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Hearing on the Mayor's Fiscal Year 2011 Preliminary Budget

Financial Plan Overview, Economy, Revenue, and Debt Service

March 4, 2010

Committee on Finance
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Financial Plan Overview

The Fiscal 2011 Preliminary Budget is $63.64 billion, up $560 million or 0.9 percent from the projected Fiscal 2010 budget.

	2010	2011	2012	2013	2014
City Funds	$41,792	$43,589	$45,644	$47,296	$48,725
Total Revenues	**$63,080**	**$63,640**	**$65,376**	**$67,635**	**$69,200**
Total Expenditures	**$63,080**	**$63,640**	**$68,536**	**$71,300**	**$73,049**
Gap to be Closed	**$0**	**$0**	**$(3,160)**	**$(3,665)**	**$(3,849)**
Positions					
Fulltime	276,285	270,477	255,726	265,749	265,741
Fulltime Equivalent	27,979	26,875	26,864	26,869	26,869
TOTAL	**304,264**	**297,352**	**282,590**	**292,618**	**292,610**

Improving Local Revenues; Deteriorating State Budget

Underlying the Fiscal 2011 Preliminary Budget are two themes: some relatively good news about the national and local economy; and the growing concerns about the New York State budget.

The recession has hurt, but it has not hurt the City as much as was anticipated in the June 2009 Plan. The June forecast expected the City to lose 172,000 jobs in 2009, while in actuality job losses were 83,000 for the year. In the June Plan New York Stock Exchange member firms were forecast to lose $14 billion in 2009. As of the third quarter they had earned a little under $50 billion in profits. In response to this and other good news, OMB has increased forecast tax revenue by $1,667 million for Fiscal 2010 and $727 million for Fiscal 2011 compared to the June Plan. Combined, this $2.4 billion in extra revenue will ease balancing the Fiscal 2011 budget. However, hard choices, including an agency program of $484 million in Fiscal 2010 and $1.116 billion in Fiscal 2011, are also in the plan. The agency program would include a headcount reduction of 891 in Fiscal 2010 and 4,286 in Fiscal 2011.

The past year has been difficult for New York State: tax revenues have repeatedly fallen short of projections and it has proven hard to adjust the New York State budget to the economy. On January 19th Governor Paterson released the New York State Executive Budget designed to close a $7.4 billion SFY 2010-2011 budget gap. By February 3rd the Governor announced that the State budget gap had risen to $8.2 billion due to weaker than expected personal income tax revenues and higher than expected Medicaid costs.

This is worrisome for the City's budget as State aid represents over 18 percent of City revenue. Decreases in that aid have the potential to open new holes in the City's budget. This is addressed in the Fiscal 2011 Preliminary Budget by providing a contingency plan that assumes the New York State Executive Budget is adopted as proposed. The contingency plan is for an additional $1.285 billion Fiscal 2011 Program to Eliminate the Gap (PEG) program, including additional head count reductions of 19,000 in Fiscal 2011.

An overview of the Financial Plan for 2011 follows.

Closing the 2011 Gap

Changes to the Gap Since 2010 Adoption

The improved City tax revenue forecast has provided a major assist in closing the 2011 gap, which as of last June stood at nearly $5 billion. In addition, debt service savings arising from refinancings provided $124 million in savings this year and another $286 million in 2011.

Taken together, before gap-closing actions, the FY 2010 surplus would stand at nearly $1.8 billion, which, with improved revenues and debt service savings, would reduce the 2011 gap to just under $2.1 billion.

In the Preliminary Budget Financial Plan, however, the Mayor decided to recognize that negotiations with municipal unions on health insurance savings and pension reform were not bearing fruit. The financial plan had carried since 2008 a projected savings of $357 million in 2010 from employee and retiree health insurance reforms (principally a 10% co-payment for health insurance premiums), and $200 million from the introduction of a new, somewhat less generous pension plan (called Tier V) for new City employees. This decision left in effect a gap of $2.6 billion for 2011 (in fact, a gap of $4.4 billion in 2011, partially reduced by using the $1.8 billion surplus from 2010).

Closing the Gap
Dollars in millions

	2010	2011	2012	2013
Gap to be closed - June 2009 Plan	**$-**	**($4,925)**	**($4,994)**	**($5,633)**
Revenue Changes				
Tax Revenue Forecast	$1,667	$727	$637	$542
Non - Tax Revenue	110	44	78	78
Total Revenue Changes	**$1,777**	**$771**	**$715**	**$620**
Expense Changes				
Reverse Health Insurance Savings		($357)	($386)	($418)
Reverse Tier 5 Pension Proposal		(200)	(200)	(200)
Debt Service	124	286	12	(3)
Other Expense Changes	(137)	16	(151)	(144)
Total Expense Changes	**($13)**	**($255)**	**($725)**	**($765)**
Total Changes Since June Plan	**$1,764**	**$516**	**($10)**	**($145)**
Remaining Surplus/(Gap)	**$1,764**	**($4,409)**	**($5,004)**	**($5,778)**
Gap Closing Program				
Tax Fairness Program	$-	$219	$241	$262
Agency PEG Program	484	1,116	1,155	1,191
Productivity Labor Settlement	35	190	469	730
Reduce General Reserve	100	-	-	-
Prior Year Payables Adjustment	500	-	-	-
Total Gap Closing Program	**$1,119**	**$1,525**	**$1,843**	**$2,114**
Surplus/(Gap) After Gap Closing Program	**$2,883**	**($2,883)**		
Fiscal 2010 Surplus Roll	($2,883)	$2,883		
Gap to Be Closed - FY 2011 Preliminary Plan	**$-**	**$-**	**($3,160)**	**($3,665)**

NOTE: Negative amounts (in parentheses) increase the gap; positive amounts reduce the gap.

The Gap-Closing Program

The Mayor proposed a gap-closing program for FY 2011 consisting of three main components:

- A "tax fairness program" consisting of two actions: extending the mortgage recording tax to sales and refinancing of co-operative apartments, and removing the existing exemption for aviation fuel in the City sales tax. Together these two proposals would bring in $219 million in 2011.
- An agency program to eliminate the gap (PEG) of $484 million in 2010 and over $1.1 billion in 2011 (see Table on next page). The PEG program sought agency savings of approximately 4% (at an annualized rate) from uniformed agencies (Police, Fire, Correction, and Sanitation) and 8% from other agencies. The Mayor proposes realizing the Department of Education's entire PEG by providing 2% annual increases for teachers and other UFT members – half the increase previously assumed.
- Finally, the Mayor, in abandoning his health insurance and pension proposals, proposed no other wage increases for City workers that were not paid for through productivity increases or health and/or pension savings. The financial plan assumes that amounts that had been set aside in the City's Labor Reserve for annual increases at a rate of 1.25% will instead be used to fund agency operations as part of the gap-closing plan. This provides $35 million in 2010 and $190 million in 2011.

As is usually the case, other sources of funds were freed up in the current year, including reducing the General Reserve by $100 million, and recognizing $500 million in additional resources as the net result of write-offs of accounts payable and receivable from prior years.

The sum of these actions provided an additional $1.1 billion in resources in 2010, which, added to the $1.8 billion in revenue changes, yields a total surplus of nearly $2.9 billion. The 2011 gap is thus closed using about $1.5 billion in gap-closing actions in 2011, and a 2010 surplus of nearly twice that amount. Outyear gaps are smaller than previously estimated by roughly the value of the gap-closing program, which provides $1.8 billion in savings and revenues in 2012 and $2.1 billion in 2013 – leaving gaps of $3.2 billion and $3.7 billion, respectively.

In total, City funds spending is set to rise $1.45 billion, or 3.4%, next year over the current year. This increase is driven by a few areas of spending, including

- Medicaid, which is projected to rise $693 million, or 14%, as federal stimulus aid that provided some relief for State and local Medicaid costs begins to run out, providing $550 million less in 2011 than in 2010;
- Pension contributions, projected to rise $492 million, or 7%, from a combination of phase-ins of market losses in the last two years and wage increases;
- Despite the PEG program, City-funded DOE spending is set to increase $409 million, or 6%;
- A $340 million increase in the City's payment to the New York City Transit Authority.[1]

Spending for most agency operations, however, will decline, with the percentage cut varying depending on collective bargaining increases, new needs, and other adjustments to agency baseline budgets, combined with the PEG program. (See the Table on p. 7 for a summary.) The Council added approximately $363 million to agency spending to the 2010 budget (a 0.9% increase), none of which is included in agency

[1] Fiscal 2010 payments to the New York City Transit Authority appear smaller than they actually are. They are reduced by the prepayment of $319 million made in Fiscal 2009.

baseline spending for 2011. Although relatively small in total, in many cases, this funding represents a significant share of agency operational spending.

January Plan Agency PEG Program
Dollars in Millions

	FY 2010			FY 2011		
	Expense	Revenue	Total	Expense	Revenue	Total
Uniformed Agencies						
Police	($26)	($1)	**($27)**	($128)		**($128)**
Fire	(3)		**(3)**	(18)	(2)	**(20)**
Correction	(21)		**(21)**	(52)		**(52)**
Sanitation	(29)		**(29)**	(63)		**(63)**
Health & Welfare						
Admin for Children Services	(31)		**(31)**	(52)		**(52)**
Social Services/HRA	(29)		**(29)**	(56)		**(56)**
Homeless Services	(9)		**(9)**	(22)		**(22)**
Youth & Community Dvlpmt.	(9)		**(9)**	(14)		**(14)**
Health & Mental Hygiene	(18)		**(18)**	(34)		**(34)**
Other Agencies						
Housing Presevation & Dvlpmt.	(1)	(1)	**(2)**	(1)	(3)	**(4)**
Dept. of Finance	1	(10)	**(9)**	(6)	(16)	**(22)**
Transportation	(20)	(2)	**(22)**	(27)	(16)	**(43)**
Parks	(7)		**(7)**	(34)		**(34)**
Libraries	(13)		**(13)**	(22)		**(22)**
Cultural Affairs	(6)		**(6)**	(11)		**(11)**
Citywide Admin. Svcs	(7)	(11)	**(18)**	(7)	(11)	**(18)**
All Other Agencies	(58)	(48)	**(106)**	(91)	(34)	**(125)**
Major Organizations						
Education	(113)		**(113)**	(317)		**(317)**
CUNY	(9)		**(9)**	(15)		**(15)**
HHC			**0**		(8)	**(8)**
Other						
Procurement Savings		(3)	**(3)**	(56)		**(56)**
Total	**($408)**	**($76)**	**($484)**	**($1,026)**	**($90)**	**($1,116)**

Budget by Program Area, Fiscal Years 2010 and 2011
City Funds; Millions of Dollars

	2010 (as modified)			2011	Difference	
	Exec	Council	Total	Preliminary	Level	Percent
Education (incl. CUNY)	$7,773	$62	$7,835	$8,210	$374	5%
Public Safety	7,042	21	7,063	6,807	(256)	-4%
Health & Human Services	2,910	153	3,063	2,902	(160)	-5%
Housing & Econ. Dvlpmt.	162	14	175	124	(51)	-29%
Parks, Libraries & Culturals	649	76	726	614	(112)	-15%
Community Services	1,701	-	1,701	1,751	50	3%
Regulation	1,125	-	1,125	1,052	(73)	-6%
General Gov't	1,300	2	1,302	1,415	113	9%
Elected Officials	199	5	205	194	(11)	-5%
Miscellaneous	4,157	30	4,187	5,321	1,134	27%
Debt Service	3,215	-	3,215	2,469	(746)	-23%
Pensions	6,595	-	6,595	7,087	492	7%
Medicaid	4,951	-	4,951	5,644	693	14%
TOTAL	**$41,777**	**$363**	**$42,141**	**$43,589**	**$1,448**	**3%**

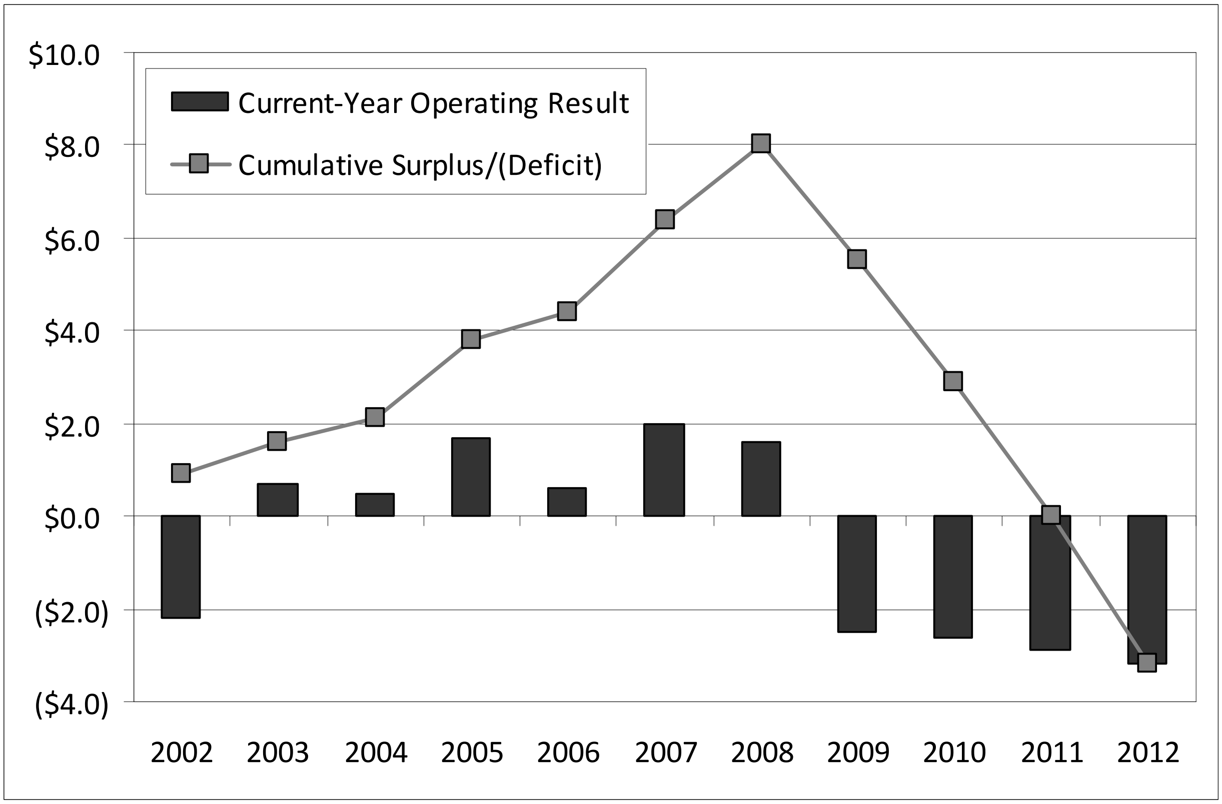
SOURCE: Council Finance Division based on January Financial Plan.

Operating Deficits and the Long Run

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 the January Plan, 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 this point in the Plan the accumulated surpluses from Fiscal 2003-2008 are exhausted.

Operating Results and the Surplus
Billions of Dollars



Federal Stimulus Funds and State Accounting Gimmicks Also Help Close the Gap. The Fiscal 2009 and 2010 budgets have been balanced with two other temporary revenue sources. The first is the Federal stimulus package – the American Recovery and Reinvestment Act of 2008 (ARRA). This provided two large sources of budgetary relief: a temporary increase in the Federal matching aid percentage (FMAP) for Medicaid, and extra education funding that came from both the State Fiscal Stabilization Funds as well as a temporary increase in Title I grants.

The second temporary revenue source is the State budget. At the time of writing, it appears that the State's Fiscal 2009-2010 budget will be balanced, to the extent that it is, by rolling resources back from SFY 2010-2011 and rolling expenses forward into SFY 2010-2011. This cannot be sustained in the long run. Balancing the State budget will impact on the aid New York City receives from New York State, as discussed in the next section.

The ARRA will continue to provide some budgetary relief in Fiscal 2011, though at a much reduced level. After that we are on our own. There are proposals to continue aid of this kind, most notably H.R. 2847, the Jobs for Main Street Act of 2010. By OMB estimates this bill would provide about $873 million in expense relief to New York City.[2] This compares to $2.6 billion in relief provided by the ARRA.

Use of the Retiree Health Trust Fund. The City has one additional source of temporary budgetary relief, the Retiree Health Benefits Trust Fund. This fund, now part of the New York City Other Postemployment Benefit Plan, provides for the healthcare of retired City employees. The City's liability for these benefits, on an actuarial basis, is $65.5 billion. The fund had around $3.1 billion at the end of Fiscal 2009. Retiree health benefits are now effectively being funded on a pay-go basis. Each year the City puts into the fund

[2] H.R 2847 would also provide $353 million in capital funding mostly for the Department of Transportation.

what the fund spends on retiree health benefits. By reducing payments to the fund, below what the fund spends on retiree health benefits, the City can achieve temporary budgetary relief, without harming retirees for as long as the fund lasts. The Preliminary Budget proposes such an action, using a total of $1.149 billion from the Retiree Health Benefits Trust between Fiscal 2010 and Fiscal 2012.

Use of the Retiree Health Benefits Trust Fund
Dollars in Millions

	2010	2011	2012	Total
Retiree Health Benefits Trust	($82)	($395)	($672)	**($1,149)**

Source*: OMB January 2010 Financial Plan*

Accumulating surpluses during booms, so that they can be used in recessions is a logical thing to do and part of the process of managing a budget across the business cycle. GAAP budgetary balance has been maintained and there is a process of continually adjusting the financial plan to the realities of City revenues and spending needs. Matching times of surpluses with times of deficits is a sign of a structural balance. The question going forward is: Will the City remain in structural balance?

The effects of the recession will linger. While the City's economy will be well into a recovery by Fiscal 2012 the City's property tax will not. It reacts slowly to the economy and will not feel the full effect of the recession till Fiscal 2014, by OMB's estimate. So the outyear gaps are a subject of concern. The outyear gaps are based on OMB's traditionally cautious forecasting. But caution is called for; the financial service industry and the City's economy are undergoing significant structural change. How the City's economy will grow over the next four years is unclear.

Impact of the Governor's Executive Budget[3]

The impact of the Executive Budget for SFY 2010-2011 is not directly addressed in the January Plan. Instead, the Mayor presented a separate "contingency plan" that includes $1.3 billion in additional agency actions to deal with the budgetary shortfalls that would occur were the State Executive Budget adopted as proposed.

In the most recent forecast the State's SFY 2010-2011 budget gap was raised to $8.2 billion. The outyear 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 effects 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.

[3] Revenue measures in the State Executive Budget are discussed in the Tax and Revenue Policy section that follows.

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 and homelessness. 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.

Cost shifts with less impact, but with potential to grow in the future include a new mandate to increase staff to youth ratios to improve administration and operations at juvenile justice facilities. The City shares 50 percent of the administration costs with the State, thus imposing an additional $10.2 million recurring burden on our budget. Another is the capping of State contribution to Accidental Death Benefit Reimbursement at $32 million. The provision of this benefit is mandated by State pension laws, and as costs continue to increase, the City share grows every year by at least $15 million. These are simply unfunded mandates that the City will have to fill with its own resources.

The Economy

The National Economy

The U.S. economy is finally emerging from the deepest recession since World War II. Since it began in December 2007, $17.5 trillion of household wealth has been wiped out. By the end of January 2010, 8.4 million payroll jobs had been eliminated.[4]

Aggressive monetary and fiscal actions on the part of the Federal Reserve and U.S. Treasury greatly lessened the severity of the downturn, particularly for the financial sector. Still, the economy has been buffeted on so many levels and at such magnitude that OMB expects the national recovery to be gradual and slow. Consumption is weak, as households respond to lingering high unemployment and loss of wealth. Credit is still extremely tight and largely unavailable to small businesses and construction.

The recovery is slowly taking shape. Real GDP finally rose by 2.2 percent in the third quarter 2009. It then soared by 5.7 percent in the fourth quarter (based on an advance estimate), though it should be noted over 3 percentage points of this growth are attributed to a sharp deceleration in inventory reduction. GDP growth is expected to moderate by the first quarter of 2010, as flattening inventories contribute less, and it more closely approximates growth in final sales. OMB projects that output in 2010 will only grow by 2.3 percent, only gradually increasing to 2.8 percent in 2011, and 3.2 percent in the outyears. IHS Global Insight gave a similar forecast when the Preliminary Budget was released, but has subsequently projected more moderate growth of 3.0 percent in 2010.

Households have still sustained heavy losses in wealth and large debt burdens. In addition to the threat of layoffs in a high unemployment environment, this means that a recovery in consumer spending has been very tentative and slow. Consumption expenditures, having fallen 0.6 percent in 2009 have climbed up to an annualized 2.0 percent in the fourth quarter 2009. OMB forecasts that it will rise by only 1.9 percent in 2010, gradually rising to 2.5 percent in the outyears. ING, Inc shares this lackluster expectation for 2010, forecasting only 1.8 percent growth grounded on a recent dip in rising consumer confidence as measured by the University of Michigan's Consumers Expectation Index.[5]

Just as high unemployment has depressed consumption, this sluggish consumption, being 2/3rds of total demand, has in turn discouraged hiring. With only tentative signs of recovery, employers have eked out profits by increasing productivity. This is generally accomplished by obtaining more output per hour worked from their current or even downsized payroll, thereby reducing unit costs. Productivity increased in each of the last three quarters of 2009 by over 6 percent on an annualized basis.

On an up note, the monthly payroll employment numbers appear poised to turn positive in the first quarter 2010. From November 2009 to January 2010, the Bureau of Labor Statistics reported an average monthly loss of only 35,000 jobs. January lost only 20,000 positions. Temporary employment numbers act sort of like an employers' canary in the coal mine – falling numbers presage bad things. Thankfully, temporary employment services have hired 52,000 workers in January alone, making 247,000 net hires since September 2009. As for permanent jobs, the extreme cost-cutting and productivity increases that have already occurred mean that businesses will have to hire in order to cash in on the recovery. The unemployment rate for January also fell 0.3 percentage points to 9.7 percent, although the improving

[4] Establishment Survey, Bureau of Labor Statistics, January 2010
[5] ING, U.S. Economics Quarterly Update, February 9, 2010.

economy is expected to draw previously discouraged people back into the workforce and push the rate back up to around 10 percent.[6]

Employment recovery is expected to be very gradual. The Preliminary Plan forecasts a 10.2 percent unemployment rate for 2010, followed by 9.6 percent in 2011, and 8.6 percent in 2012. Global Insight's more recent February forecast projects 9.9 percent unemployment in 2010, 9.3 percent in 2011, and 8.3 percent in 2012; also expecting 8+ percent unemployment through 2012. The Wall Street Journal's survey of economists reported in February that next year's monthly employment gains would average only 133,000 jobs, and would be partially offset by 100,000 new entrants to the labor market. The White House Council of Economic Advisors projected even leaner job growth in 2010 averaging 95,000 per month.

The Financial System: Securities vs. Banking

The financial sector has stabilized and is recovering from the panic that started in the summer of 2007 and continued into the winter of 2009. There are many signs of this. Investors are no longer running to the safety of U.S. government bonds, and the interest premium that a corporate bond or a home mortgage pays over a U.S. Treasury has fallen. Big business is borrowing once again in the corporate bond market. Banks are no longer tightening their standards for commercial and industrial loans.

The sector has benefited from unusual levels of government support around the world. This has included support from the Treasury, such as the provision of equity through the Troubled Asset Relief Program, and support from the Federal Reserve. Federal Reserve monetary policy has created an atmosphere unusually favorable to financial sector profits. One of the ways financial firms earn income is on the difference between cost of their funds and the return on the assets they acquire with the funds. Right now the cost of their funds is unusually low which helps to make the difference between their cost and return unusually large.

While there are many reasons for this, this opportunity to make profits is not accidental. The financial sector's capital losses from the panic inhibit its ability to provide credit to the rest of the economy. One way to recapitalize the sector is to allow it to earn profits. But this opportunity has impacted the financial system unevenly[7]. If we consider the securities industry as represented by New York Stock Exchange (NYSE) members and the banking industry as represented by Federal Deposit Insurance Company (FDIC) members, we find that NYSE members have already earned back 92 percent of their losses during the panic, while FDIC members have earned back only 14 percent of their losses.[8] Though parts of the securities industry, including securitization, are not fully functioning it is in much better shape than the banking system. Those part of the economy that depend on the financial markets such as big business are in a better position than those that depend on banking, such as small businesses and households.

Things are still far from normal for consumers. Consumer credit continues to fall. Some of this is an ongoing adjustment from the boom. Households need to fix their balance sheets. Between 2000 and 2007 household debt, like that of the financial sector, almost doubled. To fix this households have been borrowing less. By the third quarter 2009, households reduced their outstanding loans by over $240

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[6] The unemployment rate is the ratio of people looking for work relative to the sum of those people looking for work and those people who are working; when more people start looking for work this drives the rate up.

[7] There are two major component sectors in the financial industry: securities and banking. Banking is more of what one traditionally thinks of finance – the retail operation that runs the ATMs, provides loans to individuals and small businesses and so on. Securities on the other hand, are the investment banks, stock brokers and dealers, and are the providers of credit to large businesses. There is some overlap between the two sectors and some companies exist in both sectors, but for these definitions are general.

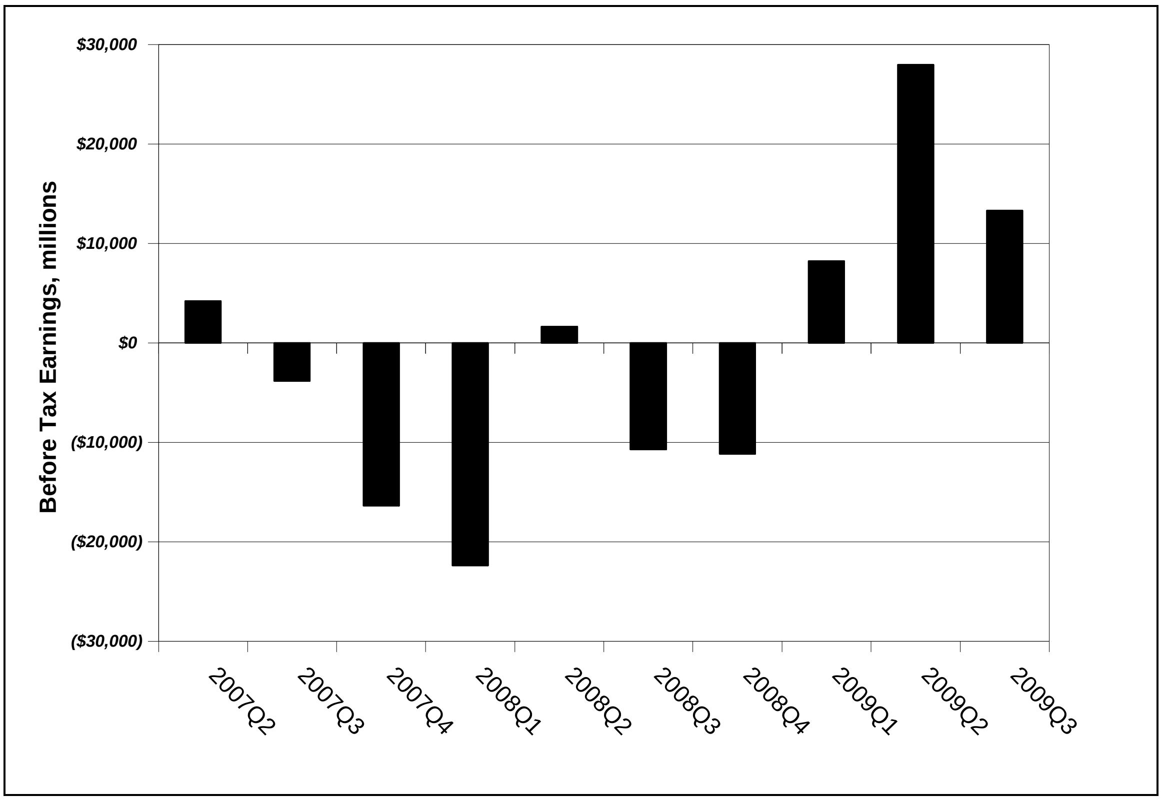
[8] Council Finance calculations based on NYSE and FDIC data.

billion, bringing the ratio of outstanding loans to disposable income from 127.7 percent to 123.8 percent. With less borrowing, there is more saving and less spending.

Small businesses are dealing with unusually strict credit standards, as their customary lenders, community banks are fretting over the precarious business loans already on their books. This problem may be worsening. A Congressional Oversight Panel recently reported that around 3,000 small U.S. banks may have to further curtail their lending due to losses on commercial real estate loans.[9]

For someone concerned about the New York City economy, the $50 billion that NYSE members earned in the first three quarters of 2009 has been one of the pleasant surprises of 2009. These and the conditions that created them have boosted the City's economy and have been the key reason why City economic and tax revenue performance has been significantly better than was expected in the Fiscal 2010 Adopted Budget. OMB has forecast that NYSE members will earn an additional $8 billion in the fourth quarter.

NYSE Member Profits



***Source**: NYSE*

These conditions may last for a while. With inflation posing no near-term threat, and the economy just beginning to regain its bearings, the Federal Reserve is in no hurry to raise the federal funds rate (which would raise the cost of funds for the financial industry). OMB expects that the federal funds rate will not be raised before the end of 2010, but will then be gradually increased to 2.5 percent by the end of 2011. There is some debate among forecasters about the exact timing of the change—whether it starts in late 2010 or early 2011. But broadly speaking this combination of low interest rate and steep yield curve seems likely to be around for about a year. The great question is what happens to the industry after this unusual support is withdrawn?

[9] "TARP Panel: Small Banks Are Facing Loan Woes", Wall Street Journal, February 11, 2010.

The financial system is still fragile. There are a number of known risks. At the time of writing there is still potential for a run on Greek sovereign debt. Greece has more debt outstanding than Lehman Brothers did, so a Greek default could be a substantial blow to the financial system. Another known risk is the problems in the commercial real estate market, which so far are being handled in an orderly way. The Federal Reserve and other central banks at some point will need to withdraw the unusual support they are providing to the economy and the financial system. This is the known risk of greatest concern. Done too soon, it can produce a new recession as it did in the United States in 1937 and in Japan in 1998. Done too late, it has the possibility igniting new bubbles or inflation. And one thing we have learned from recent experience, the greatest risks are the ones we are not paying attention to.

The Federal Stimulus

Since July, the economy has been in a recovery with GDP growing. But payroll employment continues to decrease, and unemployment is at an unacceptably high level. Two questions arise: What role is Federal stimulus playing in the economy? And what can we expect from it going forward?

According to the Congressional Budget Office (CBO), the American Recovery and Reinvestment Act of 2008 (ARRA) provided a combination of tax cuts and spending worth $787 billion.[10] As of December 2009 about one third of this money had been disbursed. Spending should continue at something like the current pace of around $85 billion a quarter through the third quarter of 2010. Spending will slow down thereafter and by CBO estimates 90 percent of spending should be done by the third quarter of 2011. Once spending does occur it takes time for its full impact to be felt on the economy.

ARRA Tax Reductions and Outlays
Dollars in Billions

	Through the end of			
State Fiscal Relief, 2009	**Q1**	**Q2**	**Q3**	**Q4**
Individual Tax Cuts	$2.3	$28.7	$42.8	$56.3
AMT Relief	0.0	7.2	12.7	15.9
Business Tax Incentives	0.1	13.1	24.0	33.3
State Fiscal Relief	8.5	28.2	43.8	59.3
Aid to Directly Impacted Individuals	0.0	9.8	32.1	57.5
Government Investment Outlays	0.0	6.1	23.6	41.1
Total	**$10.9**	**$93.1**	**$179.0**	**$263.4**
Change in Total from Previous Quarter	$10.9	$82.2	$85.9	$84.4

***Source**: Council of Economic Advisors, The Economic Impact of the American Recovery and Reinvestment Act of 2009, January 13, 2010.*

How much has it mattered so far? One cannot simply go out and count all the new jobs that were created by the stimulus, because what you are really asking is counterfactual. In other words, the question you need ask is: What would employment look like without the ARRA? The actual employment is known, but the counterfactual can only be answered through an econometric simulation. This has been done by the major commercial economic forecast firms. IHS/Global Insight, the firm whose national forecasts Council

[10] Congressional Budget Office, Estimated Macroeconomic Impacts of the American Recovery and Reinvestment Act of 2009, March 2, 2009.

Finance uses, has estimated that in the fourth quarter of 2009 there were 1.2 million more jobs and GDP was 2.2 percent higher than there would have been without the ARRA.

Estimates of the Effects of ARRA on Employment and Real GDP through 2009Q4

	Difference from 'no ARRA' baseline	
Forecaster	**Employment**	**Real GDP**
IHS/Global Insight	1,248,000	2.2%
Macroeconomic Advisors	1,057,000	1.5%
Moody's Economy.com	1,586,000	2.0%

***Source**: Council of Economic Advisors, The Economic Impact of the American Recovery and Reinvestment Act of 2009, January 13, 2010.*

Council Finance believes that the ARRA's full impact on employment and GDP has not yet been felt. The bulk of ARRA spending is still to come and that spending is likely to be at a slightly higher pace in the first three quarters of 2010 than it was in the second half of last year. Further, spending in one quarter has impacts that extend for several quarters. The ARRA's boost to the American economy is far from over.

The Bloomberg Administration in the Preliminary Budget has endorsed a second stimulus package: H.R. 2847, the Jobs for Main Street Act of 2010. The New York State Executive Budget as modified by the 21-day amendments assumes a second stimulus package providing FMAP relief to the State. The Jobs for Main Street Act is a much smaller stimulus than the ARRA. According to the CBO it would cost around $65 billion with over 80 percent of the spending occurring in Federal fiscal year 2011.[11] At this point unemployment will, by Global Insight's estimate, still be over 9 percent, so there is room for an extra stimulus.

There is also an issue concerning the Federal deficit and debt. But as one economist puts it "…the U.S. is not Greece." The current size of its debt, relative to GDP , the nature of its economy and the fact it has a reserve currency gives the U.S. room other countries do not have. "The private sector must heal. That, not fiscal retrenchment, is the priority."[12]

But the problem is real. It has long been known that the aging of the baby boom generation and the difficulties in controlling health care costs would lead to large deficits with baby boom retirement. Global Insight forecasts that by about 2013, once the economy recovers from the recession and some of the Bush era tax cuts sunset, Federal revenue will typically be around 18 percent of GDP and Federal expenditures will be around 22 percent of GDP. By most analysis this is a greater gap than can be sustained in the long run.

New York City's Economy

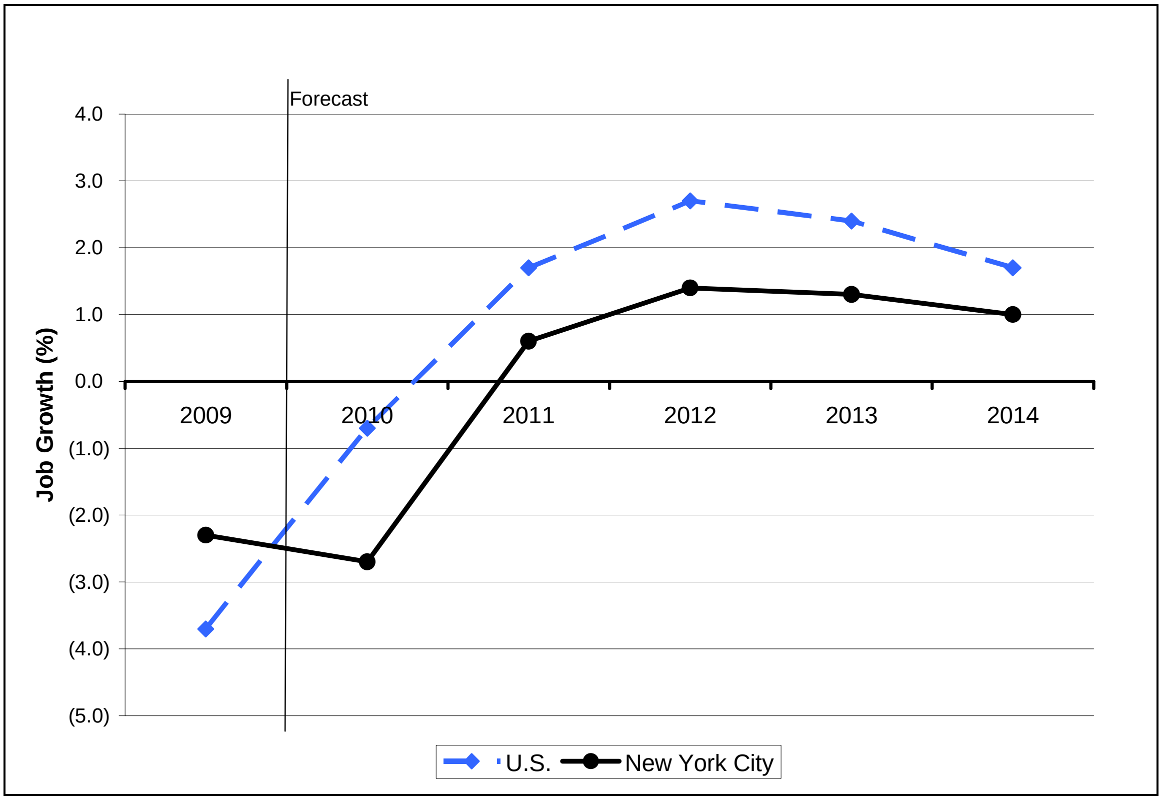
OMB does not paint a cheery picture of any quick recovery for the City. Wage earnings plummeted by $30 billion or 10 percent in 2009, two-thirds of which was shouldered by Wall Street. The lost earnings have resulted in weakened demand for the goods and services of practically all City sectors. Consequently, job loss is expected to continue up to the second half of 2010, which is after the nation's job market has resumed positive growth. With private payroll falling by 90,000 in 2009, another 87,000 lost jobs will follow in 2010. In all, OMB forecasts the cumulative peak-to-trough private payroll loss as amounting to

[11] CBO analysis of H.R 2847, www.cbo.gov/ftpdocs/108xx/doc10874/hr2847.pdf.
[12] Martin Wolf, 'How to walk the fiscal tightrope that lies before us" Financial Times, February 10, 2010.

203,000 jobs, which is 100,000 less than its forecast last June. OMB expects private employment to finally resume growth in 2011 by 20,000.

OMB's employment profile may be overly severe. It forecasts nearly as many job losses in 2010 as in 2009, a year in which the first quarter was hammered by the financial meltdown. Since 2009 the trend generally shows a slowdown in job losses. While the payroll reduction in the first half of 2009 was 52,300 (seasonally-adjusted), payroll losses slowed to 21,600 in the second half.[13] The New York State Comptroller's Office also does not expect City job losses to exceed 175,000.[14]

U.S. and NYC Non-Farm Employment Growth



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

Wall Street has experienced a comeback, with the first three quarters of 2009 showing record profits of \$49.7 billion. With sanguine bonuses expected in 2010, total wage earnings are expected to rebound in 2010. The political environment, however, will prompt firms to pay a substantial share of compensation as stocks and options, often with vesting periods. These alternative payment methods, adopted mostly a response to the outrage over Wall Street pay, have the unfortunate attribute of not being immediately taxable like a cash bonus. Consequently, OMB does not expect the bonus levels to reach those of 2006 and 2007. It is hoped that resurgent Wall Street pay will flow into the other City sectors.

Using City income tax withholdings as a reflection of income, there is as of late February little indication of any increase in cash bonuses over the previous year. Withholdings for December and January were actually less than the year before, although stronger collections in February have produced very slight growth during the bonus season. Stronger bonus payments may still materialize in March.

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[13] U.S. Bureau of Labor Statistics, State and Metro Area Employment.

[14] Office of the State Comptroller, "The Securities Industry in New York City", November 2009.

With the returning fortunes of Wall Street, OMB expects the securities industry to lose only a few thousand additional jobs, with a peak-to-trough payroll decline of 33,000. This is very close to the New York State Comptroller's estimate of 35,000. Finance and insurance sector losses will amount to 54,000 peak-to-trough.

New York City Job Growth/ (Loss)
Thousands

Change in Employment	FY09	FY10	FY11
Total Non-Farm	**(83)**	**(102)**	**22**
Private	**(88)**	**(87)**	**20**
Financial Sector	(29)	(20)	(4)
Securities	(21)	(7)	1
Professional & Business Services	(24)	(23)	9
Information	(5)	(7)	3
Education Services	6	(1)	3
Health & Social Services	12	4	9
Leisure & Hospitality	(2)	1	4
Wholesale & Retail	(19)	(19)	1
Transportation & Utilities	(6)	(4)	0
Construction	(11)	(11)	(2)
Manufacturing	(12)	(7)	(5)
Other	1	(1)	2
Government	**5**	**(15)**	**1**

***Source**: Council Finance based on New York State Department of Labor for FY09 and OMB Plan documents for all other years.*

Tourism was hard hit during the first few months following the financial crisis in late 2008 to early 2009, but has since picked up. In 2009 there were over 45 million visitors to the City, the third largest number recorded. A weak dollar helped attract foreign tourists despite the global nature of the recession.

OMB notes that, on average, hotels had to drop their room rates by almost a third, $100 less per night, to adjust to the slowdown. Their occupancy rate fell below 80 percent in the first quarter 2009, a six-year low. The occupancy rate has subsequently recovered, reaching 85.4 percent in April, less than 2 percentage points below the same time the previous year.[15] Comparing the first 11 months of 2009 to the same period in 2008, occupancy rates declined by 5.7 percentage points to an average of 81 percent, while room rates fell by 23 percent to $234. The steeper drop in room rates was explained by Richard Born, a major hotelier, that "there are more tourists than business travelers."[16] Business conventions, which generally pay higher room rates, have fallen off, even as tourism remains strong. Hotel employment has generally held up since the beginning of the recession. There was a gain of 1,200 workers in traveler accommodation in December 2009 from a year ago.

OMB cites the Broadway League's figures that Broadway shows experienced a drop in attendance and box office receipts of 15 percent and 10 percent, respectively, in the first quarter 2009. They have subsequently recovered momentum, reaching a record $1 billion in receipts.

[15] NYC & Company, "NYC Hotel Occupancy & ADR" December 9, 2009.
[16] Crains, "NYC tourism fell less than forecast in 2009", January 4, 2010.

Turning to wages, OMB forecasts an average wage increase of about 5.1 percent in 2010, empowered by Wall Street's resurgence. The average wage will continue to rise by 3.9 percent in 2011, thanks to a more broad-based recovery in employment and wage growth.

OMB lists some of the assumptions necessary even just to achieve its forecasted slow recovery. The national economy would have to sustain its recovery when the Federal supports are phased out. Wall Street profits in 2010 are dependent on continued low interest rates while at the same time the Federal Reserve is unwinding its balance sheet which would push up those interest rate. Regulatory reform and taxes would have to be mild enough not to harm financial institutions. Last of all, the City economy must avoid any fallout from the stressed fiscal conditions of New York State.

Forecast of Selected Economic Indicators

	FY09	FY10	FY11	FY12	FY13	FY14
National Economy						
Real Gross Domestic Product						
(Percentage Change)	(2.5)	2.3	2.8	3.7	3.2	2.8
Non-Agricultural Employment						
Level Change (millions)	(5.1)	(1.0)	2.2	3.6	3.3	2.5
(Percentage Change)	(3.7)	(0.7)	1.7	2.7	2.4	1.7
Wage Rate						
(Percentage Change)	0.4	3.3	2.6	2.2	2.8	3.1
New York City Economy						
Real Gross City Product						
(Percentage Change)	(3.5)	2.2	0.1	2.8	2.5	2.1
Non-Agricultural Employment						
Level Change (thousand)	(85)	(102)	22	50	49	36
Percentage Change	(2.3)	(2.7)	0.6	1.4	1.3	1.0
Wage Rate						
Percentage Change	(8.2)	5.1	3.9	0.6	3.5	3.7

***Source**: OMB January 2010 Financial Plan.*

Real Estate Market

The New York City real estate market has suffered a double whammy from the financial crisis. First the freezing of the financial markets ground the real estate market to a virtual halt. While government actions have helped to thaw out the financial markets, credit still remains incredibly tight – particularly in the commercial market. In addition to dealing with tight credit, the real estate markets are also being pummeled by the general effects of the recession. Foreclosures in the residential market continue to creep up (though are no where near the levels seen in parts of the country hard hit by the housing crisis) while vacancy levels in commercial properties continue to rise, depressing property values.

A stark example of these rising vacancy rates is in Midtown Manhattan, the location of many businesses hardest hit by the recession. Office vacancy rates in the area have more than doubled, from 5.1 percent in the second quarter of 2007 to 12.8 percent in the fourth quarter of 2009. With the worst of the bloodletting in the financial industry over, OMB expects the vacancy rate to remain around 13 percent for the area in 2010. There is some good news in that the boom years did not see the speculative office construction that New York had seen in previous booms. This means that over the short to medium run, not a lot of empty office space will be entering the market and this in turn should mean a quicker recovery for the commercial market once it begins to take hold.

However, the continued downward price pressure has served to stall the commercial markets even further, with buyers waiting for prices to stabilize before entering the market. Indeed, even foreclosures in the commercial markets are being delayed and loan extensions are being granted as lenders wait for the markets to stabilize before assuming control.[17] 2009 recorded only five commercial transactions valued at over $100 million, down from 66 such transactions in 2007.

On the residential front, declining prices have not caused the same stall in transactions as we see in the commercial market. Rather, conditions can here best be described as “sluggish”. This divergence is believed to be partially a result of Federal government efforts to stimulate the market – particularly through the first time home buyers credit and low interest rates. Nonetheless, single family home sales in the third quarter of 2009 were down nearly 60 percent from peak – the third quarter of 2005. Coop and condos are similarly in bad shape, with weaknesses expected to continue through 2010 as an increasing number of condos started during the boom years finally enter the market. As weak as things are now, there is worry that the market could suffer more deeply as government supports begin to disappear. The Federal Housing Administration, which has been backing an increasing number of residential mortgages, has recently announced that it is tightening its credit requirements. Other potential threats to make the housing downturn worse include rising interest rates and the upcoming expiration of the first-time home buyer credit (currently scheduled for April 30, 2010).

[17] OMB, January 2010 Financial Plan, Page 21

The Revenue Budget

Revenue Plan

A striking part of the January Plan (see table A1 in the appendix) is the modest growth of revenue. In Fiscal 2011 revenues grow by less than 1 percent and growth stays at 3.5 percent or less throughout the rest of the plan. The growth in City funds, essentially tax and miscellaneous revenues, is better, with revenues growing significantly faster than inflation. In some years this is helped by tax policy such as in Fiscal 2010 with the first full fiscal year of the City's January 2009 property tax increase or in Fiscal 2011 with the first full year of the September 2009 sales tax increase. Fiscal 2011 also sees two small proposed tax changes to the mortgage recording and sales taxes.

But the real slowdown in revenue growth is due to State and Federal aid, especially Federal aid. Some of this is an artifact of OMB's budgeting process. OMB tends to bring Federal categorical grants into the financial plan in the middle of the fiscal year once it is clear the City will receive them. Since June 2009 the City has increased Fiscal 2010 Federal categorical grants in the plan by about $1.3 billion or 17 percent. This makes the fall off in aid in Fiscal 2011 seem worse than it might otherwise appear. But there remains a real and significant drop-off in aid in Fiscal 2011 and Fiscal 2012 as Federal Stimulus money from the ARRA is phased out.

Increases in the revenue plan since June 2009 have been driven by a more optimistic tax revenue forecast, and by some more optimistic assumptions about Federal categorical grants. (See Table A2 in the appendix) Among the larger of these changes of grants in the plan is a $100 million plus revenue adjustment for TANF Flexible Family Service administration and $25 million plus in Federal subsidies for Build America bonds.

Tax Revenues

The recession continues to weaken New York City tax revenues. If we exclude the property tax, revenues for the first half of Fiscal 2010 are $1.6 billion behind the same time last year. This is despite the 0.5 percent increase in the sales tax and some smaller revenue enhancing changes to the business and hotel taxes. Most striking are the transactions taxes (real property transfer and mortgage recording taxes) which are each more than 40 percent below last year's weak performance. The property tax remains above the same time last year. While this partially is due to tax policy changes, it is also because it reacts much more slowly to economic conditions than other taxes. At this point, the property tax is only just beginning to feel the impact of the recession.

As the City's economy bottoms out in the first half of 2010 we should start to see growth in non-property tax collections. Council Finance believes the first sign of this will be in personal income tax withholdings. Given the earnings of NYSE member firms, withholding for the December 2009 through March 2010 bonus season should be above same time last year. Results through January have been disappointing, but the big banks are paying late this year and at the time of writing, February collections were on a pace to make up for the shortfall.

Growth of Tax Revenues OMB January 2010 Forecast *Change from prior year*						
Tax	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**
Real Property	9.8%	11.8%	5.5%	3.7%	1.2%	0.8%
Personal Income	-24.7%	3.5%	7.4%	7.0%	5.3%	5.1%
General Corporation	-20.9%	-1.4%	15.4%	9.6%	7.7%	5.5%
Banking Corporation	74.9%	-36.8%	-6.6%	16.1%	13.7%	5.0%
Unincorporated Bus.	-3.7%	-9.3%	2.6%	4.5%	5.0%	5.4%
Sales	-5.6%	6.2%	4.9%	4.7%	5.6%	5.6%
Commercial Rent	7.0%	-0.8%	-4.7%	-0.5%	1.6%	2.0%
Real Property Transfer	-47.3%	-20.7%	8.7%	8.0%	12.2%	9.5%
Mortgage Recording	-54.7%	-26.0%	22.0%	15.7%	19.1%	16.1%
Utility	1.6%	-1.1%	1.0%	3.3%	2.4%	3.1%
Hotel	-9.7%	2.2%	2.7%	0.3%	-6.4%	2.1%
All Other	-2.2%	-16.3%	-0.6%	2.7%	4.9%	-0.1%
Audits	-6.8%	-7.1%	-32.3%	-0.2%	-0.2%	0.0%
Total Taxes	**-7.1%**	**2.7%**	**4.9%**	**5.1%**	**3.9%**	**3.3%**

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

Tax Revenues OMB January 2010 Forecast *Millions of dollars*						
Tax	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**
Real Property	$14,338	$16,034	$16,915	$17,533	$17,742	$17,879
Personal Income	6,589	6,817	7,320	7,832	8,250	8,667
General Corporation	2,320	2,288	2,640	2,893	3,115	3,286
Banking Corporation	1,099	694	649	753	856	899
Unincorporated Bus.	1,785	1,618	1,660	1,734	1,820	1,918
Sales	4,594	4,881	5,122	5,361	5,660	5,975
Commercial Rent	583	578	551	548	557	568
Real Property Transfer	742	589	640	691	775	849
Mortgage Recording	515	381	465	538	641	744
Utility	398	394	398	411	421	434
Hotel	342	350	359	360	337	344
All Other	1,758	1,472	1,464	1,503	1,576	1,574
Audits	947	881	596	595	594	594
Total Taxes	**$36,011**	**$36,977**	**$38,778**	**$40,752**	**$42,344**	**$43,731**

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

With the return of the corporate sector to profitability and the strength of securities industry earnings, the business taxes should join the personal income tax in the positive column. The timing will be somewhat delayed because of losses carried forward from the recession. Sales and excise taxes will respond to growing income and the transactions taxes will bottom out with the housing and commercial real estate markets. By Fiscal 2011 all taxes except the commercial rent tax and the bank tax will be growing.

While the impact of the recession is over for most taxes by Fiscal 2012, it is only beginning to be felt by the property tax. The slowdown will continue through the end of the financial plan. This matters because of the size of the property tax, representing over 40 percent of tax revenues. Because of the behavior of the property tax the impact of the recession will be felt through the financial plan and beyond.

Since June 2009 OMB increased its Fiscal 2010 tax revenue forecast by $1.7 billion or about 4.8 percent. Outyear forecasts were increased by an average of 1.6 percent. Though there are significant differences in detail, Council Finance's October forecast is in aggregate roughly similar to OMB's January Plan. Council Finance's forecast has around $360 million or 1 percent less revenue in Fiscal 2010. In the outyears, Council Finance's forecasts have greater revenue than OMB. In Fiscal 2011 Council Finance has $166 million or 0.4 percent more than OMB. In the outyears the Council Finance forecast exceeds those of OMB with the greatest difference in Fiscal 2013, where Council Finance exceeds OMB by 1.2 percent.

Council Finance is currently forecasting and its new forecast will be available with the Council's response to the Preliminary Budget.

Personal Income Taxes

After personal income tax revenue dived 24.7 percent in Fiscal 2009 amidst the financial meltdown, growth is expected to resume in Fiscal 2010 at 3.5 percent, adding $229 million over the previous year. This is $830 million above Plan at Adoption. Withholdings will only grow by 1.5 percent, as revived bonus payments are offset by additional layoffs and a now sizable share of bonuses being paid out in long-term stocks and options, prompted by the political climate. There's a lot of uncertainty in divining the cash share of bonuses this year and whether OMB will reach its modest growth estimate. New York State Comptroller Thomas DiNapoli has estimated that Wall Street increased its 2009 cash bonus payments 17 percent to over $20 billion, which would at least sustain OMB's growth estimate. As of February 25th however, bonus season collections, are roughly at the same level as last year's.

Estimated installments are forecast to decline in 2010 by 12.5 percent due to continued capital gains losses in 2009 and freelancers losing their work. A $400 million revenue boost, however, is expected from increased State/City offset payments and reduced refunds over the previous year. These strong settlement payments are the dynamo behind the overall 3.5 percent growth.

For Fiscal 2011 growth in personal income tax revenues are forecast to accelerate to 7.4 percent, adding $503 million over the prior year. This is $433 million over the estimate in June 2009. Withholdings will fall slightly by 0.7 percent as the City economy fully absorbs the additional 87,000 private job losses OMB forecasts for calendar year 2010. The collection losses from lower employment will be tempered by continued strong bonuses for 2010. Installments are expected to take off at 9.0 percent from strong capital gains realizations in 2010. This stems from a recovery in equity markets and also realizations moved forward to 2010 to avoid the higher capital gains tax rates in 2011. The Congressional Budget Office projects a 29.2 percent increase in capital gains realizations in calendar year 2010, but a 17.2 percent drop in 2011 from the realizations moved ahead.[18] OMB also estimates some additional revenue from increased final payments and reduced refunds from revived nonwage income.

As the City's employment and personal income improves in the outyears, OMB forecasts revenue growth as averaging 5.7 percent between Fiscal 2012 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

[18] "The Budget and Economic Outlook: Fiscal Years 2010 to 2020", Congressional Budget Office, January 2010.

unusually high profits. They have returned to paying business taxes much earlier than was expected in June 2009's Adopted Budget. They are contributing to the significant Fiscal 2011 rebound in the general corporation tax (GCT). The rest of the City's economy has not received the special support from which the financial sector, especially securities, has benefited. OMB expects business tax revenues from these sectors to decline through Fiscal 2010 and to remain weak in Fiscal 2011. Corrected for changes in tax policy, OMB expects business tax revenues to decline 14.6 percent in Fiscal 2010 and to increase 8.5 percent in Fiscal 2011.

This relative performance should change in the outyears. The unusual support the securities industry received will not last forever. Council Finance believes this unusual support will start phasing out in late 2010 or early 2011. This is reasonably consistent with OMB's business tax expectations. Corporate profits are already growing and not just in the financial sector. Nationally pre-tax book profits were up 50 percent in the fourth quarter compared to the same time last year. The City's non-financial sector will recover. In OMB's analysis, this will occur fortuitously in Fiscal 2012, just as the financial sector is starting to slow down. Despite the recovery, business taxes are not expected to surpass their Fiscal 2007 peak till Fiscal 2014. In Fiscal 2007, the business taxes were propelled by the financial bubble. No one is expecting to see that again any time soon.

The bank tax deserves a special mention. Its Fiscal 2009 performance was unusual, with growth of 75 percent despite an ongoing financial crisis. According to OMB this was partially due to Federal and State tax compliance initiatives. The declines in Fiscal 2010 are in part a return to normal.

Real Property Tax

Real Property Tax Levy. At budget adoption, OMB had a more optimistic forecast of the growth in the levy for Fiscal 2011. OMB anticipated that the levy would increase by 5.6 percent from 2010, for a total of $18,571 million. The Fiscal 2011 tentative assessment roll released on January 15th was lower than OMB's forecast. As a result, OMB decreased its estimate of the Fiscal 2011 levy by $254 million to $18,317 million, an increase of 4.1 percent from the prior year. OMB carries this decrease in the levy throughout the plan period by reducing the Fiscal 2012 levy by $189 million, the Fiscal 2013 levy by $382 million and the Fiscal 2014 levy by $346 million. The levy experiences declining growth throughout the plan period, increasing by 3.9 percent in Fiscal 2012 but increasing by only 0.8 percent in Fiscal 2014. Average annual growth is a weak 1.9 percent for the period from Fiscal 2012 through 2014. The reasons for the decline 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 $16,034 million, $38 million less than the Adopted Budget forecast. Most of the change results from a $30 million decrease in lien sale proceeds. OMB has moved revenue from the upcoming spring sale of property tax liens from Fiscal 2010 to Fiscal 2011. 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. Although in the current Preliminary Budget, June 2010 lien sale proceeds are moved into Fiscal 2011, we may see this action reversed in upcoming budget modifications.

The 90-day notification for the Spring lien sale was mailed to owners of nearly 25,000 properties who were delinquent on property taxes and/or water and sewer charges on February 2nd. Owners have until May 7th to either pay off their liens or enter into payment agreements otherwise their liens may be included in the May 10th lien sale. We anticipate that most owners will comply. Last year, of the nearly 25,000 properties noticed, only 4,800 ended up in the lien sale.

Revenue is still anticipated to increase by 11.8 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[19]. 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, revenue growth declines to 5.5 percent over the prior year. Then growth in revenue averages 1.9 percent a year from Fiscal 2012 through 2014, matching the decline in growth of the levy. Most of the reduction in revenue in the Preliminary Budget reflects the reduction in the levy since budget adoption.

Market Value[20]. 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. But 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—by 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

[19] 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.

[20] 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.

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 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 don't 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 total taxable or billable assessed value (BAV) on the tentative roll, before accounting for the STAR and veterans exemptions, increased by $6.9 billion from Fiscal 2010 for a total of $150.2 billion. This 4.8 percent increase in value is slightly lower than the 6.7 percent growth experienced last year, though growth on the final roll will more than likely be even lower. 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%
FY11F	4.1%	4.1%	4.0%	6.0%	4.0%
FY02-FY11F	**77.2%**	**52.3%**	**86.4%**	**75.4%**	**77.5%**
FY06-FY08	**21.3%**	**13.5%**	**21.6%**	**16.5%**	**23.9%**
FY09-FY11F	**18.7%**	**13.2%**	**17.2%**	**27.0%**	**20.0%**

***Source**: New York City Department of Finance, Annual Report on the NYC Real Property Tax, Fiscal Year 2009, Tentative Assessment Roll, Fiscal 2011. OMB estimate of Fiscal 2011 final roll.*
***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 tentative roll increased by 4.5 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, released on May 25th each year, is always lower than the tentative roll, due to Tax Commission actions, DOF changes by notice, and completion of exemption processing. In the Preliminary Budget, OMB estimates that the final roll BAV will be $0.9 billion lower than the tentative roll, resulting in final roll increase of 4.1 percent over Fiscal 2010—growth of 4.1 percent for class one, 4.0 percent for class two, and 4.0 percent for class four.

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

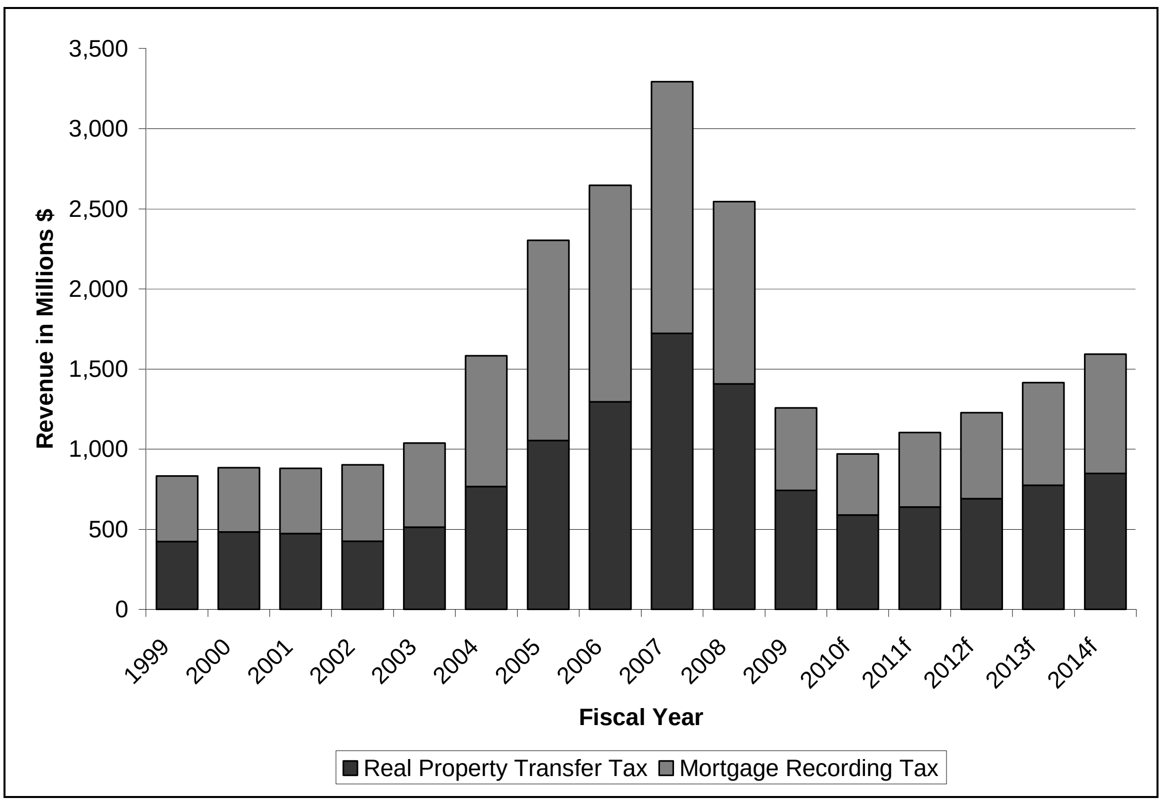
Real Property Transfer and Mortgage Recording Taxes

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 $970 million - $589 million from the RPTT and $381 million from the MRT.

The larger of the two taxes, the RPTT, is expected to resume growth in 2011. This growth will initially be driven by a turnaround in the commercial market. The collections from this tax provide a stark example of the frozen nature of that particular market. Driven by both falling prices and transaction counts, commercial collections are forecast to be down 40.7 percent in 2010 over the previous year. This would represent a whopping decline of 82.1 percent from the peak level in 2007. Comparatively, collections from the residential market are expected to decline just 5.7 percent in 2010 over the previous year, for a total decline of 40.6 percent. Not great, but certainly no 82.1 percent.

Of course, when you are near the bottom, there is no where really left to go but up. And in 2011, as commercial real estate credit markets begin to thaw, OMB expects commercial RPTT collections to grow. This growth should be enough to cover for further declines in residential collections, which are not expected to resume growth until 2012.

RPTT and MRT – 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. In Fiscal 2010 the MRT is forecast to net only $381 million for the City, a decline of $134 million from the previous year. This would represent a decline of 75.7 percent off of the peak year of Fiscal 2007. OMB expects the MRT to recover in 2011 and grow by 22.0 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 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 2013.

Commercial Rent Tax

One could consider the commercial rent tax a rare bright spot in the Preliminary Budget – that is if you do not look too far back in the past. Fiscal 2010 revenues for the commercial rent tax (CRT) are expected to be $578 million, which is $39 million more than was expected in the Adopted Budget. Before breaking out the champagne to celebrate, one should note even this new, higher figure, still constitutes a decline of $5 million in revenues from this tax in Fiscal 2009. CRT revenues are expected to continue to drop in Fiscal 2011, to $551 million.

While you might not want to break out that champagne just yet, there is reason to keep it chilled. As mentioned in the real estate market overview, the City avoided the speculative office building construction that had accompanied the past several booms. This implies that the Manhattan commercial rental market will not suffer as deeply and bounce back sooner than it has in previous recessions. While rents are dropping and vacancies are rising, they are doing so at a much slower rate than expected and are coming off some strong growth in the years before. As a result, even at its lowest forecasted year, $548 million in Fiscal 2012, the revenues from the CRT will still be higher than in Fiscal 2008 and all the years before that.

Sales, Utility & Other Taxes

Sales Tax

OMB estimates sales tax revenue for Fiscal 2010 at $4,881 million, $812 million over the Adopted Budget, with most of the difference due to passage of the sales tax rate increase from 4 percent to 4.5 percent, effective August 1, 2009. After four straight quarters of decline, relative to the year before, fourth quarter 2009 collections saw an increase. The recently enacted base-broadeners have gained traction.[21] Collections are forecast to grow 6.2 percent for the fiscal year. However, on a common rate and base (CRB), i.e. without changes to the tax rate or base, collections for the fiscal year would decline 7.9 percent. Even so, it seems that the worst is behind us. On a common rate and base, collections stabilized in the fourth quarter 2009, declining relatively modestly at 1.8 percent. Fiscal 2011 should see 4.9 percent growth, 3.5 percent on a common rate and base. The table below summarizes the forecast through Fiscal Year 2013.

[21] 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.

Sales and Use Tax Revenue Forecast
Dollars in millions

	FY10	FY11	FY12	FY13
Collections	$4,881	$5,122	$5,361	$5,660
Growth	6.2%	4.9%	4.7%	5.6%
CRB Growth	-7.9%	3.5%	5.3%	5.3%

Source*: OMB Fiscal 2011 Preliminary Budget.*

Sales have reached an inflection point, and are starting to rise again, but from a somewhat diminished base; volume has dropped by over a tenth since 2008. Although tourists have resumed spending their money here, local demand is still going to be somewhat weak. NYC & Company data show that international travel picked up in September. Arrivals at the three main airports increased through November (the latest month for which there is data), helping increase occupancy rates in spite of a rise in the inventory of hotel rooms. Cutting in the other direction is that Fiscal 2010 will see another 92,000 layoffs in the City. This will cause New Yorkers to spend carefully. That said the City's sales seem to be rebounding along with the nation's. The Census's Monthly Retail Trade Survey data show that (year-on-year) growth resumed in November of last year, after 13 consecutive months of decline. But, the trade in big-ticket purchases will take some time to recover. It will be several years before sales volumes return to their pre-recession levels.

Utility Tax

Utility tax revenue is forecast at $394 million in Fiscal 2010, $3 million more than in the Adopted Budget. The utility tax, which is imposed primarily on utilities and vendors of utility services (e.g. ConEd, Verizon) at a levy of 2.35 percent of gross income, is down 12.2 percent for the fiscal year through December, 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 January, cooling degree-days are down 27 percent and heating degree-days down 6 percent relative to this time last year.[22,23] Even so, OMB projects a mild decline by the end of the fiscal year of 1.1 percent. Continued employment losses will continue to affect demand for utility services, and energy prices, which have leveled from their decline, will rise. Revenue for Fiscal 2011 will be $398 million, growing 1 percent, and it will grow at an average of 2.9 percent from Fiscal 2012 through 2014.

Cigarette Tax

Cigarette tax revenue continues to decline. Fiscal 2010 collections will be $96 million, a 0.3 percent decline. Fiscal 2011 will see a further decline of 2.1 percent to $94 million, with an average decline of 2.2 percent in Fiscal 2012 through 2014.

Hotel Tax

Hotel tax revenue is forecast at $350 million in Fiscal 2010, growth of 2.2 percent, and $21 million more than in the Adopted Budget. On a common rate and base, collections would be down 10.8 percent this fiscal year, somewhat less than the 13.4 percent decrease in Fiscal 2009.

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[22] According to local weather data from the National Oceanic and Atmospheric Administration.

[23] 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.

In spite of a growing inventory of hotel rooms, occupancy rates have recovered from their steep decline in the first quarter of calendar year 2009. This, combined with the recent increase in the hotel tax rate has increased collections. Restoring occupancy rates to above 80 percent has been at the expense of the average daily rate; year-to-date through November for calendar year 2009 it was down roughly a quarter from about $300 to about $240 per night. Therefore, although the low room rates have lured back customers, even setting records for room-nights sold, hotel revenue is down. Hotel tax collections are up because of the recent increase in the hotel tax rate from 5 to 5.875 percent, effective March 1, 2009, and extension of the tax to room-remarketers starting September 1, 2009. Whether low room rates will continue to keep occupancy rates as high as they had been remains to be seen. November's occupancy rate was not as encouraging as those from September and October. It was 81.7 percent, which is closer to November 2008's 80.8 percent rather than November 2007's 88.7 percent.

In Fiscal 2011 hotel tax revenue will be $359 million, growing 2.7 percent. In Fiscal 2012, in the middle of which the hotel tax rate-increase sunsets, growth will be flat with $360 million in tax revenue. In Fiscal 2013, tax revenue will fall 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 3.4 percent.

Other Taxes

All other tax revenues are forecast at $467 million in Fiscal 2010, $7.5 million lower than last year, a 1.6 percent decline, but $66 million more than in the Adopted Budget. The increase relative to the Adopted Budget is primarily due to higher Payments in Lieu of Taxes (PILOTs) from Battery Park City (up $29 million), One Bryant Park (up $20 million) and a new PILOT payment from the American Stock Exchange of $13 million.

Tax Enforcement Revenue

Tax enforcement revenue is another area where OMB typically increases the current year plan as revenues come in over the course of the year. This year is no exception. In the first half of Fiscal 2010 audit revenues were 25 percent ahead of the same period in Fiscal 2009. The January Plan raises audit revenue by $285 million. In Fiscal 2011 and the outyears the Plan has been increased to reflect the hiring of 29 additional tax auditors as part of the PEG program. The Fiscal 2011 and outyear audit revenue forecasts are all similar; $595 million give or take $1 million. This is about what the audit collections were in Fiscal 2006 and is a conservative baseline that is likely to be exceeded.

Tax and Revenue Policy

Mayor's Preliminary Budget Proposals

Aviation Fuel

The City supports legislation to repeal the sales tax exemption on fuel sold to airlines. OMB estimates that doing so would realize $169 million in additional sales tax revenue in Fiscal 2011. Section 1115(9) of the Tax Law specifically exempts from sales tax, "Fuel sold to an airline for use in its airplanes." Airlines use either jets or turbo-props, both of which use jet fuel. If the State authorized the City to extend its sales tax to fuel sold to airlines, it would amount to extending the sales tax to jet fuel sold at JFK and LaGuardia airports. This is a part of the Tax Fairness Program because most other fuels used in transport are subject to sales tax.

Speed Cameras

Last year's Preliminary Budget proposed a demonstration project to examine the use of specialized cameras to detect and record speeding violations, which are often a significant factor in causing injury or death to motorists and pedestrians. The program was to be modeled on the City's red light camera program. This year the State's Executive Budget has proposed such a program for State highways. This proposal would expand it to include local streets as well.

Governor's Proposals of Special Interest to the City

Impose the Mortgage Recording Tax on Co-ops

Both the Governor and the City propose 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.

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.[24]

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.[25] 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

[24] City government's payroll.

[25]. *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.*

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.

Miscellaneous Revenue

Detailed descriptions will be 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 Preliminary Budget anticipates fees from Licenses, Permits and Franchises in the current fiscal year to be just $157,000 higher than the Adopted Budget in June 2009, keeping the total around $479 million. Though the overall total did not change that much, there was some variation in the various revenues that make up this category. Revenue from construction permits is down $10 million, but this is offset by increases in cable television franchise revenues (+$8 million) and a myriad of other small increases throughout many agencies. Revenue from this category increases by $14 million to $493 million in Fiscal 2011.

Charges for Services

The Preliminary Budget anticipates Fiscal 2010 revenue from charges for services to total $738 million, an increase of $64 million over the Adopted Budget targets. An increase in community college tuition and fees is expected to generate $64 million in additional revenue, while the 421-a program is anticipated to yield another $23.5 million. The larger downward revisions stem from changes in taxes on fire insurance premiums (-$24 million). There are also a number of smaller increases and decreases spread through a number of agencies. Looking forward to Fiscal 2011, revenue from this category is estimated to increase by $17 million to $755 million.

Rental Income

For Fiscal 2010, the Preliminary Budget increases rental income to $226 million, $6 million over the Adopted Budget. Additional commercial rental income accounts for $3.7 million of the increase, with another $1.2 million coming from Hudson Yards Commercial Rent. Revenue from this category decreases by $3 million in Fiscal 2011 from Fiscal 2010.

Fines and Forfeitures

For Fiscal 2010, the Preliminary Budget decreases fines and forfeitures revenue by $14 million, for a total of $884 million. This decrease stems predominately from decreased revenues from Block the Box Violation Enforcement (-$19 million) and Red Light Camera fines (-$6.5 million). These decreases were partially offset by an increase in Department of Buildings fines (+$6 million), and other smaller increases in several other agencies. Revenue from this category increases by $11 million in Fiscal 2011 from Fiscal 2010, to $896 million.

Interest Income

For Fiscal 2010, the Preliminary Budget estimate for interest income registers about $740,000 more in interest incomes, keeping the total around the $30 million in the Adopted Budget. The Fiscal 2011 forecast also remains about the same from the Adopted Budget, rising just $1 million to $44 million. These figures are dramatically lower compared to previous years, mostly due to incredibly low interest rates. However, outyear forecasts of this income show a rise closer to “normal” levels, reaching an estimated $128 million in Fiscal 2013.

Water and Sewer Fees

This category covers 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. In the Preliminary Budget, Fiscal 2010 revenue increases by $9 million from the $1,369 million being carried in the Adopted Budget. In Fiscal 2011, the Preliminary Budget projects revenue collections of $1,345 million, down $33 million from Fiscal 2010.

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 Preliminary Budget adds $111 million to the Adopted Budget for a total of $74 million. The most significant adjustment is $117.3 million that represents the City’s share of a $536 million deferred prosecution agreement against Credit Suisse for dealing with persons and entities who were subject to U.S. sanctions. Other major adjustments include $42 million less revenue from delays in the Health and Hospitals Corporation’s (HHC) payments on debt that the City issues for HHC capital projects. This delay is due to the poor financial condition of HHC, and an $8 million increase in revenues from the disposition of City property. Revenues from this category are expected to drop $252 million from Fiscal 2010 to Fiscal 2011. This sizeable looking decrease is due to a number of items, the largest of which are the reduced HHC payments (down $54 million) and the one-time event of the Credit Suisse settlement of $117.3 million.

Capital Budget, Financing Program, and Debt Service

Capital Commitment Plan

The 2011 Preliminary Capital Budget includes new appropriations of $5.7 billion, of which $4.05 billion are to be funded from City sources. This is 44 percent less than the $10.25 billion total and $7.98 billion of actual appropriations in Fiscal 2010. A large portion of the difference in the appropriation levels is the result of the Administrations decision to stretch out the capital plan from four to five years reducing the current year's capital plan by nearly 20 percent.

The new appropriations, together with available balances from prior years, authorize total commitments of $7.51 billion for 2011, of which $5.78 billion will be City-funded. This is an increase of $546.8 million in the City-funded planned commitments over the $5.23 billion planned in the Adopted Capital Budget.

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

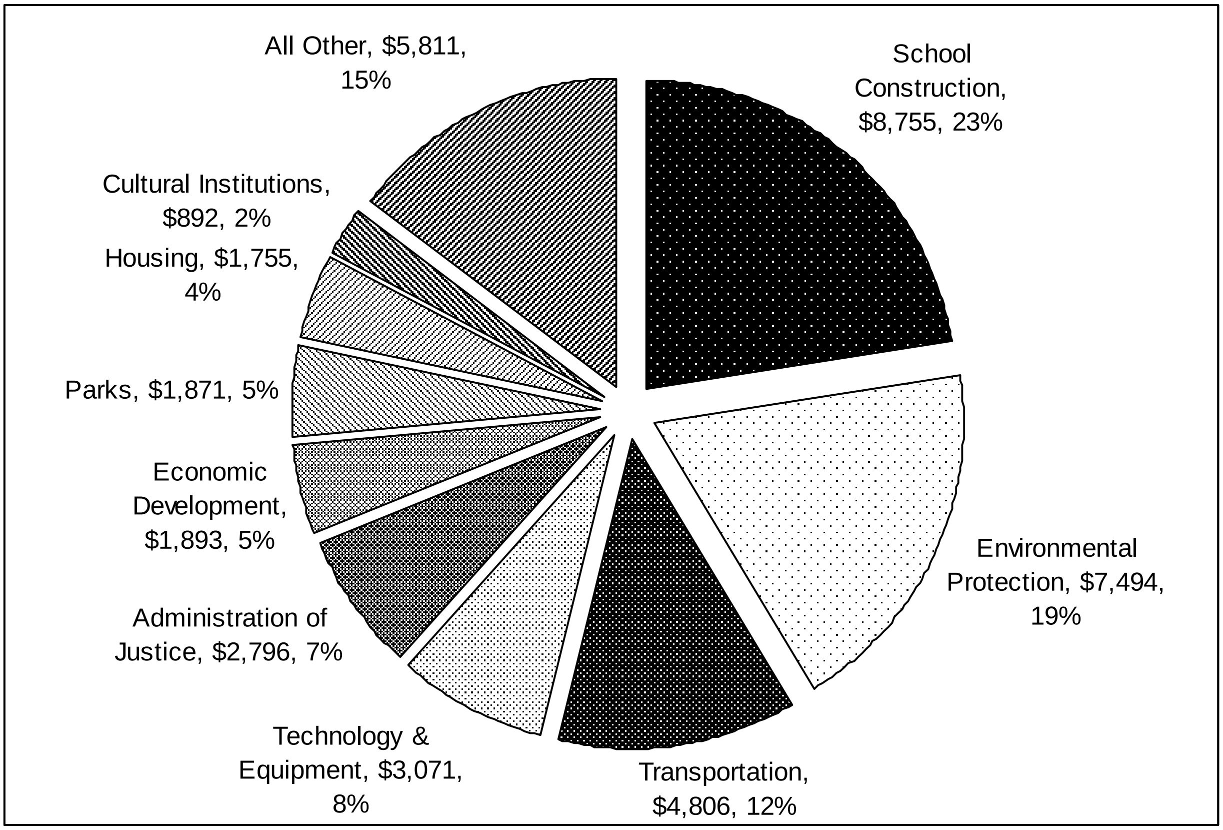
	FY10	FY11	FY12	FY13	FY14	Total FY15-20	Total FY10-20
Adopted							
Total Capital Plan	$9,639	$7,545	$5,544	$8,827	$4,893	$19,668	**$56,116**
DEP	1,932	1,896	1,330	1,638	1,425	5,805	**$14,026**
Total Minus DEP	$7,707	$5,649	$4,214	$7,189	$3,468	$13,863	**$42,090**
Prelim							
Total Capital Plan	$19,069	$7,507	$5,814	$6,754	$4,869	$20,475	**$64,488**
DEP	7,085	1,671	1,346	1,257	1,402	6,434	**$19,195**
Total Minus DEP	$11,984	$5,836	$4,468	$5,497	$3,467	$14,041	**$45,293**
Change							
Level	$4,277	$187	$254	($1,692)	($1)	$178	**$3,025**
Percentage	55.5%	3.3%	6.0%	-23.5%	-0.0%	1.3%	**7.2%**

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

The 2011 Preliminary Capital Budget includes $64.5 billion in planned commitments for Fiscal 2010 through 2020. This total includes $19.2 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 Preliminary Capital Plan, $45.29 billion, is to be funded by General Obligation (GO) and Transitional Finance Authority (TFA) debt; this is $3.03 billion or 7.2 percent greater than the $42.1 billion Adopted Fiscal 2010 – 2020 Capital Plan.

For the four-year plan period 2010 – 2013, nearly one-quarter of authorized capital commitments, or $8.8 billion, would fund school construction and repair. Another nearly 20% 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 $4.8 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 2010-2013 Planned Capital Commitments, by Programmatic Area
Dollars in Millions



Financing Program & Debt Service Budget

Fiscal 2010 debt service is only $446 million after prepayments and debt defeasances are considered, but reversing the effect of the Fiscal 2007 and Fiscal 2008 debt defeasances, the figure rises to $3,141 million; reversing the effect of the Fiscal 2009 prepayments and grants, Fiscal 2010 debt service rises to $5,183 million. Debt service, in this case, consists of interest and principal payments for General Obligation debt, Transitional Finance Authority (TFA) Future Tax Secured Bond debt, lease purchase, and interest on short-term debt. Please see the table below for debt service without prepayments or debt defeasance reductions through Fiscal 2014.

Debt Service and Budget Breakdown
Millions of Dollars

	FY10	FY11	FY12	FY13	FY14
G.O.*	3,822	3,952	4,343	4,418	4,487
TFA**	1,154	1,250	1,612	1,831	2,000
Short Term	-	75	75	75	75
Lease Purchase	207	259	256	255	255
Total Debt Service	**5,183**	**5,536**	**6,286**	**6,579**	**6,815**
Debt Service as Pct. of Tax Revenues	14.4%	14.6%	15.8%	15.9%	16.0%

Source*: OMB Fiscal 2011 Preliminary 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, but now it is anticipated to have $2,883 million, all of which will be paid out as a prepayment this 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 $1.3 billion and TFA's Fiscal 2010 debt service by about $545 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.

The Preliminary Budget estimates that gross of prepayments and defeasance effects, the debt burden, which is debt service as a fraction of revenues, will rise from 8.1 percent of total City revenue in Fiscal 2010 to 9.8 percent in Fiscal 2014. As a fraction of total tax revenue it will rise from 14.4 percent in Fiscal 2010 to 16.0 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 14.4 percent, from 13.8 percent in Fiscal 2010, falling to 13.9 percent by Fiscal 2014.

Capital Financing Program

Heavy issuance in Fiscal 2010 and 2011 is driving the rising debt service in this financial plan. Planned bond issuance for Fiscal 2010 is a high of $6.9 billion, about 26 percent more than was issued in Fiscal 2009. It will be $3.4 billion of GO debt, and $3.5 billion of TFA debt. By Fiscal 2014 total GO and TFA issuance is lower at $4.8 billion. 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. This Preliminary Budget's planned issuance for Fiscal 2010 ($6.9 billion) is nearly the same as the ambitious Fiscal 2009 Preliminary Budget's planned issuance for Fiscal 2010 ($7 billion), and higher than last fiscal year's Preliminary Budget ($6.2 billion).

Financing Program, Sources of Funds *Millions of Dollars*						
	FY10	**FY11**	**FY12**	**FY13**	**FY14**	**Total**
G.O.	$3,418	$3,100	$2,660	$2,400	$2,400	$13,978
TFA*	3,475	3,100	2,660	2,400	2,400	14,035
Total General Capital Financing	**$6,893**	**$6,200**	**$5,320**	**$4,800**	**$4,800**	**$28,013**
Water Authority	2,481	2,156	1,929	1,628	1,567	9,761
Total	**$9,374**	**$8,356**	**$7,249**	**$6,428**	**$6,367**	**$37,774**

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

The City also now has access to TFA financing, which is somewhat less costly, as TFA Future Tax Secured Bonds currently have a slightly higher credit rating than does GO debt. TFA maintains ratings of AAA by Standard and Poor's and Aa1 or Aa2 by Moody's. GO maintains ratings of AA by Standard and Poor's and Aa3 by Moody's. Since gaining authorization from the State in July 2009, TFA may now issue Future Tax Secured Bonds against the general debt limit. Prior to this, TFA had exhausted its statutory issuing limit, which was last capped at $13.5 billion. Having gained this additional source of general capital financing, the City now plans to split such financing between GO and TFA debt.

Of the federally 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. These bonds differ from traditional municipal debt, because rather than having tax-exempt interest payments, theirs are taxable. Taxable debt pays higher interest, as it is not tax-exempt. Although locally based wealthy individuals buy tax-exempt municipal debt for tax reasons, the benefit is lower for out-of-state bondholders, and there are no foreign bondholders. Because of this, taxable debt can be marketed to a broader range of investors, broadening the possible market for municipal debt. The Federal government has introduced subsidized taxable debt programs, because it can control the subsidy directly, whereas current tax-exempt debt lacks that feature. The two forms of subsidized taxable debt are tax credit and direct-pay. The former pays the bondholder a non-refundable income tax credit; the latter pays the issuer a refundable income tax credit.

Of these taxable debt programs, direct-pay BABs are the most popular. QSCB's are less so, because although they are also taxable debt, and their subsidy is higher, they can only be issued as tax credit bonds. There is confusion around tax credit bonds, and it has made them difficult to sell. The Treasury has yet to issue guidance on whether tax credits paid to bond holders may be stripped (from their bonds) for sale to other investors. Some Congressmen had proposed banning such stripping. Because the credits cannot and may never be strippable, tax credit bonds often price at a discount, or require supplemental coupon payments, diminishing their subsidy. BABs, on the other hand, are a success; over $75 billion have been issued nationwide since the ARRA created them, nearly all as direct-pay bonds. Of the $11 billion of QSCBs allocated nationwide for calendar year 2009, only $2.8 billion were issued, according to Thomson Reuters. The BAB subsidy is 35 percent of interest payments, and the issuer can choose to issue them as tax credit or as direct-pay bonds. QSCB's currently have a 100 percent, tax credit subsidy. In December the House of Representatives passed legislation containing provisions that extend the direct-pay option to the QSCB program at the same 100 percent subsidy, but the Senate's version, passed on February 24th, extends the tax credit option to QSCBs at an interest subsidy of only 45 percent.

The City has issued $2.55 billion of 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 has yet to issue any of its QSCB allocations ($699 million from calendar year 2009 and $699 million from 2010, with $300 million anticipated in 2011), but unused allocations carry over into following years, and pending the Senate's passage of amendments to the QSCB program, the City expected to issue its allocation over the next few years as direct-pay bonds. However, this was before the Senate passed legislation that would extend the direct-pay option to QSCB bonds at a reduced subsidy.

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 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 $9.5 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 15.7 percent, and 6.4 percent once the partial offset of the General Fund short-term assets is considered.

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. GO debt and that TFA Future Tax Secured Debt in excess of the TFA's $13.5 billion limit is not to exceed the City's general debt limit of ten percent of the average value of City taxable real estate for the last five years. The limit is currently about $75 billion, and as of December 1, 2009, the City Comptroller projected the remaining debt-incurring power within the general debt limit as $21 billion at the close of Fiscal 2010. It will then fall to about $16 billion by the close of Fiscal 2012, relative to the November Plan. 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 these financing corporations. It has the most debt outstanding 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 $334 million, $660 million, $882 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. 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 Preliminary Budget

Revenues in the January Financial Plan
Millions of Dollars

General Fund Revenues	2010	2011	2012	2013	2014
Taxes					
Real Estate	$16,035	$16,917	$17,536	$17,746	$17,882
Sales	4,881	5,122	5,361	5,660	5,975
Personal Income	6,817	7,320	7,833	8,251	8,667
General Corporation	2,288	2,640	2,893	3,115	3,286
Banking Corporation	694	1,660	753	856	899
Unincorporated Business	1,618	649	1,734	1,820	1,918
Utility	394	398	411	421	434
Hotel	350	359	360	337	344
Commercial Rent	578	551	548	557	568
Real Property Transfer	589	640	691	775	849
Mortgage Recording	381	465	538	641	744
Cigarette	96	94	92	90	88
All Other	467	427	432	431	432
Audit	890	612	610	609	609
Tax Program	0	219	241	262	284
STAR	910	943	980	1,055	1,055
Total Taxes	**$36,988**	**$39,016**	**$41,013**	**$42,626**	**$44,034**
Federal Categorical Grants	**$7,943**	**$6,614**	**$5,720**	**$5,680**	**$5,679**
State Categorical Grants	**$11,476**	**$11,766**	**$12,407**	**$13,057**	**$13,195**
Non-Governmental Grants (Other Cat.)	**$1,869**	**$1,671**	**$1,605**	**$1,602**	**$1,601**
Unrest. / Anticipated State & Federal Aid	**$340**	**$340**	**$340**	**$340**	**$340**
Miscellaneous Revenue					
Charges for Services	738	755	755	755	754
Water and Sewer Charges	1,378	1,345	1,366	1,379	1,406
Licenses, Permits, Franchises	479	493	497	498	500
Rental Income	226	223	223	223	223
Fines and Forfeitures	884	896	870	869	869
Other Miscellaneous	744	492	496	493	486
Interest Income	30	44	99	128	128
Intra City	1,804	1,545	1,547	1,552	1,552
Total Miscellaneous	**$6,283**	**$5,793**	**$5,853**	**$5,897**	**$5,918**
Net Disallowances & Transfers	**($1,819)**	**($1,560)**	**($1,562)**	**($1,567)**	**($1,567)**
Total Revenue	**$63,080**	**$63,640**	**$65,376**	**$67,635**	**$69,200**
% Change from Previous Year	3.5%	0.9%	2.7%	3.5%	2.3%
City Funds: does not include Unrestricted Aid	**$41,452**	**$43,249**	**$45,304**	**$46,956**	**$48,385**
% Change from Previous Year	2.2%	4.3%	4.8%	3.6%	3.0%
City Funds as a Percent of Total Revenue	65.7%	68.0%	69.3%	69.4%	69.9%
Federal & State Revenue	**$19,759**	**$18,720**	**$18,467**	**$19,077**	**$19,214**
% Change from Previous Year	4.9%	-5.3%	-1.4%	3.3%	0.7%
Federal & State as a Percent of Total Revenue	31.3%	29.4%	28.2%	28.2%	27.8%

Changes to Revenues Since the June 2009 Financial Plan
Millions of Dollars

General Fund Revenues	2010	2011	2012	2013
Taxes				
Real Estate	($37)	($231)	($201)	($379)
Sales	812	917	892	898
Personal Income	830	433	507	566
General Corporation	264	302	188	168
Banking Corporation	216	1,011	42	111
Unincorporated Business	163	(812)	138	131
Utility	3	(22)	(23)	(18)
Hotel	21	28	46	42
Commercial Rent	35	20	20	20
Real Property Transfer	(24)	(9)	(17)	(19)
Mortgage Recording	(94)	(86)	(64)	(53)
Cigarette	-	-	-	-
All Other	66	25	25	25
Audit	294	16	15	15
Tax Program	(879)	(658)	(702)	(714)
STAR	8	30	30	30
Total Taxes	**$1,678**	**$964**	**$896**	**$823**
Federal Categorical Grants	**$1,343**	**$225**	**$365**	**$336**
State Categorical Grants	**($36)**	**($209)**	**$27**	**$23**
Non-Governmental Grants (Other Cat.)	**$330**	**$189**	**$129**	**$128**
Unrest. / Anticipated State & Federal Aid	**$-**	**$-**	**$-**	**$-**
Miscellaneous Revenue				
Charges for Services	64	96	96	96
Water and Sewer Charges	9	5	10	11
Licenses, Permits, Franchises	0	9	9	10
Rental Income	6	9	9	9
Fines and Forfeitures	(15)	9	5	5
Other Miscellaneous	110	(13)	13	12
Interest Income	0	1	0	0
Intra City	135	(38)	(39)	(38)
Total Miscellaneous	**$310**	**$78**	**$103**	**$105**
Net Disallowances & Transfers	**($135)**	**$38**	**$39**	**$38**
Total Revenue	**$3,490**	**$1,285**	**$1,559**	**$1,453**
% Change from Previous Year	3.5%	0.9%	2.7%	3.5%
City Funds: does not include Unrestricted Aid	**$1,853**	**$1,080**	**$1,038**	**$966**
Federal & State Revenue	**$1,307**	**$16**	**$392**	**$359**

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

Expenditures in the January Financial Plan
Millions of Dollars

	2010	2011	2012	2013	2014
Personal Services					
Salaries & Wages	$22,310	$21,695	$21,353	$21,993	$22,168
Pensions	6,760	7,268	7,694	7,841	7,949
Fringe Benefits	7,307	7,622	7,921	8,214	8,715
Retiree Health Benefits Trust	(82)	(395)	(672)	-	-
Total, Personal Services	**$36,295**	**$36,190**	**$36,296**	**$38,048**	**$38,832**
Other Than Personal Services					
Medicaid	$4,951	$5,644	$6,113	$6,293	$6,478
Public Assistance	1,580	1,563	1,603	1,591	1,591
All Other OTPS	19,397	18,835	19,485	20,041	20,585
Subtotal, OTPS	**$25,928**	**$26,042**	**$27,201**	**$27,925**	**$28,654**
Debt Service	$5,117	$5,536	$6,286	$6,579	$6,815
Adjustments					
Debt Defeasances (Net)	(2,726)	-	-	-	-
FY 2009 Surplus Roll	(2,813)	-	-	-	-
FY 2010 Surplus Roll	2,883	(2,883)	-	-	-
General Reserve	200	300	300	300	300
Subtotal	**$64,884**	**$65,185**	**$70,083**	**$72,852**	**$74,601**
Less: Intra-City Expenses	(1,804)	(1,545)	(1,547)	(1,552)	(1,552)
Total Expenditures	**$63,080**	**$63,640**	**$68,536**	**$71,300**	**$73,049**