



NEW YORK CITY COUNCIL

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FINANCE DIVISION

THE NEW YORK CITY BUDGET PROCESS

Introduction and Overview

The budget process for the City of New York is a year round process that is centered around a fiscal year, not a calendar year. New York City's fiscal year begins on July 1st and ends on June 30th. The New York City Charter ("the Charter") vests the responsibility for preparing an annual expense and capital budget with the mayor. The mayor must then submit the expense and capital budget to the City Council for its review and adoption.

Each budget must consist of several parts: the expense budget, which sets forth proposed appropriations for the operating expenditures for municipal services including debt service; the capital budget and program, which sets forth proposed appropriations for capital projects for the ensuing fiscal year and the three succeeding fiscal years; and the revenue budget, which shall set forth the estimated revenues and receipts of the city. In addition, the expense budget is further broken down into a contract budget, which can be viewed as a detailed portion of each agencies' other than personal services expenditures for contractual services that are personal service in nature.

Since the fiscal crisis which occurred during the 1970's, the City is required to maintain a budget that is balanced in accordance with generally accepted accounting principles pursuant to State law. In addition, pursuant to the New York State Financial Emergency Act for the City of New York, the City is required to prepare a four-year financial plan, which is reviewed and revised on a quarterly basis and which includes the City's capital, revenue and expense budget projections and outlines proposed gap-closing programs for fiscal years with projected gaps.

The Players

Mayor's Office of Management and Budget

The Mayor's Office of Management and Budget ("OMB") is the mayor's primary advisory group on fiscal issues and performs all budget related duties as directed by the mayor, including analyzing all the city agencies to obtain their budgetary needs. OMB is responsible for preparing and monitoring the City's budget and four-year financial plans for the mayor. The head of each agency must submit departmental estimates to OMB. These estimates shall include detailed estimates of the expense budget needs of the agency for the coming fiscal year, as well as the next three fiscal years, and estimates of any anticipated revenue to be collected by the agency.

City Council

The City Council is responsible for adopting the expense and capital budget. The Charter states that the Council may increase, decrease, add or omit specific units of appropriation ("U/As") in the budget submitted by the Mayor and may add, omit or change any terms or conditions related to such appropriations. However, the mayor has the power, under the Charter, to veto any increase or addition to the budget or any change in terms or conditions approved by the Council, such veto is however, subject

to an override by a two-thirds vote of the Council. In addition, the City Council is also responsible for approving modifications to the expense budget throughout the fiscal year. The Charter does, however vest the mayor with the power to implement expenditure reductions subsequent to the adoption of the expense budget in order to maintain a balanced budget. In addition, the mayor has the power to determine the non-property tax revenue forecast on which the City Council must rely in setting the property tax rates for adopting a balanced budget. The City Council must annually adopt a resolution fixing the amount of the real estate tax. The City Council does not, however, have the power to enact local laws imposing other taxes, unless such taxes have been authorized by State legislation.

Office of the Comptroller

The City Comptroller is the City's chief fiscal officer and the City Charter vests responsibility in the Comptroller for reviewing and commenting on the City's budget and four-year financial plan. It is up to that Office to produce a timely analysis of both the preliminary and the executive budgets, and of the assumptions and methodologies used by the mayor in making the revenue estimates that are contained in each budget. The Comptroller is required to report annually to the Council on the state of the City's economy and finances and to periodically make reports to the mayor and Council regarding the financial condition of the City and to make recommendations and criticisms on the operations, fiscal policies and financial transactions of the City.

Community Boards

Community Boards are required under the Charter to hold public hearings, at which time residents of the community may express their opinions as to the service and capital needs of the district. Upon completion of these hearings, each board must submit to OMB a statement of its expense and capital budget priorities.

Borough Presidents and Borough Boards

The Borough Presidents may submit to the mayor and the City Council proposed modifications to the preliminary budget after holding public hearings in their respective boroughs. Such proposed modifications cannot result in an increase in the amount of funding appropriated, if an increase is proposed it must be accompanied by an offsetting reduction in other appropriations within the borough. If the mayor has not included such proposed modifications in the executive budget, the borough presidents may reiterate such recommendations and submit them to the Council for inclusion in the adopted budget. The Council then has discretion as to whether or not to include such recommendations in the adopted budget. In addition, five percent of any discretionary increases proposed by the mayor in the preliminary expense budget shall be allocated among the boroughs by a formula based on factors related to population and need, this is referred to as the "expense budget borough allocation." Each borough president is required to submit to the mayor a list of items to be funded pursuant to the expense budget borough allocation which the mayor must include, without modification, in the executive budget. Each borough board holds public hearings to obtain the views and recommendations of the community boards within the borough along with those of the residents of the boroughs and then submits its proposals to the mayor, the City Council and the director of the Office of Management and Budget.

City Planning Commission

In every odd-numbered year the City Planning Commission must hold hearings and submit a draft ten-year capital strategy that includes a strategy for development of the city's capital facilities and the financing needed for such program.

The Process

Preliminary Budget:

According to the Charter, the preliminary budget for the ensuing fiscal year shall be submitted to the City Council by the mayor no later than January 16th. The Council then has until March 25th to hold



public hearings on the program objectives, and fiscal implications of, the preliminary budget and any statements of budget priorities of the community and borough boards, the draft ten-year capital strategy and any borough president recommendations. These hearings are usually held during a two week period in which agency officials, as well as representatives of the borough and community boards may come and testify regarding their needs for the coming fiscal year. In addition, any member of the public who wishes to testify may do so as well.

The Charter requires the Council to issue its findings and recommendations related to the preliminary budget by March 25th. The Council usually issues a comprehensive response to the proposed preliminary budget which includes various policy recommendations and expenses and revenue proposals. In addition, a summary of all the budget hearings held by each of the Council's committees is prepared outlining the issues raised and recommendations and requests made by each committee.

Executive Budget:

The Charter requires that by April 26th of each year the mayor must submit to the Council a proposed executive budget, along with supporting schedules that outline all the proposals in the executive budget in detail. A budget message is also submitted by the mayor that includes an explanation of the major programs, projects and objectives of the budget, the general fiscal and economic conditions of the city, the tax and fiscal base of the city along with explanations of the various components of the executive budget. It is then up to the Council to conduct public hearings in the same manner in which it does for the preliminary budget. After these hearings have taken place, negotiations begin between the Mayor's Office of Management and Budget and the City Council's Finance Division to come up with a negotiated balanced budget. The Council may increase, decrease, add or omit any unit appropriation for personal or other than personal services, omit or change any terms or conditions related to any appropriation. The Council then votes on the budget and any proposed recommendations of the Borough Presidents by June 5th. The mayor, no later than five days after the Council votes on the budget, may veto any increases or additions the Council has made to the budget and any terms or conditions proposed by the Council. However, if the Council decides to make decreases to the budget the mayor cannot take any action upon such decreases. The Council may override a mayoral veto by a two-thirds vote of all the Council members.

The Components of the City's Budget

Expense Budget

The expense budget is a fiscal plan to finance the operation of the city. It sets out the amounts of money the city expects to spend each year for ongoing operational expenses. These amounts are appropriated to individual city agencies by the mayor and the City Council in the budget adoption process. In addition to operating expenses, the budget also includes amounts which must be allocated for the cost of interest and repayment of the City's debt.

The expense budget is separated into two categories: Personal Services ("PS") which includes salaries and fringe benefits costs for agency employees (*i.e.*, people) and Other Than Personal Services ("OTPS") which includes goods, supplies, equipment, contractual services and telephone and fuel payments (*i.e.*, things). The expense budget serves the dual functions of budget control and position control. Budget control involves assuring that an agency manager does not overspend the dollar amounts specified by the mayor and the City Council for particular purposes. Position control involves assuring that only the authorized number of positions are filled in an agency and that agency employees are paid at specified rates. The mayor submits to the City Council an expense budget and supporting schedules which provide a greater level of detail of the items proposed to be funded through the expense budget.

The operating budget of an agency is the total amount of funding that the agency has been appropriated by the mayor and City Council to perform its mission. Each agency's operating budget is structured into several levels, which provide varying levels of detail. The unit of appropriation ("U/A") is the most general level of detail within an agency operating budget. It is at this level that the City Council approves and adopts the city's Expense Budget. The Charter requires that U/As represent the amount

requested for PS or OTPS for a particular program, purpose, activity or institution.

The next level of budget detail is the Responsibility Center which is an organizational unit within an agency with an identifiable manager who is responsible for activities of the unit. The next level of detail is the Budget Code which is a four (4) digit code assigned to a schedule within an agency which identifies the allocation made in such schedule in terms of its accounting fund class, unit of appropriation, responsibility center, control category, local service district and program. The lowest level of funding detailed in the budget is the object code level which breaks down spending into a three (3) digit code which classifies expenditures pursuant to the Chart of Accounts issued by the Comptroller. Finally, the expense budget includes a funding summary which breaks out the amount of funds allocated to each agency by the city, state and federal governments.

Capital Budget

New York City's capital budget is a plan for investment in the City's infrastructure. It provides funding for purchasing property, the construction of facilities, improvements of existing facilities, and the purchase and installation of major equipment. The capital budget is presented as part of a four year capital program. The first year of the capital program represents the level of capital spending planned for the upcoming fiscal year, while the remaining three years of the capital program are a projection of the spending necessary to complete each project in the capital budget, and to fund new projects anticipated in the following three years. The City Charter also calls for the preparation of ten-year capital strategy. This strategy is prepared by the Department of City Planning and the Office of Management and Budget and describes all aspects of the development of the city's capital facilities for the next ten fiscal years.

Projects included in the capital budget are paid for from two major sources: City funding, which comes from the sale of city "general obligation" bonds. Purchasers of bonds lend the city money for set periods of time. The proceeds of the bond sales are dedicated to the current costs associated with ongoing capital projects. The debt owed by the city on the interest and principal due on outstanding bonds is paid from money appropriated each year in the expense budget, this appropriation is referred to as the "debt service". The other source of funding is called non-City funding which comes from federal, State and private sources which are typically dedicated to identified uses such as transportation improvements, environmental protection and housing and development. The City's capital commitment plan is a measure of what is planned to be expended on capital projects during the course of a fiscal year. Agency targets in the commitment plan are representative of the actual dollar amounts that are expected to be spent in the current fiscal year based on projections of the dollar value of contracts that will be entered into. Capital budget appropriations made in past fiscal years are routinely rolled over to the next fiscal year if they are not committed during the course of the present fiscal year.

Revenue Budget

The City derives revenues from a variety of sources including local taxes, user charges and miscellaneous revenues. Taxes are the largest source of revenue and usually account for approximately 60 percent of the total revenues. State and federal aid usually account for close to a third, with miscellaneous receipts and transfers from the capital budget representing the remaining portion. There are several different taxes imposed that generate revenue for the city and some of these taxes will be described below.

Real Property or Real Estate Tax (RPT)

The real property tax is imposed on each of the four different classes of property at varying rates. Class 1 property consists primarily of one, two and three family residential property and small condominiums; Class 2 property consists of all other residential property including cooperatives and condominiums; Class 3 consists of utility real property; and Class 4 consists of all other real property, such as office buildings, factories, stores, lofts and vacant land.

All properties in the City are re-assessed each year between June and January. In mid-January, a tentative assessment roll is produced and taxpayers are notified of their new assessment level. Taxpayers may protest this tentative assessment level by applying to the tax Commission for a hearing. The

assessment may be protested because the underlying property is misclassified, or because it is unlawful, unequal, or excessive. Adjustments resulting from this process or from Department of Finance changes by notice are integrated into the final assessment roll, which is usually released in late May.

Under State law properties are not assessed at full market value, but at some proportion of market value. In addition, the law establishes restrictions on annual assessment increases. The City adopts property tax rates annually for each of the four classes of property. Under the provisions of the Real Property Tax Law, the total levy is apportioned to each of the four classes by the "class shares" (the portion of the total levy borne by each class). Once the class levies are set, the tax rate is then fixed annually by the City Council by dividing the levy for each class by the billable assessed value for the class.

Personal Income Tax (PIT)

The personal income tax is imposed on the taxable income of resident individuals, estates and trusts. The starting point for determining taxable income is Federal adjusted gross income ("AGI"). This amount is adjusted for statutory modifications to yield New York AGI. Taxable income is derived by subtracting the New York deduction and New York exemptions from New York AGI. In addition, an earnings tax is imposed on nonresidents on their New York City source income.

Commercial Rent Tax

The commercial rent tax is imposed on the rental of space in New York City for commercial or professional purposes. The tax is levied only on tenants who rent space in Manhattan south of 96th Street.

Mortgage Recording Tax

The mortgage recording tax is imposed on the recording of real estate mortgages in New York City. The current tax rate ranges from 1.0 percent for mortgages securing a debt of \$500,000 to 1.75 percent for commercial mortgages securing a debt of \$500,000 or more. In addition, the State imposes a 1.0 percent tax, half of which is dedicated to the Metropolitan Transportation Authority (MTA) and the State of New York Mortgage Agency (SONYMA).

Real Property Transfer Tax

The real property transfer tax is imposed on each deed at the time of transfer from the seller to the buyer. The tax is payable by the grantor, normally the seller. However, if the grantor is exempt from the tax, it is payable by the grantee. The current rate is 1.0 percent of the sale price for residential properties of \$500,000 or less. For residential properties of more than \$500,000 and for commercial sales of \$500,000 or less, the current rate is 1.425 percent. For large commercial transactions, the current rate is 2.625 percent of the sales price or consideration.

General Corporation Tax (GCT)

The general corporation tax is imposed on all corporations, domestic and foreign, for the privilege of doing business, employing capital, owning or leasing property or maintaining an office in New York City. Banking companies are subject to the banking corporation tax and therefore do not pay the general corporation tax. In addition, insurance firms, nonprofit corporations and real estate mortgage investment conduits are exempt from the GCT.

Banking Tax

The banking corporation tax is imposed on banking corporations for the privilege of doing business in New York City, including commercial banks, savings banks, savings and loan associations, bank holding companies, and foreign banks. Investment banks, securities brokers and other non-bank financial institutions subject to the general corporation tax are exempt.

Unincorporated Business Tax (UBT)

The unincorporated business tax is levied on the business income of all proprietorships and partnerships doing business in New York City. This tax is paid in addition to the City's personal income and nonresident income taxes. Unincorporated businesses include trades, professions or occupations conducted by individuals or unincorporated entities, such as partnerships, estates, trusts and limited liability companies (LLCs). The unincorporated business tax has been four percent since its imposition in 1966.

Sales and Use Tax

A sales and use tax is applied to the sale and use of tangible personal property and services; sales of gas, electricity, steam, refrigeration, and intrastate telephone and telegraph services; food and beverages sold by restaurants and caterers; hotel and motel occupancies; admission charges to certain places of amusement; and club dues. Exemptions include food (except certain drinks, candies and alcoholic beverages), rent, prescription and non-prescription drugs, newspapers and periodicals, and public transportation. Other exemptions include fuel sold to airlines, energy used for research and development, and interstate and international telecommunications services. The City's sale tax rate is four percent. With the State sales tax rate of four percent, and a 0.25 sales tax in the Metropolitan Commuter Transportation District, the aggregate sales tax rate in New York City is currently 8.25 percent.

Utility Tax

A utility tax is imposed on all utilities and vendors of utility services, including operators of omnibuses. The tax is currently levied at a rate of 2.35 percent on the gross income of taxpayers.

Miscellaneous Taxes

There is another area of tax revenues that is referred to as all other taxes. These taxes include a hotel room occupancy tax, auto related taxes for passenger motor vehicles, commercial motor vehicles, and a taxicab medallion transfer tax.

Excise Taxes

The City imposes excise taxes on licensed distributors and non-commercial importers on the sale of beer and liquor within New York City, on cigarettes sold in the City, on coin operated amusement devices operated in the City, on the price of all paid admissions to horse races held partly or wholly within the City. In addition, a surcharge is imposed on most wagers placed at New York City Off-Track Betting offices, and on most wagers placed statewide on races held within New York City.

Miscellaneous Revenues

Miscellaneous revenues are composed of the interest income that the city earns by investing funds from the cash balance, sales tax and debt service accounts. The city collects charges imposed on the public and other agencies for services such as copying of reports, processing applications and performing inspections. The New York City Water Board collects payments for services related to the delivery of water and the collection, treatment and disposal of waste water. The city collects rent on city owned property including condemnation sites and in-rem buildings. The city also receives revenues through the issuance of fines for violations of the administrative and health code, and vehicle and traffic and other laws.

Federal and State Categorical Grants

Both the State and federal government impose many mandates upon the City of New York which require substantial expenditures. The City is then wholly or partially reimbursed for such expenditures through State and federal categorical grants. The City receives State categorical grants in connection with City welfare, education, higher education; health and mental health expenditures. The City receives federal categorical grants in connection with the federal Community Development and the Job Training and Partnership Act. The Federal government also provides the City with public assistance, social service,

and education grants as well as reimbursement for all or a portion of certain costs incurred by the City in maintaining programs in the areas of housing, criminal justice and health.

**SUMMARY OF DATES FOR CHARTER-PRESCRIBED
ACTIONS RELATED TO THE PRELIMINARY BUDGET**

Action & Charter Provision	Charter Date
1) a) Mayor's submission of preliminary management report (§12)	not later than January 30
b) Council's public hearings and report on preliminary management report (§12)	prior to April 8
2) Draft 10-year capital plan (§234)	not later than January 16
3) Mayor's preliminary certificate on maximum capital debt and obligations (§235)	not later than January 16
4) Mayor's submission of preliminary budget (§236)	not later than January 16
5) IBO expenditure and revenue report (§237)	
6) Community Boards submission of assessment of preliminary budget (§238)	
7) Finance Commissioner's submission of estimate of assessed valuation and of taxes due and uncollected (§239)	
8) Mayor's submission of tax benefit report (§240)	
9) Community boards' statement on borough priorities (§241)	not later than February 25
10) Council's submission of operating budget (§243)	not later than March 10
11) Borough Presidents' submission of recommended modifications to preliminary budget (§245)	not later than March 10
12) IBO preliminary budget report (§246)	not later than March 15
13) Council preliminary budget hearings and submission of recommendations (§247)	not later than March 25

**SUMMARY OF DATES FOR CHARTER-PRESCRIBED
ACTIONS RELATED TO THE EXECUTIVE BUDGET**

Action & Charter Provision	Charter Date
1) Submission of ten-year capital strategy (§248)	April 26th (in odd-numbered years)
2) Submission of executive budget and budget message (§249)	April 26th
3) Borough President recommendations (§251)	May 6th
4) Independent Budget Office report analyzing executive budget (§252)	May 15th
5) Council's executive budget hearings (§253)	Between May 6th and 25th
6) If expense budget not adopted by certain date, current modified budget and existing tax rates extended (§§254(d), 1516(b))	June 5th
7) If capital budget not adopted by certain date, unutilized portion of all prior capital appropriations deemed re-appropriated modified budget and existing tax rates extended (§254(e))	June 5th
8) Mayoral veto and Council override (§255)	mayoral veto: fifth day after Council acts upon budget Council override: ten days after mayoral veto
9) Mayor's revenue estimate (§1515 (a))	June 5th
10) Alternative revenue estimates (§1515(d))	May 15th
11) Fixing of tax rates (§1516)	June 5th
12) Fixing of tax rates (§1516-a)	June 5th



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