Fiscal 2005 Preliminary Budget Response

Part I

Comment on the Fiscal 2005 Preliminary Budget

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Speaker of the Council

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March 2004

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EXECUTIVE SUMMARY

New York City is on the road to recovery from one of the worst fiscal crises in its history. Our residents have not only borne the pain of the City's recent physical and economic turmoil, but have shouldered the sacrifices that were required to launch us on our journey toward recovery and renewed stability. Over the last two years we have trimmed the budget by over $3 billion, while fighting hard to preserve essential services and protect vulnerable populations. We have asked virtually every one of our residents and businesses to pay more to protect the quality of life that makes our City a great place to live and do business. The Council's vision for the remainder of this journey involves ensuring that our City's renewed stability is strong, enduring and supported in a manner that is fair to, and addresses the fundamental needs of, all New Yorkers.

A Fair Tax Policy For All New Yorkers

The property tax is the single largest source of revenue for New York City. The enormous budget gaps faced by our City after the September 11th terrorist attacks and ensuing recession could not have been addressed without an increase in the property tax. Although the Council fought hard to lower the Administration's requested 25 percent increase to 18.5 percent, even this increase creates a hardship for all those who contribute to the City's property tax base. Nowhere has this burden been more onerous than for our City's seniors living on fixed incomes. For that reason the Council proposes a property tax program that provides property tax relief for lower income seniors so that we may eliminate all of the effects of the recent tax increase on these vulnerable New Yorkers.

However, all New Yorkers contribute – whether directly or indirectly – to our property tax base. Sixty-seven percent of New Yorkers are renters, with a median income of $31,000 per year. Last year when the Rent Guidelines Board met to determine the amount of rent increases for rent regulated apartments, the property tax increase was a key factor in the substantial increase approved. In addition, 43 percent of the property tax is paid by commercial landlords who routinely pass along all property tax increases to their tenants. The small business owner ultimately paid the property tax increase. And, of course, homeowners are also bearing a heavy burden as the recent tax increase combines with increasing assessments by the Department of Finance, to force their property taxes higher. Because of this, the City should provide relief by means of an across-the-board property tax reduction to all those who have borne the burden of the tax increase. Unlike the Administration's proposed rebate to homeowners, this property tax cut could be enacted without State legislation.

The Council also proposes offering a "Good Neighbor/Good Landlord" property tax abatement to owners of buildings with less than 6 units who continue to rent to their senior tenants at below market rents. The seniors in these smaller rental buildings lack the protections of the rent regulation laws and landlords should be encouraged to provide a break to seniors on fixed incomes. The Council also proposes a property tax credit for those homeowners who hire contractors to prune trees located on City-owned property near their homes. Finally, the Council also proposes a deepening of the Coop/Condo property tax abatement in a manner that would lessen the inequity in the property tax structure that continues to exist in the taxation of these types of homes. Currently, coops and condos with lower assessed values receive a larger 25 percent property tax abatement. By increasing the limit on the assessed value for those coops and condos that would be entitled to the higher 25 percent abatement, more coops and condos – particularly in the boroughs outside of Manhattan where the inequities between similarly situated coops and condos and class one homes appear to be greatest – would get a larger tax abatement.

And, because renters who make up a majority of our City's residents miss out on the tax advantages of homeownership, and City residents are shortchanged in their share of the State's Star tax credit, the Council has also asked Albany to create and fund a low income renter Star credit which would give renters with children in rent regulated apartments making less than $30,000 annually, a 3 percent credit on their City personal income taxes.

Restaurant and drinking establishments -- pillars of the City's nightlife and tourist industry -- have been particularly hard hit over the course of the last two years. Given the importance of these businesses to the City's overall economy, the Council is proposing a temporary, 30 percent reduction in the business tax rates applied to these businesses.

In the area of income taxation, we will renew our efforts to provide low-income wage earners in the City with the same earned income tax credit as they are afforded at the State and Federal levels. It is unconscionable that while those who earn high wages but live outside the City currently pay no City tax on wages, low-income City wage earners who are entitled to a tax credit at the State and Federal levels must pay local income taxes from the first dollar of their earnings.

Education and Housing – Two Fundamental Capital Needs Too Long Shortchanged

Two needs that must be met in order to insure the City's long-term fiscal health are the facility needs of our public school system and our City's need for additional affordable housing. New York City is chronically shortchanged by the State in capital funding for both its schools and housing needs, and the City's structural imbalances prevent the City from adequately addressing these needs on its own. Revenues from a Fair Share Commuter/Reverse Commuter Reimbursement Program – essential to correct that portion of our structural imbalance attributable to the fact that so many high wage earners who live outside of the City pay no tax on their City income – should be used to address these two critical areas. Currently, 800,000 non-resident workers who come to the City each day to earn their living – and who on average make almost three times that of the average New Yorker -- pay no tax to the City on income they earn here. Likewise, there are 140,000 City residents who leave the City each day to work in neighboring New York counties such as Nassau, Suffolk and Westchester, who do not contribute to the tax base of those jurisdictions. A modest tax on the wages of the non-residents who work in the City, with a guarantee that the City will reimburse the surrounding communities at the same rate for the City residents who work in those jurisdictions, would provide a fair and equitable way of ensuring that localities can rely on all those who regularly benefit from their services to contribute to their tax base.

A Commuter/Reverse Commuter reimbursement program at a rate of 1.1 percent would provide the City with $1 billion after the City has reimbursed surrounding localities at the same rate for those City residents who work in our neighboring counties. This would provide a dedicated revenue stream that would address two critical, long-standing capital needs: Education and housing. Of this, $600 million could be used to service over $6 billion in debt, which could fund almost half of the improvements essential to our City's public school system. The remaining $400 million would be used to finance debt service associated with the development and preservation of affordable housing.

Education Initiatives: Reducing Class Size; Pre-K Pilot; Special Education Teacher Training

Continuing its emphasis on education, the Council proposes a number of initiatives focusing on our youngest students and those with special needs. These are just first steps on a long journey toward the sound education of our children, the cost of which the Court of Appeals has demanded must be borne by the State. In an effort to reduce class sizes, the Council proposes an initiative for early grade class size reduction in grades kindergarten through third. This initiative calls for hiring additional teachers immediately in schools where classroom space is available, and where State funding for early grade class size reduction has been insufficient. Studies have documented that a class size of 20 in kindergarten through grade 3 improves student achievement by a half or full grade level with an even greater impact for disadvantaged students. In addition, the Council proposes a pilot program targeted at a low performing district which would provide an expanded pre-kindergarten program. The Council also proposes an initiative to enhance teacher training for special education.

Restoring Local Programs to Adequate Levels

Finally, the Council proposes to enhance and/or restore those important community-based or targeted programs that have been losing ground over the course of the fiscal crisis. Many of these service providers fill critical needs in our neighborhoods, and have seen their ability to perform critical services stretched to the limit over the last two years. Reopening the six fire houses closed last year is a small price to pay for improved response times to fire and medical emergencies. In addition, programs that meet critical needs such as maintaining our parks, reducing infant mortality and keeping libraries open must not be allowed to continue to suffer.

Nowhere has this been clearer than in the City's library system. Our libraries provide learning centers for all residents in every neighborhood throughout the City and are the one after-school program universally available to all students. The Council fought hard to restore six and seven day per week library services in the City after the recession of the early 1990s. In fact, just two days after the September 11th attacks, when City Hall and much of downtown Manhattan were still inaccessible, the Council held its first post-September 11th Council Meeting at the main branch of the New York Public Library to begin dealing with the economic ramifications of the crisis. However, during the ensuing fiscal crisis, the libraries, like so many other important services, were forced to bear their share of the pain necessary to foster our recovery. While we must continue to prudently safeguard the City's fiscal health, the Council is proud to call for restoration of six-to-seven day per week library service throughout our City – a service that will benefit every New Yorker and serve as a symbol of our resolve to continue on our road to recovery and long-term economic stability.

REVIEW AND ANALYSIS OF ADMINISTRATION'S JANUARY PLAN

The Administration's January 2004 Financial Plan shows a balanced budget for Fiscal 2005. The January 2004 Financial Plan proposes a $45.7 billion budget for Fiscal 2005 and closes a $2 billion budget gap, with gaps of $2 billion and $2.9 billion in Fiscal 2006 and Fiscal 2007, respectively. The January 2004 financial plan for Fiscal 2005 closes the $2 billion budget gap and provides additional funds to cover agency spending and new priorities in the following way:

Table 1 - Fiscal 2005 Budget Gap as of June 2003
(In Millions)

GAP TO BE CLOSED, JUNE 2003 PLAN	$2,014
Additional Resources	$3,111
Revenues	$975
Federal and State Actions	$700
Prepayments (Budget Stabilization Account)	$695
Agency Reduction Program	$324
Savings in pensions and debt service	$217
Reduction in general reserve	$200
Additional Spending	($1,097)
New expenditures (e.g. Medicaid, public assistance, Health)	($647)
Tax Rebate for homeowners	($250)
Pay-as-you go capital for Education	($200)
Gap to be Closed	$0

Source: NYC Financial Plan

Additional Resources. The Fiscal 2004 budget will end with a $1.4 billion surplus that will be used to prepay debt service of $695 million in each of Fiscal Years 2005 and 2006. After a $200 million reduction, the General Reserve will retain $100 million in its budget in Fiscal 2005. More than 50 percent of additional revenue changes are from taxes. Re-estimates in pensions and debt service have yielded additional savings to the City. The $324 million agency program includes initiatives, such as $70 million in savings in the police department from overtime, attrition and a reduced civilian headcount, and $35 million in procurement savings. The Administration's Federal and State agenda provides a menu of cost saving proposals for the City that includes at the Federal level an increase to the Federal share of Medicaid and our fair share of homeland security funds; and at the State level Medicaid reforms and State cost shifts in social services and probation services.

Additional Spending. On the down side, re-estimates in areas such as Medicaid and Public Assistance, and other new agency expenses, such as $44 million in the Department of Education (DOE) for ending social promotion and health insurance costs and $33 million in the Agency for Children's Services for foster care and cost increases for institutional placements, have increased spending by $647 million in Fiscal 2005. Pay-as-you go capital for Education grows from $100 million in Fiscal 2004 to $200 million in Fiscal 2005. The tax rebate proposal in Fiscal 2005 would provide $400 to homeowners, at a cost of $250 million to the City.

Table 2 -Administration's Financial Plan Update
(In Millions)

	2004	2005	2006	2007
Gap to be Closed June 2003 Plan	$0	($2,014)	($3,238)	($3,285)
(Increase the Gap)/Decreases the Gap				
Revenue Changes				
Taxes				
Nov. Plan Tax Revenue Forecast Revision	$449	$74	$47	$26
Jan. Plan Tax Revenue Forecast Revision	$316	$452	$460	$559
Total Revisions to Tax Forecast	$765	$526	$507	$585
Other Revenues				
IDA Reimbursement of Stock Exchange Costs	$71	$0	$0	$0
Airport Lease Payment Delay	($200)	$200	$0	$0
Receipt of Bond Bank Payment for Education	$197	$0	$0	$0
Other Non-Tax Revenue Re-estimates	$222	$249	$136	$152
Total Other Revenues	$290	$449	$136	$152
Total Revenue Changes	$1,055	$975	$643	$737

	2004	2005	2006	2007
Expenditure Changes				
Increases to Expenses				
New Agency Expenses	($355)	($381)	($377)	($394)
Medicaid	($248)	($163)	($225)	($418)
Public Assistance	($59)	($69)	($69)	($69)
Employee and Retiree Health Insurance	$25	($34)	($33)	($33)
Delay in MTA Take Over of Private Bus Service	($75)	$0	$0	$0
Total Increases to Expenses	($712)	($647)	($704)	($914)
Other Expenses				
Pension Contribution	$75	$90	$110	$139
Debt Service Savings (higher prepayment in 2003)	$110	$0	$0	$0
Other Debt Service Savings	$135	$127	$40	$17
Total Other Expense Changes	$320	$217	$150	$156
Recapture of Reserves No Longer Needed				
Re-estimate of Prior Years Expenses	$300	$0	$0	$0
Reduction of General Reserve to $100 million	$200	$200	$0	$0
Total Reserve Changes	$500	$200	$0	$0
Total Expense Changes	$108	($230)	($554)	($758)
Prepayments (Budget Stabilization Account)	($1,390)	$695	$695	$0
Gap to be Closed as of January 2004	($227)	($574)	($2,454)	($3,306)
Agency Gap Closing Actions	$327	$324	$195	$194
Federal Actions	$0	$300	$300	$300
State Actions	$0	$400	$400	$400
Tax Rebate	$0	($250)	($259)	($263)
Pay-As-You-Go Capital for Education	($100)	($200)	($200)	($200)
Remaining Gap	$0	$0	($2,018)	($2,875)

In the original version of the City's Financial Plan Update, many of the increases and decreases to the City's budget planned for the current Fiscal Year continue in Fiscal 2005 and the out-years. While tax revenues are projected to remain more than $500 million above the June 2003 Plan, other revenues would decline, primarily due to non-recurring revenues from the airport lease payments. This one-time payment expected in Fiscal 2004 has been shifted to Fiscal 2005.

While new spending needs will increase the City's expenditures in all four years of the financial plan, funding for the Private Bus Service is not recognized beyond Fiscal 2004. The City still expects that an agreement will be reached with the Metropolitan Transportation Authority

(MTA) to take over these operations. A re-estimate of reserves from prior year expenses, reduction in the general reserve and debt service savings are non-recurring resources that are reflected in Fiscal 2004 and/or Fiscal 2005 only.

More than half of the City's $324 million agency gap closing program in the January plan for Fiscal 2005 will be non-recurring in Fiscal 2006 and Fiscal 2007. The new spending for the tax rebate and pay-as-you-go capital for education is expected to continue in the out-years of the plan.

Even with the City's plan to balance its budget in Fiscal 2005, there are risks in the budget. The Administration's January 2004 Financial Plan identified $795 million in such risks within the Fiscal 2005 budget that included: MAC financing ($500 million); Metropolitan Transportation Authority (MTA) takeover of private buses ($150 million); and Uniform Overtime ($150 million). There are other risks that should be highlighted as well. These include the State and Federal Actions ($700 million).

OVERVIEW OF COUNCIL TAX REVENUE FORECAST

After a year of anticipation it is finally clear that both the national and City economies are growing. We no longer have to figure out when things will get better: now the issue is the pace of the recovery. The national economy has been growing for over two years and the City's economy has been growing for close to six months. As the national recovery continues it is pulling the City forward. Improving financial markets are boosting income in the City. The arts and entertainment and the accommodation sectors are growing due in part to the return of domestic tourism. Even the badly hurt information sector is showing some life. Housing prices continue to rise and the commercial real estate market shows signs of improvement. The City had a worse recession than that faced by the nation as a whole, and it has further to go to fully recover. But the City is poised to stay on pace with the nation as a whole in income, and perhaps even in employment.

In 2003 GDP grew at an annual rate of 3.1 percent. The New York City Council Finance Division ("Council Finance") expects during 2004, that the nation's GDP will post its highest growth rate of the past 20 years, 4.7 percent. New York City will continue to grow in 2004. Council Finance forecasts the City's economy will generate a total of 40,000 jobs and average wage growth of 6.1 percent throughout the current year.

Income sensitive taxes like the personal income tax and the business taxes are already showing the effects of the recovery. At time of writing, and correcting for various timing issues, February tax collections are already more than $250 million over the January plan. In Fiscal 2004, Council Finance projects that total tax revenue will be $319 million over the estimate from the Office of Management and Budget found in the Fiscal 2005 Preliminary Budget. For Fiscal 2005, total tax revenue is anticipated to be $581 million over OMB. For the rest of the plan period, the Council forecast remains above OMB with differences increasing to $768 million in Fiscal 2006, $735 million in Fiscal 2007 and $840 million in Fiscal 2007.

Table 3 - Council Finance Division's Tax Revenue Forecast Compared to Preliminary Budget

(In millions, above/(below) Fiscal 2005 Preliminary Budget

	2004	2005	2006	2007	2008
Real Property	$0	$9	$82	$124	$229
Personal Income	157	256	333	408	389
General Corporation	59	105	98	114	98
Banking Corporation	32	34	75	(47)	(37)
Unincorporated Business	24	32	36	53	66
Sales	19	50	59	36	45
Commercial Rent	8	7	7	7	14
Real Property Transfer	(10)	23	19	4	(8)
Mortgage Recording	37	63	52	30	18
Utility	(4)	6	8	7	13
Hotel	(3)	(4)	(1)	(1)	13
Total Taxes	$319	$581	$768	$735	$840

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)

	2004	2005	2006	2007
REMAINING GAP IN JANUARY PLAN	$0	$0	($2,018)	($2,875)
COUNCIL RESOURCES	$319	$1,033	$1,217	$1,202
Agency Program		202	190	204
Tax Revenue	319	581	768	735
Reject Property Tax Rebate		250	259	263
COUNCIL RESTORATIONS & INITIATIVES	$0	($878)	($760)	($793)
Restorations Not Baselined in Fiscal 2005		(292)	(282)	(282)
& Enhancements				
Private Bus Franchises Funding		(145)		
New Initiatives	$0	($97)	($122)	($140)
Reduce Class Size K-3		(38)	(42)	(60)
Special Ed Teacher Development		(6)	(6)	(6)
Pre-K Pilot		(2)	(2)	(2)
Restore 6-7 Day Library Service		(30)	(40)	(40)
Preserving Fire Safety		(8)	(9)	(9)
Roll Back of PVB Fines and Amnesty Program		(6)	(16)	(16)
District Attorneys Enhancement		(5)	(5)	(5)
Expand Outer Borough Supplemental Basket		(2)	(2)	(2)
Tax Cuts	$0	($344)	($356)	($371)
Across the Board 2% Property Tax Cut		(236)	(246)	(256)
Senior Property Tax Cut		(50)	(51)	(53)
Earned Income Tax Credit		(11)	(11)	(11)
Deepen Coop-Condo Abatement		(11)	(11)	(12)
Tree Pruning Credit		(5)	(5)	(5)
Bar & Restaurant Tax Reduction		(11)	(11)	(12)
Lower Manhattan Sales Tax Free Week		(10)		
Good Neighbor / Good Landlord		(10)	(21)	(22)
SURPLUS / (GAP)	$319	$155	($1,562)	($2,466)
Fiscal 2004 Additional Roll	(319)	319		
Total Surplus Roll	$0	$474		
Rainy Day Fund		(100)		
Fiscal 2005 Roll		(374)	374	
RESTATED GAP	$0	$0	($1,188)	($2,466)

Each year, as required by the City Charter, the New York City Council (the "Council") submits a response to the Administration's Preliminary Budget and Financial Plan. The response to the Fiscal 2005 Preliminary Budget consists of four parts: the Council's Alternative Financial Plan (Part I), which also contains an alternative capital plan (discussed in greater detail in Part IV), the Council Revenue Forecast (Part II), the Committee Reports on the Preliminary Budget Hearings (Part III), and a Response to the Capital Budget (Part IV).

The Council's Alternative Financial Plan does the following:

First, it identifies additional resources from higher than anticipated revenues, an agency reduction program and a rejection of the Administration's proposed property tax rebate, which would require State approval and only benefits about 30 percent of those who pay the property tax. This results in $1,033 million in additional resources for the Fiscal 2005 budget.

Second, it uses those resources to fund a tax reduction program that provides fair and equitable tax relief to all New Yorkers, with additional relief to those groups that have recently borne a burden that is disproportionate to their ability to carry it. The Council alternative financial plan starts with a two percent across-the-board property tax reduction for all New Yorkers, recognizing that the recent property tax increases have been passed along to renters and businesses throughout the City, as well as a complete rollback of the 18.5 percent property tax increase for low-income seniors. The Council also proposes a deepening of the coop/condo property tax abatement in a manner that most directly addresses the remaining inequities between homes owned as coops and condos and class one homes. The Council's plan contains a "Good Neighbor/Good Landlord" property tax abatement to landlords who continue to rent to their low income senior tenants at below market rates. A tree pruning property tax credit should also be made available to homeowners who hire contractors to prune trees located on City-owned property near their homes. To protect working and middle income New Yorkers, the Council's alternative plan does the following: It proposes a low income renter credit; a City earned income tax credit for low income wage earners; and it continues the Council's fight to protect its legislation ending the sales tax on clothing and footwear items under $110 – a regressive tax that hits most heavily on lower and middle income families. Finally, the Council's tax reduction program includes a Sales Tax Free Week to boost business in lower Manhattan which is still struggling in its efforts to recover; and a business tax reduction program – during this transitional period -- for bars and restaurants that have lost business due to the recent implementation of the City's smoking ban. In addition to the tax reduction program, the Council's alternative financial plan provides for a decrease in parking fines.

Third, it uses these additional resources to fund the restoration and enhancement of programs important to our communities, as well as new education initiatives including a proposal to reduce class size in kindergarten through the third grade. The Council's plan would include restoring six-to-seven day per week library service throughout the City, a service that touches the lives of virtually every New Yorker in every neighborhood in the City. To meet increased economic development activities in the boroughs outside of Manhattan, the Council's alternative plan provides additional sanitation resources to keep our commercial districts clean, and restoration of funding to the private bus franchise service.

Finally, the Council's plan contains an alternative capital plan, more fully described in Volume IV. This plan relies on the implementation of the Council's Fair Share Commuter/Reverse Commuter Reimbursement Program to fund two capital needs essential to ensuring our City's long-term well-being: Education and Housing. The $1 billion which such a program would raise could be used to pay the debt service costs associated with $600 million in education capital needs and $5 billion in low income housing (or 100,000 units). No city can maintain long-term fiscal stability without the ability to provide its future workforce with a quality education and without sufficient housing to attract and maintain such a workforce.

ADDITIONAL RESOURCES

Tax Revenue Forecast

As stated in the Overview of the Council's Tax Revenue Forecast (above), and more fully described in Volume II of this response, the Council expects that in Fiscal 2004, total tax revenue will be $319 million over the estimate from the Office of Management and Budget (OMB) found in the Fiscal 2005 Preliminary Budget. For Fiscal 2005, total tax revenue is anticipated to be $581 million over OMB. For the rest of the plan period, the Council forecast remains above OMB with differences increasing to $768 million in Fiscal 2006, $735 million in Fiscal 2007 and $840 million in Fiscal 2008.

Agency Reduction Program

Although the City's economy has improved, the City must remain vigilant in finding ways to provide services better and cost-effectively. The Council's alternative financial plan maintains this focus by identifying a little over $200 million in agency savings. These savings would not affect "core services", but would reflect: efficiencies in agency operations by implementing energy conservation initiatives; under-spending in the City's heat, light and power budgets; surpluses due to a younger workforce; and other cost saving proposals. A summary of the Council's savings proposals by agencies are found in Table 5 with details that follow.

Table 5 - Council Agency Reduction Program
(In Millions)

Agency	2005	2006	2007	2008
Police Department	($75.0)	($75.0)	($75.0)	($75.0)
Citywide Administrative Services	(50.0)	(50.0)	(50.0)	(50.0)
Fire Department	(45.0)	(45.0)	(45.0)	(45.0)
Campaign Finance Board	(13.8)	0.0	(13.8)	0.0
Department of Education	(8.9)	(8.9)	(8.9)	(8.9)
Administration for Children Services	(7.3)	(8.2)	(9.2)	(9.2)
Homeless Services	(2.4)	(2.4)	(2.4)	(2.4)
TOTAL	($202.4)	($189.5)	($204.3)	($190.5)

Police Department. In the last several Financial Plans, the City has reduced the New York Police Department's (NYPD) out-year budgets because of unexpected increases in the attrition of experienced officers, which has resulted in a police force comprised of officers who have served fewer years and are therefore earning lower salaries. These actions reduced the NYPD's Fiscal 2003 and Fiscal 2004 budgets by $148 million and $183.3 million respectively. However, the NYPD's Fiscal 2005 PS budget has been reduced by only $96.1 million, and the Council believes that additional Personal Service (PS) surplus savings of at least $75 million will be posted by the NYPD in Fiscal 2005.

Citywide Administrative Services. The Department budgeted $488.3 million to fund Heat, Light, and Power costs in Fiscal 2004 and Fiscal 2005. However, the Division of Facilities Management & Construction (DFMC) has under-spent its Adopted Heat, Light and Power budget by $56.7 million in Fiscal 2002 and $15.3 million Fiscal 2003. Projected savings are estimated at $15 million in Fiscal 2004. Due to this historical under-spending, the Council is proposing to reduce the City-funded portion ($428.4 million) of DCAS's Heat, Light and Power budget by approximately $15 million in Fiscal 2005. Additionally, the Council proposes the implementation of efficiency techniques to produce a Fiscal 2005 savings of $35 million (approximately 8 percent) in its City-funded Heat, Light and Power budget. These include: Shortening the Summer workweek to save air conditioning and other electrical costs; Reduce/raise City agency office temperatures in the winter/summer to save on heat/air-conditioning; Appoint 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.

Fire Department. The Council projects that Emergency Medical Services (EMS)-related revenues will exceed the current budgeted amount by $10 million in Fiscal 2005 due to an under-estimation of the positive impact that HMS (the billing vendor) will have on ambulance billing and collections. Additionally, a larger number of younger firefighters have been hired to accommodate the greater-than-usual attrition rates of older, higher paid firefighters. This has created a surplus in Personal Services funds. Although $35 million in surplus funds were removed from the Department's Fiscal 2004 budget, no such surpluses have been recognized in Fiscal 2005 and the out-years. As such, the Council recommends a baseline reduction of $35 million in the Department's Personal Services budget.

Campaign Finance Board. For Fiscal 2005, there will be no city-wide or City Council elections that necessitate Campaign Matching Funds. Still, in its March 10, 2004 budget submission, the Board sets aside $2 million in the New York City Election Fund, ensuring that funding will be available should any special elections for City Council be called. Thus, of the $15.8 million currently allocated in the Fiscal 2005 Preliminary Budget, the sum of $13.8 million can be removed.

Education. It is estimated that the Department of Education will spend approximately $60.2 million in Fiscal 2004 for computer consulting services. While some consultants provide needed expertise on defined projects, others work year-round on help desks or at other jobs that the Department's employees are fully capable of performing at less cost to the City. The Council estimates the Department could reduce the computer consultant contract budget by $6.9 million and hire 50 computer specialists at a cost of $2.9 million annually. The net savings from this action would be $4 million. Additionally, the Department budgeted $19.5 million for non-overnight local travel expenses in Fiscal 2004. In Fiscal 2003, only 52.6 percent of $19.4 million local travel budget was spent as of May 2003. As of January 2004, 17.1 percent of $19.5 million was spent. This is 12.5 percent lower than the prior year expenditure level for the same time period. Therefore, the Council proposes to cut 25 percent ($4.9 million) of the local travel budget. These savings would be re-invested in the Department of Education.

Administration for Children Services. There are several proposals for these savings. First, the number of children in contract foster care has decreased dramatically over the last several years. In the January Plan, OMB recognized savings in the foster boarding home budget but not in the congregate care budget. Additional savings can be recognized due to the declining congregate care census. Second, savings that was recognized last year for an increase in the number of adoptions was never baselined. Finally, it is anticipated that savings from foster care and child care audit recoupments will be higher than the current OMB estimate.

Homeless. Currently, private landlords are paid an average of $81 per day to house homeless families while they await long-term housing or placement in a Tier II shelter that also includes social services. The Council proposes to reduce the scatter site per diem rate by 15 percent. The new per diem rate would be approximately $69. This reduction in rate would bring parity to the proposed per diem rate for housing for people with AIDS, run by HRA, that was included in the Mayor's January 2004 Financial Plan for Fiscal 2005. Many of the same vendors participate in both housing programs. If the rates are not equalized between the two agencies, vendors will have more of a financial incentive to provide more housing for homeless families adversely affecting the availability of AIDS housing.

Administration's Proposed $400 Property Tax Rebate

In its Preliminary Budget, the Administration has proposed to spend $250 million on a targeted property tax rebate for homeowners whose homes are their primary residences. While the Council believes that property tax relief is essential, and indeed fought to curtail the Administration's larger proposed increases, the Administration's plan provides 100 percent of the property tax relief to only about 30 percent of the taxpayers. Moreover, the Administration's plan would require the approval of the State Legislature. The Council believes that applying the revenues from the Administration's proposal to across-the-board property tax relief for all New Yorkers which the City can accomplish on its own, together with additional tax reduction programs for seniors, working families and other New Yorkers as outlined in the Council's tax reduction plan below, would provide the fairest and most secure tax policy for all New Yorkers.

TAX REDUCTION PROGRAM

Two Percent Property Tax Rate Reduction

Since the property tax rate increase of 18.49 percent was adopted in November 2002 in order to prevent serious cutbacks in essential City services, the fiscal health of the City has improved considerably. Tax revenues are coming in above OMB estimates and the Administration is predicting that the City will end the current fiscal year with a large surplus. Now that the City's economy has improved and the projected gaps in the budget have diminished, the Council proposes a permanent reduction in the rate of two percent. Beginning in Fiscal 2005, the average tax rate would decline from 12.283 per $100 of assessed value to 12.037.

The Administration has proposed a rebate of $400 ($222 after taking into account assessment increases) to offset the property tax increase for homeowners, saving taxpayers $250 million in Fiscal 2005. But this rebate will be offered to only those owner occupants of homes, coops and condos. However, all taxpayers in the City were responsible for paying the property tax increase and all should benefit from a roll back in the rate. Both commercial and residential tenants have seen their rents rise as a result of pass-along clauses in their leases. Even tenants living in rent-stabilized apartments experienced some of the largest increases in rents in recent memory as a result of the rent increases authorized by the City's Rent Guidelines Board last year, of 4.5 percent for one-year leases and 7.5 percent for two-year leases. The Board's 2003 Price Index of Operation Costs (PIOC) increased by 16.9 percent; approximately 25 percent of the increase is comprised of real estate taxes. A decrease in the average tax rate may limit the rise in the PIOC or offset increases in other components that make up the Index.

The rate reduction will save taxpayers a total of $236 million in Fiscal 2005. With the new, lower overall rate in effect for subsequent fiscal years, taxpayers would save $246 million in Fiscal 2006, $256 million in Fiscal 2007 and $267 million in Fiscal 2008.

Roll Back of Property Tax Increase for Certain Senior Homeowners

Many senior citizens have seen the value of their properties rise considerably over the past several years. The market value of all Class 1 properties (one-, two-and three family houses) has increased by more than 70 percent since Fiscal 1999 and will go up again by nearly 22 percent in Fiscal 2005.

However, incomes have often not kept pace with rising values, particularly for those living on a fixed income, such as Social Security and pension payments. According to the New York City Housing Vacancy Survey, the average market value of homes owned by seniors (aged 65 years or older) with household incomes that are less than $30,000 is about $300,000 for a Class 1 house with an assessed value of approximately $18,600 and $200,000 for a Class 2 condominium or cooperative apartment, with an assessed value of nearly $26,300. With the tax rate increase of 18.49 percent, the property taxes increased by more than $400 for the senior homeowner and by more than $500 for the coop or condo owner.

The Council proposes a property tax abatement that will offset the entire 18.49 percent increase in property taxes for senior homeowners aged 65 or more with annual household incomes of less than $32,400. According to the Housing Vacancy Survey, there are nearly 140,000 senior owners who would qualify for tax relief. Senior owners with incomes below $32,400 may qualify for the Senior Citizens Homeowner Exemption (SCHE) and the enhanced School Tax Relief (STAR) exemption that will offer some tax relief. Coop and condo owners are also entitled to the coop/condo property tax abatement that reduces their taxes by either 25 percent or 17.5 percent. Since many of these owners qualified for the exemptions and the abatement, the average increase for seniors was reduced to $360 per household.

The total savings for senior homeowners will be $50 million in Fiscal 2005, increasing to $51 million in Fiscal 2006, $53 million and $55 million in Fiscal 2007 and 2008, respectively.

The implementation of the program requires authorization by the State Legislature and will be administered by the City's Department of Finance. Senior homeowners not currently receiving the tax exemptions to which they are entitled may reap additional benefits as a result of outreach efforts for the property tax roll back by enrolling in SCHE, STAR and receiving the coop/condo abatement. Increased participation in these programs may also reduce the cost of the property tax roll back in future years.

Coop/Condo Abatement Renewal: Raising the Assessed Value Per Unit Ceiling for the Twenty-Five Percent Abatement

The real property tax abatement for owners of cooperative and condominium apartments sunsets in June 2004 unless it is renewed. The Council is proposing to amend the current law to raise the ceiling of the assessed value per unit that determines which owners receive the higher abatement of 25 percent.

The coop/condo abatement program, which began in Fiscal 1997, provides property tax relief to owners who reside in their cooperative or condominium units.[a] The amount of the abatement is 25 percent of the property tax liability for units in buildings where the average assessed value per unit is $15,000 or less, and 17.5 percent for units where the average assessed value is more than $15,000 per unit. The program was designed to offer a higher abatement for owners who lived in buildings with few units or in areas where the coop and condo values were relatively low. Most of these units were located in boroughs other than Manhattan. However, coop and condo market values and, therefore, assessed values have risen considerably since the ceiling of $15,000 was set in 1996. The average assessed value for coop buildings with more than 10 units has increased by more than a third since 1996 and by almost 58 percent for coops with 2 to10 units. By Fiscal 2003, the assessed value of a unit valued at $15,000 in Fiscal 1997 would have increased to more than $20,000. In Fiscal 1997, almost 102,000 units were receiving the 25 percent abatement, but by Fiscal 2003, that number had dropped to about 57,000. The following chart shows the distribution of the percent of units receiving each level of abatement from Fiscal 1997 through 2003, using published data from the Department of Finance (DOF) – there was no published data for Fiscal 1999.

Coop/Condo Abatement: Distribution of Units by Abatement Percent

Abatement	FY 1997	FY 1998	FY 2000	FY 2001	FY 2002	FY 2003
25 %	39 %	37 %	31 %	28 %	23 %	18 %
17.5 %	61 %	63 %	69 %	72 %	77 %	82 %

By Fiscal 2003, more than 90 percent of coops and condo units receiving the 25 percent abatement were located in the boroughs outside of Manhattan. The following chart illustrates the percent of units located in Manhattan and in the other boroughs. Most of the units are located in

[a] Owners whose primary residence is in either a coop or condo building or development may own up to three units in that development and qualify for the abatement. The abatement percents were phased in at 4.0 percent for buildings with assessed values per unit of $15,000 or less in Fiscal 1997 and 16 percent in Fiscal 1998, and 2.75 percent for units with assessed values of more than $15,000 in Fiscal 1997 and 10.75 percent in Fiscal 1998. In Fiscal 1999, the abatement percents reached their current levels of 25 percent and 17.25 percent, respectively.

the boroughs of Queens and Brooklyn.[b] If the average rate of attrition of the past three years continues, less than 10 percent of coops and condos will be receiving the 25 percent abatement by Fiscal 2005 if the current law is renewed.

Borough Distribution of Units Receiving the Coop/Condo Abatement of 25 Percent

Boroughs	FY 2000	FY 2001	FY 2002	FY 2003
Other Boros	87.2 %	88.4 %	89.8 %	90.4 %
Manhattan	12.8 %	11.6 %	10.2 %	9.6%

The Council proposes raising the average assessed value per unit to $20,000 for those units receiving the 25 percent abatement when the coop/condo abatement is renewed, beginning in Fiscal 2005. This increase will shift about another 65,000 units that will qualify for the higher abatement percent, bringing the proportion of units receiving the 25 percent abatement to near where it was at the start of the program in Fiscal 1997.

The cost of increasing the number of units that qualify for the 25 percent abatement is $11 million annually in Fiscal 2005 and 2006, rising to $12 million a year in Fiscal 2007 and 2008. But it should be noted that in Fiscal 2000, the earliest year for which we have published data, the cost of the 25 percent abatement was about $24 million, which had decreased to $16 million by Fiscal 2003. The 25 percent abatement, which made up 15 percent of the total cost of the abatement in Fiscal 2000, had declined to 7.5 percent in Fiscal 2003. The fiscal impact of the total coop/condo abatement is estimated to be $269 million by Fiscal 2005.

"Good Neighbor/Good Landlord" Property Tax Relief for Owners of Small Rental Buildings

Affordability of rental housing is an enormous problem for many New Yorkers. Over the past decade, rises in rents have greatly outpaced increases in income for many segments of the rental population. Dramatic rent increases often have a disproportionate effect on vulnerable populations, such as the elderly living on fixed incomes. According to the 2002 New York City Housing Vacancy Survey, more than 25 percent of New Yorkers reported spending over half of their household income on rent. Of this group, nearly 40 percent of the renters are 65 years of age or older.

Although rent regulation affords tenants some protection against large hikes in rents, many tenants, particularly those living in boroughs other than Manhattan, reside in buildings with less than 6 units that are not subject to rent regulation. In certain areas of the City, especially those neighborhoods undergoing "gentrification," rents have increased by more than 50 percent since 1990, according to the 2000 United States Census. Such sections of the City include Park Slope, and Williamsburg/Greenpoint in Brooklyn; Astoria, Queens; and Parkchester in the Bronx. Many owners of one-to-three family homes and small rental buildings in these neighborhoods

[b] In Fiscal 2003, 42 percent of the units receiving the 25 percent abatement were located in Queens, followed by 33 percent in Brooklyn, 12.5 percent in The Bronx and 3 percent in Staten Island. The remaining 10 percent of the units were located in Manhattan.

have rented units to the same tenants for many years, often charging at or below market-rate rents. In this way, the owners have helped to preserve community stability while maintaining a stock of affordable housing for local residents. However, the recent hike in fuel prices and property taxes has increased the costs of operating the buildings considerably, making the possibility of charging market rate rents an almost necessary option for these landlords. Senior citizen tenants will be less able to absorb a rent increase if a below market-rate rental unit is suddenly brought up to market rent.

In order to prevent dislocation of low-income senior tenants and provide some relief to owners, the Council proposes offering a property tax abatement to owners of buildings with less than 6 units who continue to rent to their senior tenants at below market rents. Senior tenants must be 65 years of age or older, earn household incomes of $30,000 or less, and have lived in the apartment for at least one year prior to the abatement period. Based on the Housing Vacancy Survey, there are approximately 450,000 non-rent regulated apartments in buildings with between one and five units. Of these, about 40,000 are occupied by seniors with incomes below $30,000. The abatement would be equal to 25 percent of the owner's property tax liability. The total expenditure for the program will be $10 million in Fiscal 2005 when the participation rate is expected to be only 50 percent, rising to $21 million in Fiscal 2006 when fully implemented, and $22 million a year in Fiscal 2007 and 2008.

STAR Credit for Low-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.[c] 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 24 percent of the $3 billion in STAR benefits the State will give to localities in Fiscal 2005, even though the City's children make up 36 percent of the State's total public secondary school enrollment.[d]

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.

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[c] 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.

[d] 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.

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 $63,750 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 $230 for the basic STAR exemption and $380 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 $715 million from the State for the STAR program ($155 million for the property tax exemption and $560 million for the PIT credit) in Fiscal 2005. However, other localities will get a total of $2.4 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 children under 18 living with them to qualify for the credit. Annual total household income may not exceed $30,000.[e] The City of New York School Tax Credit for Renters would be refundable.

In Fiscal 2005, the total cost of the school tax credit for renters is $29 million. The average household benefit is $283. There are about 102,000 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 increases to $30 million in Fiscal 2006, $32 million and $34 million in Fiscal 2007 and 2008, respectively. With the $30 million increase in STAR money for the City, the City's share of the State's STAR benefit only increases slightly to 25 percent.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is designed to supplement the income of low wage households. It is a refundable personal income tax credit available at both the Federal and State levels. The credit is a significant Federal 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.

The Federal credit is based on marital status, the amount of income earned, and number of children in the household. At the Federal level, for a family with two children, the credit starts at 40 percent of the first $10,000 earned and phases down gradually until it is eliminated altogether

[e] This income limit is approximately the same as the City income limit set by HUD in order for a four-person household to qualify for Section 8 grants.

at $34,692 earned income. The maximum dollar amount of the Federal EITC for this household would be $4,300.

New York State's EITC is currently equal to 30 percent of the Federal credit. The New York City EITC would be equal to 5 percent of the Federal credit and would be refundable.

Approximately 700,000 City households claimed the State EITC in 2001. The City EITC would reach the same population, with maximum credits ranging from $20 to $215 in Fiscal 2004, based on Federal parameters. The entire tax credit will accrue to households earning under $34,692. Over 75 percent will go to working households with incomes under $20,000. The total cost of the program is currently estimated at $55 million annually. It is expected that the refunded part of the credit will be covered by Temporary Assistance for Needy Families (TANF) funds, as is the case with the New York State EITC. The remaining cost to the City will be approximately $11 million per year.

The examples below show how a City EITC can enhance existing tax credits:

<u>TYPICAL TAXPAYERS: 2 EXAMPLES</u>

#1: Single earning $12,000 with one child:

Federal Credit:	$2,506
State Credit:	752
NYC Credit:	125
Total	$3,383

#2: Married filing joint earning $25,000 with two children:

Federal Credit:	$2,991
State Credit:	897
NYC Credit:	150
Total	$4,038

Sales Tax on Clothing and Shoes

Last year, in an effort to aid the State and City during the fiscal crisis, the State Legislature temporarily ended the sales tax exemption on clothing and footwear selling for less than $110. However, the Legislature, in its wisdom, recognized the pain that this regressive tax could cause – particularly on working families – and gave the Council the option of restoring the exemption as early as this Spring. The Council immediately took those actions necessary to restore the exemption at the earliest time allowable pursuant to the State law.

However, in his Fiscal 04-05 Executive Budget, Governor Pataki proposes to permanently eliminate the Council approved sales tax exemption on clothing and footwear selling for less than $110. The Governor's proposal to institute four sales-tax-free weeks for clothing and footwear under $500 is a poor substitute for the exemption. The Council opposes these measures and calls on the Mayor and State officials to join it in upholding its actions to restore the clothing and footwear exemption.

Over 1.6 million taxpayers in NYC have adjusted gross income of $25,000 or less. Such households typically spend 11 percent of their income on clothing and footwear, most of it under $110. This group, along with families with children, is hurt most by the elimination of the exemption.

The City's sales tax exemption on clothing and footwear under $110 was removed by State action, effective June 1, 2003. However, pursuant to the State law, local governments were given the option to reinstate the exemption at a later date. The Council decided to reinstate the exemption on the first date permitted by State law, June 1, 2004. The Governor's proposal would reverse the Council's initiative to bring tax relief to New York City residents.

Clothing, accessory and departments stores employ about 80,000 in the 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. Further, since more than 60 percent of the State's population resides within driving distance of a bordering state or Canada, the tax differential may encourage the State's residents to travel out of state for clothing and footwear purchases.

Tourists and visitors shopped on more than 14 million trips to NYC in 2002. 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, adversely affecting an already-wounded tourist industry.

Any reversal of the Council's action to restore clothing/footwear exemption would cost New York City residents and visitors $319 million in Fiscal 2005.

Sales-Tax-Free Week Proposal

The Council proposes to exempt retail sales of taxable items under $500 in Lower Manhattan – which includes areas south of Houston Street – from the City portion of all sales and compensating uses taxes from August 16 until August 22, 2004. Telecommunications services, motor vehicles, diesel fuel, building materials, tobacco and tobacco products and alcoholic beverages purchased for private consumption would not be exempt. In addition, the sales tax would not be exempt on services except for prepaid calling cards, restaurant food and drink, hotel occupancy and cabaret acts.

The sales tax in New York City is comprised of the State and City portions of 4.25 and 4.125 percent respectively, and 0.25 percent dedicated to the Metropolitan Transportation Authority for a combined total of 8.625 percent. The tax is imposed on the sale and purchase of all items of tangible personal property and services, with exemptions for essential items such as food, rent and some other necessities. It is a regressive tax and disproportionately affects lower income New York City residents.

The Downtown area has not yet fully recovered from the devastating effects of the attack on the World Trade Center. Business travel to Lower Manhattan is anemic compared to levels prior to the attack. The Regent Hotel, Wall Street, which depended largely on business conferences, closed its doors in February. In addition, a high rate of office space remains available, 15.1 percent compared to as low as 5.7 percent in some areas of Midtown for Class A rental space. Obviously, the reduction in workers, residents and tourists in the Downtown area since September 11 continues to affect business and retail sales.

The City has enacted sales-tax-free weeks with great success in the past. Beginning in 1997, six sales-tax-free weeks have been implemented. Both sales and retail employment grew. This sales-tax-free week, which would occur shortly before the start of the school year, will entice visitors to Lower Manhattan to take advantage of the exemption and to visit the many historical and cultural sites in the area.

Eliminating the sales tax on retail sales of taxable items and certain services valued at up to $500 for the week August 16 to August 22, 2004 will cost the City $10 million in Fiscal 2005.

Bar And Restaurant Business Tax Reduction Program

The restaurant and drinking establishments that serve the City's residents and tourists have been especially hard hit by the most recent recession and the subsequent decline in tourist business. In addition, while the Council fully supports the public health policy embodied in the recent provisions to eliminate smoking in bars and restaurants, this policy has had an adverse impact on these establishments. Given the importance of this industry to the City's overall business climate, the Council is proposing to reduce the tax burden on eating and drinking establishments. This proposal would provide for a temporary 30 percent rate reduction: eligible General Corporation Tax (GCT) filers' tax rate will be reduced from the current rate of 8.85 percent to 6.195 percent. For eligible Unincorporated Business Tax (UBT) filers, the rate will be reduced from four percent to 2.8 percent. Thus, a GCT restaurant owner with a net taxable income of $100,000 will experience a tax savings of $2,655. Roughly 11,000 tax filers, employing over 160,000 workers, would be affected by this legislation. The vast majority of these establishments employ less than 10 employees. It is estimated that this proposal will result in a reduction in City tax revenues of about $11 million in Fiscal 2005.

Typicals

- A small Queens bar with three employees would save an estimated $200.
- A Manhattan full-service restaurant, with 18 employees, would save $1,200.

Property Tax Credit for Tree Pruning

The Council proposes offering homeowners a credit against their property taxes for hiring private contractors to prune trees near their homes that are located on City-owned property. It is important to keep trees healthy in order to maintain the value of the home as well as to remove potential threats of falling tree limbs and other hazards that may cause damage to the property and to individuals. The City's Department of Parks & Recreation (DPR) prunes City-owned trees every 10 years. There are approximately 500,000 "street" trees that DPR is responsible for, leaving nearly 450,000 trees each year that are not taken care of. Homeowners often complain that this is too long a cycle to take care of problems with the trees that may arise between cycles. Although DPR maintains an emergency fund for pruning trees, the money budgeted for the fund is sufficient to cover the costs of only the most extreme cases.

Owners of one, two, or three-family homes will be able to apply for a credit against their property taxes of up to $50 for tree pruning. The credit may be claimed, if need be, every three years. Owners will be required to submit receipts for work performed by private contractors to the City's Department of Finance (DOF). Before such work is undertaken on City-owned trees, owners may be required to get permission from DPR.

There are approximately 640,000 one-, two- and three family homes, according to DOF's Fiscal 2005 Tentative Assessment Roll. We assume that 50 percent of the 213,000 eligible owners will claim the credit each year. Homeowners will save $5.3 million annually, beginning in Fiscal 2005, and an additional 107,000 trees will pruned every year. After the initial year, the program will be evaluated and, if proven effective, the tree pruning credit will be extended to owners of cooperative and condominium buildings.

Table 6 - Council Tax Program
(In Millions)

	2005	2006	2007
Across the Board 2% Property Tax Cut	(236)	(246)	(256)
Senior Property Tax Cut	(50)	(51)	(53)
Earned Income Tax Credit	(11)	(11)	(11)
Deepen Coop-Condo Abatement	(11)	(11)	(12)
Tree Pruning Credit	(5)	(5)	(5)
Bar & Restaurant Tax Reduction	(11)	(11)	(12)
Lower Manhattan Sales Tax Free Week	(10)		
Good Neighbor / Good Landlord	(10)	(21)	(22)
Total Tax Program	($344)	($356)	($371)

COUNCIL FINE REDUCTION INITIATIVE

Twenty Percent Roll Back of Fiscal 2003 Parking Violation Fine Increase

As the City economy recovers, the Council has determined that the increases in the parking violation fine schedule effective in Fiscal 2003 should be rolled back by 20 percent. The Fiscal 2003 parking violation fine increases, along with other fine increases, created an impression that the City is pursuing a ticketing blitz to increase revenues. This proposed parking fine roll back would reduce the current highest no parking/no standing violation from $115 to $95[f]. Additionally, the Council proposes that the City follow-up on the hugely successful Tax Amnesty Program by implementing an amnesty program for Parking Violations Bureau (PVB) violations aged three years or longer. Although it is difficult to predict how much revenue such an amnesty program will generate, a modest response rate of 3 percent could generate $10 million in revenue. This additional revenue would offset over one-half of the $16 million forgone by reducing the top PVB fines by 20 percent. The Tax Amnesty Program that ended in January exceeded original revenue expectations four-fold and netted the City roughly $80 million.

[f] The 20 percent roll back would not apply to the $15 per ticket surcharge.

As the revenue picture shows signs of improvement, the City is contemplating how to best begin rolling back some of the revenue increases necessary to bring the last several budgets into balance. As part of the Fiscal 2003 Adopted Budget, State legislation granted New York City the authority to increase certain base fines for parking or standing in restricted areas from $50 to $100. In November 2003, the surcharge imposed on each ticket written increased from $5 to $15. As part of the Fiscal 2004 Adopted Budget, the City is to expand the number of Traffic Enforcement Agents by 300 with expectations of issuing an additional 1.7 million tickets and increasing revenues by an additional $85 million. As a result of these actions, parking violations revenue has increased from $378 million in Fiscal 2002 to an estimated $540 million in Fiscal 2004 and increasing to $562 million in Fiscal 2008.

The current higher fine schedule is considered by most to be excessive and regressive. The Council maintains that a fine reduction will not have an adverse effect on parking code compliance.

Fair Fines for Residential Properties

In addition to rolling back parking fines, the Council is pursuing a "fair fine policy" for owners of residential buildings. Maintaining clean sidewalks is an essential quality of life goal. No one wants to live on a litter-strewn block. We should keep our City and our neighborhoods clean, but we cannot expect homeowners to keep their sidewalks clean when they are not home. The Council's Fair Fines Bill requires the Department of Sanitation (DOS) to extend the same courtesy to homeowners as they do to businesses. The bill would prohibit DOS from issuing fines except during a predictable schedule that homeowners can know and comply with.

Under the Council's proposal, DOS would have designated and limited time frames in which it could issue summonses to residents for unclean sidewalks. DOS would only be allowed to issue violations for two hours a day and the residents must be notified of the hours of inspection. Amending the Administrative Code would allow residents time to clean their sidewalks and avoid ticketing.

COUNCIL RESTORATIONS AND INITIATIVES

Education Initiatives

The majority of the Administration's proposed $12.7 billion education operating budget reflects costs that are mandated by State and Federal law, and by the needs and number of students enrolled in the school system. Nevertheless, the proposed budget misplaces priorities and neglects important initiatives that would increase student performance and/or save money in the long run.

Most importantly, the Administration does not make effective use of the classroom space that it now has. Consensus has formed around smaller classes and earlier education, both of which improve performance and pay off later when students pass tests, stay in school and graduate into productive jobs.

Pre-Kindergarten Initiative

Currently, 219 elementary schools have capacity to accommodate additional classes and/or to provide space for Universal Pre-K programs for three and four year olds. This space should be utilized immediately, using funds that should be made available by the State. The Administration should pressure the State and the Federal governments to provide more funds for these programs.

Creating this additional space for Pre-K programs is critical, as many New Yorkers have no access to early childhood education. Approximately 87,000 four year olds receive private or public pre-Kindergarten instruction, leaving at least 23,000 four year olds that do not. The Council estimates that there are even more three year olds who are not enrolled in any Pre-K program. The Council, therefore, will commence a $2 million pilot program to bring pre-Kindergarten programs to neighborhoods where students have low academic achievement and limited pre-school options. As explained above, these programs would be housed in underutilized Department of Education school buildings, alongside new K-3 classrooms created as part of the Council's class size reduction program.

Special Education Teacher Development Initiative

We must invest in increased professional development for special education teachers. Last year, the Administration wisely chose to implement the Orton-Gillingham reading program system-wide. However, Orton-Gillingham requires significant teacher training and, unfortunately, the training the Department of Education provides is insufficient and poorly delivered. Given the complexities of Orton-Gillingham and the unique challenges special education teachers face, the Council would allocate $6 million to focus on increased professional development in Orton-Gillingham and other quality professional development programs and ongoing training for special education teachers. Although the Department spends $60 million per year on professional development, many of its programs are ill-executed and, by the Chancellor's admission, provide "zero bang for the buck." This $6 million allocation to a targeted professional development program will be a better use of limited funds.

Kindergarten Readiness Flexibility

Young children develop at different rates. Yet, under the Chancellor's regulations, all children who are 5 years old by December 31 each year must apply for Kindergarten, and those who are 6 years old by December 31 must instead enter 1st Grade. This means that some children enter Kindergarten before they are ready, while others are kept there until they are too old. The Council proposes increasing flexibility so that parents have the discretion to place their children in the appropriate grade when their children are ready, and not when the centralized bureaucracy deems them to be. This proposal will have no net effect on spending because it places children who will be attending school into one grade level or the other, but does not increase the number of enrolled students.

Education Class Size Reduction

The dialogues among educators, policy makers, advocates and parents about how to improve the quality of education and the academic achievements of New York City's 1.1 million students have been centered around class size, one of the critical components which has had a direct impact on students' academic performance for decades. The belief is well documented by researchers such as Tennessee's Student Teacher Achievement Ratio (STAR) and Wisconsin's Student Achievement Guarantee in Education (SAGE), which show that a class size of 20 in kindergarten through grade 3 improve student achievement by a half or full grade level. The effect is much more significant for disadvantaged students. The studies argue that small class size allows students to have more individualized attention from the teacher, and reduces distractions, noise, and discipline problems. Thus, teachers can spend more time on instruction. Currently, there are approximately 219 New York City elementary schools with enough capacity to accommodate additional classes. In an effort to reduce class sizes in grades kindergarten through third, the Council proposes to allocate $37.5 million in Fiscal 2005 and additional funding in the out-years as classroom space becomes available. This initiative calls for hiring additional teachers immediately in schools where classroom space is available, and where State funding for early grade class size reduction has been insufficient. This funding would reduce class size in grades K-3 from a current average of 21.6 to 20, potentially benefiting more than 11,000 students in Fiscal 2005 and creating 567 additional classes.

In the Governor's 2004-05 Executive Budget, $136.5 million is allocated to school districts to reduce class size. New York City's share which is $88.8 million has remained constant since Fiscal 2000, despite severe overcrowding in New York City schools. This initiative would be a first major step in truly addressing overcrowding and ensuring that students have smaller class sizes.

Preserving Fire Safety

Last year the Administration proposed cutting eight engine companies ("ECs") for a Fiscal 2005 savings of approximately $11 million. After pressure from the Council and community activists, the Administration restored funding for two of the ECs (valued at $2.755 million in Fiscal 2005). As such, six EC's remain closed at present. On multiple occasions since the closures, the Fire Commissioner has testified before the Council's Committee on Fire and Criminal Justice Services that response times have increased in the neighborhoods where the six ECs are no longer operational. The six ECs were closed last year solely because the City's finances were so uncertain; having improved markedly since that time, public safety concerns dictate that the ECs be re-opened. Given that the Fiscal 2005 Preliminary Budget is approximately $45 billion, re-opening the six closed engine companies at a cost of $8.25 million is a relatively small price to pay for improved response times to fire and medical emergencies, and for increased peace of mind for those living, working and fighting fires in those areas.

Restoration of Six-to-Seven Day/Week Library Service

The Council proposes to increase operating aid for the libraries by $30 million in Fiscal 2005 and increasing to $40 million in the out-years to restore six-day service at all branches, and seven-day service at more than a quarter of all libraries. The funding enhancement proposal is in addition to the baseline restoration of $11.8 million. When fully phased-in in Fiscal 2006, the total funds should bring the systems above Fiscal 2002 funding levels.

The Administration's cuts in operating support for the libraries over the past two years have eroded service at all levels. Many of the service gains made by the libraries during the 1990s were significantly impacted. Huge cuts in aid since Fiscal 2002 have forced the libraries to drastically reduce their hours of operation. As reported in the Fiscal 2004 Preliminary Mayor's

Management Report, far fewer than half of all libraries are open for 6 days a week, whereas in Fiscal 2002 virtually all libraries were open 6 days each week.

The three independent systems, the Brooklyn Public Library (BPL), the New York Public Library (NYPL) and the Queens Borough Public Library (QBPL) collectively operate 208 local library branches throughout the City and four research library centers (NYPL-Research) in Manhattan. The libraries' collections include 349 electronic databases and more than 65 million books, periodicals and other circulating and reference items. Reversing the drastic reductions in aid for the libraries made during the past several years would also allow the libraries to revive many vital programs, such as the Connecting Libraries with Schools initiative ("CLASP"). The Queens Borough Public Library entirely eliminated CLASP and the other library system drastically reduced this education program. Additional funding would also support materials purchases, which support the core mission of the libraries.

Annual attendance of 40 million people at the City's three library systems is higher than that of all the City's and professional sports teams combined. Millions more people access the libraries electronically every year from their homes or offices. Up to 100,000 children use local public libraries every day.

Private Bus Franchise

Last April, the Administration proposed that the MTA take over the operation of the Private Bus Franchise from the Department of Transportation. The seven private bus lines provide local and express bus service to areas of the City underserved by the MTA. These lines operate a combined fleet of 1,200 city-owned buses servicing nearly 400,000 riders daily on 82 routes, in Queens, Brooklyn, Manhattan and the Bronx.

Given the uncertainty of the MTA take-over of the Private Bus Franchise, the Council alternative financial plan allocates $145 million in Fiscal 2005 for the franchise bus subsidy.

Supplemental Litter Basket Pick-Up

The Council's alternative financial plan would expand the number of litter basket pick-ups in the boroughs outside of Manhattan, particularly in dense, high traffic shopping areas and in those areas served by City Council funding before it was reduced from $2 million to $1.4 million in Fiscal 2003. This proposal would add $2.2 million in Fiscal 2005 and the out-years to the Department of Sanitation's litter basket budget to hire 45 uniform workers. This initiative would allow the City to reduce overtime spending and increase the number of litter basket pick-ups, thus improving the environment of the City's shopping districts.

Since 1997, the Council has funded the supplemental litter basket program to improve street cleanliness in business districts of the boroughs. Current levels of litter basket collection includes $9.9 million for 381 regular litter basket truck shifts per week and $1.4 million for 32 supplemental litter basket truck shifts per week. According to the Department, the average cost of a regular litter basket eight-hour shift is $456 per shift and $835 per shift for supplemental litter basket collection. The supplemental litter basket truck shift cost is so much greater because they are funded on overtime.

By adding 80 supplemental basket truck shifts per week to the baseline budget rather than funding 32 truck shifts per week on overtime, the City would get more service for its money.

Supplementary Funding for the District Attorneys and Special Narcotics Prosecutor

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 are reeling. Fiscal 2005 Preliminary Budget testimony revealed that attorney headcounts are down, average caseloads are disturbingly high, and plea bargain deals are being entered into that would never have been negotiated were the prosecutors' offices not so bereft of resources. Additionally, public safety has been jeopardized because of the prosecutors' inability to prosecute cases in an expeditious manner, conduct long-term investigations, and provide crime prevention services.

A $5 million baseline increase to the budgets of the City's prosecutors will enable them to fulfill all of their mandated functions. In addition, this budgetary supplement will make it possible for them to continue their critically important discretionary programs. These include Drug Treatment Alternatives to Prosecution (DTAP), truancy reduction programs, efforts at the City's Child Advocacy Centers, and the coordination of community support systems to facilitate the reintegration of individuals leaving jails and prisons.

The offices of the five District Attorneys and the Special Narcotics Prosecutor play a crucial role in New York City's law enforcement efforts. A $5 million supplement to their budgets would provide them with the necessary resources to keep this the safest large city in the country.

Baseline Restorations & Program Enhancements

The Administration's January 2004 Financial Plan outlines an additional $324 million in agency reductions for Fiscal 2005. This additional agency program to eliminate the gap (PEG) is much less than the $844 million PEG program imposed during Fiscal 2003. A review of these agency reduction proposals for Fiscal 2005 would lead one to conclude that these cuts would not impact "core services". However, this would be the wrong conclusion because the Preliminary Budget for Fiscal 2005 contains millions of dollars in "hidden cuts" that are "service-related". These cuts, which were not highlighted in the Mayor's budget presentation, consist of cuts that were restored by the Council in the Fiscal 2004 Adopted Budget but not baselined by the Administration in the City's Financial Plan for Fiscal 2005 and the out-years. They also include cuts that were included in earlier financial plans that were not scheduled to take effect until Fiscal 2005.

The planned reductions that would impact services include:

- **Libraries**: a partial restoration by the Administration will not maintain five-day service;
- **Teacher's Choice**: teachers will lose the $200 they rely on to purchase classroom supplies or equipment;

- **After school programs**: over 215,000 kids and their families will not have a place to go for additional tutoring, enrichment, recreation and social services -- programs that keep our youth out of trouble and families stable;

- **Summer Youth Employment Program (SYEP)**: a cut in City funds would prevent 7,000 young people from low-income and other households from gaining valuable work experience;

- **Daycare:** Loss of 2,500 daycare slots: will further exacerbate the shortage of daycare slots in the city where there is currently a waiting list of 46,000;

- **The Peter Vallone Scholarship:** the loss of the $1,000 annual award to more than 8,000 students may render a college education inaccessible to them;

- **Child Health Clinics:** cuts that would result in a void in needed health service to the 60,000 low-income children and families who rely on these clinics.

These are reductions that the Council believes will impact services. As part of the Council's Fiscal 2005 budget process, we will seek to restore these and other core services. In addition to these baseline restorations, the Council proposes enhancements to programs to further improve City services residents believed were important to their quality of life before the last two years of budget reductions. These program enhancements include:

- Fully funding the Immigrant Opportunities Initiatives, a program the Council began funding in Fiscal 2002. This is an initiative that supports programs in English language and civic classes, and would be expanded to include immigrant worker legal services.

- Re-investing in our cultural institutions and programs that not only play a critical role in the City's economy by attracting tourists, but also provide arts education programs for City kids and their families.

The following table shows the restorations and enhancements.

Table 7 - Council Restorations and Enhancements
(In Thousands)

AGENCY NAME/PROGRAM	Fiscal 2005 Restorations/ Enhancements
LIBRARIES	$11,802
Operating Subsidy	$11,802
CULTURAL AFFAIRS	$12,518
Programs	$1,548
Cultural Institution Groups (CIGs)	$10,970
EDUCATION	$17,600
Teacher's Choice	$17,600
CUNY	$18,888
Peter Vallone Scholarship	$6,050
Community Colleges	$12,167
Adult literacy, bridge to medicine, MWBE	$535
Hunter Campus School	$136
ECONOMIC DEVELOPMENT	$2,932
Commercial Revitalization	$1,005
MWBE Staff at DSBS	$110
NYC and Company	$447
Garment Industrial Development Corp	$370
Training for the Long-Term Unemployed	$1,000
PARKS AND RECREATION	$14,230
Seasonal Workers	$6,915
Zoo Subsidy	$5,280
Tree Pruning	$2,035
SANITATION	$3,767
Roosevelt Island AVAC Collection	$500
Supplemental Basket Collection	$1,400
Self-Help Centers	$867
Waste Prevention Coordinators	$1,000
HEALTH	$32,881
HIV AIDS	$3,520
Infant Mortality	$3,080
Cancer Initiatives	$859
Asthma Control Program	$490
School-based clinics	$590

AGENCY NAME/PROGRAM	Fiscal 2005 Restorations/ Enhancements
Community Healthcare Network	$176
Outpatient Medication Program	$1,375
Child Health Clinics	$5,821
Family Planning	$583
Consolidation of TB Clinics	$307
School Nurses	$11,000
Other across-the-board programs	$5,081
MENTAL HEALTH	$13,765
HHC MH/Substance Abuse Programs	$3,614
HHC Mental Health/Hygiene Programs	$2,884
Suicide Prevention	$194
Mental Health - Voluntary Sector	$303
Alcoholism/Substance Abuse -Voluntary Sector	$1,331
Mental Retardation	$1,430
Mental Health Contracts	$1,363
Other across-the-board programs	$2,648
EMPLOYMENT/YOUTH	$11,000
Summer Jobs (SYEP)	$11,000
AGING	$19,559
Senior Center Closures	$429
Weekend Meals	$1,870
Extended Service Contracts	$1,760
Borough President Discretionary Funds	$7,500
Meals Program (social services restructuring)	$8,000
YOUTH	$33,965
Immigrant Initiative	$5,000
Discretionary Funds	$3,199
Beacons	$8,906
After-Three Corporation	$2,749
Other Programs	$2,098
Neighborhood Youth Alliance/Street Outreach	$1,065
Drug Prevention/Runaway & Homeless Youth	$837
YDDP (social services restructuring)	$10,000
Youthlink	$112
HOUSING	$5,265
Community Consultants	$1,161
Landlord Training contract reduction	$220

AGENCY NAME/PROGRAM	Fiscal 2005 Restorations/ Enhancements
Neighborhood Preservation Consultants	$749
Citywide Task Force on Housing Court	$385
Legal Services	$2,750
HOMELESS	$990
Adult Rental Assistance Program	$990
CHILD CARE / WELFARE	$58,696
Child Care Slots	$9,907
Preventive Services (including Beacons)	$8,648
Child Care Fees Surcharge	$2,090
Foster Care Rates	$13,042
Substance Abuse	$8,360
Project CONNECT	$1,100
Independent Living	$550
Child Care (social services restructuring)	$15,000
CORRECTION	$55
WomenCare	$55
BOARD OF CORRECTION	$85
Clerical Staff	$33
Correction Review Specialist	$52
JUVENILE JUSTICE	$550
Community Based Intervention Programs	$550
CCRB	$1,100
Investigator Positions	$1,100
POLICE	$10,755
School Crossing Guards	$674
Civilian Headcount	$10,081
MISCELLANEOUS	$14,960
Alternatives to Incarceration (ATI's)	$6,160
Neighborhood Defender Service (NDS)	$2,530
Office of the Appellate Defender	$1,650
Legal Aid - Citywide Civil Legal Services	$1,513
LSNY - Citywide Civil Legal Services	$1,513
LSNY - Keeping Families Together	$550
Legal Services for Domestic Violence Victims	$1,045

AGENCY NAME/PROGRAM	Fiscal 2005 Restorations/ Enhancements
BOROUGH PRESIDEN TS	$2,741
PS/OTPS	$2,741
PUBLIC ADVOCATE	$562
PS/OTPS	$562
DISTRICT ATTORNEYS	$2,750
Across-the-Board Budget	$2,750
CONFLICTS OF INTEREST BOARD	$157
Training Unit	$157
GRAND TOTAL	$291,574

During the Fiscal 2005 Preliminary Budget hearings several commissioners testified to anticipated increased costs pertaining to the implementation of Local Law 1 of 2004 (the Lead Paint Law). Specifically, Housing Preservation and Development projects a $30 million cost, the Department of Health and Mental Hygiene projects a $9.1 million cost and the Administration for Children's Services projects a $9.7 million cost. Other City agencies may also report on anticipated costs increases related to Local Law 1. It is anticipated that a significant amount of the costs needed to implement Local Law 1 will be borne by non-City tax levy funding sources. Specifically, Community Development Block Grant funds as well as State Article 6 will be utilized. The Council is currently examining the estimates of the various departments and looks forward to working with the Administration to insure that Local Law 1 of 2004 is fully implemented and properly funded.

"Rainy Day Fund" or Revenue Stabilization Fund

The Council proposes the creation of a "rainy day" or Revenue Stabilization Fund in the City's expense budget that 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 Administration lowered its 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 which could throw 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.

The Council proposes funding such a rainy day fund at a level of $100 million for Fiscal 2005.

THE COUNCIL'S CAPITAL BUDGET PLAN: EDUCATION AND HOUSING - TWO PRESSING NEEDS, TOO LONG OVERLOOKED

The Council proposes an alternative Capital Plan, described in greater detail in Volume IV of this Response. That plan consists of two main elements: (1) to use additional necessary revenues obtained through the imposition of the Fair Share Commuter/Reverse Commuter Reimbursement Program to focus on two important capital needs – educational facilities and affordable housing; and (2) to reallocate certain capital commitments to fund Council priorities including parks, cultural institutions, waterfront development and libraries. This section of Volume I will outline the first element of the Council's alternative capital plan.

Fair Share Commuter/Reverse Commuter Reimbursement Program

Since the State eliminated New York City's modest "commuter tax" in 1999, the approximately 800,000 non-resident workers who come to the City each day to earn their living, pay no tax to the City on income they earn here, even though, on average, these commuters earn almost three times what the average New York City resident earns. Likewise, the 140,000 City residents who leave the City each day to work in neighboring New York counties such as Nassau, Suffolk and Westchester, do not contribute to the tax base of those jurisdictions. Those jurisdictions, like the City, are suffering in the current economy and some have been forced to drastically increase property taxes on their residents and to cut services. The fact that they do not levy a personal income tax on their residents makes the institution of a commuter tax by those jurisdictions problematic. It is no less unfair, however, that the solutions to the financial burdens facing those jurisdictions must be borne solely by residents, while ignoring the fact that they play "host," and provide essential services and benefits, to tens of thousands of people each day who are not required to directly contribute to their tax base.

A Fair Share Commuter Tax/Reverse Commuter Reimbursement Program would require the State to authorize a commuter tax on non-resident workers in New York City at a rate of 1.1 percent. New York City would then, in effect, reimburse the suburban counties in the State for the services used by City residents who work in those counties. The amount of the reimbursement would be equal to 1.1 percent of the wages earned by City reverse commuters.[g]

We estimate that the two Long Island counties would receive approximately $48 million and that the remaining counties in the State would receive $27 million. These amounts represent significant contributions to the fiscal health of our neighbors.

Since the State Legislature's repeal of the City's commuter tax in 1999, the City has lost over $2 billion. The fact that the City's tax base was narrowed to exclude 800,000 commuters – many of whom are high wage earners – from our City's tax base is a large factor contributing to the City's structural imbalance.

In Fiscal 2005, this commuter tax/reverse commuter reimbursement program would raise $1.102 billion for New York City, which would be offset by the $75 million that would reimburse the neighboring counties on Long Island and to the north of the City. In the out-years of the plan period, the commuter tax increases to $1.195 billion and $1.271 billion in Fiscal 2006 and 2007, respectively. While the reverse commuter tax rises to $81 million in Fiscal 2006 and $86 million in Fiscal 2007.

For New York City, this approximately $1 billion in revenue each year should be used to issue bonds to provide for two needs which – if they continue to go unmet – will jeopardize the City's long-term social and fiscal health: Educational Facilities and Affordable Housing. By using 60 percent of the revenues stream to finance debt for education capital needs, the City could fund approximately half of the amount which both the Council and Department of Education agree is essential to address the Public School Systems fundamental needs over the next five years. And, the remaining 40 percent of this revenue stream could be used to create and preserve 40,000 units of affordable housing. Without addressing these needs – which year after year are deferred due to fiscal constraints brought about by our structural imbalance -- the City will be unable to educate the workforce necessary to attract and retain business, and will be unable to attract and retain a middle and working class to keep those businesses here and thriving.

[g] This reverse commuter reimbursement would be accomplished through State legislation authorizing or reimposing a commuter tax on commuters working in the City at the rate of 1.1 percent. However, pursuant to a Memorandum of Understanding entered into between the City and State executives and legislative leaders, the State would withhold and remit to the surrounding counties an amount equal to 1.1 percent of the wages earned by New York City residents who commute to those counties. In this manner, the City would effectively be reimbursing its neighboring counties for the costs associated with City commuters at the identical rate that commuters to the City would be taxed.

Education Capital

Although the plans differ, both the Council and the City's Department of Education (DOE) have estimated that the City's educational facilities require at least $13 billion over the next five years to eliminate overcrowding, bring facilities to a state of good repair and provide schools with the basic necessities such as science labs, computers and physical education facilities, that most school systems take for granted. The Council has long recognized the need to address the ills plaguing our school system. This year, both the State's highest Court and the Administration have joined us in demanding their immediate redress. Both the Speaker and the Mayor have demanded that the State contribute half the cost of the school system's capital needs over the next five years, or approximately $6.5 billion. A large contribution by the State would appear to be required by the findings of the Court of Appeals that the State owes City schoolchildren the resources to afford them a sound basic education. State building aid formulas that substantially shortchange the City in school building reimbursement, providing the City with a reimbursement rate of approximately 25 percent for new construction as compared with the State average of 60 percent, fall far short of what is required. From the $1 billion in revenue from a Fair Share Commuter Tax/Reverse Commuter Reimbursement Program, $600 million will be dedicated to education capital.

Affordable Housing

The Council believes that $400 million in annual revenues from a commuter tax/reverse commuter reimbursement program should be used to leverage approximately $5 billion in funds for affordable housing. This money would be dedicated to the development and preservation of 40,000 units of housing over the next 10 years. These units would be in addition to the 65,000 units projected to be assisted through the Administration's New Marketplace Housing Plan. Up to fifty percent of the 40,000 units including new construction and the preservation of project-based Section 8 buildings would be affordable to households earning less than $25,000 annually. The balance of the units, which would be new construction, would be affordable to households earning between $25,000 and $104,000. Of the total units assisted, 5 percent would be dedicated to each of three groups in need of targeted affordable housing: (1) seniors; (2) people with disabilities and; (3) the homeless.