New York City Council
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Hearing on the Mayor's Fiscal Year 2012 Executive Budget

Financial Plan Overview, State Aid, Economy, Taxes, Pensions, Capital, Debt Service

June 6, 2011

The Committee on Finance

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Introduction

Fiscal 2012 is going to be a difficult year for the City. Since the November plan of 2010, the Administration has proposed a total of $1.2 billion in Fiscal 2012 programs to eliminate the gap (PEGS). Some of the consequences of these PEGs include:

- A headcount reduction of slightly under 9,500, including a bit under 5,700 layoffs.
- Seventy-five percent of the layoffs would be in education,[1]
- Twenty Fire Companies would close, and as part of the headcount reduction the City would lose 505 firefighter positions.
- Elimination of 16,300 Out of School Time program slots which provide academic support, recreation and cultural enrichment to City children after school and during vacation periods.

Since May 12th, the Council has held hearings to examine the implications of the Fiscal 2012 Executive Budget on an agency by agency basis. June 6th's hearing marks an end of these. The testimony of the Director of the Office of Management and Budget along with the testimony the New York City Comptroller and the Independent Budget office are an opportunity to reflect on what has been learned in earlier hearings, examine the budget as a whole and to consider the priorities within that budget.

Gap Reduction in the May Plan
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
Gap to be Closed - February Plan	**$0**	**$0**	**($4,852)**	**($4,813)**	**($4,977)**
Anticipated State Actions in the February Plan	0	(600)	(600)	(600)	(600)
State Actions in Final Adopted State Budget	9	192	168	168	168
Gap to be Closed After State Budget Impact	**$9**	**($408)**	**($5,284)**	**($5,245)**	**($5,409)**
Exec. Budget Revenue Changes - Increase/(Decrease)					
Tax Revenue	($38)	$163	$271	($34)	($14)
Non-Tax Revenues	8	141	119	119	110
Subtotal Revenue Changes	($30)	$304	$390	$85	$96
Exec Budget Expense Changes - Increase/(Decrease)					
Agency Expense Changes	$21	$195	$129	$159	$181
Decrease Fiscal 2011 General Reserve	(60)	0	0	0	0
Subtotal Expense Changes	($39)	$195	$129	$159	$181
Surplus/(Gap) to be Closed - May 2011 Plan	**$18**	**($299)**	**($5,023)**	**($5,319)**	**($5,494)**
Executive Budget PEG Program	48	233	256	233	234
Increase Surplus Roll*	(66)	66	0	0	0
Remaining Gap - May Plan	**$0**	**$0**	**($4,767)**	**($5,086)**	**($5,260)**

***Source**: OMB Fiscal 2012 May Plan*
***Note**: *Total FY 11 surplus used to support FY 12 spending is $3.2 bn.*

[1] Department of Education and CUNY.

This document will provide an overview of the Fiscal 2012 Executive Budget, with an emphasis on the tax revenue, State aid, pension and debt service parts of the budget. It will also examine the City's economy and provide the City Council Finance Division's (Council Finance) forecast of tax revenues for Fiscal 2011 through Fiscal 2015 and a brief look at the capital plan. The tax policy section includes an update on property tax assessments in Fiscal 2012 final roll, including the surprising changes in the Department of Finance's estimate of the market values of many co-ops.

Why is Fiscal 2012 Such a Difficult Year for the Budget?

- **Since Fiscal 2008, the City own source revenues have not kept up with expenses. Federal stimulus money and the City's prior surpluses have bridged the gap, but these are running out. New York State's difficulties resulting in reductions in Fiscal 2012 State aid have made dealing with this more difficult.**

The City's budget is still dealing with the lingering effect of the financial crisis and subsequent recession. The recession caused the income-sensitive, sales, personal income tax and business taxes to fall by close to 18 percent. The two taxes based on the sale of property, the mortgage recording and real property transfer tax, collapsed, falling by over 70 percent or $2 billion. With the notable exceptions of the property tax and commercial rent taxes, all the major taxes fell for at least one year during this period. However, tax revenues are coming back as the City's economy recovers, and in Fiscal 2011, thanks in part to tax programs enacted in Fiscal 2009 and Fiscal 2010, City tax revenues will exceed their pre-recession Fiscal 2008 peak.[2] In Fiscal 2012, tax revenues will continue to grow, and by Council Finance estimate they should be 9.1 percent above Fiscal 2008. City own source revenue, essentially taxes plus fees, fines, rents and other miscellaneous revenue, has not quite kept up and is still slightly below its Fiscal 2008 level, but it is expected to exceed it in Fiscal 2012.

Helping during the recession were Federal grants, which rose by 30 percent during Fiscal 2010, largely due to the Federal stimulus, properly the American Recovery and Reinvestment Act (ARRA). These grants remained at this high level in Fiscal 2011, but they are expected to fall by 21 percent in Fiscal 2012 due to the sunset of the ARRA.[3]

New York State is also a major source of grant revenue to the City. Like the City, its revenues have suffered from the impact of the recession, and it is now adjusting from the withdrawal of Federal support from the ARRA. The State has been slower than the City in dealing with these difficulties, and in its Fiscal 2011-2012 Adopted budget, it closed a $10 billion gap. About 70 percent of the resources to close this gap came from reductions in local aid. In Fiscal 2012, State aid will fall about 4 percent compared to the previous year, but the impact is somewhat larger because, based upon the State's financial plan, the City had anticipated higher State aid in Fiscal 2012. It was in the City's February plan that it started to adjust to possibility of reduced New York State aid.

One result of these State and Federal actions is the growing importance of City funds. City funds, taxes, fees, rents, fines and other miscellaneous revenues have always provided the bulk of revenues for City budgets. In Fiscal 2012, they provide about 70 percent of the revenues, up from 67 percent in Fiscal 2011 and 66 percent in Fiscal 2010. This is part of a trend that goes back to Fiscal 2004 of the City picking up a higher share of its budget.

[2]These included increases in sales and property taxes and a revenue increasing business tax conformity package. Without these Fiscal 2011 revenues would still be 5 percent below Fiscal 2008 levels.

[3] Some of this is a budgeting artifact, certain Federal grants are not recognized until it is clear the City will receive them. Because of this the amount of Federal grants typically shows a large increase between the Adopted budget and the November plan.

Fiscal 2012 May Plan Summary
Dollars in Millions

	FY10*	FY11	FY12	FY13	FY14	FY15
Total Taxes	$37,201	$39,951	$42,097	$43,447	$44,617	$46,393
Total Miscellaneous	6,562	6,192	5,915	5,971	6,030	6,049
Net Disallowances & Transfers	(1,834)	(1,905)	(1,547)	(1,541)	(1,538)	(1,538)
Total 'Own Source' City Funds	**$41,929**	**$44,238**	**$46,465**	**$47,877**	**$49,109**	**$50,904**
Own Souce Share of Revenues	65.8%	67.1%	70.7%	71.5%	72.0%	72.7%
Federal Cat. Grants excluding ARRA	6,591	6,636	6,292	6,102	6,060	6,059
ARRA**	1,609	1,689	233	188	175	174
Total Federal Categorical Grants	$8,200	$8,325	$6,525	$6,290	$6,235	$6,233
State Categorical Grants	11,819	11,495	11,010	11,093	11,159	11,250
Unrest. / Anticipated State & Federal Aid	21	14	12	12	12	12
Non-Governmental Grants (Other Cat.)	1,711	1,905	1,703	1,661	1,659	1,656
Total Revenues	**$63,680**	**$65,977**	**$65,715**	**$66,933**	**$68,174**	**$70,055**

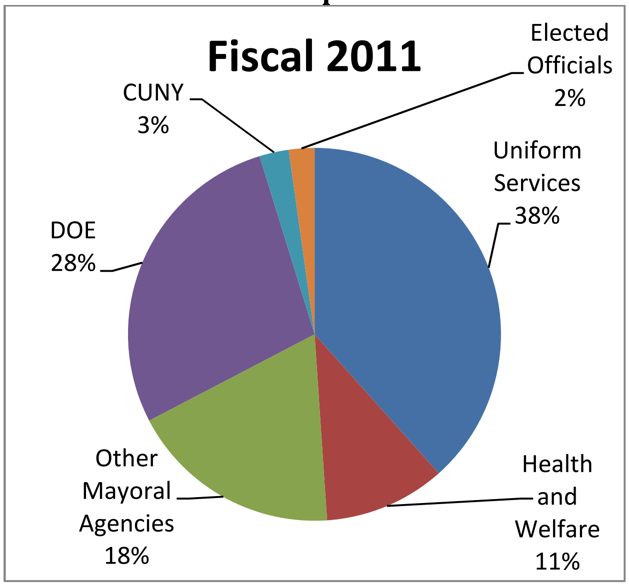
*Actuals

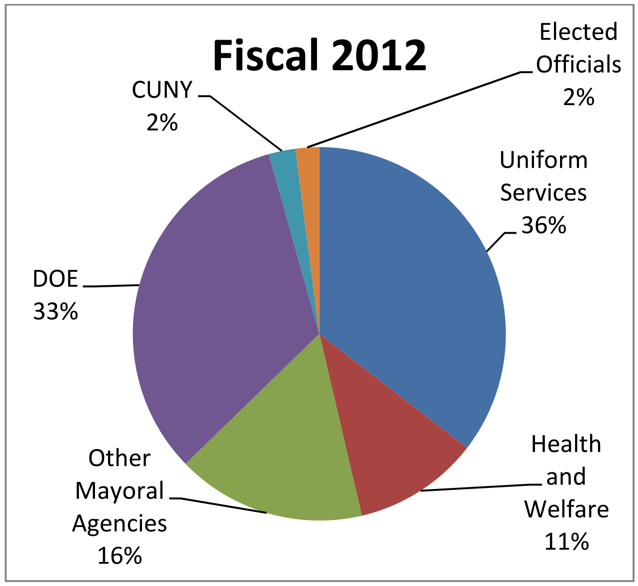
**The Medicaid FMAP Relief comes to $894 mil in FY10, $999 mil in FY11, $199 mil in FY12, and $32 mil in FY13.

***Source**: OMB Fiscal 2012 May Plan*

The need to replace lost State and Federal aid has an impact on agency spending in the City budget. State aid and Federal ARRA money were not evenly distributed around the budget, but they were concentrated in some areas, especially in education. Losses of these funds had to be managed through some combination of additional City funds and reductions in spending. The Executive budget did both. In Fiscal 2012, the Department of Education and the City University will be about 35 percent City funded up from 31 percent in Fiscal 2010. About $853 million in City funds are needed to replace funds lost due to the end of the Federal stimulus (ARRA). Another $1 billion is needed to replace State education aid assumed in the City's budget baseline but not contained in the Fiscal 2011-2012 New York State Adopted budget.

Shift in Resources to Department of Education



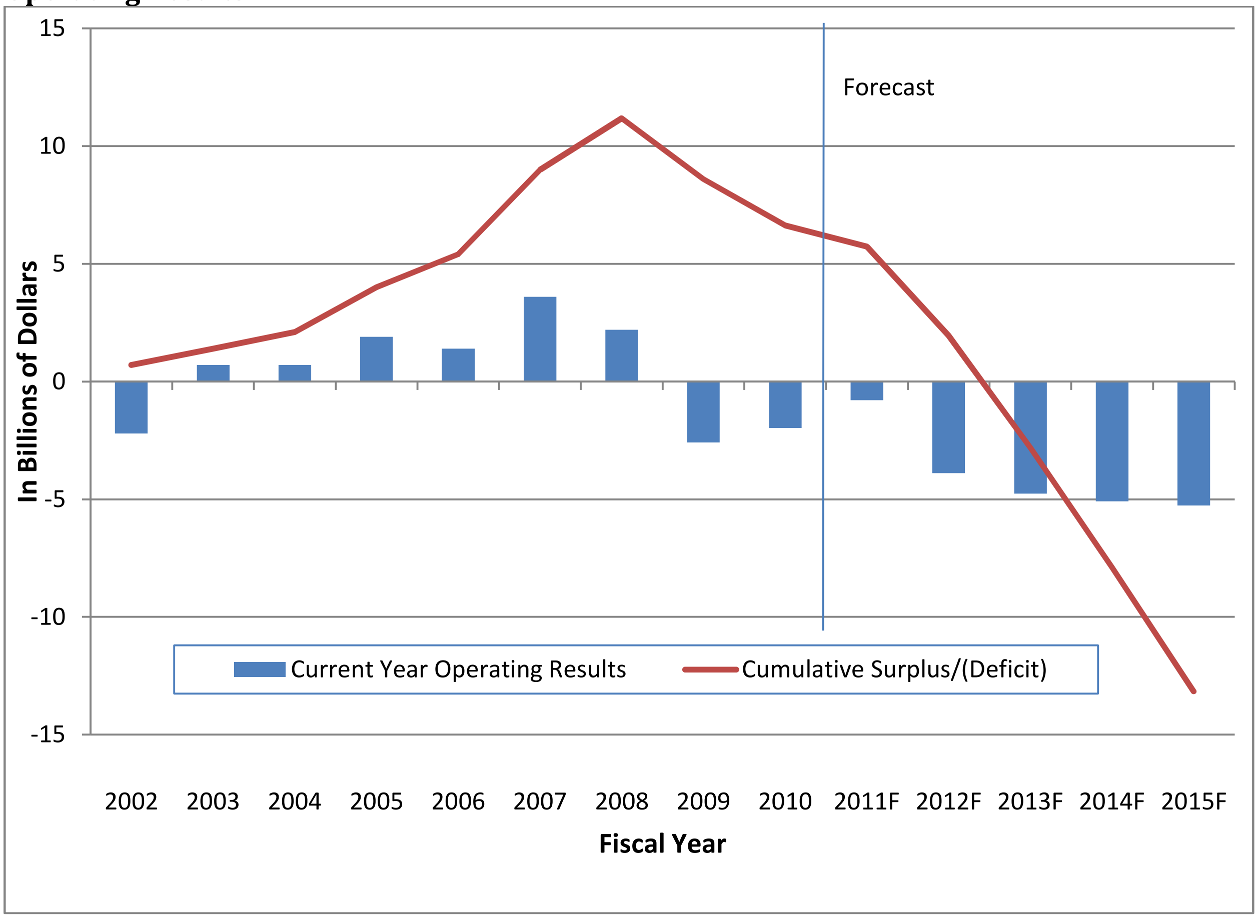


Fiscal 2012's difficulties are not just about the size and composition of revenue. Spending is rising too. If you adjust for prepayments, spending has risen by 11 percent since Fiscal 2008 and will rise another 3.8 percent in Fiscal 2012. This is despite the fact that PEGs since June 2008 provided \$4.6 billion in annual savings in Fiscal 2011[4]. In part, this is a result of costs. One such cost examined in this report is pensions. Turmoil in the financial markets has been hard on their portfolio. This has an impact, with a lag, on employer contributions. Since Fiscal 2008, these contributions have increased by 22 percent or a bit under \$1.3 billion. In Fiscal 2012 they will increase by another 20 percent, or a bit over \$1.4 billion[5].

Easing the City's difficulties during the recession and recovery has been the availability of prior surpluses, some of which have been used to prefund debt service and certain other expenses, and some of which are in the Retiree Health Benefit Trust Fund (RHBT). While the City's budget has been balanced according to Generally Accepted Accounting Principles (GAAP), if you consider current year revenues and expenses, it has been running operating deficits since Fiscal 2009 and is anticipated to run operating deficits in Fiscal 2011 and Fiscal 2012. This makes sense, since these funds exist for a rainy day, and it has been raining. The Executive budget anticipates using \$3.2 billion from the surplus roll and \$672 million from the RHBT in Fiscal 2012. According to the financial plan at the end of Fiscal 2012, the only remaining surplus will be \$2 billion in the RHBT. By Council Finance estimations, things should not be quite that bad, assuming the expense budget remains as it is. Our somewhat higher Fiscal 2011 and Fiscal 2012 tax forecast suggests there will be an extra \$258 million rolled into Fiscal 2013.

[4] Since some PEGS increase revenues, this savings is not entirely on the spending side of the budget.
[5] New York City is not the only employer contributing to the City's pension funds. Some State, Federal and other employees are part of the fund, but in Fiscal 2010, 97 percent of employer contributions came from the City.

Operating Results



Overview of the May Plan

- **The May Plan makes relatively small changes to revenues and expenses, increasing the Fiscal 2011 surplus by $66 million, which is rolled into Fiscal 2012.**
- **This Plan is a continuation of the February and November Plans. All together the three plans added over the two Fiscal Years $2.3 billion in revenue, proposed $1.9 billion in PEGs and other changes in expenditures netting $323 million in savings, and recognized $1.2 billion in lost State aid.**

Balancing the Fiscal 2012 budget began in a serious way with the financial plan released in November 2010. The Executive budget, or May plan, should be seen as a continuation of the November plan and the subsequent Preliminary Budget or February Plan.

Changes within the May plan itself are relatively small. They recognize differences between the New York State Executive and Adopted budget, including the failure of the Mayor's proposal on revenue sharing (AIM). It also recognizes the likelihood that the Mayor's proposals for pension reform will not be adopted.

Fiscal Year 2012 May Plan Financial Summary
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
REVENUE					
City Funds	$48,048	$49,559	$50,959	$52,185	$53,979
TOTAL Revenues	**$65,977**	**$65,715**	**$66,933**	**$68,174**	**$70,054**
EXPENSE					
Personal Services	$36,388	$37,021	$38,330	$38,944	$39,874
Other than Personal Services	$26,831	$27,229	$27,928	$28,618	$29,385
Debt Service	$5,037	$5,914	$6,668	$6,921	$7,278
General Reserve	$40	$300	$300	$300	$300
Less: Intra-City Expenses	($1,890)	($1,532)	($1,526)	($1,523)	($1,523)
Total Operating Expenses	$66,406	$68,932	$71,700	$73,260	$75,314
Net Surplus Roll	($429)	($3,217)			
TOTAL Expenses	**$65,977**	**$65,715**	**$71,700**	**$73,260**	**$75,314**
GAP	**$0**	**$0**	**($4,767)**	**($5,086)**	**($5,260)**

Source*: OMB Fiscal 2012 May Plan*

Gap Reduction Since Adoption
Dollars in Millions

	FY 2011	FY 2012
Gap at Adoption FY 11	**$---**	**($3,257)**
NOVEMBER PLAN		
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)
Subtotal Spending Changes	**($1,076)**	**$157**
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**
MAY PLAN		
Revenue Increase/(Decrease)	**($30)**	**$304**
Spending Increases/(Decreases)		
Agency Expense Changes	$21	$195
Reduce General Reserve	($60)	
PEG Program	($48)	($233)
Subtotal Spending Changes	($87)	($38)
Mayor's State Program/State Aid	**$9**	**($408)**
Impact May Plan(Increase Gap)/Decrease Gap	**$66**	**($66)**

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PLANS COMBINED		
Revenue Increase/(Decrease)	**$985**	**$1,313**
Spending Increases/(Decreases)		
PEG Programs	($633)	($1,235)
Other Changes	($1,638)	$1,315
Subtotal Spending Changes	**($2,271)**	**$80**
State Action and Mayor's State Program	**($39)**	**($1,194)**
Impact Combine Planes(Increase Gap)/Decrease Gap*	**$3,217**	**$39**
Gap Projection at Adoption FY 11	**$---**	**($3,257)**
Surplus Roll	**($3,217)**	**$3,217**
Gap as of Executive Plan	**$0**	**$0**

Source*: OMB Fiscal 2012 November, February and May Plans.*

The May plan includes Fiscal 2012 headcount reductions concentrated in education.

Fiscal Year 2012 May Plan: Headcount Reductions

Details from PEGs

	Attrition	Layoffs	Total
Uniformed Services	(840)	0	(840)
Health & Welfare	(92)	(295)	(387)
Education	(1,418)	(4,278)	(5,696)
All Other	(1,441)	(1,086)	(2,527)
TOTAL	**(3,791)**	**(5,659)**	**(9,450)**

Source*: OMB Fiscal 2012 May Plan*

As discussed above, starting in Fiscal 2013, the City budget is no longer supported by a surplus roll or funds from the RHBT. The Fiscal 2012 budget is balanced on a GAAP basis, but it has a $3.9 billion operating gap. Without prior year surpluses Fiscal 2013 has a GAAP deficit of $4.8 billion. However, Council Finance believes that stronger revenue growth will make the Fiscal 2013-Fiscal 2015 gaps smaller than in the May plan.

Even with the Council Finance forecast, the gaps are large and are not converging. They are all the more formidable because PEGS are getting painful. OMB is a conservative budgeter, and there are typically end of the year re-estimates and funds that are intended to be rolled, like the general reserve. But even taking this into account, balancing Fiscal 2013 without additional tough PEGS will require stronger revenue growth than Council Finance currently believes likely.

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 $5.2 billion range forecast by OMB to between $3.8 billion and $4.1 billion. Differences in the out years are more significant.

Council Forecast: Impact on Gap
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
May Plan GAP	**$0**	**$0**	**($4,767)**	**($5,086)**	**($5,260)**
Council Finance Tax Forecast*	66	192	732	912	1,286
Restated Gap.	**$0**	**$0**	**($3,777)**	**($4,174)**	**($3,974)**

** Difference from OMB May Plan Forecast*

The State Budget – Closing One Gap, Opening Another

- **Budget decrease of $3.7 billion, three quarters of which is Local Aid cuts, $1.2 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.**

On March 31, the New York State Legislature adopted the 2011-2012 State Budget. This Budget closed the State's $10 billion deficit and reduces the budget gaps to $2.4 billion in FY 2013, $2.8 billion in FY 2014 and $4.6 billion in FY 2015. The budget calls for $131.7 billion in overall spending, a more than two percent reduction from last year's budget. State operating spending will total $88 billion, an increase of $1.7 billion or 1.9 percent over last 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. Eighty-five percent of the Adopted Budget gap-closing plan consists of actions to reduce spending, and Local Aid cuts comprise nearly three-quarters of total gap-closing actions. The budget does not rely on significant new revenues to close the budget gap.

The Adopted 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 Enacted Budget
Dollars in Millions

Gap Before Actions: ($10,001)	Amount	Percent
Spending Control	$8,537	85%
· Local Aid Cuts	7,040	70%
· State Agency Reductions	1,497	15%
Revenues	324	3%
Non-Recurring Resources	860	9%
New Resources/Costs	380	3%
Total Gap-Closing Actions	**$10,001**	**100%**

As indicated in the chart above, spending control constitutes 85 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. New resources and costs, which are based on a review of FY 2011 results and other information, are estimated to total $380 million in Fiscal 2012.

Impact on Local Aid – New York City

The Adopted Budget resulted in approximately $1.2 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.

In addition to the direct impact of reducing the State share in the costs of these services, the Adopted Budget capped and restricted revenue streams to local agencies by creating block grants, which tend to provide a lower level of support.

The New York State Adopted Budget projects out year gaps of $2.4 to $4.6 billion, much more manageable than this year's problem. But those projections assume the continuation of current State gap reduction policies. In the out years, SFY 2012-2013 to SFY 2014-2015, State local assistance grants are projected to grow at an average rate of 3.8 percent[6]. The City's Executive budget takes a cautious view of this, assuming State categorical grants grow in the out years at an average rate of 0.7 percent. The City also assumes that AIM will not be restored and there will be no unrestricted State grants. State grants provided 18.5% of City revenues in Fiscal 2010; by Fiscal 2015 they will provide only 16.1 percent of revenue. The City is increasingly on its own.

[6] Council Finance has adjusted these grants to make them more closely compatible with City's State categorical grants by removing Medicaid and STAR, which appear elsewhere in the City budget.

State Budget Restorations: Impact on City Fiscal Year 2012
Dollars in Millions

	State Executive Budget Cuts	City Funded in Preliminary Budget	State Final Budget Restorations
AIM	**($302.0)**	**$0**	**$0**
Education			
Foundation Aid	(891.0)	837.7	50.9
Summer School Special Ed	(120.8)	120.8	120.8
4201 (Blind & Deaf) Schools	(50.0)	50.0	25.0
Social Services			
CSE Reimbursement	(34.8)	34.8	17.4
Adoption Subsidies	(29.7)	29.7	-
Nurse Family Partnership	(5.2)	-	-
Juvenile Detention Funding	(15.0)	15.0	15.0
Juveniles Alternatives Funding	9.0		
OCFS Placement Rates	(1.0)	1.0	1.0
Title XX	(27.0)	-	-
Adult Shelter Cap	(15.7)	15.7	-
Work Advantage	(154.0)	-	15.0
Summer Youth Employment	(8.5)	-	-
Runaway/Homeless Youth	(1.7)	-	-
YDDP/SDPP	(7.6)	-	-
Increase State Share for Safety Net	4.9	(4.9)	(4.9)
Flexible Fund for Family Services	(7.0)	-	-
Public Assistance Increase Delay	3.9	(3.9)	(11.6)
Full Family Sanctions	8.9	(8.9)	(8.9)
Criminal Justice Local Assistance	(7.0)	-	-
Health/Mental Hygiene			
Article VI	(20.8)	-	(15.6)
Reduction to Mental Hygiene	(1.9)	-	-
Early Intervention Reform	2.0	-	(1.0)
TOTAL	**($1,672.0)**	**$1,087.1**	**$203.1**

The Economy

National Economy Overview

- **Employment growth and improving credit markets point to modest recovery.**
- **Housing sector continues to drag for the foreseeable future.**
- **Improvement in business indices points to modest recovery.**
- **Employment and hiring improving, but unemployment remains high.**
- **Moderation in commodity prices improves outlook but can still impact growth.**
- **Weaker dollar has improved export growth.**
- **Interest rates likely to rise next year.**

The national economy appears to be continuing on its upward trend, though at a slightly slower pace than previously expected. The most recent GDP growth came in at a somewhat disappointing 1.8 percent[7], significantly lower than the 3.1 percent reading for the fourth quarter of 2010. Employment growth has been picking up over the course of the first quarter with recent readings showing growth in private payrolls above 200,000 per month, a significant level indicating the economy is growing again. Unfortunately, recent initial unemployment insurance claim numbers have spiked up to well above the 400,000 per week level which indicates that there is still weakness and the recovery has not quite stabilized yet.

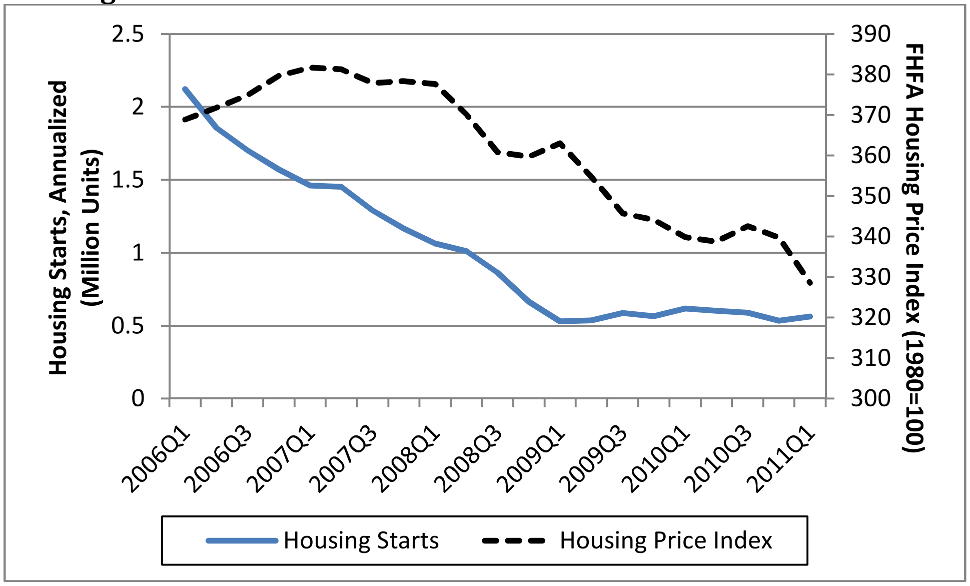
The housing sector continues drag for the foreseeable future

The housing sector continues to be a significant drag on the economy with the Case-Shiller 20-City price index falling 3.6 percent over the past year. Housing starts are still near the lowest levels of the past decade, at a pace of 523,000 per year, 23 percent lower than last year, and there is still a significant overhang of available inventory. The Northeast has seen a particularly large drop of almost 30 percent since last year and currently has the lowest number of housing starts among the four regions at 60,000 per year. This will continue to keep house prices flat for the foreseeable future or at least until the economy and hiring pick up to a significant level.

Mortgage applications have remained mostly flat for most of the past year after falling from earlier peaks in the beginning of 2010 due to the expiration of the homebuyer tax credit. Recent news that the cap on mortgages covered by Fannie Mae and Freddie Mac will be reduced back to the $400,000 dollar range may keep the market depressed in more expensive urban markets like New York City, San Francisco and Los Angeles.

[7] IHS Global Insight.

Housing Starts Remain Flat As Prices Continue to Trend Downward



Sources*: U.S. Department of Commerce, Federal Housing Finance Agency.*

On a slightly more positive note, architects' billings remain just above the neutral level due to increases in commercial construction. Spending on buildings fell quite drastically since the beginning of 2008 and has remained low for the past three years, but recent increases point to a movement towards positive growth later this year. Spending on equipment by businesses has continued to rise, driven by low interest rates, although that may slow beginning next year as the Fed is expected to raise rates beginning in 2012 to protect against inflation.

Improvement in business indices points to modest recovery

The availability of credit has begun to improve for commercial and industrial loans, consumer loans as well as commercial mortgage loans. Unfortunately, home mortgage credit continues to be tight though it has improved significantly from the crisis. As credit conditions have improved, the indexes of business activity have remained mostly in positive territory, although they have declined somewhat since the beginning of the year. Both the manufacturing and nonmanufacturing indexes are above the breakeven level with manufacturing outperforming nonmanufacturing which has dipped by a little over 10 percent since its peak in February.

The National Federation of Independent Business' Small-Business optimism index has climbed fairly steadily since the depths of 2009, but it has followed the nonmanufacturing index down in the recent months. Large businesses may be a stronger driving force given the large cash holdings they are looking to spend as the recovery improves.

Employment and hiring improving slightly, but unemployment remains high

Private payroll employment has been above the critical level of 150,000 jobs[8] for the past 3 months, indicating that the recovery has begun to take hold. The pickup of employment has helped to briefly push the unemployment rate below the 9 percent level for the first time in two years. However, it has crept back to 9 percent in the most recent report, most likely due to discouraged workers resuming their search for jobs.

Changes in the unemployment rate typically lag other signs of economic growth as firms wait until they can be sure that the economic recovery is in full swing before they make the decision to add to their payrolls. Hours worked have increased, raising overall earnings, but unfortunately average hourly earnings growth fell since the beginning of 2009 and remained flat over the past year. Rising prices have also cut into disposable incomes, reducing much of the gains from increased hours worked. Hopefully the moderation in commodity prices along with increased hiring leading to wage pressures will help to push workers' earnings up.

Moderation in commodity prices improves outlook but can still impact growth

There have been concerns that rising commodity prices have been driving up inflation, particularly the strong rise in both oil and agricultural prices. However, a significant pullback in the past few weeks may signal a reduction in speculation and a return to more moderate rising trends. In addition, rising gas prices were becoming worrisome, with some pointing to significant impacts on consumers as gas prices rose towards $4 per gallon, on average, across the nation. Gas prices have begun to pull back following the most recent weeks' fall in oil prices of almost 10 percent. This may provide needed relief, particularly going into the summer driving season which is traditionally the time when gas prices usually peak for the year.

The rise in commodity prices appears to have reached a peak recently, but prices are projected to remain high, and it is expected that farm products will resume their rise back towards their current peak beginning later this year. These price rises are cutting into consumers' purchasing power and have more than offset the increased income from the payroll tax cut for 2011. Unfortunately, this has damped the impact of consumer spending on the recovery, which – given that consumption accounts for roughly 70 percent of our GDP – will tend mute the growth of the recovery.

The return of previous payroll tax rates as well as other possible tax increases to close budget gaps in 2012 and beyond may put further downward pressure on consumers. Overall core inflation has risen slightly to 1.3 percent which is still below the Fed's target rate of 2 percent. IHS Global Insight forecasts energy prices to rise 15.3 percent in 2011 which could put further pressure on consumer's wallets. Light vehicle sales continue to be strong, despite the fear of higher gas prices, coming in at 13.1 million units in April, but this is expected to fall in the coming months as supply constraints due to the Japanese earthquake and tsunami are felt.

[8] The economy must add at least 150,000 jobs each month in order to keep up with population growth.

Weaker dollar has improved export growth

Export growth has continued to be a strong driver of GDP growth, partly due to the relative fall in U.S. export goods prices as the dollar has weakened relative to other currencies. The contribution of the weaker exchange rate can be seen in the strong growth in exports to Latin America and the Pacific Rim, who consume almost 50 percent of U.S. exports. Both of those areas have seen relatively strong economic growth following the Recession and their currencies have been strengthening relative to the dollar on average.

Fears of the debasement of the dollar relative to other currencies seem to be overblown as there is far more benefit to be gained from the increases in exports. While the dollar has been weak relative to the Euro over the past year, minimal economic growth there has held down exports to the Euro-area relative to our other trading partners. Exports are expected to continue to outpace imports over the next few years which should begin to gradually reduce our trade deficit. Depending on the magnitude of this effect, there may be some issues down the road as the smaller trade deficit will reduce the necessity for other countries to purchase U.S. Treasuries which may push yields higher. There continue to be issues at the federal level that could result in changes in the current trajectory.

Interest rates likely to rise next year

The end of the second round of quantitative easing (QE2) in June is expected to result in a moderate rises in bond yields though that is debatable given that the end of the program has been apparent for quite some time and bond yields have been falling for the past few months. However, current low interest rates cannot continue indefinitely. Short term rates should continue to rise with the current 0.3 percent rate on three month T-bills becoming a more normal 0.89 percent by this time next year. Long rates should also go up – but not to the same extent – and both the 10 year Treasury note and the 30 year fixed rate mortgage should each go up about 30 basis points over this period. This flattening of the yield curve shrinks the difference between long and short term rates. Banks and financial sector firms, who typically ‘borrow short and lend long’ could see the unusual profits they are earning eroded by a return to more normal short term interest rates.

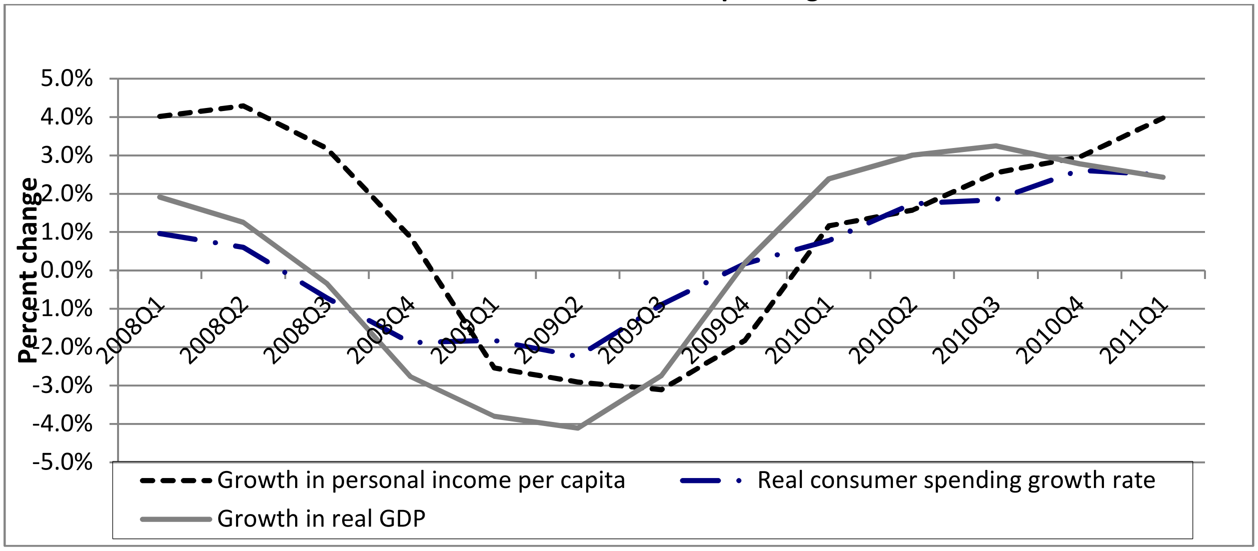
The recent warning from Standard & Poor’s regarding the U.S. government’s credit rating has incited some fear in the market, but bond markets have not responded to a great degree. The prospect of a downgrade below the current AAA rating still appears remote, but continued deadlock between Democrats and Republicans about the future of federal deficits could increase the probability.

In the nearer term, the debate over the increase of the budget ceiling could affect forecasts. If an agreement cannot be reached before the August deadline, it could have significant consequences for Federal spending and the ability of the Federal government to borrow. This is unlikely as it would seriously damage the economy, but the negotiations could result in further cuts to federal spending.

Other forecasters have a similar view of the economy. The National Association of Business Economists (NABE) has recently revised their projections for GDP growth for 2011 down to 2.8 percent from 3.3 percent and maintained their projections of 3.2 percent growth for 2012. This is slightly above Council Finance and OMB's forecast of 2.7 percent growth for 2011 and farther above Council Finance's 2012 forecast of 2.9 percent.

There is a general consensus that the economy and labor markets will continue to improve at a gradual pace driven by business spending and a return to hiring. Issues in the housing market and concerns over inflation are the most cited reasons for downward revisions.

Personal Income Continues to Rise as GDP and Consumer Spending Remain Flat



***Source**: U.S. Department of Commerce.*

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 on the government. Economic growth should be fast enough to continue to reduce unemployment, but at the end of our forecast period, unemployment will still be over 6 percent.

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 manufacturing and the possibility that cash rich corporations will accelerate their investment spending.

Positive	Negative
• Strong manufacturing growth -Both manufacturing employment and output are rising • Easing credit conditions • Business' large cash holdings • Business equipment demand rising • Nonresidential construction rising • Improving labor market • Unemployment rate falling below 9 percent • Low core inflation • Rising export growth • Moderation of rising commodity prices -Decrease in both oil and food prices	• Continued weakness in the housing market • Persistently high unemployment • Reduction in state and municipal workforces • Possibilities of muni bond default • High oil prices • High food commodity prices • Rising mortgage interest rates • Growth revised lower -Growth may be too slow to raise employment • Issues with Federal deficit • Effects of Japanese earthquake and tsunami • Credit rating downgrade (unlikely)

City Economy Overview

- **Wall Street profits were the second highest ever last year, but coming short-term rate increases may cut into future growth.**
- **City added 88,800 private jobs from September 2009 through April 2011, recovering 63.6 percent of the jobs lost in the recession. Private employment is expected to grow by 1.4 percent per year on average until 2015.**
- **2010 was the best year for tourism ever with 48.7 million visitors.**
- **Leasing commercial space has significantly picked up, but home prices are still falling.**
- **Council Finance forecasts continued growth with the City adding an average of 46,000 private sector jobs a year.**

New York City's economy continues to gain traction, propelled by the financial industry and tourism. Wall Street profits were the second highest in any recorded year, totaling $27.6 billion.[9] However, these profits are occurring on modest gross revenues and are based on unusually low costs, especially interest costs. The windfalls are likely to continue as low short term rates remain near-zero. These interest rates should start rising in the first half of 2012.

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

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 it interacts with supports a strong commercial real estate market in the City.

Wall Street employment is particularly vital to the City's economic health. The State Comptroller's office estimates that one job in securities creates two jobs elsewhere in the City.[10] High compensation in the financial sector is a big boost to consumption in the City, especially in big-ticket items such as expensive condos and co-ops. Total compensation increased by 5.2 percent that year[11] and according to OMB, bonuses increased by 4.3 percent.

In the past 18 months the City regained 63.6 percent of the jobs lost during the recession

The City has added 88,800 private jobs from September 2009 through April 2011, recovering 63.6 percent of the 139,600 private jobs lost during the recession. Private employment contracted briefly in the last quarter of 2010, losing 12,200 jobs, but it has since recovered over three times the loss, adding 42,100 positions since January 2011. In April 2011, the City's total unemployment rate fell to 8.6 percent, helped along by more jobs, but there are also many discouraged workers who remain out of the workforce.

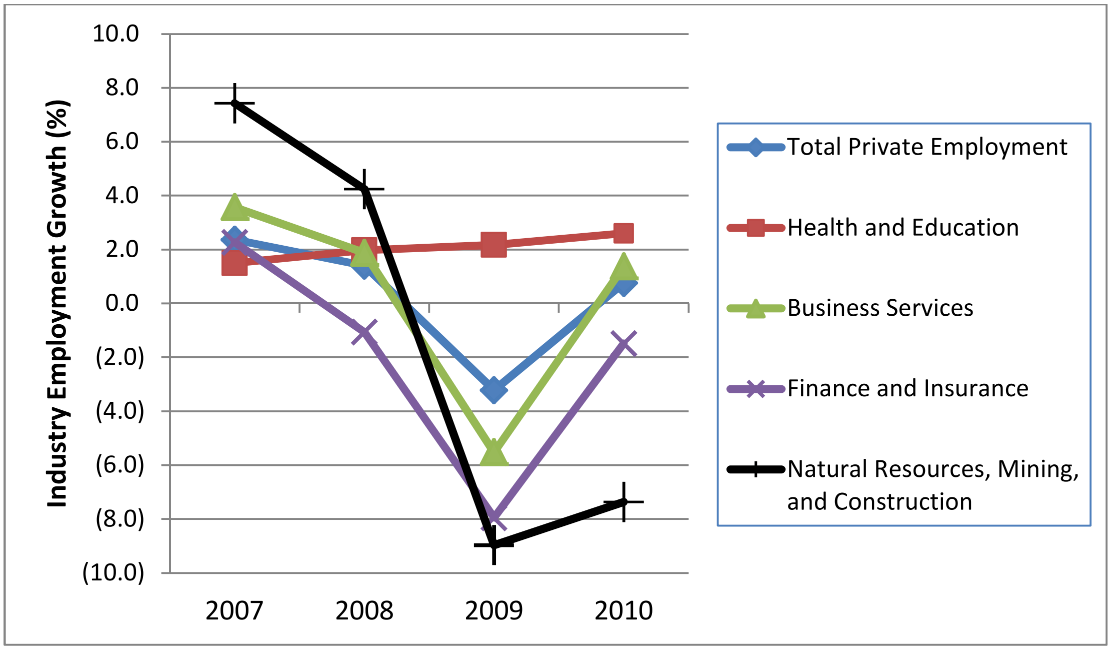
The City's average wage rose 6.3 percent in 2010, driven by increased compensation as well as a growing demand for workers, after diving 7.9 percent in 2009. The average wage in the securities industry soared 23.3 percent from a year ago, averaging $381,400 annually.

Business and professional services led the employment recovery, making up 34 percent of the added payroll. Financial services, which previously served that role, resumed payroll expansion later than other sectors, in January 2010. Average private employment managed a 0.7 percent increase in 2010, after slipping 3.2 percent in 2009, as seen in the graph below.

Retail establishments reduced their payrolls in the 4th quarter of 2010 by a significant 7,600 jobs, but they have subsequently more than recovered, adding 15,000 jobs so far in 2011. Retail has benefited from the loosening of pent-up consumer demand, but it may get squeezed by rising input costs and disposable income being displaced by higher fuel costs. Vibrant tourist activity has been a significantly boost to retail sales.

[10] Office of the State Deputy Comptroller for the City of New York. "The Securities Industry, in New York City," November 2009, p. 11.
[11] New York Stock Exchange membership, total compensation.

Industry Employment Growth



Source: NYS Department of Labor, Current Employment Statistics.

2010 was the best year for tourism ever with 48.9 million visitors

The City has achieved a record level of tourism of 48.7 million visitors in 2010. The inherent attractions of New York have been further helped by the weak dollar. Average hotel occupancy increased to 85.0 percent in 2010 from 81.8 percent in 2009, while average daily room rates have risen to $254 from $237.[12] This is despite 6,200 new hotel rooms entering the market last year. Broadway theater attendance also rose last year according to NYC & Company.

Healthcare and social assistance adding jobs while public sector sheds workers

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.

While the private sector is increasing its workforce, public sector employment is being severely downsized. Since the upturn in total employment in October 2009, government employment in the City has shrunk by 11,700. With large budget deficits looming on all government levels, further personnel cuts are a certainty. The resulting loss of earnings will continue to dampen the City's recovery.

[12] NYC & Company "NYC Hotel Occupancy & ADR", April 6, 2011 and "Hotel Development in NYC", March 5, 2011.

Employment Gains from September 2009 thru April 2011 *Thousands - Seasonally-Adjusted*	
Total Private	**88.8**
Finance and Insurance	11.6
Banking	2.1
Securities (Wall Street)	9.1
Real Estate and Leasing	1.5
Professional and Business Services	30.9
Employment Services	10.4
Information	1.6
Construction of Buildings	(13.6)
Leisure and Hospitality	16.3
Arts, Entertainment, and Recreation	(2.6)
Accommodation and Food Services	19.0
Accommodations (Hotels)	2.7
Healthcare and Social Assistance	16.3
Education Services	14.7
Government	**(46.6)**[13]

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

Leasing commercial space has picked up, but home prices are still falling

Rising office-based employment has stoked the demand for building space. The City's commercial real estate market continues to pick up momentum with greater leasing, falling vacancies and stable rates. Manhattan's overall vacancy rate fell to 10.0 percent in the first quarter of 2011 from 11.6 percent a year before, its lowest level in two years. Manhattan's vacancy rate is expected to reach 9 percent next year. [14] Direct asking rents were $55.74 per square foot in the first quarter, still 2.8 percent below the $57.34 a year earlier. However, they were slightly above rates in the third and fourth quarters of 2010, indicating some upturn.

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 while job growth will drive continued demand. The completion of World Trade Center Buildings 1 and 4 are the only new major office space additions expected through the end of 2013. Together they will add about 4.5 million square feet for an increase of just 1.6 percent in total Manhattan office space.

The residential real estate market, however, is still weak and a drag on growth. The NYU Furman Center cites that home sales continued their decline in the first quarter 2011, falling 17.4 percent

[13] The (46,600) is especially large due to 35,000 summer jobs ending in September 2009. From October 2009 to April 2011 the public employee loss is greatly reduced to (11,700).
[14] Cushman and Wakefield, Marketbeat, Manhattan Office Report, 2011, 1st Quarter and 2010, 4th Quarter.

from the previous quarter and putting sales down 25.8 percent from the first quarter 2010.[15] With sales still falling, there will continue to be downward pressure on home prices. Home prices in the metropolitan area have continued to fall in March, having dropped 3.6 percent year-over-year. Since the market peaked in May 2006, prices have fallen 23.7 percent (seasonally-adjusted). 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 1.2 percent since February 2010, and 15.6 percent since its peak in February 2006.[16]

Like much of the country, the outlook for the housing market in NYC remains weak. Foreclosures have been outpacing the sale of foreclosed homes, increasing the supply of existing homes on the market. At the current sales pace, the supply of bank owned properties for sale in the New York City metropolitan area will take an astounding 129 months to clear[17]. And due to legal issues surrounding the foreclosure crisis, the foreclosure process has been slowed down, meaning that the pipeline of foreclosures are expected continue to flow for the next several years. So even when housing prices begin to recover (which is not expected till late 2012 at the earliest), this overhang will keep prices muted for a long time.

The lax demand for existing homes leaves little demand for new construction. According to the New York Building Congress, residential construction starts in 2010 declined 14 percent from 2009 and 63 percent from 2008.[18] This has weakened the construction sector which continues to shed jobs.

The rental market in Manhattan, on the other hand, has tightened. Monthly rents for studios rose 9% from a year ago and now average $1,967. One bedroom apartments increased by 10% and now average $2,643 a month.[19]

Council Finance forecasts continued employment growth

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 10,100 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 early 2012, supporting strong profits for at least another year, 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.

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15 NYU Furman Center for Real Estate and Urban Policy, "New York City Quarterly Housing Update, 2011 1st Quarter."
16 Standard & Poors / Case-Shiller Home Price Index for the New York City Metropolitan Area.
17 New York Times, "As Lenders Hold Homes in Foreclosure, Sales Are Hurt", May 22, 2011.
18 Standard & Poor's / Case-Shiller Home Price Index for the New York City Metropolitan Area.
19 Citi Habitats, May 11, 2011.

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

	CY10	CY11	CY12	CY13	CY14	CY15
Total Private	**23.5**	**48.7**	**46.2**	**40.6**	**45.4**	**50.3**
Finance and Insurance	(5.2)	5.1	6.3	8.5	4.1	4.7
Banking	(1.0)	0.0	(0.3)	0.3	0.4	0.1
Securities (Wall Street)	(2.4)	5.1	4.4	6.6	3.1	4.2
Retail	9.7	6.5	6.1	5.0	5.0	5.5
Professional and Business Services	8.5	14.5	17.4	16.2	15.2	16.0
Real Estate and Leasing	(0.9)	0.4	2.5	1.7	1.0	0.8
Information	(1.5)	6.1	2.4	(3.0)	0.2	3.1
Leisure and Hospitality	11.5	10.7	16.1	16.7	17.5	18.9
Arts, Entertainment, and Recreation	(0.7)	(0.4)	2.7	2.8	2.9	3.1
Accommodation and Food Services	12.2	11.1	13.4	13.9	14.6	15.8
Accommodations (Hotels)	1.7	(0.2)	0.2	0.9	0.8	0.8
Healthcare and Social Assistance	12.6	6.5	7.1	7.1	6.9	6.7
Education Services	6.5	8.1	5.2	5.4	5.5	5.7

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 gross revenues, which in 2010 fell to their lowest level since 2004. IHS Global Insight and other forecasters expect the federal funds rate to begin a rapid succession of increases in early 2012. Much depends on whether the securities industry can sustain its growth when interest costs return to a normal level. It is also unknown to what degree the financial reform legislation will hamstring the profit making capabilities of financial institutions, as the Dodd-Frank Act is slowly translated into actual regulations. Being a global city, New York is especially vulnerable to worldwide crises. How much the European sovereign debt troubles, turmoil in Libya and the Middle East and the earthquake in Japan will impact New York has not yet been comprehended.

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 expects the average wage to grow by 4 percent in 2011 and average 3 percent annually from 2012 to 2015. OMB projects a weaker 3.2 in 2011 and an average 2.5 percent in the out years.

Forecast of Selected Economic Indicators

	CY10	CY11	CY12	CY13	CY14	CY15
National Economy						
Real Gross Domestic Product *Percentage Change*	2.9	2.7	2.9	2.8	3.3	3.1
Private Employment						
Level Change (million)	(0.9)	1.9	2.5	2.3	2.5	2.3
Percentage Change	(0.8)	1.8	2.3	2.1	2.2	2.0
Total Wages *Percentage Change*	1.6	1.7	2.1	2.2	2.3	2.3
New York City Economy						
Private Employment						
Level Change (thousand)	23	49	46	41	45	50
Percentage Change	0.7	1.5	1.4	1.3	1.4	1.5
Total Wages *Percentage Change*	7.9	5.6	4.3	4.3	4.6	4.6
Total Revenue of NYSE Members *Percentage Change*	(11.4)	(4.2)	1.8	1.4	2.5	2.4

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

Tax Forecast

- **Overall tax collections up 7 percent for the first ten months of Fiscal 2011, with total growth of 7.6 percent forecast; 5.37 percent growth forecast for Fiscal 2012**
- **Council Finance projects total tax collections $65.9 million above OMB for Fiscal 2011 and $192 million above OMB for Fiscal 2012**
- **Council Finance forecast substantially more optimistic than OMB in the outyears of the Financial Plan**

Between Fiscal 2008 and Fiscal 2010, revenues from the City's non-property taxes fell 18.3 percent. This occurred despite significant revenue enhancing changes to the sales, hotel and business taxes. Due to economic recovery, these revenues are coming back starting in Fiscal 2011, and tax revenues are projected to come in above their Fiscal 2008 peak this year.

Like the City's economy, overall tax collections are returning to a modest pace, up 7 percent (without audits) for the first ten months of Fiscal 2011 compared to the same time last year. This rise has been driven by relatively strong growth in business taxes, up 15 percent since last year, higher sales tax collections, up over 11 percent, and increased personal income tax collections and up over 9 percent for the year. Both hotel taxes, up almost 17 percent, and real property transfer taxes, up 21 percent since last year, are even higher, but they contribute relatively less to total collections. Meeting OMB's forecasts for the total collections for Fiscal 2011 will still require that May and June show similar strength, which may be somewhat less likely as economic growth abates.

Council Forecast: Growth Rates

	FY10*	FY11	FY12	FY13	FY14	FY15
Real Property	12.9%	4.1%	4.6%	3.4%	3.1%	3.7%
Personal Income	4.1%	11.6%	10.3%	7.4%	1.1%	6.8%
General Corporation	(14.8%)	16.6%	19.3%	5.3%	6.1%	6.7%
Banking Corporation	(11.8%)	30.1%	(22.8%)	(8.6%)	(8.4%)	(6.8%)
Unincorporated Business	(12.6%)	6.0%	8.8%	8.2%	7.3%	6.6%
Sales	10.1%	9.6%	4.6%	3.3%	3.4%	4.5%
Commercial Rent	2.0%	1.5%	4.1%	4.3%	3.8%	2.9%
Real Property Transfer	(19.0%)	21.8%	3.6%	10.5%	10.1%	13.7%
Mortgage Recording	(28.9%)	15.3%	14.0%	16.5%	16.5%	12.0%
Utility	(5.9%)	7.5%	1.6%	2.3%	2.2%	2.2%
Hotel	6.1%	18.7%	(10.0%)	(0.3%)	3.6%	5.2%
All Other	(14.0%)	(14.2%)	2.3%	5.2%	0.6%	(0.0%)
Audits	(18.8%)	12.8%	(24.0%)	(0.2%)	0.0%	0.0%
Total Taxes	**3.3%**	**7.6%**	**5.7%**	**4.5%**	**3.1%**	**4.7%**

Actuals
Source*: Council Fiscal 2012 May Plan*

Council Forecast: Difference from OMB Forecast
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
Real Property	$11	($67)	$19	$156	$430
Personal Income	37	278	469	428	425
General Corporation	(8)	24	17	81	181
Banking Corporation	0	(4)	35	46	(17)
Unincorporated Business	(6)	1	74	134	188
Sales	7	2	8	(52)	(54)
Commercial Rent	0	6	13	16	13
Real Property Tran	4	(15)	71	70	93
Mortgage Recording	(2)	(19)	20	32	35
Utility	10	(4)	(9)	(12)	(18)
Hotel	13	(10)	16	13	9
All Other	0	0	0	0	0
Audits	0	0	0	0	0
Total Taxes	**$66**	**$192**	**$733**	**$913**	**$1,285**

Source*: Council Fiscal 2012 May Plan*

Personal income tax collections up

Personal income tax (PIT) is also up, with collections in July through April 9.3 percent over the same period in Fiscal 2010. April collections, which included tax settlements, were especially strong, as the "safe harbor" provision allowed a substantial portion of estimated tax liability to be deferred. This occurred because estimated quarterly payments were required to reach 110 percent of the previous year's liability, which was generally very low due to the recession. This boosted year-to-date PIT growth from 1.3 percent to the current 9.3 percent. Withholdings increased their year-to-date collections by 5.6 percent over the previous year. Bonus payments were the strongest in December, unlike the previous year, when bonuses were paid out late into March and April. Estimated payments through April grew by an impressive 23.2 percent, bolstered by strong capital gains for tax year 2010.

In all, total PIT growth is expected to reach 11.6 percent in Fiscal 2011. Out year growth is expected to be more modest. In Fiscal 2012 and especially 2013, PIT growth will face the offsetting forces of increasing employment and more constrained Wall Street bonuses, due to a greater weight on deferred compensation and higher interest rates shrinking net revenues. The forecast also assumes that the recently extended Bush tax cuts for upper brackets will sunset at the end of 2012. This will cause total PIT collections to drop in Fiscal 2014 as capital gains realizations are pushed forward by the increased rates in tax year 2013.

It should be noted that around $228 million of PIT collections in Fiscal 2011 are effectively revenue for the State, according to OMB estimates. This represents the elimination of the STAR PIT reimbursement for incomes exceeding $500,000, comprising 6 percent of their tax liability. The State action took effect in tax year 2010.

Real Property Tax collections rising slowly

For Fiscal 2011, both OMB and Council Finance expect the Real Property Tax (RPT) to generate $16,830 million in revenues. This represents a decrease of about $16.5 million from the preliminary budget and is a result of an increase in the reserve while the levy remains unchanged[20]. This increase in the reserve is a mix of two things. The first is the better understanding of the exact cost of the various components of the reserve that always occurs as the end of the fiscal year approaches. The second item is a reduction in lien sale revenue as the delay in this year's lien sale means that the revenues from the process will mostly fall in the following fiscal year.

Since taxable values of properties are mostly determined before the beginning of the fiscal year, the forecast for the upcoming year is fairly accurate once the final roll is released. While OMB forecasts Fiscal 2012 RPT revenue to be $17,684 million, Council Finance believes a slightly lower $17,617 million in revenues should be expected. The Council Finance forecast represents a decline of just $1 million from the February Plan. A larger than expected decrease in taxable property values from the tentative to final property tax roll is responsible for this decline. However, part of that is offset by increased revenues from the aforementioned lien sale delay.

Council Finance sees stronger growth than OMB in the out years. OMB expects growth to slow to an average of 2.5 percent in Fiscal 2013 through 2015 while Council Finance sees a higher average of 3.4 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[21].

[20] The revenue from the real property tax is a function of the levy minus the reserve. The levy represents full taxable value of property in the city times the tax rate. The reserve is a reduction of the levy to account for the costs of various tax abatement programs and other tax expenditures, as well as controls for things like tax delinquency, overpayments, etc.

[21] Properties are taxed not on the full Market Value (MV) of the property, but rather a calculated portion of it, called the Assessed Value (AV) which, because of protections built in the system, lag the economy.

RPTT and MRT both down significantly from their pre-recession peaks

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 $97 million year-to-date over Fiscal 2010, offsetting more than half of the reductions in the MRT (down $148 million year-to-date versus Fiscal 2010). 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 relatively flat with a decline of just under 1 percent year-to-date from a year ago. This is expected to rise slightly in the coming years as the demand for office leasing is just beginning to pick up.

Business taxes show moderately strong growth

The General Corporation Tax (GCT) grew by 14.7 percent, but was still shy of OMB's expectation of 21.2 percent year-to-date. 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 34.6 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. Revenues will eventually 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 grown 5.1 percent over Fiscal 2011 year-to-date. 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.

Sales taxes up over 10 percent

A current bright spot in collections comes from sales tax, up 11.6 percent July through April, over the same period a year ago. Overall, collections are on track to rise 10.8 percent to $5.54 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.

Hotel taxes up with a rise in tourism leading to higher total collections

The hotel tax is up by 16.8 percent so far this year, riding on record tourist numbers. Visitors to New York City 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 18.7 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 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, Council Finance estimates total tax revenues to grow by around $2.83 billion, or by 7.6 percent from Fiscal 2010. This is very close to OMB's forecast of 7.4 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.

Tax revenues in Fiscal 2012 are expected to continue growing by about $2.25 billion or 5.63 percent. This is marginally stronger than OMB's 5.37 percent growth. Overall, Council Finance's forecasts for Fiscal 2012 and Fiscal 2013 are within 1 percent of OMB's. Council Finance forecasts for the out years are somewhat more optimistic, particularly for Fiscal 2015, which is almost $1.3 billion over OMB. OMB's forecast has not changed significantly from the Preliminary Budget, but it is up since last year's forecast by over $1 billion on average between Fiscal 2012 and Fiscal 2014.

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 low short-term interest rates are expected to be extended into calendar year 2012.

Tax Policy

421-A Renewal

One the largest tools the City uses to encourage both affordable and market rate housing development is section 421-A of the State's Real Property Tax law. This law provides property tax abatements for the construction of new multi-unit housing, with longer-term benefits given to properties that set aside at least 20 percent of the units as "affordable"[22]. The current law expired at the end of Calendar Year 2010. There are two proposals currently in the State legislature: S2782 in the Senate and A2472. While technically not the same, for all intents and purposes, the two bills are almost identical and the following description could apply to both.

The bills are for the most part straight three year extenders of the recently expired legislation. They would also be retroactive so that the program would operate uninterrupted. There are, however, several changes that bear mention.

- A prevailing wage requirement for construction workers on 421-A projects. There is a carve-out from this provision for developments with less than 80 units or with at least 50 percent of the units set aside as affordable.
- The renewal of 421B program under a new section – 421-L of the tax code. Originally this program provided a two year full tax abatement with a six year phase out for the construction of owner occupied one- and two-family housing. The proposed program would renew this program and extend it to the construction of three-family homes as well, however it does add a cap on the value of the home that would be eligible under this program[23].
- Expansion of the program, via changes in the City's Administrative Code, to districts in Manhattan zoned residential with an FAR 15 or higher. This had previously been allowed via changes to the Administrative Code by actions of the City Council.
- A streamlining of the application process. The legislation would require applications only go through HPD (as opposed to separate applications to both HPD and DOF) and allows for electronic filing of the application.

The few other changes are updates and corrections to definitions and references to other laws.

ICAP Renewal & FERC Ruling

In the summer of 2008, the old Industrial & Commercial Incentive Program (ICIP) was replaced by the similar Industrial & Commercial Abatement Program (ICAP). One of the changes was the transfer of abatements for the construction of small power generating plants (called peaking

[22] In all of Manhattan and parts of the other boroughs (mostly along the East River waterfront), as-of-right abatements are not available; developers are required to include affordable housing to get an abatement. The areas where this rule applies are known as the "exclusionary zone". See http://www.nyc.gov/html/hpd/downloads/pdf/Citywide-GEA-Overview.pdf

[23] The purchase price of the home must be below the following limits to be eligible: $671,000 for a one-family, $755,540 for a two-family, and $914,750 for a three-family home.

units) from the ICAP program to the Uniform Tax Exemption Program (UTEP) under the Industrial Development Agency (IDA).

This legal change created a loophole that was exposed in a January ruling by the Federal Energy Regulation Commission (FERC). It allowed power generating companies to set energy rates without taking into account property tax abatements that could be received through UTEP as it was deemed unclear whether the peaking units would qualify for the abatement. This ruling would have resulted in rates rising by as much as 12 percent in order to allow power generating companies to make up for the higher costs.

To address this issue, Albany recently passed A7511: a straight 4 year extender of the ICAP program with a few changes to address the FERC ruling. The bill adjusted the abatements to allow peaking units to receive an abatement through ICAP. The bill was signed by the Governor on May 18, 2011. With the new legislation, the FERC ruling has been reversed.

While the focus of this bill has been addressing the issues raised by the FERC ruling, it should also be noted that this does bring about the renewal of the ICAP program. The program provides an abatement for eligible industrial and commercial properties that are built, modernized, expanded or have some other physical improvement. Eligibility is mostly determined by meeting a minimum expenditure requirement and also by geography (much of core Manhattan is excluded).

Capital Program

- **Restoration of State funding to the Education capital budget increases Executive Ten Year Plan by $5 billion**
- **City funding reduced by $488 million in Fiscal Years 2016-2021 of Executive Ten Year Plan**

Fiscal 2012 Capital Commitment Plan

The Fiscal 2012 Executive Capital Budget includes new appropriations of $7.2 billion, of which $4.7 billion are to be funded from City sources. These appropriations, together with available balances from prior years, authorize total commitments of $10.4 billion, of which $7.8 billion will be City-funded. While this level of appropriation exceeds the targeted amount of City-funded commitments of $7.6 billion in 2012, it is 12.6 percent less than the $8.7 billion of City funded appropriations adopted in Fiscal 2011.

Fiscal 2012-2015 Four-Year Capital Commitment Plan

The Executive Capital Commitment Plan for Fiscal 2012-2015 authorizes agencies to commit $28.1 billion, of which $21.7 billion will be City funded. The Preliminary Capital Commitment Plan for Fiscal 2012-2015 authorized agencies to commit $23.6 billion, of which $19.5 billion was City funded. The difference in City funded commitments between the Preliminary and Executive Four-Year Plans consists mainly of the rolling of unspent capital funds from Fiscal year 2011 into the Fiscal 2012 through 2015 timeframe. The restoration of State funds for the Department of Education's capital plan accounts for the remainder of the increase to the Executive Plan.

Executive Ten-Year Capital Strategy Fiscal 2012-2021

The Fiscal 2012-2021 Ten-Year Capital Strategy totals $54.1 billion. This includes $40.1 billion in City funds and $14 billion in non-City funds. The City has increased the Capital Program for Fiscal 2011-2021 (excluding the DEP's capital program) from $46.2 billion to $51.5 billion, an increase of $5.4 billion. The increase is the result of the restoration of State funds to the Department of Education's Capital Plan.

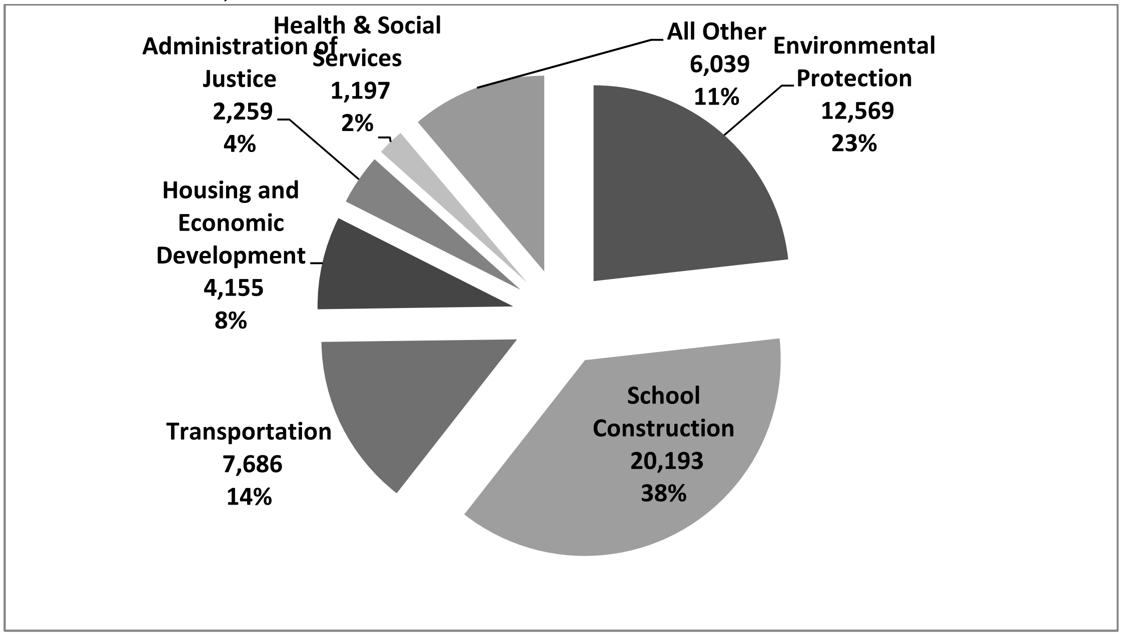
The increase to the total Ten-Year Capital Strategy in the Executive budget comes on the heels of a 10 percent decrease to the capital budget in the Preliminary Ten-Year Capital Strategy. The majority of the decrease in the Preliminary Ten-Year Capital Strategy was in the Fiscal 2016-2021 time period. The Executive Ten-Year Capital Strategy still forecasts reductions in City-funded capital commitments of $488 million in these fiscal years but the reductions are more than offset by the restoration in State funding to the Department of Education's capital budget.

Ten Year Plan: Preliminary and Executive Budget
Millions of Dollars, All Funds

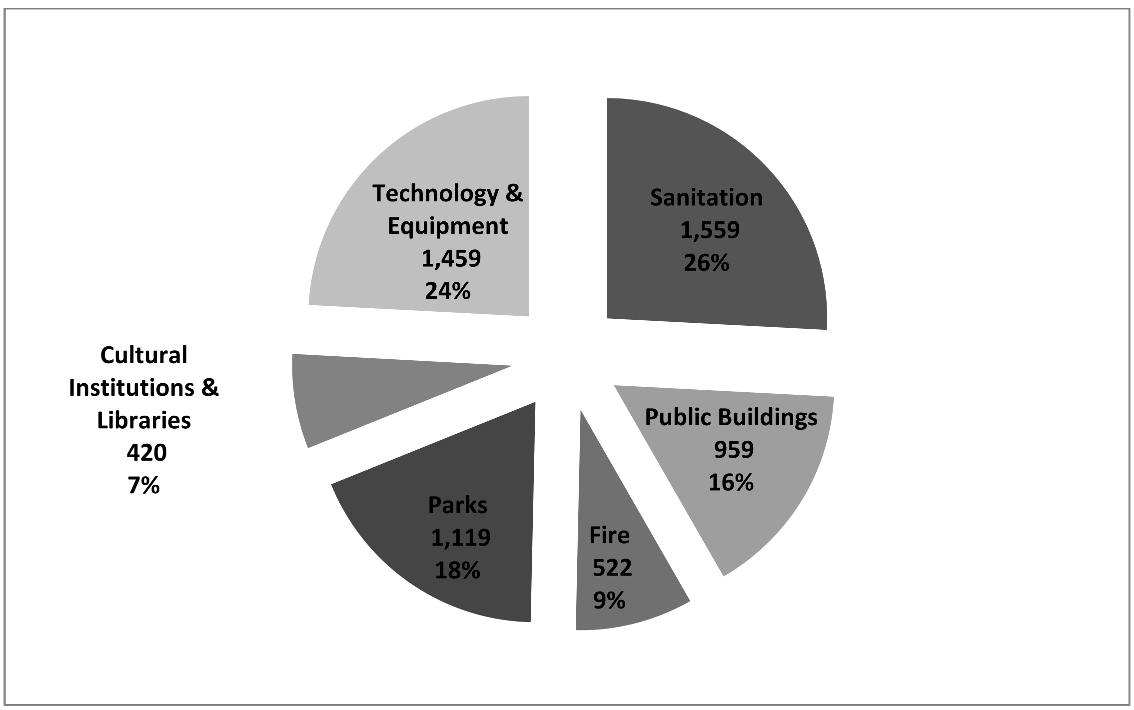
	FY11	FY12	FY13	FY14	FY15	Total FY16-21	Total FY11-21
Preliminary							
Total Capital Plan	$13,808	$7,358	$6,599	$5,423	$4,185	$23,409	**$60,782**
DEP	2,453	1,718	1,945	1,613	1,333	5,533	**$14,595**
Total Minus DEP	$11,355	$5,640	$4,654	$3,810	$2,852	$17,876	**$46,187**
Executive							
Total Capital Plan	$12,101	$10,391	$7,114	$6,097	$4,547	$25,948	**$66,198**
DEP	2,087	2,144	1,945	1,615	1,333	5,533	**$14,657**
Total Minus DEP	$10,014	$8,247	$5,169	$4,482	$3,214	$20,415	**$51,541**
Change							
Level	($1,707)	$3,033	$515	$674	$362	$2,539	**$5,416**
Percentage	-15%	54%	11%	18%	13%	14%	16%

The Executive Ten-Year Capital Strategy includes $20.2 billion which account for (38 percent) of plan for school construction, repair and technology. Another $12.6 billion (23 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 $7.7 billion which accounts for (14 percent) of plan for transportation projects. This includes bridge, road and street repair and maintenance.

FY 2012-2021 Ten Year Capital Plan, by Programmatic Area
Dollars in Millions, All Funds



FY 2012-2021 Ten Year Capital Plan, Breakdown of 'All Other' Category ($6,039)
Dollars in Millions, All Funds



Education Capital

- **The April Revised Proposed Amendment to the Department of Education's (DOE) 2010-2014 Five-Year Capital Plan cuts $800 million from school capacity projects over the last three years of the Plan due primarily to a reduction in City support for school construction.**
- **The plan would fund construction of only 28,900 seats and design of 2,300 seats despite the DOE's projected need for 50,000 new school seats.**
- **The plan adds $141 million for the replacement of PCB-containing light fixtures.**
- **The plan includes an addition $177 million for technology in schools, resulting in a $957 million total budget for technology projects.**

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 April 2011, DOE released a Revised Proposed Amendment to the Plan ("Amended Plan") that called for an overall cut of $600 million. The Amended Plan leaves only $4.6 billion for school capacity projects and shifts funding towards capital investment projects increasing the total to $6.5 billion from $6.3 billion.

The Proposed Amendment includes $141 million to fund comprehensive energy audits and upgrades that would include replacement or repair of PCB-containing lighting fixtures at 180 schools from 2012 through 2014. These projects would comprise the first phase of the DOE's Comprehensive Ten-Year Plan to increase the energy efficiency of school buildings. Approximately 772 school buildings contain PCB-containing light fixtures. Given then health risks of PCB exposure, especially to young children and women of child bearing age, the Council has called for a more expedited PCB-remediation program that would address far more than 180 schools in the next three years.

The $956.8 million Technology portion of the Proposed Amendment would allocate $835.8 million to various technology enhancements over the final three years of the Plan. The DOE would spend 85.3 percent, or $542.3 million, in Fiscal Year 2012 alone. The massive scope of the technology upgrade projects proposed for school building seems both unlikely to occur during the next year and too expeditious to allow for the oversight, assessment and revision of innovative technology upgrades that is usually required. The allocation proposed for technology spending is therefore too large.

The $600 million 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 slowdown in school construction projects. These projects would create, in total, 29,000 new school seats. The Five Year Plan would fund less than 60 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	$3.5 billion
Charter/Partnership Program	210 million	210 million
Replacement Seats	1.2 billion	940 million
Capacity Total	**$5.4 billion**	**$4.6 billion**
Capital Investment		
Capital Improvement Program	$2.1 billion	$2.3 billion
Children First Initiatives	1.6 billion	1.7 billion
Mandatory Programs	2.3 billion	2.1 billion
Capital Investment Total	**$6.0 billion**	**$6.1 billion**
Reso A Funding	**$300 million**	**$400 million**
Plan Total	**$11.7 billion**	**$11.1 billion**

The curtailment of the school capital plan followed the City's capital budget reduction, which led to a drop in projected Building Aid Revenue. The City cut its funding for the Five Year Plan from $5.988 billion to $5.893 billion, a $95 million reduction. The City imposed its cut across the board to the Plan, and then added the $141 million for PCB remediation and $177 million for technology. This resulted in the overall $600 million cut to the plan.

Debt Service

- **Executive Budget estimates $35 billion in long term borrowing for the Fiscal 2012 to 2015 period.**
- **The Budget sets aside $2.4 billion for short term borrowing. This allocation was not used in Fiscal 2011.**

Despite the media's headlines on the insolvency of States and municipalities, sound fiscal management on the part of the Council and Mayor has allowed the City's debt issuing entities to continue to enjoy high credit ratings (see below) while funding an ambitious capital program. The Executive Budget maintains the Preliminary Budget's estimate of $35 billion in long term borrowing during the period of Fiscal 2011 through 2015 in order to fund the capital program. In Fiscal 2012, this debt is expected to be comprised of 36 percent General Obligation (GO), 36 percent Transitional Finance Authority (TFA) and 28 percent Water Authority (NYW) bond issuances.

As can be seen in the chart below, total debt issuance during Fiscal 2011 and 2012 has been revised upwards from the Preliminary Budget and now totals $9.3 billion and $7.4 billion respectively. The decrease in Fiscal 2012 reflects the expiration of the federally subsidized Build America Bonds program (see box below) which incentivized additional issuance. Total debt service is projected to increase from 7.6 percent of total revenues to 10.4 percent between Fiscal 2011 and 2015.

NYC Financing Program and Debt Service
Dollars in Millions

Net increase/(decrease)	FY11	FY12	FY13	FY14	FY15
Debt Service (GO, Lease, TFA)	**$5,037**	**$5,914**	**$6,668**	**$6,921**	**$7,278**
Change from Preliminary Budget	(9)	6	(4)	2	(66)
Change from November Plan[1]	(278)	(333)	(52)	(61)	(127)
NYC Financing Plan					
City GO Bonds	$2,425	$2,680	$2,460	$2,460	$2,260
TFA Bonds[2]	3,600	2,680	2,460	2,460	2,260
Water Authority Bonds	3,252	2,027	1,598	1,420	1,164
Total Financing	**$9,277**	**$7,387**	**$6,518**	**$6,340**	**$5,684**
Change from Preliminary Budget	194	129	21	33	33
Change from November Plan	429	(62)	(117)	6	33
Debt Burden (TFA, NYCGO, Lease)					
Debt Service/Total Revenue	7.6%	9.0%	10.0%	10.2%	10.4%
Debt Outstanding/NYC Personal Income	14.3%	14.5%	14.4%	14.1%	13.6%
Change from Preliminary Budget	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)

Source*: Fiscal 2012 Executive, Preliminary and November Plans.*
1) FY2011-2012 Savings from Debt Service due to lower interest rates and defeasances.
2) TFA Bonds do not include BARBs issued for education capital purposes which are secured by Building Aid revenues from the State.

Ratings of Major Debt Issuing Entity	Fitch	Moody's	S&P
City GO Bonds	AA	Aa2	AA
TFA Bonds (Senior/Subordinate)	AAA/AAA	Aaa/Aa1	AAA/AAA
TFA Bonds (BARBS)	AA-	Aa3	AA-
NYW (Senior/Subordinate)	AA+/AA+	Aa1/Aa2	AAA/AA+

***Source**: Fiscal 2012 May Plan*

The City often takes advantage of short term and variable rate debt in order to minimize borrowing costs and match its complex funding needs. Short term debt is often used to spread highly skewed revenue and tax collections evenly over the fiscal year. However during Fiscal 2011, the City did not use the $2.475 billion set aside for short term borrowing in the Adopted Budget. Historically, $2.4 billion plus interest is appropriated every fiscal year and is projected to constitute 3.7% of total revenues in Fiscal 2012 and 2013. The low cost of short term debt in Fiscal 2012 suggests that its use will be unlikely. The City is projected to save $34.94 million by not using short term debt.

American Recovery and Reinvestment Act (ARRA) subsidies

The City used the federal interest rate subsidy program, Build America Bonds (BABs), extensively before its expiration at the end of 2010. The program provided the City with a subsidy for 35% of a taxable bond's interest. This subsidy is made contemporaneously with the City's interest payments and will generate significant savings, even in comparison 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. This broader investor base enhanced the market absorption of New York City bond offerings. During the life of the program, the City issued $11.4 billion in the form of BABs, or 70 percent of new money bond issuance. $4.4 billion were in General Obligation (GO) debt, $3.3 billion in Transitional Finance Authority (TFA) debt and $3.7 billion in New York Waterways (NYW) debt. For comparison, total financing for Fiscal 2011 is expected to be $2.1 billion less than what was issued by the City under the BABs program.

The City also benefited from the Qualified School Construction Bonds (QSCBs) and to a lesser extent, Recovery Zone Economic Development Bonds. QSCB proceeds were issued for constructing, rehabilitating or repairing public school facilities or acquiring land of public schools and received a 100 percent subsidy, up to a maximum cumulative allocation. So far, the City has issued $1.3 billion of QSCBs through TFA.

Due to the recent market turmoil, variable rate bonds have been attractive to the City because they reduce investor risk and thus require lower interest rates. Nevertheless, variable rate debt exposes the City to changes in the prevailing interest rate, the tax code and the credit rating of the City, liquidity or credit enhancement provider. In addition, the cost of the bank facilities which support such instruments have recently increased due to their scarcity as former providers found greater returns in other markets. At the end of Fiscal 2010, variable rate debt represented 8.5 percent of total debt outstanding. This amount is expected to increase to 8.8 percent in Fiscal 2011 as savings continue to outweigh expenses.

Other notable corporations with outstanding debt in excess of $1 billion are the Hudson Yards Infrastructure Corporation (HYIC), the Sales Tax Asset Receivable Corporation (STARC) and the Tobacco Settlement Asset Securitization Corporation (TSASC).

HYIC finances the Hudson Yards Development Corporation with a $2 billion issuance from December 2006. The funds are financing a project to expand the Number 7 subway line, to make changes to the street grid and to add parks and other improvements on the west side of Manhattan. HYIC plans to issue an additional $1 billion during Fiscal 2012 in order to finish the project. HYIC debt is serviced in part by City Tax Equivalency Payments and Interest Support Payments. These payments are subject to annual City appropriation and are expected to total $106 million and $138 million in Fiscal 2012 and 2013.

TSASC was organized in 1999 to securitize a portion of the City's share of New York State Tobacco Settlement Revenue as dictated by the Master Settlement Agreement. All additional settlement revenue ultimately flows to the City. This revenue has declined rapidly over the last decade and totaled $72 million in Fiscal 2010. Revenue is expected to decline further due to an ongoing dispute with Tobacco companies. At the beginning of Fiscal 2011, TSASC had $1.265 billion in debt outstanding.

Pensions and Post-Employment Health Benefits

- **City pension costs make up 13 percent of the City's budget.**
- **Changes in actuarial assumptions for Fiscal 2012 are expected to cost up to $1 billion.**
- **Post-employment liabilities total approximately $75 billion.**

New York City provides pension plans for employees of various agencies as a form of compensation. The Executive Budget projects that total contributions to employee pensions will increase 20 percent over last year for a total of $8.4 billion. The City will be responsible for 98 percent of total employer contributions or $8.255 billion. These payments, along with employee contributions, have kept the City's pension system fully funded as determined by GASB rules. Only two States- New York and Wisconsin[24]- have also kept up with their pension obligations.

The 20 percent growth rate of employer contributions is slightly slower this year than the preceding decade, which averaged contribution increases of 25.5 percent per year. Over the last ten years, total contributions have increased 464 percent- from a low of $1.5 billion in Fiscal 2002 (or 3.6 percent of total revenues) to an expected $8.4 billion in Fiscal 2012 (or 13.1 percent of

[24] According to an April 2011 study by The Pew Center on the States: The Widening Gap: The Great Recession's Impact on State Pension Retiree Health Care Costs which examined FY09. The size of NYC's pension obligations warrants comparison to States.

total revenues). Forty-eight percent of the increase in contributions is attributable to poor performance of pension investments which required employer contributions to make up for the difference between projected and actual returns. Another 40 percent of the increase in contributions has been due to increases in pension benefits[25].

Pension Costs: The Impact of Rate-of-Return Assumptions

Among the many actuarial assumptions that may be changed- such as life expectancy and age of retirement- the most important change is in the target rate of return, i.e. the return pension assets are expected to receive in the financial market.

This target rate of return serves two roles: first, it determines the discount rate for pension liabilities. The discount rate in turn determines how much the pension funds should set aside now to pay expected benefits in the future. The lower the discount rate, the more funds are needed to be set aside. Second, the target rate of return serves as a pension portfolio investment guide. Since higher returns are a compensation for higher risk, a change in the target rate of return can be viewed as a change towards a lower risk, and hence lower yielding, assets.

Some States have already adjusted a few of their pension assumptions. For example, New York State recently reduced its target rate of return from 8 percent- the City's current assumed rate- to 7.5 percent. Recent experience suggests that an 8 percent return cannot be achieved in the long run at an acceptable level of risk. In addition, current legislation in the House Ways and Means Committee seeks to change pension accounting practices.

However, 82 percent of Fiscal 2012's budget increase comes from anticipated changes in how the pension systems are appraised; without these changes, total contributions in Fiscal 12 are only projected to be 3.8 percent higher than in Fiscal 2011. By comparison, the New York City Consumer Price Index and the real Gross City Product are expected to rise 3.1 percent and 3.5 percent over the same period respectively[26].

In anticipation of these changes, the Executive Budget created a Fiscal reserve of $1 billion designed to compensate for modifications of the pension assumptions made by the Office of the Actuary under the City Charter. This provision first appeared in the November Plan, and it is $400 million more than what was set aside in the Fiscal 11 Adopted Budget when changes were assumed to occur one year earlier. Most changes would require approval from each pension system's Board of Trustees.

The City's five actuarial retirement systems account for 99 percent of pension costs and cover 700,195[27] members from the New York City Employees' Retirement System, the New York City Teachers' Retirement System, the New York City Police Pension Fund, the New York City Fire Pension Fun and the Board of Education Retirement System. The other 1 percent of pension costs represents City contributions to non-City and non-actuarial pension systems which include the employees of libraries, various day care centers and other cultural institutions, and other beneficiaries.

[25] According to The $8 Billion Question: An Analysis of NYC Pension Costs Over the Past Decade, a study by the NYC Comptroller
[26] According to IHS Global Insight
[27] Number of members in the beginning of FY10, Source: FY10 CAFR

The City's pension funds pay for contributory defined benefit plans, and the City is statutorily obligated to cover the difference between employee contributions and agreed upon benefits. Despite the appearance of imminent market recovery, increases in liabilities are projected to outpace assets, and contributions are expected to remain high, slowing to an average of 1.2 percent per year during the forecast period.

In addition, the City offers a Variable Supplement Fund for certain uniformed employees. Originally, the Variable Supplements Fund was an agreement between the City and the labor organizations representing the uniformed employees to exchange a fixed margin of employer pension contributions for a portion of the pension funds' surplus market returns. However, the Fund became a fixed benefit of $12,000 a year for life in the 1980s and is no longer tied to pension performance. In the Preliminary Budget, the Mayor assessed the impact of the Fund at $200 million per year.

The Bloomberg Administration is currently seeking pension reform and factors in some expected State and City changes as part of its cost analysis. The benefits suggested have been summarized in the table below.

Civilians

- All new hires will be covered by a "65/10" defined-benefit pension plan.
  - Employees will vest after ten years of City employment and will be eligible to receive pension checks at the age of 65.
- Employees will make contributions of 5 percent for all years of employment.
- Cost of Living Adjustments (COLA) will be eliminated, and overtime will no longer be pensionable.

Teachers

- All new hires will be covered by a "65/10" defined-benefit pension plan.
- Employees will make contributions of 5 percent for all years of employment.
- COLA will be eliminated, and overtime will no longer be pensionable.
- Elimination of fixed-return option for Teachers' Tax-Deferred Annuity.

Uniformed Employees (Correction, Sanitation, Police, Fire)

- All new uniform employees will be consolidated under one plan and will be covered by the "Tier 3" plan currently applicable to new Police and Fire hires.
- All members will be eligible to retire after 22 years of service, or after 25 with full COLA escalation.
- Employees will make contributions of 3 percent for the first 25 years.
- Variable Supplements Fund benefits will be eliminated for all current and future uniform retirees.
- Elimination of disability "presumptions" for Accidental Disability Retirement.

These proposed changes to pension benefits will only affect new employees and are unlikely to produce significant savings to the City before Fiscal 2014. In addition, the Administration hopes to be included in State changes recommended by Governor Cuomo's Mandate Relief Redesign Team. As of this publication, details of the Governor's reform have not been released.

New York City also compensates employees with benefits in addition to pension plans. The exact terms and costs of these benefits vary among employees, and unlike pension obligations, these benefits are not protected by the New York State Constitution or guaranteed by the City and do not need to be funded on an actuarially sound basis. The benefits discussed here are post-employment healthcare benefits.

Until the Retiree Health Benefits Trust was set up in 2007, post-employment health benefits were funded on a pay-as-you-go basis; The City set aside nothing for these future expenses. Currently, nineteen states, including New York State, have nothing set aside for post-employment healthcare liabilities. Thirty states have a retiree health care fund like New York City. However, in 2009, only five states- Alaska, Arizona, North Dakota, Utah and Washington- have made full contributions to their health benefit obligations[28].

Contributions to the Trust must be used to pay the costs of future health and welfare benefits. As seen in the figure below, the Fund's balance as of the end of Fiscal 2010 was $3,023 million. During this time, the present value of New York City post-employment liabilities is $73.6 billion, resulting in a funding ratio of 4.1 percent. The Executive Budget assumes outflows will exceed inflows to the fund by $395 million in Fiscal 2011 and $672 million in Fiscal 2012.

OPEB - Retiree Health Benefits Trust

Dollars in Millions

Fiscal Year	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Contributions to the Trust	$1,000	$2,894	$1,875	$1,683	$1,581	$954	$781
Benefits Paid by Trust*	-	(1,338)	(1,390)	(1,843)	(1,689)	(1,373)	(1,471)
Interest - Administrative Expenses*	1	37	107	77	28	24	18
Net assets held in Trust - End of year*	**$1,001**	**$2,594**	**$3,186**	**$3,103**	**$3,023**	**$2,628**	**$1,956**
Year to Year Change	**1,001**	**1,593**	**592**	**(83)**	**(80)**	**(395)**	**(672)**

** FY 2011 & 2012 Finance Division Forecast*

***Sources**: CAFR 2006-2007, Financial Statements NYC Other Post-Employment Benefits Plans 2006-2010.*

[28] see Pew Center Study

Financial Plan Tables

Fiscal Year 2012 May Plan: Financial Plan
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
REVENUE					
Taxes					
General Property Tax	$16,830	$17,685	$18,203	$18,630	$19,060
Other Taxes	$22,253	$23,752	$24,585	$25,321	$26,666
Tax Audit Revenue	$868	$660	$659	$666	$666
Tax Program					
Sub-total, Taxes	$39,951	$42,097	$43,447	$44,617	$46,392
Miscellaneous Revenues	$6,192	$5,915	$5,971	$6,030	$6,049
Unrestricted Governmental Aid	$14	$12	$12	$12	$12
Anticipated State Action		$0	$0	$0	$0
Less: Intra-City Revenues	($1,890)	($1,532)	($1,526)	($1,523)	($1,523)
Disallowances	($15)	($15)	($15)	($15)	($15)
Sub-total City Funds	$44,252	$46,477	$47,889	$49,121	$50,915
Other Categorical Grants	$1,336	$1,160	$1,158	$1,156	$1,153
Inter-Fund Revenues	$569	$543	$503	$503	$503
TOTAL City, IFA & Oth. Cat. Funds	$46,157	$48,180	$49,550	$50,780	$52,571
Federal Categorical Grants	$8,325	$6,525	$6,290	$6,235	$6,233
State Categorical Grants	$11,495	$11,010	$11,093	$11,159	$11,250
TOTAL Revenues	**$65,977**	**$65,715**	**$66,933**	**$68,174**	**$70,054**
EXPENSE					
Personal Services	$36,388	$37,021	$38,330	$38,944	$39,874
Other than Personal Services	$26,831	$27,229	$27,928	$28,618	$29,385
Debt Service	$5,037	$5,914	$6,668	$6,921	$7,278
Adjustments					
Prior Year Surplus Roll	($3,646)				
Current Year Surplus Roll	$3,217	($3,217)			
General Reserve	$40	$300	$300	$300	$300
Sub-total	$67,867	$67,247	$73,226	$74,783	$76,837
Less: Intra-City Expenses	($1,890)	($1,532)	($1,526)	($1,523)	($1,523)
TOTAL Expenditures	**$65,977**	**$65,715**	**$71,700**	**$73,260**	**$75,314**
GAP	**$0**	**$0**	**$4,767**	**$5,086**	**$5,260**

Fiscal Year 2012 May Plan: Financial Plan Changes
Dollars in Millions

	May Plan		Change Feb to May		Change Nov to May		Change Adopt to May	
	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12
REVENUE								
Taxes								
General Property Tax	$16,830	$17,685	($17)	$42	$43	$252	$50	$262
Other Taxes	$22,253	$23,752	($14)	$121	$679	$1,042	$743	$979
Tax Audit Revenue	$868	$660	$0	$15	$240	$15	$246	$39
Tax Program	$0	$0	$0	$0	$0	$0	$0	$0
Sub-total, Taxes	**$39,951**	**$42,097**	**($31)**	**$178**	**$962**	**$1,309**	**$1,039**	**$1,280**
Miscellaneous Revenues	$6,192	$5,915	$31	$150	$15	$125	$280	$177
Unrestricted Governmental Aid	$14	$12	$0	$0	$0	($302)	$0	$0
Anticipated State Action	$0	$0	$0	($600)	$0	$0	$0	$0
Less: Intra-City Revenues	($1,890)	($1,532)	($19)	($17)	($66)	($9)	($274)	($34)
Disallowances	($15)	($15)	$0	$0	$0	$0	$0	$0
Sub-total City Funds	**$44,252**	**$46,477**	**($19)**	**($289)**	**$911**	**$1,123**	**$1,045**	**$1,423**
Other Categorical Grants	$1,336	$1,160	$21	$0	$6	$0	$102	$18
Inter-Fund Revenues	$569	$543	$10	$43	$10	$43	$11	$50
TOTAL City, IFA & Oth. Cat. Funds	$46,157	$48,180	$12	($246)	$927	$1,166	$1,158	$1,491
Federal Categorical Grants	$8,325	$6,525	$128	$588	$454	$688	$1,529	$778
State Categorical Grants	$11,495	$11,010	($70)	($253)	$20	($1,308)	$213	($1,195)
TOTAL Revenues	**$65,977**	**$65,715**	**$70**	**$89**	**$1,401**	**$546**	**$2,900**	**$1,074**
EXPENSE								
Personal Services	$36,388	$37,021	($4)	$17	$339	$30	($45)	$747
Other than Personal Services	$26,831	$27,229	$96	$149	($351)	$529	$580	$242
Debt Service	$5,037	$5,914	($9)	$6	($317)	($305)	($314)	($380)
Adjustments								
Prior Year Surplus Roll	($3,646)	$0	$0	$0	$0	$0	($4)	$0
Current Year Surplus Roll	$3,217	($3,217)	$66	($66)	$2,056	($2,056)	$3,217	($3,217)
General Reserve	$40	$300	($60)	$0	($260)	$0	($260)	$0
Sub-total	$67,867	$67,247	$89	$106	$1,467	($1,802)	$3,174	($2,608)
Less: Intra-City Expenses	($1,890)	($1,532)	($19)	($17)	($66)	($9)	($274)	($34)
TOTAL Expenditures	**$65,977**	**$65,715**	**$70**	**$89**	**$1,401**	**($1,811)**	**$2,900**	**($2,642)**
GAP	**$0**	**$0**	**$0**	**$0**	**$0**	**($2,357)**	**$0**	**($3,716)**

Source: *OMB Fiscal 2012 May Plan*

Executive Budget Revenue Plan
Dollars in millions

	FY10	FY11	FY12	FY13	FY14	FY15
Taxes						
Real Estate	$16,184	$16,830	$17,685	$18,203	$18,630	$19,060
Sales	5,059	5,539	5,797	5,984	6,246	6,526
Mortgage Recording	366	424	500	541	621	696
Personal Income	6,858	7,618	8,170	8,601	8,740	9,364
General Corporation	1,976	2,312	2,725	2,879	2,992	3,098
Banking Corporation	969	1,261	1,227	1,104	1,018	1,026
Unincorporated Business	1,560	1,660	1,799	1873	1,956	2,041
Utility	375	393	413	427	440	455
Hotel	363	418	398	371	388	414
Commercial Rent	594	603	622	642	663	686
Real Property Transfer	615	728	774	767	853	957
Cigarette	94	70	69	68	66	65
All Other	515	515	466	467	479	480
Audit	770	868	660	659	666	666
Tax Program	(1)	0	0	0	0	0
STAR	904	712	792	861	859	859
Total Taxes	**$37,201**	**$39,951**	**$42,097**	**$43,447**	**$44,617**	**$46,393**
Federal Categorical Grants	$8,200	$8,325	$6,525	$6,290	$6,235	$6,233
State Categorical Grants	$11,819	$11,495	$11,010	$11,093	$11,159	$11,250
Non-Governmental Grants (Other Cat.)	$1,711	$1,905	$1,703	$1,661	$1,659	$1,656
Unrest. / Anticipated State & Federal Aid	$21	$14	$12	$12	$12	$12
Miscellaneous Revenue						
Charges for Services	736	756	795	812	812	813
Water and Sewer Charges	1,623	1,294	1,435	1,419	1,447	1,465
Licenses, Permits, Franchises	479	514	521	521	524	525
Rental Income	233	249	250	256	264	267
Fines and Forfeitures	830	802	814	811	810	809
Other Miscellaneous	805	665	534	519	510	482
Interest Income	22	22	34	107	140	165
Intra City	1,834	1,890	1,532	1,526	1,523	1,523
Total Miscellaneous	**$6,562**	**$6,192**	**$5,915**	**$5,971**	**$6,030**	**$6,049**
Net Disallowances and Transfers	($1,834)	($1,905)	($1,547)	($1,541)	($1,538)	($1,538)
Total Revenue	**$63,680**	**$65,977**	**$65,715**	**$66,933**	**$68,174**	**$70,055**
City Funds (excluding Unrestricted Aid)	$41,929	$44,238	$46,465	$47,877	$49,109	$50,904
Federal & State Revenue	$20,040	$19,834	$17,547	$17,395	$17,406	$17,495
City Funds as a Percent of Total	65.8%	67.1%	70.7%	71.5%	72.0%	72.7%
Federal & State as a Percent of Total	31.5%	30.1%	26.7%	26.0%	25.5%	25.0%

***Source**: OMB, May 2012 Revenue Plan*

Fiscal 2012 May Plan: Revenue Growth
Percentage Change from Previous Year

	FY11	FY12	FY13	FY14	FY15
Taxes					
Real Estate	4.0%	5.1%	2.9%	2.3%	2.3%
Sales	9.5%	4.7%	3.2%	4.4%	4.5%
Mortgage Recording	15.8%	17.9%	8.2%	14.8%	12.1%
Personal Income	11.1%	7.2%	5.3%	1.6%	7.1%
General Corporation	17.0%	17.9%	5.7%	3.9%	3.5%
Banking Corporation	30.1%	(2.7%)	(10.0%)	(7.8%)	0.8%
Unincorporated Business	6.4%	8.4%	4.1%	4.4%	4.3%
Utility	4.8%	5.1%	3.4%	3.0%	3.4%
Hotel	15.2%	(4.8%)	(6.8%)	4.6%	6.7%
Commercial Rent	1.5%	3.2%	3.2%	3.3%	3.5%
Real Property Transfer	18.4%	6.3%	(0.9%)	11.2%	12.2%
Cigarette	(25.5%)	(1.4%)	(1.4%)	(2.9%)	(1.5%)
All Other	0.0%	(9.5%)	0.2%	2.6%	0.2%
Audit	12.7%	(24.0%)	(0.2%)	1.1%	0.0%
STAR	(21.2%)	11.2%	8.7%	(0.2%)	0.0%
Total Taxes	**7.4%**	**5.4%**	**3.2%**	**2.7%**	**4.0%**
Federal Categorical Grants	1.5%	(21.6%)	(3.6%)	(0.9%)	(0.0%)
State Categorical Grants	(2.7%)	(4.2%)	0.8%	0.6%	0.8%
Non-Governmental (Other Categorical Grants	11.3%	(10.6%)	(2.5%)	(0.1%)	(0.2%)
Unrest. / Anticipated State & Federal Aid	(33.3%)	(14.3%)	0.0%	0.0%	0.0%
Miscellaneous Revenue					
Charges for Services	2.7%	5.2%	2.1%	0.0%	0.1%
Water and Sewer Charges	(20.3%)	10.9%	(1.1%)	2.0%	1.2%
Licenses, Permits, Franchises	7.3%	1.4%	0.0%	0.6%	0.2%
Rental Income	6.9%	0.4%	2.4%	3.1%	1.1%
Fines and Forfeitures	(3.4%)	1.5%	(0.4%)	(0.1%)	(0.1%)
Other Miscellaneous	(17.4%)	(19.7%)	(2.8%)	(1.7%)	(5.5%)
Interest Income	0.0%	54.5%	214.7%	30.8%	17.9%
Intra City	3.1%	(18.9%)	(0.4%)	(0.2%)	0.0%
Total Miscellaneous	**(5.6%)**	**(4.5%)**	**0.9%**	**1.0%**	**0.3%**
Net Disallowances & Transfers	**3.9%**	**(18.8%)**	**(0.4%)**	**(0.2%)**	**0.0%**
Total Revenue	**3.4%**	**(0.4%)**	**1.9%**	**1.9%**	**2.8%**
City Funds (excl. Unrestricted Aid)	5.2%	5.0%	3.0%	2.6%	3.7%
Federal & State Revenue	(1.0%)	(11.5%)	(0.9%)	0.1%	0.5%

Source*: OMB Fiscal 2012 May Plan*

Fiscal Year 2012 May Plan: Revenue Changes from February Plan
Dollars in Millions

	FY11	FY12	FY13	FY14	FY15
Taxes					
Real Estate	($17)	$42	$6	($2)	($2)
Sales	$30	$0	$45	$160	$181
Mortgage Recording	($20)	($2)	($11)	$3	($9)
Personal Income	$142	$0	$166	($185)	($157)
General Corporation	($103)	$0	$0	$0	$0
Banking Corporation	$16	$121	$94	$0	$0
Unincorporated Business	($45)	$0	$0	$0	$0
Utility	$10	$15	$15	$15	$16
Hotel	$0	$0	($10)	($12)	($13)
Commercial Rent	$0	$0	$0	$0	$0
Real Property Transfer	($40)	$4	($18)	$3	($14)
Cigarette	($2)	($3)	($2)	($2)	($2)
All Other	$13	$12	$12	$12	$13
Audit	$0	$15	$15	$15	$15
Tax Program	$0	$0	$0	$0	$0
STAR	($15)	($26)	($26)	($26)	($26)
Total Taxes	**($31)**	**$178**	**$286**	**($19)**	**$2**
Federal Categorical Grants	$128	$588	$495	$474	$472
State Categorical Grants	($70)	($253)	($193)	($171)	($81)
Non-Governmental Grants (Other Cat.)	$28	$43	$11	$12	$13
Unrest. / Anticipated State & Federal Aid**	$0	($600)	($600)	($600)	($600)
Miscellaneous Revenue					
Charges for Services	$5	($3)	$17	$18	$19
Water and Sewer Charges	($20)	$100	$87	$86	$87
Licenses, Permits, Franchises	$16	$14	$14	$14	$14
Rental Income	$10	$0	$0	$0	$0
Fines and Forfeitures	$3	$13	$12	$11	$10
Other Miscellaneous	($3)	$9	$13	$10	($1)
Interest Income	$1	$0	$0	$0	$0
Intra City	$19	$17	$14	$11	$11
Total Miscellaneous	**$31**	**$150**	**$157**	**$150**	**$140**
Net Disallowances & Transfers	($19)	($17)	($14)	($11)	($11)
Total Revenue	**$67**	**$89**	**$142**	**($165)**	**($65)**
City Funds (excl.) Unrestricted Aid	($19)	$311	$429	$120	$131
Federal & State Revenue	$58	($265)	($298)	($297)	($209)

***Source**: OMB Fiscal 2012 May and February Plans.*
*** In FY 12 on from February Plan includes $600 million anticipate State Actions.*

Council Forecast: Levels
Dollars in Millions

	FY10	FY11	FY12	FY13	FY14	FY15
Real Property	$16,184	$16,841	$17,617	$18,222	$18,786	$19,490
Personal Income	6,858	7,654	8,446	9,069	9,167	9,790
General Corporation	1,976	2,304	2,749	2,896	3,073	3,279
Banking Corporation	969	1,261	1,223	1,139	1,064	1,009
Unincorporated Business	1,560	1,654	1,800	1,947	2,090	2,229
Sales	5,059	5,545	5,800	5,992	6,194	6,471
Commercial Rent	594	603	628	655	679	699
Real Property Transfer	601	732	759	838	923	1,050
Mortgage Recording	366	422	481	561	653	731
Utility	375	403	409	418	428	437
Hotel	363	431	388	387	401	422
All Other	1,513	1,297	1,327	1,396	1,404	1,404
Audits	770	868	660	659	666	666
Total Taxes	**$37,188**	**$40,016**	**$42,286**	**$44,179**	**$45,529**	**$47,678**
OMB	**$37,188**	**$39,951**	**$42,097**	**$43,447**	**$44,617**	**$46,392**

Source*: Council Fiscal 2012 May Plan*