



THE COUNCIL OF THE CITY OF NEW YORK

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HEARING ON THE FISCAL YEAR 2014 EXECUTIVE BUDGET

FINANCIAL PLAN, ECONOMIC FORECAST, PENSIONS AND DEBT SERVICE

June 5, 2013

EXECUTIVE BUDGET HIGHLIGHTS

Balancing Fiscal 2014

- Since the release of the February plan, a budget gap has opened in Fiscal 2014 totaling about \$1.1 billion. The gap is a result of a further delay in the sale of taxi medallions, increased pension contributions, a set of new needs spread across a range of agencies and an increase in the general reserve to address concerns over the size and timing of federal reimbursements related to Hurricane Sandy. The gap is closed primarily with tax collections which were stronger than anticipated.
- The revenue budget is driven by the unexpected strength of tax revenue collections in February through April. This combined with several large tax audits generated \$1.2 billion in additional tax revenue in Fiscal 2013 compared to the February plan.
- One source of this revenue growth was unexpectedly strong NYSE member earnings which increased bonuses and business tax collections. Another source was investors' anticipation of Federal tax increases which led to large realized capital gains in the end of 2012 from the sale of financial assets, commercial property and luxury housing. This resulted in strong personal income tax and transactions taxes collections.
- However, some of these gains came from assets that might otherwise have been sold in Fiscal 2014. As a result, OMB has lowered its personal income tax forecast for Fiscal 2014. Overall FY 2014 tax revenue is down \$194 million compared to the February plan, though still above the Fiscal 2013 adoption level by \$132 million. In addition, the April plan further delays the anticipated receipt of taxi medallion sales revenues by \$300 million in Fiscal 2014.
- The impact on the City budget of federal sequestration in Fiscal 2014 and beyond is not fully known and will depend on when sequestration ends and the content of any agreement reached in Washington for the next Federal fiscal year. However, in the May plan, reductions from Federal aid due to sequestration totals \$172 million over the plan period, \$132 million of which occur in Fiscal 2014. About \$85 million of the reduction is offset by additional State foundation aid and Federal funds not impacted by sequestration.

Fiscal 2015-Fiscal 2017

- In the outyears, Fiscal 2015-2017, there is relatively little change since the February plan. As in Fiscal 2014, there is increased spending on pension contributions and some new needs. These are offset primarily by a small increase in the revenue forecast.
- Outyear budget gaps are \$2.2 billion Fiscal 2015, \$1.9 billion Fiscal 2016, \$1.4 billion Fiscal 2017, essentially identical to those in the February plan. Measured as a percent of total City revenues,

these gaps are much less significant than those of the last few years. However, there are important risks on the expense side, especially labor settlements, that could reopen these gaps.

The National Economy

- The U.S. economy is still fragile, and the economy remains vulnerable to shocks from financial markets and fiscal policy swings. In 2013 and early 2014, the sequester will slow economic growth.
- GDP will return to normal growth, around 3 percent, starting in the fourth quarter of 2014, and job growth will accelerate with the improved GDP growth
- Despite unemployment rate improvements, concerns remain over the sparse job growth as some discouraged workers leave the nation's labor force. However, the unemployment rate continues to fall, and it should be 6.4 percent at the end of 2014.
- The housing market offers a glimpse of recovery as household formation continues to rise and household debt continues its decline.
- The Federal Reserve is on track implementing its unconventional monetary easing. However, as the economy continues to improve the Federal Reserve will slowly back away from this aggressive policy: Once the unemployment rate falls below the Federal Reserve's target 6.5 percent, the Fed will raise interest rates, probably at the end of 2014.

The City Economy

- Decent job growth continues, but this growth has slowed since fall of 2012. New jobs are disproportionately in low-paying sectors.
- Commercial leasing has slowed since 2011, but the pace of growth has been decent as limited supply keeps vacancy rate low.
- The residential market has finally turned, and prices have increased year-over-year.
- The Finance Division expects private sector job growth to slow to 55,000 in 2013. Council Finance expects payroll growth to accelerate to 64,500 in 2014, as the national recovery gains more traction, consumers adjust to the higher payroll tax, and the sequester is replaced by a budget agreement with a milder dose of austerity.
- With the continual improvement of the national economy, Council Finance forecasts continued growth of wage and GCP. In particular Council Finance projects a much smaller slowdown in 2014 than OMB. Where OMB sees wage growth slowing to 1.2 percent and real GCP to 0.7 percent, Council Finance estimates, 2.8 percent in wages and 2.3 percent for GCP.

Risks to the Forecast

- At the national level there are significant risks to the forecast. The recovery has been hampered by policy mistakes, including the persistent mishandling of the Euro crisis and most recently by disorderly US fiscal policy such as sequestration. The political conflicts that are the source of these policy errors continue. In addition, central banks including the Federal Reserve will eventually have to back away from their expansionary monetary policies. Some of these policies were unprecedented and there may be unanticipated difficulties in reversing them.
- At the City level, in addition to the risks to the national economy, there are risks from the changing structure of the City's economy. Certain high income sectors play a disproportionate role in the City's economy and tax revenue. While some of these sectors, like tech, higher education and engineering are doing well, the future of the very high paying financial sector is still unclear. Profits have returned to the financial sector, but they have been associated with significantly lower revenues and lower levels of employment. The City seems well positioned to remain the center of world finance, but much depends on still evolving institutional and legal reforms.

THE FINANCIAL PLAN

Closing the Gap. Since the Fiscal 2014 Preliminary Budget was presented in February, a gap of approximately \$1.1 billion has opened in Fiscal 2014. The gap has a number of sources. Most notably, the long planned sale of additional taxi medallions has been further delayed by litigation. New York State's highest court, the Court of Appeals, heard the arguments on this issue on April 24th, 2013, and a decision is expected within the next few weeks. The Executive budget reduces the anticipated revenue from new taxi medallion sales in Fiscal 2014 from \$600 million down to \$300 million. Also significant is the revised estimate of the value of the City's pension funds, which has increased the required contributions to the funds, and that OMB has increased the general reserve by \$150 million in Fiscal 2014 in order to deal with risks associated with Federal reimbursements of the City for expenses related to Hurricane Sandy. There are also a set of new needs scattered among City agencies.

Table 1. Changes since the February Plan

Dollars in Millions

May Plan	FY13	FY14
Gap as of February Plan	\$---	\$---
Revenues		
Taxes	1,257	(194)
Non-Tax Revenue	(182)	32
Taxi Medallions	0	(300)
Subtotal, Revenue Changes	1,075	(462)
Expenses		
New Needs	100	373
Pension	124	105
General Reserve	(60)	150
Other Adjustment	(165)	(156)
Subtotal, Expense Changes	(1)	472
Remaining Gap to be closed	1,076	(934)
Prepayment FY2013 to FY2014	(1,076)	1,076
Prepayment FY2014 to FY2015		(142)
Gap as of May Plan	\$0	\$0

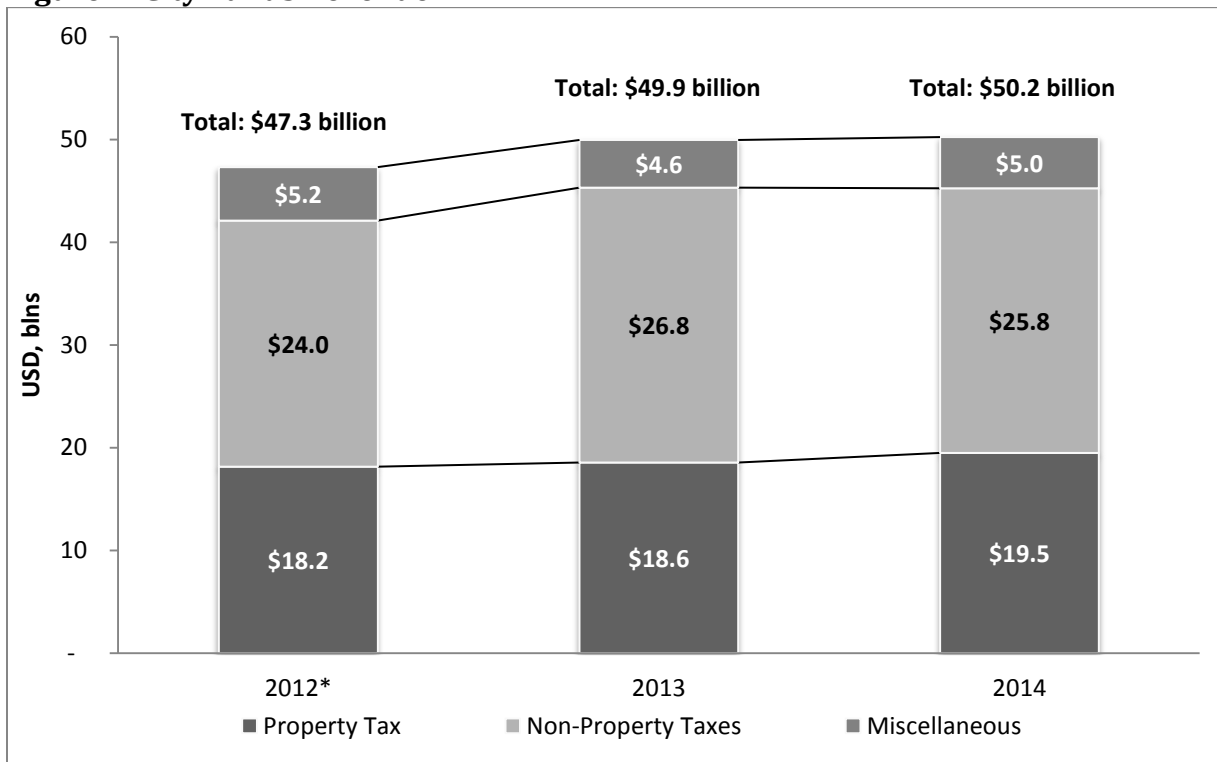
Source: New York City Council Finance, 2013 based on OMB data

The gap is closed primarily with stronger than expected Fiscal 2013 tax revenues. Underlying the extra revenue are better than expected financial sector earnings and significantly larger than expected realized capital gains. Increases in Federal income tax rates for high earners and capital gains tax rates caused substantial sales of assets in the fall of 2012 to beat the tax increases. As a result of these realized capital gains, City personal income tax collections in April were up 63 percent from last year.

Year to Year Changes: City Funds Revenue. City funds revenue continues to grow. Between Fiscal 2012 and Fiscal 2013 growth was primarily due to the growth of non-property taxes as the economy expanded. Extra revenue from realized capital gains also helped. This temporary increase is one reason why Fiscal 2014 non-property tax revenues are below their Fiscal 2013 levels. Fiscal 2012 saw unusual miscellaneous revenue growth, most importantly from the City Time settlement. Without these additions,

Fiscal 2013 revenues were down a bit. Fiscal 2014 still has \$300 million in tax medallion revenues, which is why miscellaneous revenues are above the Fiscal 2013 level. Property tax growth has been strong, primarily reflecting the recovery of the commercial property market.

Figure 1. City Funds Revenue



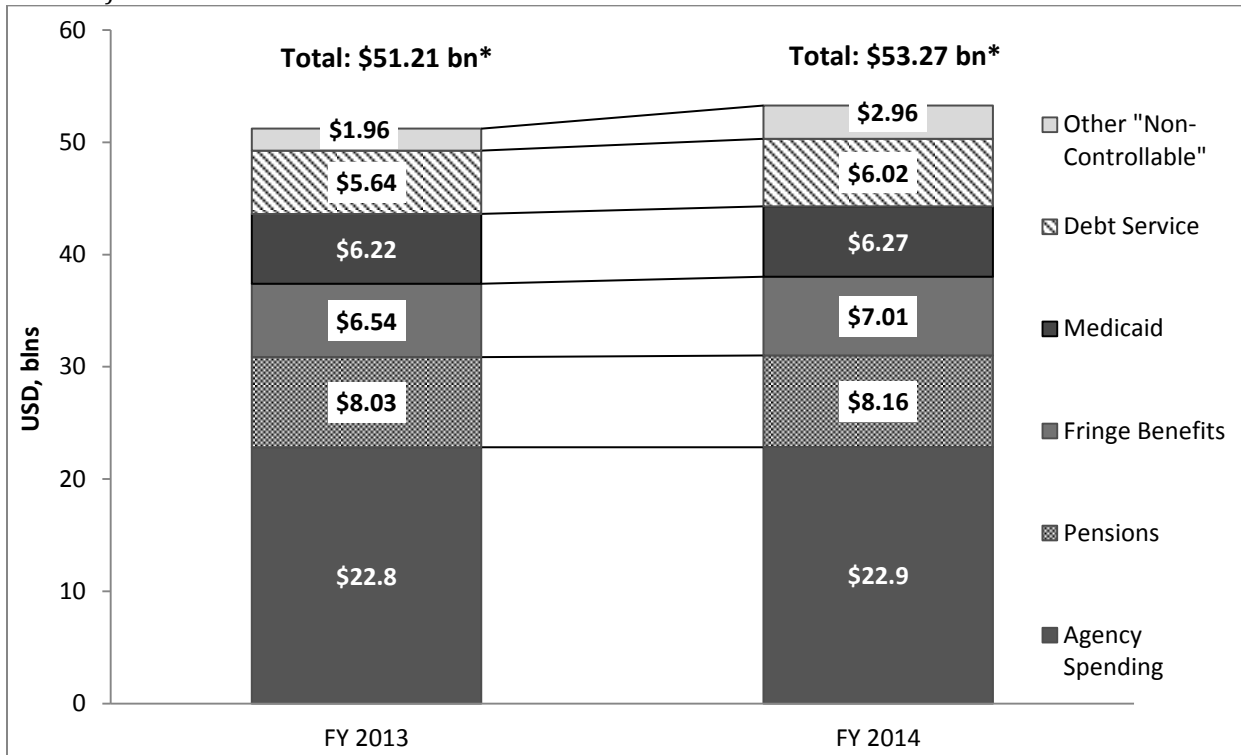
Note: Data for Fiscal 2012 is from the Comprehensive Annual Financial Report of the Comptroller.
 Source: New York City Council Finance, 2013

Year to Year Changes: City Funds Expenses. City funds spending will grow about 4 percent between Fiscal 2013 and Fiscal 2014. Agency spending is essentially unchanged, while fringe benefits and debt service will grow about 8 percent. This fits in with the pattern of recent years where there has been little growth in agency spending and rapid growth in the ‘uncontrollable expenditures’.

One recent source of rapid spending growth has slowed down: pension contributions are now growing at only 1.6 percent. The sources of this previously rapid growth—asset market losses, pension enhancements and wage increases—are now well in the past, and the funds have adjusted to them. Pensions are still more than 15 percent of City funds spending, but their share is slowly falling.

Figure 2. City Funds Spending

Billions of dollars



*Debt service is corrected for prepayments and fringe benefits for use of RHBT funds.

Source: New York City Council Finance, 2013

Turning from City funds to all funds, the Fiscal 2014 budget is \$69.776 billion, down from Fiscal 2013's \$71,845 billion (see Table 2). The decrease is something of a budget artifact; it excludes spending funded by prepayments. Total operating expenses is a more accurate representation, though it still excludes prepayments from the Retiree's Health Benefit Trust. In addition, many Federal categorical grants are recognized over course of the year. In Fiscal 2013 this added \$2.3 billion to the budget since last June, but this was an unusual year because of Federal aid related to Hurricane Sandy. Exactly how much Federal aid will be received in Fiscal 2014 is unclear but since City funds spending are up, it is likely that all funds spending will increase in Fiscal 2014.

Fiscal 2015-2017

Why Outyear Gaps? In the outyears, Fiscal 2015 through Fiscal 2017, total revenue grows faster than total operating expenses. So, why are there budget gaps starting in Fiscal 2015? There are two reasons. First, Fiscal 2015 sees a 15 percent increase in debt service.¹ Second, Fiscal 2014 essentially uses up the funds in the Retiree Health Benefits Trust, and the net roll into Fiscal 2015 is only \$142 million rather than the \$2 billion net roll in Fiscal 2014. Together they open up a \$2.2 billion gap. In Fiscal 2016 and Fiscal 2017 the more rapid growth of revenue gradually reduces the gap.

From one point of view the Financial Plan overstates these outyear gaps. OMB budgeting assumes that certain reserves, such as the general reserve and the reserve for prior year payables are used over the

¹ The increase in total debt service from Fiscal 2014 to Fiscal 2015 reflects both OMB's conservative budgeting practices and the City's increasingly ambitious financing program, and OMB's practice of not forecasting refunding actions in the out-years.

course of the year. Typically they are not used; instead they are rolled into the next year. However, there are significant risks to the personal services portion of the budget from unsettled labor contracts. If settlements are greater than those assumed in the plan they could widen these gaps.

Table 2. Fiscal Year 2014 Executive Budget Financial Summary

Dollars in Millions

	FY13	FY14	FY15	FY16	FY17
REVENUE					
City Funds	\$49,940	\$50,223	\$52,883	\$54,841	\$56,887
TOTAL Revenues	\$71,845	\$69,776	\$72,641	\$75,051	\$77,604
EXPENSE					
Personal Services	\$38,821	\$39,156	\$39,931	\$41,101	\$42,476
Retiree Health Benefits Trust	(\$1,000)	(\$1,000)			
Other than Personal Services	\$29,992	\$28,518	\$29,127	\$29,604	\$30,079
Debt Service	\$5,994	\$6,245	\$7,179	\$7,510	\$7,732
General Reserve	\$40	\$450	\$300	\$300	\$300
Less: Intra-City Expenses	(\$1,732)	(\$1,563)	(\$1,561)	(\$1,565)	(\$1,566)
Total Operating Expenses	\$72,115	\$71,471	\$74,976	\$76,950	\$79,021
Net Surplus Roll	(\$270)	(\$2,050)	(\$142)	\$0	\$0
TOTAL Expenses	\$71,845	\$69,776	\$74,834	\$76,950	\$79,021
GAP	\$0	\$0	\$2,193	\$1,899	\$1,417

Source: OMB Fiscal 2014 Executive Budget

Personal Service, Fringe Benefits and Labor Contracts. Overall spending on personal services is growing at an average rate of 2.4 percent over the plan period. Most of this growth is a result of the growth of fringe benefits, primarily health insurance. Over the plan period OMB expects fringe benefits to grow at an average annual rate of 6.3 percent. This is significantly faster than the expected growth of the City's economy or tax revenue. New York City's problem is not unique. According to a recent report by the Government Accountability Office, state and local governments face long term fiscal problems driven primarily by health-related costs rising faster than tax revenues.²

Table 3. Personal Services Expenditures

Dollars in millions

	FY13	FY14	FY15	FY16	FY17
Salaries and Wages	\$21,977	\$21,767	\$21,693	\$21,715	\$21,802
Pensions	8,185	8,317	8,326	8,524	8,778
Other Fringe Benefits	8,553	8,827	9,447	10,148	10,913
Retiree Health Benefits Trust	(1,000)	(1,000)	—	—	—
Reserve for Collective Bargaining	106	265	465	714	983
Total	\$37,821	\$38,176	\$39,931	\$41,101	\$42,476

Source: OMB Fiscal 2014 Executive Budget

Over the 2012 Fiscal Year, the City of New York employed 267,423 workers, or roughly 7 percent of New York City's working population. A vast majority of these City employees are represented by a union and

² Government Accounting Office, "State and Local Fiscal Outlook April 2013 Update" GAO-13-546SP.

work under a collectively bargained contract. The City is represented in collective bargaining by the Mayor's Office of Labor Relations.

New York City negotiates contracts in "rounds." The last contract period was the 2008-2010 round, and currently all unions are working with expired contracts. Under New York State Public-Sector Labor Law, when a labor contract expires, the terms of the previous contract are extended.

In anticipation of new contracts, the May plan allocates funds to the labor reserve to grant employees a 1.25 percent raise three years after the expiration of their 2008-2010 contract round. Any other salary increases are not assumed in the budget, and there are no additional resources specifically set aside to pay for them.

According to the Administration a retroactive 4 percent increase for teachers and other unions who did not settle in the last round of negotiation combine with an increase at the rate of inflation for all other would increase the growth of personal services spending to a compounded annual rate of about 4 percent, or about \$16.8 billion across the plan period.

Raising this amount would require a compound annual rate of tax revenue growth around 6.25 percent across the plan. Sustained growth rates at this level occurred in the upswing of the last business cycle and were approached in the boom of the late 1990s. However, these growth rates were products of financial bubbles that are unlikely to be repeated in the near future. It is unlikely that the City will be able to fund settlements of this kind without finding savings elsewhere in the budget, and/or significant tax increases, and/or working with unions to achieve significant labor cost offsets in areas like work rules or fringe benefits.

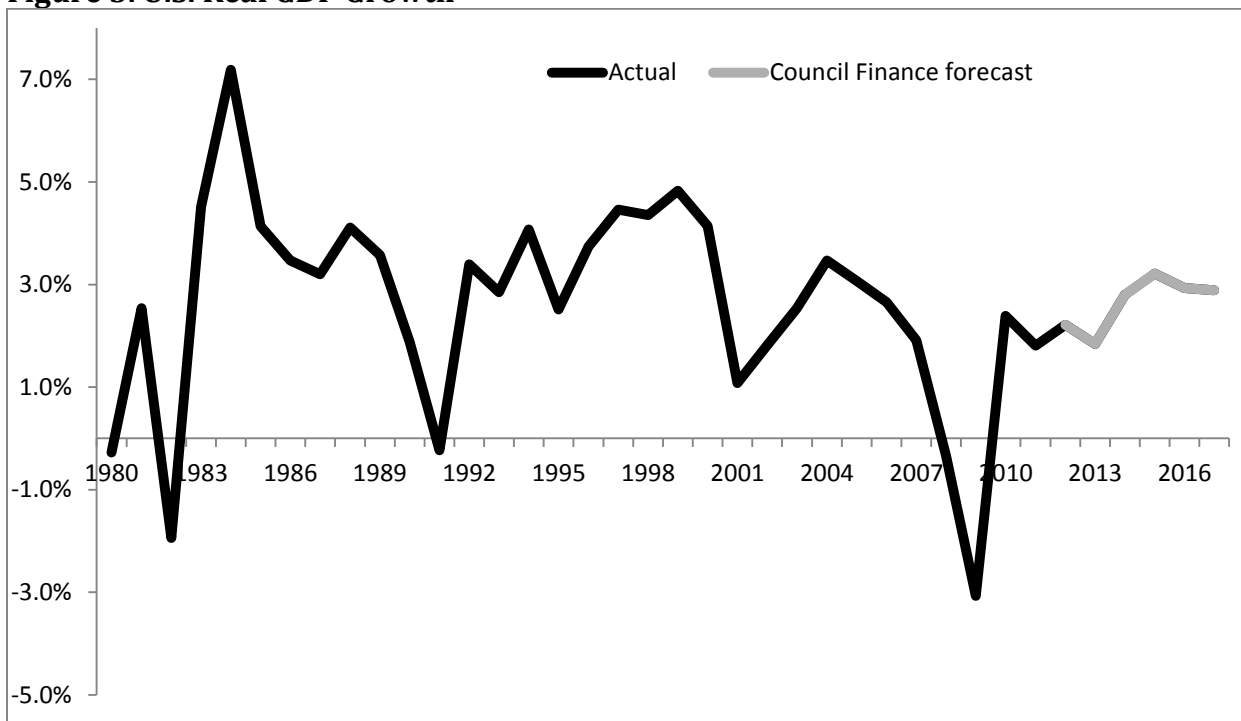
ECONOMIC FORECAST

National Economy

The New York City Council Finance Division's most recent forecast suggests the U.S. economy will grow 1.8 percent in calendar year 2013. This is slightly slower than the 1.9 percent growth reported by Council Finance in March. Consistent with IHS Global Insight, Council Finance estimates economic growth acceleration to 2.8 percent, 3.2 percent, and 2.9 percent in 2014, 2015, and 2016 respectively (see Figure 3). These estimates are also somewhat lower though consistent with the outlook presented by Council Finance in March.

The main reason for this adjustment is the federal sequester that began on March 1, 2013.

Figure 3. U.S. Real GDP Growth



Source: IMF World Economic Outlook (2013), IHS Global Insight (2013) and NYC Council Finance.

Fiscal policy and federal sequester

The U.S. economy is now dealing with the immediate effects of the federal spending sequester—automatic spending cuts—that began on March 1, 2013. Council Finance's forecast assumes the sequester remains in effect through September 2013, and it projects that GDP growth will be reduced by 0.4 percent in 2013. Combined with January's expiration of the payroll tax cut and the Bush era tax cuts for high income earner, fiscal policy will reduce economic growth in 2013 by around 0.9 percent.

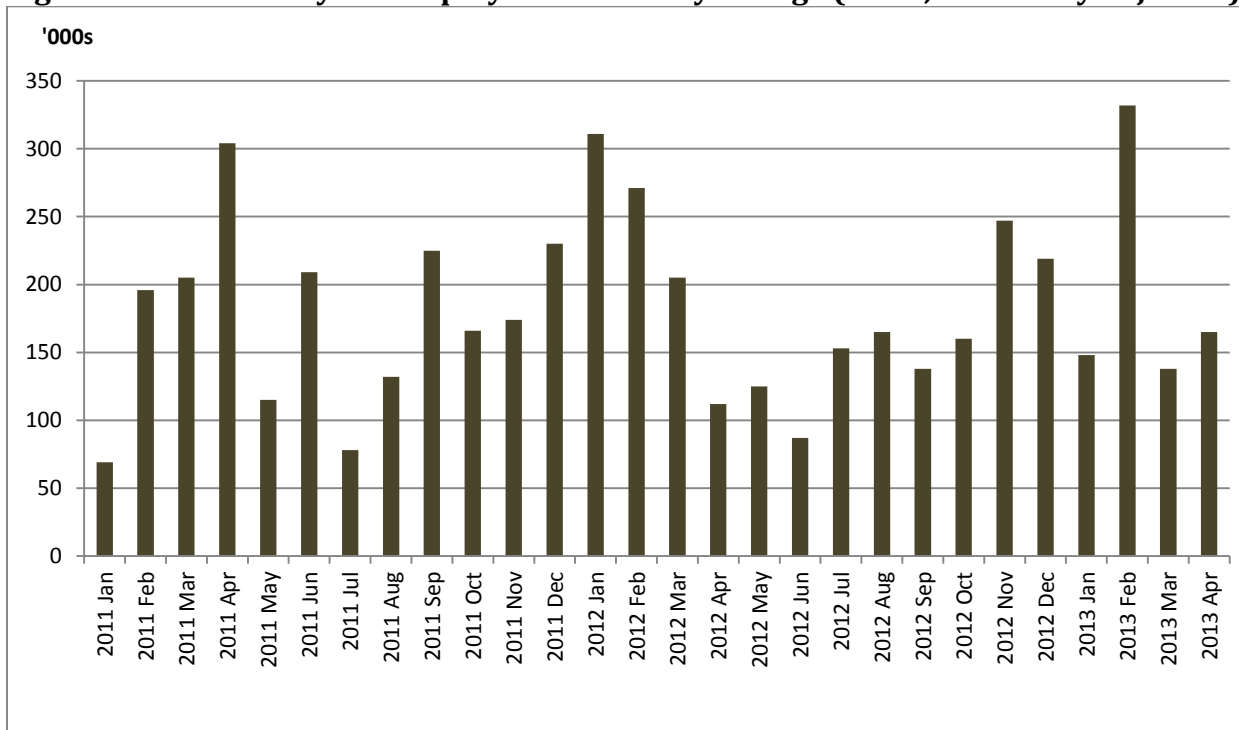
Initial estimates suggest, a full sequester would result in over \$85 billion in spending cuts in the current federal fiscal year and \$110 billion more per year thereafter. The impact on New York City's budget is only partially known. However, in the May plan sequestration reduces Federal aid by \$172 million over the plan period, \$132 million of which is in Fiscal 2014.

One result of the sequester is a reduction in the federal budget deficit. According to the Congressional Budget Office federal revenues are rising faster than spending under current law. As a result, the deficit is projected to fall to 4.0 percent of GDP in FFY2014 and below 2.1 percent by FFY2015.³

Labor market

Unemployment is the key economic and social issue at this time of the economy's recovery. According to the Bureau of Labor Statistics, employment growth in 2012 averaged 181,000 workers per month. Recently revised figures for the first four months of 2013 suggest stronger growth, with February 2013 gaining over 332,000 total nonfarm employees for the month (see Figure 4). While this is a positive development, Council Finance notes that much of this growth has occurred in low wage, low skilled sectors. In particular, disproportionate growth in the trade and hospitality, healthcare and construction sectors have added to income disparities.⁴

Figure 4. Nonfarm Payroll Employment Monthly Change ('000s, seasonally adjusted).



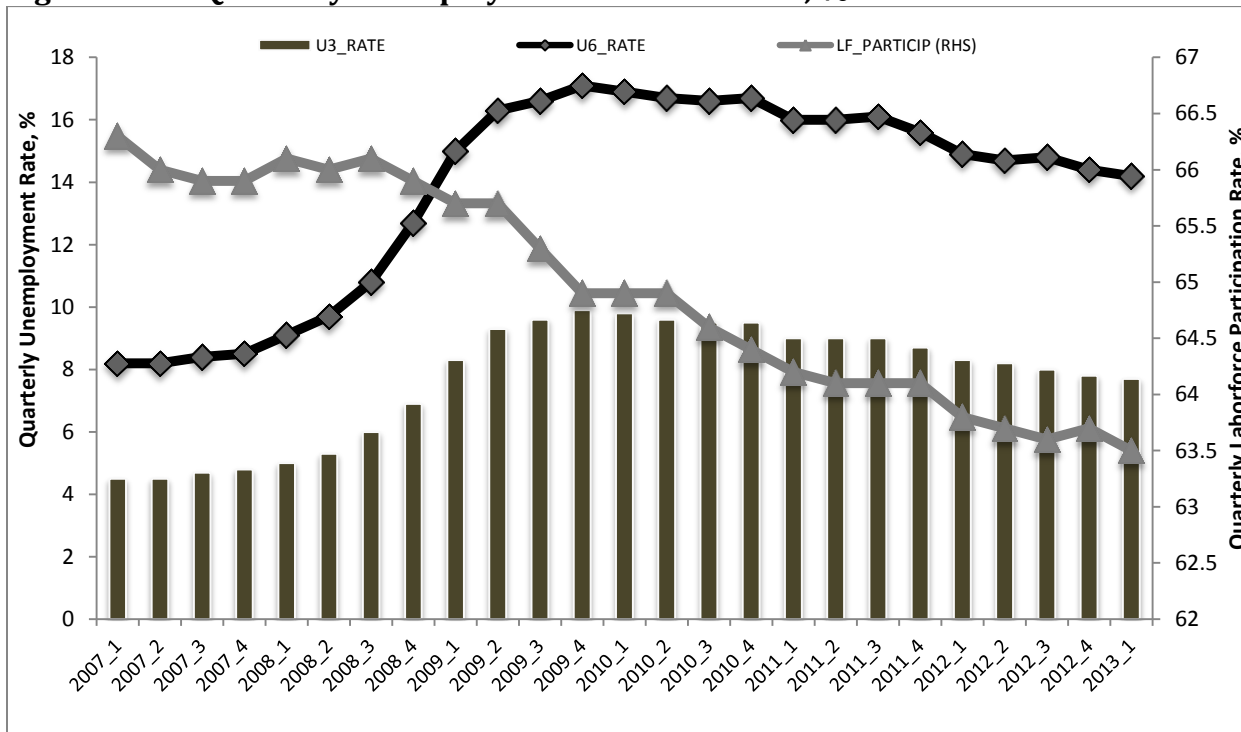
Source: BLS Employment Situation Summary, May 3, 2013 and NYC Council Finance calculations.

The U.S. unemployment rate declined from an annual peak of 9.6 percent in 2010 to a slightly lower 2012 average of 8.1 percent (seasonally adjusted). As of April 2013, the unemployment rate is at 7.5 percent. Data available from the Bureau of Labor Statistics suggests that the disproportional share of the unemployed is the teenage youth population. As reported in the Preliminary Budget Briefing Report, it is reasonable to expect U.S. unemployment to decline; although such a decline remains slow compared to the typical post-World War II economic recovery.

³ Congressional Budget Office. 2013. *Updated Budget Projections: Fiscal Years 2013 to 2023*. May 14, 2013. Available online: <http://www.cbo.gov/publication/44172>

⁴ For some additional data on jobs distribution and income effects over several prior business cycles in New York City see the recently released by the New York City Council Finance report *The Middle Class Squeeze*, available online: http://council.nyc.gov/html/action/acpdfs/middle_class_squeeze.pdf

Figure 5. U.S. Quarterly Unemployment Rate: U3 vs. U6, %



Source: FRB St Louis FRED Economic Data, 2013.

A more intriguing question is what drives the unemployment rate decline. As Council Finance has repeatedly pointed out, a more inclusive unemployment measure is the one that accounts for “discouraged workers”. While this has trended downward from its peak of 16.1 percent in January 2011 to 13.9 percent as of April 2013, it remains significantly higher than past decades.⁵

At the same time, however, sizeable exits from the labor force by “discouraged and marginally attached workers” are decreasing the unemployment rate. In fact, the U.S. labor force participation rate has consistently dropped since the 1960s through the early 2000s, and it has now reached its lowest level since 1981. Some of these trends are captured in Figure 5 and suggest that much of the anticipated improvement in the U.S. labor markets is yet to come.

Housing market

The housing market’s recovery has brought about new home sales, increased housing starts, and an increase in housing prices. New home sales of single-family owned units in the first quarter of 2013 were up 22.8 percent over the first quarter in 2012 according to the U.S. Census data.⁶ Separately, the National Association of Realtors reported existing home sales and prices rising. Existing homes sales have been rising for 20 consecutive months and prices have been increasing for 12 months. According to the NAR, existing home sales rose approximately 9.4 percent in 2012 to 4.3 million and are forecast to reach 5.0 million in 2013, 5.3 million in 2014 and 5.7 million in 2015.⁷

⁵ This compares the Bureau of Labor Statistics’ U-3 rate, which is the one most often reported in the press, with its more inclusive U-6 rate. For BLS’s various measures of labor utilization see BLS Table A-15

<http://www.bls.gov/news.release/empsit.t15.htm>

⁶ U.S. Census, Table Q1 New Privately Owned Housing Units Started in the United States by Purpose and Design. Available online: http://www.census.gov/construction/nrc/pdf/quarterly_starts_completions.pdf

⁷ National Association of Realtors. *Forecast for Housing and the Economy Solidifying, Future Tax Treatment Important*. Available online: <http://www.realtor.org/news-releases/2013/05/forecast-for-housing-and-the-economy-solidifying-future-tax-treatment-important>

Rising household formation has aided the demand for new houses. The most recent forecast from Global Insight anticipates housing starts will increase 26 percent in 2013 to 987,000 and 25 percent in the 2014 to 1.23 million. It is also expected that as vacancy rates decline and housing prices pick up, incentives for developers will strengthen and stimulate new housing starts.

Global Insight's forecast also predicts accelerating growth in multi-family housing starts as builders respond to pent-up demand. This is expounded upon in reports by T. Rowe Price suggesting that between 2006 and 2008 the housing market deducted a full percentage point from economic growth, and growth in the housing market is expected to contribute three-tenths of a percent to the economy.⁸

Consumer spending and household deleveraging

Consumer spending is expected to rise 2.3 percent in 2013 (above 1.9% in 2012) and 2.5 percent in 2014. This is mainly driven by pent-up demand and relative, though still overall tight, easing of banks' credit conditions.

The process of household deleveraging, that is households trying to bring their debt more in line with their income, continues. US households reduced their debt by more than \$110 billion in the first quarter of 2013 according the Federal Reserve Bank of New York (FRBNY).⁹ The effect of this on household consumption spending is complex. To a certain extent it reduces households' willingness to borrow in order to make purchases—a voluntary debt-reduction. Subsequently, as debt falls relative to income, households find debt service takes up less of their income, which may boost spending.¹⁰

Less ambiguous is the effect of the increasing net worth of households, which is a result of falling debt and rising asset values. This tends to increase consumption. To this point a lot of the increase in net worth on the asset side is due to the rise in the stock market. However, the effect of this is concentrated in very high income families. Increasing housing prices will spread the effect to the middle class and should give consumption spending a boost.

Overall, foreclosures and personal bankruptcies remain an issue. However, according to the FRBNY, the percent of loans more than 90 days in arrears has fallen from 6.3 percent to 6.0 percent during the first quarter of this year.

Nevertheless, households still deal with significant headwinds which could prevent a strong consumer spending recovery. In particular consumption spending is hindered by the lower than normal growth of disposable real income. Real disposable income grew only 1.5 percent during 2012, and real disposable income growth is expected to further slow to 0.7 percent in 2013 before picking up to an average of 3.3 percent over the 2014-2017 period.

Business spending, exports, and the financial sector

Business performance is critical to economic growth, and trends in sales, investments and business spending on nonresidential equipment, properties, and software reflect the general direction of aggregate demand in the economy.

Capital equipment spending remains important, although after 11.8 percent growth in the fourth quarter of 2012, it grew only 2.0 percent in the first quarter of 2013. The rise in the fourth quarter of 2012, as

⁸ T. Rowe Price (2012) What's ahead for the markets? 2013 Investment and Economic Outlook; Available online: https://www2.troweprice.com/iws/wps/portal/public_Media/pressbriefing

⁹ For additional data see FRBNY Press Release. *New York Fed Report Shows Americans Continue to Improve Household Balance Sheets* Available online: <http://www.newyorkfed.org/newsevents/news/research/2013/an130514.html>

¹⁰ For an elaborate discussion of the issue, see Brown, M., A. Haughwout, D. Lee, and W. van der Klaauw. 2013. The financial crisis at the kitchen table: trends in household debt and credit. *FRBNY Current Issues in Economics and Finance*. Vol 19 (2).

discussed by Council Finance in earlier reports, may be related anticipated changes in federal taxes. For 2013, capital spending is expected to grow 5.6 percent and pick up to 7.7 percent in the following years. Spending on business structures is also expected to rise 2.7 percent for 2013, declining from 2012's 10.8 percent.

Council Finance expects the U.S. economy, to continue to run a current account deficit in 2013 and beyond with modest export growth beginning at 2.0 percent in 2013 compared to 3.4 percent in 2012. Imports are expected to grow 1.9 percent in 2013. Although recent actions by the U.S. Federal Reserve have contributed to a significant depreciation of the US currency, the dollar is expected to strengthen against the euro because of the Eurozone recession. Appreciation will lead to more affordable imports for American businesses and consumers and higher costs for those buying U.S. exports.

The banking sector is in a position to support business expansion. According to the latest release by the Federal Deposit Insurance Corporation, U.S. banks' net income in the first quarter of 2013 reached an all-time high of \$40.3 billion.¹¹ The Federal Reserve's April 2013 Senior Loan Officer Survey, reports that U.S.-based banks have continued to ease their credit standards by expanding business credit and some consumer lending facilities.¹² However, overall the share of banks reporting an easing of standards remained small, reflecting still strict credit conditions.

Monetary policy remains supportive of expansion. The Federal Open Market Committee has committed to sustain its highly accommodative monetary policy stance (purchasing \$45 billion of Treasury securities per month and \$40 billion of agency mortgage-backed securities per month in addition to other measures) until the unemployment rate falls below a 6.5 percent mark.¹³ Starting in May, 2013, the Fed will vary the intensity of the pace of purchasing assets depending on changing employment or inflationary outlook in the economy.¹⁴ At the same time there is growing concern over the lack of a complementary fiscal policy. This concern was mentioned explicitly during May 2013 FOMC meeting. Inflation is expected to remain low.

Related to this is the subject of the so-called corporate cash holdings abroad, recently popularized in the financial and popular media, involving some of the largest and prominent U.S. corporations.¹⁵ Abundant cash tends to promote business investment; so far this does not seem to be occurring. While there is still little conclusive data available, two possible explanations have been advanced: a) companies hold precautionary holdings abroad given uncertainty in the U.S. economy; and b) cash is held abroad to avoid repatriation taxes back in the U.S. The latter specifically refers to the decisions on the U.S. corporate and capital gains taxes, as evidenced in the early reports dating back to 2011.¹⁶ Regardless of the direction of the overall debate, this may have had a significant impact on corporate investment in R&D and operation expansion. Raising domestic investment is one of the keys to reigniting the economy.

¹¹ FDIC 2013 Quarterly Banking Profile First Quarter 2013, Available online: <http://www2.fdic.gov/qbp/2013mar/qbp.pdf>

¹² The Federal Reserve Board. 2013. The April 2013 Senior Loan Officer Opinion Survey on Bank Lending Practices. Available online: <http://www.federalreserve.gov/boarddocs/snloansurvey/201305/default.htm>

¹³ The Federal Reserve Board of Governors. (2012). FOMC Press Release, December 12, 2012. Available online: <http://www.federalreserve.gov/newsevents/press/monetary/20121212a.htm>

¹⁴ Federal Reserve. FOMC statement-May 1, 2013. Available online: <http://www.federalreserve.gov/newsevents/press/monetary/20130501a.htm>

¹⁵ For additional details see publicly available reports at The Wall Street Journal, 2013. Corporate Cash Concentrated in 'Just a Few Hands'. Available online: <http://blogs.wsj.com/cfo/2013/04/23/corporate-cash-concentrated-in-just-a-few-hands/>; or Bloomberg News 2013. Corporate Cash Piles Grow to Record \$1.45 Trillion, Moody's Says. Available online: <http://www.bloomberg.com/news/2013-03-18/corporate-cash-piles-grow-to-record-1-45-trillion-moody-s-says.html>; other analytical outlets have reported similar data.

¹⁶ The New York Times. 2011. Companies Push for Tax Break on Foreign Cash. June 19, 2011. Available online: <http://www.nytimes.com/2011/06/20/business/20tax.html?pagewanted=all>

Conclusion

Overall in the first half of 2013, the U.S. economy struggles with the contractionary impacts of the fiscal cliff bargain, the federal sequester, and other headwinds of a sluggish recovery. Nevertheless, the housing market and job growth in addition to consumer and business spending, offer immediate glimpses of a somewhat stronger recovery.

Still, the recovery remains fragile. The general economic consensus suggests that continuation of poor policy making, in the US by the Federal government and in Europe by the Eurozone countries and the European Central Bank is the single largest risk to the forecast. This has resulted in premature and sometimes unintended fiscal consolidation. Another prolonged conflict over the debt limit in the US or a failure to reach an agreement to end the sequester would be damaging. In Europe further difficulties could arise over Greek, Spanish or Italian debt which would be magnified by the tendencies of Eurozone governments to reach partial solutions only after prolonged delays. Other risks include a slowdown to the Chinese economy and perhaps difficulties related to unwinding the Federal Reserve's expansionary monetary policy.

Importantly, these concerns are not directly reflected in the financial markets indicators that have soared through major benchmarks recently. The soaring stock market should not be taken as a sign that this is a robust or risk free recovery in light of still fragile macroeconomic conditions.

New York City Economy

Job Growth

The City continues to grow at a moderate pace. As of April 2013, payroll employment in the City expanded by 78,900 compared to the same time in the previous year, with the private sector adding 82,100 positions. The pace of job growth has generally softened since fall 2012. Between July 2011 and October 2012, the labor market was exceptionally dynamic with average year-over-year payroll growth of 89,900. From November 2012 to March 2013, average job growth slowed to 61,300. Job numbers for April 2013 were stronger, which may or may not point to a more robust trend. A slow patch may have been due to Hurricane Sandy (initially), apprehension concerning the ‘fiscal cliff’ and reduced spending from higher payroll taxes.

Unemployment

There has long been a disconnect between the strong job growth previously mentioned from the establishment survey and the City’s high unemployment rate reported by the household survey. As of last April, the unemployment rate fell to 8.4 percent, the lowest reading in four years, but it remained higher than the nationwide 7.5 percent rate. Even harder to grasp is that during the last 12 months, when the City’s rate fell from 9.4 percent to 8.4 percent, out of the 40,600 New Yorkers who were no longer listed as unemployed, only 18,400 gained employment, while 22,200 left the labor force.¹⁷

This disconnect has puzzled experts, producing explanations ranging from commuters monopolizing the job growth to people moving from self-employment to payroll (a move counted by the establishment survey but not the household survey). There is a growing consensus, however, that the household survey undercounts City resident employment. The household survey is based on a monthly sample of only 60,000 nationwide and is calibrated to the decennial U.S. Census due to the small size of the sample. The problem with the 2010 Census as a benchmark, however, is that there is ample evidence that it undercounts the City’s wage-earning population. This undercounting suggests the household survey underreports the City’s employed population. On the other hand, the establishment survey is based on a much larger sample of 486,000 per month. In addition, it is re-benchmarked each year to represent the entire payroll furnished by the federal government’s unemployment insurance records. It is very likely that the real unemployment rate is considerably lower than the one reported by the household survey.¹⁸

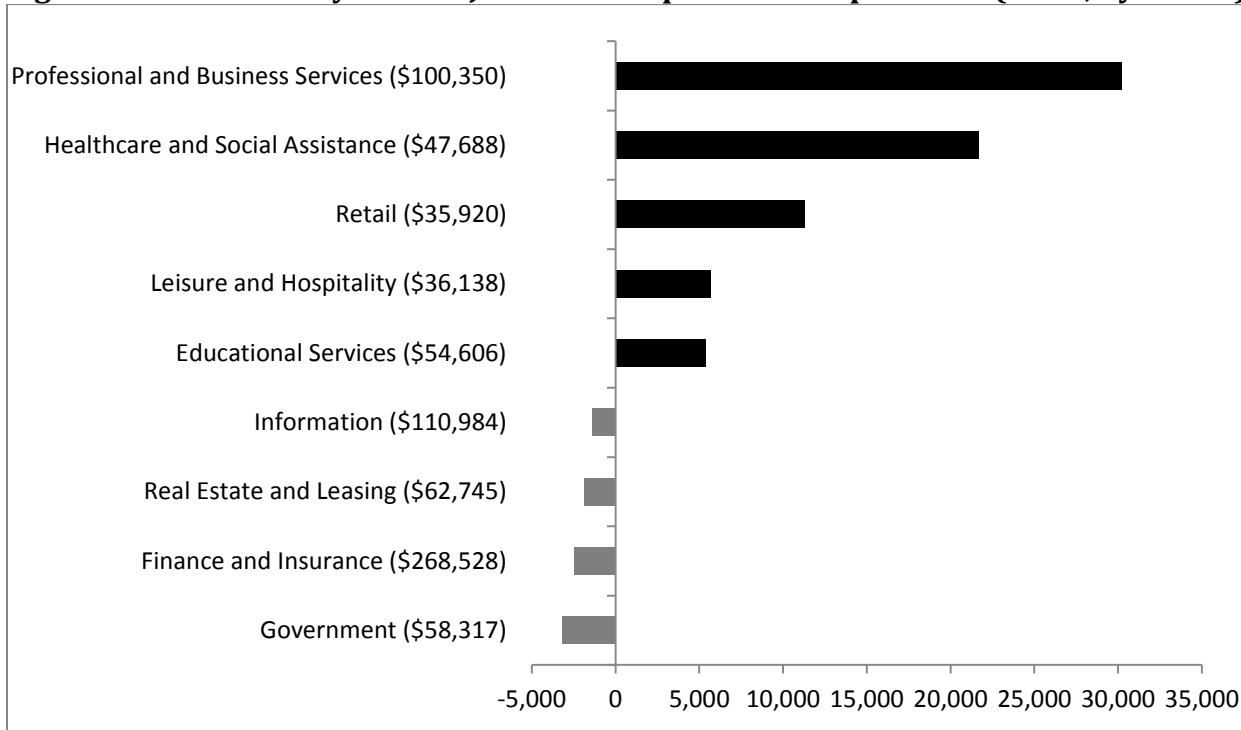
Major Sectors of the Economy

Over the past 12 months, the sectors with the strongest job growth have been health care and social assistance (+21,700), administrative and support services (+21,800), professional, scientific and technical services (+10,900), and retail (+11,300). The largest job losses were in finance and insurance (-2,500), and in state and local government (-2,600). With the exception of professional, scientific and technical services, most of the new jobs are in lower paying sectors. Health care pays an average annual wage of \$47,700, administrative and support \$48,500, and retail only \$35,900. On the other hand, the lost finance and insurance jobs paid an average wage of \$268,500. The lost state and local government positions provided middle-income wages averaging \$56,300.¹⁹ 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.

¹⁷ New York State Department of Labor, ‘Local Area Unemployment Statistics (LAUS),’ April 2013.

¹⁸ Federal Reserve Bank of New York, “Current Issues in Economics and Finance: Explaining the Recent Divergence in Payroll and Household Employment Growth,” Chinhui Juhn and Simon Potter, Vol. 5, Number 16, December 1999. Eastern Consolidated, “NYC Employment Alert: Why is New York City’s Unemployment Rate Increasing When Job Growth is So Strong?” Barbara Byrne Denham, August, 2012.

¹⁹ New York State Department of Labor, Quarterly Census of Employment and Wages (QCEW), 2011.

Figure 6. New York City Annual Job Growth April 2012 – April 2013 ('000s, by sector).

Note: Average wage as of April 2013 in parenthesis.

Source: New York State Department of Labor, Current Employment Statistics, April 2013; Quarterly Census of Employment and Wages, 2011.

The securities industry achieved its third best year in 2012 with net earnings of \$23.9 billion, after sustaining \$4.9 billion in losses during the second half of 2011. No less notable was that their total revenues increased by \$10.5 billion in 2012 after falling by \$8.0 billion in 2011 and \$15.6 billion in 2010. The results for the first quarter of 2013 suggest that the industry's strong profitability will continue. Net earnings were \$6.6 billion for the quarter.

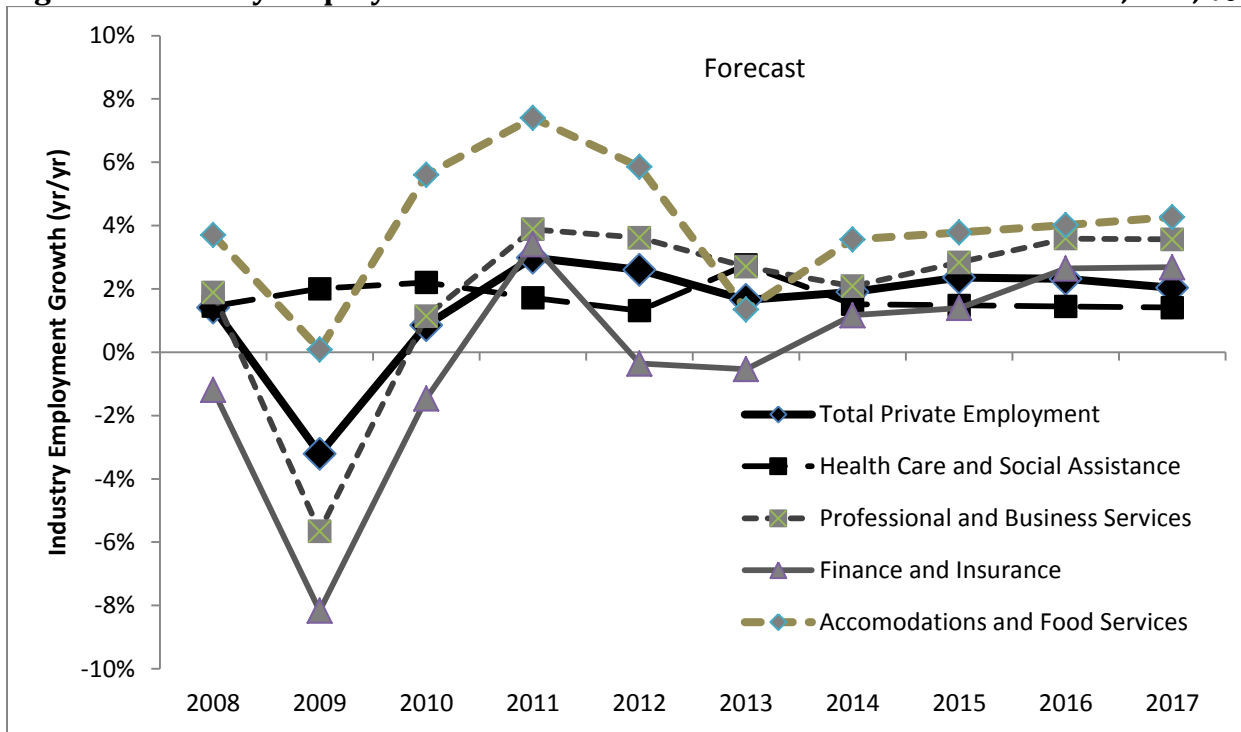
Despite last year's strong performance, the City's highest-paying sector continues to hemorrhage jobs. From February 2010 through August 2011, the securities industry recovered 9,700 positions from the 27,900 lost in the recession. Since September 2011, however, the industry resumed shrinking its payroll by another 4,300 positions. Behind the latest spate of layoffs are Europe's recession and its struggling financial sector, as well as layoffs in certain profitable but high-risk activities now limited by Dodd-Frank.

Leisure and hospitality has been one of the most dynamic super-sectors during the recovery, although it pays an average salary of only \$36,137. Since fall 2012, employment growth has discernibly slowed, although it still remains healthy. From November 2010 to September 2012, average year-over-year growth was 21,700 jobs. Between November 2012 and April 2013, average year-over-year growth dropped to 5,600 positions.

Tourism, however, which heavily supports the leisure and hospitality super-sector, soared to a record 52 million in 2012. Local hotels still report gains in room nights sold, occupancy rates and daily rates. In-bound airport traffic reached a record level, helped by record in-bound international arrivals. Broadway theaters goers have declined from a year ago, due to fewer productions, but attendance to cultural venues continues to increase.²⁰ Consequently, this softening in leisure and hospitality employment may stem from City residents and workers being more constrained by the higher Federal payroll tax.

²⁰ NYC & Company, 'Tourism Barometer,' May 21, 2013.

Figure 7. Industry Employment Growth: Actuals and Forecast for 2013-2017, YoY, %



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

Table 4. Forecast of Employment Gains
Year-Over-Year Growth in Thousands

	CY12	CY13	CY14	CY15	CY16	CY17
Total Private	84.6	55.0	64.5	81.3	82.0	73.5
Finance and Insurance	(1.1)	(1.7)	3.6	4.4	8.4	8.8
Banking	1.9	(0.6)	0.7	0.7	0.5	0.4
Securities (Wall Street)	(2.5)	(0.8)	3.1	3.8	7.7	8.1
Retail	11.9	4.8	4.1	7.4	7.5	7.2
Professional and Business Services	21.6	16.7	13.2	18.4	24.0	24.7
Real Estate and Leasing	0.2	0.7	0.9	0.8	0.9	0.9
Information	5.7	(2.8)	1.6	2.4	3.7	4.4
Leisure and Hospitality	20.9	5.4	12.0	13.5	14.9	16.5
Arts, Entertainment, and Recreation	4.9	1.5	1.5	2.0	2.2	2.5
Accommodation and Food Services	16.0	3.9	10.5	11.5	12.7	14.0
Accommodations (Hotels)	1.3	(0.5)	0.3	0.8	1.1	1.2
Healthcare and Social Assistance	7.8	16.6	9.4	9.3	9.2	9.1
Education Services	8.0	2.9	4.0	4.2	4.4	4.6

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

Real Estate

The commercial real estate market has cooled somewhat since 2011 when Manhattan office leasing reached 30 million square feet, the strongest performance since 2000. By the first quarter of 2013, 5.6 msf were leased, 2.3 percent less than the same quarter a year ago. With direct available space on the decrease, the overall vacancy rate remained at a low of 9.1 percent, the same level as last year. The average asking rent was \$60.40 per square foot, 1.8 percent higher than the same time last year.²¹

The local residential market has finally turned, with increased employment and pent-up demand for low interest mortgages. The main constraint on sales is no longer demand, but shrinking supply. Co-op and condo sales in Manhattan increased 6.3 percent in the first quarter of 2013 from a year ago as inventory dropped 34.4 percent over the same period. Brooklyn home sales actually fell 11.0 percent during that same period due to supply plummeting 45.4 percent.²²

Unsatisfied growth in demand has also boosted home prices. As of March 2013, metropolitan area home prices increased 2.6 percent year-over-year while metropolitan area condo prices, which are heavily weighted in Manhattan, have increased 11.9 percent year-over-year.²³ The rental market is also particularly strong with year-over-year median rents in Manhattan increasing through 2013 reaching 6.5 percent in April.²⁴

Overall Economy and Forecast

Real gross city product grew by a tepid 2.1 percent in 2012 and is now expected to grow by 2.4 percent in 2013 reaching only 2.6 percent per year in the out-years.²⁵ This is likely to be slower than the national gross domestic product.

The City Council's Finance Division expects private sector job growth to slow to 55,000 in 2013 over 2012 because of the current slow patch discussed earlier and the effects of the sequester. This is very close to OMB's projection of only 54,000. Council Finance expects payroll growth to accelerate to 64,500 in 2014, as the national recovery gains more traction, consumers adjust to the higher payroll tax, and the sequester replaced by a budget agreement with a milder dose of austerity. Between 2015 and 2017, an average 78,900 jobs annually will be added as the economy gains additional momentum. OMB, on the other hand, does not project any acceleration of job growth throughout the forecast period.

Council Finance estimates the average wage in the private sector to have fallen 0.7 percent in 2012, having been dragged down by a 7.2 percent drop in Wall Street wages. With securities sector wages expected to rebound by around 6.6 percent in 2013, the private sector average wage will be pushed up to 3.5 percent growth. Wage growth is expected to moderate to 2.8 percent in 2014, and strengthen to 3 percent in the outyears, as the labor market tightens. OMB's forecast of the average wage, including both private and public sectors, shows much slower growth of 2.1 percent in 2013 and 1.2 percent in 2014, accelerating to an average 2.7 percent in the out-years. Council Finance expects that the same factors accelerating payroll expansion will at least maintain lukewarm wage growth in 2014 and cause it to accelerate in the out-years to the still very moderate rate of 3 percent.

²¹ Cushman & Wakefiled, 'Marketbeat Office Snapshot Manhattan,' Quarter 1, 2013.

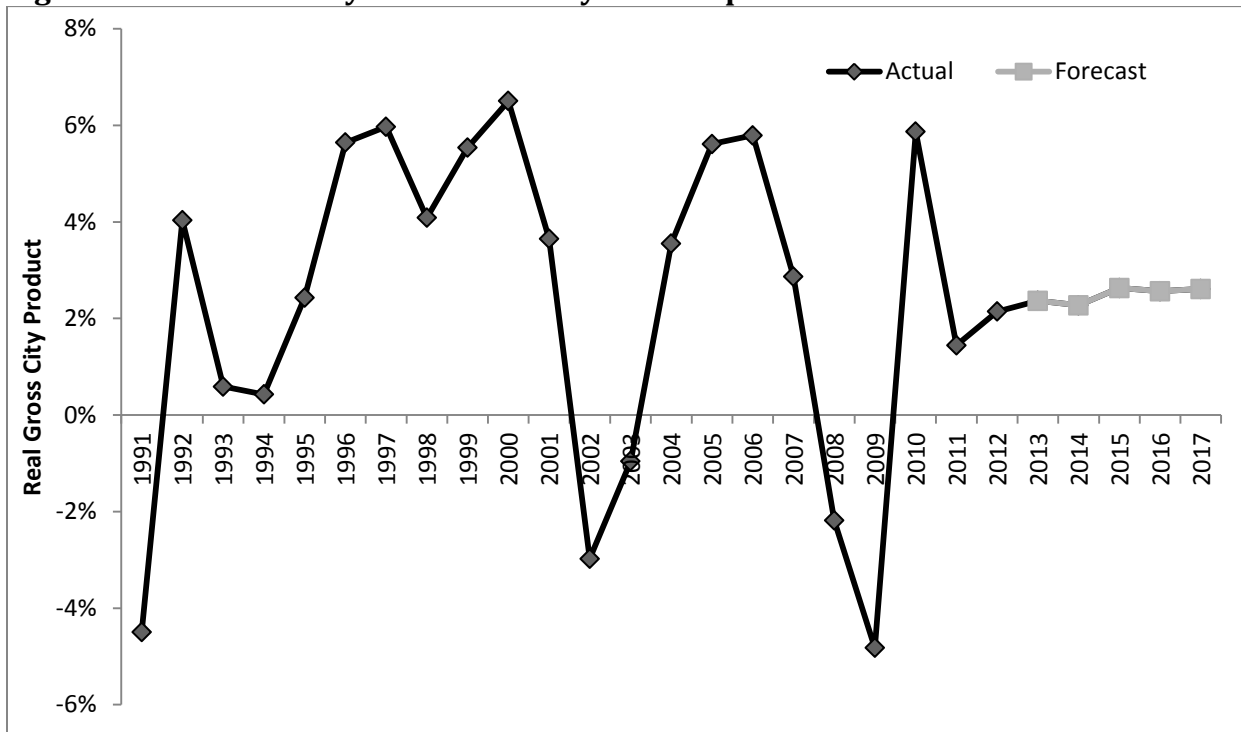
²² Douglas Elliman Real Estate, 'Elliman Report: Manhattan Sales' and 'Brooklyn,' Quarter 1, 2013.

²³ Standard & Poors/Case Shiller, March 2013.

²⁴ Douglas Elliman Real Estate, 'Manhattan & Brooklyn Rentals Elliman Report,' April 2013.

²⁵ IHS Global Insight, April 16, 2013.

Figure 8. Real Gross City Product: barely above 2 percent in 2013 and 2014.



Source: IHS Global Insight, Real gross city product.

Manhattan office leasing will continue to expand as additional space is needed to accommodate office workers. Rising office rents are likely to be held in check by the addition of four million square feet from the World Trade Center, soon to be on the market. The local residential market will continue to improve, aided by increased employment, wages and record low interest mortgages.

There are two major risks to this forecast. The first is the structural change going on in the City's economy. As discussed above, the very high income securities sector is facing an evolving regulatory environment. So far this has impacted securities employment in the city while having only a minor impact on income in the sector. There is a risk that once fully in place the regulatory environment could have a more severe impact on this sector. There are other relatively high wage sectors, such as technology and business services that are picking up some of the slack of financial services. These are very promising; the question is 'will they live up to their promise'? The second risk comes from the rise in interest rates forecasted to start in late 2014. Exactly how the financial markets and the financial sector firms adjust to this is an open question. However, it could have an adverse impact on income in the City.

Table 5. Forecast of Selected Economic Indicators

	2013	2014	2015	2016	2017
NATIONAL ECONOMY					
Real GDP					
Billions of 2005 \$	13,843.4	14,230.9	14,687.9	15,118.4	15,554.9
Percent Change, %	1.8	2.8	3.2	2.9	2.9
Nonresidential Fixed Investment					
Billions of 2005 \$	1,559.3	1,665.8	1,777.9	1,883.9	1,982.5
Percent Change, %	4.8	6.8	6.7	6.0	5.2
Housing Starts and Sales: total single family					
Millions of units	0.6	0.8	1.1	1.2	1.2
Percent Change, %	21.4	29.6	36.3	3.2	(2.8)
Household debt obligations					
Percent of Disposable Income, %	15.7	15.7	15.6	15.7	16.1
Unemployment Rate, %					
	7.6	7.2	6.6	6.1	5.8
Interest rates					
3-Month Treasury Bill	0.08	0.09	0.19	1.69	3.42
30-Year Conventional Mortgage Fixed	3.45	3.83	4.54	5.50	6.21
NEW YORK CITY ECONOMY					
Real GDP					
Percent Change, %	2.37	2.27	2.63	2.56	2.61
Private Employment					
Level Change, '000	55.00	64.50	81.30	82.00	73.50
Percent Change, %	1.70	1.90	2.40	2.30	2.00
Average Private Wages					
Percent Change, %	3.52	2.83	2.72	3.11	3.15
Total Private Wages					
Percent Change, %	5.20	4.80	5.10	5.50	5.20
Total Revenue of NYSE Members					
Percent Change, %	13.30	3.60	2.80	2.90	2.80
Total Compensation of NYSE Member					
Percent Change, %	5.50	5.60	5.20	5.20	5.20

Source: IHS Global Insight, May 2013 (Nat'l); New York City Council Finance Division (City)

CAPITAL FINANCING & DEBT SERVICE

Capital Financing

New York City assumes debt to fund its ambitious capital program, and the Executive Budget estimates \$32 billion in long-term borrowing between Fiscal 2013 and 2017 to fund the City's capital needs. However, not all of these borrowings are direct obligations of the City; much of the debt will be issued on behalf of the City. The City's overall borrowing strategy 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 6. Summary of Fiscal 2014 Capital Financing Plan

Dollars in Millions

	FY 2012 (Actual)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Financing Plan						
GO Bonds	\$4,950	\$1,630	\$2,400	\$2,800	\$2,470	\$2,160
TFA Bonds ⁽¹⁾	3,500	2,978	3,200	2,800	2,470	2,160
Water Authority Bonds	3,510	2,108	1,439	1,216	1,266	1,201
Total	\$11,960	\$6,716	\$7,039	\$6,816	\$6,206	\$5,521
Debt Outstanding						
GO Bonds	\$42,286	\$41,906	\$42,381	\$42,829	\$42,951	\$42,765
TFA Bonds ⁽¹⁾	20,955	23,098	25,656	27,579	29,048	30,131
Subtotal (includes Conduit Debt)	71,860	67,948	70,887	73,164	74,653	75,458
Water Authority Bonds	28,378	29,271	30,440	31,357	32,222	32,971
Total (includes Conduit Debt)	\$100,238	\$97,219	\$101,327	\$104,521	\$106,875	\$108,429
Debt Financing Burden (excludes Water Debt)						
Debt Outstanding ⁽²⁾ /Statutory Debt Limit	68.54%	73.26%	73.46%	70.69%	72.26%	73.31%
Debt Outstanding/NYC Personal Income	14.70%	14.20%	14.40%	14.30%	14.10%	13.70%

Note: 1) TFA Bonds do not include BARBs issued for education capital purposes which are secured by Building Aid revenues from the State; 2) Only GO and TFA above \$13 billion count against the debt limit. This ratio includes all debt other than NYW
Source: NYC Council Finance; Fiscal 2014 Executive Budget; OMB 2012 Statement of Debt Affordability; Comptroller Fiscal 2013 Annual Report on Capital Debt and Obligations.

The main standard used to measure the ability of the City to repay its debt is the value of all taxable real estate. In fact, the New York State Constitution limits debt obligations of the City (mostly GO and TFA debt beyond \$13.5 billion) to 10 percent of the market value of taxable real property, averaged over the most recent five years. In Fiscal 2013, the City expects to be \$21 billion below the expected limit of \$76.853 billion. In contrast, the City was \$24 billion under the limit in Fiscal 2012 according to Comptroller's Fiscal 2012 Annual Report on Capital Debt and Obligations.

Debt Service

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

Table 7. Summary of Fiscal 2013 Debt Service Payments

Dollars in Millions; net increase/(decrease)

	FY13	FY14	FY15	FY16	FY17
Debt Service					
GO Bonds	\$3,939	\$4,112	\$4,607	\$4,716	\$4,759
TFA Bonds ⁽¹⁾	1,741	1,809	2,256	2,472	2,661
Total (includes Conduit Debt)	\$6,064	\$6,319	\$7,253	\$7,584	\$7,805
Debt Service Burden					
Debt Service/Total Revenue	8.81%	9.81%	9.73%	9.84%	9.89%

Note: 1) TFA Bonds do not include BARBs

Source: NYC Council Finance; Fiscal 2014 Executive Budget

APPENDIX

Table 8. Fiscal Year 2014 Financial Plan: Executive Budget

Dollars in Millions

	FY13	FY14	FY15	FY16	FY17
REVENUE					
Taxes					
General Property Tax	\$18,561	\$19,486	\$20,328	\$21,259	\$22,026
Other Taxes	\$25,707	\$25,044	\$26,810	\$27,834	\$29,003
Tax Audit Revenue	\$1,060	\$709	\$709	\$709	\$709
Tax Program					
Sub-total, Taxes	\$45,328	\$45,239	\$47,847	\$49,802	\$51,738
Miscellaneous Revenues	\$6,359	\$6,562	\$6,612	\$6,619	\$6,730
Unrestricted Governmental Aid	\$0	\$0	\$0	\$0	\$0
Less: Intra-City Revenues	(\$1,732)	(\$1,563)	(\$1,561)	(\$1,565)	(\$1,566)
Disallowances	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)
Sub-total City Funds	\$49,940	\$50,223	\$52,883	\$54,841	\$56,887
Other Categorical Grants	\$996	\$888	\$893	\$881	\$877
Inter-Fund Revenues	\$560	\$535	\$516	\$515	\$515
TOTAL City, Capital IFA & Oth. Cat. Funds	\$51,496	\$51,646	\$54,292	\$56,237	\$58,279
Federal Categorical Grants	\$9,005	\$6,429	\$6,312	\$6,295	\$6,292
State Categorical Grants	\$11,344	\$11,701	\$12,037	\$12,519	\$13,033
TOTAL Revenues	\$71,845	\$69,776	\$72,641	\$75,051	\$77,604
EXPENSE					
Personal Services					
Salaries and Wages	\$22,083	\$22,032	\$22,158	\$22,429	\$22,785
Pensions	\$8,185	\$8,317	\$8,326	\$8,524	\$8,778
Fringe Benefits	\$8,553	\$8,827	\$9,447	\$10,148	\$10,913
Retiree Health Benefits Trust	(\$1,000)	(\$1,000)			
Subtotal Personal Services	\$37,821	\$38,176	\$39,931	\$41,101	\$42,476
Other than Personal Services	\$29,992	\$28,518	\$29,127	\$29,604	\$30,079
Debt Service	\$5,994	\$6,245	\$7,179	\$7,510	\$7,732
Adjustments					
Prior Year Surplus Roll	(\$2,431)	(\$2,192)	(\$142)		
Current Year Surplus Roll	\$2,161	\$142			
General Reserve	\$40	\$450	\$300	\$300	\$300
Sub-total	\$73,577	\$71,339	\$76,395	\$78,515	\$80,587
Less: Intra-City Expenses	(\$1,732)	(\$1,563)	(\$1,561)	(\$1,565)	(\$1,566)
TOTAL Expenditures	\$71,845	\$69,776	\$74,834	\$76,950	\$79,021
GAP	\$0	\$0	\$2,193	\$1,899	\$1,417

Source: OMB Fiscal 2014 Executive Budget

Table 9. Fiscal 2014 Executive Budget Revenue Plan*Dollars in Millions*

	FY13	FY14	FY15	FY16	FY17
Taxes					
Real Estate	\$18,561	\$19,486	\$20,328	\$21,259	\$22,026
Sales	6,071	6,323	6,590	6,829	7,092
Mortgage Recording	709	723	828	906	1,000
Personal Income	9,115	8,169	9,045	9,397	9,723
General Corporation	2,567	2,586	2,757	2,866	3,023
Banking Corporation	1,433	1,297	1,330	1,340	1,375
Unincorporated Business	1,762	1,843	1,903	1,947	2,056
Utility	382	394	405	419	423
Hotel	509	513	536	560	576
Commercial Rent	660	686	715	745	778
Real Property Transfer	1,092	1,110	1,266	1,387	1,515
Cigarette	63	63	62	60	59
All Other	515	501	501	501	502
Audit	1,060	709	709	709	709
Tax Program	0	0	0	0	-
STAR	829	836	872	877	881
Total Taxes	\$45,328	\$45,239	\$47,847	\$49,802	\$51,738
Federal Categorical Grants	\$9,005	\$6,429	\$6,312	\$6,295	\$6,292
State Categorical Grants	\$11,344	\$11,701	\$12,036	\$12,519	\$13,033
Non-Governmental Grants (Other Cat.)	\$1,556	\$1,423	\$1,409	\$1,396	\$1,392
Unrest. / Anticipated State & Federal Aid	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue					
Charges for Services	857	917	909	910	910
Water and Sewer Charges	1,435	1,514	1,511	1,536	1,504
Licenses, Permits, Franchises	577	584	584	587	600
Rental Income	293	292	295	295	295
Fines and Forfeitures	804	816	816	814	814
Other Miscellaneous	645	866	926	884	933
Interest Income	16	10	10	28	108
Intra City	1,732	1,563	1,561	1,565	1,566
Total Miscellaneous	\$6,359	\$6,562	\$6,612	\$6,619	\$6,730
Net Disallowances & Transfers	(1,747)	(1,578)	(1,576)	(1,580)	(1,581)
Total Revenue	\$71,845	\$69,776	\$72,640	\$75,051	\$77,604

Source: OMB Fiscal 2014 Executive Budget

Table 9. Fiscal 2014 Executive Budget Revenue Plan (continued)*Dollars in Millions*

	FY13	FY14	FY15	FY16	FY17
City Funds: does not include Unrestricted Aid	\$49,940	\$50,223	\$52,883	\$54,841	\$56,887
Federal & State Revenue	\$20,349	\$18,130	\$18,348	\$18,814	\$19,325
Federal & State as a Percent of Total	28.3%	26.0%	25.3%	25.1%	24.9%
City Funds as a Percent of Total Revenue	69.5%	72.0%	72.8%	73.1%	73.3%

Source: OMB Fiscal 2014 Executive Budget

Table 10. Fiscal Year 2014 Executive Budget: Revenue Changes from Fiscal 2014 Preliminary Budget*Dollars in Millions*

	FY13	FY14	FY15	FY16	FY17
Taxes					
Real Estate	\$121	\$130	\$152	\$154	\$156
Sales	\$10	(\$13)	(\$4)	\$21	\$27
Mortgage Recording	\$53	\$11	\$53	\$66	\$65
Personal Income	\$627	(\$325)	\$15	(\$11)	(\$52)
General Corporation	\$74	\$19	\$74	\$57	\$29
Banking Corporation	\$72	\$13	(\$42)	(\$166)	(\$170)
Unincorporated Business	(\$1)	(\$21)	(\$15)	(\$22)	(\$19)
Utility	\$0	(\$6)	(\$8)	(\$5)	(\$2)
Hotel	\$7	\$9	\$10	\$10	\$13
Commercial Rent	\$7	\$7	\$9	\$11	\$15
Real Property Transfer	\$56	\$14	\$79	\$100	\$82
Cigarette	\$0	\$0	\$0	\$0	\$0
All Other	\$9	\$0	\$0	\$0	\$0
Audit	\$222	\$0	\$0	\$0	\$0
Tax Program	\$0	\$0	\$0	\$0	\$0
STAR	\$0	(\$32)	\$0	\$0	\$0
Total Taxes	\$1,257	(\$194)	\$323	\$215	\$144
Federal Categorical Grants	\$350	(\$114)	(\$49)	(\$54)	(\$54)
State Categorical Grants	\$43	\$336	\$351	\$372	\$758
Non-Governmental Grants (Other Cat.)	\$4	(\$35)	(\$15)	(\$16)	(\$16)
Unrest. / Anticipated State & Federal Aid**	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue					
Charges for Services	(\$19)	(\$3)	(\$7)	(\$6)	(\$6)
Water and Sewer Charges	(\$70)	\$0	(\$1)	\$6	(\$37)
Licenses, Permits, Franchises	\$23	\$5	\$2	\$2	\$2
Rental Income	(\$10)	\$10	(\$1)	(\$1)	(\$1)
Fines and Forfeitures	\$4	\$0	\$0	(\$1)	\$0
Other Miscellaneous	(\$109)	(\$279)	(\$87)	(\$8)	\$396
Interest Income	(\$1)	(\$1)	(\$2)	(\$37)	(\$35)
Intra City	(\$45)	(\$45)	(\$50)	(\$51)	(\$47)
Total Miscellaneous	(\$227)	(\$313)	(\$146)	(\$96)	\$272
Net Disallowances & Transfers	\$45	\$45	\$50	\$51	\$47
Total Revenue	\$1,472	(\$275)	\$514	\$472	\$1,151
City Funds: does not include Unrestricted Aid	\$1,075	(\$462)	\$227	\$170	\$463
Federal & State Revenue	\$393	\$222	\$302	\$318	\$704

Source: OMB Fiscal 2014 Preliminary Budget and Fiscal 2014 Executive Budget.

Table 11. OMB Tax Forecast: Growth Rates					
	FY13	FY14	FY15	FY16	FY17
Real Property	3.4%	5.0%	4.3%	4.6%	3.6%
Personal Income	14.6%	(10.4%)	10.7%	3.9%	3.5%
General Corporation	4.9%	0.7%	6.6%	4.0%	5.5%
Banking Corporation	12.1%	(9.5%)	2.5%	0.8%	2.6%
Unincorporated Business	7.7%	4.6%	3.3%	2.3%	5.6%
Sales	4.4%	4.2%	4.2%	3.6%	3.9%
Commercial Rent	4.8%	3.9%	4.2%	4.2%	4.4%
Real Property Transfer	19.8%	1.6%	14.1%	9.6%	9.2%
Mortgage Recording	32.1%	2.0%	14.5%	9.4%	10.4%
Utility	3.0%	3.1%	2.8%	3.5%	1.0%
Hotel	7.0%	0.8%	4.5%	4.5%	2.9%
All Other	2.7%	(0.5%)	2.5%	0.2%	0.2%
Audits	12.8%	(15.3%)	0.0%	0.0%	0.0%
Total Taxes	7.1%	0.3%	5.8%	4.1%	3.9%

Source: OMB Fiscal 2014 Executive Budget.

FINANCE DIVISION

Preston Niblack, Director
Jeffrey Rodus, First Deputy Director

Raymond Majewski, Deputy Director/Chief Economist
Paul Sturm, Unit Head
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