New York City Independent Budget Office

ANALYSIS OF THE MAYOR'S EXECUTIVE BUDGET FOR 2001

Earlier this year, IBO issued one report on New York City's long-term fiscal outlook and another analyzing the Mayor's preliminary budget for 2001. Pursuant to Section 252 of the City Charter, this report reviews the Mayor's executive budget, which was released on April 18. The report begins with an overview of the city's current surplus and projected future deficits, based on the assumption that the executive budget proposals are adopted. The second section presents IBO's revenue forecast and analysis of the tax cut proposals. The report concludes with IBO's spending estimates, accompanied by a discussion of selected program areas.

I. Overview

The Independent Budget Office (IBO) projects that the city's near-term fiscal fortunes will remain strong if the Mayor's executive budget proposals are adopted. Assuming that economic growth slows to a moderate rate, however, future budget gaps persist.

Based on our repricing of the executive budget and financial plan, IBO expects 2000 to end with a surplus of $3.1 billion. Two large factors contributing to the surplus are $1.8 billion from higher than expected tax revenues and $524 million from savings due to changes in how the city's pension contribution is calculated.

Table 1.
Surplus Expected Next Year, Followed by Budget Gaps
Dollars in millions

	2000	2001	2002	2003	2004	Average Change
Total Revenues	$38,705	$38,913	$39,387	$40,682	$41,662	1.9%
Expenditures:						
Before Prepayments	38,244	40,216	41,751	42,992	43,845	3.5%
1999 Prepayment	(2,615)	--	--	--	--	
2000 Prepayment	2,888	(2,888)	--	--	--	
IBO Additional Surplus Estimate	188	(188)	--	--	--	
2001 Prepayment	--	1,220	(1,220)	--	--	
2002 Prepayment	--	--	345	(345)	--	
Total Expenditures	38,705	38,360	40,876	42,647	43,845	3.2%
IBO Surplus / (Gap) Estimate	**$0**	**$553**	**$(1,489)**	**$(1,965)**	**$(2,183)**	

SOURCE: IBO.

NOTES: Excludes intra-city revenues and expenditures. The 2000 surplus totals $3.076 billion, including the $2.888 billion estimated by the Mayor and an additional $188 million estimated by IBO. The $3.076 billion is used to prepay 2001 expenditures, leaving 2000 with a balanced budget.

Unless otherwise noted, references to years in both text and figures denote New York City fiscal years (July 1 to June 30).

Since state law forbids the city from carrying excess funds from one year to the next, we have assumed (as does the financial plan) that the current year surplus will be used to prepay 2001 debt service, with a portion reserved to prepay debt service in subsequent years (see Table 1). The resulting reduction in 2001 expenditures contributes significantly to a balanced budget for the upcoming fiscal year. IBO projects that 2001 will end with $553 million in additional funds that the city could, if it follows past practice, use to help balance 2002.

Beyond 2001, however, we project gaps that grow from $1.5 billion in 2002 (3.8 percent of revenues) to $2.2 billion in 2004 (5.2 percent of revenues). These gaps arise for two reasons. First, based on the assumption that economic growth slows to a more moderate rate, the city will no longer have surpluses to help balance the budget. Second, adjusted for prepayments, spending is growing at a rate of 3.5 percent annually, outstripping the 1.9 percent annual growth in revenues.

IBO's gap projection exceeds the Mayor's forecast by $339 million in 2004. Our forecast of $885 million in additional tax revenues is more than offset by our higher estimates of spending for employee salary increases and for Medicaid, public assistance, education, and overtime (see Table 2).

Collective bargaining agreements expire this calendar year and the financial plan includes funding for new agreements for 2001 and 2002. We add increases in 2003 and 2004, which cost $309 million and $628 million, respectively, using the assumption that base salaries increase at the rate of inflation. Since it is impossible to predict the outcome of collective bargaining, it should be noted that if the agreements exceed the rate of inflation by one percentage point each year, city-funded spending—and the budget gap—would be more than $550 million higher by 2004. Conversely, if the agreements lag inflation by one percentage point annually, city-funded spending—and the budget gap—would be $550 million lower by 2004.

Table 2.
Details of Pricing Differences between IBO and the Administration
Items that Affect the Gap
Dollars in millions

	2000	2001	2002	2003	2004
Gaps as Estimated by the Mayor	**$0**	**$0**	**$(1,679)**	**$(1,950)**	**$(1,844)**
IBO Pricing Differences:					
Revenues:					
Taxes	156	541	835	921	885
Tax Reduction Program	--	(16)	(33)	(38)	(31)
Airport Rent and Other Revenues	--	(38)	(341)	(194)	(127)
Total Revenues	156	487	461	689	727
Expenditures:					
Programs and Overtime	32	(122)	(271)	(395)	(438)
Labor Cost Increases	--	--	--	(309)	(628)
Prepayment Adjustment	(188)	188	--	--	--
Total Expenditures	(156)	66	(271)	(704)	(1,066)
Total Pricing Differences	--	553	190	(15)	(339)
IBO Surplus / (Gap) Estimate	**$0**	**$553**	**$(1,489)**	**$(1,965)**	**$(2,183)**

SOURCE: IBO.
NOTES: Negative pricing differences (in parentheses) widen the gaps estimated by the Mayor. Positive pricing differences narrow the gaps. Excludes intra-city revenues and expenditures.

Budget Management

The city faces future budget gaps, despite enjoying very strong economic growth. These gaps are due primarily to a combination of recent budget management and new policy proposals. The executive budget continues the recent strategy of relying on a surplus and surging tax revenues to balance the following year's budget, thus relieving the pressure to take significant actions to control long-run spending growth and allowing for tax reductions.

Leveraging economic strength. The executive budget is balanced on the strength of the local economy. At the time the 2000 budget was adopted, there was a \$1.9 billion gap projected for 2001. Using IBO's estimates of revenues and expenditures, the resources that will be used in part to close the 2001 gap include a portion of the 2000 surplus (\$1.3 billion is used) and 2001 tax revenue above what was originally projected (\$1.7 billion). Another \$284 million comes from the change in the method for calculating the city's pension contribution. As a result, few discretionary actions to close the 2001 gap were necessary or taken. The balance of the proposed "gap-closing" actions essentially support salary increases to be agreed upon and the first year of the proposed tax cuts.

The \$1.3 billion of the 2000 surplus being used to achieve budget balance in 2001 is a non-recurring resource. This may be problematic because, once used, non-recurring resources disappear, only to leave unsupported spending that drives future budget gaps. It is of course possible that the 2000 surplus will not be needed to balance the 2001 budget. If economic growth and tax revenues exceed expectations—as has occurred in each of the past four years—the surplus will not be needed to close the gap. When economic growth moderates, however, the surplus will disappear, forcing the city to address prospective gaps when it is more difficult to do so.

Controlling spending. One cause of future budget gaps is that spending growth is outstripping revenue growth. The executive budget would increase city-funded spending 6.8 percent from 2000 to 2001, and at an average annual rate of 3.7 percent from 2001 through 2004, after including Transitional Finance Authority (TFA) debt service and adjusting for debt service prepayments.

The budget includes spending reductions which, while significant to the programs directly affected, are relatively modest and include few actions that would improve productivity. As a long-run strategy, increasing the productivity of the workforce allows spending to be controlled without reducing services. The financial plan does include additional savings attributable to what is termed "labor productivity," which would total \$250 million in 2001. But the city has not provided any details regarding these savings other than to suggest that they could come from fringe benefit costs. While this type of action would reduce city spending, it would not increase the output per worker. It would not reorganize work processes or use technology, for example, to increase the output or quality of services or to reduce their cost.

Cutting taxes. The budget proposes fairly substantial tax reductions. The proposed cuts grow from \$380 million in 2001 to \$1.1 billion in 2004, when they will represent 4.3 percent of tax revenues. Over three-quarters of the total value of the cuts is due to reducing by half the 14 percent surcharge on the personal income tax and eliminating the commercial rent tax.

The tax cut package represents a large portion of the future budget gaps. Absent the tax cuts, the future gaps would be roughly 50 percent smaller; in 2004 the gap would be \$1.1 billion (2.5 percent of revenues) instead of \$2.2 billion (5.2 percent of revenues). The tax cuts also reduce the average annual growth in tax revenues between 2000 and 2004 from 3.8 percent to 2.7 percent.

While substantial, the executive budget's proposed tax reduction program is roughly half the size of the reductions proposed by the Mayor in January's preliminary budget. The executive budget's tax cuts grow to \$1.1 billion in 2004, a revenue loss \$939 million smaller than the package proposed in the preliminary budget. In large measure this explains why this report's projected 2004 gap is \$1.2 billion lower than the gap IBO projected would result from the preliminary budget.

Alternative strategies. How the gap is closed and other policy choices have a significant impact on the city's fiscal future. Different choices could better prepare the city to weather future circumstances. As we have pointed out in the past, the city's fiscal outlook would improve if it used surpluses to fortify its long-term fiscal foundation instead of using them

to balance budgets without regard to difficulties down the road. The city could establish a rainy day fund, for use only when needed to address a short-term emergency, such as an economic downturn. Also, the city could repay a portion of its outstanding debt and/or substitute pay-as-you-go financing for borrowing, both of which would help the city balance future budgets by lowering annual debt service costs.

If the surpluses were used in these ways, other actions would be required to balance the budget. These should include increasing productivity to protect services while controlling spending. Achieving budgetary savings always requires effort and perseverance. However, it is better to do so over time when the economy is strong, rather than abruptly in a weak economy when revenue growth slows and spending pressures increase.

II. Revenue

IBO's forecast of total city revenues includes projected changes in the growth of baseline (current policy) revenues plus estimates of the future impact of the proposed tax reduction program. IBO estimates that city revenues from all sources will total $38.7 billion in the current fiscal year, a robust 7.2 percent increase from 1999, and just over $300 million above the executive budget forecast. For 2001, IBO predicts very slight total revenue growth of 0.5 percent to $38.9 billion. In contrast, the Mayor's Office of Management and Budget (OMB) anticipates a decline in revenues to $37.3 billion, about $1.6 billion less than we forecast.

While revenue growth is expected to pick up after 2001, IBO forecasts only a moderate increase in total revenues—averaging 2.3 percent per year from 2001 to 2004—which will reach $41.7 billion in 2004. IBO's forecast of slower revenue growth after the current year can be attributed to an anticipated slowdown in economic growth beginning in calendar year 2000 (see Table 3), as well as the impact of proposed tax cuts. OMB's outlook for city income growth is significantly lower than IBO's through calendar year 2003, and its local employment outlook is substantially less favorable in 2001. As a result, OMB expects even slower total revenue growth, averaging only 1.5 percent annually from 2001 to 2004, and by the final year its revenue projection is $2.6 billion less than IBO's forecast.

Tables 4 and 5 summarize IBO's estimates of city tax and non-tax revenues and the differences between the OMB and IBO forecasts. Following a review of the major components of IBO's baseline forecast, this revenue section examines the executive budget's four tax reduction proposals: PIT surcharge reduction, CRT elimination, co-op and condo property tax relief, and hotel occupancy tax cuts. The section concludes with a brief review of the City Council's tax policy proposals.

Baseline Revenue Forecast

This past year, both the national and local economies continued to perform beyond expectations, with employment and income in the city growing at rates higher than in the nation. The profits of Wall Street firms and the number of jobs created in New York City reached new records in calendar year 1999. With these favorable conditions, IBO projects that tax revenues will total $22.1 billion by the end of the current fiscal year—a 3.3 percent rate of growth over 1999 that is particularly impressive given the impact of already enacted tax cuts and the loss of $547 million in commuter tax revenue.[1]

Slower local economic growth beginning in the current calendar year and a decline in Wall Street profits are expected to constrain the growth of baseline tax revenues in the near term. IBO projects that total tax revenues will increase only slightly in 2001, to $22.3 billion. The growth of baseline tax revenues picks up after 2001, largely for technical reasons such as the completion of the scheduled phase-in of the state's School Tax Relief (STaR) program. On balance, total baseline tax revenues are estimated to reach $25.7 billion in 2004—projected average annual growth of 3.8 percent from 2000 to 2004.

Property Tax

IBO projects that property tax revenues will grow by 3.2 percent to $8.0 billion in 2001, led by substantial increases in residential assessments. By law, assessment increases for apartment buildings and commercial properties are phased in over five years so that property tax revenues lag changes in market values by several years. As a result, it is only in the last two fiscal years that the recovery in the real estate markets following the recession of the early 1990s has been reflected in property tax revenues.

Table 3.
Economic Forecast: IBO versus OMB
Percentage Change from Previous Year (Unless Otherwise Noted)

	Calendar Year					
	1999	2000	2001	2002	2003	2004
United States						
Real GDP						
IBO	4.1	4.5	2.6	3.1	3.0	2.9
OMB	4.1	4.4	2.9	3.2	3.1	3.0
Non-farm employment						
IBO	2.2	1.9	1.1	1.3	1.2	1.2
OMB	2.2	2.2	1.4	1.2	1.2	1.2
Consumer price index (CPI-U)						
IBO	2.2	2.6	2.5	2.4	2.4	2.3
OMB	2.2	2.4	2.2	2.5	2.6	2.6
Unemployment rate (percent)						
IBO	4.2	4.0	4.6	4.9	5.1	5.3
OMB	4.2	3.9	4.1	4.3	4.3	4.3
10-Year Treasury bond rate (percent)						
IBO	5.6	6.8	6.6	6.6	6.1	5.4
OMB	5.6	6.5	6.4	6.2	6.0	6.0
New York City						
Non-farm employment						
IBO	2.4	1.9	1.1	0.9	0.7	0.7
OMB	2.3	2.0	0.6	0.9	1.1	1.2
Personal income						
IBO	7.6	6.2	6.0	5.6	5.3	4.8
OMB	6.2	6.8	3.7	3.5	4.2	4.9
Consumer price index (CPI-U NY)						
IBO	1.9	2.2	2.2	2.3	2.4	2.3
OMB	2.0	2.6	2.2	2.4	2.6	2.6
Manhattan office rents ($/sq. ft.)						
IBO	45.74	47.96	49.70	50.73	51.53	52.24
OMB	45.92	49.00	51.78	54.47	57.26	60.54

SOURCES: IBO; Mayor's executive budget for fiscal year 2001.

NOTES: With the exception of the bond rate, office rents and unemployment, all figures reflect year-over-year percentage increases. The local consumer price index covers the New York/Northern New Jersey region. GDP = Gross Domestic Product.

IBO projects continued appreciation in market values for residential buildings, and increasingly for commercial properties as well, over the next three years. Consequently, property tax revenue growth will accelerate to an annual rate of 6.0 percent in the 2002 through 2004 period, with collections reaching $9.6 billion by 2004.

The growth in projected collections is affected by two previously enacted tax policy changes. First, property tax exemptions under STaR, which will be fully phased in by 2002, will reduce property tax bills for homeowners by $85 million in 2001, $136 million in 2002, and $149 million by 2004. This leveling-off of the revenue impact of STaR contributes to the revenue growth after 2001. Second, in forecasting baseline revenues, IBO assumes that the coop/condo abatement, which is scheduled to expire after 2001, will not be renewed. (The Administration's proposal to extend the abatement is discussed in the following section.) IBO

Table 4.
IBO Revenue Estimates under the Mayor's Proposals
Dollars in millions

	2000	2001	2002	2003	2004	Average Change
Tax Revenues:						
Property Tax	$7,764	$8,014	$8,573	$9,101	$9,556	5.3%
Personal Income Tax (including TFA)	5,410	5,574	5,550	5,958	6,235	3.6%
Dedicated Personal Income Tax (TFA)	*267*	*470*	*573*	*612*	*619*	*23.4%*
Personal Income Tax (excluding TFA)	*5,143*	*5,104*	*4,977*	*5,346*	*5,616*	*2.2%*
General Sales Tax	3,416	3,407	3,556	3,705	3,881	3.2%
General Corporation Tax	1,727	1,566	1,628	1,732	1,769	0.6%
Unincorporated Business Tax	804	803	824	845	885	2.4%
Banking Corporation Tax	425	416	433	450	468	2.4%
Real-Estate Related Taxes	1,217	1,240	1,328	1,399	1,498	5.3%
Other Taxes (with audits)	1,368	1,357	1,382	1,396	1,415	0.8%
Total Taxes before Reductions	22,131	22,377	23,274	24,586	25,707	3.8%
Total Taxes (excluding TFA before reductions)	*21,864*	*21,907*	*22,701*	*23,974*	*25,088*	*3.5%*
Tax Reduction Program	--	(380)	(711)	(854)	(1,104)	N/A
Total Taxes after Reductions	22,131	21,997	22,563	23,732	24,603	2.7%
Total Taxes (excluding TFA after reductions)	*21,864*	*21,527*	*21,990*	*23,120*	*23,984*	*2.3%*
StaR Reimbursement	260	486	710	737	763	30.9%
Miscellaneous Revenues	3,012	3,058	2,622	2,573	2,543	-4.1%
State/Federal Categorical Aid	11,977	12,161	12,269	12,424	12,547	1.2%
All Other Revenues	1,325	1,211	1,223	1,216	1,206	-2.3%
Total Revenues as Estimated by IBO	**$38,705**	**$38,913**	**$39,387**	**$40,682**	**$41,662**	**1.9%**

SOURCE: IBO.

NOTES: Miscellaneous revenues are net of intra-city revenues. All other revenues include unrestricted government aid, anticipated aid, other categorical grants, inter-fund revenues, and disallowances. TFA = Transitional Finance Authority. N/A = Not applicable.

expects the abatement to cost the city $181 million in 2001. If it is extended, revenues would be lower by $197 million in 2002 and $226 million in 2004.

IBO's property tax forecast essentially equals OMB's for 2000. With our projection of faster growth in assessments (5.5 percent per year compared to OMB's 4.9 percent), IBO's revenue estimates are higher than the Administration's each year from 2001 through 2004. The differences grow from $58 million in 2001 to $191 million in the last year of the forecast period, but these are small relative to total property tax revenue.

Property-Related Taxes

The real estate-related taxes—the mortgage recording tax (MRT), real property transfer tax (RPTT), and commercial rent tax (CRT)—are expected to bring in total revenue of $1.2 billion in 2001, $64 million more than OMB anticipates. Receipts from the three taxes are projected to grow at an average annual rate of 5.3 percent from 2001 to 2004, to reach nearly $1.5 billion in the last year of the forecast period.

The upsurge of commercial transactions that fueled the phenomenal growth in the MRT and RPTT in the last two years is not expected to continue. Due to a projected increase in interest rates, the MRT is

Table 5.
Details of Differences between IBO's and the Mayor's Revenue Forecasts
Dollars in millions

	2000	2001	2002	2003	2004
Total Revenues as Estimated by the Mayor	**$38,390**	**$37,335**	**$37,365**	**$38,234**	**$39,054**
IBO Re-Estimates:					
Tax Revenues:					
Property Tax	(7)	58	106	185	191
Personal Income Tax (Other Than TFA)	(1)	264	251	270	209
Inclusion of TFA–Dedicated Personal Income Tax	267	470	573	612	619
General Sales Tax	9	12	32	22	28
General Corporation Tax	37	68	210	264	277
Unincorporated Business Tax	45	58	79	50	34
Banking Corporation Tax	74	17	14	19	18
Real-Estate Related Taxes	(1)	64	143	111	128
Tax Reduction Program	--	(16)	(33)	(38)	(31)
STaR Reimbursement	--	(8)	9	11	13
Miscellaneous Revenues:					
Airport Rent	--	--	(350)	(205)	(140)
Asset Sales	--	(30)	--	--	--
State/Federal Categorical Aid	(108)	621	988	1,147	1,262
Total Revenues as Estimated by IBO	**$38,705**	**$38,913**	**$39,387**	**$40,682**	**$41,662**

SOURCE: IBO.
NOTES: Miscellaneous revenues are net of intra-city revenues. TFA = Transitional Finance Authority.

expected to decline in 2001, while the RPTT is expected to grow at a slower pace than in the recent past. IBO predicts that in the 2002 through 2004 period, revenue from both taxes will grow at a rate closer to historical trends. In contrast, OMB foresees a decline in both the MRT and the RPTT in 2001 and 2002, with strong growth resuming in subsequent years. For all years, however, the Administration's MRT and RPTT forecasts are lower than IBO's.

Personal Income Tax

The surge in financial markets and record local employment growth in calendar year 1999 have fueled strong increases in personal income during the current fiscal year. But the resulting increases in city's personal income tax (PIT) collections are being offset by a roughly $700 million revenue loss due to elimination of the non-resident component of the PIT and continued expansion of the STaR program's personal income tax cuts. On balance, PIT receipts are projected to equal $5.4 billion in 2000—a decline of 0.5 percent from 1999.[2]

In spite of the projected slowdown in employment and income growth in calendar year 2000, IBO forecasts that PIT receipts will increase 3.0 percent from 2000 to 2001 to reach $5.6 billion; the only additional impact of already enacted tax cuts on 2001 revenues will be a $176 million revenue loss due to the final step in the phase-in of the STaR program. PIT revenues are forecast to remain constant in 2002, due to projected declines in capital gains realizations and further slowdown in employment and income growth. From 2002 to 2004, revenue growth resumes and PIT receipts are expected to reach $6.2 billion by the end of the forecast period. On average, projected growth from 2001 to 2004 is a moderate 3.8 percent per year.[3]

Compared with OMB, IBO expects higher profits in the securities industry and generally faster income and employment growth. As a result, our PIT forecasts

for 2001 to 2004 exceed OMB's by $208 million to $270 million in each year and are on average 4.5 percent higher. In contrast, the two forecasts for the current year are virtually identical.

General Sales Tax

Fueled by the continuing robust expansion of the New York City economy, sales tax collections in the third quarter of fiscal year 2000 grew by 11.1 percent, compared to the same period in 1999. This is very strong growth, especially given the elimination this March of the sales tax on clothing priced under $110. Absent that tax cut, sales tax revenues would have jumped by an estimated 14.4 percent in the quarter.

For 2000, IBO forecasts 7.0 percent growth in sales tax collections over 1999, after which collections growth drops to zero in 2001 before resuming at an average 4.4 percent annual rate over the 2002-2004 period. This will raise collections from slightly over $3.4 billion in 2000 to almost $3.9 billion in 2004.

These revenue growth figures reflect the impact of the clothing sales tax cut, which will have estimated direct costs of $93 million in 2000, $259 million in 2001 (the first full year of the cut), and $269-$290 million per year over the rest of the forecast period. Had the under-$110 clothing tax not been eliminated, sales tax revenues would grow 9.9 percent in 2000 and 4.5 percent in 2001, while continuing to average 4.4 percent growth over the following three years. Total collections would rise from $3.5 billion in 2000 to close to $4.2 billion in 2004.

Part of the sales tax revenue loss from the clothing tax cut will, however, be offset by increases in other tax revenues due to higher levels of retail activity. IBO estimates that eventually about a sixth of the direct clothing tax revenue loss will be offset by higher revenues from other taxes. These long-term secondary impacts are not reflected in IBO's revenue forecasts.

Despite using a different forecasting model, IBO's sales tax revenue estimates are very close to OMB's for the entire forecast period; they are higher in all years, but by no more than $32 million.

Business Taxes

IBO projects that the city's three taxes on business net income—the general corporation tax (GCT), the unincorporated business tax (UBT), and the banking corporation tax (BCT)—together will bring in $3.0 billion in 2000 and $2.8 billion in 2001.

The GCT take in 2000—a projected record of $1.7 billion—represents one-year growth of $304 million or 21.3 percent over 1999, and is $176 million above the previous high set in 1998. About half of the increase in collections is due to a surge in the profits of New York's securities firms. The Securities Industry Association reports that member's profits increased by 66 percent in calendar year 1999, to a record total of $16.3 billion. IBO expects that a decline in securities industry profits from 1999's level, coupled with the growing impact of already enacted changes in the city's tax code, will cause GCT collections to fall to $1.6 billion in 2001, a decline of 9.4 percent from 2000. In 2002 through 2004, GCT collections are expected to grow at a moderate average rate of 4.1 percent, a result of continuing growth in U.S. corporate profits and rising earnings in the city's financial and business services industries. Revenues are forecast to reach $1.8 billion by 2004.

IBO projects that unincorporated business tax collections will also be very strong in 2000, reaching a record level of $804 million, an increase of 22.5 percent over 1999. As with the GCT, the remarkable recent strength of the financial services industry accounts for much of this growth. IBO projects no growth for the UBT in 2001, due to the expected moderation in financial sector earnings. (Excluding the increasing impact of limited liability companies—a business form established by the state in 1994 that shifts such firms from the GCT to the UBT for tax purposes—2001 collections would decrease 2.4 percent.) UBT collections will increase at an average annual rate of 3.3 percent over the remainder of the forecast period, reaching $885 million in 2004.

Banking corporation tax revenue is also expected to increase sharply in 2000 to $425 million, a 9.5 percent increase over 1999. Bank income increased by 5.3 percent in 1999, the sixth consecutive year of increasing income and declining employment for the still-restructuring industry. Despite strong income growth, bank profits, and thus BCT payments, tend to be volatile; BCT revenues recorded a 27 percent increase in 1996, no change in 1997, a 43 percent increase in 1998, and a 25 percent decline in 1999. For 2001, IBO projects banking corporation tax revenues of

$416 million, a 2.1 percent decline. BCT revenue is projected to increase at a 4.0 percent annual rate over the remainder of the forecast period and reach $468 million by 2004.

IBO's projections for business tax revenue exceed OMB's by 5.4 percent in 2001 and by close to 12 percent in the out-years of the forecast period. The most significant factor behind the Administration's lower GCT and UBT estimates is their conservative forecast for securities industry profits: $5 billion per year, starting in calendar year 2001. For 2001 to 2004, IBO expects the industry's profits to be more than twice as large, equal to the average inflation-adjusted level of the 1990s. IBO's forecast of BCT revenues is substantially higher than OMB's only in 2000 because it incorporates recent strong collections.

Tax Reduction Program

The executive budget contains four tax reduction proposals, fewer than half the number of tax cuts than had been proposed in the preliminary budget. IBO estimates that the tax reduction program as a whole would reduce city revenues by $380 million in 2001 and by up to $1.1 billion when the tax cuts are fully implemented in 2004. Adoption of all four proposals would dampen the growth of tax receipts to an average annual rate of 2.7 percent from 2000 to 2004, compared with 3.8 percent without the tax cuts.

PIT Surcharge Reduction

Since it was initially formulated several months ago, the Mayor's proposal to reduce the 14 percent surcharge on the city's personal income tax (PIT) has been scaled back. While the preliminary budget proposed eliminating the surcharge, the executive budget calls for halving the surcharge rate—from 14 percent to 7 percent—effective July 1, 2000. As with complete elimination, the 50 percent reduction in the surcharge would give a tax cut to all filers who incur city tax liability, though the bulk of the benefits would be received by a minority of taxpayers.

Background and fiscal impact. The current PIT surcharge equals 14 percent of the non-surcharge (or base rate) liability of city residents and accounts for 12.3 percent of total PIT revenue. Initially established as a temporary measure that would expire in three years, the surcharge has been renewed several times since it came into effect in tax year 1991. Under current law, the surcharge is scheduled to expire December 31, 2001.

The executive budget proposal is to halve the surcharge beginning July 1, 2000 and subsequently renew it at the 7 percent rate for tax years after 2001. City and state legislative approval is required both to reduce and extend the surcharge.

Even though it has been scaled back, the proposal to reduce the surcharge remains the largest component of the tax reduction package over the next four years. The impact of halving the surcharge rate to 7 percent in the middle of the tax year 2000 would first be felt in fiscal year 2001, when PIT collections would be reduced by roughly $345 million. The annual revenue impact increases by roughly $20 million to $30 million each year, and by 2004 we estimate that the proposal would reduce PIT receipts by $416 million. These cost estimates are slightly higher than the Administration's because they are based on IBO's higher baseline PIT forecast (see Table 5).

Beneficiaries of surcharge reduction. Reducing the surcharge rate would benefit almost all city residents except for those too poor to incur any city PIT liability in the first place. But the distribution of benefits would be weighted toward upper-income taxpayers who, reflecting their very large share of total personal income in the city, account for a disproportionate share of the PIT burden.[4]

Using a sample of 1997 tax returns (the most recent year available) and our latest income projections, IBO has projected the tax cuts that would be received by city filers in different income groups if the surcharge reduction proposal were adopted.[5] Table 6 presents the findings for tax year 2001. Almost 92 percent of all city filers are projected to have annual incomes below $125,000, and these filers would receive 38.5 percent of the benefits of surcharge reduction—slightly more than their share of total PIT liability after surcharge reduction.

In contrast, the majority of savings in tax year 2001—61.5 percent—would be received by the small minority of filers with incomes of $125,000 or more, again similar to these filers' disproportionate share of the total PIT burden. The concentration of tax savings due to surcharge reduction is even more striking when one considers only the very wealthiest filers. Taxpayers

Table 6.
PIT Surcharge Reduction: Tax Savings By Income Groups, Tax Year 2001

		After Surcharge Reduction			
Income Group	Percent of Tax Returns	Tax Savings ($ in millions)	Percent of Tax Savings	Tax Savings Per Return	Percent of Total PIT Liability
Under $30,000	45.5%	$13.9	3.8%	$10.1	3.0%
$30,000 to $59,999	26.9%	$47.8	13.0%	$59.0	12.3%
$60,000 to $99,999	15.4%	$57.0	15.5%	$122.6	15.3%
$100,000 to $124,999	4.0%	$22.7	6.2%	$186.3	6.2%
$125,000 to $249,999	5.1%	$46.9	12.7%	$304.2	12.9%
$250,000 to $999,999	2.6%	$67.6	18.3%	$861.2	18.8%
$1,000,000 and over	0.5%	$112.7	30.6%	$7,278.6	31.6%
Total	**100.0%**	**$368.5**	**100.0%**		**100.0%**

SOURCE: IBO.
NOTES: Income is measured by federal adjusted gross income in 1999 constant dollars. For all filers, the average tax savings per return is $122. PIT = personal income tax.

with incomes of $1 million or more are expected to make up one-half of a percent of all filers, yet they are projected to receive 30.6 percent of the tax savings from the proposed surcharge reduction. The tax savings for these filers would average $7,278 per return, compared with an average of $122 for all filers.

It is important to note that if the surcharge is reduced, taxpayers who itemize deductions for federal tax purposes would deduct smaller amounts of city tax liability and thus pay more in federal taxes. Because the upper-income taxpayers who pay most of the PIT are most likely to itemize, a significant portion of the tax savings would be captured not by the taxpayers themselves but by the federal government—between $0.28 and $0.40 of each city tax dollar saved by city residents who itemize on their federal returns. As a result, not all of the city tax savings from surcharge reduction would be enjoyed by taxpayers as additional disposable (after-tax) income.

The City Council proposal. In the absence of any other change in the city's PIT, most of the tax savings from any reduction in the rate of the PIT surcharge would be received by a relatively small number of taxpayers. To distribute the tax savings of PIT reform more evenly among taxpayers of different income levels, the City Council has proposed coupling complete surcharge elimination with making PIT base rates more progressive—that is, decreasing the marginal tax rates in lower income brackets and increasing them in higher income brackets.[6] Although the distribution of tax savings under the Council's plan differs from the distribution under the Administration's plan, all taxpayers would receive a personal income tax cut under either proposal.

Taxpayers with incomes under $150,000 would generally enjoy a tax cut above and beyond the tax savings from surcharge elimination, with larger tax cuts for lower-income filers. The Council plan would effectively eliminate all current liability for filers with incomes below $10,000 per year and the bulk of liability for those with incomes between $10,000 and $20,000. In contrast, the Council's plan changes would generally increase non-surcharge liability for taxpayers with incomes above $150,000. But for even the wealthiest filers, the tax savings from surcharge elimination would exceed the tax increases associated with the proposed base rate changes.

Under the Council's proposal, restructuring of the PIT would take effect January 1, 2001, at an estimated fiscal cost of $306 million in 2001 and ranging between $790 million and $850 million in subsequent years. The Council's own analysis indicates that its proposal would steer almost 60 percent of the tax savings to filers with annual incomes under $100,000, compared with just

under a third of the benefits (as estimated by IBO) under the Mayor's proposal.

Commercial Rent Tax Elimination

As in the preliminary budget, the executive budget calls for gradually eliminating the commercial rent tax (CRT) by 2004, although the timing of the intermediate changes has been altered so that the reductions in 2001 and 2002 would be much smaller than had been proposed in January. If fully enacted, these would be the last in a series of reductions in one of the city's unique taxes, one that has often drawn attention from those concerned with the city's tax burden relative to other locations.

The CRT is paid by commercial tenants based on the amount of rent they pay to their landlords. Tax liability is determined by a single flat rate applied to the base rent. A sliding-scale credit that phases out as taxable rent increases helps to moderate what would otherwise be a steep rise in the marginal tax paid on rents just over the zero liability threshold.

Although the CRT tax burden has been reduced several times since its peak in 1977, in recent years the city has made much more dramatic changes, significantly decreasing both the number of firms subject to the tax and the liability of the remaining taxpayers. Since September 1995, only leases in buildings south of 96th Street in Manhattan are subject to the tax, and since June 1997, only tenants with base rents above $100,000 have any tax liability. For tenants still subject to the tax, the most important change has been a reduction in the effective tax rate, which has fallen from 6.0 percent to 3.9 percent since September 1995.

These enacted changes have greatly reduced the number of CRT taxpayers while increasing the share of large firms among those still paying the tax. Nevertheless, tenants with relatively modest rents still account for the majority of remaining taxpayers. IBO estimates that 72 percent of the remaining taxpayers have annual rents of $400,000 or less. The average rent for this group of taxpayers is nearly $180,000.

The Mayor's proposal. Under the executive budget, the tax liability threshold would be raised to $150,000 of base rent beginning in 2001. Then in 2002 the effective tax rate would be reduced from 3.9 percent to 3.0 percent, followed by a further reduction to 2.3 percent for 2003. Finally, the tax would be fully eliminated by the beginning of 2004.[7] IBO estimates that the cost to the city of the executive budget proposal, including foregone audit revenue, would be $16 million in 2001, growing to $97 million in 2002, $203 million in 2003, and $421 million in 2004.[8]

Raising the liability threshold would remove approximately 3,300 taxpayers from the rolls beginning in 2001. The rate reductions beginning in 2002 would cut the CRT owed by a firm paying $180,000 a year in rent from $7,020 in 2000 to $5,400 in 2002, $4,140 in 2003, and then to zero in 2004. Although reducing the effective rate benefits all taxpayers still subject to the tax, the dollar value is concentrated at the higher end, with over 60 percent of the additional benefit flowing to taxpayers with annual rents of $1 million or more.

The City Council proposal. The Council's response to the preliminary budget includes an alternative proposal that would also lead to elimination of the CRT by 2004. The Council proposes to leave the effective rate at the current level of 3.9 percent for the next three years while raising the tax liability threshold to $200,000 in 2001, $400,000 in 2002, and $1 million in 2003. The tax would be fully eliminated beginning in 2004. IBO estimates that the cost to the city would be $29 million in the first year, growing to $76 million, and then $145 million in 2003.

Under the Council's proposal, most taxpayers would be removed from the rolls earlier than they would under the Mayor's. However, while they remain subject to the tax, taxpayers would see no reduction in their tax burdens as they would if the Mayor's proposal were enacted. In 2001, almost 7,000 taxpayers would be removed, with another 3,600 eliminated in 2002, and 2,450 more in 2003. Finally, in 2004 the remaining 1,700 tenants with rents over $1 million would be removed from the tax rolls.

Evaluation. New York's tax on commercial occupancies is subject to a number of criticisms. Simply because it is unique, the CRT stands out when tenants, and potential tenants, evaluate how the city's tax structure affects them. The existence of such a unique tax sends a negative signal about the city's tax policy environment. The additional burden of the CRT is also assumed to undermine economic development by reducing the city's competitiveness.

Another drawback of the CRT is that it pyramids one tax upon another. Commercial rents, which are

the basis of the tax, already include a portion of the owner's property tax. Indeed, commercial leases in the city usually include a tax escalation clause passing all property tax increases directly on to tenants. Thus, a portion of a tenant's CRT burden is a tax on the landlord's property tax.

While the arguments against the CRT have become well known, some of the criticisms are overstated. Moreover, there has been little discussion of the positive role played by the CRT in the city's tax structure.

The economic development argument against the CRT focuses on the additional burden placed upon businesses in Manhattan that they would not face in competing localities. This would be true if the ultimate bearer of the CRT is always the tenant. However, it is unlikely that this is the case.

In a soft market, when the supply of space exceeds demand, the landlord's need to secure tenants results in the shift of a significant portion of the economic burden of the CRT to the landlord who must sacrifice some potential rent to attract and keep tenants. Although this shifting is a constraint on earnings in the real property sector of the city's economy, the tax itself presumably has little effect on the city's ability to attract and hold businesses that need to rent space in Manhattan when the market has sufficient space available.

When market conditions favor landlords and tenants are competing for a limited supply of commercial space, as is presently the case in Manhattan, tenants bear more of the burden of the CRT and little is shifted to landlords. However, such market conditions occur precisely when the city is succeeding in retaining and attracting businesses, making an economic development rationale for eliminating the tax less persuasive.

The CRT is appropriately viewed as a companion to the city's real property tax. Indeed, it was created in 1963, when the city was approaching a constitutional limit on the size of the property tax levy. Prohibited from raising the necessary revenue through the property tax, the city turned to a tax that allowed it to capture growth in the value of commercial properties by taxing the rents that underlie the buildings' market values.

Although the constitutional operating limit is no longer a significant factor in the city's overall tax structure, the CRT continues to function as a complement to the property tax. Assessment increases for commercial buildings, excluding increases attributable to physical improvements and new construction, are phased in over five years. Thus, the city does not immediately receive the revenue benefits of improving market values. Given that most assessment increases subject to the phase-in requirement are attributable to improving rental incomes, the CRT allows the city to capture these increases earlier in the business cycle.

Coop/Condo Abatement

The tax program still calls for extending the existing coop/condo property tax abatement—scheduled to expire at end of 2001—through 2004. Designed to reduce the disparity in tax burdens between owners of cooperative and condominium apartments and owners of one-, two-, and three-family homes, the abatement will cost the city $171 million in 2000 and $182 million in 2001. IBO estimates that under the executive budget proposal the cost would grow to $197 million in 2002 and $226 million by 2004. The cost in 2004 would equal 2.3 percent of what property tax revenues would be that year, but for the abatement.

Background. The city's property tax system has four tax classes, with assessment procedures and tax rates differing for each class. Most coop and condo apartment buildings are assigned to tax class 2 for property tax purposes, while one-, two-, and three-family homes are designated as tax class 1. The city's average effective tax rate (property tax as a percentage of market value) for class 1 houses is 0.74. In contrast, average effective tax rates for most coops and condos are 1.18 and 1.44, respectively, both significantly higher than the class 1 rate.[9]

Advocates for coop and condo owners have long contended that the city should treat all homeowners equally, regardless of whether they live in apartment buildings or houses. In 1996, legislation was enacted to create a temporary three-year abatement to narrow the gap in effective rates by reducing the tax on qualifying apartments by 17.5 percent.[10] Last year the program was extended for two more years, through 2001.

The abatement was instituted as a stopgap to provide some relief while the city developed a long-term solution to eliminate the difference in tax burdens faced by apartment owners and class 1 homeowners. The original abatement legislation included a requirement that the city deliver recommendations for resolving the problem to the State Legislature. Two legislated deadlines for delivering such a plan have since been missed, but the Commissioner of Finance has testified that a report will be completed this spring. The report will be used to develop a long-term solution, one presumably different from the current abatement. Nevertheless, the executive budget proposes to simply extend the abatement for three more years.

Abatement shortcomings. Because the current abatement suffers from a number of shortcomings, extending it in its current form may be undesirable from the perspective of sound tax policy. First, the abatement does a poor job of targeting benefits to the buildings with the greatest need. Effective tax rates on coops and condos—and hence the gap between class 1 tax burdens and the burdens on apartment owners—vary greatly across the city. These differences stem from distortions in the assessment process that cannot be equalized by an abatement that reduces tax bills by the same percentage for all owners. The areas of the city receiving the largest reductions in the class 1 gap (the difference between the effective rate for coops and condos and the class 1 effective rate) are those with the smallest gaps to begin with, and the least need for relief. The smallest class 1 gaps are found in the prime coop neighborhoods flanking Central Park.

Second, the current abatement is inefficient. IBO found that in 1999, $29 million (19 percent) of the benefits were going to apartment owners who either already had tax burdens below the class 1 level *before* the abatement or who needed only a portion of their abatement to reach the class 1 level. This inefficiency could be mitigated by reducing or eliminating the abatement for some apartments based on such criteria as value or location. However, the executive budget tax program does not propose any changes to address this inefficiency.

Finally, extending the abatement for three more years postpones the promised reform that would give many apartment owners the full benefits of class 1 treatment. The Department of Finance's forthcoming report is expected to contain one or more options for achieving this goal. IBO's earlier report analyzed one solution—albeit one with major implementation issues to be resolved—that would have coops and condos assessed and taxed using sales-based market values subject to the same protections enjoyed by class 1 property owners. Such a reform would eliminate the differences in effective rates among apartment owners, and all coops and condos with tax burdens above the class 1 level would have their taxes brought down to that level.[11] The largest reduction in tax burdens in percentage terms would be concentrated in the areas of the city—largely outside Manhattan—that now have the largest class 1 gaps.

The cost of a long-term solution using sales-based values to tax coops and condos has declined over the past few years. In IBO's December 1998 study, we estimated that it would cost $270 million (based on 1999 market values) to completely eliminate the class 1 gap. The appreciation in coop and condo apartments since that time, which results in lower effective tax rates, has narrowed the gap. Thus, the cost of a comprehensive solution is likely to be smaller today than it was two years ago.

Hotel Tax Cut

The proposal and its direct cost. The tax reduction package in the executive budget retains the Mayor's proposal to cut the city's hotel room occupancy tax by eliminating one of its two components. The tax on hotel room rentals, which is levied in addition the city and state general sales taxes, currently equals 5.0 percent of the room rent plus a flat fee of $2.00 per day for rooms renting for $40 or more daily (or smaller amounts for rooms renting for less than $40). The proposal is to eliminate the flat per day component of the tax starting December 1, 2000.

With the average hotel room rate now exceeding $200 a day, virtually all hotel rooms rent for at least $40 a day. Revenue from the flat component of the tax basically equals $2 multiplied by the number of hotel room rentals (that is, the number of rooms rented times the number of days). Based on current projections of room rentals, IBO estimates that eliminating the $2 per room flat fee this December would reduce hotel occupancy tax revenues by $19 million in 2001, when revenue would be lost for only half of the fiscal year, and roughly $39 million annually thereafter (a projected 19.5 million room rentals times $2 per room). These

estimates differ from those of the Administration by no more than $0.5 million a year.

Secondary impacts and other considerations. To the extent that a cut in the hotel occupancy tax increases the number of overnight visitors to New York, the direct loss of tax revenue would be offset in part by a boost in tax revenue resulting from increased visitor spending in the city.[12] IBO's econometric model of hotel occupancy and room rates indicate that a reduction in the hotel occupancy tax would generate an increase in hotel stays—above and beyond the very substantial influences of such other factors as domestic and foreign economic growth and the city's crime rate.[13] Calculating the increase in hotel occupancy that would be induced by the proposed hotel tax cut and adding together all possible secondary impacts indicates that as much as half of the proposal's cost could be offset by additional tax revenue resulting from increased visitor spending.

Because hotel stays are subject to both the city's general sales and hotel occupancy taxes, increased hotel occupancy and higher room rates that result from a tax cut generate revenue from both taxes, not just the hotel occupancy tax. Moreover, increases in hotel occupancy are accompanied by more spending on meals, retail goods, entertainment, transportation, and other areas of the local economy that also generate city tax revenue. Finally, tourism is an export industry, so more visitor spending brings new dollars into the city economy. Because all these factors are specific to tourism and the structure of the city's taxes on hotel occupancy, the extent to which reducing the city's hotel occupancy tax may generate positive secondary effects cannot be generalized to cuts in other city taxes.

There is a major argument against cutting the hotel occupancy tax, however. Almost all of the tax is exported—that is, the tax is directly borne by individuals who reside outside New York or by businesses located elsewhere. With the increase in tourism in recent years, the tax has provided a growing source of revenue without contributing to the tax burden facing city residents and businesses.

City Council's Tax Proposals

In their March response to the Mayor's preliminary budget, the City Council proposed an extensive menu of changes in the city tax code. The Council estimates that the total cost if all of the proposals were adopted would grow from $553 million in 2001 to $1.79 billion in 2004. Two tax cuts would account for 70 percent of the total impact in 2004: a sharp reduction in personal income tax (PIT) rates and elimination of the commercial rent tax. The Council's tax proposals are briefly described below. (For greater detail on the PIT surcharge, commercial rent tax, and coop/condo proposals see pages 9-13.)

Restructuring personal income tax (PIT) rates. In contrast to the straight elimination of the 14 percent PIT surcharge called for in the Mayor's preliminary budget, the Council proposed establishing a new, more progressive structure of base rates in conjunction with ending the surcharge. Compared with only eliminating the surcharge, the cost of the Council's proposed PIT restructuring would be lower, but the new rate structure would grant larger cuts to most taxpayers and smaller cuts to taxpayers in the highest income brackets.

Earned income tax credit (EITC). The Council proposed a refundable EITC to supplement the earnings of low-income households. The credit would equal 5 percent of the federal EITC.

Childcare credit. Both the federal government and New York State allow taxpayers with children to apply a portion of the cost of childcare as a credit against their personal income tax. The Council proposed a child care credit for city income taxpayers as well, equal to 50 percent of the state credit.

Senior renters' tax credit. The Council proposed that seniors with annual incomes of up to $50,000 who are not occupying tax-subsidized apartments be permitted to apply one percent of their annual rent as a credit against their city PIT.

Increase in unincorporated business tax (UBT) credit. City residents can currently apply a percentage of their UBT payment as a credit against their personal income tax liability; the share of UBT payments allowed for the credit declines as taxable income increases. The Council proposed to deepen the credit by increasing the portion of the UBT that can be credited against PIT liability.

Subchapter S corporation credit. The Council proposed that resident shareholders of subchapter S corporations be allowed a credit against PIT liability for their share of corporation taxes paid to the city.

Phase-out and elimination of the commercial rent tax. The Council proposed that the commercial rent tax, currently paid by commercial tenants in Manhattan south of 96th Street, be gradually phased out and eliminated by 2004.

Enhancing the relocation and employment assistance (REAP) program. Firms relocating from outside the city or from Manhattan south of 96th Street to locations in northern Manhattan or in one of the other boroughs are currently entitled to a credit against their general corporation tax liability of $1,000 per employee. The Council proposed increasing the credit to $1,500 per employee.

Outer borough high tech districts. To promote business development, the Council proposed establishing districts in the Bronx, Brooklyn, Queens, and Staten Island within which businesses would be entitled to tax abatements and credits.

Coop/condo property tax abatement. The Council proposed extending the property tax abatement for cooperative and condominium apartments, currently scheduled to expire at the end of 2001, for another three years. The executive budget proposes an identical tax cut.

Mortgage recording tax (MRT) reduction for first-time homebuyers. The Council proposed that first-time homebuyers be exempt from a portion of the 2 percent MRT on mortgages of up to $200,000. The tax rate on these mortgages would be reduced to 0.5 percent, corresponding to the portion of MRT revenues dedicated to the Metropolitan Transit Authority and the State of New York Mortgage Authority.

Utility tax reduction. The Council proposed reducing the tax on utilities' gross receipts from 2.35 percent to 1.8 percent.

III. Spending

IBO estimates that under the policies proposed in the executive budget, total expenditures would decline from $38.7 billion in 2000 to $38.4 billion in 2001, and then increase to $43.8 billion in 2004 (see Table 7). These figures are distorted, however, by the prepayments that are used to transfer surpluses from one year to the next. Adjusted for those prepayments, spending would grow 5.2 percent from 2000 to 2001 and at a 3.5 percent average annual rate from 2000 through 2004. By 2004 total spending would be $5.6 billion higher than in 2000, with over half of this increase attributable to the Board of Education ($1.7 billion) and to debt service ($1.2 billion, adjusted for prepayments).

Spending growth is not distributed evenly across functions. Spending for some functions is projected to increase rapidly between 2000 and 2004, including debt service (an annual average increase of 7.9 percent) and Sanitation (7.0 percent). Other expenditures are projected to grow more slowly, including the Administration for Children's Services and the Department of Homeless Services (0.7 percent each). It is important to note that these agency expenditures include IBO's estimates of additional intergovernmental aid and four years of collectively bargained salary increases—in contrast to the two years of increases that the financial plan budgets centrally—which we allocate to each agency.

Most of the budget is funded with revenues generated from city taxes and other city sources, such as licenses and fees. Adjusted for prepayments, this city-funded spending would rise from $26.3 billion in 2000 to $31.3 billion in 2004, an average annual rate of 4.5 percent. Over the same period, state and federal categorical aid would grow from $12.0 billion to $12.5 billion, an annual average increase of 1.2 percent.

IBO estimates that the policies contained in the Mayor's budget would result in significantly more spending than estimated by the Administration (see Table 8). Part of this difference is attributable to the city's practice of recognizing some intergovernmental aid only when it is received. Although the financial plan does not include this aid, IBO estimates and includes it to provide a more accurate picture of spending. This adds $1.3 billion of spending by 2004. It should be noted,

Table 7.
IBO Expenditure Estimates under the Mayor's Proposals
Dollars in millions

	2000	2001	2002	2003	2004	Average Change
Health/Social Services:						
Social Services	$5,473	$5,437	$5,527	$5,653	$5,861	1.7%
Administration for Children Services	2,241	2,296	2,270	2,300	2,304	0.7%
Health	1,811	1,889	1,962	1,987	2,013	2.7%
Homeless	448	455	457	460	461	0.7%
Other	549	477	478	478	479	-3.4%
Subtotal	10,522	10,554	10,694	10,878	11,118	1.4%
Education:						
Board of Education	10,630	11,076	11,627	12,070	12,342	3.8%
City University of New York	386	391	396	399	402	1.0%
Subtotal	11,016	11,467	12,023	12,469	12,744	3.7%
Uniformed Services:						
Police	3,152	3,267	3,343	3,475	3,588	3.3%
Fire	1,086	1,106	1,150	1,186	1,218	2.9%
Correction	851	888	947	971	993	3.9%
Sanitation	841	996	1,051	1,084	1,103	7.0%
Subtotal	5,930	6,257	6,491	6,716	6,902	3.9%
Debt Service	3,949	2,244	3,450	4,121	4,730	4.6%
All Other	7,288	7,838	8,218	8,463	8,351	3.5%
Total Expenditures as Estimated by IBO	**$38,705**	**$38,360**	**$40,876**	**$42,647**	**$43,845**	**3.2%**

SOURCE: IBO.

NOTES: Expenditures are not adjusted for prepayments. If adjusted for prepayments, spending would grow at a 3.5 percent average annual rate from 2000 through 2004, and debt service would grow at an average annual rate of 7.9 percent. Excludes intra-city expenditures.

however, that because these funds are presumed to be received and spent in equal amounts, they have no effect on the city's budget gap. IBO also includes both the debt service and associated revenues of the Transitional Finance Authority, which similarly do not affect the budget gap.

In contrast, different estimates of city-funded spending affect the city's bottom line. The greatest difference in future years is our inclusion of four years of collectively bargained labor increases instead of the two included in the financial plan. We add increases in 2003 and 2004, which cost $309 million and $628 million, respectively, using the assumption that base salaries will increase at the rate of inflation. Since it is impossible to predict the outcome of collective bargaining, it should be noted that if the agreements exceed the rate of inflation by one percentage point each year, city-funded spending—and the budget gap—would be more than $550 million higher by 2004. Conversely, if the agreements lag inflation by one percentage point annually, city-funded spending—and the budget gap—would be $550 million lower by 2004.

We also have higher estimates of city-funded spending for Medicaid, public assistance, education (see below) and overtime. IBO's Medicaid estimate is higher in part because it excludes $75 million in annual savings attributable to a desired increase in federal funding—a change we consider unlikely. IBO also projects higher

Table 8.
Details of Pricing Differences Between IBO and the Administration
Dollars in millions

	2000	2001	2002	2003	2004
Total Expenditures as Estimated by the Mayor	**$38,390**	**$37,335**	**$39,044**	**$40,184**	**$40,898**
IBO Re-Estimates:					
City Funded:					
Public Assistance	(7)	(5)	11	51	97
Medicaid	54	153	172	191	212
Education (Excluding Labor Cost Increases)	(94)	(86)	50	115	91
Labor Cost Increases	--	--	--	309	628
Lead Law and Demolition Funding Shift	--	--	(22)	(22)	(22)
Overtime	15	60	60	60	60
TFA Debt Service	267	470	573	612	619
Prepayment Adjustment	188	(188)	--	--	--
City Funded	423	404	844	1,316	1,685
State Funded	(117)	162	365	545	711
Federal Funded	9	459	623	602	551
Total Expenditures as Estimated by IBO	**$38,705**	**$38,360**	**$40,876**	**$42,647**	**$43,845**

SOURCE: IBO.
NOTE: TFA = Transitional Finance Authority.

spending associated with the Health Care Reform Act, pharmaceuticals, and nursing facilities, while projecting lower savings from managed care.

IBO's estimate of city-funded spending for public assistance is higher than the Administration's because we include the impact of recipients reaching the five-year limit for federal aid. After reaching the limit, recipients will shift from Family Assistance to Safety Net Assistance, and the city will shoulder a larger share of the cost.

Additional overtime expenditures also are added based on historical trends and a recent significant increase. Much of this increase is attributable to public safety, particularly anti-narcotics initiatives in the Police Department.

IBO's *Analysis of the Mayor's Preliminary Budget for 2001* discussed the many budgetary and programmatic implications of the preliminary budget. The rest of this section highlights several areas in which the executive budget differs from the preliminary budget. There are updates on the Board of Education, the City University of New York, the Sanitation and Police Departments, debt service, the Workforce Investment Act and summer youth employment, and executive budget restorations of items cut in the preliminary budget.

Education

Board of Education. Based on the Mayor's executive budget proposals and updated information about the Board of Education's (BOE) current year fiscal condition, enrollment, and staff headcount, IBO projects $11.1 billion of BOE spending in 2001, a 4.1 percent increase over the $10.6 billion projected for 2000.[14] IBO expects BOE spending to grow at an average annual rate of 3.8 percent throughout the financial plan period, reaching $12.3 billion in 2004. Although brisk, this rate of growth is less than the 9.5 percent annual average over the past three years (1997 to 2000).

By comparison, the Administration projects BOE spending of $10.7 billion in 2001 and $11.0 billion in 2004. Most of the difference between IBO's forecast and the financial plan is due to IBO's inclusion, at the agency level, of four years of anticipated salary

increases. These collective bargaining costs for all employees, including those paid with city and non-city funds, grow from $198 million in 2001 to $847 million in 2004. The balance of the difference is attributable to assumptions about the implementation of policy initiatives.

IBO's projections include funding increases for the continued phase-in of state and federal class-size-reduction initiatives and the state universal prekindergarten program. The state budget for school year 2000-2001 includes funding increases for these initiatives consistent with the original 1997 agreement that created the programs. IBO's projections assume that K-3 class sizes will be reduced to an average of 20 students by 2003 and that prekindergarten will be offered to all four-year-olds by 2002. In contrast, the financial plan holds revenue and expenditures for these initiatives constant at the 2000 level.

IBO and the Administration also use different assumptions about the fiscal impact of publicly funded charter schools. In December 1998 the state enacted a law permitting the creation of 100 new charter schools statewide, plus the conversion of an unlimited number of existing public schools to charter schools. Four charter schools opened in New York City in September 1999 (two new schools and two conversions), and at least 12 more are planned to open this fall. By law, BOE must provide charter schools in the city with a base operating payment for each student equal to the state's determination of the school system's average operating expenditure per pupil. (The average operating expense excludes items for which charters schools receive separate funding, such as categorical grant programs, food service, and transportation.)

The Administration estimates that the base payments to charter schools will have a negligible impact on the overall BOE budget because it is assumed that nearly all students attending New York City charter schools would have otherwise attended BOE public schools. In contrast, based on the experience of other states with charter schools, IBO assumes that 25 percent of students in new city charter schools (excluding conversions) would not have attended public schools and therefore would not have been the fiscal responsibility of the Board. IBO projects that by 2004, BOE will spend $20 million on 2,500 additional students attending charter schools. A portion of this cost may be offset by increased revenue as the additional students boost the enrollment count that determines some formula-based state aid.

As we highlighted in March, the Board has begun funding some capital projects from its expense budget. Consistent with the city's capital commitment plan, IBO's spending estimates include $195 million in pay-as-you-go capital in 2000, $85 million in 2001, $75 million in 2002, and $80 million annually in 2003 and 2004. IBO's expense budget estimates do not include state RESCUE (Rebuilding Schools to Uphold Education) aid, because these funds are reflected in the city's capital budget.

City University of New York. IBO estimates that the executive budget would result in total city spending for the City University of New York (CUNY) of $391 million in 2001, an increase of $5 million over the projected 2000 level. There have been two noteworthy additions to CUNY's 2001 budget outlook since IBO's March report. First, the executive budget includes $5 million in city funds to expand College Now, a collaborative program to raise the academic standing of BOE high school students. Second, the state budget raises base aid to the community colleges from $2,125 per full-time enrolled student to $2,250, thereby increasing this state aid source by roughly $7 million in 2001.

Department of Sanitation

IBO estimates that spending for the Department of Sanitation will grow 18 percent, from $841 million in 2000 to $996 million in 2001, and at an average annual rate of 7.0 percent over the 2000-2004 period. This rapid growth is in large part driven by costs associated with the closure of the Fresh Kills landfill on Staten Island. The executive budget provides additional funds for waste export contracts and other related operating expenses and also reduces spending for some special trash collection services.

To close Fresh Kills, the city must export all of its refuse that is not collected for recycling. Under an interim waste export plan, Sanitation is awarding short-term contracts to private vendors to dispose of up to 12,500 tons per day (tpd) of residential refuse that would otherwise be destined for Fresh Kills. Trash once carried by barge to Staten Island is now hauled by garbage collection trucks to an incinerator and transfer stations in New Jersey or reloaded onto larger trailer trucks or rail for out-of-city export by private vendors. This increases city costs in two ways: the cost of contracting with private vendors for waste export and the increased operating costs associated with longer hauling distances.

Table 9.
Budget Estimates for Waste Export Contracts, 2001-2004
Dollars in millions

	2001	2002	2003	2004	Total
2001 Executive Budget	$205.2	$241.9	$246.7	$248.8	$942.6
2001 Preliminary Budget	162.5	207.8	212.4	212.4	795.1
Difference	**$42.7**	**$34.1**	**$34.4**	**$36.4**	**$147.6**

SOURCE: IBO.

The interim plan is organized into five phases. Between 1998 and 2000, Sanitation completed three phases, contracting for out-of-city disposal of 7,400 tpd of refuse. The department is scheduled to contract for disposal of 2,500 tpd under Phase 4 beginning in October 2000, and another 2,600 tpd under Phase 5 beginning in October 2001. The 2001 budget includes funds to implement Phase 4 (bids are currently being evaluated) and funds to begin implementing Phase 5 ahead of schedule. Early implementation of Phase 5 is not yet certain and depends on whether the Phase 4 contracts currently being negotiated provide enough capacity also to include all or part of Phase 5.

Waste export contracts. The executive budget adds $42.7 million in 2001 and $147.6 million for the 2000-2004 period for waste export contracts (see Table 9). These additional funds are attributable to higher per-ton contract costs and accelerated implementation of the export schedule. The per-ton cost is currently estimated at $72, based on the average of the bids submitted.

Since contract negotiations are still underway, the city's waste export costs for 2001 to 2004 are still somewhat uncertain. Costs will depend on two factors: the number of additional tons exported during 2001 under the export contracts currently being finalized—that is, the 2,500 tpd for Phase 4, plus all or part of the 2,600 tpd for Phase 5—and the final negotiated cost per ton for export under the contracts. According to officials at Sanitation, the current budget still will not fully fund the final phases of waste export. They advise that additional money will need to be added if Phase 5 is to be implemented earlier than planned.

Additional operating needs for waste export. The executive budget for 2001 adds $7.4 million for other operating costs, such as fuel and maintenance, and another $27.4 million to hire 1,050 uniformed workers—mainly drivers—and 130 civilian workers. These funds are in addition to those already added in the preliminary budget: $10 million per year starting in 2001 to hire 284 uniformed workers and 24 civilian workers associated with Phase 3 of the interim waste export plan, and about $7 million per year for 241 sanitation workers to staff weekly recycling collections that are currently being carried out using overtime. These higher staffing and operating costs are partially offset by savings in staff and operating needs associated with closing Fresh Kills. For example, the executive budget for 2001 includes a reduction of 121 positions, in addition to 260 positions eliminated in the January plan.

Long-term waste export plan. There is much uncertainty about waste export costs in the long run. On May 3, 2000, the Department of Sanitation released a draft long-term export plan, which would shift to a system that relies primarily on marine and rail transport, rather than trucks, to export waste from the city. This new program could be implemented as early as 2004, and its cost and service implications are currently being analyzed. Council hearings on the plan will begin in the coming weeks.

Proposed service reductions. The executive budget includes three service reductions in special collections—trash collections in addition to regularly scheduled neighborhood pick-up schedules that occur two or three times per week. The budget proposes to eliminate: 1) special basket (corner street trash containers) collections outside of Manhattan, for a savings of $2 million annually, starting in 2001; 2) special collections from schools, for a savings of $2.5 million annually, starting in 2001; and 3) special collections from NYC Housing Authority-operated residential buildings, for savings of $1.6 million annually, starting in 2001. These reductions have been proposed in past years and have been restored by the Council.

Police

The executive budget for the Police Department (NYPD) departs significantly from January's preliminary budget in two ways. First, the administration proposes to use federal crime bill funds and additional city funds to hire more police officers. Second, the budget includes significant increases in overtime expenditures for the current fiscal year.

Additional police officers. The Mayor announced that the city will apply for federal "Crime Bill" funding to create 1,230 additional police officer positions. The three-year grant would provide an average of $25,000 per year for each covered officer's salary and fringe benefit costs. Under the terms of the grant, the city must continue to staff all covered positions completely at its expense for at least one full year following expiration of the grant.

Under the current proposal, the city would receive $92.2 million spanning four city fiscal years: $32.5 million in 2001, $30.7 million in 2002, $22.5 million in 2003, and $6.5 million in 2004. An additional $116.0 million in city funds would be required over the plan period to cover the balance of the salary and benefit costs for the 1,230 officers.

To receive the federal funds, the NYPD must reach a peak staffing level of 41,440 once each year from 2001-2004. NYPD would achieve the target by hiring a new class once each fiscal year to reach that peak. Attrition would then reduce staffing until the next fiscal year when a new class of recruits is hired.

More specifically, the city's grant application proposes increasing uniformed police staffing to a level of 41,440 in 2001 by hiring of a class of 1,589 recruits in September 2000; assuming a normal rate of attrition, the force would then decline to 40,211 by the end of the fiscal year. The previously planned peak staffing for 2001 was about 40,700, planned for March 2001. In 2002 through 2004, the agency would achieve the peak-staffing target of 41,440 by hiring a new class on the first day (July 1) of each fiscal year.

Overtime spending. The executive budget projects police overtime costs for the current fiscal year at $220.9 million. This is $43.0 million more than provided in the preliminary budget. IBO forecasts that NYPD overtime expenditures will be even higher, reaching $222.9 million by the close of 2000. At this level, the agency's overtime spending will have grown at an average annual rate of 26 percent from 1998 through 2000. Although the executive budget provides $159.0 million for police overtime in 2001, IBO forecasts that overtime spending will total $205.0 million in the coming year.

Debt Service

Most of New York City's capital spending on public infrastructure is financed by issuing bonds, and most of the cost of repaying the borrowed funds plus interest is met by transfers from the city's general fund to its debt service funds. These general fund transfers are supported by city tax revenues, and they have, since 1997, been augmented by city personal income tax revenues flowing directly into one of the debt service funds, that of the Transitional Finance Authority (TFA).

Debt service has been absorbing an increasing share of city tax revenues since 1990, and that share is expected to continue increasing through 2004. In recent years, however, that trend has been obscured by the use of surpluses to prepay debt service due in the next fiscal year. Prepayments move debt service burdens between fiscal years, increasing the total costs of debt service in some years and lowering them in others. In 2000, for example, IBO assumes that the expected surplus of $3.1 billion will be used to prepay debt service scheduled for 2001. After adjusting for prepayments, IBO projects that the percentage of tax revenues needed for debt service will rise from 15.8 percent in 2000 to 18.0 percent in 2001, and eventually to 19.2 percent in 2004.

There also are significant sources of municipal bond financing that do not involve claims on city tax revenues. These traditionally encompass state categorical aid and (for water and sewer investments) Water Board charges, and now also include payments from tobacco companies to the Tobacco Settlement Asset Securitization Corporation (TSASC).

The current debt limit. The state constitution imposes a cap on the city's outstanding debt. The current limit is set to 10 percent of the five-year average of the full market value (FMV) of taxable real estate in the city. This limitation rose and then fell dramatically over the past decade, leaping from $31.2 billion at the beginning of 1990 to $55.4 billion in 1994, and then plummeting back to $31.9 billion in 1997. Over this same span, city indebtedness within the limit grew from $12.6

billion (40.4 percent of allowable debt) in 1990 to $23.7 billion (42.7 percent) in 1994 to $29.2 billion (91.4 percent of allowable debt) in 1997.

The debt limit continued to decline, although more slowly, in 1998 and 1999. The impending exhaustion of the city's debt-incurring power led to the establishment of TFA in 1997 and TSASC in 2000. The bonds issued and serviced by these two authorities are currently allowing the city to temporarily expand its capital program beyond the limits imposed by the constitutional cap. However, although the debt limit itself is now (slowly) growing again, it will not provide sufficient capacity to finance the city's current capital program beyond 2001. Therefore, the city is seeking to expand its legal borrowing capacity in two ways.

Proposals to expand borrowing. The city has proposed increasing the TFA bonding authority by $4 billion. This statutory change could be enacted by the State Legislature and would provide sufficient capacity to finance the four-year capital plan. The city also is seeking a more permanent reform of its capital financing constraints by proposing to amend the state constitution to alter the debt limitation formula. This would require affirmative votes by the State Legislatures in 2000 and 2001 and approval in a statewide referendum. The earliest it could go into effect would be November 2001.

The city's proposed new limit would equal the sum of 8 percent of five-year average FMV plus 8 percent of a five-year average of the total personal income earned by city residents. TFA indebtedness, which is outside the current limit, would be folded in under the new cap. The inclusion of the personal income component in the new limit would make it somewhat less volatile than the current one. Much of this instability, however, resulted from the methodology used by the state to calculate the limit, rather than from the size of the underlying swings in the market value of the city's real estate. The agency that determines the limit, the State Board of Real Property Services, has recently begun using an improved methodology that appears to have reduced volatility even with no amendment to the state constitution.

The proposal's impact on the amount of allowable debt would be much more significant. IBO estimates that the proposed formula would raise the debt limit (including the TFA) for 2002 from $39.5 billion to $49.4 billion, a 25 percent increase.[15]

While most observers agree that the city's needs for capital spending are great, the increasing share of city tax revenues needed for debt service is a major concern as well. The increasing share of revenue being used for debt service requires either the diversion of funds from other expenditure areas or increases in tax revenue. In 1990, 11.6 percent of tax revenues were needed for debt service. Were the city to use all the additional borrowing authority allowed under the proposed amendment, that debt service percentage could be doubled by 2004. Not only would a 23 percent debt service share be extraordinarily high, but the fact that New York City's taxes are themselves very high by typical large city standards actually understates the problem.[16] Indeed, were New York City tax levels comparable to those of other large cities, using all of the proposed new borrowing authority would result in a debt service share exceeding 35 percent.

WIA and Summer Jobs

The federal Workforce Investment Act (WIA) was signed into law in August 1998 and is set to replace the Job Training and Partnership Act (JTPA) in July 2000. In contrast to JTPA, which directly funded a summer youth employment program, WIA requires youth funds to be spread year-round, with a portion set aside for out-of-school youth. Due to these constraints and a lower level of funding, WIA youth funds will provide fewer summer jobs in New York City than in previous years. However, additional city and state funds will be added, bringing the number of jobs in line with recent levels.

The city plans to use $29 million of the $42 million in WIA youth funding and $3 million in JTPA roll-over funds to provide a year-round program that includes jobs for 15,000 youth this summer. The city plans to allocate an additional $8.5 million of its own tax levy dollars to support another 11,000 jobs. The jobs funded by city tax levy dollars are not subject to WIA regulations and are targeted toward youth who are slightly above the WIA income thresholds.

The State Legislature has agreed to set aside $35 million statewide to provide additional youth jobs this summer. Pending the Governor's signature, the city expects to receive approximately $22 million of these funds, which will add an estimated 14,000 jobs to the 26,000 jobs already planned. The state allocation is supported by federal Temporary Assistance to Needy Families (TANF) funds and is subject to guidelines that

will likely restrict its use to youth in families on public assistance.

Assuming that the city receives the state TANF funds, a total of about 40,000 jobs will be provided in summer 2000. Although this number is less than the city provided last summer (50,499), it is in line with recent experience; the city provided an average of 39,962 jobs over the past five summers.

Budget Restorations

The executive budget restores funding for several programs that were cut in the preliminary budget proposal. The restorations include:

- $45.8 million for the New York, Brooklyn, and Queens Borough library systems, bringing their total city funding nearly up to the level of the 2000 budget—$231.1 million;
- $9.0 million of the $24.5 million the preliminary budget had proposed cutting from the Department of Cultural Affairs. This results in a $15.5 million reduction from the current year's funding level, for a proposed 2001 total of $100.0 million. The reductions fall mostly on the cultural programs unit, which supports over 200 smaller cultural organizations, programs, and events;
- $2.6 million to the Department of Housing Preservation and Development for code enforcement. In addition, the Council has stated its intention to increase code enforcement funding for 2001 by another $2.5 million.

Endnotes

[1] To present a clearer picture of revenue growth, references to tax revenues in the text include the portion of personal income tax revenues dedicated to the Transitional Finance Authority (TFA). In the tables, however, we also present revenue figures excluding TFA-dedicated collections—comparable to those in the executive budget. See IBO's May 1998 report, *Analysis of the Mayor's Executive Budget for 1999*, for a discussion of the Administration's decision to remove TFA-dedicated revenues and TFA debt service payments from the city budget.

[2] Following the Administration's current plans for handling commuter tax refunds, this forecast is based on the assumption that all such refunds will be deducted from 2000 collections even if they are made after the end of the fiscal year.

[3] Because the 14 percent PIT surcharge has already been renewed three times, IBO's baseline forecast assumes its continuation at its current rate beyond its expiration at the end of 2001. The proposal to reduce the surcharge rate is discussed on page 9.

[4] In a forthcoming fiscal brief, IBO will present details on the extent to which the inequality of income distribution in New York City has increased in recent years and on the changing share of income tax receipts attributable to the city's highest income filers.

[5] In comparison with the data used for the projections presented in IBO's *Analysis of the Mayor's Preliminary Budget for 2001*, March 2000, the set of returns used to generate the current projections more thoroughly excludes filers who resided in NYC for only part of the year.

[6] The Council's March response to the preliminary budget did not detail its proposed changes in marginal rates and income brackets, so unless otherwise noted, information contained in this section is taken from the Council's presentation and is not based on IBO's own empirical analysis.

[7] The CRT liability year runs from June 1 to May 31, so the changes listed would actually take effect on June 1, 2000, June 2, 2001, June 1, 2002, and June 1, 2003, respectively.

[8] To be consistent with the preliminary budget's presentation of CRT elimination, these estimated costs include reductions in audit revenues attributable to the proposal. Note that all other tax program costs are estimated without accounting for their impact on audit revenues.

[9] This 1998 measure of the effective tax rates for coops and condos is based on true market value rather than the official city market value, which is artificially lowered under section 581 of the real property tax law. See IBO, *The Coop/Condo Abatement and Residential Property Tax Reform in New York City,* December 1998. With the appreciation in coop and condo units since 1998, effective rates based on true market value would be lower if measured today.

[10] In buildings with average apartment assessed values of $15,000 or less, the reduction is 25 percent. Apartments that have not been sold by the sponsor or developer are excluded, as are apartments in buildings enjoying J-51 or 421-a benefits.

[11] Those with burdens already below the class 1 level would likely be held harmless from the reform.

[12] IBO and OMB estimates of the cost of reducing the hotel occupancy tax do not include these potential secondary impacts.

[13] The model was initially constructed to estimate the impact on tourism and tax revenues of the near concurrent elimination of the state hotel occupancy tax and the reduction in the city's hotel tax in 1994. See IBO, *Reductions in the City's Hotel Occupancy Tax Rate: The Impact on Revenues,* July 1997.

[14] Because of the updated information, these figures exceed our March projections of BOE spending by $130 million in 2000 and $22 million in 2001.

[15] This is based on holding the TFA authorization at $7.5 billion. Alternatively, if the TFA authorization were increased by $4 billion, the constitutional change would increase debt limit (including the TFA) in 2002 from $43.5 billion to $49.4 billion, or 14 percent.

[16] For a comparative analysis of local government tax levels, see IBO, *Taxing Metropolis: Tax Effort and Tax Capacity in Large U.S. Citites*, February 2000.

Table 10.
IBO's Repricing of the Mayor's Executive Budget
Dollars in millions

	2000	2001	2002	2003	2004	Average Change
Revenues:						
Taxes:						
Property	$7,764	$8,014	$8,573	$9,101	$9,556	5.3%
Personal Income (including TFA)	5,410	5,574	5,550	5,958	6,235	3.6%
Dedicated Personal Income Tax (TFA)	*267*	*470*	*573*	*612*	*619*	*23.4%*
Personal Income Tax (excluding TFA)	*5,143*	*5,104*	*4,977*	*5,346*	*5,616*	*2.2%*
General Sales	3,416	3,407	3,556	3,705	3,881	3.2%
Business Income	2,956	2,785	2,885	3,027	3,122	1.4%
Real-Estate Related	1,217	1,240	1,328	1,399	1,498	5.3%
Other Taxes (with Audits)	1,368	1,357	1,382	1,396	1,415	0.8%
Total Taxes	22,131	22,377	23,274	24,586	25,707	3.8%
Total Taxes (excluding TFA)	*21,864*	*21,907*	*22,701*	*23,974*	*25,088*	3.5%
Tax Reduction Program	--	(380)	(711)	(854)	(1,104)	N/A
StaR Reimbursement	260	486	710	737	763	30.9%
Miscellaneous Revenues (net of Intra-City Revenue)	3,012	3,058	2,622	2,573	2,543	-4.1%
All Other Revenues:						
Unrestricted Intergovernmental Aid	616	589	589	589	589	-1.1%
Other Categorical Grants	443	347	364	357	347	-5.9%
Inter-Fund Revenues	281	290	285	285	285	0.4%
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0%
Total Other Revenues	1,325	1,211	1,223	1,216	1,206	-2.3%
Total City Funds	26,728	26,752	27,118	28,258	29,115	2.2%
Categorical Grants:						
State	7,174	7,418	7,703	7,934	8,121	3.1%
Federal	4,803	4,743	4,566	4,490	4,426	-2.0%
Total Revenues	38,705	38,913	39,387	40,682	41,662	1.9%
Expenditures:						
City Funded (net of Intra-City Sales)	26,728	26,199	28,607	30,223	31,298	4.0%
Categorical Grants:						
State	7,174	7,418	7,703	7,934	8,121	3.1%
Federal	4,803	4,743	4,566	4,490	4,426	-2.0%
Total Expenditures	38,705	38,360	40,876	42,647	43,845	3.2%
IBO Surplus / (Gap) Estimate	**$0**	**$553**	**$(1,489)**	**$(1,965)**	**$(2,183)**	

SOURCE: IBO.

NOTES: TFA = Transitional Finance Authority. N/A = Not applicable.

This report was completed under the supervision of Frank Posillico, Andrew S. Rein, and George V. Sweeting. The entire IBO staff contributed their expertise and hard work.

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