Fiscal 2006 Preliminary Budget Response

Part I

Comment on the Fiscal 2006 Preliminary Budget

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Speaker of the Council

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EXECUTIVE SUMMARY

Strengthening Economic Growth
As the City recovers from one of its most severe fiscal crises, we must use our resources to enhance economic growth in the future. The investments in education, public safety and a program of targeted tax reform proposed by the New York City Council (the "Council") will build a solid platform for an expanding economy. A city that is safe, well-educated and has a tax code that is fair and encourages work will have a competitive advantage in the global economy. When everyone pays their fair share, we all pay less. When everyone shares in the benefits of economic growth, the City's economic base is strengthened.

Human Capital – Investments in Education and Workforce Development
Cities with poorly educated populations are destined to become backwaters in the global economy. In the Fiscal 2006 budget the Council will allocate $26 million so that schools can buy books for their libraries and teachers can buy supplies for their students. The Council will also keep its promise to provide a scholarship that covers one-half of the tuition for any CUNY student who maintains a B average. The addition of $9 million to the Vallone Scholarship will bring the average grant per student up to $2,000 per year to cover the cost of increased tuition.

Because education should not end at three in the afternoon or be limited to the schoolhouse, the Council will add $25 million to launch a new after school program that will be run by the City's cultural institutions and libraries. Because education should not end after leaving school, the Council will add $20 million for a workforce development program that will train disadvantaged adults for jobs. Because workforce development should not be limited to those who were born in the U.S. the Council will extend a helping hand to the immigrant communities that have contributed to the renewed vitality of the City by funding a $10 million immigrant initiative.

Educating children and providing adults with opportunities for lifelong retraining creates a competitive workforce and the Council expects that these investments will pay large dividends in the future.

Restoring Hidden Cuts
The Administration's Fiscal 2006 Preliminary Budget (the "Preliminary Budget") contains over $200 million in Council Fiscal 2005 initiatives that were not baselined and are therefore not funded in the Preliminary Budget. The Administration recognizes that classrooms are overcrowded. It acknowledges that reduced class size enhances learning. It claims that education is a priority. In spite of this, the Administration cut $10 million from the Council's class size reduction program in Fiscal 2006.

The Administration acknowledges that providing day care helps families find jobs and stay in the workforce. The Administration acknowledges that 35,000 families are waiting for day care slots. Nonetheless, the Administration has cut $10 million from the Council's day care expansion program.

The Administration acknowledges that New York City residents depend on their libraries yet cut $36 million from the libraries' budget — a cut that would reduce service to four days per week in most neighborhoods. The Administration acknowledges that senior citizens need to eat every day but has cut $1.7 million from the weekend meals program.

Litter baskets are overflowing in the outer boroughs and teenagers will go without summer jobs due to hidden cuts in the Preliminary Budget. These are essential services that all New Yorkers expect their tax dollars to provide. While the Administration believes that these services are not important enough to fund in Fiscal 2006 the Council intends to restore them as part of the budget process.

Public Safety
Our City's economic vitality is dependent upon continued funding of public safety, which has made our City the safest large city in the country. Preserving public safety is essential to our City's competitive position – our ability to attract and retain businesses and residents. To continue this commitment, the Council calls for the hiring of 1000 additional new police officers – a measure designed not only to safeguard its achievement over the last decade in reducing crime and keeping the City the safest large city in the world, but a fiscally prudent initiative that would reduce a dramatic and unsound reliance on costly overtime by the Police Department. In addition, a District Attorney initiative to restore some of the funding to those who prosecute crime will benefit all New Yorkers by ensuring that the efforts of our law enforcement agencies are supported by adequate prosecutorial resources.

Targeted Tax Reduction and Broadening of the City's Tax Base
The Council proposes targeted tax assistance to help working families succeed in the workforce as well as a number of targeted tax reforms to further strengthen the City's economy. These tax initiatives include an overall rate reduction in the City's business tax rate which can be accomplished by making all businesses – including previously exempt insurance companies – pay their fair share of taxes; a deepening of the City's Earned Income Tax Credit; and a commuter tax to support the City's mass transit system, used daily by those who commute to the City to earn a living.

Tax Assistance for Working Families
The Council proposes further assistance to working families, through tax reductions. The Council proposes increasing the City Earned Income Tax Credit for low-income wage earners from 5 percent to 10 percent. This program would provide needed economic assistance to hardworking families and encourage entry into the workforce by groups facing barriers to workforce participation.

Business Tax Rate Reduction and Base Broadening
This Council has always believed that all should pay their fair share of taxes with no group exempt or overburdened. The Council proposes imposing the City's General Corporation Tax on the non-health insurance portion of insurance companies' earnings, too long exempt from all City business taxes. In conjunction with this, the Council proposes lowering the rate on all other business taxes – the General Corporation Tax, Unincorporated Business Tax and Banking Tax –

so that these taxpayers are paying no more than their fair share. In addition, the Council would provide a partial credit on the personal income tax for owners of small businesses (S corporations) and a deepening of the personal income tax credit for unincorporated business taxes to alleviate the burden of double taxation.

MTA Commuter Tax

New York City's ability to maintain the infrastructure necessary for its economic well-being will always be precarious unless the tax base is broadened so that those who use its services on a daily basis are required to contribute to the maintenance of those services. Nowhere can this be seen more clearly than in the case of the City's mass transit system. The State contributes no money to the MTA's capital budget and the 800,000 out-of-town commuters who use the transit system daily pay no tax to support City services since the City's modest commuter tax was eliminated in 1999. Because the MTA has insufficient funds to carry out its capital plan and by raising rates almost annually is in effect taxing New Yorkers, the Council proposes the restoration of a modest commuter tax to be dedicated to funding the MTA's capital program.

Budget Reforms Critical to Prioritization and Open Government

Finally, the Council proposes a number of reforms to the budget process which are critical to allowing priorities to be set and maintained. The Council seeks to reform the use of the budget's units of appropriation. The units of appropriation, the building blocks of our City's budget, are necessary to ensure that programmatic priorities are maintained. The Administration's use of overly broad units of appropriation makes it difficult to account for spending on important programs and ensure that the Council's budget priorities are followed. In addition, a rainy day fund would allow the City to save for its highest priorities in good fiscal times, so that it may maintain those priorities in bad economic times.

The Capital Budget Response, contained in Volume IV of this Response, presents a series of reforms similarly designed to ensure that the executive not undermine capital budget priorities by failing to comply with the letter and spirit of City Charter requirements. The maintenance of large available balances in many capital budget lines and the lack of Charter-required specificity relating to project descriptions too often leads to excessive flexibility. This has, at times, enabled the executive branch to pursue priorities not in keeping with those of an adopted capital budget.

Each year, as required by the City Charter, the Council submits a response to the Administration's Preliminary Budget and Financial Plan. The response to the Preliminary Budget consists of four parts: the Council's Alternative Financial Plan (Part I), the Council Tax Revenue Forecast (Part II), the Committee Reports on the Preliminary Budget Hearings (Part III), and a Response to the Capital Budget (Part IV).

REVIEW AND ANALYSIS OF ADMINISTRATION'S JANUARY PLAN

The Administration's January 2005 Financial Plan ("Financial Plan") shows a balanced budget for Fiscal 2006. The Financial Plan proposes a $48.3 billion budget for Fiscal 2006 that closes a $3.7 billion budget gap identified at budget adoption this past June. Increases in available resources of $4.7 billion are offset by $979 million in increased spending to eliminate the Fiscal 2006 gap.

TABLE 1: ELIMINATING THE FISCAL 2006 BUDGET GAP

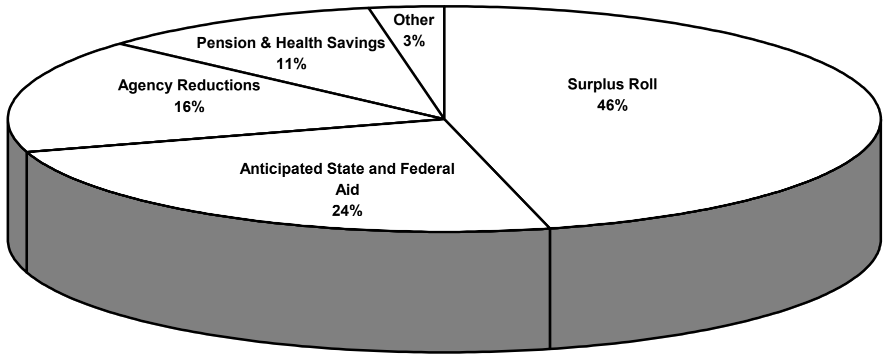
FISCAL 2006 GAP TO BE CLOSED, JUNE 2004 PLAN	**($3,674)**
(in millions)	
Additional Resources	**$4,653**
Tax Revenues	$1,040
Non-Tax Revenues	$137
Debt Service Savings	$112
Prepayments (Budget Stabilization Account)[a]	$1,783
Agency Reduction Program	$506
Savings in pensions and Health Insurance	$325
State and Federal Actions	$750
Additional Spending	**($979)**
Expenditures (e.g. Medicaid, pension / fringe, debt service)	($718)
2004-05 State Budget Related	($196)
Energy Costs	($65)
REMAINING GAP	**$0**

Source: NYC Financial Plan

As of the Financial Plan, the projected Fiscal 2006 budget gap was reduced to $3.1 billion before additional gap closing measures are taken into account. The Financial Plan closes almost one-half of the $3.1 billion budget gap using an additional $1.4 billion surplus roll from Fiscal 2005. Other gap closing actions include $750 million in anticipated state and federal aid, $506 million in agency spending reductions and $325 million in combined savings from pensions and health insurance, and $85 million generated from debt service savings. Other than the surplus roll, the other gap closing actions are either unspecified, yet to be implemented, or both.

[a] *At Budget Adoption, The Budget Stabilization Account had a funded balance of $220 million.*

Figure 1: How the January Plan Closes the Remaining $3.1 Billion Budget Gap in Fiscal 2006



Additional Resources: The Preliminary Budget projects that Fiscal 2005 will end with a $2 billion surplus that will be used to prepay Fiscal 2006 expenses, including $1.7 billion in debt service, $150 million in Health and Hospital Corporation (HHC) subsidy funding and $150 million in transit subsidies. Since budget adoption, $1.474 billion in additional tax revenue has been identified in Fiscal 2005. Other Fiscal 2005 resources contributing to the surplus roll include $114 million in pension and fringe benefit savings, $125 million in debt service savings and $508 million in agency savings and asset sale revenue. A write down of prior year payables and a reduction in the general reserve each provide $200 million in Fiscal 2005 resources contributing to the surplus roll. The surplus roll into Fiscal 2006 is augmented with a net increase in Fiscal 2006 resources. These resources include $1.2 billion in higher Fiscal 2006 revenue re-estimates based primarily on the "carrying forward" of higher Fiscal 2005 tax revenue forecasts. Miscellaneous revenue sources are increased by $137 million, largely the result of $120 million in recaptured tobacco settlement revenue being shifted from Fiscal 2005 to Fiscal 2006.

Additional Spending: On the negative side, re-estimates in areas such as Medicaid, education, and other new agency expenses, including implications of the State budget passed in August 2004, result in increased spending of $756 million in Fiscal 2005, and $828 million in Fiscal 2006. Health insurance and pension costs are anticipated to increase by $149 million in Fiscal 2006 compared to assumptions at budget adoption.

The Preliminary Budget includes over $200 million in cuts to programs restored by the Council in the Fiscal 2005 Adopted Budget. Some of these programs face further cuts as part of the Administration's agency reduction program. These cuts include $36 million to libraries, $17 million to culturals, $26 million to CUNY including the Vallone Scholarship and community colleges operating support, $10 million to workforce development, $9 million to seasonal Parks workers and tree pruning services, and $22 million to health programs including HIV, infant mortality and school based clinics. The Preliminary Budget maintains restorations in the Administration for Children Services in preventive services, childcare, foster care rates, and substance abuse. However, a $10 million cut remains for expansion of day care slots included by the Council in the Fiscal 2005 Adopted Budget. In addition to the above cuts, the Preliminary

Budget contains risks beyond the expectation of $750 million from the State and federal governments.

TABLE 2: ADMINISTRATION'S FINANCIAL PLAN UPDATE

(In Millions)	2005	2006	2007	2008
Gap to be Closed June 2004 Plan	**$0**	**($3,674)**	**($4,522)**	**($3,681)**
(Increase the Gap)/Decreases the Gap				
Revenue Changes				
Taxes				
October Plan Forecast Revision	$577	$589	$544	$524
January Plan Forecast Revision	$897	$451	$508	$573
Total Revisions to Tax Forecast	**$1,474**	**$1,040**	**$1,052**	**$1,097**
Other Revenues				
Non-Tax Miscellaneous Revenues	$88	$17	$20	$23
Tobacco Settlement Revenues	($120)	$120	($2)	($2)
Reduction in Anticipated Federal Aid	($50)	$0	$0	$0
Total Other Revenues	**($82)**	**$137**	**$18**	**$21**
Total Revenue Changes	**$1,392**	**$1,177**	**$1,070**	**$1,118**
Expenditure Changes				
Increases to Expenses				
2004-05 State Budget Related	($201)	($196)	($94)	($77)
Education	($147)	($60)	($60)	($60)
Energy	($40)	($65)	($65)	($65)
Medicaid	($182)	($317)	($503)	($691)
Agency Operating Changes	($180)	($144)	($122)	($116)
Hudson Yards Related	($6)	($46)	($95)	($139)
Total Increases to Expenses	**($756)**	**($828)**	**($939)**	**($1,148)**
Other Changes in Expenses				
Pension Contribution / fringe Benefits	$114	($149)	($21)	($224)
Debt Service Changes	$115	$25	($56)	($79)
Total Other Expense Changes	**$229**	**($124)**	**($77)**	**($303)**
Recapture of Reserves No Longer Needed				
Re-estimate of Prior Years Expenses	$200	$0	$0	$0
Reduction of General Reserve to $100 million	$200	$0	$0	$0
Total Reserve Changes	**$400**	**$0**	**$0**	**$0**
Total Expense Changes	**($127)**	**($952)**	**($1,016)**	**($1,451)**
Additional Prepayment (October Plan)	**($354)**	**$354**		
Gap to be Closed as of January 2005	**$911**	**($3,095)**	**($4,468)**	**($4,014)**
Agency Gap Closing Actions	$423	$506	$350	$349
Federal Actions	$0	$250	$0	$0
State Actions	$0	$500	$200	$200
Pension / Health Insurance Savings	$0	$325	$200	$0
Debt Service / Asset Sales	$95	$85	$0	$0
Additional Prepayment (January Plan)	**($1,429)**	**$1,429**	**$0**	**$0**
Remaining Gap	**$0**	**$0**	**($3,718)**	**($3,565)**

More than 75 percent of the City's $3.1 billion agency gap closing program in the January plan for Fiscal 2006 will be non-recurring in Fiscal 2007 and Fiscal 2008.

ADDITIONAL RESOURCES

OVERVIEW OF COUNCIL TAX REVENUE FORECAST

The national economic expansion is broadening. Until recently, economic growth has been largely based on consumption spending. Business uncertainty has been sufficient to suppress both investment and new hiring. In 2004, however, investment became a source of growth. For the first time since 2000, non-residential fixed investment grew faster than the economy as a whole—in fact, in 2004 investment grew at twice the pace of Real Gross Domestic Product (GDP). Over the September-February period, the economy added, on average, 165,000 private sector jobs per month. While this pace of job growth is sufficient to reduce the unemployment rate, the economy is generating far fewer jobs than expected at this point of an economic expansion. Nonetheless, this pattern of strengthening investment and continuing moderate job growth appears to be continuing in 2005.

New York City's economy is undergoing a similar expansion. The hemorrhage of jobs that started in the spring of 2001 finally ended in 2004, with the City gaining 13,000 private sector jobs. By January 2005, most of the relatively high income 'office' sectors of the economy saw growth, including financial services as a whole, securities, real estate, information, business services, professional services and advertising. The blue-collar administrative services[b] sector also expanded. Consumer and tourism-related sectors showed particular strength, including retailing, the leisure and hospitality sector, and accommodations. And, of course, the old stalwarts, education and health care continued to expand. This demonstrates that the City's expansion is not dependent on any single industry but, by and large, on a wide range of business sectors operating in the City, including the securities industry. The securities industry had a remarkable first quarter of 2004, with total wages paid by the industry in the City up 43 percent from the previous year. The industry seems to have ended the year strongly, with a surge of merger and acquisition activity in December that appears to be carrying over into 2005.

In 2004, GDP grew at the robust annual rate of 4.4 percent. The New York City Council Finance Division ("Council Finance") expects during 2005, that growth of the nation's GDP will slow somewhat, yet remain at an above-average rate of 3.7 percent. Similarly, New York City will continue to grow in 2005. Council Finance forecasts the City's economy will generate a total of 45,000 jobs and an average wage growth of 5.6 percent in 2005.

The strength of New York City's economy is reflected in the strength of its income-sensitive taxes, including business, personal income, and sales, and the two property transfer taxes. As of February, tax collections are already more than $256 million over the Financial Plan. In Fiscal 2005, Council Finance projects that total tax revenue will be $354 million over the estimate from the Office of Management and Budget (OMB) set forth in the Preliminary Budget. For Fiscal 2006, total tax revenue is anticipated to be $456 million over OMB's projection. For the rest of

[b] *The sector's full name is administrative, support and waste management.*

the plan period, the Council forecast remains above OMB's with differences increasing to $606 million in Fiscal 2007, $923 million in Fiscal 2008 and $1,178 million in Fiscal 2009.

TABLE 3: COUNCIL FINANCE DIVISION'S TAX REVENUE FORECAST COMPARED TO PRELIMINARY BUDGET
(IN MILLIONS, ABOVE/(BELOW) FISCAL 2006 PRELIMINARY BUDGET

	2005	2006	2007	2008	2009
Real Property	$0	$(44)	$47	$156	$412
Personal Income	104	156	244	284	255
General Corporation	41	101	106	114	121
Banking Corporation	48	31	0	32	87
Unincorporated Business	50	72	102	116	132
Sales	50	37	70	128	140
Commercial Rent	(4)	(6)	(1)	1	6
Real Property Transfer	(11)	35	30	44	11
Mortgage Recording	86	78	4	33	(8)
Utility	(6)	(1)	7	15	23
Hotel	(4)	(3)	(2)	(1)	(2)
Total Taxes	**$354**	**$456**	**$606**	**$923**	**$1,178**

A complete discussion of the Council Finance Division economic forecast is found in Part II of the Council's Response.

COUNCIL ALTERNATIVE FINANCIAL PLAN
TABLE 4: COUNCIL FINANCIAL PLAN

In Millions	2005	2006	2007	2008
Gap to be Closed: January Plan	**$ -**	**$ -**	**$ (4,118)**	**$ (3,665)**
Council Resources	**$354**	**$554**	**$704**	**$1,021**
Added Tax Revenue	354	456	606	923
Agency Reestimates & Efficiencies		98	98	98
Council Initiatives		**($383)**	**($379)**	**($366)**
Baseline Restorations and Enhancements		(276)	(276)	(276)
Education Restorations & Initiatives		**($60)**	**($60)**	**($60)**
Books for School Libraries		(10)	(10)	(10)
Teacher Choice		(16)	(16)	(16)
After School Program - Urban Adventure		(25)	(25)	(25)
Enhance Vallone Scholarship		(9)	(9)	(9)
New Initiatives		**($47)**	**($43)**	**($30)**
Restore & Expand Workforce Development Programs		(20)	(20)	(20)
Domestic Violence Initiative		(6)	(6)	(6)
Immigrant Initiative		(10)	(10)	(10)
Add 1,000 Police Officers		(11)	(7)	6
Tax Reductions / Reforms		**$ (86)**	**$ (105)**	**$ (113)**
Business Tax Reform: Broader Base, Lower Rate		**$ (11)**	**$ (25)**	**$ (29)**
Tax Insurance Companies at GCT Rate		99	195	205
5% Across the Board Reduction on all Business Taxes		(80)	(160)	(170)
S-Corp Credit on PIT		(20)	(40)	(42)
Deepen UBT Credit on PIT		(10)	(20)	(22)
Other Tax Cuts		**$ (75)**	**$ (80)**	**$ (84)**
Raise City EITC to 10% of Federal Credit		(55)	(60)	(64)
Deepen REAP		(20)	(20)	(20)
Gap/Surplus	**$ 354**	**$ 86**	**$ (3,898)**	**$ (3,123)**
BSA	**$ (354)**	**$ 354**		
Gap/Surplus		**$ 440**		
Pay Down Debt Fund		**$ (440)**		
Restated Gap		**$ -**	**$ (3,898)**	**$ (3,123)**

Agency Re-estimates and Efficiencies

The Council's alternative financial plan identifies $98 million in agency savings. Many of the efficiencies proposed by the Council in last year's response to the preliminary budget have been implemented by the Administration in its Fiscal 2006 Preliminary Budget and Financial Plan. These include recognizing a $92 million surplus in the police department's budget due to salary savings from having a much younger workforce, an $8 million re-estimate of projected cost for public assistance and a $38 million re-estimate of landfill closure cost. However, the Council continues to look for ways to provide services more efficiently. The following is a summary of the Council's alternative savings proposals.

Department of Information Technology and Telecommunications (DoITT) – ($38 million): DoITT has embarked on several projects over the last two fiscal years. These include the Emergency Communications Transformation Program (ECTP), the City's new 311 system, and the Public Safety Network project. In Fiscal 2005, half of the appropriation for the ECTP, $10 million, was removed in recognition of likely delays in the purchase and implementation of hardware and software components. With very little information on the project, the Council believes that there will be similar delays in Fiscal 2006 and proposes to remove $30 million in funding relating to the program. Additionally, the Council anticipates half-year delays in 311 and capital project support funding and a rollover of surplus funds for the Public Safety Network project. These delays and the rollover amount to $2.9 million in savings. Other efficiencies and cost-saving proposals include consolidation of hardware and software agreements currently administered by multiple vendors and a five percent Other Than Personal Services (OTPS) reduction.

Department of Citywide Administrative Services (DCAS) - ($36 million): Department savings come from two areas: Re-estimates of its Heat, Light and Power Budget and efficiencies. First, the Department budgeted $521.1 million to fund Heat, Light and Power costs in Fiscal 2006. However, DCAS has underspent its Adopted Heat, Light and Power budget by $56.7 million in Fiscal 2002, $15.3 million in Fiscal 2003 and $24 million in Fiscal 2004. Due to this historical underspending, the Council is proposing to reduce the City-funded portion of DCAS's Heat, Light and Power budget by approximately $13.8 million (2.5 percent) in Fiscal 2006. Second, the Council proposes the implementation of efficiency techniques to produce Fiscal 2006 savings of $22.4 million (approximately five percent) in its City-funded heat, light and power budget. These include shortening the summer workweek to save air conditioning and other electrical costs; reducing/raising City agency office temperatures in the winter/summer to save on heat/air-conditioning; and appointing an efficiency officer to all divisions in all City agencies to ensure that computers, light, printers, and copy machines are turned off when not in use.

Department of Health and Mental Hygiene (DHMH) – ($24 million): Due to delays in the opening of the Office of Chief Medical Examiner's (OCME) new DNA lab in November 2006, most, if not all, of the personal service costs that are in the budget for Fiscal 2006 will not be needed until Fiscal 2007. Currently, the City's Preliminary Budget includes $23.9 million for the DNA lab. This funding is after a $3.1 million reduction in the Preliminary Budget by the City due to this delay. By leaving some funds so that OCME can begin to gradually hire in anticipation of the lab's November 2006 opening, the Council estimates that $22 million is available for redistribution to other programs. Additionally, the Council is proposing savings from the Golden Apple Opportunity Quality Improvement Program. This program acknowledges restaurants that meet standards above the minimum DHMH requirements.

COUNCIL RESTORATIONS AND INITIATIVES

Unfortunately, the Preliminary Budget contains numerous cuts to education-related programs and programs designed to provide necessary services to some of our City's most vulnerable populations. These cuts would undermine efforts to strengthen our City's greatest economic asset – its human capital. The education cuts include cuts to the Council's Teacher's Choice program, Early Class Size Reduction program and the Vallone Scholarship. Other cuts such as those proposed to school-based clinics affect the health of our schoolchildren. Still others are aimed at some of our City's most vulnerable populations and include funding reductions for HIV prevention and infant mortality.

During the City's most recent fiscal crisis, the Council recognized that the education of our students was critical to the City's economic vitality going into the 21st century. The Council fought hard to maintain education as its first priority and successfully fought cuts to the classroom and facilities. Although the State has thus far completely failed in its obligation to fund adequate school facilities for our City's schoolchildren, the Council has stood firm in both its resolve to honor its commitment as well as its resolve not to let the State default on its obligation. On March 23, 2005, the Council reversed a proposed cut in the first year of the Five Year Capital Plan of $1.3 billion in projects, and a delay of over $700 million in needed repairs.

A well-educated, well-trained, healthy workforce, living and working in neighborhoods that are safe is essential to a healthy, stable economy.

Baseline Restorations and Program Enhancements

The Fiscal 2006 Preliminary Budget, as proposed by the Administration in the January 2005 Financial Plan, contains over $200 million in hidden cuts. These are cuts to programs that were restored by the Council in the Fiscal 2005 Adopted Budget but not baselined in the Administration's Financial Plan for Fiscal 2006 and the out-years. The Administration recognizes that classrooms are overcrowded. It acknowledges that reduced class size enhances learning in early grades. It claims that education is a priority. In spite of this, the Administration proposes to cut $10 million for the Early Class Size Reduction Program mandating the immediate hiring of additional teachers where classroom space is available to reduce class size in grades K through 3 from a current average of 22 to 20. The Preliminary Budget proposes to remove $10 million in funds to expand childcare slots for the working poor even though there is a waiting list of 35,000 and access to childcare can be key to enabling a struggling family to become self-sufficient. Without $36 million in funding for libraries contained in the current adopted budget, our libraries may be open only four or even three days a week in fiscal 2006. There are litter baskets overflowing on the corners of commercial districts of the Bronx, Brooklyn, Queens and Staten Island, yet the $1.4 million allocated for additional litter basket pick-ups in the current adopted budget has been removed from the Preliminary Budget. These are essential services that all New Yorkers expect their tax dollars to provide. However, through its actions, the Administration has taken the position that these and many other “essential” services are not important enough to continue funding in Fiscal 2006.

Additionally, the Council finds that the services it restored in the current adopted budget are not funded in the out-years of the City’s Financial Plan. Such continuation of funding in the out-years is referred to as “baselining”. Yet, when the Administration restored childcare and child welfare services, and provided funds for new initiatives, these funds were baselined. The Council believes that the program services it restores and/or enhances fill essential needs and are equally important to baseline.

Instead of this being an annual “budget dance,” the Council recommends that the Administration restore and baseline these essential services in the City’s four year Financial Plan (Fiscal 2006-2009) in the Executive Budget. Table 5 shows a full listing of Council recommendations.

Books for School Libraries

The Council proposes to allocate $10 million in Fiscal 2006 and the outyears to school libraries throughout New York City to expand available resources to improve access to vital materials for students. This initiative will provide funding for all elementary, middle and high school libraries based on the number of students enrolled at each school. It is estimated that each school will receive approximately $8 per pupil for materials for school libraries.

Currently, the State provides each school district with $6.00 per pupil for school library materials. This State funding has been flat at $6.00 per pupil since 1999. In Fiscal 1997, the Council allocated $12.5 million for textbooks and the funding was baselined for four years.

Literacy is the foundation to learning in all subject areas. However, according to the City and State’s English Language Arts assessment test results for the 2003-04 school year, too many of New York City’s children (58.9 percent) read below City and State standards. This means that more than half of the students have partial or minimal understanding of written and oral text. To ensure all students achieve their potential, the Council proposes to allocate $10 million in Fiscal 2006 and the outyears to provide vital library materials to help students improve their literacy skills

Teacher’s Choice

The Council proposes to allocate $16 million in Fiscal 2006 and the outyears to fully restore funding for the Teacher’s Choice program. Teacher’s Choice is a purchasing program that reimburses City schoolteachers, other instructional staff and principals for purchases of up to $200 in classroom supplies or equipment. This funding would provide essential support to more than 80,000 teachers and other instructional staff who depend on the funding to supply their classrooms with basic instructional materials.

After-School Urban Adventure

An effective Out of School Time ("OST") initiative for the City's children must include programs for its young adolescents, particularly those who are struggling in school or have become altogether disengaged from education. After-school programs that expose teenagers to enrichment opportunities, such as arts and cultural programs, greatly enhance what these students learn in the classroom, revitalize their interest in school, and reduce academic and behavioral problems. The new OST funding model, however, fails to provide quality services for such students, as it only allows for 108 hours (36 weeks at 3 hours a week) of programming annually.

The Council therefore proposes the creation of After-School Urban Adventure, a unique program for youth ages 11 to 14. Through an allocation of $25 million, the City would partner with museums, zoos, and all three Public Library systems to provide quality after-school programming with a focus on the arts and sciences. Utilizing community-based organizations, that are existing after-school service providers, and locating Urban Adventure at New York's premier public institutions, this program would tailor the curricula in an innovative way to provide an ideal opportunity for these at-risk youth to experience the best the City has to offer and renew their interest in education.

Peter Vallone Scholarship Program Expansion

The Council proposes to expand the Peter Vallone Scholarship Program by increasing the allocation to recipients from the current allocation of $1,000 a year to $2,000 a year for senior college students and $1,500 a year for community college students and allowing students at the Fashion Institute of Technology (FIT) to be eligible to receive the scholarship. The total cost of the expanded program would be $16 million in Fiscal 2006 and the outyears, more than twice the current program of $7 million.

The scholarship program was initiated by the Council in Fiscal 1999 and has provided over 60,000 awards to students since its inception. Currently, the Council provides $7 million for the program which distributes $500 per semester to New York City high school students graduating with a B average or better and who maintain at least that average each semester at a CUNY college. Under this expanded program, the Council would provide funding to allow students to receive $1,000 a semester, effectively paying half the tuition costs of students who attend senior colleges and 71 percent of tuition costs for those students attending community colleges. Today, the annual tuition for the senior colleges is $4,000 and $2,800 for the community colleges.

In addition, the expanded program would provide scholarships to students at the Fashion Institute of Technology. The annual tuition at FIT for associate degree programs is $3,000. The scholarship funding would allow eligible FIT students to receive two-thirds of their tuition costs annually. Including FIT as one of the institutions whose students are eligible for scholarships would resume a relationship that existed shortly after the scholarship was created. Students at FIT received scholarships in Fiscal 2001 and 2002 after which the program was discontinued. The expanded program would ensure that eligible FIT students would receive the benefits of their counterparts at CUNY's schools.

Hire an Additional 1,000 Police Officers

In 1990, the Council and Mayor Dinkins committed the City to having a police force of 38,310 officers. The Safe Streets/Safe City program was an unqualified success, reducing crime and making New York City the safest big city in America. Fiscal problems in the post-September 11th period have led to the reduction of the police headcount from a peak of over 40,000 to the current 37,000.

This experiment in headcount reduction has not saved the City money – it has simply shifted costs to overtime. The Council believes that hiring an additional 1,000 police officers will have only marginal impact on the budget but a significant impact on public safety. This proposal would add an additional 1,000 officers over four recruit classes and thus raise the Department's authorized uniform headcount to over 38,000, the Safe Streets/Safe City level.

This Program would have a net cost of only $6 million over the first five years (costs of $11 million and $7 million, respectively in Fiscal 2006 and 2007, and savings of $6 million, $4 million and $2 million, respectively in Fiscal 2008 through 2010) because NYPD overtime expenditures would be reduced. NYPD overtime expenditures, which have increased dramatically over the last several years, totaled nearly $400 million in Fiscal 2004, and Police Commissioner Raymond Kelly recently testified that the NYPD will spend $426 million on overtime in Fiscal 2005. Part of this increase stems from increased counter-terrorism measures, but a significant portion of the Department's burgeoning annual overtime costs are related to officers deployed to special projects and to planned (annual) and unplanned (one-time) events. Relying on overtime for duties that could be performed on straight-time shifts represents inefficient management of human capital. Given the significant budget gaps projected for Fiscal 2006 and the outyears of the City's Financial Plan, it is imperative that the City implement cost-effective strategies that minimize such inefficiencies.

The Council's proposal to hire an additional 1,000 police officers is a relatively cost neutral plan that would both decrease projected overtime costs and increase police strength. To offset the additional salary cost, the 1,000 new officers, to be hired over the next four recruit classes, would be deployed in overtime-reducing shifts. Over the first five years (Fiscal 2006 through Fiscal 2010), the proposal would cost only $6 million. Although our model assumes that savings would be derived from redeployment, other measures could be implemented that contribute to decreased overtime expenditures.

By deploying the 1,000 officers in overtime-reducing shifts, this hiring plan both increases the number of police officers **and** addresses the Financial Control Board's ("FCB") recommendation that "the city should develop and use an effective management plan to properly budget and control overtime." (FCB Review of FY's 2005 - 2008 Financial Plan, released July 12, 2004.)

The 1,000 additional officers, assigned to all 76 NYPD precincts and certain command bureaus, would (1) maintain the City's historically low crime rate, (2) staff proven initiatives such as Operation Impact that address crime spikes in specific precincts, and (3) supplement the City's counter-terrorism preparedness efforts.

The NYPD recently decided to split its annual attrition-replacement recruit class into two separate classes, one to be hired in July and one in January of each fiscal year. The additional 1,000 officers proposed by the Council would be hired in four classes (250 each in July 2005, January and July 2006, and January 2007) so as to ease the strain on the Police Academy and to avoid the siphoning of officers away from law enforcement duties to train the recruits.

Funding for District Attorneys

The prosecutorial function of law enforcement is as critical to maintaining a safe city as crime fighting on the streets. However, since the beginning of the current Administration, the Offices of the five District Attorneys and the Special Narcotics Prosecutor (OSNP) have been subject to multiple rounds of budget cuts totaling more than $40 million. Although the DA's and OSNP may be able to have a portion of these cuts restored by demonstrating that their work raises revenue, the agencies have suffered. Attorney headcounts are down and average caseloads are disturbingly high, leading to difficulties in prosecuting cases in an expeditious manner, conducting long-term investigations, and providing crime prevention services.

In order to keep this the safest big city in the country, the Council proposes a Fiscal 2006 restoration to the prosecutors' budgets of $3.5 million, plus a $5 million enhancement. Such an investment would more than pay for itself in terms of increased public safety, reduced arrest-to-arraignment overtime costs, and protection of our tax base.

Expand the Workforce Development Initiative

The Council proposes to increase the funding for the Workforce Development Initiative in Fiscal Year 2006 by $10 million. The Council made an historic budgetary commitment of $10 million in Fiscal Year 2005 to fund workforce development projects that will have the flexibility and creativity to meet the needs of New York City's unemployed and underemployed adults and youth. In appropriating these funds, the Council recognized that there are many challenges New York City residents face that impede their ability to gain and retain employment. The primary goal of the initiative is to ensure that chronically unemployed and underemployed adults and out-of-school youth gain employment, retain their jobs, or are prepared to establish an entrepreneurial venture, through the acquisition of both hard and soft skills.

Funding for this initiative will enable the program to target specific economically disadvantaged communities in the City that continue to suffer from a high percentage of unemployed or underemployed individuals. Funding will be used to develop programs that combine education, workforce development, social skills and individualized social service support, as well as to increase the professional capability of staff and the capacity of organizations to ensure quality, well-thought-out programs and service delivery. Programs will be developed that link employers, education programs, support service providers, and workforce development providers.

Domestic Violence and Empowerment (DoVE) Initiative

The Council proposes a $6 million initiative to support neighborhood-based provision of domestic violence services in the most vulnerable and high-incidence areas of New York City. The funds would be used to support community-based organizations that provide prevention and empowerment workshops, comprehensive service referral, and legal advocacy to victims of domestic violence.

According to the New York City Department of Health and Mental Hygiene (DOHMH), domestic violence accounted for 30 percent of all homicides among New York City women in 2002 and New York City's Domestic Violence Hotline has received on average about 400 calls per day. However, many domestic violence victims do not report domestic violence abuse, receive services, or seek police protection. Experts cite specific factors such as economic vulnerability, immigration status, social isolation and language barriers as preventing the most vulnerable groups from receiving critical domestic violence services. For example, while foreign-born women are three times as likely as native-born women to be the victim of a domestic violence homicide, foreign-born abused women are less likely than any other group to reach out for assistance from governmental agencies or programs outside of their immediate communities.

According to DOHMH, there were 78 family-related homicides in 2002, and in 65 percent of these cases there had been no prior police report. As overly centralized methods of service delivery can make the most vulnerable victims feel disconnected and unwilling to seek services outside of their neighborhoods, this initiative would supplement important existing programs and link the critical array of support services for domestic violence to our diverse communities in New York City. By involving local neighborhoods and supporting community-based organizations that provide culturally relevant and language appropriate services to domestic violence survivors, this Council initiative would enhance service provision throughout the City. The initiative also would measure achieved outcomes as well as include an evaluation component to document and share best practices.

Immigrant Opportunities Initiative

Thirty six percent of the City's population is comprised of immigrants, approaching the historic highs reached at the turn of the 20th Century. In 2001, the Council began its Immigrant Opportunities Initiative to help meet the growing needs for English language classes and legal services for New York City's immigrant communities. The Council now proposes enhancing this initiative by $10 million to enable it to support a network of community-based programs that will serve thousands of immigrant families throughout the City. Specifically, the enhanced initiative would provide:

English Language Programs: A portion of the funding would be used to address the unmet need and high demand for English Language Programs in New York's immigrant communities. Many English for Speakers of Other Languages ("ESOL") programs are forced to hold lotteries, to turn people away from registration and maintain lengthy waiting lists. This funding would help support non-profit agencies currently running programs as well as give others not yet included in the Council's Initiative the opportunity to establish new programs targeting underserved communities.

Immigrant Legal Services: A portion of the funding would be used to provide affordable and dependable legal services to immigrants. The availability of such services is highly limited, and at times has resulted in exploitation of immigrants in desperate search of legal assistance for citizenship issues, reuniting with their families, and processing of work permits and other documentation.

Immigrant Worker Legal Services: A portion of the funding would be used to continue to support and expand the community-based legal services project so that immigrant workers subjected to exploitation and unpaid wages may receive legal assistance to recover wages and pursue other remedies. The expansion of the project would enable services to be offered in the Bronx and Staten Island. Currently, services are only offered in Queens, Brooklyn and Manhattan.

English and Civics Classes to Immigrant Seniors: A portion of the funding would be used to enable senior centers to provide English and civics classes to the City's rapidly growing population of elderly immigrants.

TABLE 5: COUNCIL RESTORATIONS AND ENHANCEMENTS

(In thousands) AGENCY NAME/PROGRAM	Fiscal 2006 Restorations/ Enhancements
LIBRARIES	**$35,582**
Operating Subsidy	$35,314
NYPL - Research	$268
CULTURAL AFFAIRS	**$16,943**
Cultural Institution Groups (CIGs)	$14,151
Programs	$2,792
EDUCATION	**$7,445**
Worker Education Training Programs	$3,500
Urban Advantage-Science Initiative	$2,500
Attendance Improvement/Dropout Prevention (AIDP)	$1,340
Principal Leadership Institute	$105
CUNY	**$25,482**
Community Colleges	$16,464
Peter Vallone Scholarship	$7,000
Other Programs-Various	$620
Dominican Studies Institute	$470
Puerto Rican Studies Institute	$469
Immigration Center	$335
Hunter Campus School	$124
DEPARTMENT OF SMALL BUSINESS SERVICES	**$2,541**
Commercial Revitalization	$1,014
Economic Development/Business Incubation	$550
Garment Industrial Development Corp	$336
Educational Opportunity Centers	$335
NYC and Company	$114
MWBE Staff	$100
New York Industrial Retention Network	$92
PARKS AND RECREATION	**$9,386**
Seasonal Workers	$7,286
Tree Pruning	$2,100
SANITATION	**$5,934**
Supplemental Basket Collection and Motorized Litter Patrol	$5,300
Roosevelt Island AVAC Collection	$500
Solid Waste Management Plan Consultant	$134
HEALTH	**$22,287**
Child Health Clinics	$5,300
Infant Mortality	$2,800
Summer School Nurses	$2,525
HIV AIDS	$2,400
Outpatient Medication Program	$2,370

Emergency Preparedness Programs	$1,388
Asian American Hepatitis B Project	$1,340
Injection Drug Users Health Alliance (IDUHA)	$858
Cancer Initiatives	$781
School-based clinics	$536
Family Planning	$530
Asthma Control Program	$545
Consolidation of TB Clinics	$279
NYU Dental Van	$268
HHC HIV/AIDS Counseling	$207
Community Healthcare Network	$160
MENTAL HEALTH	**$12,823**
HHC MH/Substance Abuse Programs	$3,285
HHC Mental Health/Hygiene Programs	$2,622
Mental Health Contracts	$1,856
Mental Retardation	$1,300
Mental Health - Voluntary Sector	$1,210
Alcoholism/Substance Abuse -Voluntary Sector	$1,210
Crystal Methamphetamine Program	$670
Children Under Five Initiative	$670
SOCIAL SERVICES/HRA	**$3,438**
Unemployment/SSI Program	$2,500
Food Pantries	$670
NYC Managed Care Consumer Assistance Prog.	$268
AGING	**$26,885**
Meals Restructuring	$8,000
Borough President Discretionary Funds	$6,562
Naturally Occurring Retirement Communities (NORCs)	$5,000
City Council Discretionary Funds	$3,047
Grab Bar Installation	$2,000
Weekend Meals	$1,700
ESL Expansion	$335
Medicare Rights Center	$134
Extended Service Contracts	$107
YOUTH	**$33,540**
Summer Jobs (SYEP)	$11,451
Beacons	$8,096
Discretionary Funds-City Council	$5,239
Youth Programs-Various	$2,729
Immigrant Initiative	$2,816
Neighborhood Youth Alliance/Street Outreach	$1,311
Drug Prevention/Runaway & Homeless Youth	$761
Helping Involve Parents in Schools Project (HIP Schools)	$700
Domestic Violence Initiative	$335
Youthlink	$102
HOMELESS	**$3,600**
Shelter Beds for GLBT Youth	$2,500
Adult Rental Assistance Program	$900
Project Renewal	$200
ADMINISTRATION FOR CHILDREN SERVICES	**$11,000**
Day Care Expansion	$10,000
CONNECT	$1,000
HOUSING	**$4,850**
Legal Services	$2,500
Community Consultants	$1,030
Neighborhood Preservation Consultants	$770
Citywide Task Force on Housing Court	$350
Landlord Training contract reduction	$200
CORRECTION	**$4,050**
Discharge Planning	$4,000
WomenCare	$50
PROBATION	**$40**
HOPE Program	$40

BOARD OF CORRECTION	**$114**
PS Staff	$114
JUVENILE JUSTICE	**$1,500**
Discharge Planning	$1,500
CCRB	**$1,000**
Investigator Positions	$1,000
POLICE	**$613**
School Crossing Guards	$613
MISCELLANEOUS	**$18,174**
Alternatives to Incarceration (ATI's)	$5,600
Neighborhood Defender Service (NDS)	$3,000
Office of the Appellate Defender (OAD)	$2,250
Legal Aid - Citywide Civil Legal Services	$1,375
LSNY - Citywide Civil Legal Services	$1,375
Legal Services for Domestic Violence Victims	$950
Earned Income Tax Credit Legal Assistance	$765
LSNY - Keeping Families Together	$500
Child Advocacy Centers	$500
Immigrant Battered Women's Initiative	$469
Legal Services for the Working Poor	$402
NYC Alliance Against Sexual Assault	$385
Center for Court Innovation	$335
Legal Information for Families (LIFT)	$201
Vera Institute	$67
FIRE	**$14,251**
Reopen 6 Engine Companies	$10,075
Fire Cadet Program	$2,800
Diversity Recruitment	$1,376
BOROUGH PRESIDENTS	**$3,492**
PS/OTPS	$3,492
PUBLIC ADVOCATE	**$961**
PS/OTPS	$961
DISTRICT ATTORNEYS	**$8,500**
PS/OTPS	$8,500
CONFLICTS OF INTEREST BOARD	**$143**
Training and Education Unit	$143
CITY PLANNING	**$335**
Zoning Reforms	$335
MAYORALTY	**$67**
Fatality Review Advisory Board	$67
EQUAL EMPLOYMENT PRACTICES COMMISSION	**$97**
Audit and Evaluation Staff	$97
BUILDINGS	**$670**
Inspectors	$670
TRANSPORTATION	**$125**
Ferry Service Subsidy	$125
GRAND TOTAL	**$275,868**

TAX REFORM PROGRAM

The Council is proposing a tax reform program that has two primary goals: (1) to create a fairer and more equitably applied tax policy by reducing business tax rates while broadening the tax base and restoring a modest commuter tax to fund transportation needs used daily by those commuting to the City to earn a living; and (2) to support investment in our City's principal asset – its human capital – by providing targeted and deserving aid through tax assistance to working families, and growth industries that have the potential to strengthen the City's employment base.

Business Tax Reform

The Council is proposing broad-based business tax reform that will broaden the City's tax base by including previously exempted non-health insurance business and lower the rate paid by virtually all firms currently subject to business taxes in the City. Exempting one industry from taxation places a greater burden on all other industries. When all businesses pay their fair share, all businesses pay less. Broadening the business tax base to include certain insurance companies allows the City to lower the tax rate for other businesses and provide additional relief to City owners of S corporations and unincorporated businesses who currently face double taxation. The proposal includes the following:

- **Expand the base of the corporate tax to include insurance business:** Under the Council's proposal, the net income of an insurance company's business conducted in the City would be taxed under the City's General Corporation Tax (GCT). There are approximately 800 insurance companies in the City—75 percent of these are property and casualty firms and 17 percent are life insurance companies. Insurance companies are currently exempt from the City's GCT. Under the Council's proposal, the income of health insurance companies would continue to remain exempt from the City's business taxes. Taxing insurance companies in the same way as other businesses in the City would raise $195 million in its first full year.

- **A five percent cut in overall business tax rates:** This cut would benefit the roughly 260,000 corporations and banks, as well as the 6,800 partnerships and 20,000 individual proprietors that do business in the City. This would reduce business taxes on firms in the City by $160 million in its first full year.

- **Credit for resident shareholders of S-Corporations:** Resident shareholders of S-Corporations face double-taxation of their income—first on their profits under the General Corporation Tax, and, second, on their personal income when profits are paid out to the shareholders.[c] Under this proposal, resident shareholders of S-Corporations would be able to take a credit against their Personal Income Tax (PIT) liability equal to a portion of their share of the business's corporate tax liability. This credit would be structured in the same way as the existing PIT credit for taxes paid under the Unincorporated Business Tax. There are 110,000 S-Corporations in New York City. Most S-Corporations are small businesses. This credit would reduce the personal income tax of New York City residents who are shareholders in S-Corporations by $40 million in its first full year.

- **Deepen the UBT Credit:** Currently, resident partners and sole proprietors of unincorporated businesses are allowed a credit against their resident PIT for a portion of their distributive share of Unincorporated Business Tax (UBT) liability. The credit is based on a sliding scale and ranges from 65 percent of UBT liability for taxpayers with New York State (NYS) taxable income of $42,000 or less and gradually goes down to 15

[c] *In this way, S-corporations are similar to unincorporated businesses. S-corporations are taxed under the GCT in the same way as any other corporation. It is different under Federal law. S-corporations do not pay the Federal Corporate Income tax. Instead, all income and deductions are passed on to the stockholders, who include them as a part of their personal income tax, thus avoiding double taxation on corporate earnings. To be eligible for S-corporation status a company must have fewer than 75 stockholders.*

percent of liability for taxpayers with taxable income of $142,000 or more. The Council proposes to increase the value of the credit to 80 percent of UBT liability for taxpayers with NYS taxable income of $42,000 or less, decreasing down to 20 percent of liability for taxpayers with taxable income of $142,000 or more.

The Council has explicitly targeted the double taxation issue by providing a partial credit against the resident PIT for UBT filers beginning in tax year 1997. This proposal would further reduce the burden of double taxation on sole proprietorships and business partnerships.

- **Net impact on City revenues:** The Council's business tax reform program would reduce City revenues by $11 million in Fiscal 2006 and by $25 million in its first full year of operation, Fiscal 2007.

TABLE 6: IMPACT OF BUSINESS TAX PROGRAM ON SOME TYPICAL TAXPAYERS

Type of Filer:	Business Tax Rate Cut	Credit on PIT	Total Tax Savings
General Corporation Tax			
Textile manufacturer	$307	…..	$307
Biotech firm	$257	…..	$257
Unincorporated Business Tax			
Doctor with taxable income of $100,000	$200	$310	$510
Architect with taxable income of $50,000	$100	$280	$380
S-Corporation Partner: Pharmacy			
Partner one: married with 2 dependents and TI of $150,000	$221	$631	$852
Partner two: single filer with taxable personal income of $40,000	$221	$1,459	$1,680

Expand the Earned Income Tax Credit (EITC)

The Council proposes to raise the City's EITC credit to 10 percent of the Federal credit. Last year, at the Council's initiative, the State enacted legislation authorizing the City to enact an Earned Income Tax Credit (EITC), to supplement the income of low-wage households. As a result, low-income working New Yorkers can receive a refundable credit on their City personal income taxes equal to 5 percent of the Federal credit. The earned income tax credit, now available on the Federal, State and City levels, constitutes a significant anti-poverty program, and is especially helpful to families making the transition from welfare to work. It is a tax credit that lifts many working families above the poverty level.

Over 700,000 City households will claim the EITC this year. Under the current law a household can receive a refundable credit of between $20 and $215 from the City depending on marital status, the amount of income earned, and number of children in the household. If the Council's proposal were adopted benefits would range from $40 to $430.

The tax credit accrues to households earning under $35,458. Over 75 percent of the credit goes to working households with incomes under $20,000. If the Council's proposal is adopted, City residents could receive up to $6,015 from the combined City, State and Federal Earned Income Tax Credits. The fiscal impact is estimated to be $55 million.

TABLE 7: IMPACT OF COUNCIL EXPANDED EITC ON SOME TYPICAL TAXPAYERS

Typical Taxpayers: two examples		With	
Single-filer earning $12,000 with one child:	**Current Law**	**Enhanced City Credit**	**Net Benefit**
Federal Credit	$2,506	$2,506	…….
State Credit	$752	$752	…….
NYC Credit	$125	$250	$125
TOTAL	$3,383	$3,508	$125
		With	
Married filing joint earning $25,000 with two children:	**Current Law**	**Enhanced City Credit**	**Net Benefit**
Federal Credit	$2,991	$2,991	……
State Credit	$897	$897	……
NYC Credit	$150	$300	$150
TOTAL	$4,038	$4,188	$150

Capturing a Greater Share of Growth Industry Employment

As the national and local economies expand, it is important that the City aggressively pursue companies in growth industries with the potential of increasing the employment base in New York City. Since 1995, the Relocation and Employment Assistance Program ("REAP") has existed to encourage companies from outside the City and companies relocating from the central business district in Manhattan to expand their operations in the City by providing tax credits based on employment expansion. Two recent enhancements to the program include making the credit refundable and allowing companies to relocate to lower Manhattan from outside the City.

New York City is an important research center, employing over 16,000 workers in scientific research and development. In recent years this sector has grown faster in the City than in the nation as a whole. But an important part of this sector, Biotech,[d] has stalled, with employment shrinking at the same time Biotech employment in the rest of the nation has expanded. And, while scientific research and development is found in all five boroughs, Biotech remains almost exclusively in Manhattan. This may be a part of its problem. In addition, there are other growth industries and professions of which the City has not captured a proportionate share, including computer systems design (U.S. growth 88% vs. NYC growth 49%), and management and technical consulting services (U.S. growth 64% vs. NYC growth 47%). Interestingly, these sectors require resources that would be considered New York City's strength, mainly intellectual

[d] Naics 54171

and financial capital. Since it is in these growth sectors that one would expect to find companies looking to expand and therefore willing to relocate, the Council proposes to increase the refundable REAP credit to $8,000 per employee for companies in these and other high growth industries. This program enhancement will send a clear message to companies looking to expand that New York City is aggressively reducing the cost of relocating to and doing business in the nation's business capital. Council Finance estimates that a targeted and expanded REAP credit would reduce business tax revenue by as much as $20 million annually depending on program participation.

TABLE 8: CITY COUNCIL TAX PROGRAM

(In Millions)

	2006	2007	2008
Business Tax Reform: Broader Base, Lower Rate	**$ (11)**	**$ (25)**	**$ (29)**
Tax Insurance Companies at GCT Rate	99	195	205
5% Across the Board Reduction on all Business Taxes	(80)	(160)	(170)
S-Corp Credit on PIT	(20)	(40)	(42)
Deepen UBT Credit	(10)	(20)	(22)
Other Tax Cuts	**$ (75)**	**$ (80)**	**$ (84)**
Raise City EITC to 10% of Federal Credit	(55)	(60)	(64)
Deepen REAP Program	(20)	(20)	(20)
TOTAL PROGRAM	**$ (86)**	**$ (105)**	**$ (113)**

OTHER INITIATIVES

Proposal for a Commuter Tax with Revenue Dedicated to the MTA

The Council proposes to reinstate the commuter tax at a rate of one percent of wages. The revenue collected will be dedicated to the MTA capital program with any surplus used to avoid fare increases.

The revenue raised by the imposition of this tax will go toward paying debt service on the MTA's $15.5 billion capital spending gap. The gap includes $11.3 billion for core capital spending plus a projected deficit of $4.2 billion in the proposed capital expansion program for 2005-2009. The new taxes will generate roughly $1.1 billion annually in revenue for the MTA.

An estimated 800,000 people commute on a daily basis to New York City from surrounding counties in New York State, New Jersey and Connecticut.

STAR Credit for Low and Moderate-Income Renters

The Council proposes that the State expand its School Tax Relief (STAR) program to include a STAR credit for renters that is approximately the same as the basic STAR property tax exemption provided to eligible New York City homeowners.

New York City residents do not receive their fair share of the State's STAR program because the majority of the City residents are renters.[e] Renters do not receive benefits from the major expenditure of the State's program that is designed to offer property tax relief to homeowners to offset rising local education expenses. The City will receive only 23 percent of the $3.2 billion in STAR benefits the State will give to localities in State Fiscal 2005-06, even though the City's children make up 36 percent of the State's total public secondary school enrollment.[f]

Yet, renters also pay for rising education costs because higher property taxes are passed along in allowable rent increases for regulated apartments. In addition, unlike other localities in the State except for Yonkers, all City residents, including renters, pay local income taxes. All state and local taxes combined place a substantial tax burden on City householders. However, the recent increases in rents and taxes, including the local sales tax increase of 1/8 of a percent and the removal of the sales tax exemption on shoes and clothing under $110, have hit low-income renters with school-age children the hardest.

Under the current STAR program, City residents receive two STAR benefits from the State, the property tax exemption and a personal income tax credit. Owners of homes, cooperative or condominium apartments whose primary residence is in the City may collect one of two STAR property tax exemptions: the basic STAR exemption, or the enhanced exemption for senior owners aged 65 or older with annual household incomes of $64,650 or less.

All City residents also receive a refundable City of New York School Tax Credit against the personal income tax. For individuals, the credit is $62.50 a year and for joint filers the credit is $125. Both renters and homeowners receive the income tax credit. But homeowners get an additional property tax benefit not available to renters. Homeowners receive an average of $220 for the basic STAR exemption and $360 for the senior enhanced exemption.

However, the statewide average STAR property tax benefit is $710 for homeowners receiving the basic STAR exemption and $1,080 for the senior enhanced exemption. The City will receive $734 million from the State for the STAR program ($153 million for the property tax exemption and $581 million for the PIT credit) in the City's Fiscal 2006 Budget. However, other localities will get a total of $2.6 billion in property tax benefits from the State.

In order to offer some tax relief to renters, the proposal would grant City low-income renters living in rent-regulated apartments, a credit against the personal income tax equal to 3 percent of their annual rent. The average credit would be approximately equal to the average basic STAR benefit received by City homeowners. Heads of households must have at least one of their children under 18 living with them to qualify for the credit. Annual total household income may not exceed $60,000.[g] The City of New York School Tax Credit for Renters would be refundable.

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[e] *According to the 2002 New York City Housing and Vacancy Survey, renters occupy 67 percent of all housing units in the City. There are more than one million rent-stabilized and rent-controlled units and about 982,000 owner units.*

[f] *State and City school enrollment figures are for the school year 2002-2003 and do not include enrollment in Universal Pre-K or Charter schools.*

[g] *This income limit is slightly less than the income limit set by State law for senior homeowners to qualify for the enhanced STAR property tax benefit.*

In Fiscal 2006, the total cost of the school tax credit for renters would be $45 million. The average household benefit would be $295. There are about 150,000 low-income households living in rent-regulated apartments with children under 18 that would qualify for the 3 percent credit, according to the 2002 New York City Housing and Vacancy Survey. The total benefit would increase to $47 million in Fiscal 2007, $49 million and $51 million in Fiscal 2008 and 2009, respectively. With the $45 million increase in STAR money for the City, the City's share of the State's STAR benefit would only increase slightly to 24 percent.

Sales Tax on Clothing and Shoes

All sales taxes are regressive as they particularly affect lower income families, who spend the bulk of their hard earned income on the necessities of life. This is especially so in the case of clothing and footwear. Low income families with children very often find it difficult to make ends meet at particular times of the year such as the beginning of school or major holidays. Such households typically spend approximately 11 percent of their income on clothing and footwear, much of it under $110 per item. This group is the one hurt the most by sales tax.

Because of this, the Council fought to exempt clothing and footwear under $110 from sales and compensating use taxes. The exemption became effective March 1, 2000. However, the exemption was later rescinded by State action and sales taxes on clothing and footwear under $110 was restored, effective June 1, 2003. Two sales-tax-free weeks were instituted in its place. The Council opposed this rescission and argues that sales-tax-free weeks are an inadequate substitute for the exemption.

In addition, sales tax on clothing and footwear has a debilitating effect on the local economy. Clothing, accessory and departments stores employ about 80,000 in New York City. The industry is in competition with New Jersey, Pennsylvania and Massachusetts where clothing is sales-tax-exempt and with Connecticut, which exempts clothing and footwear under $50 from sales tax. In fact, there are innumerable retailers in New Jersey with easy access from the City by car or rail who have benefited enormously from this tax differential.

Finally, an estimated forty million visitors shopped in the City in 2004. This shopping included dining, attending cultural and theatrical events, visiting historical sites, occupying hotels, sightseeing and, yes, purchasing clothing and footwear. Taxing clothing and footwear under $110 will make one reason out-of-town visitors travel to the City less attractive, thereby constraining a recovering tourist industry.

BUDGET REFORMS

The Council proposes budget reforms that it believes are necessary to ensure that the budget process actually results in the implementation of the priorities contained in the adopted budget. These reforms are: (1) a rainy day fund so that in good economic times the City can save so that its priorities and obligations can be safeguarded in economic downturns; and (2) a reform of overly broad units of appropriation so that they reflect programmatic uses of funds, thereby ensuring that budgetary priorities are adhered to.

"Rainy Day Fund" or Revenue Stabilization Fund

In order to better ensure that priorities can be carried forward in bad economic times as well as good, the Council proposes the creation of a "rainy day" or Revenue Stabilization Fund in the City's expense budget. This would allow the City to save money in good economic times that could be used to maintain essential services, pay obligations of the City and/or ameliorate the need for tax increases, during bad financial times.

To accomplish this, State legislation would be required to amend the State Financial Emergency Act to allow the City to amend its Charter by local law to allow the Council and Mayor to create, as a separate unit of appropriation in the expense budget, a rainy day fund. The Council could create the fund either at the time of adoption of a budget or its modification and fund it as it would fund any other unit of appropriation.

The authorizing legislation would allow payments to the fund at any time but would mandate payments to the fund if City tax levy revenue has increased by more than 7 percent from the amount of city tax levy revenue at the time of adoption of the prior year's budget. This would indicate that economic times are good, that the City is bringing in increased revenues, and that a portion of these revenues should be saved.

There would be two circumstances under which withdrawals could be made from the fund. Unless one of these two circumstances occurred, the fund would have to be carried over to succeeding years' budgets. These circumstances are: (i) the total amount of City tax levy revenue from the PIT, Business Taxes and Sales Tax decreased by at least 1 percent from the amount of the previous year's budget at the time of adoption; or (ii) the Mayor's revenue estimate submitted at the time of adoption contains a decrease from that contained in his executive budget. In either case, any withdrawal could not exceed the decrease, and in the case of a withdrawal because the Mayor lowered his revenue estimate at the time of adoption, if actual revenues exceed the lowered revenue estimate, the additional revenues would first have to be used to pay back the rainy day fund.

The procedures for adopting and funding the Fund would be the same for funding any unit of appropriation on the expense side of the budget (although for purposes of the Financial Control Act it would not be deemed an expense throwing the budget out of balance). At adoption the Council could create and fund it pursuant to the budget adoption provisions of the Charter. During the year, the Council could fund it (and where authorized make withdrawals) pursuant to the expense and revenue modification procedures of the City Charter.

Programmatic Units of Appropriation

Although the framers of the City's Charter clearly envisioned units of appropriation (or "U/As") to be limited, encompassing a program, purpose or activity to be carried out by an agency, mayoral practice has failed to comply with this goal. As a result, units of appropriation that are often so broad as to be virtually meaningless can enable budget priorities to be undermined. This practice also inhibits meaningful oversight both by the Council and the public of agency spending, and thereby undermines agency accountability.

For example, the budgets of many agencies lump virtually all of their programs into a single unit of appropriation. Indeed, $2.25 billion of the Police Department's $3.5- billion Fiscal 2006 Preliminary Budget is contained in Unit of Appropriation 001 – Operations. This Personal Services U/A contains the funding for most law enforcement programs of the Department, whether funded by straight time or overtime salaries. It thus makes it nearly impossible for the Council or the public to oversee Police Department spending, or for the Department to account for its spending practices such as the continued heavy reliance on overtime spending.

The City has created new units of appropriation in the past in order to increase transparency and separate agency functions. The Council proposes the creation of new units of appropriation and the limiting of units of appropriation to a single program or purpose as envisioned by the Charter.