THE COUNCIL OF THE CITY OF NEW YORK

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Speaker of the Council

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

Hearing on the Fiscal Year 2013 Executive Budget

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

June 6, 2012

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Financial Plan Overview

Introduction

The June 6th hearing of the Finance Committee, concludes the process of reviewing the Fiscal 2013 Executive budget (“May 2012 Plan”) which was released on May 3, 2012. The hearing will begin with the testimony of Mark Page, Director of the Office of Management and Budget.

Individual agency budgets have been discussed in hearings over the past four weeks. This hearing offers an opportunity to discuss the budget as a whole, as well as to review non agency parts of the budget such as debt service, pensions and post-employment benefits and to look at the revenue side of the budget. This document will provide an overview of these issues as well as the City Council Finance Division’s forecast of the economy and tax revenues. In addition there will be a a brief overview of the Capital budget.

Constraints on Agency Spending

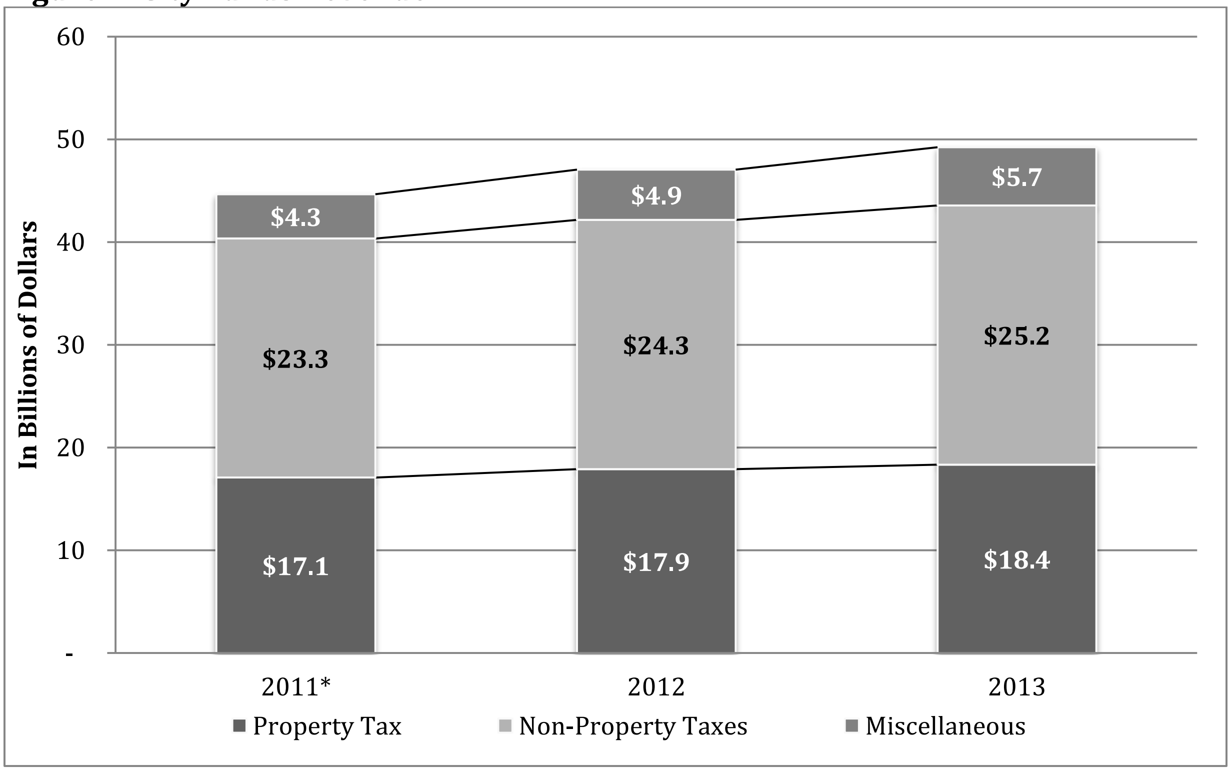
- The Fiscal 2013 Executive budget is little changed from the Fiscal 2013 Preliminary budget (‘February 2012 Plan”). The principal City fund changes are $466 million in CityTime settlement revenue mostly in Fiscal 2012, which is used with other revenues to offset decreases in the tax revenue forecast of $351 million between Fiscal 2012 and 2013.
- Expenses are up for Fiscal 2012 and 2013 by $139 million compared to the February plan with debt service savings partially offsetting increased agency and non-controllable expenses.
- The City and National Economies continue to expand but at a slow rate. Both will grow at below their long term trends into Fiscal 2014.
- The Fiscal 2012 budget will end the year with an operating deficit of $2.7 billion, the fourth year in a row of an operating deficit.[1]
- The Fiscal 2013 budget is balanced with a number of one shot revenue sources including $1 billion from the sale of taxi medallions, $1 billion draw down of the Retiree Health Benefit Trust and a $1.7 billion in prepayments from Fiscal 2012.
- Throughout the plan the growth of controllable agency spending is constrained by the economy, the growth of certain non-controllable expenses and the exhaustion of prior year reserves.

To understand the basic characteristics of the Fiscal 2013 Executive Budget one needs to start with the constraints the City is operating under.

The first constraint is the City’s economy. New York City has done comparatively well during the financial crisis and recovery. The City went into recession late, exited early and its recovery has

Operating deficits include the net fiscal roll and net changes in the balance of the retiree health care trust fund shown surprising strength. By some measures the City has surpassed its 2008 peak.[2] But the nation as a whole is going through a slow patch, and Council Finance expects the city to do the same with nominal gross city product growth only 4.3 percent in Fiscal 2013.[3] By OMB's forecast City funds will grow faster than the City's economy at 4.7 percent in Fiscal 2013. By Council Finance's forecast it will grow at 5.5 percent.

Figure 1. City Funds Revenue

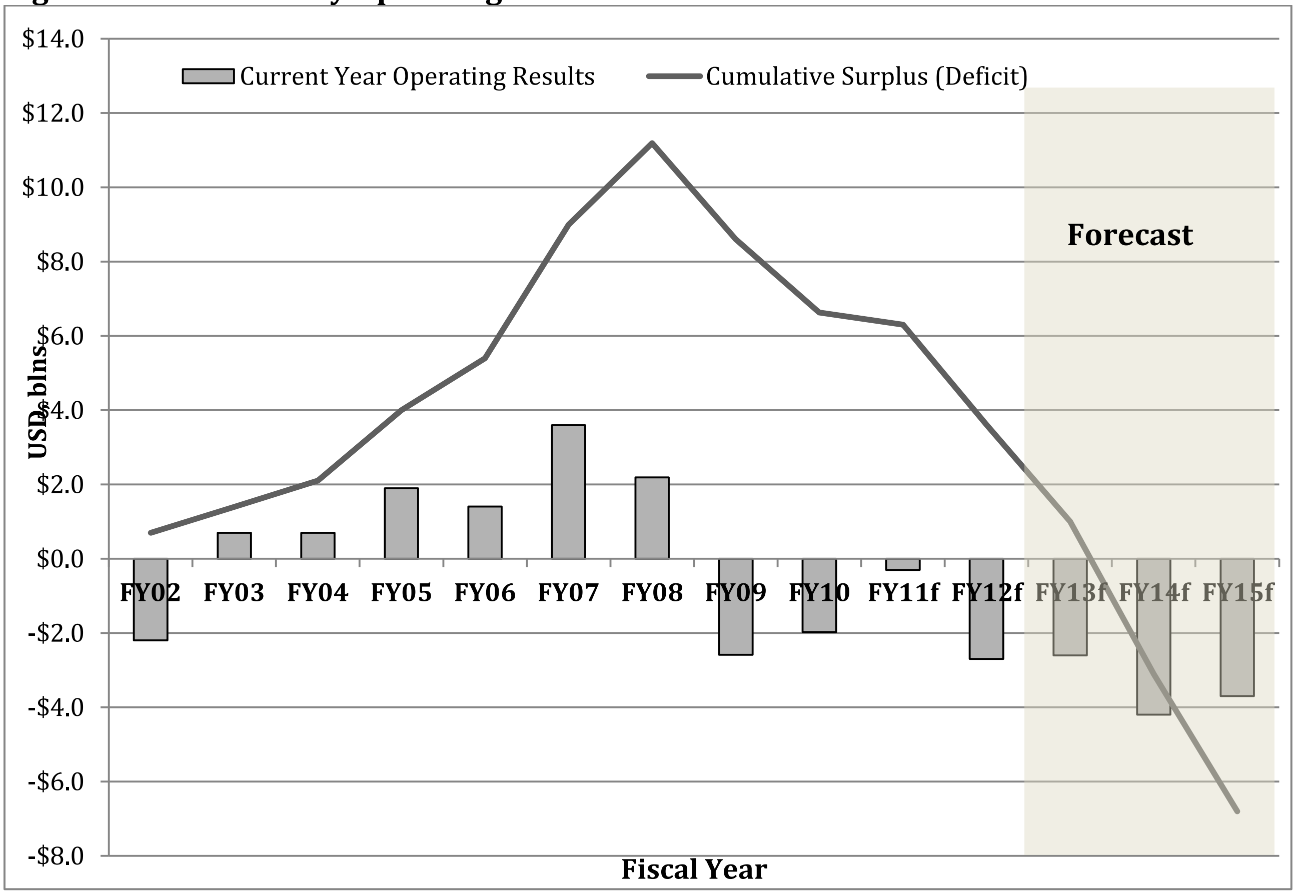


Note: Data for Fiscal 2011 is from the Comprehensive Annual Financial Report of the Comptroller.
Source: New York City Council Finance, 2012

The second constraint lies in what we shall call reserves. New York City has run an operating deficit for the past four years. From Fiscal 2009 through Fiscal 2012 the City spent about $7.6 billion more than it took in. It did this using funds it accumulated during the boom years. These funds were used to prepay certain expenses, or devoted to the Retiree Health Benefit Trust Fund, which the City is currently drawing down. The ability to spend in excess of current revenues is nearing an end. According to the May 2012 plan, at the end of Fiscal 2013 only $1.1 billion of these reserves will remain.

[2] Measures such as the FRBNY Coincident Indicators for NYC and the BLS Current Employment Statistics show NYC back to peak output and employment. The BLS Local Area Unemployment Survey shows employment in NYC still significantly below its peak.
[3] Nominal gross city product is in current dollars and not corrected for inflation. We use it here rather than the more familiar real gross city product because it is easier to compare with city revenue and expense data which is also not corrected for inflation. Council Finance expects real gross city product to grow at a rate 1.8 percent In Fiscal 2013.

Figure 2. New York City Operating Deficits

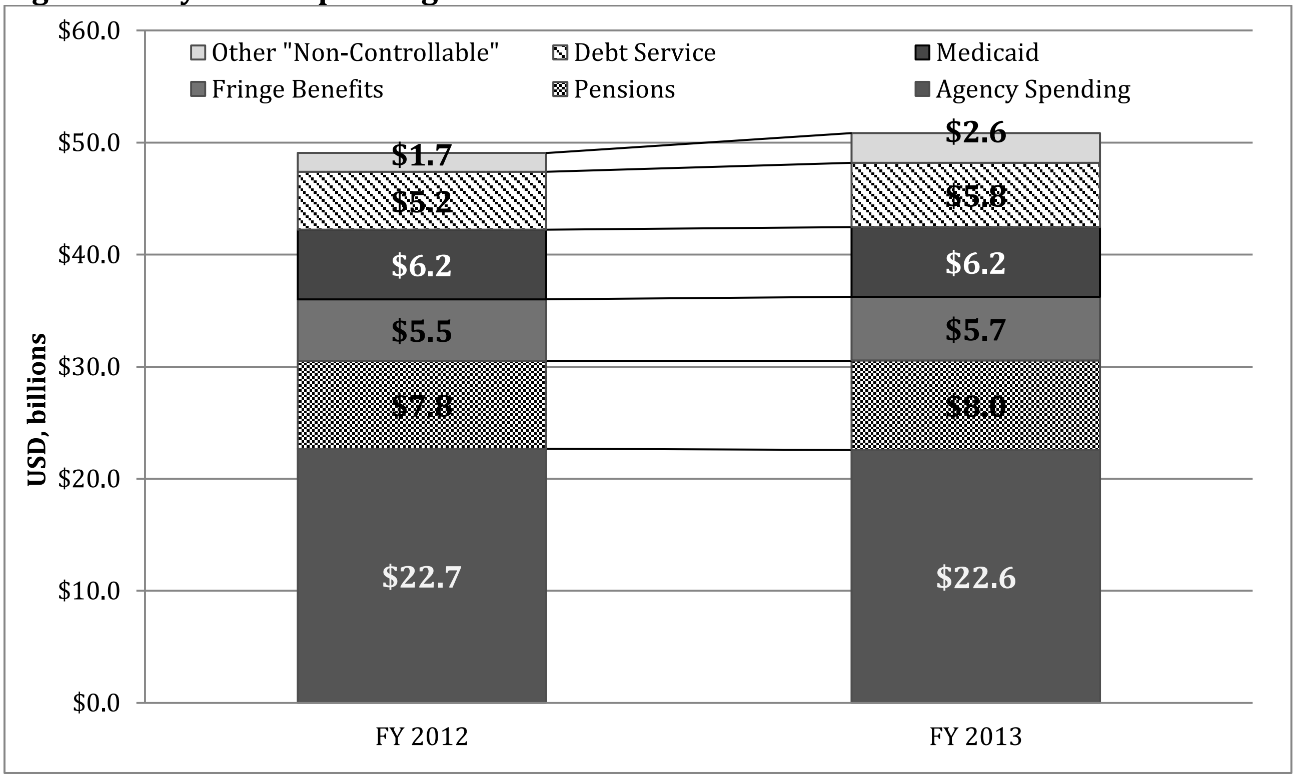


Source: New York City Council Finance, 2012

The third constraint is found in the contractual and legal obligations that are sometimes summed up as the non-controllable part of the budget. The principle components of this are pensions, fringe benefits, Medicaid, debt service and public assistance. By OMB's calculation these are 56 percent of the City funds budget. Correcting for the effect of prepayments, in Fiscal 2012 OMB expects non-controllable expenses to grow 7.2 percent. The main drivers of this are the strong growth of debt service, 11.4 percent, and of fringe benefits, 8.2 percent. Pensions, which have been a problem for the City's budget for a number of years, are finally slowing with a growth rate of only 1.8 percent in Fiscal 2013.

Given these constraints, there is relatively little room for controllable agency expenses to grow and they are down 0.5 percent in Fiscal 2013. For the rest of the plan, controllable expenses grow at less than 2 percent a year and spending on these programs falls just short of inflation. Without faster revenue growth, or the slower growth of non-controllable spending, the growth of controllable agency spending will of necessity be slow for the financial plan period.

Figure 3. City Funds Spending



Source: New York City Council Finance, 2012

Beyond that there is another issue; the problems inherent in New York State and Federal Budgets. New York State faces many of the same economic and budgetary constraints as the City. According to OMB, State aid to the City will grow only 0.5 percent in Fiscal 2012 and 0.9 percent in Fiscal 2013, considerably less than inflation. While this is categorical aid and in theory spending follows the aid, this aid often funds needed services. Where State aid comes up short, it is often necessary to replace it with City dollars. As the State economy improves OMB assumes State aid growth will pick up, averaging 3.4 percent in the out years.

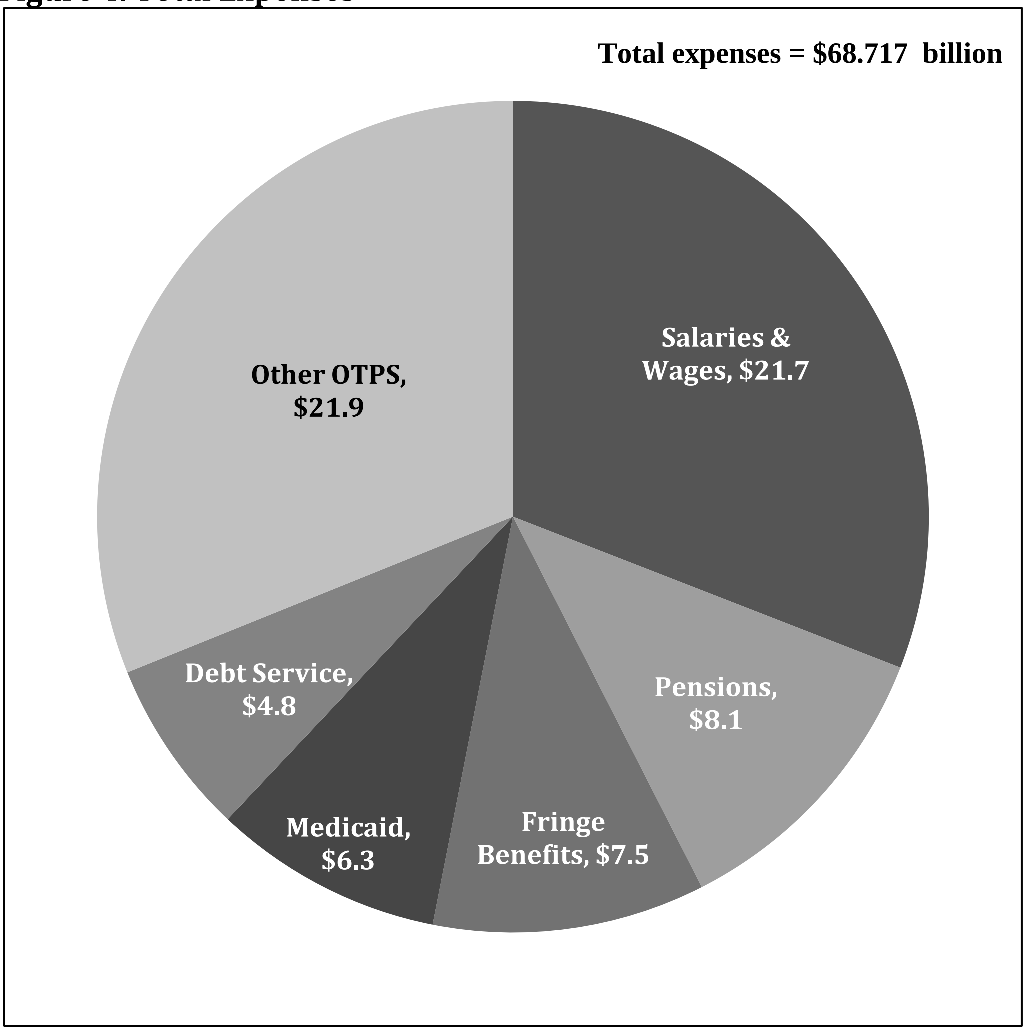
The Federal government, which in 2009 and 2010 provided a stimulus to the economy and which supported the City's budget, is now a drag on the economy. In 2011 changes in Federal spending actually reduced the growth of GDP by 0.17 percent.[4] Fiscal consolidation is necessary in the long run, though it is unwise to start in such a weak economy. It is unlikely that Federal spending will be helpful to the City's economy or budget for the foreseeable future. Analyzing Federal aid in the financial plan is tricky. The decrease in Federal aid seen from Fiscal 2012 to Fiscal 2013 is a budgeting artifact. Large parts of Federal categorical aid are not recognized till later in the year. In Fiscal 2011 about $1 billion was added, mostly in the November plan.

In terms of the upcoming negotiations between the Administration and the City Council over the Fiscal 2013 budget, these constraints have to be interpreted with care. Executive budgets typically contain estimates and allowances that are in excess of anticipated need and designed to be available to fund a budget agreement.

[4] Bureau of Economic Analysis, "Gross Domestic Product: First Quarter 2012 Advanced Estimate" Table 2.

The Fiscal 2013 budget is $68.717 billion. On the expense side this understates things because part of debt service and other expenses are prepaid with funds from Fiscal 2012, and parts of post-employment health care benefits are paid for by running down the Retiree Health Benefits Trust Fund. Adjusting for this spending is $71 billion, up 0.8 percent from a similarly adjusted Fiscal 2012 budget.

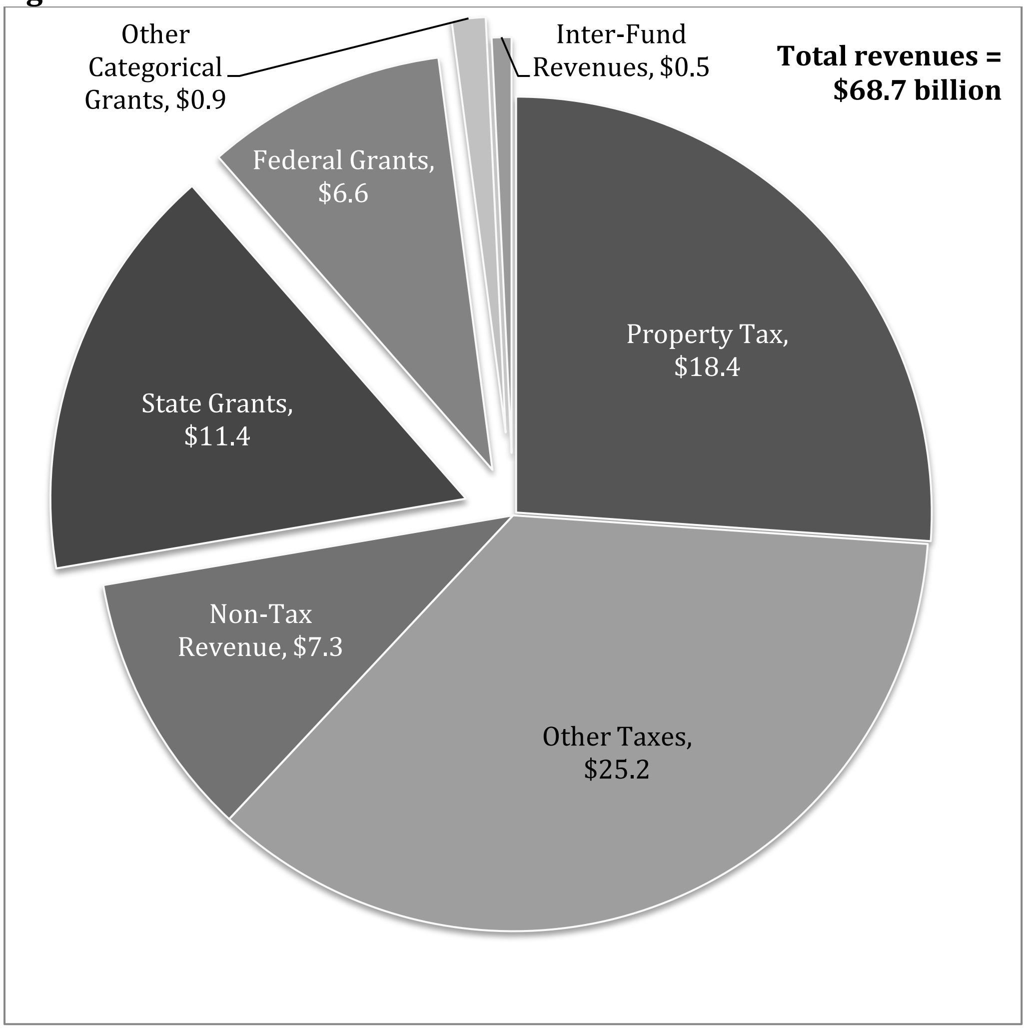
Figure 4. Total Expenses



Note: Debt service is after prepayments.
Total adjusted for intra-city expenditures. All figures are in USD, billions.
Source: New York City Council Finance, 2012

On the revenue side the budget is also $68.717 billion, up about 1.6 percent from Fiscal 2012. As noted above the typical treatment of Federal and State categorical aid means that actual year to year growth is likely to be greater than this.

Figure 5. Total Revenues



Note: Adjusted for Intra-city revenue and disallowances against categorical grants.
All figures are in USD, billions.
Source: New York City Council Finance, 2012

Changes in the Plan

- The May 2012 plan closely resembles the February 2012 plan, its major change is $466 million from the CityTime legal settlement.
- The Fiscal 2013 is closed with $3.2 billion in one time resources, or one shots.
- The anticipated $1 billion in Fiscal 2013 from the Sale of Taxi medallions is difficult to understand since over half of the sales are anticipated in Fiscal 2014 and Fiscal 2015.

The May 2012 plan is little changed from its predecessor the February 2012 plan. Over the course of Fiscal 2013 the most significant plan was the one introduced in November 2011, so it is best to review changes from the Fiscal 2012 Adopted budget.

The Fiscal 2012 Adopted budget started with a balanced 2012 and a Fiscal 2013 gap of $4.6 billion. The revenue forecasts, increased somewhat in the November and February plans, have been brought back down till they are remarkably close to that of the Adopted budget. The new revenues were insufficient to cover a set of agency new needs.

Table 1. Revenue & New Needs
Dollars in Millions

May Plan	FY12	FY13
Gap as of FY 12 Adoption	**$---**	**($4,632)**
Revenues		
Taxes	39	83
Non-Tax Revenue	15	130
Subtotal, Revenue Changes	**54**	**213**
Expenses		
Base-lined Agency Spending	483	858
Other Agency Expenses	10	50
Subtotal, Expense Changes	**493**	**908**
New Gap	**($439)**	**($5,327)**

Source: New York City Council Finance, 2012

The gap is closed with the normal second half of the year take down of expenses, a revision of pension changes, a PEG program that was announced in November and some non-recurring resources.

Table 2. Closing the Gap
Dollars in Millions

May Plan	FY12	FY13
Surplus/(Gap) to be Closed	**($439)**	**($5,327)**
Taxi Medallions	-	1,000
Retiree Health Trust Fund	-	1,000
Nov. PEG Program	464	1,012
CityTime Settlement	466	
Revised Pension Changes	417	417
Prior-Year Payables	500	-
General Reserve	260	-
Debt Service	58	252
HIP Rate Savings	2	42
Roll to Nest Fiscal Year	(1,728)	(124)
Final Surplus/(Gap)	**$-**	**$-**

Source: New York City Council Finance, 2012

Of the non-recurring resources, the major new resource in this plan is $466 million from the legal settlement with SAIC over fraud committed in the CityTime program.

The resource that is the source of the greatest concern is $1 billion from the sale of taxi medallions in Fiscal 2013. 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. The Taxi and Limousine Commission's "Draft Scope of Work for and Environmental Impact Statement – Taxi Medallion Increase", "… anticipates that the public sale of the initial 400 taxicab licenses would occur no earlier than July 15, 2012, and that the remaining 1,600 additional taxicab licenses would be issued by public sale in four equal 400 increments every six months thereafter (February 2013, July 2013, February 2014, and July 2014), subject to approval of the DAP by NYSDOT."[5] Under these assumptions more than half of the sales would occur in Fiscal 2014 and Fiscal 2015. How this yields $1 billion in Fiscal 2013 is unclear.

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 $1 billion at the end of the year.

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. By lengthening the period over which the City makes the extra payments needed to adjust to the 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 a year in Fiscal 2013 and Fiscal 2014. This frees the reminder of the billion for gap closing. These changes will require approval of each of the City's pension boards and of the State legislature. At the time of writing this has not occurred. However this is not a budget risk. The assumption changes may be advantageous in the long run but they are costly in the short run. The issues around the assumption change are explored in the pension section below.

[5] NYC Taxi and Limousine Commission. 2012. "Draft Scope of Work for and Environmental Impact Statement – Taxi Medallion Increase;" Available online: http://www.nyc.gov/html/tlc/downloads/pdf/taxi_draft_scope_of_work.pdf

Fiscal 2014 to Fiscal 2016

- The new 'normal' for the City economy is unlikely to include bubble like growth in tax revenues.
- The exhaustion of reserves and one shots leads to out-year deficits.
- Wage growth due to collective bargaining is assumed to be below inflation, adding risks to out-year budgets.

Fiscal 2014 is a difficult year on the revenue side. Tax revenue growth is similar to Fiscal 2013, around 3.5 percent in OMB's forecast. But the miscellaneous revenue one shots used in Fiscal 2012 and Fiscal 2013, the CityTime legal settlement and taxi medallion sales are not available. This reduces City funds revenue growth to 1 percent for the year. In the remaining years of the forecast, revenue growth accelerates slightly and City funds revenue grows at an average rate of 4 percent.

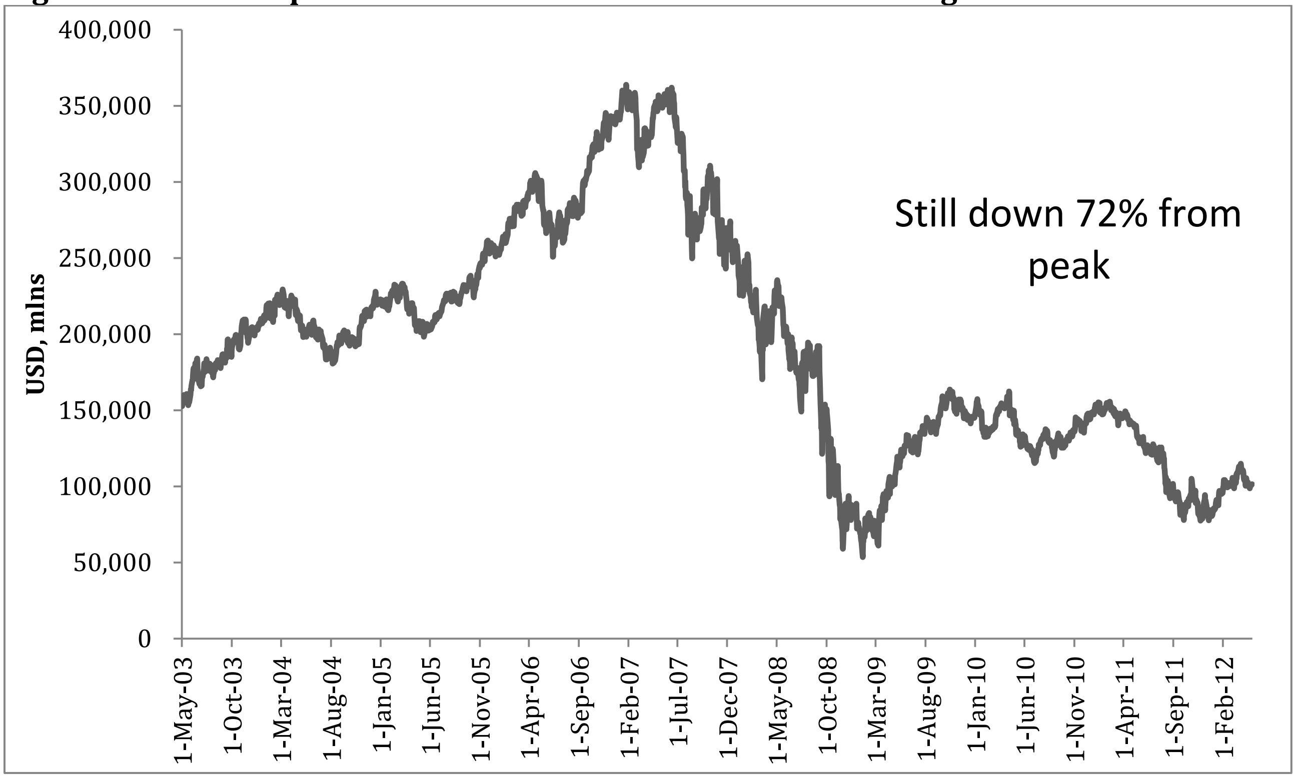
Some of this slow growth of taxes and revenues is an artifact of OMB estimating techniques, which for example typically assume no growth in audits or in the City's minor taxes in the out-years. But despite New York City's robust recovery in employment, there are reasons to suspect the new 'normal' for the City economy will not include the kind of revenue growth experienced in say Fiscal 2005 to Fiscal 2007 or Fiscal 1997 to Fiscal 2000. 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 in the decades prior to the crisis.[6]

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 a crisis.[7] The Federal government faces long term fiscal pressures and most forecasters assume Federal spending will grow more slowly than inflation for the foreseeable future.[8] 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 are intended to reduce risk and may result in higher costs and low returns. The City's key specialization, investment banking and brokerage services, which has been the source of remarkable amounts of income and taxes, is viewed with particular concern by the markets. The market capitalization of these firms is still 73 percent below its peak and below its 2003 level. The market has doubts about the earning potential of these firms.

[6] Carmen Reinhart & Vince Reinhart, "After the Fall", Federal Reserve Bank of Kansas City 2010.
[7] 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.
[8] IHS Global Insight May 2012 control forecast has real Federal spending on a NIPA basis falling for all but one year between now and 2022.

Figure 6. Market Capitalization - Investment Banks and Brokerage



Source: IHS Global Insight data and New York City Council Finance calculations, 2012

The gaps which open starting in Fiscal 2014 should not be a surprise. The $3.2 billion in one shots used to close the Fiscal 2013 budget will no longer by available. After Fiscal 2014 there are no funds for prepayments and the Retiree Health Benefit Trust will be exhausted. There are also continuing pressures from fringe benefits and debt service.

These gaps may be overstated. In a typical year there are a number of accounting reserves such as for prior year payables and the general reserves that are not used. In recent years these have totaled around $750 million and are rolled into the next year.

However there are also reasons to think the gaps may be understated. The May 2012 plan assumes no wage increases due to collective bargaining for unresolved contracts covering Fiscal 2011 through Fiscal 2013. After that a reserve has been created assuming increases of 1.25 percent a year. The United Federation of Teachers and the Council of School Supervisors and Administrators still have unresolved contracts from the 2008- 2010 round of bargaining and there will be a new round of bargaining for the municipal unions within the plan period. Since the collective bargaining reserve assumptions are significantly below inflation or the expected growth of private sector wages during the period, it seems unlikely that wage increases will be this low during the period.[9]

[9] Properly the reserve need only offset labor costs increases. Net of other savings, productivity increases, fringe benefit or pension savings may allow higher wages within the 1.25 percent reserve.

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

	FY12	FY13	FY14	FY15	FY16
REVENUE					
City Funds*	$48,646	$50,709	$51,147	$53,140	$55,089
Total	$67,624	$68,717	$69,333	$71,632	$74,089
Expense					
Personal Services	$37,281	$37,332	$38,183	$39,923	$41,043
Other than Personal Services	$28,484	$28,156	$28,814	$29,515	$30,050
Debt Service	$5,623	$6,129	$6,799	$7,172	$7,450
General Reserve	$40	$300	$300	$300	$300
Less: Intra-City Expenses	($1,790)	($1,596)	($1,595)	($1,598)	($1,603)
Total Operating Expenses	$69,638	$70,321	$72,501	$75,312	$77,240
FY 2011 Budget Stabilization & Discretionary Transfers	($3,742)				
FY 2012 Budget Stabilization & Discretionary Transfers	$1,728	($1,728)			
FY2013 Budget Stabilization		$124	($124)		
Total	**$67,624**	**$68,717**	**$72,377**	**$75,312**	**$77,240**
Gap	$0	$0	($3,044)	($3,680)	($3,151)

Note: *with interfunds agreements
Source: OMB Fiscal 2012 May Plan

The Finance Division tax revenue forecast will have an impact on these out-year deficits, increasing the surplus in Fiscal 2012 and for Fiscal 2014. Over the forecast period it sees tax revenue growing at the average rate of 4 percent compared to 3.9 percent for OMB. Given the errors associated with forecasting, they are effectively the same forecast. But the differences are sufficient to ease balancing the Fiscal 2014 budget. This forecast is discussed in the economic and tax revenue sections below.

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

	FY12	FY13	FY14	FY15	FY16
May Plan GAP	**$0**	**$0**	**($3,044)**	**($3,680)**	**($3,151)**
Council Finance Tax Forecast*	$41	$432	$239	$372	$182
Net Change to Surplus Roll	$0	$41	$473	$0	$0
Restated (Gap)/Surplus	**$41**	**$473**	**($2,333)**	**($3,308)**	**($2,969)**

Note: *Difference from OMB February Plan Forecast. Assumes surpluses rolled into the next fiscal year.
Source: OMB Fiscal 2012 May Plan

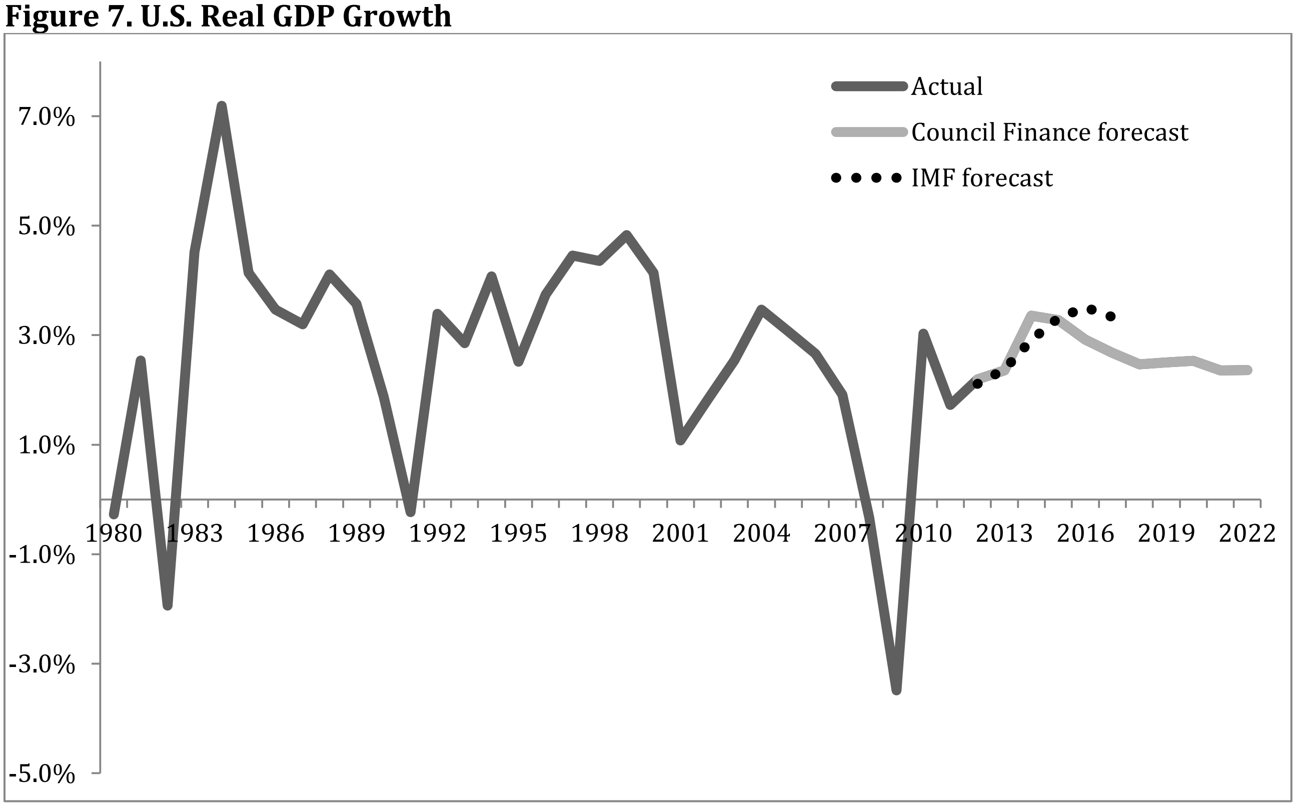
Council Economic Forecast

National Economy – the New Normal

- **Compared to earlier recessionary cycles, this recovery is unusually slow but Council Finance expects gradual improvement.**
- **Growth is at best modest and there are still significant risks.**
- **Despite some recent job growth, unemployment is stubbornly high.**
- **Critical households deleveraging continues as concerns remain over foreclosures, credit access, and uneven job creation.**
- **Still much depends on the pragmatic mix of fiscal and monetary policy.**

Gradually recovering from a severe contraction of 2009, the U.S. economy will expand at around 2.2 percent in 2012. Consistent with Global Insight, Council Finance estimates growth reaching 2.4 percent, 3.4 and 3.3 percent in 2013, 2014, and 2015 respectively (see Figure 7). Several factors determine our reasoning, suggesting a ***new normal*** macroeconomic environment with affecting regional economies, New York City included, over the next few years.

Figure 7. U.S. Real GDP Growth



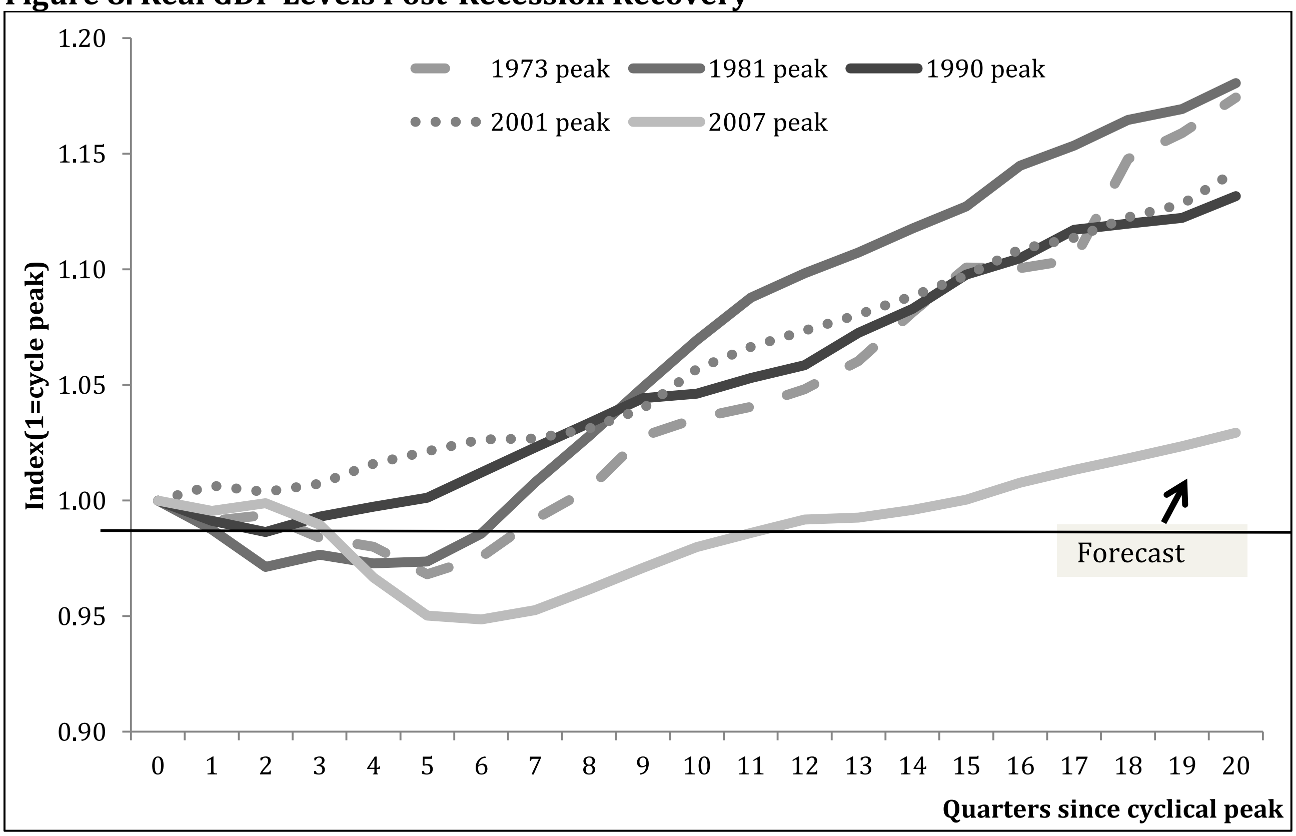
Source: IMF World Economic Outlook (2012) and IHS Global Insight (2012) and NYC Council Finance calculations.

Some of the immediate concerns contributing to our cautious estimates are:

- an unusually slower recovery compared to recent episodes of recorded recessions;
- continued adjustment in the financial industry in part as response to new regulation and in part due to global markets instability (primarily the Eurozone);
- despite early 2012 gains, recent weakness in job creation and impact of prolonged unemployment on marginally attached to labor force workers;
- unstable consumer and business spending;
- possible fiscal contraction due to automatic spending cuts and expiration of the tax rates unless extended by the beginning of 2013;
- uncertain direction of U.S. exports growth, as the relatively weak dollar has gained approximately 8 percent in value in relation to six major currencies since May 2011 and continues to appreciate against the euro.

The current recovery has been slower than in prior recessions (see Figure 8). The downturn has also been more severe than any comparable economic recession since post World War II. This time around it took GDP approximately 14 quarters or 3.5 years before economy bounced back to December 2007 levels – the official "peak" point of this cycle according to the National Bureau of Economic Research (NBER) recession cycles timing.[10]

Figure 8. Real GDP Levels Post-Recession Recovery



Source: BEA, the forecast of the last 3 quarters of the 2007 peak is from IHS Global Insight and the calculations are by NYC Council Finance.

[10] Information on U.S. business cycles dating done by NBER is available online: http://www.nber.org/cycles.html

For comparison, in the slowest previous recovery from the 1973 recession the economy climbed back to pre-recessionary levels in 8 quarters or 2 years. Aside from the magnitude of the initial shock, what makes this time so different is a mix of relatively positive news in the background of persistent macroeconomic instability and structural concerns.[11]

To begin with, real consumer spending – one of the growth engines – grew 2.9 percent in the first quarter of 2012 reaching its highest levels in four years by mid-May. Consumer spending growth will remain low at 2.2 percent 2012 continuing barely above that rate through 2015, according to the Global Insight data. But while consistent with below-trend recovery these growth rates are below the annual 2.9–3.0 percent norm of the pre-crisis decade in the U.S.

Partially this could be attributed to lower than normal real income and wealth growth, as real disposable grew only 1.3 percent for the year, despite all the positive news of 2011.[12] Real disposable income growth is expected to slow to 1.2 percent in 2012 and then rise to an average of 2.5 percent over 2013-2015 assuming a strong overall economy pick up.

Another contributing factor to the weakness of consumer spending is the uneven job growth of the last few months. Since January 2012 the economy added close to 700,000 jobs – an impressive rise last seen in the first quarter of 2011. However, most of the gains were in January and February, similar to the last year, as payrolls climbed just 150,000 and 115,000 in March and April respectively. This has had a decelerating impact on consumer spending in the early second quarter of 2012 sustaining downward pressure in the near term.

Broadly, 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).[13] As of May 2012 the unemployment rate is at 8.1 percent. We expect the U.S. unemployment rate to continue to decline as the economy regains its strength. But labor force participation is the lowest since 1981.

A more inclusive unemployment measure is the one that accounts for "discouraged workers". This has trended downward on monthly scale from peak of 16.1 percent in January 2011 to, 14.5 percent of total labor force in April 2012, still unprecedented in the past decades.[14] The concern is dual: a) ability of the discouraged workers that have effectively left the labor force to regain full-time positions based on their skillsets; and b) worsening of the official unemployment measures as college graduates compete for jobs with somewhat better experienced discouraged workers coming back into labor force prompted by recent growth reports.

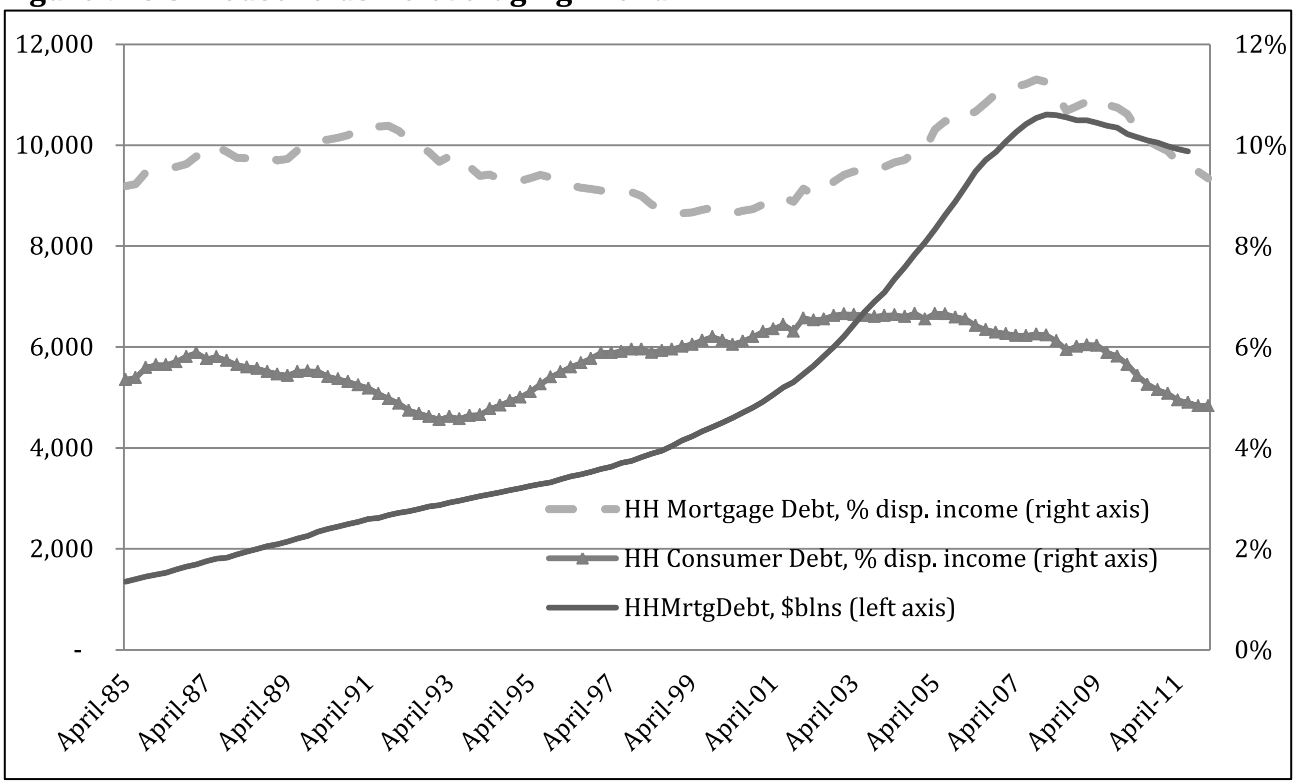
Much of the recent employment growth has been at lower wages, further suppressing income growth. Early 2012 job gains were disproportionately allocated in lower skilled sectors of retail and hospitality.

[11] To compare post World War II recessions, this diagram uses real GDP. For each recession it sets GDP at the prior peak equal to 1.00 and then looks at how many quarters it takes for GDP to get back to its prerecession level.
[12] Real disposable income is after tax income corrected for inflation.
[13] Unemployment started to decline in the later part of 2011 and in December 2011 the monthly unemployment rate dropped to 8.5 percent.
[14] 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, according to the Federal Reserve's April 2012 Beige Book, employers are having difficulty finding qualified workers, especially for high-skilled positions.[15] In another report, Deloitte that found over 600,000 manufacturing jobs unfilled due to skills gap between workers and employers requirements.[16]

On the positive side, household balance sheets have shown signs of improvement. This is most visible in the housing finance, 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 9). Somewhat offsetting these improvements were continued foreclosures, albeit at a slower rate, and the continued decline of housing prices.

Figure 9. U.S. Households Deleveraging Trend



Source: The Federal Reserve Board for household ratios and St. Louis Fed for home mortgage debt outstanding. 2012.

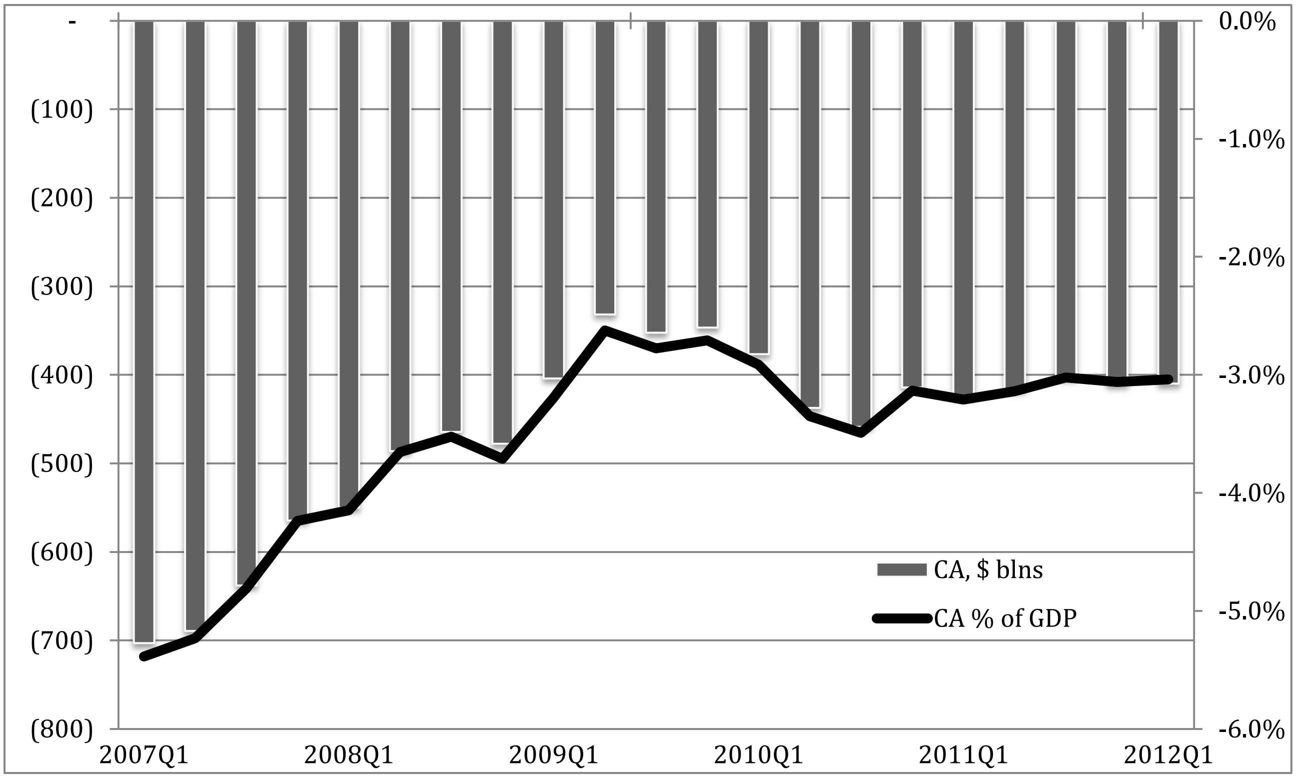
Exports are another potential source of growth for the economy (see Figure 10). But this is not likely to be a significant driver in the near term. In general we expect the U.S. to run a current account deficit in 2012 and in the medium to longer term, continuing on the trend of slowing exports growth. Contributing to the deficit is the relative appreciation of historically still weak U.S. dollar (see Table 5). Appreciation would lead to more affordable imports purchases by American businesses and consumers and higher costs for those buying our exports. In fact the National

[15] The Federal Reserve. 2012. *Current economic conditions.* Available online: http://www.federalreserve.gov/monetarypolicy/beigebook/files/fullreport20120411.pdf

[16] Deloitte. 2011. WANTED: 600,000 Skilled Workers for Manufacturing Industry. Available online: http://www.deloitte.com/view/en_US/us/press/ac4fa3e2f7213310VgnVCM3000001c56f00aRCRD.htm

Association for Business Economics (NABE) reports a wider trade deficit based on their panel of professional forecasters.[17]

Figure 10. U.S. Current account (USD blns and % of GDP)



Source: U.S. Bureau of Economic Analysis, Real Gross Domestic Product Table 1.1.6: http://bea.gov

In general the current account improvement, via the expanding export sector has also been much dependent on the key trading partners' macroeconomic conditions. That is another reason why the expected severe contraction in the EU may have a negative impact on the U.S. economy. 19 percent of U.S. exports are directed to the EU, with 13 percent to the euro-zone countries, according to the Deutsche Bank as quoted by Reuters.

Table 5. USD Appreciation against main trading currencies (excl. China), May 2012

Currency	1 year	90 days	30 days
MXN	19.9%	9.3%	6.2%
EUR	12.2%	5.9%	4.5%
CHF	8.5%	5.4%	4.4%
CAD	5.1%	2.9%	3.4%
GBP	3.1%	0.1%	2.6%
JPY	-3.4%	-1.1%	-2.3%

Source: PACIFIC Exchange Rate Service

Finally, despite recently rising productivity (an index measuring output per hour), the global trade shares of U.S. exports have been declining. A recent Federal Reserve Bank of New York report attributes that to a changing structure in the global trade patterns and qualitative readjustments across industries. [18] Growth in new industries requires a mobile, skilled, trained, and fast adapting labor force efficiently allocated to the producers' labor demands. Deloitte

[17] National Association for Business Economics (NABE). May 2012 NABE Outlook; Available online: www.nabe.com

considers that failure to promote these factors (including government sponsored training in emerging industries for workers), is a significant pull-back to U.S. global competitiveness.[19] Still economists agree on the overall strength of the U.S. economy and its vast exports potential in the near and medium terms. The concern is with the speed of the adjustment in order to retain current leading positions.

Naturally, critical to growth in such conditions are also trends in investments and business spending on nonresidential equipment and software, as they reflect direction of aggregate demand in the economy and if improving help raise general economic activity and contribute to new components of growth. We expect this type of business spending to continue to grow in 2012, albeit at a slower pace.

NABE estimates investment of this kind to increase 7.8 percent in 2012 and then 7.3 in 2013 (compared to 10.4 percent growth in 2011). According to the Global Insight data business spending in core capital investment in 2012 will contribute roughly 40 percent to real GDP growth.

Overall 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 many sources of such demand at the moment. Ongoing investment in a group of industries could stimulate such demand. 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). These cash balances can be used to accelerate investment and hiring, should firms feel comfortable enough to do so. 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.

Further facilitating potential investment demand and consumer spending on the financial side, core interest rates are expected to stay low, while inflation is expected to oscillate around 2 percent through the next three years. For one, the Federal Open Market Committee (a monetary policy setting group within the Federal Reserve System) has committed to sustain current federal funds rate below 0.2 percent at least through mid-late 2014. In addition, the FOMC suggested readiness to administer another monetary stimulus should there be any significant concerns about banks' credit access or further macroeconomic deterioration.

In the background of low interest rates, U.S.-based banks continued to conservatively expand their lending facilities to businesses of all sizes via banks commercial and industrial loans (C&I). According to the Federal Reserve's April 2012 Senior Loan Officer Survey compared to the first quarter 2011 this year's first quarter's C&I loans increased 13 percent.[20] In a recent release Federal Deposit Insurance Corporation reported first quarter 2012 U.S. bank earnings to be the highest in five years, reaching a cumulative $35.3 billion (up from $28.7 billion for the same period in 2011). However, earnings were mostly concentrated (81 percent of the total) among the few largest banks with assets over $10 billion (e.g. JPMorgan Chase, Wells Fargo, and Bank of America). In addition, consumer loans have shown very restrained growth despite demand (especially for auto loans). This may be partially due to the weakness in the housing market (and

[19] Deloitte. 2012. Bring Manufacturing Jobs Home! Available online: http://www.deloitte.com/us/debates/bringjobshome

[20] The Federal Reserve Board. 2012. The April 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices. Available online: http://www.federalreserve.gov/boarddocs/snloansurvey/201205/default.htm

limited collateral on the individual side) but also banks following their still tight credit terms in consumer lending.

On a relative scale, 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 are entering these market openings as a result.[21] It is clear that these foreign banks actions are driven by the ongoing concerns in the European financial markets, primarily with the sovereign debt overhang and private banks' exposures to default risk across the Eurozone.

The Eurozone remains to be the wildcard in the global finance and can have significant impact on the U.S. economy and financial markets. Early in 2012, following initial resolution of the Greek debt problems via agreement with the IMF, markets were pacified awaiting broader policy measures in the rest of the euro-zone. At that time U.S.-based banks' exposure to euro-denominated debt of Spain, Italy, Portugal, Ireland, and Greece was roughly estimated at $80 billion. The result of prolonged negotiations has been a call for private investors to take a "voluntary" haircut on Greek sovereign bonds. Because essentially 90 percent of Greek bonds are issued under 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.

However, more recently the risk of major euro-zone disruption has escalated with speculations about Greece's exit from the common currency area. While events unfold in real time with changing tides almost on the hourly basis, economists expect more clear direction to evolve after Greece's June 17th elections. In the meantime, financial observers, private banks, and credible research and policy entities (including the European Central Bank, IMF, and others) are attempting to develop alternative future outlooks for the common currency and immediate ramifications for EU's smaller economies as well as the global economy.

While it is too early to make any predictions, from the U.S. financial markets' perspective, there are several direct costs to a severe contraction or disintegration of some sort in the EU. Without delving into technical details, those costs can involve losses on EU liabilities holdings and at a minimum significant balance sheet adjustments required by conservative risk management procedures. Loss of the potential trade market due to EU contraction would deliver another negative blow to U.S. exports, as discussed above.

A final point to consider in terms of the U.S. economy, is the fiscal consolidation (reduction in federal spending and or higher taxes), expected to contribute to decline in Federal budget deficits. In the long run this would avoid an excessive national 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 consolidation might cause an additional strain on the economy. In view of many economists, the Federal government possesses the operational and financial capacity to put the economy on track before scaling back on its current spending or raising taxes. 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). Yet, the debt ceiling may have to be raised again in the first half of 2013.

Complicating matters further is the danger of "falling off the fiscal cliff". January 2013 sees the automatic spending reductions of the Budget Control Act of 2011 and the expiration of a number

[21] April 2012 Federal Reserve's Senior Loan Officer Survey

of tax provisions that lower personal income and payroll taxes and that limit the reach of the AMT. The emergency extension of unemployment benefits and the enhancement of the Earned Income Tax Credit would also expire. The Congressional Budget Office estimates that if nothing is done this would put the economy back into recession for half of 2013, knocking 3.9 percent off GDP growth for the year.[22]

The scenario is extreme and most economists hope for a rather gradual adjustment as policy makers reach a compromise by January 1, 2013 avoiding delivering a negative blow to millions of households.

Council Finance's view is that the new normal for the U.S. economy is positive growth, but at a much slower pace than in the immediate past as various sectors adjust in the aftermath of the crisis. Several domestic and external risk factors characterize and will continue to impact the U.S. economy in the medium term. Those are significant and must be evaluated objectively in light of relative competitiveness either in the financial markets or real economy.

Clearly a lot depends on the ability of the U.S. economy to recover within its current economic design, barring any structural concerns expressed above. In terms of the City budget this suggests relying more on own means for pragmatic and thoughtful policy rather than expecting a growth drift from the national economy.

[22] The 3.9 percent reduction is in the Q4 2012 to Q4 Q2013 growth rate rather than the annual averages the Council Finance usually uses for GDP growth. Congressional Budget Office, "Economic Effects of Reducing the Fiscal Restraint that is Scheduled to Occur in 2013", May 2012; Available online: http://www.cbo.gov/sites/default/files/cbofiles/attachments/FiscalRestraint_0.pdf

City Economy

- **City regains 144 percent of the number of jobs lost during the recession.**
- **Changing mix of jobs in the City.**
- **Tourism continues to boost employment.**
- **Leasing commercial space continues to pick up but residential buyer's market is still weak.**
- **Council Finance forecasts slow growth through 2013, picking up in subsequent years.**

City regains 144 percent of the number of jobs lost during the recession.

Since the Preliminary Budget hearings, City employment reports have delivered a pleasant surprise. Every March the New York State Department of Labor revises or 'benchmarks' employment numbers for the City. This year the change was very large. The gain in private payroll in 2011 compared to 2010 was revised up to 85,300, almost double the 44,800 gain originally estimated. On the basis of these revisions the City has more than regained the 139,500 private payroll positions lost from September 2008 through August 2009. From September 2009 to April 2012, the City recovered 200,800 private sector jobs, 144 percent of the jobs lost; bringing City employment to an all-time high.[23] Job growth slowed in the second half of last year, but has since been more than resilient. Since April 2012, total payroll has grown by 63,000 during the last 12 months, while private payroll expanded by 66,100.

Comparing the last recession in the City to the two previous ones, this recent downturn was the shortest and the shallowest. The 2008-09 downturn took 39 months until the economy returned to the previous peak of the business cycle. The 2001 and 1989 recessions took 57 months and 91 months respectively before returning to peak. This is shown in the Index of Coincident Economic Indicators, which summarizes the current state of the City's economy (see Figure 11).[24] While the City lost 139,500 private sector jobs in the most recent recession, the one in 2001-03 lost 232,200. Compared to the national economy, the City had a less severe recession, entering it late and exiting it early on the aggregate scale.

Turning from payroll numbers to the number of New York City residents who have jobs, the Household Survey tells a different story. According to this survey, the number of employed City residents is still down by around 120,100 from the August 2008 peak. The City's unemployment rate has recently been trending upward to 9.5 percent. As of April 2012, 377,400 City residents are still unemployed.[25]

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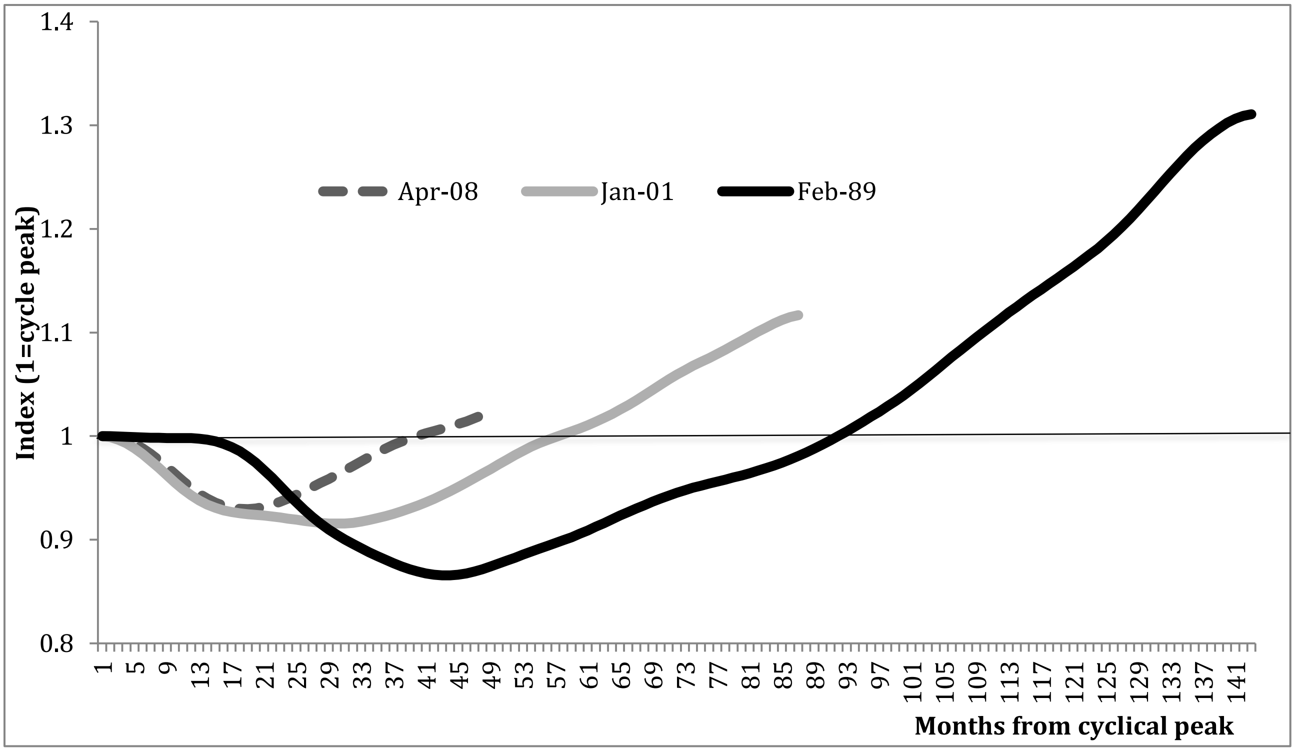
[23] New York State Department of Labor, Current Employment Statistics (seasonally-adjusted).

[24] The Federal Reserve Bank of New York factors in payroll employment, the unemployment rate, real earnings, and the average weekly hours worked in manufacturing. The cyclical peak has been set to 1; Available online: http://www.newyorkfed.org/research/regional_economy/coincident_nyc.html

[25] There are some possible explanations for the disparity between more jobs but higher unemployment. The City's labor force has increased by 15,100 in the last 12 months, pushing up the rate. The share of commuters taking City jobs has increased. During recoveries, many freelance workers tend to seek and obtain regular employment, having an effect on the payroll count but not the unemployment rate. The Household Survey of residents is not as accurately benchmarked as the Establishment Survey, and may have overestimated the unemployment rate.

Figure 11. New York City Coincident Economic Index: Recession Recovery



Source: Federal Reserve Bank of New York and NYC Council Finance calculations.

Changing mix of jobs in the City

While the level of employment in the City surpassed its prerecession peak, there are less high-paying jobs and more low-paying jobs than before the recession, according to the Establishment Survey. Finance and insurance has 20,000 fewer positions in April 2012 than it did in August 2008. That includes 15,600 fewer jobs in the securities industry with an average annual wage of $368,400. On the other hand, retail employment with average pay under $36,000 grew by 27,000 since the last peak. Accommodations and food service with an average wage of $29,300 added 39,000 jobs. As of April 2012, nominal total wages in the City's private sector were $3.2 billion above their prerecession peak in August 2008. However, when adjusted for inflation, total wages fell by $16 billion since the last peak– despite the higher level of employment.[26]

[26] New York State Department of Labor, Quarterly Census of Employment & Wages, and Current Employment Statistics, seasonally-adjusted.

Table 6. Employment Gains Since the Pre-Recession Peak August 2008 thru April 2012 *Thousands - Seasonally-Adjusted*	
Total Private	**61.4**
Finance and Insurance	(20.0)
Banking	(2.6)
Securities (Wall Street)	(15.6)
Real Estate and Leasing	(3.6)
Professional and Business Services	21.1
Employment Services	6.8
Information	4.0
Construction	0.0
Leisure and Hospitality	38.8
Arts, Entertainment, and Recreation	(0.2)
Accommodation and Food Services	39.0
Accommodations (Hotels)	5.3
Healthcare and Social Assistance	43.6
Education Services	7.2
Government	**(19.1)**

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

The weakening of wages is partially attributed to developments on Wall Street, which reported losses of $2.0 billion in the 4th quarter 2011, following a $3.0 billion loss in the 3rd quarter. All in all, net earnings for 2011 came to less than $7.7 billion, a small fraction of the $61.4 billion and $27.6 billion earned in 2009 and 2010 respectively. Much of Wall Street's troubles have been attributed to the volatility of global markets caused by the Eurozone debt crisis. Consequently, investment banks and brokers have continued to announce ongoing plans to downsize their staff, most recently Credit Suisse on May 15th. Given their high average salary, the State Comptroller's office estimates that one job in securities supports two jobs in other sectors.[27] Those who remain have seen their cash bonuses sharply cut due to reduced profits in 2011, and the shift towards deferred compensation to curb excessive risk taking.

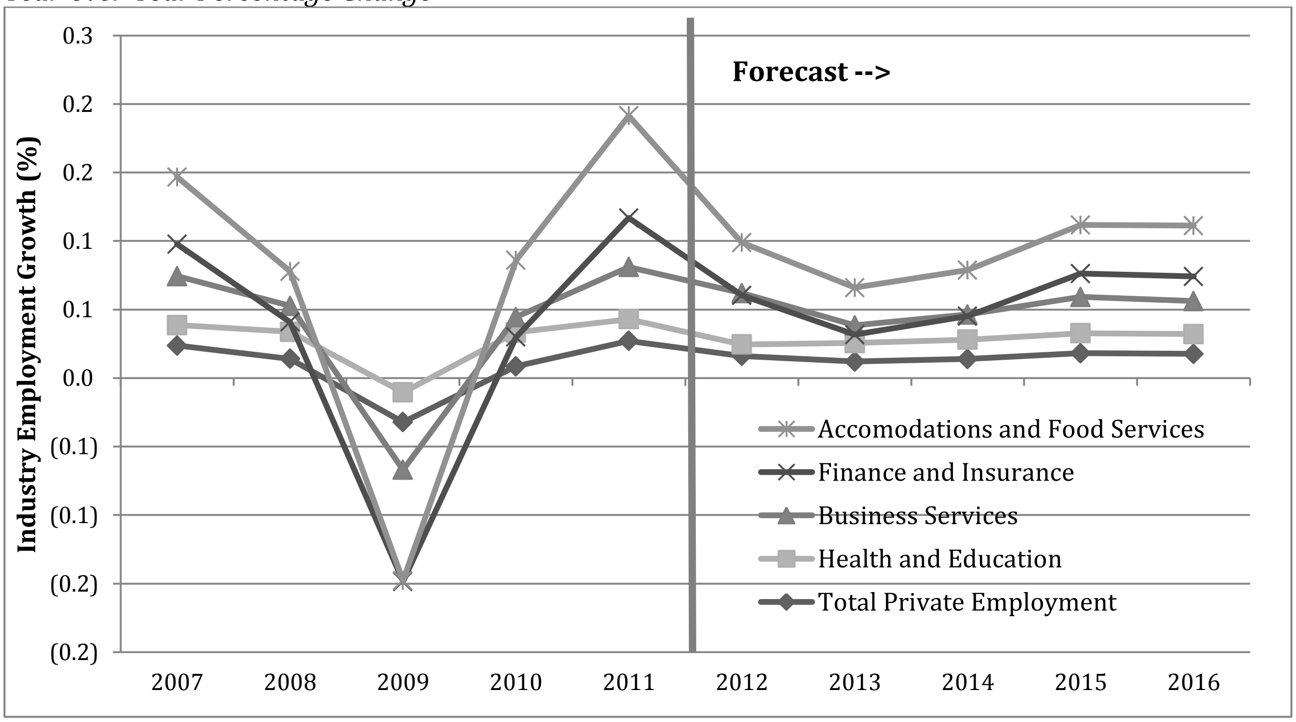
As of April 2012, year-over-year job growth in finance and insurance reached an impressive 6,900, while its securities subsector managed a weaker 2,000. However, since last November, finance and insurance appeared to turn, shedding 800 jobs. This was driven by the securities industry, which eliminated 1,300 positions.

Professional and business services which led the recovery, added 32,200 positions in the last 12 months, over half the increase in payroll. This super-sector includes law firms, accountants, advertisers, computer professionals, architects, management companies, and employment services. Business services are likely to continue picking up a lot of the slack from a weak finance sector going forward.

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

Information gained 2,100 positions since April 2011, but its structurally-downsized publishing subsector lost 1,200 jobs, and radio and television broadcasting lost another 900 positions.

Figure 12. Industry Employment Growth, Actuals and Forecast for 2012-2016
Year-over-Year Percentage Change



Source: NYS Department of Labor, Current Employment Statistics, April 2012.

Tourism continues to boost employment.

Year-over-year growth was also seen in leisure-hospitality and retail, both vitalized by record tourism. Tourism in 2011 surpassed its previous record in 2010 with 50.5 million visitors to the City. 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 11,000. Food service and drinking places accounted for 79 percent of this employment growth. These, again, tend to be low paying jobs.

The hotel industry has benefited from average occupancy rates above 85 percent in both 2010 and 2011. The average daily rate has risen to $277 per room in 2011, the best year since 2008.[28] This tightening of the market occurred at the same time a surge of additional hotel rooms were made available. By the end of 2014, the City is expected to have added another 6,200 rooms, bringing the total to 96,000.

Retail establishments have also performed well last year thanks to tourists and less frugal New Yorkers. This sector has added 15,900 workers since April 2011.

[28] New York City & Company, "NYC Hotel Occupancy, ADR & Rooms Sold," May 2, 2012.

Healthcare and social services experienced a soft patch last May through October, shedding 5,100 positions, but has since resumed growing its payroll. Over the past 12 months it's added 9,600 jobs.

Overall construction spending declined in 2011 by 3.5 percent from 2010 to $27.4 billion, and was down 12 percent from the peak year 2007. The decline was driven by a steep 10 percent drop in public sector construction that year to $14.4 billion; government still comprising 53 percent of total spending. Private non-residential construction remained roughly flat at $10 billion in 2011. Residential construction finally rebounded by 26 percent to $2.9 billion, after having plummeted from its 2007 peak of $6.4 billion.[29] Construction payroll has fallen by around 600 over the past 12 months.

The New York Building Congress forecasts construction in the City to grow by 5.1 percent in 2012 to $28.8 billion, but then dropping by 12.8 percent to $25.1 billion in 2013, due to government budget constraints and prohibitive financing costs for developers. Consequently, construction payroll has fallen by around 600 year-over-year.

Manufacturing continues its structural decline, losing another 1,400 workers year-over-year and now with a workforce less than half it was a decade ago.

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 employment and large tenants seeking to capture cyclically low rents. 30.1 million square feet were leased that year, the highest volume since 2000. Leasing activity has slowed somewhat since the last quarter of 2011. Leasing activity in the 1st quarter 2012 came to 5.8 million square feet, down 24 percent from the same quarter last year. This has not restrained increases in rent. Average asking rents for Manhattan offices reached $58.90 per square foot at the end of March, a 7.6 percent increase over a year ago. Manhattan's overall vacancy rate remained flat at 9.1 percent in the 1st quarter, the lowest rate since January 2009.[30]

The residential market is still weighted down by falling prices, though not as dramatically as the U.S. at large. As of March, single family home prices in the New York City metropolitan area had fallen by an average of 2.8 percent year-over-year, but was the shallowest decrease since November 2011. Condo prices in the metro area, which are heavily weighted in Manhattan, fell by 0.3 percent, the shallowest year-over-year fall since August 2011.[31] On the other hand, the average price of Manhattan co-ops and condos in terms of square footage actually increased 6.0 percent in the 1st quarter 2012 compared to the year before.[32] Council Finance expects City home prices to bottom out sometime in 2013, with Manhattan co-ops and condos preceding outer-borough houses. The rental market, on the other hand, has become extremely tight. As of April 2012, the average rent on Manhattan studios rose by 2.9 percent to $2,025 year-over-year, while one-bedroom apartments increased by 5.4 percent to $2,785.[33]

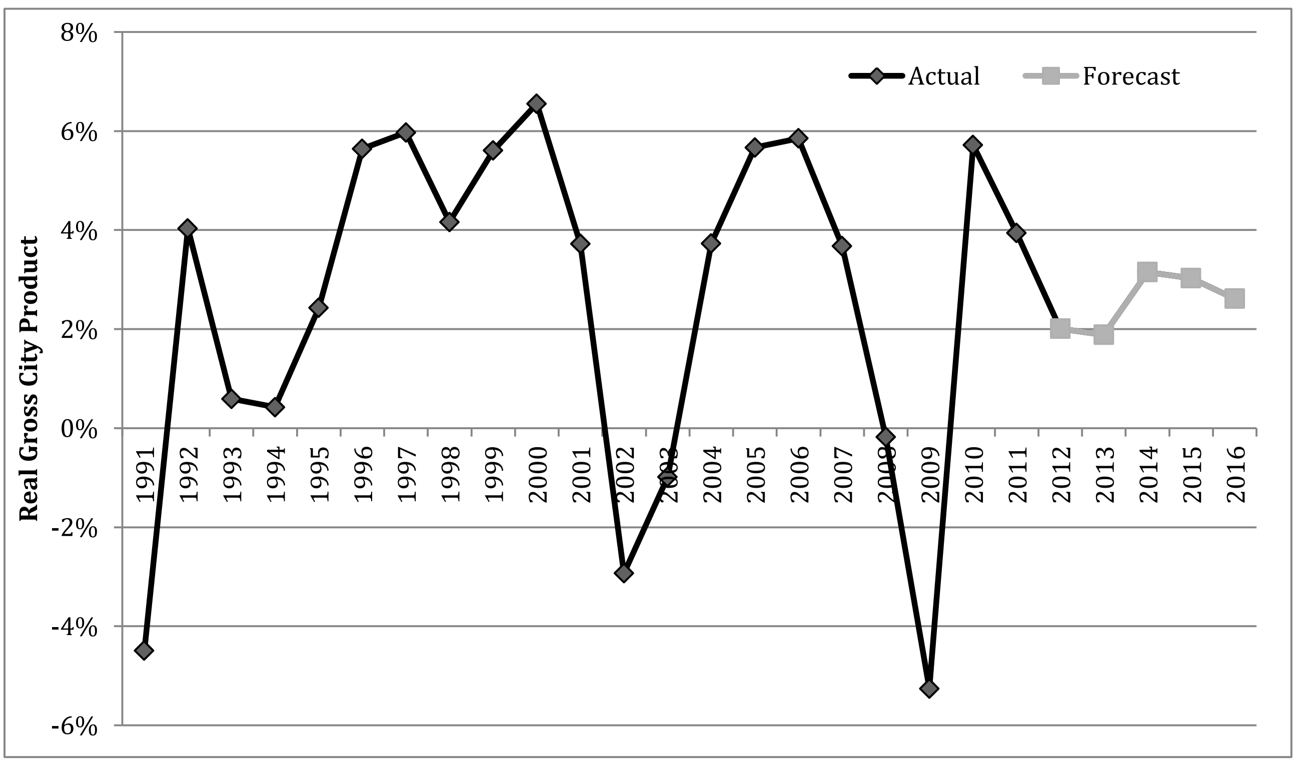
[29] New York City Building Congress, "Update", May 1, 2012.
[30] Cushman & Wakefield, "Manhattan Office Rents on the Rise Across Three Major Submarkets: Vacancy Rate Remains Flat," April 3, 2012.
[31] Standard & Poors / Case-Shiller.
[32] Miller Samuel Inc.
[33] CitiHabitats, "Rental Market Analysis: April 2012."

Council Finance forecasts slow growth through 2013, picking up in subsequent years

Looking ahead, Council Finance expects private payroll growth to be less spectacular than a year ago, but will add a decent 51,900 jobs in the private sector in 2012. This is close to OMB's estimate of total payroll growth of 50,000. Council Finance expects private employment to slow in 2013 to 39,400, as business growth is constrained by lackluster demand and tight credit. Private employment will gradually pick up in the next three years as conditions improve, adding 46,200 jobs in 2014, and over 60,000 in 2015 and 2016. This is stronger than OMB's estimated average of 44,000 in total payroll gains for each of the out years (private and public), but a shrinking public sector may make both estimates very close.

Again, if recent trends continue, the new jobs on average will tend to be lower-skilled and with lower wages, partially due to the downsizing of Wall Street and the information sector, as well as a booming tourist industry. The average wage in the private sector is expected to contract by about 0.9 percent in 2012, driven by falling Wall Street compensation. This is milder than OMB's forecast of a 1.2 percent contraction. Wage growth will return to 2.6 percent in 2013 and average around 3 percent in the out years, stronger than OMB's forecast of 2.7 percent out year growth. Looking at real gross city product, Global Insight forecasts annual growth in 2012 and 2013 to languish at a little over 2 percent (see Figure 13), picking up in 2014 to around 3 percent.

Figure 13. Real Gross City Product Will Remain Around 2 Percent in 2012 and 2013



Source: IHS Global Insight, real gross city product.

The short-term fortunes of the finance industry are murky, as global markets continue to be rattled by the European debt crisis, and an uncertain regulatory environment. 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 late 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.

Even with strides in diversification, such as the City's investment in emerging technology, the growth of other City sectors is highly dependent on the strength of the finance industry.

Table 7. Forecast of Employment Gains
Year-Over-Year Growth in Thousands

	CY11	CY12	CY13	CY14	CY15	CY16
Total Private	**85.2**	**51.9**	**39.4**	**46.2**	**60.9**	**60.3**
Finance and Insurance	10.8	(0.5)	(2.1)	(0.4)	5.3	5.7
Banking	3.0	(1.0)	(2.7)	(1.5)	(0.9)	(0.9)
Securities (Wall Street)	6.6	1.1	1.4	1.8	6.4	6.8
Retail	11.1	8.8	4.9	7.4	7.1	6.1
Professional and Business Services	21.9	22.4	8.0	11.5	16.9	15.8
Real Estate and Leasing	1.0	1.0	1.9	1.0	1.0	0.8
Information	4.6	2.8	1.7	1.0	2.4	2.6
Leisure and Hospitality	19.6	12.5	11.1	11.4	12.4	13.5
Arts, Entertainment, and Recreation	0.6	2.0	1.3	1.5	1.7	1.8
Accommodation and Food Services	19.0	10.5	9.8	9.9	10.8	11.7
Accommodations (Hotels)	3.0	0.2	(0.8)	0.2	0.8	0.8
Healthcare and Social Assistance	8.5	10.8	8.4	8.3	8.2	8.0
Education Services	3.4	(4.4)	2.0	2.7	3.4	3.6

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

Table 8. Forecast of Selected Economic Indicators

	CY11	CY12	CY13	CY14	CY15	CY16
National Economy						
Real Gross Domestic Product *Percentage Change*	1.7	2.2	2.4	3.4	3.3	2.9
Private Employment						
Level Change (million)	1.9	2.2	2.2	2.4	2.4	2.2
Percentage Change	1.8	2.0	2.0	2.1	2.0	1.8
Total Wages *Percentage Change*	1.7	1.9	2.0	2.2	2.3	2.4
New York City Economy						
Private Employment						
Level Change (thousand)	85	52	39	46	61	60
Percentage Change	2.7	1.6	1.2	1.4	1.8	1.8
Total Private Wages *Percentage Change*	3.0	(0.9)	2.6	2.8	2.9	3.1
Total Revenue of NYSE Members *Percentage Change*	(8.0)	(5.5)	3.8	2.3	2.5	2.2

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

Tax Forecast

- **City tax revenues will grow at an average rate of 4 percent a year.**
- **Slowing overall tax revenue growth is the real property tax. It reacts slowly to the economy**

Overall Council Finance has much the same tax revenue forecast as OMB. Over the forecast period Council Finance sees tax revenues growing at an average rate of 4 percent while OMB sees revenues growing at an average rate of 3.95 percent. These differences are well within the margin of error of the forecasts. There is a timing difference, with Council Finance division seeing somewhat faster growth in Fiscal 2013, which may help with the Fiscal 2013 and Fiscal 2014 budgets.

For some perspective on the forecast, Council Finance believes nominal GCP will grow at an average rate of about 4.6 percent a year from Fiscal 2012 through Fiscal 2016. So tax revenues are expected to grow slower than the economy as a whole. The main factor behind the growth of City tax revenue is the real property tax. The property tax reacts to the economy with a considerable lag and will continue to show the effect of the recession through the forecast period. The tax represents over 40 percent of our tax revenue, and its 3.2 percent average growth rate matters a lot in the forecast. The fact that the property tax lagged behind the economy helped cushion the City's budget during the depths of the recession, but now our budget is paying the price.

Table 9. Council Forecast: Growth Rates

	FY11*	FY12	FY13	FY14	FY15	FY16
Real Property	4.2%	6.1%	2.9%	3.3%	3.7%	3.0%
Personal Income	11.5%	4.4%	8.3%	(1.1%)	8.7%	4.2%
General Corporation	15.3%	10.3%	(1.2%)	5.3%	2.2%	3.1%
Banking Corporation	38.9%	(5.0%)	2.8%	1.7%	2.5%	(0.5%)
Unincorporated Business	7.4%	(3.2%)	11.4%	8.8%	5.8%	1.9%
Sales	10.4%	4.5%	3.8%	4.4%	4.2%	3.2%
Commercial Rent	1.2%	5.3%	5.8%	5.9%	5.9%	6.0%
Real Property Transfer	32.1%	12.4%	9.7%	6.6%	9.8%	13.7%
Mortgage Recording	18.7%	21.4%	14.3%	10.5%	10.9%	14.0%
Utility	5.2%	1.5%	4.8%	5.3%	4.8%	5.0%
Hotel	16.2%	12.2%	3.5%	6.1%	(1.1%)	5.6%
All Other	(12.9%)	3.5%	2.1%	2.5%	(0.1%)	(0.1%)
Audits	28.4%	(29.2%)	3.4%	(2.4%)	0.0%	0.0%
Total Taxes	**8.5%**	**4.4%**	**4.5%**	**3.0%**	**4.7%**	**3.5%**

Note: * actuals
Source: New York City Council Finance, 2012

Table 10. Council Forecast: Difference from OMB Forecast

Dollars in Millions

	FY11*	FY12	FY13	FY14	FY15	FY16
Real Property	$0	$0	$68	$77	$116	$74
Personal Income	$0	$18	$172	$34	$174	$200
General Corporation	$0	$36	($48)	($71)	($117)	($162)
Banking Corporation	$0	($7)	$125	$97	$104	($47)
Unincorporated Business	$0	($17)	$42	$65	$108	$84
Sales	$0	$5	($3)	$1	($8)	($36)
Commercial Rent	$0	$6	$8	$15	$19	$25
Real Property Tran	$0	($17)	$32	($10)	($27)	$5
Mortgage Recording	$0	$11	$4	($20)	($28)	($5)
Utility	$0	$9	$14	$20	$28	$39
Hotel	$0	($4)	$17	$31	$1	$7
All Other	$0	$0	$0	$0	$0	$0
Audits	$0	$0	$0	$0	$0	$0
Total Taxes	**$0**	**$41**	**$431**	**$239**	**$372**	**$184**

Note: * actuals

Source: New York City Council Finance, 2012

Personal Income Tax Collections Moderate

Personal income tax (PIT) collections continue to rise but more slowly. Collections from July through May 24th were up 4.5 percent over the same period in Fiscal 2011, and Council Finance estimates that total PIT collections will grow by 4.5 percent in Fiscal 2012. The disappointing bonus season, from December through March, shows withholdings down 5.3 percent from the same period in Fiscal 2011.

The announcements of bonus cuts, shifts to deferred compensation, and layoffs from investment banks and brokers make this decline no surprise. OMB estimates bonus payments to have fallen by 15 percent this season. The overall PIT increase reflects the payroll expansion from calendar year 2011 up to the present and the average wage having increased by 3 percent in calendar 2011. Estimated payments have been particularly strong as the Congressional Budget Office projects a 13.4 percent increase in nationwide realizations of capital gains. However, the gains in installments were fully offset by extension payments plummeting in Fiscal 2012. This was because the elimination of the STAR tax cut for high income earners was applied retroactively to calendar 2010, resulting in huge extension payments in Fiscal 2011. Growth in final settlements was also weak due to the same dynamic.

Collections in Fiscal 2013 are estimated to strengthen, growing by 8.3 percent. PIT growth will be fed by growing overall employment from a recovering economy, though tempered by fewer high paid securities jobs. Assuming that the Bush tax cuts are allowed to expire at the end of calendar 2012, investors will tend to increase and push forward the realizations of assets before the capital gains rate climbs from the current 15 percent to reach 23.8 percent, from both a rate increase and applying the Medicare tax. This will result in estimated payments that are stronger in Fiscal 2013 but weaker in Fiscal 2014. Consequently, we're anticipating a weak Fiscal 2014, with collections falling by 1.1%, as estimated payments drop by around 11.6%. Collections in the out-years are expected to average around 6 percent annual growth.

Business Taxes: Little Growth

The business taxes have been a challenge lately. All roughly depend upon profits of corporate and non-corporate business in the City. Year to year change are to a large extent driven by the fortunes of securities and other financial service firms. The unexpected size of NYSE member losses, especially in 2011 Q4 have caused Council Finance to lower its forecast for general corporation tax (GCT) and the banking corporation tax (BCT) for Fiscal 2012.

Going forward, pretax corporate profits show little growth over the forecast period as the profit share of the national economy falls from their current historic high. NYSE member revenues net of interest and compensation, which Council Finance uses to represent financial services in the City, also show little strength. These are the drivers of our relatively weak BCT and GCT forecasts. In the unincorporated business tax, the relative strength of the City's non-financial sector plays a bigger role and explains its stronger growth.

Sales Tax

Sales tax accounted for 14 percent of total collections in Fiscal 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 through April 2012 collections exceeded same period Fiscal 2011 by 4.5 percent. Total Fiscal 2012 collections are expected to increase by 4.0 percent reaching $5.8 billion. This is 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 tourists and other 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 3.9 percent level year over year.

Real Property Tax Transfer

The real property transfer tax (RPTT) is the tax imposed on real property transfers in the five boroughs. The tax is either payable by the seller or the buyer (if the seller is exempt from the tax, as for example is the case with many sales of shares of stock in cooperative housing corporations). Residential and commercial transactions are the two major components of the RPTT. In 2011 overall RPTT collections accounted for 2 percent of total collections in fiscal year 2011 reaching $0.8 billion.

A function of real estate cycles, overall income growth and its dual structure (residential and commercial components) RPTT is quite volatile. Collections grew from just under $0.5 billion in Fiscal 2000 to over $1.7 billion in Fiscal 2007 and later fell to a low of $0.6 billion in Fiscal 2010.

Fiscal 2012 will most likely record a rise in collections compared to Fiscal 2011: fiscal year-to-date through April 2012 collections have already exceeded the same period in Fiscal 2011 by 22.3

percent. Total Fiscal 2012 collections are expected to increase by 12.4 percent reaching $0.9 billion. This is partially due to gradual improvements in the economy and improving City's real estate market. Also significant are isolated high value property sales (either residential or commercial) that will help raise overall collections, add some degree of volatility in RPTT trend.

Consistent with Council Finance view of new normal macroeconomic conditions for the City, RPTT while steadily increasing will be growing at a slower pace than in the decade prior to the 2007 crisis.

Mortgage Recording Tax

The mortgage recording tax (MRT) is the tax on all real property mortgages in the City. The tax is payable on mortgage registration and is administered by the NYC Department of Finance. Similar to RPTT, MRT's two main components are residential and commercial transactions that are taxed differently. In 2011 overall RPTT collections accounted for 1.1 percent of total collections in fiscal year 2011 reaching $0.4 billion.

MRT follows a similar volatile trend as the above described RPTT and is also dependent on mortgage refinancing activity. MRT collections grew from just above $0.4 billion in Fiscal 2000 to over $1.5 billion in Fiscal 2007 and later fell to a low of $0.3 billion in Fiscal 2010.

Fiscal 2012 collections are expected to grow 21.4 percent reaching a total of $0.5 billion for the year. So far, fiscal year-to-date through April 2012 collections have already exceeded the same period in Fiscal 2011 by 22.7 percent. Due to its close association with RPTT, mortgage recording tax will follow RPTT's growth trend, consistent with reasons described above.

Also, like RPTT, MRT while steadily increasing will be growing at a slower pace than in the decade prior to the 2007 crisis consistent with Council Finance view of new normal.

Real Property Tax

For Fiscal 2012, both OMB and Council Finance expect the Real Property Tax (RPT) to generate $17,902 million in revenues. This represents an increase of about $278 million from the adopted budget last June. This increase is a mix of two items. The first item is a draw down in funds earmarked to pay for a legal settlement with ConEd over past assessments, and the second is the typical draw down in the reserve that always occurs as the end of the fiscal year approaches when OMB has a more firm estimate of what the various tax expenditures and other reserve components will actually net on the property tax.[34]

Since taxable values of properties are mostly determined before the beginning of the fiscal year, the forecast for the upcoming year is fairly accurate once the final roll is released. OMB's forecast for Fiscal 2013, which predates the release of this final roll, expects RPT revenue to be $18,354 million. Council Finance's forecast, based on the final roll, sees a slightly higher $18,442 million in revenues for the upcoming fiscal year.

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

Both OMB and Council Finance expect the main driver of the property tax – market value growth- to slow in the out years. However, the way in which property tax bills are calculated[35] means that there remains a pipeline of assessment growth that will continue to occur over the forecast period. OMB expects revenue growth to average 3.3 percent in Fiscal 2014 through 2016 while Council Finance sees a higher average annual growth of 3.5 percent through the same period.

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

Pensions

- **Contributions to employee pension funds make up 12 percent of the City's budget.**
- **Changes to pension financing methods- unchanged from the Preliminary Budget- will cost less than previously expected and provide short term budget savings, beginning with $575 million in Fiscal 2012.**
- **Recently adopted pension legislation will provide long term budget savings of $21 billion over 30 years.**

New York City provides pension plans for employees of various agencies as a form of compensation. The Executive 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- unchanged from the Preliminary Budget- 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.[36] 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 is more than offset by including savings from recent pension benefit changes commonly referred to as Tier VI. These benefit changes will affect only new employees hired after April 1st 2012 and will not produce significant savings to the City before Fiscal 2015. The Executive Budget estimates the City will save $49 million in Fiscal 2015 from Tier VI - down from $80 million in the Preliminary Budget from the Governor's 2012 proposal.

[36] According to 'The $8 Billion Question: An Analysis of NYC Pension Costs Over the Past Decade', a study by the NYC Comptroller. The exact breakdown of the increase depends on the starting dates. For example, an analysis starting in 1996 would increase the share due to benefit enhancements and decrease the share due to investment losses.

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 Fun and the Board of Education Retirement System.[37] Other employers contribute to the pension funds as well. The remaining 2 percent of pension costs represents City contributions to non-City and non-actuarial pension systems which include the employees of libraries, various day care centers and other cultural institutions and other beneficiaries.

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 to exchange a fixed margin of employer pension contributions for a portion of the pension funds' surplus market returns. However, the Fund became a fixed benefit of $12,000 a year for life in the 1980s and is no longer tied to pension performance.

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.[38]

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. Since many of the parameters that determine this schedule are unknown, the pension systems use various financing methods to approximate the prepayment schedule.[39] Many of these 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

[37] Number of members in the beginning of FY11, Source: Comptroller's FY11 CAFR

[38] 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.

[39] The average working lifetime of a member is about 15 years.

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 Executive Budget assumes all of these recommendations are adopted and that they come into full effect in Fiscal 2012. Some of these assumption changes will require approval of the boards of the City's pension funds and some will require action by the State Legislature. At the time of this writing, no board has acted on any of the City actuary's recommendations, and Council Finance is unaware of any pending legislation.

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 (Table 11) as recommended by the actuary through resolutions of each board. It is expected that the actuary will recommend lowering the AIR to 7 percent.

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

Note: Legislation extending the existing AIR was enacted in 1990, 1995, 2004, 2005, 2009, 2010 and 2011.
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 allocation since 1996.

Table 12. AIR Components

AIR Components	Current Assumption	Draft 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 percent is an unrealistic AIR assumption. Inflation remains well contained and the 'new normal' is likely to include somewhat slower real GDP growth and a prolonged period of sideways movement in the asset markets. Thus, the kind of return the actuary expected in 1999 is unlikely to continue.

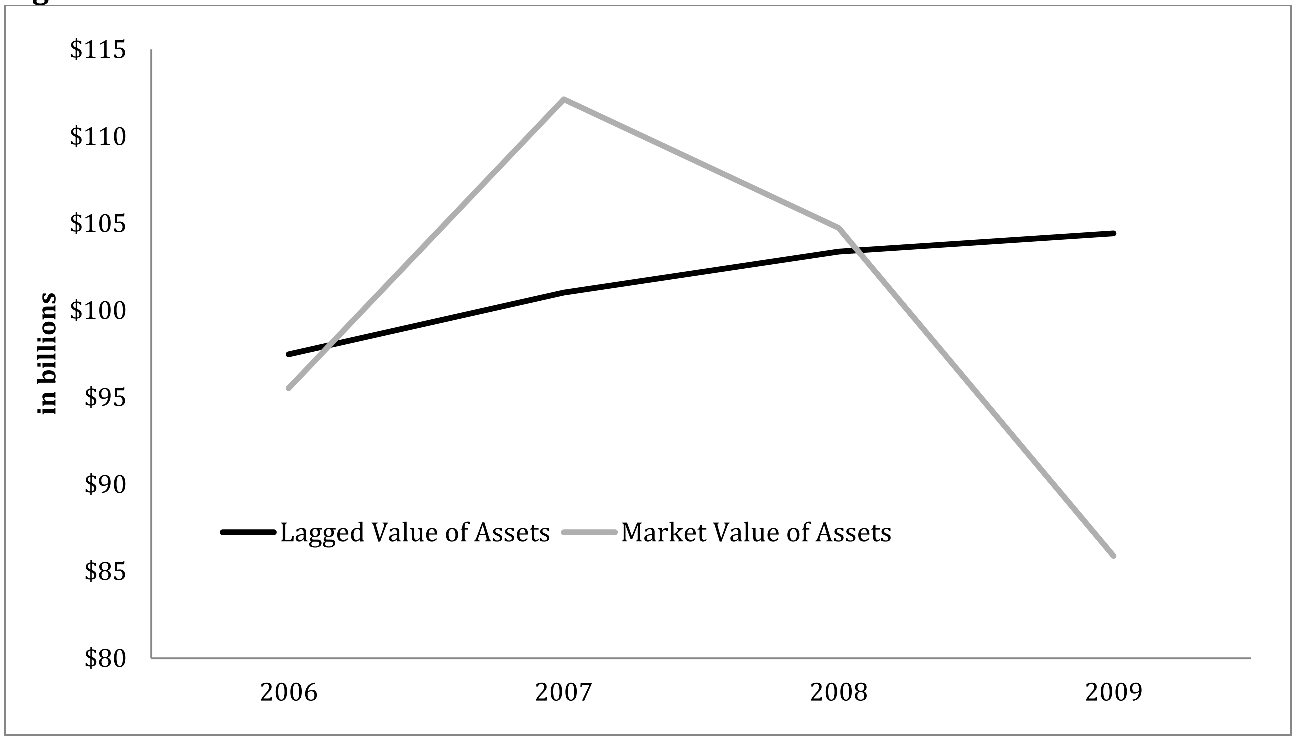
2. *Performing a "Market Restart"*

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 so that 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[40].

The purpose of this financing method is to smooth out market volatility and make employer contributions more predictable. As seen in Figure 14, 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.

[40] Difference includes interest. Before 2006, the difference was factored over a five year period, starting at 10% and increasing by 5% each year.

Figure 14. Total Value of Pensions Assets



Source: Comptroller FY2011 CAFR

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 conducted.[41] It is expected that the actuary will recommend a market restart.

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 more expensive benefits.

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. This adjustment will put a large burden on current taxpayers because the contributions of past years will be seen as insufficient under the more conservative assumptions, and the absence of those contributions creates an unfunded portion of the pension liability with respect to the prepayment schedule.

While it is crucial to maintain accurate assumptions, this burden on current taxpayers could be seen as inconsistent with intergenerational equity since these increased contributions will

[41] http://www.soa.org/library/newsletters/pension-forum/2001/august/pfn-2000-vol13-iss1-north.pdf

correspond with services rendered by public employees to previous generations. Therefore it is common to pay this unfunded liability over a fixed amount of time like a mortgage. Due to the size of this liability, the actuary is likely to recommend amortizing it over a 20 year period at an increasing rate.

Tier VI Benefit Reductions

The Executive Budget includes savings from pension benefit reductions enacted in the State budget. Benefits were reduced for all employees who join their pension system after April 1, 2012. For a comparison of some of the changes see the appendix- which examines the four largest groups of pensioners under highlights of the most recent plan, the Governor's 2012 proposal[42], and the adopted legislation (new plan)[43].

Savings from these reductions will increase over time as new workers with less expensive plans replace retirees. Over the next 30 years the City's Executive Budget expects the City to accumulate a savings of $21 billion- down from the $30 billion estimated with the Governor's original proposal.[44] These savings come from two general areas: increased employee contributions and decreased employee benefits. Diminutions in non-uniform members generate almost all of the savings.

1. *Increase employee contributions*

Under the 2012 Governor's proposal, contributions would have been higher for the members of all five pension systems, and contributions would have increased 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 the actual legislation contributions rose only for future non-uniform members- although contributions for these members will be graduated based on income.

The Governor's proposal to make employees partly responsible for the volatility of employer contributions was not included in the final legislation.

2. *Decrease in Employee Benefits*

The benefit multiplier will be reduced from .02 x [Final Average Salary] x [Years of Service] to 0.0175 x [Final Average Salary] x [Years of Service] for future non-uniform members. For example, an impacted employee with twenty-five years of service and a final average salary of $100,000 would see a reduction of $6,250 a year, or 12.5% because of the lower multiplier. The Governor's proposal would have reduced the benefit for this employee by $8,250 or 16.5%.

The calculation of benefits for all members will be based on a five year final average salary instead of the current three year. Some other forms of compensation will also no longer be pensionable.

Other highlights include unifying the plans of all uniform employees and a new procedure for enhancing the pension benefits for non-uniform members going forward. In addition, while the defined contribution plan was not enacted as proposed by the Governor, a much smaller plan favoring political appointees was adopted.

[42] See State budget bills A9055B/S6255B
[43] See State budget bills A9558/S6735
[44] See Fiscal Note written by OMB. The City Actuary has not yet reported on the pension reforms publically.

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 obligations.[45]

Contributions to the Trust must be used to pay the costs of future health and welfare benefits. According to the latest financial statements, 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 Executive 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.

Table 13. OPEB - Retiree Health Benefits Trust
Dollars in Millions

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, Financial Statements NYC Other Post-Employment Benefits Plans 2006-2011, Council Finance Fiscal 2011 and 2012 Executive Budgets.

[45] see Pew Center Study

Financing and Debt Service

- **The Executive Budget estimates $32 billion in long term borrowing for the Fiscal 2012 to 2016 period.**
- **The Budget assumes $2.475 billion in short term borrowing for Fiscal 2013. The $17.5 million allocated to service this debt was not used in Fiscal 2012.**
- **Throughout Fiscal 2012 substantial savings resulted from lower than planned interest rates. Fiscal 2013 debt service has been reduced $150 million from the Preliminary Budget to account for lower interest rates.**

Financing Highlights

New York City takes on debt largely to fund its ambitious capital program, and the Executive Budget estimates $32 billion in long-term borrowing between Fiscal 2012 and 2016 to fund the City's capital needs. However, not all of these borrowings are direct obligations of the City; much of the debt will be issued on behalf of the City. The City's overall borrowing strategy- based on factors such as market conditions, project contracts and cash flow concerns- deviates slightly from the Preliminary Budget.

In Fiscal 2012 all borrowing by the City was split between three types of debt: 37 percent coming from the City's credit or General Obligation (GO), 35 percent from the Transitional Finance Authority (TFA), and 28 percent from the New York City Municipal Water Finance Authority (NYW). However, as seen in the chart below, TFA will constitute almost 50 percent of all issuances in Fiscal 2013. In the Preliminary Budget, TFA was expected to make up only 38 percent of all issuances.

Table 14. Summary of Fiscal 2013 Capital Financing Plan *Dollars in Millions; net increase/(decrease)*					
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Financing Plan					
GO Bonds	$2,725	$1,700	$2,600	$2,430	$2,160
TFA Bonds(1)	2,600	3,400	2,600	2,430	2,160
Water Authority Bonds	2,041	1,710	1,446	1,176	1,148
Total	**$7,366**	**$6,810**	**$6,646**	**$6,036**	**$5,468**
Change from Preliminary Budget	(60)	155	62	61	41
Debt Outstanding					
GO Bonds	$42,520	$42,168	$42,547	$42,651	$42,453
TFA Bonds(1)	20,925	23,522	25,337	26,850	28,019
Subtotal (includes Conduit Debt)	**66,470**	**68,629**	**70,730**	**72,252**	**73,122**
Water Authority Bonds	28,221	29,639	30,737	31,583	32,307
Total (includes Conduit Debt)	**$94,691**	**$98,268**	**$101,467**	**$103,835**	**$105,429**
Change from Preliminary Budget	33	294	343	398	433
Debt Financing Burden (excludes Water Debt)					
Debt Outstanding(2)/General Debt Limit	87.5%	87.9%	88.9%	90.8%	90.3%
Debt Outstanding/NYC Personal Income	14.7%	14.7%	14.7%	14.4%	14.0%

Source: Council Finance; Fiscal 2013 Preliminary Plan; Fiscal 2013 Executive Plan; OMB Statement of Debt Affordability

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

2) Only GO and TFA above $13 billion count against the debt limit. This ratio includes all debt other than NYW

While GO debt constitutes a majority of all debt outstanding, the City will often choose to issue TFA debt instead because the credit of TFA is rated better by the three major credit rating agencies. Since credit rating agencies rate the reliability of a debtor to repay a loan (similar to how credit bureaus rate consumer credit), lenders are often more willing to provide cheaper funds to better rated borrowers. The chart below shows the ratings of NYC's current debt issuing entities. As discussed later, ratings differ because the City secures various types of debt in different ways.

Table 15. Ratings of Major Debt Issuing Entity

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: Fiscal 2013 Executive Budget

The main standard used to measure the ability of the City to repay its debt is the value of all taxable real estate. In fact, the NYS Constitution limits debt obligations of the City (mostly GO and TFA debt beyond $13.5 billion[46]) to 10 percent of the market value of taxable real property, averaged over the most recent five years. According to OMB's annual statement of debt

[46] NYW debt is not an obligation of the City and does not count against the debt limit. The remainder of this section is limited to debt obligations of the City.

affordability, in Fiscal 2013 NYC plans to be $16 billion below the expected limit of $76.788 billion.[47] In contrast, the City was $24 billion under the limit in Fiscal 2011[48].

Other than capital financing, the City can use short-term debt to spread uneven revenues over the fiscal year. During Fiscal 2012, the City did not borrow short-term the $2.475 billion assumed in the Adopted Budget. This $2.475 billion action is assumed every fiscal year, and recent experience suggests that this borrowing will not take place in Fiscal 2013. Included is the $17.5 million allocated to service this short-term debt.

The City can save surplus revenues in anticipation of future needs in addition to borrowing in anticipation of revenues. The City uses a budget stabilization account (BSA) in order to prepay future debt service costs. Such an account is allowed by accounting standards that otherwise limit the use of current revenues to prepay future operating expenses. The Executive Budget allocates $1.664 billion in Fiscal 2012 and $124 million in Fiscal 2013 to the BSA. The last Adopted budget similarly helped alleviate $3.6 billion of Fiscal 2012 expenses.

Debt Service Highlights

Debt service is the cost of repaying all debt outstanding according to any terms agreed upon with lenders. These repayments will constitute 9 percent of all revenues in Fiscal 2013, suggesting that the City's outstanding debt remains manageable in the short run; that is, the City will be capable of paying the principal and interest of all its obligations despite the pressure these obligations place on the operating budget.

As can be seen in the chart below, debt service for Fiscal 2013 has been revised downward from the Preliminary Budget and now totals $6.2 billion. This decrease reflects the recognition of an expected $139 million in savings from refunding and reoffering a portion of GO debt outstanding.

Table 16 Summary of Fiscal 2013 Debt Service Payments
Dollars in Millions; net increase/(decrease)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Debt Service					
GO Bonds	$3,860	$4,081	$4,451	$4,619	$4,707
TFA Bonds(1)	1,522	1,732	2,027	2,240	2,425
Total (includes Conduit Debt)	**$5,694**	**$6,203**	**$6,873**	**$7,246**	**$7,525**
Change from Preliminary Budget	8	(149)	2	9	16
Debt Service Burden					
Debt Service/Total Revenue	8.4%	9.0%	9.9%	10.1%	10.2%

Source: Fiscal 2013 Preliminary Plan and Fiscal 2013 Executive Plans
1) TFA Bonds do not include BARBs issued for education capital purposes which are secured by Building Aid revenues from the State

This is one example of how over the past three years the City has realized substantial savings from historically low interest rates. These unexpected savings are likely to continue in Fiscal 2013 and 2014 if the Federal Reserve continues to engage in policies that keep interest rates at record lows.

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[47] Another measure is the ratio of debt outstanding to City personal income. In Fiscal 2013, debt outstanding will account for 14.7 percent of personal income- 2.4 percent higher than the 31-year average of 12.3 percent as reported by the NYS Financial Control Board's March 15th Staff Report.

[48] According to Comptroller's Fiscal 2012 Annual Report on Capital Debt and Obligations

While re-offerings will constitute one area of savings, another will come from lower than planned expenditures on variable rate debt.

Municipal bonds pay investors with interest that is either fixed by the indenture or varies based on predetermined rules- often a function of the prevailing interest rate. Variable rate bonds (VRDB) can be attractive to the City because they reduce investor risk and therefore investors are willing to accept 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. For example, savings occur for the City when a lower prevailing interest rate translates to lower interest rate payments on variable rate debt.

As a protection against volatile VRDBs, the City sometimes engages in interest rate exchange contracts (swaps), and the Executive budget allocates $71 million for swap payments in Fiscal 2013. As of March 31, 2012, the City had $2 billion outstanding from 11 different swaps with a negative net value to the City of $176 million[49]. This negative net value is the amount the City would owe if all agreements were terminated. However, three terminated swap agreements accounted for over $40 million in unplanned savings during Fiscal 2012.[50]

New York City General Obligation (GO)

Currently 63 percent of the City's long-term debt (excluding NYW) is in GO bonds. These bonds are secured by the City's full faith and credit, and the New York State Constitution mandates the increase of taxes or reduction of expenditures in order to service these obligations. In addition, City property tax is retained by the State Comptroller to pay for GO debt service before it is put into the general fund.

The Transitional Finance Authority (TFA)

TFA was created in 1997 to finance a portion of the City's capital program. TFA was initially authorized to issue up to $7.5 billion; however in June 2000, the authorization was increased to $11.5 billion. An additional $2 billion in bonding authority was granted in 2007. Since 2009, all bonds issued in excess of $13.5 billion count against the City's debt limit[51].

At the close of Fiscal 2011, TFA had $23.82 billion debt outstanding- or 32.5 percent of all NYC debt, up from 29 percent at the close of Fiscal 2010. Of this outstanding debt, $19 billion is backed by tax revenues and $4.73 billion of an allowable $9.4 billion was issued as City building aid revenues bonds (BARBs). The first $13.5 billion of tax secured bonds (and all BARBs) do not count against the City's overall debt limit.

Tax Secured bonds are paid by the City Personal Income Tax (PIT) before deposited in the general fund. If the projected PIT is insufficient to cover at least 150 percent of TFA's maximum annual debt service (excluding BARBs), the City Sales Tax will also cover the payments. Conversely, building aid revenue bonds (BARBs) are secured by state building aide to finance educational facilities.

The Fiscal 2013 TFA budget approved- as by the board of directors- calls for a total of $5 billion in issuances for Fiscal 2012 (excluding $1 billion in BARBs). Proceeds from Qualified School

[49] April 15, 2012 New York City Quarterly Report on Interest Rate Exchange Agreements
[50] According to the Fiscal 2013 Preliminary Plan
[51] This excludes Recovery Bonds.

Construction Bonds (QSCB) must be used for constructing, rehabilitating or repairing public school facilities or acquiring land for public schools. These taxable bonds receive a 100 percent interest subsidy from the Federal government. TFA has already issued $797.06 million of the $1.3 billion cap.

As mentioned earlier, TFA PIT is rated AAA by all three rating agencies, and TFA BARBs are rated AA-. In addition to credit rating, cash flow is an important consideration in determining whether to secure QSCBs with tax or building aid revenues.

Other notable entities with outstanding debt in excess of $1 billion are the Hudson Yards Infrastructure Corporation (HYIC), the Sales Tax Asset Receivable Corporation[52] (STARC) and the Tobacco Settlement Asset Securitization Corporation (TSASC). The debts of these public benefit corporations are not obligations of the City and therefore do not count against the City's debt limit.

TSASC

TSASC- formerly the Tobacco Settlement Asset Securitization Corporation- currently has $1.26 billion in fixed rate tax-exempt debt outstanding with no plans for future issuance. As of the beginning of Fiscal 2012, TSASC debt accounted for 1.7 percent of all NYC debt outstanding.

The original issuance consisted of $709 million in principal offered in 1999 and an additional $500 million in 2002, for a total principal of $1.2 billion. Under the original indenture TSASC was authorized to issue up to $2.8 billion. In 2006, all bonds were refinanced at $1.35 billion and the indenture was modified.

All TSASC debt is secured by Tobacco Settlement Revenue pledged to New York under the Master Settlement Agreement (MSA) with major tobacco manufacturers. As stipulated in the MSA, participating manufacturers make payments according to their relative market share. In exchange these companies were absolved from certain health-related charges. The City is not required to use any of the funds for health-related expenditures.

New York State collects 12.76 percent of MSA payments and TASC receives 26.67 percent of the State's share. Under the 2006 indenture, 62.6 percent of those funds are transferred to the NYC's general fund while the remaining 37.4 percent are pledged to debt service. Only pledged revenues are used to service TSASC debt.

The terms of the MSA allow disputed funds to be placed in an escrow account pending arbitration. Currently $1.5 billion in disputed funds are being held in escrow. Due to the lower 2011 MSA payments and heightened risk in future years, Fitch downgraded a portion of TSASC's debt: The 2026 term bond was downgraded to BBB- and the 2034 and 2042 term bonds were downgraded to BB. This rating below investment grade contrasts with TSASC's projected budget, which assumes the reduced settlement revenues to be temporary. Beyond 2011, both pledged and unpledged tobacco settlement revenue are reported to remain constant- around $74.5 and $124.5 million respectively.

Hudson Yards Infrastructure Corporation (HYIC)

HYIC was established to finance specific West Side projects: (1) the No. 7 Subway extension, (2) a system of public parks, and (3) the acquisition of certain properties (such as development rights

[52] STARC has no significant actions planned for Fiscal 2012- 2016.

to the Eastern Rail Yards. The motivation was to alleviate capacity constraints restricting the growth of Mid-town.

HYIC issued $2 billion in fixed rate bonds during Fiscal 2007 and another $1 billion in fixed rate bonds during Fiscal 2012. Under the (modified) indenture, HYIC has the capacity to issue another $500 million in senior debt, although no future borrowing is anticipated.

Payment on the principal will be made from revenues and sale proceeds received from the development of the Hudson Yards Financing District. These revenues are District Improvement Bonuses (DIBs; paid by private developers) and Tax Equivalency Payments (TEPs; paid by the City in relation to the amount of real property taxes collected within the project area).

NYC is responsible for interest payments in the event that these revenue sources are insufficient. These Interest Support Payments (ISPs) cover interest on debt of up to $3 billion. An additional $500 million can be added by City Council Resolution.

City Tax Equivalency Payments and Interest Support Payments are subject to annual appropriation and are expected to total $106 and $138 million in Fiscal 2012 and 2013- up from the $107 and $153 million reported in the Preliminary Budget.

Capital Budget

Capital Program

- **Total Fiscal Year 2012–2016 Capital Commitment Plan increased by $108 million (.28 percent)**
- **City funded Fiscal Year 2012-2016 Capital Commitment Plan increased by $335 million (1.08 percent)**

Fiscal 2013-2016 Four-Year Capital Commitment Plan

The 2013 Executive Capital Budget includes new appropriations of $8.3 billion, of which $7.0 billion are to be funded from City sources. These appropriations, in addition to the available appropriations from prior years, authorize total commitments of $10.8 billion for 2013, of which $9.2 billion will be City-funded.

The targeted level for City-funded commitments is $8.7 billion in Fiscal Year 2013. The aggregate agency-by-agency authorized commitments of $9.2 billion exceed the Fiscal Year Financial Plan by $432 million. Excess authorizations in this proportion have proven necessary to achieve commitment spending targets because they accommodate such factors as scope changes and delays.

The 2013-2016 Capital Plan totals $26.6 billion for the construction and rehabilitation of the City's infrastructure. The Capital Plan provides $7.8 billion for new school construction as well as improvements to existing school buildings. The reconstruction of the East River Bridges and ongoing reconstruction and rehabilitation of 44 other bridge structures is in the Four Year Capital Budget for $1.7 billion. The 911/Emergency Communications Transformation Project is scheduled for $458.2 million over the next four years.

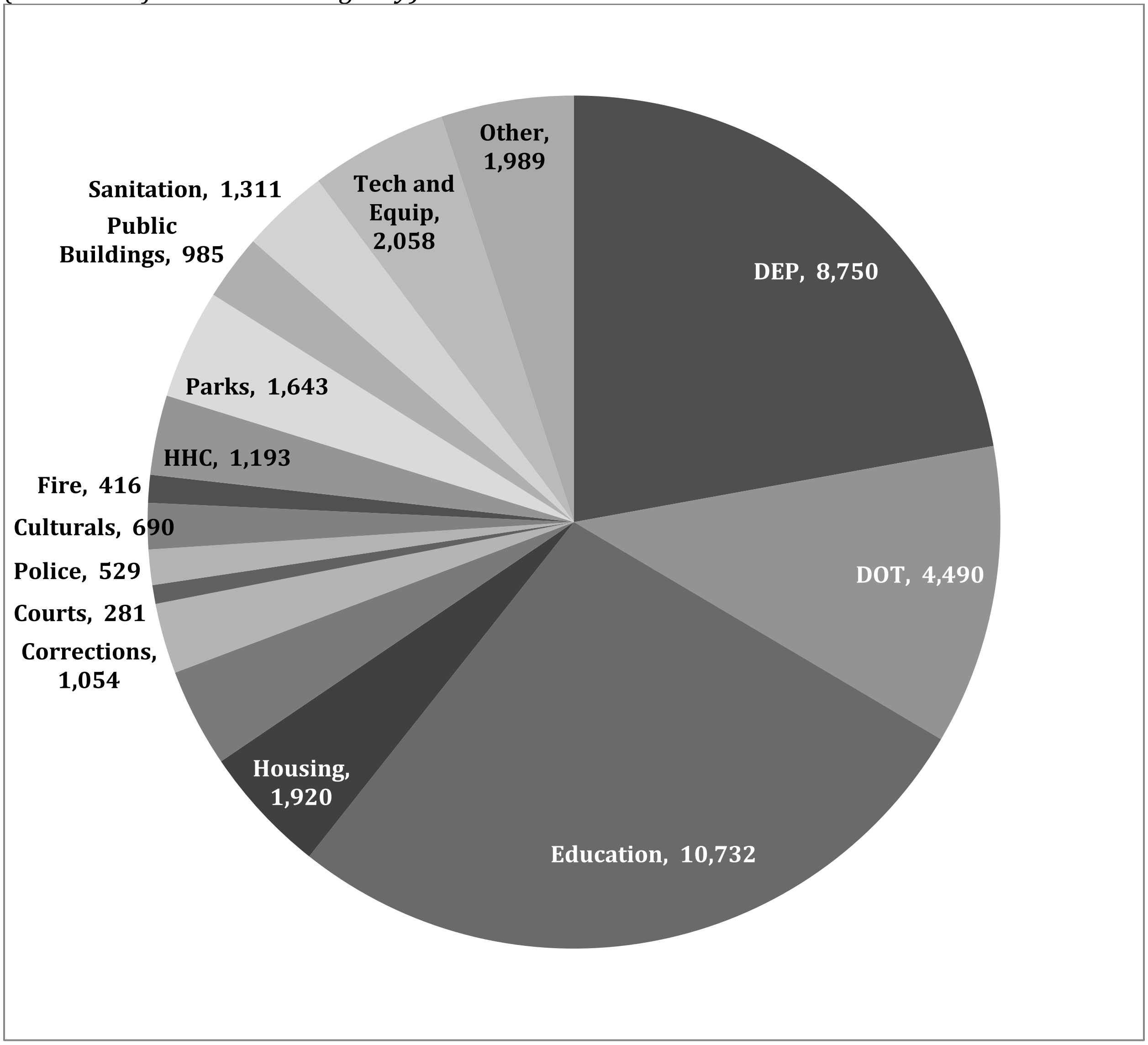
Table 17. 2012-2016 Commitment Plan: Preliminary and Executive Budget

Dollars in Millions

	FY12	FY13	FY14	FY15	FY16	Total
Prelim						
Total Capital Plan	$15,251	$8,686	$6,514	$4,621	$4,336	**$39,408**
Executive						
Total Capital Plan	$12,967	$10,819	$6,620	$4,622	$4,489	**$39,517**
Change						
Level	($2,284)	$2,133	$106	$1	$153	**$109**
Percentage	(14.98%)	24.56%	1.63%	0.02%	3.53%	**0.28%**

Source: Fiscal 2013 Preliminary Plan and Fiscal 2013 Executive Plans

Figure 15. FY 2012-2016 Five Year Capital Plan, by Programmatic Area ***(Dollars in Millions)***
(exclusive of IFA and Contingency)



Source: Fiscal 2013 Preliminary Plan and Fiscal 2013 Executive Plans

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.

There has been no change in the plan since then.

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 18. 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 billion	$3.5 billion
Charter/Partnership Program	$210.0 million	$210.0 million
Replacement Seats	$938.9 million	$748.9 million
Capacity Total	**$4.6 billion**	**$4.5 billion**
Capital Improvement Program	$2.3 billion	$2.6 billion
Children First Initiatives	$1.6 billion	$1.6 billion
Mandatory Programs	$2.2 billion	$1.9 billion
Capital Investment Category	$6.1 billion	$6.3 billion
Reso A Funding	$400.0 million	$500.0 million
Plan Total	**$11.1 billion**	**$11.2 billion**

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 19. Fiscal Year 2013 Executive Budget: Executive Budget					
Dollars in Millions	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**
REVENUE					
Taxes					
General Property Tax	$17,902	$18,354	$18,956	$19,617	$20,259
Other Taxes	$23,486	$24,503	$25,445	$26,799	$28,022
Tax Audit Revenue	$700	$724	$706	$706	$706
Tax Program					
Sub-total, Taxes	$42,088	$43,581	$45,107	$47,122	$48,987
Miscellaneous Revenues	$6,747	$7,278	$6,221	$6,206	$6,309
Unrestricted Governmental Aid	$25	$0	$0	$0	$0
Anticipated State Action	$0	$0	$0	$0	$0
Less: Intra-City Revenues	($1,790)	($1,596)	($1,595)	($1,598)	($1,603)
Disallowances	($15)	($15)	($15)	($15)	($15)
Sub-total City Funds	$47,055	$49,248	$49,718	$51,715	$53,678
Other Categorical Grants	$1,036	$923	$919	$916	$902
Inter-Fund Revenues	$555	$538	$510	$509	$509
TOTAL City, Capital IFA & Oth. Cat. Funds	$48,646	$50,709	$51,147	$53,140	$55,089
Federal Categorical Grants	$7,666	$6,595	$6,473	$6,373	$6,372
State Categorical Grants	$11,312	$11,413	$11,713	$12,119	$12,628
TOTAL Revenues	**$67,624**	**$68,717**	**$69,333**	**$71,632**	**$74,089**
EXPENSE					
Personal Services	$37,281	$37,332	$38,183	$39,923	$41,043
Other than Personal Services	$28,484	$28,156	$28,814	$29,515	$30,050
Debt Service	$5,623	$6,129	$6,799	$7,172	$7,450
Adjustments					
Prior Year Surplus Roll	($3,742)	($1,728)			
Current Year Surplus Roll	$1,728	$124	($124)		
General Reserve	$40	$300	$300	$300	$300
Sub-total	$69,414	$70,313	$73,972	$76,910	$78,843
Less: Intra-City Expenses	($1,790)	($1,596)	($1,595)	($1,598)	($1,603)
TOTAL Expenditures	**$67,624**	**$68,717**	**$72,377**	**$75,373**	**$77,301**
GAP	**$0**	**$0**	**$3,044**	**$3,680**	**$3,151**

Source: OMB Fiscal 2012 May Plan

Table 20. Fiscal 2013 Executive Budget Revenue Plan

Dollars in Millions	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**
Taxes					
Real Estate	$17,902	$18,354	$18,956	$19,617	$20,259
Sales	5,835	6,064	6,326	6,599	6,839
Mortgage Recording	516	599	686	767	848
Personal Income	7,966	8,476	8,521	9,129	9,497
General Corporation	2,476	2,530	2,685	2,788	2,917
Banking Corporation	1,286	1,191	1,241	1,268	1,412
Unincorporated Business	1,638	1,765	1,900	1,971	2,034
Utility	391	405	421	434	446
Hotel	478	473	489	513	536
Commercial Rent	627	661	694	731	770
Real Property Transfer	910	948	1,055	1,174	1,300
Cigarette	68	67	66	64	62
All Other	505	500	502	502	502
Audit	700	724	706	706	706
Tax Program	0	0	0	0	0
STAR	790	824	859	859	859
Total Taxes	**$42,088**	**$43,581**	**$45,107**	**$47,122**	**$48,987**
Federal Categorical Grants	**$7,666**	**$6,595**	**$6,473**	**$6,373**	**$6,372**
State Categorical Grants	**$11,312**	**$11,413**	**$11,713**	**$12,119**	**$12,628**
Non-Governmental Grants (Other Cat.)	**$1,591**	**$1,461**	**$1,429**	**$1,425**	**$1,411**
Unrest. / Anticipated State & Federal Aid	**$25**	**$0**	**$0**	**$0**	**$0**
Miscellaneous Revenue					
Charges for Services	831	887	881	882	883
Water and Sewer Charges	1,387	1,514	1,525	1,516	1,535
Licenses, Permits, Franchises	554	551	563	566	577
Rental Income	286	280	290	293	293
Fines and Forfeitures	820	805	804	803	803
Other Miscellaneous	1,062	1,626	551	527	524
Interest Income	17	19	12	21	91
Intra City	1,790	1,596	1,595	1,598	1,603
Total Miscellaneous	**$6,747**	**$7,278**	**$6,221**	**$6,206**	**$6,309**
Net Disallowances & Transfers	(1,805)	(1,611)	(1,610)	(1,613)	(1,618)
Total Revenue	**$67,624**	**$68,717**	**$69,333**	**$71,632**	**$74,089**

Table 20. Fiscal 2013 Executive Budget Revenue Plan (*Dollars in Millions*), continued					
	FY12	**FY13**	**FY14**	**FY15**	**FY16**
City Funds: does not include Unrestricted Aid	$47,030	$49,248	$49,718	$51,715	$53,678
Federal & State Revenue	$19,003	$18,008	$18,186	$18,492	$19,000
Federal & State as a Percent of Total	28.1%	26.2%	26.2%	25.8%	25.6%
City Funds as a Percent of Total Revenue	69.5%	71.7%	71.7%	72.2%	72.5%

Source: OMB Fiscal 2012 May Plan

Table 21. Fiscal Year 2013 Executive Budget: Revenue Changes from Fiscal 2013 Preliminary Plan (*Dollars in Millions*)

	FY12	FY13	FY14	FY15
Taxes				
Real Estate	$90	($29)	($30)	($31)
Sales	($32)	($2)	($1)	($1)
Mortgage Recording	$3	$27	$16	$28
Personal Income	($13)	($53)	($55)	($45)
General Corporation	($26)	($109)	($34)	($28)
Banking Corporation	($50)	($90)	$62	$99
Unincorporated Business	($84)	($39)	$24	$22
Utility	($10)	($12)	($11)	($19)
Hotel	$2	$10	$8	$7
Commercial Rent	$5	$19	$31	$45
Real Property Transfer	$48	$40	$32	$49
Cigarette	($2)	($2)	($1)	($2)
All Other	($6)	($1)	$1	$1
Audit	$1	$1	$0	$0
Tax Program	$0	$0	$0	$0
STAR	$0	($37)	$0	$0
Total Taxes	**($74)**	**($277)**	**$42**	**$125**
Federal Categorical Grants	($68)	$3	($18)	($41)
State Categorical Grants	($56)	$72	$264	$533
Non-Governmental Grants (Other Cat.)	($6)	$39	$16	$15
Unrest. / Anticipated State & Federal Aid**	$0	$0	$0	$0
Miscellaneous Revenue				
Charges for Services	$2	$24	$21	$21
Water and Sewer Charges	($48)	$99	$89	$72
Licenses, Permits, Franchises	$7	$3	$4	$3
Rental Income	$6	($2)	$0	$0
Fines and Forfeitures	$30	$0	$1	$1
Other Miscellaneous	$462	$31	$17	$21
Interest Income	$0	$0	($8)	($70)
Intra City	($1)	$65	$62	$61
Total Miscellaneous	**$458**	**$220**	**$186**	**$109**
Net Disallowances & Transfers	$1	($65)	($62)	$0
Total Revenue	**$255**	**($8)**	**$428**	**$741**
City Funds: does not include Unrestricted Aid	**$385**	**($122)**	**$166**	**$234**
Federal & State Revenue	**($124)**	**$75**	**$246**	**$492**

Source: OMB Fiscal 2013 Preliminary Plan and Fiscal 2013 Executive Budget.

Appendix

The following tables compare some of the substantial changes to the defined pension benefits under the new law with the Executive Budget and old law. The new law governs the benefits of all members who join a pension system after April 1st, 2012. See notes at end for an explanation of some terms.

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

CIVILIANS	Old Plan	GOVERNOR'S EXECUTIVE BUDGET	New Plan
Employee Contribution	4.85% for first 10 years, dropping to 1.85% for next 20 years	4%if salary less than $43k 5% if salary between $43k and $85k 6% if salary greater than $85k for all years plus Additional contributions if employer contributions exceed bounds set by the Budget Director. ("risk-reward" system)	3% if salary less than $45k 3.5% if salary between $45k and $55k 4.5% if salary between $55k and $75k 5.75% if salary between $75k and $100k 6% if salary greater than $100k for all years.
Service Benefit Formula	Retirement Age of 57: If less than 20 years of service = 1.67% x FAS3 x years If at least 20 years of service = 2% x FAS3 x years	Retirement Age of 65: 1.67% x FAS5 x years (Salary above the Governor's ($179k) excluded)	Retirement Age of 63: 1.75% x FAS5 x (years less than 20) + 2% x FAS5 x (years in excess of 20) (Salary above the Governor's ($179k) excluded)
Vesting	5 years, payable at age 57	12 years, payable at age 65	10 years, payable at age 63
Early Retirement	Unreduced at 57 & 5 years	None	Reduced at 55
Benefit Supplementation	COLA	COLA	COLA
Overtime	Kingston Limits	Overtime does not count towards pension calculation	Kingston Limits

TEACHERS	Old Plan	GOVERNOR'S EXECUTIVE BUDGET	New Plan
Employee Contribution	4.85% for first 27 years, dropping to 1.85% thereafter	4% if salary less than \$47k 5% if salary between \$47k and \$94k 6% if salary greater than \$94k for all years plus Additional contributions if employer contributions exceed bounds set by the Budget Director. ("risk-reward" system)	$3\%\ if\ salary\ less\ than\ \$45k$ $3.5\%\ if\ salary\ between\ \$45k\ and\ \$55k$ $4.5\%\ if\ salary\ between\ \$55k\ and\ \$75k$ $5.75\%\ if\ salary\ between\ \$75k\ and\ \$100k$ $6\%\ if\ salary\ greater\ than\ \$100k$ for all years.
Service Benefit Formula	If less than 20 years of service = 1.67% x FAS3 x years	Retirement Age of 65: 1.67% x FAS5 x years	Retirement Age of 63: 1.75% x FAS5 x (years less than 20) + 2% x FAS5 x (years in excess of 20)
	If at least 20 years of service = 2% x FAS3 x years	Salary above the Governor's (\$179k) excluded	
	Retirement at age 55 with 27 years of service with at least 10 years of service		(Salary above the Governor's (\$179k) excluded)
Vesting	10 years, payable at age 62 (or at age 55 with reductions)	12 years, payable at age 65	10 years, payable at age 63 (or at age 55 with reductions)
Early Retirement	Unreduced at 62/10 and 55/27 Early reduced at 55 & 10 (6% first two years, then 3% to 55)	None	Reduced at 55
Benefit Supplementation	COLA	COLA	COLA
Overtime	Kingston Limits	Overtime does not count towards pension calculation	Kingston Limits

POLICE/FIRE	Old Plan	GOVERNOR'S EXECUTIVE BUDGET	New Plan
Employee Contribution	3% for first 25 years	4%if salary less than $61k/$63k 5% if salary between $61k/$63 and $122k/$12 6% if salary greater than $122k/$126k plus for the first 25 years Additional contributions if employer contributions exceed bounds set by the Budget Director. ("risk-reward" system)	3% for first 25 years
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)	Payable at 55 or after 22 years of service:
	50% FAS3 (less 50% SSI) plus COLA	Salary above the Governor's ($179k) excluded	50% FAS5 (less 50% SSI) plus COLA
	After 25 years of service:		After 25 years of service:
	Full Escalation benefit		Full Escalation benefit
	After 20 years of service: $12,000 annual VSF payment		After 20 years of service: $12,000 annual VSF payment
	Benefit = 2.1% x FAS3 x years (less 50% SSI)		Benefit = 2.1% x FAS5 x years (less 50% SSI)
Vesting	5 years, payable at 20 years of service	12 years, payable at 20 years of service	5 years, payable at 20 years of service
Early Retirement	Early reduced at 42% FAS3 x years (less 50% SSI)		Early reduced at 42% FAS3 x years (less 50% SSI)
Benefit Supplementation	COLA	COLA	COLA
Overtime	Kingston Limits	Overtime does not count towards pension calculation	Kingston Limits

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.