first decline in value in years, the other three classes of properties experienced market value growth, although the rise in value for classes two and four was substantially below last year's double-digit growth. Property values dropped in Brooklyn, Queens and Staten Island, because of the high concentration of class one homes in these boroughs. Growth was still strong in Manhattan, the borough with the highest concentration of commercial property, and the Bronx, where market value growth was bolstered by large increases in the value of multi-family properties.

The most notable change to the assessment roll this year was the change in the way DOF determined the market value for class two multi-family properties with more than 10 units. For the first time, DOF used the Gross Income Multiplier (GIM) approach to value these properties rather than the net income capitalization method. (For several years DOF has used the GIM method to value class two properties with less than 11 units.) Net income capitalization uses the income stream and expenses of a building and applies an appropriate capitalization rate to determine the full value of the property. DOF found that the expense ratios for multi-family buildings often varied so greatly that they were an unreliable indicator of value and tended to lower the values of those properties that overstated their expenses. The GIM method avoids using building expenses, and applies a gross income multiplier based on property type to the income stream of a building in order to determine market value. DOF hopes this method will be more accurate and make the estimate of market values for multi-family properties more predictable in the future. Initially, DOF developed two different GIM schedules; one for rental buildings and another for co-op and condo buildings. However, this approach was found to be open to legal challenge. DOF revised its GIM and combined the two schedules into one GIM schedule which it applied to both rental buildings and co-op and condo properties. DOF mailed out a revised change of notice on February 15th to more than 150,000 properties. The effect of the revision is virtually "revenue neutral"; it doesn't change the total assessed value for class two, but rather increases the values for rental buildings and decreases them for co-op and condos.

¹⁵ Congressional Budget Office "Budget and Economic Outlook Fiscal Years 2008 to 2018" January 2008.

Market value growth has been remarkable since September 11, 2001, until this year. Total market value has more than doubled since Fiscal 2002, while class one (one-, two-, and three-family homes) market value has increased by 134 percent. As can be seen in the table below, class one properties experience the first decline in market value in several years, decreasing by nearly 1 percent from Fiscal 2008—evidence that home prices are beginning to soften, since growth in market value closely mirrors the trend in sales prices. In fact, this is the first decrease in class one market value since Fiscal 1994, occurring after a long run of double digit growth since Fiscal 2001.

TABLE 4: 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%
2008-2009F	2.8%	- 0.9%	8.1%	7.4%	6.2%
2002-2009F	108.6%	134.0%	121.0%	44.9%	66.0%

Sources: New York City Department of Finance, Annual Report on the NYC Real Property Tax, Fiscal Year 2007; Tentative Assessment Roll, Fiscal Year 2009.

Strong growth in market value for residential properties (class one) relative to the other classes has increased the share of total market value to nearly 52 percent from 46 percent in Fiscal 2002. Conversely, the share of commercial property (class four) has decreased from 28 percent in 2002 to 22.5 percent in Fiscal 2009.

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 \$9.8 billion from Fiscal 2008 for a total of \$135.6 billion. The 7.8 percent increase in value is only slightly less than the 8 percent growth experienced last year. 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 lowers the “real” assessment to market value ratio. In Fiscal 2009, this ratio will drop to about 3 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, where market values are declining, while the BAV is anticipated to increase by nearly 5 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, is always lower than the tentative roll, due

to Tax Commission actions, DOF changes by notice, and completion of exemption processing. In the Preliminary Budget, OMB estimates that the final roll BAV will be \$0.8 billion or 0.6 percent lower than the tentative roll, resulting in final roll increase of 7.2 percent over Fiscal 2008—growth of 8.1 percent for class two, 7.8 percent for class four, and 4.3 percent for class one. 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 high 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. OMB anticipates that the BAV will increase at an annual average rate of 6 percent from Fiscal 2010 through 2012.

Real Property Tax Levy and Revenue: In the Preliminary Budget, OMB decreased the estimate of the levy by \$167 million in Fiscal 2009, \$222 million in Fiscal 2010, \$299 million in Fiscal 2011 and \$218 million in Fiscal 2012 from the October Plan. The levy is anticipated to increase at an average annual rate of 6 percent from Fiscal 2010 through 2012.

OMB made relatively minor changes in the reserve estimate for Fiscal 2008. The most significant changes were a \$30 million reduction in the reserve for uncollectible taxes and an increase in refunds of \$16 million. The recent growth in the volume of refunds is projected to continue through the plan period. All of the changes resulted in an increase of \$15 million in the revenue estimate for Fiscal 2008 from the October Plan, for a total of \$12,999.1 million. Revenue is anticipated to show only a slight growth of less than one percent from 2007, due to a 7 percent reduction in the average tax rate implemented in Fiscal 2008. Revenue then jumps to a growth of more than 7 percent in Fiscal 2009. From 2010 through 2012, revenue will increase by an annual average rate of 6.2 percent. OMB assumes continuation of both the 7 percent property tax reduction and the \$400 rebate through Fiscal 2012. Also included in the plan is the renewal of the current co-op/condo abatement program which sunsets this June.

OTHER REAL ESTATE TAXES

REAL PROPERTY TRANSFER AND MORTGAGE RECORDING TAXES: In Fiscal 2008, revenue from both the real property transfer tax and mortgage recording tax will reach \$1,475 million and \$1,154 million, respectively, near historically high levels. OMB increased its estimate for the transfer tax by \$176 million and by \$79 million for the mortgage tax from the October Plan. Collections were bolstered by stronger than anticipated activity in commercial transactions, despite the problems in the credit market. Sales of high-end condos in the Manhattan market, which remain attractive to foreign buyers due to the weak dollar, strengthened residential transactions. Even with the high level of collections, revenues from both the transfer tax and the mortgage tax are anticipated to decrease from Fiscal 2007, by 14.4 percent and 26.5 percent, respectively. However, in 2007 collections from both these taxes were at their historically highest levels.

In Fiscal 2009, OMB anticipates that revenue from both transaction taxes will decline by more than 24 percent for the transfer tax and by nearly 18 percent for the mortgage tax then decrease again, but at a much lower rate in both Fiscal 2010 and 2011, before returning to growth of about 4 percent for each tax in Fiscal 2012. However, despite the estimated slowdown in collections, revenue from each tax will remain at slightly less than \$1 billion a year during the plan period. OMB is forecasting a decline in both volume and sales prices for class one and class two co-op and condo residential

transactions in 2008 and 2009. In 2009, OMB anticipates a drop in both volume and price of more than 30 percent in commercial transactions.

COMMERCIAL RENT TAX: OMB has not changed its forecast of revenue from the commercial rent tax throughout the plan period since budget adoption in June. OMB anticipates collecting \$550 million from the tax in Fiscal 2008, for a growth of 7.4 percent from Fiscal 2007. The strong growth in 2008 results from continued growth in office employment, a tight market in commercial space with a vacancy rate of 5.5 percent, and a high asking rent of more than \$78 per square foot. However, OMB forecasts weak growth in office employment during the plan period, an increase in the primary market vacancy rate of 7.4 percent, while asking rents will remain flat before increasing to \$82 per square foot in Fiscal 2012. As a result, growth in collections is anticipated to slow to an annual average of 3.2 percent from Fiscal 2009 through 2012.

SALES, UTILITY AND OTHER TAXES

OMB forecasts sales tax revenues in Fiscal 2008 at \$4,704 million, growing 1.8 percent from the previous year, and \$78 million more than in the October Modification. Fiscal 2009 is projected to raise \$4,642 million, decreasing 1.3 percent, unchanged from the October Modification. Comparing the actual collections through January, revenue growth from the first seven months of Fiscal 2008 comes to 4.8 percent over the same period in 2007. The growth in Fiscal 2008 collections is tempered by the extension of the tax exemption on shoes and clothing to items priced over \$110. When common rate and bases are applied, growth comes to 4.3 percent in Fiscal 2008 and declines by only 1.0 percent in 2009. OMB attributes the underlying slower growth in consumption to reduced employment gains, lower bonuses, and decreased real estate related spending. The strength in tourism offsets what would have been even less spending. OMB estimates sales tax collections in 2010 through 2012 as growing on average by 5.4 percent a year, as wages recover.

The utility tax is expected to take in \$360 million in Fiscal 2008, flat growth over Fiscal 2007, and \$5 million more than was projected in the October Modification. The first seven months of Fiscal 2008 show a 3.9 percent increase over the same period in 2007. This is due to increased electricity consumption (including more days in the year requiring cooling and heating), and increased telecommunication use. Fiscal 2009 projects \$375 million, increasing 4.2 percent from 2008, and \$5 million more than the October Modification. In the outyears, projected revenue growth averages 3.8 percent annually between Fiscal 2010 and 2012.

Cigarette tax revenues in Fiscal 2008 are estimated to take in \$121 million, a 0.9 percent drop from 2007 levels, but a \$2.0 million increase over the October Modification. This is part of a general downward trend in taxable cigarette consumption, motivated by the stark increase in the City's cigarette tax from 8 cents to \$1.50 per pack in 2002. Fiscal 2009 forecasts a further 2.5 percent drop in revenues to \$118 million, with 2010 through 2012 continuing the trend, falling 2.6 percent annually.

The hotel tax projects continued strong growth in Fiscal 2008 at \$366 million, 12.3 percent over the previous year (\$9 million over the October Modification). Hotel occupancy rates have averaged 89.5 percent since June 2007, while average room rentals have now skyrocketed to an average \$337 per night since last September. This growth has been stoked by 46 million tourists in calendar year 2007, a 4.5 percent increase over the previous year. City tourism, in turn, is encouraged by the increased

amenities and safety in the City, and the continuing decline of the dollar. Hotel tax revenues for Fiscal 2009 are projected at \$387 million, a 5.7 percent growth from Fiscal 2008, and \$13 million over the October Plan.

TAX ENFORCEMENT REVENUE

In Fiscal 2007 audit revenues grew by 40 percent, thanks to a series of settlements of ongoing business tax audits. OMB expects audit revenues to come down only slightly from this record level in Fiscal 2008. This represents an increase of over \$400 million since the October Plan. OMB is forecasting audits to return to their historic average in Fiscal 2009, a drop of 47 percent, and to remain around that level for the rest of the forecast period.

Tax and Debt Service Policy

MAYOR'S PROPOSALS

Increase the City's Cigarette Tax from \$1.50 to \$2.00 Per Pack: The City proposes a 50 cent increase in the City's cigarette tax from \$1.50 to \$2.00 a pack. Combined with the State cigarette tax, this will bring the total tax to \$3.50 per pack. Extensive research has established the link between cigarette smoking and lung cancer. Data from the Community Health Survey and sales tax records show a dramatic drop in smoking coinciding with the City's 2002 steep cigarette tax increase from 8 cents to \$1.50 a pack. It is maintained that an additional tax increase will further increase the disincentive to smoke, reducing the related long term health care costs. The 50 cent increase is estimated by OMB to increase revenue by \$20 million in Fiscal 2009. National cigarette tax data show that the proportional increase in local cigarette tax revenue diminishes as the tax rate or tax hike gets increasingly higher. Research shows that this is not simply due to the reduction in smoking, but to circumventing the tax by buying cigarettes from low tax states, the internet and Indian reservations. The chief objective of the tax, then, would be to discourage smoking, not to raise revenue.

GOVERNOR'S PROPOSALS WITH IMPACT ON NEW YORK CITY TAX REVENUES

Authorize New York City Sales Tax at 4 percent: In 1975 the Municipal Assistance Corporation (MAC) was given a portion of the City's sales tax to fund MAC bonds, with surplus revenues returned to the City. This tax sunsets on July 31, 2008, at which time the sales tax reverts to the old New York City sales tax rate of 3 percent. If this were to happen it would cost the City approximately \$1 billion. The Governor's Executive Budget would authorize New York City to continue its sales tax at its current rate of 4 percent. The proposed legislation would also amend New York City's administrative code so no local law will be necessary for the 4 percent rate to remain in effect.

Collection of Sales Tax on Internet Sales: The Governor's Executive Budget includes a measure to increase the collections of sales tax on internet sales. It proposes to change the definition of vendor so that sellers that enter into marketing agreements with New York residents are required to collect New York State and New York City sales tax. For example an out of State seller of books that has customers referred to its website for a fee by a website owned by someone in New York City would now have to collect New York City and State sales tax on sales to City residents. The bill includes a limited amnesty to encourage such businesses to come forward and reach agreements with the New York State Commissioner of Taxation and Finance. It would raise around \$18 million for New York

City in its first year of implementation.

Lifting the Cap on the Transitional Finance Authority: Governor Spitzer and Mayor Bloomberg propose lowering the cost of City borrowing by unifying the Transitional Finance Authority's (TFA) statutory bonding authority with the City's General Obligation (G.O.) Debt limit. The City can choose a mix of TFA and G.O. bonds that are best received by the market and cheapest for the City. This proposal will not increase the total amount of debt that the City can have outstanding.

The City uses both TFA and G.O. bonds to finance its capital program. Investors have long preferred TFA bonds, which are backed by City income tax revenues to its G.O. debt. This results in the City paying a lower interest rate if it borrows through the TFA.

The City's financing program for 2008 through 2012 entails long-term debt of \$39.3 billion. TFA borrowing is currently limited at \$13.5 billion, which has already been used to capacity. Barring the lifting of the cap, \$28.5 billion of the debt will have to be issued against the more expensive G.O. debt, \$10.8 billion being issued against the New York City Municipal Water Finance Authority (NYW). If the cap is lifted, about half of the additional G.O. borrowing can be shifted to the less expensive TFA bonds. Lifting the TFA cap could save New York City \$14 million in debt service costs in Fiscal 2009, \$24 million in 2010 and \$35 million in 2011.

CITY COUNCIL TAX POLICY PRIORITIES

Sales Tax Free Week – Following the Federal Tax Rebate: To encourage New Yorker's and visitors to spend their Federal income tax rebates in the City, the Council Speaker in her State of the City proposes a sales tax free week in late summer, in time for school spending and shortly after the rebates contained in the Federal economic stimulus are sent out. The New York City, New York State and Metropolitan Transportation Authority (MTA) sales taxes, which total 8 3/8 percent, would all be suspended on retailing, arts, entertainment and recreation.¹⁶

This creates what is essentially a citywide 'sale', encouraging people to get out and spend.

Congress has recently enacted, and the President has signed, the Economic Stimulus Package Act of 2008, providing an income tax rebate of up \$600 for head of household and \$1,200 for a married couple filing jointly, with an extra rebate of \$300 per child.¹⁷ This will be paid to households in the late spring – early summer of 2008.

Problems with temporary rebates of this kind exist. While low-income households typically spend their rebates, middle class households often save theirs. The new rebate is focused on the middle and upper middle class, and the rules are such that many low-income households will not be able to receive the full credit. In order to have an economic stimulus effect, rebates need to be spent, but the income group most likely to spend the entire rebate is being partially excluded.

¹⁶ NYC and NYS tax rates are each 4%. The MTA rate is 3/8%.

¹⁷ The credit phase starts to phase out at AGI \$75,000 (\$150,000 for married filing jointly). Taxpayers with AGI over \$87,000 (\$174,000 for married filing jointly) will receive no rebate. There is a minimum rebate of \$300, for those who had at least \$3,000 in qualifying income in 2007. Taxpayers whose 2007 tax was less than the \$600 maximum credit will not receive the full credit. They will receive the tax they paid or the minimum credit whichever is higher. This keeps some low-income households from fully benefiting from the credit.

During the tax free week, sales taxes on furniture and home furnishings, electronics and appliances, retail food and beverages, health and personal care, sporting goods, books and music, arts and entertainment, including sporting events would be suspended. Currently, clothing, footwear, and admissions to most entertainment and cultural events are exempt from sales tax in New York City. New York State and the MTA's sales tax on clothing and footwear over \$110 would also be suspended. There will be a cap on items over \$2,000, which will remain subject to the tax.

A sales tax free week reduces City tax revenues by \$38 million, but benefits the City's economy as a whole, especially its retailing and entertainment industries.

Reduce Double Taxation of Small Business Owners: The Council Speaker in the State of the City address reiterated her support for creating a tax credit for S-Corporation shareholders, and calls on the State Legislature to enact S.6247-A (Padavan)/A.9482 (Farrell) of 2008. Today, more than three quarters of all businesses in New York City have fewer than 20 employees. Many of the City's small businesses and independent workers are structured as S-Corporations. Currently, there are 123,000 S-Corporations in New York City. These businesses, spanning all sectors of New York City's economy, range from law to finance, and from retail to health care.

To help these small businesses grow and thrive, the Federal government offers an important tax break: an exemption from the Federal corporate income tax. All profits are passed on to the owners, who pay personal income taxes on their earnings. New York State also largely exempts these businesses from the corporate franchise tax. Yet, S-Corporation shareholders currently receive no local tax relief. Last year, the Council supported a City credit based on a sliding scale that ranged from a 100 percent credit of General Corporation Tax liability for City resident taxpayers with State taxable income of \$42,000 or less, and gradually phasing out to zero percent for taxable income of \$250,000 or more. The credit reduces the personal income tax of New Yorkers who are shareholders in S-Corporations by \$35 million in its first full year. Last June, the Council enacted by local law a similar PIT credit for New Yorkers subject to the unincorporated business tax, lessening the double taxation of another group of small business owners. Equity considerations require a comparable treatment for S-Corporation shareholders.

This bill also would accelerate by one year the 50% phase-out of the alternative income-plus-compensation tax base of the City's general corporation tax (GCT) recently approved by the State Legislature

In order to prevent companies from lowering their taxable income by disguising dividends as salaries, the City's GCT uses an income-plus-compensation as an alternative tax base. Paying salaries to owners instead of dividends could lower the company's taxable income because salaries are deductible and dividends are not. The alternative tax calculation adds salaries paid to any shareholders who own more than 5% of the corporation's outstanding stock to net income.

Due to changes in Federal laws and enforcement practices, the need for this alternative tax base calculation has diminished. This proposal would accelerate the 50% phase-out of this tax rate from four years under current law to three years, with the full 50% reduction occurring in 2010 instead of 2011. The most common type of taxpayer affected is a small to medium size firm. About 25,000 firms would benefit from this proposal. This will save owners of small businesses in New York City around \$35 million.

Renters Tax Credit: Council Speaker Quinn in the State of the City speech also renewed her support for State legislation authorizing the City to create by local law a renters credit of up to \$300 against the City's personal income tax, and calls on the State to enact A. 06849 (Wright)/S.03961 (Savino). This credit would help alleviate the burden on renters who absorb property tax increases through higher rents. This proposal is part of the Council's broader effort to make housing more affordable for all New Yorkers. The credit would be passed by the New York City Council at a time and at a level that is fiscally prudent

It is generally accepted as fiscally reasonable to spend no more than 30 percent of income on rent. According to the most recent Census data, over 40 percent of renters in the City spend more than this threshold, and the figure jumps to 67 percent for those renter households eligible for the credit. As documented by the most recent Housing and Vacancy Survey (2005), the median monthly rent in the City increased by nearly 32 percent from 1999 to 2005. Unfortunately, the increase in personal income of most renters has not kept pace with the growth in rent with incomes only increasing 23 percent during this same period.

Property taxes have played a roll in this. In the past six years (New York City Fiscal Years 2003-2008), the tax bills in multi-family buildings¹⁸, have increased by nearly 63 percent, despite the 7 percent rate reduction enacted last year.

Under the this proposal, this credit would ease rent costs for families making less than \$75,000 per year and individuals earning less than \$43,000 per year. If enacted by the City at the maximum level, qualifying renters would receive a flat \$300 refundable credit on their personal income tax that can be used either to pay their taxes or as a direct rebate to offset living expenses or for other needs.

Homeowners have faced similar pressure from property taxes and other housing costs, though they are generally better off than the renters targeted by this credit. Last year, the Council, along with the Mayor, was able to secure an extension from the State Legislature of the \$400 property tax rebate for homeowners.

Approximately 1.1 million households may qualify for the renters credit and if enacted at the full level they would save \$261 million a year. The Council's plan would treat tenants more equitably with homeowners and provide tax relief to help New Yorkers with the ever-increasing pressure of rising rents.

Maintaining the 7 Percent Property Tax Reduction and the \$400 Rebate: Last year, in an agreement reached with the Mayor, the Council implemented a 7 percent across-the-board reduction in the property tax, lowering the average rate from \$12.283 per \$100 of assessed value to \$11.423. Additionally, the Council adopted a local law, after State legislative action, to extend the \$400 property tax rebate for resident homeowners for another three years (Fiscal 2008 through 2010).

The Mayor has included the continuation of both the 7 percent reduction and the rebate through Fiscal 2012 in his Preliminary Budget. However, the financial plan states that continuing the 7 percent reduction "will depend on a variety of factors unknown today" including the future health of

¹⁸ Class two multi-family buildings, this includes co-op and condo owners, as well as renters.

the City's economy and State and Federal actions. If the Council and the Mayor agree to raise the property tax, the ability of the City to continue offering the rebate will also be affected. There is a clause in the rebate legislation which requires the City to cut the rebate by 50 cents for each one dollar increase in the property tax. The total cost of the rebate is \$256 million a year; raising property taxes by slightly more than \$500 million, which is about a 3.5 percent increase in the average rate, will wipe out the rebate.

OMB has estimated a 7 percent increase in the property tax will generate \$1.138 billion in Fiscal 2009 and \$1.223 billion in Fiscal 2010. This action would also eliminate the rebate in both years, for a total savings of \$1.394 billion in Fiscal 2009 and \$1.479 billion in 2010.

Renewal of the Co-op/Condo Property Tax Abatement: The Preliminary Budget includes the cost of the renewal of the current co-op/condo property tax abatement throughout the plan period. However, State legislation authorizing the abatement sunsets this June. The current abatement has been in effect since 1997 and was renewed twice before, in 2001 for fiscal years 2002 through 2004, and for four years beginning with Fiscal 2005. The amount of the abatement is 25 percent of the property tax liability for units in buildings where the average assessed value per unit (BAV) is \$15,000 or less, and 17.5 percent for units where the average assessed value is more than \$15,000. Evidence suggests that tax inequity still exists between class one and class two homeowners. Removal of the abatement would create a steep rise in taxes during a time when increasing property values have kept property taxes high. On the tentative assessment roll for Fiscal 2009, class two co-op owners will see about an 8 percent increase in assessments over Fiscal 2008, and condominium owners more than a 12 percent increase.

In Fiscal 2007, owners of more than 417,000 coop and condo units received an average abatement of about \$740 per unit.

The cost of the abatement is more than \$300 million a year in foregone property taxes. The fiscal impact of the abatement is \$330 million in Fiscal 2009, rising to \$372 million in 2012.

The Council has included renewal of the abatement in its State agenda and, in cooperation with the Mayor, plans to seek State legislation renewing the abatement this spring. The legislation is not enabling, but more than likely the Council will pass a Home Rule calling for the authorization, as it has done in the past.

Recent Renewal of the Property Tax and Water Charges Lien Legislation: On December 19, 2007, the Council passed legislation (Intro. 656) that renewed the sale of property tax liens and, for the first time, permitted the sale of stand alone water liens on certain residential properties. The legislation included protections for more vulnerable and low-income homeowners by removing from the lien sale any senior or disabled owner of a class one home or co-op or condo apartment, as well as certain low-income homeowners who qualify for New York State's personal income tax circuit breaker credit. Single family homes were excluded from stand-alone water lien sales. In addition, the MOU accompanying the legislation granted a one-time amnesty to residential owners eligible for the stand-alone water lien sales who agreed to pay outstanding charges or enter into a generous payment agreement. On February 19th, nearly 24,000 owners of properties (about 15,000 with stand alone water debt) were notified that their liens were eligible for the lien sale and given 90 days until May 16th to either pay off the debt or enter into payment agreements. Both the Departments of Finance

and Environmental Protection will be holding several outreach sessions in each of the boroughs and Council Districts to work with owners to resolve any outstanding billing issues, help them take advantage of the amnesty and enter into payment agreements, and will provide financial and other appropriate counseling.

Miscellaneous Revenue

The budget for miscellaneous revenue is separated into various classes, with more detailed descriptions available under the appropriate agency by revenue source code. The accounting rules mandate that this type of revenue be counted on a 'cash basis.' 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.

Licenses, Permits and Franchises: The Preliminary Budget anticipates an increase of \$38 million in fees from Licenses, Permits and Franchises in the current fiscal year to a level of \$457 million. The largest contributors to this increase include increases in construction permit revenue (+\$10 million), increased cable franchise revenue (+\$10 million) and building permit revenue (+\$5.3 million). The remainder of the increase is broad based throughout many agencies. Revenue from this category decreases by \$4 million to \$453 million in Fiscal 2009.

Charges for Services: The Preliminary Budget Plan anticipates Fiscal 2008 revenue from charges for services to total \$587 million, an increase of \$24 million over the Adopted Budget targets. An increase in fee revenue from the 421-a program is anticipated to yield an additional \$6.8 million, and enhanced City Registrar fee activity is projected to bring in an additional \$6.2 million. The larger downward revisions include a reduction in reimbursement for overtime expenses (-\$2.9 million) and reduced sidewalk assessment revenue (-\$3.9 million). The remainder of the net increase in this category is comprised of many changes in many agencies. Revenue from this category decreases by \$17 million in Fiscal 2009 from Fiscal 2008.

Rental Income: For Fiscal 2008, the Preliminary Budget increases rental income to \$212 million, \$18 million over the Adopted Budget target. New commercial rental income accounts for additional \$11.4 million and increased concession revenue accounts for an additional \$5 million. Revenue from this category decreases by \$11 million in Fiscal 2009 from Fiscal 2008.

Fines and Forfeitures: For Fiscal 2008, the Preliminary Budget increases fines and forfeitures revenue by \$38 million from the Adopted Budget Plan to \$762 million. Increases are broad based including Department of Buildings fines, ECB fines and the red light camera program. Revenue from this category decreases by \$22 million in Fiscal 2009 from Fiscal 2008.

Interest Income: For Fiscal 2008, the Preliminary Budget estimate for interest income is unchanged from the Adopted Budget Plan of \$387 million. The Fiscal 2009 forecast is reduced to \$137 million predicated on lower cash balances and less favorable interest rates. Recent experience has shown that

during the course of the fiscal year, the forecast for interest income is increased. Though it is unlikely that this revenue source will reach levels achieved in Fiscal 2008, it is likely that the current target will be surpassed.

Miscellaneous Revenue Sources: For Fiscal 2008, the Preliminary Budget adds \$8 million to the Adopted Budget Plan for a total of \$1.131 billion. This category of revenue serves as a catchall for all revenue sources not classified in one of the above categories. The more significant adjustments include a delay in FICA refund payments due to the City from Fiscal 2008 to Fiscal 2009 for \$141 million, an increase of \$47 million from affirmative litigation, and an increase of \$65 million in enhanced early intervention revenue. Remaining miscellaneous revenue sources decrease by \$477 million in Fiscal 2009 compared to Fiscal 2008, to a level of \$654 million. The bulk of this decrease is from a year-over-year decline in tobacco settlement revenue from \$555 million in Fiscal 2008 to \$142 million in Fiscal 2009. The Fiscal 2009 level represents the new baseline going forward, and the Fiscal 2008 level represents the final impact year of the restructuring of tobacco monies that occurred in Fiscal 2006.

Water and Sewer Fees: In the Preliminary Budget, Fiscal 2008 revenue increases by \$19 million from the \$1.194 billion being carried in the Adopted Plan for Fiscal 2008. Decreases in heat, light and power revenues (-\$11.7 million) coupled with a reduction in the Water Board Rental payment (-\$7.5 million) are offset by increased revenue from the Water Board (+\$31.6 million). In Fiscal 2009, the Preliminary Budget projects revenue collections of \$1.196 billion, down \$16 million from Fiscal 2008.

Unrestricted and Anticipated Intergovernmental Revenue

The Preliminary Budget does not include the New York City budget impact of the State Executive Budget. The Governor's Executive Budget retreats from the State's pledge to fully restore Aid to Municipalities (AIM) disbursements to the City at its historical level of \$327 million that is assumed in the Financial Plan. In Fiscal 2007, this important source of general aid was reduced to \$20 million, with the understanding that a full restoration would occur in Fiscal 2008. The Governor's Executive Budget restores only \$164 million of the \$327 million.

Financing Program and Debt Service Budget

The City's Fiscal 2008 debt service budget, as presented in the Preliminary Budget, increases by \$774 million to \$3.611 billion, compared to the October Financial Plan. The Administration has increased the projected prepayment of Fiscal 2009 debt service by \$818 million to \$3.073 billion. This increase is offset by savings in long term G.O. debt service (-\$5.7 million), savings in lease purchase debt service (-\$36.6 million) and small savings in TFA debt service (-\$1.8 million). Fiscal 2009 debt service is projected to decline by \$1.439 billion compared to estimates contained in the October Financial Plan. The increased prepayment of G.O. debt service accounts for savings of \$818 million. The Preliminary Budget also contemplates a prepayment of TFA debt service of \$546 million. Although this action reduces Fiscal 2009 TFA debt service, it is reflected as additional personal income tax revenue in Fiscal 2009.

Debt Affordability: The Mayor's Preliminary Budget examines the City's debt burden by comparing

debt service costs for the five issuers responsible for financing the great majority of the City's capital program (excluding the Water Authority and the Metropolitan Transportation Authority) to total taxes and total revenues. For Fiscal 2008, debt service payments are 12 percent of total taxes and 7.4 percent of total revenue. In Fiscal 2012, these percentages increase to 15.9 percent and 10.1 percent, respectively. According to the Preliminary Budget presentation, debt service increases at an average rate of 13.8 percent per year from 2010 to 2012 compared to total revenues that will experience a 4.6 percent average growth rate.

General Obligation Bonds: The City anticipates financing \$28.5 billion of its capital program through the use of general obligation debt during the Fiscal 2008 through 2012 period. So far this year, the City has completed five sales, totaling \$4.075 billion. Two sales raised \$1.875 billion to support the ongoing capital program. The proceeds from the three bond refundings to date will provide \$170 million in combined debt service savings in Fiscal 2009 through Fiscal 2012. As a result of the projected gradual increase in the general debt limit, the City is not expected to exceed the constitutional debt limit through the Plan period.

TABLE 5: FINANCING PROGRAM: SOURCES OF FUNDS (IN MILLIONS)

	2008	2009	2010	2011	2012	Total
Sources of Funds:						
City General Obligation Bonds	\$3,675	\$5,060	\$7,008	\$6,874	\$5,930	\$28,547
Transitional Finance Authority	--	--	--	--	--	--
TSASC Bonds	--	--	--	--	--	--
Water Authority Financing	2,103	2,297	2,159	2,148	2,049	10,756
Total	\$5,778	\$7,357	\$9,167	\$9,022	\$7,979	\$39,303

Transitional Finance Authority: The New York City Transitional Finance Authority (TFA) was created in 1997, and is authorized to issue debt backed by the City's personal income tax (PIT) revenue for the purpose of financing a portion of the City's capital program. The TFA was initially authorized to issue up to \$7.5 billion of bonds and notes. In June 2000, the authorization was increased to \$11.5 billion and an addition \$2 billion in bonding authority was granted in 2007. The State Legislature has also increased TFA's variable rate capacity to 20 percent of its bonding capacity. The Administration is currently seeking an additional TFA bonding authority up to the existing limit on G.O. bonding authority. This would allow cheaper TFA debt to replace future G.O. issuance, generating \$14 million in savings in Fiscal 2009, growing to \$35 million in Fiscal 2011.

TFA Financing for September 11th Related Costs: On September 13, 2001, the State Legislature enacted an amendment to the TFA statute allowing the TFA to issue an additional \$2.5 billion in debt backed by the PIT for the purpose of financing costs related to the World Trade Center (WTC) attack. These bonds and notes are subordinate to bonds issued under TFA's original \$11.5 billion authorization. In October 2001, the TFA issued \$1 billion in Recovery Notes under this new authorization. This first Recovery Bond issue was used to replace lost revenues resulting from the WTC attack. Another \$1 billion was used to retire existing Recovery Notes.

Tobacco Bond Financing: TSASC, Inc. is a special purpose corporation that the City created in

November of 1999 for the purpose of issuing bonds to fund a portion of the City's capital program. TSASC bonds are secured by the City's share of the Tobacco Settlement Revenues (TSRs) received pursuant to the Master Settlement Agreement between 46 states and the four largest domestic tobacco manufacturers (Philip Morris, Reynolds Tobacco, Brown & Williamson, and Lorillard). The City sold the right to receive these funds to TSASC in 1999. After TSASC retains sufficient tobacco settlement revenue (TSR) for debt service, the remaining revenue flows through to the City's general fund.

Since November of 1999, TSASC, Inc. has sold two bond issues in the amount of \$1.298 billion. In December 2001, TSASC and the City completed a \$150 million loan agreement with the U.S. Department of Transportation (USDOT). The loan agreement provides for funding by the USDOT for one-third of the capital costs associated with the Staten Island ferries and ferry terminals. The remaining \$59 million in TIFIA loans has been drawn down last year.

In May 2003, RJ Reynolds was downgraded below investment grade. This triggered a trapping event where more of the residual settlement revenues that would have flowed to the City are instead retained in TSASC debt service accounts. In February the City restructured its outstanding TSASC bonds to release the trapped funds. The restructured bonds issued under an amended indenture limits the tobacco revenues pledged to TSASC to 38 percent with the remainder of the funds flowing to the City's general fund. Also, as a result of the restructuring, budgeted tobacco revenues of \$232 million in Fiscal 2006 and \$121 million in Fiscal 2007 have been rescheduled and will be received in Fiscal 2008 for a total of \$454 million.

New York City Municipal Water Finance Authority (NYW): The Water Authority was created in 1985 to finance capital improvements to New York City's water and sewer system. The Authority has sold \$33.1 billion in bonds, including \$11.1 billion in refunding bonds to date. The Authority has also defeased \$752 million in outstanding debt with revenues prior to maturity. Of the total amount, \$18.3 billion in bonds are still outstanding. To date in Fiscal 2008, NYW has completed four bond transactions and expects to issue an additional \$900 million in bonds before the end of the current fiscal year. If the current low interest rate climate prevails, refunding opportunities may arise. For the remainder of the Financial Plan period, NYW plans to sell approximately \$2.3 billion in bonds annually to fund improvements to the City's water system.

Budget Stabilization Account (BSA): In the October Plan, \$296 million was removed from the Budget Stabilization Account based on weaker revenues and a net increase in expenditures in the first quarter of Fiscal 2008. The Preliminary Budget increased the BSA by \$818 million to \$3.073 billion, resulting from identifying mostly one time revenues in Fiscal 2008 and using those revenues as a prepayment to Fiscal 2009 to shore up the declining revenues anticipated in Fiscal 2009.

Appendix 1: State and Federal Initiatives

STATE INITIATIVES

Increase the City's Cigarette Tax from \$1.50 to \$2.00 Per Pack: The City proposes a 50 cent increase in the City's cigarette tax from \$1.50 to \$2.00 a pack. Combined with the State cigarette tax, this will bring the total tax to \$3.50 per pack. Extensive research has established the link between cigarette smoking and lung cancer. Data from the Community Health Survey and sales tax records show a dramatic drop in smoking coinciding with the City's 2002 steep cigarette tax increase from 8 cents to \$1.50 a pack. It is maintained that an additional tax increase will further increase the disincentive to smoke, reducing the related long term health care costs. The 50 cent increase is estimated by OMB to increase revenue by \$20 million in Fiscal 2009. National cigarette tax data also show that the proportional increase in local cigarette tax revenue diminishes as the tax rate or tax hike gets increasingly higher. Research shows that this is not simply due to the reduction in smoking, but to circumventing the tax by buying cigarettes from low tax states, the internet and Indian reservations. The chief objective of the tax, then, would be to discourage smoking, not to raise revenue.

Lifting the Cap on the Transitional Finance Authority: The Mayor proposes lowering the cost of City borrowing by unifying the Transitional Finance Authority's (TFA) statutory bonding authority with the City's General Obligation (G.O.) Debt limit. The City can choose a mix of TFA and G.O. bonds that are best received by the market and are the cheapest for the City. This proposal will not increase the total amount of debt that the City can have outstanding.

The City uses both TFA and G.O. bonds to finance its capital program. Investors have long preferred TFA bonds, which are backed by City income tax revenues, to its G.O. debt. This results in the City paying a lower interest rate if it borrows through the TFA.

The City's financing program for 2008 through 2012 entails long-term debt of \$39.3 billion. TFA borrowing is currently limited at \$13.5 billion, which has already used to capacity. Barring the lifting of the cap, \$28.5 billion of the debt will have to be issued against the more expensive GO, \$10.8 billion being issued against the New York City Municipal Water Finance Authority (NYW). If the cap is lifted, about half of the additional G.O. borrowing can be shifted to the less expensive TFA bonds. Lifting the TFA cap could save New York City \$14 million in debt service costs in Fiscal 2009, \$24 million in 2010 and \$35 million in 2011. Governor Spitzer made a similar proposal in the State of New York Fiscal 08-09 Executive Budget.

Reduce State-Imposed Mandates on OTB: OTB would have been profitable in FY2007 if not for state-mandated distributions to the racing industry and State. The Administration is calling for changes in the Racing and Wagering Law to reduce State mandates and structure a more stable fiscal relationship with NYS Racing. Without these changes, OTB will run out of unrestricted cash in June 2008, forcing closure and the displacement of 1,500 employees.

Universal Pre-K (UPK) Flexibility: The City opened 9,000 additional UPK slots during the 2007-2008 school year; further expansion requires enabling more community-based providers to participate in the UPK program. However, the current per-child rate is insufficient to cover the costs of operating a pre-K program in the City. The Administration is requesting the flexibility in (1) setting reimbursement rates when needed to bring in more UPK providers to expand the program, (2) using

unspent funds to assist providers with start-up costs to bring them in line with UPK standards, and (3) offering full-day programs which would allow working parents who require full-day child care to enroll their children in UPK. Additionally, this funding could allow Headstart programs facing Federal funding deficiencies to maintain full day programming.

New York City Child Safety Zones for Transportation: The Administration is requesting that the State allow the City the same ability given to non-New York City school districts to designate particularly dangerous streets and areas as “child safety zones.” This would allow the City to claim aid for transporting children whose routes from home to school pass through these safety zones, even if the children live less than the usual requirement of 1.5 miles from school to claim such aid. If the City received Transportation Aid for just 20 percent of the children who are transported by school bus and not currently eligible, the City would receive an additional \$8.5 million in Fiscal 2009.

Healthy School Lunch: The Administration supports proposed State legislation that changes school nutrition guidelines and increases State reimbursement rates for school breakfasts and lunches. The Assembly version of the bill would result in an additional \$19 million for the City in Fiscal 2011, and the Senate version would result in an additional \$13 million for the City in Fiscal 2009.

Eliminate Degree Subsidies for Four-Year Colleges: New York State fully funds the net operating costs and capital budgets for all SUNY senior colleges outside of New York City, but not for CUNY senior colleges where the City is required to pay subsidies for CUNY associate degree students and 50 percent of Medgar Evers College capital costs. Also, despite granting four year and graduate degrees, the Fashion Institute of Technology (FIT) is defined as a community college. Eliminating the CUNY and Medgar Evers College exceptions to full funding and appropriate redefining FIT as a senior college would save the City \$38 million in operating expenses alone.

City/State Partnership for Juvenile ATD, ATP and Aftercare Programs: The Administration proposes the State create a fiscal partnership with the City for programs that provide an alternative to juvenile detention and placement, and community based post-release services. City implemented reform programs have reduced the population of City juveniles in OCFS placement, resulting in \$17.2 million in savings for the State. However, costs of these programs are borne disproportionately by the City. This funding partnership would provide the City with an additional \$6 million per year.

Eliminate Retroactive Overcharge for State Placement of Juveniles: The City and State equally share the cost of placement of New York City juveniles in State facilities. The Administration is requesting the elimination of a 2006 retroactive raise of the City’s share of the costs for the preceding five years. This would save the City \$5.2 million in Fiscal 2008, \$8.4 million in Fiscal 2009, and \$10.8 million in 2010.

Increase Daily Reimbursement Rates for Inmates in State Custody and Parole Violators: The Administration requests that the State raise its reimbursement to localities for inmates ready for State custody and parole violators from \$40/day to a full reimbursement (about \$365/day) and also to provide supplemental aid to fund medical care for these individuals. Savings to the City would amount to \$126 million for the reimbursement and \$32 million for the medical care.

Increase Probation Aid Reimbursement Rate to Statutory Level: The Administration is calling on the State to reimburse the City the full 50 percent of approved probation spending as required by State Law. This would result in an additional \$26 million to the City in Fiscal 2009.

Funding for Children Awaiting Placement in State Institutions: More than 120 foster care children with serious mental illness, emotional disturbances, mental retardation or developmental disabilities are currently on waiting lists to be moved to State institutions for residential placement, treatment and/or specialized services. As City provided services to these children are not reimbursed, the Administration is requesting that the State expand capacity to serve these children. Full reimbursement of City provided services is estimated to result in \$14 million in savings.

Invest in Child Care: Over the last three years the City has added \$100 million to support childcare and after-school programs which are critical work supports for working families as well as current and former public benefit recipients. The Administration urges the State provide a \$45 million increase in funding for childcare and allow greater flexibility to improve coordination between childcare, Out-of-School Time programs, UPK and Head Start.

Article VI Reimbursement for Fringe Benefits: The Administration proposes to amend Article VI of the Public Health Law to allow State reimbursement of funds expended by local health departments for fringe benefits associated with personnel who provide public health services. This measure would provide approximately \$18.5 million to the City in Fiscal 2009.

Medicaid Passive Reenrollment: The Administration proposes amending the State Medicaid plan in order to allow for passive reenrollment which is the automatic reenrolling of clients in Medicaid when all known sources indicate the client's likely eligibility. Clients would still complete a full enrollment form and provide necessary documentation every two years. The savings to the City in administrative overhead would be approximately \$3 million.

Reimbursement for State-Built Public Housing Units: While NYCHA spends approximately \$60 million a year to operate 15 State constructed housing projects, the agency only received \$3.4 million in the State budget to subsidize these operations. The Administration requests full funding of this allocation.

Credit Other Benefits Paid Against Tort Award: The Administration urges that judgments and awards against local governments and the State be offset by both past and future compensation from all collateral sources of just past compensation. This proposal would save the City \$11 million annually and some funds on pending actions.

Interest on Judgments: The Administration is calling for post-judgment interest rates to be changed from the current 9 percent which is double the applicable market rate, to be equal to the yield of U.S. Treasuries at a one year constant maturity with a 9 percent statutory cap on such rates. This move would save the City \$2 million.

Wicks Law Reform: The City currently is required, for construction projects over \$50,000, to issue separate contracts for electric, plumbing, heating, ventilation & air conditioning and all other services, which results in approximately 14 percent in added costs to these contracts. During the last legislative session, the Governor and the Assembly and Senate leaders agreed to pass modest reform legislation

that would increase the project threshold from \$50,000 to \$3 million, which would result in savings to the City of \$244 million over ten years. Full repeal of the law would net the city \$3.5 billion in savings over ten years.

FEDERAL INITIATIVES

Resumption of Federal Revenue Sharing: The resumption of this program would increase federal investment to meet the obligations that have been absorbed by local governments since 1986 when the program was eliminated. The Administration is requesting the award of substantial unrestricted aid to the largest cities which would start to redress the City's balance of payment deficit with the Federal Government. The City received significant revenue from this program; in current dollars this would be \$1.02 billion.

Fully Fund No Child Left Behind (NCLB): The Federal Government does not adequately fund this law's many mandates. In 2007, funding actually appropriated by Congress for New York City has fallen \$742 million short of the Federal Fiscal Year (FFY) 2008 amount authorized by Congress. The Administration seeks to have the full amount of NCLB funding authorized by law.

Fully Fund Individuals with Disabilities Education Act (IDEA) and Formula Change: IDEA mandates that school districts provide a full range of special education services for students who need them, but the Federal Government has consistently appropriated less than the authorized amounts. This shortfall for Fiscal 2009 is expected to be \$258 million. The Administration is also calling for the IDEA grant formulas to be changed to be based on average U.S. spending per special education pupil rather average spending per pupil.

Fund the Justice Assistance Grants (JAG) at the Authorized Level: Since 2005, the federal appropriation for JAG has dropped by 77 percent; the City's allocation, which is used for public safety projects such as 911 operators, has decreased from \$11.4 million in FFY 2004 to a projected \$2.6 million in FFY 2009. The Administration requests that JAG be fully funded at a level of at least \$1.1 billion, which would provide the City with an additional \$14.9 million a year.

Fund the State Criminal Alien Assistance Program (SCAAP) at the Authorized Level: The Federal Government reimburses states and localities for a portion of the cost of incarcerating illegal aliens who have been convicted of one felony or two misdemeanor offenses. The City's allocation has been reduced to only \$18.8 million a year despite a cost of more than \$80 million a year. The Administration requests that SCAAP be funded at a level that will cover the full cost of this program, which would provide the City with an additional \$61 million annually.

Distribute Homeland Security Funds Based on Fair Risk-Based Criteria: The Administration asks the Federal Government to eliminate state minimums from criteria in all Federal anti-terrorism programs in favor of risk-based criteria. This change would bring other programs in line with the risk-based criteria of the State Homeland Security Grant and the Law Enforcement Terrorism Prevention Program.

Eliminate Cap on Homeland Security Personal Costs: As a result of a 25 percent cap on “operational” costs in the Homeland Security grants, the City spent an additional \$17 million to fund police officers that the City relies on to protect against terrorist attacks. The Administration requests the elimination of this cap.

Transit Security Grant: There are approximately 2,600 NYPD officers working in the City’s transit system, yet unlike the MTA, the City is unable to apply directly for transit security grants. The Administration requests the ability to apply for these grants to fund these officers. In 2006 the MTA received almost \$30 million for transit security.

Staten Island Ferry Funding:

Ferry Security and Preventative Maintenance Costs: In complying with Federal Maritime Security (MARSEC) regulations, the City formulated a security plan for the Staten Island Ferry that was approved by the U.S. Coast Guard. The plan’s measures required additional personnel for operations, maintenance and security. The Administration requests \$25 million a year for these personnel.

Ferry Rack Reconstruction: The City recently employed heavier Staten Island Ferry boats which require modifications to the racks that guide the boats to loading bridges. The Administration requests \$68 million for the rack reconstruction.

Ensure Bridge Safety:

East River Bridges Homeland Security Enhancements: The City requests \$100 million in order to achieve structural strengthening and security improvements for the East River Bridges (Brooklyn, Manhattan, Williamsburg, and Queensboro). These enhancements would provide better protection from terrorist attacks and natural disasters to these structures into which the Federal Government has invested over \$1 billion in capital funding.

Maintenance and Corrective Repair: The City currently spends \$10 million on inspection, maintenance and repair, of the four East River Bridges, and \$60 million a year on the 783 other bridges in the City. The FFY 2008 Omnibus Bill appropriates \$100 million to New York State for bridge repair and inspection. Since the City’s share is not expected to cover the amount needed for preventive maintenance, the Administration requests an additional \$70 million to fully fund bridge maintenance.

Invest in Child Care: Over the last three years the City has added \$100 million in to support childcare and after-school programs which are critical work supports for working families as well as current and former public benefit recipients. Federal support for the Child Care and Development Fund (CCDF) has not kept up with the pressure on states and localities to provide this support. The Administration therefore urges Congress to increase the CCDF by \$6 billion over five years, which would provide approximately \$45 million per year to the City.

Update Foster Care Eligibility: Only 56 percent of ACS’s expenditures on foster care services and administration are Title IV-E eligible. Eligibility is determined by a program eliminated in 1996; updating the eligibility to link it to existing federal poverty guidelines would provide the City with \$16 million in additional federal aid.

Kinship Caregiver Support: The Administration urges Congress to allow states to draw down Title IV-E funding for kinship guardian placements that confer legal rights to relative caregivers without the adversarial process of terminating rights which is more cost effective than foster care. If the foster parents of approximately one-third of the children in kinship care took advantage of the opportunity to seek subsidized guardianship, the City would save \$12.8 million a year.

Extend Health Coverage to Children: The Administration seeks to extend the authorization period for eligibility for the State Children's Health Insurance Program (SCHIP) and Medicaid Title XIX Children-Only to two years, from one year, for children 18 and under. Extending the authorization period would help children receive seamless coverage and help reduce administrative costs. The Administration expects this action would save the City nearly \$3 million in Fiscal 2008.

9/11 Health Funding: The City continues to assist the health and mental health needs of rescue workers, police officers, firefighters, volunteers, residents in the area, commuters working in the area and contractors who were involved in the recovery and clean up efforts on the World Trade Center site. Federal funding for these programs and recommendations from the World Trade Center Health Panel amounted to \$108 million in FFY 2008, and the Administration requests that Congress remain a constant source of funding for these programs.

Reopen 9/11 Victim Compensation Fund: The Administration seeks to revive the Federal Victims Compensation Fund to address unmet needs of people who have been adversely affected by their work in the recovery effort.

Nurse-Family Partnership: The City operates the Nurse-Family Partnership (NFP), which pairs a registered nurse with a low-income first time mother. NFP has been proven to increase the health of the mother and child, to create social and economic benefits for the surrounding community, and has been cited by the Brookings Institution as meriting increased federal funding. The Administration proposes the option to provide these types of services under Medicaid and SCHIP, which would bring the City approximately \$17.9 million in FY 2009.

Expand CDC Grants for Prevention and Chronic Diseases to Localities: In Fiscal 2008, approximately \$849 million was appropriated to the Center for Disease Control and Prevention (CDC) to distribute primarily to states, universities and community-based organizations to fund health promotion activities that address chronic diseases and prevention. Because New York City, unlike other localities, funds a host of such programs at an expected cost of \$13.9 million in Fiscal 2009, the Administration requests that it be made eligible for these CDC grants.

Health Information Technology Initiative: The Administration supports federal funding of Health Information Technology (HIT) initiatives which are designed to prevent disease and promote health. The City expects to spend \$4.4 million on HIT initiatives in Fiscal 2009.

Recalibrate Alternative Minimum Tax (AMT): The AMT was created to prevent the wealthiest individuals from avoiding all taxes through deductions and credits, but as the income threshold is not tied to inflation more taxpayers become subject to the AMT each year. City residents are disproportionately affected because of the accumulative effect of high property values, relatively high incomes, and high state and local taxes. The Administration urges Congress to restore the AMT to its original intent by structuring a permanent solution to the income threshold problem.

Restore HUD Upfront Rehabilitation Grants: HUD upfront rehabilitation grants which funded repairs or replacements to former HUD projects were eliminated by Congress in 2006. HPD plans to develop approximately 500 units of affordable housing each year; if \$40,000 per unit were to be provided from these grants, it would result in \$20 million in savings to the City.

Change HUD Formula to Include NYCHA Developments Built by the City and State: NYCHA operates 21,000 City and State built units of public housing that are not included in the formula that determines NYCHA's annual allocation of HUD capital and allocation. If these units were to receive the same allocation the City receives for federal units, the City would receive \$100 million.

Increase Fiscal Impact Disaster Relief in the Stafford Act: The Administration calls for The Stafford Act's Community Disaster Loan Program loan cap to be raised to \$1 billion. The current \$5 million per local government cap does not provide sufficient reimbursement for tax revenue lost by local governments resulting from disasters.

Water Supply Security: The Administration urges the Federal Government to increase funding for the protection of New York City's water supply. While the City is projected to expend over \$11 million in Fiscal 2008 for these efforts, it only receives \$933,000 from the Federal Government's Homeland Security Grant Program.

Dam Collapse Prevention Funding: When conditions at the Gilboa Dam were shown to be inadequate, the City made an initial investment of \$44 million to make the dam safe, with projected future upgrades to the dam reaching \$640 million. The Administration therefore requests federal assistance for dam collapse prevention.

Provide Funding for the Catskills and Delaware UV Light Disinfection Facility: The Administration seeks federal assistance for the cost of construction of the \$1.8 billion Catskill and Delaware Ultraviolet (UV) Disinfection Facility and ancillary projects which would destroy disease-causing organisms in the two watersheds, the Catskill and the Delaware, which provide 60 percent of the City's water supply.

Expand SAFER Grant Eligibility to Include New York City Fire Department: The Administration proposes modifying Staffing for Adequate Fire and Emergency Response (SAFER) Grant guidelines to be used to provide specialty pay for responders who have advanced training and fulfill technical and complex responsibilities in preparing to respond to terrorism.

Federal Expansion of the Earned Income Tax Credit (EITC): The EITC is one of the most effective government tools in combating poverty and encouraging low-income adults to work. To achieve further reductions in poverty, the Administration urges Congress to expand EITC eligibility and benefit levels through several proposed initiatives. These include lowering the qualifying age for childless tax filers from 25 to 21, expanding the maximum qualifying income, and increasing the benefit amount for both single working adults and non-custodial parents, who must be current in child support payments to qualify. Eliminate the marriage penalty by allowing married couples to claim the EITC the same as unmarried ones do: the parent who claims children receives the benefit amount for families and the other receives the benefit for singles. The Administration also proposes that as a condition for receiving the EITC, singles and non-custodial parents, as well as one parent of a married

couple, must work at least 30 hours for 26 weeks. Singles and non-custodial parents who fail to satisfy the work requirement would be ineligible for the EITC benefit, while married couples would be ineligible for the marriage penalty relief.