City of New York
State Budget Initiatives and Analysis of the 2007-08 New York State Executive Budget

The City of New York
Michael R. Bloomberg, Mayor

The City of New York
Office of Management and Budget
Mark Page, Director

Table of Contents

New York City Analysis of the 2007-08 New York State Executive Budget

Impact of 2007-08 Executive Budget on NYC Financial Plan

	2007	2008	2009
		($ in millions)	
Revenue and Tax Administration			
Elimination of Revenue Sharing (AIM)	(328)	(328)	(328)
Business Tax Increases	-	0	0
Increased Charge for PIT Administration	(7.5)	(30)	(30)
Subtotal	**(335.5)**	**(358)**	**(358)**
Health and Social Services			
Flexible Fund for Family Services (FFFS)*	-	2.5	TBD*
Summer Youth Employment Program*	-	2.5	TBD*
Increased Early Intervention Reimbursement	0.8	3.8	6
Retroactive Charge for Placement of Juveniles in OCFS	(1.2)	(5.8)	(9)
Subtotal	**(0.4)**	**3**	**(3)**
Transporation			
Staten Island Ferry Subsidy	-	1.7	1.7
MTA Bus Company Funding	-	5	5
Consolidated Street and Highway Improvement Program (CHIPS)	-	(3)	(1.5)
Subtotal	**0**	**3.7**	**5.2**
Mandates			
Collateral Source	-	11	11
Interest on Judgements	-	3	3
Increased Healthcare Surcharge for GME	-	(14)	(14)
Elimination of Local Administration Funding for Empire Zones	-	(0.3)	(0.3)
Wicks Law Threshold Increase to $2 million	-	5.8	10.8
Subtotal	**0**	**5.5**	**10.5**
City Funds Impact	**(335.9)**	**(345.8)**	**(345.3)**
Education			
Foundation Aid	-	470	1000
Universal Pre-Kindergarten	-	63	120
Other	-	10	149
Total State Education Aid		**543**	**1120**
State Education Aid Anticipated in January Plan		***(723)***	***(1475)***
Net State Education Aid Impact		***(180)***	***(355)***
Total Impact	**(335.9)**	**(525.8)**	**(700.3)**
Cumulative Impact of 2007-08 Executive Budget	**(335.9)**	***(861.8)***	
Impact to HHC			
Medicaid Net Impact	0	(32)	(32)
HIP-GHI Conversion			
Conversion of HIP-GHI to a For-Profit Entity	0	0	(125)
Fair Share			
STAR - Increase in PIT Credit	0	136	182
STAR - Income Targeted Property Tax	0	95	109

*These are appropriated annually, therefore the FY 2009 amount cannot be determined yet.

REVENUE AND TAX ADMINISTRATION

ELIMINATION OF REVENUE SHARING

The 2007-2008 Executive Budget includes a proposal to restructure the Aid and Incentives for Municipalities (AIM) Program. It provides additional funds to distressed municipalities and eliminates New York City's $328 million annual revenue sharing payment. Currently, New York City, along with other municipalities across the State, receives revenue sharing which is a flexible and consistent source of revenue.

Position: Oppose. The Executive Budget completely eliminates $328 million in revenue sharing funds for New York City for SFY 2007-08, but because of the way these funds are paid to the City, the effect will eliminate nearly $656 million: $328 million in the current fiscal year and $328 million in the City's Fiscal Year 08, which begins July 1. The State's revenue sharing funds are important because they provide the City with spending flexibility at a time when the City's share of discretionary spending in the budget continues shrink. These funds are a necessary protection against future downturns in revenue, which the City receives from real estate, financial services, and other volatile sectors of the economy.

New York City has received State revenue sharing funds, known as "per capita funding," for decades. Although New York City has been excluded from each of the State's revenue-sharing increases enacted in 2000, 2005, and 2006, this is the first time that there is a proposal to eliminate this funding entirely. City taxpayers contribute over $11 billion more in tax revenue to the State each year than is returned in the form of State funding and State services. Even without the elimination of AIM, New York City residents only get back 50 cents for every dollar they send to Albany. This proposal to eliminate revenue sharing funding will make this imbalance larger and more egregious.

BUSINESS TAX INCREASES

The Executive Budget proposes changes to the tax code that will require more corporations to pay certain taxes in New York and change the rules for filing of corporate tax returns. The largest changes would require corporations that conduct substantial inter-corporate transactions to file a combined tax return, and eliminate the deduction for certain subsidiary dividends received by a parent company from a REIT or RIC. These two proposals have been part of previous Executive Budgets but never enacted by the Legislature.

Other proposals include allowing banks to deduct only the bad debts that have been written off rather than a portion of bad debt reserves, deterring the use of tax shelters by requiring reporting and disclosure of specified transactions and requiring certain Federal S-Corporations to be New York S-Corporations, making it more difficult for banks to use subsidiaries and preventing corporations from taking deductions for production activity that occurred out of state. Additional changes would require travel companies that rent hotel rooms over the internet to pay sales taxes on the rate margin and service fees.

Position: Oppose. Although the Executive refers to these proposed changes as "loophole closers," they are increases in the corporate and banking tax code that would increase the tax burden for important industries vital to New York City's tax revenues. If the increases were applied to all firms equally, they would represent about an 8.4 percent increase in corporate taxes and an approximate 21 percent increase in banking taxes. But since firms vary widely in the use of the current tax and incentive structure, many affected firms will experience much larger increases in their taxes. Given the high tax burden on New York City businesses, the City is against increasing that burden and making the City a less competitive center for banking, insurance, and real estate industries and their transactions and employees.

INCREASED CHARGE FOR PERSONAL INCOME TAX ADMINISTRATION

The Executive Budget increases the cost charged to the City for administration of its Personal Income Tax (PIT) by $30 million from $39 million to $69 million.

Position: Oppose. This $30 million, 76 percent increase raises the cost to the City to about $20 per tax return, even as administrative costs are currently dropping as taxpayers switch to electronic filing. Additionally, when the commuter tax was eliminated, the number of PIT filers decreased, but the State did not decrease the cost it charges the City for administration. Currently, the city of Yonkers does not pay anything in administrative costs for tax returns. The City will ask for authorization for the New York City Department of Finance to administer the City PIT itself, in order to perform this function efficiently and at lower cost.

SCHOOL TAX RELIEF (STAR)

The Executive proposes a three-year property tax cut package and states that $1.5 billion is included in the Executive Budget for SFY 2007-2008. However, after subtracting the value of the STAR rebate, which would be eliminated, the net total increase in STAR is $825 million. The budget includes an increase in the refundable Personal Income Tax Credit for New York City taxpayers earning $235,000 or less, from $230 to $300 for married couples filing jointly and from $115 to $150 for all others. The existing STAR rebate would be replaced with a "middle-class" STAR benefit that will decline as income exceeds $80,000 for downstate homeowners and $60,000 for upstate homeowners.

The new STAR program would not provide New York City with its fair share. City taxpayers would save $231 million in FY 2008 and $191 million in FY 2009. However, City residents will only receive 14 percent of the $1.5 billion in new STAR funding. STAR currently redistributes hundred of millions of tax dollars generated in New York City to other parts of the state; this proposal further exacerbates this inequality.

EDUCATION

2007-08 SCHOOL AID

The 2007-08 Executive Budget includes a year-to-year statewide school aid increase of over $1.4 billion, nearly 8 percent over the 2006-07 level. The State aid increase to the New York City School District is projected by the Governor to be $639 million, an increase of 9.4 percent over last year. Two major components of this increase are a new Foundation Aid formula ($469.6 million) and Universal Pre-Kindergarten aid ($63.3 million). Also included within this increase is $94 million in debt service related to the EXCEL capital program, which was enacted as part of last year's budget.

FOUNDATION AID

The Executive Budget proposes a new Foundation Aid program that subtracts an expected local contribution from an estimated standard cost of education, to arrive at a foundation aid amount. According to the Executive, the **Standard Cost of Education** in New York City is equal to the product of:

Cost of Successful Schools	$5,662
Pupil Need Index	x 1.801
Regional Cost Index (NYC and L.I.)	x 1.425
STANDARD COST OF EDUCATION	**$14,531.10**

New York City's **Expected Local Contribution** is based on an average statewide tax multiplied by the district's property values and relative income per pupil count. Given the parameters of the formula we expect the proportion of State aid per pupil count to decline by 2012. New York City's **Expected Local Contribution** is equal to the product of:

Statewide Average School Tax	0.016
Income Wealth Index	x 1.127
District Property Wealth	x $458,839
EXPECTED LOCAL CONTRIBUTION	**$8,273.78**

Therefore, New York City's Foundation Aid amount per pupil count is equal to:

Standard Cost of Education	**$14,531.10**
Expected Local Contribution	**- $8,273.78**
FOUNDATION AID PER PUPIL COUNT	**$6,257.32**

Position: The new Foundation Aid represents an increase for New York City of $469.6 million over the sum of its component aids in 2006-07. Foundation Aid also includes weightings for poverty and limited English proficiency students, which benefits New York City.

Foundation Aid uses a new pupil count based on "total possible enrollment" in a school district, measured monthly. This represents a departure from tying aid to student attendance, which adversely affects New York City and was used to calculate aid in prior years. Various weightings are then applied to the new enrollment count for students with disabilities, declassified special education students and summer school students.

Public excess cost aid (excluding high-cost placement) is one of the 30 former aid categories consolidated into Foundation Aid.

Foundation Aid assumes a significant City share. The State's share of foundation aid per pupil in New York City is 43 percent. This is compared with 85 percent for Syracuse, 87 percent for Rochester and 88 percent for Buffalo. The formula will be phased-in between 2008 and 2011. After 2011, growth in state aid for New York City under the formula would be rise at the rate of inflation, while the growth in the projected local contribution would be a function of the growth of property wealth and the growth of income.

UNIVERSAL PRE-KINDERGARTEN

The Executive Budget proposes approximately $99 million statewide in increased funding for Universal Pre-Kindergarten (UPK) programs. The Governor projects that New York City would receive $63 million of the total increase, for a new UPK total of $252 million for the 2007-08 school year. Funds are allocated on a per-child basis and set at half the Foundation Aid amount per pupil. UPK programs would need to adhere to certain new requirements for staffing and assessment of students.

***Position*: ** For New York City, the Universal Pre-Kindergarten amount is set at $3,127.91 per pupil (half of our Foundation Aid per pupil). This represents a reduction from our current funding level of $3,332 per pupil. Further, this per capita amount applies to the City's entire pre-K allocation, not just the 2007-08 increase. New York City partners extensively with community-based organizations to provide pre-K programs. The Executive proposal amounts to a rate cut for these essential programs.

SCHOOL TAX RELIEF (STAR)

The STAR program has been considered a form of education aid to localities since the State reimburses school districts for property tax revenues levied for education funding which are foregone as a result of these tax exemptions.

Since the inception of STAR, New York City taxpayers have not received a fair share of the program. Furthermore, when added to the Executive's traditional school aid proposal, New York City's share of school aid in 2007-08 is 38 percent—exactly the same percentage as in previous years.

	NYC	Total State
School Aid Increase	$637.0	$1,413.0
STAR Property Tax Relief	$95.0	$825.0
NYC Increase in PIT Credit	$136.0	n/a
	$868.0	**$2,238.0**
New York City Share	**38.8%**	

CHARTER SCHOOLS

The Executive Budget proposes raising the statewide cap on charter schools to 250, an increase of 100 from the current cap. The proposal specifically authorizes the New York City Schools Chancellor to issue up to fifty of the new charters. The Executive provides $15.2 million in Charter School Transitional Aid to five school districts (not New York City) currently impacted by a high concentration of charter schools.

Position: Support. Lifting the cap on charter schools in New York City will permit the Department of Education to increase the number of small, innovative schools that offer academically rigorous instruction for students as well as enhanced school choice for parents. Over 12,000 New York City families are on waiting lists for charter schools, and this proposal would provide access to quality education and complement the public school reforms that have taken place over the last five years.

CONTRACT FOR EXCELLENCE

The Executive Budget proposes a "Contract for Excellence" for any school district receiving a school aid increase of at least $15 million or ten percent (this includes New York City). These contracts will govern how foundation aid increases are spent. School districts subject to a "Contract for Excellence" are required to utilize funds in excess of three percent over the base within the following five areas:

Class size reduction;
Increasing student time on task (longer school days or school year);
Improving teacher quality;
Middle school/high school restructuring; and
Implementing full day pre-kindergarten.

School districts will be required to demonstrate academic progress in the form of reports to the State Education Department. The Governor also calls for structural changes to superintendent contracts that will require dismissal after "substantial failure" for four consecutive years. The Executive Budget seeks changes in the teacher tenure process to base tenure decisions on a review by supervisors or professional colleagues and by student performance. These changes, among others, will expand the School Under Registration Review (SURR) schools process so that up to five percent of schools will be restructured within four years.

The Governor sets a very aggressive timetable for implementation of his new accountability program, which sets specific benchmarks for individual schools, community school districts and the City school district as a whole. It remains to be seen how the State Education Department will regulate school districts' approaches to the new mandates and determine their success or failure. Further, the Contract for Excellence seems to weaken aspects of mayoral control, by subjecting superintendents or even the chancellor to specific academic improvement benchmarks within a set period of time.

PUBLIC HEALTH

EARLY INTERVENTION

Early Intervention (EI) is a program administered by the NYS Department of Health for developmentally delayed children from birth until age three. Private insurance funds less than one percent of the cost of the program, while Medicaid funds approximately 45 percent and New York State and New York City share equally the remainder of the program costs. The Executive budget requires private health insurance carriers to reimburse for EI services otherwise covered in their policies.

Position: Support. The City supports actions to reform the EI program that maximize third party participation. New York City expects to receive approximately $16.6 million over the next four years through such proposed measures.

SOCIAL SERVICES

FLEXIBLE FUND FOR FAMILY SERVICES

The Executive Budget continues the Flexible Fund for Family Services (FFFS) the block grant to localities for TANF-funded services. The Executive appropriates slightly over $1 billion for the block grant, including TANF funds for child care. Two programs, summer youth employment and non-residential domestic violence prevention services, currently funded through the grant are funded outside the FFFS. New York City's FFFS allocation is $593 million combined with $20.2 million for the Summer Youth Employment Program and $1 million for domestic violence prevention, yielding a total City allocation of $614 million. This represents close to a $5 million increase over the prior year, but falls far short of the increasing costs and the need for child care slots and job opportunities for New Yorkers struggling to achieve better lives for themselves and their families.

Position: Oppose. While the purported hallmark of the FFFS is flexibility for localities, persistent funding shortfalls, increasing costs of essential services, and new mandates for localities have made the block grant untenable. New York City proposes abolishing the FFFS block grant in favor of a true State and City partnership to share the costs of these services for all who receive them.

New Federal TANF requirements impose costly mandates to meet essentially expanded work requirements. The City currently offers employment services and training for more than 60,000 public assistance recipients. Due to more rigorous work requirements implemented by new federal TANF rules to require that 50 percent of the TANF caseload be engaged in work, the need for additional funds becomes critical to support moving clients from dependency to self-sufficiency. If TANF clients do not meet workforce participation requirements, localities could face penalties. To avoid these penalties and enable TANF clients to achieve self-sufficiency, localities need an equal State partner so that they do not have to choose between spending on day care, job training, or child welfare services.

INVESTMENT IN CHILD CARE

Essential to achieving federal work participation rates is the availability of affordable and adequate child care, pre-school, and after-school programs. Moreover, quality child care, early childhood programs, and well-run after school programs are associated with enduring academic gains and competent socialization skills. The continuum of early childhood services, such as child care, Head Start and after school programs requires a true partnership of State and local governments. Families receiving public assistance are entitled to child care subsidies and families transitioning from public assistance need to maintain their access to care. Investments in child care must be made so there are sufficient resources to serve both public assistance and other low-income working families. In FY 2008, the City will invest over $70 million in additional tax levy for child care and out-of-school time programs.

The City's efforts to reduce public assistance caseloads, which have produced hundreds of millions of dollars in savings since 1995, have helped to create a TANF surplus of approximately $1.8 billion. The City urges the State to create a true partnership of cost sharing by ensuring equitable state and local contributions for child care, employment and assessment, and other supportive social services.

RETROACTIVE RATE ADJUSTMENTS FOR PLACEMENT OF JUVENILES IN OFFICE OF CHILDREN AND FAMILY SERVICES (OCFS) FACILITIES

The City reimburses the State 50 percent of the share of the cost of care for New York City youths placed in OCFS facilities. This cost is based on the State's actual costs for operating secured and non-secured placement facilities. From 2001 through 2005 the rate was $100 per day based on 1999 costs. In 2000, the State discontinued their audits to determine actual costs and froze rates. In 2006, the State resumed auditing and adjusted the OCFS rate to $155 per day. The Executive Budget proposes to retroactively charge districts a higher rate for the period 2001 to 2005, based on the assumed costs for the years the State never calculated its actual costs.

Position: Oppose. The City rejects the State's intention to retroactively charge for the period from 2001 to 2005. Preliminary estimates indicate that the retroactive charge could cost the City $1.2 million in FY 2007, $5.8 million in FY 2008 and $9.0 million in FY 2009.

TRANSPORTATION

LOCAL TRANSIT FUNDING

The Executive Budget proposal includes slight increases in funding to New York City for the City run transit systems. Ferries are funded at $26.4 million, a $1.7 million increase from last year, and buses are funded at $73.1 million, a $5 million increase from last year.

Position: Support. The additional ferry funding will be used for day to day costs such as salaries and wages, including collective bargaining and assistance for the improved security and operations of the Staten Island ferry. The funding for buses will be used to offset the City's subsidy of the MTA Bus Company.

CONSOLIDATED STREET AND HIGHWAY IMPROVEMENT PROGRAM (CHIPS)

The Executive Budget proposes to decrease funding for the CHIPS capital program for counties and New York City. The CHIPS program is designed to help cities, counties, towns and villages cover the costs of construction, operation and maintenance of local highways and bridges.

Position: Oppose. This decrease in funding will result in a $3 million loss to New York City. CHIPS funding is essential for the City's street construction projects including the installation of traffic signals, street lighting construction, and the upgrade and modernization of parking meters.

MANDATES

WICKS LAW THRESHOLD INCREASE

The Executive Budget includes a provision to raise the threshold for projects subject to the Wicks Law from $50,000 to $2 million for New York City. Currently under the Wicks Law, for construction projects costing more than $50,000, the City must issue four separate contracts for electric, plumbing, heating, ventilation and air conditioning (HVAC) and all other services. This multiple contracting requirement adds approximately 14 percent to the cost of every City funded construction project.

Position: Support with recommendation. New York City supports the full repeal of the Wicks Law. This proposal is a step in the right direction, but it does not go far enough. Under the Executive's proposal, over the next ten years New York City would save only Fifty three million in City funds out of the $19 billion that is planned for capital projects are subject to the Wicks Law. Full repeal of this costly and cumbersome law would produce over $3 billion in capital construction savings for the City over the next ten years, and more than $1.5 billion in debt service savings.

COLLATERAL SOURCE

The SFY 2007-08 Executive Budget includes language that would allow judgments and awards against local governments, and the State, to be offset by both past and future compensation from all collateral sources.

Position: Support. Specifically, when a public employee recovers damages against the City due to injury suffered as a result of the City's negligence, the amount of the recovery should be reduced by any amounts the employee will receive from collateral sources, such as a disability pension, as it is currently in the private sector. Injured employees should be adequately compensated and made whole. However, currently, an employee may receive a windfall of close to twice the appropriate award since it is not offset by prospective payments from collateral sources. The enactment of collateral source legislation will save New York City millions of dollars in its pending cases and would treat cases against public employers, similarly to those against private employers. This proposal will save New York City $11 million annually and some funds on pending actions.

INTEREST ON JUDGMENTS

For many years, the courts have required municipalities to pay post-judgment interest rates of 9 percent. The Executive Budget includes a proposal to link the interest rates on judgments to the 52-week Treasury bill rate while retaining a 9 percent statutory cap on such rates.

Position: Support. The City of New York strongly supports this proposal. Interest rates have been consistently below 9 percent during the past 20 years and thus unfair economic burdens have been placed on the state and local governments by judicial rewards reflecting the 9 percent maximum. New York City estimates that enactment of this proposal would save the City approximately $3 million annually.

LABOR

INCREASED HEALTHCARE SURCHARGE FOR GME

The Executive Budget raises the collection target for the Covered Lives Assessment, which is used to fund Graduate Medical Education (GME), by $75 million. This payment is imposed on health insurance carriers and passed on to subscribers. The Covered Lives Assessment is built into the health insurance premium rates paid by the City. Raising the amount collected through this assessment will increase healthcare costs by an estimated $14 million a year.

CONVERSION OF HIP-GHI TO A FOR-PROFIT ENTITY
The Executive Budget proposes to allow HIP-GHI, currently a not-for-profit entity, to convert to a for-profit company.

Position: Oppose. The City has sued to stop the proposed conversion. Currently, 93 percent of City employees are enrolled in HIP-GHI, comprising 60 percent of the value of the entity. By converting to a for-profit entity, premiums for HIP-GHI would eventually rise to comparable market rates, resulting in increased health care expenses for City employees of at least $500 million per year. The State has priced the sale at $1 billion and intends to garner 100 percent of the proceeds. If the City-contested sale is allowed to proceed, the City must receive its proportional share of 60 percent in the entity, which would not even offset the ongoing costs associated with the conversion.

MEDICAID

REDIRECTION OF MEDICAID RESOURCES TO PATIENTS
The 2007-2008 Executive Budget redistributes funds from several funding streams to Medicaid providers based on their share of Medicaid patients. This redirection of $73 million statewide will increase funding for providers and facilities with higher concentrations of Medicaid clients, including the Health and Hospitals Corporation (HHC).

Position: Support. New York City supports this important and straightforward reform that directs more support to the high need hospitals that serve the greatest portion of Medicaid patients.

MEDICAID FRAUD PREVENTION AND DETECTION
The Executive Budget proposes an additional $104 million in revenues from a comprehensive fraud prevention and detection program that includes the following proposals: a New York State False Claims Act, which would allow private persons to bring civil actions to recover funds wrongfully obtained through fraud, strengthening the Attorney General's authority to investigate and prosecute health care fraud, and enhancing the State's authority to combat fraud by allowing the Office of the Medicaid Inspector General greater access to records held by the Tax Department and the Workers' Compensation Board.

Position: Support. New York City supports the State's efforts to strengthen Medicaid fraud prevention and detection efforts. The City welcomes the collaboration of various agencies across all levels of government to work to control fraud in the Medicaid program and to stiffen penalties for those engaged in illegal activity, and believes localities should share fairly in the proceeds from such recoveries.

MEDICAID RATE FREEZES AND CUTS

The Executive Budget proposes approximately $1 billion in savings from Medicaid cost containment actions. Many of these proposals will significantly impact New York City hospitals and nursing homes, including HHC.

The Executive Budget proposes to eliminate $350 million in trend factors for hospitals and nursing homes, to freeze premium payments to Child Health Plus, Family Health Plus and managed care plans, to reduce Medicaid reimbursement for Graduate Medical Education and to reduce work training and professional development funding for nursing homes.

While it is vital for the State to continue to work to curb Medicaid costs, many of these cost containment proposals will have a financial impact on HHC. HHC is required by State law to treat every patient regardless of ability to pay and are the safety-net health care providers for City residents when they have nowhere else to turn for medical care. Millions of New Yorkers receive health and mental health care at HHC and many will continue to seek treatment at HHC regardless of whether they have insurance coverage or can pay a co-payment. The Corporation estimates that the Medicaid proposals indicated will result in a net loss of approximately $32 million.

ECONOMIC DEVELOPMENT

GOVERNORS ISLAND

The 2007-08 Executive Budget includes $20 million in capital funds and $9 million in operating funds to support the preservation and redevelopment of Governors Island. These funds are to be used to preserve the historic structures and to provide for critical infrastructure work to maintain operations in preparation for redevelopment of the Island. The State and the City have been working together to restore and preserve the Island's historic resources.

Position: Support with Recommendation. New York City provided $7 million in operating funds to support the preservation and redevelopment of Governors Island for the 2007-08 fiscal year. New York City also allocated $37.5 million in capital funds in the City budget for the 2007-08 fiscal year and supports a full New York State match of $37.5 million, rather than $20 million. These funds will be used to preserve Governors Island's many natural and manmade amenities, while also creating a broad array of new attractions that enhance the Island's potential as a world class destination, through the creation of new commercial, educational, cultural and tourist opportunities and new waterfront and public open space development. This improved and expanded Island will benefit both New York City and New York State residents.

INVESTMENT AND JOB CREATION PROGRAM

The Executive Budget includes a proposal to appropriate $300 million for a new Investment and Job Creation Program in the Empire State Development Corporation (ESDC). State funding will be targeted to major projects that will create significant regional economic development benefits or that provide economic benefits to distressed areas.

Position: Support with Recommendation. New York City has worked with ESDC on a number of capital projects including Atlantic Yards, Brooklyn Bridge Park, the Javits Center and Governors Island. Of this proposed $300 million, ESDC should dedicate a fair share of these funds to New York City, in order for the City to continue working with the State in a close partnership on these and other projects.

ELIMINATION OF LOCAL ADMINISTRATION FUNDING FOR EMPIRE ZONES

The State Empire Zone program was created by the State in an effort to revitalize and expand New York's economy. The Empire Zones are particularly attractive to businesses since they offer numerous tax incentives for qualifying businesses located within the zone. The 2007-08 Executive Budget proposes to eliminate the $2.3 million statewide appropriation for local administration of the State's Empire Zone program.

Position: Oppose. New York State's local administration funds for Empire Zones are intended to cover salaries and other costs for the local development organizations that administer each Zone. In 2003 there were cuts made to this program; the current level of approximately $35,000 per zone only partially covers salaries. Since the Empire Zones do not currently receive enough funding to pay salaries for individuals to administer these Zones, any additional reductions in funding will further impede the operations of the eleven Empire Zones in New York City. This elimination of local administration funding for the Empire Zones would reduce funding by approximately $300,000 to New York City. This is an unfair cost shift of a state responsibility to local entities.

ENVIRONMENT/PARKS

STATE CONTAINER DEPOSIT PROGRAM ("BOTTLE BILL")

The Executive Budget includes language which would amend the State Container Deposit Program (also known as the "Bottle Bill"). The proposal expands the types of beverage containers covered under the program to include non-carbonated beverage containers. Bottlers would be mandated to pay the monetary value of unclaimed beverage container deposits to the State, which would in turn deposit these in the State Environmental Protection Fund (EPF). The Executive projects the State will collect $25 million from unredeemed deposits in SFY 2007-08 and an additional $100 million annually thereafter. The Governor's proposal also establishes a Beverage Container Assistance Program within the New York State Department of Environmental Conservation (DEC). DEC would provide assistance payments to municipalities and nonprofit organizations to cover the costs of reverse vending machines and of other actions to facilitate redemption of beverage containers, including equipment and acquisition of real property. DEC would award up to 50 percent of the total costs.

Similarly, the Beverage Container Assistance Program would also award funds to New York businesses in efforts to facilitate redemption of beverage containers.

Position: Support with Recommendation. In the 2006 legislative session, an earlier "Bigger Better Bottle Bill" passed the Assembly, but not the Senate; the bill allowed revenue from unredeemed deposits to be awarded to municipalities for their recycling programs. The Executive proposes that these funds be deposited into the EPF which requires localities to apply for funds and provide a 50 percent match. New York City supports the disbursement of funds from this new program directly to localities rather than through EPF or other mechanisms that would impede New York City from receiving its proportional share of these funds.

FUNDING OF THE STATE'S SUPERFUND/BROWNFIELDS CLEANUP PROGRAMS

The Executive Budget provides $135 million for the State Superfund and Brownfields Cleanup Programs, the same funding level as SFY 2006-07. The State Superfund is appropriated at $120 million and the Brownfields Clean-up Program is appropriated at $15 million, level with last year's funding.

Position: Support with Recommendation. The Executive proposes to provide $120 million to refinance the State Superfund program. New York City is expecting approximately $107 million for the Brookfield Avenue Landfill in 2008. The City supports the financing of the State Superfund program at levels appropriate to cover expected State commitments.

ASIAN LONGHORNED BEETLE FUNDING

The Executive Budget includes $2.1 million for New York City to contain and eradicate the Asian Longhorned Beetle. The Asian Longhorned Beetle is an invasive insect that is fatal to hardwood trees. Forty seven percent of the 5.2 million trees in New York City are susceptible to this pest. To date, over 4,000 trees in New York City have been found infested with the beetle.

Position: Support. The City supports this funding so that the State will be able to partner with New York City to eradicate this insect.

Financial Plan Overview

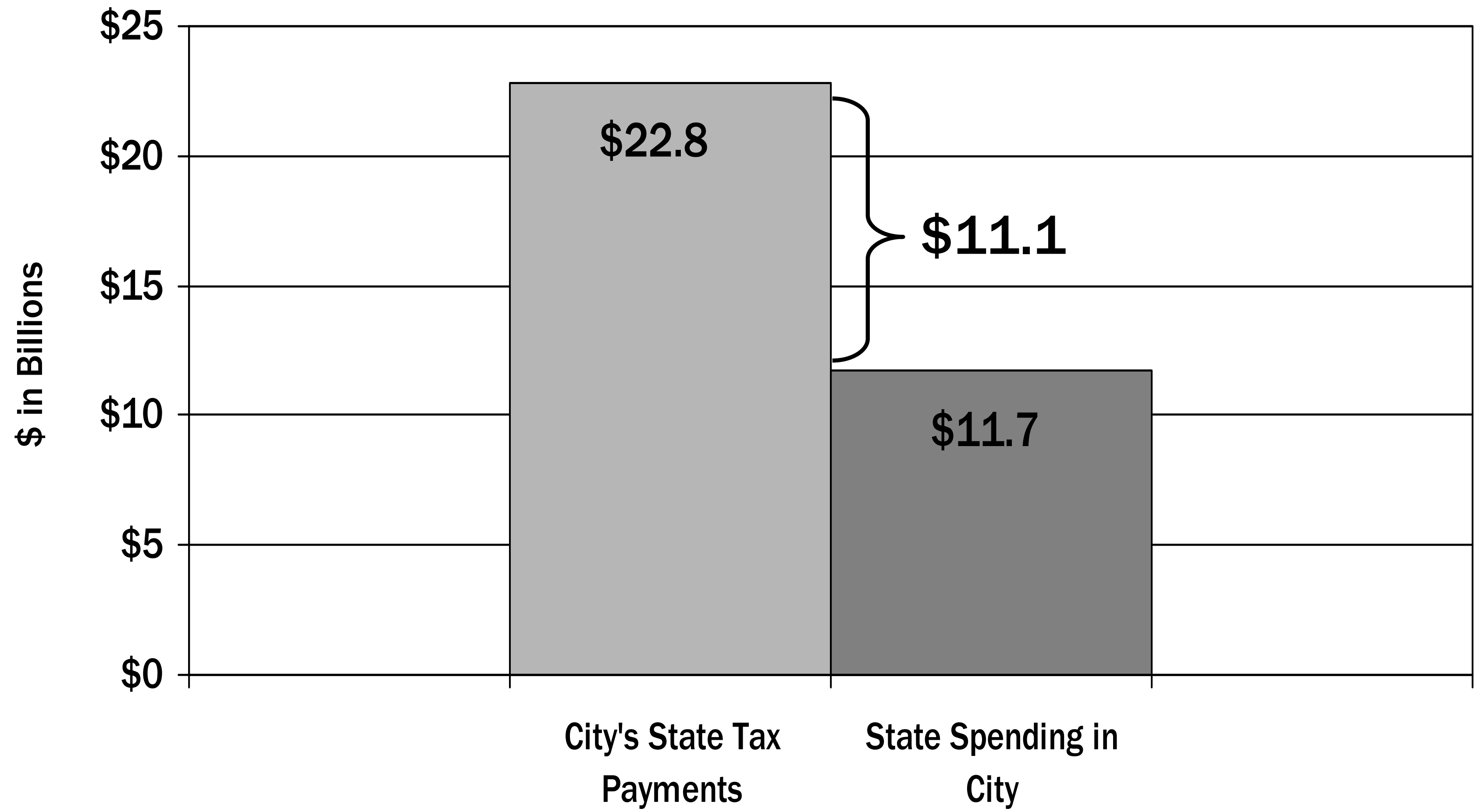
City Fiscal Years 2007-2011

New York City Contributes 48.6% of All New York State Tax Revenues

- New York City contributes 56.3% of New York State's Personal Income Tax revenues

- New York City contributes 45.5 % of New York State's Business Tax revenues

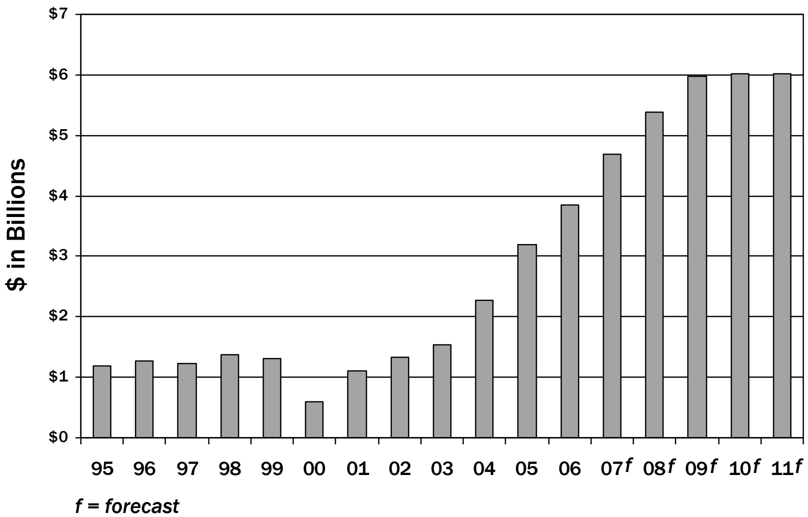
New York City Pays $11.1 Billion More in State Taxes Than It Gets in Funding



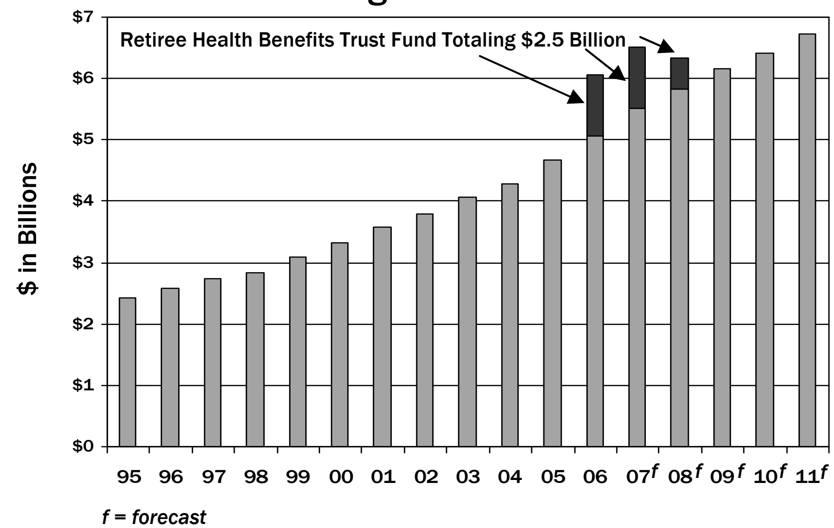
Source: "Balance of Revenue & Expenditure Among NYS Regions", Center for Governmental Research, Inc. May 2004.

Non-Controllable Expenses Continue to Grow

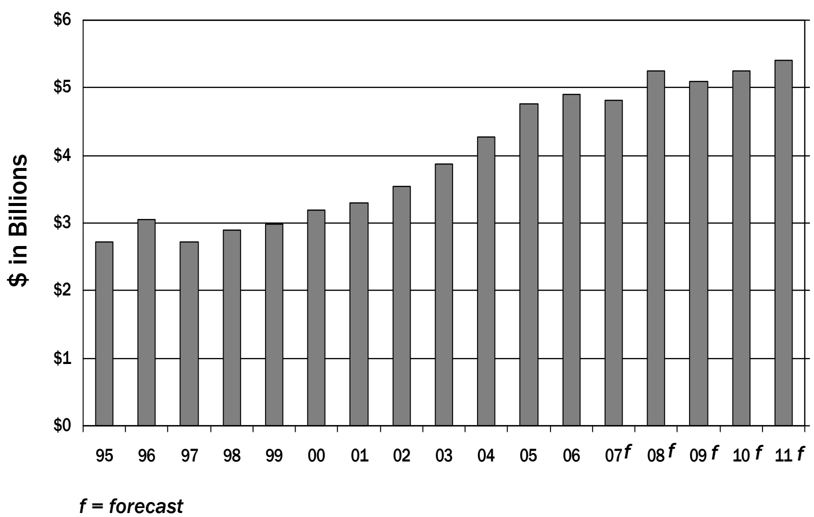
Pension Costs



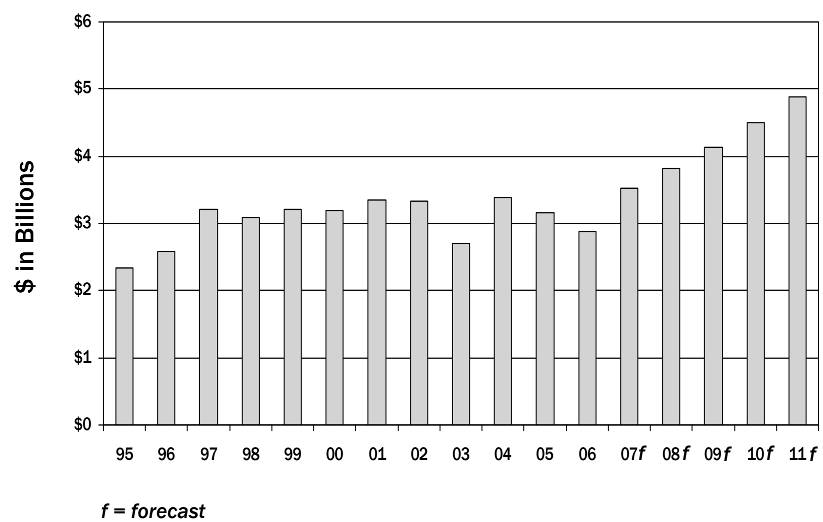
Fringe Benefits Costs



Medicaid

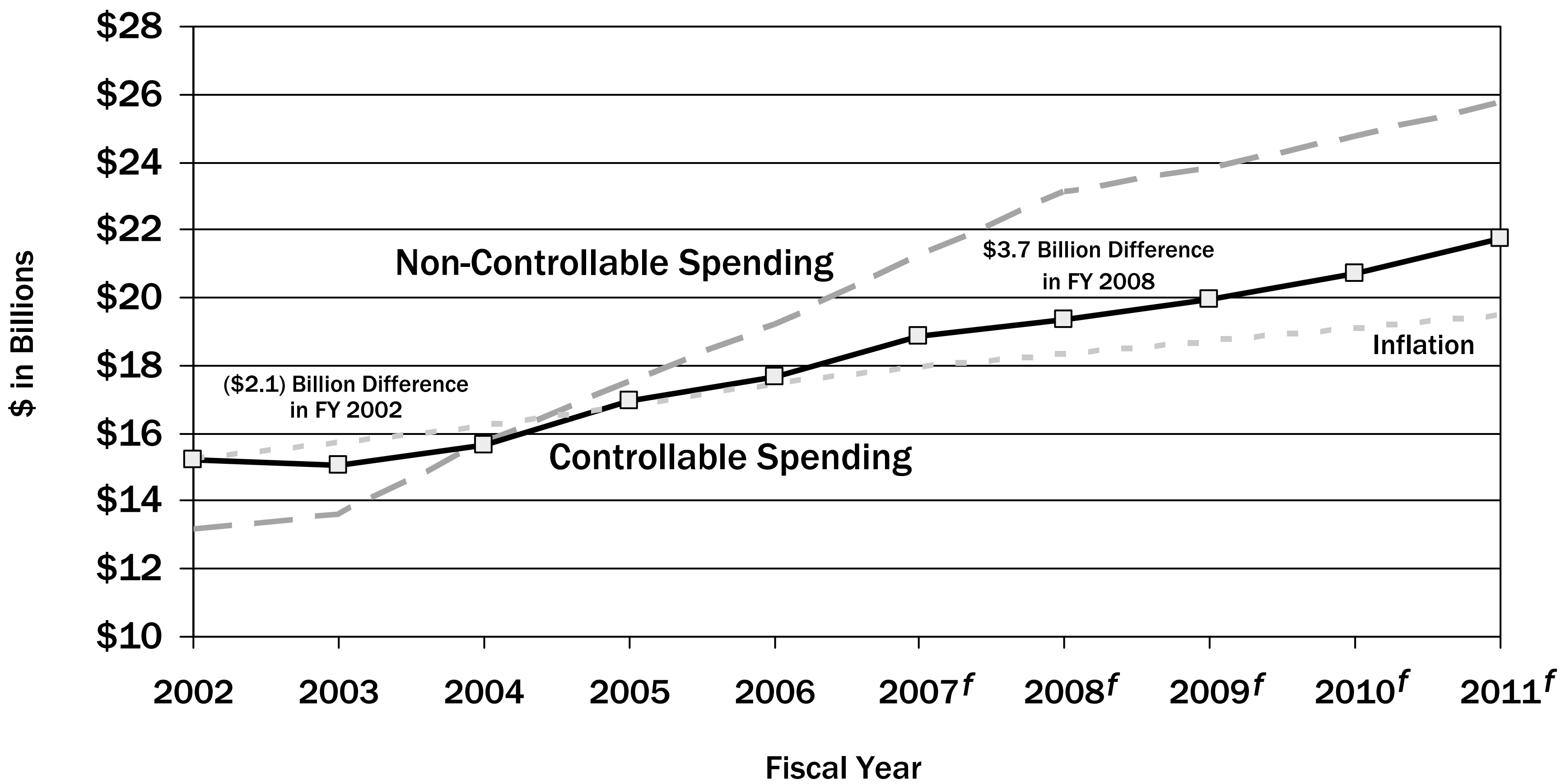


Debt Service



JanFY08

Our Non-Controllable Expenses Continue to Be Larger Than Controllable Expenses



f = forecast for years 2007 – 2011

JanFY08

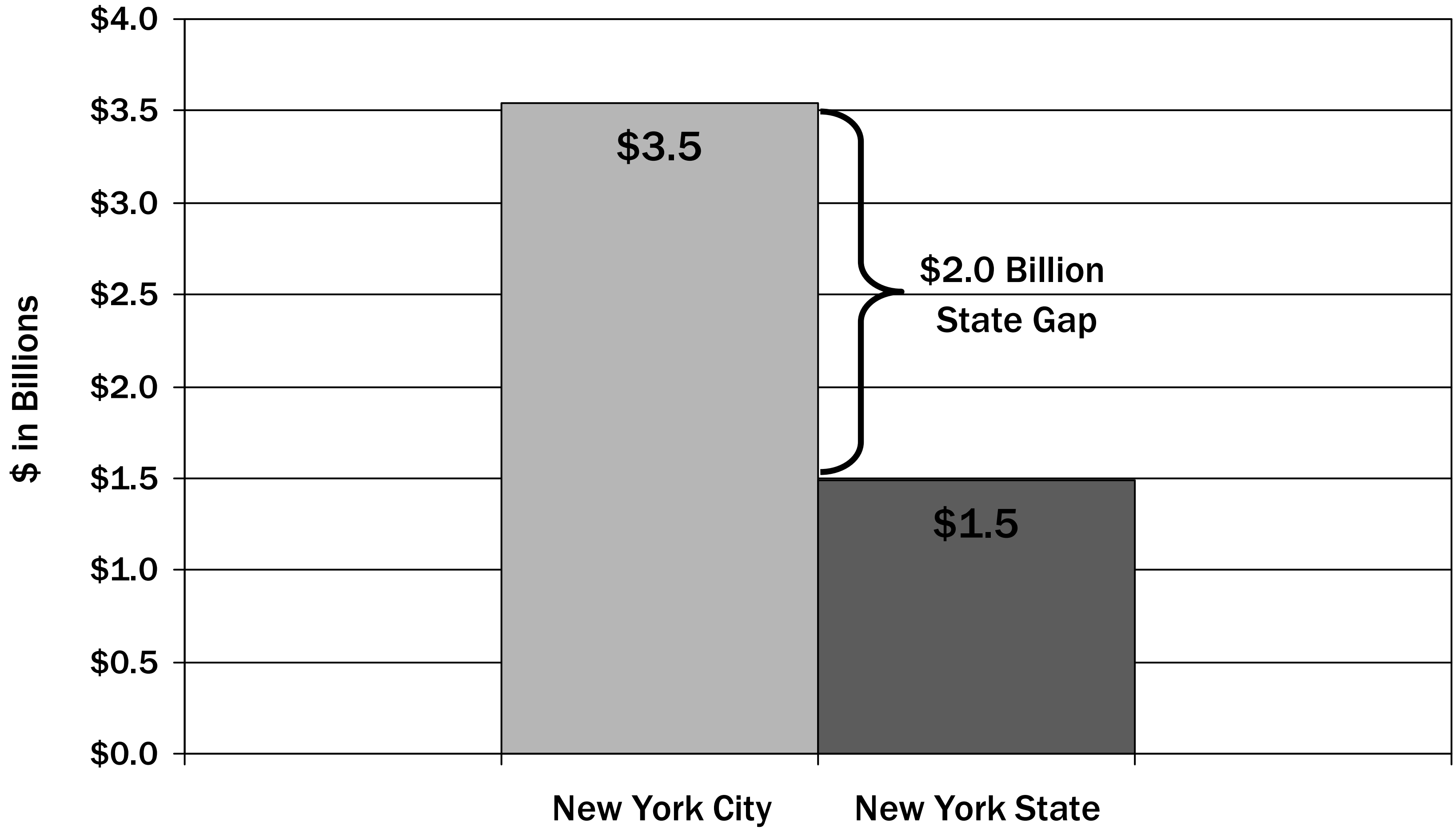
Out-Year Gaps Remain

$ in Millions (Increases Gap) / Decreases Gap

	2009	2010	2011
Remaining Gaps to be Closed as of November 2006	**($4,068)**	**($3,608)**	**(3,090)**
Revenue Changes			
Property Tax	$869	$1,319	$1,561
Other Tax Revenue	686	623	790
Non- Tax Revenue	22	19	14
Total Revenue Increases	**$1,577**	**$1,961**	**$2,365**
Expense (Increases) / Decreases			
Poverty Initiative	($65)	($65)	($65)
Energy	19	13	17
Collective Bargaining (UFT)	(97)	(125)	(126)
Education	---	(356)	(836)
Other Agency Needs	(294)	(316)	(436)
Fringe Benefits Cost (Mental Health Parity Legislation/HIP Rate)	(53)	(57)	(63)
Pension Funding Improvement	(200)	(200)	(200)
Other Pension Changes	9	(15)	11
HHC/Medical Assistance	70	70	(100)
Debt Service	213	206	185
Total Expense (Increases) / Decreases	**($398)**	**($845)**	**($1,613)**
Prepayments of 2009 Expenses	1,376	---	---
(Uses) of Remaining Funds			
Tax Reduction Program	(810)	(868)	(917)
Other Tax Reductions	(294)	(321)	(366)
Remaining Gaps January 2007 Plan	**($2,617)**	**($3,681)**	**($3,621)**
Out Year Gap Closing Program			
City Actions	$1,207	$1,200	$1,200
State and Federal Actions	600	600	600
Restore Property Tax	810	868	917
Remaining Gap	**$ ---**	**($1,013)**	**($904)**

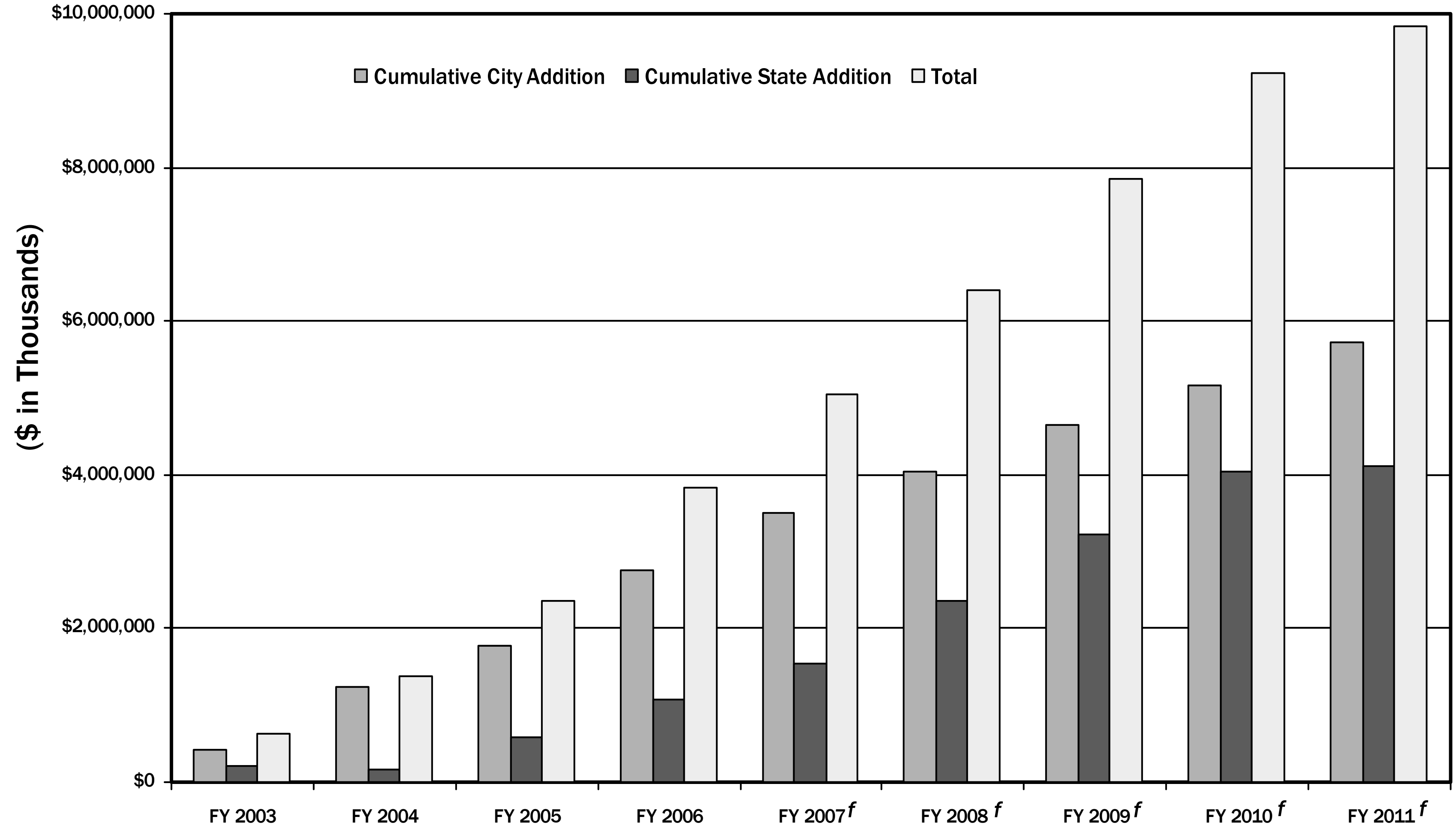
NYC Has Increased Its Contribution to Department of Education by $3.5 Billion Since FY 02 While New York State Has Only Increased Its Contribution by $1.5 Billion

Department of Education: Funding Growth from FY 02 to FY 07



Cumulative City and State Additions to Education Funding in New York City, FY 2003 - FY 2011

($ in Thousands)



*New York City has assumed in this budget that NYS will provide additional education funding to the City meeting the CFE mandate of $1.9 billion annually, adjusted for inflation since 2004. The exact amount of additional aid that NYS will provide is subject to the NYS budget.

JanFY08

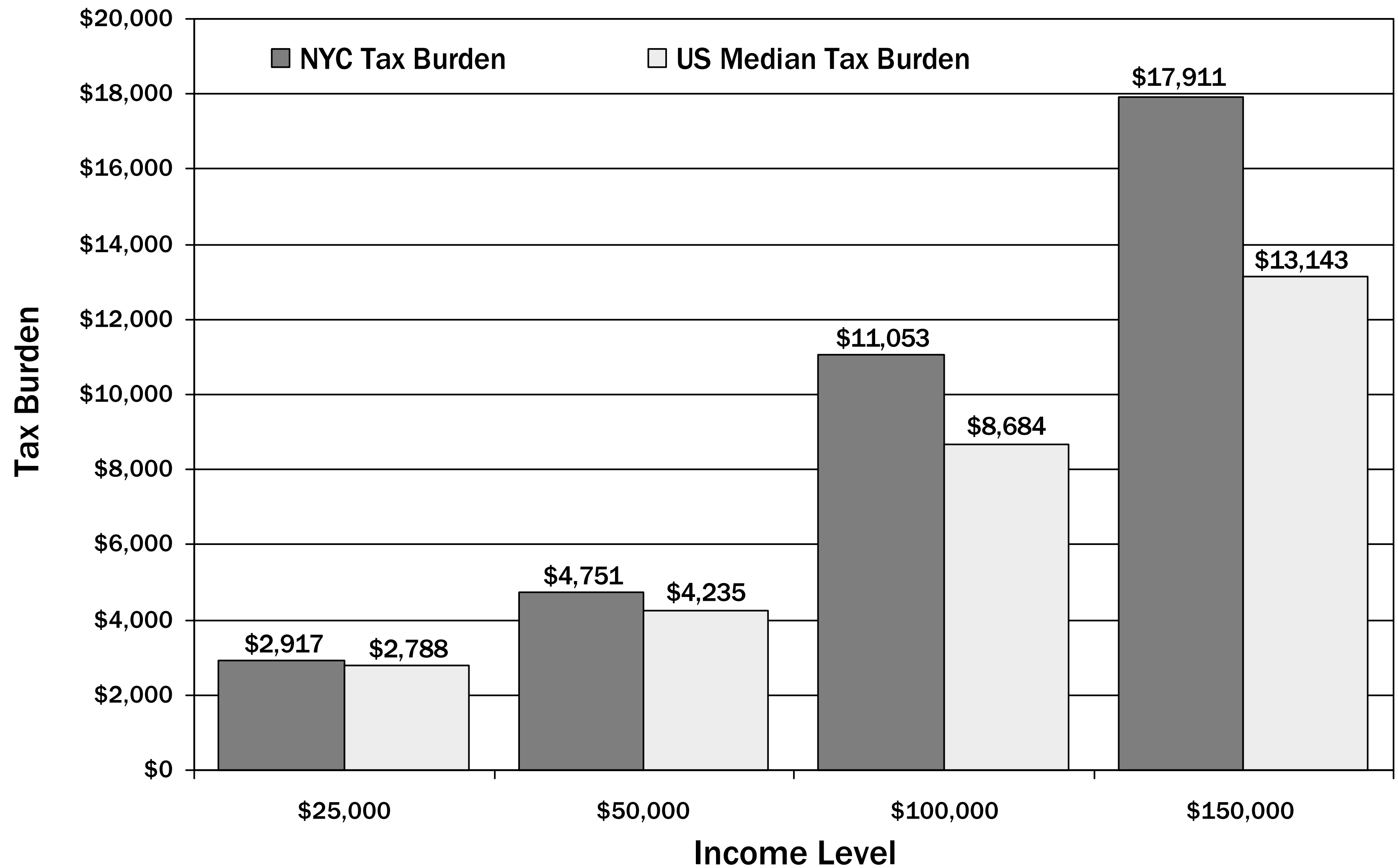
Education Funding Partnership

New York City has assumed in this budget that NYS provides the City with additional education funding meeting the court-ordered CFE mandate of $1.9 billion annually, adjusted for inflation since 2004.

The exact amount of additional aid that NYS will provide is subject to the NYS budget.

	$ in Millions			
	FY 2008	FY 2009	FY 2010	FY 2011
Assumed Additional State Education Funding Meeting CFE Mandate	$723	$1,475	$2,256	$2,302
Additional City Education Funding	532	1,127	1,661	2,223
Total	**$1,255**	**$2,602**	**$3,917**	**$4,525**

New York City's State and Local Tax Burden Is High



Tax Burden Includes the State and Local Tax Burdens
Source: Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison 2005

JanFY08

Business Income Tax Rates in New York City Are Higher Than Surrounding Areas

	Corporate Tax Rate	Bank Corporation Tax Rate	Unincorporated Business Tax Rate	Subchapter S-Corporation Tax Rate
New York State[1]/ New York City	8.78/8.85	8.78/9.0	NYC. 4.0	0.0/8.85[2]
New Jersey	9.0	9.0	0.0	0.67[3]
Connecticut	7.5	7.5	0.0	0.0

Note: 1. New York State rates include a 17% MTA surcharge.

2. New York State taxes S-Corporations through a fixed dollar minimum tax. However, New York City taxes S-Corporations at the normal corporate rate unless they file using the alternative "income-plus-compensation" base where the tax rate is 2.655%, or the fixed dollar minimum tax of $300.

3. Tax rates for a New Jersey S-Corporation with entire net income greater than $100,000 declined from 1.33% to 0.67% effective July 1, 2006. The tax rate is 0% after July 1, 2007.

Sources: New York City Department of Finance and OMB

FY 2008 Tax Reduction Program

	Revenue Impact $ in Millions FY 2008	FY 2009	FY 2010	FY 2011	Effective Dates
Return a Portion of Prior Property Tax Rate Increase					
Real Property Tax: Return $750 million of the prior property tax rate increase.*	**($750)**	**($810)***	**($868)***	**($917)***	7/1/07
Job Creation					
Unincorporated Business Tax: Double partnership deduction to $10,000 per active partner.	(16)	(16)	(16)	(17)	1/1/07
Unincorporated Business Tax: 50% Increase in the resident PIT/UBT Credit.	(28)	(28)	(29)	(31)	1/1/07
Corporate Tax: Enact a resident PIT credit providing PIT relief to owners of S-Corporations.	(70)	(69)	(73)	(78)	1/1/07
Corporate Tax: 50% phase-out of the income-plus-compensation alternative tax base.	(18)	(56)	(76)	(110)	1/1/07
Corporate Tax: Small firm tax-filing simplification.	(8)	(8)	(8)	(8)	1/1/07
Economic Competitiveness					
Sales Tax: Exempt all clothing from the City sales tax.	(110)	(117)	(119)	(122)	7/1/07
Subtotal (Job Creation/Economic Competitiveness):	**($250)**	**($294)**	**($321)**	**($366)**	
Total	**($1,000)**	**($1,104)**	**($1,189)**	**($1,283)**	

* If Temporary Property Tax Rate Reduction In FY 2008 Continues

JanFY08

After a $750 Million Cut and Rebate Extension, Most City Homeowners Will Pay Less Than Without the 18.49% Rate Increase

	FY 08 Tax Bill Without 18.49% Increase	Estimated FY 08 Tax Bill	Proposed Tax Cut	Rebate	FY 08 Tax Bill After Tax Cut & Rebate	Change in Taxes Higher / (Lower)
Average for Manhattan:						
Single Family Home	$21,673	$25,706	($1,264)	($400)	$24,042	**$2,369**
Co-op	5,682	6,733	(329)	(400)	6,004	**322**
Condo	8,207	9,725	(475)	(400)	8,850	**643**
Average for Other Boroughs:						
Single Family Home	$2,565	$3,042	($150)	($400)	$2,492	**($73)**
Co-op	1,757	2,082	(102)	(400)	1,580	**(177)**
Condo	1,616	1,915	(94)	(400)	1,421	**(195)**

Note: All Tax Values Reported Use FY 2008 Tentative Roll Valuations and Preliminary Estimated FY 2008 Tax Rates

State Budget Initiatives

STATE BUDGET INIATIVES

Tax Reduction Program
New York City's tax reduction program reflects the goal of boosting local economic activity by providing a wide array of tax relief to New York City taxpayers. The current proposal saves the taxpayers $1.3 billion in 2008, growing to $1.6 billion by 2011.

Property Tax

Property Tax Rate Reduction
This proposal returns $750 million of the property tax increase now that it is no longer needed. Under this proposal the property tax rates for all tax classes would be reduced by about five percent, saving taxpayers $750 million in 2008, $810 million in 2009, $868 million in 2010, and $917 million in 2011.

$400 Property Tax Rebate Extension
In 2005 the City enacted a three-year property tax rebate program to provide owners of Class 1 properties and Class 2 cooperatives and condominiums with a $400 rebate. To qualify for the rebate the dwelling unit must be the owner's primary residence. The rebate is currently set to expire after 2007.

The Mayor proposed the extension of the $400 rebate program for three more years in the November Modification. The State law authorizing the rebate also mandated that if the rebate legislation is to be extended beyond 2007, there should be a uniform reduction in the tax rate for all tax classes that yields a real property tax relief which in aggregate is at least equal to the rebate paid. The Mayor's current proposal of property tax rate reduction meets this requirement.

The proposed extension of the rebate program would save the taxpayers $256 million a year. Combined with the tax rate reduction, it would return to most single family homeowners the equivalent of the 18.49 percent tax increase enacted in 2003.

Job Creation Tax Cuts

Unincorporated Business Tax (UBT) – increase the deduction for compensation paid to active partners (proprietors)
This proposal would help modernize the City's unincorporated business tax. Partnerships are required to add back payments to partners into UBT-taxable income because the distributions are, in part, a return on capital. In lieu of a compensation deduction, firms are given a $5,000 per partner deduction (an analogous rule applies to sole proprietors). This amount has not been raised since the tax was enacted in 1966. The proposal will raise the per partner deduction from $5,000 to $10,000. This proposal is estimated to save taxpayers about $16 million in 2008, growing to $17 million by 2011.

Unincorporated Business Tax – a 50 percent increase in the UBT/PIT Credit
This proposal would complement the prior proposal by helping to modernize the City's treatment of flow-through entities. Currently the City allows the owners of unincorporated businesses (proprietors, partnerships and limited liability companies) to take a partial credit against their resident personal income tax for any UBT payments they made. The credit ranges from 15 percent of UBT liability to 65 percent of UBT liability based on a sliding scale, ranging from $42,000 to $142,000 of City taxable personal income. The current credit was enacted 10 years ago by State legislation that gave the City Council the authority to raise the credit percentages without further

State action. This proposal would raise the current percentages from 65 percent at $42,000 or less of taxable income and 15 percent at $142,000 or more of taxable income to 100 percent and 23 percent, respectively. This proposal would save City taxpayers $28 million in 2008, growing to $31 million by 2011.

Corporate Tax – Resident PIT/S-Corporation Credit
This proposal would partially offset the double taxation burden on the City's S-corporations, a type of business that most jurisdictions (State and Federal) do not tax at all. The proposal will allow NYC residents who are S-corporation shareholders to take a credit for a share of their S-corporation tax liability against their City personal income tax. (This proposal is similar to the credit enacted for owners of unincorporated businesses in 1997). The credit would range from 15 percent to 65 percent of an S-corporation shareholder's City corporate tax liability based upon a sliding scale of the taxpayer's City taxable personal income. In tax year 2003 there were 123,000 S-corporations paying tax in the City, accounting for about 42 percent of the corporate tax liability. These firms had an average City corporate tax liability of about $5,400 in tax year 2003. This proposal is estimated to save taxpayers about $70 million per year, growing to $78 million by 2011.

Corporate Tax – 50 percent phase-out of the alternative income-plus-compensation tax base
In order to prevent companies from lowering their taxable income by disguising dividends as salaries, the City's general corporation tax uses an income-plus-compensation alternative tax base. Paying dividends as salaries lowers the company's taxable income because salaries are deductible and dividends are not. The alternative tax calculation takes allocated net income and adds back compensation paid to any shareholders who own more than 5 percent of the corporation's outstanding stock. The resulting adjusted net income is taxed at 2.655 percent (30 percent of the corporate income tax rate). Due to changes in Federal laws and enforcement practices, the need for this alternative tax base calculation has diminished. This proposal will enact a 50 percent phase-out of this tax rate over the next four years (12.5 percent in tax year 2007, 25 percent in tax year 2008, 37.5 percent in tax year 2009, and 50 percent in tax year 2010). The most common type of taxpayer affected is small-to-medium sized firms. About 25,000 firms would benefit from this proposal. Taxpayers are estimated to save about $110 million under this proposal by 2011.

Corporate Tax – Small Firm Tax Simplification
More than half of the 260,000 corporations subject to the City's general corporation tax pay the City's $300 minimum tax. Most are small firms with low levels of gross receipts. This proposal will dramatically simplify tax filing for these firms by exempting firms with gross receipts of under $250,000 from having to complete the City's three-way alternative tax base calculation. C-corporations will be allowed to base their City net income calculation on their NYS corporate tax information. This proposal will benefit approximately 110,000 firms and save them about $8 million annually.

Economic Competitiveness
Sales Tax – Exempt all clothing and footwear purchases from the City sales tax
On September 1, 2005 the City restored the sales tax exemption on clothing and footwear purchases costing under $110, which had been temporarily repealed on June 1, 2003. The New York City 4.0 percent sales tax still applies to clothing and footwear purchases costing $110 and above. The City now proposes to repeal the City 4.0 percent sales tax on all clothing and footwear purchases. This proposal will save taxpayers $110 million in 2008, $117 million in 2009, $119 million in 2010, and $122 million in 2011.

Currently NYS has a statewide clothing and footwear exemption on purchases under $110. It was reinstated on April 1, 2006 after being temporarily repealed on June 1, 2003. The NYS 4.0 percent sales tax still applies to clothing and footwear purchases $110 and above. Purchases of clothing and footwear under $110 in the City are also exempt from the MCTD 0.375 percent sales tax. The neighboring counties of Nassau, Suffolk, Westchester, Orange and Putnam currently do not have clothing exemptions against their local sales tax.

Economic Opportunity

New York City Child Care Credit

This proposal establishes the first child care credit against the City personal income tax. An estimated 49,000 families with children up to three years of age and with adjusted gross income less than $30,000 would receive the refundable credit. Eligible families must have allowable child care expenses. Most eligible families will receive a credit of almost $1,000. The credit phases out as family adjusted gross income rises from $25,000 to $30,000.

Additional State Budget Initiatives

Increase Daily Reimbursement Rate for State Readies and Parole Violators

The State provides reimbursement to localities for the incarceration of state-ready inmates and parole violators at $40 per inmate per day, far below the actual cost to the City. State-ready prisoners are convicted felons who have been sentenced and committed to the custody of the State Department of Correctional Services, but have not yet been transferred to State facilities. State parole violators are State sentenced individuals who are temporarily detained in City correctional facilities. The current rate of $40 per inmate per day leaves the City with a substantial shortfall because the actual average cost per inmate per day is expected to reach $338 during the current fiscal year. The City recognizes that the State has recently taken these individuals into their custody in a timelier manner, thereby reducing the City's costs. However, given that these individuals are the responsibility of the State, the State should provide reimbursement to the City. The City is requesting full reimbursement for the actual cost of incarceration for state-ready inmates and parole violators, saving the City $103 million annually. The Executive Budget for SFY 2007-2008 contains language that would allow hearings via video conference so that alleged parole violators would be afforded their right to a hearing in the counties where they were arrested, while not requiring the counties to bear the costs of incarceration. The City welcomes efforts of the State to reduce the amount of time that parole violators and state-ready inmates are held by the City so that this cost burden might be reduced.

Provide Funding for Foster Care Children Awaiting Placement in State Institutions

Foster care children with serious mental illness or emotional disturbances are referred to the State Office of Mental Health (OMH) for residential treatment facility (RTF) placement and children with mental retardation or developmental disabilities are referred to the State Office of Mental Retardation and Developmental Disabilities (OMRDD) for residential placement and/or specialized services. These State placements are funded 100 percent by the State. Currently there are substantial waiting periods to move foster care children to these facilities, where more appropriate specialized services can be provided. During this time the State neither provides services nor reimburses localities the enhanced rate when services are provided for children waiting to be transferred. The State must take immediate action to expand State capacity so these children can be transferred as soon as possible to the appropriate care setting. Since children awaiting OMH or OMRDD placement are legally the responsibility of the State, the State should reimburse counties in full for the cost of providing services to these children prior to their placement. Further, it is unfair to require counties to spend already scarce foster care block grant funds in order to support these activities. It is estimated that the City would save $12 million annually if the State were to provide the City full reimbursement.

Probation Aid Reimbursement Rate Increase from 20% to Statutory Level of 50%
New York State law requires the State to reimburse local governments for probation spending at a rate of 50 percent of approved expenditures. The State reimburses the City significantly less than the statutory cap. The State's probation aid has been gradually decreasing, and reimbursement rates have reached only 20 percent of approved expenditures over the last three years. This is an enormous burden which is compounded by the fact that the City's probation services save the State money because many of the individuals on probation would be in a State prison if they were not sentenced to this alternative to incarceration. The State should increase probation reimbursement up to the statutory level, which would result in an additional $23 million to the City in FY 2008.

Allow Reimbursement for Juvenile Alternatives to Placement, Alternatives to Detention, and Aftercare Programs
The City has developed several programs that function as alternatives to placement and to detention and therefore create cost savings for the State as fewer juveniles are detained in State facilities. The Enhanced Supervision Program (ESP) and Esperanza programs are operated by the City's Department of Probation and the Alternative to Detention Continuum is operated by the City's Office of the Criminal Justice Coordinator (CJC). Additionally, the City funds aftercare programs to assist youth returning to their communities after detention. Currently, the State reimburses the City for 50 percent of the pre-adjudication costs associated with detention of juveniles in Department of Juvenile Justice custody, and the City reimburses the State for 50 percent of the post-adjudication costs associated with placement of juveniles in state facilities. The City recommends making ATP, ATD, and aftercare programs eligible for 50 percent reimbursement, making the City and State equal partners in these programs that would save the State detention and placement costs. This funding partnership will provide the City with an additional $6 million per year.

Institute Tort Reform Initiatives
The City proposes that the State enact far-reaching tort reform legislation. Tort liability costs have increased dramatically since the early 1990s. In FY 2006, the City paid out more than $500 million in tort claims alone. The City's proposal includes several initiatives that will produce savings for both the City and the State, such as linking the interest paid by municipal corporations on judgments and claims to the 52-week Treasury bill rate, establishing a medical expense threshold and a cap on awards for pain and suffering, and allowing tort actions to be offset by a collateral source. It is anticipated that the City will realize at least $80 million annually in savings as a result of enacting these tort reform initiatives.

Reform CUNY Reimbursement Process
State law requires that CUNY senior colleges be funded through a combination of State Aid and tuition. Although financial support of senior colleges was to be the sole responsibility of the State, several decades ago New York City was mandated to advance funds to CUNY for its senior college operating expenses. The City provides over $1.4 billion annually to CUNY for this purpose. The State is required by law to reimburse the City after CUNY claims for State Aid. However, in FY 2006, the City was forced to pay over $48 million in accumulated outstanding balances as a result of this bifurcated claiming process. The City advocates for reimbursement of this $48 million in FY 2008.

Increase the City's Cigarette Tax from $1.50 to $2.00 Per Pack
Cigarette smoking is one of the leading causes of lung-related illness and deaths in this country. The effects of second hand smoke are also well known to increase the risk of tobacco-related diseases for individuals, especially children, who spend time in the presence of smokers. Findings from the Community Health Survey and data from City and State cigarette and sales tax information show a significant decline in smoking prevalence when New York City increased the cigarette tax in 2002. The City proposes to increase the City's Cigarette tax from $1.50 to $2.00, bringing the total City and State tax on a pack of cigarettes to $3.50. The increase will continue to serve as a disincentive for cigarette consumption and will therefore lead to a decrease in the long term health care costs associated with smoking-related illness and disease. Further a portion of the tax increase will provide the City with additional revenue to spend on new public health efforts to prevent and stop smoking. The $0.50 increase is estimated to bring the City $20.6 million in FY 2008.

Reduce State-Imposed Mandates on OTB
The City seeks numerous changes to the Racing and Wagering Law in order to reduce State-imposed financial mandates on Off-Track Betting Corporations and re-stabilize NYCOTB. NYCOTB has had operating losses for the past three fiscal years due to mandated payments required under State Law. NYCOTB has successfully implemented many measures to cut operating costs, but real reform and assistance is needed at the State level to keep NYCOTB operating and to restore profitability. The City seeks higher retention rates, a reduction in State-assessed regulatory fees, and elimination of the hold-harmless provision for facilities outside of New York City.

Reduce Local Debt Service Cost
The City of New York proposes that the State grant the City the authority to maximize the benefits of the municipal bond market in order to reduce debt service costs. The City also recommends changes that will strengthen the City's credit rating. The City's reform package includes the following proposals that will save the City over $5 million annually if enacted:

Increase Transitional Finance Authority Bonding Capacity
When the Transitional Finance Authority (TFA) was created in 1997 it was intended to provide New York City with an additional financing mechanism for the City's capital program. The cost of issuing debt through TFA is significantly less than the cost of issuing General Obligation debt. The maintenance, expansion and rebuilding of the City's infrastructure in an efficient and cost effective manner are matters of serious concern to the people of the City of New York. For this reason, the City recommends increasing TFA bonding capacity to lower the cost of the City's capital program.

Tie Cost Recovery Fee Formula to Debt Outstanding
Public Authorities Law §2975 allows for the recovery of indirect state governmental costs from public authorities and public benefit corporations. According to this statute, every public authority or public benefit corporation created by State law with at least three members appointed by the Governor is required to reimburse the State for indirect governmental costs attributable to the provision of services to the public authority. In 2003 the aggregate amount that the State can assess public authorities under this section was increased from $20 million to $40 million. Furthermore, statutory language was amended that no longer tied assessments to the proportion of outstanding debt of each public benefit corporation to the total debt for all public benefit corporations. Instead, the amount assessed each public benefit corporation is solely determined at the discretion of the State Director of the Budget. As a result of these changes, the State recovery costs assessed on both the Battery Park City Authority (BPCA) and the Municipal Assistance Corporation (MAC) have

grown significantly. The state recovery costs assessed for BPCA was $225,000 in 2003 and is projected to grow to $3.8 million in 2007, while the MAC cost recovery fees have shown a similar increase, growing from $600,000 in 2003 to $1.6 million in 2006. The City is requesting that the State assess these fees in an equitable manner by amending the statute to provide for the pre-2003 proportional methodology for calculating the fees. This would result in a significant reduction in the amount assessed the City. Furthermore, the City is requesting a full and detailed accounting of state oversight costs that correspond to the fees assessed.

Amend the Local Finance Laws to Strengthen the City's Credit Rating
This proposal would strengthen the credit of New York City General Obligation debt by making certain provisions of the Financial Emergency Act permanent and by creating a statutory lien on the debt service fund in favor of the City's bond holders. This proposal would also authorize a pledge and agreement of the State to holders of City debt relating to preservation of the general debt service fund and the statutory lien.

Enact Pension Reform
Pension reform is necessary in order for New York City to gain control over escalating costs. Some pension reforms that should be examined include: adjusting post-retirement supplemental benefits, mandating employee contributions throughout active service, establishing age requirements for retirement systems where none currently exist, raising the retirement age and number of years of service necessary to retire where these requirements already exist and standardizing the final average salary calculations among employees. These items, in addition to other proposals, should be considered as part of any solution to limit the growth in mandated pension spending.