

THE COUNCIL OF THE CITY OF NEW YORK

Speaker of the Council
Christine C. Quinn



Hon. Domenic M. Recchia, Jr., Chair, Finance Committee

Hearing on the Mayor's Fiscal Year 2013 Preliminary Budget

Financial Plan Overview, Economy, Revenue, Pensions, Capital and Debt Service

March 5, 2012

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Financial Plan Overview

Introduction

The March 5th hearing of the Finance Committee, starts the process of reviewing the Fiscal 2013 Preliminary budget (“February 2012 Plan”), which was released on February 2, 2012. The hearing will begin with the testimony of Mark Page, Director of the Office of Management and Budget. This document will provide an overview of the February 2012 Plan, with emphasis on the tax revenue, state aid, and debt service parts of the budget. It will also examine the City’s economy and provide the City Council Finance Division’s forecast of tax revenues for Fiscal 2012 through 2016 and a brief look at the capital plan. Because of the proposed changes to actuarial assumptions, this report will pay special attention to pensions. A separate document will examine the City’s contract budget. Analysis of agency budgets will be provided in reports for subsequent hearings.

The Challenge

- **A disappointing economy, budget problems at the State and Federal level, and growing debt service and fringe benefits makes balancing the City’s budget a challenge.**
- **Fiscal 2012 will be the fourth year in a row, where balance has been achieved by using funds saved from prior years. We can do this again for a year or two more but at some point soon operating expenses and revenues will have to be balanced.**
- **Fiscal 2013 gap is closed primarily by non-recurring revenues.**
- **The Finance Division forecast provides \$227 million in additional tax revenue in Fiscal 2012 and \$380 million in Fiscal 2013. But it also suggests that the City may have to get use to a ‘new normal’ with slower growth than it has experienced over the last 20 years.**

Devising a budget to meet the needs of New York City is an ongoing challenge. In many ways our City continues to do well; it continues to grow. There are 190,000 more people than there were 10 years ago. Unemployment and office vacancies remain low compared to the rest of the country.

But costs of running the City continue to rise, and while inflation remains modest, some large items in the budget, notably debt service and fringe benefits are growing at a much more rapid pace. Controlling costs is getting tougher. Since the beginning of the financial crisis the City has undertaken 11 PEG programs, and the easy cuts and revenue sources have largely been used.

The economy has not helped. In 2011 the world economy could not get a break. Already suffering from the aftermath of the financial crisis, it started the year with rising energy prices as a result of the Arab Spring. This was followed by supply chain disruptions due to the Japanese tsunami, the Euro debt crisis and the self-inflicted wounds of America's budget ceiling crisis. The Euro debt crisis and the hangover from the financial crisis remain with us and will impact on the City's budget for the remainder of Fiscal 2012, Fiscal 2013 and beyond.

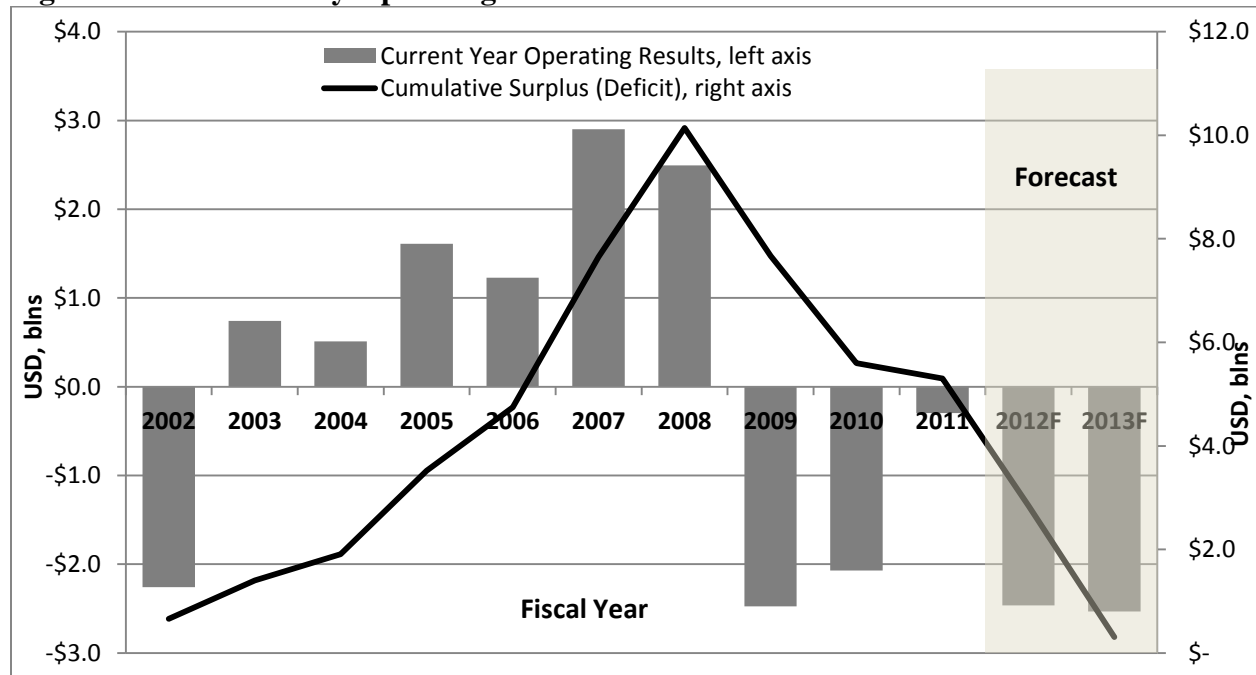
Other levels of government have not helped. In its Fiscal 2011-2012 budget New York State took necessary action to bring its own fiscal house in order, but this reduced aid to the City for Fiscal 2012 by \$1.2 billion compared to what was expected in last year's preliminary budget. Growth in state aid in the New York State Fiscal 2012-2013 Executive Budget, is more or less in line with the City's expectations, but the growth of that aid is very modest.

The Federal government, which in 2009 and 2010 was a stimulus to the economy and which supported the City's budget, is now a drag on the economy. In 2011 changes in Federal spending actually reduced growth in GDP by 0.17 percent.¹ This too will continue, Federal spending is likely to remain a drag on economic growth for most of the foreseeable future.

¹ Bureau of Economic Analysis, "Gross Domestic Product: Fourth Quarter and Annual 2011 Advanced Estimate" Table 2.

Since Fiscal 2009 the City has been balancing its budget using funds saved during the boom years. The budget is balanced on a GAAP basis, but if you compare current year revenues and expenses Fiscal 2012 will be the fourth year in a row with an operating deficit.² We can do this again for a year or two more but at some point soon operating expenses and revenues will have to be balanced. Operating and cumulative results recent trend and forecast are shown in Figure 1.

Figure 1. New York City Operating Deficits



Source: New York City Council Finance, 2012

² Council Finance calculations of operating surpluses/deficits differ from OMB by including the additions to and use of funds from the Retiree Health Benefit Trust as part of operating balances.

The Fiscal 2012 Adopted budget started with a balanced Fiscal 2012 and a Fiscal 2013 gap of \$4.6 billion. Revenue growth has occurred, but with a disappointing economy that growth is less than is typical for the Preliminary budget forecast. As is normal, there are new needs (see Table 1). The extra revenues are insufficient to cover the new needs, which widen the gap by \$632 million over the two years.

Table 1. Revenue & New Needs		
<i>Dollars in Millions</i>		
February Plan	FY12	FY13
Gap as of FY 12 Adoption	\$---	(3,257)
Revenues		
Taxes	114	360
Non-Tax Revenue	22	(26)
Subtotal, Revenue Changes	136	334
Expenses		
Baselined Agency Spending	483	497
Other Agency Expenses	34	88
Subtotal, Expense Changes	517	585
New Gap	(\$381)	(\$4,883)

Source: New York City Council Finance, 2012

The gap is closed in four ways as shown in Table 2. A PEG program that was announced in November, a normal second half of the year take down of expenses, some non-recurring resources and a revision of pension charges.

Table 2. Closing the Gap		
<i>Dollars in Millions</i>		
February Plan	FY12	FY13
New Gap	(\$381)	(\$4,883)
Taxi Medallions	-	1,000
Retiree Health Trust Fund	-	1,000
Nov. PEG Program	470	1,020
Revised Pension Changes	425	425
Prior-Year Payables	500	-
General Reserve	200	-
Debt Service	81	99
HIP Rate Savings	2	42
Interim Surplus/(Gap)	1,297	(1,297)
Roll FY 12 Surplus	(1,297)	1,297
Final Surplus/(Gap)	\$ -	\$ -

Source: New York City Council Finance, 2012

Of the non-recurring resources the Retiree Health Benefit Trust Fund has served as a de-facto rainy day fund. Fiscal 2013 will be the fourth year in a row that the City has drawn down the fund and it will have around \$1 billion left at the end of the year.

The City has been authorized to sell up to 2,000 additional taxi medallions and up to 18,000 new HAIL licenses for livery cabs. Livery cabs with HAIL licenses can pick up street hails in the five boroughs outside of core Manhattan and the airports. Surprisingly the financial

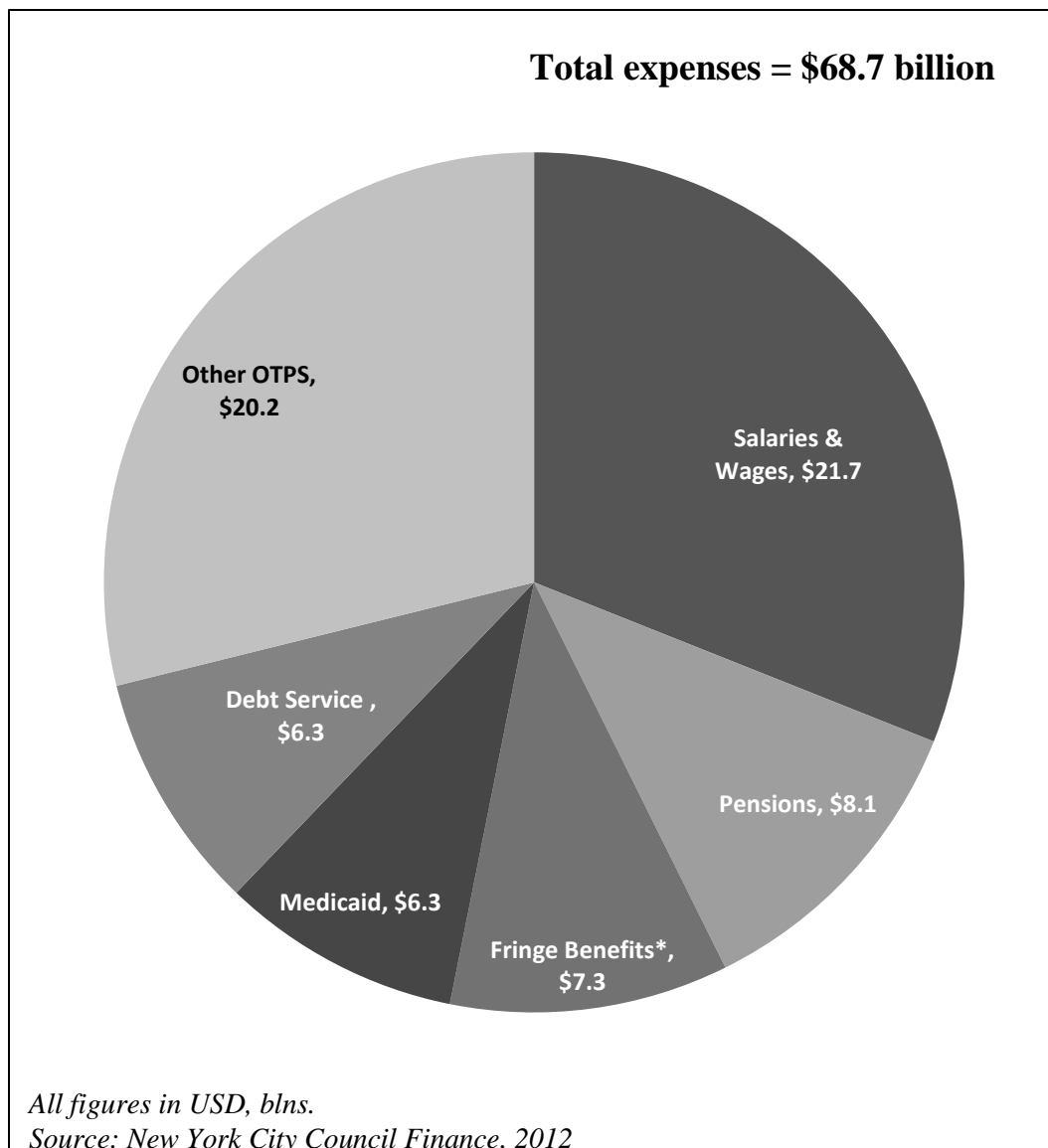
plan expects to realize all of the proceeds from these sales in Fiscal 2013 and this despite some significant restrictions on the sales of the medallions.

Since Fiscal 2010 the City's budget has contained a reserve for changes in actuarial assumptions for the City's five pension funds. In the Fiscal 2012 Adopted budget that reserve was \$1 billion a year. By lengthening the period over which the City makes the extra payments needed to adjust to these new assumptions and by resetting the actuarial value of pension assets to equal their market value the City Actuary has been able to keep the extra contribution down to \$575 million for Fiscal 2012 and Fiscal 2013. This frees the remainder of the billion for gap closing. The issues around these changes are explored in pension section below.

Budget Basics

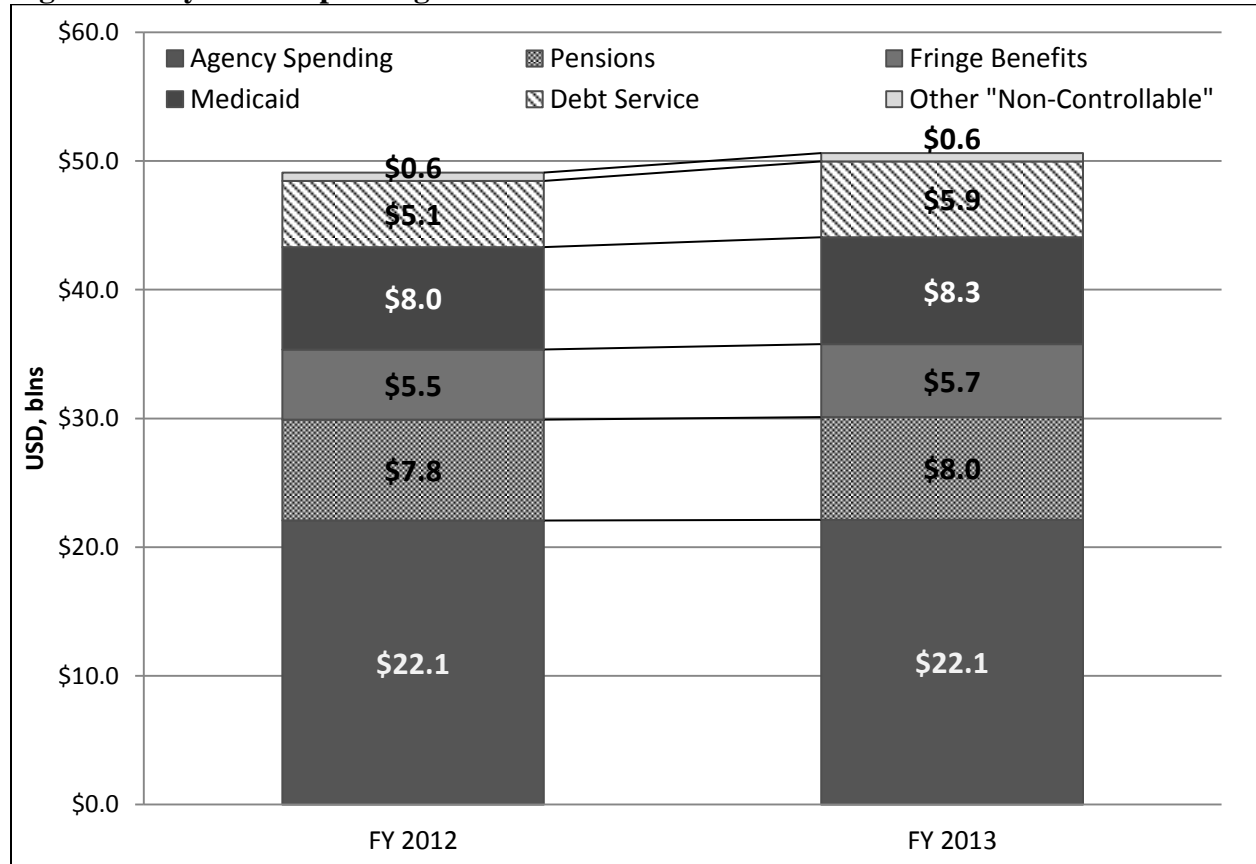
The Fiscal 2013 budget is \$68.725 billion. On the expense side this understates things, because part of debt service and other expenses are prepaid with funds from Fiscal 2012, and part of post-employment health care benefits are paid for by running down the Retiree Health Benefits Trust Fund. Adjusting for this, spending is around \$71 billion, up about 0.8 percent from a similarly adjusted Fiscal 2012 budget.

Figure 2. Total Expenses



City-funds spending is a better way to get a vision of the growth of the budget, as shown in Figure 3. For Fiscal 2013 City funds spending is \$51 billion, up a modest 4 percent from Fiscal 2012. City funded agency program decreases from Fiscal 2012 to Fiscal 2013; the year-to-year growth is all in other categories. The major growth from Fiscal 2012 is in debt service and pensions. A lot of the growth in pension reflects new actuarial assumptions which are anticipated in Fiscal 2012.

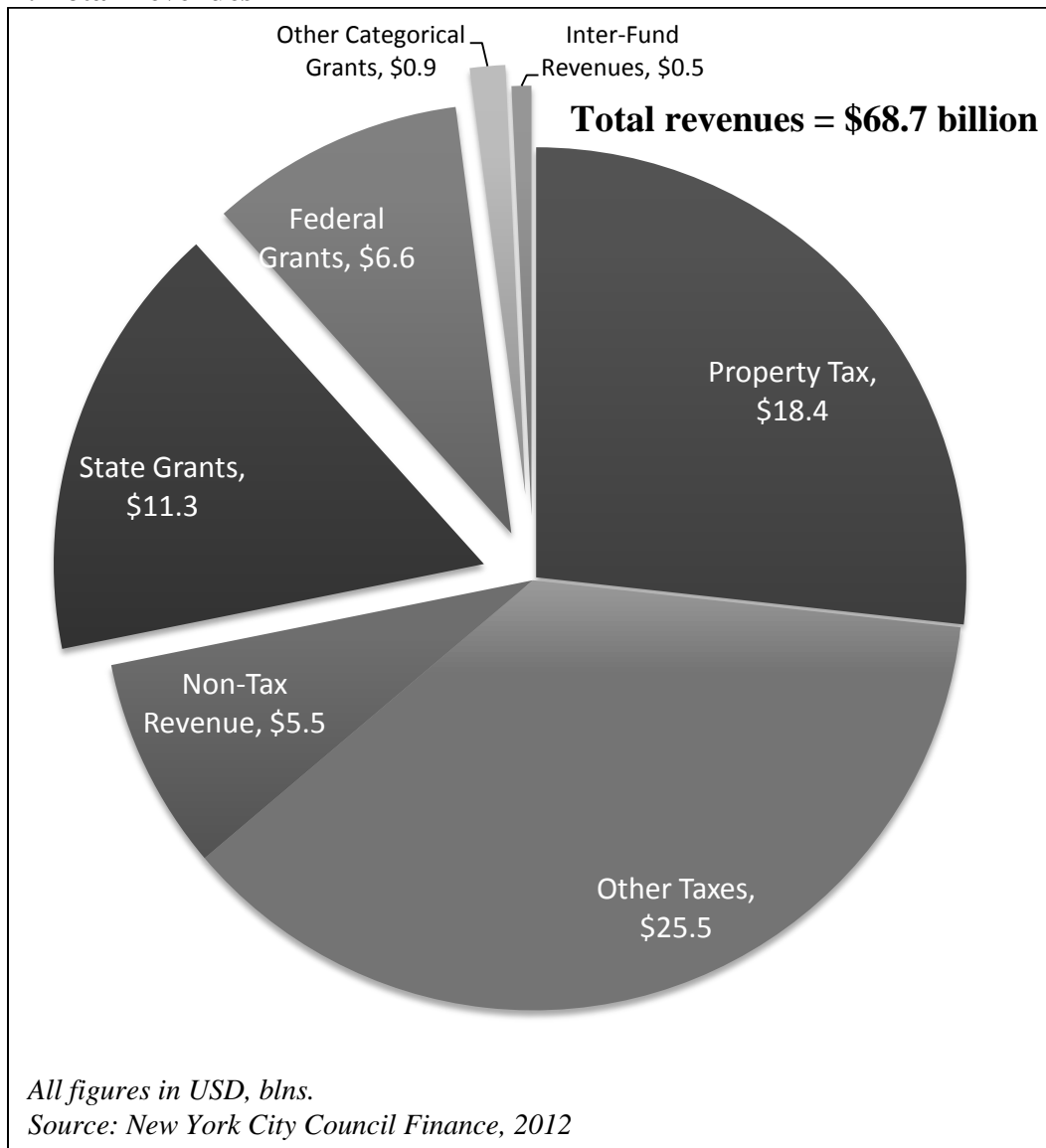
Figure 3. City Funds Spending



Source: New York City Council Finance, 2012

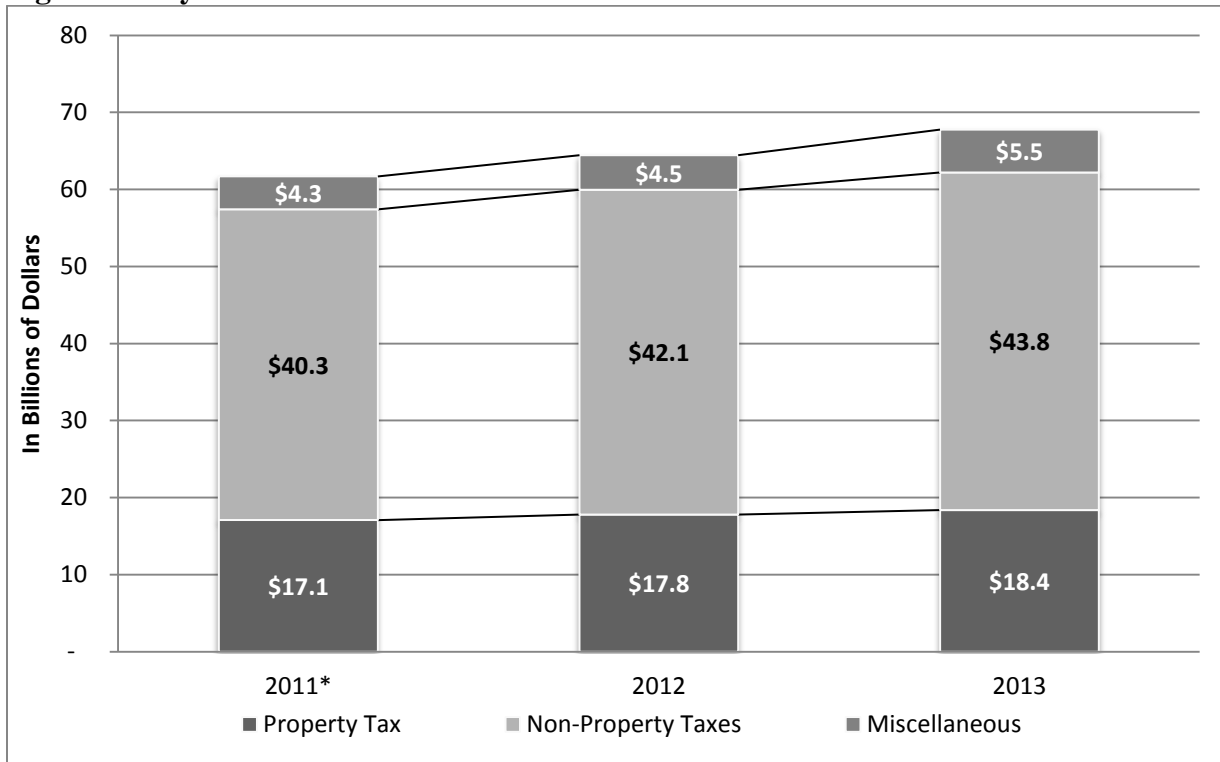
The Fiscal 2013 budget on the revenue side is also \$68.735 billion, up 2% from Fiscal 2012. The growth of revenues is slowed by the anticipated slow growth of State and Federal categorical aid. This understates growth since additional federal and state categorical grants are typically recognized over the course of the year. In Fiscal 2012 about \$1.4 billion has been recognized.

Figure 4. Total Revenues



Turning to City funds, tax revenues are growing at 4 percent representing an economy that is growing, but at a slower pace than one would like. The substantial increase in miscellaneous revenues reflects \$1 billion from the sale taxi cab mediations. Most other categories of miscellaneous revenues have not increased significantly. In particular, fines and forfeitures are up only 1.9 percent, which is less than inflation.

Figure 5. City Funds Revenue



Note: Data for Fiscal 2011 is from the Comprehensive Annual Financial Report of the Comptroller.
 Source: New York City Council Finance, 2012

Fiscal 2014 to Fiscal 2016

Fiscal 2014 to Fiscal 2016 have relatively slow growth in revenue in the Preliminary Budget plan, averaging 2 percent for total revenue. The plan assumes no growth for State categorical grants and a decrease in Federal categorical over the period. Miscellaneous revenues also decrease but this is in part due to the 'one shots' used to balance Fiscal 2013. Tax revenue growth is slow, averaging about 3.5 percent. Some of this slow growth of taxes and revenues is an artifact of OMB estimating techniques, which for example typically assume no growth in audits and in the City's minor taxes in the outyears.

But there are reasons to suspect the new 'normal' for City revenues may include slower growth than we have been use to during recoveries the last two business cycles. There is evidence at the national level that in industrial countries the decade following a financial crisis is characterized by significantly slower growth and higher unemployment than the decade prior to the crisis.³

There is a similar tendency for asset markets to move 'sideways' , with plenty of ups and downs but little overall growth for prolonged periods after financial crisis.⁴ The Federal government faces long term fiscal pressures and most forecasters assume Federal spending will grow more slowly than inflation for the foreseeable future.⁵ The economic forecast used by Council Finance assumes all of these things.

In addition two of the City's major industries, financial services and information are undergoing major structural changes. In the case of financial services, regulations like Dodd-Frank and Basel III tend to induce caution and lower returns, especially in sectors like investment banking and securitization that New York City specializes in.

So there are reasons to expect slower growth in tax revenue and Federal aid than we have been use to over the last couple of decades.

The gaps which open starting in FY 2014 should not be a surprise. About \$2.3 billion of the gap closers used in FY 2013 will not be available in FY 2014 and the Retiree Health Benefits Trust Fund will be exhausted after Fiscal 2014. Costs will also play a role in opening the outyear gaps. Fringe benefits, which grow at an average the rate of 6.7 percent a year, are the most noticeable of these costs.

³ Carmen Reinhart & Vince Reinhart, "After the Fall", Federal Reserve Bank of Kansas City, 2010.

⁴ Ken Rogoff & Carmen Reinhart, [This Time is Different](#), cited in John Authrer, "From Hell in a Handbasket to Sunlit Uplands and Back" Financial Times February 25, 2012.

⁵ IHS Global Insight February 2012 control forecast has real Federal spending on a NIPA basis falling for all but one year between now and 2022.

Table 3. Fiscal Year 2013 Preliminary Plan Financial Summary*Dollars in Millions*

	FY12	FY13	FY14	FY15	FY16
REVENUE					
City Funds	\$46,670	\$49,370	\$49,552	\$51,542	\$53,261
Total	\$67,369	\$68,725	\$68,905	\$70,952	\$72,774
Expense					
Personal Services	\$37,455	\$37,210	\$37,794	\$39,222	\$40,164
Other than Personal Services	\$28,438	\$27,765	\$28,587	\$29,320	\$29,810
Debt Service	\$5,612	\$6,278	\$6,797	\$7,163	\$7,436
General Reserve	\$100	\$300	\$300	\$300	\$300
Less: Intra-City Expenses	(\$1,791)	(\$1,531)	(\$1,533)	(\$1,537)	(\$1,542)
Total Operating Expenses	\$69,814	\$70,022	\$71,945	\$74,468	\$76,168
FY 2011 Budget Stabilization & Discretionary Transfers	(\$3,742)				
FY2012 Budget Stabilization	\$1,297	(\$1,297)			
Total	\$67,369	\$68,725	\$71,945	\$74,468	\$76,168
Gap	\$0	\$0	(\$3,040)	(\$3,516)	(\$3,394)

Source: OMB Fiscal 2013 Preliminary Plan

The Finance Division forecast will have an impact on outyear deficits, increasing the surplus in Fiscal 2012 and allowing for a roll into Fiscal 2014. The forecast is discussed in economic and tax revenue sections below.

Table 4. Council Forecast: Impact on Gap*Dollars in Millions*

	FY12	FY13	FY14	FY15	FY16
February Plan GAP	\$0	\$0	(\$3,040)	(\$3,516)	(\$3,394)
Council Finance Tax Forecast*	\$227	\$380	\$515	\$624	\$823
Net Change to Surplus Roll	\$(227)	\$227	\$607	\$0	\$0
Restated (Gap)/Surplus	\$0	\$0	(\$1,918)	(\$2,892)	(\$2,571)

Note: * Difference from OMB 2013 Preliminary Plan Forecast

Assumes surpluses rolled into the next fiscal year.

Council Economic Forecast

National Economy – Stalling and Slowly Improving

- **There has been patchy growth since the crisis but Council Finance expects gradual improvement. Growth is at best modest and there are still significant risks.**
- **Critical improvements in household balance sheets as households continue to reduce debt, with many concerns remaining due to foreclosures, credit access, and limited job prospects.**
- **Healthy corporate sector with strong profits and lots of cash.**
- **But much depends on the pragmatic mix fiscal and monetary policy.**

Following a severe contraction in 2009 and sudden comeback in 2010 (decline of -3.5 percent and rise of 3.0 percent respectively), the US economy expanded in 2011 at a lower annual rate of 1.7 percent in real terms. For 2012 we conservatively expect the U.S. economy to grow at a rate of 2.1 percent, reaching 3.3 percent and 3.2 percent in 2014 and 2015 respectively. Thereafter we expect growth to average 2.5 percent, slower than in the decade prior to the financial crisis (see Figure 6). Though there are a number of forces slowing the economy at the moment; some positive developments are starting to take place offering hope for gradual future growth.

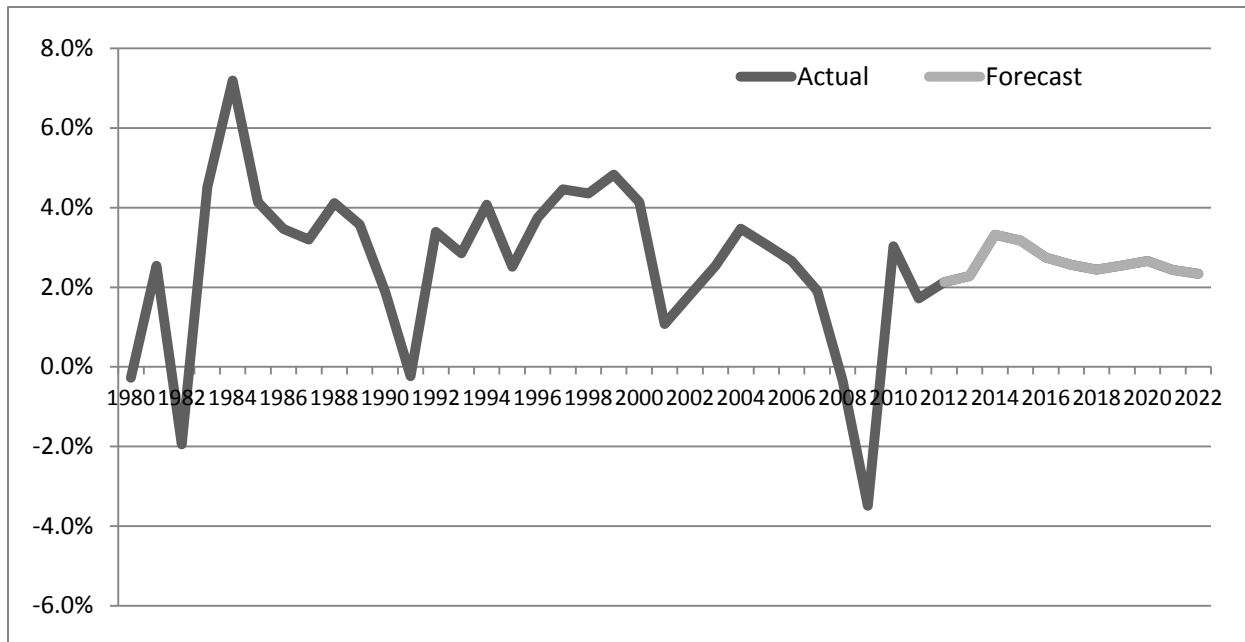
It is important to address the risks first. Several forces continue to influence economy's lackluster performance.

Some of the key concerns are:

- continued uncertainty in the financial industry in both domestic and global (European) markets;
- unstable consumer and business spending;
- continued downsizing in some sectors including the financial services;
- potential rises in oil prices; and
- continued depreciation of the dollar which may help exports but also raises the price of imported goods.

Consumer spending is expected to stay low growing at 2 percent in 2012. This is primarily due to low real income and wealth growth though some improvements in the second half of 2011 were encouraging; real disposable income recovered in the fourth quarter of 2011 and grew at 0.9 percent for the year.⁶

⁶ Real disposable income is after tax income corrected for inflation.

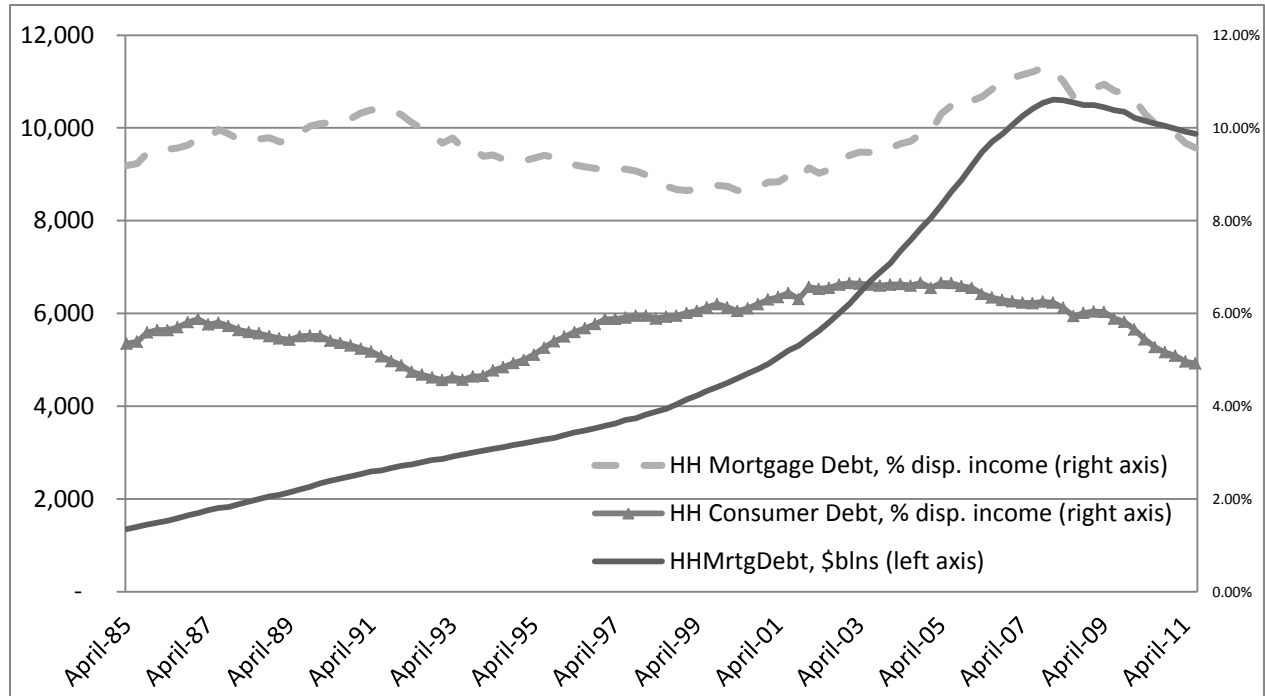
Figure 6. U.S. Real GDP Growth

Source: IMF World Economic Outlook (2011) for actuals; IHS Global Insight (2012) for forecast.

Real disposable income growth is expected to accelerate to 1.3 percent in 2012 and an average of 2.3 percent over 2013-2015 as overall economy picks up.

On the positive side, household balance sheets have shown signs of improvement. This is most visible in the housing market where the absolute levels of mortgage debt burdens have continued a steady decline since late 2006. This trend has corresponded with declines in the mortgage and consumer debt service as shares of disposable income. (see Figure 7).

Somewhat offsetting these improvements were continued foreclosures, albeit at a slower rate, and the continued decline of housing prices. The recent extension of the payroll tax cut and emergency unemployment insurance benefits should help relieve some of the financial burdens on the households.

Figure 7. U.S. Households Deleveraging Trend

Source: The Federal Reserve Board for household ratios and St. Louis Fed for home mortgage debt outstanding.

The U.S. unemployment rate declined from the annual peak of 9.6 percent in 2010 to a slightly lower 2011 average of 9.0 percent (seasonally adjusted).⁷ A more revealing and inclusive statistic is the one that accounts for the “discouraged worker” effect. On a monthly scale this has trended from the peak of 16.1 percent in January 2011 to, still at unprecedented in the past twenty years high of, 15.2 percent of total labor force level in December 2011 with minimal change in January 2012.⁸

We expect U.S. unemployment rate to continue to decline as economy regains its strength. There is an ongoing concern, however, on the ability of the discouraged workers that have effectively left the labor force to regain full-time positions.

Despite improved unemployment prospects consumer spending is expected to lag behind in the medium-term. This contributes to our vision of the *new normal* of positive but a more modest and gradual growth as compared to prior years.

Productivity has steadily improved in the US, in the background of persistently high unemployment, as firms assumed a cost-effective stand of replacing aging capital and incorporating new technology in operations. This may be evidenced in robust inventories build up, which contributed roughly 1.9 percent to the 2011 fourth quarter GDP.

⁷ Unemployment started to decline in the later part of 2011 and in December 2011 the monthly unemployment rate dropped to 8.5 percent.

⁸ This compares the Bureau of Labor Statistics’ U-3 rate, which is the one most often reported in the press, with its more inclusive U-6 rate. For BLS’s various measures of labor utilization see <http://www.bls.gov/news.release/empsit.t15.htm>

At the same time independent estimates recently carried out by JPMorgan Chase (quoted in a recent Financial Times report) suggest that non-financial groups in the S&P 500 index have cash balances much higher than previously expected (approximately around \$2 trillion). This would primarily be due to positive cash flows (partially as a result of decreased compensation spending and expense control measures introduced in the past couple years), low leverage, and expected profits. These cash balances can be used to accelerate investment and hiring, should firms feel comfortable enough to do so.

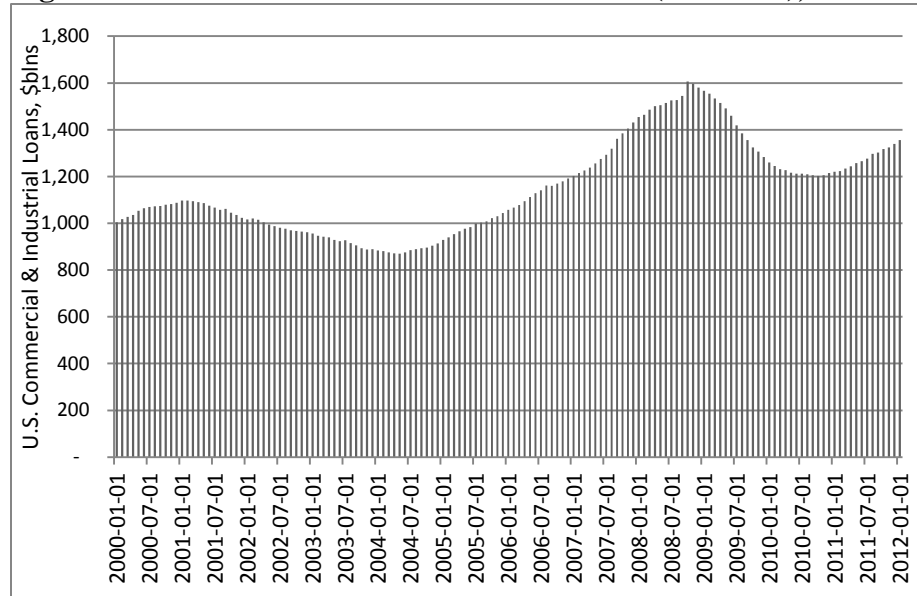
We expect business spending on nonresidential equipment and software to continue to grow in 2012. According to the National Association for Business Economics (NABE), investment of this kind is on an upward trend in 2012 reaching 8.1 percent of total spending. OMB figures show business spending in core capital investment contributing roughly one-third to the real GDP growth.

But there are reasons for concern here. The business climate remains uncertain in the medium term. Successful investing requires healthy demand for the goods or services that will be produced but there are not a lot of sources of such demand at the moment. Ongoing investment in a group of industries could create such demand. But someone has to start and for the first movers there is a large potential gain from being first but also a large of potential loss if no one follows your lead.

In terms of key contributions to near-term growth will stem from a few industries. Education, health, professional & business services, transportation, and trade are all projected grow through the year. Benefiting from rising competitor labor costs in China and various domestic incentives U.S. manufacturing has shown some growth potential. The concern is that much of the growth is one-sided and export driven, which in turn depends on strong demand for U.S. made products elsewhere. Latest data from NABE confirms some of these concerns with downward revisions for real exports growth to trend at around 4.6 percent in 2012.

On the financial side, interest rates remain low and commercial banks have been cautiously expanding their lending in 2011. Complementing the increasing business spending story is the growth in the total volume of commercial and industrial loans to \$1.4 billion (seasonally adjusted), constituting an increase of 1.2 percent in January 2012 over December 2011 (see Figure 8).

Figure 8. U.S. Consumer and Industrial Loans (all banks), USD blns



This trend is consistent with the January 2012 Federal Reserve’s Senior Loan Officer Survey findings. According to that analysis domestic banks, though operating with stricter credit selection framework, reported strong loan demand in the last three months of 2011, and little change in their standards.

Source: St. Louis Fed, 2012.

Counterbalancing U.S.-based banks behavior, foreign banks operating in the U.S. have tightened their credit policy and retracted from certain areas of the business loan markets. U.S.-based banks entering these market openings as a result⁹. It is clear that these foreign banks actions are driven by the ongoing

Quite recently rating agencies (S&P, Fitch) have downgraded sovereign credit ratings of a select group of the EU economies, including the “core” countries such as France and Austria. At the same time implemented policy measures, including European Central Bank’s December 2011 facilitation of roughly EUR500 billion in three-year loans to the EU banks, have been perceived as slow and reactionary rather than pragmatic and rational. As of most recent data, the EU has entered a recession and Greece’s rating downgraded from an unfavorable “CCC” to even less favorable “C” by Fitch Ratings, indicating a possibility of near-term default.

The result of prolonged negotiations has been a decision of “voluntary” haircut on Greek sovereign bonds. Because essentially 90 percent of Greek bonds are issued under the Greek law, the Greek parliament approved a retroactive clause on February 23, 2012 that forced all bondholders to accept the deal and count the losses. In the immediate aftermath, following some concerns on functionality (via implied Credit Default Swap insurance mechanism), markets have resumed trading in the euro with demand coming mainly from the emerging markets. According to the NABE survey of economists, EUR to USD exchange rates will remain close to current levels in the near term.

⁹ January 2012 Federal Reserve’s Senior Loan Officer Survey

concerns in the European financial markets, primarily with the sovereign debt overhang and private banks' exposures to default risk across the Eurozone.

The potential spillover of the Eurozone crisis can have significant impact on the U.S.-based banks due to their foreign holdings. Within the EU market this is roughly estimated to be \$80 billion in the U.S. banks' exposure to Spain, Italy, Portugal, Ireland, and Greece. On a positive side, industry reports suggest that Wall Street has been pricing-in the possibility of Greek default since early 2010 (as evidenced in the exceptionally high yields on Greek bonds). Still U.S. financial firms aggressively cut labor through 2011 with uneven profits performance through 2011. Profits are projected to increase only modestly as the industry restructures and remains vulnerable to financial and real economy risks from the foreign markets in which U.S. banks remain as some of the key players.

A final point to consider is the fiscal tightening (reduction in federal spending) expected to contribute to decline in Federal budget deficits. The rationale is the growing U.S. national debt, currently above \$15 trillion mark and approaching 110 percent of GDP (as of February 27, 2012). Certainly, the concern is for the U.S. to avoid an excessive debt pile up and prevent unsustainable debt crisis. However, despite an accommodative Federal Reserve policy of low interest rates, there is a chance that premature fiscal tightening might cause an additional strain on the economy. In view of many economists, mostly of the Keynesian school, the Federal government possesses stronger operational and financial capacity to put the economy on tracks before scaling back on its current spending. Moreover, the political clashes, such as over the debt ceiling, have a tendency of sending disruptive signals to the markets (U.S. lost its AAA sovereign credit rating in late 2011 due to these issues).

We summarize some of the key factors affecting current economic conditions below. Overall, Council Finance's view is that the new norm for the U.S. economy is positive growth but at much slower pace than in the immediate past as various sectors adjust in the aftermath of the crisis. Clearly a lot depends on the ability of the U.S. economy to recover within its current economic design. In terms of the City budget this suggests relying more on its own means for pragmatic and thoughtful policy rather than expecting a growth drift from the national economy.

Core Factors Affecting Current Economic Conditions

Positive	Negative
<ul style="list-style-type: none"> • Increased consumer spending • Improving consumer confidence • Higher capital goods spending • Continued software and equipment spending by corporations • Low interest rates • Rising employment (and falling unemployment) • Some export growth • Credit market thawing • Corporate sector with strong profits and large stocks of corporate cash 	<ul style="list-style-type: none"> • Continued weakness in the housing market • Premature efforts to reduce the fiscal deficit • Spillover from the European financial markets • Persistently high unemployment • Reduction in state and municipal workforces • Price volatility in energy sector • Credit rationing • Slowing export growth, despite USD depreciation • Return to rising imports

OMB and Council Finance draw upon many of the same sources for their national economy forecast, notably the econometrics firm IHS Global Insight. There are some differences, but they are essentially the same forecast. Differences are more significant at City economy and tax revenue forecasts where we do our own estimations.

City Economy

- **Wall Street facing reduced revenues and recent losses.**
- **City facing recent sluggishness in employment and wage growth.**
- **2011 surpassed 2010 as the best year for tourism, boosting employment.**
- **Leasing commercial space continues to pick up but residential buyer's market is still weak.**
- **Council Finance forecasts slow growth through 2012, but picking up in subsequent years.**

New York City is facing significant challenges, along with some encouraging developments. Private payroll employment in the City, after rising from its trough in August 2009, appears to be contracting since August 2011. While the first half of 2011 saw an increase of 47,400 positions, the second half witnessed a loss of 11,300 jobs.¹⁰ The critical finance sector has been one source of these job losses. On the other hand, other important sectors, such as professional and business services, leisure and hospitality, and retail have maintained job growth through 2011.

Wall Street facing reduced revenues and recent losses.

Wall Street fortunes also experienced a disruption last year. The securities industry garnered record profits in 2009 and 2010 of \$61.4 billion and \$27.6 billion respectively. In the 3rd quarter 2011, however, Wall Street suffered a \$3 billion loss, its first quarterly setback since the 4th quarter 2008. Early 4th quarter reports from the five largest banks¹¹ also show reduced revenues in trading and investment banking. OMB estimates NYSE member profits in 2011 at \$13.1 billion, down from its initial estimate of \$20 billion. Reduced profitability has prompted the securities industry to reduce its payroll in the City by 1,900 last year. OMB expects a similar magnitude of job cuts in 2012, with continued payroll reductions throughout the forecast period.

Wage growth of the remaining employees is also being circumscribed. With less net earnings to reward and increased government regulation of pay practices, State Comptroller Thomas DiNapoli estimates that bonuses will be cut roughly 14 percent for 2011. This will contribute to stagnant wage growth through the forecast period. The performance of the finance industry will continue to have ripple effects through the City's economy, good or ill. It remains a major client of the professional and business services super-sector.

Even with its troubles, the average wage of workers in the securities sector is a staggering \$366,600 annually.¹² According to the State Comptroller's estimate, one job in securities

¹⁰ Current Employment Statistics, U.S. Bureau of Labor Statistics, December 2011, seasonally-adjusted.

¹¹ Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley.

creates two jobs elsewhere in the City.¹³ That high compensation is also a big boost to consumption in the City, especially in big-ticket items such as expensive condos and co-ops.

City facing recent sluggishness in employment and wage growth.

The City has added 89,500 private sector jobs since the employment recovery in September 2009 through December 2011, recovering 64.0 percent of the 139,800 lost jobs during the recession. Total payroll (including the public sector) added 72,900 positions from its recovery in October 2009 through December 2011, recouping 53.1 percent of the 137,200 positions lost. While the City has done much better in regaining jobs than the U.S., which has recouped only 36 percent of its positions, the recent downturn in employment has kept the City at the same position it was in April 2011. At that time, our Executive Budget Finance Committee Report showed a 63.6 percent recovery of lost private sector jobs.

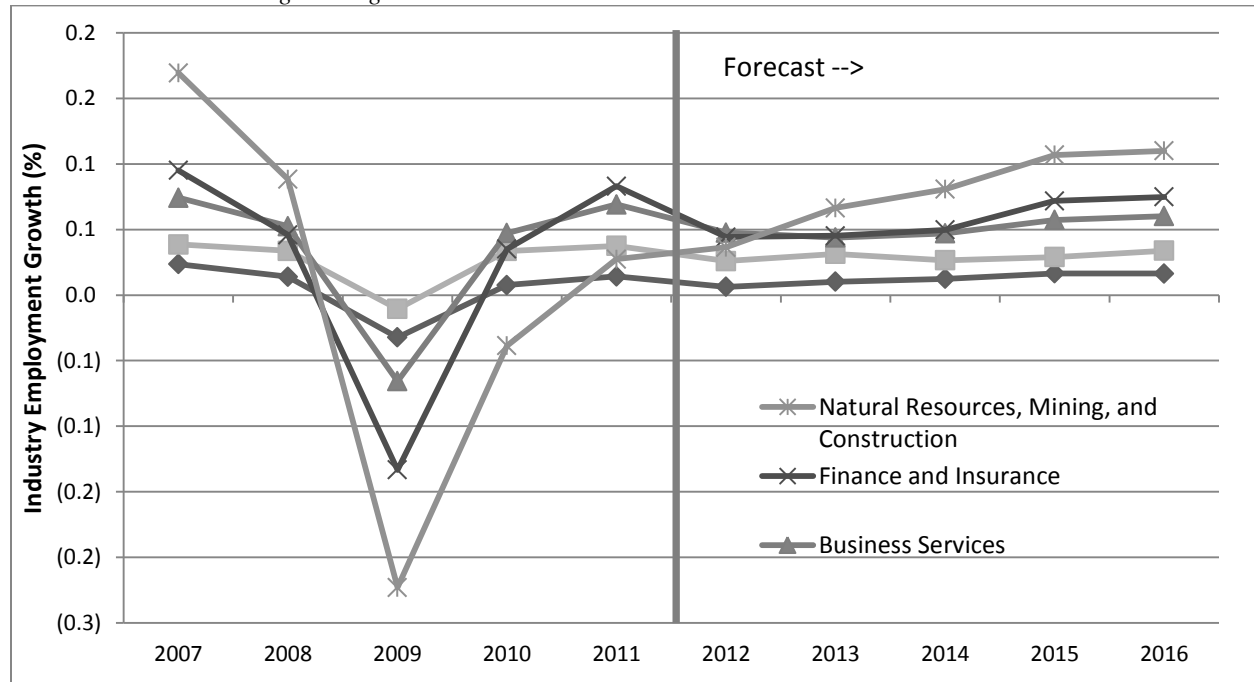
The City's unemployment rate has also begun to rise. It fell to 8.6 percent in April 2011, but since June has been increasing, reaching 9.0 percent in December. The hope is that improving national employment and other economic factors will pull the City from its recent doldrums.

The average wage in the City is estimated to have grown by 3.0 percent in 2011, driven by a larger workforce and increased compensation. Wage growth has slowed from 5.9 percent in 2010. The average wage in the securities industry grew by only 1.6 percent in 2011 to \$369,000 annually. This followed a soaring 17.4 percent in 2010.

Professional and business services which led the recover, has maintained its momentum. This super-sector includes law firms, accountants, advertisers, computer professionals, architects, management companies, and employment services. Of the 38,900 private jobs added through 2011, 19,200 or 49.4 percent were supplied by business services.

¹³ Office of the State Deputy Comptroller for the City of New York. "The Securities Industry, in New York City," November 2009, p. 11.

Figure 9. Industry Employment Growth, Actuals and Forecast for 2012-2016
Year-over-Year Percentage Change



Source: IHS Global Insight; New York City Council Finance.

2011 surpassed 2010 as the best year for tourism, boosting employment.

Year-round growth was also seen in leisure-hospitality and retail, both boosted by record tourism. Tourism in 2011 surpassed its previous record in 2010 with 50.5 million visitors to the City.¹⁴ The many entertainment and cultural attractions of the City, along with the weak dollar, drew in both domestic and foreign travelers.

The leisure and hospitality super-sector flourished in the last 12 months, increasing its payroll by 8,400. Food service and drinking places accounted for 81 percent of this employment growth. These, however, tend to be low paying jobs.

The hotel industry has benefited by average occupancy rates above 85 percent in both 2010 and 2011. The average daily rate has risen to \$276 per room in 2011, the best year since 2008.¹⁵ This tightening of the market occurred at the same time a surge of additional hotel rooms were made available. Between January 2006 and December 2011 there was a 24 percent increase in hotel accommodations. In 2011 alone, room inventory in the City increased over 5 percent.¹⁶

Retail establishments have also performed well last year thanks to tourists and New Yorkers, who were a little less frugal than the previous year. This sector added 13,800 workers to payroll during 2011.

¹⁴ New York City & Company.

¹⁵ New York City & Company, "NYC Hotel Occupancy, ADR & Rooms Sold," February 8, 2012. The average room rate in 2008 was \$307 per room.

¹⁶ New York City & Company, "Hotel Development in NYC," November 17, 2011.

Information is one sector that has not stopped hemorrhaging jobs since 2009. During 2011, it lost another 4,900 positions, concentrated in publishing, which has long been structurally-downsizing, but also in telecommunications and television-radio broadcasting.

Healthcare and social services usually benefit from a demand that is less sensitive to business cycles. During the past year, however, the sector went through periods of net hiring and layoffs, eking out a historically weak 1,300 added jobs, a 0.2 percent increase. Reductions in payroll were seen in physician offices, specialty hospitals, and nursing care facilities. The slow growth may be partially due to anticipated Medicaid and Medicare cuts making the medical sector more reticent to maintain large payrolls.

Construction and manufacturing have continued to contract. Construction starts dropped by 31 percent to \$13.8 billion in 2011 compared to 2010, with most of the declines in non-residential construction. 2010, however, was a big ticket year, with the World Trade Center, Madison Square Garden, and Barclay's Arena accounting for \$6 billion alone.¹⁷ Nonetheless, construction payroll contracted by 4,600 jobs during 2011. Manufacturing continued its long-term decline, losing 4,000 workers and now with a workforce less than half it was a decade ago.

Table 5. Employment Gains from September 2009 thru December 2011

Thousands - Seasonally-Adjusted

Total Private	89.5
Finance and Insurance	3.4
Banking	0.5
Securities (Wall Street)	3.8
Real Estate and Leasing	(0.8)
Professional and Business Services	41.9
Employment Services	12.1
Information	(5.5)
Construction	(15.0)
Leisure and Hospitality	24.8
Arts, Entertainment, and Recreation	(0.1)
Accommodation and Food Services	25.0
Accommodations (Hotels)	2.7
Healthcare and Social Assistance	15.1
Education Services	19.8
Government	(41.5)

Source: NYS Department of Labor, Current Employment Statistics, Seasonally-adjusted by NYC Council Finance.

¹⁷ New York Building Congress, "New York City Construction Outlook Update," January 30, 2012.

Leasing commercial space continues to pick up but residential buyer's market is still weak.

The real estate market remains a mixed bag. Commercial leasing gained considerable steam in 2011, helped by increased office-using employment¹⁸ and large tenants seeking to capture cyclically low rents. OMB reported the leasing 30.1 million square feet last year, the highest amount since 2000. Manhattan's overall vacancy rate fell to 9.1 percent in the 4th quarter, down from 10.5 percent a year ago, and the lowest rate since January 2009. At the end of the year, the average asking rent in Manhattan was \$57.23 per square foot, up 5.3 percent from a year ago, and the highest rent since August 2009.¹⁹ Large transactions of office buildings of over \$100 million fell off sharply after the financial crisis to only 5 in 2009. Subsequently, these mega-transactions have recovered, with 18 in 2010 and 26 in 2011, the latter being the same number as in 2004.²⁰

The residential market is still weighted down by falling prices, though no way as dramatically as the U.S. at large. As of November, single family home prices in the New York City metropolitan area had fallen by an average of 2.3 percent year-over-year. Condo prices in the metro area, which are heavily weighted in Manhattan, fell by only 0.6 percent.²¹ A very different picture is seen in reported prices on Manhattan co-ops and condos. There, the average price in terms of square footage increased 5.6 percent in the 4th quarter 2011 compared to the year before.²² Council Finance expects City home prices to bottom out sometime this year, with Manhattan co-ops and condos preceding outer-borough houses. The rental market, on the other hand, has become extremely tight. As of January 2012, the average rent on Manhattan studios rose by 6 percent to \$1,967 compared to a year ago, while one-bedroom apartments increased by 6 percent to \$2,652.²³

Council Finance forecasts slow growth through 2012, but picking up in subsequent years.

Looking ahead, the recent drop in seasonally-adjusted employment casts a cloud on the City's economic growth in 2012. It must be noted, however, that the process of seasonal adjusting frequently misses the mark, especially during the end of a year when holiday temps are included. That said, a lot depends on a quick reversal of this lower than normal seasonally-adjusted job growth.

The short-term strength of the finance industry is also murky. As of today investment banks and brokers are still projecting the further elimination of valuable jobs. Even with the Federal Reserve projecting a near-zero federal funds rate through 2014, the securities industry has not yet matched its low borrowing costs with increasing revenues. This imbalance could be exacerbated if the European debt crisis significantly impacts domestic credit. As mentioned earlier, the growth of other City sectors is highly dependent on the strength of the finance industry.

¹⁸ Predominantly professional and business services.

¹⁹ Cushman & Wakefield, "Marketbeat Office Snapshot, Manhattan" 4th quarter 2011.

²⁰ The City of New York Office of Management and Budget.

²¹ Standard & Poors Case-Shiller.

²² Miller Samuel Inc.

²³ Citi Habitats, "Rental Market Analysis: January 2012."

Council Finance projects weak growth this year, with the City's economy gradually picking up momentum from 2013 on. Private sector employment will grow by an unimpressive 0.6 percent in 2012, slowly increasing to an average 1.5 percent growth between 2014 and 2016. The average wage is forecasted to grow by a tepid 1.8 percent in 2012, accelerating to an average 3 percent growth in the out-years. This translates to total wages growing by 2.4 percent in 2012, achieving a more healthy 4.4 percent growth in the out-years.

Table 6. Forecast of Employment Gains
Year-Over-Year Growth in Thousands

	CY11	CY12	CY13	CY14	CY15	CY16
Total Private	45.0	19.9	32.9	39.9	54.2	54.8
Finance and Insurance	5.0	(1.7)	(0.2)	0.6	5.4	5.6
Banking	0.8	(1.7)	(1.1)	(0.7)	(0.5)	(0.7)
Securities (Wall Street)	4.6	0.4	1.5	1.8	6.2	6.5
Retail	5.9	2.7	4.6	5.1	5.5	4.7
Professional and Business Services	18.2	12.9	7.6	12.6	17.8	17.0
Real Estate and Leasing	0.8	0.2	0.7	0.6	0.8	0.7
Information	(2.3)	(1.4)	0.2	0.5	1.9	2.2
Leisure and Hospitality	8.2	7.2	5.9	6.6	7.9	9.2
Arts, Entertainment, and Recreation	(2.1)	2.1	1.3	1.3	1.5	1.8
Accommodation and Food Services	10.3	5.1	4.6	5.2	6.3	7.4
Accommodations (Hotels)	1.0	(0.3)	(0.0)	0.7	1.0	0.9
Healthcare and Social Assistance	2.7	2.9	6.6	6.4	6.2	6.0
Education Services	15.2	1.8	6.2	6.4	6.7	6.9

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

Table 7. Forecast of Selected Economic Indicators

	CY11	CY12	CY13	CY14	CY15	CY16
National Economy						
Real Gross Domestic Product <i>Percentage Change</i>	1.7	2.1	2.3	3.3	3.2	2.7
Private Employment						
<i>Level Change (million)</i>	1.9	2.1	2.0	2.2	2.3	2.0
<i>Percentage Change</i>	1.8	2.0	1.8	2.0	1.9	1.7
Total Wages <i>Percentage Change</i>	1.7	1.8	2.0	2.2	2.3	2.4
New York City Economy						
Private Employment						
<i>Level Change (thousand)</i>	45	20	33	40	54	55
<i>Percentage Change</i>	1.4	0.6	1.0	1.2	1.7	1.6
Total Private Wages <i>Percentage Change</i>	4.4	2.4	3.6	4.4	4.3	4.6
Total Revenue of NYSE Members <i>Percentage Change</i>	(6.3)	(7.0)	1.5	1.7	2.0	1.4

Source: IHS Global Insight February, 2012 (Nat'l); New York City Council Finance, February 2012 (City)

Tax Forecast

- **Overall tax collections up 7.6 percent for the first six months of Fiscal 2012, with total growth of 5.1 percent forecast.**

In Fiscal 2011 City tax revenues finally experienced a strong recovery. Total tax revenue rose 8.5 percent to \$40.4 billion, with non-property tax collections increasing by 11.5 percent. For the first six months of Fiscal 2012, growth continues to be mostly healthy, with total collections are up 7.6 percent²⁴ from the same period in Fiscal 2011. This growth has been driven by collections from property tax, personal income tax, sales tax, and property related taxes. Total business tax collections, however, have been weak in the first half of Fiscal 2012. Strong gains in the general corporation tax were fully offset by losses in the bank tax and unincorporated business tax collections.

However, Council Finance anticipates that collections for the remaining six months of Fiscal 2012 will weaken because of the recent slowdown in employment and challenges facing Wall Street. Total revenue growth is expected to be around 5.1 percent in Fiscal 2012. Growth during the rest of the forecast period will be unspectacular, averaging just about 4 percent annually.

	FY11*	FY12	FY13	FY14	FY15	FY16
Real Property	4.2%	5.6%	3.2%	3.5%	3.9%	3.5%
Personal Income	11.5%	6.2%	8.1%	0.5%	5.5%	5.0%
General Corporation	15.3%	13.6%	6.0%	4.4%	5.8%	(0.2%)
Banking Corporation	38.9%	(2.5%)	(2.5%)	(1.1%)	3.5%	0.2%
Unincorporated Business	7.4%	3.3%	0.8%	5.4%	5.5%	3.4%
Sales	10.4%	4.0%	3.8%	3.9%	3.9%	3.8%
Commercial Rent	1.2%	10.4%	5.8%	5.9%	5.9%	6.0%
Real Property Transfer	32.1%	15.2%	4.1%	7.9%	10.3%	11.2%
Mortgage Recording	18.7%	17.5%	10.3%	12.5%	12.5%	13.5%
Utility	5.2%	3.0%	6.4%	5.4%	6.5%	6.2%
Hotel	16.2%	7.7%	4.4%	7.1%	(0.7%)	5.8%
All Other	(12.9%)	4.1%	4.3%	(0.2%)	(0.1%)	(0.1%)
Audits	28.4%	(29.2%)	3.4%	(2.4%)	0.0%	0.0%
Total Taxes	8.5%	5.1%	4.4%	3.0%	4.5%	3.8%

Note: * actuals

Source: New York City Council Finance, 2012

²⁴ Without audits.

Table 9. Council Forecast: Difference from OMB Forecast*Dollars in Millions*

	FY11*	FY12	FY13	FY14	FY15	FY16
Real Property	\$0	\$0	\$0	\$37	\$116	\$166
Personal Income	\$0	\$138	\$249	\$243	\$134	\$222
General Corporation	\$0	\$86	\$103	\$143	\$211	\$81
Banking Corporation	\$0	(\$23)	(\$1)	\$88	\$142	\$90
Unincorporated Business	\$0	\$8	(\$59)	(\$37)	(\$9)	(\$17)
Sales	\$0	(\$58)	(\$33)	(\$57)	(\$82)	(\$74)
Commercial Rent	\$0	\$41	\$59	\$79	\$100	\$145
Real Property Tran	\$0	\$54	\$45	\$5	\$9	\$107
Mortgage Recording	(\$0)	(\$2)	(\$9)	(\$37)	(\$27)	\$49
Utility	\$0	\$5	\$15	\$23	\$32	\$49
Hotel	\$0	(\$21)	\$11	\$27	(\$1)	\$5
All Other	\$0	\$0	\$0	\$0	\$0	\$0
Audits	\$0	\$0	\$0	\$0	\$0	\$0
Total Taxes	\$0	\$227	\$380	\$515	\$624	\$823

Note: * actuals

Source: New York City Council Finance, 2012

Personal Income Tax Collections Moderate

Personal income tax (PIT) collections continues to rise but more slowly. Collections in July through February 28th are up 8.5 percent over the same period in Fiscal 2011, but the rate is expected to slow. The bonus season so far, from December through February 28, shows withholdings down 4.8 percent from the same period in Fiscal 2011. With the timing of bonus payouts varying from year to year, it is difficult to project if the decline will change in March. The continuous announcements of bonus cuts, shifts to deferred compensation, and layoffs from investment banks and brokers definitely place the risk on the downside. State Comptroller DiNapoli expects bonus payments to fall by 14 percent this season. The overall PIT increase so far, reflects the larger payroll levels due to the strong expansion in in the first half of calendar 2011, and average wages having increased by 3 percent in calendar 2011. Increased estimated payments from higher capital gains have also contributed to higher collections.

Council Finance projects total PIT collections to grow by around 6.2 percent in Fiscal 2012, down from 11.5 percent growth in Fiscal 2011. Withholdings will be muted by smaller bonuses, downsizing in the securities industry, and the general employment slowdown. Estimated payments will pick up the slack from the 13.4 percent jump in national realized capital gains projected by the Congressional Budget Office.²⁵

Collections in Fiscal 2013 are estimated to grow by 8.2 percent. PIT growth will feel the offsetting effects of growing overall employment and moderated bonuses from a smaller

²⁵ Congressional Budget Office, supplementary table to "The Budget and Economic Outlook," Chapter 4, January 2012.

securities workforce. There will be a surge of collections from estimated payments as investors realize their capital gains before the 15 percent tax rate goes up to 20 percent in January 2013, when the Bush tax cuts expire. This gush of collections will be paid for in Fiscal 2014 with sharply reduced estimated payments, after the realizations had been frontloaded. Consequently, total PIT collections for Fiscal 2014 are anticipated as growing by only a half a percent. In the outyears, Wall Street is expected to have adjusted to the new regulatory environment, and the City will begin to cash in on some of the deferred compensation. The Council estimates PIT growth to average 5 percent in Fiscal 2015 and 2016.

It should be note that around \$167 million of Fiscal 2012 collections are effectively revenue for New York 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. This is represented in the Plan as reduced STAR PIT revenues. The State action took effect in tax year 2010.

Business Taxes: Little Growth

Business taxes for the first half of Fiscal 2012 have been flat, with strong growth in the general corporation tax, a strong decline in the bank tax and a mild decline in the unincorporated business tax. Contributing to the strength of these taxes are corporate profits at the national level. In the fourth quarter of 2011 corporate profits were 13 percent of GDP, the highest percentage in at least 50 years. This reflects a long term phenomena, as output per hour worked has grown faster than real compensation per hour for more than 40 years. But this has been especially pronounced during this business cycle, where cost cutting by firms combined with an extraordinarily weak labor market.²⁶ But at the City level, this strength of corporate profits is partially offset by the fall in securities industry profits in the first half of Fiscal 2012.

Going forward we do not see a lot of growth in the business taxes. Productivity growth is slowing and as the labor market improves real compensation per hour should start to catch up. The Global Insight profit forecast used in forecasting the general corporation tax and unincorporated business tax shows little growth over the next 5 years. There also is very little growth in the other key variable in our business tax equations: the Finance Division's forecast of NYSE member total revenues net of interest. As discussed above new regulations are dampening of financial service firms.

Sales Tax

Sales tax accounted for 14 percent of total collections in fiscal year 2011 with overall collections reaching \$5.6 billion. This made sales tax collections the third largest source of city revenue after real property tax (42 percent) and personal income tax (19 percent).

Sales tax continues to exhibit limited volatility throughout the past couple of years. Fiscal 2012 year-to-date collections exceeded same period Fiscal 2011 by 4.8 percent. Total Fiscal 2012 collections are expected to increase by 4.0 percent reaching \$5.8 billion. This is

²⁶ *Margaret Jacobson and Filippo Occhino "Behind the Decline in Labor's Share of Income" Federal Reserve Bank of Cleveland, <http://www.clevelandfed.org/research/trends/2012/0212/01gropro.cfm>*

partially due to gradual improvements in the economy and strong holiday season sales. Contributing to this were relatively cheaper U.S. exports and diverse retail shopping opportunities in the city, attracting buyers from outside.

Contributing to higher collections levels was the increase in the city sales tax rate from 4 to 4.5 percent on August 1, 2009. While consumer confidence, a general indicator of expected consumer spending and by extension a measure of sales tax collections, has been up and down in recent months we expect collections to continue to increase at a modest average 4 percent level year over year.

Real Property Tax

For Fiscal 2012, both OMB and Council Finance expect the Real Property Tax (RPT) to generate \$17,812 million in revenues. This represents an increase of about \$166 million over the November plan. Much of this increase stems from a draw down in funds earmarked to pay for a legal settlement with ConEd over past assessments. It is now expected that the fiscal impact of this settlement will occur in Fiscals 2013 and 2014, and OMB has adjusted property tax revenues in those years accordingly.

Looking to Fiscal 2013, OMB has increased levy projections by \$235 million to \$20,097 million. Adjusting for the reserve²⁷, this represents a forecast of \$18,383 million in property tax revenues, with which Council Finance agrees. This forecast is based on the preliminary assessment roll which was released by the Department of Finance on January 19, 2012. While there will be some reductions by the time the final property tax roll is

Co-op/Condo Abatement Renewal

The Co-op/Condo Abatement provides partial tax relief to reduce the disparity between coop/condos and Class 1 homes and is scheduled to expire at the end of Fiscal 2012. Originally introduced in 1996 as a temporary measure, it has been renewed several times since. The Preliminary budget expects it to be renewed and the associated cost is carried through the whole plan. Renewal will require State action.

released in late May, the preliminary roll gives a fairly solid outlook on what can be expected from the Property Tax in Fiscal 2013. Billable assessed value (BAV) is up about \$8.8 billion (or 5.7 percent) over Fiscal 2012. While all four classes of property saw at least some growth, three fifths of the growth can be attributed to the Class 4 commercial properties which saw a large 7.3 percent increase in their BAV. OMB, not unreasonably, expects that this BAV growth to drop to about 5.8 percent on the final roll.

This strong Class 4 BAV growth is predominately due strong market value growth over the past two years; Class 4 saw market value growth of 9.0 percent last year and a tentative 7.9 percent this year. What is driving these higher values are a combination of low interest rates which has kept Cap rates low and rising net incomes, both of which strengthen commercial real estate's value as an investment compared to other such vehicles.

²⁷ The reserve is a sum of the various expenses, revenues and adjustments to the property tax (items such as tax expenditures, refunds, successful assessment appeals, lien sale proceeds, etc. The revenue is the adjustment of the levy (the product of the taxable assessed value and the tax rate) by this reserve.

These low interest rates coupled with rising residential rents have also fueled a 3.6 percent increase in the market values of Class 2 residential cooperatives, condominiums²⁸ and rental buildings. BAV growth is 5.1 percent on the tentative roll, but OMB expects this to drop to a more reasonable 3.1 percent on the final roll.

Changes in market values for Class 4 and most of Class 2 are phased-in over five years, which means that even if market values begin to weaken next year as expected, billable assessed value growth will continue to be healthy in the outyears.

Class 1 (1 to 3 family homes), which only contributes about 15 percent of the overall property tax levy, saw market values grow slowly on the tentative roll – only 1.9 percent over the previous year. However, due to caps on assessed value growth, many Class 1 properties saw their assessed values fall behind the 6 percent target ratio to their market values during the real estate boom in the last decade. Because of that, assessed values will continue to grow over the next several years – OMB predicts growth of about 2.3 percent in the outyears.

The outyears should also see interest rates begin to rise, slowing market value growth for Classes 2 and 4. However, their recent market value growth will continue to be phased into the BAV which should continue to grow, albeit slower in the coming fiscal year. Along with the steady BAV increases in Class 1 and expected flatness in the BAV of Class 3 utility properties, Council Finance expects property tax revenues to grow at an average of 3.6 percent (slightly above OMB's 3.3 percent).

²⁸ Coops and condominiums are required under state law to be valued as rental apartments which means that their values for taxation purposes will track the values in the rental market and not the sales prices of the units.

The State Budget

State Budget Overview

Governor Cuomo proposed a \$132.5 billion budget for State Fiscal Year 2012-13, a decrease of \$225 million from last year. The Executive Budget proposes a decrease in State General Fund spending of 2% while total spending remains flat. The proposed budget closes a \$2 billion deficit through \$1.14 billion in agency savings and consolidated purchasing and staffing. The proposed budget contains no new taxes or fees.

The major components of the Governor's budget include:

- 4% increase in funding for education and healthcare.
- \$300 increase in SUNY/CUNY tuition.
- A new tier 6 pension level for all new state, county, municipal and school district hires.
- 100% takeover of Medicaid costs over 3 years.
- Non-profit reforms including capping executive compensation to be reimbursed with state funding at \$199,000, and mandating 85% of state funding to non-profits go to direct services.

New York City Impact

The impact of the Governor's proposed budget on New York City is relatively small and largely positive. A \$243 million positive impact is estimated for New York City due primarily to \$224 million in additional aid for New York City schools, and \$11 million from the takeover of the Medicaid growth factor. Other actions include \$8 million in increased transit assistance for NYCDOT and Staten Island Ferry and \$2 million in savings from Early Intervention program reforms.

Additionally the following actions, which may not have a direct, positive budget impact, are welcome news to the City:

- Offsetting the \$93 million cut in federal childcare funds with State funds.
- Continued reform of the juvenile justice system, closing costly State facilities and providing more appropriate placements and services to youth from New York City within New York City-based facilities.
- State assumption of additional early intervention costs.

The overall impact on the City's budget is positive; however there are some policy concerns in the proposed budget whose budgetary impact is still undetermined. These include:

- The delay in the increase in the public assistance grant. Although it actually saves the City a modest amount of money next year, this proposal comes at a time when many families are still struggling with unemployment, while the cost of living continues to rise.

- The suspension of \$15 million in funding for the City's shelter supplement, pending the City's development of a plan for it.
- The elimination of the cost of living adjustment for human services providers. The Governor is taking this action on the belief that COLAs to the sector are an automatic inflator in the budget, yet the sector's COLA has been deferred for 3 consecutive years and is now eliminated in the 4th year.
- Phase II of the Act Medicaid spending: the final report, due at any time, will provide more insight into how these reforms will be implemented.
- Elimination of AIM funding for the City. After years of delaying payments to the City, the AIM payment for the City was the only AIM payment to be eliminated from the Fiscal Year 2011-2012 budget. Again in the proposed Fiscal Year 2012-2013 budget, New York City's AIM payment would be eliminated while other municipalities are held harmless.
- As a part of one of the budget bills the Governor has proposed pension reform, creating new tiers in the State's two and the City's five pension funds. The reforms would have no impact on current City employees but would change contributions and benefits of future employees. The City will not realize any benefit from the pension reform until Fiscal 2015.

Table 10. Summary of City Budget Impact of State Budget Proposals

<i>By City Fiscal Year</i>		2012	2013	2014
Education				
<input checked="" type="checkbox"/>	School Aid	-	224.0	468.0
Human Services				
<input checked="" type="checkbox"/>	Delay Public Assistance Grant Increase	2.5	10.0	7.5
<input checked="" type="checkbox"/>	Increase FFFS Allocation	1.9	7.5	7.5
<input checked="" type="checkbox"/>	Eliminate State Share of Child Support Admin. Costs	(1.3)	(5.0)	(5.0)
<input checked="" type="checkbox"/>	Eliminate NYC Shelter Supplement Funding	(3.8)	(15.0)	(15.0)
Health & Mental Hygiene				
<input checked="" type="checkbox"/>	Takeover of Medicaid Growth Factor	-	10.8	65.2
<input checked="" type="checkbox"/>	Modify Early Intervention	-	1.5	8.9
Transportation				
<input checked="" type="checkbox"/>	Increase Transit Assistance	2.5	7.5	8.0

Source: New York City Council Finance, 2012

Pensions

- **Contributions to employee pensions make up 12 percent of the City's budget.**
- **Changes to pension financing methods will cost less than previously expected and provide short term budget savings, beginning with \$575 million in Fiscal 2012.**
- **The Governor's proposal to modify the benefits of future employee will provide long term budget savings of \$30 billion over 30 years.**

Pensions Overview

New York City provides pension plans for various public employees as a form of compensation. The Preliminary Budget projects that total city contributions to employee pensions will be \$8 billion during Fiscal 2012 and \$8.15 billion during Fiscal 2013. These payments keep the City's pension system fully funded as required by law.

Over the preceding decade, average city contributions grew around 20 percent per year—from a low of \$1.5 billion in Fiscal 2002 (or 3.7 percent of total revenues) to the projected \$8 billion in Fiscal 2012 (or 12 percent of total revenues). According to a study conducted by the Comptroller, 48% percent of the increase in contributions was attributable to poor performance of pension investments, and another 40 percent of the increase was due to increases in pension benefits.²⁹ Despite the likelihood of a market recovery, increases in liabilities are expected to match increases in the value of assets, and City contributions are unlikely to drop significantly over the forecast period.

Contributions to the pension funds totaled \$7 billion at the close of Fiscal 2011. However, the difference between Fiscal 2012 and 2011 is largely due to expected changes in the actuarial assumptions that underlie the financing of these plans. Of the \$8 billion contribution for Fiscal 2012, \$575 million is for permanent changes in the assessment of pension liabilities. In anticipation of these changes, the Fiscal 2011 Adopted Budget created an annual reserve of \$600 million. This reserve was increased to \$1 billion in the Fiscal 2012 Adopted Budget. While the reserve exceeds the cost from this reassessment in Fiscal 2012, the reassessment is designed to increase over time, reaching \$902 million by Fiscal 2015.

In the long run the cost of these changes are more than offset by including savings from pension benefit changes proposed in the Governor's Executive Budget. These benefit changes will only affect new employees and will not produce significant savings to the City before Fiscal 2015. The Preliminary Budget estimates the City will save \$80 million in Fiscal 2015 and \$155 million in Fiscal 2016 with the implementation of these changes.

²⁹ According to 'The \$8 Billion Question: An Analysis of NYC Pension Costs Over the Past Decade,' a study by the NYC Comptroller

Pension System Summary

The City's five actuarial retirement systems account for 98 percent of pension costs and cover many of the 700,062 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 Fund and the Board of Education Retirement System. Other employers contribute to the pension funds as well.³⁰ The remaining two percent of pension costs represents City contributions to non-City and non-actuarial pension systems which include the employees of libraries, day care workers, cultural institutions employees, and other beneficiaries.

The five actuarial retirement systems pay for defined benefit plans, and the City is statutorily obligated to cover the difference between member contributions and agreed upon benefits. In addition, the City offers an annuity for education employees and a Variable Supplement Fund for uniformed employees. Originally the Variable Supplement Fund was an agreement between the City and labor unions: in exchange for paying a fixed percentage of the City's contribution to the pension fund, the unions would receive 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.

Financing the City's Pensions and Recommended Changes to the Financing Methods

In a defined benefit pension plan, retirement benefits are determined when an employee becomes a member of the system. Members and their employers prepay these future benefits according to a prepayment schedule. Since the benefits are determined before retirement, choosing a prepayment schedule does not alter the value of benefits or member contributions. Instead different schedules alter when employer contributions are made.

Prepayment schedules and the timing of employer contributions into the pension fund vary radically among different states and municipalities. A recent study by The Pew Center on the States showed that most state pension systems have chosen prepayment schedules which inadequately contribute to their member's pension funds, pushing some of their current liabilities onto future generations.³¹

Ideally a pension system chooses a schedule of prepayments which preserves a notion of fairness called intergenerational equity. In short, intergenerational equity posits that because the base of taxpayers change over time, the taxpayers who receive the services of a public employee should pay for those services - not future taxpayers. In the case of retirement benefits, the taxpayers should prepay those benefits when the services the benefits compensate for are received.

The city's actuary believes a prepayment schedule equal to a fixed percentage of member salary paid over the working lifetime of the member satisfies this criterion.³² Since many of the parameters that determine this schedule are unknown, the pension systems use various financing methods to approximate the prepayment schedule. Many of these

³⁰ Number of members in the beginning of FY11, Source: Comptroller's FY11 CAFR

³¹ 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 Fiscal 2009.

³² The average working lifetime of a member is about 15 years.

methods rely on assumptions, like future economic conditions or the demographic trends of employees. It is the responsibility of the city actuary to review the financing methods and their underlying assumptions periodically and to recommend changes to the board of trustees of each pension system so that the schedule of prepayments is observed.

A change to a method or assumption can alter the relative size of the pension liability with respect to the prepayment schedule and change the timing of employer contributions. The City actuary is currently finalizing the recommended methods and assumptions to be used for future contributions, and some of these changes are discussed below. Note that because all of the financing assumptions are interrelated, the actuary presents his recommendations as a “package deal”. The Preliminary Budget assumes all of these recommendations are adopted and that they come into full effect in Fiscal 2012.

1. Lower the Assumed Rate of Return (AIR) from 8 percent to 7 percent

The current schedule assumes that prepayments are to be invested and that the return on the investment- gross of administrative expenses- will equal the AIR assumption. The AIR is currently set at 8 percent and is changed by State legislation (see below) as recommended by the actuary through resolutions of each board. It is expected that the actuary will recommend lowering the AIR to 7 percent.

Legislation extending the existing AIR was enacted in 1990, 1995, 2004, 2005, 2009, 2010 and 2011.

Table 11. Pension Legislation History

State Law	NYCERS	TRS	BRS	PPF	FPF
1990 Chapter 878	8.25%	8.25%	8.25%	8.25%	8.25%
1990 Chapter 948	8.25	9	8.25	8.25	8.25
1991 Chapter 607	9	9	9	8.25	8.25
1996 Chapter 249	8.75	8.75	8.75	8.5	8.75
1999 Chapter 85	8	8	8	8	8

Source: New York State Legislature Session Laws <http://public.leginfo.state.ny.us/menuf.cgi>

If the AIR and the actual investment return differ, the pension fund becomes underfunded or overfunded with respect to the prepayment schedule. In particular, if the actual rate of return on investment is persistently lower than the AIR, prepayments made in the past will be insufficient to cover benefits and future generations will have to pay the difference. Conversely, if the actual rate of return is persistently higher than the AIR, the present generation will offset the liabilities of future generations. In either case, the prepayment schedule is violated and intergenerational equity might not be preserved.

Historically, the actuary’s AIR recommendation has divided the AIR into an inflation assumption and a real return on pension assets assumption (see below). The real return examines the asset composition of the pension funds and the trend of capital markets. The pension fund is composed of roughly 70 percent equities and 30 percent bonds. The fund has maintained this composition since 1996.

Table 12. AIR Components

AIR Components	Current Assumption	City Actuary Recommendation	Independent Audit Recommendation[1]	Current NYS Assumption[2]
Real Interest Rate	5.37%	4.39%	3.90%	4.67%
Inflation Rate	2.5	2.5	3	2.7
AIR	8	7	7	7.5

Source: New York City Council Finance, 2012

[1] City of New York New York City Retirement Systems Final Independent Actuary's Statement

<http://comptroller.nyc.gov/bureaus/bud/reports/ActuarialAudit2011/IndependentActuarysStatementFinal.pdf>

[2] Annual Report to the Comptroller on Actuarial Assumptions

http://www.osc.state.ny.us/retire/word_and_pdf_documents/publications/annual_actuarial_assumption_report/actuarial_assumption_2011.pdf

An investigation by Council Finance suggests that 8% is an unrealistic AIR assumption. Inflation remains well contained; the 'new normal' is likely to include somewhat slower real GDP growth and a prolonged period of sideways movement in the asset markets. In short, the kind of return the actuary expected in 1999 does not make sense today.

2. Performing a "Market Restart"

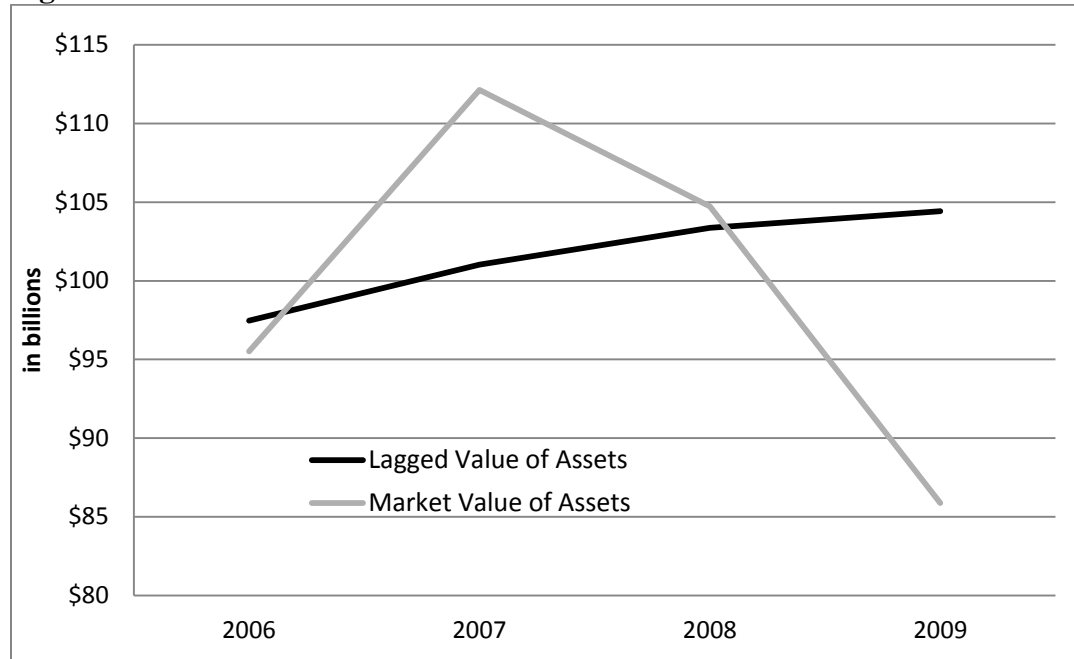
When the fund of invested contributions makes an "unexpected" return - a return more or less than the AIR assumption - the difference plus interest is factored into employer contributions over a six year period. This ensures the prepayment schedule is maintained. Currently 15 percent of this difference is paid over the first four years, and 20 percent is paid over the last two years.³³

The purpose of this financing method is to smooth out market volatility and make employer contributions more predictable. As seen in Figure 10, using the six year lagged value of fund assets delayed the worst effects of the recession so that employers would be prepared to pay them.

A "market restart" occurs when the pension system stops the six year lag process and uses the market value of assets to determine employer contributions. The primary purpose of a restart is to keep employer contributions consistent with the intended schedule of pension prepayments. The last two market restarts occurred in 1995 and 1999 under similar circumstances, during which other changes to pension financing methods and assumptions were being conducted³⁴. It is expected that the actuary will recommend a market restart.

³³ Before 2006, the difference was factored over a five year period, starting at 10% and increasing by 5% each year.

³⁴ <http://www.soa.org/library/newsletters/pension-forum/2001/august/pfn-2000-vol13-iss1-north.pdf>

Figure 10. Total Value of Pensions Assets

Source: Comptroller's Comprehensive Annual Financial Report (CAFR), 2006-2009

3. Lowering the Assumed Rates of Mortality

Demographic assumptions can also have a significant impact on employer contributions. The last set of mortality tables was adopted in 2006, and the actuary is expected to recommend more conservative estimates of mortality. Changes to these reflect improvements in life expectancy among plan members. Employer contributions will be higher across the board in order to maintain the pension funds' prepayment schedule and compensate for the longer retirement periods.

4. Amortize the Remaining Unfunded Liability

If enacted, most of the changes discussed will alter employer contributions by increasing current contributions and reducing future contributions. While in the long run, changing to correct financing methods and assumptions will better approximate the prepayment schedule, in the short run the change will put a large burden on current employers in a way that could be seen as inconsistent with intergenerational equity.

This burden comes from the fact that contributions of past years would have been insufficient under the more conservative assumptions. The absence of those contributions creates an unfunded portion of the pension liability with respect to the prepayment schedule. Therefore it is common to pay off this unfunded liability over a fixed amount of time like a mortgage. Due to the size of this liability, the actuary will likely recommend amortizing this liability over 20 years at an increasing rate.

Going forward, the actuary is expected to recommend changing the method by which deviations from the financing methods and assumptions are to be amortized so that they will be more automatic. It is likely that these deviations will be amortized over a 15 to 20 period with non-increasing payments.

Benefit Changes in the Governor's Executive Budget

The Preliminary Budget includes savings from pension benefit changes proposed by the Governor in his Executive Budget. For a comparison of some of the changes see the Appendix (Tables A.1.-A.3.), which examines the four largest groups of pensioners under the current plan and the Governor's Executive Budget.³⁵

Savings from the Governor's proposal will increase over time as new workers with less expensive plans replace retirees. Over the next 30 years the Governor's Executive Budget suggests that the City will accumulate a savings of \$30 billion. These savings come from three general areas: increased employee contributions, decreased employee benefits and a new defined contribution plan.

1. Increase employee contributions

Under the proposal, contributions would be higher for the members of all five pension systems. In addition, contributions would increase with income so that employees who fall in a higher income bracket would contribute more to their plans than those in a lower income bracket as a percentage of salary.

In addition, employees would be partly responsible for the volatility of employer contributions. The proposed legislation allows the Budget Director, with the approval of the State Budget Director, to set an upper bound and a lower bound for the rate of employer contributions of each fund.³⁶ If the upper bound or the lower bound is exceeded, employees will either contribute or receive half the difference exceeded.

As written, there are no other criteria for setting the bounds. Upper and lower bounds can be set independently, each fund can have a different set of rates and there is no limit to how they can be changed.

2. Decrease in Employee Benefits

The calculation of benefits for all members would be based on a five year final average salary instead of the current three year. In addition, overtime and many other non-salary forms of compensation would no longer be pensionable.

For most non-uniform employees, the benefit multiplier would also be reduced from $.02 \times [\text{Final Average Salary}] \times [\text{Years of Service}]$ to $.0167 \times [\text{Final Average Salary}] \times [\text{Years of Service}]$. For example, an impacted employee with twenty-five years of service and a final average salary of \$100,000 would see a reduction of \$8,250 a year, or 16.5%, from the lower multiplier.

3. A New Defined Contribution Plan

The Governor's proposal would also allow members to choose a defined contribution plan instead of the traditional defined benefit plan. If chosen, the employer would contribute 4%

³⁵ See State budget bills A09055B/S6255B

³⁶ The contribution rate is the average of employer contributions as a percentage of employee salary. The State has set their bounds at 7% and 4%.

of the member's salary into a 401k style fund and match the employee up to an additional 3% of income.

Thus the employer's contribution to the fund would be a maximum of 7% of the employee's income. However, the employer would not be financially responsible for the market performance of the fund.

As written, the defined contribution plan does not have a disability component.

Post-Employment Health Benefits

- **Post-employment liabilities total approximately \$82 billion.**

New York City compensates employees with benefits other than 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. Therefore they are not funded on an actuarial 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, and 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 obligations³⁷.

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 at the beginning of Fiscal 2011 was \$3.023 billion. At that time, the present value of New York City post-employment liabilities was \$82 billion, resulting in a funding ratio of 3.7 percent. In Fiscal 2011, the Trust paid \$391 million of City health benefits.

The Preliminary Budget assumes outflows will exceed inflows to the fund by \$672 million in Fiscal 2012, \$1 billion in Fiscal 2013 and \$1 billion in Fiscal 2014, depleting the entire Trust.

Fiscal Year	2006	2007	2008	2009	2010	2011	2012
Contributions to the Trust	1,000	2,894	1,875	1,683	1,581	1,573	781
Trust Disbursements	-	(1,338)	(1,390)	(1,843)	(1,689)	(1,980)	
Interest - Administrative Expenses ¹	1	37	107	77	28	16	12.13
Net assets held in Trust - End of year*	1,001	2,594	3,186	3,103	3,023	2,632	1,960
Year to Year Change	1,001	1,593	592	(83)	(80)	(391)	(672)

Sources: CAFR 2006-2007, OPEB Financial Statements NYC Plans 2006-2011; New York City Council Finance, Fiscal 2013 Preliminary Plan.

³⁷ see Pew Center Study

Debt Service

- **The Preliminary Budget estimates \$32 billion in long term borrowing for the Fiscal 2012 to 2016 period.**
- **The Budget sets aside \$2.4 billion in Fiscal 2013 for short term borrowing. This allocation was not used in Fiscal 2012.**

The Preliminary Budget estimates \$32 billion in long term borrowing for the Fiscal 2012 to 2016 period, a minor adjustment from the November Plan. In Fiscal 2012 this debt is expected to be comprised of 37 percent General Obligation (GO), 35 percent Transitional Finance Authority (TFA) and 28 percent Water Authority (NYW) bond issuances.

As can be seen in the chart below, debt service for Fiscal 2012 has been revised downward from the November Plan and now totals \$5.4 billion. Debt service is also down \$286 million from the Adopted Budget throughout the forecast period. These decreases reflect actions that capitalized on lower interest rates.

<i>net increase/(decrease)</i>	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Debt Service (GO, Lease, TFA)	\$5,612	\$6,278	\$6,797	\$7,163	\$7,436
Change from November Plan	(93)	(120)	(85)	(62)	-
NYC Financing Plan					
City GO Bonds	\$2,725	\$2,500	\$2,570	\$2,400	\$2,140
TFA Bonds(1)	2,600	2,500	2,570	2,400	2,140
Water Authority Bonds	2,101	1,655	1,444	1,175	1,147
Total Financing	\$7,426	\$6,655	\$6,584	\$5,975	\$5,427
Debt Burden (TFA, NYCGO, Lease)					
Debt Service/Total Revenue	8.3%	9.1%	9.9%	10.1%	10.2%
Debt Outstanding/NYC Personal Income	14.7%	14.7%	14.6%	14.3%	13.9%

Note: TFA Bonds do not include BARBs issued for education capital purposes which are secured by Building Aid revenues from the State

Source: OMB Fiscal 2013 Preliminary Plan and OMB Fiscal 2012 November Plans

The City has maintained its high credit ratings despite the budget pressures and difficult economic times. The current ratings of the major debt issuing entities are listed below.

Bond Type	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: OMB Fiscal 2013 Preliminary Budget

The City's debt remains affordable. While debt service is expected to grow faster than City revenue, total debt outstanding will grow more slowly than City personal income, which is the key source of revenue to service the debt.

Historically, the City has taken advantage of short term debt in order to minimize borrowing costs and match its complex funding needs. In recent years variable rate debt has assumed this role. However, short term debt is still used to spread highly skewed revenue and tax collections evenly over the fiscal year. During Fiscal 2012, the City did not use the \$2.475 billion set aside for short term borrowing in the Adopted Budget. Historically \$2.475 billion plus interest is appropriated every fiscal year and is projected to constitute 5% of total proceeds from bonds and notes in Fiscal 2012 and 2013. Recent experience and the City's still relatively strong cash position suggest that its use will be unlikely.

Due to recent market volatility, variable rate bonds have been attractive to the City because they reduce investor risk and require lower interest rates. Nevertheless, variable rate debt exposes the City to changes in the prevailing interest rate, the tax code, credit rating of the City, and liquidity or credit enhancement provider. The cost of the bank facilities which support these instruments have recently increased due to their scarcity, and former providers have found greater returns in other markets. According to the Preliminary Budget, the City and its related entities (excluding NYW), have roughly \$9.9 billion of variable rate debt. This amount is expected to increase over the forecast period as savings continue to outweigh expenses.

The City also terminated three interest rate swap agreements early in Fiscal 2012, saving \$40 million. These swap agreements protected the City from fluctuations in interest rates.

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 recently issued an additional \$1 billion earlier in Fiscal 2012 in order to finish the project.

All HYIC debt is serviced in part by City Tax Equivalency Payments and Interest Support Payments. These payments are subject to annual appropriation and are expected to total \$106 million and \$138 million in Fiscal 2012 and 2013. This assumes that HYIC has no other income sources. These payments added up to \$68.6 billion at the close of Fiscal 2011.

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 is expected to decline further due to an ongoing dispute with Tobacco companies. At the end of Fiscal 2011, TSASC had \$1.26 billion in debt outstanding.

Capital Budget

Capital Program

- **Total Fiscal Year 2012–2015 Capital Commitment Plan increased by \$688 million (2.58 percent)**
- **City funded Fiscal Year 2012-2015 Capital Commitment Plan increased by \$695 million (3.52 percent)**

Fiscal 2012-2015 Four-Year Capital Commitment Plan

The Preliminary Capital Commitment Plan for Fiscal 2012-2015 authorizes agencies to commit \$35.1 billion, of which \$27.9 billion will be City funded. The Adopted Capital Commitment Plan for Fiscal 2012-2015 authorized agencies to commit \$34.4 billion, of which \$27.2 billion was City funded.

The targeted level for City-funded commitments is \$9.0 billion in Fiscal Year 2012. The aggregate agency-by-agency authorized commitments of \$12.4 billion exceed the Fiscal Year Financial Plan by \$3.4 billion. Excess authorizations in this proportion have proven necessary to achieve commitment spending targets because they accommodate such factors as scope changes and delays.

Table 16. Four Year Plan: Adopted and Preliminary

Millions of Dollars, All Funds

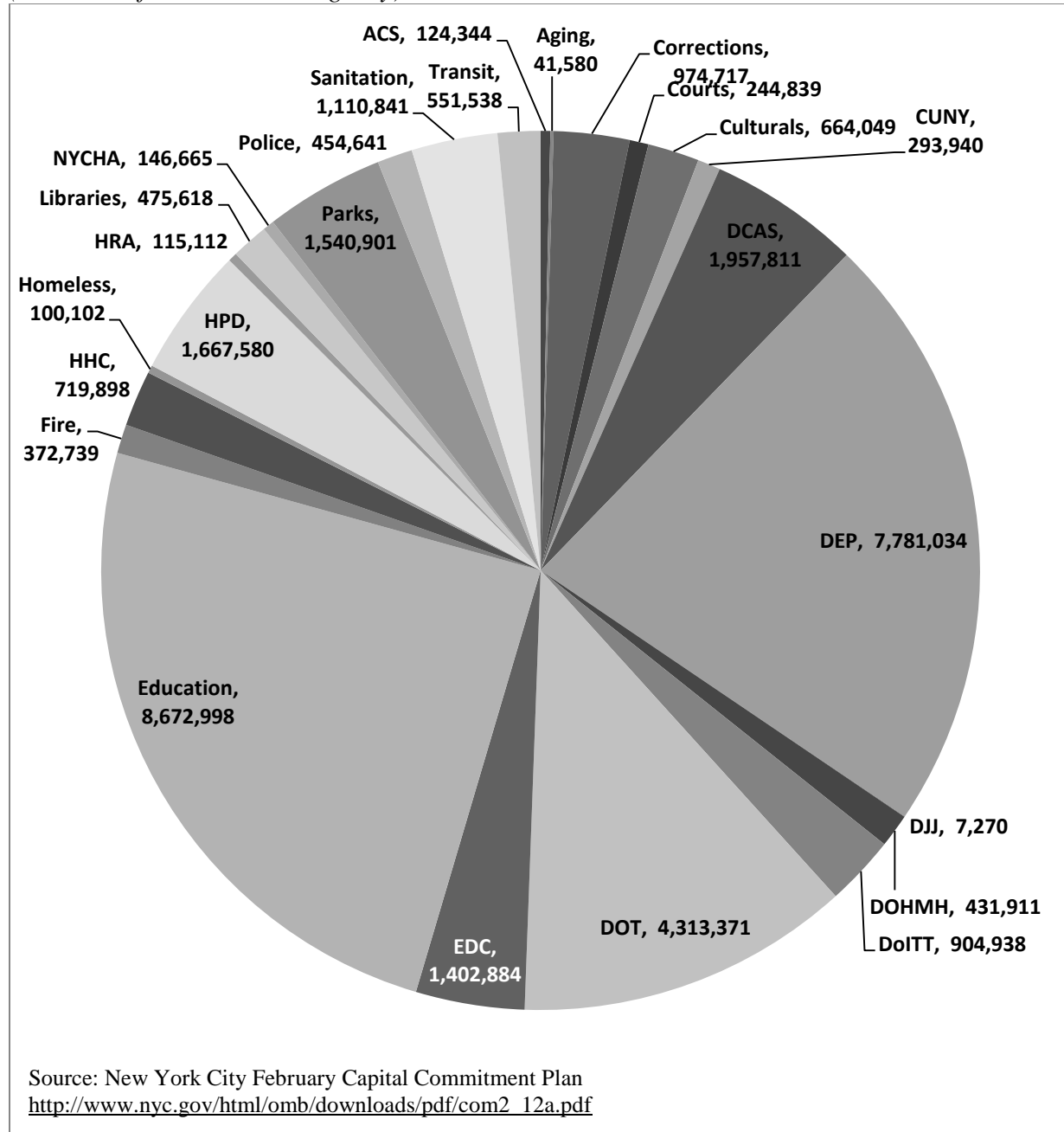
Adopted	FY12	FY13	FY14	FY15	Total FY12-15
Total Capital Plan	\$16,095	\$7,352	\$6,331	\$4,606	\$34,384
DEP	2,752	1,994	1,615	1,333	\$7,694
Total Minus DEP	\$13,343	\$5,358	\$4,716	\$3,273	\$26,690
Preliminary					
Total Capital Plan	\$15,251	\$8,686	\$6,514	\$4,621	\$35,072
DEP	2,772	2,026	1,632	1,351	\$7,781
Total Minus DEP	\$12,479	\$6,660	\$4,882	\$3,270	\$27,291
Change					
Level	(\$844)	\$1,334	\$183	\$15	\$688
Percentage	-6%	25%	4%	0%	3%

Source: New York City February Capital Commitment Plan
http://www.nyc.gov/html/omb/downloads/pdf/com2_12a.pdf

The difference in City funded commitments between the Adopted and Preliminary Four-Year Plans consists mainly of the addition of the Applied Science and Engineering facility on Roosevelt Island and the resulting creation of a new Goldwater North Hospital.

The City's capital funding for technology has increased to fund the City's Financial Management System (FMS) and the CITIServ consolidation project. The largest remaining increase resides in the Department of Transportation's Highway Bridges projects, which insures that these bridges are in a state of good repair.

Figure 10. FY 2012-2015 Four Year Capital Plan, by Programmatic Area
(exclusive of IFA and Contingency)



Education Capital

The Department of Education (DOE) and School Construction Authority (SCA) 2010-2014 Five-Year Capital Plan includes \$11.1 billion for the repair, upgrade, and construction of school facilities. As approved in June 2011, the Plan allocated \$4.6 billion for school capacity projects and \$6.5 billion for capital investment projects. In February 2012 the Department released a Proposed Amendment to the Plan that totals \$11.2 billion.

The increase in the Plan reflects \$100 million of Resolution-A funds added by the City Council and Borough Presidents after adoption. Though the Plan remains relatively flat from the Adopted Plan to the February 2012 Proposed Amendment, favorable market and construction conditions enabled the DOE to add both Capacity and Capital Improvement projects to the Plan.

Table 17. February 2012 Proposed Amendment – Changes to the Five Year Capital Plan

	Adopted Five-Year Capital Plan	February 2012 Proposed Amendment
New School Capacity	\$3.45 bln	\$3.5 bln
Charter/Partnership Program	\$210.0 mln	\$210.0 mln
Replacement Seats	\$938.9 mln	\$748.9 mln
Capacity Total	\$4.6 bln	\$4.5 bln
Capital Improvement Program	\$2.3 bln	\$2.6 bln
Children First Initiatives	\$1.6 bln	\$1.6 bln
Mandatory Programs	\$2.2 bln	\$1.9 bln
Capital Investment Category	\$6.1 bln	\$6.3 bln
Reso A Funding	\$400.0 mln	\$500.0 mln
Plan Total	\$11.1 bln	\$11.2 bln

Source: New York City Department of Education, Building on Success: FY 2010 – 2014 Five Year Capital Plan Proposed Amendment, February 2012, released February 14, 2012

Because of lower than anticipated construction, property and lease costs, the SCA was able to add 5,000 seats to the Amendment while reducing funding for the Capacity program by \$130 million. This was achieved in part by decreasing funding for replacement seats at leased sites by \$191 million and shifting \$50 million of these savings to the New Capacity program.

Lower than expected lease rates led the SCA to renew several leases, reducing the number of seats it needs to replace from 6,500 in the Adopted Plan to 5,300 in the Proposed Amendment. The Amendment proposes the \$50 million in additional funds shifted to New Capacity, coupled with lower construction and property costs, will result in 5,000 additional new seats. The Amendment includes a total of nearly 33,900 new seats, 2,300 of which are funded for design only.

In addition, lower construction costs enabled the SCA to decrease funding for prior plan completion costs by \$200 million, which is reflected in the funding reduction for Mandated Programs. The savings are shifted to the Capital Improvement category. The additional funds enabled the SCA to add numerous critical projects, such as fire alarm systems, to the Plan. The Capital Investment category as a whole increases by approximately \$140 million as a result of the SCA shifting savings achieved in the Replacement Seats category to the Capital Improvement Program and Children First Initiatives.

Financial Plan Tables

Table 18. Fiscal Year 2013 February Plan: Financial Plan
Dollars in Millions

	FY12	FY13	FY14	FY15	FY16
REVENUE					
Taxes					
General Property Tax	\$17,812	\$18,383	\$18,986	\$19,648	\$20,291
Other Taxes	\$23,650	\$24,751	\$25,373	\$26,643	\$27,624
Tax Audit Revenue	\$700	\$724	\$706	\$706	\$706
Tax Program					
Sub-total, Taxes	\$42,162	\$43,858	\$45,065	\$46,997	\$48,621
Miscellaneous Revenues	\$6,289	\$7,058	\$6,035	\$6,097	\$6,197
Unrestricted Governmental Aid	\$25	\$0	\$0	\$0	\$0
Anticipated State Action	\$0	\$0	\$0	\$0	\$0
Less: Intra-City Revenues	(\$1,791)	(\$1,531)	(\$1,533)	(\$1,537)	(\$1,542)
Disallowances	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)
Sub-total City Funds	\$46,670	\$49,370	\$49,552	\$51,542	\$53,261
Other Categorical Grants	\$1,046	\$913	\$909	\$906	\$892
Inter-Fund Revenues	\$551	\$509	\$504	\$504	\$504
TOTAL City, Capital IFA & Oth. Cat. Funds	\$48,267	\$50,792	\$50,965	\$52,952	\$54,657
Federal Categorical Grants	\$7,734	\$6,592	\$6,491	\$6,414	\$6,412
State Categorical Grants	\$11,368	\$11,341	\$11,449	\$11,586	\$11,705
TOTAL Revenues	\$67,369	\$68,725	\$68,905	\$70,952	\$72,774
EXPENSE					
Personal Services	\$37,455	\$37,210	\$37,794	\$39,222	\$40,164
Other than Personal Services	\$28,438	\$27,765	\$28,587	\$29,320	\$29,810
Debt Service	\$5,612	\$6,278	\$6,797	\$7,163	\$7,436
Adjustments					
Prior Year Surplus Roll	(\$3,742)				
Current Year Surplus Roll	\$1,297	(\$1,297)			
General Reserve	\$100	\$300	\$300	\$300	\$300
Sub-total	\$69,160	\$70,256	\$73,478	\$76,005	\$77,710
Less: Intra-City Expenses	(\$1,791)	(\$1,531)	(\$1,533)	(\$1,537)	(\$1,542)
TOTAL Expenditures	\$67,369	\$68,725	\$71,945	\$74,468	\$76,168
GAP	\$0	\$0	\$3,040	\$3,516	\$3,394

Source: OMB Fiscal 2013 Preliminary Plan

Table 19. Fiscal 2013 Preliminary Budget Revenue Plan*Dollars in Millions*

	FY12	FY13	FY14	FY15	FY16
Taxes					
Real Estate	\$17,812	\$18,383	\$18,986	\$19,648	\$20,291
Sales	5,867	6,066	6,327	6,600	6,839
Mortgage Recording	513	572	670	739	759
Personal Income	7,979	8,529	8,576	9,174	9,555
General Corporation	2,502	2,639	2,719	2,816	2,941
Banking Corporation	1,336	1,281	1,179	1,169	1,224
Unincorporated Business	1,722	1,804	1,876	1,949	2,022
Utility	401	417	432	453	465
Hotel	476	463	481	506	529
Commercial Rent	622	642	663	686	710
Real Property Transfer	862	908	1,023	1,125	1,155
Cigarette	70	69	67	66	64
All Other	511	501	501	501	502
Audit	699	723	706	706	706
Tax Program	0	0	0		0
STAR	790	861	859	859	859
Total Taxes	\$42,162	\$43,858	\$45,065	\$46,997	\$48,621
Federal Categorical Grants	\$7,734	\$6,592	\$6,491	\$6,414	\$6,412
State Categorical Grants	\$11,368	\$11,341	\$11,449	\$11,586	\$11,705
Non-Governmental Grants (Other Cat.)	\$1,597	\$1,422	\$1,413	\$1,410	\$1,396
Unrest. / Anticipated State & Federal Aid	\$25	\$0	\$0	\$0	\$0
Miscellaneous Revenue					
Charges for Services	829	863	860	861	861
Water and Sewer Charges	1,435	1,415	1,436	1,444	1,467
Licenses, Permits, Franchises	547	548	559	563	574
Rental Income	280	282	290	293	293
Fines and Forfeitures	790	805	803	802	802
Other Miscellaneous	600	1,595	534	506	502
Interest Income	17	19	20	91	156
Intra City	1,791	1,531	1,533	1,537	1,542
Total Miscellaneous	\$6,289	\$7,058	\$6,035	\$6,097	\$6,197
Net Disallowances & Transfers	(1,806)	(1,546)	(1,548)	(1,552)	(1,557)
Total Revenue	\$67,369	\$68,725	\$68,905	\$70,952	\$72,774

Source: OMB Fiscal 2013 Preliminary Plan

Table 19. Fiscal 2013 Preliminary Budget Revenue Plan (continued)*Dollars in Millions*

	FY12	FY13	FY14	FY15	FY16
City Funds: does not include Unrestricted Aid	\$46,645	\$49,370	\$49,552	\$51,542	\$53,261
Federal & State Revenue	\$19,127	\$17,933	\$17,940	\$18,000	\$18,117
Federal & State as a Percent of Total	28.4%	26.1%	26.0%	25.4%	24.9%
City Funds as a Percent of Total Revenue	69.2%	71.8%	71.9%	72.6%	73.2%

Source: OMB Fiscal 2013 Preliminary Plan

Table 20. Fiscal Year 2013 February Plan: Revenue Changes from FY12 November Plan*Dollars in Millions*

	FY12	FY13	FY14	FY15
Taxes				
Real Estate	\$166	\$145	\$324	\$556
Sales	\$0	(\$2)	\$14	\$16
Mortgage Recording	\$5	\$8	\$18	\$5
Personal Income	(\$57)	\$28	(\$32)	(\$40)
General Corporation	(\$123)	(\$142)	(\$146)	(\$136)
Banking Corporation	\$38	\$112	\$101	\$84
Unincorporated Business	(\$76)	(\$73)	(\$70)	(\$67)
Utility	(\$15)	(\$13)	(\$14)	(\$5)
Hotel	\$70	\$79	\$94	\$98
Commercial Rent	\$0	\$0	\$0	\$0
Real Property Transfer	\$9	\$13	\$26	\$8
Cigarette	\$0	\$0	\$0	\$1
All Other	\$45	\$34	\$22	\$21
Audit	\$29	\$29	\$30	\$30
Tax Program	\$0	\$0	\$0	\$0
STAR	(\$2)	\$0	\$0	\$0
Total Taxes	\$89	\$218	\$367	\$571
Federal Categorical Grants	\$164	\$6	\$12	\$13
State Categorical Grants	\$68	\$156	\$117	\$173
Non-Governmental Grants (Other Cat.)	\$15	(\$23)	(\$23)	(\$22)
Unrest. / Anticipated State & Federal Aid**	\$0	\$0	\$0	\$0
Miscellaneous Revenue				
Charges for Services	\$2	\$1	\$1	\$1
Water and Sewer Charges	\$0	\$0	\$0	\$0
Licenses, Permits, Franchises	\$4	\$10	\$16	\$17
Rental Income	\$1	\$0	\$0	\$0
Fines and Forfeitures	\$9	(\$1)	(\$1)	(\$1)
Other Miscellaneous	\$6	\$50	\$1	(\$1)
Interest Income	\$0	\$0	(\$1)	\$0
Intra City	\$42	\$0	\$1	\$0
Total Miscellaneous	\$64	\$60	\$17	\$16
Net Disallowances & Transfers	(\$42)	\$0	(\$1)	\$0
Total Revenue	\$358	\$417	\$489	\$751
City Funds: does not include Unrestricted Aid	\$111	\$278	\$383	\$587
Federal & State Revenue	\$232	\$162	\$129	\$186

Source: OMB Fiscal 2013 Preliminary Plan

Table 21. Council Forecast: Levels*Dollars in Millions*

	FY11*	FY12	FY13	FY14	FY15	FY16
Real Property	\$16,868	\$17,812	\$18,383	\$19,023	\$19,764	\$20,457
Personal Income	\$7,644	\$8,117	\$8,778	\$8,819	\$9,308	\$9,777
General Corporation	\$2,278	\$2,588	\$2,742	\$2,862	\$3,027	\$3,022
Banking Corporation	\$1,346	\$1,313	\$1,280	\$1,267	\$1,311	\$1,314
Unincorporated Business	\$1,675	\$1,730	\$1,745	\$1,839	\$1,940	\$2,005
Sales	\$5,586	\$5,810	\$6,033	\$6,270	\$6,518	\$6,765
Commercial Rent	\$601	\$663	\$701	\$742	\$786	\$833
Real Property Transfer	\$795	\$916	\$953	\$1,028	\$1,134	\$1,262
Mortgage Recording	\$434	\$511	\$563	\$633	\$712	\$808
Utility	\$394	\$406	\$432	\$455	\$485	\$514
Hotel	\$422	\$455	\$474	\$508	\$505	\$534
All Other	\$1,317	\$1,371	\$1,430	\$1,427	\$1,425	\$1,424
Audits	\$988	\$700	\$724	\$706	\$706	\$706
Total Taxes	\$40,349	\$42,391	\$44,237	\$45,580	\$47,621	\$49,422
OMB	\$40,349	\$42,163	\$43,858	\$45,065	\$46,997	\$48,599

Note: *actuals

Source: New York City Council Finance, 2012

Appendix

Tables A. 1 – A. 3 Summary of State Pension Legislation

CIVILIANS	62/5 Plan	CURRENT (57/5 Plan)	GOVERNOR'S EXECUTIVE BUDGET
Employee Contribution	3% for first 10 years	4.85% for first 10 years, dropping to 1.85% for next 20 years	$\left\{ \begin{array}{l} 4\% \text{ if salary less than } \$43\text{k} \\ 5\% \text{ if salary between } \$43\text{k and } \$85\text{k} \\ 6\% \text{ if salary greater than } \$85\text{k} \end{array} \right.$ for all years. plus Additional contributions if employer contributions exceed bounds set by the Budget Director. ("risk-reward" system)
Service Benefit Formula	Retirement Age of 62: If less than 20 years of service = $1.67\% \times \text{FAS3} \times \text{years}$	Retirement Age of 57: If less than 20 years of service = $1.67\% \times \text{FAS3} \times \text{years}$	Retirement Age of 65: $1.67\% \times \text{FAS5} \times \text{years}$
	If at least 20 years of service = $2\% \times \text{FAS3} \times \text{years}$	If at least 20 years of service = $2\% \times \text{FAS3} \times \text{years}$	Salary above the Governor's (\$179k) excluded
Vesting	5 years, payable at age 62	5 years, payable at age 57	12 years, payable at age 65
Early Retirement	55 with penalty	Unreduced at 57 & 5 years	None
Benefit Supplementation	COLA	COLA	Unchanged
Overtime	Kingston Limits	Kingston Limits	Overtime does not count towards pension calculation

TEACHERS	CURRENT	GOVERNOR'S EXECUTIVE BUDGET
Employee Contribution	4.85% for first 27 years, dropping to 1.85% thereafter	$\left\{ \begin{array}{l} 4\% \text{ if salary less than } \$47\text{k} \\ 5\% \text{ if salary between } \$47\text{k and } \$94\text{k} \\ 6\% \text{ if salary greater than } \$94\text{k} \end{array} \right.$ for all years plus Additional contributions if employer contributions exceed bounds set by the Budget Director. ("risk-reward" system)
Service Benefit Formula	If less than 20 years of service = $1.67\% \times \text{FAS3} \times \text{years}$	Retirement Age of 65: $1.67\% \times \text{FAS5} \times \text{years}$
	If at least 20 years of service = $2\% \times \text{FAS3} \times \text{years}$	Salary above the Governor's (\$179k) excluded
	Retirement at age 55 with 27 years of service with at least 10 years of service	
Vesting	10 years, payable at age 62 (or at age 55 with reductions)	12 years, payable at age 65
Early Retirement	Unreduced at 62/10 and 55/27	None
	Early reduced at 55 & 10 (6% first two years, then 3% to 55)	
Benefit Supplementation	COLA	Unchanged
Overtime	Kingston Limits	Overtime does not count towards pension calculation

POLICE/FIRE	CURRENT [TIER 3]	GOVERNOR'S EXECUTIVE BUDGET
Employee Contribution	3% for first 25 years	{ <ul style="list-style-type: none"> 4% if salary less than \$61k/\$63k for the first 25 years 5% if salary between \$61k/\$63 and \$122k/\$126 6% if salary greater than \$122k/\$126k plus Additional contributions if employer contributions exceed bounds set by the Budget Director. ("risk-reward" system)
Service Benefit Formula	Payable at 55 or after 22 years of service:	Payable at 65: Years of service 2.1% x FAS5 x years (less 50% SSI)
	50% FAS3 (less 50% SSI) plus COLA	Salary above the Governor's (\$179k) excluded
	After 25 years of service:	
	Full Escalation benefit	
	After 20 years of service: \$12,000 annual VSF payment	
Benefit = 2.1% x FAS3 x years (less 50% SSI)		
Vesting	5 years, payable at 20 years of service	12 years, payable at 20 years of service
Early Retirement	Early reduced at 42% FAS3 x years (less 50% SSI)	
Benefit Supplementation	COLA	Unchanged
Overtime	Kingston Limits	Overtime does not count towards pension calculation

Notes:

1. "None" means the current benefit was removed
2. "Unchanged" means the current benefit was not changed.
3. The Kingston Limitations (1983 Chapter 414) excludes salary beyond a certain percent of the FAS when calculating the FAS.
4. "FAS" means Final Average Salary. The number after FAS refers to how many years are included in the average.
5. "CoLA" means Cost of Living Adjustment. Benefits are partially indexed to inflation.

Source: OMB; New York City Council Finance, 2012