THE COUNCIL OF THE CITY OF NEW YORK

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Speaker of the Council

Hon. Julissa Ferreras
Chair, Committee on Finance

Report on the Mayor's Fiscal Year 2016 Preliminary Budget

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

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The Fiscal 2016 Preliminary Budget is described by the de Blasio Administration as an honest, responsible financial plan that moves the City down the path towards the Mayor's progressive goals. It is a modest plan, and between Fiscal 2015 and Fiscal 2016 City funds spending on new needs and new collective bargaining costs total around $1 billion. The budget contains no programs to eliminate the gap (PEGs) or efficiency savings.

The City's economy offers a solid base for the plan. With over 300,000 more payroll jobs than before the recession, City employment is at record levels, though wage growth has been disappointing. The other good news is that the national economy is finally hitting its stride, with solid employment growth, though still disappointing wages.

The Fiscal 2016 Preliminary Budget introduces a handful of new initiatives and continues support for several key Administration programs. On the whole, City agency spending changes are modest. The Administration's priorities reflected in the budget include the following:

Budget Priorities

- **Elimination of New York City Housing Authority (NYCHA) Police Charges:** The Fiscal 2016 Preliminary Budget baselines $72.5 million in City funds in the Police Department's budget to support policing services provided in NYCHA properties. This increase permanently eliminates the charges levied against NYCHA for police services and thereby eliminates a significant expense for the agency.
- **Universal Pre-Kindergarten and Middle School After-School**: Fiscal 2016 is the second and final year of the Administration's expansion of universal pre-kindergarten programs to serve nearly 70,000 four-year old children in full-day classes. This remains the Administration's signature program with a budget of $340 million in Fiscal 2016. The Preliminary Budget for Fiscal 2016 also include $190 million for the School's Out NYC (SONYC), which is the City's after-school program for middle school students that serves about 100,000 students.
- **New York Police Department (NYPD) New Needs:** The Preliminary Budget adds $47 million to the Police Department's budget in Fiscal 2016 for several new initiatives. Chief among these are a new plan supported by the City Council to replace outdated bulletproof vests. The NYPD will also revive the Police Cadet program by adding 520 slots, and will maintain the current level of Police Communication Technicians staffing by baselining 151 positions.
- **Homeless Assistance:** Since Adoption, a total of $90.2 million in funding has been added in Fiscal 2015 and Fiscal 2016 for the newly established Living in Communities (LINC) program, which is administered by the Department of Homeless Services (DHS) and the Human Resources Administration (HRA). In addition, the Fiscal 2016 Preliminary Budget includes baseline funding of $5.3 million for homeless prevention services, including $4.3 million to improve homeless prevention efforts at the Prevention Assistance and Temporary Housing (PATH) center.
- **Child Welfare Reforms**: The Preliminary Plan baselines $10 million in City funds to support Child Welfare reforms at the Administration for Children's Services (ACS). The

additional funding will support data-driven risk assessments, staff training, preventative services, and a headcount increase of 83 positions.

- **Increased Funding for City Jails:** The Preliminary Plan includes baseline funding of $28.8 million to improve operations at the City's jails. Most of the funding will be used to lower the inmate to officer ratio in the young adult housing units with an increase of 288 staff positions. The new funding will also be used to improve the Applicant Investigations Unit and reestablish the Recruitment Unit.

- **Emergency Medical Services (EMS) Expansion:** The Preliminary Budget provides $18 million to the Fire Department to improve emergency medical services. To lower response times, the budget adds $11.3 million in Fiscal 2016 to for 45 new EMS ambulance tours with an additional 181 positions. The Plan also includes baseline funding of $6.7 million to hire an additional 149 Emergency Medical Dispatchers.

- **Expansion of City University of New York's (CUNY) Science, Technology, Engineering and Mathematics (STEM) Program:** The Financial Plan includes a total of $29 million in Fiscal 2016 for the STEM program which comprises Accelerated Study in Associate Programs (ASAP), the STEM Research Fellowship Initiative, the STEM Cooperative Education Program, the STEM Summer Tuition Assistance Program, and general academic advisement. Funding for STEM increases to $51 million in Fiscal 2017 when the plan is anticipated to be fully implemented.

- **Collective Bargaining:** The Financial Plan recognizes a new pattern of wages and benefits for public employees, a pattern set by the latest agreements between the unions representing uniformed supervisory employees and the Administration. The labor agreements began with the United Federation of Teachers last May and continued later with DC 37 and other groups. The more recent deals, such as that with supervising officers at the Police Department, provide more generous wage increases – it matched the contract with other unions, then added a 1 percent raise in the first year that carried forward to later years. This extra raise will cost the City $145 million and, if extended to the rest of the uniformed workforce (firefighters, police, etc.), it will cost a total of $600 million.

- **Business Tax Conformity:** A major reform of City business taxes is assumed in this plan. The New York State Executive Budget contains a provision that would change the City's bank tax and the general corporation tax for c-corporations to resemble the New York State corporate franchise tax. The change is revenue neutral and would not affect the general corporation tax for S corporations or the unincorporated business tax. This change will not require action by the City Council.

The changes introduced in the Preliminary Budget and the agency budgets will be reviewed by the Council during subsequent hearings on the Fiscal 2016 Preliminary Budget. A list of the major changes in the budget is found in the Appendix.

Balancing the Budget

The Fiscal 2016 Preliminary Budget totals $77.7 billion. This includes $57 billion in City funds that is revenue from City taxes, fees, fines, and other non-tax revenue. City funds are up 1.4 percent from Fiscal 2015 to Fiscal 2016. As required by law, the budget is balanced for Fiscal 2015 and Fiscal 2016. Outyear gaps are modest and of the size that have been easy to close in a healthy economy.

Table 1. February Financial Plan Summary
Dollars in Millions

	FY15	FY16	FY17	FY18	FY19	Avg. Annual Change
REVENUES						
Taxes	$50,428	$51,843	$53,666	$55,599	$57,610	3.4%
Misc. Revenues	7,738	6,938	6,805	6,862	7,090	(2.2%)
Less: Intra-City and Disallowances	(1,982)	(1,819)	(1,829)	(1,840)	(1,840)	(1.8%)
Subtotal, City Funds	**$56,184**	**$56,962**	**$58,642**	**$60,621**	**$62,860**	**2.8%**
State Aid	12,493	12,772	13,181	13,638	13,682	2.3%
Federal Aid	8,399	6,618	6,433	6,389	6,297	(6.9%)
Other Categorical Grants	898	832	840	848	845	(1.5%)
Capital Funds (IFA)	574	547	543	546	546	(1.2%)
TOTAL REVENUES	**$78,548**	**$77,731**	**$79,639**	**$82,042**	**$84,230**	**1.8%**
EXPENDITURES						
Personal Services	41,483	42,586	43,200	45,190	47,447	3.4%
OTPS	33,033	31,083	31,338	31,760	31,881	(0.9%)
Debt Service	6,242	7,031	7,414	7,735	8,051	6.6%
General Reserve	300	750	750	750	750	
Less: Intra-City	(1,967)	(1,804)	(1,814)	(1,825)	(1,825)	(1.9%)
Spending Before Adjustments	79,091	79,646	$80,888	$83,610	$86,304	2.2%
Debt Defeasances	(115)	(337)	($201)	($198)		
Surplus Roll Adjustment (Net)	(428)	(1,578)				
TOTAL EXPENDITURES	**$78,548**	**$77,731**	**$80,687**	**$83,412**	**$86,304**	**2.4%**
Gap to be Closed	**$-**	**$-**	**($1,048)**	**($1,370)**	**($2,074)**	

Source: *OMB Fiscal 2016 Preliminary Budget*

The November 2014 Financial Plan anticipated a $1.835 billion gap for Fiscal 2016. In the February 2015 Plan this gap was widened by an increase in agency expenses, the baselining of NYCHA police funding, and collective bargaining costs. The collective bargaining increase had two components. First, new agreements were reached with a coalition of unions representing supervisors in the uniformed agencies and with the Council of School Supervisors and Administrators. Costs exceeded the collective bargaining reserves set aside for these agreements. Second, additions are proposed to the collective bargaining reserve on the reasonable assumption that agreements with other uniformed workers will follow the pattern established with the recent agreements struck between the City and unions representing supervisory officers.

The bulk of the funds to close this gap come from the projected tax revenues. Office of Management and Budget (OMB) has upped its forecast of the personal income tax significantly. The real property tax revenues have been increased to reflect a reduction in the Fiscal 2015 reserve for assessment reductions via Tax Commission and Law Department actions and the strong growth in the Fiscal 2016 tentative roll.

The other main contributors to closing the gap are a takedown of the general reserve and debt service savings. A partial takedown of the general reserve is common this time of year. What is unusual is its size. The de Blasio Administration has grown the general reserve to $750 million, providing the budget with an extra cushion for contingencies. This takedown will leave $300 million in the general reserve for the rest of the year. Debt service savings are a product of unusually large savings from refinancing Sales Tax Asset Receivable Corporation debt and from reducing OMB's unrealistic assumption of the cost of the City's variable rate debt.

Table 2. Closing the Gap
Dollars in Millions

	FY15	FY16
Gap November Financial Plan	**$0**	**$1,835**
Opening the Gap		
Agency Expenses Changes	130	340
Baseline NYCHA Police Service Funding	3	72
Colective Bargaining - Uniformed Pattern	261	137
Increased Gap	**$394**	**$549**
Closing the Gap		
Tax Revenue Forecast	1,045	699
Pension	5	94
Reduce General Reserve	450	
Fringe Benefits	10	(14)
Debt Service Savings	329	143
Misc. Revenue	29	(12)
Gap Closing Resources	**$1,868**	**$910**
Gap Closing - Gap Opening	1,474	361
Increase in FY 2016 Prepayments	(1,474)	1,474
Gap May Plan	**$0**	**$0**

Source: *OMB Fiscal 2016 Preliminary Budget*

Risks

Albany: Albany politics is a concern. In the New York State Fiscal 2016 Executive Budget, education aid is specified in a way that makes it difficult to estimate the amount of aid the City will receive. The school aid runs that show how state support for schools would be distributed among school districts, including New York City, have not been released.

In his Executive Budget, Governor Cuomo proposed to increase school aid statewide by $1.065 billion if his proposed education reforms are enacted (see below). Of the $1.065 billion increase, $377 million would derive from the annual update of the personal growth income index formula and an additional $50 million is in competitive grants. The remaining $636 million increase is contingent on the enactment of the proposed education agenda. In total, this would be a 4.8 percent increase in aid over Fiscal 2015. The proposed increase is just 2 percent greater than the already-expected funding increase included in the City's Preliminary 2016 Financial Plan. However, assuming that the increase would be distributed according to the current year formula's, the Governor's proposal would add about $400 million to City education aid.

The Governor's proposed reforms are controversial. They include:

- Charter Schools. The Governor proposed to add 100 schools to the current charter cap of 460 schools and remove the regional limits.
- Bring the Massachusetts Model to Transform Failing Schools to New York for implementation here. Under the Massachusetts model, when a school fails for three years, a nonprofit, another school district, or a turnaround expert must take over the school. That entity would have the authority to: overhaul the curriculum; override agreements to terminate underperforming staff; provide salary incentives to recruit high-performing educators; and obtain priority over pre-kindergarten, extended learning time, and other State grant programs.
- Reform Teacher Evaluations and the Process for Removing Ineffective Teachers. The proposed system would require evaluation of teachers based on their students' state test scores or some other measure of one year of academic growth and by rigorous observations of the educator in action.

There are also a number of proposed tax policy actions (see Tax Policy section). Failure to enact these proposals may further impact the City budget.

Washington D.C.: The February 2015 Financial Plan's assumptions for Federal aid are modest; still there are risks to these assumptions. These risks are evidenced by the fact that at the time of writing the new Congress is less than two months old and the shutdown of a major agency, the Department of Homeland Security, is threatened. The threat of shutdown is being used by the Republican leadership in Congress to try and reverse some of the actions taken by the President in November to assist undocumented immigrants. The City has some exposure to a shutdown, though past experience suggests the timing of funding is more at risk than its level. NYPD and FDNY receive a significant portion of their federal funding from various Homeland Security Grants such as the Urban Area Security Initiative. The office of Emergency Management (OEM) may have the greatest exposure, since its budget is mostly funded by federal grants from the Department of Homeland Security (DHS).

As a practical matter, all Federal agencies, except Homeland Security, are funded through September, the end of the Federal fiscal year. Washington's budget process is still governed by the Budget Control Act of 2011, as modified by the Bipartisan Budget Act of 2013. There are caps on discretionary spending through Federal Fiscal 2021. Much of the aid New York City receives is from this part of the Federal Budget. The first indication of how this will play out will be the passage of a budget resolution establishing funding levels for Federal Fiscal 2016, which should occur in mid-April. Discretionary spending is scheduled to fall from its Federal Fiscal 2015 level. If Congress and the President cannot agree on how to do this, there will be sequestration. Either way, budgetary austerity seems likely to prevail for the foreseeable future.

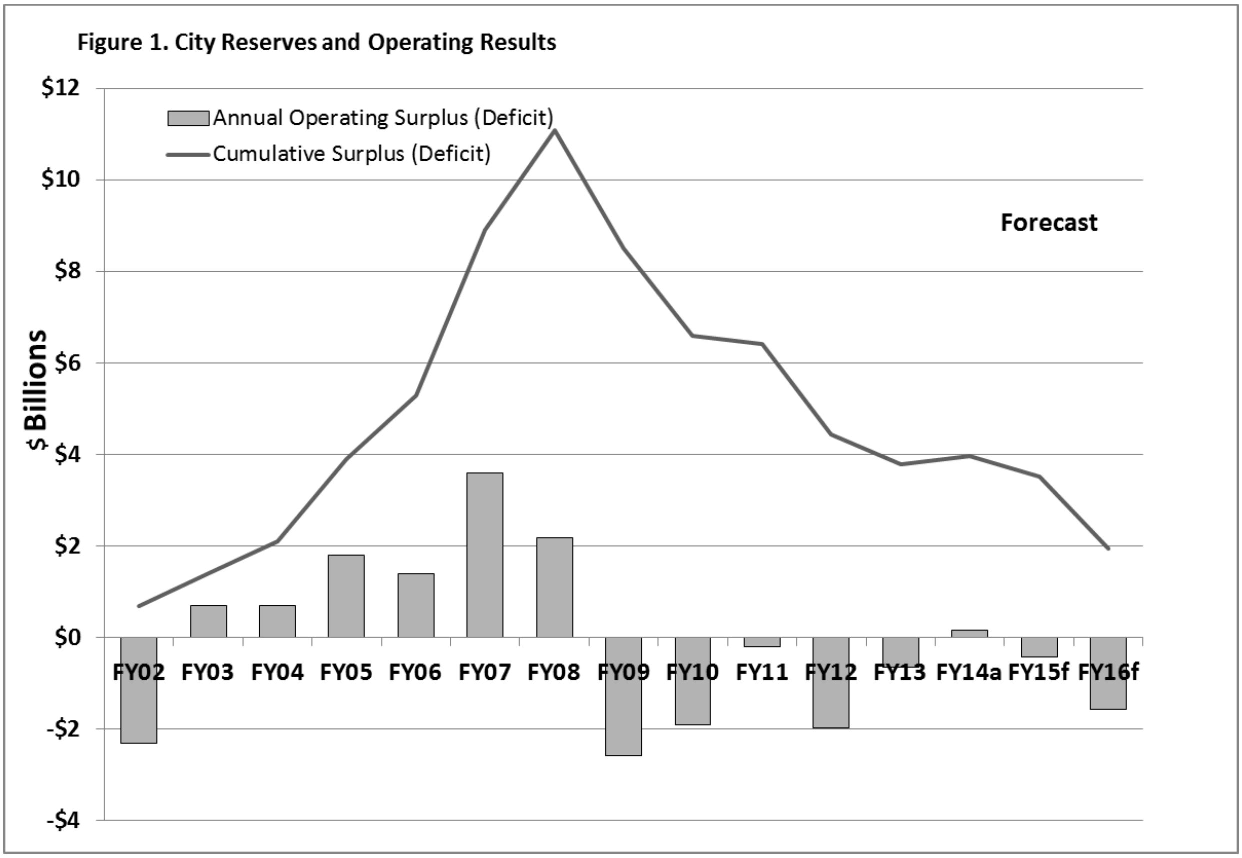
Economic Environment: The national economic recovery may have been too slow for comfort, but it has not reversed. Now, six years after the recession ended, signs are clearly positive. The country employs more people than it ever has. Households are spending and companies are hiring. The unemployment rate is nearing pre-recession levels and aggregate economic output is strong. Federal Reserve officials, even as they hesitate to raise interest rates until confidence dictates a change, are not backing away from suggestions that a rate hike -- a sign that the economy is ready to function with less governmental intervention -- is likely soon to come.

New York City has enjoyed a disproportionate share of the recovery, with employment having grown over 2 percent in 2014 for the fourth consecutive year. Economic expansions, however, do not last forever and the near six-year recovery has already surpassed the average national expansion since World War II. There are no obvious constraints to the City's continued growth in the near term. There is a comfortable amount of office construction in the pipeline. If there is any road block ahead it is probably from skyrocketing housing costs. The dearth of affordable housing will increasingly force skilled workers to reassess their cost-benefit of residing in the City, especially with other locations recovering. Firms also factor in their own real estate expenses and the cost of living of their employees.

Turning to the macro economy, other risks may come in the form of the strong dollar and weak exports slowing the nation's growth more sharply than expected. There is a question as to how well the City's financial institutions will adjust when short-term rates are finally raised, and how exposed they might be if their European counterparts are allowed to weaken further.

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). In bad times, it uses these funds, reducing prepayments into the next fiscal year and running down the balance in the RHBT.

Between Fiscal 2003 and Fiscal 2008, the City accumulated over $11 billion in these reserves. But after Fiscal 2009 the City began to balance its budget by using these funds. The Council's Finance Division expects these days are over for the near term, as strong revenue collections are positioned to let the City rebuild its reserves.



Source: Council Finance

The practice reflects the volatility of some of the City's revenues. About half of the City's tax revenue responds quickly to the ups and downs of the business cycle. Some of these responses can be extreme. For example the $1.2 billion banking corporation tax has risen in some years by as much as 85 percent and fallen in others by 45 percent. Essentially what the City doing is in its cyclical budget management is putting away funds in good times to allow it to maintain services and avoid layoffs when bad times come. Bad times will come again. As Mayor de Blasio has pointed out, the current expansion has lasted 68 months, which is 8 months longer than the average expansion.

The Administration started the process of preparing for the next downturn, when in Fiscal 2014 it replaced funds that would have been drawn for the RBHT, bringing the fund to its Fiscal 2014 year-end balance of $2.4 billion. It has also increased the size of the general reserve to $750 million for all years of the Financial Plan. This provides an extra buffer for contingencies. The City had a small operating surplus in Fiscal 2014. The Financial Plan expects that this will change Fiscal 2015 and the City will return to deficits. However, the Finance Division's tax revenue forecast is stronger than OMB's, which, coupled with the typical end of the year adjustments, mean the City should run an operating surplus in Fiscal 2015.

It should be noted that while the RHBT is used as a kind of reserve, its primary purpose is to offset a large unfunded liability: health insurance for retirees. This unfunded liability topped $92 billion at the end of Fiscal 2014.

Upside Risks: The Finance Division's forecast provides some good news: the City can expect about $2.3 billion more in tax revenue compared to OMB's February forecast. These additional funds would allow the City to balance its budget for Fiscal 2017 and come close to balancing Fiscal 2018.

Table 3. Impact of Finance Division Forecast
Dollars in Thousands

	FY15	FY16	FY17	FY18	FY19	Total
Febuary Plan Budget Gap	$0	$0	($1,048)	($1,370)	($2,074)	($4,492)
Finance Division Forecast- Difference from Febuary Plan	272	879	804	296	85	2,337
Budget Gap after Finance Division Forecast and Roll	**$0**	**$0**	**$0**	**($166)**	**($1,989)**	**($2,155)**

Source: Council Finance, OMB data

In addition to conservative budgeting in regards to revenue, OMB has traditionally practiced rather conservative budgeting on the expense side as well. Towards the end of the fiscal year, it has usually found that there are excess funds set aside for prior year payables, judgments and 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 out-year gaps without the extra funds from the Finance Division's forecast.

Labor Agreements

All of the City's labor contracts had expired as of the start of 2014. As of late February 2015, Mayor de Blasio had agreed to deals with three-quarters of the City's workforce, most recently with over 9,000 employees including administrative office workers, attorneys and technicians of the NYPD and district attorney's offices and with officer positions at NYPD.

The settlements have provided a more secure base for the fiscal plan but there are still risks. The Administration's deal with supervisory-level uniformed employees (such as police) increased costs beyond prior deals with other unions. Specifically, it provided more generous wage increases – it matched the contract with other unions, then added a 1 percent raise in the first year that carried forward to later years. This extra raise cost the City $145 million and, if extended to the rest of the uniformed workforce (firefighters, police, etc.), it will cost a total of $600 million. One wild card in the labor agreement landscape concerns rank-and-file police officers, who are locked in binding arbitration with the Administration. If generous terms result from that arbitration, it could place upward pressure on labor costs City-wide.

The other major risk involves health care costs. The contracts' collective costs run into the many billions of dollars, but the Administration and the Municipal Labor Committee reached an agreement that included a $1 billion contribution from a publicly-fed health stabilization fund and with a promise – guaranteed, according to OMB and the Mayor's Office of Labor Relations – of $3.4 billion in concomitant health care savings over the next four years. The three-page, May 2014 agreement identifies arbitration as the path to be taken regarding enforcement of the terms. While both sides have stressed that the health care savings are guaranteed, it is unclear from the agreement what specific actions would occur if the savings were not realized.

The Office of Labor Relations (OLR) wrote to Mayor de Blasio in late December that it was on track to secure the first year's $400 million health care-specific savings goal. It has hired an independent health care actuary. OLR's manager for the savings project, Claire Levitt, said the City and the Municipal Labor Committee had previously agreed to jointly hire a shared actuary, but by year's end they had instead hired separate actuaries. The City hired the actuarial firm Milliman, and the labor committee had contracted with Siegel Actuarial Consulting, Inc. The two actuaries are working collaboratively on this project.

Ms. Levitt wrote to Mayor de Blasio in December saying that the City had taken a number of steps toward securing the health care savings, including, but not limited to:

- Creating benchmarks, using data from the City's healthcare vendors, to track performance;
- Changing from a "fully insured plan" to a "minimum premium plan";
- Working with Empire Blue Cross Blue Shield to reduce administrative fees; and,
- Working with Express Scripts to renegotiate some charges for specialty drugs.

Ms. Levitt said the December letter to Mayor de Blasio was the first of what will be quarterly reports from OLR regarding progress on the health care savings plan. She said future reports will contain metrics, notes regarding progress toward quantifiable objectives, and input from the City's independent healthcare actuary.

Budget watchdogs have warned against letting the City point to decreases in health care costs caused by forces outside its control and attributing the savings to active steps. In late February, OLR chief Bob Linn and OMB Director Dean Fuleihan addressed this in an opinion piece in the New York *Daily News*. They said the savings plan called for "calculating the savings against the actual budget projections." But, since budget projections had expected a nine percent increase in health care costs, and since actual, real-life health care costs have declined since the creation of the Affordable Care Act, a different metric of success might be required.

Table 4. Wages and Collective Bargaining

Dollars in Millions

	FY15	FY16	FY17	FY18	FY19	Total
Labor reserve	$841	$1,328	$971	$1,870	$2,961	$7,970
Salaries & Wages	24,241	24,875	25,014	26,413	27,842	128,385
Pensions	8,582	8,534	8,504	8,490	8,586	42,696
Other Fringe Benefits	8,660	9,177	9,682	10,287	11,019	48,825
TOTAL	**$42,324**	**$43,914**	**$44,171**	**$47,060**	**$50,408**	**$227,876**

Source: Council Finance, based on OMB data

National Economy

Summary: A slate of positive economic factors occurring over the past year have adding up to real economic growth. The country's production has resumed its pre-recession growth rates for four years running and, even if the underlying dynamics regarding that growth may have changed, it is a positive sign. More people are employed than ever and, while many frustrated job seekers dropped out of the labor force over the past few years, hiring has increased dramatically. When officials from the Federal Reserve issued a statement after their latest meeting in January, it was as optimistic as any such statement since the recession ended nearly six years ago. Consumer spending is up and households are more confident about the economy than a year ago. Analysts caution that economic growth remains slow and fragile. Inflation is rising, but slowly. Federal regulators may hesitate — again — when it comes to the inevitable step of raising interest rates. All eyes had been on June, but some now think it may come in September. That caution at the national level carries implications for the City's economy, as the Mayor indicated during his State of the City speech last month.

Looking ahead, the country's relationship with trade partners will take a bite out of growth at home. IHS Global Insight expects the dollar to remain strong; it recently reduced its forecasted economic growth for major U.S. trading partners (from 2 percent to 1.9 percent in 2015) and other important trading partners (from 4.2 percent to 4 percent), and a "trade loss" experienced last year could widen a bit this year. But, on the net, economists are optimistic. As Bernard Baumohl, chief global economist for the Princeton-based Economic Outlook Group, put it earlier this year: "Frankly, if [the current] factors do not set the stage for more sustainable economic growth, higher inflation, faster hiring, and – yes – even larger wage increases, then we have to go back to the drawing board and revisit everything we know about how economies work."[1]

Production and Consumption: The country is producing more goods and providing more services. Measures of gross domestic product (GDP) continue to hold in real positive territory. The fourth quarter's 2.2 percent annualized real growth rate may have been down compared to the third quarter's significant 5 percent real growth, but analysts from IHS Global Insight attribute much of the change to cuts in defense spending and increases in imports. The average of the two rates, 3.6 percent, indicates that the economy's underlying growth in the second half of 2014 was strong.

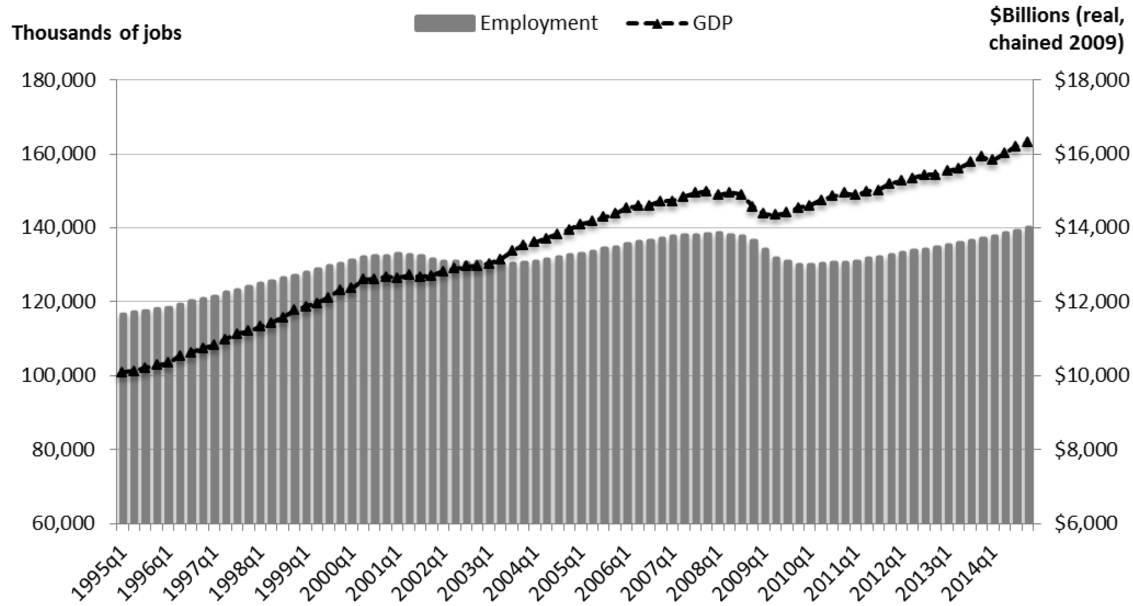
Looking ahead, the Federal Reserve Bank of New York took the country's temperature earlier this year and found Americans were, compared to polls immediately prior, expectant that earnings would grow in the years ahead and that the prospects of finding a job had generally strengthened.[2] Lower oil prices might mean more money for household spending, but it also means less capital investment in drilling — a recognition that will soften growth this year even as, on the net, it boosts household disposable income. And while consumer confidence is at its highest level since the recession, worries over the near future and a recognition that oil prices are volatile could extend Americans' reluctance to purchase big-ticket items, such as homes, and leave them instead spending more money elsewhere, such as at restaurants (which saw a significant increase in diners near the end of 2014).[3]

[1] Baumohl, B. (2015, January 9). Economic talking points. *Economic Outlook Group*. http://www.economicoutlookgroup.com/research-reports/2015/ETP1915.pdf.

[2] Federal Reserve Bank of New York. (2015, February). Survey of Consumer Expectations.

[3] Vitner, M. (2015, February 17). Monthly Economic Outlook - February 2015. Interview. *Monthly Economic Outlook - February 2015*. https://www.youtube.com/watch?v=w1sB6m8eeK0&feature=youtu.be.

Figure 2: National economy and employment



Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis

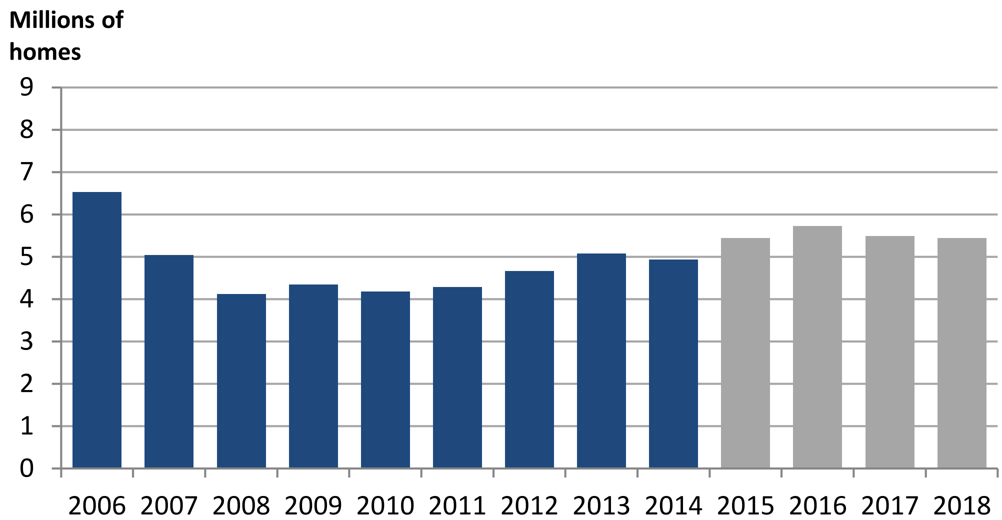
Employment and consumer expectations: The national jobs report for January confirmed that a boom in hiring experienced through late-2014 had extended into this year. The country added 3 million jobs during 2014; with the Federal government's January jobs report, the country had added nearly 1 million in just the three months from November through January. Job openings are generally as high as ever[4] and corporate profits are near all-time highs. Households are optimistic – 35 percent of households in the most recent Bloomberg consumer survey said the economy is getting better, compared to only 26 percent saying it is getting worse – the second-best spread since March of 2002.[5] Unfortunately, median wages have remained relatively stuck in time, with average hourly earnings growing at the rate of inflation and thus staying the same in real terms. There are several reasons for this: first, new jobs have largely come in lower-paying industries; second, the recovery has worked as a sieve, with many positions previously held by experienced employees being filled today with less experienced workers; and third, pent up "wage deflation" prevented wages from bouncing back as they otherwise might have.[6]

Housing: Mortgage rates have remained low since the recession, yet the country's reluctance to buy homes has remained, confounding broader economic gains. If borrowing rates remain relatively low this year, then 2015 could be the year that households break their pattern and, backed by continued economic gains, start to invest again in the residential real estate market. IHS saw a big increase in January in the number of applications for new mortgages, and it cites other factors that might contribute to a stronger market, including: regulatory changes at the

[4] IHS Global Insight.
[5] Langer Research Associates. *Bloomberg Consumer Comfort Index weekly analysis.* Feb 19 2015. http://www.langerresearch.com/uploads/m0219jh4.pdf.
[6] Handler, D and C Christopher. (2015, February 19). IHS US Regional webcast, February 2015.

Federal Housing Administration and Federal Housing Finance Agency that will help households secure loans; an increase in the supply of homes, which should drive prices down; and, the prospect that lower energy costs will make it cheaper to build new homes. It may, however, take more time for the residential property market to find its footing.

Figure 3: Forecast, national home sales



Source: IHS Global Insight

Monetary policy: The federal government, including the Federal Reserve, took near unparalleled steps during the economy's painfully slow recovery from the recession, which officially ended in the summer of 2009. Nearly five years later, the Federal Reserve has continued to hold borrowing rates exceptionally low; it has also conducted a round of programs to stimulate the economy by purchasing assets and increasing the money supply. The Federal Reserve's governors have been reluctant to increase the borrowing rate until the economy appeared safely in the clear, and in January they gave hints that the summer of 2015 — the most recent target date — may even be too soon.[7]

Risks: Gains in household income continue to accrue largely for the rich, with others shut out. Incomes have fallen, in real terms, for the average household and remain 8 percent below levels seen in 2007. Since the financial crisis, the median income collected by all but the richest one-fifth of households have gone down by 2 percent or more. Theories abound regarding the long-term implications of growing gaps in income and wealth. However, theories on the shorter-term effects are much less clear. To the effect that, as some economists believe, income inequality might stunt economic growth and promote instability, a risk remains that growing inequality could wind up hurting everybody.

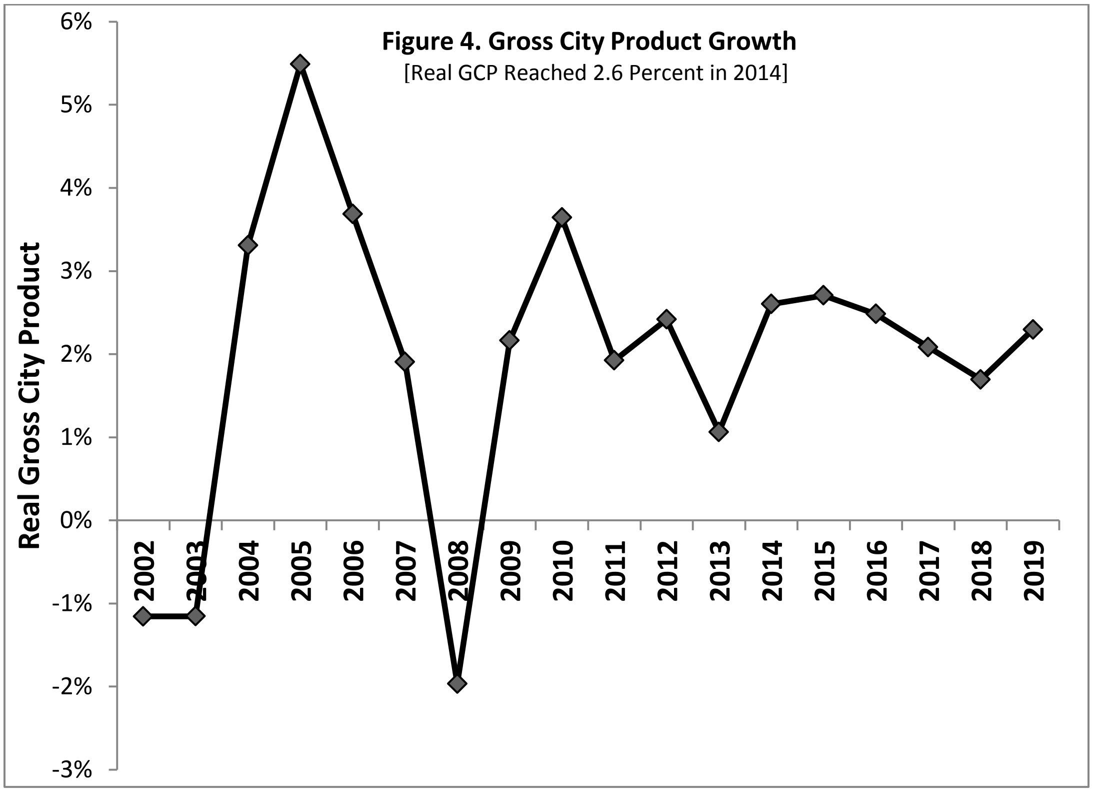
[7] Federal Open Market Committee, US Federal Reserve. (2015, February 18). Minutes from the Federal Open Market Committee, Jan. 27-28, 2015. http://www.federalreserve.gov/newsevents/press/monetary/20150218a.htm.

As for the Federal Reserve, governors know they must tread lightly as they consider a rate hike – countries in Europe and the Far East have had to reverse recent normalization processes following poor economic responses, and U.S. policymakers do not want to make the same mistake at home. Lower oil and energy prices have helped the economy on the net but one drawback is that it has made it more difficult to identify underlying changes in the economy — it confounds the ability to distinguish increases in consumer behavior that would have happened without the extra disposable income provided by cheap energy. The concern remains that if energy prices rise again, consumer spending could fall and place a drag on recent economic gains.

City Economy

Summary: New York City's economy continues to expand, adding 86,400 payroll jobs in 2014 compared to 2013, its fourth straight year of over 2 percent job growth. The private sector alone added 88,900 positions last year. The City's stubbornly high unemployment rate has finally fallen to 6.3 percent in December, having been 8 percent one year earlier. Wage growth during the recovery has generally been less sensational. In 2014 however, the average private sector wage soared over seven percent, after falling 0.3 percent in 2013. This rollercoaster pattern was driven by mercurial Wall Street wages and bonuses. Excluding the securities industry, the average wage rose by a still impressive 3.5 percent. Real gross city product expanded by a decent 2.6 percent in 2014, accelerating from 1.1 percent in 2013. Last year, commercial real estate leased the most Manhattan office space in 15 years. The residential market, however, experienced reduced sales, while prices soared. Tourism marked another banner year in 2014, hosting 56.4 million visitors.

The City is benefitting from the national recovery finally gaining traction, in terms of business and domestic visitors. If there is a foreseeable constraint to the City's growth, it lies in the interaction of the labor and real estate markets. Expansion in the Manhattan office market at the World Trade Center site and in Hudson Yards should mean that commercial real estate should not be a problem in the near future, but the residential market is a different story. Rising prices and rents are already an issue. With the economy improving in other parts of the country, parts of the City's labor force may find opportunities in places with better combinations of wages and housing prices. Put another way, rising housing prices could curtail the expansion of the City's population, labor force, and economy. With this in mind, Council Finance expects job growth in the private sector to maintain its dynamic 2.6 percent annual growth in 2015. The division expects the pace to slow to around 2.2 percent in 2016, and average around 1.7 percent between 2017 and 2019. Average wage growth is expected to be generally moderate, slowing to 1.8 percent growth in 2015, and picking up to an average of around 2.4 percent between 2017 and 2019. Real gross city product will strengthen to 2.7 percent growth in 2015, and then soften to around 2.2 percent in the outyears.



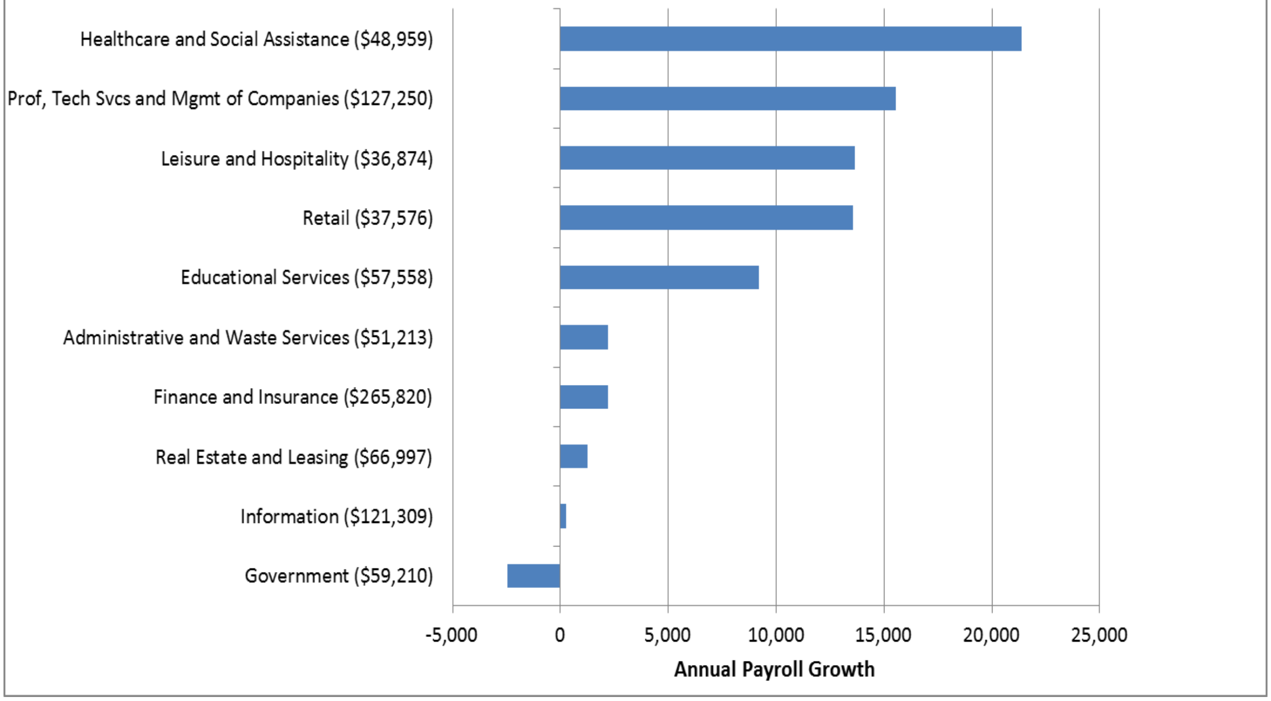
***Source**: IHS Global Insight, Real gross city product, February 2015*

Employment, the Labor Force and the Mix of Jobs: One curious tendency is that the City historically has had a much lower labor force participation rate than the nation. Over the past 20 years, however, the gap has been converging as the national participation rate has been falling and the City's rate rising. The City's participation rate reached a record high of 60.3 percent in 2014, while the nation's fell to 62.9 percent, its lowest since 1977.[8] The City's rising rate reflects growing opportunities.

Another trend is the noticeable shift within the City's workforce from higher-paid to lower-paid sectors. In 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 $49,000,[9] leisure & hospitality $36,900, and retail $37,600. The one significant exception to this trend is professional and business services, which has experienced strong growth and pays an average wage of $102,700. Sectors experiencing flat job growth or contraction included finance & insurance, and information. These tend to be better paying jobs. Finance & insurance paid an average wage of $265,800, and information $121,300. 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.

[8] City of New York Office of the Comptroller, 'NYC Quarterly Economic Update,' February 2015.
[9] New York State Department of Labor, Quarterly Census of Employment and Wages (QCEW), 2013. All average wages round to the hundreds.

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



***Source**: New York State Department of Labor, Current Employment Statistics, December 2014 (employment change 2014 from 2013), and Quarterly Census of Employment and Wages (average wage for 2013). Note: Professional, Technical Services and Management of Companies are the two well-paying sectors of the super-sector Professional and Business Services. Administrative and Waste Management is its lower-paying sector.*

Employment Sectors: The securities industry, by far the City's most profitable sector, makes up less than 5 percent of private sector jobs, but over one-fifth of wages. The average securities sector wage in 2013 was $355,500. The average bonus for 2013 increased 15 percent to $164,530, the largest bonus since before the financial crisis. According to the State Comptroller's office, one out of nine City jobs are directly or indirectly associated with the securities industry, and one job in securities supports two jobs elsewhere.[10]

The securities industry is facing formidable challenges. Its payroll has fallen 12.6 percent from 191,000 before the financial crisis to around 167,000 today, with 6,700 positions lost over the past three years. The net earnings of New York Stock Exchange member firms fell 30 percent in 2013 to $16.7 billion, and in the first three reported quarters of 2014 came to $11.7 billion, 13.5 percent below the same period in 2013. The securities sector has had to adjust to a tougher Dodd-Frank regulatory environment, limiting high-risk but profitable transactions. The last two years of diminished profits were especially driven by skyrocketing non-compensation costs, most likely from legal settlements. The six largest bank holding companies agreed to pay around $130 billion to settle actions from selling toxic mortgage-backed securities during the financial crisis. Investment banks are also facing an uncertain global environment, with a tenuous recovery in the Eurozone and violence in Ukraine and the Middle East. With the

[10] Office of the New York State Comptroller, 'The Securities Industry in New York City,' October 2014.

industry basically flat (losing only around 200 jobs) in 2014, Council Finance expects securities to resume very moderate payroll growth, averaging around 1,900 during the forecast years.

Professional and business services include a broad array of office-based sectors, including legal services, accounting, architecture, engineering, computer services, management companies, and administrative and waste services. Wages in this super-sector, like its occupations, cover a wide gamut, averaging $102,700. Its dynamic job growth during the recovery displaced finance in its former role of leading the City out of recession. Since the recovery, business services have been contributing an increasing share of new jobs. In 2014, however, the number of new business services jobs slowed to 17,800 from 23,200 in 2013, shrinking its share of new private sector jobs to 20 percent from 27.1 percent. Since this is the largest growing super-sector paying decent wages, its share of total employment can have a big impact on ameliorating income inequality. One hopeful sign is that there was stronger job growth in business services during the last two months of 2014, and December's year-over-year job share jumped back to 30 percent. Since the City's business services boast the entire nation as clients, it is expected to ride the wave of strong national job growth and output. Council Finance expects the super-sector to accelerate job growth to 27,200 in 2015, but then mildly decelerate during the forecast years reaching an average of around 21,000 annually between 2018 and 2019.

Leisure and hospitality has been another dynamic super-sector, thriving on tourism. Each year of the recovery has surpassed the previous record number of visitors, reaching 56.4 million in 2014. Hotel occupancy reached an average 89.2 percent in 2014, at the same time additional rooms were added to the City's supply. The average daily rate for rooms climbed to an average $294 last year.[11] The super-sector added 13,700 jobs in 2014, and is expected to continue its vibrant growth during the next few years. While an appreciating dollar will discourage foreign travelers, the stronger national recovery will attract more domestic visitors and allow New Yorkers more nights on the town. Retail trade is another major contributor to the recovery, and beneficiary of tourism, thriving on revived consumer activity. Wages in leisure and hospitality and retail tend to be low paying.

Looking at other sectors, health care and social assistance, while generally noncyclical, has sharply accelerated job creation in 2013, and again in 2014, adding 21,400 positions. Health care employment is expected to grow as more New Yorkers gain health insurance through the Affordable Health Care Act and as baby boomers become the new senior citizens. The information sector experienced flat employment growth in 2014, with weakness in publishing, telecommunications, and television-radio broadcasting. Manufacturing experienced flat growth for the third year, which was an improvement from its long-term declining trajectory.

[11] NYC & Company, 'NYC Hotel Occupancy, ADR & Rooms Sold,' February 12, 2015.

Table 5. Forecast of City Employment Gains
Year-Over-Year Growth in Thousands

	CY14	CY15	CY16	CY17	CY18	CY19
Total Private	**88.9**	**89.6**	**78.1**	**71.4**	**57.8**	**65.5**
Finance and Insurance	**1.4**	**4.1**	**3.3**	**2.3**	**1.4**	**1.3**
Banking	1.6	1.2	0.8	0.5	0.2	0.4
Securities (Wall Street)	(0.2)	3.0	2.5	1.8	1.3	1.0
Retail	**13.6**	**11.6**	**10.2**	**9.4**	**7.6**	**8.4**
Professional and Business Services	**17.8**	**27.2**	**22.8**	**23.3**	**19.5**	**21.9**
Real Estate and Leasing	**1.2**	**(0.4)**	**0.2**	**0.2**	**0.2**	**0.2**
Information	**0.3**	**(2.7)**	**(1.2)**	**0.3**	**1.5**	**2.9**
Leisure and Hospitality	**13.7**	**15.2**	**14.6**	**15.2**	**15.7**	**16.4**
Arts, Entertainment, and Rereation	1.9	3.1	2.4	2.5	2.5	2.7
Accommodation and Food Services	11.8	12.1	12.3	12.7	13.2	13.7
Accommodations (Hotels)	1.2	1.0	0.9	1.0	0.8	1.1
Healthcare and Social Assistance	**21.4**	**17.8**	**13.0**	**13.2**	**13.3**	**13.5**
Education Services	**9.2**	**6.1**	**7.8**	**7.8**	**7.6**	**8.1**

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

Construction: Construction starts in the City jumped 31 percent in 2014 reaching $26.1 billion. Residential construction soared 73 percent to $11.9 billion in value, increasing for the fourth consecutive year. The increase was driven almost entirely by the demand for luxury apartments, since in terms of square feet, residential starts only increased by 17 percent. Non-residential construction climbed 26 percent to $10.5 billion, ending three consecutive years of declines. Commercial buildings accounted for $5 billion of the value of new project starts, while institutional projects covered $4.8 billion.[12] Council Finance sees the pace of construction continuing at a healthy clip, as work resumes at Three World Trade Center and commences at Hudson Yards.

Real Estate: New York City has seen some of the largest increases in residential property values. The median price per square foot for Manhattan properties surpassed pre-recession records. The average sales price soared 13.1 percent year-over-year reaching $1.74 million and the median price, a better indicator of overall market conditions, rose 14.6 percent reaching $980,000. The residential market closed the year with home sales slowing significantly from a year ago, as prices continued to rise. While demand was higher than average, driven by international buyers of luxury apartments, the listing inventory remained almost a third below its long-term average. Despite employment growth and low mortgage rates, exorbitant home prices are constraining the City's housing market. Brooklyn home sales (all types) fell 3.1 percent in the fourth quarter year-over-year. Average sales prices jumped 9.9 percent reaching a record $756,569, while median prices rose 2.6 percent also reaching a record $585,000. In Queens home sales plummeted 22.5 percent year-over-year, as average and median prices rose 14.1 percent and 15.5 percent respectively. Rents show a parallel pattern. The median

[12] New York Building Congress, 'Update: NYC Construction Starts Up 31 Percent in Value in 2014,' February 12, 2015.

Manhattan rent increased by 5.9 percent in January 2015 year-over-year, reaching $3,299. In Brooklyn the median rent increased 2.5 percent to $2,901.[13]

The City continued to record healthy employment growth, adding jobs in office-using sectors, and boosting the need for commercial space. Leasing activity in Manhattan registered 32.8 million square feet, the highest in over 15 years. Meeting the need for additional office space, robust leasing activity in the fourth quarter of 2014 drove the overall vacancy rate down to 9.3 percent from 11 percent a year ago. Asking rents rose 6.8 percent to $68.49 per square foot from $64.08 a year ago. One of the iconic events was the completion of One World Trade Center, which added 3 million square feet to downtown inventory. With additional space in the pipeline, including the World Trade Center and Hudson Yards, office supply is expected to meet the demands of a growing workforce over the next few years. [14] Manhattan has at least 9.5 million total square feet of office space to fill by 2018. Along with this increase in available space, businesses are allotting smaller spaces per capita. The new average in New York City is 120 sq. ft. per employee, compared to the national average of 176 square feet which itself is down from 225 sq. ft. in 2010. Despite this, real estate and urban policy professionals believe the market will absorb the upcoming space, though it may introduce market changes, such as a shift of the center of gravity toward downtown Manhattan.[15]

The boom in high-end luxury condos explains much of the frenzy in the market conditions. A lot of new development is expected in 2015, but likely not in a very diverse price range, as luxury units keep thriving. The pool of buyers and renters who can afford luxury developments is shrinking, indicating the luxury market will not be able to sustain itself at the level of growth seen in 2014. City trends in 2014 were high demand, low supply and expensive rent. With supply low, sale prices shot up. Steadier growth in 2015 will likely provide some relief to buyers. The market indicators and prices are reflective of the strength of the City and its recession recovery, but affordable housing remains an issue. High rents along with income growth lagging far behind rent growth means affordability endures as a problem for renters. The market is undergoing a spreading out phenomenon, and it is driven by the search for affordability. These increases will force middle-class families to reassess whether the City provides the optimal income and cost-of-living match compared to other locations.

Risks and Future Considerations: The Council's Finance Division estimates that total private wages have grown by a huge 10.2 percent in 2014, thanks in part to growing employment and to unusually generous bonuses. Aggregate wage growth is expected to average 4.6 percent in the outyears – factors include growth in average private sector wages averaging 2.5 percent and employment growing by nearly 2 percent. OMB projects stronger average wage growth of 2.8 percent annually, and weaker employment growth of 1.3 percent annually.

While the City's economic growth is bound to eventually face constraints, such as limited space, it is not likely to kick in imminently. Additional commercial and residential space is currently in the pipeline and the national recovery at this point appears sustainable for the foreseeable

[13] Douglas Elliman Reports, Manhattan, Brooklyn, Queens Co-ops, Condos, 1-3 Family Homes, 4Q 2014; Manhattan, Brooklyn, Queens Rentals, January 2014.

[14] Cushman & Wakefield, 'Marketbeat Office Snapshot Manhattan,' Quarter 4, 2014.

[15] The New York Times. "As Office Space Shrinks, So Does Privacy for Workers ". February 22, 2015.

future. Wage growth in the outyears is expected to remain moderate due to a still high unemployment rate, increasing prevalence of low-paying sectors, and a national economy growing at a very moderate pace.

Downward risks to the forecast include housing costs climbing so steeply as to discourage individuals and businesses from locating here. Rising office rents, despite the promise of ongoing construction, may reinforce decisions to locate elsewhere. There may also be a labor supply constraint. Many of the City's unemployed workers may not be employable; at least for the skills needed. On a macro level, national and global dynamics may exert a stranglehold on the City. A struggling global economy may critically hit U.S. exports and weaken national output. U.S. banks may be overly exposed to worsening financial turmoil in the Eurozone. Political strife in the Ukraine and Middle East may also impact the U.S. and City economy.

Table 6. Forecast of Selected Economic Indicators: National and New York City, CY2013-2019

	CY14	CY15	CY16	CY17	CY18	CY19
NATIONAL ECONOMY						
Real GDP %	**2.4**	**3.0**	**2.7**	**2.8**	**2.6**	**2.8**
Private Employment						
Level Change, '000	2,621	3,038	2,644	1,837	1,089	1,128
Percent Change, %	2.3	2.6	2.2	1.5	0.9	0.9
Unemployment Rate, %	**6.2**	**5.5**	**5.3**	**5.1**	**5.1**	**5.1**
Total Wages %	**2.0**	**2.6**	**2.7**	**2.9**	**3.1**	**3.1**
Interest rates %						
3-Month Treasury Bill	0.03	0.38	1.58	3.20	3.51	3.51
30-Year Conventional Mortgage Fixed	4.17	3.99	5.27	5.83	5.90	5.90
NEW YORK CITY ECONOMY						
Real GCP %	**2.6**	**2.7**	**2.5**	**2.1**	**1.7**	**2.3**
Private Employment						
Level Change, '000	88.9	89.6	78.1	71.4	57.8	65.5
Percent Change, %	2.6	2.6	2.2	1.9	1.5	1.7
Average Private Wages %	**7.4**	**1.8**	**3.3**	**2.8**	**2.2**	**2.3**
Total Private Wages %	**10.2**	**4.5**	**5.6**	**4.8**	**3.8**	**4.1**
NYSE Member Firms %						
Total Revenue	1.4	2.8	7.7	6.1	3.0	2.8
Total Compensation	3.3	5.7	8.1	7.2	5.5	5.4

Source: *IHS Global Insight, February 2015 (Nat'l); New York City Council - Finance Division (City)*

Tax Forecast

Summary: The Council's Finance Division expects the City will have, by the end of the Fiscal 2015, collected $50.7 billion in local tax revenue – a 4.9 percent increase from last year. It further anticipates Fiscal 2016 will see a 4 percent increase.

The increase in total tax revenue would, if realized, mean the City has seen its income from local taxes increase by an average of 6.4 percent over the last five years. This would represent a significant increase, and might have been expected given the concurrent economic recovery. The forecast's outyears include room for further increases in tax revenue, albeit at a slower rate of 3.1 percent on average from Fiscal 2016 through Fiscal 2019. At a rate higher than expected inflation of roughly 2 percent, that would still represent real growth.

The two biggest taxes – the real property tax and the personal income tax – are positioned to increase in Fiscal 2015 by 6 percent and 4.6 percent, respectively. In Fiscal 2016, property tax collections will slow to 4.8 percent, and personal income tax to 4 percent. The real estate market is strong, and the division's forecast is built atop assumptions that growth in property values will continue. Personal income tax collections are being bolstered by increasing employment and hefty Wall Street bonuses.

Sales tax collections are expected to be strong, supported by increased employment and record tourism. Other property taxes, namely the mortgage recording and real property transfer taxes, are expected to be flat for the current and coming years as conditions stabilize following a huge increase over the four years beginning in Fiscal 2011.

Real Property Tax (RPT): For Fiscal 2015, both OMB and Council Finance expect the real property tax to generate $21.17 billion in revenues. This represents a fairly sizeable $202 million increase over the November Plan largely due to changes in the reserve.[16] The largest component of the change to the reserve reflects a better understanding of the total amount of refunds and cancellations necessitated by assessment corrections from the Tax Commission and Law Department.

On January 15, 2015, the Department of Finance (DOF) released the preliminary assessment roll for Fiscal 2016, which showed much stronger assessment growth than had been expected with Billable Assessed Value (BAV) up a substantial $17.1 billion over the prior year, or 9.4 percent. While all four classes of property saw at least some growth, over half of the growth can be attributed to the Class 4 commercial properties which saw a large increase of over 10 percent in their BAV. Class 4, along with Class 2 – which also saw an over 10 percent increase in its BAV – make up over 80 percent of the taxable value in the City, so the strong growth in the BAV of these two classes are largely driving the amount of revenue raised by the property tax.

Table 7. Market Values and Billable Assessed Values

Dollars in Billions

	Market Values			Billable Assessed Values		
	FY 2015	**FY 2016T**	**% Change**	**FY 2014**	**FY 2015T**	**% Change**
Class 1	$415.23	$444.49	7.05%	$16.92	$17.74	4.87%
Class 2	215.86	239.31	10.86%	63.04	69.66	10.51%
Class 3	28.44	28.64	0.72%	12.36	12.45	0.74%
Class 4	246.75	275.85	11.79%	90.21	99.74	10.57%
TOTAL	**$906.27**	**$988.29**	**9.05%**	**$182.51**	**$199.59**	**9.36%**

Some reductions in assessments from what is listed in the above chart should be expected on the final roll in May to reflect actions by the Tax Commission and DOF. Even with those

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

reductions, Council Finance still expects the City will see strong property tax revenues of $22.19 billion in Fiscal 2016; a forecast about $72 million greater than OMB's forecast.

This growth in BAV is being driven by large market value increases over the past several years, which continue this year. Class 4 saw a whopping increase of 11.8 percent in overall market value on the preliminary roll, which comes after three years of annual growth averaging 6.1 percent. Since changes in market values for Class 4 are phased in over five years, this period of high market value growth is pushing and will continue to push up BAV and therefore property tax revenue growth in the outyears.

OMB believes growth in RPT revenues will slow to an average of 4.5 percent in the outyears as market value growth begins to moderate. Council Finance also forecasts moderation in market value growth; however, it also sees a slightly slower growth rate of 4 percent in the same period.

Personal Income Tax: Fiscal 2014 was better than expected for personal income tax collections, growing by 4.1 percent to $9.5 billion. This was the year estimated payments were expected to drag down collections because collections from capital gains realizations normally expected in Fiscal 2014 were pushed forward into Fiscal 2013 as taxpayers acted to avoid changes in federal tax rates. Council Finance projects even stronger growth in Fiscal 2015 of 4.6 percent reaching $10 billion, compared to OMB's 2.9 percent. Collections year-to-date are already 7.9 percent over the same period in Fiscal 2014. State Comptroller Thomas DiNapoli anticipates that 2013's Wall Street bonuses, which grew by an exceptional 15 percent, will be followed by further growth in 2014 due to competitive wage pressures and deferred bonuses being paid out.[17] Payroll in the City continues to swell, and average wages are showing signs of finally growing. Strong estimated payments so far are showing that capital gains realizations are bouncing back. In Fiscal 2016, collections are estimated to grow 4 percent, as employment continues to climb and there's more discernable pressure on wages. In the outyears, collections are expected to grow more moderately, averaging around 2.5 percent, as employment and wages grow more slowly.

Business Taxes: After anemic growth of only 0.3 percent in Fiscal 2014, Council Finance projects business tax collections to rebound in Fiscal 2015 by 6 percent reaching $6.2 billion, compared to OMB's estimate of 3.8 percent. Driving the increase are improved business conditions nationally and locally. In Fiscal 2016, collections are expected to expand around 3.4 percent from the sustained growth of the national and local economies. Collections are expected to slow in the outyears, averaging 2.2 percent growth. The three City business taxes are the general corporation tax (GCT), bank corporation tax (BCT), and the unincorporated business tax (UBT).

General corporation tax collections are expected to grow by a healthy 4.8 percent in Fiscal 2015 and 4.4 percent in 2016. Finance sector payments are expected to improve, as non-compensation expenses begin to taper down following the huge spate of legal settlements.

Bank tax collections are highly volatile and the most difficult to forecast. BCT revenue is expected to fall 1.8 percent in 2015 and rise by the same rate in 2016. Behind the weak

[17] Office of the New York State Comptroller, 'The Securities Industry in New York City,' October 2014.

collections is a resurgent mortgage business, thanks to rates falling again, but offset by heightened legal costs from mortgage-backed securities during the financial crisis, and increased regulations which limit profits.

Unincorporated business tax revenues are expected to be especially strong, growing by a dynamic 12.9 percent in 2015. Collections year-to-date are 13.5 percent over Fiscal 2014. Hedge funds, which were particularly profitable in 2014, contributed a significant share of collections. Other growing sectors, such as professional and technical services, were also major contributors to the UBT. Collections are expected to moderate during the outyears.

Other Real Estate Taxes: The real property transfer tax (RPTT) and the mortgage recording tax (MRT) - the transaction taxes - continued to be strong in 2014, together bringing in nearly $2.5 billion. RPTT collections soared 40 percent over Fiscal 2013 to $1.53 billion, approaching the all-time high levels prior to the recession. The increase in RPTT largely indicates a growth in the value of commercial sales, which get taxed at a higher rate than residential property. The Council expects RPTT revenues to decrease in Fiscal 2015 by 1.51 percent, followed by a slow and steady growth in the outyears, with a compound growth rate of 2.6 percent in Fiscal 2015-2019.

The MRT has been recovering at a slower pace, with revenues of $961 million in 2014. Growth is positioned to slow down considerably now that most mortgage holders who would benefit from mortgage refinancing already have done so. In addition, mortgage activity will generally decrease as mortgage rates are expected to go up, restricting MRT growth. Council Finance expects a compounded growth rate of 1.1 percent in Fiscal 2015-2019.

The Commercial Rent Tax (CRT) has seen steady upward growth since the end of the recession, reflecting the increase in core Manhattan office and retail asking rents. After hitting a record $710 million in revenues in Fiscal 2014, Council Finance expects even higher revenues of $741 million for Fiscal 2015. Continued strength in the office and retail sectors will translate to continued steady growth in the CRT, with growth rates averaging 4.2 percent in Fiscal 2016-2019.

Sales, Hotel & Utility Taxes: The Finance Division and OMB both expect sales tax revenue to increase by around 4 percent in Fiscal 2015, and both forecast that it will continue to increase – though at a slightly lower rate – through Fiscal 2019. The division’s forecast budgets an expected $6.8 billion in sales tax revenue for this year, a number that grows to $7.8 billion by the end of the financial plan. This would be strong growth. It may seem optimistic, but consider that OMB’s long run expectations are even stronger: the February plan anticipates nearly $7.9 billion in sales tax revenue in 2019. The Finance Division relies on city-specific employment counts in forecasting future sales tax revenue; OMB, on the other hand, turns to wage figures. The two variables have a strong relationship despite recent changes in the earnings profile of the average New Yorker (higher-paying sectors have seen increasing wages and lower-paying sectors have not, on average). Nationally, households are spending more money and more people have jobs; locally, more people visit New York City than ever (56.4 million last year, a whopping 56 percent increase from 2002) and hotels have built thousands of new hotel rooms to accommodate them.

Hotel tax revenue is forecast to increase in real terms, from $552 million this year to $621 million in Fiscal 2019. Regarding international tourism, the expectations for the Eurozone are less optimistic than for the domestic economy. But at 2 percent annual growth, they are far from negative. The dollar, which has been quite strong, will eventually weaken, which will ease hurdles facing foreign households interested in traveling to the U.S. It seems reasonable to anticipate that hotel tax revenue will increase, despite the expectation in OMB's forecast that hotel tax revenue will be flat in nominal terms and decrease in real terms across the financial plan.

Utility tax revenue should be flat this year and possibly next year before increasing. The forecast anticipates $405 million this year (the same as last year), a figure that would rise only 0.7 percent in Fiscal 2016. This comes under the recognition that energy costs are low and that external forecasts call for them to increase gradually, and not to regain their earlier peaks all at once. The Finance Division's and the Administration's expectations are basically the same regarding utility tax revenue: after 2016, utilities will likely start paying more as energy costs recover and climb toward historic norms. The division's forecast calls for $455 million in the financial plan's final year.

The Finance Division does not forecast smaller taxes, such as the tax on cigarettes, individually. Its expectations for these taxes thus default to those of OMB.

Table 8a. Council Forecast: Difference from OMB Forecast

Dollars in Millions

	FY15	FY16	FY17	FY18	FY19
Real Property	$0	$72	($41)	($338)	($431)
Personal Income	156	295	326	292	247
General Corporation	(0)	77	21	(139)	(169)
Banking Corporation	34	33	76	128	161
Unincorporated Business	97	70	101	96	80
Sales	(31)	40	53	(29)	(94)
Commercial Rent	6	8	7	7	9
Real Property Tran	3	41	60	78	50
Mortgage Recording	10	45	(12)	(29)	(46)
Utility	13	10	12	14	21
Hotel	(15)	19	21	29	52
All Other	0	0	0	0	0
Audits	0	169	181	187	205
Total Taxes	**$272**	**$879**	**$804**	**$296**	**$85**

**Actuals*

Source: Council Fiscal 2016 Preliminary Budget

Table 8b. Council Forecast: Growth Rates

	FY14*	FY15	FY16	FY17	FY18	FY19
Real Property	6.8%	6.0%	4.8%	4.1%	3.1%	4.1%
Personal Income	4.1%	4.5%	4.0%	2.5%	2.3%	2.5%
General Corporation	2.8%	4.8%	4.4%	1.0%	(2.0%)	2.7%
Banking Corporation	(9.6%)	(1.8%)	1.8%	3.2%	4.2%	4.5%
Unincorporated Business	4.1%	12.9%	2.9%	3.7%	3.5%	3.3%
Sales	5.9%	4.0%	4.9%	4.2%	2.9%	2.7%
Commercial Rent	7.0%	4.3%	4.3%	4.3%	4.4%	3.8%
Real Property Transfer	40.7%	(1.5%)	2.8%	4.6%	4.5%	1.2%
Mortgage Recording	29.5%	0.9%	2.0%	(1.5%)	2.7%	2.5%
Utility	5.4%	1.4%	0.7%	2.7%	4.0%	4.3%
Hotel	6.2%	3.0%	3.0%	3.0%	3.0%	3.0%
All Other	0.2%	4.2%	(1.3%)	(0.1%)	(0.1%)	(0.1%)
Audits	(14.8%)	6.1%	(3.5%)	1.4%	0.7%	2.0%
Total Taxes	**5.8%**	**4.9%**	**4.0%**	**3.3%**	**2.6%**	**3.2%**

**Actuals*
Source: Council Fiscal 2016 Preliminary Budget

Tax Policy

Reform Proposed by Administration

NYC Business Tax Conformity: The New York State Executive Budget includes major changes to New York City's business taxes. The Executive Budget adjusts the structure of New York City business taxes so that it is in conformity with the March 2014 changes in the State's business taxes. The major changes include merging the Bank Corporation Tax into the General Corporation Tax (except S-corporations), apportioning the taxable share of New York City based on single-sales across-the-board, with sales determined by customer sourcing. The reforms also include unitary combined reporting. The corporate tax rate on small firms and manufacturers would be lowered. The changes will be made revenue neutral by raising the capital base cap for calculating the tax from the current $1 million to $10 million. This proposal is supported in the New York City Council's Albany agenda.

Major Sunsets – Extensions Proposed in New York City Council's Albany Agenda

Extend Biotechnology Credit: The Biotechnology Credit would be extended for another three years beginning January 1, 2016. A refundable credit of up to $250,000 a year is provided to small, emerging technology firms that engage in biotechnology for research and development costs. One recommended change would be to lower the allowable net sales revenue from the current $10 million cap down to $5 million. Another recommended change would be to require the Department of Finance to report the full distribution of gross revenues, annual product sales, research and development expenditures, number of employees working in New York City, and North American Industry Classification System codes from all credit recipients. The credit is estimated to decrease City revenues by less than $3 million annually.

Extend S Corporation Credit: The City's S Corporation Tax Credit would be extended for another three years. Owners of an S Corporation receive a credit on the City's Personal Income Tax (PIT) for the taxes the S Corporation already paid via the GCT. The credit is equal to 100 percent of GCT paid for New York City taxable incomes up to $35,000, and a portion of GCT for taxable income up to $100,000. There is no credit on taxable income above $100,000. The credit eliminates or reduces the double taxation of City residents who are shareholders of S Corporations doing business in the City. It is progressive in that it is based on the shareholder's personal income. It additionally incentivizes investment in certain firms doing business in New York City, as well as residing in the City. The credit is estimated to decrease of City revenues by approximately $30 million annually.

Coop/Condo Abatement: The abatement provides a reduction of 17.5 percent to 28.1 percent in property taxes for owner occupied coops and condos. The reduction gradually increases for lower-value properties. The abatement was designed in 1996 to reduce the difference in the tax burden between co-op/condo apartment homeowners and one-, two-, or three-family homeowners. The abatement saw substantive reform when it was last renewed for Fiscal 2013. At that point, the threshold for the larger reduction was raised and the amount of reduction of the lower valued units was increased. In addition, the abatement was limited to units that represented owners' primary residences. Non-owner occupied units saw their abatements phased out over several years. In Fiscal 2015, the abatement provided $399.4 million in property tax reductions to over 260,000 coop and condo units.

Other Major Sunsets: The 421-a and J-51 tax programs are also both set to expire in June 2015 and will require State action to continue. It should be noted that due to the multi-year aspect of these two tax programs, their potential expirations would not have as large a fiscal impact in Fiscal 2016 as one might think. Properties currently receiving the tax breaks would continue to do so per the terms of the tax breaks; new properties that had not qualified by the expiration dates would not be eligible, so the fiscal cost would slowly draw down as currently exempt properties ran through the terms of their exemptions.

The 421-a program incentivizes the production of new multifamily housing by exempting from property taxes the new value created by the development. The tax breaks last 10 to 25 years, with the longer tax breaks available to developments that include affordable housing, and/or are in areas outside of Manhattan and certain high value neighborhoods in the other four boroughs. In Fiscal 2015, the program provided tax reductions of $1.1 billion to 168,622 residential units.

The J-51 program encourages the rehabilitation of multifamily residential buildings by providing tax abatements that cover part of the cost of rehabilitation and a tax exemption for the increase in assessment cause by the rehabilitation. Tax breaks are also given to the conversion of non-residential buildings into multifamily housing that receive substantial governmental assistance (i.e. usually as part of a larger affordability program). All residential units that receive the tax break are rent-regulated during the term of the tax breaks. In Fiscal 2015, the City provided J-51 benefits to over 560,380 units at a cost of $259.7 million.

Pensions

The required annual deposits to the City's five pension systems account for more than one-tenth of the entire budget. For now, the City expects to spend roughly $8.5 billion annually for the five-year stretch starting this year (Fiscal 2015). That expectation is generally unchanged from the City's November Plan, which had already recognized the benefits secured from a whopping 17.4 percent return on pension investments last year; higher investment returns means less cash is required from City coffers.

The expected annual contribution this year would amount to 11.7 percent of the entire budget, on par with pension contributions required a few years ago (10.9 percent in Fiscal 2012 and 11.2 percent in Fiscal 2013) when the City's pension nest egg was recovering from losses incurred during the financial crisis. The recent gains, however, mean the City expects the contribution level to hold steady in nominal terms for the next few years – and not, as prior years' plans had expected, to increase significantly with time. It is worth noting, however, that financial markets are fickle and that a downturn would again leave the City expecting upward pressure to build beneath pension systems. But for now contributions have stabilized.

Lawmakers in Albany last year considered a pair of bills that would have offered more generous disability-specific retirement benefits to recent and new hires at FDNY and NYPD. Bills along similar lines would, if approved, increase the City's pension costs by $56 million in Fiscal 2016, a cost that would grow thereafter.

Table 9. Pension Expenses

Dollars in Millions

	FY15	FY16	FY17	FY18	FY19
Pension Expenses	$8,582	$8,534	$8,504	$8,490	$8,586
Percent of City Funds	15.27%	14.98%	14.50%	14.01%	13.66%
Percent of Total Revenue	10.93%	10.98%	10.68%	10.35%	10.19%

***Source** : Council Finance. OMB data*

Financing and Debt Service

New York City sells bonds to fund its ambitious capital program and the Fiscal 2016 Preliminary Budget estimates $33.1 billion in long-term borrowing between Fiscal 2015 and 2019. The City's overall borrowing strategy is based on many factors, such as market conditions, project contracts and cash flow concerns. A summary of the Plan is shown in the table below.

Table 10. Summary of Fiscal 2016 Capital Financing Plan

Dollars in Millions

	FY15	FY16	FY17	FY18	FY19
Financing Plan					
General Obligation Bonds	$800	$2,500	$3,020	$3,100	$3,090
Transitional Finance Authority Bonds(1)	2,650	2,500	3,020	3,100	3,090
Water Authority Bonds	1,198	1,314	1,265	1,269	1,192
Total	**$4,648**	**$6,314**	**$7,305**	**$7,469**	**$7,372**
Debt Outstanding					
GO Bonds	$40,348	$40,532	$41,227	$42,016	$42,779
TFA Bonds(1)	26,280	28,063	30,197	32,358	34,199
Other Debt(2)	2,750	2,648	2,555	2,452	2,351
Total	**$69,378**	**$71,243**	**$73,979**	**$76,826**	**$79,329**
Water Authority Bonds	30,901	32,348	33,319	34,276	35,125
Debt Financing Burden (excludes Water Debt)					
Debt Outstanding/NYC Personal Income	13.30%	13.30%	13.20%	13.10%	13.00%

Source: *Council Finance; February 2015 Financial Plan*

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

2) Includes Conduit Debt and the Tobacco Settlement Asset Securitization Corporation (TSASC).

2) Includes Conduit Debt and TSASC.

The City's debt issuance remains below the City's constitutional debt limit of $81.4 billion, and by the City Comptroller's projections, the debt limit should grow sufficiently to allow the Capital Financing Plan.[18] The City's bonds are well received by the markets. The bonds are highly rated, with triple-A rating from Standard and Poor's for Transitional Finance Authority bonds and New York Water Authority bonds. Both the City's general obligation (GO) debt and TFA building aid revenue bonds (BARBS) are double-A rated.

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

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

Table 11. Summary of Fiscal 2016 Debt Service Payments
Dollars in Millions; Before Prepayments

	FY15	FY16	FY17	FY18	FY19
Debt Service					
GO Bonds	$3,935	$4,422	$4,553	$4,662	$4,754
TFA Bonds(1)	1,968	2,037	2,351	2,574	3,002
Other Debt(2)	298	309	382	383	377
Total	**$6,201**	**$6,768**	**$7,286**	**$7,619**	**$8,133**
Debt Service Burden					
Debt Service/Total Revenue	7.80%	8.60%	9.10%	9.20%	9.60%

Source: *Council Finance; February 2015 Financial Plan*

1) TFA Bonds do not include BARBs

2) Includes Conduit Debt, HYIC and TSASC.

Debt Service Savings

The City continues to benefit from the low interest rate environment. The February 2015 Financial Plan contains $329 million in Fiscal 2015 and $143 million in Fiscal 2016 debt service savings. Most of Fiscal 2015 savings come from taking advantage of low interest rates to refund bonds, as well as lowering the variable interest rate assumption. In Fiscal 2016, the majority of debt service savings, $93 million, is due to better than expected revenues in the Hudson Yards project that will reduce City interest support and tax equivalency payments to the Hudson Yards Infrastructure Corporation. The project generates revenue primarily through payments-in-lieu-of-property taxes (PILOT) and the sale of transferable development rights.

In the Preliminary Plan the GO interest rate assumption for Fiscal 2015 is 7 percent, while the most recent TFA refunding bond had an expected true interest cost of 2.55 percent and would not exceed 3.5 percent. Therefore, it is likely that more debt service savings will be recognized for the current fiscal year in the Executive Plan.

Budget Stabilization Account

Fiscal 2015 surplus funding totaling $1.5 billion resulting from increased revenue projections in the Preliminary Plan will be appropriated to the Budget Stabilization Account to prepay Fiscal 2016 Debt Service.

Building Aid Revenue Bonds (BARBs) Issuance Limit

The City's pattern of financing school construction has been adjusted because the TFA has reached its limit on its authority to issue BARBs. This is a short term adjustment and does not affect the level of state aid for school construction. Until space is cleared to this debt limit, GO bonds will be issued to finance planned school construction that would otherwise be financed using BARBs. State building aid will be used to service this debt. Under a cost sharing agreement reached in 2006, the State reimburses the City, through a multi-year flow of aid, for allowable expenses related to school construction. The City can capitalize this flow to borrow more, as it does with BARBs, or use it to service GO debt. The manner in which the City finances its school construction does not affect the level of state aid. State building aid pays for roughly half of the cost of school construction. Although, BARBs, which do not count against the City's constitutional debt limit, have hit their issuing limit, the City is well under its limit to issue GO bonds. There may be nominal cost savings associated with this adjustment due to the GO bonds' favorable interest rate.

Capital

On February 9th the Mayor released the Preliminary Capital Commitment Plan for Fiscal Years 2015 through 2018. The aggregate Preliminary Capital Plan for the four years is $44.7 billion (including City and non-City funds) which is an increase of $2.5 billion, or 6 percent, from the Fiscal 2015 Adopted Capital Commitment Plan of $42.1 billion.

Over half of this increase, approximately $1.37 billion, is related to the influx of Federal Superstorm Sandy Community Development Block Grant – Disaster Recovery (CDBG-DR) matching funds to aid the City in its ongoing efforts to repair, rebuild, and increase the resiliency of City-owned assets.

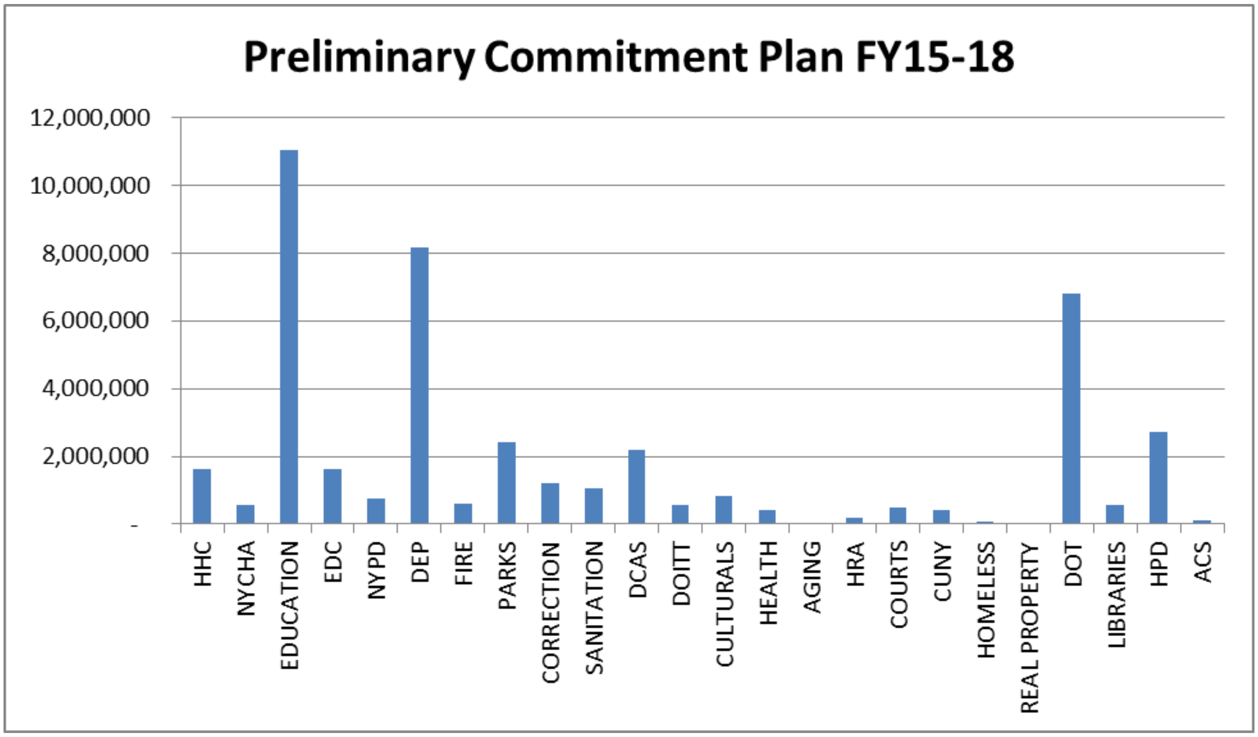
The remaining $1.2 billion increase in the Preliminary Capital Commitment Plan is spread out over many City agencies for improvements to the City's infrastructure, with some notable additions to the plan represented by increases in the following projects: $133 million for new equipment for HHC Hospitals; $100 million for the Queens Safety City project; $65 million for new buses; $32 million for the Police Academy; $42 million for new ferries; and $142 million in additions for continued improvements to the sewer system.

Table 12. Preliminary Capital Commitment Plan vs. Adopted Capital Commitment Plan
Dollars in Millions

Commitment Plan	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2015-18
Preliminary	$17,308	$11,192	$8,808	$7,349	$44,656
Adopted	17,813	9,748	7,977	6,594	42,132
Difference	**($505)**	**$1,444**	**$831**	**$755**	**$2,525**

The below chart depicts the breakdown in City and Non-City funding in the Preliminary Capital Commitment Plan by City agency:

Figure 6. Preliminary Commitment Plan FY15-18



Source: Council Finance

APPENDIX

Table 13. Council Forecast: Levels

Dollars in Millions

	FY14*	FY15	FY16	FY17	FY18	FY19
Real Property	$19,977	$21,170	$22,186	$23,099	$23,813	$24,789
Personal Income	9,539	9,973	10,371	10,634	10,883	11,155
General Corporation	2,766	2,900	3,027	3,057	2,997	3,077
Banking Corporation	1,227	1,205	1,227	1,266	1,319	1,379
Unincorporated Business	1,882	2,126	2,188	2,268	2,347	2,425
Sales	6,494	6,751	7,085	7,380	7,595	7,799
Commercial Rent	710	741	773	807	842	874
Real Property Transfer	1,527	1,504	1,547	1,617	1,690	1,711
Mortgage Recording	961	970	989	974	1,001	1,025
Utility	405	411	414	425	442	461
Hotel	536	552	569	586	603	621
All Other	1,426	1,486	1,466	1,465	1,464	1,463
Audits	860	912	880	892	898	916
Total Taxes	**$48,312**	**$50,701**	**$52,721**	**$54,470**	**$55,895**	**$57,695**
OMB	**$48,312**	**$50,428**	**$51,843**	**$53,666**	**$55,599**	**$57,610**

**Actuals*

Source: Council Fiscal 2016 Preliminary Budget

Table 14. Fiscal Year 2016 Preliminary Budget: New Needs and Other Adjustments

City-Funds Only (Dollars in Thousands)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
NEW NEEDS					
NYCHA Payment Relief	$0	$72,500	$72,500	$72,500	$72,500
DOC Young Adult Housing	12,482	24,959	24,975	25,000	25,036
Dept. of Corrections Applicant Investigation Unit	783	2,397	2,325	2,327	2,330
Child Welfare Reforms	5,517	11,034	9,987	9,987	9,987
45 New EMS Tours	2,635	10,542	7,433	7,747	7,852
Emergency Medical Dispatch	3,332	6,663	6,663	6,663	6,663
Police Cadets	0	10,060	10,060	10,060	10,060
Bulletproof Vests	8,050	4,200	4,200	4,200	4,200
Police Communications Technicians	0	6,276	6,276	6,276	6,276
Renewal Schools	5,240	0	0	0	0
Teacher Leadership Positions	4,563	4,563	4,563	4,563	4,563
School Food Program	0	2,554	2,554	2,554	2,554
Health Clinic Expansion	250	8,200	8,050	0	0
ID NYC	5,038	4,124	0	0	0
Summer Youth Employment Min. Wage Increase	0	3,391	4,521	4,521	4,521
COMPASS Summer Slots	0	17,606	17,606	17,606	17,606
Homeless Program Support	1,403	2,907	2,907	2,907	2,907
LINC Program - Homeless Rental Assist & Aftercare	6,871	24,387	20,495	18,576	16,894
PATH Program - Homeless Shelter Intake	1,615	4,306	4,306	4,306	4,306
Small Business First (SBS)	1,663	3,080	1,716	1,716	1,716
Fresh Kills Closure	(13,560)	4,728	23,936	22,085	22,385
Dept. of Sanitation District Field Supervisors	1,992	6,707	6,776	6,830	8,208
ECTP New Needs	1,917	7,668	7,668	7,668	7,668
Enhanced Legal Defense of Lawsuits Against NYPD	0	3,222	3,222	3,222	3,222
All Other New Needs	163,334	237,459	205,173	219,773	219,351
TOTAL NEW NEEDS	**$213,124**	**$483,532**	**$457,912**	**$461,087**	**$460,805**
OTHER ADJUSTMENTS					
Collective Bargaining Adjustment	$262,506	$138,820	$95,241	$157,246	$426,323
Citywide Pension Contributions	(5,193)	(93,906)	8,050	(309,669)	(333,867)
Debt Service	(328,897)	(142,512)	(57,910)	(8,357)	74,103
General Reserve	(450,000)	0	0	0	0
Energy Reserve Acount	(65,498)	(35,573)	(12,266)	(11,107)	8,407
Budget Stabilization Account	1,473,716	(1,473,716)	0	0	0
All Other	(26,059)	(24,722)	(32,112)	(34,462)	(54,182)
TOTAL OTHER ADJUSTMENTS	**$860,575**	**($1,631,609)**	**$1,003**	**($206,349)**	**$120,784**
NET CHANGES IN THE PRELIMINARY PLAN	**$1,073,699**	**($1,148,077)**	**$458,915**	**$254,738**	**$581,589**

Table 15. Fiscal 2016 Preliminary Budget Revenue Plan
Dollars in Millions

	FY15	FY16	FY17	FY18	FY19
Taxes					
Real Property	$21,170	$22,113	$23,141	$24,151	$25,220
Personal Income	9,817	10,076	10,308	10,591	10,908
General Corporation	2,900	2,950	3,036	3,136	3,246
Banking Corporation	1,171	1,194	1,190	1,191	1,218
Unincorported Business	2,029	2,118	2,167	2,251	2,345
Sales	6,782	7,045	7,327	7,624	7,893
Real Propery Transfer	1,501	1,506	1,557	1,612	1,661
Mortgage Recording	960	944	986	1,030	1,071
Commercial Rent	735	765	800	835	865
Utility	398	404	413	428	440
Hotel	567	550	565	574	569
Cigarette	49	48	47	46	45
Audit	912	711	711	711	711
STAR	861	877	881	881	881
Tax Program	0	0	0	0	0
All Other	576	542	537	538	537
Total Taxes	**$50,428**	**$51,843**	**$53,666**	**$55,599**	**$57,610**
Federal Categorical Grants	**$8,399**	**$6,618**	**$6,433**	**$6,389**	**$6,297**
State Categorical Grants	**$12,493**	**$12,772**	**$13,181**	**$13,638**	**$13,682**
Non-Governmental Grants (Other Cat.)	**$1,472**	**$1,379**	**$1,383**	**$1,394**	**$1,391**
Unrest. / Anticipated State & Federal Aid	**$0**	**$0**	**$0**	**$0**	**$0**
Miscellaneous Revenue					
Charges for Services	$933	$926	$926	$926	$926
Water and Sewer Charges	1,541	1,563	1,533	1,534	1,549
Licenses, Permits, Franchises	612	603	577	574	574
Rental Income	271	271	271	271	271
Fines and Forfeitures	819	788	787	787	787
Other Miscellaneous	1,578	938	763	782	995
Interest Income	17	45	134	163	163
Intra City	1,967	1,804	1,814	1,825	1,825
Total Miscellaneous	**$7,738**	**$6,938**	**$6,805**	**$6,862**	**$7,090**
Net Disallowances & Transfers	($1,982)	($1,819)	($1,829)	($1,840)	($1,840)
Total Revenue	**$78,548**	**$77,731**	**$79,639**	**$82,042**	**$84,230**
City Funds	**$56,184**	**$56,962**	**$58,642**	**$60,621**	**$62,860**
Federal & State Revenue	**$20,892**	**$19,390**	**$19,614**	**$20,027**	**$19,979**
Federal & State as a Percent of Total	**26.6%**	**24.9%**	**24.6%**	**24.4%**	**23.7%**
City Funds as a Percent of Total Revenue	**71.5%**	**73.3%**	**73.6%**	**73.9%**	**74.6%**

Source *: OMB Fiscal 2016 Preliminary Budget*

Table 16. Fiscal Year 2016 Preliminary Budget: Revenue Changes from November Plan
Dollars in Millions

	FY15	FY16	FY17	FY18	FY19
Taxes					
Real Property	$202	$144	$222	$292	$362
Personal Income	411	322	218	223	260
General Corporation	0	0	0	0	(43)
Banking Corporation	45	11	0	(35)	(67)
Unincorported Business	65	102	81	83	89
Sales	101	99	67	68	68
Real Propery Transfer	133	30	26	36	38
Mortgage Recording	17	(47)	(44)	(32)	(22)
Commercial Rent	15	20	22	23	26
Utility	(8)	(9)	(8)	(3)	0
Hotel	20	(6)	(8)	(21)	(38)
Cigarette	(3)	(3)	(3)	(3)	(3)
Audit	46	2	2	2	2
STAR	(1)	0	0	0	0
Tax Program	0	0	0	0	0
All Other	1	34	30	30	29
Total Taxes	**$1,044**	**$699**	**$605**	**$663**	**$701**
Federal Categorical Grants	$432	$186	$52	$11	$16
State Categorical Grants	$26	($69)	($142)	($205)	($260)
Non-Governmental Grants (Other Cat.)	$79	($32)	($30)	($16)	($15)
Unrest. / Anticipated State & Federal Aid**	$0	$0	$0	$0	$0
Miscellaneous Revenue					
Charges for Services	$13	($1)	$0	$0	$0
Water and Sewer Charges	(24)	(17)	(5)	(8)	(7)
Licenses, Permits, Franchises	29	12	9	9	9
Rental Income	1	1	1	1	1
Fines and Forfeitures	16	0	(1)	(1)	(1)
Other Miscellaneous	(5)	(7)	(8)	(8)	2
Interest Income	0	0	0	0	0
Intra City	43	(31)	(31)	(31)	(31)
Total Miscellaneous	**$73**	**($43)**	**($35)**	**($38)**	**($27)**
Net Disallowances & Transfers	($43)	$31	$31	$31	$31
Total Revenue	**$1,611**	**$772**	**$481**	**$446**	**$446**
City Funds	**$1,074**	**$687**	**$601**	**$656**	**$705**
Federal & State Revenue	**$458**	**$117**	**($90)**	**($194)**	**($244)**

***Source**: OMB Fiscal 2016 Preliminary Budget and Fiscal 2015 November Plan.*