REVENUE NOTE

City Council Finance Division November 17, 2008

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Chair, Finance Committee *Director* *Deputy Director/Chief Economist* *Speaker*

FACTS HAVE CHANGED

Facts have changed; the financial crisis had another damaging round, striking an economy already going into recession. It is necessary to rethink our tax revenue estimates and the results are not pleasant. As John Maynard Keynes famously said "When facts change I change my mind. What do you do Sir?"

The national economy is already in recession, the City economy soon will be in one. At the City level, the recession will be similar to the recession of 2001 – 2002, with similar loss of income and somewhat smaller job loss. This will increase the City's budget gaps and actions are necessary to deal with these new facts.[1]

In its November financial plan OMB lowered its estimates of tax revenues from the Fiscal 09 Adopted Budget by $275 million for Fiscal 2009 and $1.3 billion in Fiscal 2010.2 In the out years tax revenues are reduced by $1.1 billion in Fiscal 2011 and $1 billion in Fiscal 2012.

Council Finance's forecast is above OMB's by relatively small amounts. (see table on page 4), with a difference of less than 1 percent till Fiscal 2012. What the forecast also has in common with OMB's is that it is below the Fiscal 2009 Adopted Budget projections.

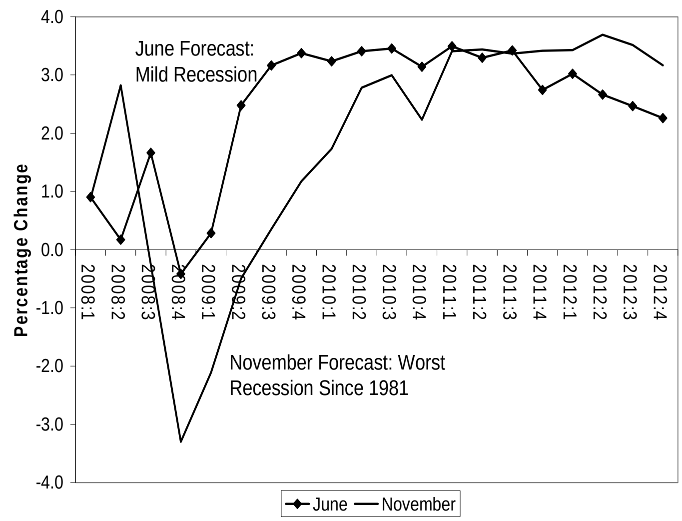
The extraordinary economic events of the past 18 months make this an unusually risky environment for forecasting, and at the moment much of the risk is on the downside. The Council and the Mayor have planned prudently and have stayed ahead of budgetary problems; they should continue to do so.

THE NATIONAL ECONOMY – MORE DAMAGE

This autumn brought an unpleasant surprise; the collapse of Lehman Brothers ignited yet another round in the seemingly endless credit crisis. What had begun with the U.S. subprime mortgage meltdown had now paralyzed virtually the entire global credit market. The damage done to the already sputtering economy could be seen almost immediately. In just one month, the unemployment rate has jumped from 6.1 to 6.5 percent. Personal consumption has declined 3.1 percent, the biggest drop since 1980. The U.S. auto industry is imperiled. October sales were the most dismal in 25 years, falling 31.9 percent from October 2007. Most people can't buy a car if they can't borrow money, and they won't buy a car if they are afraid of losing their jobs.

The severity and speed of the unraveling of the financial sector and its impact on the real economy was unanticipated only four months ago. At the time the budget was adopted last June, the national economy was still growing Stimulus checks were expected to maintain positive growth through the 3rd quarter. Foreign exports were expected to remain strong for some time, with the economic growth of our trading partners slowing mildly in 2009. Global Insight, which furnishes national forecast for both Council Finance and OMB, then projected negative growth for only two quarters; the 4th quarter 2008 and 1st quarter 2009.

Global Insight's November Forecast of Real GDP Decline is More Severe than Their June Forecast



Ominous signs appeared over the summer when financial institutions started having trouble raising new capital to offset their losses. The renewed financial crisis meant households, businesses, and state and local governments faced still tighter credit, and in certain cases, credit was shut

[1] If none of the actions proposed in the November plan were taken, the gaps would increase to $303 million in Fiscal 2009, $3.67 billion in Fiscal 2010, $6.31 billion in Fiscal 2011 and $6.17 billion in Fiscal 2012.

[2] Years are calendar years. When fiscal years are used they are labeled as such.

off entirely. There were huge additional losses of wealth, including losses in plunging stock markets.

Real GDP has reported its first loss with negative growth of 0.3 percent in the 3rd quarter. Global Insight now forecasts four consecutive quarters of negative growth through the 2nd quarter 2009. Since January 2008, the U.S. has shed 1.2 million jobs, with 240,000 jobs lost in October. Exports, once the mainstay for keeping GDP in positive territory, are showing signs of weakening. The recession has spread to our principle trading partners. The one silver lining is that headline and core inflation are no longer a current concern, with headline inflation having peaked at 5.6 percent in July

Global Insight's November forecast is considerably more severe than their June forecast at the time of the City's Fiscal 2009 Adopted Budget. In 2009, real GDP is expected to fall by 1.0 percent from the previous year. At its worst, three million jobs will be lost and unemployment will peak at 8.3 percent in the second quarter of 2010. Employment will only begin to recover in 2010 with a lackluster growth of 0.1 percent. This dour forecast assumes a vigorous policy response, in particular an additional $200 billion fiscal stimulus package, including $45 billion in aid to state & local governments, as well as strong Federal Reserve action.

Global Insight believes this will be the worst recession since 1982 and if additional things go wrong, it could be the worst recession since WWII.

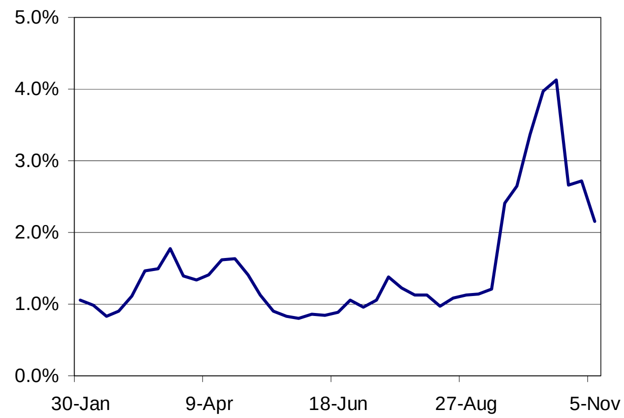
FINANCIAL SECTOR – ON LIFE SUPPORT

Over the past 18 months the financial markets have experienced a level of strain not seen since the Great Depression. As of October world wide mark-to-market losses to the financial system were $2.8 trillion, of which about $1.6 trillion were in the United States. [3] How well this represents ultimate losses is an open question. Uncertainty over the value of financial institution assets and the adequacy of their capital has been perhaps the most important source of paralysis in financial markets.

One of the measures of this stress, the TED Spread, gives an idea of the situation we are in now.[4] As banks-to-bank lending essentially stopped and investors fled to the safety of Treasuries, the spread spiked to an unprecedented level. Recent actions, including the adoption by Congress of TARP (Troubled Asset Relief Program) and similar bailouts by other countries have helped calm things. But the spread remains at a level similar to the Bear Stearns crisis this spring. The TARP program and Federal Reserve actions, including their commercial paper program and the cut to 1.0 percent in the federal funds rate, are helping. But TARP will take time to implement and may not be sufficient for the problem.

Business credit has only experienced the slightest bounce back from an extremely steep drop and consumer credit has continued its nose-dive. Global Insight forecasts that that fully functional credit conditions will not be restored until early 2010.

TED Spread: Credit Markets Still Under Stress



It is hard to know how much of these losses will directly or indirectly effect the City economy or tax revenues, but the NYSE member firms that we traditionally monitor lost $41 billion since the third quarter of 2007. In the 30 years that Council Finance has data for the industry, we have no period with losses even one tenth of that size.

The problem is greater than this, as one industry source told us, the securities industry creates and distributed financial assets and the distribution mechanism is broken. Important parts of the industry have to be reinvented. How and when this happens is an open question.

Council Finance forecasts that NYSE members' total revenues will start to recover in the second half of next year, but the industry will not return to its peak 2007 revenues within the forecast period. Job losses in securities in the range of 35,000 should be similar to the last recession. Not until the spring of 2010 will securities employment start to grow again. Between reduced bonuses and falling levels of employment, wages paid in the securities industry will fall 16.5 percent in 2009, a greater reduction than in 2002.

THE CITY ECONOMY – WAITING FOR THE IMPACT

New York City's economy has maintained momentum longer than the rest of the nation. Total private employment in the City is still above the same time last year, while the U.S. economy has been shedding jobs since the beginning of the year. Average home prices in

[3] Bank of England, "Financial Stability Report," October 2008, p. 14. "Financial Stability Report Summary," October 2008, p. 4. The figure is for various credit market instruments including home loans and their derivatives and corporate bonds. Mark-to-market involves valuing assets at the price they are currently selling, a difficult thing if an asset is not trading much at the moment.

[4] The TED Spread is the difference between the rate banks charge to lend to one another (3 month dollar Libor) and the rate on a safe asset (3 month T-Bill).

Brooklyn and Queens started to fall only in the 4th quarter of 2007, and Manhattan coop and condo prices more recently in the 3rd quarter of 2008.[5] In contrast home prices dropped nationally as early as the 4th quarter 2006.[6] The illusion of immunity disappeared as the financial meltdown affected the City's economy.

According to the New York State Department of Labor (DOL), in September, the City's total private employment was still 20,100 above last September.[7]. City employment growth has continued to slow, and Council Finance expects it to decline in the 4th quarter 2008. When September's employment growth is disaggregated, we see that the financial sector, publishing, and administrative and support services were already shedding jobs.

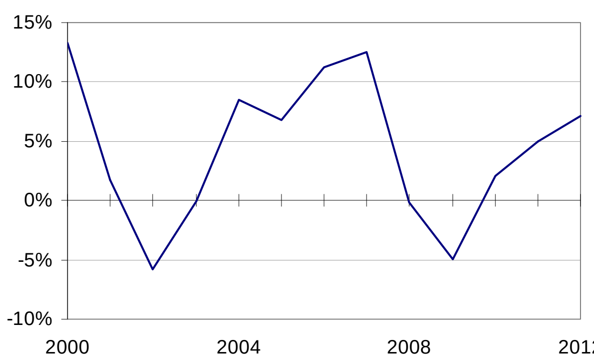
There are six sectors that represent the main drivers of the City's economy. As of September 2008, five out of six still had employment above last year:

- Finance (down 9,000 or -1.9%)
- Business Services (up 5,000 or 0.8%)
- Information (up 5,300 or 3.2%)
- Leisure and Hospitality (up 8,400 or 2.8%)
- Health Care (up 5,100 or 0.9%)
- Education Services (up 600 or 0.4%)

In 2009 and 2010, by contrast, only Health Care and Education Services are expected to grow.

Over the course of the recession the Council estimates a total loss of roughly 112,000 jobs, compared to OMB's slightly higher estimate of 127,000 jobs.[8]

Total Private Sector Wages in New York City



Total wages are expected to take a hit from the combination of stagnant hourly wages, slashed bonuses and decreased employment. Council Finance estimates zero total wage growth in 2008, and a 5 percent fall in wages in 2009. This is a decrease comparable to what happened during the last recession in 2002. Total wages will recover in 2010 by 2 percent, and increase by roughly 5 and 7 percent in 2011 and 2012.

Council Economic Forecast – A Major Recession

National and New York City Economic Forecast

	2008	2009	2010	2011	2012
National					
GDP	1.3%	-1.0%	1.7%	3.1%	3.5%
Employment Growth	-0.1%	-1.5%	0.1%	1.4%	1.9%
S&P 500 Stock Index Change	-16.3%	-17.4%	11.6%	13.6%	12.2%
New York City					
Employment Growth	0.7%	-1.8%	-1.5%	-0.3%	0.6%
Employment Change	22,989	(56,206)	(46,340)	(9,750)	17,548
Total Wage	-0.1%	-5.0%	2.0%	5.0%	7.1%
Total Revenue from SIFMA*	-44.6%	-10.3%	16.5%	18.8%	20.4%

Tax Revenues

As of October collections for taxes other than the real property tax are running 6.3 percent behind the same time last year. Income and sales taxes continue to do well but they do not fully offset the weakness in the bank, general corporation (GCT) and real property transfer taxes. Weakness in financial services, business profits and the real estate market have reduced these taxes from what was, for most of these taxes, historically high levels. But the real effects of the recession are only starting to be felt.

Council Finance believes that bonus season weakness, reduced realized capital gains and falling consumer confidence will weaken the personal income and sales taxes as the year progresses. The slide in non property tax revenue will continue in Fiscal 2010, but continued growth in the property tax, fueled by a pipeline of phased-in increases from prior years, will offset much of this. It is only in Fiscal 2011 that revenues start to recover, and in Fiscal 2012 tax revenues will surpass their Fiscal 2008 peak.

The real property tax reacts more slowly to changes in the economy. The recent boom in real estate prices will have a positive impact on real property tax revenues through the forecast period.

Finance Division Forecast: Difference from OMB November Plan
(Dollars in millions)

[5] Miller Samuel Inc.
[6] Case-Shiller home price index -10 MSA composite.
[7] New York State Department of Labor, Current Employment Survey (CES), September 2008.
[8] It should be noted that OMB's employment includes government workers, while Council Finance only private employment.

Fiscal Year	2009	2010	2011	2012
Real Prop.	$0	($141)	($207)	($168)
Other Prop.	$20	$130	$188	$219
Business	($111)	$273	$483	$608
PIT	$199	$138	$47	$129
Sales	$29	$7	($40)	$91
Other	$3	($39)	($43)	($62)
Total	$140	$368	$428	$816

Finance Division Forecast Growth Rates

Fiscal Year	2008	2009	2010	2011	2012
Real Prop.	0.8%	5.5%	5.9%	6.0%	5.1%
Other Prop.	-18.8%	-22.3%	-1.8%	4.5%	7.1%
Business	-10.0%	-15.1%	2.6%	12.2%	12.5%
PIT	13.8%	-13.0%	-10.5%	9.6%	8.5%
Sales	5.4%	-1.8%	-6.0%	5.2%	8.0%
Other	4.1%	-9.5%	-3.6%	3.5%	2.0%
Council Total	**0.6%**	**-6.1%**	**-0.9%**	**7.1%**	**7.0%**
OMB Total	**0.6%**	**-6.4%**	**-1.5%**	**7.0%**	**6.0%**

2008 actuals

REAL ESTATE TAXES

Real Estate Outlook

The overall real estate outlook for New York City is gloomy, and it will not get better, at least for a while.

Not surprisingly, the commercial real estate market continues to weaken. According to a report by Cushman & Wakefield, vacancy rates in the Manhattan market rose to 7.4 percent in the 3rd Quarter from 5.7 percent same time last year. This figure is expected to continue to rise as further layoffs are announced. Asking rents, on the other hand, have been treading water with little change from the previous quarter, leaving them 16 percent higher than the same time last year. This is not surprising, as asking rents usually tend to adjust more slowly to a weakening market. Indeed, early 4th Quarter data analyzed by Colliers ABR show the asking rents beginning to drop, albeit slightly (~1%). This trend is widely expected to accelerate, and one can expect to see significant declines in rents along with rising vacancy rates through 2009.

The impact on the commercial sales market of increasing vacancy rates is compounded by the tightening credit market. Commercial real estate deals are down 55 percent from a year ago, with sales at a rate last seen in 2004. Moreover, a significant portion of sales were seller driven, either by sellers needing to raise capital to pay off short-term debt or banks looking for someone to take on an existing mortgage. This means that many of these properties sold for less than they could have under more normal circumstances, thereby bringing in less revenue to the City.

In the residential market, New York City is beginning to look a bit more like the rest of the country. Until recently prices continued to rise, while residential markets in the rest of the country largely declined. But with the fallout in the financial sector, we are beginning to see prices in the City drop, albeit at slower rates that the rest of the country. According to a report by Miller Samuel, the median sale price of a Manhattan Coop/Condo in the third quarter fell 9.4 percent from the previous quarter, but still remains above where it was a year ago. The outer boroughs have also registered drops, with Queens faring the worst with a 11.4 percent year-on-year drop in the price. More critically, tightened mortgage standards have prevented many deals from completing and reduced the effective pool of potential buyers.

Real Property Tax and Other Property Taxes

As of a result of the worsening real estate conditions, Council Finance expects a severe drop in revenues from the property transaction taxes. However, it should be noted that these drops are coming off what were extraordinarily high levels during the prior boom years. In the five years from 1999 through 2003, the combined revenues from these taxes averaged about $875 million annually. The period since then (2004 – 2007) has seen the revenues nearly triple to reach an average of $2,457 million annually. While the slowing real estate market will cause this amount to shrink, the new, higher property values mean that the revenues will remain above their historical level. Council Finance forecasts that revenues from these taxes will drop to a combined $1,827 million for Fiscal 2009, representing a 28.3 percent drop from Fiscal 2008.

The phase-in of changes in assessed values, as mandated by State law, greatly reduces the volatility in the real property tax. Yearly changes in billable or taxable assessed value for multi-family residential properties (class two) and commercial properties (class four) are phased in over five years, which means that the drops in residential and commercial property values we are beginning to see will not be immediately registered. Moreover, increases from previous years, known as the “pipeline”, are still being phased in. The net result of this is that this tax will continue to grow but at a declining rate for the next few years.

Overall, Council Finance forecasts that total billable assessed value (BAV) will increase by 5.8 percent in Fiscal 2010 from 2009, slightly lower than last year’s growth of 6.8 percent from Fiscal 2008; then grow at a slower rate of 5.1 percent in Fiscal 2011. Both the BAV and the property tax levy are forecast to grow at an average annual rate of

5.3 percent for the forecast period from Fiscal 2010 through 2012. For comparison, the annual average rate of increase in the BAV for the five year period from Fiscal 2005 through 2009 was 6.1 percent, so some of the recent decline in values is already being reflected in the forecast.

PERSONAL INCOME TAX

Council Finance forecasts that PIT revenues will sharply decline in Fiscal 2009 by 13.0 percent. This is due to a fall in both withholdings and estimated payments, plus an increase in refunds as a share of monthly payments.

Withholdings will drop by 3.8 percent in 2009 due primarily to the fall in financial sector employment and a weak 2008-2009 bonus season. There is also a sharp fall of around 26 percent in estimated payments, due largely to a decline in capital gains realizations, and from weaker equity, credit and real estate markets. With the fall in personal income steeper than the expectations of taxpayers and payroll, refunds, especially from estimated payments, are expected to be substantial. PIT revenues will continue to fall in Fiscal 2010 by 10.5 percent. Revenues are expected to begin growing again in Fiscal 2011 at 9.6 percent and in 2012 at 8.5 percent.

BUSINESS TAXES

After falling by 10.0 percent in Fiscal 2008, combined business taxes - general corporation tax (GCT), bank corporation tax (BCT) and unincorporated business tax (UBT) - are forecasted to fall more sharply in Fiscal 2009 by an estimated 15.1 percent. Due to substantial losses and write downs of financial firms, plus expectations of overpayments (as occurred in Fiscal 2007) the City is braced for a steep drop in revenues. OMB reported that refunds have tripled in the first ten months of calendar year 2008 ($804 million) compared to the average of the same period between 2005 and 2007. Council Finance expects a lackluster recovery in Fiscal 2010, with grow at around 2.6 percent. This is suported by Global Insight's forecast of a resumption of positive growth of state corporate tax collections nationwide around Fiscal 2010. Council Finance also forecasts that NYSE members' total revenue will resume positive growth at that time, restoring a tax base for the GCT. Growth will increase in Fiscal 2011 and 2012 at 12.2 and 12.5 percent, respectively.

SALES AND OTHER TAXES

The sales tax continues to do well, up about 6 percent from the same time last year. A weaker economy especially during the bonus season will pull things down in the second half of Fiscal 2009. Sales tax revenue, after growing by 5.4 percent in Fiscal 2008, is expected to fall by -1.8 percent in Fiscal 2009. The drop will become steeper in Fiscal 2010, falling by 6.0 percent. Revenues are expected to recover in Fiscal 2011 and 2012 at 5.2 percent and 8.0 percent, respectively.

Among the other taxes, Council Finance expects utility tax revenues to fall somewhat in Fiscal 2009 due to reduced employment and demand for energy and falling energy prices in the workplace and at home. Revenues are expected to be flat in Fiscal 2010 at 0.1 percent, and then average 6 percent growth in the out years.

Hotel tax revenue, after growing by 16.3 percent in Fiscal 2008, is expected to slow at about a quarter of that level in Fiscal 2009. Foreign tourism, comprising 18.4 percent of visitors, is still strong, having grown by 22.0 percent from the previous year. The tourist industry has been fueled by the increased amenities and safety in the City, and the continuing decline of the dollar. The global recession, however, will have a dampening effect on travel spending, foreign and domestic. Business conferences at hotels are also expected to thin out with increased corporate retrenchment. Hotel revenue growth will fall in Fiscal 2010 and 2011 before resuming positive growth.

MAYOR'S FISCAL 2009 NOVEMBER PLAN TAX POLICY OPTIONS TO CLOSE THE BUDGET GAPS

The City Council adopted a 7 percent reduction in the property tax in fiscal years 2008 and 2009. This June, in the Fiscal 2009 Adopted Budget, the Mayor proposed rescinding the 7 percent reduction beginning in Fiscal 2010 in order to reduce out-year budget gaps. The increase in the property tax would raise $1.22 billion in Fiscal 2010, $1.3 billion in 2011 and $1.36 billion in 2012, and reduce the budget gaps to $2.3 billion in Fiscal 2010, $5.2 billion in 2011 and $5.1 billion in 2012.

Between June and November, deteriorating economic conditions created the potential for revenue shortfalls that added to the projected budget gaps. In the November Plan, the gaps increased to $303 million in Fiscal 2009, $3.67 billion in Fiscal 2010, $6.31 billion in Fiscal 2011 and $6.17 billion in Fiscal 2012. In response to this the Mayor proposed major changes in tax policy.

Proposed Property Tax Mid-year Increase & Elimination of the Rebate

In the November Plan the Mayor proposed rescinding the 7 percent property tax reduction earlier, in the second half of Fiscal 2009. This mid-year increase would raise $576 million in additional property taxes that would be rolled into Fiscal 2010. The Council would need to adopt a new resolution that amended the tax rates adopted in June and add the additional levy. Then the Department of Finance would issue new tax bills for the second half of the fiscal year reflecting the increase. Since the 7 percent increase is effective for the second half of the fiscal year, the "full year effect" of the increase is about a 3.5 percent in the current Fiscal 2009 tax bill--$110 increase for the typical citywide owner of a single family home and $150 for the typical owner of a co-op in a building with more than 10 units.

The Mayor also calls for eliminating the $400 rebate program that was included in the budget adopted in June for Fiscal 2009 through 2012. This action would add $256 million a year, beginning in Fiscal 2009 to help reduce budget gaps. In an unusual move, the Administration postponed mailing out the rebate checks that normally would have been sent this October to about 640,000 homeowners. It is unclear if the Council needs to take legislative action in order to eliminate the $400 rebate paid from Fiscal 2009 funds. However, State legislation which authorized the rebate through Fiscal 2010 contained a clause that would eliminate the Fiscal 2010 rebate should the Council raise taxes by more than $500 million in Fiscal 2009. If the Council enacts the Mayor's proposed mid-year 7 percent property tax increase, this action would eliminate the Fiscal 2010 rebate.

Other Tax Proposals

The mid-year increase in the property tax, elimination of the $400 rebate and agency reductions leave remaining gaps of $1.34 billion in Fiscal 2010, $5.0 billion in 2011 and $4.9 billion in Fiscal 2012. The Mayor provides a menu of selected tax options to help close these gaps, as well as additional agency reductions, and recommends $800 million in the tax package and $400 million in the agency PEG program to close the Fiscal 2010 gap. The tax program options with estimated budget impacts are summarized in the following table.

Mayor and Council Tax Options
(Dollars in Millions)

Fiscal Year	2009	2010	2011	2012
Repeal Clothing < $110		$317	$329	$351
Repeal Clothing > $110		$119	$122	$130
1/8% Inc. Sales Tax		$146	$152	$158
1/4% Inc. Sales Tax		$292	$304	$316
7.5% PIT	$223	$585	$615	$660
15% PIT	$446	$1,170	$1,230	$1,320
Council PIT Option 1		$718	$427	$451
Council PIT Option 2		$1,145	$680	$720
Council PIT Option 3		$1750	$1,280	$1,325
Council +1% Hotel Tax	$30	$67	$71	$70

Sales Tax Options

The New York City sales tax rate is 4.0 percent, the State rate is 4.0 percent, and an additional 0.375 percent is levied on all localities located within the Metropolitan Commuter Transportation District, making the aggregate City sales tax rate 8.375 percent.

The Mayor's menu includes several options, including repealing the popular clothing exemption and increasing the sales tax rate. These are options that were temporarily instituted after 9/11 in order to help with revenue shortfalls at that time. The sales tax is one of the most regressive taxes, falling most heavily on low-income households who spend a larger portion of their income on taxable items.

Repeal the Sales Tax Exemptions on Clothing Under $110. Raises $317 million in Fiscal 2010. Currently, clothing and shoes priced under $110 are exempt from all City, State and MTA taxes. This is a very popular tax exemption supported by the Council. The exemption was first instituted in March 2000, temporarily repealed after 9/11 in June 1, 2003 and reinstated in Fiscal 2006.

Repeal the Sales Tax Exemption on Clothing Priced at $110 and Above. Raises $119 million in Fiscal 2010. Only the City sales tax of 4 percent is exempt on clothing costing $110 and above, effective September 2007.

Restore the 1/8% (.125) Sales Tax Surcharge. Raises $146 million in 2010. After 9/11, the City increased its tax rate by 1/8 percent to 4.125 percent, effective from June 2003 through May 2005. This proposal would bring the aggregate NYC sales tax rate to 8.50 percent.

Restore the Full 1/4% Sales Tax Increase. Raises $292 million in Fiscal 2010. This action would increase the NYC aggregate sales tax rate to 8.625 percent, returning it to the level enacted after 9/11 which remained in effect for two years.

Eliminating the sales tax increase on clothing priced at $110 and above plus increasing the sales tax rate by 1/8 percent would raise a total of $265 million. Eliminating both exemptions on clothing and raising the tax rate by 1/4 percent would raise $728 million in Fiscal 2010.

Personal Income Tax Options

The Mayor proposes two options that would impose an income tax surcharge on all taxpayers.

7.5% Across the Board Rate Increase. Effective January 2009, would raise $585 million in Fiscal 2010. A taxpayer with taxable income between $50,000 and $75,000 would pay an additional $116 annually; a taxpayer with taxable income between $75,000 and $90,000 would pay an additional $178 annually.

15% Across the Board Rate Increase. Effective January 2009, would raise $1,170 million in Fiscal 2010. A taxpayer with taxable income between $50,000 and $75,000 would pay an additional $233 annually; a taxpayer with taxable income between $75,000 and $90,000 would pay an additional $356 annually

Some Alternatives to the Mayor's Tax Options

Council Finance has examined several tax policy options besides those presented by the Mayor in his November Plan.

Personal Income Tax Options

Between 2003 and 2005 New York City had two additional personal income tax brackets, these brackets could be restored but at slightly different levels than in 2003. The first bracket would be for incomes over $250,000 (married filing jointly), the second for incomes over $500,000.

Option 1: Restore tax year 2003 tax bracket for incomes over $500,000 but at the rate of 4.25%. Starting in tax year 2009; this action would raise a total of $718 million in Fiscal 2009 and 2010, and $427 million in Fiscal 2011.

Option 2: Restore tax year 2003 tax rates for the two top brackets at 4.25% at $250,000 and 4.45% at $500,000, starting in tax year 2009; would raise a total of $1.1 billion in Fiscal 2009 and 2010, and $680 million in Fiscal 2011.

Option 3: Restore tax year 2003 tax rates for the two top brackets at 4.25% at $250,000 and 4.45% at $500,000, and add a 7% surcharge to the lower brackets. Starting in tax year 2009; this rate increase would raise a total of $1.75 billion in Fiscal 2009 and 2010, and $1.28 billion in Fiscal 2011.

Other Tax Options

Raise the hotel tax. For each 1 percent increase in the tax rate, the City would raise $67 million in Fiscal 2010.

Council Economic Stimulus Package

Besides closing our budget gaps in a responsible way, it is important also to look at ways to help the City come out of this recession with a vigorous and more diverse economy. In an October 15th speech to the Citizens Budget Commission Speaker Quinn made two proposals:

Single Sales Factor Apportionment: New York City should adopt New York State's method for taxing companies that do business both within and outside of the City. For businesses like this it is necessary to decide what portion of their income was earned within New York City and thus taxable by the City. Single sales factor determines the percentage of a company's net income earned in New York City but the percentage of their sales that occur in New York City. Currently, our tax law increases the corporate tax for multistate, New York-based businesses that add jobs or invest at home. This method of taxation discourages these large companies from anchoring here and adding to the economic diversity our City needs.

Adopting single sales factor is costly, and we simply cannot afford it right now. This proposal would have to be phased in over a 3-5 year period and offset by other business tax reforms, such as adopting New York State rules on combine reporting. But enacting a measure like this now would allow businesses to make plans for recovery based on a more favorable business tax environment.

Exempt Sole Proprietors and Freelancers with Incomes Under $150,000 from the Unincorporated Business Tax: The unincorporated business tax is designed to deal with the fact that many businesses are not corporations. But double taxation on a group of independent workers and small business owners does not make sense. It discourages them from locating in the City, and it was not what the tax was intended to do. This would cost approximately $20 million in Fiscal 2010.

APPENDIX

OMB's November Plan Forecast
(Dollars in Millions)

Fiscal Year	**2008**	**2009**	**2010**	**2011**	**2012**
Real Property	$13,062	$13,781	$14,735	$15,673	$16,419
Personal Income	8,748	7,411	6,671	7,414	7,968
General Corporation	2,932	2,519	2,340	2,545	2,883
Banking Corporation	628	517	570	662	707
Unincorp. Business	1,852	1,668	1,530	1,598	1,751
Sales	4,868	4,749	4,485	4,765	5,012
Commercial Rent	545	556	563	581	603
Real Property Trans.	1,408	1,030	939	956	1,022
Mortgage Recording	1,138	795	725	737	793
Utility	392	388	417	435	446
Hotel	379	389	397	418	443
All Other	1,797	1,787	1,775	1,849	1,895
Audits	1,016	677	578	579	579
Total Taxes	**$38,765**	**$36,267**	**$35,725**	**$38,211**	**$40,521**

REVENUE UNIT STAFF

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[9] The Revenue Unit thanks Chidem Kurdas for editorial assistance.