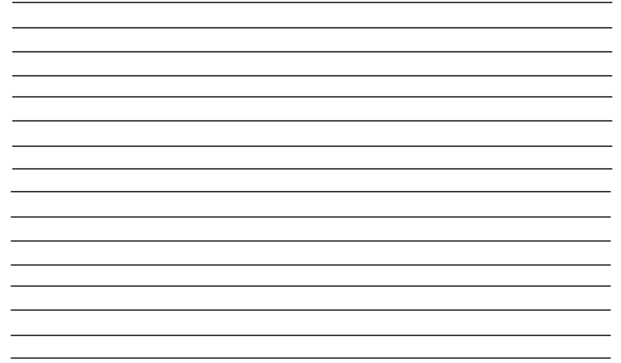
March 2009

Analysis of the Mayor's Preliminary Budget for 2010



IBO's Reestimate of the Mayor's Preliminary Budget for 2010 and Financial Plan through 2013

New York City

Independent Budget Office

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Preface

As required under the New York City Charter, this report provides IBO's review of the Mayor's Preliminary Budget for 2010 and Financial Plan through 2013. The report presents our own economic and revenue forecasts and examines some of the Mayor's key budget proposals as his administration grapples with the city's increasingly difficult fiscal climate.

Since IBO presented its most recent tax revenue estimates at the City Council on March 9, there have been some changes on the state level that are reflected in this report. But we have not revised the economic and revenue forecast in light of recent federal monetary and other policy actions since it was completed in early March. While we do make note of where the recently enacted federal stimulus bill may affect the Mayor's Preliminary Budget proposals, we have not incorporated these effects in our estimates of revenues and budget gaps because much of it is still very speculative.

As we have for the past eight years, IBO has also produced a companion volume to this report, *Budget Options for New York City*. Released in February, this year's edition includes nearly six dozen ways to reduce spending or increase revenue. For each measure presented, IBO discusses its pros and cons and provides an impartial estimate of the potential savings or revenue.

A note on format: unless otherwise indicated, all years refer to the city's fiscal year, which runs from July 1 to June 30.

All of IBO's budget analysts and economists have contributed to this report, and their names and areas of responsibility are included at the end of this report. The report is produced under the direction of Supervising Analysts Ana Champeny, Michael Jacobs, and Paul Lopatto, and Assistant Deputy Director Ana Ventura, with guidance from Deputy Directors Frank Posillico and George Sweeting. Tara Swanson coordinated production and distribution and Eddie Vega and Doug Turetsky provided editorial assistance.

Ronnie Lowenstein

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Overview

Over the past six months, New York City's economic and fiscal outlook has darkened considerably. After seeming to have dodged the worst of the national recession for many months, we are now in the eye of the economic storm as the U.S. housing crisis initially propelling the downturn has become a worldwide financial sector meltdown. Given the city's role as the international center of finance, IBO now expects the local downturn to be deep and protracted.

IBO estimates the city will lose 270,000 jobs from its employment peak in the first quarter of 2008 through the second quarter of 2010. As our forecast of job losses has risen, our forecast of tax revenues has declined. Even after accounting for December's increase of the property and hotel occupancy tax rates, IBO projects tax revenues will fall by $2.6 billion to $34.9 billion this fiscal year. And even if we include the expected revenue from the Mayor's proposed sales tax increases, we estimate total tax revenues will decline by an additional $1.5 billion in fiscal year 2010.

While tax revenues are declining, IBO's projections of city expenditures continue to rise. When city-funded expenditures are presented on an operating basis—adjusted for the use of surpluses to prepay expenditures in upcoming years—spending rises by a relatively modest $153 million in 2010 and then by $2.6 billion in 2011. This continued rise in spending occurs despite four successive rounds of expenditure cuts. The spending growth is driven mostly by the increasing costs of municipal labor, including wages, pensions, and health and other fringe benefits, and debt service.

With tax revenues declining and expenditures rising, the city faces growing budget gaps. Even if we assume the Mayor's proposed gap-closing actions are achieved, we estimate a budget gap of $1.4 billion in 2010. Our budget gap projection for 2011 is $5.0 billion, $1.7 billion more than the Mayor estimated in January.

Although the federal stimulus bill will provide the city with some fiscal relief, it is not yet clear how much. A significant portion of the stimulus comes in the form of funds to foster infrastructure projects and expand programs, assistance that does not directly help close budget gaps. The largest share of the stimulus package provides aid to individuals and families, which will help bolster the local economy but will not provide the city with direct fiscal relief. The biggest source of local fiscal relief in the stimulus bill is the increase in the federal matching rate for Medicaid, and the Mayor has already penciled in $1 billion of budget relief from this change for his 2010 Preliminary Budget.

There is ample reason for concern that conditions could worsen. Until there is a turnaround in the national economy—which is dependent upon restoring the health of the financial system and in particular the credit markets—the local economy will continue to founder. It is far from clear that the financial system has begun to stabilize, let alone return to health. But even when the national economy does rebound and the financial market revives, the financial industry is likely to be more highly regulated and employ less leverage, and therefore will almost certainly be less profitable. If these structural changes occur, Wall Street will no longer generate the levels of city tax revenue that it has in the recent past.

Troubled Economy, Shrinking Tax Revenues. The U.S. economic downturn is now expected to be the worst since the Depression. Job losses are mounting, vehicle sales are their lowest since the 1980s, housing starts are at their lowest levels since the 1950s, and consumer confidence is as dark as it has ever been. Even with the federal stimulus plan we anticipate job losses to reach 5.7 million (4.1 percent) nationally and the unemployment rate to reach 9.3 percent.

Until September 2008, New York City appeared to escape much of the impact of the U.S. downturn. But when the nationwide

Total Revenue and Expenditure Projections
Dollars in millions

	2009	2010	2011	2012	2013	Average Change
Total Revenues	$60,400	$58,169	$61,276	$64,027	$67,345	2.8%
Total Taxes	*34,942*	*33,490*	*35,878*	*38,245*	*41,025*	4.1%
Total Expenditures	60,400	59,524	66,227	69,615	72,150	4.5%
IBO Surplus / (Gap) Projections	**-**	**$(1,355)**	**$(4,951)**	**$(5,587)**	**$(4,805)**	
Adjusted for Prepayments and Discretionary Transfers:						
Total Expenditures	*$64,058*	*$63,487*	*$66,577*	*$69,615*	*$72,150*	*3.0%*
City Funded Expenditures	*$45,999*	*$46,152*	*$48,726*	*$51,489*	*$53,581*	*3.9%*

SOURCE: IBO.
NOTES: IBO projects a surplus of $1.618 billion for 2009, $65 million above the Bloomberg Administration's forecast. The surplus is used to prepay some 2010 expenditures, leaving 2009 with a balanced budget. Estimates exclude intra-city revenues and expenditures. Figures may not add due to rounding.

Pricing Differences Between IBO and the Bloomberg Administration

Items that Affect the Gap

Dollars in millions

	2009	2010	2011	2012	2013
Gaps as Estimated by the Mayor	-	-	$(3,211)	$(4,039)	$(4,167)
Revenues					
Taxes					
Property	11	(438)	(400)	(176)	17
Personal Income	61	(43)	(187)	(276)	517
General Sales	18	12	30	104	171
General Corporation	(88)	(361)	(623)	(719)	(710)
Unincorporated Business	89	(33)	(105)	(132)	(120)
Banking Corporation	9	(274)	(216)	(212)	(293)
Real Property Transfer	20	(9)	13	94	67
Mortgage Recording	(8)	34	28	40	2
Utility	(7)	(24)	(22)	(17)	(15)
Hotel Occupancy	(1)	(0)	1	6	5
Commercial Rent	(5)	(27)	(10)	(3)	(12)
Cigarette	4	3	3	3	3
	101	(1,160)	(1,488)	(1,288)	(367)
Sales Tax Program	(14)	(174)	(181)	(185)	(191)
STaR Reimbursement	2	6	3	-	(4)
Total Revenues	**$90**	**$(1,328)**	**$(1,666)**	**$(1,473)**	**$(563)**
Expenditures					
Public Assistance	-	(4)	(16)	(17)	(17)
Homeless Services	-	(25)	(25)	(25)	(25)
Police Overtime	(25)	(25)	(25)	(25)	(25)
Correction Overtime	-	(10)	(5)	(5)	(5)
Campaign Finance	-	(25)	-	-	-
Buildings	-	(3)	(3)	(3)	(3)
Total Expenditures	**$(25)**	**$(92)**	**$(74)**	**$(75)**	**$(75)**
Total IBO Pricing Differences	**65**	**$(1,421)**	**$(1,740)**	**$(1,548)**	**$(638)**
IBO Prepayment Adjustment 2009 / 2010	(65)	65	-	-	-
IBO Surplus / (Gap) Projections	**-**	**$(1,355)**	**$(4,951)**	**$(5,587)**	**$(4,805)**

SOURCE: IBO.

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Figures may not add due to rounding.

housing crisis turned into a financial sector meltdown, New York City was hit particularly hard. IBO expects the city economy to contract more sharply and recover more slowly than the U.S. as a whole.

Although New York City began losing jobs in the middle of last year, it was not until the last quarter of 2008 that employment began to steeply decline. Overall, the city has lost 59,900 jobs since January 2008, with much deeper declines expected in 2009. The job losses are centered in the city's three highest-paying sectors: finance, business services, and information. The financial industry will be the hardest hit with job losses continuing into 2011 when they will reach nearly 77,300. In the securities industry, which is the highest paying subsector within the financial industry, losses are expected to total 48,800 by mid-2010, a decline of over 25 percent from the employment peak in 2008. The securities sector is expected to continue to gradually lose jobs through the third quarter of 2011, when they will total 51,000.

The outlook for tax revenues has darkened with the decline in the local economy. There was essentially no growth in tax revenues during fiscal year 2008 and we expect them to decline by $2.6 billion (7.0 percent) in the current fiscal year and $1.5 billion (4.0 percent) in 2010, even after accounting for the already enacted property and hotel tax rate increases and the Mayor's proposed sales tax increases. IBO's revenue forecast

is significantly below the Mayor's Office of Management and Budget's for 2010 through 2013, with the difference exceeding $1 billion each year in 2010 through 2012, with much of the difference due to IBO's more pessimistic outlook for tax revenues paid by businesses in the city.

Much of the declines are in the personal and business income taxes, which are highly sensitive to the business cycle, and in the property transfer taxes, which reflect conditions in the real estate markets. From 2003 to 2007, when Wall Street profits were expanding along with the financial asset bubble, the city's business income tax receipts grew by 163.4 percent from $2.3 billion to $6.0 billion; by far the fastest growth in these taxes' history. But from 2008 through 2010 business tax collections are projected to fall by a cumulative $2.4 billion (40.7 percent), which is the fastest decline in the history of these taxes. Slow growth is expected to resume in 2011, but by 2013, business income tax revenue will still be only $4.4 billion, well below the 2007 peak.

The city's personal income tax revenue also grew robustly during the expansion, with growth continuing into 2008. With local employment shrinking and many of the job losses concentrated in the highest paying sectors, along with an expectation that capital gains realizations will be much lower given the losses in equities and real estate, IBO is projecting major declines in the personal income tax for 2009 and 2010. Revenues are expected to fall to $7.2 billion this year, a 17.4 percent decline, and then drop to $5.7 billion in 2010, a decrease of 21.7 percent.

The growth in the property transfer taxes started earlier, but they grew even faster than the business income taxes in the 2003 to 2007 period; revenues more than tripled in those years from $1.0 billion to $3.3 billion. Since then, the city's real estate market has essentially stalled. Revenues from the transfer taxes have shrunk with the markets, and IBO expects them to fall by 40.3 percent to $1.5 billion in 2009, with yet another fall of 22.1 percent to $1.2 billion in 2010, leaving revenues in that year roughly equal to where they were in 2003.

Spending Cutbacks, Spending Growth. Since January 2008, the Mayor has undertaken four rounds of substantial spending reductions. The most recent PEGs, or Program to Eliminate the Gap, were part of the November 2008 and January 2009 financial plans. The November plan included $381.5 million in proposed spending reductions by city agencies in 2009, growing to $866.7 million in cutbacks for 2010. The January 2009 plan proposed $750 million more in fiscal year 2010 expenditure reductions. (These proposals also included revenue initiatives by city agencies such as increased collections of fees and fines to also help close budget gaps.) Agencies with the largest additional spending reductions in dollar terms in the 2010 Preliminary Budget include education ($306 million) police ($93 million), children's services ($45 million), and social services ($45 million).

Despite these reductions, IBO projects total spending will rise by nearly $12 billion over the financial plan period, growing from $60.4 billion in 2009 to $72.2 billion in 2013. This increase occurs even though spending growth for most agencies—excluding the increasing costs of municipal labor—is quite modest. Health and social service spending is projected to grow at an average annual rate of just 0.2 percent; and spending on police, fire, and other uniformed services is also projected to rise at an average rate of less than 1 percent. Anticipated public school spending has also slowed, with IBO now projecting average yearly increases of 1.3 percent —from $17.5 billion in 2009 to $18.5 billion in 2013 (excluding the labor reserve).

Much of the growth in city spending is due to municipal labor costs. In 2008, wages and salaries along with the city's cost for pensions and fringe benefits for city workers totaled $33.1 billion. Municipal labor costs are expected to rise to $35.2 billion this fiscal year and reach $38.7 billion by 2013.

Another fast-growing segment of the budget is debt service on the funds the city borrows for its capital projects. Although the Mayor stretched the capital plan from four to five years as part of the 2009 budget plan and has announced a 30 percent cutback—largely through the reduction in the amount of new borrowing over the next 10 years beginning in 2010—average annual growth in debt service spending (adjusted for the use of prior surpluses to make prepayments) outpaces any other major area of the budget. IBO estimates debt service, including city tax revenue used to pay for borrowing by the Transitional Finance Authority and the portion of the 30 percent cutback affecting the financial plan period, will grow at an annual average of 7.6 percent, rising from $5.0 billion in 2009 to $6.7 billion in 2013.

Unresolved Issues. Some important portions of the Mayor's plan for balancing the budget in 2010 are dependent upon agreements in Albany or with municipal unions. None of these have been resolved as of yet—and at least one has been largely axed in Albany.

The Governor's March 11 decision to cancel much of his plan for broadening the sales tax base, which the Bloomberg Administration had planned to implement on the local level as well, means in 2010 the city will forgo roughly $174 million in additional sales tax revenue and $183 million in 2011. Also dependent upon state decision-making is the amount of

relief the city will get from the Medicaid portion of the federal stimulus bill. The Mayor's budget plan assumed $1 billion in savings in 2010 and 2011, but it now appears the city may receive somewhat less. In addition, the Mayor is counting on state legislative support to restore $242 million in unrestricted aid—funds the Governor had eliminated in his budget plan.

The Mayor's plan for balancing the budget in 2010 and reducing gaps in future years also counts on agreements with the municipal unions that would save more than $750 million. In addition to $200 million the Mayor had previously budgeted in unspecified health care savings, and so far has failed to achieve, the 2010 Preliminary Budget includes $357 million in savings from co-payments on health insurance premiums by city workers. The budget also contains a $200 million reduction in pension contributions by the city under a plan to establish a new pension tier with reduced benefits for newly hired employees.

Retrenchment and Slower Growth Ahead. While there is considerable uncertainty around these various portions of the Mayor's budget plan, what is certain is that the city has entered what is expected to be a severe and protracted period of economic retrenchment which IBO projects will lead to two consecutive years of tax revenue declines. Even after the local economy begins to recover—and IBO expects the city's recovery to lag the nation's—tax revenue growth is forecast to be much slower than we enjoyed in the years of expansion from 2003 through 2007.

With lower tax revenue, a prior year surplus that will be largely expended this year, and continued spending growth in large parts of the budget that are not immediately controllable by the Mayor, IBO expects the city to face an ongoing challenge to meet its legal requirement to produce annual budgets that are balanced. With New York State facing even greater fiscal challenges, it is unlikely that the state will be a significant source of budget relief, and indeed state leaders may add to the city's burden as they look to solve their own problems. Relieving this fiscal stress will likely require some combination of significant budgetary reductions and/or revenue increases.

Economic Outlook

A LONG, DEEP RECESSION

The slowdown in the U.S. economy that had become evident by the end of 2007 turned into a recession in the past year—the longest and deepest one since the Great Depression and one that is part of a global economic crisis. According to the most recent data, inflation-adjusted gross domestic product (GDP) decreased by an annual rate of 6.3 percent in the fourth quarter of 2008. (In this section, all references are to calendar years.) With investment and output decreasing, job losses mounting, housing starts down, consumer confidence battered, and equity markets reaching lows not seen for years, IBO is forecasting a recession that persists into next year.

When the downturn that began in the housing market spread to the financial sector, threatening the survival of even the largest and most established financial institutions, it became clear that the damage to New York City's economy—the national and global center of finance—would be especially great. The city has entered into recession later than most parts of the country, but we expect the local economy to decline more sharply and recover more gradually than the nation as a whole. Jobs losses in the city have accelerated and spread to many industries, and IBO expects employment to decline through the middle of 2010. The collapse and sale of Bear Sterns a year ago proved to be a harbinger of the instability or demise of other major institutions, and a crisis that is forcing a restructuring of the finance industry that is likely to reduce the industry's contribution to local employment and income.

IBO forecasts a prolonged recession for the U.S. and for New York City, with the city's tepid economic recovery trailing the nation's and not beginning until the latter half of 2010. IBO's economic forecast is premised on a boost from the economic federal stimulus spending and tax reductions, and on a re-stabilization of financial institutions and markets. The downside risks to the forecasts from these premises are discussed after the U.S. and New York City economic outlooks are reviewed.

U.S. ECONOMIC OUTLOOK

Almost all of the recent economic news is alarming. After job losses for 14 consecutive months, including one-month losses exceeding 650,000 jobs in December through February, U.S. employment is down 4.4 million (3.2 percent) from December 2007. Private-sector employment is down 4.6 million jobs (4.0 percent). Relative to peak employment prior to the recession, the current job loss now exceeds the total loss of the 1981–1982 recession. With 12.5 million workers unemployed, the unemployment rate hit 8.1 percent in February, up from 4.8 percent 12 months earlier. Real nonresidential fixed investment fell by 21.7 percent in fourth quarter 2008. Auto sales are at levels not seen since the early 1980s and the pace of housing starts is at its lowest level since the U.S. Department of Commerce began tracking them in 1959. Real estate prices are in a downward spiral, and the outstanding debt on 1 in 5 mortgages for single-family homes exceeds the value of the mortgaged property. Foreclosure rates remain high. The meltdown in the New York Stock Exchange and other financial markets has continued, with the Dow Jones Industrial Average and the S&P 500 falling to levels not seen in many years.

The ability of businesses to obtain financing has been constrained by financial institutions' huge losses and tightened lending requirements, dampening employment and output in turn. Economic uncertainty and a wealth effect from falling housing prices and shrinking financial portfolios—the Federal Reserve reports that U.S. households lost 9 percent of their wealth in the fourth quarter of 2008, the worst quarterly loss in the 59 years the Federal Reserve has been tracking household wealth—have plunged consumer confidence to levels never seen before. Home sales continue to decline despite lower prices and mortgage rates. The recent uptick in the personal savings rate, which most economists would have welcomed a few years ago, is hurting demands for domestic goods and imports, thereby deepening recessions both here and abroad.

The recently approved federal stimulus package, whose specific components are discussed in a later chapter of this report, is expected to help the U.S. economy recover. But IBO's forecast remains gloomy for another year. Real GDP is expected to contract through third quarter 2009, with an annualized decrease of 5 percent in the first quarter alone. The forecast for the entire year is a 2.2 percent contraction, followed by 1.8 percent growth in 2010. Peak-to-trough, IBO expects the U.S. to lose 5.7 million jobs (4.1 percent, seasonally adjusted) by first quarter 2010, and then gain jobs slowly. U.S. employment is expected to stay below its fourth quarter 2007 peak through fourth quarter 2011. IBO expects the U.S. unemployment rate to average 8.5 percent in 2009 as workers are laid off, and then climb further to 9.1 percent in 2010, as the number of workers seeking employment dwarfs the number of new job opportunities in an expansion that is expected to be weak initially.

Although sky-rocketing energy prices had fueled concerns about rapid inflation last summer, energy prices have since plunged

IBO versus OMB Economic Forecasts

	2008	2009	2010	2011	2012	2013
National Economy						
Real GDP Growth						
IBO	1.1	-2.2	1.8	4.6	5.3	3.4
OMB	1.2	-2.5	2.2	3.2	2.8	2.5
Non-farm Employment Growth						
IBO	-0.4	-2.9	0.1	2.4	3.1	2.4
OMB	-0.2	-2.6	0.0	1.6	1.7	1.4
Inflation Rate (CPI-U)						
IBO	3.8	-0.9	1.8	2.2	2.0	1.8
OMB	3.8	-1.2	2.4	3.4	2.5	2.5
Personal Income Growth						
IBO	3.8	0.7	2.6	4.9	6.1	5.0
OMB	3.8	0.8	2.5	4.5	5.0	5.1
Unemployment Rate						
IBO	5.8	8.5	9.1	7.8	6.1	5.2
OMB	5.8	8.5	9.1	8.5	7.9	7.6
10-Year Treasury Bond Rate						
IBO	3.7	2.6	4.5	5.0	4.8	4.8
OMB	3.7	2.3	3.4	4.9	5.4	5.4
Federal Funds Rate						
IBO	1.9	0.2	1.2	3.2	4.5	4.5
OMB	1.9	0.1	0.9	3.3	4.8	4.7
NYC Economy						
Non-farm New Jobs (thousands)						
IBO	46.4	-185.5	-68.8	28.1	64.9	50.6
OMB	20.0	-175.0	-100.0	24.0	36.0	51.0
Employment Growth						
IBO	1.2	-4.9	-1.9	0.8	1.8	1.4
OMB	0.5	-4.7	-2.8	0.7	1.0	1.4
Inflation Rate (CPI-U-NY)						
IBO	4.0	0.2	2.5	2.3	2.3	2.3
OMB	3.8	-1.0	2.4	3.3	2.6	2.6
Personal Income ($ billions)						
IBO	425.8	406.9	410.5	428.3	454.6	482.4
OMB	419.9	405.3	409.2	425.6	445.0	466.7
Personal Income Growth						
IBO	4.0	-4.4	0.9	4.4	6.1	6.1
OMB	3.2	-3.5	0.9	4.0	4.5	4.9
Manhattan Office Rents ($/sq.ft)						
IBO	84.16	71.90	61.51	57.90	57.79	58.71
OMB	82.80	70.59	64.02	64.09	63.44	62.99

SOURCES: IBO; Office of Management and Budget.
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York / Northern New Jersey region. Personal income is nominal.

as demand has declined worldwide. IBO forecasts 0.9 percent deflation for 2009, followed by mild inflation of 1.8 percent in 2010 as the economy restarts its engine. Although the details of the President's financial bailout are still emerging, IBO expects the federal funds rate to stay close to zero in 2009 as the Federal Reserve Bank continues its efforts to get banks lending again, and then climb in 2010 and 2011.

After the economic recovery's tepid start in the latter half of 2010, IBO expects a return to solid economic growth in 2011, when real GDP will increase by a projected 4.6 percent, followed by even faster growth in 2012. Similarly, after little change in 2010, U.S. employment will grow by a projected 2.4 percent in 2011 and 3.1 percent in 2012. Output and job growth slows in 2013, to 3.4 percent for real GDP and 2.4 percent for employment.

NEW YORK CITY ECONOMIC OUTLOOK

As recently as early September, New York City appeared to have dodged the worst of the recession that was hitting the rest of the U.S. But the demise of Bear Sterns and Lehman Brothers, and the continuing financial troubles in the housing market, led to a credit freeze affecting markets and institutions around the globe. As the global center of the financial industry, New York City suddenly became the focal point of the worldwide economic crisis. At this point, IBO expects New York City to decline further and more sharply, stay down longer, and recover more gradually than the rest of the nation.

Employment Forecast. Average monthly employment in 2008 was greater than in 2007 (see sidebar). But employment in the city declined slightly in mid-2008 before starting a steep descent as the financial crisis rapidly unfolded in the last quarter of 2008. Recently released labor market data for January 2009 show a 12-month loss of 59,900 jobs (1.6 percent). Financial services accounted for much of the job loss. Layoffs in the industry announced months ago are now starting to appear in the monthly labor market data, as severance pay ends and employees who left jobs months ago are finally coming off payroll. Data for January show a loss of 20,200 financial activities jobs (a 4.3 percent

decrease for the sector), which includes a loss of 15,100 jobs (an 8.1 percent decrease) in the securities industry. Professional and business services employment was down by 12,700 jobs (2.1 percent), with 6,800 jobs (10.4 percent) gone from employment services, which includes temporary jobs. The seasonally adjusted unemployment rate stood at 6.9 percent, up from 4.4 percent in February 2008.

IBO forecasts continued job losses through the second quarter of 2010, with a total loss of 268,600 jobs (7.1 percent), including 262,200 jobs in the private sector (8.2 percent). Job growth resumes in the latter half of that year, but at a slow rate relative to the pace of recent losses. By the end of 2013, total employment is expected to be 108,000 (2.9 percent) lower than its first quarter 2008 peak; private-sector employment is expected to be 3.1 percent lower (101,100 jobs).

The projected job losses are especially troubling for the city's fiscal outlook because they are concentrated in three high-paying industrial sectors—financial activities, professional and business services, and information. IBO forecasts job losses in financial activities, excluding real estate, to continue through the third quarter of 2011, when they reach 77,400 jobs, 22.5 percent of peak employment. The securities industry within finance, which is the city's highest paying industry, is expected to lose over a quarter of its jobs by the second quarter of 2010, and then gradually shed jobs through the third quarter of 2011. The total securities job loss is projected at 51,000, 27.2 percent of peak employment. Slow employment growth is expected for the financial industry in 2012 and 2013, though by the end of the plan period, IBO still expects there to be roughly one-fifth fewer jobs in financial activities and one-fourth fewer jobs in securities.

The professional and business services sector, which derives much of its business from the financial sector, is also expected to contract substantially, losing 72,300 jobs (12.1 percent) between the third quarter of 2008 and the second quarter of 2010. IBO forecasts significant growth for the industry beginning in late 2011, but only half of the lost jobs are expected to return by the end of 2013. Information, which never fully recovered from the last downturn, is forecast to lose 24,000 jobs (14.0 percent) by second quarter 2010, and then continue to shed jobs through most of the forecast period. Projected employment in the information industry at the end of 2013 is one-fifth lower than its most recent peak.

Most other sectors of the economy are also expected to contract well into 2010. With the residential and commercial real estate markets crippled by both the contraction in credit and the troubled housing market, IBO forecasts a loss of 23,200 construction jobs (17.9 percent) by the end of 2010 and very slow growth thereafter, as glutted real estate markets take time to clear. Recessions both here and abroad are likely to hammer retail trade. IBO predicts a loss of 20,100 jobs (6.6 percent) in retail trade by fourth quarter 2010, and slow growth after that. With fewer goods to be shipped and less business and personal travel, IBO forecasts a loss of about 1 out of 10 transportation jobs by fourth quarter 2010, and continued job losses through the end of the forecast period. The leisure and hospitality industry will

Revised Jobs Data

On March 5, 2009, after IBO completed the tax revenue and economic forecasts used in this report, the New York State Department of Labor released their annual revision of prior years' employment data. This annual revision, or benchmarking, uses payroll information reported by employers to the state to update the survey-based estimates which are reported monthly. Although the data were released too late to be used in the projections in this report, they provide new information about the city's labor market in 2007 and 2008.

Overall, the new data show that average annual job growth from 2007–2008 was greater than we thought earlier. The benchmarking revealed that the city actually added 46,400 jobs, 26,300 jobs more than previously estimated. The new tally also showed that private-sector growth for the year was 41,800 jobs, 23,000 more jobs than previously reported.

At the industry level, employment in financial activities now shows a smaller loss of 2,500 jobs between 2007 and 2008 (down from a pre-benchmark estimate of 3,800). Within financial activities, the loss for securities was revised sharply downward from 7,800 jobs to 1,100 jobs because of a large upward revision of 2008 employment by 7,100 jobs (2007 securities employment was revised upward by 400 jobs). Professional and business services employment had the biggest changes—an addition of 11,400 jobs for 2008 and an addition of 1,800 jobs for 2007; the revised 2007–2008 gain was 11,800 jobs (up from 2,200). The revised 2007–2008 gain for leisure and hospitality was10,500 jobs (up from an earlier estimate of 6,400 jobs), while the construction gain was 4,200 jobs (up from 900 jobs). Retail trade had a smaller gain than earlier thought (4,000 jobs instead of 5,600 jobs), and the revised gain of 2,200 jobs for information was less than half the gain estimated previously. Benchmarking reduced the job loss for manufacturing, but the revised loss of 5,900 jobs was sufficient to drive the sector's employment below 100,000 to 95,100.

also suffer from stifled business activity and reduced tourism, both domestic and international. IBO predicts a loss of 29,500 jobs (9.6 percent) in leisure and hospitality by third quarter 2010, followed by very slow growth through the remainder of the forecast period.

Education and health services are the only industry sectors expected to add jobs through most of the plan period, but these industries offer relatively low-paying jobs in comparison to most of the jobs being lost—and small losses are even expected here in the first half of 2009 (1,900 jobs, which is 0.3 percent of the industry). From the end of 2008 to the end of 2013, education and health services is expected to add 95,100 jobs (13.2 percent).

IBO does not expect robust securities industry profits—and the huge employee bonuses that went with them—in the forecast period. After experiencing losses of $11.3 billion in 2007 and $42.6 billion in 2008, New York Stock Exchange member firms are expected to lose another $8.3 billion in 2009. IBO forecasts positive annual profits of $7 billion to $11 billion for 2010 through 2012 from a smaller and less profitable securities industry.

Taking into account the projected job loss, the concentration of losses in relatively high-paying sectors, and the constraints on bonus compensation of a more modest financial sector, IBO forecasts a 4.4 percent decline in (nominal) personal income in 2009, compared to 4.0 percent growth last year, followed by modest growth of 0.9 percent in 2010. Income growth accelerates after 2010.

Real Estate Markets. As with other economic indicators, the city's real estate markets remained strong after they had turned down in other areas. Through 2007 and into 2008 prices and activity were stable or even growing, but by last fall the weakness was apparent, with some markets showing severe distress. The market for one-, two-, and three-family houses outside Manhattan was the first to show weakness, with volume slowing after mid-2006—the number of transactions have declined by 60 percent since then—and prices falling by 10 percent from their peak in mid-2007. IBO expects prices to continue to fall through 2010 when they will be about 22 percent below the peak.

Prices for Manhattan apartments continued to grow into the second quarter of 2008—the number of sales had peaked in mid-2007—thanks to demand at the high end of the market. By the end of 2008, the median sales price had fallen modestly by 5.6 percent. The fall off was greatest at the very high end market (apartments selling for more than $10 million). With many newly developed units still coming on the market, it is expected that prices will continue to fall through 2010, although the total decline in median prices will be smaller than in the one-, two-, and three-family market.

Commercial buildings have seen a very sharp drop in sales, particularly for large office buildings and rental buildings, with virtually no large transactions since the summer of 2008. This reflects both the difficulty in obtaining financing for purchases and, in the office market, the dim outlook for rents. With job losses in sectors that use modern office space already occurring and expected to grow much larger, the vacancy rate has been climbing, forcing landlords to offer lower rents. IBO expects the average asking rent for Class A office space in Manhattan to shrink by 31 percent between 2008 and 2012.

Comparisons With Past Downturns. IBO's forecast of the employment decline in the current recession is less than the city's employment decline between first quarter 1989 and fourth quarter 1992—377,700 jobs—but more than the number of jobs lost in the downturn from the fourth quarter 2000 to third quarter 2003—228,100 jobs. Simple comparisons of job losses in different recessions, however, can be misleading due to structural changes that have occurred in the city economy. Many of the job losses in the two previous recessions were in the manufacturing sector, which begun bleeding jobs years before those recessions began. The recessions simply stepped up the pace of the sector's decline. Manufacturing had 95,100 jobs in New York City in 2008—one-third the number that existed in 1989 and just over half the number that existed in 2000. Thus, while IBO forecasts a loss of 8.7 percent of the city's manufacturing jobs between first quarter 2008 and second quarter 2010 in this downturn, this amounts to 8,400 jobs, about one-eighth the number of manufacturing jobs lost in the 1989–1992 recession and about one-sixth of the number lost in the 2001–2003 recession.

Accounting for the decline of the manufacturing sector makes the current downturn seem worse in comparison to the previous recessions. Excluding manufacturing, IBO forecasts a peak-to-trough loss of 260,200 jobs (7.1 percent) in New York City, which is much larger than the 184,800 non-manufacturing jobs (5.2 percent) lost in the 2001–2003 recession and much closer to the 309,200 non-manufacturing jobs (9.2 percent) lost in the 1989–1992 recession. While manufacturing has been shedding jobs, the education and health services sector has grown steadily—adding 246,400 jobs (a 52.6 percent jump) between 1989 and 2008. The share of New York City jobs in education and health grew from 12.9 percent to 19.0 percent in this time. Similarly, comparisons of losses in the financial sector during different recessions require consideration of structural changes that have occurred in the interim. During the 1987–1992 recession,

technological innovation enabled firms to eliminate many routine back-office jobs or move them outside the city. When employment in the financial industry rose again in the city, the back-office jobs did not return. These jobs account for very little of the large decline in financial employment now being forecast, making the impact of the industry's current decline on other sectors of the local economy even more negative and profound.

The current financial crisis is resulting in further and perhaps more significant structural changes in the financial sector. A little over a year ago, there were five major investment banks headquartered in New York City, but now there are none. (The remnants of Bear Sterns and Lehman Brothers were folded into other firms, Merrill Lynch was acquired by Bank of America, and Goldman Sachs and Morgan Stanley converted to bank holding companies.) No one knows exactly what the financial industry will look like when it emerges from the current crisis, but it will likely look quite different than it did in early 2008. Greater regulatory oversight is likely to lessen financial firms' leveraging of assets, but what effects the oversight will have on the number and types of jobs and the compensation for those financial jobs that stay in New York remain open questions.

RISKS TO THE FORECAST

IBO's economic forecast is premised on a significant positive effect from the recently enacted stimulus plan and the efforts to prop up financial firms. But because the scale of government intervention is huge, the forecast is unusually sensitive to the economy's response to government policy. In the short-run, there is uncertainty as to whether the size and focus of the stimulus package, consisting of increased spending and tax cuts, will be effective in stimulating the economy. There is also the risk that if the city lags the nation in coming out of the recession, as we expect it will, then, as the federal fiscal policy shifts away from stimulus and towards deficit-reduction efforts that could include tax increases, the city's fragile recovery might be further hampered.

There is also uncertainty about the effectiveness of the financial bailout and a possible overhaul of the financial industry's regulation, which would especially affect New York's local economy, given the city's central location in the financial world. Finally, in the long run there is concern about the effects the unprecedented future levels of the federal deficit will have on interest rates, inflation, and long-term growth.

Taxes and Other Revenue

INTRODUCTION

The city is now facing two years of declining revenues, due primarily to falling tax collections. IBO forecasts total revenue of $60.4 billion from tax and non-tax sources this year, the first decline since 2002. In 2010, baseline revenues, exclusive of proposed tax increases that have not yet been enacted, are expected to fall further, to $58.2 billion. During the remainder of the plan period, projected revenues increase steadily, at an average annual rate of 5.0 percent, to reach $67.3 billion by 2013, again excluding the Mayor's tax proposals.

While the majority of New York City's revenue comes from tax collections, various non-tax sources of city revenue plus categorical state and federal aid also provide much of the funding in the city's budget. The city's own non-tax revenue sources include unrestricted intergovernmental aid, other categorical grants, School Tax Relief (STAR) reimbursements, inter-fund capital transfers, and miscellaneous revenue from a variety of both recurring and nonrecurring revenue sources. IBO's forecast of non-tax revenues is $7.4 billion in 2009, dipping slightly in 2010, and then increasing steadily, to reach $7.8 billion by 2013. Fees and fines are examples of recurring revenue sources, while asset sales are one source of nonrecurring revenues.

IBO Revenue Projections

Dollars in millions

	2009	2010	2011	2012	2013	Average Change
Tax Revenue						
Property	$14,368	$15,808	$16,778	$17,591	$18,172	6.0%
Personal Income	7,230	5,664	6,562	7,076	8,368	3.7%
General Sales	4,573	4,151	4,371	4,741	5,150	3.0%
General Corporation	2,345	1,831	1,835	2,080	2,311	-0.4%
Unincorporated Business	1,828	1,437	1,407	1,543	1,667	-2.3%
Banking Corporation	456	296	446	495	448	-0.4%
Real Property Transfer	848	644	716	839	920	2.1%
Mortgage Recording	671	540	571	615	662	-0.3%
Utility	390	367	398	417	424	2.1%
Hotel Occupancy	388	418	437	433	432	2.7%
Commercial Rent	551	516	521	530	546	-0.3%
Cigarette	106	102	100	97	95	-2.5%
Other Taxes, Audits, and PEG's	1,127	996	997	1,000	999	-3.0%
Total Taxes	**$34,879**	**$32,770**	**$35,139**	**$37,458**	**$40,193**	**3.6%**
Tax Program Proposals:						
Sales Tax Program	63	720	739	787	832	n/a
Total Taxes Including Tax Program	**$34,942**	**$33,490**	**$35,878**	**$38,245**	**$41,025**	**4.1%**
Other Revenue						
STaR Reimbursement	$1,264	$1,294	$1,366	$1,408	$1,487	4.2%
Miscellaneous Revenues	4,314	4,276	4,445	4,513	4,530	1.2%
Unrestricted Intergovernmental Aid	254	254	254	254	254	0.0%
Other Categorical Aid	1,105	1,089	1,059	1,063	1,061	-1.0%
Inter-fund revenues	476	445	437	434	434	-2.3%
Anticipated State / Federal Aid	-	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0%
Total Other Revenue	**$7,399**	**$7,344**	**$7,548**	**$7,657**	**$7,751**	**1.2%**
Total City Funded Revenue	**$42,341**	**$40,834**	**$43,426**	**$45,902**	**$48,776**	**3.6%**
State Categorical Grants	11,995	11,650	12,163	12,427	12,870	1.8%
Federal Categorical Grants	6,065	5,685	5,687	5,699	5,698	-1.5%
Total Revenues	**$60,400**	**$58,169**	**$61,276**	**$64,027**	**$67,345**	**2.8%**

SOURCE: IBO.

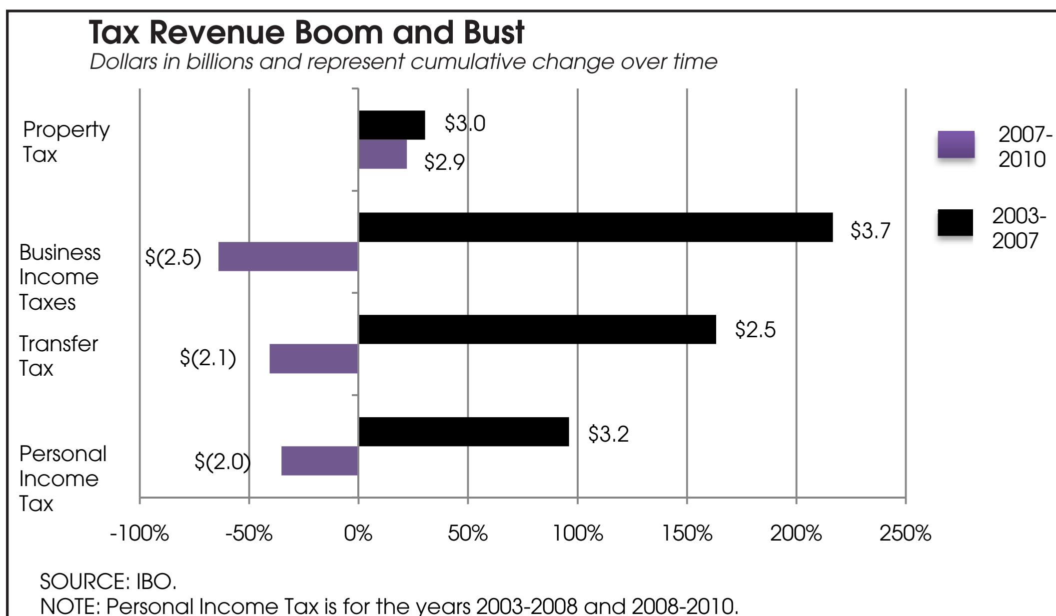
NOTES: Personal Income Tax includes Transitional Finance Authority (TFA) dedicated Personal Income Tax revenue. Figures may not add due to rounding.

The share of city revenue coming from tax collections is expected to range from 56.3 percent to 59.7 percent during the plan period. Changes in total baseline city tax revenue dwarf changes in non-tax revenue. In 2008 total city tax revenue—$37.5 billion—was only 0.2 percent more than in the preceding year, marking a break from the 2003 to 2007 period when the economy's expansion and tax increases fueled tax collections that grew, on average, 12.7 percent a year.

With the recession far worse than had been previously expected, IBO forecasts two years of substantial decline in tax revenue: a 7.0 percent decrease of tax revenue in the current year, to $34.9 billion, followed by a 6.1 percent decline in 2010, when projected revenues fall to $32.8 billion. In contrast, tax revenues last declined in 2002, when they fell by 7 percent, but only for one year (tax revenues would likely have fallen slightly in 2003 without the boost from tax increases that were put in place that year). Tax revenues are expected to increase after 2010, and by the end of the plan period they are expected to exceed their peak in 2008. For 2013, IBO forecasts $40.2 billion in tax and $67.3 billion in total revenues.

With the exception of the real property tax, collections of all major taxes are expected to decrease in either or both this and next year, with especially large declines in revenue from business income, personal income and real estate transfer taxes—taxes whose collections swelled with the economy from 2003 to 2007. The remainder of this section discusses IBO forecasts of these and other major sources of tax revenue.

In order to help close the budget gaps that are being driven by these tax revenue declines, the Mayor has proposed a series of sales tax changes that were estimated in the Preliminary Budget to yield the city $894 million in 2010 increasing to $1 billion by 2013. Some of his proposals mirrored ones in the Governor's Executive Budget that have since been withdrawn. IBO assumes that in the absence of the corresponding changes on the state level, it is unlikely that the city could implement the affected proposals on its own. Therefore, IBO estimates that the maximum potential revenue from the sales tax proposals that would not depend on parallel state changes is $720 million in 2010. (These changes are discussed in more detail in the sales tax section below.) Throughout this section, revenue estimates are based on current law and do not presume enactment of any tax policy proposals.



SOURCE: IBO.
NOTE: Personal Income Tax is for the years 2003-2008 and 2008-2010.

REAL PROPERTY TAX

IBO projects that property tax revenues will grow from $14.4 billion in 2009 to $15.8 billion in 2010, a 10.0 percent increase. This large increase is driven in part by the higher average tax rate after the city rescinded the 7 percent tax cut, effective January 1, 2009. While property tax revenue will grow throughout the plan period at an average annual rate of 4.8 percent, IBO expects the rate of growth to slow over time.

For the current year, IBO's forecast of property tax revenue is almost the same—only 0.1 percent higher—than that of the Mayor's Office of Management and Budget (OMB). But IBO's forecasts for the next three years are lower—by about $400 million a year in 2010 and 2011 and by $176 million in 2012—because IBO projects a lower tax levy and higher level of reserves than does OMB. By 2013, IBO's and OMB's forecasts are essentially the same.

Background. The amount of tax owed on real estate in New York City depends on the type of property, its value for tax purposes (as calculated by the city's Department of Finance from estimated market value), and the applicable tax rate.[1] Under the property tax law, there are four tax classes: Class 1, consisting of one-, two-, and three-family homes; Class 2, composed of apartment buildings, including cooperatives and condominiums; Class 3, made up of the real property of utility companies; and Class 4, comprising of all other commercial and industrial property.

The method of assessing properties and recognizing market value appreciation differs by tax class, so each class can have its own assessment ratio—the share of market value actually subject to tax—and tax rate. Class 1 homes account for a much smaller share of the roll's total assessed value than their share of market value (10.9 percent of assessed values on the 2009 roll compared to 52.2 percent of total market value in the city). The other classes, especially Class 4, bear a disproportionate share of the property tax burden because their shares of assessed value are larger than their shares of market value.

Outlook for Market and Assessed Values in 2010. In January, the Department of Finance released the tentative 2010 assessment roll. After taxpayer challenges and other department adjustments are processed, the assessment values will be finalized in May and used for setting 2010 tax bills. Because of the timing of the assessment process, the market values on the 2010 roll are beginning to reflect the weakening economic conditions seen since the end of calendar year 2008.

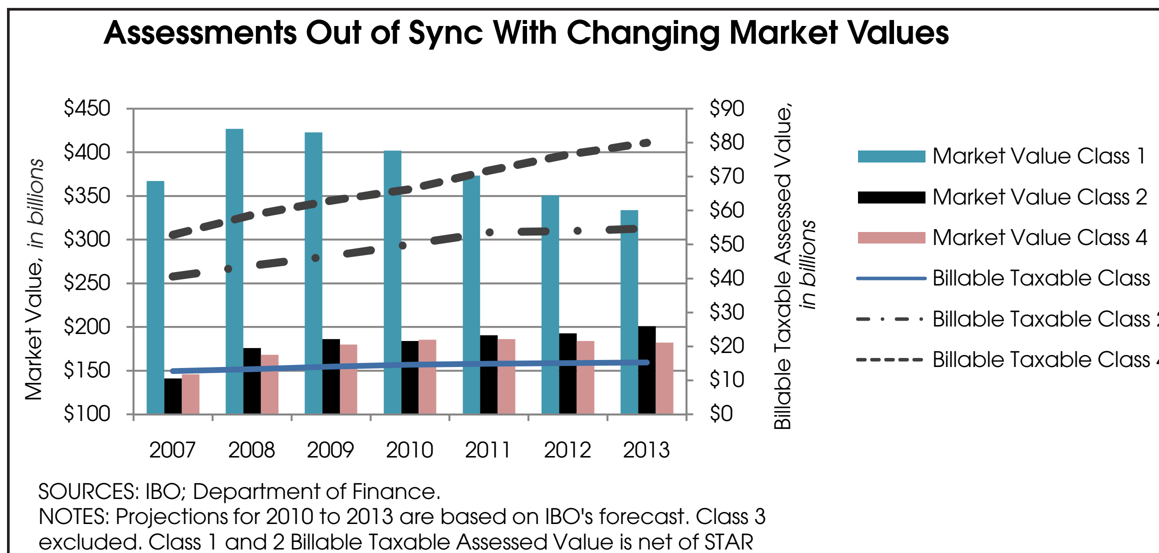
Aggregate market value on the tentative assessment roll is 1.2 percent less than the value on the final 2009 roll. But IBO projects a reduction in the 2010 roll when it is finalized and forecasts total market value in the city to be $792.3 billion, 2.2 percent less than in 2009. The decline follows a period of strong market value growth averaging 13.5 percent annually from 2005 to 2008 and slower 1.4 percent growth on this year's roll. The aggregate market value of Class 1 properties is expected to decline for the second year in a row, by 5.0 percent following last year's decline of 1.0 percent. The market value of Class 2, which increased 5.9 percent from the 2008 to 2009 roll, is also expected to fall, by 1.1 percent

Class 4's market value, on the other hand, is expected to increase by 3.1 percent from the 2009 roll to the final 2010 roll. Department of Finance's process for assessing Class 4 properties results in market (and assessment) values which lag behind market conditions because it is based on properties' income and expense reports from two years earlier. Thus, Class 4 market values for the final 2010 roll are being determined using 2007 data, which does not reflect the extent to which the commercial real estate market has softened in recent months.

In contrast to the projected decline in aggregate market value, aggregate assessed value for tax purposes (billable taxable assessed value) is expected to grow a moderate 5.5 percent this year and reach $140.3 billion on the final 2010 tax roll. This seemingly anomalous result is due to procedures set in state law that yield only gradual adjustments between market and assessed values. IBO projects a 4.3 percent growth in aggregate assessed values of Class 1 properties, even though market value is expected to decline by 5.0 percent. In Class 1, the assessed value of a property moves toward a target of 6 percent of market value, with assessment increases capped at 6 percent a year or 20 percent over five years. If a parcel is assessed at less than 6 percent of market value, its assessed value grows until it hits the target ratio of 6 percent of market value or it reaches the cap on annual assessment increases—even if the market value stays flat or declines.

During the recent period of surging real estate prices, many Class 1 properties benefited from the assessment increase caps which kept assessed value growth below market growth, and the median assessment ratio for single-family homes outside Manhattan fell from 5.4 percent in 2004 to 3.7 percent in 2008, well below the 6 percent target. In the plan period, billable taxable values will increase and recapture some of the market value growth that was above the cap in prior years, though remaining below the 6 percent target. With declining market values in 2009 and 2010, the median assessment ratio will rise to 4.4 percent in 2010.

In Class 2 and Class 4, aggregate billable assessed value will also grow faster than market value, the result of the method for capturing changes in market value. Parcels' market value increases (or decreases, in many cases) phase in over five years.



SOURCES: IBO; Department of Finance.
NOTES: Projections for 2010 to 2013 are based on IBO's forecast. Class 3 excluded. Class 1 and 2 Billable Taxable Assessed Value is net of STAR

Because the previous four years saw very strong market growth, there is a pipeline of increases to phase in that will keep assessed value growing more briskly—by 7.5 percent on the 2010 roll for Class 2 as a whole, in spite of market value declines, and 5.3 percent in Class 4.

Outlook for Market and Assessed Values in 2011–2013. IBO expects market values in Class 1 to continue declining throughout the plan period while billable assessed values continue to rise. IBO is projecting aggregate market value in Class 1 of $333.9 billion by 2013, a decline of 21.8 percent from its peak—$426.9 billion—in 2008.

Total billable taxable assessed value in Class 1, on the other hand, is expected to grow an average of 1.4 percent a year, as assessed values inch towards the target 6 percent assessment ratio. As Class 1 assessments capture more of the current changes in market values, assessment growth will become slower than in the last few years.

IBO expects that after a slight decline in 2010, growth in aggregate market value in Class 2 will resume, although at a slower rate, averaging 2.7 percent a year. Class 4, on the other hand, will see market value growth of only 0.4 percent in 2011, followed by two years of declines of about 1 percent a year. While market value growth in Classes 2 and 4 will be fairly weak, billable assessments will continue to grow as a result of the healthy pipeline of assessed value increases from prior years. In Class 2, billable assessed value will grow an average of 1.1 percent a year from 2011 to 2013. For Class 4, the growth is more solid, averaging 5.5 percent a year from 2011 to 2013. In both classes, however, billable assessment growth will weaken over the plan period, due to slower growth in market value combined with a gradual decline in the pipeline of assessed value increases to be phased in.

IBO projects the total pipeline in Class 4 to be $13.6 billion after the 2010 final roll is released, before declining to $3.1 billion by 2013. Given the rapid expected decline in the Class 4 pipeline, further declines or even anemic growth in market value would pose a serious risk to the city's property tax revenue in 2014 and beyond.

The Class 2 pipeline, estimated at $6.3 billion following the 2010 final roll, is expected to decline to $3.2 billion by 2013. The decline is slower than that in Class 4, but it too is a risk for property tax revenues beyond the forecast period.

Revenue Outlook. After the finance department completes the assessment roll, the actual property tax levy is determined by the City Council when it sets the tax rates for each class. IBO's baseline property tax revenue forecast, which is the same as the Mayor's, assumes that the 2010 average tax rate will be 12.28 percent. This rate reflects the City Council's December enactment of the Mayor's proposal to move up the effective date to rescind a 7 percent rate cut that was originally planned for July 1, 2009 to January 1. Rescinding the 7 percent cut required a 7.5 percent increase in the former tax rate. The increase is being phased in over two fiscal years: a 3.75 percent increase for 2009 and another 3.75 percent increase for 2010.

The amount of property tax revenue in a fiscal year is determined not only by the levy, but also by the delinquency rate, abatements granted, refunds for disputed assessments, and collections from prior years. Taking these other factors into account, IBO projects that property tax revenue for 2009 will total $14.4 billion, 10.4 percent above 2008. For 2010, revenue is forecast to grow by 10 percent to $15.8 billion. This robust growth in revenue is resulting not only from increases in assessed value, but also from the recently enacted higher tax rate. From 2010 through 2013, growth is projected to average 4.1 percent, with revenue totaling $18.2 billion by the last year of the forecast period.

IBO's property tax revenue forecast is just $11 million (0.1 percent) above OMB's for 2009. IBO's revenue forecast is about 2.5 percent below OMB's in 2010 and 2011, by $438 million and $400 million, respectively. The difference in the two forecasts is smaller in 2012, with IBO $176 million below OMB. By the end of the forecast period, the forecasts converge, with a difference of only $17 million in 2013.

There are two factors contributing to the lower IBO revenue forecasts from 2010 to 2012. First, in all three years, IBO's forecast for the total real property tax levy is lower than OMB's. Second, IBO forecasts a larger reserve than OMB for 2010 to 2012, specifically in the area of delinquencies and cancellations. IBO assumes that the delinquency rate will be similar to that seen following the 2001 recession, though with the current freeze in the real estate and credit markets and increasing foreclosure activity, even that projection may be too optimistic. In 2010, IBO allows $481 million for delinquencies, increasing to $595 in 2011, before declining to $441 million in 2012. Cancellations are reductions to assessments stemming from appeals by property owners. Given the current real estate market, IBO assumes significant appeal volume and a cancellation rate close to that seen following the 2001 recession, with cancellations of almost $500 million in 2010, $595 million in 2011, and $520 million in 2012.

Tax Policy Changes

There are a number of tax policy issues affecting the forecast of property tax revenue.

Rescinding the Tax Rate Cut. Due to the city's then robust fiscal condition a few years ago, the City Council enacted a 7 percent, one-year reduction for 2008. It was continued when the 2009 budget was adopted last spring. With the city's budget condition deteriorating, the Mayor proposed rescinding the tax rate reduction in the November 2008 Financial Plan and the Council subsequently enacted the proposal, effective January 1, 2009. The current financial plan assumes the tax rate change will remain in effect and IBO estimates that the higher rate will increase property tax revenue by $591 million in 2009 and $1.3 billion in 2010, increasing to $1.5 billion in 2013.

Homeowner Rebate. The Mayor's financial plan assumes that authorization for the $400 tax rebates for owners of houses and apartments, provided they reside in these properties, will not be extended in 2010. In a compromise with the City Council, the Mayor's proposal in the November 2008 Financial Plan to withhold the $400 rebate starting in 2009 was delayed until 2010. The rebate checks were mailed to over 650,000 homeowners in late December 2008, at a total cost of $256 million. IBO expects the rebate will not be extended in 2010 and beyond.

STAR Rebate Changes. Governor Paterson's Executive Budget for the state 2009–2010 fiscal year calls for ending the Middle Class STAR program that provided a direct rebate to homeowners in state fiscal years 2007 and 2008. While the proposal would eliminate the rebate for city homeowners, it would not have any effect on New York City property tax revenue, since the rebate flows directly to homeowners as an offset to the property taxes they pay to the city.

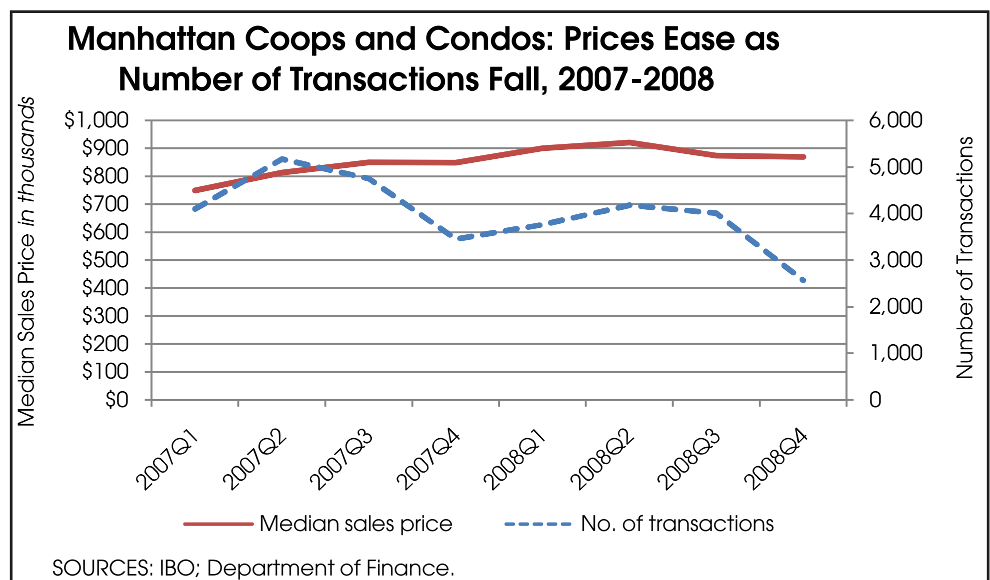
Coop-Condo Abatement. The coop-condo abatement provides a reduction in property taxes for owners of cooperative and condominium units. Established in 1997, the abatement is intended to reduce some of the disparities in tax burdens between owners of apartments and houses. It was conceived of as a temporary fix while the finance department resolved technical challenges and considered ways to permanently address the disparities. The abatement was due to expire in 2008, but the state Legislature extended it for another four years.

IBO has documented shortcomings of the abatement—it was supposed to be temporary, does not address disparities among apartment owners, and it is inefficient (if the goal was to equalize apartment and homeowners, the abatement provides more relief than needed to some owners and less to others). The legislation creating the abatement directs the city to prepare a report with recommendations for addressing the disparities between owners in Class 1 and owners of coop and condo apartments in Class 2. The city missed the initial deadline of June 30, 1999, and it has set and missed several others since then. The new extension of the abatement enacted in 2008 pushed back the deadline for the city's report on disparities between Class 1 and Class 2 owners to February 2011.

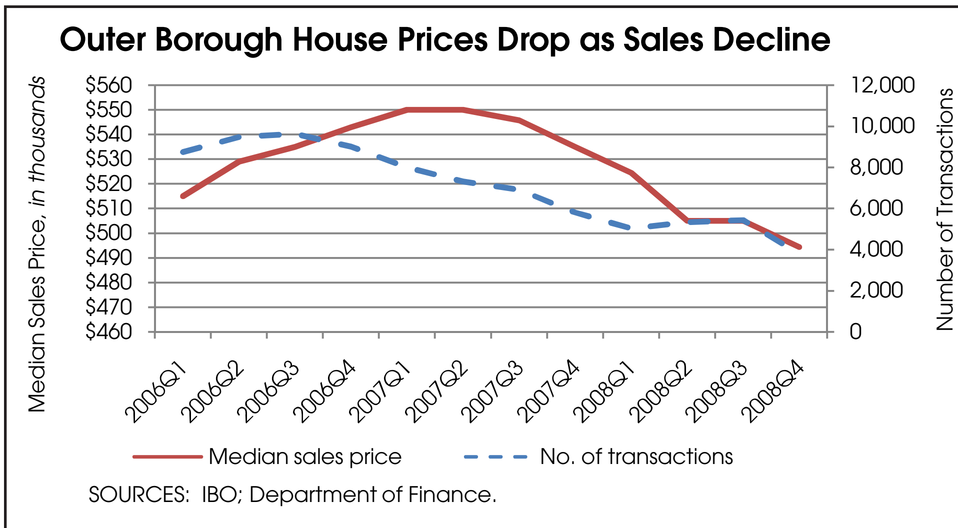
MORTGAGE RECORDING AND REAL PROPERTY TRANSFER TAXES

The downward slide in revenues from the mortgage recording tax (MRT) and the real property transfer tax (RPTT)—collectively referred to as the transfer taxes—is significantly deeper than the decline forecast by IBO in December 2008, and far below the projections of one year ago. IBO now expects transfer tax revenue to reach only $1.5 billion in 2009, down from $2.6 billion in 2008 and less than half of its $3.3 billion peak in 2007. Collections are expected to drop further in 2010, to $1.2 billion, before beginning a slow recovery in 2011. By 2013, IBO forecasts that total revenues from the MRT and RPTT will return to 2004 levels, roughly $1.6 billion.

Compared with the Mayor's budget office, IBO projects a slightly smaller overall decline in transfer tax revenues, and a somewhat faster recovery. IBO's projection of transfer tax



SOURCES: IBO; Department of Finance.



SOURCES: IBO; Department of Finance.

revenues is $12 million (0.8 percent) above OMB's in 2009 and $25 million (2.2 percent) above in 2010. By 2012, IBO's transfer tax forecast is $134 million (10.2 percent) above OMB's, but in 2013 the difference drops to $69 million (4.6 percent).

Background. The RPTT is levied directly on the sale price and is typically paid by the seller, while the MRT is levied on mortgages used to finance the purchase of real property and is paid by the buyer. The portion of a mortgage refinancing that involves new money ("cash out") is also subject to the MRT, as are mortgages that are refinanced with a different lender unless the former lender "assigns" the mortgage to the new lender. Changes in the terms of an existing mortgage involving the same lender are generally not subject to the MRT. The intense level of refinancing activity during the earlier part of this decade caused MRT receipts to exceed those from the RPTT. Since 2007, however, RPTT revenue has been higher than MRT receipts, and IBO projects that this trend will continue through 2013.

Real Estate Trends. Transfer tax revenues are determined by the number of transactions and the value per transaction. Revenues have been greatly affected by the slowdown in real estate activity. In a declining real estate market, the number of transactions typically begins to fall before there is a noticeable decline in price. As more and more sellers fail to find buyers for their properties at their initial asking price, there is downward pressure on prices. Eventually the number of transactions begins to recover, due to a combination of lower prices and/or a cyclical upturn in the economy.

There is now widespread agreement that prices in many U.S. real estate markets had reached unsustainable levels by the middle of this decade. By the end of calendar year 2008, the Case-Schiller U.S. National Home Price Index, a commonly used barometer of overall market conditions, had fallen 27 percent from its peak in the summer of 2006. The decline in residential real estate prices in the city began somewhat later and has been less severe than in other parts of the country. The Case-Schiller index for the New York metropolitan area indicates that as of December 2008, prices had fallen 15 percent from their mid-2006 peak. Because the index includes surrounding counties in New York State, New Jersey, Connecticut, and Pennsylvania and only considers prices of single-family homes, it may not provide an accurate picture of real estate conditions in New York City.

IBO has analyzed residential and commercial real estate trends in the city using sales data from the city's finance department, to focus on three important property types: Manhattan coops and condominiums; Class 1 residential properties outside Manhattan, and commercial properties citywide.

Manhattan Coops and Condominiums. The Manhattan apartment market has been extremely strong in recent years, aided by continued demand for high-end residences from affluent domestic and foreign buyers. The number of transactions peaked in mid-2007, about a year after residential sales activity elsewhere in the city peaked. The median sales price of Manhattan apartments continued to rise, however, because a large proportion of the sales were new, relatively high-end units. The median price peaked at $922,000 in the second quarter of 2008 and then dropped by 5.6 percent, to $870,000 by the fourth quarter—a 5.6 percent decline. There were 25.7 percent fewer transactions in the last quarter of 2008 than in the same period in 2007. The decline in sales of residential units valued at $10 million or more was even more dramatic: only 21 during the last quarter of 2008, compared with 52 a year earlier.

One-, Two- and Three-Family Houses Outside Manhattan. One- to three-family houses comprise the bulk of the city's Class 1 properties and are an important part of the residential real estate market outside Manhattan. (IBO has omitted from its analysis the relatively small number of Class 1 condominiums.) The number of transactions involving one- to three-family houses peaked in mid-2006, while the median sales price continued to increase through the first half of 2007. By the fourth quarter of 2008, the number of transactions was down over 60 percent from the peak, while the median sales price was down 10 percent.

Commercial Properties. Until the credit freeze of mid-2008,

Residential Foreclosures

Residential foreclosures continue to be one of the most visible and painful signs of the decline in real estate markets. According to the research firm RealtyTrac, the number of foreclosure filings in the U.S. increased by 81 percent in 2008, despite programs put in place to forestall the process. Foreclosures occur for a variety of reasons, including loss of employment, resetting of adjustable-rate mortgages, and the inability to refinance due to declining property values and frozen credit markets. In addition, some owners have a reduced incentive to make their mortgage payments, as falling real estate prices have put them "under water." According to a report just released by First American CoreLogic, 1 in 5 American mortgage holders owe more on their homes than the properties are worth.

Foreclosures have multiple negative consequences, not the least of which is the hardship inflicted on owners who lose their property. But the direction of the effect of foreclosures on RPTT and MRT revenues is uncertain. On the one hand, when a lender sells a foreclosed property, additional transfer tax is generated. On the other hand, foreclosure is symptomatic of a broader affordability problem, and likely associated with declining volume and prices, particularly when concentrated in specific neighborhoods.

According to RealtyTrac, foreclosure activity in New York-Wayne-White Plains Metropolitan Division was 38 percent higher in 2008 than in 2007. However, the foreclosure rate was only 7.1 per 1,000 housing units, less than half the national rate of 18.4 per 1,000. The New York City area ranked 91st out of the 100 metropolitan areas with the highest foreclosure rates, far below first-place Stockton, California, with 94.7 foreclosures per 1,000 housing units. Of the 20 metropolitan areas with the highest foreclosure rates, all but Detroit are Sunbelt cities that until the crisis hit had experienced both rapid price appreciation and overbuilding.

One reason the foreclosure rate in New York is below the overall U.S. average is that the share of households who own their home is relatively low; fewer than one-third of New York City residents own their homes while over 60 percent do for the country as a whole. In addition, New York City has not been subject to chronic overbuilding that has occurred in fast-growing areas of the Sunbelt or, so far, economic decline of the magnitude seen in many Rustbelt cities.

Nevertheless, the fact that foreclosures have increased over the past year is cause for concern, especially since foreclosure activity within the city is highly concentrated geographically. According to data from the Department of Housing Preservation and Development, the 10 New York City neighborhoods with the highest number of foreclosures between January 2007 and September 2008 (six neighborhoods in Queens, two in Staten Island, and one each in Brooklyn and the Bronx) together accounted for over half of the total foreclosures in the city. Just three neighborhoods, Jamaica and Bellerose/Rosedale in Queens, and the North Shore of Staten Island, accounted for one-third of all foreclosures. These neighborhoods were ranked first, second, and fourth, respectively, in their share of the city's subprime loans. This suggests that in areas with high foreclosures, a significant number of buyers may have already been under financial stress at the time they bought the property.

The deflating of the housing bubble in New York City, while less dramatic than elsewhere in the country, is raising the specter of another type of default as well: a default by owners of apartment buildings who bought properties at the height of the real estate frenzy in the expectation that they could dramatically raise rents. The Riverton complex in the Bronx is already in default, and the owners of Stuyvesant Town and Peter Cooper Village in Manhattan are seeking to raise new capital in order to avoid a similar fate. In addition, many individual buildings that have acquired new owners in recent years are burdened by heavy debt loads.

The situation facing New York City apartment building owners is different from the abandonment crisis of the 1970s, when rental income was often insufficient to pay a building's operating expenses. The problem currently is that many recent buyers may have overpaid for their buildings, often underestimating the difficulty of replacing tenants in rent-regulated units with new tenants paying market rent. While foreclosure can be a disruptive process for tenants in the short run, the expectation is that new owners will purchase the buildings at a price more consistent with the actual rental income stream.

the commercial real estate market in New York City—a broad category that includes rental apartment buildings, as well as office, retail, and industrial properties—remained strong. The impact on transfer tax revenues was magnified by the fact that commercial transactions (either a sale or a mortgage origination) valued above $500,000 are subject to the highest RPTT and MRT rates, with a portion of the city taxes dedicated to the Metropolitan Transportation Authority (MTA).

In 2007, while residential real estate activity stagnated or declined, transfer tax collections were buoyed by an increase in large-scale commercial sales. There were 17 sales valued at $500 million or more, compared to nine such sales in 2006 and just five in 2005. Seven of the 2007 "mega" deals occurred during the second half of the year and therefore generated transfer tax revenues for fiscal year 2008. However, since the current fiscal year began in July 2008, there have been no sales over $500 million and only two sales (both in August 2008) valued at between $400 million and $500 million.

PERSONAL INCOME TAX

IBO forecasts a steep two-year decline in personal income tax (PIT) revenues—from $8.7 billion in 2008 to $7.2 billion in 2009 and $5.7 billion in 2010. After 2010, PIT revenue growth is projected to resume, but only at a moderate pace. By the end of the forecast period in 2013, PIT receipts are forecast to reach $8.4 billion. (These and other figures for PIT collections in this section are net—gross collections minus refunds—and include PIT receipts dedicated to the Transitional Finance Authority.)

As the current fiscal year has progressed, cumulative PIT revenue has declined relative to 2008 amounts. Collections will weaken further in the coming months as more city residents lose their jobs and as 2008 tax year returns are filed, with fewer final payments than last year. The projected PIT decline for 2009—17.4 percent—is exceeded as a percentage of revenue in recent years only by the steep drop of revenue from 2001 to 2002. But that decline in 2002 was followed by only a minimal fall in receipts in 2003. In contrast, IBO forecasts another sharp revenue decline in 2010 (21.7 percent), the result of the prolonged, continued employment losses through the second quarter of calendar year 2010 (especially high-paying jobs in finance), constraints on bonus compensation, and sharp declines in capital gains realizations. With the resumption of employment and real income growth at the beginning of fiscal year 2011, revenue will once again increase, as it did in recent years. PIT collections will increase by 15.9 percent in 2011, and by an average of 12.9 percent in 2012 and 2013.

IBO's PIT forecast is slightly higher than OMB's in the current year ($61 million or 0.9 percent higher). For the next three years, IBO's forecast is lower than OMB's with the difference gradually increasing so that by 2012, IBO's forecast is $276 million less than OMB's. With solid income and employment growth expected in calendar year 2012, as well as an increase in capital gains, IBO expects a strong jump in PIT revenue, and its 2013 forecast exceeds OMB's significantly, by $517 million.

Background and Recent Changes. The personal income tax is levied on the incomes of city residents. The tax rate (incorporating a base rate and a 14 percent surcharge) is 2.907 percent for the lowest of the four brackets, compared with 3.648 percent for the highest bracket. These rates have been in effect since January 2001, although for calendar years 2003 through 2005 a temporary increase on high-income households was enacted, creating two additional upper tax brackets with taxable income in the highest bracket (above $500,000) having a 4.45 percent tax rate.

The tax hike helped reverse the PIT revenue declines of 2002 and 2003 caused by the national recession, a slump on Wall Street, and a damaged local economy in the aftermath of September 11. PIT collections swelled after 2003, growing at an average annual rate of 17.9 percent through 2006. Even with the expiration of the three-year tax increase, the PIT grew by an average of 9.4 percent in the next two years, to $8.7 billion in 2008.

Revenue in the Current Year. To date, PIT collections this fiscal year are 8 percent less than collections in the comparable period last year, and as the local economy continues its downturn in the coming months, the deterioration is expected to accelerate. Revenue will also be depressed in April when a large number of taxpayers filing their 2008 returns are likely to be owed refunds.

Withholding collections account for the bulk of PIT revenue, and IBO forecasts a 5.8 percent withholding decline in 2009. Employment declines that began in the second quarter of calendar year 2008 are responsible for a portion of the decline. The amount of withholding revenue from month to month is an early indicator of increases or decreases in employment and wage and salary income, though the current decline in withholding has lagged behind the decrease in city employment. Many who lost their jobs in the high-paying financial sector were given severance pay not in a lump sum but, instead, through a continuation of paychecks for several months. Because income tax continued to be withheld in these paychecks, the city (as well as the state and federal governments) continued to receive this revenue, despite the fact that these taxpayers were no longer employed. Withholding revenue will be depressed in the coming months by continued jobs losses and the end of severance

paychecks to employees laid off in the summer and fall.

Sharp declines in bonus payments, particularly in the troubled securities industry, are another factor behind the expected decline in withholding. Bonuses account for roughly half of compensation paid by securities firms, and estimates of the decrease from last year in the industry's bonus pool from the state Comptroller's office and other observers range from 43 percent to 50 percent. The current year's withholding from December through February is 14.7 percent lower than in 2008. The dampening effect of this year's bonuses will be over by the end of March, the last of the months in which most bonuses are paid.

Most of the PIT's decline this year is expected to result from our forecast of a 34.4 percent decline in quarterly estimated payments made by investors and the self-employed, compared to 2008 payments. Capital gains realizations are being greatly reduced by battered financial markets, causing estimated payments to fall. Estimated payments from July through February are 20.2 percent less than the comparable period in 2008, and they will fall even further in the coming months. Estimated payments last April were swelled by $1.3 billion in extension payments, an exceptionally large amount that is not expected to be repeated this year

With the general weakness of taxpayers' aggregate liability in calendar year 2008 relative to the previous year, IBO forecasts a steep decline in payments made with final returns—11.6 percent less than in 2008—and a slight increase in refunds.

IBO's 2009 PIT forecast is $61 million (0.85 percent) greater than OMB's. The only significant differences in the two forecasts are in withholding, where the IBO forecast is lower, and refunds, where OMB has the higher forecast.

The Forecast for 2010 and Beyond. Employment, bonus compensation, and capital gains income are all expected to continue their declines through calendar year 2009 and into 2010. With this bleak economic outlook, IBO projects an even sharper decline in PIT revenue in 2010 than 2009. PIT collections are forecast to fall $1.6 billion (21.7 percent) from 2009 to $5.7 billion in 2010. Withholdings will also decline further, by 8.9 percent, as mounting job losses erode aggregate compensation and the bonus pool of the downsized securities industry will be constrained by a third calendar year (2009) of losses. Capital gains realizations are also expected to decline in calendar year 2009, diminishing non-wage income and in turn reducing estimated payments by a projected 22.7 percent. IBO forecasts a collapse of payments with final returns and a jump in refunds in 2010 due to the weakness of tax year 2009 liability.

IBO's forecasts of withholding and refunds in 2010 are each a little higher than OMB's, while the estimated payments and final returns forecasts are slightly lower. On the whole, IBO's PIT forecast is only $43.5 million (0.8 percent) less than the OMB forecast.

IBO expects PIT revenue growth to resume in 2011, when the local economy begins to recover from the downturn. Employment growth, however modest, will increase withholdings, as will the return in calendar year 2010 of profitability to Wall Street firms. IBO's forecast for 2010 tax year liability reflects an assumption that, as called for in current federal law capital gains tax rates, will increase beginning on January 1, 2011. As a result, capital gains are expected to accelerate during 2010, as investors seek to realize gains before the expiration of preferential federal tax rates at the end of the year. Estimated payments and final returns are expected to increase while refunds are expected to fall. On balance, IBO forecasts $6.6 billion in PIT revenue, $898 million (19.8 percent) higher than 2010 revenue. This forecast is $187 million less than OMB's, due primarily to OMB's expectation of a much greater increase in estimated payments.

With the city economy gaining momentum by the end of calendar year 2011, IBO predicts continued PIT growth in 2012 and 2013. But collections will be constrained by modest employment growth. By the end of the forecast period, there still will be 127,000 fewer jobs in New York City than when employment peaked in the first quarter of 2008, and the 2013 PIT forecast—$8.4 billion—is still 4.3 percent less than 2008 revenue. For the last two years of the financial plan, IBO generally forecasts a larger amount of refunds and more withholding and final returns revenue than does OMB, while OMB has a much higher forecast of estimated payments. IBO's overall forecast for PIT revenue in 2013 exceeds OMB's by $517 million.

BUSINESS INCOME TAXES

After peaking in 2007, business income tax revenues dropped by $600 million (10 percent) in 2008, and are expected to decline again by $785 million (14.5 percent) in 2009 and a further $1.1 billion (23 percent) in 2010. Projected total revenues for 2009 ($4.6 billion without audits) are $310 million less than when the budget was adopted last summer, while the forecast for 2010 ($3.6 billion) is $1.4 billion below the city's projection when the current budget was adopted last spring. Business tax revenue growth is expected to resume in 2011, but will remain weak over the remainder of the financial plan period.

Background. New York City levies three entity-level taxes

on business net income: the general corporation tax (GCT), the banking corporation tax (BCT), and the unincorporated business tax (UBT). These three taxes were established (along with now defunct city insurance and transportation corporation taxes) in 1967, replacing the city's previous taxes on general and financial business gross receipts. New York City is almost unique among localities in imposing substantial business income taxes at the local level.

Over four-fifths of the GCT is collected through an 8.85 percent tax on entire net income allocated to New York City; the remainder is collected through alternative tax bases: income plus compensation (which starting this year is being partially phased out), capital allocated to the city, and a minimum tax. The principal rate and base of the BCT is similar to that of the GCT. Over nine-tenths of collections are derived from a 9 percent tax on entire net income allocated to the city, the remainder from alternative tax bases. The city's UBT imposes a 4 percent tax on the income of partnerships, proprietorships, and (since 1994) limited liability corporations.

Today about half of total city business tax revenues are derived from "flow-through entities" (S-corporations taxed under the GCT, and limited liability corporations, partnerships, and proprietorships taxed under the UBT). For the most part, the net income of such entities is subject only to personal income taxation and not business income tax at the federal and state levels. The city taxes this income at the personal level as well if it is received by city residents, but it somewhat mitigates double-taxation by providing a partial credit in its personal income tax for UBT liabilities of city residents. There is currently no comparable relief for resident shareholders of city-taxed S-corporations.

The business taxes differ from the city's other tax sources in that audits account for a significant portion of revenues. Audit collections surged above $1.0 billion per year in both 2007 and 2008, but now appear to be returning to more historically normal levels (under $600 million per year). (All the revenue numbers given below are without audits.)

The city's business income taxes are highly pro-cyclical, meaning that their revenues tend to grow very strongly during an economic upswing and fall sharply during a downswing. This has been particularly true of collections stemming from the financial services sector—in particular, brokerages, investment banks, and insurers paying the GCT or UBT and commercial banks paying the BCT. The BCT's inherent volatility is exacerbated by very large fluctuations in refunds, the result of adjustments for overpayments and underpayments based on losses and gains not recognized until a year or more after they are incurred.

There was never a period of business tax revenue growth like the one witnessed after the city emerged from its post-September 11 recession. Capped by a one-year $1.7 billion, 38 percent jump in 2007, combined business tax revenues nearly tripled from 2003 ($2.3 billion) to 2007 ($6.0 billion). This explosive growth increased the business income tax share of total city tax revenues from 9.8 percent to 16.1 percent. Now, however, the city is in the midst of what IBO projects to be the steepest decline in the history of these taxes.

Forecast. As noted above, business income tax revenues fell in 2008 and are projected to fall again by increasingly large amounts in 2009 and 2010. By 2010, IBO forecasts revenues to be $2.5 billion (40.7 percent) below their 2007 peak. In percentage terms the BCT has been hit earliest and hardest, while the UBT (which has traditionally been much less vulnerable to downturns than the other business taxes) is expected to falter only towards the latter part of the current crisis.

The bank tax accounted for almost all the 2008 decline in business tax revenue. It plunged $590 million (48.4 percent), while the GCT fell $193 million (6.2 percent) and the UBT actually grew by $183 million (11.0 percent). In 2009, the bulk of the decline occurs in the GCT. In the first half of the fiscal year, the city collected 21.9 percent less GCT revenue than in the comparable 2008 period and IBO forecasts a $587 million GCT decline (20 percent) for the entire year. The BCT is projected to fall by $173 million (27.5 percent) and the UBT by $25 million (1.3 percent) in 2009. In 2010, we forecast drops of $513 million (21.9 percent) in the GCT and $160 million (35.1 percent) in the BCT, added to which we expect a large loss—$391 million (21.4 percent)—to finally hit the UBT.

Business tax revenues are expected to resume growing in 2011, albeit at a much more modest pace than during the 2004-2007 boom. IBO projects growth of 3.5 percent in 2011. Essentially all the growth will be due to the bank tax, as GCT revenues will be nearly flat and the UBT is expected to post another small (2.1 percent) decline. Modest growth in 2012 (11.7 percent overall) and 2013 (7.5 percent) will leave business tax revenues still far below their 2007 peak.

For 2009, IBO's business income tax forecast is close to OMB's, but for 2010 and thereafter IBO projects much lower revenues. In contrast to the $1.1 billion (23 percent) decline (to $3.6 billion) in total GCT, BCT, and UBT revenues projected by IBO for 2010—even larger than the 2009 decline—the Preliminary Budget projects only a $387 million (8.4 percent) decline (to $4.2 billion)—considerably smaller than the 2009

decline. IBO's forecast of greater business tax revenue declines in 2010 than in 2009 reflects our view that although the worst may be over regarding Wall Street losses, the city's economy is only now entering the period of deepest and broadest retrenchments in overall employment, output, and business profits. The brunt of the collections impacts of all this will not be borne in the current fiscal year but in next year's.

Just as IBO projects a steeper decline through 2010 in business tax revenues relative to the financial plan, we also forecast a weaker recovery over the remainder of the plan's period. For 2011–2013, the financial plan anticipates growth of $1.3 billion (to $5.6 billion), whereas IBO forecasts three-year revenue growth of only $861 million (to $4.4 billion).

Policy Impacts. IBO's economic forecast incorporates expected impacts of the American Recovery and Reinvestment Act of 2009 on U.S. and local variables, including output, employment, income, and profits. But our forecast does not specifically factor in the potential impacts of the tax provisions of the stimulus act on the city's business tax base. The largest business tax provisions are the extension of bonus depreciation, estimated to reduce federal tax liabilities by $39.8 billion over federal fiscal years 2009 and 2010 (but increase them by $20.3 billion over federal fiscal years 2011–2013); the deferral of income from debt buybacks (reducing federal liabilities by $35.9 billion in federal fiscal years 2009–2010 and by another $8.2 billion in federal fiscal years 2011–2013); and the increase of the carryback of net operating losses of small businesses from two years to five years (costing $4.0 billion in federal fiscal years 2009–2010, but then increasing federal liabilities by $1.9 billion over federal fiscal years 2011–2013).

These provisions may affect city business tax liabilities insofar as the city's definitions of taxable income are coupled to the federal definitions. (New York State business taxes may be similarly affected.) The five-year carryback provision is likely to have only a limited impact on city tax liabilities, since the city caps the amount of losses that may be carried back. However, extending the bonus depreciation allowance and (perhaps even more so) deferring income from debt buybacks could have significant cosequences for city taxable business income in 2009 and 2010 unless the city decouples from the new federal rules—as it did when the Federal government enacted bonus depreciation following September 11.

SALES AND HOTEL TAXES

The projected slump in local personal income and consumption and a drop in the number of visitors coming to the city underlay the forecasts of the general sales tax and the hotel occupancy tax. Despite strong growth of collections in the first quarter of the current fiscal year, IBO forecasts a two-year decline in general sales tax revenue—from $4.9 billion in 2008 to $4.6 billion in 2009 (6.1 percent decline) and $4.2 billion in 2010 (a further 9 percent drop)—with revenue growth resuming in 2011. These forecasts are based on current law and do not reflect the impact of sales tax policy changes proposed by the Mayor in his Preliminary Budget. Hotel tax revenue is expected to grow slightly in the current year—to $388 million, a 2.4 percent increase over 2008 collections—and, boosted by a soon to take effect tax increase that was enacted in December 2008—to reach $418 million in 2010.

General Sales Tax

Background. Currently, sales in the city of most retail goods, utility charges, and a variety of personal and business services are subject to a combined sale and use tax rate of 8.375 percent. The tax is composed of a 4 percent city tax, a 4 percent state tax, and a 0.375 percent Metropolitan Commuter Transportation District surcharge.

City sales tax revenue is broadly a function of household spending of city residents along with consumption expenditures by businesses, commuters, and tourists. Household spending, in turn, is primarily determined by disposable income and the level of consumer confidence. In 2003 through 2008, sales tax revenue grew at an average annual rate of about 6.6 percent. During those years, local personal income and the level of consumer expenditure rose in conjunction with higher profitability in the city's large financial industry and record-breaking Wall Street bonuses. Sales tax revenue was further bolstered by the strong performance of the tourist industry. As the number of domestic and foreign visitors increased, the city has reaped the economic benefits—evident from near-capacity hotel occupancy rates and increasing room rates, strong Broadway ticket sales, and tourist-oriented retail activity. According to NYC & Company, the 47 million visitors to the city last year (a record number) spent $30 billion in hotels, restaurants, theatres and stores.

Recent Trends and Revenue Forecast. As the country's economy slipped into recession, New York City's sales tax collections defied state and national trends by continuing to grow through the early fall of 2008. But by November the collapse of the financial system, coupled with effects of deteriorating economic conditions at home and abroad, became apparent in sales tax receipts. Sales tax revenues declined rapidly, while collections in December and January, usually the two strongest months, fell 6.2 percent compared with the same months a year ago. The decline in sales tax revenue reflects a drop in local personal income

and a slump in the number of visitors. Economic uncertainty has negatively affected spending and travel decisions of both domestic and international visitors. Changes in consumption behavior are reflected in the faltering commercial performance of Broadway theaters. According to the Broadway League, after five seasons in which attendance increased an average of 2.4 percent a year, attendance at Broadway shows was flat in the most recent season. Similarly, box office receipts were practically unchanged from the previous year, compared with an 8 percent average increase for the preceding five Broadway seasons.

With a forecast of a prolonged economic downturn on the local, national, and global levels, IBO is projecting a 6.1 percent decrease in sales tax revenue, from $4.9 billion in 2008 to $4.6 billion in 2009, and an even steeper 9.2 percent decline in 2010 to $4.2 billion. After 2010, when the recovery from the recession is expected to begin, sales tax growth is forecast to resume and accelerate, with revenues rising 5.3 percent in 2011 and about 8.5 percent in each the following two years, to reach $5.1 billion in 2013.

Sales Tax Initiatives. The Preliminary Budget includes three revenue-raising sales tax initiatives: an increase in the tax rate; a repeal of the sales tax exemption on clothing; and a broadening of the sales tax base. It is unclear if the last two proposals will appear in the Mayor's Executive Budget, since they were made in conjunction with analogous proposals in the Governor's Executive Budget that have now been withdrawn.

The first initiative is to increase the city's sales tax rate from 4 percent to 4.25 percent, which the Bloomberg Administration estimates would bring in more than $300 million annually. The burden of an across-the-board sales tax increase would be borne by those who pay the tax directly when they purchase goods and services (residents, commuters, visitors to the city, and businesses), and by businesses whose sales drop off from the impact of the tax increase. Because the share of income spent on consumption goods rises with income, among consumers the sales tax hike would be regressive. Although this proposal is not dependent on the Governor's proposals, the state Legislature would have to pass legislation for the rate increase to take effect.

The second initiative is to eliminate the existing sales tax exemption for all purchases of clothing and footwear, substituting two one-week exemption periods for clothing and footwear costing below $500. The Bloomberg Administration estimates that together these measures would bring in an additional $394 million in fiscal year 2010 alone. This initiative is parallel to a proposal Governor Paterson had made to eliminate the state's sales tax clothing exemption. But after the release of the city's Preliminary Budget, state budget negotiators decided to no longer consider the state proposal, and it is not clear if the Mayor will retain the city initiative in the Executive Budget. If the city were to end the exemption while the state retained it, clothing retailers in the city would be at a competitive disadvantage for 50 weeks a year to retailers outside of the city who don't tax clothing purchases.

The third initiative presented in the Preliminary Budget would be to expand the sales tax base to include a number of goods and services not currently subject to the tax. The Mayor assumed the change would boost the city's sale tax revenue by $198 million in 2010. The list of items that would become taxable followed closely the set of changes broadening the state's sales tax base that had been proposed in the Governor's Executive Budget.

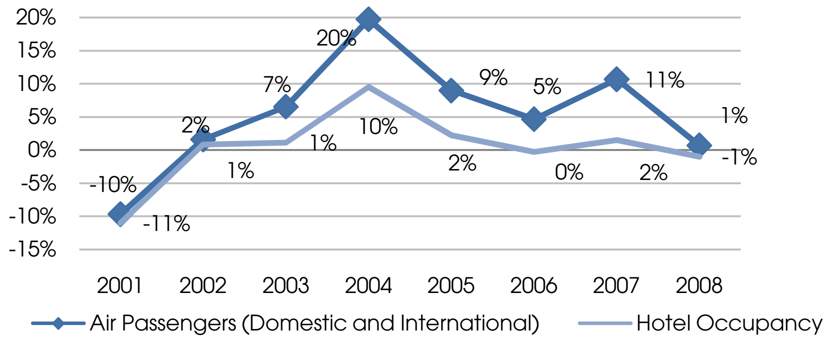
Since the Preliminary Budget was released, the state has greatly scaled back the number of goods and services it proposes to tax, including some services—such as spending on cable and satellite television and radio, capital improvements, and entertainment—that were expected to generate considerable tax revenue. Remaining on the list of items to be taxed is nonpublic transportation-related spending, and digital goods and services. Because the city and state sales tax bases are statutorily connected, IBO assumes that the city's list of items to be taxed will be scaled back in conjunction with the state's. We estimate that the smaller list of base-broadening proposals still endorsed by the Governor would increase city sales tax revenue by only $24 million in 2010.

Taxing the digital goods and services follows the state's (so far) successful attempt to expand sales tax nexus to include certain Internet-based retailers (sometimes dubbed the "Amazon Tax"). The state and localities would impose sales taxes on purchases of prewritten software, digital audio, audio-visual and text files, digital photographs, games, and other electronically delivered entertainment services. While this move would close the "digital property taxation loophole," some believe it would have a detrimental impact on internet firms and providers of digital goods and services here in New York and elsewhere. In response to the state's "Amazon Tax," Overstock.com, another large Internet retailer, has terminated its contracts with affiliates based in New York to avoid falling under the state's redefined definition of sales tax nexus.

Hotel Occupancy Tax

Background. Since 1970, New York City has imposed a hotel occupancy tax, which is levied in addition to the combined city, state, and transportation district sales taxes. The hotel tax is currently 5 percent of room charges plus a flat fee of $2.00

After Years of Growth Hotel Occupancy Declined, Number of Air Passengers Grew Slightly in 2008



SOURCES: IBO; PricewaterhouseCoopers' Hospitality & Leisure Practice: Bureau of Transportation Statistics.

per night for rooms renting for $40.00 or more. In December, the City Council and the Mayor agreed to enact an additional temporary hotel occupancy tax of 0.875 percent that will be in effect from April 1, 2009 through December 31, 2011.

Recent Trends and Revenue Forecast. The nation's economic expansion, the city's recovery from the September 11 attacks, and the strength of foreign currencies—in comparison to the U.S. dollar—all fueled domestic and international tourism in New York City in recent years. In the last two years, hotel occupancy levels reached historic highs, staying well above 80 percent. As a result of the surge of tourism, hotel tax receipts more doubled from 2002 to 2008, reaching $379 million.

The picture has since changed. In fall of 2008, hotel occupancy began to decline and by January and February of 2009 it had dropped to 76 percent and 63 percent, respectively. Even after accounting for the normal fall-off in hotel visits after the holidays, these rates are very low. In 2007 and 2008 occupancy in February averaged 79 percent. For the current fiscal year, IBO forecasts only a slight $9 million increase (2.4 percent) in hotel tax revenues, to $388 million. There will be a boost to 2010 collections from the temporary increase in the tax rate, which will more than offset the continued deterioration of the economy and tourism. IBO expects collection to rise 7.6 percent to reach $418 million in 2010. Revenue will increase further in 2011, but then decline in 2012 when the rate increase sunsets. By the end of the plan period, IBO projects $432 million in hotel tax revenue, for an average annual growth rate from 2010 to 2013 of only 1.2 percent.

ENDNOTES

[1]For additional information about the complications of the city's real property tax, see IBO's *Twenty-Five Years After S7000A: How Property Tax Burdens Have Shifted in New York City.* When IBO refers to market values and assessments, the reference includes only taxable property. The assessed value for tax purposes (also referred to as billable taxable value) reflects the required phase-in of assessment changes for apartment, commercial, and industrial buildings. In this report the billable taxable values are shown before applying the STAR exemptions.

FEDERAL STIMULUS

THE FEDERAL STIMULUS PACKAGE: THREE TYPES OF AID

In February, with the U.S. economy mired in what is now expected to be the deepest recession since World War II, Congress and the Obama Administration enacted a $787 billion stimulus package known as the American Recovery and Reinvestment Act of 2009 (ARRA). The act includes a variety of mostly temporary measures—generally lasting two years—designed to stimulate the economy by directly or indirectly increasing disposable income and by helping governments stave off cutbacks that would result in additional layoffs.

New York City and its residents stand to receive a substantial portion of the stimulus money, some of which should help the city's budget. The budget help will be particularly important in the critical areas of education and health care. Overall, the city's expense budget could benefit from perhaps $4 billion in stimulus funding over two years and another $500 million or more in direct capital funding. Some of this will flow through the state government, which given its even greater fiscal stress is likely to try to retain as much of the stimulus money as legally possible for its own relief. Other types of assistance for the city's budget will flow more directly to the city, using existing channels and formulas.

The various parts of the stimulus package can be broadly grouped as follows: those measures that help state and local governments avoid cutbacks and layoffs; those items that will directly benefit individuals and businesses through federal government benefits and taxes; and those items that expand government services and infrastructure investments.

BUDGET RELIEF FOR STATE AND LOCAL GOVERNMENT

The two largest forms of budget relief are the temporary increase in the share of Medicaid paid by the federal government and the fiscal stabilization funds that are primarily to be used for education. In both cases, federal dollars are being provided to the state government not to expand services, but simply to help sustain current levels of service which account for much of state spending and which are threatened by the loss of state tax revenue.

Medicaid Share. The stimulus bill temporarily increases the Federal Medical Assistance Percentage (FMAP) which determines how much of each state's Medicaid program will be funded by the federal government. A state's FMAP is based on the income of its residents and can range from 50 percent to nearly 80 percent. New York State, like others with relatively high average incomes, has an FMAP of 50 percent. The stimulus act provides $87 billion over two years by increasing the FMAP of each state by at least 6.2 percentage points. The increase can be higher in states with particularly high unemployment. With the increase in unemployment and loss of income, the demand for Medicaid services is expected to increase in many states. (A state's FMAP is also used in setting foster care and adoption subsidy payments by the federal government.)

For New York State, the higher FMAP is expected to shift about $11.0 billion in Medicaid costs to the federal government in the next two years, although not all of those savings will accrue to the state government. Unlike most states, New York requires the counties—New York City is treated as a single county for this purpose—to pay for a portion of the non-federal share of Medicaid expenses incurred by their residents. In New York City, the local share is roughly 20 percent or 10 percent of the total program cost. With a larger FMAP, the city's share of the total cost will decline, producing savings for the city's budget.

In the Preliminary Budget—which was released prior to passage of the ARRA—the Mayor had penciled in savings of $1 billion from an FMAP increase in 2010 and $1 billion in 2011. According to the state's budget office we can expect to receive close to that total—about $1.9 billion. The city has claimed that it is entitled to even more, based on the final version of the FMAP language in the act, perhaps closer to $2.3 billion. The state has argued that under New York statute it is allowed to adjust the calculation of the local Medicaid share if the FMAP is changed, which allows it to retain more of the federal funds for its own purposes despite language in the ARRA which was intended to avoid such adjustments.

Education Fiscal Stabilization. The second substantial source of direct budget relief in the stimulus act is the state fiscal stabilization fund in the education section of the legislation. Nationwide, there is $53.6 billion in state fiscal relief—out of total education funding in the ARRA of $98.2 billion. States can reserve 20 percent of their fiscal stabilization fund allocation for their own purposes. Of the non-reserved balance, they are to first restore education aid to local districts that haves been cut as a result of the fiscal crisis. Any remaining funds are to be distributed using existing school aid formulas.

New York State is slated to get $3.0 billion in fiscal relief funds. The state is expected to reserve its full 20 percent ($556 million) for general purposes, leaving $2.5 billion available for education over two years. That would be enough to restore most, but not

all, of the education aid the Governor proposed cutting in his Executive Budget. The city expects that about $1.1 billion over two years of its anticipated education aid that was threatened by the Governor can be restored with the available fiscal relief funds. The Mayor claimed in his Preliminary Budget that if the Governor's cuts go through it would be necessary to lay-off 14,200 teachers. It is not clear whether this partial restoration will entirely negate that threat.

ASSISTANCE FOR INDIVIDUALS AND FIRMS

Much of the money allocated through the stimulus act will flow directly from the federal government to individuals and firms. This involves changes in federal benefit programs and the tax code.

Food Stamps. The federal food stamp grant will be increased by 13.6 percent this year and then remain at that level until the annual inflation adjustments of the regular grant amount "catches-up" to the elevated level, which will likely take several years. IBO estimates that the increase in the grant will bring about $300 million in additional benefits for city residents in the first year. Over time, as the difference between the elevated grant level and the annually adjusted regular grant narrows, the size of the benefit will gradually diminish. (The ARRA also includes funding for the higher administrative costs associated with higher food stamp caseloads, which is expected to bring the city budget about $3 million per year for five years.)

Individual Tax Cuts. The ARRA provides a variety of tax cuts to individuals and businesses, which the Tax Policy Center estimates will cost the federal government $297 billion over the next 10 years. Tax cuts for individuals and families, targeted to different groups with the aim of increasing disposable income and stimulating economic activity account for $232 billion. This section reviews four of the largest provisions which together account for 88 percent of the fiscal cost of the individual tax cuts in the package: establishing a "Make Work Pay" (MWP) tax credit; enhancing the earned income tax credit (EITC); increasing the refundability of the child tax credit; and extending previous temporary increases in the alternative minimum tax exemption (also known as "the AMT patch").

The table on this page summarizes the estimated 2009 tax savings for New York City residents from each of these four provisions, and the number of filers who benefit. Excluding the AMT patch, 2.9 million out of the projected 3.5 million city resident tax filers (individuals or households) will benefit, providing a $1.5 billion savings in federal income tax and much smaller amounts of state and local personal income.

The Stimulus Act: Selected Tax Savings For New York City Residents, 2009

	Tax savings	Beneficiaries
Make Work Pay credit	$1.3 billion, federal	2.9 million filers with earned income
Enhanced Earned Income Tax Credit	$66 million, federal $20 million, state $3 million, city	132,000 households receiving the EITC
Child credit refundability	$119 million, federal	175,000 households with children
Total (other than AMT)	$1.5 billion, federal $20 million, state $3 million, city	2.9 million filers, out of 3.5 million
AMT patch	$1.7 billion, federal	651,000 filers

SOURCE: IBO.

The AMT provision is considered separately because, unlike the other provisions, it is not a new initiative to cut taxes. The provision extends for another year the increase in the AMT exemption needed to keep many taxpayers from having to pay the AMT. Because such an exemption bump has been enacted every year since 2001, it would almost certainly have been enacted sometime during the legislative session. Since the increase in the AMT exemption most likely would have occurred even in the absence of special stimulus tax cuts, IBO does not include it in calculating the total impact of the of the stimulus package.

Details on each of the four provisions follow.

The Make Work Pay Credit. The Make Work Pay credit is a new federal tax credit for tax years 2009 and 2010 that equals 6.2 percent of earned income, which comprises wage, salary and self-employment income. For married couples filing jointly, the maximum credit is $800, which phases out as income rises from $150,000 to $190,000. For others, the maximum is $400, phasing out over the $75,000 to $95,000 income range. The MWP credit's 6.2 percent rate is the same as the withholding rate on employee income for social security, so the credit can be viewed as an effort to offset—for all but the most affluent—at least a portion of social security taxes paid by those with earned income. For those with very low incomes, the credit entirely offsets social security taxes withheld.

IBO estimates that the MWP credit will provide a total of $1.3 billion in federal tax savings to 2.9 million city resident tax filers

(either households or singles) in 2009. Those who benefit include 90 percent of filers with incomes under $75,000 and nearly three-quarters of filers with incomes between $75,000 and $125,000.

While the stimulus legislation did not prescribe how the MWP is to be received by taxpayers, the Obama Administration is working to adjust employers' withholding tables by April 1 so that take-home pay of workers will be quickly boosted and spent. How rapidly employers will make use of the new tables, however, is uncertain. Because the increases in take-home pay per paycheck will be relatively small—for example, $15 per biweekly paycheck for a single person receiving the maximum credit—the expectation is that the additional disposable income will be spent and not saved or used to pay down debt. Those whose withholding is not adjusted in time will have to wait until filing their 2009 tax return in April 2010 to receive their credit.

EITC Enhancements. The federal earned income tax credit is enhanced for two groups of EITC-eligible filers. The first consists of households with three or more children. Prior to this change, the EITC was the same for all families with two or more children. For the next two years, the credit amount for families with three or more children will be greater than for those with fewer children, with the maximum credit in 2009 rising from $5,028 to $5,657.

The other group benefiting comprises joint tax filers with incomes exceeding the threshold for receiving the maximum credit. The income range over which joint filers receive the maximum credit will be $5,000 wider than the range for comparable single-parent filers with the same number of children. Before ARRA, the difference was $3,200. For example, a married couple, filing jointly, with two children will be eligible for the maximum EITC ($5,028) when earned income falls between $12,570 and $21,420, compared to an income range of $12,570 to $16,420 for a single parent (head of household) filer with two children.

IBO estimates that 132,000 households out of the 770,000 currently receiving the EITC will save $66 million in federal taxes. Because the New York State and New York City EITCs are defined simply as 30 percent and 5 percent, respectively, of the federal credit, these households will also receive additional tax savings: an estimated $20 million in state personal income taxes and $3 million in city personal income taxes. These tax savings, of course, are fiscal costs to be borne by the state and city. Ninety-two percent of the beneficiaries of the EITC enhancements have incomes in the range of $10,000 to $40,000. Because the EITC is received by low- and moderate-income households, increasing the credit is believed to be an effective way of targeting tax savings to those most likely to spend it. But most will not receive the savings until they file 2009 tax returns next year, so there will be a year-long delay before there is a substantial impact on spending.

Child Tax Credit Refundability. This provision increases the eligibility of households with the lowest incomes to receive partial refunds in tax years 2009 and 2010 if the amount of their child tax credit ($1,000 per child) is greater than their pre-credit tax liability. Prior to the stimulus package, only families with incomes over $12,550 could receive a portion of their child tax credit in the form of a refund. This income threshold has been lowered to $3,000 for 2009, effectively extending credit refundability to families poorer than those currently eligible.

IBO estimates that 175,000 city households with children will save $119 million in federal income taxes from this provision. Like the EITC enhancements, the enhancement of child tax credit refundability targets households most likely to spend their tax savings, but the additional spending will not occur for the most part until tax returns for 2009 are filed.

AMT Patch. This provision renews for another year increases in alternative minimum tax exemptions, which vary by filing status. Increasing the exemption lowers a taxpayer's tentative AMT liability, which in turn either eliminates or reduces the tax. The AMT was established decades ago to ensure that the wealthiest Americans pay some federal income tax. But it is not indexed for inflation, so over time the tax has increasingly ensnared not the wealthiest but less-affluent high-income and even middle-income taxpayers in the five-figure income range. One- and two-year increases in the AMT exemptions have been enacted for every year since 2001 to temporarily prevent the AMT from increasing taxes on these taxpayers. The recurring exemption increases are viewed as short-term "patches" to the AMT's ever expanding reach, postponing the need for comprehensive reforms that would address the problem in the long run.

IBO estimates that the latest AMT patch will benefit 651,000 city resident tax filers, reducing their federal taxes by a total of $1.7 billion. The change eliminates AMT liability for 510,000 filers, 80 percent of whom have incomes below $125,000. But almost two-thirds of the tax savings benefit filers with incomes from $125,000 to $500,000, who are relatively less likely to spend a substantial portion of their tax savings.

Business Tax Provisions. ARRA contains tax benefits for private business as well. It includes a tax provision to extend bonus depreciation that is estimated to reduce federal tax liabilities by $39.8 billion over federal fiscal years 2009 and 2010, but

increase them by $20.3 billion over fiscal years 2011–2013. The ARRA will also defer income from debt buybacks, reducing federal liabilities by $35.9 billion in fiscal years 2009–2010, and by another $8.2 billion in fiscal years 2011–2013. It will also increase the time for using a carryback of net operating losses of small businesses from two years to five years, costing the federal treasury $4.0 billion in fiscal years 2009–2010 but then increasing federal liabilities by $1.9 billion over fiscal years 2011–2013.

These provisions may also affect city business tax liabilities insofar as the city's definitions of taxable income are linked to the federal definitions. (New York State business taxes would be similarly affected.) The five-year carryback provision is likely to have only a limited impact on city tax liabilities since the city caps the amount of losses that may be carried back. However, extending the bonus depreciation allowance and deferring income from debt buybacks could have significant negative impacts on city taxable business income in 2009 and 2010 unless the city decouples from the new federal rules—as it did when the federal government enacted bonus depreciation in response to the 2001–2002 recession.

EXPANDING GOVERNMENT SERVICES

A number of ARRA provisions generally aim to increase existing government programs, including capital financing for infrastructure. In most cases, the assistance comes with a requirement that it be used to supplement service provision and not to supplant existing state or local spending. The requirement to design supplemental programs has the potential to leave the city with difficult decisions in two years when the additional federal money ends but expectations about the additional services have been raised. In at least some programs there is likely to be a desire to continue the higher level of services with city funds—funds that are likely to still be in short supply.

In some cases, the stimulus dollars flow to local government entities affiliated with New York City such as the Metropolitan Transportation Authority (MTA) and the New York City Housing Authority (NYCHA) rather than to the city itself. While the federal stimulus funds will take pressure off of the city to provide additional assistance for these important public services, they do not provide the city with any direct fiscal relief.

Finally, it should be noted that the rules for distributing many of these programs are still being worked out and that in some cases the distribution will be through national competitions which make estimating any city benefit difficult. In the following paragraphs, we highlight some of the more significant provisions offering support for additional government services.

Title I and Title I Competitive Funds. Title I is federal money dedicated to increasing achievement of students who have not met or are at risk of not meeting state academic standards in high-poverty schools. The Title I program began in 1965 and is by far the largest federal revenue source for the DOE. In the current fiscal year, city schools are expected to get roughly $816 million in pre-stimulus Title I and Title I competitive funds. This amount represents 46.5 percent of all federal revenue received. Title I is allocated based on the concentration of students at a school receiving subsidized lunch and/or public assistance. Title I funds must be used to supplement rather than supplant existing services.

Although the Bloomberg Administration expects about $600 million from the Title I portion of the stimulus funds over two years, preliminary estimates from the U.S. Department of Education are higher at $700 million. While the number of Title I eligible schools is likely to change only modestly in the next two years—rising unemployment will have some effect on the school poverty measure—it is likely that much of the Title I stimulus money will be spent on additional services at the current set of schools. Typical expenditures with this money include academic intervention services, student support services, extended day programs, possibly class-size reduction or bilingual and English-as-a-second-language instruction. One percent of Title I allocations must be used for parental involvement activities.

Special Education. Individuals with Disability Education Act (IDEA) money is used to support the education of children with disabilities to enable them to meet high educational standards with maximum access to the general curriculum where possible. This funding is the primary source of financial support for special education and related services. City schools are currently expected to get $262 million in pre-stimulus IDEA aid, which is about 15 percent of all federal education revenue.

New York State may receive $760 million in additional IDEA funds from the stimulus act. The city is expected to receive $369 million for DOE over two years. Less clear is how this money will be used. Presumably, all qualified students are already receiving services, so it is unlikely that there will be additions to the special education registers. It may not be practical for the city to significantly intensify services when it only has additional resources to support them for two years.

COPS. ARRA provides $1 billion nationally through the Community Oriented Policing Services program (COPS) to hire additional police officers. It will pay full salary and benefits for new officers for three years, but the funds will be distributed through a competitive process and the total amount available

nationwide is less than under the Clinton-era COPS program, which provided a subsidy of $25,000 per police officer. New York City was able to fill 400 slots with COPS funds. If the city receives the same share of the resources under the new program, City Hall has estimated that it would be enough to fund the hiring of about 260 officers.

Community Development. ARRA provides $1.0 billion over two years in funding channeled through the existing Community Development Block Grant (CDBG) which is a flexible program that provides funding for programs ranging from housing to child care to economic development. The federal government has estimated that New York City will receive $48.3 million in additional CDBG funds.

Child Care and Head Start. Under ARRA, $2.0 billion over two years in additional funding is made available for the existing child care and development block grant program, and Head Start will receive an additional $2.1 billion for two years. Assuming the city gets its current share of block grant funding it would receive $30 million per year for child care. For Head Start, the increase could be $53 million.

Workforce Development. The stimulus bill provides $3.9 billion nationwide for training and broader workforce development over two years, channeled through the existing structures of the Workforce Investment Act. The state is expected to receive about $174 million of this. At present it is not clear how much would flow to the city.

General City Capital. The ARRA authorized four new types of tax-credit bonds that are to be issued over the next two years to reduce debt issuance costs to municipalities and to expand the investor base for municipal debt. Generally, with tax-credit bonds the bond holder receives a credit against their federal tax liability instead of a traditional interest payment. Two of the new types of bonds might be useful to the city, and in March 2009, New York issued a Request for Proposals for underwriting services that included specific questions about how the city could utilize these bonds.

Build America Bonds (BABs) are the general tax-credit bond established in the stimulus legislation. With BABs, either the bondholder receives a tax credit (equal to 35 percent of the interest) or the issuer (i.e., New York City) receives a payment from the Department of the Treasury for the same amount in lieu of the holder receiving the credit. The second type of tax-credit bond is intended for the financing of school construction or renovation capital projects. The remaining two types of bonds are for capital projects within economic recovery zones designated by the bond issuer. Economic recovery zones are economically distressed areas with high rates of poverty, unemployment, or home foreclosures.

Transportation Capital. The Metropolitan Transportation Authority expects to get $1.1 billion for transit projects, out of $8.4 billion for transit projects nationally. This will help close the shortfall in its capital budget. Reportedly, much of the money will be used to complete the Fulton Transit Center, which has been under construction for several years. Costs for the transit center have significantly exceeded projections and the project is not fully funded. Similarly, the city's Department of Transportation expects to receive $230 million for highway infrastructure projects. As with other capital projects there is a priority on projects that can get underway quickly.

Water Supply Capital. There is a total of $6.0 billion available nationally for capital projects that protect watersheds and for upgrading water supply systems. Based on the city's historical allocation under the existing federal programs, the city's Department of Environmental Protection may be able to qualify for about $300 million in capital financing. The city relies on the separate Water Authority to finance its water system projects, so this stimulus money will not have a direct effect on the city budget, although it might mitigate the size of future water rate increases.

Public Housing Capital. ARRA provides $4.0 billion of public housing capital projects through existing formulas. NYCHA has been allocated $423.3 million for its projects and will also apply for separate competitive grants that might bring another $100 million or more. NYCHA has many capital projects in its pipeline but has lacked funding. These stimulus dollars are expected to help fill this funding gap.

Assistance for Private Housing. The ARRA includes money for neighborhood stabilization to be used to renovate abandoned and foreclosed homes. The city expects to receive $12.1 million from this program which will be administered locally through the Department of Housing Preservation and Development (HPD). The act also establishes a new Tax Credit Assistance program to supplement the financing of projects that already have Low Income Housing Tax Credits whose value have fallen during the current financial crises, creating holes in the project's financing. The credits will be allocated through the state to local development agencies—HPD in the city. If the city receives a share proportionate to its share of the low income housing credits, IBO estimates that there might be about $150 million in new credits available for local projects

Expenditure Outlook

IBO projects that under the Mayor's Preliminary Budget for 2010 and Financial Plan through 2013 spending will grow from $60.4 billion in 2009 to $72.2 billion in 2013, an average annual increase of 4.5 percent. Much as in past years, some of the largest areas of spending growth are municipal labor costs, including wages, pensions, and health and other fringe benefits, and debt service on the money the city borrows for its capital plan.

For many city agencies, projected spending (excluding the labor reserve) remains relatively flat under the Mayor's financial plan. Among the larger city agencies, the health department, fire department, Administration for Children's Services, and Department of Homeless Services all experience budget declines from 2009 through 2013.

As in recent years, the agency with the largest growth in dollar terms over the financial plan period is the Department of Education, which is projected to have its budget (excluding the labor reserve) rise from $17.5 billion in 2009 to $18.5 billion in 2013. While still growing at a faster rate than most agencies, education department spending under the Mayor's financial plan has slowed compared to recent expectations due in large part to cutbacks in projected state education aid. But this may soon change, at least for the next couple of years, as education aid in the federal stimulus bill is recognized.

Among the fastest growing portions of the budget is debt service. IBO estimates that debt service (adjusted for prepayments and including Transitional Finance Authority debt) will grow at an average annual rate of 7.6 percent, rising from $5.0 billion in 2009 to $6.7 billion in 2013. Another of the fastest-growing

IBO Expenditure Projections

Dollars in millions

	2009	2010	2011	2012	2013	Average Change
Health & Social Services						
Social Services						
Medicaid	$5,796	$4,905	$5,065	$6,238	$6,419	2.6%
All Other Social Services	2,896	2,831	2,855	2,857	2,857	-0.3%
HHC	112	98	96	96	96	-3.6%
Health	1,719	1,591	1,605	1,616	1,616	-1.5%
Children Services	2,735	2,615	2,620	2,619	2,619	-1.1%
Homeless	741	667	669	669	669	-2.5%
Other Related Services	656	529	514	514	514	-5.9%
Subtotal	$14,655	$13,236	$13,423	$14,610	$14,791	0.2%
Education						
DOE (excluding labor reserve)	$17,549	$16,980	$17,823	$17,994	$18,498	1.3%
CUNY	635	595	587	589	589	-1.9%
Subtotal	$18,184	$17,575	$18,411	$18,583	$19,087	1.2%
Uniformed Services						
Police	$4,333	$4,288	$4,387	$4,465	$4,452	0.7%
Fire	1,641	1,608	1,619	1,618	1,615	-0.4%
Correction	1,022	993	1,026	1,042	1,039	0.4%
Sanitation	1,293	1,317	1,423	1,448	1,446	2.8%
Subtotal	$8,288	$8,205	$8,455	$8,574	$8,552	0.8%
All Other Agencies	**$6,522**	**$6,517**	**$6,504**	**$6,584**	**$6,639**	**0.4%**
Other Expenditures						
Fringe Benefits (excluding DOE)	$3,352	$3,390	$3,360	$3,374	$4,348	6.7%
Debt Service	1,719	1,533	5,548	6,369	6,657	n/a
Pensions	6,259	6,378	6,907	7,156	7,429	4.4%
Judgments and Claims	638	675	732	793	856	7.6%
Grant to TFA	546	-	-	-	-	n/a
State Education Building Aid (TFA)	181	347	376	436	501	n/a
General Reserve	100	300	300	300	300	n/a
Labor Reserve:						
Education	45	327	598	658	658	n/a
All Other Agencies	509	1,086	1,465	1,860	1,888	n/a
Expenditure Adjustments	(597)	(45)	149	316	441	n/a
Total Expenditures	**$60,400**	**$59,524**	**$66,227**	**$69,615**	**$72,150**	**4.5%**

SOURCE: IBO.

NOTES: Debt service expenditures, if adjusted for prepayments, would grow at an annual average rate of 7.6 percent from 2009-2013. Similarly, fringe benefits would grow at an annual average rate of 7.0 percent. Debt service includes Transitional Finance Authority (TFA) debt service expenditures. Expenditure adjustments include energy, lease, fleet reduction, prior year payable adjustments and non-labor inflation estimates. Estimates exclude intra-city expenses. Figures may not add due to rounding.

costs is health and other fringe benefits for city workers, which, adjusted for payments and other cost savings actions, is projected to grow at an average annual rate of 7.0 percent, and rise from $3.8 billion in 2009 to $5.0 billion in 2013 (excluding the education department). In addition, the city's contribution for pensions for its workforce is expected to rise from $6.3 billion in 2009 to $7.4 billion in 2013. The Mayor's budget plan includes actions to reduce the growth in spending for debt service, fringe benefits, and pensions and our expenditure estimates take these measures into account.

Education

STATE AND CITY CUTS DROP 2010 SCHOOL SPENDING BELOW CURRENT LEVEL: AMOUNT OF FEDERAL STIMULUS FUNDS REMAINS UNCERTAIN

The Department of Education (DOE) provides primary and secondary education to over 1 million students across New York City in more than 1,400 public schools. The 2010 preliminary budget for the DOE is $17.3 billion—$290 million less than the current budget for 2009, and $1.9 billion less than was planned for 2010 16 months ago (November 2007), before the economic downturn took hold. Cutbacks in city and state support for the DOE account for most of the reduction in planned spending. Although the restoration of $125 million to classroom budgets for 2009 by the City Council last spring avoided even greater impacts, classrooms are feeling the effects of subsequent cutbacks, and under the Mayor's Preliminary Budget, there will be more in 2010.

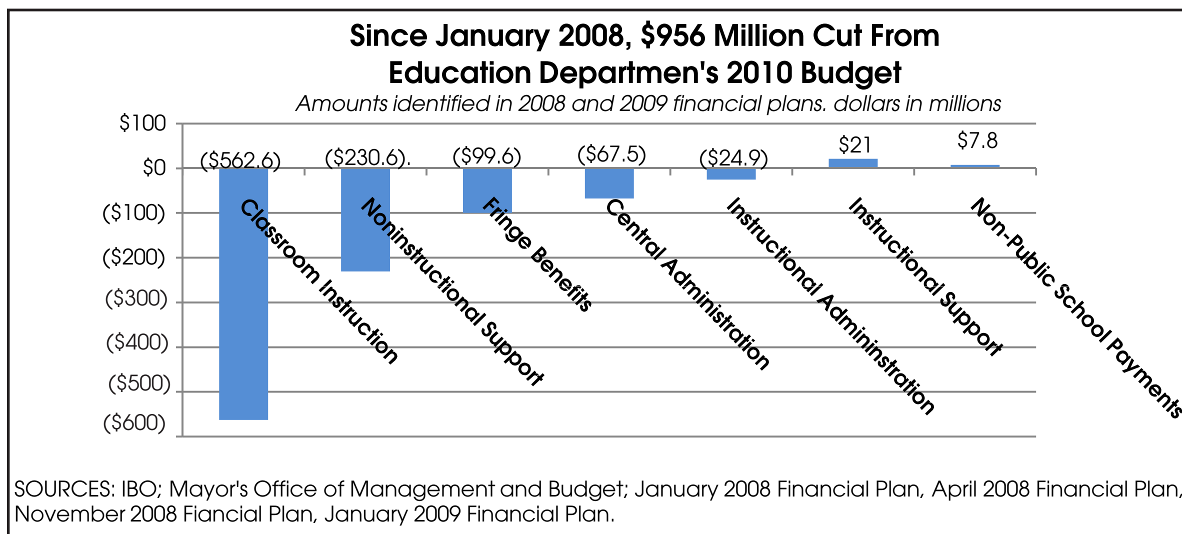
At the state level, the 2009–2010 Executive Budget released by the Governor in December calls for major reductions in anticipated state school aid, including the funding that was part of the resolution to the long-running Campaign for Fiscal Equity (CFE) school financing case. The state would cut not only the scheduled increase in foundation aid, but also introduce a one-time "deficit reduction assessment," and shift more costs of special education from the state to local districts. The Mayor has claimed that if the state cuts are not rescinded, the city will be unable to "backfill" the lost funding, resulting in the layoff of 14,190 teachers and another 1,440 school-based positions through attrition.

It is likely funds from the federal stimulus package will be used to avoid some, if not all, of the threatened layoffs. Much of the stimulus money for education is intended for the state to use to avoid cuts in school aid to local districts. Assuming the state allocates this money as expected, much of the Governor's proposed cuts in education aid could be restored. The concern is that the stimulus funds reach the city as anticipated.

C***umulative Cuts***. As with most other agencies, the budget stress has been growing on the DOE since the January 2008 release of the 2009 Preliminary Budget. Although spending was projected to continue rising, the Mayor proposed cutting back sharply the rate of year-over-year spending growth with a $324 million cut to the 2009 budget of which at least $180 million would come from the budgets of individual schools, with the rest coming from budgets for various support and administrative functions. In April, his Executive Budget removed an additional $104 million from the DOE's budget for 2009.

During negotiations leading up to budget adoption last June, the City Council restored $125 million which was to be targeted to school budgets to avoid cuts to classrooms. The restoration was only for 2009, although the cuts had been baselined for subsequent years as well. In the end, the 2009 Adopted Budget was $17.8 billion, an increase of $936 million (5.6 percent) from 2008. Since then, there have been adjustments in November and this January which pulled another $151 million from the 2009 budget. Again, the majority of the reductions come from school budgets, including $104 million from other than personal services (OTPS) at schools. Additionally, funding for before- and after-school programs were also reduced in many schools.

The cuts from the 2010 budget have been even larger over the same period. The budget for 2010 is now $1.9 billion (10.2 percent) lower than it was before the January 2008 plan. About $956 million of that reduction is due to actions that were taken by the city to deal with its growing fiscal difficulties. By the time the budget was adopted last June, there had been a total of $316 million in "PEGs" (actions to reduce city spending under the Program to Eliminate the Gap) for the 2010 DOE budget. The November 2008



SOURCES: IBO; Mayor's Office of Management and Budget; January 2008 Financial Plan, April 2008 Financial Plan, November 2008 Fiancial Plan, January 2009 Financial Plan.

plan included a new $385 million PEG for 2010 and beyond, with 66.4 percent of the reduction coming from classroom instruction OTPS spending. The Mayor's Preliminary Budget includes another PEG of $251 million for 2010 ($306 million in additional reductions in city funding that are partially offset by $55 million in funding swaps). The cuts include $100 million expected to come from budget lines that will affect classroom instruction. There are also cuts to non-instructional support functions (nearly $150 million), and to administrative functions ($12 million).

In a somewhat unusual move, the department was allowed to include reestimates—the result of lower actual costs for enrollments rather than a decision to cut spending—as a credit towards the department's PEG. Thus, $113 million of the Preliminary Budget cut is due to lower expense projections for special education busing, food operations, and fringe benefits. A portion of the identified savings were placed back into pre-kindergarten tuition costs, mandated special education placements in private schools, and other special education expenses.

Other parts of the DOE budget will see some increases; the budgets for special education instructional support, special education pre-kindergarten contracts, and spending for charter schools, special education contract schools, and foster care are increased by a total of about $75 million. Generally speaking, many special education areas were spared in this round of PEGs.

State Budget. Facing even tougher budget difficulties than the city, the Governor's Executive Budget included four proposals that would sharply cutback growth in state education aid, including some aid that was only recently promised to the city as part of the resolution of the Campaign for Fiscal Equity (CFE) litigation. The phase-in period for foundation aid—the cornerstone of the CFE resolution—will be extended from four to eight years. In addition, foundation aid and universal pre-kindergarten funding will be frozen for two years through 2011. Third, most formula aids will have a deficit reduction assessment applied to them; and fourth, local school districts will have to pay a share of special education pre-kindergarten expenditures. In total, under the Governor's Executive Budget, school aid for the city would fall by $766 million in 2010.

Undoing CFE. Foundation aid was created in the 2007–2008 state fiscal year budget to help resolve the CFE litigation by targeting a significant increase in state aid towards New York City schools—which the courts had determined were not adequately supported—as well as other high needs districts. The foundation aid formula was designed to replace roughly 30 older formulas and allow for greater weight placed on factors such as student need and regional cost differences. Although many aids were consolidated, some important expense-based aids were kept separate from the aggregated foundation aid such as transportation, textbooks, special education, and universal pre-kindergarten.

The state's 2007–2008 budget legislation called for annual increases in state education aid over four years to be channeled through the new foundation aid formula that would result in a $7 billion increase in annual spending on education by New York State by 2011–2012. Annual state aid for New York City schools was to increase by $3.2 billion by the fourth year. Combined with a $2.2 billion increase in education spending by the city that was required under the same legislation, the total increase in annual spending for city schools was expected to reach $5.4 billion by 2012.

In state fiscal year 2008–2009 the foundation formula itself was adjusted to restrict the range of foundation aid increases that districts could obtain. The minimum annual increase in foundation aid for a district was lowered to 2 percent from the original 3 percent minimum. Similarly, the maximum annual increase was lowered from 25 percent to 15 percent.

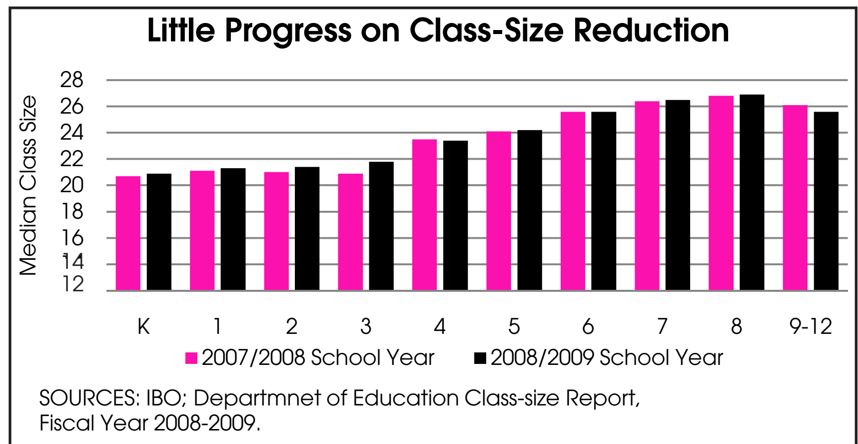
Under the Governor's 2009–2010 Executive Budget, foundation aid would also be phased in at a slower pace and not reach full funding until 2014-2015. Moreover, the Governor also proposes to freeze foundation aid and universal pre-kindergarten aid at their 2008–2009 levels for two years through 2010–2011, ignoring the now smaller phase-in increases that are scheduled in those two years. Thus, unless the phase-in is adjusted further once the freeze ends, the original foundation aid target increases would not be achieved until 2014–2015.

Deficit Reduction Assessment. In addition to frozen foundation aid, state aid amounts will be reduced by a one-time deficit reduction assessment to be applied to all formula aids except building aid and universal pre-kindergarten aid for the 2009–2010 state fiscal year. The proposed reduction factor—which can range from 3 percent to 13 percent—takes into account the education needs of a district's students, its wealth, and its tax effort. New York City schools are expected to lose roughly $362 million in 2010 from the deficit reduction assessment based on an assessment factor of about 5 percent.

Special Education Pre-kindergarten Share. The Governor's Executive Budget introduces a plan to have school districts pick up a 15 percent share of their special education pre-kindergarten costs. Until now the state has funded almost 60 percent of school district special education pre-kindergarten expenditures with the counties funding the other 40 percent. The state argues that because school districts have some control over the type of pre-

school special education services that are offered that districts should share the fiscal responsibility for funding these services.

In 2006 there were 13,730 pre-schoolers with disabilities in New York City schools and that number has likely grown to about 16,000 today. The state currently gives city schools over $401 million in special education pre-kindergarten assistance. The Mayor's office has estimated that under the Governor's proposal, the additional expense for the city would be $106 million in 2010 and the cost of this new mandate would grow with the city having limited ability to control enrollment or costs.



SOURCES: IBO; Departmnet of Education Class-size Report, Fiscal Year 2008-2009.

Contracts For Excellence. Contracts for excellence are the accountability mechanism linked to the increases in foundation aid. Every school district in the state with at least one low-performing school that gets a foundation aid increase of at least $15 million or 10 percent (over the prior year) must file a "contract for excellence." The contract commits the district as to how it will spend "contracted" amounts of a portion of its new foundation aid in the upcoming year. The contracts must allocate the increased spending among six areas identified by the state. For New York City, the contract for last year (2007–2008 school year) covered $256 million in new spending and has grown to $387 million for the current school year.

The 2008–2009 approved plan includes $150 million for class-size reduction; $108 million allocated to time on task, $68 million for teacher and principal quality initiatives, $36 million dedicated to middle and high school restructuring, $21 million for to the newly added spending area for English language learners, and $5 million devoted to full-day kindergarten or full-day pre-kindergarten. Although districts may spend up to 15 percent of their contract funds on experimental programs, the city has not proposed any so far.

Under the contract for the current school year, spending increased in each of the six areas except class-size reduction, which was trimmed by $2.5 million (1.6 percent) from last year. Under its Contract for Excellence, New York City was required to reduce class sizes over five years from 2007 to 2011. Class-size reduction can be achieved by either creating or constructing more classrooms or, if a school has available space, by establishing additional classes in the unused classrooms.

Despite the allocation for class-size reduction under the Contract for Excellence, there was little progress in reducing class sizes and in a number of grades the median class grew, especially in the early grades. There were modest increases in kindergarten through second grade and a particularly large increase—the median grew by 0.9 students—in third grade. Class sizes were little changed in the fourth through the eighth grade. The median high school class size decreased by nearly 0.5 students.

For 2010 and 2011, the Governor's Executive Budget would require districts to maintain support for their contract programs, but be allowed to reduce funding for those programs in proportion to the impact of the deficit reduction assessment on a district's foundation aid. Because the contracts link some of the increased foundation aid to specific objectives, the city's Schools Chancellor has contended that they interfere with the DOE's own priorities in spending the new resources. This additional requirement would likely exacerbate the dispute between supporters of tight adherence to the funding priorities behind the contracts and those like the Chancellor who want to maximize the DOE's flexibility in allocating resources, particularly during a severe economic contraction.

Education and the Federal Stimulus. The federal stimulus package creates $98 billion in education funding over the next two fiscal years, $79 billion of which is being distributed directly to states and school districts. The legislation provides funding under several current programs authorized by pre-existing education legislation such as Title I of the Elementary and Secondary Education Act (ESEA) and Individuals with Disability Education Act (IDEA), as well as creating a large new funding stream to directly support the states' education aid structures.

New York State is expected to receive a total of $4.8 billion over two years from the stimulus. The Governor's staff has indicated that slightly over $1.7 billion over two years will go to New York City schools based on pre-existing formulas. The balance of the funding, which is equal to about $3 billion, is targeted for "state fiscal stabilization." To help insure that stimulus funds will be passed through to local districts, states will have to submit their

funding formulas for examination by the U.S. Department of Education, before the federal funding can flow.

The city expects to receive about $550 million to $600 million in Title I stimulus money for two years plus between $229 million and $369 million in IDEA stimulus money. In both cases, these funds are supposed to be used to supplement existing services rather than replace city funds. (For more information see the federal stimulus section.)

The fiscal stabilization funds are the largest pot of education stimulus money. Most of the stabilization funds are intended to be used to preserve state education aid to local school districts by replacing state revenues that have been lost as a result of the economic downturn; states are allowed to retain 20 percent for other uses. After reserving 20 percent, states must first use the balance of their stabilization funds to undo cuts they have already made to education aid budgets.

In the case of New York State the stabilization funds would presumably be used to restore the cuts proposed in the Governor's Executive Budget. Thus, unlike the other education stimulus money, the fiscal stabilization funds can be used to supplant or replace state funds. After these types of cuts have been restored, any remaining money is to flow to districts through the standard Title I formula. Fiscal stabilization money may be used for any authorized activity under four federal education laws (ESEA, IDEA, Adult Family Literacy Act, and Perkins Career and Technical Education Act) or for the modernization, renovation, or repair of public school facilities—but not for new construction.

City schools could receive roughly $1.1 billion over two years, which would be about 40 percent of the total stabilization funds allocated to districts across the state. For New York City schools the stakes in how the stabilization funding is allocated are quite high. The Mayor has claimed that the DOE will have to lay off 14,200 teachers if the proposed education aid cuts in the Governor's Executive Budget are not reversed. The stabilization money alone could provide enough to offset most, but not all, of the Governor's cut. However, at this point, important details about the allocations remain to be worked out.

BUDGET CHALLENGES FACING CUNY

The City University of New York (CUNY) is the nation's largest urban public university. Over the last several years, efforts by CUNY administrators to upgrade the quality of its academic programs have won the praise of outside observers and led to an increase in the numbers of applicants to its various colleges. The June 2008 report by the New York State Commission on Higher Education includes several proposals for further improving both the CUNY and the State University of New York (SUNY) systems. Key proposals include plans to hire 2,000 additional full-time faculty members statewide over the next five years, and to upgrade and expand university infrastructure.

Under the commission's proposals, funding for ongoing operating expenses and investments in quality upgrades would come from a proposed "New York State Compact for Public Higher Education," which is closely based on the "CUNY Compact," a financing plan developed in 2005 by CUNY administrators. Under this plan the new revenues needed for continued improvements at CUNY would come from steady increases in state and city funding, cost-saving efficiency moves by the university, philanthropic sources, student enrollment growth, and regular, relatively modest tuition increases. At least in the short run, however, implementation of this financing plan could be threatened by the recent economic downturn that has contributed to the fiscal challenges currently faced by both the state and city governments. While the compact has never been officially adopted by the state or city, the ideas behind it continue to influence policy makers and to shape CUNY's planning.

State Budget. The state and city have different areas of financial responsibility within the CUNY system. The state generally funds the four-year degree programs plus the graduate and professional schools, while both the state and city contribute funds to the community colleges.

In recent years, CUNY's quality improvement initiatives have been aided by a significant uptick in state funding support, reversing what had been a long-run downward trend. From state fiscal year 1988–1989 to 2003–2004, total state aid to CUNY decreased from $725 million to $719 million in spite of rising costs. In inflation-adjusted dollars this represented a 43 percent decline in state funding over this period. Yet over the last five years, state aid has increased by significant amounts each year, reaching $1.3 billion in 2008–2009. During this period inflation-adjusted annual growth averaged about 10 percent.

The Governor's Executive Budget for 2009–2010, reflecting a more difficult fiscal outlook, would break with this upward funding trend. Under this proposal, state funding for CUNY would decrease by $68 million from the current year to $1.3 billion. The senior colleges would see a reduction of $65 million or 5.7 percent while state funding for the community colleges would decrease by $3 million or 1.9 percent.

In order to offset these reductions, the state Executive Budget would approve a CUNY request for a tuition increase, the first

since 2003–2004. Beginning in the fall of 2009, tuition for full-time, in-state undergraduate students at the senior colleges would rise by $600 per academic year, from $4,000 to $4,600. This increase is projected to provide the senior colleges with an additional $115 million in tuition revenues, resulting in an overall revenue increase of $50 million after accounting for the decrease in state funds. (A similar tuition increase for the community colleges is included in the city's Preliminary Budget.)

The reduction in state funds coupled with a significant increase in tuition diverges from the formula presented in the CUNY Compact, which proposed steady annual increases in public funding combined with more modest regular tuition increases. Fiscal year 2009–2010 represents year four of the CUNY Compact. Under the original plan, senior college tuition would have risen to $4,390 by 2009–2010, an increase of 9.8 percent or about 2.4 percent each year. Instead, tuition was held flat for the first three years, and will now increase by 15 percent in one year. This pattern of tuition freezes followed by sudden, substantial increases has characterized CUNY's funding history over the last two decades. On the other hand, the state Executive Budget would implement a key proposal in the Compact by allowing the university to keep a portion of the tuition increase for quality improvements. In previous years, tuition increases went solely to offset cuts in state funds.

City Budget. The city's 2010 Preliminary Budget and November 2008 Financial Plan also include budget cuts that reduce city funding for CUNY by $12 million in city fiscal year 2010. These reductions come on top of previous baselined reductions that have been restored only for 2009. As a result, the 2010 Preliminary Budget includes a reduction of $30 million or 12.5 percent in city funds for the community colleges compared to the current year. The budget also includes a tuition increase of $400 per academic year for full-time, in-state community college students, an increase of 14 percent from the current base of $2,800. This action is expected to increase tuition revenues by $10 million. Unlike with the senior colleges, the tuition increase would not completely offset the loss of public funds, leaving total community college revenues about $24 million lower than for the current year.

The city budget for CUNY also includes funding for programs other than the direct operation of the community colleges, such as the Vallone Academic Scholarship program. Many of these programs have historically been funded one year at a time. Because funding for these additional programs has not yet been added for 2010, the overall level of city funding for CUNY for 2010 is projected to be about $40 million below that for 2009. This situation is not that unusual for this point in the budget cycle; CUNY is generally not fully funded until the city's budget is adopted in June. Last spring, however, with the city's fiscal situation beginning to deteriorate, not all of the programs were funded at prior-year levels when the final budget was adopted. Given the city's worsening fiscal outlook, it is not clear whether city funding in 2010 will ultimately match 2009 levels.

Social, Community Services, and Public Safety

RETHINKING SERVICES FOR SENIORS

The 2010 preliminary budget for the Department for the Aging (DFTA) is $245 million and includes budget cuts that total $7.8 million for its three core services: case management, home delivered meals, and senior centers. The cuts will reduce the amounts budgeted for contracted services in these areas while the agency also has ambitious efforts underway to restructure those same contracts.

Restructuring Senior Services. Early in 2008 Mayor Bloomberg announced a new effort intended to improve the city's capacity to provide services for New York City's growing population of seniors. By 2030, according to projections, one-fifth of the city's population will be over the age of 60, with seniors outnumbering school-aged children. This effort to expand the agency's ability to serve a growing number of seniors will focus on DFTA's three core services—case management, home delivered meals, and senior centers. New contracts for case management and home delivered meals have begun, but the request for proposals (RFP) for overhauling services at senior centers was withdrawn and plans for restructuring the centers are being reworked. Whether these efforts can expand capacity while eliminating redundant and underused services remains to be seen.

Case Management. DFTA launched its modernization efforts with the redesign of case management services. The case management transition began on April 1, 2008 and continued through September 30, 2008. With the new system seniors are assessed to determine whether in-home services such as home delivered meals and home care are appropriate. Providing such services can allow seniors to continue to live at home and engaged in their communities. The Mayor's Preliminary Budget includes a reduction of 4.5 percent to case management contracts for a savings of $1.1 million. The total budget for case management for 2010 is $20.6 million.

Home Delivered Meals. With the growing number of seniors, DFTA created a new home delivered meals system whose goal is to provide "greater efficiency, flexibility and choice to frail homebound seniors." New contracts started December 1, 2008; however, the date the service actually begins varies by borough. The Bronx and Staten Island began service January 3, 2009, followed by Queens on February 3, 2009. The start dates for Manhattan and Brooklyn have been pushed back due to some issues that arose in Queens. Manhattan started on March 15, 2009 and Brooklyn is scheduled to begin on May 4, 2009. The Preliminary Budget includes savings of $1.4 million, or 5.2 percent of the total budget for the meals program which is to be achieved by scaling back planned expansion in the program. Under the new contracts it was expected that the number of meals served each year would increase 4.3 million meals. Now DFTA will keep the number of meals served at the current level of 4.1 million meals.

Senior Centers. Currently, DFTA funds 323 senior centers throughout the five boroughs. In a February 2008 hearing on the senior centers concept paper, DFTA testified that 44 percent of the senior centers are underutilized. DFTA officials have stated that they intend to create a new, more inclusive plan for the growing senior population. New contracts for senior centers were set to begin March 2009. Nonetheless, on December 19, 2008, facing vocal opposition from elected officials, advocates, and seniors, and the appointment of a new department commissioner, the RFP was withdrawn. The Preliminary Budget includes a proposed reduction in contracts for senior centers of 5 percent next year for a savings of $5.2 million. The total budget for senior centers for 2010 is $86.5 million.

FURTHER DROP IN POLICE STAFFING PROPOSED FOR 2010

The Preliminary Budget for fiscal year 2010 proposes reducing authorized police officer staffing to 33,217, which would be lower than actual staffing attained in any year since 1990. The Mayor's Preliminary Budget provides for a single class of 250 new police recruits to be hired during 2010 (they will start in July 2009). Because more than 250 officers are expected to leave the department next year, the overall size of the force will shrink by nearly 2,000 by the start of 2011.

Police Staffing Falls Since 2006

Police Staffing in Past Years							Proposed Staffing	
1990	1995	2000	2005	2006	2007	2008	2009	2010
31,985	36,429	40,285	35,489	35,773	35,548	35,405	35,128	33,217

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTE: Figures above are either actual or proposed end-of year (June 30) staffing levels.

Police officer staffing reductions announced since June 2008 will generate savings of $129.5 million in 2010.

Federal Stimulus Bill Could Enable Hiring of Some Officers. The federal stimulus package provides $1 billion to fund Community Oriented Policing Services (COPS) grants that will

fully cover the cost of 5,500 police officer positions for three years in localities across the country. However, it remains unclear at this point as to the number of police officer positions to be funded within the police department given that local law enforcement agencies desiring such grant funding will be required to participate in an upcoming competitive bidding process.

The federal COPS program originated with passage in 1994 of the Violent Crime Control and Law Enforcement Act, commonly referred to as the Crime Bill. Between 1997 and when the size of the force peaked to 40,000 officers in 2000, about 3,500 police officer positions in New York City were partially funded with COPS grants.

PROPOSED DROP IN CIVILIAN POLICE STAFFING IN 2010 MAY EXACERBATE IMPACT OF DROP IN POLICE OFFICER STAFFING

The Preliminary Budget for 2010 also proposes to reduce authorized civilian staffing in the police department by 469 positions (3.2 percent) compared to the level planned when the current budget was adopted last June. The proposed reduction in civilian staffing has troubled some observers, particularly given the department's acknowledgement that hundreds of police officers are currently performing "civilianizable" functions.

Last September, the police department reported that 450 "full duty" police officers were assigned to administrative or other support functions that could be performed by generally less costly civilian personnel. If the city were to redeploy these officers to the field and replace them with less expensive civilian personnel, the city could achieve budget savings by allowing the size of the force to decline via attrition by 450 police officer positions.

The police department has often pointed out, however, that while assigning trained law enforcement personnel to civilianizable activities may to some extent be inefficient, replacing such police officers with civilian personnel would result in a reduction in the agency's overall law enforcement and emergency response capabilities. This is because the 450 full duty uniformed personnel currently working in civilianizable positions are often, according to the police department, redeployed at least temporarily to activities that require their specialized law enforcement training, such as demonstrations, special events, and public safety emergencies. By reducing the department's civilian staffing level by 469 positions, the Preliminary Budget proposal will likely result in having more officers performing "civilianizable" assignments.

ATTRITION WOULD LOWER FIREFIGHTER STAFFING TO LOWEST SINCE 1980

Under the Preliminary Budget, the New York City Fire Department (FDNY) firefighter staffing for 2010 would be allowed to decline via attrition to 10,782, lower than any year since at least 1980. The reduction in firefighter staffing will be reflected in department operations in three ways.

In the November 2008 Financial Plan, four firefighting units in fire houses containing two companies were to cease nighttime operation. Now, the city plans to take them out of operation during all hours of the day. The four units at issue include three engine companies (one each in Manhattan, Staten Island, and Brooklyn) as well as a ladder company in the Bronx. The four firehouses where these companies are currently located will not close, however, as either an engine or ladder company will continue to operate out of each firehouse all hours of the day. The firehouse on Governors Island will not be staffed except during special events on the island. Together, these two actions would save $9.8 million in 2010.

Twelve additional engine companies operating out of firehouses so far unspecified would be shut down completely, a step which would eliminate 300 firefighter positions (via attrition) and achieve savings of $16.2 million in 2010. However, the Bloomberg Administration has stated its desire to avoid the need to disband the 12 engine companies at issue by instead reaching an agreement with the firefighters' union that would allow the 60 engine companies across the city currently staffed with five firefighters to instead operate with four firefighters. The latter option would also reduce the agency's firefighter staffing needs by about 300 positions.

Fire Department Staffing to Fall Bellow 1980 Level

Actual Firefighter Staffing in Past Years							Proposed Staffing	
1980	1985	1990	1995	2000	2005	2008	2009	2010
11,374	12,356	11,571	11,186	11,521	11,488	11,585	11,233	10,782

SOURCES: IBO; Mayor's Offfice of Management and Budget
NOTE: Figures above are either actual or proposed end-of year (June 30) staffing levels.

REDUCTION IN FIRE DEPARTMENT-OPERATED AMBULANCE TOURS

The Preliminary Budget includes a roughly 5 percent (or 30 tours per day) reduction in FDNY-operated ambulance tours,

TANF Block Grant Funding Tightens While Maintenance of Effort Spending Increases

Along with the proposed cuts in state and city funding for the city's social service programs, some of these programs face an additional level of uncertainty from a proposal in the 2009–2010 Governor's Executive Budget that would change the way that federal Temporary Assistance for Needy Families (TANF) block grant funds are allocated. The proposal would significantly expand the portion of TANF funds that are allocated to localities in the form of the Flexible Fund for Family Services (FFFS) block grant. Nevertheless, including more programs in the block grant would eliminate specific allocations for child care and some smaller programs.

Under the 1996 federal welfare law, New York State receives $2.4 billion in federal TANF block grant funds each year. These funds are used to pay for the federal share of Family Assistance grants, as well as some other programs aimed at helping low-income New Yorkers. In the early years of the TANF system, decreasing cash assistance caseloads and grant payments meant that increasing amounts of TANF funds became available for expanding related programs, as well as fiscal relief. With the size of the block grant frozen at its 1996 level, however, its inflation-adjusted value has decreased over the years by more than a third. As the costs of individual programs have increased each year, it has become harder for state officials to decide how to allocate the surplus TANF funds among competing programs.

Beginning in state fiscal year 2005–2006, state officials shifted some of this decision-making to localities by allocating a significant portion of the TANF funds in the form of the FFFS. This left it up to local officials to decide how to distribute the funds among various programs. While the concept of the FFFS system itself has not been very controversial, there have been annual struggles over its size and which programs to include.

The major battle has been over child care subsidies. Child care advocates and their supporters in the state Legislature fear that including child care in the FFFS will lead to a reduction in funding for the program, although this did not happen in 2006-2007, the only year in which child care was included in the FFFS. Given the serious budget shortfalls currently facing both the city and state, the Governor's proposal to once again include child care in the block grant could result in increased competition for FFFS funds this time around. In addition, the city's child care system is in a more precarious situation than it was three years ago, facing serious funding shortfalls and proposed spending reductions. (See child care section.)

The Governor's budget proposal would eliminate the current $356 million statewide TANF allocation for child care subsidies, and numerous smaller allocations for other programs by folding these programs into the FFFS. The Governor also proposed to increase the size of the FFFS by reducing the amount of TANF funds that are used to help pay for the state's Earned Income Tax Credit, thereby providing local governments with some additional leeway to cover their child care and other programs. While the FFFS would provide localities with greater flexibility, these programs will be competing for resources with locally funded programs that are now facing budget cuts.

Overall, the FFFS would more than double from $654 million to $1.32 billion. The FFFS would include more than two-thirds of all TANF surplus funds, another major step away from the traditional system of allocating TANF funds by line item.

Increasing Certain Spending Could Bring Benefits. The 1996 federal law also contained a provision that requires state and local governments to maintain their spending on TANF-related programs at 75 percent of previous levels. In New York State this means that state and local spending on these programs must total $1.7 billion each year or the state will face a significant reduction in TANF funds. Early on, decreasing caseloads and grant payments made it difficult to reach this level of spending. This situation began to change in 2001 when many family assistance recipients began to reach their 60-month limit on federal assistance and were shifted to Safety Net Assistance, increasing the state and local share of their grant costs from 50 percent to 100 percent. Safety Net Assistance spending for these recipients was counted towards the maintenance of effort (MOE) target. Over the years other changes added to MOE spending. The state significantly expanded its Earned Income Tax Credit, which is funded with both TANF and state funds. In recent years, as the TANF block grant has lost value, state and local funds have been used to replace TANF funds for some programs. As a result, by 2008 total MOE spending reached $2.5 billion, nearly 50 percent above the required amount.

This spending in excess of the MOE amount could protect the state from future funding reductions. The 2006 reauthorization of the federal welfare law effectively raised the work quota for welfare recipients by reducing the credit that states could claim for caseload reductions. This has left the state in danger of losing 5 percent of its TANF grant, a loss of about $120 million. But states are allowed to use their surplus MOE spending to gain additional credits towards the quota. Due to this additional credit, the state is expected to continue to achieve its work quota.

beginning in 2010. This service cut would translate into net savings of $1.6 million in 2010 after accounting for the associated reduction in revenue generated from ambulance operations.

Ambulance response to medical emergencies in the city is provided both by FDNY units as well as ambulances operated by private hospitals. Since 1995, the year in which operation of Emergency Medical Services was transferred from the Health and Hospitals Corporation to the fire department, the average number of ambulance tours has increased by almost 50 percent.

The most significant growth has occurred in privately operated ambulance tours, with private units now accounting for 39 percent of all ambulance tours. The increase in total ambulance tours since 1995 has also been associated with a marked improvement in the average response time of ambulance units to medical emergencies throughout the city.

PLANNED REMOVAL OF ONE PARAMEDIC FROM ADVANCED LIFE SUPPORT AMBULANCE UNITS REQUIRES REGULATORY APPROVAL

Another EMS-related service reduction proposed within the 2010 Preliminary Budget concerns the staffing of a subset of the ambulance fleet. There are two types of ambulance units that respond to medical emergencies, Basic Life Support (BLS) and Advanced Life Support (ALS). The BLS ambulances are staffed by two emergency medical technicians (EMTs); in contrast, ALS units are currently staffed by two more highly trained (and more costly) emergency medical personnel known as "paramedics." The Bloomberg Administration proposes replacing one of the two paramedics in ALS units with a less costly EMT, thereby allowing the total number of paramedics on staff to decline via attrition. The proposed alteration in ALS staffing would be applied to 90 (or just over one-half) of the daily average of 165 ALS ambulance tours operated by the fire department. The Mayor's office estimates that annual savings of $2.1 million per year would result due to the lower personnel cost associated with EMTs.

To alter ALS staffing, the FDNY would first need to secure the consent of the state-created Regional Emergency Medical Advisory Committee (NYC-REMAC). The city is currently the only jurisdiction in all of New York State in which ALS ambulance units must be staffed by two paramedics.

In 2005, the fire department unsuccessfully sought the same type of regulatory relief from NYC-REMAC. Unlike today, when the city's proposal is aimed at reducing paramedic staffing, the department's goal in 2005 was to alter ALS staffing without any subsequent reduction in the number of paramedics, proposing instead to double the number of city-operated ALS ambulance tours by pairing each paramedic with an EMT in single-paramedic ALS units. This would have helped the city meet critical response time objectives. Response times for serious incidents remain an issue for the department. The fire department has been falling short of its internally established objective of ALS response to 90 percent of serious medical emergencies within 10 minutes (they currently meet the objective 81 percent of the time).

DEPARTMENT OF CORRECTION PLANS TO REDUCE AVERAGE DAILY POPULATION IN CITY JAILS

The Department of Correction's (DOC) preliminary budget for 2010 includes four new programs that aim to reduce the average daily population of detainees in the city jails. Combined with a program in the November plan, the total projected decrease in the average daily population is roughly 1,700. Such a decrease would save the city millions of dollars. It would also require substantial collaboration between many entities including: DOC, the Department of Probation, prosecutors, defense attorneys, and the courts.

The Preliminary Budget plans to save the city $7.4 million through four different programs that would place low-risk detainees under supervision rather than detention, reduce the period of time between conviction and sentencing, expedite hearings for certain cases involving drug offenses, and expedite bail. Through these programs the Bloomberg Administration estimates that the average daily population in the jails will decline by over 500 detainees. Each of these initiatives will require collaboration, especially from the courts. For example, the initiative to place low-risk detainees under the supervision of probation rather than in DOC custody depends on judges agreeing to place defendants under supervision rather than in jail. Without the

Average Daily Ambulance Tours Rise, 1995-2008

	1995	2000	2005	2006	2007	2008
City (FDNY)	497	575	539	540	543	567
Private	130	233	407	391	378	359
Total	**627**	**807**	**946**	**931**	**920**	**926**
Average Response Time by Ambulance Units (Minutes: Seconds)	8:46	7:48	6:46	6:42	6:36	6:39

SOURCES: IBO; Mayor's Office of Management and Budget, Mayor's Management Reports.

cooperation of judges, it will be difficult to generate significant savings from this initiative.

The November 2008 Financial Plan projects a reduction in the average daily population of roughly 1,200 which would allow the department to close a jail on Rikers Island. To achieve this reduction the city would need to reach an agreement with the state that would permit some inmates who are currently in city jails to be in state custody. The details of this plan are still under negotiation. Combined, the November plan and January plan programs anticipate a 13 percent decrease in the average daily population from 2008 when the average daily population was 13,850 inmates.

If this reduction in the average daily population is achieved, the Bloomberg Administration projects that the savings will total $26 million in 2010 and over $32 million in future years. Furthermore, these cuts would not impact the services that inmates receive in jail. The risk is that these programs demand a high-level of cooperation among agencies and the savings will only be achieved if DOC can close dorms and facilities.

Replacing and closing out-dated jails has long been a goal of DOC, as many of the jails that were erected to deal with a ballooning population in the 1980s and 1990s were meant to be temporary. The department would like to reduce its overall capacity and replace some of the capacity on Rikers Island with jails in the boroughs. Shifting capacity to the boroughs would decrease costs related to transporting detainees to and from the courts and increase detainees' access to their attorneys and families. Thus, the department is planning to expand the Brooklyn Detention Center and build a new jail in the Bronx. The total cost of these two capital projects is nearly $1 billion. There are $440 million in planned capital commitments for the Brooklyn Detention Center and $517 million in planned capital commitments for a new Bronx jail.

CHILD WELFARE: AGENCY LAYOFFS, RISING DEMAND ON PRIVATE PROVIDERS

The Administration for Children's Services (ACS) is making significant cuts to staffing, particularly in child welfare services. These cuts will pose an additional burden on private providers, while simultaneously reducing reimbursement funds for the administrative responsibilities of private providers that monitor foster boarding homes. Combining the changes from the November financial plan and the Preliminary Budget, ACS will see reductions of 969 staff in 2010. In December 2008, ACS had 6,931 full-time staff. Therefore, the planned staff reductions amount to 14 percent of ACS staff.

There are significant reductions in ACS staffing in the January plan, beginning with 234 positions lost to attrition of child protective personnel beginning in 2009, for a 2009 city savings of $3.6 million and a 2010 savings of $7.3 million. In 2010, there will be 608 layoffs agency-wide, for a 2010 city savings of $15.7 million, and a savings of more than $19 million in the out-years. While the attrition of child protective staff will not impact the front-end field offices that perform child protective investigations and which have added positions in recent years, the downsizing will lead to the reorganization of several child welfare units. The Family Preservation Program, which provides crisis intervention and family preservation services, will be reconfigured and some of its responsibilities absorbed by the family services unit and private contractors.

Child welfare personnel will experience the greatest number of layoffs in ACS, with a reduction of 315 staff positions, for a savings of $8.2 million in 2010. While the specifics about which positions will be eliminated are not yet clear, layoffs will likely effect family permanency and family support services, divisions which provide oversight of and consultation to private providers, as well as preventive services to families. These cuts will shift some responsibilities, such as case conferencing, from ACS to the private provider agencies that directly serve the community. As part of the Improved Outcomes for Children initiative, ACS integrated the Family Team Conferencing model into its child welfare services. These conferences bring together key stakeholders for a child's well-being, such as a parent or foster parent, a caseworker, community supports, and ACS staff. Currently, these conferences are organized either by ACS staff or a private provider; moving forward, private providers will likely take on more of these responsibilities.

While staffing in these ACS divisions is decreasing, funding for foster care provider agencies that work with child welfare is also being reduced. The January financial plan includes a 5 percent reduction in the administrative rate that is paid to private providers that monitor foster boarding homes.

While this reduction will not impact the stipend provided to foster families, the provider agencies—which are taking on additional responsibilities—will be receiving less funding to cover their administrative costs.

In addition, there will be a 10 percent cut to funding for foster parent support for providers that do not meet their performance goals. Foster parent support is intended to maintain hard-to-place youth in foster boarding homes. A provider has not met performance goals if a child who has been placed needs to move from their foster boarding home to a congregate care setting, or

if they require a move to another agency. This cut is intended to encourage providers to evaluate children properly so they can make appropriate initial placements, minimizing the number of times that children are moved. The reduction of child welfare staff at ACS, coupled with the decreased funding for private providers will result in additional challenges for the private agencies.

CITY AND STATE CUT HOMELESSNESS PREVENTION PROGRAMS; FEDERAL STIMULUS MAY RESTORE

The number of families seeking assistance from the Department of Homeless Services (DHS) recently reached an all-time high: on November 30, 2008, 9,720 families were housed in the city's homeless shelters (this includes families in Department of Housing Preservation and Development facilities). With job losses in the city's economy expected to last well into 2010, the increased demand on the city's family shelter system is likely to continue.

As the city's budget has tightened, agencies have focused limited resources on core services at the expense of non-mandated services. For DHS this has meant reducing the city's funding for its homelessness prevention program, HomeBase, by $5.1 million starting in 2010; in 2008, HomeBase was funded at roughly $12 million annually. Through HomeBase, DHS contracts with community-based providers who assist at-risk families by linking them to services that may include: family mediation, landlord mediation, household budgeting skills, legal services, and benefits assistance.

The Governor's Executive Budget also includes proposed budget cuts to prevention programs. The Governor's proposal would eliminate the Homelessness Prevention Program (HPP), a $5 million cut statewide. This funding supports five nonprofits in New York City that assist families at risk of homelessness with obtaining one-time housing eviction-prevention grants. In addition, the Governor's budget would reduce funding for the Homelessness Intervention Program (HIP) by 26 percent (in state fiscal year 2008-2009 the program was budgeted at $4 million). HIP provides funding for supportive services to homeless and formerly homeless families and individuals to assist in the transition from homelessness to permanent housing. Currently, HIP contractors assist roughly 3,200 households throughout the state.

The federal stimulus money may allow the city and state to avoid these cuts to homelessness prevention services. Using money appropriated in the stimulus bill, the U.S. Department of Housing and Urban Development allocated $141 million for homelessness prevention and re-housing to New York State and localities, including $74 million for New York City and $26 million for the state. These funds must be spent within three years and are reserved for prevention services, such as rental assistance, and re-housing, such as moving cost assistance. Homelessness prevention advocates hope that this funding will restore city and state cuts to prevention services. It is likely that the stimulus money will allow the city's HomeBase services to continue or even expand in 2010. The state's cuts to the HPP and HIP programs may also be avoided due to the stimulus funding for prevention programs.

The city and state budgets both include other reductions to homeless services that are unlikely to be restored with federal funds because the stimulus funds are specifically targeted at prevention and re-housing services, not emergency shelter. The Mayor's Preliminary Budget includes several measures projected to save $14.8 million in city funds in 2010, a 5 percent reduction in city funds. These include: layoffs of 174 community assistants; rate reductions for hotels that temporarily house homeless families; performance-based payments for Adult Shelter Providers; the elimination of recreation staff from shelter contracts; and the elimination of DHS social service staff from certain hotels housing homeless families.

The state Executive Budget proposes reducing funding for city adult shelters by $10.6 million, a 12 percent reduction to the state's adult shelter reimbursement cap. If the state proposals are adopted, the city will need to dedicate additional funds to adult shelter services. In addition, the Executive Budget would reduce funding for the Single Room Occupancy Support Services Program by roughly $5 million statewide, a reduction of nearly 25 percent. The vast majority of units funded by this program are in the city. If this proposed cut is adopted, funding for existing supportive housing residences would be in jeopardy and new supportive housing residences would not have access to this funding stream that was anticipated to fund ongoing operating and support services.

YOUTH PROGRAMS BLOCK GRANT COULD REDUCE FUNDING FOR YOUTH SERVICES

The Governor's 2009–2010 Executive Budget proposes the creation of a Youth Programs Block Grant that would replace several discrete funding streams and result in an overall reduction in state funding for youth development, prevention, and intervention programs, and mandated detention services. The state budget currently provides roughly $118 million annually statewide for these programs, which would be replaced with a $90 million block grant (a 24 percent reduction overall). Localities are required to provide mandated detention services. This means that the Governor's proposal will leave mandated and non-mandated youth services competing for limited state resources. Unless localities

increase their own funding for youth services, it is likely that non-mandated services will see significant cuts.

Locally, the formation of the block grant would effect services provided by three city agencies, the Department of Juvenile Justice (DJJ), the Department of Youth and Community Development (DYCD), and the Administration for Children's Services. Additionally, it would affect nonprofit providers who currently receive funding directly from the state for services, such as the Special Delinquency Prevention Program. Under the current proposal, funding for these providers would be distributed through local governments and they would be directly competing for funding with programs that are presently funded through city agencies.

The block grant proposal would cut state funding in two ways. First, it immediately lowers the overall level of state funding by 24 percent. Second, the funding levels that the Governor has proposed for the block grant would remain fixed over time, even as costs of services increase. Currently, the city and state share the costs of detention of alleged juvenile delinquents equally. Last year, the state reimbursed DJJ $37 million for detention services. The Bloomberg Administration's current estimate of the city's share of the proposed block grant funding is about $44 million. This could cover the state's share of these mandated services, but over time the proposed block grant would likely result in the state paying less than half of the annual cost of detention, leaving few, if any, state funds available for the non-mandated programs that are currently also supported with state dollars.

If the city uses most of its share of the block grant on detention services, DYCD's Youth Development and Delinquency Program (YDDP)—which is already targeted for cuts to close the gap in the city's budget—is among the programs that would lose out. In 2008, YDDP received $10.6 million in state funding to provide after-school and weekend services to promote positive development for youth through its Out-of-School-Time (OST) program; the state funded about 10 percent of OST's 2008 budget. The Mayor's Preliminary Budget for 2010 reduces city funding for the OST program by $10.1 million. The city cuts would eliminate or reduce a number of individual programs, and increase penalties to providers who do not meet participation targets. A total of about 13,000 slots are already at risk due to the city's proposed cuts; if the block grant is approved OST may lose between 3,785 and 6,625 additional slots depending on how the money is allocated among OST programs, as the cost per slot varies across the programs.

Other programs are not targeted for cuts by the city, but would be competing for funding with mandated services if the youth block grant goes through. Last year the city received $2.1 million in state funds for runaway and homeless youth which helped DYCD serve 1,824 youth in crisis shelters and 244 youth in transitional independent living facilities. In addition, ACS received about $2.9 million from the state last year for the PINS (Person in Need of Supervision) remands program, which temporarily places children in foster homes as they wait for their court cases to be adjudicated.

The Youth Programs Block Grant would fundamentally change the way that the city and state fund detention services, and in the process, erode state funding for preventive services and youth development programs. In recent years, New York City has created several new programs to keep youth out of detention. While alternatives to detention are less expensive than detention, they are not mandated and localities may now have more difficulty funding them. Thus, the overall reduction in state funds contained in the block grant proposal could actually reduce the city's flexibility in developing and sustaining alternative youth programs.

DEPARTMENT OF YOUTH AND COMMUNITY DEVELOPMENT: AFTER-SCHOOL PROGRAMS FACE CUTS

The preliminary budget for the Department of Youth and Community Development includes cuts that total $10 million for its after-school program, Out-of-School Time, (OST) and puts a total of 13,145 slots (16 percent of total slots during fiscal year 2008) at risk when combined with reductions from the November 2008 Financial Plan. Proposed reductions in the OST program seek to eliminate and reduce a number of individual programs, as well as increase the penalty to providers who do not meet performance targets.

Out-of-School Time. The department's OST program provides activities for school-age youth during after-school hours, on weekends and during school vacations. All OST programs are offered at no cost and provide a mix of academics, recreational activities, and cultural experiences for elementary, middle school and high school students. OST service providers operate mostly in public schools and in facilities of the parks department and the New York City Housing Authority.

The Preliminary Budget will have a significant impact on the OST program if the proposed cuts are approved. The OST initiative has 644 programs that served an estimated 80,000 children during the 2007-2008 school year (city fiscal year 2008). The budget for OST in 2009 is $119.4 million. The Preliminary Budget reduces funding for the OST program by

$10 million a year beginning in 2010. Taking into account earlier reductions from the November 2008 Financial Plan, the 2010 preliminary budget for OST is about $105 million, a decrease of about 14 percent from 2009. The budget constraints have affected the size of the program; DYCD now expects that OST will serve about 56,000 youth in fiscal year 2010, down 30 percent from the number in 2008.

The largest reduction would eliminate the OST Option II program for a savings of $6.1 million annually. OST Option II programs currently serve 10,750 youth for a minimum of 160 hours a year at 91 sites. Option II requires that providers obtain a 30 percent private funds match, which many providers have found challenging. It is unclear what programs, if any, will be available for the young people currently enrolled in the Option II program.

The Preliminary Budget also includes a reduction of $2.8 million to the OST Option I program. OST Option I year-round providers would reduce the duration of their summer programming by one week (from 8 weeks to 7 weeks) for elementary school programs and by two weeks (8 weeks to 6 weeks) for middle school programs. The summer programming was targeted due to lower attendance during those months.

The remaining budget cuts include smaller reductions to other OST programs as well as an increase in penalties to providers. Building on a similar initiative in the November plan, DYCD would consolidate one additional middle school program and a Beacon school program that is located in the same school operated by the same provider, bringing the total of such consolidations to 11. Another proposed action would reduce 240 school year slots in three OST Option I elementary school contracts that have been unable to fill all of their slots due to space constraints in the schools in which they are located. No children currently enrolled will lose their slots because of this action; it is essentially a reduction in the number of slots paid for under the contracts for these sites.

The OST contracts are performance based, with payment dependent on enrollment and attendance. Under OST's performance-based contracts, if a program's youth participation targets are not met, up to 10 percent of that year's budget is withheld, limiting payment for underused slots. The Preliminary Budget proposes to increases the penalty from 10 percent to 20 percent, for a savings of $570,000. It is not yet clear how this budget reduction measure would be implemented and whether the agency expects at least some providers to improve their performance sufficiently to avoid the penalty.

Additionally DYCD's OST program may also lose some state funding for Youth Development and Delinquency Prevention as a result of the Governor's proposal to create a Youth Programs Block Grant which would combine funding streams for mandated detention services with non-mandated preventive and youth development programs (see Youth Programs Block Grant section).

CHILD CARE FACES FUNDING SHORTFALLS, CAPACITY CUTS

The Administration for Children's Services (ACS) provides early childhood education through the federally funded Head Start program and subsidized child care programs for eligible families. ACS is currently dealing with a $62 million funding gap in the city's child care budget which has led the agency to reduce child care capacity and has diminished the city's ability to provide child care to some low-income families. The city now provides subsidized care for about 103,000 children, down from more than 106,000 in 2007.

Using Enrollment Not Capacity. Following earlier budget plans, ACS is working to implement changes to its system of paying for subsidized child care. Contracted centers are to be paid based on actual enrollment rather than capacity. ACS plans to provide technical assistance to child care centers in 2009 to prepare for this transition. ACS has awarded a contract for technical assistance to the United Way, but with about three months left in the fiscal year, a plan for providing this assistance is still in development. While Project Full Enrollment, including the new system of paying only for child care slots filled, was to be phased in beginning September 2008, it has been postponed to September 2009.

The Child Care Funding Gap. Under the January financial plan the 2009 budget for child care is $759.1 million and $726.5 million in 2010. ACS maintains that there is an annual $62 million funding gap in its child care budget for 2009 and 2010, or about 8 percent. Over the last two years, overall funding for child care has decreased by about $30 million, while the costs of these programs has continued to increase. In the past, the increasing availability of TANF surplus funds allowed the city to cover child care cost increases, but this source of funds has now dried up. The gap in funding became evident in 2008, when the city was forced to add additional funds to the ACS budget for child care late in the fiscal year. In order to address this shortfall, the agency has begun taking various actions to reduce child care spending.

At the end of calendar year 2008, ACS announced that it would be eliminating under-enrolled child care classrooms throughout the city to help bring spending into line with child care funding. While the list of classrooms to be closed has not been finalized, the number is likely to be relatively small, with up to 22

classroom closures in 11 contract child care centers; this is out of a total of 354 contract child care centers citywide. This includes the closure of three child care centers which accounts for 12 of these classrooms. ACS estimates savings of $2.8 million from these closures. These classrooms are being selected based on what ACS terms "chronic" under-enrollment over the last three years.

In addition to closing under-enrolled classrooms, ACS administrators have announced that they will no longer fund subsidized child care at contracted child care centers for 5-year-olds who can be served through Department of Education kindergarten classes. ACS estimates that this initiative will impact about 3,200 children who would otherwise have remained at ACS contracted child care centers. Classrooms that primarily serve 5-year-old children will close when this plan is implemented, while mixed-age classrooms that largely serve younger children will stay open and newly vacant seats will be available for younger children.

With the discontinuation of child care for 5-year-olds, about 125 child care classrooms and 2,500 subsidized child care seats will no longer be funded by ACS. While this transition is not intended to affect children whose attendance is privately funded, it is possible that some of them may also have to find an alternative kindergarten option should their child care classrooms be among those closed. Administration estimates suggest that this initiative will reduce ACS spending for 2010 by about $15 million.

Beginning in September 2009, the new crop of 5-year-olds would be enrolled in kindergarten classes offered by the education department and Out-of-School Time after-school programs run by the Department of Youth and Community Development. There are several concerns about how this program will be implemented, including how it might affect overcrowding in the public schools, whether children will be able to attend a kindergarten class near their home, and whether safe passage services will be available to transport the 5-year-olds from the public schools to the OST programs at the end of the school day. In addition, while this initiative provides a savings to ACS, the net change to the city's budget is unclear when factoring in the costs to DOE and DYCD.

Even as ACS tries to close its funding gap, a dispute with the state threatens to add to it. ACS is in talks with the state regarding increased payments to home-based child care providers to match the latest child care market rates which were set by the state, effective October 1, 2007. The Bloomberg Administration estimates that payments to providers who are eligible for the market rate increase would cost about $45 million annually. ACS has claimed that because of the current shortfall in the child care budget, it cannot pay increased rates to providers unless they cut services to children currently receiving subsidized child care, or by receiving additional aid from the state.

In the past years, city tax levy funds were used to cover the costs of increased child care market rates. The current shortfall in the child care budget, coupled with the city's budget gap, make this an unlikely long-term solution for the 2007 market rate increase. The state's allocation of about $26 million in additional child care funding to the city to cover the higher market rates in June of 2008 was a one-time allocation. The city cannot depend on this funding as it may not be available to cover the recurring costs of the market rate increase. A resolution regarding these rate increases has not been reached and negotiations between the city and state are ongoing. ACS intends to apply the $26 million it received from the state last year to increase payments as required by the child care market rate increase, but is holding the funding until they come to an agreement with the state about how to pay for the increase both retroactively and on a continuing basis. While this issue has not yet been resolved, it is important to note that rates are set every two years, and new market rate increases are expected in the fall of 2009.

Efforts to Close the City's Budget Gap. While ACS is working to bring the costs of child care in line with its budget, the agency has also had to absorb cuts as directed by the Mayor. In the January plan, ACS took another step to reduce costs by eliminating low-priority child care. About 860 children whose families do not receive public assistance, and who were not referred to subsidized child care through child welfare or social services, are being removed from the subsidized child care programs they currently attend. This move is expected to save $7 million per year in city funding. The January plan also includes layoffs of 63 staff in the child care unit at ACS for a savings of $1.6 million in 2010 and approximately $2 million per year in the out-years. In addition to budget reductions taken in the Preliminary Budget, the November 2008 Financial Plan included a proposal to increase child care co-payments which is anticipated to save $8.7 million per year.

The federal economic stimulus package includes additional funding for child care subsidies that may offer temporary help. While the city will have to apply for this funding and its funding allocation has not yet been determined, IBO estimates that the city could receive about $60 million over two years for its child care programs. While this is helpful, it would only allow ACS to fill part of its child care funding gap and it would not be recurring after 2011. The changes that are being made right now to deal with the budget deficit are leading to a reduction in the capacity of subsidized child care within New York City that is likely to be of long-term duration.

Housing, Environment, and Infrastructure

MAYOR'S HOUSING PLAN FACES FUNDING CHALLENGES

Mayor Bloomberg announced the New Housing Marketplace Plan (NHMP) in 2003. Originally a plan to build or preserve 65,000 housing units in five years, it was expanded in February 2006 to a 10-year plan with a revised goal of 165,000 units. The Mayor recently extended the timeline of the plan further, allowing for an additional year to complete the goals. Since the program's inception—it is now at its midpoint—the Department of Housing Preservation and Development (HPD) has started 81,416 units, 49 percent of the planned units. HPD uses unit starts—units that have signed a funding agreement or have begun construction—to measure progress towards the goals of the New Housing Marketplace Plan.

The plan set specific targets for units of affordable housing to be developed through preservation and new construction. Through the first half of the plan, HPD made more progress on preservation than on new construction, starting 50,149 preservation units and 30,537 new construction units. To reach the plan targets, the department will need to start 61,100 new construction units and 23,200 preservation units over the next six years. Funding in HPD's capital budget, as well as other programs and market conditions will determine whether the department will be able to achieve its targets.

In the Preliminary 2010 Capital Commitment Plan, HPD plans to commit $2.6 billion to affordable housing development from 2009 to 2014. Planned capital commitments for construction of new units total $1.4 billion. On average, this would provide $23,000 per unit for new construction. On the other hand, the city is planning to commit $1.2 billion to preservation, at an average of $53,000 per unit for preservation. The per unit funding levels highlight a significant challenge for the department in meeting the new construction targets.

HPD relies on other funding sources and programs to finance the housing plan's goals, particularly construction of new units, but the current economic climate poses new challenges. Low Income Housing Tax Credits, which were previously priced at 92 percent of the value of the credit, have lost value and are now priced in the low to mid-80s percentage range in New York and in the mid-70s percentage range in other parts of the country. In addition, interest rates on long term tax-exempt bonds have risen, increasing the costs of financing. Also, production of affordable housing from market-driven programs, such as 421-a and inclusionary zoning, are expected to decline as residential construction activity slows.

There are some encouraging trends, however. As activity slows, construction and land prices are projected to decrease. Additionally, the federal stimulus bill includes funds to cover some of the financing gaps created by the decreased value of Low Income Housing Tax Credits, though it is not clear how much of the state's $245 million allocation for the Tax Credit Assistance Program will flow to New York City projects. Finally, short-term bond rates have decreased and more tax-exempt bonds are expected to be available from the state for use in the city.

The city's own fiscal challenges pose additional risks for the housing plan. The Mayor has announced that the city's Capital Commitment Plan that will accompany the Executive Budget later this spring will reduce the size of the overall capital plan by 30 percent. It has not been decided which agencies and programs will receive the cuts, but cuts to affordable housing programs would further jeopardize HPD's ability to reach the goals of the New Housing Marketplace Plan.

Taken together, current capital funding levels suggest serious challenges to the new construction target of the plan. Cuts to the capital budget and further deterioration in the economic climate would make it even more difficult for the city to reach the overall goals of the plan.

Mayor's New Housing Marketplace Plan, Planned Capital Commitments

Dollars in millions

Unit Type	2009	2010	2011	2012	2013	2014	Total	Target # of Units	$ per Unit
New Construction	$447	$257	$205	$144	$246	$118	**$1,417**	61,100	$23,191
Preservation	248	184	180	200	219	193	**1,224**	23,246	52,654
Total	**$695**	**$440**	**$385**	**$344**	**$465**	**$311**	**$2,640**	**84,346**	

SOURCES: IBO; January 2009 Capital Commitment Plan.
NOTE: Numbers may not add due to rounding.

GREATER MONITORING OF CONSTRUCTION, DEMOLITION, AND ASBESTOS ABATEMENT PROJECTS

Recognition of a need for greater collaboration among the fire department (FDNY), the Department of Buildings (DOB) and the Department of Environmental Protection (DEP) dates back to August 2007 when the fire at the former Deutsche Bank building raised broader questions about coordinated oversight of construction, demolition, and asbestos abatement operations. DEP regulates and inspects asbestos abatement operations in the city; DOB issues permits for building construction and demolition; and FDNY conducts inspections of construction and demolition sites. The Construction, Demolition, and Abatement Working Group was established in the fall of 2007 and submitted recommendations this past summer to Mayor Bloomberg in its report, "Strengthening the Safety, Oversight and Coordination of Construction, Demolition and Abatement Operations."

Thus far, a number of recommendations to ease inspection and data-sharing practices among DEP, DOB, and FDNY have already been implemented. For example, DOB now sends FDNY electronic batches of construction and demolition permits issued on a weekly basis that contain key permit, job, and enforcement data. In addition, DEP now notifies FDNY via e-mail of abatement projects that meet certain thresholds. All three agencies are also working together to revamp the public information available about demolition and abatement operations. The 2010 Preliminary Budget includes new initiatives relating to the working group recommendations.

The Asbestos Technical Review Unit (A-TRU) is a cooperative effort between DEP and DOB. DOB staff will review permits for asbestos abatement, while DEP staff will regulate abatement efforts and conduct inspections. The city expects to collect $1.4 million in fees from inspections. A-TRU requires an additional 15 member staff (12 at DEP and three at DOB). Allowing for new expenses of $871,000 a year, the city expects A-TRU to generate net revenue of $531,000 a year. Although projected revenue for the A-TRU program exceeds new staffing costs, the Mayor's Office of Management and Budget maintains that when fringe benefits, administrative, and overhead costs are included, revenue does not exceed program costs. The city also assumes that existing asbestos program collections will generate an additional $200,000 a year, based on historical and current permit activity.

In addition to A-TRU, FDNY is implementing a new Construction, Demolitions, and Abatement Inspection Program. This program, which will cost $2 million a year starting in 2010, will create a Fire Prevention Inspection Team to inspect buildings under construction, demolition, or abatement.

WILL BUILDINGS DEPARTMENT STAFFING CUTS HAMPER CONSTRUCTION OVERSIGHT?

Even as efforts are underway to bolster construction monitoring, staff reductions are being proposed for the buildings department. The Preliminary Budget includes personnel reductions of 40 non-safety positions in the Department of Buildings for 2010, which yields $3.2 million in savings. An additional 65 positions would be cut in 2011, resulting in $8.5 million in further savings. The reduction in 2011 represents roughly 8 percent of the department's headcount, bringing DOB's budgeted headcount to 1,247 in 2011. It is unclear what effects the cuts will have on the department's ability to enforce building and safety regulations given that the Preliminary Budget does not specify which programs will receive cuts to their budgeted headcount.

The Mayor's Office of Management and Budget maintains that the cuts are based on current overall vacancy levels. The current budgeted headcount for 2009 is 1,328 and, as of December, the actual headcount was 1,188, or 89 percent of budgeted headcount. Because the headcount reductions have not yet been specified for individual programs within the agency, DOB will have some flexibility in using the existing vacancies as well as new vacancies that arise through attrition to meet the lower headcount target—perhaps even filling some current vacancies based on agency need.

While construction in the city grew substantially beginning in 2002, construction activity started to slow at the end of calendar year 2008. Headcount for the buildings department has increased over the same period, growing by 83 percent from 2002 to 2008. To be sure, a slowdown in construction activity may allow the department to cut staff proportionately without reducing services. Nonetheless, given continuing challenges in overseeing construction in recent years, maintaining staffing near its present level during the current contraction in construction might allow the department's resources to "catch-up" with the city's last construction boom.

PARKS FACING MAINTENANCE AND OPERATIONS CUTS

The Department of Parks and Recreation (DPR) budget is projected to decrease by over 8 percent next year, falling from $370.5 million in 2009 to $339.8 million in 2010. In 2011, the department will take another 2.5 percent cut, bringing spending

to $331.4 million. Most program areas in the parks department will see cuts except for administrative management of the agency's capital budget and PlaNYC (a 25-year plan for improving the city's infrastructure), both of which will see small increases in 2010. As the largest program area within the parks department, maintenance and operations will see the largest cut.

The maintenance and operations program area which funds maintenance and repair of all park properties and facilities accounts for about two-thirds of the total budget and receives 70.5 percent of the 2010 agency-wide spending reduction. Maintenance and operations spending will decline by 8.9 percent and 2.5 percent in 2010 and 2011, respectively. Spending on maintenance and operations will decrease from $244.1 million in 2009 to $222.5 million in 2010 and $216.9 million in 2011. These reductions to maintenance and operations programs include efforts by the department to reduce year-round and seasonal employment.

The parks department will be reducing headcount across the agency to reduce spending. The department plans to eliminate 109 full-time, city-funded positions in 2010 for a savings of $3.3 million in 2010 and $6.6 million in 2011. The headcount reduction will be completely realized through attrition, and positions will be eliminated across the whole agency. Based on the Preliminary Budget, maintenance and operations will account for 81.6 percent of the savings from this initiative ($2.7 million in 2010) through personnel reductions in central maintenance and operations as well as in each of the boroughs.

Another budget initiative to rein in costs is a reduction in six-month seasonal positions. This initiative will eliminate about 300 seasonal positions in 2010 or roughly 10 percent of the total seasonal staff. The savings are estimated at $5.6 million in 2010, with 92 percent of the savings coming from borough maintenance and operations and the remaining 8 percent from the Urban Park Service. The parks department expects savings of $5.3 million from a reduction in six-month seasonal positions in 2011.

It is difficult to predict what sort of service impact the budget and headcount reductions will have on the cleanliness of city parks. Between the two headcount reduction efforts, the maintenance and operations program will see reductions of $7.9 million in 2010 and $10.3 million in 2011. Over 90 percent of the reductions are in the borough maintenance and operations budgets, at $7.4 million and $9.4 million, in 2010 and 2011, respectively. These cuts represent 6.3 percent of the total borough maintenance and operations budget in 2010, and 8.4 percent in 2011.

Although it is likely that the proposed cuts in funding and staff will be evident in the conditions of the city's parks and playgrounds, there is evidence suggesting that park conditions change gradually. Increases in maintenance and operations spending from 2005 to 2008, averaging 7.4 percent a year, were not accompanied by improvements in the condition and cleanliness of parks as measured in the Mayor's Management Report (the indicators stayed roughly constant). The proposed maintenance and operations budget for 2010 would be at the level seen in 2007 and the further reduction in 2011 will put funding below that level (though still above the 2006 budget). Depending on how the staffing reductions are implemented, it is possible that the condition of the city's parks will stay the same or decline.

AGGRESSIVE AIR AND NOISE INSPECTIONS EXPECTED TO LEAD TO MORE FINES

The Department of Environmental Protection (DEP) expects to generate an additional $250,000 a year in air and noise enforcement revenue beginning in 2010. Current annual projections for air and noise enforcement are $2.3 million in revenue from 9,000 summonses per year. The roughly 10 percent increase in revenue will be attained by transferring staff from complaint investigation to air and noise enforcement. By allowing inspectors, who total 31, to focus primarily on air and noise enforcement, DEP expects to issue an additional 1,000 air and noise summonses each year. In their expanded capacity, inspectors will aggressively patrol areas on foot for air and noise violations, rather than primarily responding to complaints originating from 311 calls. In 2008, 311 received 48,000 noise complaints (those under DEP's purview) and 12,000 air complaints.

MORE RED LIGHT CAMERAS: HIGHER FINES, FEWER INJURIES?

The city uses cameras at selected intersections to detect drivers who run red lights. The Mayor's Preliminary Budget contains two initiatives to increase the use of these cameras. The first initiative is to install 20 additional cameras at existing monitoring locations, in the opposite lane direction from the currently-installed cameras. This action, which would not require state legislation, would increase the Department of Transportation's (DOT's) expenses by $1.2 million annually beginning in 2010. While revenues from traffic fines normally go through the Department of Finance and into the city's General Fund, in this case the added revenue is being credited to DOT. The extra cameras are projected to generate $7.5 million in additional fine revenue in 2010. The amount declines to

$3.8 million by 2013, because the city assumes that motorists' compliance will increase. Estimated net revenue from the cameras is thus $6.3 million in 2010, declining to $2.6 million in 2013.

DOT's second Red Light Camera initiative is a proposal to amend state legislation to allow cameras in an unlimited number of locations in New York City, and to increase the fine amount from $50 to $100. Under the city's proposal, the number of cameras would eventually increase to about 520 from this year's projected total of 120 (100 plus the additional 20 being installed this year). This expansion would require up to 108 additional staff positions. The Mayor's Preliminary Budget lists the cost of this initiative at $31.7 million in 2010, rising to $65.1 million by 2013. These totals include the cost of installation and operation, but not the cost of the cameras themselves (about $110,000 each), which would be paid out of DOT's capital budget. None of the additional fine revenue from this initiative appears in DOT's budget yet, although the expenses associated with the program do appear.

The New York State Legislature first authorized the use of cameras to detect red-light violations as part of a demonstration project approved in 1988. The program has been extended several times, most recently in 2004, when it was authorized through December 1, 2009. The city is currently authorized to operate cameras at 100 locations.

Red light cameras are more easily justified as a traffic safety measure than as a source of revenue for the city. DOT calculates that between 1993 and 2006, the program cost the city $85 million and generated $130 million in revenue, providing net revenue of $45 million. At the same time, however, in 2006 DOT reported a 24 percent reduction in all injuries at monitored intersections.

Despite the apparent safety and fiscal benefits of red light cameras, there is substantial opposition to their use. Besides the obvious opposition to the fines, there are concerns over privacy and the accuracy of the summonses generated by the cameras. Some traffic experts argue that the safety benefits of red light cameras have been overstated, as cameras may lead drivers to hesitate when the light turns yellow, and thus cause an increase in rear-end collisions, although such accidents have lower fatality rates than the front-to-side collisions that can result from running a red light. A three-year study in Charlotte, North Carolina found that intersections monitored with red light cameras saw a 37 percent decline in front-to-side crashes, but a 4 percent increase in rear end collisions.

STEEPER PARKING METER FEES OUT OF SYNC?

New York City has about 55,000 single-space parking meters and 4,000 multi-space ("muni") meters that collect parking fees for many parking spaces on a block. Around 47,000 single-space meters and 800 multi-space meters are still programmed for a charge of 25 cents per 30 minutes (50 cents per hour)—a rate that has been in effect since 1992. Most of the other meters charge 25 cents per 20 minutes (75 cents per hour), while some charge more. Starting in February 2009, and over a period of around four months, the Department of Transportation (DOT) will convert the 50 cent per hour meters to the 75 cent per hour rate. As a result, the city expects to collect an additional $16.8 million in revenue annually, starting in 2010.

Currently, higher rate meters are located mainly in Manhattan below 96th street and commercial districts in the other four boroughs, where demand for parking is very high and metered rates are far lower than private garage parking. The lower rate meters are in the remainder of the city. Given that parking supply and demand conditions vary widely across the five boroughs and that many policy experts argue for differential parking rates based on demand rather than uniform rates, this policy action is somewhat surprising. In fact, DOT is pursuing variable parking fees with a pilot program known as PARK Smart in Greenwich Village. Under this program, meter rates are $2 per hour between noon and 4 pm, and $1 per hour at other times. The goal of this program is to encourage turnover of spaces in periods of peak demand.

CONTINUED INCREASE IN WASTE EXPORT COSTS

As New York City works to implement a long-term solution to its waste export problem, the cost of the current interim program has continued to grow. The city is experiencing a slight decline in

Waste Export Cost Trends

	2006	2007	2008	2009	2010	2011
Waste Export Program Budget *in millions*	$271	$280	$298	$315	$334	$374
percent change		3%	7%	6%	6%	12%
Waste Tonnage *in thousands*	3,559	3,491	3,441	3,482	3,482	NA
percent change		-2%	-1%	1%	0%	
Average Cost Per Ton	$75.90	$78.96	$85.13	$91.36	NA	NA
percent change		4%	8%	7%		

SOURCES: IBO; Mayor's Management Report; January 2009 Financial Plan.

waste tonnage, but the increased costs for exporting waste have more than offset the savings from the tonnage declines, resulting in steady increases in total waste export expenditures.

New York City collects about 12,000 tons of waste and recyclables a day. Until 2001, Fresh Kills landfill was the destination for most of the waste, but since its closure that year the city has been shipping waste to landfills outside the city. The city is planning to eventually rely on rail and barge shipping to handle most waste export, though for now it also uses truck-based export, which is more expensive and environmentally unsound.

The city has a series of contracts with private companies to transport and dump the waste at landfills outside the city. The total cost for waste export depends on both the amount of waste to be exported and the average per ton export cost. In 2006, waste export cost the city $271 million. This year, waste export is expected to cost $315 million, an average increase of 5 percent per year. The Department of Sanitation (DSNY) expects costs to grow by another 6 percent in 2010 to $333 million.

The city has adjusted its estimates for export costs several times since January 2008 to reflect changing market conditions. The waste export budget has been adjusted downwards due to lower than expected tonnage, delays in signing new contracts, and lower fuel costs. For long-term (20 year) contracts, the monthly export cost varies based on a set of factors, such as fuel costs. The reestimates have amounted to savings of nearly $22 million in 2009, $35 million in 2010, and $20 million in 2011 (reflected in the numbers above).

Since 2006, aggregate annual waste tonnage has decreased by 2.2 percent (an average of 0.7 percent annually) from 3,559 million tons to 3,482 million tons in 2009. On the other hand, the average cost per ton has been growing rapidly and has offset the gains from lower tonnage numbers. Waste haulers have been raising the prices they bid to export the city's waste; overall, the cost to export a ton of refuse has grown by over 20 percent between 2006 and 2009. The weighted average cost per ton increase has averaged 8 percent a year, rising from $78.96 in 2007 to $85.11 in 2008, to $91.36 in 2009. The sharp increase in per ton export costs in the last two years is due to the city signing new contracts at significantly higher rates. As of December 2008, the 2008 and 2009 per ton costs included several new five-year contracts in Brooklyn and a 20-year contract in the Bronx that are at much higher per ton costs than the contracts they supersede. In March 2009, a new 20-year contract in Brooklyn took effect, with an estimated $134 per ton export cost (not reflected in the 2009 average per ton export cost).

The city projects that continuing increases in the average per ton export cost will outweigh any benefits the city will see from lower tonnage or lower fuel costs. As a result, waste export costs will rise from 24 percent of the DSNY budget ($315 million of $1.3 billion) in 2009 to 27 percent in 2012 ($395 million of $1.5 billion).

KEY PARTS OF SOLID WASTE MANAGEMENT PLAN BEHIND SCHEDULE

The Solid Waste Management Plan (SWMP) established a 20-year plan (2006-2025) for the management of the city's solid waste. The plan was adopted by the City Council in July 2006 and approved by the state Department of Environmental Conservation in October of that year.

One of the key goals of the SWMP is to establish a cost-effective, reliable, and environmentally sound way of managing the city's solid waste by significantly reducing the number of truck trips and miles associated with waste disposal. The plan moves the city from the current truck-based waste export system to a rail- and barge-based system that takes advantage of the city's waterways and existing Marine Transfer Station (MTS) network. By converting four existing marine transfer stations to allow for containerization of waste and export via rail or barge, the city plans to end reliance on truck-based export. The SWMP called for moving forward on the design, land use approvals, permitting, and conversion of the East 91st Street (Manhattan), North Shore (Queens), Hamilton Avenue (Brooklyn) and Southwest Brooklyn marine transfer stations.

Furthermore, the SWMP envisioned that each borough would take responsibility for much of the trash it produces, thereby redistributing waste processing across the city and reducing intra-city garbage truck traffic as well. Staten Island's waste is exported via rail from the Staten Island Transfer Station. This facility was rehabilitated at a cost of $50 million and became operational in May 2007. In the Bronx, where a city-owned MTS was not slated for conversion, the city entered into a 20-year contract for waste export by rail in August 2007.

For the city to utilize the four existing marine transfer stations for residential waste, extensive conversion of the facilities is necessary. According to the Final SWMP, all four residential facilities were to be operational in 2010 with design and permitting completed by 2007. According to the city's most recent Capital Commitment Plan (January 2009), the marine transfer stations are now projected to cost between $120 million and $140 million each. Based on the current plan, the Department of Sanitation expects to commit funds for the North Shore and Hamilton Avenue marine transfer stations in

Solid Waste Management Plan: Major Part of Sanitation Department Capital Spending

Dollars in millions, includes interfund agreements (IFA) and contingency

Residential Waste Marine Transfer Station Rehabilitation	**Planned Commitments, as of 2010 Preliminary Capital Commitment Plan**						
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
North Shore (Queens)	$125	-	-	-	-	-	$125
East 91st Street (Manhattan)	13	125	-	-	-	-	139
Southwest Brooklyn	12	109	-	-	-	-	120
Hamilton Avenue (Brooklyn)	129	-	-	-	-	-	129
Subtotal, Residential MTS Conversion	*$279*	*$234*	*$0*	*$0*	*$0*	*$0*	*$512*
Other Major SWMP Projects							
59th Street MTS	$10	-	-	-	-	$50	$60
Gansevoort Rehabilitation	1	9	-	-	80	-	90
South Brooklyn Marine Terminal Pier and Recycling Plant	53	0	0	-	-	-	54
Other SWMP-Related Project	18	5	6	1	-	-	30
Subtotal, Other Major SWMP Projects	*$83*	*$15*	*$6*	*$1*	*$80*	*$50*	$234
TOTAL, SWMP Planned Commitments	**$361**	**$249**	**$6**	**$1**	**$80**	**$50**	**$746**
TOTAL, DSNY Planned Commitments	**$1,087**	**$730**	**$167**	**$120**	**$287**	**$472**	**$2,864**
Share of Planned Commitments	*33%*	*34%*	*4%*	*0%*	*28%*	*11%*	*26%*

SOURCES: IBO; January 2009 Capital Commitment Plan.

NOTES: Planned commitments include IFA and Contingency. Numbers may not add due to rounding.

2009 and for the Southwest Brooklyn and East 91st facilities primarily in 2010. The projects are a major part of the sanitation department's capital plan; in 2009 and 2010, implementation of the SWMP accounts for a third of the department's capital plan.

DSNY has been making progress on conversion of the marine transfer stations, though the goal of four operational stations by 2010 is no longer attainable. The North Shore and Hamilton Avenue facilities were issued the required permits in September of 2007 and June 2008, respectively. Bidding for the North Shore and Hamilton Avenune marine transfer station conversions are under way, contracts are usually awarded four to six months after bidding. Currently, DSNY expects the North Shore marine transfer station to be operational by November 2011, roughly a year later than the 2010 deadline originally envisioned in the SWMP. DSNY has not yet received permits for the Southwest Brooklyn and East 91st marine transfer stations and bidding is not likely to commence until the start of 2010.

Lastly, the SWMP called for conversion of the marine transfer station at West 59th Street in Manhattan to handle commercial waste after reactivation of the Gansevoort Peninsula MTS to handle residential recycling. Some of the recycling currently processed at West 59th Street would be shifted to the reactivated Gansevoort Peninsula facility, expanding capacity at West 59th Street for commercial waste. The current Capital Commitment Plan includes $90 million for Gansevoort Peninsula and $60 million for West 59th Street, planned mainly for 2013 and 2014, respectively.

Labor Costs

SAVINGS, STAFFING REDUCTIONS MAY FALL SHORT OF PLAN

Municipal labor is the single biggest city expense, with the cost of salaries and wages, pensions, and other fringe benefits expected to total $35.2 billion this fiscal year. Under the January 2009 Financial Plan, the city's spending on labor would decline by 1.2 percent in 2010, but then grow at an average annual rate of 3.7 percent from 2011 to 2013 to reach $38.7 billion.

But labor spending may well be higher than budgeted for 2010 and throughout the financial plan period. Several policy goals set by the Mayor, which are expected to save $750 million in labor spending in 2010, may prove hard to achieve. In addition, federal stimulus money will probably eliminate the need to cut thousands of teaching positions as the Bloomberg Administration proposed.

Reducing Health and Pension Costs. The cost of health insurance and other fringe benefits is one of the fastest-growing portions of the city budget. Health and related fringe benefit costs for all city agencies except the Department of Education (unlike other agencies these costs are included in the education department's budget) are projected to grow at an average annual rate of 7 percent and reach $4.3 billion by 2013, after adjusting for prepayments and savings initiatives proposed in the budget.

To address this rising expenditure, the 2010 budget includes two measures to lower city health spending costs. The Mayor's budget plan anticipates an agreement with the municipal unions that would require all city workers to cover 10 percent of the premiums for their health insurance. Currently, more than 90 percent of city workers choose a health care plan that requires no premium co-payment. The required co-payment would save $357 million in 2010 and $418 million by 2012, according to the January financial plan.

In addition, the budget for 2010 already included $200 million in unspecified health savings that also require union agreement. The $200 million in savings has appeared in prior Bloomberg Administration budgets without being achieved.

The cost of the city's contribution for employee pensions also continues to grow rapidly, driven in large part recently by investment losses by the five municipal pension funds. The city's pension contribution is based in part on an assumption of an 8 percent return on the funds' investments; if the returns fall short the city must increase its payments to make up the difference over time. The projected pension spending in the Preliminary Budget assumes an actual investment loss of 5.4 percent last fiscal year and the expectation of an additional 20 percent loss this year. To help offset the increased pension spending due to investment losses, the financial plan redirects funds intended for the Retiree Health Benefits Trust Fund to cover pension costs: $82 million in 2010, $395 million in 2011, and $672 million in 2012.

To help reduce the city's growing pension liabilities, which are projected to increase from $6.3 billion in 2009 to $7.4 billion in 2013, the budget plan also includes a proposal to lower the city's pension contributions by $200 million annually through the creation of a new pension tier. The proposed Tier 5 would cover newly hired uniformed and civilian city employees. Employees in the new tier would have to make contributions for their entire career in the pension system, wait longer before being entitled to

Despite Proposed Staff Cuts, Labor Costs Rise

Dollars in millions; all funds

	2009	2010	2011	2012	2013
Salaries and Wages	$21,465	$20,404	$20,917	$20,685	$20,926
Pensions	6,383	6,502	7,031	7,280	7,554
Other Fringe Benefits (adjusted for prepayments)	6,774	6,451	6,504	6,767	7,711
Reserve for Collective Bargaining:					
Department of Education	45	327	598	658	658
Other Agencies	509	1,086	1,465	1,860	1,888
TOTAL	**$35,176**	**$34,770**	**$36,515**	**$37,250**	**$38,737**
Planned Headcount					
Full time	282,281	259,425	260,066	260,790	261,075
Full time Equivalents	28,675	28,333	28,362	28,358	28,361
TOTAL	**310,956**	**287,758**	**288,428**	**289,148**	**289,436**

SOURCES: IBO, January Finacial Plan.

full benefits, and cut benefit amounts by eliminating overtime from benefit calculations. (The specifics of the changes depend on whether the employee is uniformed or civilian.)

It is not clear that the savings from Tier 5 would be $200 million in any year in the near future. A "Memorandum in Support" of Tier 5, prepared by the Mayor's Office of Management and Budget, states that the total savings would be $35 million in 2010. While the city's Office of the Actuary will determine how much the proposed tier would reduce the city's pension costs, the plan must be approved in Albany. The Governor also included a Tier 5 proposal for state employees in his Executive Budget.

Staffing Reductions. Under the Mayor's budget plan, full-time headcount is expected to decline by 23,198 in 2010 through layoffs and attrition. This would lower full-time city staffing from 282,281 projected for the end of fiscal year 2009 to 259,425 in 2010 and bring the full-time head count to its lowest level since 2003. But much of this plan may be reversed, largely due to the federal stimulus bill.

The largest portion of the projected staff reduction is among teachers. The budget plan eliminates more than 15,000 teaching positions (roughly 13 percent of total pedagogical positions), with nearly 14,200 of these attributed to the Governor's proposal to cut education aid. With the passage of the federal stimulus bill, much, if not all, of the expected state aid is expected to be restored, making the layoffs unnecessary. The January financial plan also projects a significant drop in uniformed police officers, from 35,128 at the end of the current year to 33,217 next year. But the federal stimulus bill may also moderate this decline because of a provision that will help localities fund police hiring.

The Preliminary Budget also includes significant staff reductions in the Administration for Children's Services and the fire department. The plan includes the elimination of 842 positions in the Administration for Children's Services (12.5 percent of total positions in the agency), 608 by layoffs and 234 through attrition. Uniformed fire department staffing would drop by roughly 450 positions to 10,782. All of the fire department decrease would be through attrition.

Capital Program, Financing, and Debt Service

TEN-YEAR CAPITAL STRATEGY

As required by the City Charter, every other year the Department of City Planning and Mayor's Office of Management and Budget prepare a 10-year capital strategy. The city's *Preliminary Ten-Year Capital Strategy for 2010-2019*, released last November, projects $71.1 billion in total funds to finance the city's capital program. The funding for the capital program is largely comprised of city funds. In addition to $55.0 billion in city funds, the plan includes $13.9 billion in state grants, $2.1 billion in federal grants, and $0.1 billion in private grants.

The new 10-year strategy reflects the Bloomberg Administration's decision to stretch the Capital Commitment Plan for 2009-2012 to five years as well as other programmatic changes since the last 10-year strategy was released in April 2007. But it does not include the effects of their more recent decision to cut capital spending by $6.9 billion—30 percent—over the next five years. Details on which projects will be affected by the 30 percent cut will be provided in April when the five-year capital commitment plan and final 10-year capital strategy are presented along with the Mayor's Executive Budget.

Taking into account the Mayor's planned cut, the final 10-year strategy is expected to provide $64.2 billion in capital commitments over fiscal years 2010-2019. Compared to the 10-year capital strategy presented in April 2007, which called for a historic investment of $83.7 billion, the upcoming strategy would invest 23 percent less over the next 10 years. But compared to the May 2005 plan, the upcoming strategy would provide $1.8 billion more—a 3 percent increase.

Capital Plan by Program Area and Investment Category. Since the Mayor has not yet announced how the 30 percent funding reduction will be applied, a review of the major emphases in the plan must rely on its original $71.1 billion formulation.

The preliminary10-year capital strategy is heavily concentrated in three program areas—education, environmental protection, and transportation—that total $51.4 billion, or more than 70 percent of the entire capital plan. Total funding for education, environmental protection, and transportation is $8.4 billion less than it was in April 2007 plan, although a slightly larger share of the new plan's overall funding goes to these three program areas.

Roughly 56 percent of the entire preliminary capital plan is allocated towards bringing deteriorated capital assets such as bridges, buildings, and sewers up to a "state of good repair"; this is a considerable change from the April 2007 plan which allocated close to 48 percent for this purpose. The remaining portion of the total plan is roughly split between programmatic replacement (23 percent), which replaces capital assets that have reached the point where they are no longer expected to be usable, and program expansion (21 percent), which brings new capital assets on line to expand existing capacity.

Education comprises the largest share of the plan, with 37.4 percent of planned funding. The majority of the education funds—over 75 percent—are allocated to state of good

Preliminary 2010-2019 Ten-Year Capital Strategy, By Program Area and Investment Category
Dollars in millions

	Investment Category				
Program Area	State of Good Repair	Programmatic Replacement	Program Expansion	TOTAL	PERCENT OF TOTAL
Education	$20,509	$1,196	$4,877	$26,582	37.4%
Environmental Protection	1,111	8,063	5,334	14,508	20.4%
Transportation	9,499	841	0	10,340	14.5%
General Services	2,648	2,691	387	5,726	8.1%
Housing & Economic Development	2,020	34	3,542	5,597	7.9%
Public Safety	1,143	2,775	66	3,984	5.6%
Parks, Libraries & Culturals	2,033	22	517	2,572	3.6%
Health & Social Services	741	790	235	1,766	2.5%
TOTAL	**$39,705**	**$16,412**	**$14,957**	**$71,075**	**100.0%**

SOURCE: IBO.
NOTES: All figure exclude interfund agreement amounts. General services includes sanitation, public buildings and real estate, and citywide computer equipment. Public safety includes corrections, police, fire, courts, and juvenile jusitce. Capital plan reduction of 30 percent is not reflected in the preliminary capital strategy document.

repair, that is, school reconstruction and rehabilitation projects. Compared to the April 2007 plan, education capital projects are receiving a larger share of the total plan—up 3.4 percentage points from 34.0 percent.

Environmental protection makes up the second largest share with just over 20 percent of total funds. These funds, which are principally for mandated investments in the city's water and sewer system, are concentrated in two of the three investment categories—about 55 percent has been set aside for programmatic replacement and over 35 percent for program expansion. Compared to the April 2007 plan, environmental protection capital projects are receiving a smaller share of the total plan—down from about 23 percent.

Transportation makes up the third largest component of the capital plan with over 14 percent of total funds. Almost all—over 90 percent—of the transportation dollars are allocated to state of good repair projects, which includes the rehabilitation of bridges, roads, and the transit system. Compared to the April 2007 plan, transportation capital projects are receiving a slightly larger share of the total plan.

Among the other program areas in the preliminary 10-year capital strategy, general services (includes sanitation, public buildings, and citywide technology and other equipment) and housing and economic development each receive about 8 percent of total plan dollars. Ninety-three percent of the funds for general services are equally split between state of good repair and programmatic replacement and over 60 percent of the funds for housing and economic development projects are allocated to program expansion. Compared to the April 2007 plan, general services is receiving a slightly smaller share of the total plan while housing and economic development is receiving a slightly larger share.

The remaining 12 percent of the preliminary 10-year capital funding is divided among public safety (includes corrections, police, fire, and juvenile justice), parks, libraries, and cultural affairs, and health and social services, with 90 percent of the capital dollars for these program areas roughly split between state of good repair work and programmatic replacement. Compared to the April 2007 plan, public safety and parks, libraries, and cultural affairs are receiving a slightly smaller share of the total plan, while the share for health and social services goes up a bit.

2008 Capital Commitments Plan vs Actuals

Dollars in millions

Planned Commitments	2008
July 10, 2008	$17,163
January 30, 2009	12,380
Increase/(Decrease) - July to Jan.	*(4,783)*
Cumulative Percent Change	*-27.9%*
Actual Commitments	**$11, 707**

SOURCE: IBO.
NOTES: All figures are based on project-level data obtained from city's Financial Management System and exclude interfund agreement amounts. Final 2008 capital commitment plan figures were modified after the close of the fiscal year on June 30, 2008.

PLANNED CAPITAL COMMITMENTS: NEAR-TERM

Over the last 10 months the city has revised its projected spending for agency capital programs in the near-term to reflect estimated declines in city tax revenue and other funding, including aid from Albany. Although the city's capital program is financed through borrowing, the repayment of those borrowed funds plus interest is covered by city tax revenues, state grants, and for environmental protection projects user fees or charges. With diminished expectations of city and state revenues, the city has scaled back its capital plan to reduce the amount of debt service that will need to be paid in the coming years.

Planned Capital Commitments, 2009-2013

Dollars in millions

	Current Five-Year Capital Plan				
Plan Status	**2009**	**2010**	**2011**	**2012**	**2013**
July 10, 2008	$18,393	$9,580	$9,111	$6,772	$10,526
November 5, 2008 (after 20% pushout)	$19,378	$9,197	$7,341	$5,634	$8,936
January 30, 2009	$19,063	$9,688	$7,545	$5,545	$8,831
Increase/(Decrease) - July to Nov.	*$985*	*$(383)*	*$(1,770)*	*$(1,138)*	*$(1,590)*
Increase/(Decrease) - Nov. to Jan.	*$(315)*	*$492*	*$204*	*$(90)*	*$(105)*
Cumulative Net Change	*$670*	*$109*	*$(1,567)*	*$(1,227)*	*$(1,695)*
Cumulative Percent Change	*3.6%*	*1.1%*	*-17.2%*	*-18.1%*	*-16.1%*

SOURCE: IBO.
NOTES: All figures are based on project-level data obtained from city's Financial Management System and exclude interfund agreement amounts. Capital plan reduction of 30 percent is not yet reflected in project-level data.

IBO has been tracking changes to planned capital commitments by capital project. Projected capital commitments for 2008 were reduced by $4.7 billion—28 percent—to $12.4 billion. IBO estimates that roughly 80 percent of the $4.7 billion was carried forward into 2009 and subsequent years. Actual capital commitments, which occur when a work contract is awarded and registered, totaled $11.7 billion in 2008.

For 2009 and 2010 projected capital commitments increased slightly by 3.6 percent and 1.1 percent, respectively, since July 2008. These changes are accounted for in large part by the rollover of uncommitted funds for projects in 2008 as well as the addition of new commitments for projects negotiated during the adoption process for the city's 2009 capital budget.

In each of the last three years of the Capital Commitment Plan, projected commitments was reduced by more than 15 percent. Additional changes to the five-year capital plan will occur when the Mayor details how the 30 percent spending reduction will affect individual projects.

PAYING FOR THE CAPITAL PROGRAM

Borrowing. To finance the city's 2009-2013 Capital Commitment Plan, the city borrows money by issuing three types of debt: general obligation (GO), Transitional Finance Authority (TFA), and Municipal Water Finance Authority. The TFA is authorized to issue $13.5 billion of bonds for general capital purposes and its issuing capacity has already been exhausted. Although the city still has capacity for additional borrowing under the constitutional GO debt limit, it has requested state legislation to raise the statutory limit on TFA. Issuing bonds through the TFA is less expensive for the city because the bonds tend to sell with lower yields than GO debt.

In addition to bonds for general capital purposes, the TFA is authorized to have $9.4 billion in outstanding Building Aid Revenue Bonds (BARBS) to pay for a portion of the city's educational facilities capital plan. BARBS are secured by state building aid, which the Mayor has assigned to the TFA. To date, the TFA has issued $3.3 billion of BARBS, including $1.3 billion thus far in 2009, and future debt issuance between 2009 and 2013 is expected to total $3.7 billion.

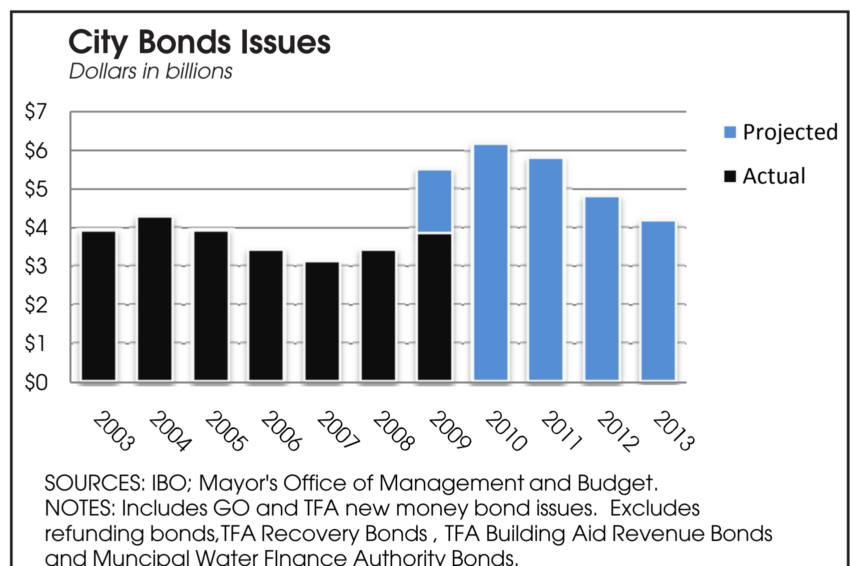
Unless the general bonding capacity of the TFA is increased, the city plans to issue approximately $26.7 billion, or 70 percent of the total financing program, in general obligation bonds between 2009 and 2013. It plans to issue an additional $11.1 billion in water authority bonds, which will be spent exclusively on the city's water and sewer system.

Annual GO bond issuance will exceed $6 billion in 2010—a record level—and almost that amount in 2011. Debt issuance usually lags capital spending. Thus, a spike in proposed debt issuance for 2010 corresponds to a spike in planned capital commitments in 2009.

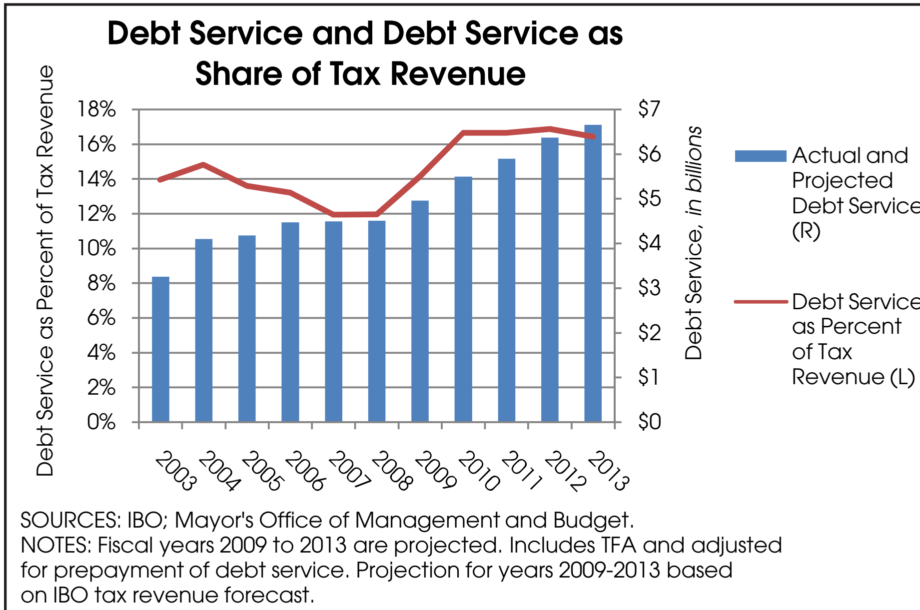
The total GO debt issuance projected under this year's five-year capital commitment plan is based on a 30 percent reduction in spending over the first five years of the city's 10-year capital plan. This reduction in capital spending will help to reduce the growing burden of debt service.

Debt Service. Debt service is the scheduled repayment of the borrowed funds plus interest. In the Preliminary Budget, projected GO debt service costs reflect savings from the 30 percent reduction in the city's capital plan, although the effect is initially modest. By 2013, debt service payments, including TFA and adjusted for prepayments, will total $6.7 billion, which represents a one-third increase in debt service from 2008, when it totaled approximately $4.5 billion. The 30 percent proposed reduction in capital spending has a larger effect over the city's 10-year capital strategy and, according to the Bloomberg Administration, this would trim the average annual growth in debt service from 4.8 percent to 3.4 percent between 2010 and 2019. The Bloomberg Administration set this lower target for annual growth in debt service to bring it into line with the city's long-term forecast for annual tax revenue growth.

Debt service as a percentage of tax revenues is expected to grow sharply from 2008 to 2010 as tax revenues (the denominator of the ratio) are falling, while debt service is growing. Although



SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Includes GO and TFA new money bond issues. Excludes refunding bonds,TFA Recovery Bonds , TFA Building Aid Revenue Bonds and Muncipal Water FInance Authority Bonds.



SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: Fiscal years 2009 to 2013 are projected. Includes TFA and adjusted for prepayment of debt service. Projection for years 2009-2013 based on IBO tax revenue forecast.

there is consistent growth in debt service after 2013, as a percentage of city tax revenues it remains relatively constant, ranging from around 16.5 percent to 16.9 percent. The bounce back in taxes starting in 2011 offsets the debt service increases, resulting in a fairly flat ratio beginning in 2011.

Credit Market Turmoil. In the wake of the bankruptcy of Lehman Brothers in September 2008, liquidity began to dry up in the municipal credit market, which had already been hard hit earlier in the year by the collapse of the auction-rate bond market and the ratings downgrades of several municipal insurers, resulting largely from their subprime mortgage exposure. Unlike several municipalities that postponed or canceled bond sales shortly after the Lehman collapse, New York City was able to access the credit markets in the fall.

Although the city succeeded in issuing debt in the midst of the credit crisis, the turmoil had an impact on the city's cost. The city utilized several strategies when offering bonds during the fall and winter. The city offered yields that were several percentage points higher than the prior fiscal year, increasing the city's cost. The city also relied more on retail investors, as opposed to institutional ones. In recent offerings, however, it appears that institutional investors are resuming their role as buyers of city debt. Moreover, the city brought smaller (but more numerous) deals to market, with each deal generally in the $300 million to $500 million range as opposed to deals in the recent past that have approached $1 billion. Finally, the city has issued no auction rate debt since the collapse of the auction rate bond market last spring.

The city's first issuance post-Lehman was on September 30, 2008 in the amount of $300 million on TFA Building Aid Revenue bonds (as noted above, these bonds finance the capital plan of the School Construction Authority and are secured with New York State Building Aid). Even with a 5.75 percent yield, the issue was not completely sold (despite no other bonds being offered that day). The city fared better with its issuance of $550 million of tax-exempt and taxable general obligation bonds in October 2008. Initially postponed by a few days due to market turmoil, the size of the offering was increased following strong demand from retail and institutional investors. Likewise, the most recent offering in February 2009 was upsized from an expected $520 million to $720 million due to higher than anticipated institutional demand.

In addition, New York City has largely refrained from insuring its bonds during the current fiscal year. The city has only insured a portion of one bond deal this year, down from six in 2007 and three in 2008. Rather than seek insurance for its bonds as it had done in the past, the city has been relying instead on its underlying GO credit rating, which was upgraded by all three rating agencies in the summer of 2007. The city's general obligation debt is rated Aa3 by Moody's, AA by Standard & Poor's, and AA- by Fitch.

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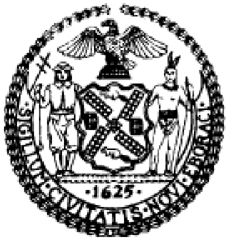

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