The Council of the City of New York

Hon. Melissa Mark-Viverito
Speaker of the Council

Hon. Julissa Ferreras
Chair, Committee on Finance

Latonia McKinney, Acting Director

Raymond Majewski
Deputy Director/Chief Economist

Nathan Toth
Deputy Director/Housing, Infrastructure & Economic Development

Paul Sturm, Unit Head

Emre Edev
Senior Legislative Financial Analyst

Christopher Eshleman
Senior Legislative Financial Analyst

Report on the Fiscal Year 2015 Executive Budget for the

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

June 6, 2014

Contents

The Fiscal 2015 Executive Budget represents a more fully articulated view of the de Blasio Administration's budgetary priorities than the Preliminary Budget, which was released in February—mere weeks after the new Mayor took office.

Highlights

- **Labor Settlement**: This budget reflects the recent settlement with the United Federation of Teachers (UFT) and, more broadly, expected settlements regarding 150 unsettled labor contracts. The settlements will impose a net cost of approximately $9 billion, which assumes $3.4 billion in savings on health insurance and $1 billion from the Health Care Stabilization Fund. The Preliminary Budget assumed new contracts would cost about $3.5 billion, so the settlement and the pattern increase labor costs by $5.6 billion over the Financial Plan.
- **Pre-kindergarten & Middle School After-school Programs**: The Executive Budget continues the Administration's commitment to universal pre-kindergarten and after-school programs. Because of the failure of the State to authorize an increase in the City's personal income tax for households earning over $500,000 a year, an increase in State aid is used to fund these programs.[1]
- **Budget Sustainability:** With a tentative labor settlement and reserves for that settlement the Executive Budget is on a firmer basis than the Preliminary Budget. However, the outyear budget gaps are a challenge. The Fiscal Years 2016-2018 budget gaps are significantly larger than in the Preliminary Budget and they grow over the Financial Plan. The outyear gaps are not large by historical standards and the Finance Division believes the Fiscal 2016 gap should be relatively easy to manage. However, the Fiscal 2017 and especially the Fiscal 2018 gap are large enough that it cannot be assumed they will close through the rolling of unused reserves or the kind of tax revenue growth found in the Finance Division's forecast.
- **Capital Plan:** City agencies were instructed to more accurately reflect the timing of their capital projects. As a result, Fiscal Year 2014 capital commitments were reduced City-wide by $5.5 billion, with many projects moved into the outer years of the Five Year Capital Plan.
- **Vision Zero:** The Executive Budget includes $46.5 million spread across eight City agency budgets for Vision Zero, the Administration's program to improve safety on the streets on New York.
- **Operation SAFE**: In response to a series of unfortunate child deaths recently, the Administration for Children's Services (ACS) is working on a child welfare reform plan titled Operation SAFE to restructure child protective and preventive services. An additional $25.3 million was included in the outyears beginning in Fiscal 2016 to increase positions by 362 employees in the Division of Child Protection.

[1] The universal pre-kindergarten program is directly funded with State categorical aid. The expansion of middle school after-school programs is supported by City funds but an increase in foundation aid to the Department of Education frees City funds for this purpose.

- **Business fines**: Reduce small business fines from Department of Health (DOH) and Department of Consumer Affairs (DCA). To aid small business the Administration plans a comprehensive review of fines and fees with special attention to DOH and DCA.

City Council Response and the Executive Budget

Throughout the Preliminary and Executive Budget hearings, the City Council Response to the Mayor's Fiscal 2015 Preliminary Budget, and ongoing negotiations, the Council is fulfilling its role in shaping the City's priorities. This process has already borne fruit with several of the Council's priorities adopted in the Executive Budget.

Some of the Council priorities added to the Executive Budget include:

- Expand summer youth employment - $8.5 million was added in the Executive Budget. The Administration believes that this, along with additional private sector funding, will allow the program to provide the same level of service as last year.
- Modernize and repair police precincts – The Executive Budget includes funding for a new 40th Precinct and $40.3 million for two other precincts, the 13th and Brooklyn North Narcotics.
- Public safety: $18.9 million to support the City's prosecutors and address the Kings County District Attorney's budget deficit.
- Road maintenance: Executive Budget added $49 million for road resurfacing.
- Repair the East River esplanade: The Executive Budget Capital Plan includes $35 million for this project.

Budget Overview

The Fiscal 2015 Executive Budget is $73.9 billion, approximately $200 million larger than the Fiscal 2015 Preliminary Budget. City funds (City tax and non-tax revenues) are nearly $54 billion, down by approximately $250 million compared to the Preliminary Budget. The Fiscal 2015 budget is balanced in the plan, however after the Executive Budget was released, the Mayor and the Comptroller announced changes in the accounting treatment of a part of the labor settlement. This reduced the roll out of Fiscal 2014 and opened a budget gap in Fiscal 2015 that needed to be addressed. This was fixed in the City's submission to the New York State Financial Control Board on May 21st. With one small exception, changes are limited to the reserve for collective bargaining. Unless otherwise noted, all text and tables in this report reflect the May 21st version of the Financial Plan. The accounting issues and the changes they caused in the Financial Plan are discussed in the section on the labor settlement.

The Fiscal Years 2016-2018 budget gaps are significantly larger than in the Preliminary Budget and they grow over the Financial Plan. The outyear gaps are not large by historical standards, and range from 3.5 percent to 5.5 percent of City funds. For comparison, in the last Executive Budget before the recession, Fiscal 2008's outyear gaps ranged from 3.8 percent to 9.7 percent of City funds. Though not extreme, the Fiscal 2017 and Fiscal 2018 are large enough that it cannot be assumed they will close through the rolling of unused reserves or the kind of tax revenue growth found in the Finance Division's forecast. Other measures, PEGs, or revenue enhancement may be necessary.

Table 1. May Financial Plan Summary
Dollars in Millions

	FY14	FY15	FY16	FY17	FY18	Avg. Annual Change
REVENUES						
Taxes	$47,945	$48,537	$50,746	$52,597	$54,401	3.2%
Misc. Revenues	7,347	7,063	6,994	6,986	6,622	-2.6%
Less: Intra-City and Disallowanc	(1,791)	(1,810)	(1,835)	(1,838)	(1,843)	0.7%
Subtotal, City Funds	**$53,501**	**$53,790**	**$55,905**	**$57,745**	**$59,180**	2.6%
State Aid	11,770	12,460	12,904	13,401	13,953	4.3%
Federal Aid	8,303	6,377	6,333	6,310	6,299	-6.7%
Other Categorical Grants	900	761	837	832	828	-2.1%
Capital Funds (IFA)	538	527	513	513	513	-1.2%
TOTAL REVENUES	**$75,012**	**$73,915**	**$76,492**	**$78,801**	**$80,773**	1.9%
EXPENDITURES						
Personal Services	41,346	39,842	42,398	43,186	45,578	2.5%
OTPS	30,890	30,239	30,640	31,135	31,688	0.6%
Debt Service	5,704	6,665	7,242	7,582	7,840	8.3%
General Reserve	50	600	600	600	600	
Less: Intra-City	(1,776)	(1,795)	(1,820)	(1,823)	(1,828)	0.7%
Spending Before Adjustments	76,214	75,551	$79,060	$80,680	$83,878	2.4%
Surplus Roll Adjustment (Net)	(1,202)	(1,636)				
TOTAL EXPENDITURES	**$75,012**	**$73,915**	**$79,060**	**$80,680**	**$83,878**	2.8%
Gap to be Closed	**$-**	**$-**	**($2,568)**	**($1,879)**	**($3,105)**	

Source: *OMB May 2014 Financial Plan*

Balancing the Budget

The 2014 and 2015 fiscal years were balanced in the Preliminary Budget. The revenue side of the Executive Budget contains three changes that impact the balances. First, the expected increase in the personal income tax to fund universal pre-kindergarten and after-school expansion was not enacted by New York State. In the Executive Budget this is largely replaced by the second major change: an expansion of State categorical grants, most notably foundation aid for after-school programs and a special grant for universal pre-kindergarten funding. It is assumed that these extra grants will continue throughout the plan period. The third major change is in the Fiscal 2014 tax revenue forecast. It is up by $1.2 billion; more than half of this is personal income tax revenue from bonuses and realized capital gains.

On the expense side, Mayor de Blasio reached an agreement with the United Federation of Teachers on its outstanding contract and established a new pattern to be used in settlements with other unions. This required adding about $5.6 billion to labor reserves over the Financial Plan. The settlement has been stretched out so that part of the settlement payments will take place in Fiscal 2019 and Fiscal 2020, years outside of the Financial Plan. There is also a set of new initiatives, agency estimates and other technical adjustments. Among these adjustments is a re-estimation of the pre-kindergarten and after-school programs, which allows them to be fully funded by state categorical grants. Finally, there is a set of the usual reductions found toward the end of the fiscal year, including reductions in the reserves for prior year expenses and in the general reserve.

Table 2. Closing the Gap *Dollars in Millions*		
	FY14	**FY15**
Gap February Financial Plan	$0	$0
Opening the Gap		
PIT increase	$0	$530
New Initiatives	20	248
Other Adjustments	63	167
Labor Settlement	1,831	(326)
Increased Gap	$1,914	$619
Closing the Gap		
State Aid for Pre-K & After School	$0	$445
Tax Revenue Forecast	1,214	95
Re-estimate Prior Year Expenses	400	
Reduce General Reserve	100	
Debt Service Savings	33	30
Misc. Revenue	33	183
Gap Closing Resources	$1,780	$753
Gap Closing - Gap Opening	(134)	134
Decrease in FY 2015 Prepayments	134	(134)
Gap May Plan	$0	$0
Source: *OMB May 2014 Financial Plan*		

Labor Settlement

The labor settlement with the UFT, and the bargaining pattern it sets for other unions, can be divided into two parts: an overall pattern for all unions including the UFT covering 2011-2018 and a supplement to that pattern for the UFT and other unions that had not reached an agreement for the 2008-2010 round. This supplement includes extra wage increases in 2015-2018 and five lump sum payments substituting for back wages at a higher rate for years starting in 2008.

It will be 2018 before the wages of UFT members catch up to what they would have been had they received the two 4 percent increases from the 2008-2010 round. Roughly speaking these lump sum payments fill in this gap in their earning from 2009 to 2018. These lump sum payments extend beyond the Financial Plan to 2020.

Taken in total, the deal thus extends raises to teachers through 2018; it also offers them a series of lump-sum payments they will collect between now and 2020.

Table 3. Collective Bargaining Pattern

	Lump sum on ratification	2012	2013	2014	2015	2016	2017	2018	2019	2020	Sum	Compound rate
Raise: general pattern all unions 2011-2018	$1,000	0%	1%	1%	1%	1.5%	2.5%	3%			10%	10.4%
Raise: UFT 2008-2010 round					2%	2%	2%	2%				
Raise: UFT total			1%	1%	3%	3.5%	4.5%	5%			10%	19.3%
UFT lump sums for back pay (approx.) *(from 2008-2010 round)*					yes		yes	yes	yes	yes		

Years are fiscal years.

The details can be explained through a look at a typical teacher earning just over $74,000 per year.

Table 4. Scenario: teacher, who has been on the job since 2008, earned $74,013 last year*

	Lump sum on ratification	current	2013	2014	2015	2016	2017	2018	2019	2020
	$1,000									
Raises			1%	1%	3%	3.5%	4.5%	5%	--	--
Projected salary under UFT deal		**$74,013**	**$74,753**	**$75,501**	**$77,781**	**$80,518**	**$84,158**	**$88,382**	--	--
Lump sums (approx.)					**$4,256**		**$4,467**	**$8,934**	**$8,934**	**$8,934**
(from 2008-2010 round)										

Source: *Estimates compiled by Council Finance from data provided by Office of Labor Relations, OMB*

** This analysis assumes earnings were flat since the last UFT contract.*

There are two major offsets to the cost of this settlement. The first is an agreement to find health insurance savings. The agreement is with the Municipal Labor Committee (MLC), as such it applies not only to the UFT but to other unions accepting the pattern. The agreement includes targeted savings for each year of the Financial Plan, with the requirement that savings in the final year of the plan be recurring. The target totals $3.4 billion in health care savings across the plan period: $400 million in 2015, $700 million in 2016, $1B in 2017, and $1.3B in 2018.

The nature of the savings is still to be worked out. But a list of examples given by the Administration includes:

- Greater use of Medicare Advantage.
- Greater scrutiny of the eligibility of dependents.
- End of City contributions to the Health Insurance Stabilization Fund (discussed below).
- Centralization of prescription drug purchases.

There is a binding arbitration mechanism to make sure the savings occur and if saving cannot be found the arbitrator can require employee contributions to health insurance costs. A health care actuary will be appointed to assess the savings of various options. Should savings exceed the $3.4 million goal, part of the savings will be shared as a pensionable bonus to union members.

The second offset is the use of a reserve, controlled by the Administration jointly with the MLC, called the Health Insurance Stabilization Fund. This is a trust account controlled by the Administration, which manages the account but must have approval of the MLC to draw on the funds. The trust dates to a collective bargaining agreement in the 1980s, designed to equalize HIP and GHI/Blue Cross Blue Shield cost to labor benefit funds. Currently, the City contributes $35 million a year to the trust, and pays labor health benefit funds insurance based on HIP per employee rate. When the costs of GHI are greater than HIP the trust pays the difference to the union's insurance funds. When the costs of GHI are less than the costs of HIP, the City pays the difference to the trust. In recent years the cost of GHI has been greater than the cost of HIP so there has been a significant inflow to the trust.[2]

Table 5. All Unions - Financial Plan FY14-18	
Dollars in Millions	
Total Labor Settlement	$13.56
Health Care Offset	($3.40)
Health Care Stabilization Fund	($1.00)
Subtotal	$9.16
Current Labor Reserve	($3.51)
Net Additions to Labor Reserves	$5.65

Paying for all of this requires an increase in the reserve for collective bargaining.

Table 6. Reserve for Collective Bargaining *Dollars in Millions*						
	FY14	**FY15**	**FY16**	**FY17**	**FY18**	**Total**
Exec	$2,095	$139	$1,950	$1,873	$3,282	$9,338
Prelim	265	465	714	983	1,268	3,695
Difference	**$1,831**	**($326)**	**$1,236**	**$890**	**$2,014**	**$5,644**
Source: *Council Finance calculations from OMB May 21st Plan.*						

Labor Settlement Accounting Issue

On May 12th, the Mayor and the Comptroller put out a joint statement on the accounting treatment of the labor settlement.

As part of the deal with the UFT, the City is making five payments in Fiscal 2015, 2017, 2018, 2019 and 2020 that are designed to compensate employees for missing the 2008-2010 round of collective bargaining. The issue focuses on the accounting treatment of the part of this that is pay for people who worked during those years and who will retire before their bonuses are paid. These people will receive their bonuses at the time of retirement.

In the original May 8th version of the Executive Budget, the City had money in the labor reserve to cover these payments in the year that people are expected to retire. The Comptroller

[2] This is a different fund from the Retiree Health Benefit Trust.

believes this is inconsistent with Generally Accepted Accounting Principles (GAAP). In the May 21st version of the Executive Budget the City put that money into the labor reserve in Fiscal 2014. The idea is that the City can calculate the size of these payments, since their size is already known, and therefore should have money set aside to cover them now.

The City added $725 million to the labor reserve in Fiscal 2014, taking it out of the reserves it had for Fiscal 2015-2018 and from years outside of the Financial Plan. This does not change the size or timing of payments to members of the UFT. It changes the timing of the *funding* of these payments in the City's Financial Plan.

The most important change is the increased costs of the settlement in Fiscal 2014, by $725 million. The Fiscal 2014 budget remains in balance because in the May 8th plan it ends the year with a $2.3 billion surplus which will be rolled into Fiscal 2015. The accounting change reduces this surplus roll by $725 million.

The problem comes in Fiscal 2015: with less money coming in from Fiscal 2014, Fiscal 2015 has a budget gap. This was solved in the May 21st version of the Financial Plan. First, remember the accounting change does not increase the cost of the settlement, it moves around the reserve set aside for that settlement. Some of the $725 million moved into Fiscal 2014 was in the May 8th plan in Fiscal 2015. With this cost removed from Fiscal 2015 the gap is actually around $529 million. Second, contributions from the Health Insurance Stabilization Fund were not originally planned for Fiscal 2015. The May 21st plan moved $500 million of that contribution into Fiscal 2015. Finally, OMB found $29 million in debt service savings in Fiscal 2014, which, when rolled into Fiscal 2015, closed the gap.

Overall, the May 21th plan—by changing the size of the collective bargaining reserve—slightly increased the cost of personal services during the years of the Financial Plan, and changed the size of the deficits in the outyears, increasing them in total (see table below). [3]

Table 7. Change Between May 8 and May 21 Plans
Dollars in Millions

	FY14	FY15	FY16	FY17	FY18	Total
Personal Services	$725	($696)	$371	($150)	($135)	$115
Debt Service	(29)	0	0	0	0	(29)
TOTAL EXPENDITURES	**$0**	**$0**	**$371**	**($150)**	**($135)**	**$86**
Change in FY 14 prepayment	**(696)**	**696**				
Gap Increase/(Decrease)	**$0**	**$0**	**$371**	**($150)**	**($135)**	**$86**

Risks

Collective Bargaining

The tentative settlement with the UFT and the establishment of a bargaining pattern places the City's Financial Plan on sounder footing. But there are two major risks. First, some unions, notably the Patrolmen's Benevolent Association (PBA), have expressed dissatisfaction with the pattern. The PBA has in the past brought contract impasses to binding arbitration, which could

[3] This extra $725 million in the labor reserve will not be spent in Fiscal 2014. Most of it will be left at the end of the year and rolled into Fiscal 2015 where it will add to that year's labor reserve. But because it needs to be committed to the labor reserve rolling it will not help close the Fiscal 2015 gap.

result in higher than expected labor costs. Second, the agreement and the pattern are dependent on health care savings not fully specified. Controlling health care costs has proven difficult for the private sector and for all levels of government. The possibility that the City and its workers will fail to achieve agreed upon goals presents a risk.

Albany

State categorical grants are up $555 million in Fiscal 2015compared to the Preliminary Budget. Almost all of this increase is in grants to education. More specifically, most of the extra funding consists of: foundation aid, most of which the City would use for the expansion of after-school programs; funding for universal pre-kindergarten, and; aid to charter schools. While this funding is found in the State Financial Plan, New York State, like the City, only appropriates money for the current fiscal year. There is a risk that State priorities will change in next year's budget, while the City has committed itself to a multi-year program to provide universal pre-kindergarten and improved after-school programs.

Washington

The 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. The housing market remains weak. The single family home market has been especially disappointing. Credit is still relatively tight and buyers are still concerned about the labor market. Further slippage in this market could slow growth nationally below the Finance Division forecast level. Real gross domestic product (GDP) in the first quarter of 2014 declined by 1 percent at an annual rate.[4] This was the first quarterly decline in three years. Firms remain reluctant to spend on new equipment. The first quarter of 2014 saw an unexpected 39 percent decrease in spending on computers. Most analysis think this is an aberration, but weakness in capital spending could undermine economic performance. Finally, the international scene poses risks, notably from potential problems in the Chinese banking sector or from conflict between Ukraine and Russia.

Reserves

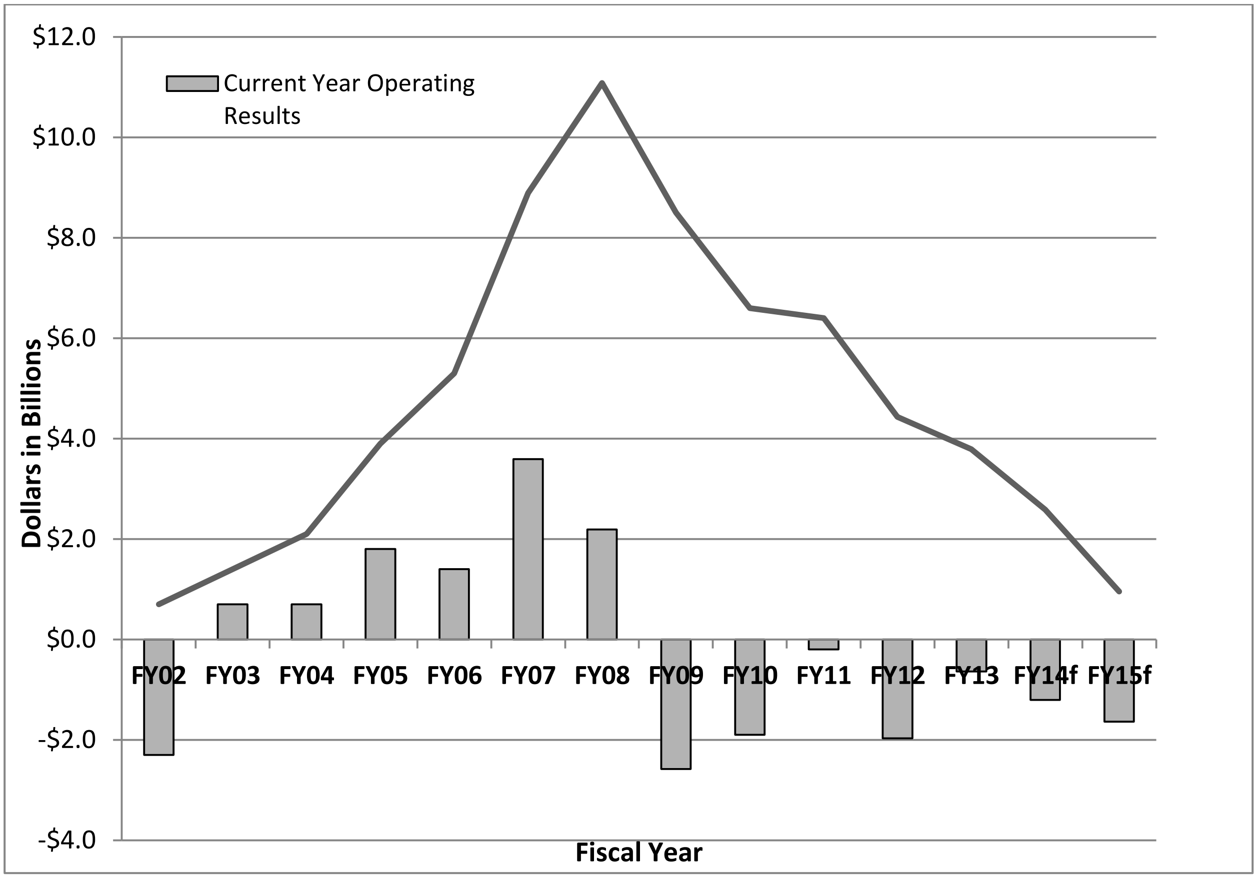
New York City has depleted its financial reserves. The City has made use of various budgetary reserves to practice what Dall Forsythe of Baruch College has called 'cyclical budget management.' In good times the City builds up these funds, mostly by prepaying certain expenses and by adding funds to the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

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 these funds.

---

[4] Bureau of Economic Analysis, real gross domestic product, first quarter 2014, revised estimate.

Figure 1. City Reserves and Operating Balance



Source: *Finance Division*

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 years by as much as 85 percent and fallen in others 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.

The nation is currently 19 quarters into an economic expansion. The longest expansion in US history is 40 quarters. Since WWII the average expansion has lasted only 14 quarters.[5] We are in the portion of the business cycle where the City should be preparing for the next downturn. Unfortunately, based on the Executive Budget, Fiscal 2014 will end with an operating deficit. The City is still using funds from the past, rather than saving for a future downturn.

The Executive Budget keeps approximately $1 billion in the RHBT across the Financial Plan. This is prudent, though it should be noted that while the RHBT is used as a kind of reserve for contingency, its primary purpose is to offset a large unfunded liability: health insurance for retirees. This unfunded liability is currently $92.5 billion.

[5] National Bureau of Economic Research Reference Cycle Dates: http://www.nber.org/cycles/cyclesmain.html

The budget also includes $600 million a year in the general reserve for Fiscal 2015-Fiscal 2018. This is $300 million a year more than historic practice. This funding would also be available to meet contingencies.

Despite these reserves, managing even a small unexpected downturn in the economy will be very difficult anytime within the Financial Plan.

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 May Financial Plan forecast. These funds are not sufficient to balance the City's budget in the out-years, but the gap in Fiscal 2016 should be easy to close, although the gap in Fiscal 2017 may be a bit more difficult. Only Fiscal 2018 should be a challenge. Details of the forecast are discussed below.

Table 8. Impact of Finance Division Forecast
Dollars in Millions

	FY14	FY15	FY16	FY17	FY18	Total
May Plan Budget Gap	**$0**	**$0**	**($2,568)**	**($1,879)**	**($3,105)**	**($7,552)**
Finance Division Forecast- Difference from May Plan	$194	$980	$1,106	$1,165	$1,242	$4,687
Budget Gap after Finance Division Forecast	**$0**	**$0**	**($288)**	**($714)**	**($1,863)**	**($2,865)**

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 payables, judgments & claims, and a variety of other expenses. In the past these overestimates have been large enough to make a significant dent in the Financial Plan's outyear gaps, without the extra funds from the Finance Division's forecast.

National Economy

Overall economic forecasters, as reflected in May's Wall Street Journal Economic survey, remain convinced of the underlying strength of the national economy.[6] This sentiment is represented in the way the weak first quarter of 2014 was discussed: the country didn't experience a "slowdown" or a "stall" this winter when production fell into decline; it was instead experiencing a "pause," largely attributable to the weather, that new data from April and May suggests has settled behind us.[7] The consensus is that the economy continues to recover—albeit slowly—from the financial crisis and the Great Recession.

The Finance Division remains fundamentally optimistic. The nation keeps adding jobs. Home prices are higher than a few years ago, and consumer spending has risen. The Federal Reserve continues to tap the brake on a key support program, the purchasing of long-term bonds, citing a rebound in spending and production and solid growth envisioned for the near future.

[6] Wall Street Journal - http://projects.wsj.com/econforecast/#ind=gdp&r=12

[7] See Janet Yellen, comments to Congress' Joint Economic Committee, May 2014.

The Division expects the economy to grow by well over 2 percent this year, and by 3.1 percent annually over the forecast period—and the labor market to keep producing more jobs. Consumers are spending money; job growth and higher home prices should only encourage more. Unemployment is projected to keep falling toward the 5.5 percent mark over the coming two or three years.

This consensus comes despite a disappointing first quarter of 2014, one that saw the harsh winter and other factors, including weak exports, take a bite out of national production, with real GDP shrinking by 1 percent in the quarter. The first three months of 2014 represented the third-coldest such stretch in over a half-century, with four storms big enough to find their way onto the formal list of the Northeast Snowfall Impact Scale (NESIS)[8]. The intense winter may wind up being an outlier, but economic risks and uncertainties remain; as the Mayor put it recently, one never knows when an economic recovery will decide to end.[9]

Employment

The labor market has secured surer footing. Analysts see a return to full employment in their sights. April saw the addition of 288,000 jobs with the gains experienced across a range of industries. It was the biggest monthly jump in over two years. Compare the numbers to 2013, when average monthly payroll expanded by a tepid 189,000, barely above the 186,000 average in 2012. Manufacturing output has reached pre-recession levels, a trend supported heavily by the auto industry.[10]

The month of April also saw the unemployment rate fall to 6.3 percent in April. The job figure came on the heels of healthy job growth in March. The unemployment rate should, however, be taken with a note of caution. Fewer people are participating in the labor force than before the recession; the participation rate has fallen from 68 percent in the late 1990s to roughly 63 percent today. This could be due in part to many workers becoming discouraged about their job prospects—a sentiment backed by high numbers of unemployed individuals who go without work for a long stretch of time, eventually leaving the market.[11] Also, the economy is experiencing a historically high level of people who work part time when they would rather be working full time. But the average work week has now grown longer, and analysts are generally optimistic that the aggregate employment roll will continue to expand.

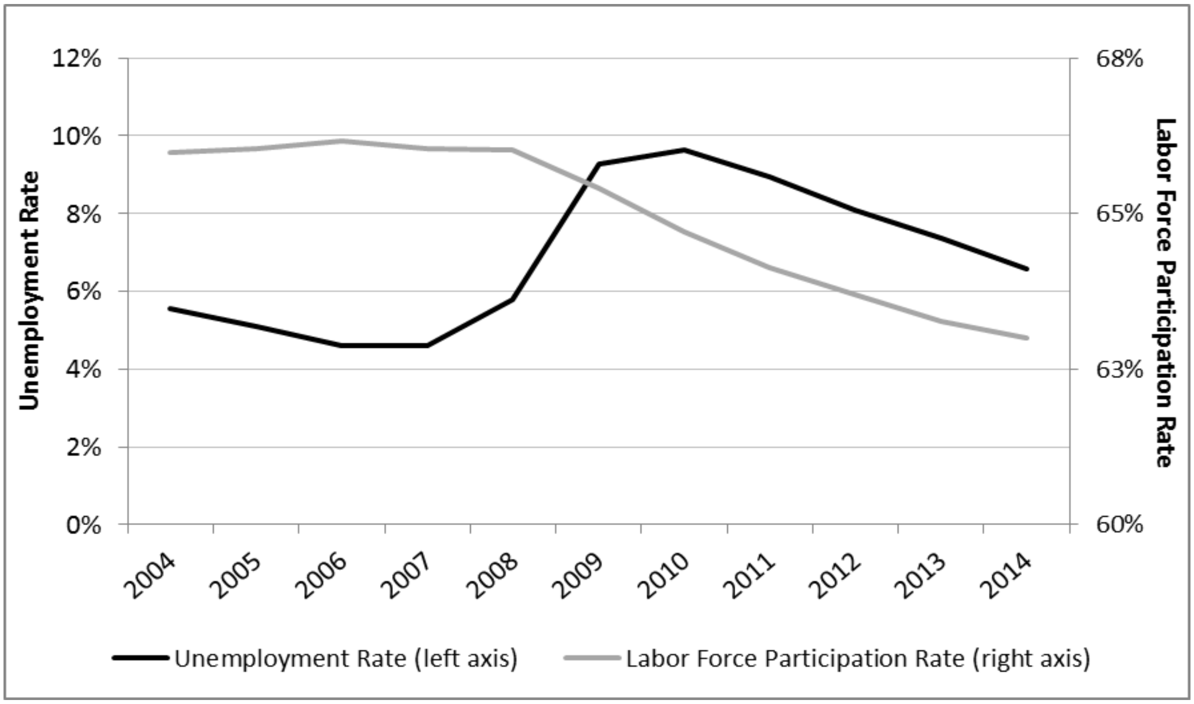
[8] US Council of Economic Advisors, April 2014.

[9] Bill de Blasio, executive budget presentation, May 2014.

[10] Janet Yellen, comments to the Economic Club of New York, April 2014.

[11] It could also be due in part, however, to many baby boomers retiring early.

Figure 2. Unemployment and Labor Force Participation Rates



Source: *U.S. Bureau of Labor Statistics*

During the recent recession the economy shed 8 million jobs, but the country has since recovered 90 percent of those lost.[12] Recovery, however, has been slow: the count of employed workers nationwide has not, five years into the expansion that followed the financial crisis, reached its previous peak. In contrast, the recovery following the 1990-91 recession surpassed its previous peak within three years; the comparable timeline following the 2001 recession was four years. A bit of context may help explain: the aggregate private sector payroll topped its old, pre-recession record[13] in March; but much of the public sector payroll has been more sporadic due to the effects of federal sequestration.

Gross Domestic Product (GDP)

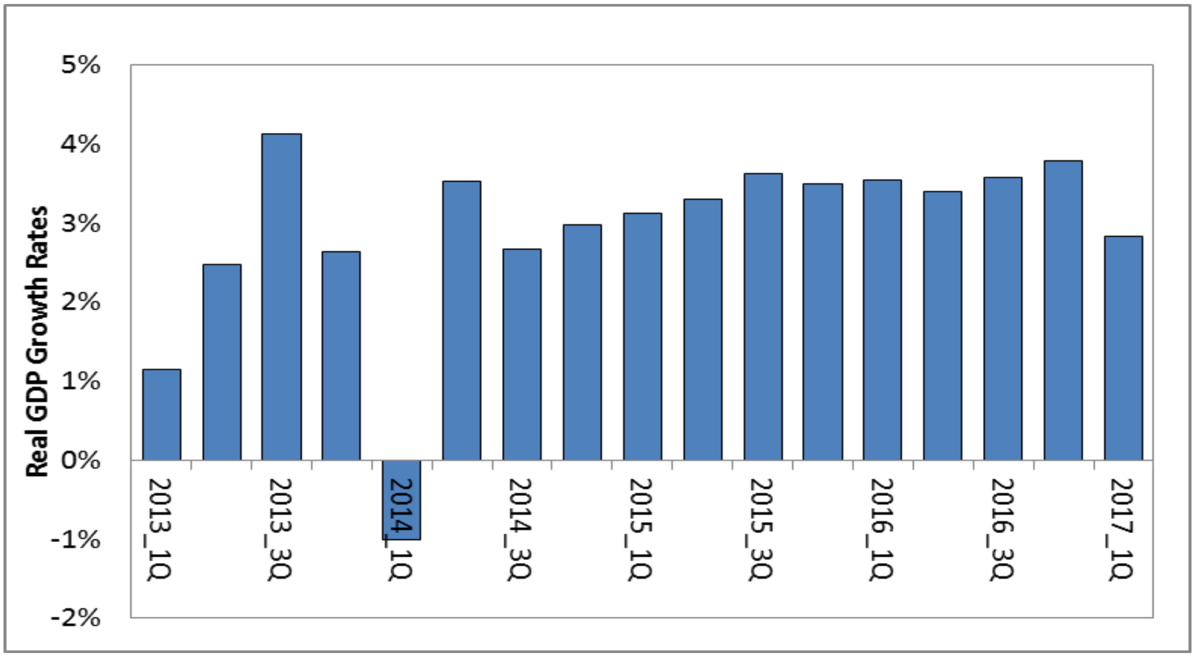
The country's aggregate production—its gross domestic product—is forecast to rise, in real terms, by a 2.8 percent annualized rate in the second half of 2014 and by 3.2 the following calendar year, consistent with analysts' expectations of a continued recovery.[14] That growth would come despite painful numbers for the first quarter of 2014, when GDP growth was negative. The bottom line is this: the analytical consensus suggests the country may see an end to the up-down cycle in GDP experienced in recent years as the economy settles.

[12] Yellen, April 2014.

[13] Of 115,977,000 in January 2008; from IHS Global Insight, US Economic Outlook, April 2014.

[14] GDP is the most commonly-used indicator of a country's economic activity.

Figure 3. Forecast: Real GDP Growth



Source: *IHS Global Insight, May 2014*

Consumer Confidence and Behavior

Signs suggest a rebound in consumer spending will continue through the year. The numbers suggest consumers, experiencing a growth in the value of their homes—and thus their net household worth—are feeling increasingly confident. Consumer sentiment is up across a handful of indicators. Early 2014 saw strong retail sales on a number of fronts, including auto sales. The Federal Reserve chairwoman told Congress in early May that the increasing confidence of households and the business community will buttress a faster rate of economic growth through the year.[15]

While other parts of the first quarter GDP figures were rough, consumer spending was not. Federal analysts attributed the increase in part to spending on health care, partly related to the Affordable Care Act, and to utility spending related to the harsh winter weather.[16] Spending on food services and accommodations fell (possibly also because of the weather).

The US Economic Confidence Index compiled by Gallup indicates the average household remains somewhat skeptical of the recovery's staying power: 39 percent of respondents recently said the economy was "getting better;" 56 percent thought it was "getting worse." The sentiment, however, is far stronger than six months prior, and the polling firm's confidence index had risen steadily through early May following the federal government's strong jobs report. The Bloomberg Consumer Confidence Index was, in early May, experiencing its second-highest value in six years. And the Reuters/University of Michigan Consumer Sentiment Index looks to have increased a point in early May to 85 points. All suggest that households had responded as expected to the end of a rough winter and to rising economic tides.

[15] Yellen, May 2014.

[16] US Council of Economic Advisors, April, 2014.

Housing and Construction

Housing remains an area of uncertainty in the forecast. The housing sector had been recovering for three years until indicators recently dipped. This may have been due largely to the difficult winter, but permits for single-family homes fell flat in the West, where construction activity is influenced less by the seasons.[17] New housing starts may not significantly rise again until 2015 as the housing market adjusts to years of change. A number of affordable—often distressed—homes have been selling in recent years. That activity has thinned the inventory of homes still on the market and the remaining stock is less affordable, leaving today's buyers with fewer borrowing options.

While analysts are still untangling the winter-related causes of early 2014's downturn from cyclical factors, some felt the housing slowdown is attributable to the latter. The supply shortage and tight lending conditions discussed above may create an obstacle that buyers and sellers will need a little time to find their way around. The number of new building permits appeared to have grown in April, and signs suggest the coming months will see another rise, if only slight.

Monetary Policy

The Federal Reserve has been active since the Great Recession, through its dual mandate,[18] in helping the labor market recover while trying to guide inflation. While the Fed has clearly stated that its help is still needed as the economy recovers, the shape of its help has changed. It has spent over two years buying more bonds after the economy appeared to have faltered, without a definitive end date. But late last year the Fed began to tap the brake on the program, citing "sufficient underlying strength" in the economy and better employment numbers.[19]

The Fed also recently tweaked its management of the federal funds rate, a key economic tool, by promising to consider information from a "wide[r] range" of indicators in deciding when the rate should start to creep upward from near-zero levels seen since the downturn. It has held the rate close to zero for more than five years, and all signs are that things may stay that way for another year or two. But it has acknowledged that its actions are not set in stone—it will need to "respond to unanticipated developments" as needed.[20]

The Fed has focused largely on the government's role in promoting stability in the economy generally and, more specifically, the financial system. It cites bank holding companies' improved liquidity and capital ratios. It also notes that recent stress tests suggest financial institutions are far better prepared to handle adverse macroeconomic conditions, be they for extended stretches or during sharp events, than a few years ago. Banks are more focused on resiliency. Regulations have required new standards for big domestic firms and for foreign banks, which are now generally required to form US intermediate holding companies to ensure domestic regulations stick.

[17] IHS Global Insights, US Economic Outlook, April 2014.
[18] Maximize employment and hold prices stable.
[19] Yellen, April 2014.
[20] Yellen, April 2014.

Trade

The US Bureau of Economic Analysis found a narrow trade deficit when compiling its estimates of what wound up being negative GDP growth—minus 1 percent—for the first quarter of 2014.[21] Exports have lagged recently following slow GDP growth and economic contraction in Europe; real exports of goods and services decreased 6 percent in the first quarter of the year, while real imports increased only 0.7 percent.

Risks

Uncertainties frame any economic forecast; the discussion here is not immune. Housing activity, slow in recent months, may remain soft longer than some anticipate. Geopolitical unrest abroad could take a bite out of consumer confidence at home; stress in emerging market economies could pull some of the rug from beneath the feet of domestic sentiments, as could tensions in Eastern Europe or elsewhere. Inflation could remain low … or it could spike as fiscal and monetary policy adapts to changing conditions; the impacts of the Federal Reserve's actions remain to be seen.

City Economy

New York City continues to be a success story. Its economy has now recovered 2.9 times the payroll positions lost during the recession. Job creation slowed in March and April, but this more moderate pace is still very robust by historical standards. Less spectacular is the average private sector wage, which increased by only 0.8 percent in the last four quarters[22] compared to the previous four quarters. Real gross city product grew by a healthy 2.9 percent in the first quarter 2014 compared to the same quarter a year ago.[23] One concern comes from a prominent city-based business survey reporting that business activity "eased for a third straight month."[24] This may be due to the aforementioned "pause" in the national economy, which feeds the city's commerce. The Finance Division expects business activity and job growth to pass through any soft spell as the national economy gains additional traction in the second half of 2014. Over the forecast period we expect employment to maintain impressive growth averaging 1.9 percent per year, while average wage growth will reach a still tepid 2.4 percent, which at least exceeds inflation. Real gross city product is expected to stay at 2.7 percent growth on average during the forecast period.

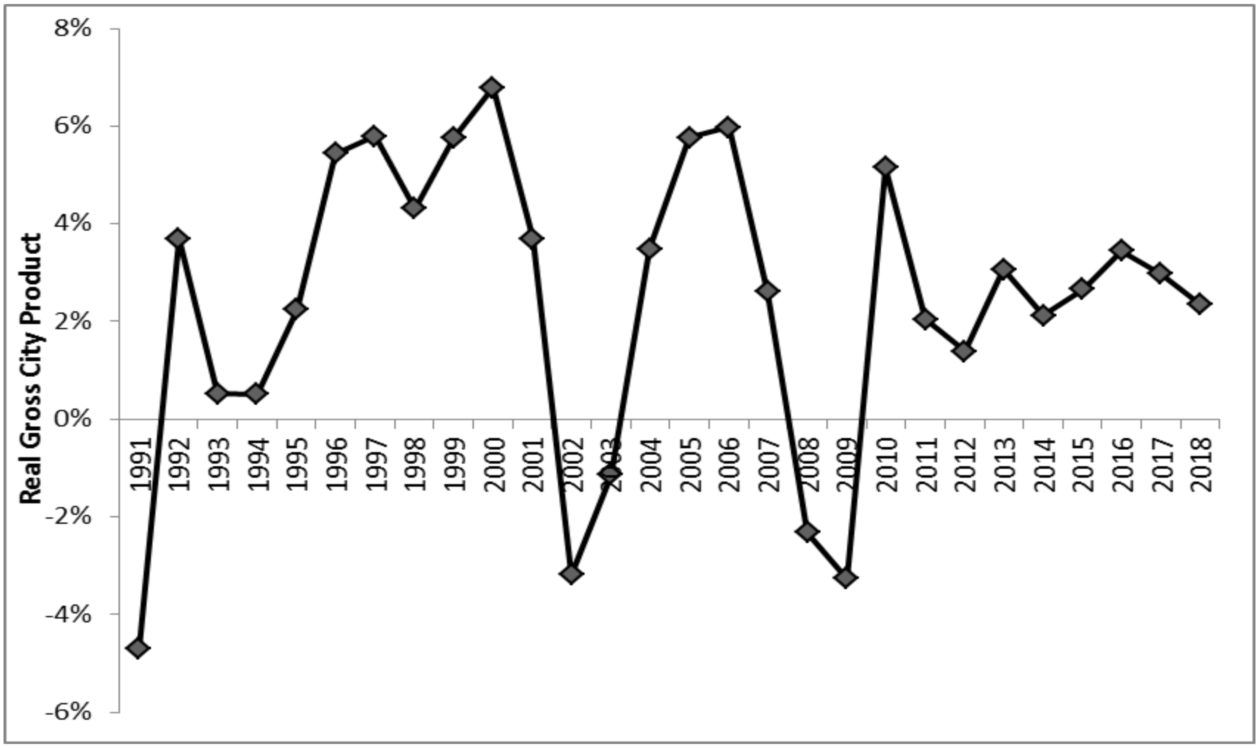
[21] IHS Global Insights, US Macro Forecast, May 2014.

[22] Second quarter 2013 through first quarter 2014. New York State Department of Labor, 'Quarterly Census of Employment and Wages' and Council Finance's estimate for the fourth quarter 2013 and the first quarter 2014.

[23] IHS forecast of gross metro product of the five boroughs.

[24] Institute for Supply Management-New York, "Report on Business," May 2, 2014.

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



Source*: IHS Global Insight, Real gross city product, May 2014*

Employment and the Changing Mix of Jobs

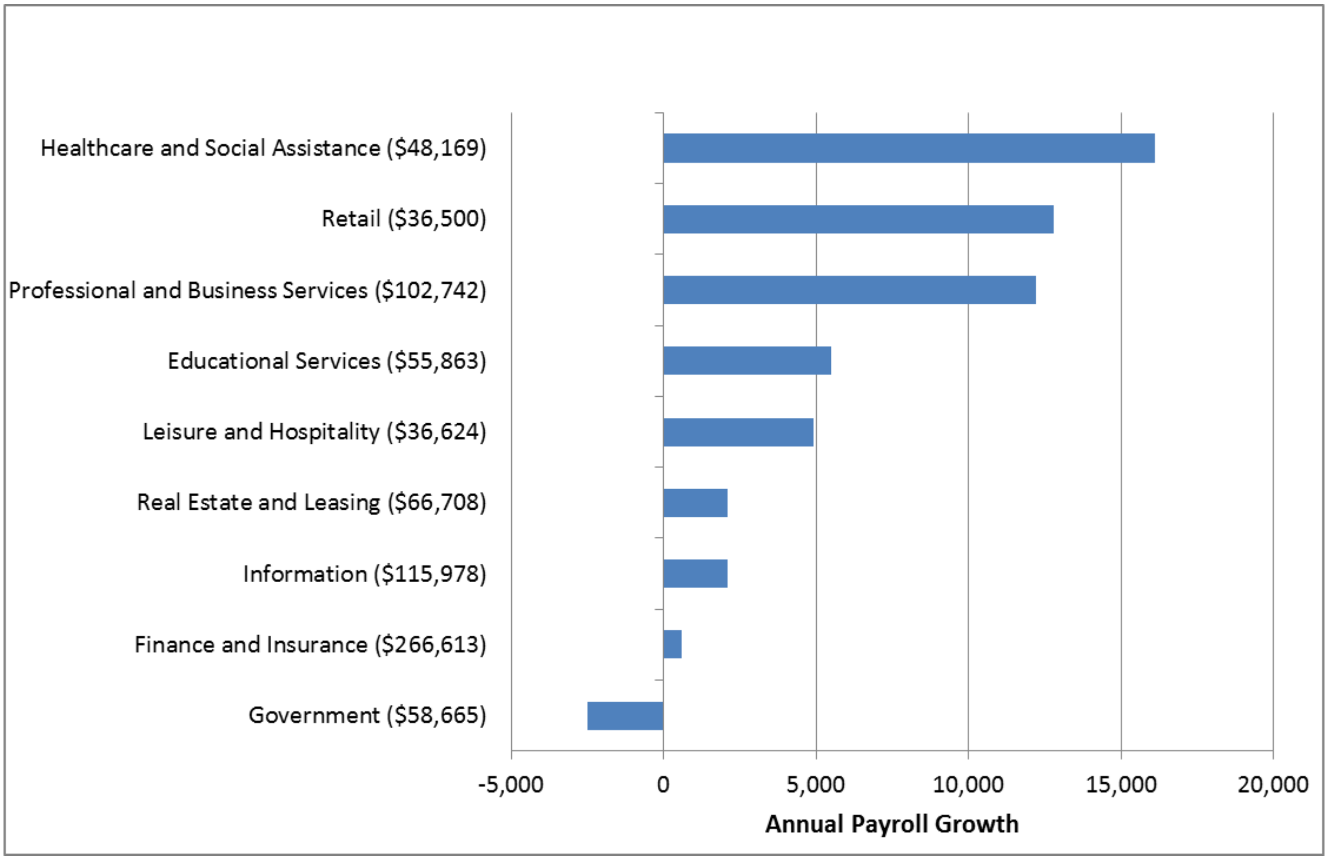
As of April's job numbers, total payroll grew by 62,900 over the past 12 months, with the private sector adding 65,400 positions. This was softer than the stellar 83,100 jobs added in 2013, but still decent growth. April's unemployment rate for the city was 7.9 percent, roughly unchanged since the beginning of the year. The stagnant rate, however, hides the improved employment numbers underlying the rate. Between January and April 2014, there have been 44,000 more New Yorkers employed, with 43,000 entering or returning to the labor force after being discouraged in their job search. Another 1,000 came from those officially called "unemployed," who've been actively looking for work.[25]

There continues to be a noticeable shift within the city's workforce from higher-paid to lower-paid sectors. Over the last 12 months as of April 2014, 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,[26] 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.

[25] New York State Department of Labor, Local Area Unemployment Statistics – New York City, April 2014.

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

Figure 5. Annual Job Growth and Average Wage of Sector.



Source*: New York State Department of Labor, Current Employment Statistics, April 2014 (employment change from April 2013 to April 2014), 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 annual 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.[27] New York Stock Exchange (NYSE) member firms reported net earnings of $16.7 billion in 2013, a 30 percent drop from 2012, but considered stable earnings. Despite the steep drop in profits, Wall Street employees received a 15 percent hike in their cash bonuses, averaging $164,530.[28] The bonuses were augmented by deferred compensation finally reaching maturity and the cashing in of stock options. No less important, the drive to pay big for retaining the best talent was the overwhelming consideration behind the increased bonuses. Despite the higher salaries, the industry continued its downsizing, facing a tougher Dodd-Frank regulatory environment limiting high-risk but profitable transactions. During the first four months of 2014, Wall Street shrunk its payroll by another 2,600 positions. This followed the elimination of 2,200 jobs during the course of 2013, and 3,700 during the course of 2012. Payroll growth is expected to resume by 2015, but is not expected to exceed 1 percent annually through the forecast period, as the industry works

[27] Office of the New York State Comptroller, "The Securities Industry in New York City," October 2012, p. 2.
[28] Estimates of the Office of the New York State Comptroller reported in The New York Times, "Wall Street Bonuses Go Up as the Number of Jobs Goes Down," March 12, 2014.

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, administrative and waste services, etc. 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. Between 2011 and 2013, professional and business services contributed between 22,000 and 23,000 additional jobs each year. Since the last quarter of 2013, however, its contribution of middle-income jobs has begun to slow. As of April 2014, the last 12 months contributed only 12,000 new jobs. With business services tightly linked to the national economy, the latter's increasing traction can only benefit this important super-sector. Job creation is expected to rebound from a weak 11,000 in 2014 to an annual average of 19,000 between 2016 and 2018.

Tourism, which underpins leisure and hospitality, soared to a record 54.3 million visitors in 2013. Hotel occupancy reached an average 88.5 percent in 2013, despite the fact that additional rooms were added to the city's supply. The average daily rate for rooms climbed to $291 last year.[29] Hotel occupancy rates softened to 77 percent during the first two months of 2014, as increased room nights sold were outpaced by higher room inventory. The harsh winter caused a moderate decline in attendance at the city's entertainment and cultural venues, but Broadway theaters reported increased attendance.[30]

Leisure and hospitality, a beneficiary of tourism and of New Yorkers who like the night life, has been another dynamic super-sector during the recovery. Like business services, job growth was exceptionally strong from 2011 through 2013, but has slowed since last December, partially due to the unusually harsh winter keeping visitors and many New Yorkers at home. This super-sector is expected to regain steam this year and maintain strong growth through the forecast period. Job growth in retail, also supported by visitors, has not slackened its exceptional pace, even into 2014. Employment in retail is expected to maintain strong growth in the outyears, benefiting from the upward national trend in consumer activity. Wages in leisure, hospitality and retail tend to be low paying.

Looking at other sectors, health care and education services, while generally noncyclical, 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. The information super-sector is in significantly better shape in recent years. While hard-copy publishing continues its structural decline, Internet services, motion picture and sound recording are more than picking up the slack. Manufacturing's long-term decline appears to have reached a floor in 2012 and 2013, with its strength in high-end durable goods.

The vibrant demand for private and public structures and infrastructure has been a boon for the construction industry. Private sector construction employment soared by 4.2 percent in 2013, the second straight year of strong growth. This follows three years of steep declines. The construction industry typically reduces employment during the winter months, and while there

[29] NYC & Company, 'NYC Hotel Occupancy, ADR & Rooms Sold,' April 1, 2014.
[30] NYC & Company, 'Tourism Barometer,' April 21, 2014.

was a decline in payroll during the first quarter 2014 it was roughly the same as the first quarter in 2013, when the winter was much milder.[31]

Table 9 . Forecast of Employment Gains
Year-Over-Year Growth in Thousands

	CY13	CY14	CY15	CY16	CY17	CY18
Total Private	85.4	68.3	64.6	72.6	72.7	68.6
Finance and Insurance	(3.5)	(0.4)	2.5	2.9	2.5	1.8
Banking	0.2	0.7	1.0	1.0	1.0	0.7
Securities (Wall Street)	(3.7)	(1.2)	1.5	1.8	1.5	1.1
Retail	11.7	12.0	11.0	12.2	11.6	10.0
Professional and Business Services	23.2	11.3	13.9	19.1	19.5	17.9
Real Estate and Leasing	1.9	0.8	0.5	0.7	0.7	0.6
Information	2.9	3.8	2.0	1.7	1.6	1.5
Leisure and Hospitality	14.5	7.8	12.0	13.3	14.3	15.1
Arts, Entertainment, and Rereation	1.9	(0.7)	1.9	1.9	1.9	1.8
Accommodation and Food Services	12.7	8.5	10.1	11.4	12.5	13.3
Accommodations (Hotels)	0.9	0.6	1.1	1.5	1.5	1.4
Healthcare and Social Assistance	17.5	18.9	11.2	11.3	11.3	11.3
Education Services	7.2	6.1	7.1	7.4	7.8	8.2

***Source** : NYS Department of Labor, Current Employment Statistics, April 2014; Forecast by NYC Council Finance*

Real Estate

Commercial office leasing expanded in 2013. In 2014, Manhattan office leasing reached a first quarter record of 9.4 million square feet, 10.5 percent above a year ago. New leases, measured by square foot, in Midtown climbed by 70.8 percent from the same quarter in 2013, while Downtown activity was its strongest in two years. Leasing in Midtown South is already 30 percent higher than the first seven months of 2013. The overall vacancy rate in the first quarter 2014 rose to 10.5 percent from 9.1 percent a year ago, driven by increased supply, while the average Manhattan asking rent rose 7.3 percent to $63.96 per square foot.[32] Looking ahead, rental prices are likely to ease as massive new inventory from One and Three World Trade Center and Hudson Yards becomes available.

With the local residential market recovering, its main features are high prices and limited supply, regardless of the direction of sales. In Manhattan, co-op and condo sales jumped 34.6 percent in the first quarter 2014 from the same quarter a year ago, the highest first quarter sales in seven years. Inventory was essentially unchanged after three consecutive years of decline. The median price rose by an exorbitant 18.5 percent to $972,428. In Brooklyn, sales edged down 2.2 percent from a year ago. Inventory plunged 32.3 percent over the same period,

[31] New York Building Congress, 'Update: NYC Construction Employment Rose 4.2 Percent in 2013: Wages Up Slightly,' May 7, 2014.
[32] Cushman & Wakefield, 'Marketbeat: Office Snapshot,' First Quarter 2014.

reaching the lowest level in the 6 years the metric has been recorded. The median sales price rose only 1 percent to $520,000, but this is the highest first quarter price in six years.[33]

The median rent in Manhattan increased 1.6 percent year-over-year as of April 2014 to $3,247, the second highest level in over five years. The rental price in Manhattan had climbed so high that its median rent actually fell during the previous 6 months year-over-year. In Brooklyn, the median rent increased 3.9 percent year-over-year to $2,805.[34] With exorbitant home prices and rents, more middle-class families are being forced to reassess whether the city provides the optimal income and cost-of-living match compared to other locations.

Going Forward

Council Finance estimates, as does OMB, that private wages will grow around 4 percent in 2014. Both see private wage growth accelerating to around 4.4 percent in the outyears.[35] Their pathways, however, differ. OMB projects a significant weakening of private employment growth from 1.7 percent in 2014 to 1.5 percent in the outyears, yet it expects the average wage[36] to grow 3.1 percent annually in the outyears. Council Finance sees private employment growth only temporarily dropping during the first half of 2014, and then rebounding to around 1.9 percent in the outyears. Private average wage growth, however, is expected to remain in the doldrums of around 2.4 percent through the outyears, though still outpacing the local cost of living increase of 1.6 percent annually.[37]

While the city's economic growth is bound to eventually face the constraints of demand and limited space, it does not appear that these constraints are imminent. Additional commercial and residential space is currently in the pipeline and the national economy is expected to strengthen, benefitting the city. So in an atmosphere of modest inflation, the city will see continued growth in employment, wages and commercial activity. The only downside is that too much of that growth will be in low paying sectors of the economy.

[33] Douglas Elliman Real Estate, 'Elliman Report: Manhattan Sales' and 'Brooklyn,' Quarter 1, 2014.
[34] Douglas Elliman Real Estate, 'Manhattan & Brooklyn Rentals Elliman Report,' April 2014.
[35] The comparison is approximate since Council Finance forecasts private sector wages while OMB focuses on the combined private and public sectors.
[36] The average wage of private and public combined.
[37] IHS, Consumer Price Index – New York City.

Table 10. Forecast of Selected Economic Indicators: National and New York City, CY2013-2018

	CY13	CY14	CY15	CY16	CY17	CY18
NATIONAL ECONOMY						
Real GDP %	1.9	2.4	3.2	3.5	3.2	2.7
Private Employment						
Level Change, '000	2,324	2,382	2,558	2,780	2,405	1,592
Percent Change, %	2.1	2.1	2.2	2.3	2.0	1.3
Unemployment Rate, %	7.4	6.5	6.0	5.6	5.3	5.2
Total Wages %	1.9	1.7	2.3	2.5	2.6	2.7
Interest rates %						
3-Month Treasury Bill	0.06	0.05	0.40	2.18	3.62	3.74
30-Year Conventional Mortgage Fixed	3.98	4.50	4.98	5.76	6.53	6.65
NEW YORK CITY ECONOMY						
Real GCP %	3.1	2.1	2.7	3.4	3.0	2.4
Private Employment						
Level Change, '000	85.4	68.3	64.6	72.6	72.7	68.6
Percent Change, %	2.6	2.0	1.9	2.0	2.0	1.9
Average Private Wages %	0.7	1.9	2.4	2.6	2.4	2.3
Total Private Wages %	3.2	4.0	4.3	4.7	4.5	4.2
NYSE Member Firms %						
Total Revenue	1.6	6.7	4.8	5.7	3.2	2.1
Total Compensation	4.3	3.8	6.3	6.9	5.5	4.9

Source: *IHS, May 2014 (Nat'l); New York City Council - Finance Division (City)*

Tax Forecast

Council Finance expects that once the final numbers come in this fall, total tax collections for Fiscal Year 2014 will have risen 5.4 percent from the year prior, bringing in around $48.2 billion in revenue.[38] This compares with unusually strong growth in tax collections the year prior (Fiscal 2013) of 8.5 percent growth. It is nonetheless quite healthy and coincides with a strong citywide economy that, as noted earlier, has more than replaced the jobs lost to the recession.

The rollercoaster path of the last two fiscal years is largely driven by the personal income tax. Personal income tax collections soared 15 percent in Fiscal 2013, as taxpayers moved forward their capital gains realizations to avoid the higher tax rates for tax year 2013. Tax year 2013 collections received in Fiscal 2014 were therefore cannibalized for the previous year.

Having said that, the Finance Division expects the personal income tax, buoyed by rising employment and a huge hike in Wall Street bonuses, to grow by just over 2 percent this year

[38] Including audits.

and slightly less in Fiscal 2015. Average wages may be growing at a snail's pace in New York, but the fact that the number of paychecks being cut increases each year means the economic pie is growing larger for everyone — and the City is seeing the results through its income tax.

Business tax collections[39] are projected to rise at a lukewarm rate of slightly over 3 percent in Fiscal 2014 and then soften further to below 2 percent in Fiscal 2015. Taxes on healthy profits through the unincorporated business tax are offset by plunging collections from the banking corporation tax due to legal settlements, fines, and a weakening mortgage business. Collections for the general corporation tax are expected to be strong this year, but falter in Fiscal 2015, following the fortunes of Wall Street. Business tax revenue is expected to strengthen in Fiscal 2016 as the national economy gains more traction and increases its demand for City services.

Sales tax collections are experiencing strong growth at close to 5 percent in Fiscal 2014, supported by record tourism and growing consumer confidence. Signs suggest the growth in consumer spending will continue in Fiscal 2015 and beyond as employment in the City expands and consumer confidence continues its slow recovery, although the coming year's growth may not be quite as strong as the current year's.

Hotel tax collections are particularly strong, directly thriving on the record tourism levels: collections are expected to be exceptionally strong in Fiscal 2014 and to sustain healthy growth in the outyears. Tourism, it was noted previously, rocketed in 2013; it also spiked in April following a slow winter.

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 becomes increasingly easier to acquire, the transfer taxes have improved. The RPTT will continue a steady growth in the outyears, at an average rate of nearly 6 percent. The MRT on the other hand will see more modest growth in Fiscal 2015 as rising interest rates slow the recent spate of refinancing, before resuming a steady growth of 4.7 percent on average in Fiscal 2016 through 2018. The Commercial Rent Tax, buoyed by the strong Manhattan office market, should continue its recent growth across the forecast period.

For Fiscal 2014, Council Finance expects the Real Property Tax (RPT) to generate nearly $20 billion in revenue. This represents a fairly sizeable increase from earlier estimates due largely to a general draw down in reserve components which happens as the end of the fiscal year approaches and it becomes easier to estimate costs and revenues.

In May, the Department of Finance released its assessment roll for Fiscal 2015, which showed growth of the Billable Assessed Value (BAV) up a substantial 6.3 percent over the prior year. While all four classes of property saw at least some growth, much of the change can be attributed to class 4 commercial properties which saw a 6.9 percent increase in BAV. Class 4, along with class 2—which saw a 7 percent increase in its BAV—make up over 80 percent of the taxable value in the city; the strong growth of BAV of these two classes thus drove much of the increase in real property tax revenue.

Council Finance expects the City will see strong property tax revenues of almost $20.8 billion in Fiscal 2015. That would amount to a 4 percent increase from the year prior.

[39] Discussed here, "business taxes" are the combination of three taxes – the general commercial tax, the banking tax, and the unincorporated business tax – that, collectively, bring the City more than $6 billion annually, around one-eighth of all local tax revenue.

This growth in BAV (i.e. tax revenue) is being driven by large market value increases over the past several years, which continue this year. Class 4 saw an increase of 7.0 percent in overall market value, which comes after three years of similar growth (averaging 6.8 percent per year). 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, BAV up, and property tax revenue will grow in the outyears.

OMB believes growth in real property tax revenues will slow to an average of 4.3 percent in the outyears as market value growth begins to moderate. Council Finance shares this expectation—its forecast sees 4.1 percent average annual growth in RPT revenue over the same time.

Table 11. Council Forecast: Difference from OMB Forecast

Dollars in Millions

	FY14	FY15	FY16	FY17	FY18
Real Property	$0	$91	$169	$146	($54)
Personal Income	$19	$289	$283	$312	$387
General Corporation	$23	$72	$141	$141	$80
Banking Corporation	$31	$21	$43	$97	$126
Unincorporated Business	$88	$108	$132	$186	$227
Sales	($40)	($55)	($86)	($131)	($152)
Commercial Rent	($3)	$8	$11	$20	$35
Real Property Tran	$25	$145	$105	$170	$244
Mortgage Recording	$5	$68	($17)	($2)	$20
Utility	$16	$18	$24	$25	$30
Hotel	$13	$37	$56	$83	$109
All Other	$0	$0	$0	$0	$0
Audits	$0	$0	$0	$0	$0
Total Taxes	**$176**	**$800**	**$860**	**$1,049**	**$1,052**

Source: *Council Fiscal 2015 Executive Budget*

Table 12. Council Forecast: Growth Rates

	FY13*	FY14	FY15	FY16	FY17	FY18
Real Property	4.3%	6.7%	4.0%	5.4%	4.0%	3.0%
Personal Income	15.3%	2.2%	1.2%	4.4%	3.6%	3.4%
General Corporation	10.0%	6.5%	2.2%	5.5%	2.8%	1.2%
Banking Corporation	6.2%	(8.0%)	(4.8%)	3.1%	5.0%	5.0%
Unincorporated Business	10.5%	7.0%	5.5%	5.3%	5.8%	5.4%
Sales	5.5%	4.7%	3.0%	3.8%	3.9%	3.9%
Commercial Rent	5.3%	4.5%	4.2%	4.6%	5.6%	6.1%
Real Property Transfer	19.1%	34.3%	2.7%	5.6%	7.6%	7.0%
Mortgage Recording	38.3%	28.6%	(1.3%)	3.4%	5.6%	5.2%
Utility	3.7%	6.3%	5.9%	1.1%	2.0%	3.4%
Hotel	6.1%	8.3%	4.6%	7.0%	7.3%	7.2%
All Other	3.8%	0.2%	1.1%	(0.8%)	0.2%	(0.1%)
Audits	35.9%	(14.8%)	(17.5%)	0.0%	0.0%	0.0%
Total Taxes	**8.5%**	**5.4%**	**2.5%**	**4.6%**	**4.0%**	**3.4%**

**Actuals*

***Source**: Council Fiscal 2015 Executive Budget*

Five Year Capital Commitment Plan, 2014-2018

On May 8th, OMB released the Executive Capital Commitment Plan which represented an increase from the Preliminary Capital Commitment Plan of $4.1 billion (City funds) from $33 billion to $37.1 billion. These increases reflected the new priorities of the de Blasio administration as well as an effort to increase the accuracy and transparency of the City's Capital Commitment Plan.

In order to begin implementing the Mayor's recently released housing plan, the Department of Housing Preservation and Development's (HPD) Capital Commitment Plan was increased by $1.2 billion, which is an increase of 76 percent from the Preliminary Capital Commitment Plan of $1.5 billion. Areas within HPD that saw the largest increases were: the Low Income Rental Program, Supportive Housing, NYCHA program, and the Mixed Income Rental program. Other City agencies with large additions to their capital plan include: Education (an increase of $748 million), the Economic Development Corporation (up $548 million), the Department of Transportation (increase of $470 million) and the Department of Environmental Protection (up $450 million).

In addition to the above increases, City agencies were instructed to more accurately reflect the timing of their capital projects. It had been highlighted in the City Council's Preliminary Budget response that capital projects had fallen into a cycle of rolling appropriations from one year to the next and therefore had most of their funding front loaded in the first few fiscal years of the project's life cycle. OMB agreed and as a result asked agencies to move their current year forecasts not just into Fiscal 2015 but into the outer years of the Five Year Capital Plan when appropriate to do so. As a result of this the current fiscal year was reduced City-wide by $5.5 billion and the out years of the Executive Capital Commitment Plan (Fiscal 2016 through Fiscal 2018) were increased by $5.5 billion.

The chart below represents City agencies with the largest increases in their Executive Capital Commitment Plan from the Preliminary Capital Commitment Plan.

Table 13. Capital Commitment Plan: Executive Plan Compared to Preliminary Plan
Dollars in Thousands

Agency	Exec Plan	Prelim Plan	Increase
Housing Preservation & Development	$2,726,179	$1,548,413	$1,177,766
Education	6,121,400	5,372,720	748,680
Economic Development	1,543,773	995,226	548,547
DOT	4,368,253	3,898,627	469,626
Environmental Protection	8,683,488	8,234,755	448,733
Corrections	1,182,017	1,059,227	122,790
Police	767,115	653,509	113,606
Courts	530,312	419,412	110,900
Parks	2,050,876	1,958,154	92,722
Fire	472,996	385,437	87,559
Sanitation	1,305,172	1,237,803	67,369
Total	$29,751,581	$25,763,283	$3,988,298

Financing and Debt Service

The City borrows—by selling, or "issuing," bonds—to pay for capital spending. It issues bonds every year and repays (or "services") the subsequent debt over time. The City and a sister corporate-governmental agency, the Transitional Finance Authority (Finance Authority), currently owe around $67 billion dollars. When you add in a third authority, the New York City Municipal Water Finance Authority (Water Authority), and some smaller entities, the figure grows to around $100 billion.[40] The City is scheduled to spend roughly $7 billion to pay part of the debt in Fiscal Year 2015.[41]

The City and its finance authorities enjoy healthy credit ratings. This means they can borrow at quite low rates; their bonds, while offering relatively low rates of return to lenders, remain attractive to investors.

The Mayor's Executive Budget envisions $6.8 billion of borrowing in Fiscal Year 2015; after that, it outlines slightly less borrowing—$6.5 billion, $6.4 billion, and $6.2 billion—over the 2016, 2017 and 2018 fiscal years.

[40] This does not include outstanding TFA Building Aid Revenue Bonds (BARBS) or debt of the Sales Tax Asset Receivables Corporation (STARC) which are funded by revenues from New York State.
[41] This is before prepayments.

The Executive Budget would service nearly $8.3 billion in debt in the coming fiscal year; after that, the City would service increasingly higher levels—$9.1 billion, $9.5 billion, and $9.8 billion over the subsequent three years.[42]

The City's borrowing strategy is a function of numerous factors, including but not limited to the conditions of the financial market, the City's project schedule, and cash flow considerations.

A summary of the financing plan can be seen in the table below.[43]

Table 14. Summary of Fiscal 2015 Capital Financing Plan
Dollars in Milions

	FY14	FY15	FY16	FY17	FY18
Financing Plan					
GO Bonds	$2,275	$1,750	$2,600	$2,600	$2,500
TFA Bonds	$2,805	$3,500	$2,600	$2,600	$2,500
Water Authority Bonds	$1,671	$1,541	$1,289	$1,186	$1,208
Total Borrowing	**$6,751**	**$6,791**	**$6,489**	**$6,386**	**$6,208**
Debt Service Costs					
GO Bonds	$3,806	$4,288	$4,588	$4,623	$4,698
TFA Bonds	$1,664	$2,060	$2,332	$2,647	$2,837
TSASC Bonds	$79	$74	$74	$74	$82
Conduit Debt	$262	$317	$323	$312	$305
Water Authority Bonds	$1,511	$1,617	$1,851	$1,880	$1,964
Total Debt Service	**$7,322**	**$8,356**	**$9,168**	**$9,536**	**$9,886**
Debt Outstanding					
GO Bonds	$41,929	$41,531	$41,766	$42,036	$42,197
TFA Bonds	$24,987	$27,722	$29,419	$30,932	$32,296
TSASC Bonds	$1,228	$1,216	$1,203	$1,190	$1,168
Conduit Debt	$1,616	$1,534	$1,445	$1,365	$1,284
Water Authority Bonds	$29,979	$31,293	$32,207	$32,997	$33,801
Total	**$99,739**	**$103,296**	**$106,040**	**$108,520**	**$110,746**
Total without water bonds	$69,760	$72,003	$73,833	$75,523	$76,945
Debt Financing Burden (excludes water debt)					
Debt Outstanding/NYC Personal Income	3.56%	3.55%	3.46%	3.37%	3.26%

The City's debt remains well below the cap imposed by the state constitution. The debt limit is a function of property values — the City can borrow, with some exceptions, no more than 10 percent of the five-year rolling average of the full value of taxable real property in the city limits.[44] But only part of the indebtedness covered by the City and its sister authorities is counted against that limit, which was $79.1 billion last year. The City Comptroller projects that the debt limit should grow sufficiently to accommodate the Capital Financing Plan.

[42] This includes Water Authority Bonds.
[43] TSASC issues bonds secured by revenues surcured by tobacco settlement revenues. Conduit debt includes older debt issued by a state authority for hospitals and courts and debt issued by the New York City Industrial Development Corporation.
[44] New York City Comptroller, December 2013.

The bottom line is that the City's debt service is manageable. Debt service is rising as a percentage of total City funds and while it is not currently a problem, it is something to keep an eye on.

Pensions

The City has five major pension systems, each managed independently, covering roughly 685,000 employees, beneficiaries and retirees.[45] It contributes an amount set by formula to those plans annually, and will contribute $8.3 billion in Fiscal 2015—a figure accounting for more than 11 percent of the City's total annual revenue and representing an exponentially higher annual contribution than 15 years ago. But strong returns to pension investments coupled with the gradual implementation of the Tier 6 retirement plan[46] have slowed the annual average rate of growth of the annual pension contribution to 1.3 percent across the Financial Plan. Fiscal 2015 is the first year that Tier 6 will effect contributions to the City's pension systems. The 1.3 percent growth of pension contributions forecast across the Financial Plan is below the rate of growth of the city's economy, which over time will help make pension contributions easier to afford.

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 7 percent assumed interest rate, or should collective bargaining settlements differ from actuarial wage growth assumptions, the size of required contributions will change.[47]

The May 2014 plan is little changed from the February Plan. City contributions decrease by $52 million in Fiscal 2014, increase by $22 million in Fiscal 2015 and there are small decreases in the out years.

Table 15. Pension Expenses
Dollars in Millions

	FY14	FY15	FY16	FY17	FY18
Pension Expenses	$8,270	$8,354	$8,445	$8,546	$8,723
Percent of City Funds	15.5%	15.5%	15.1%	14.8%	14.7%
Percent of Total Revenue	11.0%	11.3%	10.7%	10.6%	10.4%

Labor Settlement and Pensions

The above picture will change as contracts are ratified by the City's labor unions. Should the pattern of salary increases differ from actuarial assumption underlying City's contributions in Table 15, a change would be required in these contributions. At the moment Finance Division is unclear how quickly this will happen after contracts are approved.

[45] The New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund; New York City Fire Department Pension Fund; and the New York City Board of Education Retirement System (BERS).
[46] A Tier 6 employee is someone who joined New York City Employees' Retirement System (NYCERS) on or after April 1, 2012. (Comptroller.)
[47] The previously-used assumed interest rate was 8 percent.

The UFT has now approved a new contract with the City, and the Teacher's Retirement System of New York City (TRS) will thus be the first of the pension funds impacted by the new contracts. The raises are substantial and will be felt immediately by potential retirees. Teachers who retire after June 30, 2014 will have the full 8 percent increase from the 2008-2010 round counted in their final year's salaries for purposes of calculating their pensions.[48] This may impact when teachers choose to retire. Overall, Finance Division expects pension contributions to increase as a result of the contract.

As the Finance Division understands the settlement, teachers who retired between September 1, 2009 and June 30, 2014 are not eligible for this increase in final salary, rather they are eligible for payments from a Structured Retiree Claims Settlement Fund to be established by the City, and provided with $180 million by the City to settle these retirees' claims.[49]

[48] http://www.uft.org/faqs/will-two-4-percent-retroactive-raises-be-used-calculate-three-highest-income-years-those-who-re

[49] United Federation of Teacher "Tentative Contract 2014: Memorandum of Agreement"

Appendix

Table 16. Fiscal Year 2015 Executive Budget: Revenue Changes from Preliminary Budget
Dollars in Millions

	FY14	FY15	FY16	FY17	FY18
Taxes					
Real Estate	$188	($103)	($101)	($100)	($101)
Sales	$36	$36	$31	$90	$134
Mortgage Recording	$0	$20	$29	$10	($13)
Personal Income	$652	$40	($26)	($107)	($148)
General Corporation	$125	$38	$49	$20	$9
Banking Corporation	$0	$0	$0	$0	$0
Unincorported Business	$0	$8	($8)	($13)	($15)
Utility	$8	$16	($4)	($3)	($3)
Hotel	$6	($4)	($4)	($4)	($6)
Commercial Rent	$8	$0	$0	$0	$0
Real Propery Transfer	$0	$31	$46	$16	($20)
Cigarette	($2)	($2)	($2)	($2)	($2)
All Other	$43	$1	$1	($1)	$0
Audit	$150	$0	$0	$0	$0
Tax Program	$0	($530)	($533)	($569)	($594)
STAR	$0	$15	$0	$0	$0
Total Taxes	**$1,214**	**($434)**	**($522)**	**($663)**	**($759)**
Federal Categorical Grants	**($106)**	**($25)**	**($51)**	**($60)**	**($70)**
State Categorical Grants	**$33**	**$555**	**$629**	**$654**	**$810**
Non-Governmental Grants (Other Cat.)	**$21**	**($75)**	**$7**	**$6**	**$6**
Unrest. / Anticipated State & Federal Aid	**$0**	**$0**	**$0**	**$0**	**$0**
Miscellaneous Revenue					
Charges for Services	$0	$7	$7	$7	$7
Water and Sewer Charges	($21)	$46	$19	$0	($15)
Licenses, Permits, Franchises	$40	$4	$2	$2	$2
Rental Income	$13	$0	$0	$0	$0
Fines and Forfeitures	$36	$5	$5	$5	$5
Other Miscellaneous	($35)	$120	$2	($3)	($10)
Interest Income	$0	$0	$0	$0	$0
Intra City	$33	$99	$151	$144	$144
Total Miscellaneous	**$66**	**$281**	**$186**	**$155**	**$133**
Net Disallowances & Transfers	**($33)**	**($99)**	**($151)**	**($144)**	**($144)**
Total Revenue	**$1,195**	**$203**	**$98**	**($52)**	**($24)**
City Funds	**$1,247**	**($252)**	**($487)**	**($652)**	**($770)**
Federal & State Revenue	**($73)**	**$530**	**$578**	**$594**	**$740**

***Source**: OMB Fiscal 2015 Preliminary Budget and Fiscal 2015 Executive Budget.*

Table 17. Fiscal 2015 Executive Budget Revenue Plan
Dollars in Millions

	FY14	FY15	FY16	FY17	FY18
Taxes					
Real Estate	$19,969	$20,679	$21,714	$22,603	$23,478
Sales	6,460	6,666	6,946	7,260	7,556
Mortgage Recording	950	874	991	1,030	1,062
Personal Income	9,315	9,191	9,617	9,948	10,220
General Corporation	2,844	2,858	2,950	3,036	3,136
Banking Corporation	1,217	1,168	1,183	1,190	1,226
Unincorported Business	1,846	1,933	2,016	2,086	2,168
Utility	393	415	413	421	431
Hotel	534	535	556	573	595
Commercial Rent	697	715	745	778	812
Real Propery Transfer	1,433	1,352	1,476	1,531	1,576
Cigarette	55	53	51	50	49
All Other	534	502	502	501	502
Audit	860	709	709	709	709
Tax Program	-	-	-	-	-
STAR	838	887	877	881	881
Total Taxes	**$47,945**	**$48,537**	**$50,746**	**$52,597**	**$54,401**
Federal Categorical Grants	**$8,303**	**$6,377**	**$6,333**	**$6,310**	**$6,299**
State Categorical Grants	**$11,770**	**$12,460**	**$12,904**	**$13,401**	**$13,953**
Non-Governmental Grants (Other Cat.)	**$1,438**	**$1,288**	**$1,350**	**$1,345**	**$1,341**
Unrest. / Anticipated State & Federal Aid	**$0**	**$0**	**$0**	**$0**	**$0**
Miscellaneous Revenue					
Charges for Services	922	929	929	929	929
Water and Sewer Charges	1,497	1,559	1565	1,513	1,509
Licenses, Permits, Franchises	621	583	591	592	590
Rental Income	294	272	272	272	272
Fines and Forfeitures	844	789	787	787	787
Other Miscellaneous	1,377	1,126	985	936	544
Interest Income	16	10	45	134	163
Intra City	1,776	1,795	1820	1,823	1,828
Total Miscellaneous	**$7,347**	**$7,063**	**$6,994**	**$6,986**	**$6,622**
Net Disallowances & Transfers	(1,791)	(1,810)	(1,835)	(1,838)	(1,843)
Total Revenue	**$75,012**	**$73,915**	**$76,492**	**$78,801**	**$80,773**
City Funds	**$53,501**	**$53,790**	**$55,905**	**$57,745**	**$59,180**
Federal & State Revenue	**$20,073**	**$18,837**	**$19,237**	**$19,711**	**$20,252**
Federal & State as a Percent of Total	**26.8%**	**25.5%**	**25.1%**	**25.0%**	**25.1%**
City Funds as a Percent of Total Revenue	**71.3%**	**72.8%**	**73.1%**	**73.3%**	**73.3%**

Source: *OMB Fiscal 2015 Executive Budget*

Table 18. Council Forecast: Levels

Dollars in Millions

	FY13*	FY14	FY15	FY16	FY17	FY18
Real Property	$18,711	$19,969	$20,770	$21,883	$22,748	$23,425
Personal Income	$9,167	$9,364	$9,480	$9,900	$10,260	$10,607
General Corporation	$2,692	$2,867	$2,930	$3,091	$3,177	$3,216
Banking Corporation	$1,357	$1,248	$1,189	$1,226	$1,287	$1,352
Unincorporated Business	$1,808	$1,934	$2,041	$2,148	$2,272	$2,395
Sales	$6,132	$6,420	$6,611	$6,860	$7,129	$7,404
Commercial Rent	$664	$694	$723	$756	$798	$847
Real Property Transfer	$1,086	$1,458	$1,497	$1,581	$1,701	$1,820
Mortgage Recording	$742	$955	$942	$974	$1,028	$1,082
Utility	$385	$409	$433	$437	$446	$461
Hotel	$505	$547	$572	$612	$656	$704
All Other	$1,423	$1,426	$1,441	$1,429	$1,432	$1,431
Audits	$1,009	$860	$709	$709	$709	$709
Total Taxes	**$45,681**	**$48,151**	**$49,337**	**$51,606**	**$53,646**	**$55,453**
OMB	**$45,681**	**$47,975**	**$48,537**	**$50,746**	**$52,597**	**$54,401**

**Actuals*

Source: Council Fiscal 2015 Executive Budget