CITIZENS BUDGET COMMISSION

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CBC RECOMMENDS IMPROVEMENTS TO NEW YORK CITY'S BUDGET

Urges Steps To Promote City's Economic Competitiveness And Long-term Viability

New York, NY – March 27, 2007 – The Citizens Budget Commission (CBC) today sent a letter to Mayor Michael Bloomberg analyzing New York City's Fiscal Year 2008 Preliminary Budget and making recommendations for his Executive Budget, to be presented next month. The letter (available in full at www.cbcny.org) makes two recommendations:

1) Revise local tax policy to promote the City's economic competitiveness. The January Financial Plan proposed a tax relief package totaling $1.3 billion in fiscal year 2008. It includes a new, across-the-board 5 percent property tax rate cut worth $750 million and an extension of the $400 property tax rebate for homeowners established in fiscal year 2005. The plan also includes about $200 million in new tax cuts for some businesses: increasing tax credits for unincorporated businesses, creating new credits for S-Corporations, phasing-out one alternative tax base calculation, and simplifying tax filing for small firms. Finally, the City sales tax would be eliminated for high-priced clothing and footwear items, a tax loss of about $100 million.

These proposals are important and raise issues of how best to cut taxes at a time when reductions are fiscally responsible and economically desirable. Based on the criterion of promoting the City's attractiveness for job growth, the CBC reaches three conclusions:

- ***The proposed changes in the local business income taxes are highly desirable.*** These measures will better align New York City's business taxes with those of competing locations. New York City's unincorporated business owners bear highly unusual double taxation on net income through the City's Personal Income Tax and its Unincorporated Business Tax. Similarly, the City levies the General Corporation Tax on S-Corporations, while competing cities do not.

- ***The proposed elimination of the local sales tax on high-priced clothing will not be very effective.*** Even if the City's tax were eliminated, these items will remain subject to a combined State and MTA regional sales tax of 4.375 percent. Little retail activity is likely to be returned to New York City as a result of this change.

- ***The proposed property tax reductions can be restructured to enhance their impact on economic competitiveness.*** Since fiscal year 2001, property tax revenues have increased by $5.3 billion. Small residential properties (Class 1) are responsible for only 16 percent of this growth, while large residential buildings (Class 2) and commercial property (Class 4) each accounted for almost 40 percent. During the same period, Class 1 property accounted for 67

percent of the growth in market value, while Class 2 and Class 4 property comprised 18 percent and 13 percent, respectively. The recent rebate for homeowners has helped those bearing the smallest burden, and an across-the-board rate cut will not address the accumulated inequities or provide adequate relief to Class 2 and Class 4 owners and users. By lowering rates further for Class 2 and 4 property owners and by designing a circuit breaker for homeowners whose property taxes are an unusually high percentage of their income, the $1 billion in proposed property tax cuts will promote greater economic growth and relieve excessive burdens on the neediest homeowners.

2) Use surplus revenues to promote the City's long-term viability. A portion of the $4 billion surplus, $500 million, is rightly proposed to be deposited into the Retiree Health Benefits Trust Fund for future retiree health care liabilities. The remaining surplus would not be devoted to such long-term purposes; instead, these funds would be "rolled over" into future years to support growth in ongoing operating expenses. It would be far wiser to take more aggressive actions to curb future spending growth and use the current year's surplus for measures that yield enduring gains:

- ***Repay the debt issued for operational purposes during the fiscal crisis following the terrorist attacks of September 11, 2001.*** Shortly after those attacks, the City borrowed $2 billion to support operations through the Transitional Finance Authority (TFA). Current surplus revenues could be used to retire the $1.8 billion in TFA operating debt or a commensurate amount of higher cost debt.

- ***Deposit additional surplus funds in the health insurance trust fund as you seek to develop a long run funding plan for post-employment benefit liabilities***. CBC has strongly supported the $2 billion in deposits to the Retiree Health Insurance Benefit Trust, and the additional $500 million planned for fiscal year 2008. These deposits represent the kinds of investments the City should be making with surplus funds and constitute the beginnings of a plan to address these long-run costs. Additional deposits would be a better use of surplus resources than funding next year's operating expenses. But progress in funding such long-term liabilities should not depend entirely on unexpected surpluses and mayoral initiative. More can be done now and a firm precedent should be set to guide future administrations. In addition, action should be taken to reduce these liabilities. The CBC has, for instance, long supported requiring retirees to bear a part of the cost of their post-employment health insurance.

"With the City's economy booming, now is the time to plan for the future," said CBC President Diana Fortuna. "The Mayor has taken some important steps in that direction, but there is more that can and should be done in this upcoming budget."

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments.

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