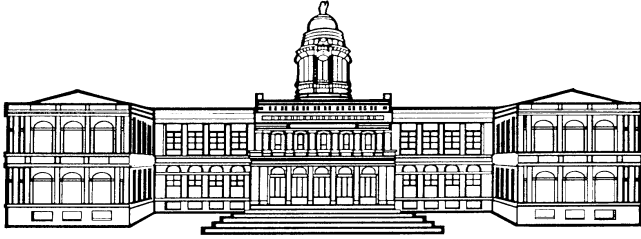

New York City Council
Christine C. Quinn, Speaker

Finance Division
Preston Niblack, Director
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Hearing on the Mayor's Fiscal Year 2011 Executive Budget

Financial Plan Overview, Economy, Revenue, and Debt Service

June 7, 2010

Committee on Finance

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Financial Plan Overview

The Fiscal 2011 Executive Budget is $62,938 million, down $609 million or a 1 percent decline from the projected Fiscal 2010 budget. Adjusted for use of the 2010 surplus to pre-pay 2011 expenses, however, spending grows by 4.9% in 2011 over 2010.

Muddling Through

The sharp declines in tax revenues in the last two years have not been matched by similar declines in City spending. The City has benefitted from prudent planning and the availability of one-time resources to help make up the difference. The Fiscal 2010 budget was balanced using $2.7 billion in bond defeasances and $2.3 billion in Federal stimulus funds from the American Recovery and Reinvestment Act (ARRA). The Mayor's Executive Budget for Fiscal 2011 also assumes the availability of one-time resources from a six-month extension of the higher federal share of Medicaid enacted in ARRA,[1] and from the use of surplus funds from the Battery Park City Authority, as well as the use of $3.3 billion in surplus funds accrued in 2010.

Although there have been various proposals in Washington to provide additional fiscal relief to the States, to date only limited relief seems likely to materialize in the short term.

In addition, the State's budget problems are real and profound. They would be difficult to solve under the best of circumstances and an election year with a sharply divided State government is not the best of circumstances. At time of writing the State Budget is close to two months late. The State is grappling with a State Fiscal 2010-2011 deficit of $8.2 billion, and at least $14.3 billion in State Fiscal 2011-2012, according to the Governor's Executive Budget. New York State aid represents about 18 percent of City revenue, and as a practical matter any attempt to deal with the State's budget problems must include reductions in aid to New York City. The Mayor's budget for 2011 assumed no restorations of State Aid, leaving in particular a $493 million gap in the Department of Education Budget.

The Fiscal 2011 budget presents tough choices. The end of Federal Stimulus money and the State's deepening and intractable fiscal problems will make Fiscal 2012 as bad or worse.

Closing the 2011 Gap

During the 9 months between the adoption of the 2010 budget and the Mayor's Executive Budget, a number of substantial changes in the City's fiscal situation occurred:

- Tax revenues have come in substantially better than was projected in the Fiscal 2010 Adopted Budget -- $1.9 billion better in 2010 and $824 million projected for 2011.
- New one-time resources were identified, including $200 million from Battery Park City's surplus and an assumed extension of the Federal Stimulus Medicaid FMAP which would provide $270 million in additional relief for FY 2011.

[1] Federal legislation also resolved a dispute between the City and State over the interpretation of the FMAP formula in ARRA, in favor of the City, resulting in $582 million in anticipated additional revenue for the City.

Changes in the Financial Plan Since Adoption Fiscal 2010
Dollars in Millions

	FY 10	FY11	FY12	FY13	FY14
Gap as of June 2009 Plan	**$0**	**($4,925)**	**($4,994)**	**($5,633)**	**($5,633)**
Increases to the Gap					
Drop Health Insurance Reform Proposals		(357)	(386)	(418)	(451)
Drop Tier 5 Pension Proposal		(200)	(200)	(200)	(200)
Pension Reserve		(400)	(150)	(150)	(150)
HHC Deficit Reduction	(348)	(83)	(229)	(300)	(300)
GASB 49 (Pollution Remediation)		(150)	(150)	(200)	(200)
State Budget Impact*	(270)	(487)	(464)	(464)	(464)
Other Expenses	(356)	(334)	(503)	(573)	(2,095)
Revised Gap	**($974)**	**($6,936)**	**($7,076)**	**($7,938)**	**($9,493)**
Gap-Closing					
Tax Revenue Forecast Changes	$1,890	$824	$684	$509	$1,838
Non Tax Revenue Changes	387	20	37	26	73
Battery Park City Authority Funds	134	66			
0% Labor Increase	248	458	805	996	1,116
Medicaid: FMAP	(187)	561	395	422	
General Reserve	200				
Prior Payables	800				
Inter Funds Agreement Rate Increase	74	61	36	36	36
Debt Service Savings	211	383	49	26	(222)
PEG Program	489	1,291	1,287	1,295	1,249
Total Gap Closing	**$4,246**	**$3,664**	**$3,293**	**$3,310**	**$4,090**
Remaining Gap	**$3,272**	**($3,272)**	**($3,783)**	**($4,628)**	**($5,403)**
Fiscal 2010 Surplus Roll	(3,272)	3,272			
Gap as of Fiscal 2010 Exec Plan	**$0**	**$0**	**($3,783)**	**($4,628)**	**($5,403)**

***Source**: OMB Fiscal 2011 Executive Budget*

- The Mayor dropped proposals to create a new Pension Tier for new City employees, and to have City employees and retirees contribute to the cost of their health insurance coverage. Instead, he eliminated funding in the labor reserve for future collective bargaining settlements, stating that any future wage increases will have to be entirely funded by productivity increases, to be jointly identified by the City and its unions.
- The Health and Hospitals Corporation is undertaking a multi-year effort to address a structural deficit. The City will provide a cushion to aid HHC while the program is implemented.
- Because the City is required by State law and the Charter to balance its budget on the same accounting basis used to report its financial results, a new reporting rule by the Governmental Accounting Standards Board, GASB 49, would require the City to pay for pollution remediation costs as part of the expense budget rather than the current practice as part of the capital budget. The implementation of this requirement, which had been delayed for two years by agreement with the Financial Control Board, would begin in Fiscal 2011. The City is seeking a Legislative waiver to allow it to continue capitalizing these expenditures.

- The Executive Budget proposes an agency program to eliminate the gap (PEG) of a little under $1.3 billion in Fiscal 2011. As originally proposed, it would result in a headcount reduction of 10,997 positions, including 6,026 layoffs. Because of the State education aid cut, the headcount reduction would have included 6,414 teachers and other pedagogical personnel, 4,419 by layoffs. On June 2nd, the Mayor announced that the DOE would not send out layoff notices, instead proposing to use the DOE's labor reserve – funded at a level to provide 2% increases to UFT and CSA members – to avoid layoffs. This in effect provides no funding for salary increases for pedagogical employees.

The additional revenues and gap closing measures in Fiscal 2010 will result in a surplus of $3.27 billion this year, which will be entirely used to support spending in 2011.

Agency PEG Program

The Executive Budget contains a Fiscal 2011 agency program of $1.3 billion, an increase of $175 million from the January Plan. Most agencies were instructed to take 8% cuts to their 2011 budgets (with the exception of uniformed services and Education) in the January Plan, and additional cuts in the Executive Budget, for a total of 11% to 13%.

Because the Office of Management and Budget calculates agency PEG targets against a "baseline" budget level that does not reflect Council restorations for the current year, however, on a year-over-year basis, some agencies face much deeper cuts than the nominal PEG targets, notably the Department for the Aging, the public library systems, the Department of Cultural Affairs, and the Borough Presidents, all face year-over-year cuts in their funding levels that are as high as 25%, 35%, and more.

On the other hand, the Administration did make certain restorations in the Executive Budget. The largest action was reversing the proposed reduction of 892 police officers. The administration also provided an additional $20 million for CUNY, meeting their maintenance of effort requirement (if not the full operating need), $10 million for the Summer Youth Employment Program, and funded Community Boards at roughly their 2010 level.

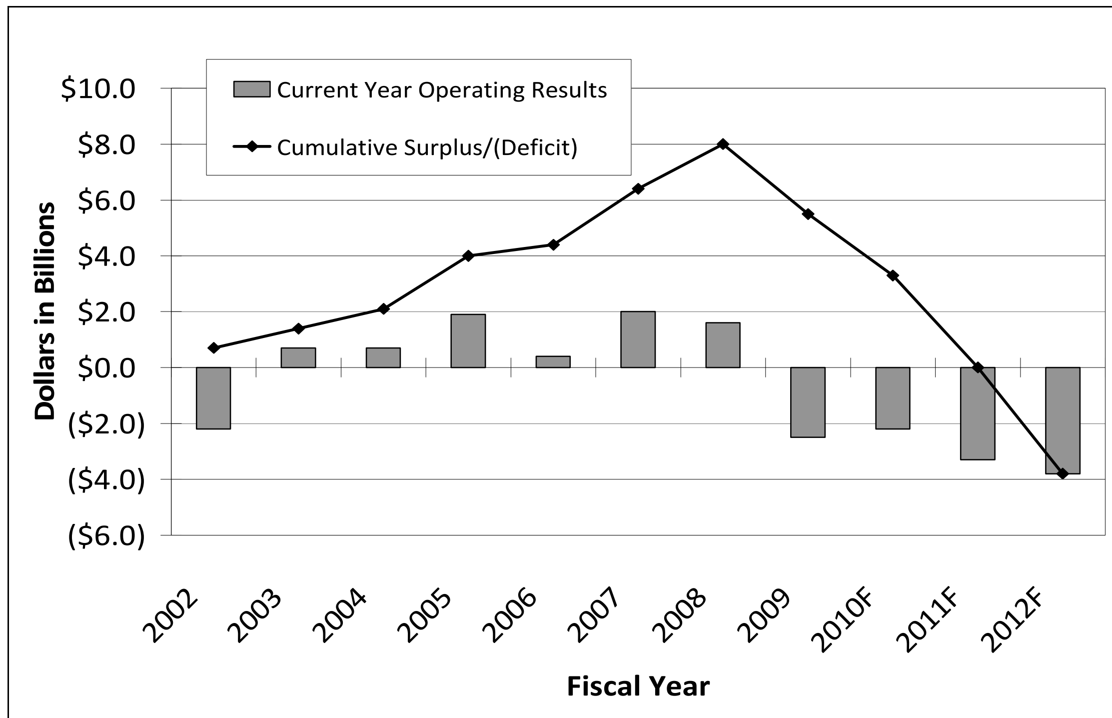
Detailed descriptions of the agency gap closing program are available in briefing books for the appropriate agency.

Operating Deficits and the Long Run

During the good years New York City put money away for a rainy day. It has been raining and the City has been using that money. The issue now is how to make the money last until it stops raining.The City ended Fiscal 2009 with a budget that was balanced according to generally accepted accounting principles (GAAP), as required under the City Charter. But this balance was achieved with prepayments and debt defeasances using surplus revenues collected during the six previous years. Adjusting for these prepayments and defeasances reveals that the City had a 2009 deficit of $2.5 billion on an operating basis – that is, spending for 2009 expenses was $2.5 billion more than revenues collected in 2009. In Fiscal 2010 the operating deficit is expected to be slightly smaller $2.2 billion. This means the so far in this recession the City has balanced its budget using $4.7 billion out of $8 billion in surpluses accumulated during the boom years.

In the Executive Budget, the City continues this pattern of prepaying expenses and balancing the budget on a GAAP basis, while having an operating deficit through Fiscal 2011. At the end of Fiscal 2011 the accumulated surpluses from Fiscal 2003-2008 are exhausted.

Operating Results and the Surplus



***Source**: Council Finance Division based on OMB Financial Plan documents*

New York State Budget

At the time of writing the New York State Legislature has not adopted the Executive budget proposed by the Governor. Because no official budget plan exists at the State level for FY 2010-2011, the Mayor's Executive budget assumes the Governor's Budget which includes a reduction in State payments to the city of approximately $1.3 billion.

Out of the $1.3 billion State reduction to the City, $493 million is in reduced payments to the Department of Education. According to the Mayor this reduction, if not mitigated, would require 6,400 fewer teachers in FY 2011. Because of severe cash flow problems, the State has been passing and will continue to pass weekly Emergency Pay Bills in which it either delays or eliminates payments to programs. The most recent Emergency Pay Bill proposed delaying $2 billion in education payments until late June. However, this provision was not included in the final Legislature vote, but may be in any future Emergency Pay bills that will have to be done before a budget is adopted.

The ongoing congressional debate on Capitol Hill over whether to provide a six-month extension of enhanced Federal Medical Assistance Percentages (FMAP) funding could have major consequences for the State and City budget for the upcoming fiscal year, since both assume this revenue supplement. New York State has budgeted a $1.1 billion into its current Executive Budget in enhanced FMAP to cover the period between Jan. 1, 2011 and June 30, 2011. New York City has also assumed that it will see $500 million out of this supplement in budget relief. It is unclear at this point whether this extension will be reconsidered outside of the already passed H.R. 4213, out of which it was removed.

In the most recent forecast the State's SFY 2010-2011 budget gap was raised to $8.2 billion. The out-year gaps total close to $54 billion. The Executive Budget as updated by the 21-day amendments propose $4.9 billion in spending control, with the rest of the gap being closed by a mixture of revenue measures, one shots, and Federal Aid. Closing a gap of this magnitude without impacting on State local assistance or

spending that affects New York City is virtually impossible. The key thing is that these actions should not disproportionately impact on New York City or its budget. State budget actions that create cost shifts through unfunded mandates, or restrict operating aid pose the most concern for the City budget.

The permanent and complete elimination of New York City's Aid and Incentives to Municipalities (AIM) revenue share is particularly hard for the City to absorb. Because of the timing of AIM payments, the impact in Fiscal 2011 would amount to two year's worth of revenue-sharing or $656 million.

Cost shifts and other funding reductions for mandated services are especially troublesome. Here the City may be obliged to fill in the funding gap that would be created if the State Executive Budget is adopted. Much of this is in the areas of special education, homelessness, and social services. Because the City is mandated by Federal law to provide Special Education Services, the State's restructure of the local reimbursement for Summer School Special Education will create a $51 million gap that will have to be filled with City funds. The elimination of Adult Shelter State Support creates a similar problem, because the provision of homeless services to adults is mandated by either State law or the courts. The requirement to seek Public Assistance grant qualification for homeless adults by local shelters rather than provide State aid for these services will create a $56 million budget gap to be filled by the City. A bigger problem exists in the reimbursement formula between the City and State Office of Children and Family Services (OCFS), which obligates the City with reimbursement rates unadjusted for a 60% decrease in the number of youths sent by the City to State detention facilities. The City shares 50 percent of the juvenile justice administration costs with the State, which have been progressively growing, unreasonably straining the City budget and diverting resources from alternatives to incarceration and youth community development programs.

The Economy

The National Economy: The Recovery Takes Hold

The economic recovery is now three quarters old, and is showing every indication of continuing. In the first quarter of 2010 real GDP grew at the rate of 3.1 percent. Like the last two quarters of 2009, growth was still powered in part by firms replacing inventories that they allowed to run down to a very low level during the recession. But consumption picked up, growing at its fastest rate in three years. Business investment in equipment and software jumped 13 percent. Our foreign trade did well, helped by rapid growth in Asia.

Going forward the signs are positive. The economy is finally adding jobs, around 290,000 in April. People are starting to have hope in the job market again. This optimism was sufficient to increase April's unemployment rate as discouraged worker reentered the labor force. This optimism and the income that comes with increasing employment should help consumption continue to grow. The outlook for investment in equipment and software also looks good. As a group, large nonfinancial firms went into the recession with strong balance sheets. During the financial crisis there was a tendency for these firms to hoard cash. Cash plus improving economic conditions is a recipe for investment. The financial markets that fund larger firms are working reasonably well and will help. Asian growth is expected to continue and with it demand for American exports.

Nationally, the housing market shows evidence of bottoming out. Residential fixed investment, a weakness in the first quarter is likely to pick up over the course of the year, though from a very low level.

There are persistent weaknesses. Household balance sheets are weak and will take time to repair; this will limit consumption. Since there are still concerns about commercial real estate, investment in structures for commerce, health care or manufacturing is likely to remain weak. State and local governments are retrenching and will remain a drag on growth for at least two more years.

Small business is another troubled sector. The National Federation of Independent Business (NFIB) survey's index, which measures the performance of small business, is not growing in the same way as its large business cousin, the Institute for Supply Management (ISM) index, which is growing with the economy as a whole. This is unusual. There appear to be three factors behind this. First, small businesses are more dependent on domestic demand than large firms. To the extent that the recovery depends on exports, small businesses are less likely to benefit from it. Second, more small firms are in the construction sector, a part of the economy especially hard hit by the recession which is likely to remain weak. Third, small firms are more dependent on banking system for finance, than are large firms, which often also have direct access to the capital markets. The banking system, especially the small banks that small business disproportionately depend on, has not recovered from the financial crisis as rapidly as the financial markets and the securities industry that serves it. There is considerable evidence of the tightness of small business credit. Net interest rate spreads, the difference between what a bank pays on deposits and borrowings and what it receives on its small commercial and industrial loans are historically high. This is typically a sign of tight credit conditions.[2] Banks continue to tighten their lending standards, a reasonable response to their losses, but this does make life harder for small business. There is at least some evidence that these conditions are no longer getting worse and may be easing in the future. But the small business sector seems likely to lag.

[2] Congressional Oversight Panel, "May Oversight Report, The Small Business Credit Crunch and the Impact of TARP", May 13, 2010, pp, 22-24.

The financial markets have recently been roiled by difficulties in financing Greek public debt and concerns that these problems would spread to other members of the Euro block including, Portugal, Spain and Ireland. At one point liquidity in the euro sovereign bond markets disappeared (roughly people wanted to sell bonds and no one wanted to buy bonds or lend to market makers). However, it should be noted that measures of financial stress, such as the TED spread, were no where near the levels of the fall of 2008 or other peak periods of the crisis. In response, the members of the European Union, the European Central Bank and the IMF put together a 750 billion euro rescue package. At time of writing the package appears to have stabilized the situation, though it has not ended all concerns about the Euro-zone or its financial system. The impact of the crisis will be large on Greece and some other countries. The need to reduce government spending, raise taxes and overall deflate the economy is likely to lead to deep recessions in some of these places. Euro-zone growth will slow and there could be a prolonged period of stagnation. Already the crisis has lead to an increase in the value of the dollar relative to the euro. This is not good for American exports or for the profits of American firms that have European competitors. The stronger dollar and weaker European demand may slow US growth, though at the moment it appears that the effect will be modest.

The news from the financial services industry is generally good. FDIC member banks reported first quarter earnings of $18 billion, the best quarter in two years. However these institutions still have not made up for their losses in 2008 and 2009. The net charge-off rate on commercial and industrial loans was down during the quarter, which may make banks feel better about small business lending. All is not well in the industry, 42 banks failed in the first quarter and 775 or around 1 percent of all banks were on the FDIC's problem list, up from 72 banks in 2007. Turning to the securities industry, NYSE members earned $61 billion in 2009, replacing almost all the industry losses since the beginning of the financial crisis. All indications are that the first quarter of 2010 was profitable, though probably not at the same levels found in 2009. Profitability at this level can not be sustained. OMB forecasts that NYSE members profits fall to $21 billion in 2010. Though down from 2009, this would still be one of the best years in the industry's history.

The banking and especially the securities industry have been beneficiaries of unusually low short term interest rates, produced by Federal Reserve policy. According to IHS Global Insight the Federal Reserve should start raising the Federal Funds rate in late 2010, a process that should continue till late 2012. The Finance Division believes this will slow securities industry growth. Total revenues will continue to grow, though at less than half the pace they did in the recent bubble or in the stock market boom of the 90's. Higher interest rates will squeeze profitability and industry compensation. At time of writing the Financial Stability bill passed the Senate and needed to be reconciled with a similar bill in the House. At this point the impact on industry earnings and the City economy are difficult to quantify. It is unlikely to have a positive impact on industry earnings, compensation or New York City tax revenues.

OMB's national forecast is very similar to the one used by the Finance Division. It sees growth continuing in 2010 at a pace around the economy's long run trend. This is slow for an economy coming out of a normal recession, but not bad for an economy after a recession with a financial crisis. Inflation remains modest through the forecast period. The labor market is less happy, job growth is weak till 2011, and unemployment remains high through the forecast period. It is a national forecast that supports a city economic recovery, but suggests that recovery will be at a modest pace.

New York City's Economy

OMB expects the City to achieve "a tepid recovery", but not until the second half of 2010. It softened its projected peak-to-trough job losses in the private sector to 169,000, down from 203,000 in January's forecast, and 311,000 in last June's. Its estimated loss in total wage earnings in 2009 was at an unprecedented $30 billion, two thirds of which was shouldered by Wall Street. This is reflected in a steep 8.5 percent drop in the average wage rate. The strength and sustainability of the City's recovery largely depends on the future of the financial sector.

On the bright side, Wall Street amassed record profits of $61 billion in 2009, three times its second best year in 2006. Their wages and bonuses however were relatively flat compared to 2008, as firms tried to stay under the political radar of anti-Wall Street fervor. The securities sector in the City has suffered a disproportionate job loss, with 31,000 positions already lost. Its share of total private employment has shrunk from 5.8 percent before the financial crisis to 5.1 percent. Considering that one job in Wall Street supports three outside positions, the fortunes of securities firms and their personnel are a critical factor in determining the strength of the recovery. Securities sector profits of the magnitude recently experienced are not likely to be sustainable, as the Federal Reserve eventually raises short-term interest rates, and anticipated financial reforms circumscribe lucrative risk-taking.

The broadly-based professional and business service sector, which receives much of its business from Wall Street, has been especially battered with job losses, having lost 33,000 positions in 2009 alone. OMB forecasts additional cuts in this sector going forward, but employment reports since February have shown a return to job growth. The information sector however, is still losing jobs as recently as the April employment reports. This is especially the case in publishing, which is being restructured in the direction of electronic media.

Construction has felt the brunt of the residential and commercial real estate downturn, having its employment downsized by 10 percent in 2009. Manufacturing, long in decline from high costs in the City, accelerated its shedding of jobs, losing almost 16 percent of its workforce that year.

Tourism, on the other hand, held up remarkably well during the downturn, receiving 45 million visitors in 2009, the third largest number on record. The hotel industry faced steep declines in its occupancy rates from late 2008 to early 2009, but has now largely recovered. The most recent data shows that last March's occupancy rate reached 81.9 percent, 8.4 percentage points above the same month a year ago.[3] Broadway theaters have also quickly recovered after a dip in attendance, hitting a record $1 billion in receipts in 2009.

Retail establishments struggled in 2009, as strong tourist dollars were not enough to make up for the reduced incomes of New Yorkers. A turning point might have been reached however, with both March and April showing increased employment.

Healthcare and education services comprise the one supersector not dependent upon business cycles, and this last recession was no exception. OMB warns that with the deep State budget cuts targeted particularly at health and education, future growth might not be as robust.

The creation of new jobs is heavily dependent on the growth of small businesses. Small businesses play a vital role in the City's economy, with roughly 98 percent of New York City firms having fewer than 100 employees, and 94 percent less than 50.[4] While consumer demand is beginning to return, bank credit is

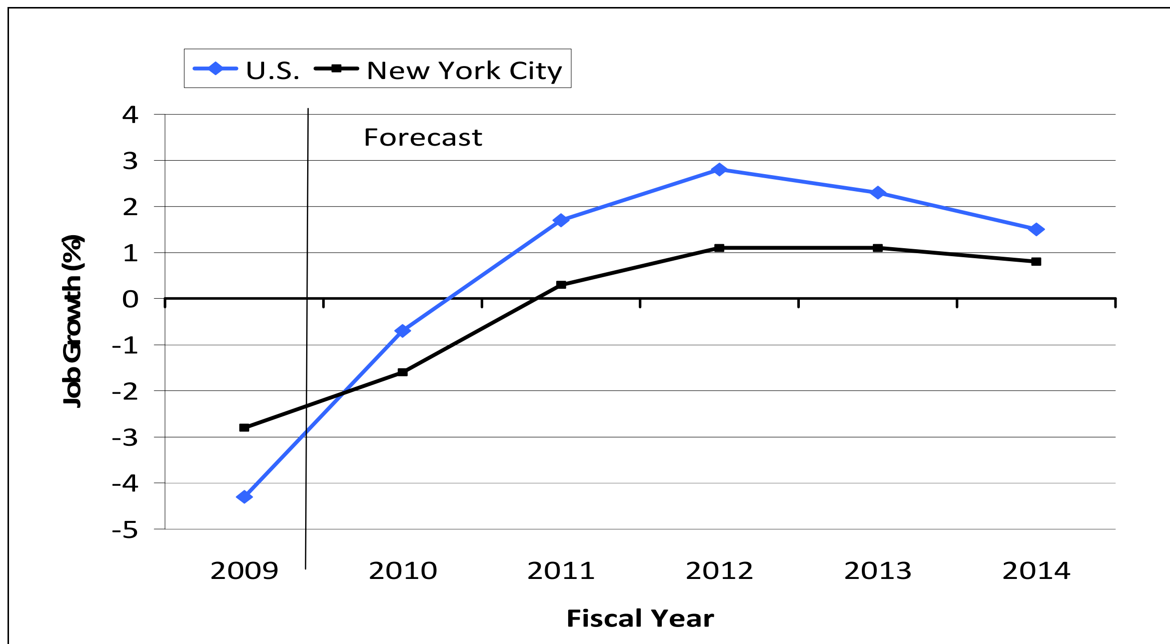
[3] "Tourism Barometer: New York City Briefing Sheet, March 2010." NYC & Company. Updated 5/21/10

[4] New York State Economic Development Law § 131.

still prohibitively tight. The strength of the City's recovery will depend to a great degree on small businesses being able to access affordable credit to meet the growing opportunities in the marketplace.

OMB projects job losses to continue through the first half of 2010, with private payroll declining by another 38,000 in 2010. Recent employment reports for the City, however, paint a very different picture. Total private employment in the City show increases in both March and April, with or without seasonal adjustments. If this turning point is not a fluke, the City will have set a new pattern; entering an employment downturn eight months after the nation as a whole, but resuming job growth in synch with the U.S. In both the 1989-92 and 2001-03 recessions, employment in the U.S. and the City started falling around the same time, but the City's return to job growth lagged over a year behind the rest of the country. OMB's total private employment loss of 169,000 also turned out to be much shallower than in the last two recessions. The 1989-92 recession lost a total of 333,000 private jobs, while the 2001-03 recession lost 230,000 (seasonally adjusted).[5] On the other hand, the $30 billion in reduced earnings in 2009 far outstripped previous years, the second worst being 2002, with an annual loss of $12.9 billion.[6] OMB expects earnings to pick up in 2010, with the average wage rate rising by around 3.9 percent in 2010 and 2011.

The US and New York City Non-farm Employment Growth



***Source**: OMB Fiscal 2011 Executive Budget*

[5] New York State Department of Labor, Current Employment Survey (CES).
[6] U.S. Department of Labor, Quarterly Census of Employment and Wages (QCEW).

Looking forward, both OMB and the Council Finance Division expect the strength of the City's recovery to be largely dependent on how institutional investing adopts to a climate of higher short-term interest costs, and tighter regulations on their risk-taking. The sovereign debt crisis in Europe is already buffeting U.S. markets and has the potential to slow down the reaccumulation of wealth. The City's future wellbeing depends upon the continued growth of the national economy as the stimulus supports are phased out and the exploding national debt begins to be addressed. Greater diversification in the City's economy will be needed as Wall Street may not be able to maintain historic profit levels. The credit environment for small businesses will also determine how many new jobs will be generated. Finally, fiscally-strapped New York State could slow down the City's recovery, with deep cuts in state aid for essential services and higher tax burdens.

Forecast of Selected Economic Indicators

	FY09	FY10	FY11	FY12	FY13	FY14
National Economy						
Real Gross Domestic Product *Percentage Change*	(2.4)	2.9	3.1	3.7	3.1	2.8
Non-Agricultural Employment						
Level Change (million)	(5.9)	(0.9)	2.2	3.8	3.1	2.8
Percentage Change	(4.3)	(0.7)	1.7	2.8	2.3	1.5
Wage Rate *Percentage Change*	0.3	2.8	2.8	2.4	2.9	3.2
New York City Economy						
Real Gross City Product *Percentage Change*	(4.5)	3.6	0.2	2.4	2.3	2.1
Non-Agricultural Employment						
Level Change (thousand)	(107)	(58)	12	40	41	31
Percentage Change	(2.8)	(1.6)	0.3	1.1	1.1	0.8
Wage Rate *Percentage Change*	(8.5)	3.8	4.0	0.9	3.5	3.7

Source*: OMB Fiscal 2011 Executive Budget*

New York City Real Estate Market

The City's real estate market is heavily, but not solely, dependent on the recovery of the rest of City's economy. As a result, OMB does foresee a recovery, if a very anemic one. However, there are continued threats to recovery of this market, particularly the still limited access to credit for commercial and larger real estate property transactions.

In the commercial real estate market, credit is now doubly constrained. Initially, there was the general tightening of credit by financial institutions. This has improved somewhat, but credit is still extremely tight, particularly for properties that are unable to get federally backed mortgages (most medium to large commercial and residential buildings). This tight credit market slowed large transactions to a virtual halt and the resultant lack of prices from actual sales has thrown a fair amount of uncertainty into the market. Where there were 22 large ($500 million or more) transactions in 2007, there has only been one at that level thus far in 2010. Now, without a clear understanding of where prices actually are, financial institutions are even further reluctant to extend credit to the commercial real estate market.

Indeed, the only thing certain about the commercial market is that values have dropped due to rising vacancy rates and falling rents. Layoffs in office using employment have pushed vacancy rates up from 5.4 percent in the fourth quarter of 2007 to 12.5 percent in the first quarter of 2010. This has pushed asking rents down an average of over 25 percent from levels in mid-2008. Things will get better but not in a hurry. OMB expects this vacancy rate to climb a bit more before beginning a gradual decline. Even as the vacancy rates begin to decline, asking rents are not expected to move too much.

The residential market at first glance appears to be in better shape. This is mostly due to federal support for the market through guarantees available for many residential mortgages and the recently expired homebuyer credits. The fourth quarter of 2009 saw the fist year-over-year increase in single family sales in four years (they rose 11 percent). The number of co-op sales has increased 24 percent. And even condos have arrested their decline in sales and stabilized. However, prices still continue to decline. The S&P/Case-Shiller index of single family homes for the New York Metro Area has declined (year-over-year) for the past 38 months in a row. While the rate of decline is beginning to slow, it is expected to continue to decline in the near term. Moreover, prices have been propped up by the federal government's home buyer's credit and extremely low interest rates on mortgages. However, the credit has just recently expired and interest rates are expected to move back up, which will put further pressure on prices. OMB's outlook for 2010 shows a continued uptick in the volume of sales, but that prices will continue to decline.

The Revenue Budget

Revenue Plan

Since Preliminary Budget there have been three significant changes to the revenue budget; modest changes to the tax revenue forecast, the abandonment of the Mayor's tax program and a change in anticipated State aid.

Changes in the forecast increased tax revenue in Fiscal 2010 and 2011 and decreased them in subsequent years. The changes are not really related to a changing view of the economy. The forecast for some income sensitive taxes like the personal income tax and the bank tax were increased, while others like the general corporation tax and the unincorporated business tax were decreased. The changes are related to the special characteristics of each tax.

The Executive Budget does not have a tax program. The Preliminary Budget had a "Tax Fairness" program consisting of an extension of the mortgage recording tax to the purchase of coops and extending the sales tax to aviation fuel. These proved unpopular with the State Legislature. Their absence reduces anticipated tax revenues in Fiscal 2011 by $219 million and by slightly larger amounts in subsequent years. The Executive Budget also assumes the passage of the proposed one dollar increase in the New York State cigarette excise tax proposed by Governor Patterson. This tax would decrease the purchase of cigarettes in New York City reducing City cigarette tax revenue by $12 million a year starting in Fiscal 2011.

State categorical grants have been reduced since the January Plan, primarily due to reductions in education grants. This reduction is largest, $468 million, in Fiscal 2011, and the reduction continues in the out years.

Under unrestricted aid, New York State per capita aid (AIM) funds have been reduced by $177 million in Fiscal 2010 and $327 million in subsequent years. This effectively ends the City's revenue from this program.

For miscellaneous revenue the most striking change is the change in water and sewer charges in Fiscal 2010. The New York City Water Board reimburses the City for among other things, operating expenses, including the salaries of employees. A retroactive collective bargaining settlement, for sewage treatment workers and stationary engineers will increase the Water Board's reimbursement of the City by a bit under $233 million in Fiscal 2010. The other miscellaneous revenue category includes $134 million in Fiscal 2010 and $66 million in Fiscal 2011 from the Battery Park City Authority.

Executive Budget Fiscal 2010 - Changes from January Plan
Dollars in Millions

	FY 10	FY 11	FY 12	FY 13
Taxes				
Real Estate	$74	($157)	($113)	($54)
Sales	111	23	(4)	7
Mortgage Recording	4	(10)	9	(8)
Personal Income	42	237	108	21
General Corporation	(308)	(162)	(105)	(60)
Banking Corporation	297	190	150	75
Unincorporated Business	(82)	(72)	(33)	(31)
Utility	(16)	(15)	(13)	(9)
Hotel	15	14	13	11
Commercial Rent	15	15	15	15
Real Property Transfer	39	(12)	12	(10)
Cigarette	(2)	(2)	(2)	(2)
All Other	33	49	9	12
Audit	0	10	11	11
Tax Program	(1)	(231)	(253)	(274)
STAR	0	(1)	0	0
Total Taxes	**$221**	**($124)**	**($196)**	**($296)**
Federal Categorical Grants	**$250**	**$77**	**($30)**	**($40)**
State Categorical Grants	**$95**	**($526)**	**($207)**	**($641)**
Non-Governmental Grants (Other Cat.)	**($152)**	**$171**	**$30**	**$29**
Unrest. / Anticipated State & Federal Aid	**($169)**	**($326)**	**($328)**	**($328)**
Miscellaneous Revenue				
Charges for Services	($7)	($2)	($5)	($5)
Water and Sewer Charges	246	(14)	(31)	(50)
Licenses, Permits, Franchises	(5)	(12)	(12)	(12)
Rental Income	0	0	0	0
Fines and Forfeitures	(43)	(50)	(47)	(47)
Other Miscellaneous	39	100	(7)	(7)
Interest Income	(8)	4	6	11
Intra City	21	57	(49)	(50)
Total Miscellaneous	**$243**	**$83**	**($145)**	**($160)**
Net Disallowances & Transfers	**($21)**	**($57)**	**$49**	**$50**
Total Revenue	**$467**	**($702)**	**($827)**	**($1,386)**
City Funds: does not include Unrestricted Aid	**$443**	**($98)**	**($292)**	**($406)**
Federal & State Revenue	**$176**	**($775)**	**($565)**	**($1,009)**

***Source**: OMB Fiscal 2011 Executive Budget*

Tax Revenues

Both OMB in its Executive Budget forecast and the Council Finance Division in its Preliminary Budget Response forecast, expect tax revenues to grow 3.3 percent in Fiscal 2010. But this increase is entirely due to changes in tax policy, and changes to the sales, property, hotel and business taxes. If these changes did not occur, tax revenues would have fallen in Fiscal 2010 by 1.5 percent. Fortunately, tax revenues are now starting to show the first signs of the economic revival. Since February personal income tax withholdings, which reflect wages paid in the city, are above the same months last year. This follows a bonus season that was not as strong as we hoped, but still was better than last year's. Monthly personal income tax collections have been consistently above last year since February. [7] Sales taxes, corrected for changes in tax policy, are also in positive territory.

Economic recovery should gradually boost the other income sensitive taxes. Strong financial sector profits should do this for some of the businesses taxes perhaps as early as June. The mortgage recording tax also appears to be bottoming out. By Fiscal 2012 collections for almost all major taxes will be growing again.

OMB expects taxes to grow in Fiscal 2012 – 2014 at a pace somewhat slower then we have seen during the expansion phase of the last two business cycles. The last two cycles both had financial bubbles, that boosted City income and business taxes and strong real estate markets that boosted City transactions and real property taxes. These are unlikely to be repeated soon. The weakness in the real estate market is only now being felt in the real property tax. Its growth should continue to slow as lower market values are phased into assessed values. The Finance Division's Preliminary Budget Response forecast was essentially the same as OMB's for Fiscal 2010 and $291 million over OMB for Fiscal 2011.

Tax Revenue Forecast
Dollars in Millions

	FY 09*	FY 10	FY 11	FY 12	FY 13	FY 14
Real Property	$14,338	$16,109	$16,760	$17,423	$17,692	$17,829
Personal Income	6,589	6,859	7,557	7,941	8,272	8,689
General Corporation	2,320	1,980	2,478	2,788	3,055	3,228
Banking Corporation	1,099	991	839	903	931	925
Unincorporated Business	1,785	1,536	1,588	1,701	1,789	1,891
Sales	4,594	4,992	5,145	5,357	5,667	5,980
Commercial Rent	583	593	566	563	572	583
Real Property Transfer	742	628	628	703	765	828
Mortgage Recording	515	385	455	547	633	726
Utility	398	378	383	398	412	425
Hotel	342	365	373	373	348	352
All Other	1,758	1,504	1,511	1,511	1,585	1,595
Audits	947	890	612	611	610	610
Total Taxes	**36,011**	**37,210**	**38,894**	**40,819**	**42,331**	**43,661**

Source: *OMB Fiscal 2011 Executive Budget*
Note:**actual*

[7] This also reflects a reduction of PIT refunds do to the reduction of the New York State's STAR PIT credit, which refunds part of the City PIT that is used to pay for City schools.

Tax Forecast Growth

	FY 09*	FY 10	FY 11	FY 12	FY 13	FY 14
Real Property	9.8%	12.3%	4.0%	4.0%	1.5%	0.8%
Personal Income	-24.7%	4.1%	10.2%	5.1%	4.2%	5.0%
General Corporation	-20.9%	-14.7%	25.2%	12.5%	9.6%	5.7%
Banking Corporation	74.9%	-9.8%	-15.4%	7.7%	3.1%	-0.7%
Unincorporated Business	-3.7%	-13.9%	3.4%	7.1%	5.2%	5.7%
Sales	-5.6%	8.7%	3.1%	4.1%	5.8%	5.5%
Commercial Rent	7.0%	1.8%	-4.6%	-0.5%	1.6%	1.9%
Real Property Transfer	-47.3%	-15.4%	0.0%	11.9%	8.8%	8.2%
Mortgage Recording	-54.7%	-25.3%	18.2%	20.2%	15.7%	14.7%
Utility	1.6%	-5.1%	1.3%	3.9%	3.5%	3.2%
Hotel	-9.7%	6.6%	2.3%	0.0%	-6.7%	1.1%
All Other	-2.2%	-14.5%	0.5%	0.0%	4.9%	0.6%
Audits	-6.8%	-6.0%	-31.3%	-0.2%	-0.2%	0.0%
Total Taxes	**-7.1%**	**3.3%**	**4.5%**	**4.9%**	**3.7%**	**3.1%**

Source: *OMB Fiscal 2011 Executive Budget*
Note:**actual*

Personal Income Taxes

After personal income tax (PIT) revenue dived 24.7 percent in Fiscal 2009 in the depths of the financial meltdown, OMB expects tax revenue to grow in Fiscal 2010 at 4.1 percent, $42 million above the Preliminary Plan. This growth however, is an illusion of the budget's format. The elimination of the Middle Class School Tax Relief (STAR) credit reduced refunds, producing the appearance of increased revenues, but the reduced STAR aid offsetting the refunds was not accounted for in the PIT section of the revenue budget. Consequently, actual PIT revenues, including STAR offsets from the State, are expected to decrease slightly by 1.4 percent.

Growth in withholdings will be flat compared to the year before, as continued loss in jobs and non-bonus income are roughly balanced by weaker than expected growth in cash bonuses. Withholdings during the bonus months of December through March turned out to have grown by only 3.5 percent; one third of the Preliminary budget's forecast. Collections since February show a return to growth in withholdings compared to the same period in Fiscal 2009. Estimated installments in Fiscal 2010 are projected to have declined by 18.8 percent, largely due to a fall in capital gains in tax year 2009. Although the equities market recovered a lot of ground in the second half of the year, it remained far below pre-financial crisis levels. There've been losses from other non-wage income in 2009, including proprietor profits, interest, dividends and rent. Settlement payments which include final returns, refunds, extended payments and State/City offset payments are expected to be $150 less than the previous year, after adjusting for STAR changes and reimbursing the State for excessive offset payments.

For Fiscal 2011 growth in personal income tax revenues are forecast to climb to 10.2 percent, $237 million over the Preliminary Plan. Withholdings are expected to grow by 2.7 percent, the first positive growth since Fiscal 2008. This comes from a return to employment growth towards the end of calendar year 2010, and average wage rates increasing around 3.8 percent, and Wall Street bonus payouts exceeding those actualized in Fiscal 2010. Withholdings may well exceed OMB's estimate since the return to positive employment growth may have already occurred a half a year before OMB's estimate. Installment payments are expected to rise to 9.7 percent, largely due to a comeback in capital gains realizations in 2010. This is based on a continued growth in equity markets and an incentive to realize profits before tax year 2011 brings in higher capital gains tax rates. The recent crisis in European sovereign debt however, and its impact on the U.S. stock market pose an indeterminate threat to investment income. As of May 21st the Dow Jones Industrial Average and Standard & Poor's 500 had already lost 8.4 percent and 9.8 percent of their respective values from a month earlier. Nonwage income from proprietors, interest, dividends and rent are expected to increase. Settlement payments are expected to be $150 more than in Fiscal 2010, reflecting the economic recovery.

As the economy of the City and nation continues to improve, PIT revenues are expected to grow by 4.7 percent in Fiscal 2012 and around 4.4 percent in both Fiscal 2013 and 2014.

Business Taxes

By OMB's analysis New York City's business taxes are a tale of two cities. The financial sector, as evidenced by the NYSE member firms discussed in our national economy section, has seen a strong recovery and unusually high profits. The nonfinancial sector and small business in general have not done as well. So despite the amazing $61 billion 2009 earnings of NYSE member firms, March business tax collections were down by close to 24 percent from the previous March. The taxes, especially the general corporation tax, are still influenced by net operating loss carry forwards, which have reduced tax payments from larger currently profitable financial sector firms. Smaller financial sector firms such as hedge funds have not

shared the prosperity of their larger cousins. This has been a drag on collections of the unincorporated business tax which remains below last year's level.

Strong securities and banking industry earnings should continue through 2010, and with the end of the recession in the City, small business and nonfinancial sector firms will return to profitability. This should cause the business taxes as a whole to grow perhaps as early as June. Higher federal funds rates and the withdrawal of the Federal Reserves' unusual levels of support starting in late 2010, will impact on the business taxes. In OMB's view it will have an especially strong impact on the bank tax. Going forward the growth of these taxes will be slightly reduced by the phase-in of single sales factor apportionment and other parts of last year's business tax conformity package.

Since the Preliminary Budget forecast, OMB has decreased its forecast of the business taxes by $93 million in Fiscal 2010 and $43 million in Fiscal 2011.

Real Property Tax

Real Property Tax Levy[8]***.*** In the Executive Budget, OMB decreases its forecast of the levy by $54 million from the Preliminary Budget, anticipating Tax Commission actions lowering Class 4 hotel assessments. The Fiscal 2011 levy is estimated to total $18,263 million, for an increase of 3.8 percent over Fiscal 2010. OMB carries the $54 million reduction in the levy throughout the plan period. The levy experiences slowing growth; an increase of 3.9 percent in Fiscal 2012 falls to an increase of only 0.8 percent by Fiscal 2014. As a result, overall average annual growth is a weak 1.9 percent for the period from Fiscal 2012 through 2014. The reasons for the slowdown in the levy are twofold: OMB does not anticipate significant recovery in the New York City economy and real estate markets until the outyears of the plan; at the same time the accumulated value in the pipeline from the recent economic boom years, which is phased-in for multi-family residential property and commercial property, is drying up.

Real Property Tax Revenue. OMB made minor adjustments to Fiscal 2010 property tax revenue. Revenue is forecast at $16,109 million, $75 million more than the Preliminary Budget forecast. Most of the change results from two actions: a $30 million increase in lien sale proceeds and a decrease of $115 million in refunds.

In the Preliminary Budget, OMB moved revenue from the spring sale of property tax liens from Fiscal 2010 to Fiscal 2011. The Executive Budget reverses this action, and credits the proceeds from the May 10th sale to Fiscal 2010. This is not an unusual action. Since the City receives the annual spring lien sale proceeds in June near the time of adoption of the budget for the following fiscal year, OMB often will make a strategic decision at that time to either use the proceeds to balance the current budget or to help offset deficits in the budget for the next fiscal year. For example, in the Fiscal 2010 Executive Budget released last May, OMB moved $30 million from the June 2009 lien sale to Fiscal 2010. Then at Adoption, OMB moved the proceeds back to Fiscal 2009.

Refunds decrease because the City's settlement of about $75 million in refunds owed Con Edison will not occur until Fiscal 2011. Consequently, refunds will increase by $75 million in Fiscal 2011. In 2008, Con Edison won a court case permitting market value reductions based on technological improvements that create functional obsolescence that were not accounted for in the usual depreciation schedule. OMB is anticipating that other utilities will win similar court cases, and increases its forecast of refunds by $60 million in 2012 to account for these awards.

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[8] The Fiscal 2011 final assessment roll was published after the Executive Budget was released and did not include anticipated reductions in class four assessments. The actual levy will be closer to the OMB's Preliminary Budget estimate, or about $18,323 million - $60 million more than the Executive Budget forecast.

Revenue is anticipated to increase by 12.3 percent in Fiscal 2010 from Fiscal 2009, partly as Fiscal 2010 is the first year to feel the full impact of the repeal of the 7.0 percent property tax reduction[9]. The reduction was adopted in Fiscal 2008, but then repealed beginning with the second half of Fiscal 2009. The current average tax rate of $12.283 per $100 of assessed value is now back at the rate that was adopted shortly after 9/11 to help offset severe short-falls in revenue and was the average tax rate until 2008.

In Fiscal 2011, OMB reduces revenue by $155 million, to account for the increase in refunds mentioned above, and the transfer of June lien sale proceeds to Fiscal 2010. Revenue grows at 4.0 percent over the prior year. Then growth in revenue averages 2.1 percent a year from Fiscal 2012 through 2014.

Market Value [10,11]**.** In Fiscal 2010 the market value of the City's one million parcels of taxable real estate decreased by 1.9 percent, the first decrease since Fiscal 1995, as a result of the recession and the liquidity crisis in the financial markets. In Fiscal 2011, the Department of Finance's (DOF) tentative assessment roll shows flat growth of 0.1 percent, though the total value of taxable real estate remains high at $796.6 billion.

However, this flat growth masks the difference in market value changes for the five boroughs. Overall market values dropped in the outer boroughs because of the high concentration of class one homes there. Market value declined by 2.3 percent in the Bronx, 1.1 percent in Brooklyn, 2.8 percent in Queens, and 0.9 percent in Staten Island. However, Manhattan experienced market value growth of 3.8 percent, bolstered by growth of nearly 2 percent in commercial property, and more than 6 percent in multi-family buildings. Class four commercial properties make up 24 percent of all the City's taxable market value; Manhattan accounts for 17 percent of that and the other boroughs for the remaining 7 percent. The value of Manhattan office buildings and luxury hotels increased by more than 2 percent each. Class two multi-family properties also make up 24 percent of market value, but 64 percent of this value is located in Manhattan.

For the third year in a row, the market value of class one properties declined, falling 2.7 percent following a 5 percent decline in value last year. After eight years of double digit growth from Fiscal 2001 through 2008, evidence continues that home prices are softening. The market value of class one homes (1-3 family homes) is based on comparable sales, so changes in market value closely mirror the trend in sales prices. OMB forecasts that market value will continue to decline for class one homes until 2014.

The market value of class two multi-family residential properties of more than 3 units increased by 4.0 percent, after declining by 2.0 percent last year. The co-op, condo and rental markets all experienced weak growth. Market value for class two properties is based on gross income multipliers and capitalization rates. This year, DOF has taken into account building expenses to determine market value more accurately. This is especially important for older buildings that tend to have higher expenses. Because OMB does not anticipate that employment will pick up until calendar year 2011, growth in market values for class two properties will not recover until 2014.

The market value for class four commercial and industrial properties increased by an anemic 2.1 percent, following a 4.3 percent increase in 2010. DOF uses the net income capitalization approach to value commercial property and bases its valuation on income and expenses from the Real Property Income and Expense (RPIE) statements submitted by property owners. This information tends to lag current economic conditions. The most recent income information on the RPIEs submitted for the Fiscal 2011 roll is based on calendar year 2008 data. DOF has made certain corrections for this lag by adjusting the capitalization rates for recent changes in market interest rates and lack of liquidity in the credit markets. OMB anticipates that

[9] While the property tax reduction was repealed in Fiscal 2009, it only impacted property taxes for the second half of the year. Half of the year's property taxes were collected with the reduction still in place.

[10] In this section Market Value refers to the value as determined by DOF and its assessment methodology, not necessarily sales price. The various methodologies used by DOF are briefly described further in this section.

[11] While the final assessment roll has been released at the time of writing, not all components have not been released, and as such, discussion on market values are still based on the tentative assessment roll.

class four market values will decline slightly in 2012 and 2013 and show moderate growth in 2014, based on their forecast of decreasing commercial asking rents and rising vacancy rates which do not stabilize until calendar year 2011.

Market Value Changes by Tax Class since FY 2001

	All	Class 1	Class 2	Class 3	Class 4
FY02	10.7%	13.7%	10.2%	3.4%	7.6%
FY03	9.5%	13.5%	9.4%	4.7%	3.9%
FY04	8.6%	13.6%	3.6%	2.7%	4.5%
FY05	15.8%	21.7%	18.9%	6.6%	3.0%
FY06	13.6%	14.6%	13.4%	13.5%	11.6%
FY07	9.8%	12.9%	7.3%	6.8%	5.2%
FY08	18.1%	16.3%	24.7%	- 2.9%	19.0%
FY09	1.9%	- 1.0%	5.9%	14.1%	3.6%
FY10	- 1.9%	- 5.0%	- 2.0%	7.4%	4.3%
FY11F	0.1%	-2.7%	4.0%	2.2%	2.1%
FY02-FY11F	**124.8%**	**145.8%**	**143.2%**	**74.6%**	**85.5%**
FY06-FY08	**47.3%**	**50.5%**	**51.7%**	**17.7%**	**39.7%**
FY09-FY11F	**0.1%**	**-8.5%**	**7.9%**	**25.2%**	**10.4%**

***Source**: New York City Department of Finance, Annual Report on the NYC Real Property Tax, Fiscal Year 2009, Tentative Assessment Roll, Fiscal Year 2011.*

While stronger growth in market value for class one residential properties relative to the other classes increased its share of total market value in Fiscal 2008 to nearly 54 percent from 45 percent in Fiscal 2001, the share drops to 49 percent on the 2011 tentative roll. Conversely, the share of class four commercial properties decreased from 29 percent in 2001 to 22 percent in Fiscal 2008, but increases to 24 percent on the 2011 roll.

Although class one experienced the highest growth in market value over the 10-year period from 2001 through 2011, class four values grew at a significantly lower rate. However, the situation is reversed over the last three years when market value declined for class one over the period, yet values still increased for commercial property.

Billable Assessed Value. The Department of Finance released the Fiscal 2011 final assessment roll on May 25th, after the Executive Budget was published. The total taxable or billable assessed value (BAV) on the final roll, before accounting for the STAR and veterans exemptions, increased by nearly $6 billion from Fiscal 2010, for a total of $149.3 billion. However, this was $895 million less than the tentative roll total of $150.2 billion. The 4.2 percent increase in value is slightly lower than the 6.7 percent growth experienced last year. However, the continued growth in BAV for class two and four properties reflects strong market value growth over the past several years. During periods of economic growth, increases in market value result in a substantial “pipeline” of accumulated assessed value that is phased-in for classes two and four (assessed value increases are phased in over five years for these two classes of property).

Large yearly increases in market value for class one properties are rarely captured in BAV growth because State law caps class one growth in assessed value at 6 percent a year and 20 percent over five years. After a long period of high market value growth, the cap on assessment increases effectively lowers the ratio of actual assessment to market value. In Fiscal 2011, this ratio will drop to a mean of 4 percent. The “target” assessment ratio for class one is 6 percent. While the cap on assessment increases acts as a break on steep increases in assessed value in any one year, the assessments can still increase up to the cap even when market value is declining, until the target assessment ratio is reached.

Billable Assessed Value Changes by Tax Class since FY 2001					
	All	Class 1	Class 2	Class 3	Class 4
FY02	6.2%	4.2%	8.1%	3.3%	5.9%
FY03	5.6%	4.4%	7.7%	4.7%	4.4%
FY04	5.7%	4.5%	6.8%	2.7%	5.7%
FY05	3.8%	4.3%	5.2%	6.7%	2.3%
FY06	7.5%	4.9%	7.6%	13.5%	7.1%
FY07	4.5%	4.0%	4.9%	6.8%	4.1%
FY08	8.0%	4.0%	7.8%	- 3.9%	11.2%
FY09	6.8%	4.5%	6.3%	9.9%	7.2%
FY10	6.7%	4.0%	5.9%	9.0%	7.6%
FY11	4.2%	4.4%	3.2%	5.6%	4.7%
FY02-FY11	**77.2%**	**52.6%**	**84.9%**	**74.6%**	**78.7%**
FY06-FY08	**21.3%**	**13.5%**	**21.6%**	**16.5%**	**23.9%**
FY09-FY11	**18.7%**	**13.5%**	**16.2%**	**26.5%**	**20.7%**

***Source**: New York City Department of Finance, Annual Report on the NYC Real Property Tax, Fiscal Year 2009, Final Assessment Roll, Fiscal 2011.*
***Note**: Billable Assessed Value adds back the STAR exemption but not the Veterans' exemption.*

This is the case with class one properties in the upcoming fiscal year. Even with continuing decreases in market value, class one's BAV on the final roll increased by 4.4 percent (before accounting for the STAR and veteran's exemptions). 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, OMB's forecast of a decrease in class one's market value throughout the plan period should bring the target assessment ratio closer to 6 percent. OMB estimates that the BAV for class one will grow at an average annual rate of only 1.5 percent from Fiscal 2012 through 2014.

The final assessment roll is always lower than the tentative roll, due to Tax Commission actions, DOF changes by notice, and completion of exemption processing. In the Executive Budget, OMB estimates that the final roll BAV will be $1.375 billion lower than the tentative roll, resulting in final roll increase of 3.8 percent over Fiscal 2010. However, the actual roll was closer to their Preliminary Budget reduction of $0.9 billion.

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 has bolstered BAV growth in the past few years. However, OMB forecasts a rapid decline in BAV growth throughout the plan period, based on their forecast of decreasing market values and a "drying up" of the accumulated value in the pipeline. Class two billable assessed value is anticipated to grow at an annual average rate of 1.6 percent from Fiscal 2012 through 2014; class four BAV by 1.9 percent over the same period. Total BAV will increase at an annual average rate of only 1.9 percent from Fiscal 2012 through 2014.

Other Real Estate Taxes

Real Property Transfer and Mortgage Recording Taxes

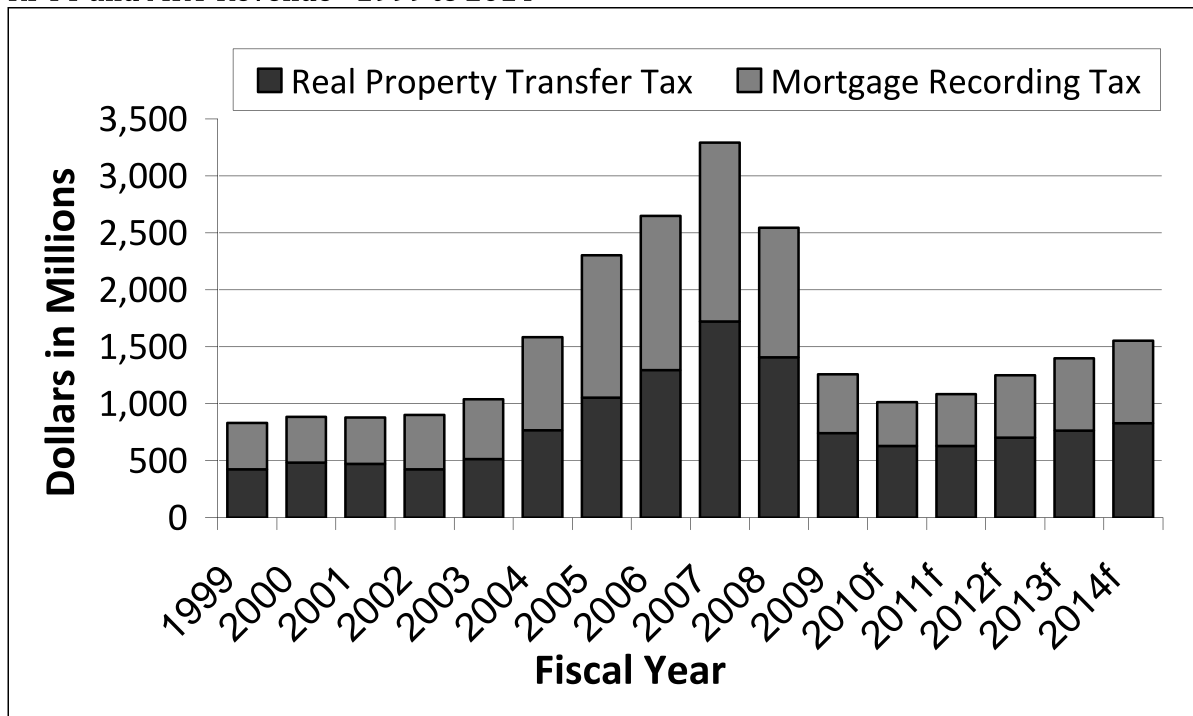
The impact of the recession has impacted the two transfer taxes more severely than any other of the taxes that New York City collects. At their peak in Fiscal 2007, the mortgage recording tax (MRT) and the real property transfer tax (RPTT) brought in a combined $3,293 million. In the current fiscal year, OMB expects the combined revenues of these two taxes to be just $1,013 million - $628 million from the RPTT and $385

million from the MRT. This represents an increase from the Preliminary Budget of $39 million and $4 million respectively.

The larger of the two taxes, the RPTT, is expected to remain flat in 2011. This is a function of a burgeoning turnaround in the commercial market helping to make up for continued drops in the residential market. OMB expects that the residential market will continue to experience decreases in price and transactions in the coming fiscal year. Factors contributing to this decline include the expiration of the federal homebuyer tax credit and a rise in foreclosures that had been delayed by lenders who had been granting mortgage extensions beginning the process of actually foreclosing on properties. As a result, OMB expects revenue from the transfer tax in the residential market to decline 18.8 percent in fiscal 2011.

Growth in the commercial market is certainly welcome, but does not mean that all is well in the market. For the past year or so, the commercial market has been all but moribund. Credit remains tight, investors are wary and even the simple task of accurately pricing property is difficult due to the low volume of transactions. Indeed, with the fiscal year almost over, there has only been one high-value transaction (over $500 million in sale price) thus far in 2010. This compares to a high of 22 such transactions just three years ago. In spite of this, there does appear to be growing investor confidence in the market, leaving the market poised for growth. Of course, when you are near the bottom, there is no where really left to go but up. So while it is good that growth to the market is coming, it should be said that it will take a good deal of growth before things return to normal levels.

RPTT and MRT Revenue - 1999 to 2014



Source: Council Finance Division, based on OMB Financial Plan documents

The RPTT and MRT are generally grouped together as the transfer taxes as they both generally occur when property transfer takes place and as a result tend to follow each other trend-wise. However, the MRT is also spurred on by refinancing activity, and since the tightening of credit has dried up a lot of refinancing, the MRT has experienced an even more precipitous drop than the RPTT has. OMB's Fiscal 2010 for the MRT shows a decline of $130 million from the previous year's level of $515 million. This would represent a staggering decline of 75.5 percent off of the peak year of Fiscal 2007. OMB expects the MRT to begin to recover in 2011 and grow by 18.2 percent.

OMB believes that the market will continue to weaken into the next fiscal year and will not begin to recover until 2011. As a result revenues from these two taxes will bottom out in Fiscal 2010, and then begin to grow in Fiscal 2011. Even with the growth forecast in the outyears, these taxes are forecast to remain at least 50 percent below peak throughout the forecast period through 2014.

Commercial Rent Tax

The commercial rent tax is expected to bring in $593 million in fiscal 2010, a $15 million increase over the Preliminary Budget. It may be surprising to know that this would be the highest revenue recorded by the tax in over ten years. The CRT is somewhat slow to react to the effects of the economy due to the nature of what it taxes. Commercial leases are generally signed in multiyear contracts, so rents are generally readjusted when leases are renewed. Moreover, even though asking rents have dropped over the past few years, they are still higher than where they were in mid part of the last decade. As a result, leases being renewed now could easily see a higher rent in the new lease compared to the old one, in spite of the recession environment. That said, vacancy rates have crept up which have put some downward pressure on the growth caused by the relatively higher rent rates. Indeed, the revenue for this current fiscal year represents a growth rate of just 1.8 percent over the previous year, the lowest growth rate since 2002.

In the coming fiscal year (2011), revenues from the CRT are projected to decline by 4.6 percent to $566 million. Saddled with a higher vacancy rate, rents are not expected to move much which will dampen any

real growth in CRT revenues. OMB is showing an anemic growth of just 1.0 percent from 2012 through 2014.

Sales, Utility & Other Taxes

Sales Tax

OMB's estimate for the City's share of sales tax revenues in Fiscal 2010 now stands at $4,992 million, $111 million over the Preliminary Budget. The revenue will be about 13 percent of total tax revenue. It is a tax levied on the sale price of most goods and some services, at a rate of 4 percent for the State, another 4.5 percent for the City and 0.375 percent in the Metropolitan Commuter Transportation District, for the MTA.. Growth will be 8.7 percent. Fiscal 2011 will see more sluggish growth at about 3 percent, and the out-years a return to trend with growth of about 5 percent per year. Without last year's sales tax rate increase and base changes, Fiscal 2010 collections would decline 5.8 percent.[12] On a common rate and base, i.e. without changes to the tax rate or the tax base, collections would have merely stabilized in the second quarter, with flat growth in the third quarter and, finally, 1.5 percent growth in the fourth quarter. Instead they grew in the second quarter, sharply reversing four quarters of year-over-year decline, realizing a return to growth two quarters sooner than would have occurred without the changes to the tax.

The table below summarizes the forecast through Fiscal Year 2013.

Sales and Use Tax Revenue Forecast
Dollars in millions

	FY10	FY11	FY12	FY13
Collections	$4,992	$5,145	$5,357	$5,667
Growth	8.7%	3.1%	4.1%	5.8%
CRB Growth	-5.8%	same	same	same

***Source**: OMB Fiscal 2011 Executive Budget.*

Two consecutive years of declining sales volume have diminished sales volumes by about a tenth from Fiscal 2008's peak, down to levels last seen in 2006. Nationally, retail and food service sales have been rising, year-on-year, since November, after a 13 month slide.[13] Locally, now that sales have stabilized, a rise is imminent. Net job gains on the horizon should sustain the recovery in sales. It will take several years for City sales to fully recover.

Utility Tax

Utility tax revenues should be $378 million in Fiscal 2010, according to OMB. This is $16 million less than in the Preliminary Budget. A tax imposed primarily on utilities and vendors of utility services (e.g. ConEd, Verizon) at a levy of 2.35 percent of gross income, collections for the fiscal year through March are down 9.9 percent, relative to last year. Part of this is due to the weather. Although one major utility, ConEd, increased delivery charges in May 2009, Fiscal 2010 has seen a cooler summer and a somewhat warmer winter than in 2009. Through April, cooling degree-days are down 28 percent and heating degree-days down 9 percent relative to this time last year.[14,15] OMB projects Fiscal 2010 to end with 5.1 percent less

[12] Expanding the tax base by repealing the clothing and footwear exemption for items $110 or more, repealing the exemption on delivery charges for natural gas or electricity provided by Energy Service Companies (ESCOs), and raising the City rate from 4 percent to 4.5 percent took effect August 1, 2009.

[13] U.S. Census Bureau, Monthly Retail Trade Survey (MRTS)

[14] According to local weather data from the New York State Energy Research and Development Authority

revenue than in 2009. But the start of Fiscal 2009 saw exceptionally high natural gas prices. Prices that high are not forecast to return till around calendar 2017, according to the Department of Energy's Energy Information Administration. Now that employment and energy prices have stabilized, and are starting to rise, Fiscal 2011's utility tax revenue should be $383 million, growth of 1.3 percent. The forecast for the out-years is annual growth averaging 3.5 percent.

Cigarette Tax

This tax is forecast to generate $94 million in Fiscal 2010, $2 million less than in the Preliminary Budget, and a decline of 2.1 percent from last year. The forecast for Fiscal 2011 is $9.2 million, a decline of 2.1 percent. The City cigarette tax is $1.50 per pack (of twenty cigarettes), with the City retaining 54 percent; the balance goes to the State. Ever since the City raised its cigarette tax from 8 cents per pack to $1.50 per pack, starting in Fiscal 2003, City revenue from this tax has been far higher than it had been – from around $30 million per year to over $100 million per year. Further State cigarette tax increases have increased the price of cigarettes. Higher prices have seen statewide sales plummet from about 2.2 billion packs per year in the early 1980's to about 600 million packs per year in 2007.[16] Taxable sales have here have decreased as well, with smokers either quitting or getting cigarettes out-of-state or from other sources, and the revenue from this tax is expected to decline 2.2 percent per year in the out-years.

Hotel Tax

The hotel tax revenue estimate for Fiscal 2010 is now $365 million, growth of 6.6 percent, and $15 million more than in the Preliminary Budget. On a common rate and base, however, collections would be down 6.3 percent this fiscal year, somewhat less than the 13.4 percent decrease in Fiscal 2009. It is a two-part tax: 5.785 percent of the room rate, and a per day fee. The per day fee is 50 cents per day for rooms costing $10 to $20 a day, with the fee increasing in 50 cent increments to a maximum of $2 per day for rooms costing over $40 a day. The City remains popular with visitors, partly due to low room rates which have helped restore the number of room nights sold, but to the detriment of revenue. City tax revenue would be lower as well, if it were not for the recent rate increase from 5 percent to 5.875 percent. Lower room rates have kept the City's expanding inventory of rooms relatively full. According to New York City & Company's Tourism Barometers, airport arrivals had increased for five months straight through March, year-on-year. All three quarters of Fiscal 2010 have seen year-over-year improvement in the total number of room nights sold. After room rates were lowered in early 2009 to lure back visitors, occupancy rates, which had dipped as low as 63% in January of 2009, quickly recovered. January being a month that usually has occupancy rates in the low seventies. By the second quarter of Fiscal 2010, occupancy rates were back at the high levels seen in 2007 and 2008. However, as more and more hotels open throughout the City, there will be downward pressure on occupancy rates. 32 new hotels opened in Calendar 2009. Several more are slated to open in calendar 2010, adding about 6,700 rooms, bringing total City inventory to around 87,000 rooms by the end of the year.[17] This last quarter saw occupancy rates nearer to those seen in 2004, with a year-to-date figure of about 74 percent, rather than the level around 80 percent for several years through 2008. However the blizzards here and in Europe during February probably also contributed to the most recent

[15] A degree-day is the difference of the average temperature on a day from a basis day of 65 degrees Fahrenheit. This difference is computed daily, with differences above 65 degrees being counted as cooling degree-days and those below 65 degrees as heating degree-days. The figure for more than one day is the sum of the daily figures; heating-degree days being summed separately from cooling degree-days. For example, if Monday averages 80 degrees and Tuesday 75 degrees, their degree-days are 15 cooling degree-days and 10 cooling degree-days, respectively, and the total for the two-day period 25 cooling degree-days.

[16] Giovino GA, Chaloupka FJ, Hartman AM et al. *Cigarette Smoking Prevalence and Policies in the 50 States: An Era of Change – The Robert Wood Foundation ImpacTeen Tobacco Chart Book.* Buffalo, NY: University at Buffalo, State University of New York, 2009.

[17] "Hotel Development Winter 2010 Update: New York City Briefing Sheet." NYC & Company. Updated 3/5/10

decline in occupancy rates. In a further sign of improving conditions March 2010's average room rate increased, year-on-year. This is the first increase in 17 months. Calendar year-to-date, the average daily rate is still quite low: $208 per day, less than $216 through March the year before, and even less than the $267 per day through March in calendar 2008.

In Fiscal 2011 hotel tax revenue will be $373 million, growing 2.3 percent. In Fiscal 2012, in the middle of which the hotel tax rate-increase sunsets, growth will be flat with $373 million in tax revenue. In Fiscal 2013, tax revenue will fall to $348 million as the hotel tax rate will be lower than in the prior year. On a common rate and base, growth will resume in Fiscal 2012, with the average growth rate through Fiscal 2014 being 2.7 percent.

Other Taxes

The forecast for the other taxes is $500 million in Fiscal 2010, $34 million above the Preliminary Budget. In Fiscal 2011 it is $477 million, decline of 4.7 percent. The sum of auto related taxes, excise taxes and miscellaneous revenue from sources such as refunds, payments in lieu of taxes (PILOTs) and penalty and interest, Fiscal 2011's decline is largely due to lower PILOT and Section 1127 revenue.

Tax Enforcement Revenue

Tax audits are currently running about 11 percent behind the same time last year. But OMB is expecting a strong finish to the year, with audit revenues ultimate ending the year 11 percent above Fiscal 2009. For Fiscal 2011 audit revenue includes an initiative by Department of Finance to improve and enhance audit revenues, especially from business taxes. Despite this, audit revenues are forecast to be down 30 percent from Fiscal 2010. This reflects a OMB's conservative forecasting of these revenues at a long run level, here around $620 million in each year through the forecast period.

Tax and Revenue Policy

Governor's Proposals of Special Interest to the City

At time of writing no state budget has been passed. It is unclear what if any tax revenue proposals will be passed by the State Legislature. Several of these proposals, including the MRT on co-ops are unpopular with the State Legislature and are considered unlikely to be enacted. The MRT proposal was assumed as part of the City's Preliminary Budget, it was dropped in the City's Executive Budget.

Impose the Mortgage Recording Tax on Co-ops

Both the Governor proposes extending the mortgage recording tax (MRT) to co-ops. The only reason why mortgages on co-op units have been exempt from the tax is because of the different legal treatment of financing agreements under the State Tax Law. All other mortgages are subject to the tax. This unequal treatment for purchasers of different types of property has led to an inequity in the application of the tax. The MRT rate is 2.04 percent for residential mortgages of less than $500,000 and 2.175 percent for residential mortgages of $500,000 or more. OMB estimates that this proposal will raise $50 million in Fiscal 2011 and $58 million in Fiscal 2012. The State estimates a higher revenue gain for the City of $71 million in Fiscal 2011. The City's Preliminary Budget assumed the passage of this proposal. The City's Executive Budget does not.

Limit the New York City PIT STAR Benefit

Under the proposed changes to the NYC PIT STAR benefit, the 6 percent reduction in the City PIT rates, refunded by the State, would be limited to the first $250,000 of personal income. This would increase City residents' tax bill by $143 million in SFY 2010-11, and by $180 million in SFY 2011-12. In support the Governor maintains that under the current benefit, City residents earning over $250,000 (estimated at around 99,000) receive over 50 percent of the benefit, although they comprise only 2.9 percent of City PIT taxpayers.

City residents have been underserved by the STAR program, and this latest proposed change increases the unfairness. While a cumulative $70 million is cut from the STAR (Property Tax) Exemption, affecting all State residents, $143 million, twice that amount, is slated to be cut from the NYC PIT STAR, exclusively hitting City residents. Any cuts in the STAR program should be fairly distributed between the City and the rest of the State.

Exclude High-Value Homes from the STAR Property Tax Exemption

The Governor's Budget proposes to eliminate the STAR property tax exemption for homes valued at $1.5 million or more. Currently, all home owners in New York State receive either the basic or enhanced STAR exemption on their primary residences. This benefit is valued at about $230 for those with the basic benefit and about $470 for those with the enhanced benefit (for owners who are 65 years of age and older with incomes below $74,700). The determination of value of the home for this program would be based upon methods used in property tax assessments. Because the City values co-ops and condos like comparable rentals, this value would be lower than the sales price of the units.

The City provides this exemption through its property tax and the cost is then reimbursed by the State. Since the program is a pass through, the cut will have no direct impact on the City's budget. However, considering the higher value of homes in the New York City region, a higher percentage of homeowners in those areas will be impacted. The Governor estimates that the State will gain $30 million; OMB estimates that $15 million of the savings will come from City residents.

The Metropolitan Transit Authority Mobility Tax Rate Modification.

The Governor proposes to change the Metropolitan Transit Authority Mobility Tax in the 21 Day Amendments. The tax, which was enacted in April 2009, is currently at 0.34 percent of all employer payroll expenses and net earnings from self-employment within the twelve counties of the Metropolitan Commuter Transportation District. Under this proposal, employers and the self-employed in the five City boroughs would now be taxed at the rate of 0.54 percent, a 59 percent increase. Those in the seven outer counties (Westchester, Putnam, Duchess, Orange, Rockland, Nassau, Suffolk) would now be taxed at the rate of 0.17 percent, half the previous rate. The self-employed currently liable for earnings over $10,000, would now have their exemption increased to $100,000. The proposed changes would raise $100 million for the MTA in SFY 2010-11. It will cost the City $20 million.[18]

The commuter trains and buses of the MTA provide an integral underpinning of the New York region's infrastructure and economy, benefiting both the City and the suburbs. The two tier rate proposal ignores the very concept of a regional economy, and the stake all businesses and residents have, whether they take public transportation or drive to work.

Council Proposals

Small Retail S-Corporation Credit

Small retailers are the lifeblood of our neighborhood streets and the anchors to many of our communities. Their health is important not only to the City's economy, but also to the way of life in New York.

The Council has been working over the past four years to reform business taxes so as to help improve the economy of the City, with a special interest in aiding small business.

However, the business tax reforms that have been enacted, so far, have been primarily for unincorporated business tax (UBT) payers or larger multistate corporations. Most small retailers are organized as S-Corporations.[19] These small corporations have not been able to take advantage of the reforms.

The new credit would be the small retailer S-Corp credit. Retail S-Corps whose GCT liabilities are less than $3,400 would receive a tax credit equal to their tax liability, effectively zeroing-out the tax. For those with liabilities over $3,400 there would be a partial credit that starts at $3,400 and gradually decreases till it is equal to $0 for those with liabilities of $5,000. So small retailers whose net income is under $34,000 or whose net income plus compensation paid to shareholders is under $240,000 will pay no GCT. Those with net incomes under $60,000 or net income plus compensation to shareholders under $365,000 will see their tax reduced with a partial credit.

Small S-Corps are currently exempt from Federal and New York State corporate taxes.

The City Council Finance Division believes that 80 percent of retail S-Corps would be eligible for the credit. The average benefit for firms whose owners are making a living from their business and currently paying more than the minimum tax will be $1,000, with a maximum benefit of $3,400. The program would cost the City $6.4 million in Fiscal 2011.

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[18] City government's payroll.

[19] To be eligible for S-Corporation status, a corporation must have fewer than 75 stockholders, be owned by individuals rather than other corporations, and all owners must live in the United States.

Miscellaneous Revenue

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

Licenses, Permits and Franchises

The Executive Budget anticipates fees from Licenses, Permits and Franchises in the current fiscal year to be $5 million lower than the Preliminary Budget, putting the new total around $474 million. The reduction was mostly a result of a decline in revenues from construction permits (-$5 million) and concession revenues from the parks department (-$4.7 million) partially offset by an increase from fees for sidewalk cafes (+$4.5 million). Revenue from this category increases by $7 million to $481 million in Fiscal 2011.

Charges for Services

The Executive Budget anticipates Fiscal 2010 revenue from charges for services to total $731 million, a decrease of $7 million from the Preliminary Budget targets. These decreases come from a number of minor reductions in multiple areas such as fire inspection fees (-$3.3 million), sidewalk repair assessments (-2.7 million) and birth and death certificates (-$1 million). These are partially offset by increases also spread through a number of agencies such 421-A fees (+$5 million), fire insurance fees (+$4 million) and credit card convenience fees charged by the department of finance (+$1.2 million). Looking forward to Fiscal 2011, revenue from this category is estimated to increase by $22 million to $753 million.

Rental Income

For Fiscal 2010, the Executive Budget adjusts rental income downward by $410,000 from the Preliminary Budget which keeps the total at around $226 million. This decrease mainly stems from a reduction in revenues from commercial rents (-$3.2 million) being mostly offset by increases in a number of areas. Revenue from this category decreases by $3 million in Fiscal 2011 from Fiscal 2010.

Fines and Forfeitures

For Fiscal 2010, the Executive Budget decreases fines and forfeitures revenue by $43 million, for a new total of $841 million. This decrease stems predominately from decreased revenues from Block the Box Violation Enforcement (-$43 million), Red Light Camera fines (-$12.5 million) and collection initiative (-$6 million). These decreases were partially offset by an increase in collections of Environmental Control Board fines (+$13.2 million), and other smaller increases spread through a number of agencies. Revenue from this category increases by $5 million in Fiscal 2011 from Fiscal 2010, to $846 million.

Interest Income

For Fiscal 2010, the Executive Budget estimate for interest income registers about $22 million or about $8 million less than in the Preliminary Budget. This reduction stems from increase from a re-estimate of the cost to switch banking contracts to direct pay (-$4 million) and less revenues from interest earned on overnight investments (-$4.5 million).

Revenues from this category are extremely low due to the low interest rates currently on the market. However, rates are expected to start rising in the future. As a result, OMB forecasts revenue from this category more than doubling to $48 million in Fiscal 2011 and then rising again to more ‘normal’ values over $100 million in the outyears.

Water and Sewer Fees

This category represents costs incurred by the City to run the City's water and sewer systems. They are then charged to the Water Board which is responsible for setting rates and collecting payments which is why they appear as City revenue as well. In the Executive Budget, Fiscal 2010 revenue increases by $246 million from the $1,378 million being carried in the Preliminary Budget. This increase almost completely stems from the settlement over pay for sewage treatment workers that will be applied retroactively (+$285.9 million for the whole settlement). This was partially offset by a decrease in the cost of heat, light and power (-$16.3 million) and a decrease in water board rental payments (-$22.8 million). In Fiscal 2011, the Executive Budget projects revenue collections of $1,331 million, down $293 million from Fiscal 2010, with the sizeable drop due to the one time charge in fiscal 2010 of retroactive payments in the aforementioned settlement.

Miscellaneous Revenue Sources

This category of revenue serves as a catchall for all revenue sources not classified in one of the above categories. For Fiscal 2010, the Executive Budget adds $39 million to the Preliminary Budget for a total of $783 million. The most significant adjustment is a reduction of $181 million from debt service payments by the HHC for its capital projects. This is offset by increases in health reimbursements from previous years (+$123 million) and a payment from the Battery Park City Authority (+$134 million).

Revenues from this category are expected to drop $191 million from Fiscal 2010 to Fiscal 2011. This sizeable looking decrease is due to a number of one time items occurring in Fiscal 2010, the largest of which are the two increases listed above and the Credit Suisse settlement ($117.3 million).

Capital Budget, Financing Program, and Debt Service

Capital Commitment Plan

The 2011 Executive Capital Budget includes new appropriations of $10.3 billion, of which $7.9 billion are to be funded from City sources. This is less than one percent greater than the $10.3 billion total and $8.0 billion of actual appropriations in Fiscal 2010.

The new appropriations, together with available balances from prior years, authorize total commitments of $9.6 billion for 2011, of which $7.8 billion will be City-funded. This is an increase of $2.5 billion in the City-funded planned commitments over the $5.2 billion planned in the Adopted Capital Budget.

Ten Year Capital Plan: Adopted and Preliminary Budget
Dollars in Millions

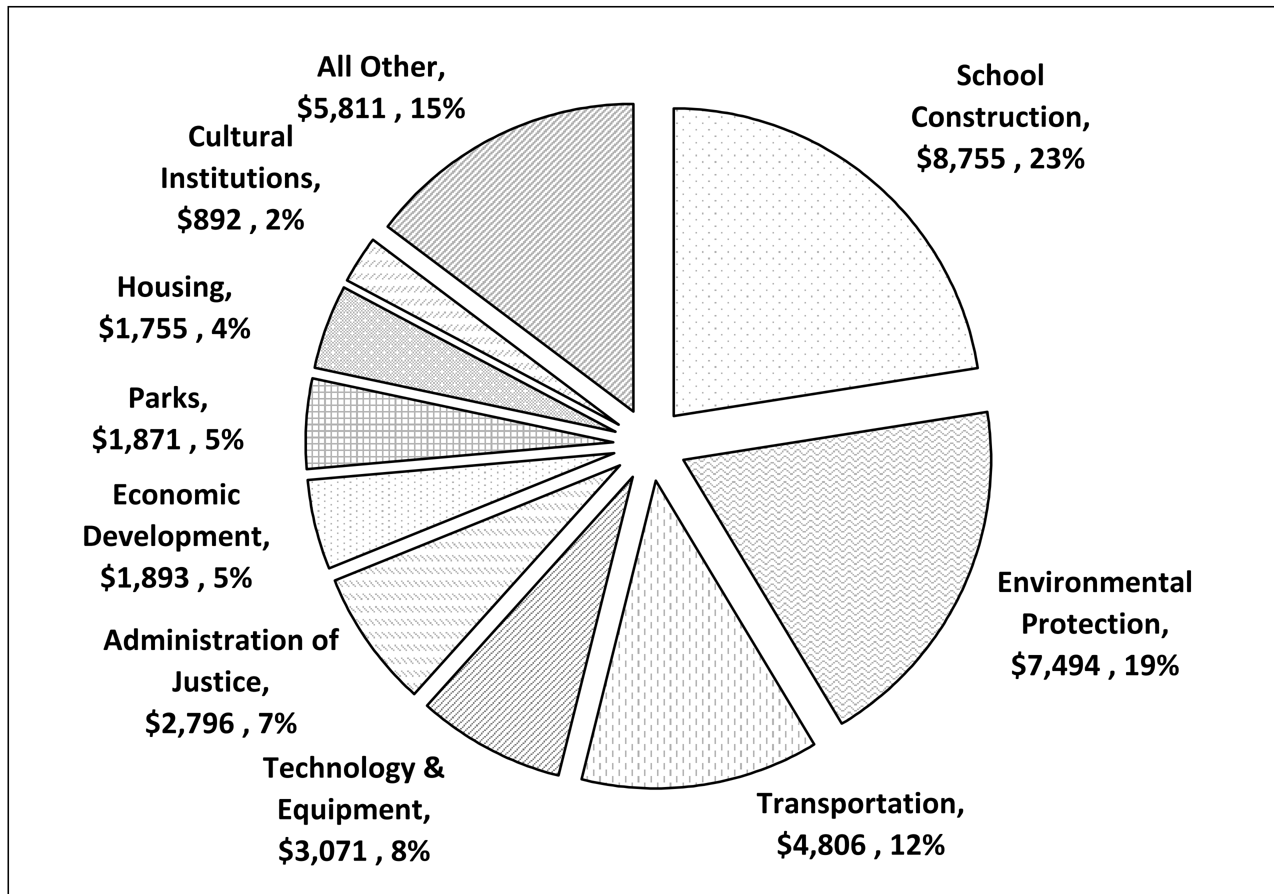
	FY10	FY11	FY12	FY13	FY14	Total FY15-20	Total FY10-20
Adopted							
Total Capital Plan	$9,639	$7,545	$5,544	$8,827	$4,893	$19,668	**$56,116**
DEP	1,932	1,896	1,330	1,638	1,425	5,805	**$14,026**
Total Minus DEP	$7,707	$5,649	$4,214	$7,189	$3,468	$13,863	**$42,090**
Prelim							
Total Capital Plan	$17,468	$9,579	$6,181	$6,690	$6,154	$21,092	**$67,164**
DEP	3,534	1,911	1,425	1,327	1,365	7,014	**$16,576**
Total Minus DEP	$13,934	$7,668	$4,756	$5,363	$4,789	$14,078	**$50,588**
Change							
Level	$5,773	$2,019	$542	($1,826)	$1,321	$215	**$8,498**
Percentage	74.9%	35.7%	12.9%	-25.4%	38.1%	1.6%	**20.2%**

***Source**: Council Finance Division, based on OMB Fiscal 2011 Executive Budget*

The 2011 Executive Capital Budget includes $62.0 billion in planned commitments for Fiscal 2010 through 2020. This total includes $16.6 billion in commitments for capital projects for the Department of Environmental Protection (DEP) which are funded primarily with Water Authority bonds issued by the Municipal Water Finance Authority. The balance of the Fiscal 2010 – 2020 Executive Capital Plan, $45.4 billion, is to be funded by General Obligation (GO) and Transitional Finance Authority (TFA) debt; this is $3.3 billion or 7.8 percent greater than the $42.1 billion Adopted Fiscal 2010 – 2020 Capital Plan.

For the five-year plan period 2010 – 2014 over one-quarter of authorized capital commitments, or $11.8 billion, would fund school construction and repair. Another nearly 19 percent would provide funding for the City's extensive water & sewer system. Transportation, including bridge, road, and street repair and maintenance, and capital contributions to New York City Transit, would account for $6.6 billion in spending. The City also has an extensive technology and equipment capital program, including a significant investment in the new Emergency Communications Transformation Project (ECTP). Another major investment is for the new Police Academy facility.

FY 2010-2014 Planned Capital Commitments, by Programmatic Area
Dollars in Millions



Source: *OMB Fiscal 2011 Executive Budget*

Financing Program & Debt Service Budget

After prepayments and debt defeasances are considered, Fiscal 2010's debt service shrinks from $5,066 million to $328 million. This is about $118 million less than in the Preliminary Budget, largely due to lower General Obligation, variable-rate debt-related payments. Fiscal 2011's debt service is $2,354 million rather than $5,462 due to a prepayment in Fiscal 2010. From Fiscal 2012 there are no prepayments or defeasances scheduled. Debt service will rise to $6,273 million in Fiscal 2012, reflecting all scheduled payments for that fiscal year. Debt service in this case is the sum of interest and principal payments on the City's General Obligation debt, Transitional Finance Authority (TFA) Future Tax Secured Bond debt, lease purchase debt, and interest on what short-term notes the City might issue. The average rate of debt service growth over the plan period is about 8 percent. Please see the table below for debt service without prepayments or debt defeasance for Fiscal 2010 through 2014.

Debt Service and Budget Breakdown
Dollars in Millions

	FY10	FY11	FY12	FY13	FY14
G.O.*	3,692	3,935	4,326	4,408	4,481
TFA**	1,190	1,181	1,602	1,825	1,999
Short Term	-	75	75	75	75
Lease Purchase	183	271	270	268	263
Total Debt Service	**5,066**	**5,462**	**6,273**	**6,576**	**6,817**
Total Debt Service/ Total Tax Revenue	**14.0%**	**14.4%**	**15.7%**	**15.9%**	**16.0%**

Source*: OMB Fiscal 2011 Executive Budget.*
Notes*: *GO debt service without prepayments or debt defeasance*
***TFA Future Tax Secured Bonds only, w/o prepayment/grants or debt defeasance, no Building Aid Revenue Bonds*

The Adopted Budget had expected the Budget Stabilization Account (BSA) to be depleted by this fiscal year, and then the Preliminary Budget anticipated it to have $2,883 million, due to better-than-expected revenues. The Executive Budget estimates further increases in revenue of $224 million, raising the account to $3,107 million. This is all to be paid out as a prepayment this year for next year, reducing next year's debt service by the same amount. The effects of prior-year debt defeasances end in Fiscal 2010, and prepayment effects end in Fiscal 2011. Prior year prepayments reduce Fiscal 2010 General Obligation debt service costs by about $1.3 billion and TFA's Fiscal 2010 debt service by about $645 million. In addition, the debt defeasances of 2007 and 2008 reduce Fiscal 2010 General Obligation debt service by $2.3 billion, and TFA debt service by $382 million.

Gross of prepayments and defeasance effects, the debt burden, which is debt service as a fraction of revenues, will rise from 7.9 percent of total City revenue in Fiscal 2010 to 10 percent in Fiscal 2014, according to OMB. As a fraction of total tax revenue it will rise from 13.4 percent in Fiscal 2010 to 15.6 percent in 2014. Relative to City personal income the rise is less pronounced: from 1.2 percent in Fiscal 2010 to 1.4 percent by Fiscal 2014. Over this period, the burden of total debt outstanding relative to City personal income will peak in Fiscal 2012 at 14.6 percent, from 14.1 percent in Fiscal 2010, falling back to 14.1 percent by Fiscal 2014.

Capital Financing Program

The reason for the rising cost of the debt service over this financial plan is that issuance has been rising, which increases debt outstanding, and ultimately debt service. Increased issuance will peak in Fiscal 2010 at $6.7 billion. This is to be split roughly as GO debt and TFA personal income tax backed debt. These are the two means of finance that the City currently uses for general capital projects. Please see the table below for issuance data through Fiscal 2014, including Water Authority issuance, the other major source of City capital finance. Low interest rates and several Federal bond-subsidy programs make issuing debt right now appealing, but the City financing program has included heavy issuance concentrated around Fiscal 2010 for several years now.

Financing Program, Sources of Funds
Millions of Dollars

	FY10	FY11	FY12	FY13	FY14	Total
G.O.	$3,318	$3,025	$2,720	$2,480	$2,440	$13,983
TFA*	3,375	3,025	2,720	2,480	2,440	14,040
Total General Capital Financing	**$6,693**	**$6,050**	**$5,440**	**$4,960**	**$4,880**	**$28,023**
Water Authority	2,461	2,159	1,930	1,637	1,490	9,677
Total	**$9,154**	**$8,209**	**$7,370**	**$6,597**	**$6,370**	**$37,700**

Source*: OMB Fiscal 2011 Executive Budget.*
Note*: *TFA Future Tax Secured Bonds only, no Building Aid Revenue Bonds.*

Ratings

City GO debt has ratings of Aa2, AA and AA from Moody's, Standard and Poor's and Fitch, respectively. Moody's and Fitch both recently recalibrated their municipal ratings to make them comparable to their respective corporate debt ratings. This resulted in improved ratings for many municipal issuers. GO debt had been rated Aa3 by Moody's and AA- by Fitch. TFA Future Tax Secured Bonds (i.e. those paid with City personal income tax revenue, with sales tax as backup) are Aaa/Aa1, AAA/AAA and AAA/AAA by Moody's, Standard and Poor's and Fitch, respectively. The former rating is for senior debt, and the latter for subordinate debt. Moody's and Fitch had rated TFA Future Tax Secured Bonds Aa1/Aa2 and AA+/AA+, respectively.

General Debt Limit and Remaining Debt Incurring Power

Since gaining authorization from the State in July 2009, TFA may now issue Future Tax Secured Bonds against the general debt limit, outside of its statutory cap. Furthermore the statutory cap is no longer a cap on issuance but on debt outstanding. Prior to this, TFA had exhausted its statutory issuing limit, which was last capped at $13.5 billion. That was in Fiscal 2007. Having regained this more highly-rated, and therefore somewhat less expensive, source of general capital financing, the City splits financing between GO and TFA debt. According to the City Comptroller, the general debt limit currently stands at about $75 billion. It is 10 percent of the average value of taxable real estate in the City for the most recent five years. GO debt outstanding will be about $42 billion by the end of Fiscal 2010. TFA bonds issued against the general debt limit will total about $3.4 billion by the end of the year. Contract and other liabilities of the City are also counted against the general debt limit, and according to the City Comptroller, these will stand at $9.4 billion. Therefore the City's outstanding obligations against the general debt limit total to about $55 billion. The remaining debt incurring power will be about $21 billion, at the end of the year.

Federal Bond Programs

Of the federally taxable, subsidized debt the City can issue, the largest amounts are of Build America Bonds (BABs), issuance of which is unlimited through calendar year 2010, and Qualified School Construction Bonds (QSCBs), of which the City has a cumulative allocation of about $1.4 billion. Interest from taxable debt is subject to income tax. Most municipal debt is issued as tax exempt debt. If a bondholder of tax-exempt municipal debt is in a very high tax bracket, it provides a high exemption. Overall, this can lead to a higher than intended subsidy. BABs and QSCBs allow the federal government to subsidize municipal debt with greater control over the subsidy; it is set at some fraction of the interest payment. The tax-credit for BABs is 35 percent of interest cost and for QSCBs it is 100 percent. Nearly all issuers opt for the direct-pay version of these bonds, in which the federal government pays the issuer the subsidy directly. The other version, the tax-credit version, provides the bondholder a non-refundable tax credit. Capital markets have not been receptive to tax-credit bonds, and until recently QSCBs could only be issued this way. Of the $11 billion of QSCBs allocated nationwide for calendar year 2009, only $2.8 billion were issued, according to Thomson Reuters, much this at steep discounts to face value. In March Congress passed legislation including a provision providing the direct-pay option for QSCBs.

The City has issued $4.75 billion of BABs as GO, TFA Future Tax Secured Bond and Water Authority debt so far, saving 15 to 94 basis points relative to comparable tax-exempt debt. Because of the lack of guidance on tax-credit stripping, a limited market and steep discounting, the City did not issue any of its QSCB allocations ($699 million from calendar year 2009 and $699 million from 2010, with $300 million anticipated in 2011) until Congress authorized the direct-pay option for them. Unused allocations carry over into following years. In May the City issued $250 million of QSCBs as GO debt.

Variable Rate Debt and Exposure

The City has some debt outstanding at variable, rather than fixed rates, to realize cost savings. This currently saves the City debt service cost in the form of lower interest payments, but it exposes a portion of City debt service to rising rates, a change in the tax code, or deterioration in the City's credit, or of the credit of a liquidity or credit enhancement provider. Annual savings have been about $300 million. Most of the City's floating rate exposure is due to outstanding GO and TFA variable and auction rate debt. OMB estimates the City's floating rate exposure to be $9.8 billion. This exposure is partially offset by short-term assets that the City holds in the General Fund. In effect they are a hedge against rising interest rates, as they can be rolled over to rise in value with interest rates. Relative to total GO, TFA Future Tax Secured Bond, lease purchase and TSASC debt outstanding, floating rate exposure is 16.2 percent, and 6.8 percent once the partial offset of the General Fund short-term assets is considered.

City Financing Corporations

City GO and TFA Future Tax Secured Bond debt finance the City's general capital program, using General Fund revenue and dedicated personal income tax revenue, respectively. The other major source of financing for City projects is the New York City Water Authority, which finances improvements and maintenance of the water and sewer system using water and sewer fees. The City also finances, or partially finances projects via local benefit corporations and other public benefit corporations. These corporations issue debt backed by revenue paid to them. They are blended component units, and although legally separate from the City they provide services exclusively to the City.

TFA is the most significant of the financing corporations. It is a public benefit corporation. It has the most debt outstanding (of the financing corporations) and the only large issuance planned in the coming years. An instrumentality of the State, it was created in 1997 to assist the City in its financing program when the general debt limit started to constrain GO debt issuance. It was authorized to issue Future Tax Secured Bonds backed by dedicated City personal income tax revenue (and, if necessary, sales tax revenue), outside of the general debt limit, subject a statutory issuing limit. It had reached its final issuance limit of $13.5

billion in Fiscal 2007. It also has authorization for up to $2.5 billion outstanding in Recovery bonds to fund costs related to September 11, 2001. In April 2006, it received authorization for up to $9.4 billion outstanding Building Aid Revenue Bonds (BARBs) backed by State Building Aid Revenue, for school construction. TFA BARB issuance is planned at $282 million, $711 million, $883 million, $1,016 million and $1,147 million in Fiscal 2010 through 2014, respectively.

The only other such corporations with outstanding debt in excess of $1 billion are HYIC, STARC and TSASC. HYIC, the Hudson Yards Infrastructure Corporation, is a local development corporation started in 2005 that now has about $2.3 billion in debt outstanding. It finances the Hudson Yard Development Corporation's infrastructure improvements in the Hudson Yards, primarily extension of the number 7 subway line. Its bonds are backed by a combination of Tax Equivalency Payments (TEPs), Payments in Lieu of Taxes (PILOTs), the proceeds of District Improvement Bonuses (DIBs) and gains on the sale of Transferable Development Rights (TDR), with interest support from the City for up to $3 billion of debt outstanding. Due to the recession, development in the Hudson Yards area has slowed and with it PILOT and DIB revenue. From Fiscal 2011 through 2014, TEPs and City interest support will service HYIC debt. It is about $95 million per year. STARC, the Sales Tax Asset Receivable Corporation, is a special purpose, bankruptcy-remote, local development corporation created in 2003 to refund the City's outstanding Municipal Assistance Corporation (MAC) debt. It has about $2.2 billion in debt outstanding. TSASC, the Tobacco Settlement Asset Securitization Corporation, is a special purpose, local development corporation organized in 1999 to issue bonds securitizing a portion of the City's Tobacco Settlement Revenue. That revenue that does not go towards TSASC debt service and operations ultimately flows to the City. It has about $1.3 billion in debt outstanding.

Appendix: The Executive Budget

Executive Budget Fiscal Year 2011 Revenue Plan
Dollars in Millions

	FY 10	FY 11	FY 12	FY 13	FY 14
Taxes					
Real Estate	$16,109	$16,760	$17,423	$17,692	$17,829
Sales	4,992	5,145	5,357	5,667	5,980
Mortgage Recording	385	455	547	633	726
Personal Income	6,859	7,557	7,941	8,272	8,689
General Corporation	1,980	2,478	2,788	3,055	3,228
Banking Corporation	991	839	903	931	925
Unincorporated Business	1,536	1,588	1,701	1,789	1,891
Utility	378	383	398	412	425
Hotel	365	373	373	348	352
Commercial Rent	593	566	563	572	583
Real Property Transfer	628	628	703	765	828
Cigarette	94	92	90	88	86
All Other	500	476	441	443	454
Audit	890	622	621	620	620
Tax Program	(1)	(12)	(12)	(12)	(12)
STAR	910	942	980	1,055	1,055
Total Taxes	**$37,209**	**$38,892**	**$40,817**	**$42,330**	**$43,659**
Federal Categorical Grants	**$8,193**	**$6,691**	**$5,690**	**$5,640**	**$5,632**
State Categorical Grants	**$11,571**	**$11,240**	**$12,200**	**$12,416**	**$12,831**
Non-Governmental Grants (Other Cat.)	**$1,717**	**$1,842**	**$1,635**	**$1,631**	**$1,629**
Unrest. / Anticipated State & Federal Aid	**$171**	**$14**	**$12**	**$12**	**$12**
Miscellaneous Revenue					
Charges for Services	$731	$753	$750	$750	$749
Water and Sewer Charges	1,624	1,331	1,335	1,329	1,356
Licenses, Permits, Franchises	474	481	485	486	488
Rental Income	226	223	223	223	223
Fines and Forfeitures	841	846	823	822	822
Other Miscellaneous	783	592	489	486	481
Interest Income	22	48	105	139	159
Intra City	1,825	1,602	1,498	1,502	1,502
Total Miscellaneous	**$6,526**	**$5,876**	**$5,708**	**$5,737**	**$5,780**
Net Disallowances & Transfers	**($1,840)**	**($1,617)**	**($1,513)**	**($1,517)**	**($1,517)**
Total Revenue	**$63,547**	**$62,938**	**$64,549**	**$66,249**	**$68,026**
City Funds: does not include Unrestricted Aid	**$41,895**	**$43,151**	**$45,012**	**$46,550**	**$47,922**
Federal & State Revenue	**$19,935**	**$17,945**	**$17,902**	**$18,068**	**$18,475**

***Source**: OMB Fiscal 2011 Executive Budget*

Executive Budget Fiscal 2010 - Changes from January Plan
Dollars in Millions

	FY 10	FY 11	FY 12	FY 13	FY 14
Taxes					
Real Estate	$74	($157)	($113)	($54)	($53)
Sales	111	23	(4)	7	5
Mortgage Recording	4	(10)	9	(8)	(18)
Personal Income	42	237	108	21	22
General Corporation	(308)	(162)	(105)	(60)	(58)
Banking Corporation	297	190	150	75	26
Unincorporated Business	(82)	(72)	(33)	(31)	(27)
Utility	(16)	(15)	(13)	(9)	(9)
Hotel	15	14	13	11	8
Commercial Rent	15	15	15	15	15
Real Property Transfer	39	(12)	12	(10)	(21)
Cigarette	(2)	(2)	(2)	(2)	(2)
All Other	33	49	9	12	22
Audit	0	10	11	11	11
Tax Program	(1)	(231)	(253)	(274)	(296)
STAR	0	(1)	0	0	0
Total Taxes	**$221**	**($124)**	**($196)**	**($296)**	**($375)**
Federal Categorical Grants	**$250**	**$77**	**($30)**	**($40)**	**($47)**
State Categorical Grants	**$95**	**($526)**	**($207)**	**($641)**	**($364)**
Non-Governmental Grants (Other Cat.)	**($152)**	**$171**	**$30**	**$29**	**$28**
Unrest. / Anticipated State & Federal Aid	**($169)**	**($326)**	**($328)**	**($328)**	**($328)**
Miscellaneous Revenue					
Charges for Services	($7)	($2)	($5)	($5)	($5)
Water and Sewer Charges	246	(14)	(31)	(50)	(50)
Licenses, Permits, Franchises	(5)	(12)	(12)	(12)	(12)
Rental Income	0	0	0	0	0
Fines and Forfeitures	(43)	(50)	(47)	(47)	(47)
Other Miscellaneous	39	100	(7)	(7)	(5)
Interest Income	(8)	4	6	11	31
Intra City	21	57	(49)	(50)	(50)
Total Miscellaneous	**$243**	**$83**	**($145)**	**($160)**	**($138)**
Net Disallowances & Transfers	**($21)**	**($57)**	**$49**	**$50**	**$50**
Total Revenue	**$467**	**($702)**	**($827)**	**($1,386)**	**($1,174)**
City Funds: does not include Unrestricted Aid	**$443**	**($98)**	**($292)**	**($406)**	**($463)**
Federal & State Revenue	**$176**	**($775)**	**($565)**	**($1,009)**	**($739)**

Source: *OMB Fiscal 2011 Executive Budget*

Expenditures in the Executive Budget
Dollars in Millions

	FY10	FY11	FY12	FY13	FY14
Personal Services					
Salaries & Wages	22,415	21,525	21,042	21,335	21,888
Pensions	6,760	7,612	7,920	8,070	8,173
Fringe Benefits	7,351	7,533	7,970	8,279	8,783
Retiree Health Benefits Trust	(82)	(395)	(672)	-	-
Sub-total, Personal Services	**36,444**	**36,275**	**36,260**	**37,684**	**38,844**
Other than Personal Services					
Medical Assistance	5,146	5,166	5,947	6,171	6,778
Public Assistance	1,580	1,563	1,603	1,591	1,591
All Other OTPS	19,370	19,046	19,447	20,057	20,601
Sub-total, OTPS	**26,096**	**25,775**	**26,997**	**27,819**	**28,970**
Debt Service	**4,999**	**5,462**	**6,273**	**6,576**	**6,817**
Adjustments					
Debt Defeasances (net)	(2,726)	-	-	-	-
FY 2009 Surplus Roll	(2,813)	-	-	-	-
FY 2010 Surplus Roll	3,272	(3,272)	-	-	-
General Reserve	100	300	300	300	300
Sub-total	**65,372**	**64,540**	**69,830**	**72,379**	**74,931**
Less: Intra-City Expenses	**(1,825)**	**(1,602)**	**(1,498)**	**(1,502)**	**(1,502)**
Total Expenditures	**63,547**	**62,938**	**68,332**	**70,877**	**73,429**

Source: *OMB Fiscal 2011 Executive Budget*