

THE COUNCIL OF THE CITY OF NEW YORK

Hon. Melissa Mark-Viverito
Speaker of the Council

Hon. Julissa Ferreras
Chair, Committee on Finance



Hearing on the Mayor's Fiscal Year 2015 Preliminary Budget

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

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The Fiscal 2015 Preliminary Budget represents the first chance for the new de Blasio administration to put its priorities into budgetary form. Since the administration is only two months old and still filling key positions this budget should be viewed as a first cut. The Mayor has indicated that April's Fiscal 2015 Executive Budget will contain a more fully articulated version of the administration's priorities.

Priorities

- **Pre-Kindergarten and After School Programs:** The marque policy proposal is the expansion of the City's prekindergarten program. The program would start in Fiscal 2015 and be fully implemented in Fiscal 2016. When fully implemented the proposal would provide high quality, full day pre-kindergarten to 73,250 children. This program would cost \$340 million in Fiscal 2015. It is to be funded along with a \$190 million expansion of after school programs for middle schools by an increase to 4.41 percent in the personal income tax rate for those with taxable incomes over \$500,000. In the Financial Plan, the tax increase is projected to raise the \$530 million in Fiscal 2015
- **NYCHA & PEG Restorations:** The other major initiative is payment relief to NYCHA. NYCHA will not be required to make any further Fiscal 2014 payments to the City for NYPD services. This will give NYCHA \$52.5 million to aid in its reduction of repairs backlog. The Plan also contains \$43.1 million in Fiscal 2014 and \$57.9 million in Fiscal 2015 for PEG restorations. The largest of these is \$43.1 million in Fiscal 2015 to keep open 20 fire companies. Details of restorations and new needs are found in the Appendix.
- **Reserves for Contingency:** In terms of dollars allocated the largest new priority involves the General Reserve and the Retiree Health Benefits Trust (RHBT). The Preliminary Budget adds \$300 million a year to the general reserve starting in Fiscal 2015. The Financial Plan also keeps \$1 billion in the RHBT that the November 2013 Plan intended to use in Fiscal 2014. Both of these funds are available to deal with contingencies. Some of the obvious contingencies include labor settlements that exceed the Plan's modest labor reserve, and shortfalls due to State or Federal action or adverse economic conditions
- **Budgetary Sustainability:** The Mayor has emphasized fiscal responsibility and one way of looking at this is the relationship between the City's economy and City spending. The Plan's City funded spending does not represent a major departure from the pattern of the past 10 years. Even with the proposed increase on the personal income tax rate on incomes over \$500,000, City funded spending over the Financial Plan will grow at an annual rate of 3.5 percent. Council Finance estimates that over the same period Gross City Product (GCP) will grow at a not much faster rate of 4.5 percent¹. Since 2004, City

¹ Both City Funds spending and GCP are nominal – that is not corrected for inflation.

funded spending has fluctuated around 7 percent of GCP. Under this Plan it will stay around that level.

- **Budget Dance:** The PEG restorations mentioned above along with the baselining of Council initiatives found in both the November 2013 Plan and the Fiscal 2015 Preliminary Budget point towards a different attitude towards budgeting. One that makes less use of the reductions and restorations sometimes called the 'Budget Dance.'

Balancing the Budget

The Fiscal 2015 Preliminary Budget totals \$73.7 billion. This includes \$54 billion in City funds that is revenue from City taxes, fees, fines, and other non-tax revenue. City funds are up 3.4 percent between Fiscal 2014 and Fiscal 2015. As required by law, the budget is balanced for Fiscal 2014 and Fiscal 2015, a feat first achieved in the November 2013 Plan but also maintained in the February 2014 Plan. Outyear gaps are modest and of the size that have been easy to close in a healthy economy.

Table 1. February Financial Plan Summary

Dollars in Millions

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Avg. Annual Change
REVENUES						
Taxes	\$46,731	\$48,971	\$51,268	\$53,260	\$55,160	4.2%
Misc. Revenues	7,281	6,782	6,808	6,831	6,489	-2.8%
Less: Intra-City & Disallowances	<u>(1,758)</u>	<u>(1,711)</u>	<u>(1,684)</u>	<u>(1,694)</u>	<u>(1,699)</u>	<u>-0.8%</u>
Subtotal, City Funds	\$52,254	\$54,042	\$56,392	\$58,397	\$59,950	3.5%
State Aid	11,737	11,905	12,275	12,747	13,143	2.9%
Federal Aid	8,409	6,402	6,384	6,370	6,369	-6.7%
Other Categorical Grants	871	843	830	826	822	-1.4%
Capital Funds (IFA)	546	520	513	513	513	-1.5%
TOTAL REVENUES	\$73,817	\$73,712	\$76,394	\$78,853	\$80,797	2.3%
EXPENDITURES						
Personal Services	\$39,540	\$39,969	\$41,032	\$42,127	\$43,421	2.4%
OTPS	31,201	29,876	30,196	30,711	31,005	-0.2%
Debt Service	5,737	6,733	7,294	7,624	7,825	8.1%
General Reserve	150	600	600	600	600	
Less: Intra-City	<u>(1,743)</u>	<u>(1,696)</u>	<u>(1,669)</u>	<u>(1,679)</u>	<u>(1,684)</u>	<u>-0.9%</u>
Spending Before Adjustments	\$74,885	\$75,482	\$77,453	\$79,383	\$81,167	2.0%
Surplus Roll Adjustment (Net)	<u>(1,068)</u>	<u>(1,770)</u>				
TOTAL EXPENDITURES	\$73,817	\$73,712	\$77,453	\$79,383	\$81,167	2.4%
Gap to be Closed	\$ -	\$ -	(\$1,059)	(\$530)	(\$370)	

Source: OMB February 2014 Financial Plan

The June 2013 Financial Plan anticipated a \$1.965 billion gap for Fiscal 2015 which was closed in the November 2013 Financial Plan. Most of the resources to close this gap came from four places, tax revenue, miscellaneous revenue, savings on debt service and health insurance. Between Fiscal 2014 and 2015 these four sources alone provided about \$2 billion in resources. There were other savings and these were used to cover new needs, baselining of certain initiatives, re-estimates and other increases in agency expenses.

Table 2. Changes since from June 2013 to November 2013 Plan

Dollars in Millions

	2014	2015
Gap	\$-	(\$1,965)
Resources		
Tax Revenue Forecast	\$527	\$-
Civic Center Sale	214	-
Other Miscellaneous Revenue	361	155
Health Insurance Savings	21	364
Pensions	2	86
Debt Service Savings	225	147
Miscellaneous Expense Changes	109	174
General Reserve	300	-
Subtotal Resources	\$1,759	\$926
Uses		
Agency Expense Changes	\$131	\$589
Subtotal Uses	\$131	\$589
Prepayment Of 2015 Expense	(1,628)	1,628
Gap	\$-	\$-

Source: Council Finance, based on OMB Data

The February 2014 Financial Plan maintains the balanced budgets for both Fiscal 2014 and Fiscal 2015. The Plan recognizes two key new resources in a stronger tax revenue forecast and debt service savings, which together provide an additional \$1.8 billion.

In June 2013 OMB and most forecasters underestimated the strength of the City real estate market, the rise in property sales, mortgages and mortgage refinancing and property values have been a pleasant surprise. OMB also underestimated realized capital gains, due to real estate and financial markets. This has increased PIT and to a lesser extent business tax collections. Debt service savings are largely about refinancing that have been made possible by the continuation of low interest rates. Savings of this kind is generally not put into the Financial Plan until the refinancing has occurred.

These gains are partially offset by a delay of the sale of some HPD mortgage assets until Fiscal 2016 (this represents the main decrease in miscellaneous revenues). These increased revenues finance the additions to the RHBT and general reserve, deal with some cost increases, restore some PEGs, and fund some new initiatives. An increase in the PIT rate on incomes over

\$500,000 is used to fund universal pre-kindergarten and the expansion of after school programs for middle school students.

Table 3. Changes from November 2013 Plan to February 2014 Plan

Dollars in Millions

Fiscal Year	2014	2015
Gap	\$-	\$-
Resources		
Tax Revenue Forecast	\$890	\$594
Tax Policy - PIT Increase		530
Debt Service Savings	277	87
State Budget Impact	-	2
Miscellaneous Revenue	(28)	(125)
Subtotal Resources	\$1,139	\$1,088
Uses		
Universal Pre-K and After School Programs	\$0	\$530
PEG restorations and other adjustment	93	72
New Initiatives	14	26
Retiree Health Benefit Trust	1,000	-
General Reserve		300
Pensions	7	87
Technical Adjustment	25	73
Subtotal Uses	\$1,139	\$1,088
Gap	\$-	\$-

Source: Council Finance, based on OMB Data

Controllable vs Non-Controllable Expense: There are a group of expenses that are not easily altered within the current budget. They include things set by State law (e.g. pensions), by collective bargaining (e.g. fringe benefits), and costs incurred due to prior City actions (e.g. debt service). Over the past decade these costs had been growing faster than the City revenues or the City economy, and therefore taking up an increasing share of the City spending. The good news is that over the Financial Plan these expenses are expected to now grow at about the pace of the City's economy. But they are also expected to grow at almost three times the pace of controllable agency expenses. Pensions, which was one of the major sources of past growth, have slowed thanks to improved performance in the asset markets. However, fringe benefits and debt service continue to rise at a rapid rate.

Table 4. Controllable/Non-Controllable Expenses*Dollars in Millions*

	FY14	FY15	FY16	FY17	FY18	Average
Non-Controllable Expenses						
Pensions	\$8,165	\$8,173	\$8,292	\$8,396	\$8,573	
<i>growth over prior year</i>		0.1%	1.5%	1.3%	2.1%	1.2%
Fringe Benefits	6,970	7,510	8,148	8,678	9,217	
<i>growth over prior year</i>		7.7%	8.5%	6.5%	6.2%	7.2%
Debt Service	5,512	6,437	7,000	7,333	7,540	
<i>growth over prior year</i>		16.8%	8.7%	4.8%	2.8%	8.1%
Medicaid	6,272	6,353	6,322	6,322	6,322	
<i>growth over prior year</i>		1.3%	-0.5%	0.0%	0.0%	0.2%
Other Non-Controllable	2,636	3,155	3,236	3,349	3,432	
<i>growth over prior year</i>		19.7%	2.6%	3.5%	2.5%	6.8%
Total Non-Controllable Spending	\$29,555	\$31,628	\$32,998	\$34,078	\$35,084	
Controllable Agency Spending	\$23,767	\$24,184	\$24,453	\$24,849	\$25,236	
Non-Controllable Growth Over Prior Year		7.0%	4.3%	3.3%	3.0%	4.4%
Controllable Growth Over Prior Year		1.8%	1.1%	1.6%	1.6%	1.5%

Source: Council Finance, from OMB data

Risks

Collective Bargaining: As of January 1, 2014, there were 152 collective bargaining agreements in need of settlement, some of which go back 6 years. The February 2014 Plan includes a reserve for collective bargaining that totals almost \$3.7 billion over the Plan period. This reserve is unchanged since the Adopted Budget of Fiscal 2012, and provides for raises of around 1.25 percent starting in Fiscal 2014. The UFT and Principals' unions do not have a contract for the 2008-2010 round of collective bargaining. No union has a contract for the 2010-2013 round of bargaining. There are no collective bargaining reserves for these earlier rounds.² It is highly likely that City's collective bargaining reserves will be inadequate. Other reserves could help, such as the extra \$300 million annually in the general reserve added by the February 2014 Financial Plan. However, this money will not go far as initial estimates by Council Finance show this would allow wage settlements going forward of about 1.4 percent (slightly under the expected rate of inflation in New York City). It would provide no funding for retroactive settlements. By some estimates, retroactive settlements for the 2008-2013 rounds along the lines suggested in the press could cost as much as \$7 billion their first year.³ Funding settlements with municipal unions are by far the greatest risk to February 2014 Financial Plan.

² There is a reserve for outstanding settlements from the 2006-2008 round.

³ Citizen's Budget Commission "7 Things New Yorker's should know about Municipal Labor Contracts" May 2013.

Table 5. Wages and Collective Bargaining*Dollars in Millions*

	FY14	FY15	FY16	FY17	FY18	Total
Reserve for Collective Bargaining	\$265	\$465	\$714	\$983	\$1,268	\$3,695
Salaries & Wages	22,159	22,001	22,034	22,034	22,072	
Pensions	8,321	8,330	8,448	8,553	8,729	
Other Fringe Benefits	8,795	9,173	9,836	10,557	11,352	
Total	\$39,540	\$39,969	\$41,032	\$42,127	\$43,421	

Source: Council Finance, based on OMB data

Albany: The most important political risk is to the February Plan's PIT rate increase to fund universal pre-kindergarten. Governor Cuomo has argued "We don't need a tax to do pre-K," and has offered a smaller alternative Financing Plan.⁴ The Republican leadership of the State Senate has expressed outright opposition to the tax increase. The proposal has been supported by Speaker Silver and by both of the Democratic caucuses in the State Senate.

There is also a technical issue: the Financial Plan appears to assume the tax increase starts in July 2014. As a practical matter, the tax would either have to start January 1, 2015 or be retroactive to January 1, 2014. These starting dates would impact on the amount of revenue raised in Fiscal 2015 and/or the tax rate for that year.

A smaller concern is that New York State's Fiscal 2014-2015 Executive Budget seeks to limit the growth of State operating spending to 2 percent a year for the life of their Financial Plan. This does not apply to the local aid budget, though it may impact on services and service providers in the City.

Washington: The February 2014 Financial Plan's assumptions for Federal aid are modest; still there are risks to these assumptions. Washington's budget process is still governed by the Budget Control Act of 2011, which limits the growth rate of discretionary spending to 2.2 percent a year. Much of the aid New York City receives is from this part of the Federal Budget. The Federal budgetary process is still dysfunctional and outcomes are difficult to anticipate. The good news is that the possibility of 'budgetary accidents' damaging the credit of the United States and harming the economy has faded, but budgetary austerity seems likely to prevail for the foreseeable future.

Economic Environment: Economic conditions are the most tranquil since 2007. Even so there are significant economic risks that could impact the Financial Plan. As the economy continues to expand the Federal Reserve is gradually returning to a normal monetary policy. The first step is reducing its purchase of bonds, a process known as tapering. This has already caused difficulties for a number of emerging market economies, most notably Turkey, Argentina, India, and South Africa. As normalization of monetary policy continues, long bond yields should start to rise, and sometime in the fall of 2015 federal funds and other short terms rates should also go up. Since current monetary policy is unprecedented, backing away from it is unprecedented

⁴ The Governor is quoted by Kenneth Lovett in the New York Daily News January 24, 2014, <http://www.nydailynews.com/news/politics/cuomo-wary-de-blasio-nyc-pre-k-vows-support-article-1.1588252>

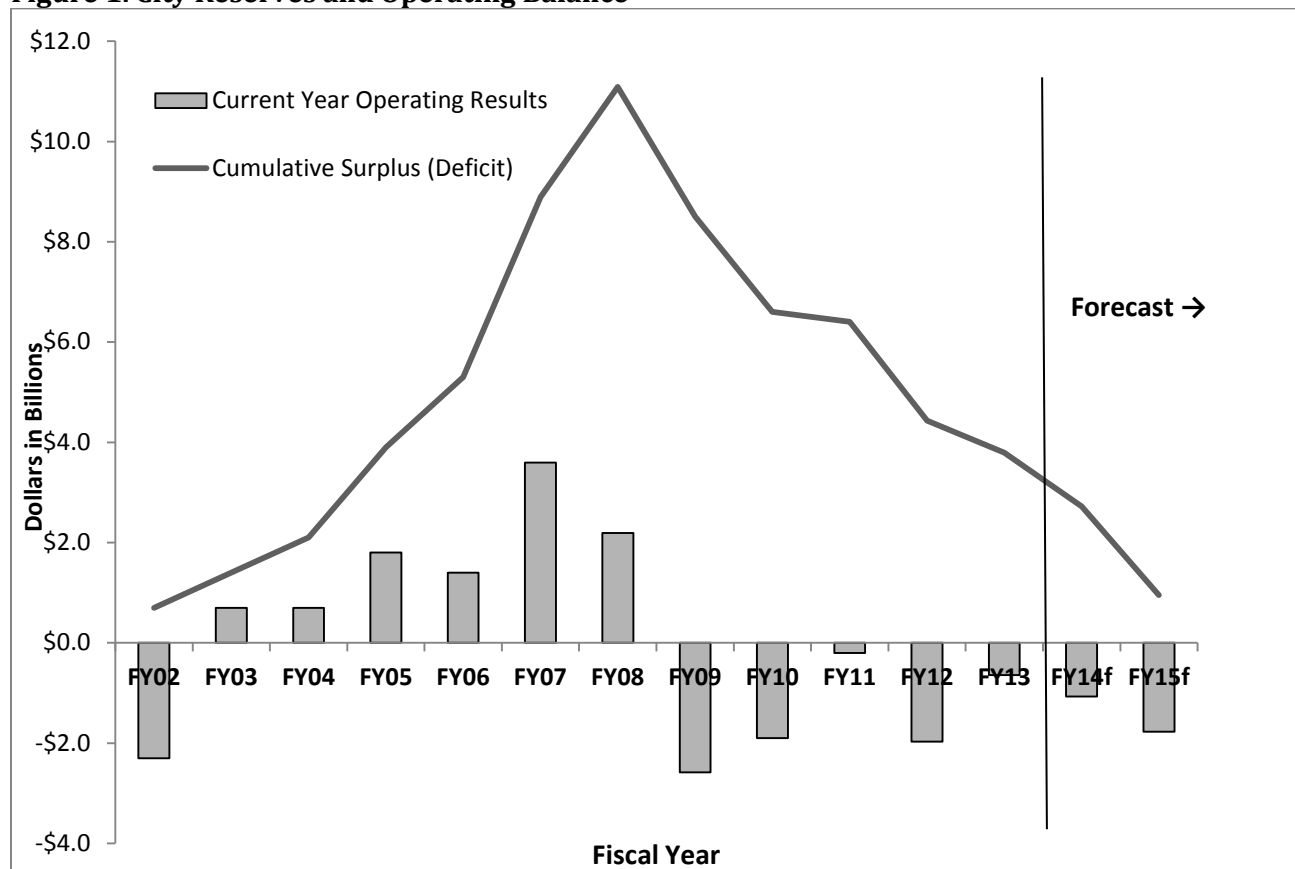
and could be hazardous. Of particular concern to the City is the impact this may have on financial sector firms, many of whom have benefited from the Fed's low interest policies.

It should also be noted that recent economic data has been mixed. In the fourth quarter of 2013 firms misjudged the need for inventories and misjudged consumer spending on services. There have also been several months of disappointing employment growth. All of these seem to be unrelated and due to accidental factors such as bad weather. However, there is a possibility that there is something systematic going on that could impact on growth in 2014. At a minimum, the unintended inventory accumulation is proving to be a drag on growth in the first quarter of 2014.

Reserves: New York City has depleted its financial reserves. The City has made use of various budgetary reserves to practice what Dall Forsythe of Baruch College has called 'cyclical budget management.' In good times the City builds up these funds, mostly by prepaying certain expenses and by adding funds to the Retiree Health Benefit Trust Fund (RHBT) and in bad times it uses these funds, reducing prepayments into the next fiscal year and running down the balance in the RHBT

Between Fiscal 2003 and Fiscal 2008, the City accumulated over \$11 billion in these reserves. But for every year since Fiscal 2009, the City has balanced its budget by using up these funds.

Figure 1. City Reserves and Operating Balance



Source: Council Finance

The practice reflects the volatility of some of the City's revenues. About half of the City's tax revenue responds quickly to the ups and downs of the business cycle. Some of these responses can be extreme. For example the \$1.2 billion banking corporation tax has risen in some year by as much as 85 percent and fallen in other by 45 percent. Essentially what the City is doing in its cyclical budget management is putting away funds in good times to allow it to maintain services and avoid layoffs when bad times come. Bad times will come again. Between Fiscal 2009 and Fiscal 2013 the City used an average of \$1.5 billion in its reserves a year. The RHBT and the other funds available in the Financial Plan will offer very little protection should bad times return in the next four years.

It should be noted that while the RHBT is used as a kind of reserve, its primary purpose is to offset a large unfunded liability: health insurance for retirees. This unfunded liability is currently \$92.5 billion.

Upside Risks: The Finance Division's forecast provides some good news: the City can expect about \$4.7 billion more in tax revenue compared to OMB's February 2014 Plan forecast. These additional funds would not only allow the City to balance its budget for every year in the Plan but also have \$2.7 billion available for new uses. However, it should be noted that most of this additional money does not appear until Fiscal 2017.

Also encouraging is that by our forecast the City budget should reach an operating balance starting in Fiscal 2016 and no longer be dependent on reserves from prior years. Details of the forecast are discussed below.

Table 6. Impact of Finance Division Forecast

Dollars in Millions

	FY14	FY15	FY16	FY17	FY18	Total
February Plan Budget Gap	\$-	\$-	(\$1,059)	(\$530)	(\$370)	(\$1,959)
Finance Division Forecast- Difference from February Plan	\$194	\$980	\$1,106	\$1,165	\$1,242	\$4,687
Budget Gap after Finance Division Forecast	\$-	\$-	\$-	\$-	\$-	
Operating Surplus/(Deficit)	(\$874)	(\$790)	\$47	\$635	\$872	

Source: Council Finance, OMB data

In addition to conservative budgeting in regards to revenue, OMB has traditionally practiced rather conservative budgeting on the expense side as well. Towards the end of the fiscal year it is usually found that there are excess funds set aside for prior year payable, judgments & claims, and a variety of other expenses. In the past these overestimates have been large enough to make a significant dent in Financial Plan's outyear gaps without the extra funds from the Finance Division's forecast.

National Economy

The frustratingly uneven expansion of the U.S. economy continues. After having a good second half of 2013, the economy seems poised to slow down again. However, the Finance Division is

fundamentally optimistic about the economy. The headwinds have abated, starting with the financial sector which is reasonably healthy and adjusting to the new regulatory regime. Housing prices are rising and with them the net worth of households, including the net worth of the middle class. Employment is also rising and the Federal Reserve views the economy as strong enough to taper their monetary stimulus. State and local governments have ceased to be a drag on economic growth and while Federal policy is incoherent, some of its destructive tendencies have waned. This time next year the Finance Division expects the economy to be growing at a rate of over 3 percent, the economy to be adding jobs at a rate of better than 2 percent, and unemployment to be around 6 percent. This process should be self-fueling. Consumers are spending and falling unemployment will only encourage them to do more. There is a pent up demand for housing which should boost residential investment. Strong corporate balance sheets and an expanding economy should boost investment in equipment. After two quarters of slow growth, Finance Division expects real GDP growth of around 3.1 percent for the forecast period. Unemployment should continue to fall, reaching 5 percent in 2018. Though wage growth remains slow, it will outpace inflation.

GDP and Consumption: The U.S. economy experienced healthy growth in the third quarter of 2013, with real gross domestic product growing at an annual rate of 4.1 percent. A large component of that growth, however, was a vibrant inventory accumulation, which has its own cycle and typically overshoots its target. Consequently, GDP growth slowed in the fourth quarter 2013 to 2.4 percent. IHS Global Insight expects a drag on output in the first quarter of 2014, growing by a lackluster 1.9 percent, and in the second quarter at 2.3 percent. After the inventory correction, the economy is expected to accelerate during the remainder of 2014 and sustain healthier growth of 3.5 percent in 2015.⁵

Looking at final sales of domestic products filters out the contribution of inventories on GDP, providing a better measure of the underlying strength of the economy. Final sales grew by an annualized 2.8 percent rate in the fourth quarter. They are expected to roughly maintain that pace in the first quarter, before accelerating to above 3 percent for the rest of 2014 and into 2015.

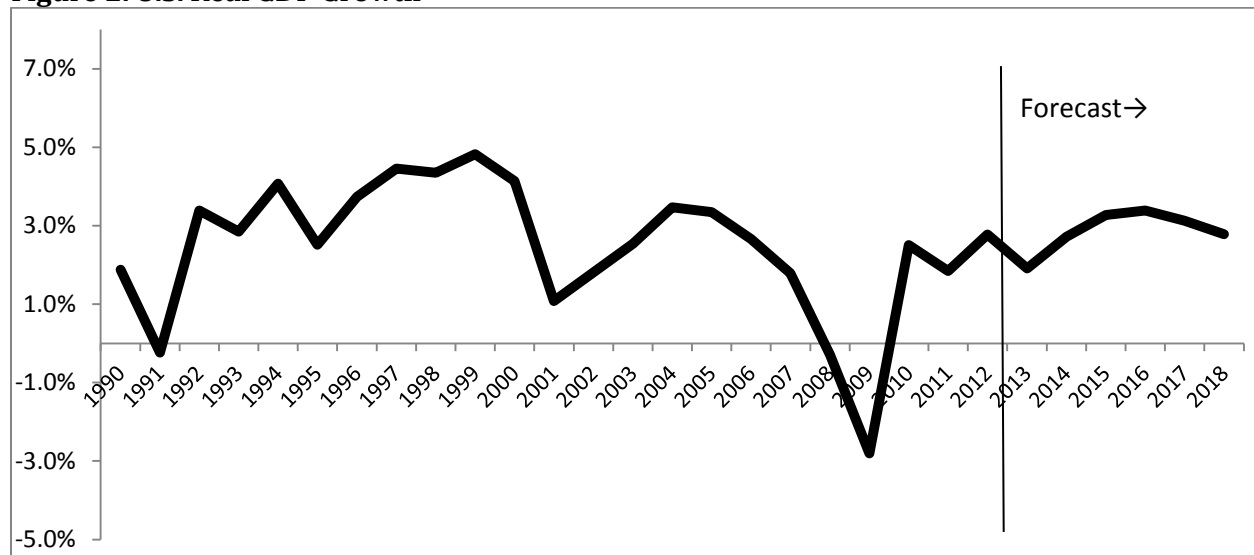
Consumer spending, comprising around 70 percent of GDP, picked up slightly in the last quarter of 2013, growing at an annual rate of 2.6 percent. This was helped by improved consumer confidence at the end of the year, as surveyed by Thomson Reuters/University of Michigan.⁶ Many Americans overlooked their stagnant wages and were optimistic about growing employment numbers (December's weak job growth was not reported until early January). Rising home values and lower household debt also prompted households' to spend a little more. Consumer expenditures will probably not be immune to the dip in output in the first quarter 2014. Reduced factory work, inhospitable weather, and apprehension about the weak employment numbers in December and January, are likely to reduce consumption. Global Insight expects personal consumption growth to slow to 2.3 percent, but quickly rebound to 3.0 percent in the second quarter and maintain that pace for some time.

⁵ IHS Global Insight, 'U.S. Executive Summary,' February 2014.

⁶ Thomson Reuters/University of Michigan, December 2013.

One headache the economy is relieved of this year is another impasse in Washington D.C. The combined debacles of the partial government shutdown and debt ceiling fight are estimated to have cost the economy 0.3 percentage points from fourth quarter GDP growth, or \$12-\$15 billion.⁷ With the omnibus budget bill passed in December, the nation has been spared the threat of sequester until September 2015, and GDP will get a little more input from federal government spending. Congress' extending the debt limit will additionally protect the 'good faith and credit of the United States government,' at least up to March 2015.

Figure 2. U.S. Real GDP Growth



Source: IHS Global Insight, February 2014.

Employment: During the recent recession the economy lost 7.4 million jobs. Thus far, the recovery has added 6.6 million positions, 89.2 percent of the lost jobs.⁸ Employment growth has been gathering steam more slowly than previous recessions and has still not reached its previous peak six years ago. In contrast, the recovery following the 1990-91 recession surpassed its previous peak within 3 years, and the 2001 recession within 4 years. Payroll employment will finally pass its previous peak by the third quarter 2014.

In 2013, average monthly payroll expanded by a tepid 189,000, barely above the 186,000 average in 2012. Economists generally consider 150,000 jobs per month as the minimum growth required simply to keep pace with a growing population. After the economy generated over 200,000 jobs per month in October and November 2013, it was especially disappointing when December and January added only 75,000 and 113,000 positions respectively. Many economists attributed the two weak months to an exceptionally severe winter, not altering the general upward trend. The Federal Reserve's minutes of its January 28-29 policy meeting stated "Labor market indicators were mixed but on balance showed further improvement."⁹ Employment growth is expected to finally accelerate in the second half of 2014, in tandem with

⁷ IHS Global Insight, 'Headwinds subside in 2014 allowing for improved growth,' November 20, 2013.

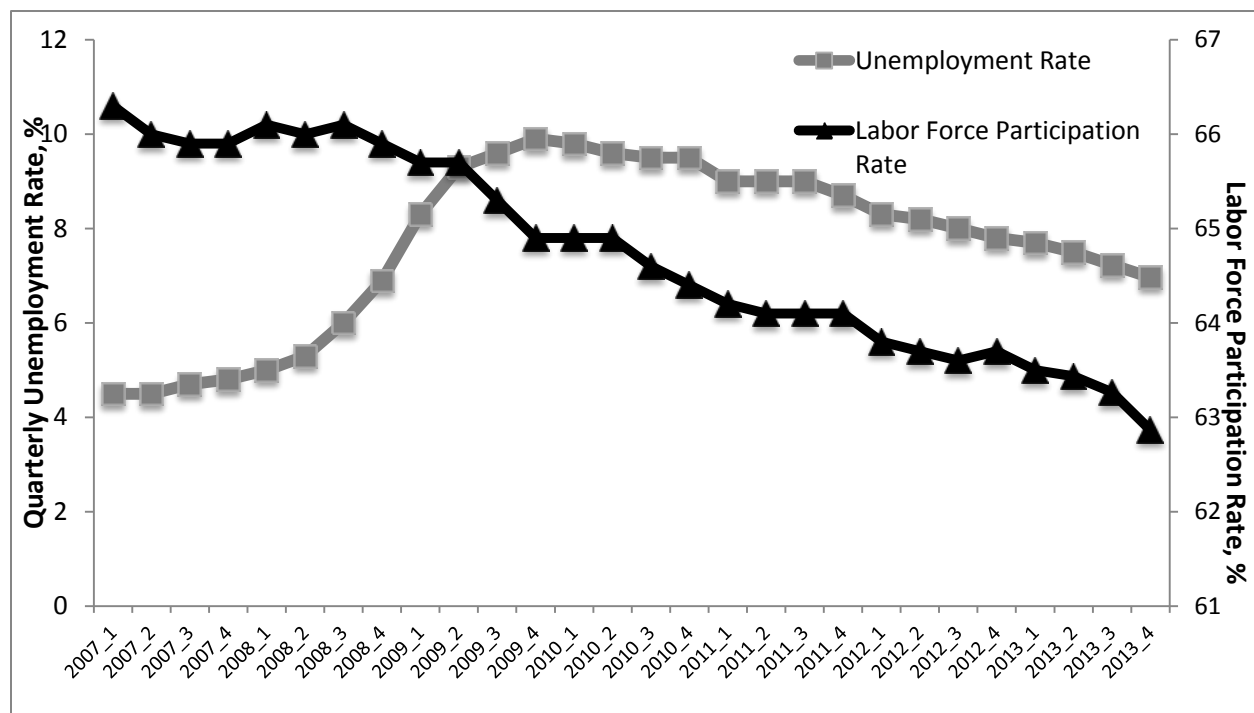
⁸ As of the January 2014 Establishment Survey, released by the U.S. Bureau of Labor Statistics.

⁹ Federal Open Market Committee statement, January 28-29, 2014.

expanding GDP, adding over 200,000 jobs a month up through 2016, with a monthly average of 250,000 additional positions during that period.

The unemployment rate has fallen to 6.6 percent as of January 2014 from its 10.1 percent peak in October 2009. The question is how much does the current rate measure healthier employment and how much does it reflect a diminished labor force due to discouraged workers? An alarming trend has been the decline in the labor force participation rate. The participation rate has fallen from 68 percent in the late 1990s to only 63 percent today.¹⁰ Its rate of decline noticeably sharpened since the last recession. Much of the decline can be attributed to a retiring baby boomer generation, some retiring early because of a weak job market. It is likely that many others are discouraged about their job prospects, judging from the elevated numbers of the long-term unemployed.

Figure 3. U.S. Quarterly Unemployment and Labor Force Participation Rates



Source: U.S. Bureau of Labor Statistics, February 2014.

Housing: The housing market finally turned in mid-2012. As of November 2013, home values have increased nationally by 13.7 percent year-over-year.¹¹ Existing-home sales in 2013 were the highest since 2006.¹² The housing market, however, has been recently facing some stark challenges. Record-low mortgage rates have been on the rise since last summer, when the Fed announced its intension to phase-out its quantitative easing. As of January 2014, the 30-year fixed rate climbed to 4.4 percent from 3.4 percent the previous January.

¹⁰ IHS Global Insight, 'U.S. Macro webcast: 2014: Up-shift ahead, but with potholes in the road,' February 18, 2014.

¹¹ Standard & Poors/Case-Shiller 20-City Composite Index, November 2013.

¹² National Association of Realtors, January 23, 2014.

Limited inventory is hamstringing sales and jacking up prices to unaffordable levels. As of January 2014, total housing inventory reached 4.9 months' supply while 6.0 to 6.5 months' supply is considered to indicate a healthy balance of supply and demand. Four out of five of the last reported months have seen existing home sales fall. In January 2014, existing-home sales dropped 5.1 percent both from the previous month and year-over-year.¹³ New construction is being constrained by credit conditions that have eased only slightly. Construction has also recently been impeded by the unusually harsh winter weather, reducing starts in December and January. On the other hand, housing starts reached an annual rate of one million units in the fourth quarter of 2013, the first time since before the recession. Home construction increased by 17.7 percent in 2013 over the previous year.¹⁴ Supported by strong demand, analysts expect another strong year for housing starts as the bad weather finally subsides. Home sales too are expected to increase 4 percent in 2014, driven by increased employment, gradual loosening of credit standards, and increasing home construction.¹⁵

The long period of deleveraging household debt has finally run its course. As of the fourth quarter of 2013, household debt had the biggest increase since the third quarter 2007.¹⁶ It was also the first year-over-year increase since the recession. The level of household indebtedness remains at 9.1 percent below its peak of \$12.68 trillion in the third quarter of 2008, underscoring the magnitude of the deleveraging that had to take place. The return to households borrowing again will provide a needed supplement to slow wage growth.

Monetary Policy: The Federal Reserve Bank is in the process of 'tapering' its purchases of Treasuries and mortgage-backed securities. The Fed had been purchasing at a rate of \$85 billion a month since December 2012. January marks the second straight month of reducing the purchases by \$10 billion, putting the current rate at \$65 billion a month. Considering the optimistic tenor of the January 28-29 minutes of the Fed's policy committee, it is likely that this pace of reduction by \$10 billion less a month will continue for now.

The short-term federal funds rate remains at between 0 percent and 0.25 percent. The most recent meeting of the policy committee reiterated its intentions not to raise the rate before the unemployment rate reaches 6.5 percent. With the rate currently at 6.6 percent, the Fed needs to spell out any additional criteria for determining when the labor market improves sufficiently to allow interest rates to be raised.

Inflation pressures remain very subdued. As of January 2014, the Consumer Price Index (CPI) rose by only 1.6 percent year-over-year, while core CPI, which excludes volatile energy and food prices, also increased by 1.6 percent. The Federal Reserve pays particular attention to the price deflator for Core Personal Consumption Expenditures (PCE), essentially a broader-based Core CPI. In the fourth quarter of 2013, Core PCE increased by an annual rate of only 1.1 percent. This is considerably weaker than the Fed's growth target of 2 percent. It reflects weak wage pressures and general underutilization of resources.

¹³ National Association of Realtors, 'Existing-Home Sales Drop in January While Prices Continue to Grow' February 21, 2014.

¹⁴ U.S. Commerce Department, February 2014.

¹⁵ IHS Global Insight, 'U.S. Executive Summary,' February 2014.

¹⁶ Federal Reserve Bank of New York, February 18, 2014.

Emerging markets have recently been beset by a weakening Chinese economy and the Fed's withdrawal from bond purchases, driving up interest rates and shifting investments out of their economies and into U.S. assets. The current pressures faced by emerging markets may have some negative effect on risky investments in those countries, but are not expected to have much of an impact on U.S. growth.

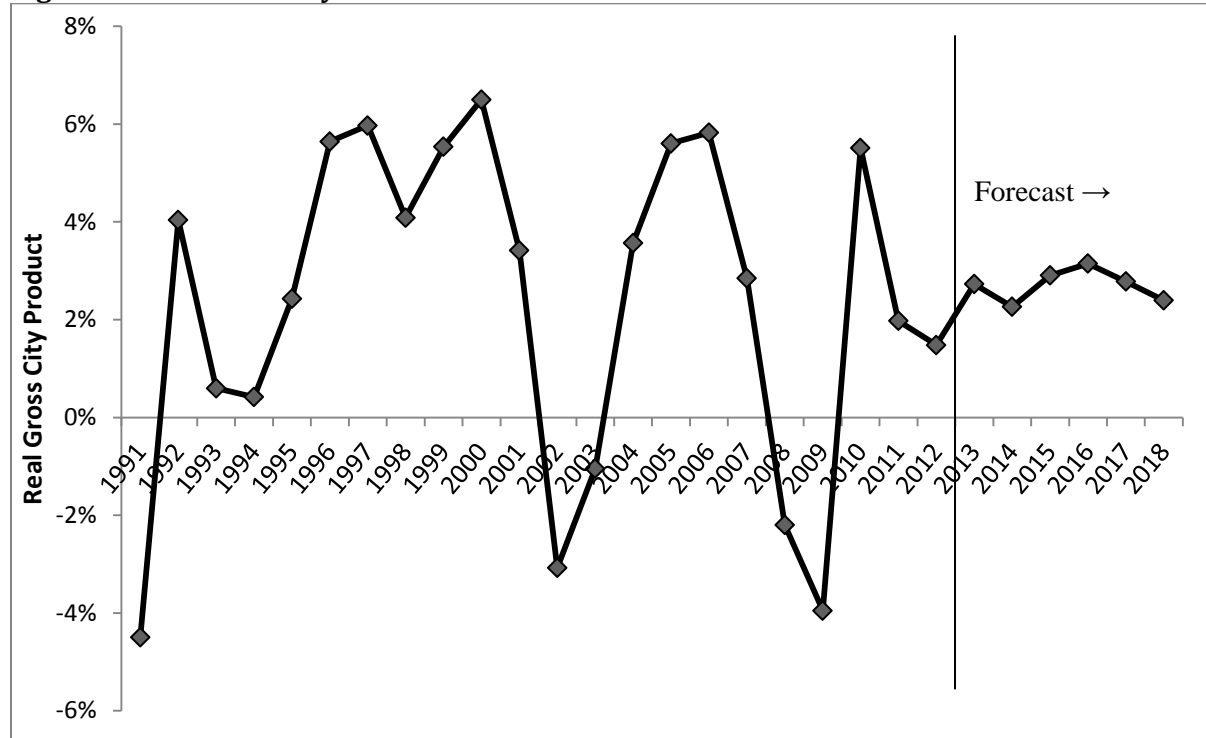
Risks: As mentioned in the Financial Plan section, there are real risks in the national forecast. Foremost is the assumption that the weak employment numbers for December and January were a temporary fluke due to a worse than average winter. There is a strong chance that the next few months of employment growth could also be disappointing, as inventory corrections entail fewer workers.

The higher interest rate environment may prove more of a drag on the economy than anticipated. Rising mortgage rates may have a greater stranglehold over the willingness to purchase homes. Climbing long-term rates might raise financing costs of many businesses to prohibitive levels. As mentioned earlier, when the Fed eventually raises short-term rates, the City's financial institutions may be ill-equipped to absorb the extra cost.

A recovering housing market plays a major role in restoring household wealth, especially the middle class. The home-equity loans of the past boom greatly spurred on consumer spending. One risk could be that home builders are constrained by prohibitive credit conditions and therefore are unable to accelerate their pace sufficiently to allow middle-income households to purchase affordable homes. Unless home sales resume positive growth, the consequences will be seen in weaker consumer demand and a languishing economy.

City Economy

New York City is a success story. The City has now regained over 2 ½ times the positions lost during the recession, and achieved a record 4 million in payroll employment as of last October. Population at 8.3 million and real gross city product (GCP) are also at all-time records. The Finance Division is optimistic the City will continue to grow. It has done well despite the headwinds and uneven growth of the national economy. As headwinds abate on the national economy it should pull the City's economy along with it. Over the forecast period we expect employment to grow at an average annual rate of 2.1 percent. Real GCP should continue to grow 2.7 percent annually.

Figure 4. Real Gross City Product Climbed Above 2 Percent in 2013

Source: IHS Global Insight, Real gross city product, January 2014

The City's economy continued to expand through 2013, adding 77,000 payroll jobs, close to 2012's pace of 79,000 positions.¹⁷ Unfortunately wage growth has also maintained the slow momentum of the previous year, with the average private sector wage growing by only 0.7 percent in 2013, following 0.5 percent in 2012. The different growth paths can be partially explained by a decreasing share of high-paying jobs and an exceptional surge in low-paying employment, pumped up by dynamic tourism. Real gross city product accelerated to 2.7 percent in 2013, up from 1.5 percent in 2012.¹⁸ Commercial real estate increased both sales activity and leasing, while the residential market experienced soaring prices and plunging inventories.

If there is a potential problem it lies in the interaction of the labor and real estate markets. We see enough expansion in the Manhattan office market at the World Trade Center site and in Hudson Yards that commercial real estate should not be a problem but the residential market is a different story. Rising prices and rents are already an issue. As the economy improves in other parts of the country, parts of the City's labor force may find opportunities in places with better combinations of wages and housing prices. Put another way, rising housing prices could curtail the expansion of the City's population, labor force, and economy.

Employment and the Changing Mix of Jobs: 2013 was the third straight year of private sector job growth of over 2 percent. This strong growth makes the City's high unemployment rate of

¹⁷ New York State Department of Labor, Current Employment Statistics, December 2013. All employment numbers.

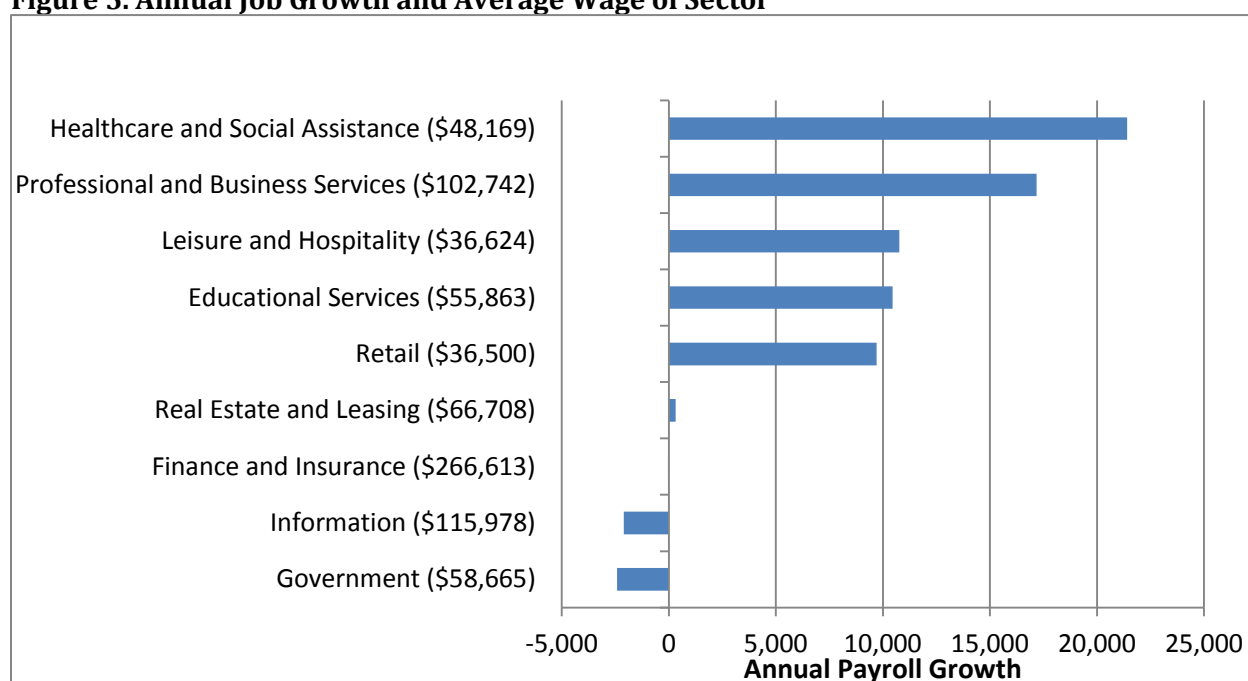
Note: The last two years of payroll growth will be rebenchmarked on March 6, 2014, and are expected to change.

¹⁸ IHS Global Insight, February 2014.

8.1 percent as of December somewhat of a puzzle. However, that rate did drop 0.7 percentile points over the previous 12 months.

There continues to be a noticeable shift within the City's workforce from higher-paid to lower-paid sectors. In 2013, sectors with the strongest annual job growth included health care & social assistance, administrative & support services, leisure & hospitality, and retail: all sectors that tend to be lower paying. Health care paid an average annual wage of \$48,200,¹⁹ leisure & hospitality \$36,600, and retail only \$36,500. Sectors experiencing flat job growth or contraction included finance & insurance, information, and government. These tend to be moderate-to-better paying jobs. Finance & insurance paid an average wage of \$266,600, and information \$116,000. Government positions, providing middle-income wages and enviable benefits, paid an average wage of \$58,700. The changing employment mix to lower-paying sectors makes it increasingly difficult for the average worker to live in the City and support a family.

Figure 5. Annual Job Growth and Average Wage of Sector



Source: New York State Department of Labor, Current Employment Statistics, December 2013 (employment change 2013 from 2012), and Quarterly Census of Employment and Wages (average wage for 2012).

Employment Sectors: The securities industry has been a major dynamo in the City's economy. Its average wage of \$360,700 tops all other sectors. The State Comptroller's office estimates that one job in securities supports two jobs in other sectors.²⁰ For the first three reported quarters of 2013, NYSE member firms reported net earnings of \$13.5 billion, considered healthy, but still a 23 percent drop from the same period in 2012. The securities sector faces the challenges of a weak global recovery - most recently from emerging markets, and a tougher Dodd-Frank regulatory environment, limiting high-risk but profitable transactions. Adjusting to

¹⁹ New York State Department of Labor, Quarterly Census of Employment and Wages (QCEW), 2012. All average wages round to the hundreds.

²⁰ Office of the State Comptroller, "The Securities Industry in New York City," October 2012, p. 2.

leaner opportunities, the securities industry reduced its payroll by 1,000 in 2013. The year before, it eliminated 2,500 jobs. Bonuses continued their shift from huge cash payments to deferred compensation to discourage short-term risk taking. Very moderate job growth is expected to return in 2014, as the industry reaches its restructuring goal, and equity markets still promise strong returns. Annual payroll growth is expected to remain below 1 percent over the forecast period, as the industry works within the constraints of Dodd-Frank, and faces an additional challenge when the Fed eventually raises short-term interest rates.

Professional and business services include a broad array of office-based sectors, including legal services, accounting, architecture, engineering, computer services, management companies and administrative and waste services. Wages in this super-sector, like its occupations, cover a wide gamut, averaging \$102,700. Its dynamic job growth during the recovery displaced finance in its former role of leading the City out of recession. In 2012, business services experienced robust job growth, contributing 25 percent of the additional private sector employment. The super-sector experienced slower job growth in 2013, contributing only 21.6 percent of new jobs. Its shrinking share of job creation also contributed to the smaller share of good paying jobs. Its slower growth is expected to continue into 2014, but will then resume more buoyant growth as a growing national economy employs its services.

Leisure and hospitality has been another dynamic super-sector during the recovery, although it generally pays low wages. Like business services, it also experienced exceptional job growth in 2011 and 2012, and while slowing in 2013, still surpassed the rate of total employment growth.

Tourism, which underpins leisure and hospitality, soared to a record 54.3 million visitors. Hotel occupancy reached an average 88.5 percent in 2013, at the same time additional rooms were added to the City's supply. The average daily rate for rooms climbed to \$291 last year.²¹ Retail jobs, another beneficiary of tourism, have also grown faster than total employment. Employment in leisure-hospitality and retail is expected to maintain strong growth in the outyears, with a strengthening dollar shifting the mix of visitors towards more domestic travelers and fewer from abroad.

Looking at other sectors, health care and education services, while generally noncyclical, have sharply accelerated their job creation in 2013. Health care employment is expected to grow as more New Yorkers gain health insurance through the Affordable Health Care Act. Information, however, declined just as sharply after three years of growth, with weakness in publishing, telecommunications, and television-radio broadcasting. Manufacturing continued its long-term decline, a trend that is expected to continue.

The vibrant demand for private and public structures and infrastructure has been a boon for the construction industry. 2013 was the second year of employment growth in construction, following three years of steep declines. Construction starts reached \$18.8 billion in 2013, an 11 percent increase from 2012. The renovation of three major bridges²² and residential developments spurred the activity. Housing starts reached \$6.3 billion, a 17 percent increase over 2012. Non-residential private construction, while making up the preponderate share of

²¹ NYC & Company, 'NYC Hotel Occupancy, ADR & Rooms Sold,' January 30, 2014.

²² Goethals, Bayonne and Verrazano bridges.

starts, decreased 10 percent in value over 2012, the third consecutive year of declines.²³ Council Finance sees the rate of overall construction accelerating in the outyears as financing standards continue to ease, along with strong demand for housing and growing demand for office space.

Council Finance estimates that private wages have grown 3.1 percent in 2013. Both OMB and Council Finance see private wage growth accelerating to around 4.3 percent in the outyears. Their pathways, however, are slightly different. OMB projects a significant weakening of private employment growth from 2.4 percent in 2013 to 1.5 percent in the outyears, but with the average wage growing to 3.1 percent in the outyears.²⁴ Council Finance sees private employment growth decelerating only slightly to around 1.9 percent-to-2.0 percent in the outyears, but private average wage growth remaining in the doldrums of around 2.3 percent. While the City's economic growth is bound to eventually face the constraints of demand and limited space, it does not appear that they will kick in imminently. Additional commercial and residential space is currently in the pipeline and the national economy is expected to gain more traction, benefitting the City. Wage growth, however, is expected to remain weak due to the increasing prevalence of low-paying sectors.

Table 7. Forecast of Employment Gains

Year-Over-Year Growth in Thousands

	CY13	CY14	CY15	CY16	CY17	CY18
Total Private	79.7	78.0	68.2	73.7	74.2	70.9
Finance and Insurance	0.0	3.9	2.4	1.9	1.5	1.0
Banking	1.1	2.2	1.1	0.9	0.9	0.6
Securities (Wall Street)	(1.0)	1.7	1.4	1.1	0.8	0.5
Retail	9.7	10.6	10.0	9.8	8.8	7.2
Professional and Business Services	17.2	12.0	15.6	18.7	18.8	17.4
Real Estate and Leasing	0.3	0.4	0.7	0.6	0.4	0.3
Information	(2.1)	2.3	1.9	2.7	3.0	2.7
Leisure and Hospitality	10.7	9.7	11.3	12.2	13.4	14.3
Arts, Entertainment, and Recreation	3.6	(1.1)	2.2	1.9	2.1	2.2
Accommodation and Food Services	7.2	10.8	9.1	10.3	11.3	12.1
Accommodations (Hotels)	(0.7)	0.7	1.3	1.5	1.5	1.4
Healthcare and Social Assistance	21.4	16.2	11.3	11.3	11.4	11.4
Education Services	10.6	13.3	9.9	10.7	11.5	12.3

Source: NYS Department of Labor, *Current Employment Statistics, December 2013; Forecast by NYC Council Finance*

Real Estate: Commercial real estate expanded sales and office leasing in 2013. Since January 2013 available office space in Manhattan increased by 19 percent, 3.9 million square feet of which was new construction. Available space in the Downtown market jumped 16 percent at the completion of Four World Trade Center. The additional supply of space pushed Manhattan's overall vacancy rate to 11.0 percent in the fourth quarter 2013 from 9.4 percent a

²³ New York Building Congress, 'New York City Construction Outlook Update,' February 13, 2014.

²⁴ The average wage of private and public combined.

year before. Leasing of office space accelerated to 26 million square feet in 2013, a 10.5 percent increase over 2012. This is despite the fact that the office using sectors²⁵ experienced slower job growth than in previous years, exerting weaker demand for space. Council Finance forecasts that when business services ramp up job creation by the end of 2014, this will increase the demand for office space. Overall asking rents rose to \$64.08 per square foot in the fourth quarter 2013 from \$60.40 a year ago.²⁶

With the local residential market picking up momentum, the main constraint on sales is no longer demand, but shrinking supply. There were 3,297 co-op and condo sales in Manhattan in the fourth quarter 2013, a 26.9 percent increase over a year ago, and the highest fourth quarter sales in 25 years. At the same time inventory fell 12.3 percent from a year ago to a 14 year low. Brooklyn followed the same pattern. There were 1,752 sales in fourth quarter, 21.2 percent over the previous year, while inventory fell 27.7 percent over the same period. Median co-op prices in Manhattan rose 4.6 percent to \$680,000 from the previous year. Condos jumped 14.3 percent to \$1,320,000. Median home sale prices in Brooklyn rose 11.2 percent from the previous year to a record \$570,110.²⁷

The rental price in Manhattan has finally climbed so high that its median rent actually fell 1.1 percent from a year ago to \$3,014. This is the fifth consecutive month of year-over-year declines, a novelty in the City. In Brooklyn, however, the median rent was \$2,830, a jump of 12 percent from the same month last year.²⁸ With exorbitant increases in home prices and rents, more middle-class families will be forced to reassess whether the City provides the optimal income and cost-of-living match compared to other locations.

Table 8. Forecast of Selected Economic Indicators: National and New York City, CY2013-2018

	CY13	CY14	CY15	CY16	CY17	CY18
NATIONAL ECONOMY						
Real GDP %	1.9	2.7	3.3	3.4	3.1	2.8
Private Employment						
Level Change, '000	2,250	2,269	2,945	2,814	2,273	1,418
Percent Change, %	2.0	2.0	2.5	2.4	1.9	1.1
Unemployment Rate, %	7.4	6.5	5.8	5.4	5.1	5.0
Total Wages %	1.9	2.1	2.2	2.5	2.6	2.6
Interest rates %						
3-Month Treasury Bill	0.06	0.06	0.40	2.18	3.62	3.74
30-Year Conventional Mortgage Fixed	3.98	4.58	4.99	5.76	6.53	6.65
NEW YORK CITY ECONOMY						
Real GCP %	2.7	2.3	2.9	3.1	2.8	2.4
Private Employment						
Level Change, '000	79.7	78.0	68.2	73.7	74.2	70.9
Percent Change, %	2.4	2.3	2.0	2.1	2.0	1.9
Average Private Wages %	0.7	1.8	2.4	2.5	2.3	2.2
Total Private Wages %	3.1	4.1	4.4	4.6	4.3	4.1
NYSE Member Firms %						
Total Revenue	1.7	2.8	2.4	2.8	1.7	1.6
Total Compensation	4.8	2.8	5.1	5.3	4.7	4.6

Source: IHS Global Insight, February 2014 (Nat'l); New York City Council - Finance Division (City)

²⁵ Financial activities, professional and business services and information.

²⁶ Cushman & Wakefield, 'Marketbeat Office Snapshot Manhattan,' Quarter 4, 2013.

²⁷ Douglas Elliman Real Estate, 'Elliman Report: Manhattan Sales' and 'Brooklyn,' Quarter 4, 2013.

²⁸ Douglas Elliman Real Estate, 'Manhattan & Brooklyn Rentals Elliman Report,' January 2014.

Tax Forecast

Council Finance expects total tax collections to slow significantly in Fiscal 2014 to 2.7 percent bringing in around \$46.9 billion including audits. This compares with the unusually strong 8.5 percent growth in Fiscal 2013. The rollercoaster path of the two fiscal years is largely driven by the personal income tax. Personal income tax collections soared over 15 percent in Fiscal 2013, as taxpayers moved forward their capital gains realizations to avoid the higher tax rates in tax year 2013. Tax year 2013 collections received in Fiscal 2014 were therefore ‘cannibalized’ for the previous year, and are expected to see negative growth. Frontloading of revenues aside, PIT collections are expected to grow at a healthy pace, buoyed by rising employment and capital gains realizations.

Business tax collections are projected as being close to flat in Fiscal 2014. Plunging collections from the banking corporation tax, due to legal settlements, fines, and a weakening mortgage business, were offset by taxes on healthy profits through the unincorporated business tax. Business tax revenue is expected to strengthen in Fiscal 2015 as the national economy gains more traction and increases its demand for City services.

Sales tax collections are experiencing strong growth in Fiscal 2014, supported by record tourism and growing consumer confidence. Healthy growth is expected to continue in the outyears as employment in the City expands. Hotel tax collections are particularly strong, directly thriving on the record tourism levels. Collections are expected to be exceptionally strong in Fiscal 2014, and sustain healthy growth in the outyears.

The two transfer taxes, the real property transfer tax (RPTT) and the mortgage recording tax (MRT), are among the two most volatile taxes in the City’s budget. As the real estate market has slowly improved, and credit rates remains low becomes increasingly easier acquire, the transfer taxes have improved. The RPTT will continue a steady growth in the outyears, at an average rate of 2.9 percent. The MRT on the other hand will see a slight dip in Fiscal 2015 as rising interest rates slow the recent spate of refinancing, before resuming a steady growth of 3.4 percent on average in Fiscal 2016 through 2018. The Commercial Rent Tax, buoyed by the strong Manhattan office market, continues the solid growth it has recently shown throughout the forecast period.

Real Property Tax: For Fiscal 2014, both OMB and Council Finance expect the Real Property Tax (RPT) to generate \$19.781 billion in revenues. This represents a fairly sizeable \$171 million increase over the November Plan largely due to greater lien sale proceeds and changes in the reserve²⁹. The largest component of the change to the reserve reflects greater than expected revenues stemming from recent changes to the coop/condo abatement.

On January 15, 2014, the Department of Finance (DOF) released the preliminary assessment roll for Fiscal 2015, which showed much stronger assessment growth than had been expected with Billable Assessed Value (BAV)up a substantial \$13.7 billion over the prior year. While all four classes of property saw at least some growth, three-fifths of the growth can be attributed to

²⁹ The levy is the raw amount of revenues that would be raised by the property tax and is generally determined at the outset of a fiscal year as the overall tax rate and billable assessed values are for the most part set at that point. The reserve reflects the various tax abatement programs, collections adjustments, and lien sale which when taken into account with the levy, result in the actual revenue impact in the budget.

the Class 4 commercial properties which saw a large 10 percent increase in their BAV. Class 4, along with Class 2 which saw a 7.9 percent increase in its BAV, make up over 80 percent of the taxable value in the City, and so the strong growth in the BAV of these two classes are largely driving the amount of revenue raised by the property tax.

While some reductions in assessments should be expected on the final roll in May (which actually determines the levy), Council Finance still expects the City will see strong property tax revenues of \$20.08 billion in Fiscal 2015.

Table 9. Market Values and Billable Assessed Values

Dollars in Billions

	Market Values			Billable Assessed Values		
	FY 2014	FY 2015T	% Change	FY 2014	FY 2015T	% Change
Class 1	\$396.9	\$415.5	4.7%	\$16.2	\$16.8	3.7%
Class 2	\$202.5	\$217.3	7.3%	\$58.9	\$63.6	7.9%
Class 3	\$28.2	\$28.1	-0.3%	\$12.2	\$12.2	-0.3%
Class 4	\$230.6	\$253.9	10.1%	\$84.4	\$92.8	10.0%
TOTAL	\$858.1	\$914.8	6.6%	\$171.7	\$185.4	8.0%

Source: New York City Department of Finance 2014 Preliminary Assessment Roll

This growth in BAV is being driven by large market value increases over the past several years, which continue this year. Class 4 saw an increase of 10.1 percent in overall market value on the preliminary roll, which comes after three years of annual growth averaging 6.8 percent. Since changes in market values for Class 4 are phased in over five years, this period of high market value growth is pushing and will continue to push up BAV and therefore property tax revenue growth in the outyears.

OMB believes growth in RPT revenues will slow to an average of 4.2 percent in the outyears as market value growth begins to moderate. Council Finance does see some moderation in market value growth; however, it also sees a slightly higher growth rate of 4.6 percent in the same period.

Table 10. Council Forecast: Difference from OMB Forecast

Dollars in Millions

	FY14	FY15	FY16	FY17	FY18
Real Property	\$0	\$108	\$280	\$338	\$221
Personal Income	(\$50)	\$87	\$216	\$267	\$506
General Corporation	(\$29)	\$95	\$59	(\$92)	(\$151)
Banking Corporation	\$31	\$148	\$173	\$180	\$144
Unincorporated Business	\$88	\$131	\$155	\$187	\$197
Sales	\$14	\$60	\$32	\$51	\$76
Commercial Rent	(\$1)	(\$5)	(\$5)	(\$2)	\$4
Real Property Tran	\$57	\$174	\$86	\$88	\$72
Mortgage Recording	\$56	\$126	\$34	\$26	\$8
Utility	\$8	\$24	\$24	\$43	\$60
Hotel	\$18	\$33	\$52	\$79	\$103
All Other	\$0	\$0	\$0	\$0	\$0
Audits	\$0	\$0	\$0	\$0	\$0
Total Taxes	\$194	\$980	\$1,106	\$1,165	\$1,242

Source: Council Fiscal 2014 Executive Budget

Table 11. Council Forecast: Growth Rates				
	FY13*	FY14	FY15	FY16 to FY18 (Avg)
Real Property	4.3%	5.7%	5.4%	4.4%
Personal Income	15.3%	(6.0%)	7.3%	5.6%
General Corporation	10.0%	(0.1%)	8.4%	0.7%
Banking Corporation	6.2%	(8.0%)	5.4%	1.4%
Unincorporated Business	10.5%	7.0%	6.3%	5.0%
Sales	5.5%	5.0%	3.9%	3.9%
Commercial Rent	5.3%	3.7%	3.2%	4.7%
Real Property Transfer	19.1%	37.2%	0.3%	3.7%
Mortgage Recording	38.3%	35.5%	(2.5%)	3.4%
Utility	3.7%	2.0%	7.7%	5.3%
Hotel	6.1%	8.3%	4.6%	7.2%
All Other	3.8%	(2.6%)	3.1%	0.1%
Audits	35.9%	(29.6%)	(0.1%)	0.0%
Total Taxes	8.5%	2.7%	5.2%	4.1%

Source: Council Fiscal 2014 Executive Budget

*Actuals

Pensions

Pension contributions remain at a high level: 11.1 percent of City revenue and 15.7 percent of City funds. However, decent returns to pension investments and the gradual implementation of Tier 6 have slowed the expected average annual rate of growth of pension contributions to 3.5 percent across the Plan. This is below the rate of growth of the City's economy, and below the rate of growth of City funds, which over time will make City pensions easier to afford. This assumes that actuarial assumptions are more or less correct. The reduction of the assumed interest rate (AIR) to 7 percent should help since this is a more realistic target than the 8 percent AIR previously used. In Fiscal 2013 the City's five pension funds earned an average of 12.1 percent on their investments. This reduced the required pension contributions starting in Fiscal 2015, which is reflected in this Financial Plan. Should the pension portfolio's return differ from the AIR's 7 percent or collective bargaining settlements differ from actuarial wage growth assumptions, the size of required contributions will change.

Table 12. Pension Expenses					
<i>Dollars in Millions</i>					
	FY14	FY15	FY16	FY17	FY18
Pension Expenses	\$8,194	\$8,330	\$8,448	\$8,553	\$8,729
Percent of City Funds	15.7%	15.4%	15.0%	14.6%	14.6%
Percent of Total Revenue	11.1%	11.3%	11.1%	10.8%	10.8%

Source: Council Finance. OMB data

Financing and Debt Service

New York City sells bonds to fund its ambitious capital program, and the Fiscal 2015 Preliminary Budget estimates \$31 billion in long-term borrowing between Fiscal 2015 and 2018. The City's overall borrowing strategy is based on many factors, such as market conditions, project contracts and cash flow concerns, and a summary of the Plan can be seen in the table below

Table 13. Summary of Fiscal 2015 Capital Financing Plan					
<i>Dollars in Millions</i>					
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Financing Plan					
GO Bonds	\$2,125	\$2,850	\$2,540	\$2,260	\$1,990
TFA Bonds ⁽¹⁾	2,815	2,850	2,540	2,260	1,990
Water Authority Bonds	1,740	1,622	1,363	1,179	1,139
Total	\$6,680	\$7,322	\$6,443	\$5,699	\$5,119
Debt Outstanding					
GO Bonds	\$41,779	\$42,481	\$42,660	\$42,581	\$42,222
TFA Bonds ⁽¹⁾	24,997	27,082	28,710	29,883	30,718
Other Debt ⁽²⁾	2,850	2,756	2,654	2,562	2,459
Total	69,626	72,319	74,024	75,026	75,399
Water Authority Bonds	30,106	31,503	32,492	33,273	34,002
Debt Financing Burden (excludes Water Debt)					
Debt Outstanding/NYC Personal Income	13.90%	13.90%	13.60%	13.20%	12.60%

Source: Council Finance; February 2014 Financial Plan

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

2) Includes Conduit Debt and TSASC.

The City's debt issuance remains below the City's constitutional debt limit of \$79.1 billion, and by the City Comptroller's projections the debt limit should grow sufficiently to allow the Capital Financing Plan.³⁰ The City's bonds are well received by the markets. The bonds are highly rated, with triple A rating from Standard and Poor's for TFA PIT bonds and New York Water Authority bonds. The City's general obligation (GO) debt is double A rated and TFA building aid revenue bonds (BARBS) are AA- rated.

The City's debt service is manageable, which is what you would expect from an issuer with highly rated bonds. Debt service is rising as a percentage of City funds and while it is not currently a problem, it is something to keep an eye on.

³⁰ New York City Comptroller, Fiscal Year 2014 Annual Report on Debt and Obligations, December 2013.

Table 14. Summary of Fiscal 2015 Debt Service Payments*Dollars in Millions; Before Prepayments*

	FY 2014	FY 2015	FY 2016	FY 2017	FY 201 8
Debt Service					
GO Bonds	\$3,804	\$4,348	\$4,668	\$4,711	\$4,759
TFA Bonds ⁽¹⁾	1,670	2,069	2,304	2,601	2,761
Other Debt ⁽²⁾	337	390	396	386	387
Total	\$6,203	\$6,873	\$7,246	\$7,525	\$7,733
Debt Service Burden					
Debt Service/Total Revenue	7.80%	9.10%	9.50%	9.70%	9.70%

Source: Council Finance; February 2014 Financial Plan

1) TFA Bonds do not include BARBs

2) Includes Conduit Debt, HYIC and TSASC.

The City continues to benefit from the low interest rate environment. The February 2014 Financial Plan contains \$277 million in Fiscal 2014 and \$86 million in Fiscal 2015 debt service savings. Most of Fiscal 2014 and all of the Fiscal 2015 savings is from taking advantage of low interest rates to refund bonds. However, about \$45 million of Fiscal 2014 savings is due to better than expected revenues in the Hudson Yards project that that will reduce City interest support and tax equivalency payments to the Hudson Yards Infrastructure Corporation.

APPENDIX

Table 15. Restorations and Initiatives Baselined in the November & February Plans*Dollars in Millions*

Agency	Amount	Included
ACS	\$62,500	Childcare; School-Age Vouchers
DYCD	70,719	OST (except \$10m); Beacon & Cornerstone; RHY; Adult Literacy; IOI
DHS	1,200	Medical Services in Adult Shelter
HRA	8,786	HASA Supportive Housing Contracts; Food Pantries; Teen RAPP
DFTA	20,200	Case Management; Transportation & Space Costs; Borough President Discretionary; CityMeals on Wheels; Information & Referral Contracts; Elder Abuse Prevention; Social Adult Day Care
Libraries	106,335	
Culturals	59,992	CIGs; Programs; CASA; Coalition of Theaters of Color
CUNY	2,500	Black Male Initiative
DOHMH	26,167	All Council restorations and initiatives
HHC	12,467	Operating subsidy; Child Health clinics; Developmental disability clinics
Gun Violence	2,385	Only DOHMH portion baselined; remaining \$2.422 million was not
FDNY	59,190	Fire companies
DPR	31,879	Pools; JTPs; Seasonals; Playground Associates; Tree Pruning
Electeds	9,561	Borough Presidents, Public Advocate, Public Administrators
TOTAL	\$473,869	

Table 16. Restorations and Initiatives NOT Baselined in the November & February Plans*Dollars in Millions*

Agency	Amount	Item(s)
ACS	\$60	CONNECT, Inc domestic violence program
DYCD	17,065	\$10m OST Restoration; Council after-school providers (SASF; TASC, etc.); Food Pantries; EBTs at Food Markets; Jill Chaifitz Helpline, etc.
Gun Violence	2,422	Non-DOHMH spending
DHS	250	Citywide Homeless Prevention Fund
HRA	150	EITC Assistance Program
DFTA	1,000	Handyman Services and Access to Emergency Services (Met Council)
DOE	24,785	Custodial operations; UPK; Dropout Prevention; Urban Advantage; Teacher's Choice; School Lunch Fee Increase; etc.
CUNY	3,240	PR and Dominican Institutes; Murphy Institute; Citizenship NOW; Professional Development Institute (TA for childcare providers)
HPD	5,015	Anti-Eviction Legal Services; Center for NYC Neighborhoods; Housing Court Task Force; Housing Preservation Initiative; Community Consultants
DSBS	8,224	IBZs restoration; Jobs to Build On; CWE; MWBE Leadership Associations; Job Development/ Financial Literacy Initiative
CJC	12,135	ATIs; DoVE; Civil Legal Services & other legal services programs; Child Advocacy Centers; etc.
Other	2,704	Staten Island Drug Treatment Court; Adolescent Portable Therapy
TOTAL	\$77,590	

Table 17. Fiscal Year 2015 Preliminary Budget: New Needs from November Budget*Dollars in Millions*

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
NEW NEEDS					
<i>Initiatives</i>					
Universal Pre-Kindergarten	-	340,000	342,000	365,000	381,000
Middle School Universal Afterschool	-	190,000	191,000	204,000	213,000
NYPD IG Unit	750	3,000	3,000	3,000	3,000
NYPD Community Affairs	1,134	1,051	1,050	1,035	1,123
NYCHA Payment Relief	52,500	-	-	-	-
HASA Rent Cap	4,339	17,357	17,357	17,357	17,357
Muni ID Cards	430	-	-	-	-
Benefits Outreach & Training	1,150	1,300	1,300	1,300	1,300
Runaway & Homeless Youth	1,258	2,407	2,407	2,407	2,407
NBAT & Business Express	-	1,475	1,475	1,475	1,475
Auburn & Catherine St. Shelters	1,253	-	-	-	-
Paid Sick Leave Enforcement	<u>4,783</u>	<u>1,812</u>	<u>1,812</u>	<u>1,812</u>	<u>1,812</u>
Subtotal, Initiatives	67,597	558,402	561,401	597,386	622,474
<i>Re-estimates and Other New Needs</i>					
Snow Budget	35,000	-	-	-	-
June Federal Primary	7,000	-	-	-	-
Law Dept Litigation Support	5,065	4,361	582	-	-
DHS Shelter Reestimate	15,720	14,389	14,389	14,389	14,389
Fresh Kills Closure Timing	(33,803)	13,065	20,737	-	-
All Other New Needs	<u>22,407</u>	<u>52,770</u>	<u>60,365</u>	<u>57,542</u>	<u>58,784</u>
Subtotal, Other New Needs	51,389	84,585	96,073	71,931	73,173
TOTAL NEW NEEDS	\$118,986	\$642,987	\$657,474	\$669,317	\$695,647
PEG RESTORATIONS					
Elected Officials (BP; PA; Pub Admin)	-	9,561	9,552	9,552	9,552
DOE, Various	3,120	3,120	3,120	3,120	3,120
FDNY Dispatcher Headcount	1,287	2,184	2,184	2,184	2,184
20 Fire Companies	-	43,682	43,682	43,682	43,682
Delay Sale of HRA Multi-Service Centers	25,000	(25,000)	-	-	-
DHS, Various	9,225	19,095	19,095	19,095	19,095
DOHMH Immunization Clinics	434	491	505	520	520
Mental Hygiene Contracts & HIV Pgms	3,967	47,128	4,735	4,742	4,742
All Other	30	2	47	3,520	3,564
TOTAL PEG RESTORATIONS	\$43,063	\$100,263	\$82,920	\$86,415	\$86,459
OTHER ADJUSTMENTS					
Pension Re-estimate	6,700	89,498	95,838	28,221	18,109
Worker's Comp Re-estimate	-	16,000	18,000	21,000	24,000
Returned Rental Payment	-	(24,000)	-	-	-
CUNY Tuition Adjustment	-	24,200	24,200	24,200	24,200
All Other	2,180	9,096	4,009	5,044	(9,591)
TOTAL OTHER ADJUSTMENTS	\$8,880	\$114,794	\$142,047	\$78,465	\$56,718
TOTAL	\$170,929	\$858,044	\$882,441	\$834,197	\$838,824

Table 18. Fiscal 2015 Preliminary Budget Revenue Plan*Dollars in Millions*

	FY14	FY15	FY16	FY17	FY18
Taxes					
Real Property	\$19,781	\$20,782	\$21,815	\$22,703	\$23,579
Personal Income	8,663	9,151	9,643	10,055	10,368
General Corporation	2,719	2,820	2,901	3,016	3,127
Banking Corporation	1,217	1,168	1,183	1,190	1,226
Unincorporated Business	1,846	1,925	2,024	2,099	2,183
Sales	6,424	6,630	6,915	7,170	7,422
Real Property Transfer	1,433	1,321	1,430	1,515	1,596
Mortgage Recording	950	854	962	1,020	1,075
Commercial Rent	689	715	745	778	812
Utility	385	399	417	424	434
Hotel	28	539	560	577	601
Cigarette	57	55	53	52	51
Audit	710	709	709	709	709
STAR	838	872	877	881	881
Tax Program (PIT for UPK)	0	530	533	569	594
All Other	491	501	501	502	502
Total Taxes	\$46,731	\$48,971	\$51,268	\$53,260	\$55,160
Federal Categorical Grants	\$8,409	\$6,402	\$6,384	\$6,370	\$6,369
State Categorical Grants	\$11,737	\$11,905	\$12,275	\$12,747	\$13,143
Non-Governmental Grants (Other Cat.)	\$1,417	\$1,363	\$1,343	\$1,339	\$1,335
Unrest. / Anticipated State & Federal Aid	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue					
Charges for Services	922	922	922	922	922
Water and Sewer Charges	1,518	1,513	1,546	1,513	1,524
Licenses, Permits, Franchises	581	579	589	590	588
Rental Income	281	272	272	272	272
Fines and Forfeitures	808	784	782	782	782
Other Miscellaneous	1,412	1,006	983	939	554
Interest Income	16	10	45	134	163
Intra City	1,743	1,696	1,669	1,679	1,684
Total Miscellaneous	\$7,281	\$6,782	\$6,808	\$6,831	\$6,489
Net Disallowances & Transfers	(1,758)	(1,711)	(1,684)	(1,694)	(1,699)
Total Revenue	\$73,817	\$73,712	\$76,394	\$78,853	\$80,797
City Funds	\$52,254	\$54,042	\$56,392	\$58,397	\$59,950
Federal & State Revenue	\$20,146	\$18,307	\$18,659	\$19,117	\$19,512
Federal & State as a Percent of Total	27.3%	24.8%	24.4%	24.2%	24.1%
City Funds as a Percent of Total Revenue	70.8%	73.3%	73.8%	74.1%	74.2%

Source: OMB Fiscal 2015 Preliminary Budget

Table 19. Fiscal Year 2015 Preliminary Budget: Revenue Changes from November Budget
Dollars in Millions

	FY14	FY15	FY16	FY17
Taxes				
Real Property	\$171	\$454	\$556	\$677
Personal Income	\$339	\$106	\$246	\$332
General Corporation	\$104	\$63	\$35	(\$7)
Banking Corporation	(\$86)	(\$162)	(\$157)	(\$185)
Unincorporated Business	(\$12)	\$22	\$77	\$43
Sales	\$54	\$40	\$86	\$78
Real Property Transfer	\$180	\$55	\$43	\$0
Mortgage Recording	\$130	\$26	\$56	\$20
Commercial Rent	\$9	\$0	\$0	\$0
Utility	(\$5)	(\$6)	(\$2)	\$1
Hotel	\$7	\$3	\$0	\$1
Cigarette	(\$4)	(\$7)	(\$7)	(\$7)
Audit	\$0	\$0	\$0	\$0
STAR	\$2	\$0	\$0	\$0
Tax Program (PIT for UPK)	\$0	\$530	\$533	\$569
All Other	\$1	\$0	\$0	\$0
Total Taxes	\$890	\$1,124	\$1,466	\$1,522
Federal Categorical Grants	\$296	\$66	\$92	\$90
State Categorical Grants	(\$40)	(\$102)	(\$74)	(\$136)
Non-Governmental Grants (Other Cat.)	(\$6)	\$7	\$0	\$0
Unrest. / Anticipated State & Federal Aid**	\$0	\$0	\$0	\$0
Miscellaneous Revenue				
Charges for Services	\$1	\$7	\$6	\$7
Water and Sewer Charges	(\$20)	\$2	\$10	\$9
Licenses, Permits, Franchises	\$3	\$1	\$1	(\$2)
Rental Income	(\$11)	(\$23)	(\$23)	(\$23)
Fines and Forfeitures	(\$3)	(\$19)	(\$19)	(\$19)
Other Miscellaneous	(\$1)	(\$93)	\$106	\$11
Interest Income	\$3	\$0	\$0	\$1
Intra City	\$33	\$123	\$92	\$101
Total Miscellaneous	\$5	(\$2)	\$173	\$85
Net Disallowances & Transfers	(\$33)	(\$123)	(\$92)	(\$101)
Total Revenue	\$1,112	\$970	\$1,565	\$1,460
City Funds	\$862	\$999	\$1,547	\$1,506
Federal & State Revenue	\$256	(\$36)	\$18	(\$46)

Source: OMB November 2013 and February 2014 Financial Plans.

Table 20. Fiscal Year 2015 Preliminary Budget: Revenue Changes from Adopted Budget
Dollars in Millions

	FY14	FY15	FY16	FY17
Taxes				
Real Property	\$211	\$454	\$556	\$677
Personal Income	\$494	\$106	\$246	\$332
General Corporation	\$133	\$63	\$35	(\$7)
Banking Corporation	(\$80)	(\$162)	(\$157)	(\$185)
Unincorporated Business	\$3	\$22	\$77	\$43
Sales	\$101	\$40	\$86	\$78
Real Property Transfer	\$323	\$55	\$43	\$0
Mortgage Recording	\$227	\$26	\$56	\$20
Commercial Rent	\$3	\$0	\$0	\$0
Utility	(\$9)	(\$6)	(\$2)	\$1
Hotel	\$15	\$3	\$0	\$1
Cigarette	(\$6)	(\$7)	(\$7)	(\$7)
Audit	\$1	\$0	\$0	\$0
STAR	\$2	\$0	\$0	\$0
Tax Program (PIT for UPK)	\$0	\$530	\$533	\$569
All Other	(\$1)	\$0	\$0	\$0
Total Taxes	\$1,417	\$1,124	\$1,466	\$1,522
Federal Categorical Grants	\$1,914	\$109	\$107	\$97
State Categorical Grants	(\$19)	(\$142)	(\$193)	(\$185)
Non-Governmental Grants (Other Cat.)	\$41	\$4	(\$3)	(\$3)
Unrest. / Anticipated State & Federal Aid**	\$0	\$0	\$0	\$0
Miscellaneous Revenue				
Charges for Services	\$13	\$8	\$7	\$8
Water and Sewer Charges	\$4	\$2	\$10	\$9
Licenses, Permits, Franchises	(\$3)	(\$5)	\$2	(\$10)
Rental Income	(\$11)	(\$23)	(\$23)	(\$23)
Fines and Forfeitures	(\$8)	(\$32)	(\$32)	(\$32)
Other Miscellaneous	\$546	\$80	\$99	\$5
Interest Income	\$6	\$0	\$17	\$26
Intra City	\$161	\$135	\$104	\$113
Total Miscellaneous	\$708	\$165	\$184	\$96
Net Disallowances & Transfers	(\$161)	(\$135)	(\$104)	(\$113)
Total Revenue	\$3,900	\$1,125	\$1,457	\$1,414
City Funds	\$1,964	\$1,154	\$1,546	\$1,505
Federal & State Revenue	\$1,895	(\$33)	(\$86)	(\$88)

Source: OMB June 2013 and February 2014 Financial Plans.