



New York City Comptroller
John C. Liu

NEWS RELEASE

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Page(s): 4

COMPTROLLER LIU WARNS EUROPEAN CONDITION COULD HURT CITY’S ECONOMY

State of the City’s Economy Report Outlines Risks to Mayor’s Budget Plan

NEW YORK, NY – City Comptroller John C. Liu today warned that the City economy faces extreme downside risks from the European debt crisis and has reduced his economic and tax revenue forecasts for Fiscal Year 2012.

The forecasts, part of the annual “State of the City’s Economy and Finances” report, also anticipate continued weakness in the national economy. Given the troubling outlook overall, the Mayor’s Budget Plan may face larger than expected gaps.

“Our office continues to closely monitor and evaluate risks to the City’s finances in these unsteady times. Fiscal uncertainty will only increase given weaknesses in the national economy and overseas, which makes it more important than ever to be prepared for risks that we can identify ahead of time,” Comptroller Liu said. “Mounting concern over the Euro zone remains a wildcard and our City’s potential exposure to a European collapse is significant.”

The City’s ties to Europe run deep. European banks have more than \$1 trillion in assets in New York City offices, accounting for nearly two-thirds of all foreign bank assets in the City, according to Federal Reserve data. They also have extensive ties to other financial firms in the City, have thousands of employees here, and are active lenders in the City economy. Many of the City’s non-financial firms also have significant business relationships with European firms, and the City attracts millions of European business and leisure travelers each year.

In light of these widespread commercial interactions, adverse effects on the City’s economy from Europe’s debt crisis appear alarming and lend greater urgency to addressing existing budget issues.

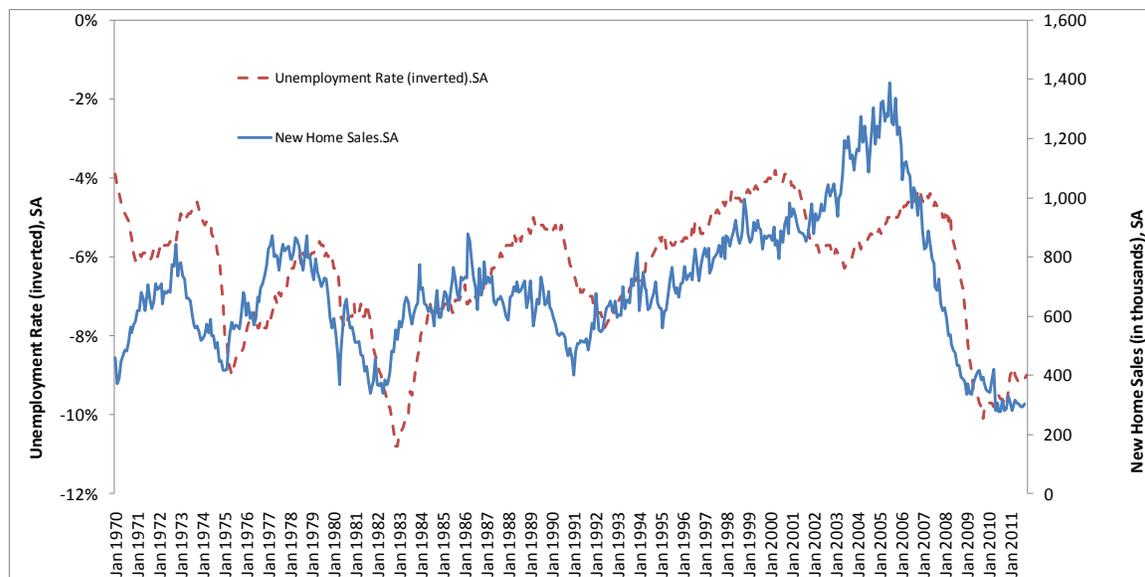
JOBS AND HOUSING

While the City economy outperformed the national economy in 2011 – growing at an annualized rate of 1.9 percent in the first three quarters, compared with the national rate of 1.2 percent – both saw growth slow from the previous year.

Job growth also faltered. By October, the number of private payroll jobs in the City was only 20,300 above the level of the previous October.

Until job opportunities become more plentiful, the Comptroller does not expect significant improvement in the housing sector as young people delay establishing their own households and buying homes. New construction will continue to languish, and the nation’s economy will struggle to return to full prosperity. The chart below tracks the link between jobs and housing.

**New Home Sales vs Unemployment Rates (Inverted), Seasonally Adjusted
January 1970 – October 2011**



-- SOURCE: Monthly Data from the U.S. Department of Labor and the U.S. Census Bureau.

RISKS TO THE CITY’S BUDGET

The Comptroller has been citing Europe’s sovereign debt problem as a risk to the City since his March 2010 report – and the problem has only intensified since then. It has escalated so severely that it must now be considered a material factor in the City’s economy. The Comptroller’s Office has lowered revenue forecasts on personal income taxes to \$8.63 billion from \$8.72 billion in July, and business taxes to \$5.48 billion from \$5.52 billion also in July.

As part of the report, the Comptroller outlined line-item risks to the Mayor’s November Budget Plan that would result in growing budget gaps:

Table 1. Risks and Offsets to the November 2011 Financial Plan

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015
City Stated Gap	\$0	(\$2,041)	(\$3,828)	(\$4,877)
Tax Revenues				
Property Tax	\$0	(\$39)	(\$17)	\$14
Personal Income Tax	\$15	\$12	\$338	\$249
Business Taxes	(\$241)	(\$244)	\$0	\$163
Sales Tax	\$0	(\$65)	\$20	\$98
Real-Estate-Related-Taxes	<u>\$53</u>	<u>\$167</u>	<u>\$133</u>	<u>\$127</u>
Subtotal	(\$173)	(\$169)	\$474	\$651
Expenditures				
UFT/CSA Collective Bargaining	(\$1,698)	(\$897)	(\$900)	(\$900)
Overtime	(\$42)	(\$100)	(\$100)	(\$100)
Dept. of Education	\$0	(\$50)	(\$50)	(\$50)
Proposed Pension Changes	\$213	\$258	\$137	\$415
Judgments and Claims	<u>\$0</u>	<u>\$35</u>	<u>\$65</u>	<u>\$100</u>
Subtotal	(\$1,527)	(\$754)	(\$848)	(\$535)
State Budget Impact	\$0	(\$200)	(\$200)	(\$200)
Total Risk/Offsets	(\$1,700)	(\$1,123)	(\$574)	(\$84)
Restated (Gap)/Surplus	(\$1,700)	(\$3,164)	(\$4,402)	(\$4,961)

As the chart shows, these risks place the potential City deficit at \$1.7 billion in Fiscal Year 2012.

Even as revenue forecasts have fallen, budget expenditures have risen since adoption. Overtime for the Police Department, Fire Department and Department of Corrections were underestimated – and the Comptroller’s Office believes they are still being underestimated in the Mayor’s Plan based on spending in previous years.

Another budget risk stems from the unsettled labor contracts for the United Federation of Teachers (UFT) and the Council of School Supervisors and Administrators (CSA). The Comptroller’s Office is concerned that the Mayor’s Plan relies on a collective bargaining strategy that has yet to materialize.

On the upside, record-low interest rates have allowed the City to refinance high interest rate bonds, saving taxpayers money. In Fiscal Year 2011, the Comptroller’s Office working with the City’s Office of Management and Budget executed refinancings that produced over \$341 million in total gross savings over the life of the bonds for the City’s major credits.

“My office will continue to identify opportunities to lower the City’s borrowing cost whenever possible,” Liu said.

Comptroller Liu credited Deputy Comptroller for Budget and Accountancy Simcha Felder and his team for presenting the report, which can be viewed at: www.comptroller.nyc.gov

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