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Hearing on the Mayor's Fiscal Year 2012 Preliminary Budget

Financial Plan Overview, Economy, Revenue, and Debt Service

March 21, 2011

Committee on Finance

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Financial Plan Overview

Economic recovery is now in its second year. Since January 2010, the City has gained 50,800 private jobs, the rate of unemployment has fallen, and by all evidence, things are going to continue to improve. However, the hardest times for state and local governments are not typically at the lowest point of the economy, but occur later, once things begin to improve. By this point, the easy budget adjustments have been made; budgetary savings that neither cost jobs nor reduce services have already been realized. The easy revenue enhancements have also been used, and various forms of budgetary reserves have been run down. Now, choices get harder.

During the City's boom years, the Council, in partnership with the Mayor, prepared for a potential downturn. Between Fiscal 2002 and Fiscal 2008, more than $8 billion in surplus was accumulated and used to prepay future expenses. For the last 3 years, the Council has worked to adjust revenue and spending to the realities of a recession and a slow recovery. This proactive approach has left the City in a better position than most states and local governments. Indeed, the City is in a better position than New York State, which must make some hard choices. The consequences of these choices will be felt in the City's Fiscal 2011 and Fiscal 2012 budgets.

The March 21st hearing starts the process of reviewing the ("February 2011 Plan") Fiscal 2012 Preliminary budget, released on February 17th, 2011. It will begin with the testimony of Mark Page, Director of the Office of Management and Budget. This document will provide an overview of the February 2011 Plan, with emphasis on the tax revenue, state aid, contract and debt service parts of the budget. It will also examine the City's economy and provide the City Council Finance Division's forecast of tax revenues for Fiscal 2011 through 2015 and a brief look at the capital plan. The tax section includes an analysis of property tax assessments in Fiscal 2012 tentative roll, including the surprising changes in the Department of Finance's estimate of the market values of many coops. Analysis of agency budgets will be provided in reports for subsequent hearings.

Overview – November and February Plans

- **The February 2011 Plan is essentially a continuation of the November Plan and assumes, with minor modifications, that plan's PEGS.**
- **The most significant gap opener is $1.4 billion in aid reductions from New York State. The most significant gap closers are an approximately $2 billion increase in the tax revenue forecast and $600 million state agenda.**
- **There is a 'hidden gap' of $552 million of State and City cuts to senior centers, libraries, child care facilities that do not appear in the OMB budget baseline.**

The February 2011 Plan should be seen as a continuation of the November 2010 Plan. With the notable exception of restorations agreed upon by the Mayor and the Council, the November Plan's Fiscal 2011 PEGs are being implemented; the November Plan's changes for Fiscal 2012, including the $1 billion PEG program, are still a part of the Administration's proposal.

Summary: Changes Since Adoption
In millions. Figures in parentheses increase the gap

	FY11	FY12	
Gap as of FY 11 Adoption	**$ -**	**($3,257)**	
GAP OPENERS			
New Needs			
ARRA Education Backfill*	$ -	(853)	
All Other (overtime, snow, etc.)	(598)	(463)	
Total, New Needs	**($598)**	**($1,316)**	
State Budget			
AIM	-	(302)	
Health & Welfare	(48)	(76)	
Education Aid	-	(1,008)	
Total, State Budget	**($48)**	**($1,386)**	
Revised Gap	**($646)**	**($5,959)**	*Combined: ($6,605)*
GAP CLOSERS			
Revenue Forecast Changes			
Taxes	1,070	1,082	
Non-Tax Revenues	(55)	(73)	
Total, Revenue Changes	**$1,015**	**$1,009**	
Other Savings & Adjustments			
FMAP Timing	473	(194)	
Pension Reserves	600	(400)	
Debt Service	292	680	
Miscellaneous	132	111	
Reserves**	700	-	
Total, Other	**$2,197**	**$197**	
November PEG Program	**$585**	**$1,002**	
Total Reductions to Gap	**$3,797**	**$2,208**	*Combined: ($6,005)*
Surplus/(Gap)	**$3,151**	**($3,751)**	
Roll FY 11 Surplus	(3,151)	3,151	
Gap as of Preliminary Budget	**$ -**	**($600)**	

**City funds to replace funds from the expiring Federal stimulus package.*

***General reserve and prior year payables.*

The November PEG program requires a head count reduction of a slightly over 8,000 in Fiscal 2011 and 5,220 layoffs in Fiscal 2012. The bulk of these layoffs would be in the Department of Education.

Fiscal Year 2012 February Plan: Headcount Reductions

Details from PEGs

	Attrition	Layoffs	Total
Uniformed Services	(861)	0	(861)
Health & Welfare	(285)	(228)	(513)
Education	(1,120)	(4,278)	(5,398)
All Other	(583)	(714)	(1,297)
Total	**(2,849)**	**(5,220)**	**(8,069)**

***Source**: OMB Fiscal 2012 February Plan*

To close the Fiscal 2012 gap of $600 million, the Administration has proposed a State program consisting of a partial restoration of state revenue sharing (AIM), a partial restoration of school aid and a change in State law to reduce Variable Supplement Fund payments to City police and fire retirees.

Preliminary Budget State Agenda

Dollars In Millions.

Partial Restoration of AIM	$200
Partial Restoration of School Aid	200
Reduce Variable Supplement Fund Payments	200
Total	**$600**

However, the usual gap presentation does not catch all of the changes caused by the State budget. There is approximately $234 million in State funding reductions for social services, health, and criminal justice that are not being replaced by City funds. This spending only appears in the City financial plans once the State appropriates the categorical grants that fund it. If they don't, no gap appears in the City budget, just a reduction of services for City residents.

Hidden Cuts – Impact of State Budget Cuts in City FY 2012

Dollars in Millions

Work Advantage – eliminates state/federal share of rental subsidies to formerly homeless households	$154.0
Title XX Funding for Senior Centers – restricts the use of discretionary funds to child welfare programs	25.0
Youth Programs – eliminates funding for SYEP, "block grants" homeless youth, youth development and delinquency programs	17.8
Article VI – eliminates public health funds used by OCME and dental health services	20.8
All Other – creates block grants and caps funding for juvenile justice and social service programs	16.8
Total	**$234.4**

In addition to the State cuts that will not be covered by City funds, the total hidden gap also includes the PEG restorations from Fiscal 2011 that are not in OMB's baseline for Fiscal 2012.

The Hidden Gap – State Cuts and Council Restorations Not Included in the FY 2012 Preliminary Budget *Dollars in Millions*	
State Budget Cuts	**$234.4**
FY11 Adoption PEG Restorations	
Libraries (excl. Mayoral $25.4 million)	$36.1
Cultural Affairs	30.0
Childcare/Daycare	17.9
DFTA	25.0
Fire Companies	55.0
DYCD	22.6
CUNY	21.4
All Other	72.3
Total, FY 11 Adoption Restorations	**$280.3**
FY11 Mid-Year PEG Restorations	**$37.7**
TOTAL	**$552.4**

Surplus Funds Are Running Low

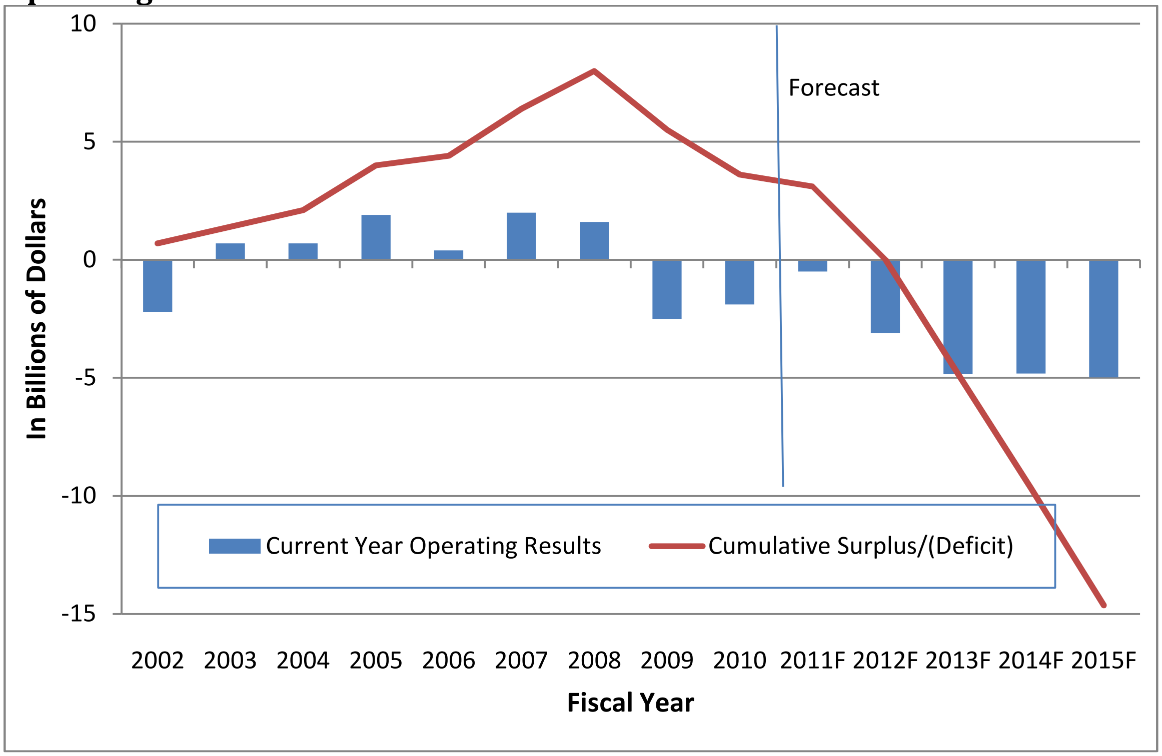
The February 2011 plan continues the use of prior year surpluses including those from the retiree Health Care Trust fund.

Use of Prior-year Surpluses
Dollars in Millions

	FY11	**FY12**
FY10 Surplus Used to Balance FY11	$3,646	
Use of Health Care Trust Fund Balances	395	$672
FY11 Surplus Used to Balance FY12	(3,151)	3,151
Net use of prior-year surpluses	**$890**	**$3,823**

The City has been running operating losses offset by prior year rollovers for three years in a row. The fact that Fiscal 2011's loss is less than the previous year's is encouraging. But this is a process that cannot go on forever. At some point in the near future the City will need to achieve an operating balance.

Operating Results



Starting in Fiscal 2013, spending is no longer supported by a surplus roll or by funds from the retiree health care trust fund. Since combined, they provide over $3.8 billion in resources in Fiscal 2012 this leaves a considerable budget gap. Council Finance believes that stronger revenue growth will make these gaps smaller than in the financial plan.

Financial Plan Summary
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
REVENUE					
City Funds	$44,271	$46,766	$48,060	$49,601	$51,385
All Funds	**$65,907**	**$65,626**	**$66,791**	**$68,339**	**$70,120**
EXPENSE					
Personal Services	$36,392	$37,004	$38,376	$39,001	$39,929
Other than Personal Services	$26,735	$27,080	$27,807	$28,444	$29,111
Debt Service	$5,046	$5,908	$6,672	$6,919	$7,269
General Reserve	$100	$300	$300	$300	$300
Less: Intra-city expenses	($1,871)	($1,515)	($1,512)	($1,512)	($1,512)
Total	**$66,402**	**$68,777**	**$71,643**	**$73,152**	**$75,097**
Net Surplus Roll (Prepayments)	($495)	($3,151)			
Total Adjusted for Prepayments	**$67,778**	**$67,141**	**$73,155**	**$74,664**	**$76,609**
GAP	**$0**	**$0**	**$4,852**	**$4,813**	**$4,977**

Source: *OMB Fiscal 2012 February Plan*

The Finance Division forecast, which is discussed below, is essentially the same as OMB's for Fiscal 2011 and differs by less than 1 percent for Fiscal 2012. Differences in the out years are more significant. Assuming these extra revenues are rolled into Fiscal 2013 and used for gap relief, however, the Council Forecast will reduce the out-year gaps from the $4.8 billion to $4.9 billion range forecast by OMB to between $3 billion and $3.2 billion. But note that this requires the enactment of the $600 million in State actions in the preliminary budget.

Council Forecast: Impact on Gap
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
February Plan GAP	**$0**	**$0**	**($4,852)**	**($4,813)**	**($4,977)**
Council Finance Tax Forecast*	$54	$278	$1,474	$1,622	$1,890
Restated Gap.	**$0**	**$0**	**($3,046)**	**($3,191)**	**($3,087)**

** Difference from OMB February Plan Forecast. Surpluses in FY 11 and FY 12 are assumed to be rolled forward into FY 13*

The State Budget – Closing One Gap, Opening Another

- **Budget decrease of $3.7 billion, three quarters of which is Local Aid cuts, $1.8 billion in aid reductions, and cost shifts to New York City**
- **New proposals limit spending increases. Medicaid and School Aid spending increases limited to factors tied to inflation and local and state aid are changed to block grants.**

Governor Cuomo proposed a $132.9 billion Executive Budget for the State fiscal year beginning April 1st, 2011 – a decrease of $3.7 billion or 2.7 percent from the current year. The year to year decrease is mainly the result of the loss of $5.3 billion in Federal Stimulus Funds which will not be entirely replaced by State funding. Nearly 90 percent of the Executive Budget gap-closing plan consists of actions to reduce spending, and Local Aid cuts comprise three-quarters of total gap-closing actions. The budget does not rely on significant new revenues to close the budget gap.

The Executive Budget addresses the State's long term structural deficits by taking a number of recurring spending reduction actions at the state and local level. New York State developed unsustainable structural deficits over the years, when annual revenues lagged behind economic growth and growth in the cost of services. Healthcare and Education expenditures account for more than half of the State Budget, and the rapid growth in the cost of these services over the last decade has opened up large budget gaps that are difficult to fill without raising additional revenues or significantly cutting spending.

Summary of Gap-Closing Actions in State Executive Budget
Dollars in Millions

	Amount	Percent
Gap Before Actions	**($10,003)**	
Spending Control	$8,858	89%
• Local Aid Cuts	7,484	75%
• State Agency Reductions	1,374	14%
Revenues	340	3%
Non-Recurring Resources	805	8%
Total Gap-Closing Actions	**$10,003**	**100%**

As indicated in the chart above, spending control constitutes 89 percent of the overall reduction in spending. This is achieved through proposals to limit Medicaid and School Aid spending to factors tied to inflation. Other areas of appropriation in local and state aid – which were previously set to increase according to a set formula which often exceeded inflation and did not control for need, performance, or efficiency – were redesigned into competitive or incentive based block grants, replacing direct streams of operating revenues for many local agencies and programs. The Executive Budget also proposes the merger and consolidation of a number of State agencies and their operating units. It also imposes a 10 percent year-to-year General Fund reduction for all State agency operations, and a 5.4 percent overall reduction in State Operating Funds.

Impact on Local Aid – New York City

If enacted, the Executive Budget will result in $1.8 billion in aid reductions and cost shifts to New York City. These reductions are concentrated in education, revenue sharing, and social services. Many of the services impacted are mandated either by the courts, state or federal law. Thus, the loss of the state share through restructuring of funding mechanisms will create a direct and potentially permanent cost shift to the City budget because the City is obligated to provide a certain level of these services. The following is a preliminary list of the mandated services impact on the City Budget:

Mandated Services
Dollars in Millions

	CFY12 Cost Shift
Summer School Special Education	$120
Schools for the Deaf and Blind	50
Residential Schools for Children with Disabilities	53
Various Mandated Social Services	127
Adult Homeless Shelters	32
Adoption Subsidies for Special Needs	45
Total	**$427**

In addition to the direct impact of reducing the state share in the costs of these services, the Executive Budget proposes capping and restricting revenue streams to local agencies by creating block grants, which tend to provide a lower level of support.

The following table provides an overall State impact assessment on the City Budget:

Impact of the Executive Budget on City Fiscal Year 2012 Budget
Dollars in Millions

School Aid/Education	($1,081.4)
Municipal Aid	(302.0)
Human Services	(380.0)
Public Protection	(7.0)
Health* (includes OCME)	(26.2)
All Other Mandate Reforms/Local Impacts	(2.6)
Expense Total	**($1,799.2)**
Revenue Actions	36.0
Total Exec. Budget Actions	**($1,742.4)**

**Excludes Medicaid Impacts*

Mandate Relief Re-Design
As part of his re-design government operations agenda, the Governor assembled a team of key stakeholders into a Mandate Relief Redesign Team, which reviewed unfunded and underfunded mandates imposed by State government on school districts and local governments and came up with a comprehensive set of proposals enumerated in their Preliminary Report. The report contains a long list of suggested regulatory, policy and legislative amendments to agency operations, as well as some overarching system redesign proposals that will stop the proliferation of state mandates and address the cost drivers that make them burdensome. The following is a summary of the major proposals put forward by the Team:

- **Prohibit New Unfunded Mandates** unless the State fully funds the mandate or the local government votes to comply with the mandate.
- **Require Independent Cost Analysis of Mandates** by legislative fiscal committees and local governments
- **Create a New Pension Tier to Control Costs**
- **Restructure the Wicks Law** by eliminating the study requirement and by developing regionally-negotiated Project Labor Agreement templates that together can reduce the costs of public works projects by 15 percent or more.
- **Give Local Governments Greater Flexibility to Administer Existing Mandates** by proposing alternatives to current regulations and requesting

Council Economic and Revenue Forecast

National Economy – Improving, but Still Disappointing

- **Rising consumer spending, borrowing and employment point to an improving economy.**
- **Growth too slow to significantly reduce unemployment rate.**
- **Financial markets rising, but so are interest rates and food and energy prices.**
- **Housing market still dragging economy down.**

The picture of the national economy is slightly brightening. A number of areas that recently were seeing flat or declining numbers are now showing moderate growth. Overall, the recent data shows rising consumer spending, usually an indicator for economic recovery, as well as increases in business investment and exports. The sustained climb in the financial markets has continued, with the Dow Jones Industrial Average and the S&P 500 both hitting new highs in the recent weeks. Overall, forecasts for GDP growth show it remaining stronger than in the past months, though lower than 2010. GDP is expected to grow at 3.2 percent for Fiscal 2011 and 2.9 percent for Fiscal 2012. In a normal economy those would be reasonable rates of growth, but coming out of a deep recession, higher levels of growth will be necessary to regain lost jobs and put the economy back on a healthy track to a self-sustaining recovery.

Both real consumption and real disposable income have risen over the past year and are projected to continue to rise in 2011. In the coming months the larger refunds resulting from the continuation of Federal tax breaks, as well as the continued low level stimulus of reduced payroll tax rates, are likely to provide further support for consumer spending. Consumer credit has also started to rise in the last quarter, ending a long decline that began in mid-2008. Conversely, mortgage credit has continued its decline and is expected to fall further throughout 2011.

For the financial sector, there is some sense of stabilization returning to U.S. banks' loan charge-off rates. Charge-offs have continued to fall from their peaks, which should help ease credit conditions as the recovery continues. Commercial banks are still holding historically high levels of cash, but those levels have begun to come down as the credit markets continue to thaw. IHS Global Insight forecasts that the Federal Reserve will hold rates constant for the remainder of 2011, with rates beginning a sustained rise from the first quarter of 2012 to the second quarter of 2013.This will of course depend on the state of the economy at the time and the rate of inflation. Core inflation, which excludes energy and food due to their volatility, is still at historic lows, rising only 1 percent over the last year. Headline inflation, which includes food and energy, is rising slightly faster, due to rising commodity prices, with the food index up 1.8 percent for the year and the energy index up 7.3 percent for the year.[1] Further price rises can be interpreted both negatively and positively, as high inflation can slow economic growth, but moderate inflation signals that the world economy may be gaining steam.

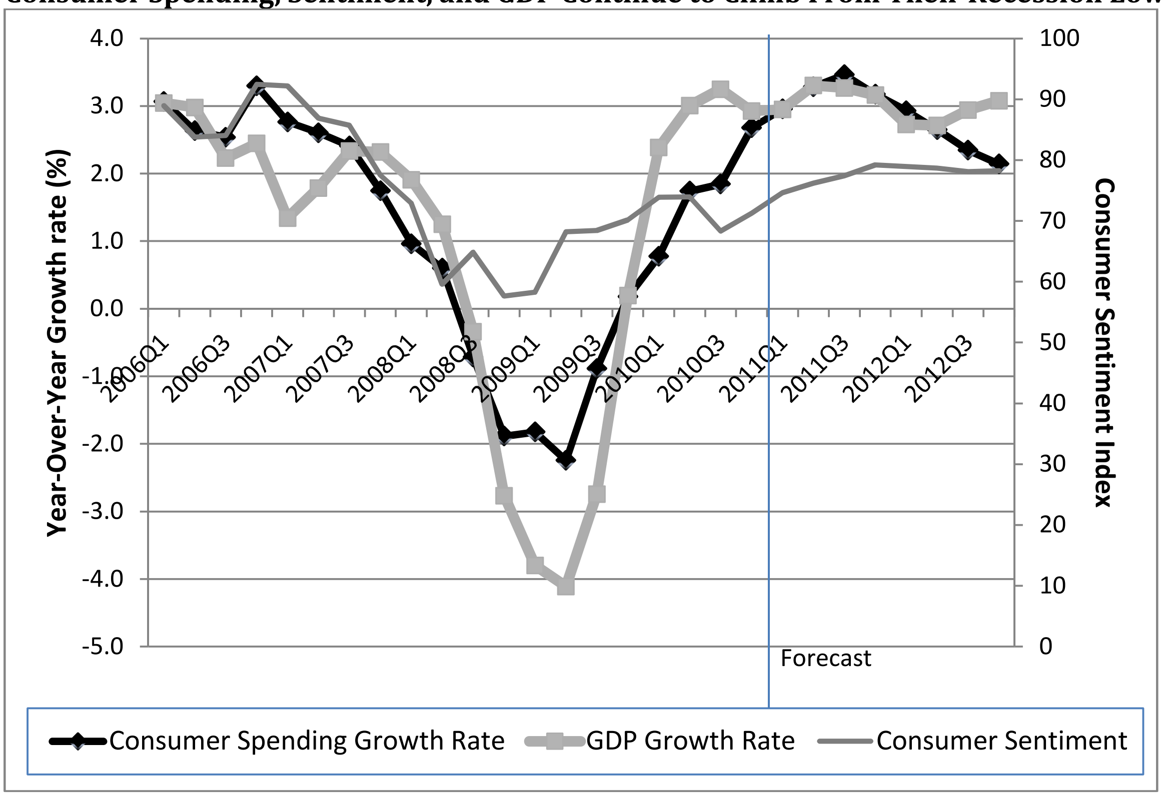
Overall, there are signs of new life stirring in the economy, but given that GDP growth for the fourth quarter of 2010 was revised downwards from 3.2 percent to 2.8 percent, an air of caution still remains. Recent events in North Africa and the Middle East are causing some volatility in the markets. Oil prices have jumped significantly in the past few weeks, breaking through the $100 per barrel.

[1] Inflation data is from the Bureau of Labor Statistics.

Unemployment claims have begun to fall and the most recent four week moving average was 388,000 in the week ending February 26th, down by 12,750. The unemployment rate has been falling, most recently down to 9 percent, though some of that may be due to people dropping out of the labor force after struggling to find work. There were a limited number of jobs added in January, possibly due to bad weather across the nation, but ADP's February Private Payrolls Report shows an addition of 217,000 jobs. Forecasts going forward are looking for stronger employment growth in the coming months.

Other forecasters have a more rosy view of the economy, some of which is based on the potential for strong growth inherent in the large stocks of cash on corporations' books. If economic growth continues to be strong, that cash could be invested, leading to greater growth, hiring and output than is currently estimated. This will depend both on the trajectory of the recovery and perceptions about future growth. Our estimates of GDP growth are the same as OMB for 2011 and 2012. Estimates of total employment growth differ, with their forecast coming in lower than ours averaging 1.4 percent per year compared to 1.9 percent during the forecast period.

Consumer Spending, Sentiment, and GDP Continue to Climb From Their Recession Lows



***Source**: IHS Global Insight*

Consumer confidence has continued to rise; the 77.5 level for February's Index of Consumer Sentiment is the highest since January 2008. Consumption is expected to fall in 2012 and 2013, assuming Federal tax breaks sunset as planned and given the possibility of tax increases in 2013 that may be required to close current deficits. Consumer loan demand has ticked up as well – the first time since 2005 – which is a hopeful sign both because of its implications for future consumption, and with regards to the mood of the American consumer as it may signal a better perception of future prospects. Auto sales also rose 11.4 percent over 2010, as banks have begun to relax lending standards for auto loans and consumers begin to become less risk averse.

The residential housing market continues to be a drag on the economy as a whole with little projected demand increase in the coming quarters. The downward pressure on prices from excess inventory along with the remaining foreclosures has continued to push prices lower with the Case-Schiller National Index declining 4.1 percent for the year. Some of this decline can be attributed to the expiration of new homebuyer credits, which may have maintained housing prices at an elevated level in the past year. New home sales have been fluctuating, with a big jump in December and a fall in January, most of which took place in the West. This has not driven the supply up significantly as the number of new homes being constructed has fallen as well.

The rates of mortgage delinquencies and foreclosures are both falling, but the levels for both are still high, with almost 13 percent of mortgages delinquent or in default and the foreclosure inventory rate hitting a high of 4.63 percent. There is some indication that housing starts may have bottomed out and may begin to start rising as some of that capacity is absorbed. There are a few positive indicators from recent data, such as a recent uptick in mortgage applications, a rise of 2.7 percent in existing home sales in January, and a fall in months' supply from 8.2 to 7.6 months. This recent climb in home sales is still on somewhat shaky ground as 30 year mortgage rates have risen back towards 5 percent which may reduce demand. There is also uncertainty surrounding the possible reform of Fannie Mae and Freddie Mac, and the government's place in supporting the residential property market.

This weakness in the housing market may also continue to be a drag on spending by states and municipalities, both of which draw significant amounts of their revenue from property taxes. States and municipalities, which provide employment for one seventh of all U.S. workers – almost 20 million people[2] – have been reducing their payrolls since late 2008, and that decline is expected to continue over the next year. Some of those workers may be hired into private sector positions as the economy continues to expand, but the strength of the current recovery doesn't appear to be enough to absorb all of them. This will result in continued pressure on the unemployment rate causing it to fall slower than after previous recessions.

The growth in exports and the fall in imports have bolstered the trade balance and contributed significantly to GDP growth in the most recent quarters. Export growth to Asia and Latin America grew significantly in 2010, for a number of reasons. Demand has been increasing in emerging markets as their economies return to their recent patterns of high yearly growth. As well the weakening of the U.S. dollar in comparison to their currencies has made US exports comparatively cheap, further driving demand for U.S. products. Imports have also fallen as firms have slowed down the rate of post-recession inventory building. This positive effect on the trade balance is unlikely to continue as import growth is likely to return to its previous pattern of higher growth relative to exports.

Further signs of a revival can be seen in the indicators of capital goods spending, which have continued to rise from the lows of early 2009. Business capital spending on construction has remained low since mid-2008, but seems to have picked up from its lowest point in the third quarter of 2009. Software and equipment spending has been positive since early 2009 and is expected to remain positive for the next two years.

The National Federation of Independent Businesses' Small-Business Optimism Index has been steadily climbing since the depths of 2009 and is nearing levels not seen since late 2007, though it is still below the index average in the years before the recession. The most recent survey from February 2011 showed significant increases in small-businesses' expectations of future revenue growth and higher earnings trends, but lower expectations for hiring. This can be interpreted in a somewhat positive light as increases in employment are a lagging indicator, usually taking place after the economy is already on a rising trend.

[2] Goldman Sachs, US Economics Analyst, Issue 10/50, December 17, 2010.

Overall, we seem to be past the worst of the recession, but the climb back to a more normal economy will be long and the potential for further disruptions should still be a concern. The financial system has come a long way, but it is still fragile, with some sectors, such as home mortgages, still dependent upon the government. There are downside risks to the economic forecast including the potentially negative effects of rising commodity prices, especially oil prices. There are also upside risks including the recent unexpected strength of consumer spending and the possibility that cash rich corporations will accelerate their investment spending.

The national economic forecast used by Council Finance and the one used by OMB are slightly under the average forecast in the recent National Association for Business Economics Survey. Some forecasters are significantly more optimistic, notably from Moody's Analytics the forecaster used by the Independent Budget Office.

The Council Finance's national forecast points to a moderate growth rate over the next few years and provides the background for a slow, but sustained recovery for New York City.

Factors Influencing Current Economic Conditions

Positive	Negative
• Increased Consumer spending • Higher consumer confidence • higher capital goods spending • Continued software and equipment spending by corporations • Rising business capital spending on construction (though still low) • Rising employment (and falling unemployment) • Strong export growth • Low import growth • Rising consumer credit • Credit market thawing • Bank's charge off rates falling • Large stocks of corporate cash • Stock market up	• Continued weakness in the housing market • Persistently high unemployment • Reduction in state and municipal workforces • Possibilities of muni bond default • High oil prices -Middle-East turmoil spreads to Saudi Arabia and Iran (low probability) • High food commodity prices • High industrial commodity prices • Rising mortgage interest rates • Growth revised lower -Growth may be too slow to raise employment • Slowing export growth • Return to rising imports

City Economy

- **Wall Street profits second highest ever last year, but coming short-term rate increases may cut into future growth.**
- **City added 68,400 private jobs from September 2009 thru January 2011, recovering 49 percent of the jobs lost in the recession, but employment has been falling again since September. Private employment expected to grow by 1.4 percent per year on average until 2015.**
- **Best year for tourism ever with hotel occupancy to 84.7 percent.**
- **Finance Division forecasts continued growth with the City adding an average of 45,000 private sector jobs a year.**

New York City's economy improved over the past year, propelled by the strong performance of financial companies and tourism. Wall Street profits were the second highest in any recorded year, totaling $27.6 billion.[3] The windfalls are likely to remain as the Federal Reserve keeps borrowing costs low by maintaining near zero interest rates.

The finance industry supports other sectors in the City. The broad-based professional and business services furnish lawyers, accountants, advertisers, and computer professionals among others for Wall Street. The corporate presence of finance and the sectors doing business with it support a strong commercial real estate market in the City.

As a result, employment in this industry is particularly vital to the City's economic health. The State Comptroller estimates that one job in securities creates two jobs elsewhere in the City.[4] The high compensation sustains consumption in the City, including big-ticket items such as expensive condos and co-ops.

Wage growth during the bonus season is expected to be solid. City income tax collections have already been reported for December through February, three out of the four bonus months. As of the end of February, withholdings growth for the bonus season is 7.6 percent over Fiscal 2010. Strong collections in March may increase this growth. Adjusting for the changes in STAR PIT, the City will see 6.1 percent growth. Assuming that City employment grows by an estimated 1.4 percent, that leaves 4.7 percent attributed to wage growth including bonuses.

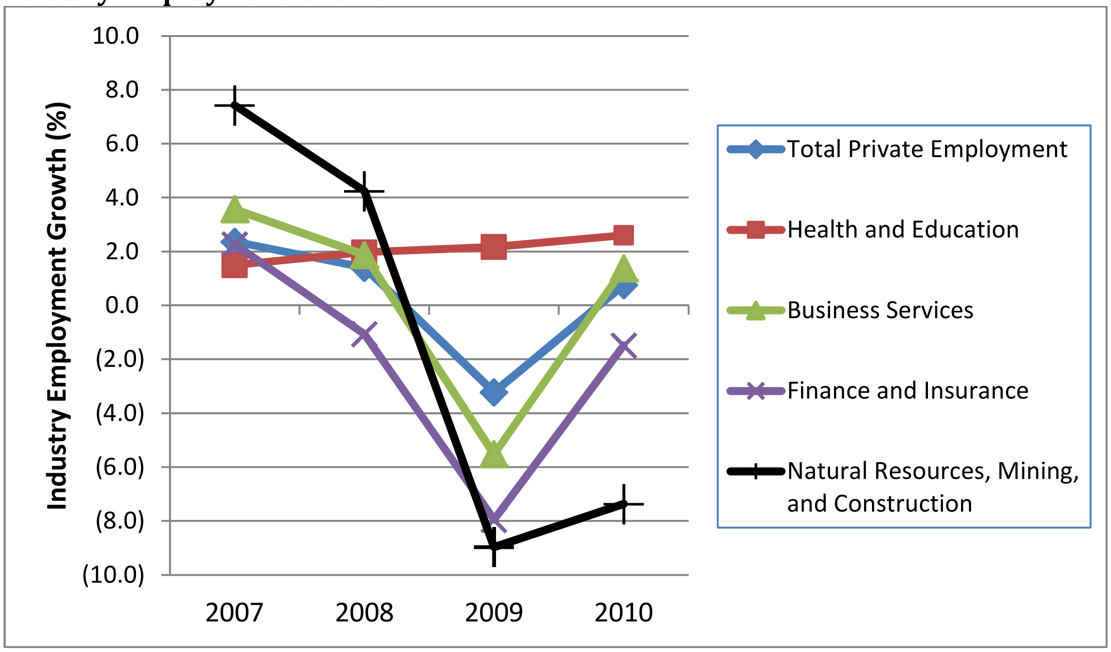
In December 2010, the City's total unemployment rate fell below 9 percent for the first time in 19 months, while the U.S. rate was at 9.4 percent.

The City gained 68,400 private jobs from September 2009 thru January 2011, recovering 49 percent of the 139,500 private jobs lost during the recession. Business services have led employment growth since the recession, a role usually filled by financial services. Average private employment eked out a 0.2 percent increase in 2010, after slipping 3.3 percent in 2009, as seen in the graph below.

[3] The record was set in 2009 when profits exceeded $61 billion.

[4] DiNapoli, Thomas P. and Bleiwas, Kenneth B. "The Securities Industry, in New York City," November 2009, p. 11.

Industry Employment Growth

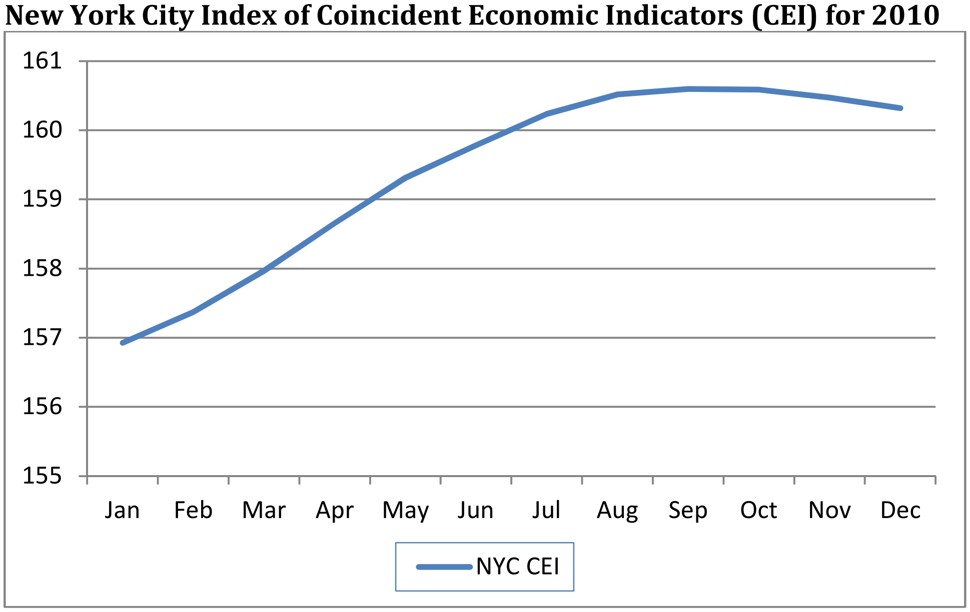


Source: NYS Department of Labor, Current Employment Statistics, January 2011, rebenchmarked

From September thru December 2010, however, employment in the City fell, with 17,500 jobs lost in the private sector (seasonally-adjusted).

Reflecting the employment situation, the City's overall growth seemed to stall in the fall of 2010. The FRBNY New York City Index of Coincident Economic Indicators (CEI), which tracks a wide range of economic activity in the City, is one of the best current indicators. The exact cause of the fourth quarter stall is unclear, but it may reflect a slowdown in the national economy.

New York City Index of Coincident Economic Indicators (CEI) for 2010



Source*: New York Federal Reserve. The CEI includes nonfarm payroll employment, real earnings, unemployment rate, and average weekly hours worked in manufacturing. The July 1992 CEI is set at 100*

Recovery was also absent from some City sectors, such as housing and construction, where, according to the New York Building Congress, residential construction starts in 2010 declined 14 percent from 2009 and 63 percent from 2008. In addition, home prices in the metropolitan area dropped to their seven year low in December.[5]

Tourism and Broadway theater attendance rose last year according to NYC & Company. Average hotel occupancy increased to 84.7 percent in 2010 from 81.8 percent in 2009.[6] However, the occupancy rate for December 2010 dropped to 83.8 percent from 86.6 percent a year before.

The City's average wage rose 5 percent in 2010, driven by increased bonuses as well as a renewed growing demand for workers, after diving 7.9 percent in 2009. This was largely helped by growth in the first quarter, where wages soared 11.7 percent over the same quarter of the previous year. By the second half of 2010, average wages were just 1.2 percent above the same time the previous year.[7]

Employment Gains from September 2009 thru January 2011
Thousands - Seasonally-Adjusted

Total Private	**68.4**
Finance and Insurance	8.6
Banking	1.3
Securities (Wall Street)	8.4
Real Estate and Leasing	(2.1)
Professional and Business Services	23.9
Employment Services	13.6
Information	(0.7)
Construction of Buildings	(12.4)
Leisure and Hospitality	17.3
Arts, Entertainment, and Recreation	0.1
Accommodation and Food Services	17.2
Accommodations (Hotels)	2.1
Healthcare and Social Assistance	14.3
Education Services	11.8
Government	**(47.4)**

Source*: NYS Department of Labor, Current Employment Statistics, January 2011, rebenchmarked: seasonally-adjusted by NYC Council Finance*

Looking ahead, Council Finance expects private employment to continue growing through the forecast period, averaging 1.4 percent. Wall Street's record profits in the past two years and 9,400 additional jobs in securities from February 2010 on (seasonally-adjusted) will undergird growth in other sectors. The Federal Reserve has indicated that the near-zero federal funds rate will likely extend into 2012, supporting strong profits for at least the next year or two, further buttressing the City's economy. The professional and business services sector will continue to expand as it provides a broad array of services to the financial sector.

[5] Standard & Poor's / Case-Shiller Home Price Index for the New York City Metropolitan Area.
[6] NYC & Company "NYC Hotel Occupancy & ADR", February 1, 2011.
[7] Wage estimates for the second half of 2010 are by Council Finance.

Consumers are slowly contributing more to employment growth. As they continue to ease their reluctance to spend, businesses will increase their sales and more confidently expand their payroll. Nationally, personal consumption rose by a strong 4.1 percent (annualized) in the fourth quarter.[8] In the City, the past holiday season witnessed a 5.5 percent increase in sales compared to a year ago.[9] The record strength in tourism, aided by a weak dollar, will continue to support growth in leisure, hospitality and retail.

New York's commercial real estate market has picked up in recent months with a few mega-transactions and falling vacancy rates, but lease rates are still below their peak in 2008. There has been increased demand for office space, particularly large blocks of 250,000 square feet or larger. There are currently only 29 available blocks, and there are 24 tenants in the market for such spaces, a 50 percent increase in demand since last year[10]. The primary office vacancy rate has fallen from 12.3 percent in the first quarter of 2010 to 11.4 percent in the fourth quarter. This fall in the vacancy rate has come at the same time as an increase in capacity, as new buildings become occupied, particularly the new 1.5 million square foot Goldman Sachs building downtown. Overall, 26.3 million square feet of new leases were signed, the strongest year since 2006, and a 60 percent increase over 2009. Some of the rise in leasing is likely a result of companies looking to capitalize on historically low lease rates. In the fourth quarter, the increased demand has led to a 1 percent rise in lease rates to $54.43 per square foot, but this is still significantly below their peak. Lease rates are expected to continue to rise between 2011 and 2013 as there is little capacity expected to come on line in that period.[11.] This rate may be offset in 2014 as completion of the two World Trade Center buildings will add more than 4 million square feet of office space.

There has been a rise in larger purchases with 18 transactions of $100 million or greater in 2010, compared to only 5 transactions in 2009. The highlight of this has been Google's purchase of property located 111 8th Avenue for $1.8 billion. The prospect of limited capacity and rising rents is likely to continue to drive this market higher.

The City's residential real estate market, however, is still weak and a drag on growth. The NYU Furman Center cites that home sales in the fourth quarter 2010 fell by 15 percent from the third quarter and 33 percent from the fourth quarter 2009.[12] With sales still falling, there will continue to be downward pressure on home prices. The Case-Shiller Home Price Index for the New York metropolitan area fell another 0.6 percent in December, having dropped 2.3 percent year-over-year. Since the market peaked in May 2006, prices have fallen 22.6 percent. Prices only briefly bounced up between May and July 2010 from the federal home-buyers credit. Its separate condominium price index (concentrated in Manhattan) has been holding up a little better, having dropped 1.1 percent since December 2009, and 15 percent since its peak in February 2006.[13] The lax demand for existing homes leaves little demand for new homes.

Healthcare and social assistance continued to add jobs through the recession, but these industries may expand more slowly in the coming years. Council Finance concurs with OMB that the projected State cuts to healthcare will likely reduce growth in this sector.

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[8] Bureau of Economic Analysis, 2010, 4th Quarter.

[9] MasterCard Advisors SpendingPulse.

[10] Agovino, Theresa, "Big Tenants Getting Spaced Out," *Crain's New York Business*, 2/20/2011 - http://www.crainsnewyork.com/article/20110220/FREE/302209978#

[11] Cushman and Wakefield, Marketbeat, Manhattan Office Report, 2010, 4th Quarter.

[12] NYU Furman Center for Real Estate and Urban Policy, "New York City Quarterly Housing Update, 2010 4th Quarter."

[13] Standard & Poors / Case-Shiller Home Price Index for the New York City Metropolitan Area.

Forecast of Employment Gains
Year-Over-Year Growth in Thousands

	CY10	CY11	CY12	CY13	CY14	CY15
Total Private	6.2	51.0	46.0	46.8	40.2	43.0
Finance and Insurance	(8.5)	0.3	3.3	4.3	1.6	1.5
Banking	(0.8)	(0.8)	(1.2)	(1.0)	(0.8)	(0.9)
Securities (Wall Street)	(7.2)	1.8	5.0	5.7	2.8	2.9
Retail	3.7	6.7	7.2	5.6	4.9	5.5
Professional and Business Services	(10.0)	12.3	9.8	9.2	7.9	8.1
Real Estate and Leasing	(8.5)	0.3	3.3	4.3	1.6	1.5
Information	(2.0)	(2.0)	1.3	0.5	(0.4)	0.4
Leisure and Hospitality	7.5	7.5	6.0	5.5	5.0	4.9
Arts, Entertainment, and Recreation	1.6	1.8	1.7	1.6	1.5	1.5
Accommodation and Food Services	6.3	5.7	4.3	3.9	3.5	3.4
Accommodations (Hotels)	0.3	(0.1)	0.6	0.4	0.4	0.4
Healthcare and Social Assistance	12.5	8.0	7.0	6.4	6.1	5.8
Education Services	3.2	4.3	4.3	4.3	4.4	4.5

***Source**: NYS Department of Labor; Forecast by NYC Council Finance*

The average wage is projected to grow around 3 percent annually, driven by increasing Wall Street compensation and growing demand for workers. Despite the move to circumscribe bonuses to reduce short-term risk-taking, total compensation of NYSE members increased by 5.2 percent in 2010. Factoring in the increase in payroll, total wages are expected to rise around 4.5 percent annually through the forecast period.

There are downward risks to this gradual recovery. The negligible interest costs of Wall Street, courtesy of the Federal Reserve, will not be suppressed forever. The past two years of stellar profits have come primarily from near-zero short-term rates rather than greater revenues. Much depends on whether growth will be sustained in the securities industry when short-term rates are allowed to rise. It is also unknown to what degree the financial reform legislation will hamstring the profit making capabilities of financial institutions. Being a global city, New York is especially vulnerable to worldwide crises. How much the European sovereign debt troubles or turmoil in Libya and the Middle East will impact New York is not yet understood.

Council Finance accepts OMB's basic picture of a slowly recovering City economy. The Council is estimating stronger employment growth averaging 1.4 percent annually versus OMB's 1.2 percent through the forecast period. The Council also expects the average wage to grow around 3 percent annually from 2011 to 2015. OMB projects a weaker 2.3 percent growth. Council Finance projects total earnings as rising around 4.5 percent annually, while OMB expects a slower 3.4 percent increase.

Forecast of Selected Economic Indicators	CY10	CY11	CY12	CY13	CY14	CY15
National Economy						
Real Gross Domestic Product *Percentage Change*	2.9	3.2	2.9	3.1	3.3	2.9
Private Employment						
Level Change (million)	(0.9)	1.9	2.5	2.4	2.5	2.1
Percentage Change	(0.8)	1.8	2.3	2.2	2.2	1.8
Total Wages *Percentage Change*	2.1	4.6	4.9	4.8	4.7	4.4
New York City Economy						
Private Employment						
Level Change (thousand)	6	51	46	47	40	43
Percentage Change	0.2	1.6	1.5	1.5	1.2	1.3
Total Wages *Percentage Change*	5.3	4.9	4.4	4.7	4.4	4.3
Total Revenue of NYSE Members *Percentage Change*	(15.6)	9.8	15.2	12.0	13.3	11.5

***Source**: HIS Global Insight, February 2011 (Nat'l); New York City Council - Finance Division (City)*

Tax Forecast

- **Overall tax collections up 5.6 percent for the first seven months of Fiscal 2011, with total growth of 7.7 percent forecast. 5.4 percent growth forecast for Fiscal 2012.**
- **Council Finance's total tax collections are $53.6 million above OMB for Fiscal 2011 and $278.4 million above OMB for Fiscal 2012.**
- **A discussion of the changes Department of Finance made in its valuation of property market values is at the end of this section (see box).**

Between Fiscal 2008 and Fiscal 2010 the City's revenues from the City's non-property taxes fell 18.3 percent. This was despite significant revenue enhancing changes to the sales, hotel and business taxes. With economic recovery these revenues are coming back, starting in Fiscal 2011. But Council Finance does not expect these taxes to exceed their Fiscal 2008 peak until Fiscal 2013. A substantially lengthy time period without growth from these taxes makes balancing the City budget challenging.

Like the city economy, overall tax collections are coming back at a modest pace, up 5.6 percent for the first 7 months of Fiscal 2011 compared to the same time last year. Both Council Finance and OMB expect this pace to accelerate in the second part of Fiscal 2011.

Two pleasant surprises this year are the general corporation tax (GCT) and the bank tax. During the first seven months of Fiscal 2011, the GCT is already seeing a 13.4 percent increase in revenues from the same period last year, and Council Finance expects to see a 23.5 percent increase for all of Fiscal 2011. This is powered by strong corporate profits and especially strong Wall Street profits. The challenge in estimating GCT is determining how much and how long business profits will be offset by losses carried over from the recession years. The bank corporation tax (BCT) is up 42 percent so far this year. A big part of this good news is an unusual $320 million in September from the four largest New York banks. The bank tax is unlikely to grow at this pace in the second half of the year and revenues will be hurt by a narrowing of the spread between short term and long term interest rates starting in summer 2012. The unincorporated business tax (UBT) has only garnered $5.7 million year-to-date over Fiscal 2011, a 0.7 percent increase. The payers of this tax are diverse, but the weakness may be related to the relatively late and weak recovery of the small business sector.

Personal income tax (PIT) collections through February are disappointing, up only 0.7 percent over the same period in Fiscal 2010. Withholdings have been the strong component of PIT, having increased its year-to-date collections by 6.1 percent over the previous year. Bonus payments were strong in December, unlike the previous year, when bonuses were paid out late into March and April. Whether strong withholdings will continue through the bonus season remains to be seen. Council Finance expects revenue growth to pick up during the remainder of the year. The Council Finance forecast for April settlements is similar to OMB's and very conservative. But the combination of strong capital gains and weak estimated payments means that there is a considerable upside risk to this forecast. In the out-years the forecast assumes the recently extended Bush tax cuts for the upper tax brackets will sunset as scheduled. This will cause total PIT collections to drop in Fiscal 2014, as capital gains realizations are pushed forward by the increased tax rates in calendar 2013.

It should be noted that OMB estimates around $156 million of PIT collections in Fiscal 2011 are effectively revenue for the State. This represents the elimination of the STAR PIT reimbursement for incomes exceeding $500,000 which previously represented 6 percent of tax liability, effective starting tax year 2010.

A current bright spot in collections comes from sales tax, up 13.3 percent over the same period a year ago. Overall, collections are on track to rise 8 percent to $5.46 billion in 2011. This comes on the heels of a 10 percent rise between 2009 and 2010. Currently, sales tax is the third largest source of city revenue after property taxes and personal income taxes and has experienced less volatility throughout the downturn. The city has also benefitted from the rise in the city sales tax rate from 4 to 4.5 percent on August 1, 2009, which has boosted revenue over the past 18 months. Consumer spending, a good overall indicator of sales tax collections, dropped drastically between 2008 and 2009, but then jumped back up again between late 2009 and 2010.

The hotel tax is up by 20 percent so far this year, riding on record tourist numbers. Visitors to New York hit their highest number ever last year, contributing to a 6.1 percent rise in hotel tax collections for Fiscal 2010 as well as a projected 14.3 percent rise in Fiscal 2011. This rise in visitors has been helped by weakness in the U.S. dollar relative to other foreign currencies which has kept U.S. tourists at home and attracted foreign tourists who get more for their money. There have also been a significant number of new properties opening, which have added almost 6,650 new rooms, an 8 percent increase over the past year. Visitor spending was the second highest ever last year at $31 billion dollars, according to NYC and Co. contributing further to increased sales tax collections. Hotel tax collections are set to fall in fiscal year 2012 as the tax increase from 5 to 5.875 percent is assumed in the plan to sunset as scheduled on December 1, 2011.

For Fiscal 2011, both OMB and Council Finance expect the Real Property Tax (RPT) to generate $16,847 million in revenues. This represents an increase of $663 million, or 4.1 percent over the previous year.

Part of this increase stems from a higher than expected increase in the market values of the larger residential and commercial properties in the city (see notes on market valuation at the end of this section). This pushed the levy up $377 million above what was expected in the November plan. It is not clear that these valuations accurately represent current market conditions and as a result there is some risk to the increase from the November Plan. At the same time, OMB has partially offset this increase with increases in reserves for refunds and uncollectible taxes in the forecast due recent performance in those areas.

While Council Finance accepts OMB's forecasts for Fiscal 2011 and 2012, we see stronger growth than OMB in the out years. That said, both OMB and Council Finance expect revenue growth to slow from the current rates. OMB expects growth to slow to an average of 2.6 percent in Fiscal 2013 to 2015 while Council Finance sees a slightly higher average of 3.2 percent in the same period. This slowdown is in spite of the expected improvement in the economy, which should speed the growth of most of the other taxes that make up the City's revenue. What causes this seemingly counter cyclical habit is the way in which property tax bills are calculated. Properties are taxed not on the full market value of the property, but rather a calculated portion of it, called the Billable Assessed Value (BAV). So how does the City calculate the BAV?

First, the Department of Finance (DOF), on an annual basis, calculates the Market Value of over one million parcels of property in the City. DOF then takes the annual change in a property's Market Value, and runs it through one of a set of formulas to determine the impact on a property's Assessed Value. These formulas vary based on the tax class of the property but almost all are designed to slow down and smooth out the changes in market value.[14] It should be underscored here that this protective element does not eliminate any market value increases, but rather slows down how quickly they are absorbed into a property's Assessed Value[15]. The Assessed Value is adjusted for any eligible property tax exemptions that a property is enrolled in and the result is the BAV.

It is that formulation of the Assessed Value that causes the RPT to behave the way it does. During the first years of the Great Recession, the RPT continued to grow at a healthy clip, even as other taxes experienced sharp declines. This was because Assessed Values continued to digest the massive increases in Market Values experienced during the boom years of the mid-2000s. However, recent years have seen slowdowns and even declines in Market Values. Initially those declines were more than offset by continued absorption of the huge Market Value increases. Now we are reaching the point where most of the massive boom era growth is absorbed (with the notable exception of Class 1[16]), and property assessed value growth will begin to lag the economy, causing that slower property tax growth in the out-years.

Between Fiscal 2007 and Fiscal 2010, the two transfer taxes, the real property transfer tax (RPTT) and the mortgage recording tax (MRT), fell by 70 percent, with the collapse of the real estate bubble. The RPTT has gained $96 million year-to-date over Fiscal 2010, more than offsetting reductions in the MRT of ($80.3 million). After three years of double digit shrinkages, the RPTT is helped along by a return of more large commercial transactions, including the mega-deals of 111 Eighth Avenue, purchased by Google, and 1330 Sixth Avenue (the old Macklowe building). The MRT is expected to remain relatively flat in the coming year as residential sales are still moving slowly and refinancing activity has dropped off due to increased mortgage rates. The commercial rent tax (CRT) is continuing its slow growth of just under 1 percent year-to-date from a year ago, as the demand for office leasing is just beginning to pick up.

For Fiscal 2011, Council Finance estimates total tax revenues to grow by around $2.85 billion, or by 7.7 percent from Fiscal 2010. This is very close to OMB's forecast of 7.5 percent growth. Growing payrolls, hefty profits in the finance sector, and record tourism are behind the strong gains in the business, personal income and sales taxes.

[14] The sole exceptions to this rule are the properties in Tax Class 3, which feel the impacts of market forces immediately.

[15] This is a source of a lot of confusion for many property owners. Assessed Values can continue to grow as it can still be absorbing high growth from previous years, even while Market Values begin to decline.

[16] Class 1 stronger protections in the growth of Assessed Value mean that market value growth has to absorbed over a longer period of time.

Tax revenues in Fiscal 2012 are expected to continue growing by about $2.16 billion or 5.4 percent. This is also a little stronger than OMB's 4.8 percent growth. Personal income tax collections are expected to strengthen as employment continues to grow, bonuses remain high, and assets begin to be sold off on mass to avoid the capital gains rate increase in calendar year 2013. Business tax collections are also expected to be strong as the short-term interest rates are expected to be extended into calendar year 2012.

Council Forecast: Difference from OMB Forecast
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
Real Property	$0.0	$0.0	$113.2	$245.9	$354.7
Personal Income	77.0	383.6	889.7	365.4	373.6
General Corporation	24.0	(66.0)	(127.0)	(91.0)	(43.0)
Banking Corporation	82.6	(74.4)	166.9	464.8	479.4
Unincorporated Business	2.9	77.0	193.0	295.0	389.7
Sales	(45.4)	15.0	218.4	361.2	463.9
Commercial Rent	(0.0)	(4.9)	(1.2)	2.9	5.7
Real Property Transfer	(33.6)	5.4	25.0	(7.1)	(89.5)
Mortgage Recording	(56.0)	(56.2)	(35.9)	(44.3)	(74.1)
Utility	5.0	11.5	23.8	11.4	0.8
Hotel	(2.9)	(12.4)	7.6	18.5	28.2
Total Taxes	**$53.6**	**$278.4**	**$1,473.5**	**$1,622.5**	**$1,889.6**

Source*: Council Fiscal 2012 February Plan*

Council Forecast: Growth Rates

	FY10	FY11	FY12	FY13	FY14	FY15
Real Property	12.9%	4.1%	4.7%	3.8%	3.1%	2.9%
Personal Income	4.1%	10.1%	13.3%	9.0%	(.4%)	6.5%
General Corporation	(14.8%)	23.5%	9.0%	3.5%	5.4%	5.3%
Banking Corporation	(11.8%)	36.9%	(22.3%)	14.1%	26.0%	1.5%
Unincorporated Business	(12.6%)	9.4%	9.8%	10.1%	9.0%	8.0%
Sales	10.1%	14.9%	6.0%	6.1%	4.6%	4.6%
Commercial Rent	2.0%	1.5%	2.3%	3.8%	3.9%	3.9%
Real Property Transfer	(19.0%)	22.1%	5.6%	4.5%	4.1%	4.6%
Mortgage Recording	(28.9%)	6.0%	14.9%	15.8%	11.2%	10.0%
Utility	(5.9%)	3.5%	5.6%	6.4%	0.1%	0.8%
Hotel	6.1%	14.3%	(7.2%)	0.8%	7.6%	8.7%
All Other	(14.0%)	(14.0%)	3.2%	5.1%	0.6%	(.1%)
Audits	(18.8%)	12.8%	(25.7%)	(.2%)	0.0%	0.0%
Council Total Tax Growth	**3.3%**	**7.7%**	**5.4%**	**5.8%**	**3.6%**	**4.4%**
OMB Total Tax Growth	**3.3%**	**7.5%**	**4.8%**	**3.0%**	**3.4%**	**3.9%**

Source*: Council Fiscal 2012 February Plan*

A Note on Market Valuation for Fiscal 2012

As discussed above, DOF calculates the market value of every property in the City, every year. It should not be missed that this is a very difficult process – very few other localities in the United States attempt to value property every year, especially on the scale that New York City does. Indeed, part of this difficulty is in establishing the best way to determine a value. Towards that end DOF has been moving towards a mass evaluation system, which is basically a statistically based method to determine values based on common inputs. Not only would this create a more objective system of valuation, it would also free up tax assessors to spend more time in the field to verify the data used in valuation. As part of this process, DOF made several changes in the valuation process for the 2011 property tax roll.[*] This section explains the major changes and their impacts.

First some background on the system. All property in New York City is divided into four main classes of property, some of which are further subdivided into smaller subclasses. New York State law requires that each property be valued in the same method as similar properties. Class 1 which consists of 1-, 2- and 3-family homes uses the relatively straightforward comparable sales methodology. DOF takes a look at recent sales of similar properties and uses those values to determine market values. For the other Classes, it is a bit more complicated. For Classes 2 (larger residential buildings made up of multifamily rentals, coops & condos) and 4 (most commercial properties), valuation is done by viewing properties as a stream of income and determining how much an investor is willing to pay for that stream of income. This is the standard methodology used by the real estate industry for these properties, as generally there are not enough comparable sales of these larger buildings to gauge an accurate price. One may object, arguing that in the coop and condo market, there are enough sales to make the comparable method viable. While this may be true, State Law requires that these properties be valued as the similar class of properties which are the multifamily rentals[†]. Since coops and condos do not have an income stream per se, DOF must impute one. This is done by finding rental buildings that share similar characteristics[‡] with coops and condos.

This year saw several changes used to value Class 2 and 4 properties that have turned out to be controversial. The first of these impacted both Classes. The first was a decline in the capitalization rates (or cap rate) used to value these properties. These rates represent the annual net income stream of a property as a percentage of its value. This rate is inversely proportional to the value of a property; if a cap rate declines, property values will rise[§]. In the 2012 tentative roll,

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[*] The 2011 roll is used to determine property tax bills for Fiscal 2012.

[†] The lumping of multifamily rental buildings with the generally owner occupied condo and coops is a bit of an artifact of the real property tax system. Back in the late 1970s, when the real property tax system was derived, there were very few cooperatives or condos in New York City, and almost all large multifamily buildings were rentals. N.Y. Const. art. XVI, § 2 requires that the legislature provide for the supervision, review, and equalization of assessments so that each assessing unit bears its proportionate share of the county levy based upon its proportionate share of assessed valuation in the county. For purposes of taxation, this provision has been interpreted by courts to mean that those similarly situated be treated uniformly and the creation of different classes for purposes of taxation is permissible as long as the classification is reasonable and the taxes imposed are uniform *within the class. see* Foss v. Rochester, 65 N.Y.2d 247,256 (1985)

[‡] Location, size, age, condition, etc.

[§] An example: A property that produces $8 in net income a year and costs $100 would have a cap rate of 8 percent (8 divided by 100 is equal to 8%). Now, let us keep the income the same at $8, but lower the cap rate in half to 4 percent. This means the new

DOF's calculations lowered the cap rates used to value properties by an average of 90 to 100 basis points, which meant that assuming the same net income, a property's value would rise about 7 to 10 percent. The idea that cap rates have fallen is not controversial. Rather, it is the belief that DOF has lowered them too much relative to what is happening in the actual market. However, as most cap rates are proprietary information, and thus not publically available without payment, it is hard to assess where true cap rates may be. Moreover, the relatively low volume of large real estate transactions caused by tight credit, adds further difficulties in accurately assessing property values – both for DOF and private entities in the real estate business.

Another change that occurred this year was in the valuation of larger Class 2 properties[**]and Hotels from a method called the Gross Income Multiplier to the Net Income Capitalization method discussed above. The main difference between these two methods is that the former bases value on the gross income of a property while the latter uses net income[††]. It is generally believed that this new method provides a more accurate estimate of a property's value as it takes into account the expenses. Indeed, this was the method previously used for Class 2 properties[‡‡]. It is not expected that this had a large overall impact in the valuation of properties, though some particular properties (particularly those with abnormally large or small expenses) may have seen some noticeable shifts due to this change.

Lastly, and what has perhaps caused the greatest controversy stems from DOF's adoption of statistical modeling to choose the comparable rentals from which the incomes of coops and condos are imputed. Previously, this choosing had been done by assessors who based their decision on available data. However, for the current tentative roll, the choice of which rentals to use was computerized, albeit with results reviewed by assessors. In most cases, this does not appear to have had a large impact. However, in certain areas where no good comparable rental properties exist, such as northeast Queens, a number of properties saw the comparable rental properties change based on the new model, which in turn spurred extremely large increases in estimated market values.

Between all of these changes, a number of properties have seen very large increases in market values in a period of poor economic conditions. This has provoked a great deal of outrage and confusion over the valuation system. At the time of this writing, DOF is currently reviewing properties with large market value increases and making adjustments where justified. Additionally, many properties have appealed to the Tax Commission which has the discretion to adjust market valuation they believe to be incorrect.

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value of the property has to be $200 (8 divided by 200 is 4%). The quick way to take an income and cap rate to get the formula is to divide the income by cap rate (8 divided by 4% equals 200).

[**]Those with 11 units or more.

[††] Net Income = Gross Income minus Expenses.

[‡‡] The Gross Income Multiplier Method was adopted with 2008 tentative roll. Part of the rational for adoption was that it was a simpler and easier method for property owners to understand.

Capital Budget

Capital Program

- **New appropriations for fiscal 2012 fall 53 percent to $5.3 billion.**
- **Preliminary Ten-Year Capital Strategy reduced by 10 percent, most of which will occur between Fiscal years 2014 and 2021.**

Fiscal 2011 Capital Commitment Plan

The Fiscal 2012 Preliminary Capital Budget includes new appropriations of $5.3 billion, of which $3.6 billion are to be funded from City sources. This is 53 percent less than the $11.2 billion and $8.7 billion of City funded appropriations adopted in Fiscal 2011.

The Fiscal 2011 Modified Capital Commitment Plan totals $10.56 billion of which $8.3 billion is City funded. The authorized plan to reach this target is $13.8 billion. The Adopted Fiscal 2011 Capital Plan, released in September 2010, totaled $12.06 billion of which $9.4 billion was City funded. The authorized plan to reach this target was $15.9 billion. This difference is attributable to the Administration's decision to reduce the City's Preliminary Ten-Year Capital Strategy (excluding the Department of Environmental Protection's (DEP's) capital program) by 10 percent.

Fiscal 2011-2014 Four-Year Capital Commitment Plan

The Modified Capital Commitment Plan for Fiscal 2011-2014 authorizes agencies to commit $33.2 billion, of which $27.6 billion will be City funded. The Adopted Capital Commitment Plan for Fiscal 2011-2014 authorized agencies to commit $35.1 billion, of which $27.8 billion was City funded. The minor difference in City funded commitments between the Adopted and Modified Four-Year Plans show the 10 percent reduction in capital does not occur until the out-years of the Ten-Year Capital Strategy.

Ten Year Capital Plan: Adopted and Preliminary Budget
Millions of Dollars

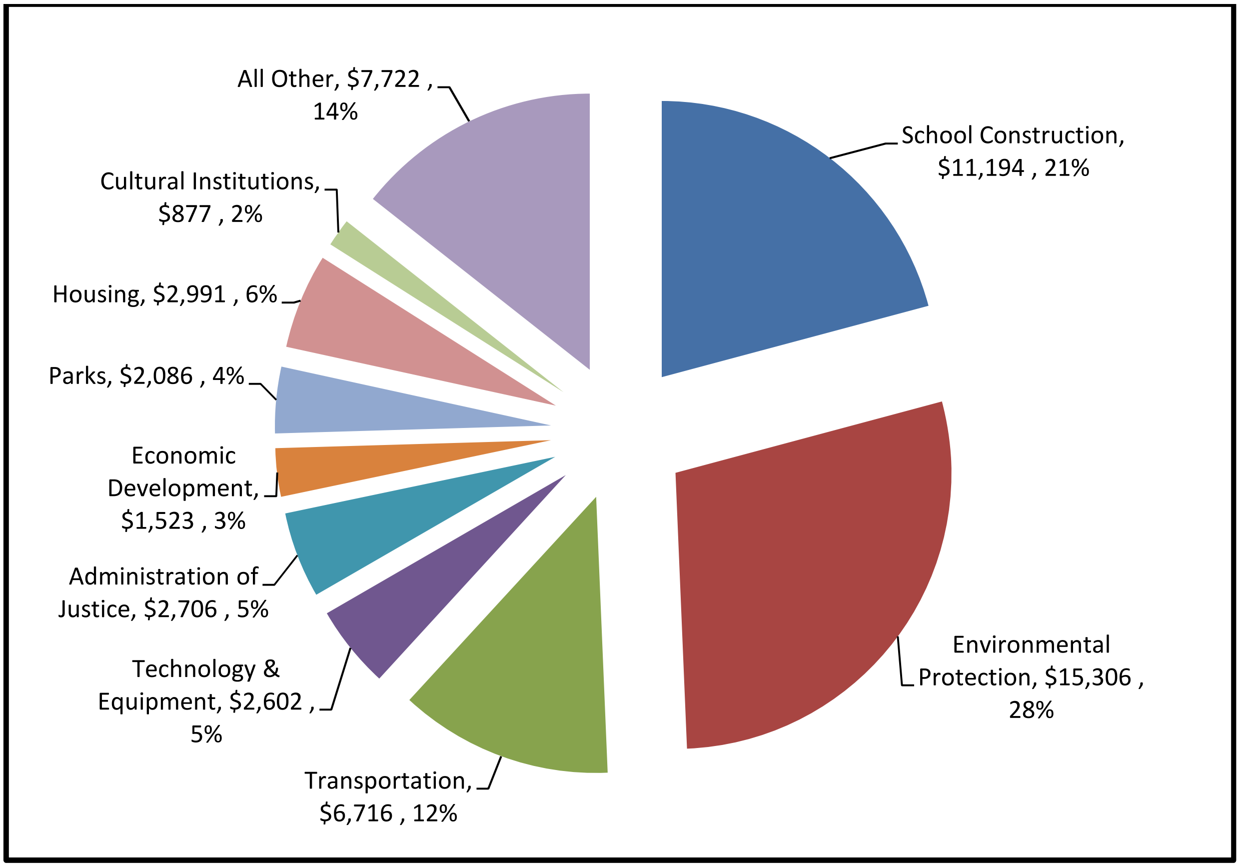
	FY11	FY12	FY13	FY14	FY15	Total FY16-21	Total FY11-21
Adopted							
Total Capital Plan	$15,295	$4,751	$5,070	$4,993	$3,519	$20,885	**$54,513**
DEP	$2,528	$1,431	$1,319	$1,374	$1,058	$6,968	**$14,677**
Total Minus DEP	$12,768	$3,320	$3,751	$3,619	$2,461	$13,917	**$39,836**
Prelim							
Total Capital Plan	$13,285	$6,798	$5,717	$4,692	$3,472	$17,116	**$51,081**
DEP	$2,692	$1,747	$2,035	$1,693	$1,400	$5,739	**$15,306**
Total Minus DEP	$10,593	$5,052	$3,682	$3,000	$2,072	$11,376	**$35,775**
Change							
Level	($2,174)	$1,732	($69)	($619)	($389)	($2,541)	**($4,061)**
Percentage	-17.0%	52.2%	-1.8%	-17.1%	-15.8%	-18.3%	**-10.2%**

Preliminary Ten-Year Capital Strategy Fiscal 2012-2021

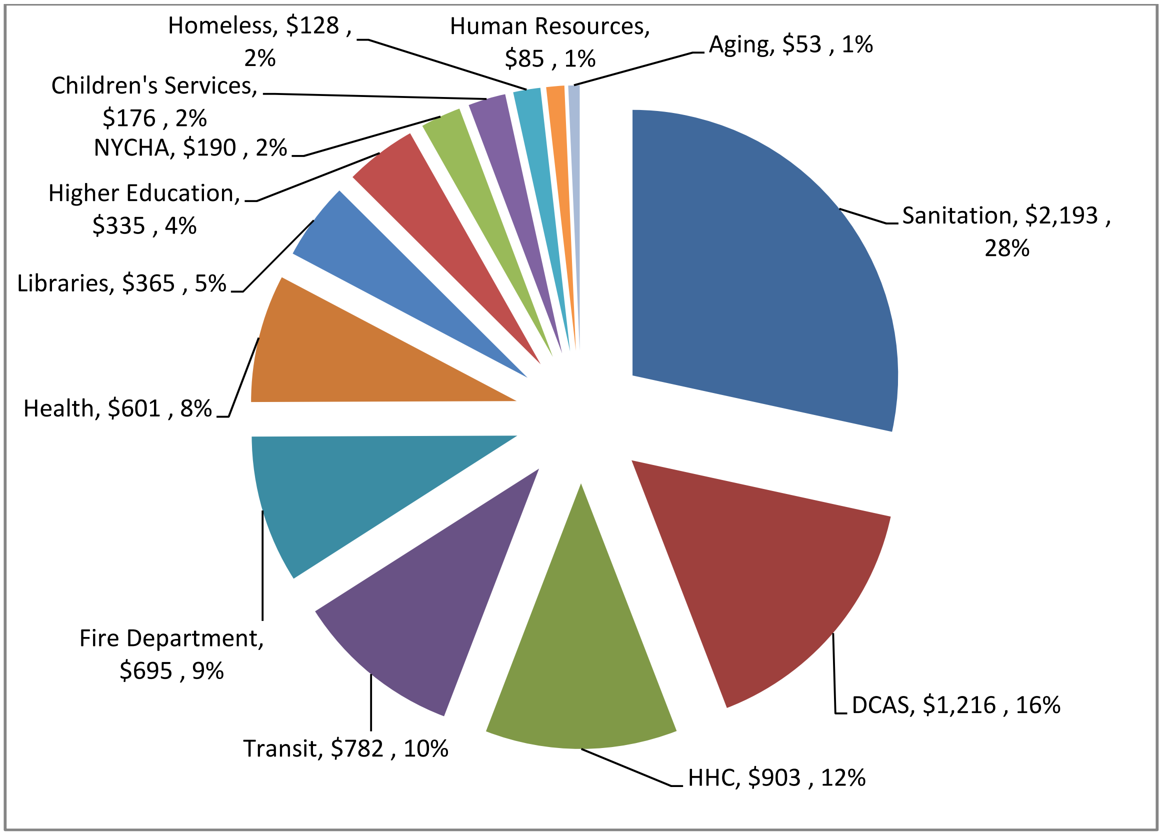
The Fiscal 2012-2021 Ten-Year Capital Strategy totals $47.0 billion. This includes $38.4 billion in City funds and $8.6 billion in non-City funds. The City has cut the Capital Program for Fiscal 2011-2021 (excluding the DEP's capital program) from $39.8 billion to $35.8 billion, a reduction of 10 percent.

The Preliminary Ten-Year Capital Strategy includes $15.1 billion which account for (32 percent) of plan for school construction, repair and technology. Another $12.2 billion (26 percent) would provide funding for capital projects for the DEP which are primarily funded with Water Authority Bonds issued by the Municipal Water Finance Authority. The Strategy also includes $6.5 billion which accounts for (14 percent) of plan for transportation projects. This includes bridge, road and street repair and maintenance.

FY 2011-2021 Ten Year Capital Plan, by Programmatic Area
Dollars in Millions



FY 2011-2021 Ten Year Capital Plan, Breakdown of 'All Other' Category ($7,722)
Dollars in Millions



Education Capital

- **February Proposed Amendment to the plan calls for $2 billion in cuts to school capacity projects over the last three years of the DOE's Five-Year Capital Plan, most of which is due to a reduction in State Building Aid.**
- **Only school construction projects already underway would continue and new school seats would fall from 50,000 to 14,000 by 2014.**
- **The Governor has proposed a $1 billion cap for Building Aid for school repair and construction which would reduce funding to New York City from this source to an annual maximum of $611 million.**

The Department of Education (DOE) 2010-2014 Five-Year Capital Plan ("Five Year Plan") includes $11.3 billion for the repair, upgrade, and construction of school facilities. As approved in June 2010, the Plan allocated $5.4 billion for school capacity projects and $6.3 billion for capital investment projects. In February 2011, DOE released a Proposed Amendment to the Plan ("Amended Plan") that called for an overall cut of $2 billion. The Amended Plan leaves only $2.9 billion for school capacity projects and shifts funding towards capital investment projects increasing the total to $6.4 billion from $6.3 billion.

The $2 billion capital budget cut reflected in the Amended Plan would apply to the last three years of the DOE's Five-Year Plan. The reduction would lead to a major slowdown in school construction projects. DOE would move forward only with the school construction projects that are underway. These projects would create, in total, 14,000 new school seats. The Five Year Plan would fund less than 30 percent of the seats needed to accommodate all students and ameliorate school overcrowding. Prior to the budget reduction, the DOE had proposed to add 50,000 new school seats through the Five Year Plan.

	Adopted Five-Year Capital Plan	February 2011 Proposed Amendment
Capacity		
New School Capacity	$4.0 billion	$1.8 billion
Charter/Partnership Program	$210 million	$210 million
Replacement Seats	$1.2 billion	$940 million
Capacity Total	**$5.4 billion**	**$2.9 billion**
Capital Investment		
Capital Improvement Program	$2.1 billion	$2.3 billion
Children First Initiatives	$1.6 billion	$1.6 billion
Mandatory Programs	$2.3 billion	$2.1 billion
Capital Investment Total	**$6.3 billion**	**$6.4 billion**
Reso A Funding	**$300 million**	**$400 million**
Plan Total	**$11.3 billion**	**$9.3 billion**

The curtailment of the school capital plan followed both the City capital budget reduction and the State Executive Budget proposal to reduce Building Aid. The City cut its funding for the Five Year Plan from $5.988 billion to $5.879 billion, a $109 million reduction. The remainder of the funding cut stems from the Governor's proposal to limit the value of school repair and construction projects to $1 billion, for which the State will provide Building Aid. Since the State funds 61.1 percent of construction costs, the proposed cap would provide only enough State Building Aid to support $611 million in projects each year. Currently, there is no ceiling on the amount of projects that the State will fund.

Debt Service

- **Fiscal Year 2011 is characterized by higher issuance volume facilitated by the Build America Bonds (BABs) program which expired on December 31st, 2010.**
- **The low interest rate environment provides lower debt service costs but there is no apparent savings from reductions to the 10 year capital plan.**
- **Total financing expected to decrease over Five-Year Financial Plan as interest rates begin to rise in the short term.**

According to the Preliminary Budget, the City's financing program projects $35 billion in long term borrowing for the period of Fiscal 2011 through Fiscal 2015 to support the City's current capital program. Total debt issuance in Fiscal 2012 is expected to be slightly less than in Fiscal 2011 (due to the expiration of the BABs program) and is projected at $7.3 billion in Fiscal 2012 compared to $9.1 billion in Fiscal 2011. The debt burden projections as percentages of total revenue and NYC personal income, increase slightly in the out years in the financial plan. Total debt service increases from 7.7 percent of City total revenue, to 10.4 percent between Fiscal 2011 and Fiscal 2015.

Debt service costs are projected to decrease by $608 million in Fiscal 2011 and Fiscal 2012 compared to the November plan. The interest rate environment has remained favorable for longer than expected, leading OMB to lower interest costs over the five year financial plan and to assume additional opportunities for favorable refinancing.

NYC Financing Program and Debt Service
Dollars in Millions

Net increase/(decrease)	FY11	FY12	FY13	FY14	FY15
Debt Service (GO, Lease, TFA)	**$5,046**	**$5,908**	**$6,672**	**$6,919**	**$7,344**
Change from November Plan(1)	(269)	(339)	(48)	(63)	(61)
NYC Financing Plan					
City GO Bonds	$2,475	$2,640	$2,420	$2,410	$2,210
TFA Bonds(2)	3,600	2,640	2,420	2,410	2,210
Water Authority Bonds	3,008	1,978	1,657	1,487	1,231
Total Financing	**$9,083**	**$7,258**	**$6,497**	**$6,307**	**$5,651**
Change from November Plan	235	(191)	(138)	(27)	0
Debt Burden (TFA, NYCGO, Lease)					
Debt Service/Total Revenue	7.7%	9.0%	10.0%	10.1%	10.4%
Debt Outstanding/NYC Personal Income	14.5%	14.7%	14.6%	14.3%	13.8%

Source*: 2011-2012 Preliminary Budget Financial Plan*
Notes*:.*
1) *FY2011-2012 Savings from Debt Service due to lower interest rates and refundings. Total savings $608*
2) *TFA Bonds do not include BARBs issued for education capital purposes which are secured by Building Aid revenues from the State. TFA expects to issue $922 million, $619 million, $610 million, $629 million and $617 million of such bonds in FY's 2011-2015 respectively*

The City made significant use of the federal interest rate subsidy program - Build America Bonds (BABs) – before its expiration at the end of 2010. The program was authorized under the American Recovery and Reinvestment Act (ARRA) and provided a 35% subsidy payment from the Federal Government on taxable bond interest, which generated significant savings relative to tax-exempt financing. Additionally, BABs allowed the City to reach new investors that, due to their tax status, only invest in taxable debt-instruments, which in turn created a broader investor base and enhanced the market absorption of New York City bond offerings.

During the life of the program, the City issued $11.4 billion or 70% of new money bond issuance in the form of BABs. The City issued $4.4 billion in General Obligation (GO) debt, $3.3 billion in Transitional Finance Authority (TFA) debt, and $3.7 billion in New York Waterways (NYW) debt. Compared to tax exempt financing, the savings from BABs ranged between 10 and 100 basis points (0.1 to 1 percent) depending on the term of the bond, and market conditions at the time of issuance.

The City also benefits from a second taxable bond program created in the ARRA, Qualified School Construction Bonds (QSCBs). QSCB proceeds must be used for constructing, rehabilitating or repairing public school facilities or acquiring land for public schools. The City only sold taxable QSCBs through the Transitional Finance Authority, which will receive a 100% interest subsidy. The authorization for QSCB's has not yet expired and the financial plan reflects an additional $1.3 billion in QSCB issuance, as the authorization does not restrict the timeframe in which these funds have to be issued or spent. The cut in the capital program will also affect the extent to which the QSCB subsidy is used for school capital needs, and whether projects qualify for this funding.

Financial Plan Tables

Gap Reduction in the November and February Plans

Dollars in Millions

November Plan	FY11	FY12
Gap at Adoption FY 11	**$---**	**($3,257)**
Revenue Increase/(Decrease)	**$85**	**($105)**
Spending Increases/(Decreases)		
Education: City funds to replace ARRA funds	$---	853
Pension Assumptions & Methods	(600)	400
PEG Program	(585)	(1,002)
Other Spending Changes, Net	109	(94)
Impact November Plan(Increase Gap)/Decrease Gap	**$1,161**	**($262)**
February Plan		
Revenue Increase/(Decrease)	**$930**	**$1,114**
Spending Increases/(Decreases)		
Debt Service	(269)	(339)
New Needs	453	278
FMAP Timing	(516)	122
Reduce Reserve for Prior Payables	(500)	$---
Decrease FY 11 General Reserve	(200)	$---
Other Spending Changes, Net	(76)	(100)
Subtotal Spending Changes	**($1,108)**	**($39)**
Impact of State Actions (Increase Gap)/Decrease Gap		
Revenue Sharing	$---	(302)
Required Backfills in Health & Welfare	(48)	(76)
State Cuts to Education	$---	(1,008)
Subtotal State Actions	**($48)**	**($1,386)**
Mayor's State Program	**$---**	**$600**
Impact February Plan(Increase Gap)/Decrease Gap	**$1,990**	**$367**
Surplus/(Gap) after all Changes	**$3,151**	**($3,151)**
Roll FY 11 Surplus	(3,151)	3,151
Remaining Gap	**$0**	**$0**

***Source**: OMB Fiscal 2012 February Plan, OMB Fiscal 2011 November Plan*

OMB February 2011 Financial Plan
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
REVENUE					
Taxes					
General Property Tax	$16,847	$17,643	$18,197	$18,632	$19,062
Other Taxes	22,267	23,631	24,320	25,353	26,678
Tax Audit Revenue	868	645	644	651	651
Sub-total, Taxes	**$39,982**	**$41,919**	**$43,161**	**$44,636**	**$46,391**
Miscellaneous Revenues	$6,161	$5,765	$5,814	$5,880	$5,909
Unrestricted Governmental Aid	$14	$12	$12	$12	$12
Anticipated State Action		$600	$600	$600	$600
Less: Intra-City Revenues	($1,871)	($1,515)	($1,512)	($1,512)	($1,512)
Disallowances	($15)	($15)	($15)	($15)	($15)
Sub-total City Funds	**$44,271**	**$46,766**	**$48,060**	**$49,601**	**$51,385**
Other Categorical Grants	$1,315	$1,160	$1,157	$1,154	$1,150
Inter-Fund Revenues	$559	$500	$493	$493	$493
TOTAL City, Capital IFA & Oth. Cat. Funds	**$46,145**	**$48,426**	**$49,710**	**$51,248**	**$53,028**
Federal Categorical Grants	$8,197	$5,937	$5,795	$5,761	$5,761
State Categorical Grants	$11,565	$11,263	$11,286	$11,330	$11,331
TOTAL Revenues	**$65,907**	**$65,626**	**$66,791**	**$68,339**	**$70,120**
EXPENSE					
Personal Services					
Salaries & Wages	$22,124	$21,263	$21,371	$21,598	$21,685
Pensions	6,999	8,419	8,566	8,444	8,721
Fringe Benefits	7,664	7,994	8,439	8,959	9,523
Retiree Health Benefits Trust	(395)	(672)			
Sub-total, Personal Services	**$36,392**	**$37,004**	**$38,376**	**$39,001**	**$39,929**
Other than Personal Services					
Medical Assistance	$4,883	$6,141	$6,327	$6,463	$6,643
Public Assistance	1,562	1,526	1,546	1,546	1,546
All Other OTPS	20,290	19,413	19,934	20,435	20,922
Sub-total OTPS	**$26,735**	**$27,080**	**$27,807**	**$28,444**	**$29,111**
Debt Service	**$5,046**	**$5,908**	**$6,672**	**$6,919**	**$7,269**
Adjustments					
Prior Year Surplus Roll	($3,646)				
Current Year Surplus Roll	$3,151	($3,151)			
General Reserve	$100	$300	$300	$300	$300
Sub-total	**$67,778**	**$67,141**	**$73,155**	**$74,664**	**$76,609**
Less: Intra-City Expenses	(1,871)	(1,515)	(1,512)	(1,512)	(1,512)
TOTAL Expenditures	**$65,907**	**$65,626**	**$71,643**	**$73,152**	**$75,097**
GAP	**$ -**	**$ -**	**($4,852)**	**($4,813)**	**($4,977)**

Source: *OMB Fiscal 2012 February Plan*

Fiscal Year 2012 February Plan: Revenue Plan
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
Taxes					
Real Estate	$16,847	$17,643	$18,197	$18,632	$19,062
Sales	5,509	5,797	5,939	6,086	6,345
Mortgage Recording	444	502	552	618	705
Personal Income	7,476	8,170	8,435	8,925	9,521
General Corporation	2,415	2,725	2,879	2,992	3,098
Banking Corporation	1,245	1,106	1,010	1,018	1,026
Unincorporated Business	1,705	1,799	1,873	1,956	2,041
Utility	383	398	412	425	439
Hotel	418	398	381	400	427
Commercial Rent	603	622	642	663	686
Real Property Transfer	768	770	785	850	971
Cigarette	72	72	70	68	67
All Other	502	454	455	467	467
Audit	868	645	644	651	651
STAR	727	818	887	885	885
Total Taxes	**$39,982**	**$41,919**	**$43,161**	**$44,636**	**$46,391**
Federal Categorical Grants	$8,197	$5,937	$5,795	$5,761	$5,761
State Categorical Grants	$11,565	$11,263	$11,286	$11,330	$11,331
Non-Governmental Grants (Other Cat.)	$1,877	$1,660	$1,650	$1,647	$1,643
Unrest. / Anticipated State & Federal Aid**	$14	$612	$612	$612	$612
Miscellaneous Revenue					
Charges for Services	751	798	795	794	794
Water and Sewer Charges	1,314	1,335	1,332	1,361	1,378
Licenses, Permits, Franchises	498	507	507	510	511
Rental Income	239	250	256	264	267
Fines and Forfeitures	799	801	799	799	799
Other Miscellaneous	668	525	506	500	483
Interest Income	21	34	107	140	165
Intra City	1,871	1,515	1,512	1,512	1,512
Total Miscellaneous	**$6,161**	**$5,765**	**$5,814**	**$5,880**	**$5,909**
Net Disallowances & Transfers	**($1,886)**	**($1,530)**	**($1,527)**	**($1,527)**	**($1,527)**
Total Revenue	**$65,910**	**$65,626**	**$66,791**	**$68,339**	**$70,120**
City Funds (excl. Unrestricted Aid)	$44,257	$46,154	$47,448	$48,989	$50,773
City Funds as a Percent of Total Revenue	67.1%	70.3%	71.0%	71.7%	72.4%
Federal & State Revenue	$19,776	$17,812	$17,693	$17,703	$17,704
Federal & State as a Percent of Total	30.0%	27.1%	26.5%	25.9%	25.2%

*** In FY 12 only includes $600 million in anticipated State Actions.*

Fiscal Year 2012 February Plan: Changes from November Plan
Dollars in Millions

	FY11	FY12	FY13	FY14
Taxes				
Real Estate	$60	$210	$494	$792
Sales	$224	$422	$285	$162
Personal Income	$29	$22	($10)	($23)
General Corporation	($56)	$7	($74)	($134)
Banking Corporation	$108	$148	$115	$110
Unincorporated Business	$150	$50	($50)	($50)
Commercial Rent	$117	$98	$84	$65
Mortgage Recording	$0	$0	$0	$0
Real Property Transfer	$30	$20	$29	$44
Hotel	$37	$59	$70	$80
Utility	$99	$85	$61	$74
Cigarette	($3)	($2)	($2)	($2)
All Other	$11	$0	($1)	($1)
Audit	$240	$0	$0	$0
Tax Program	$0	$0	$0	$0
STAR	($53)	$12	$12	$12
Total Taxes	**$993**	**$1,131**	**$1,013**	**$1,129**
Federal Categorical Grants	**$326**	**$100**	**$70**	**$49**
State Categorical Grants	**$90**	**($1,055)**	**($1,232)**	**($1,605)**
Non-Governmental Grants (Other Cat.)	**($12)**	**$0**	**$1**	**$0**
Unrest. / Anticipated State & Federal Aid**	**$0**	**$298**	**$298**	**$298**
Miscellaneous Revenue				
Charges for Services	($4)	$12	$13	$13
Water and Sewer Charges	($17)	($2)	$0	$1
Licenses, Permits, Franchises	$3	$0	$0	$0
Rental Income	$4	$0	$0	$0
Fines and Forfeitures	($59)	($28)	($29)	($29)
Other Miscellaneous	$10	$1	$0	$0
Interest Income	$0	$0	$0	$0
Intra City	$47	($8)	($7)	($7)
Total Miscellaneous	**($16)**	**($25)**	**($23)**	**($22)**
Net Disallowances & Transfers	**($47)**	**$8**	**$7**	**$7**
Total Revenue	**$1,334**	**$457**	**$134**	**($144)**
City Funds	**$930**	**$1,114**	**$997**	**$1,114**
Federal & State Revenue	**$416**	**($657)**	**($864)**	**($1,258)**

Source: *OMB Fiscal 2011 November Plan*

*** In Fiscal 2012 only includes $600 million in anticipated State Actions.*

OMB Tax Forecast
Dollars in Millions

	FY10	FY11	FY12	FY13	FY14	FY15
Real Property	$16,184	$16,847	$17,643	$18,197	$18,632	$19,062
Personal Income	6,858	7,476	8,171	8,434	8,924	9,521
General Corporation	1,976	2,415	2,725	2,879	2,992	3,098
Banking Corporation	969	1,245	1,106	1,010	1,018	1,026
Unincorporated Business	1,560	1,705	1,799	1,873	1,956	2,041
Sales	5,059	5,509	5,797	5,939	6,086	6,345
Commercial Rent	594	603	622	642	663	686
Real Property Transfer	602	768	770	785	850	971
Mortgage Recording	366	444	502	552	618	705
Utility	375	383	398	412	425	439
Hotel	363	418	398	381	400	427
Other Taxes	1,513	1,302	1,344	1,413	1,421	1,419
Audits	770	868	645	644	651	651
Total Taxes	**$37,188**	**$39,982**	**$41,919**	**$43,160**	**$44,635**	**$46,390**

***Source**: OMB Fiscal 2012 February Plan*

OMB Tax Forecast Growth

	FY10	FY11	FY12	FY13	FY14	FY15
Real Property	12.9%	4.1%	4.7%	3.1%	2.4%	2.3%
Personal Income	4.1%	9.0%	9.3%	3.2%	5.8%	6.7%
General Corporation	(14.8%)	22.2%	12.8%	5.7%	3.9%	3.5%
Banking Corporation	(11.8%)	28.4%	(11.1%)	(8.7%)	0.8%	0.8%
Unincorporated Business	(12.6%)	9.3%	5.5%	4.1%	4.4%	4.3%
Sales	10.1%	8.9%	5.2%	2.4%	2.5%	4.3%
Commercial Rent	2.0%	1.5%	3.2%	3.2%	3.3%	3.5%
Real Property Transfer	(19.0%)	27.7%	0.3%	1.9%	8.3%	14.2%
Mortgage Recording	(28.9%)	21.3%	13.1%	10.0%	12.0%	14.1%
Utility	(5.9%)	2.2%	3.9%	3.5%	3.2%	3.3%
Hotel	6.1%	15.2%	(4.9%)	(4.2%)	4.9%	6.7%
Other Taxes	(14.0%)	(14.0%)	3.2%	5.1%	0.6%	(.1%)
Audits	(18.8%)	12.8%	(25.7%)	(.2%)	1.2%	0.0%
Total Tax Growth	**3.3%**	**7.5%**	**4.8%**	**3.0%**	**3.4%**	**3.9%**

***Source**: OMB Fiscal 2012 February Plan*

Fiscal Year 2012 February Plan: With Changes From Adopted Budget and November Plan

Dollars in Millions

			Chng. Nov to Feb		Chng Adopt to Feb	
	FY11	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**
REVENUE						
Taxes						
General Property Tax	$16,847	$17,643	$60	$210	$67	$220
Other Taxes	22,267	23,631	693	921	757	858
Tax Audit Revenue	868	645	240	-	246	24
Sub-total, Taxes	**$39,982**	**$41,919**	**$993**	**$1,131**	**$1,070**	**$1,102**
Miscellaneous Revenues	$6,161	$5,765	($16)	($25)	$249	$27
Unrestricted Governmental Aid	$14	$12	$0	($302)	$0	$0
Anticipated State Action	$0	$600	$0	$600	$0	$600
Less: Intra-City Revenues	($1,871)	($1,515)	($47)	$8	($255)	($17)
Disallowances	(15)	(15)	-	-	-	-
Sub-total City Funds	**$44,271**	**$46,766**	**$930**	**$1,412**	**$1,064**	**$1,712**
Other Categorical Grants	$1,315	$1,160	($15)	-	$81	$18
Inter-Fund Revenues	$559	$500	-	-	$1	$7
TOTAL City, Capital IFA & Oth. Cat.	**$46,145**	**$48,426**	**$915**	**$1,412**	**$1,146**	**$1,737**
Federal Categorical Grants	$8,197	$5,937	$326	$100	$1,401	$190
State Categorical Grants	$11,565	$11,263	$90	($1,055)	$283	($942)
TOTAL Revenues	**$65,907**	**$65,626**	**$1,331**	**$457**	**$2,830**	**$985**
EXPENSE						
Personal Services						
Salaries & Wages	22,124	21,263	308	68	546	249
Pensions	6,999	8,419	(13)	74	(613)	543
Fringe Benefits	7,664	7,994	48	(129)	26	(62)
Retiree Health Benefits Trust	(395)	(672)	-	-	-	-
Sub-total, Personal Services	**$36,392**	**$37,004**	**$343**	**$13**	**($41)**	**$730**
Other than Personal Services						
Medical Assistance	4,883	6,141	(515)	122	(283)	194
Public Assistance	1,562	1,526	4	(64)	(1)	(77)
All Other OTPS	20,290	19,413	64	322	768	(24)
Sub-total, OTPS	**$26,735**	**$27,080**	**($447)**	**$380**	**$484**	**$93**
Debt Service	**$5,046**	**$5,908**	**($308)**	**($311)**	**($305)**	**($386)**
Adjustments						
Prior Year Surplus Roll	(3,646)		-	-	(4)	-
Current Year Surplus Roll	3,151	(3,151)	1,990	(1,990)	3,151	(3,151)
General Reserve	$100	$300	($200)	$0	($200)	$0
Sub-total	$67,778	$67,141	$1,378	($1,908)	$3,085	($2,714)
Less: Intra-City Expenses	($1,871)	($1,515)	($47)	$8	($255)	($17)
TOTAL Expenditures	**$65,907**	**$65,626**	**$1,331**	**($1,900)**	**$2,830**	**($2,731)**
GAP	**$-**	**$-**	**$-**	**$2,357**	**$-**	**$3,716**

***Source**: OMB Fiscal 2012 February Plan, OMB Fiscal 2011 November Plan, OMB Fiscal 2011 Adopted Plan*