New York City Independent Budget Office

Focus On:
The Executive Budget

May 2021

Double Shot:

An Infusion of Federal Funds Boosts City's Bottom Line, As Vaccines Bring Optimism for Economic Recovery

New York City appears poised to emerge from the economic calamity caused by the Covid-19 pandemic. After 14 months of reduced revenues and budgetary belt-tightening, the infusion of billions in direct federal stimulus aid has allowed the Mayor to reverse last year's pattern of lower spending. The stimulus funding added in the 2022 Executive Budget and Financial Plan for 2023 to 2025 has helped the city pay for its response to the pandemic, and enabled it to reverse some of its prior budget cuts, and even expand its provision of services, as well as replenish a portion of the city's reserve funds drawn down during the pandemic.

This plan is the current administration's last opportunity to present an executive budget, and the last time their budgetary priorities and vision will shape an adopted budget. The upcoming budget negotiations will also be the last in which many current City Council members will exert their influence. However, it is not only the institutional factors that make this budget and financial plan so exceptional. The influx of stimulus funding makes this plan one of the most consequential city budgets produced in

Total Revenue and Expenditure Projections
Dollars in millions

	Actuals	Plan					Average
	2020	2021	2022	2023	2024	2025	Change 2020-2025
Total Revenue	**$95,035**	**$100,737**	**$100,160**	**$99,266**	**$101,211**	**$102,575**	**1.5%**
Total Taxes	62,924	62,388	63,531	66,609	68,849	70,660	2.3%
Total Expenditures	**$95,030**	**100,754**	**98,881**	**102,369**	**103,703**	**105,068**	**2.0%**
IBO Revenue Less Expenditures	n/a	($17)	$1,279	($3,103)	($2,492)	($2,493)	
Unallocated Planned Labor Savings	*n/a*	*0*	*0*	*(1,000)*	*(1,000)*	*(1,000)*	
IBO Prepayment Adjustment 2021/2022	n/a	-	-	-	-	-	
IBO Surplus/(Gap) Projections		**($17)**	**$1,279**	**($4,103)**	**($3,491)**	**($3,593)**	
Adjustments for Prepayments And Non-Recurring Expenses							
Net Prepayments	($402)	($191)	($3,819)	-	-	-	
Reserve Funds	-	50	300	1,250	1,250	1,250	
Retiree Health Benefits Trust	(1,000)	-	-	-	-	-	
Other Adjustments	-	(421)	(254)	(235)	(119)	0	
Total Expenditures (net of adjustments)	**$96,432**	**$101,316**	**$102,654**	**$101,354**	**$102,572**	**$103,817**	**1.5%**
City-Funded Expenditures (net of adjustments)	**$69,767**	**$68,271**	**$71,175**	**$73,892**	**$75,394**	**$77,203**	**2.0%**

NOTES: Figures may not add due to rounding. Net prepayments include payments of debt service. Negative adjustments for prepayments add to the total expenditures, positive adjustments reduce total expenditures.

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years. The priorities set forth and decisions made regarding the current financial plan, specifically with respect to how these stimulus funds are spent, are decisions whose effects will reverberate well into the next administration. This is particularly true because IBO estimates that about a third ($4.2 billion) of the federal stimulus funding added in the Executive Budget is proposed for baselined initiatives that will continue past current plan years, and the expiration of the stimulus funding.

The Covid-19 pandemic and the resulting lockdown brought about extraordinary economic distress for New York City and its residents. That distress is now easing thanks to actions by the federal government and the successful development and distribution of Covid-19 vaccines, generating optimism that the restrictions on public activities can soon be safely relaxed to allow economic activity to return to more normal levels. Although the U.S. economy has bounced back strongly, IBO expects New York City's recovery to be more protracted. The city lost about 615,300 jobs—over 13 percent of local employment—from the fourth quarter of 2019 to the fourth quarter of 2020. We project that it will take until the fourth quarter of 2022 for the city to regain three-quarters of the jobs lost as a result of the pandemic and until 2024 to exceed its pre-pandemic employment peak.

IBO expects current year tax revenues will total $62.4 billion, approximately $500 million (0.9 percent) less than collections in 2020 (all years refer to fiscal years unless otherwise noted), but nearly $3 billion (4.8 percent) greater than we estimated one year ago. Although IBO's outlook for 2021 tax collections has improved, our current forecast for 2021 through 2024 is $17 billion less than we projected in January 2020, our last forecast of tax revenue before the onset of the pandemic. The loss of such a large amount of revenue—over 6 percent of estimated tax revenue through 2024—could greatly hinder the ability of the city to maintain its current level of services.

If not for the addition of billions of dollars of federal stimulus funding through the American Rescue Plan Act of 2021 (ARPA) and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) the city would have to make deeper and even more extensive reductions in expenditures than had already been planned. The stimulus funds, including $5.9 billion of ARPA funding provided directly to the city for general purposes and $7.0 billion of ARPA and CRRSA funds allocated to the Department of Education, along with FEMA moving to full reimbursement of city Covid-related expenses, have filled a large portion of the revenue shortfall brought on by the pandemic.

Adjusting for the prepayments of current-year expenses with prior-year resources and other non-recurring expenses, IBO estimates that city spending in 2021 will total $101.3 billion (5.1 percent larger than the 2020 budget after similar adjustments), while the adjusted 2022 budget will be $102.7 billion (an increase of 1.4 percent from 2021). Based on IBO's re-estimates and adjustments, the total budget decreases to $101.4 billion in 2023, primarily because of a large decline in federal stimulus funding, and then increases in the remaining two years of the plan to reach $103.8 billion in 2025.

IBO estimates that city-funded spending, net of adjustments, will increase each year from 2021 through 2025. We estimate that city-funded spending in 2022 will be $71.2 billion, $2.9 billion (4.3 percent) greater than in the adjusted current-year budget. During 2021 through 2025, adjusted city-funds spending is expected to grow by $7.4 billion, an annual rate of 2.0 percent.

While the financial plan as presented by the Mayor is in balance for the current and upcoming fiscal year as required by the City Charter, IBO's estimates of revenues and expenditures indicate that in the current year the city will have a slight deficit of $17 million. This deficit is the net result of our estimates of an additional $127 million in revenue offset by an additional $144 million in city-funds expenditures.

For 2022, IBO projects that revenues will exceed expenditures by nearly $1.3 billion, primarily the product of our forecast of greater property, personal income, and general sales tax revenues. Adjusting for the $1 billion of unallocated labor savings in each year from 2023 through 2025 and for IBO's estimates of revenues and expenditures, IBO forecasts out-year gaps of $4.1 billion in 2023, $3.5 billion in 2024, and $3.6 billion in 2025.

U.S. and Local Economic Outlook

Following the sharp, 3.5 percent contraction in the U.S. economy in 2020, IBO expects growth to rebound strongly. (In this economics section, years refer to calendar years unless otherwise noted.) IBO forecasts very rapid growth of 6.1 percent in real gross domestic product (GDP) in 2021, followed by still-robust 4.0 percent growth in 2022. Following 6.4 percent growth in the first quarter of this year (initial estimate), we expect real GDP to exceed its pre-pandemic peak later this year. Aided by widespread vaccination, the relaxation of public health restrictions, and the boost to personal incomes from federal stimulus spending, pent-up demand for goods and services will

IBO versus Mayor's Office of Management and Budget Economic Forecasts

	2020	2021	2022	2023	2024	2025
National Economy						
Real GDP Growth						
IBO	-3.5	6.1	4.0	2.3	2.0	1.9
OMB	-3.5	5.7	4.1	2.5	2.5	2.4
Inflation Rate						
IBO	1.3	2.4	2.1	2.1	2.1	2.1
OMB	1.2	2.2	1.5	2.0	2.3	2.4
Personal Income Growth						
IBO	6.1	4.7	0.9	4.3	3.8	3.6
OMB	6.1	5.0	0.4	4.5	5.1	5.2
Unemployment Rate						
IBO	8.1	5.8	4.6	4.3	4.2	4.0
OMB	8.1	5.5	4.1	3.6	3.4	3.5
10-Year Treasury Note Rate						
IBO	0.9	0.9	1.7	2.0	2.1	2.3
OMB	0.9	1.8	2.3	2.4	2.6	2.9
Federal Funds Rate						
IBO	0.4	0.1	0.2	0.5	1.2	1.7
OMB	0.4	0.1	0.1	0.1	0.3	0.5
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	-615.3	264.0	199.4	103.3	74.7	62.7
IBO (annual average)	-520.4	75.2	256.8	127.7	84.1	65.9
OMB (annual average)	-516.7	151.3	292.5	147.5	64.3	72.2
Nonfarm Employment Growth						
IBO (Q4 to Q4)	-13.1	6.5	4.6	2.3	1.6	1.3
IBO (annual average)	-11.2	1.8	6.1	2.9	1.8	1.4
OMB (annual average)	-11.1	3.7	6.8	3.2	1.4	1.5
Inflation Rate (CPI-U-NY)						
IBO	1.7	2.1	2.8	2.8	2.6	2.6
OMB	1.7	2.0	1.7	2.1	2.3	2.4
Personal Income ($ billions)						
IBO	710.9	721.2	730.9	767.2	807.4	849.0
OMB	694.2	728.0	740.3	775.4	810.4	844.6
Personal Income Growth						
IBO	4.9	1.4	1.3	5.0	5.2	5.1
OMB	3.7	4.9	1.7	4.7	4.5	4.2
Manhattan Office Rents ($/sq.ft)						
IBO	79.5	77.6	79.2	79.9	81.5	83.2
OMB	80.2	69.3	69.7	72.4	74.4	76.2

SOURCE: Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal.

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fuel growth this year and next. Inability to contain the spread of Covid infections poses the biggest risk to IBO's forecast. With many countries struggling to vaccinate their populations and others recovering from recession more slowly than the U.S., global economic weakness poses another significant risk.

The pandemic has hit New York City's economy harder than the U.S. as a whole, and we expect the city's recovery to be considerably slower. From the fourth quarter of 2019 to the fourth quarter of 2020, the city lost 615,300 jobs, 13.1 percent of local employment. On the same Q4-to-Q4 basis, IBO projects that the city will regain 264,000 jobs in 2021 and 199,400 jobs in 2022, or about three-quarters of the jobs lost in 2020; we do not expect the city to exceed its pre-pandemic employment peak until 2024. One reason the city is taking longer than the U.S. to return to pre-pandemic levels of employment and output is that the city's economy relies more heavily on travel-related industries such as accommodations, food services, arts, and other entertainment—industries that were disproportionately impacted by the pandemic. It may take considerable time before tourists, especially international travelers, again see New York as an attractive and safe destination. Another major issue in the city's recovery is the extent to which the workforce will return to in-person employment once the pandemic is over, an issue that could affect not just real estate and tax revenues, but also the vitality of New York's business districts.

U.S. Economy. The enactment of additional fiscal stimulus in March, the progress in vaccinating large numbers of Americans, and the rapid expansion of the U.S. economy in the first quarter of this year have prompted IBO to increase its forecast of economic growth this year and next. With new data available, we expect even greater growth this year than we did a month ago in the economic forecast that we used to project tax revenue for this report. IBO now forecasts 6.1 percent real GDP growth in 2021—an even stronger recovery than we had anticipated from the Covid-induced 3.5 percent decline in real GDP in 2020. Growth is expected to remain strong in 2022, with a 4.0 percent gain in real GDP, and then moderate, with steady annual growth near 2.1 percent in 2023 through 2025.

Our current economic outlook is premised on the U.S. having effectively controlled the spread of Covid-19 virus by this summer. The possibility that more deadly, vaccine-resistant variants of the virus could emerge or that U.S. vaccination efforts could stall in the face of widespread resistance are major risks to our forecast. In addition, there are risks that federal fiscal stimulus will overheat the economy, leading to persistent inflation and higher interest rates that could derail growth, and that the fragile recoveries in many countries will slow the global economy and impede strong U.S. growth.

The onset of the pandemic and the public health shutdowns and restrictions imposed to limit the spread of coronavirus infections starting in March 2020 plunged the U.S. economy into recession. Real (inflation-adjusted) GDP fell at annualized rates of 5.0 percent in the first quarter and then a jaw-dropping 31.4 percent in the second quarter—the deepest quarterly downturn since modern GDP records began in 1947. The nation's unemployment rate, which in February 2020 stood at 3.5 percent—its lowest level in 50 years— jumped to 14.8 percent in April.

As deep as the economic downturn in the first half of 2020 was, it did not extend into the second half of the year. The slower spread of infections last summer prompted the easing of public health constraints. As restrictions were relaxed, many businesses were able to at least partly reopen. Business re-openings, combined with aggressive monetary and fiscal policies in Washington, provided the stimulus for the economy to rebound. The Federal Reserve announced its intention to keep its federal funds rate near zero and to provide whatever funding was necessary to keep credit markets liquid. By early summer, Congress had enacted four emergency relief bills to address the impact of the coronavirus, which taken together provided a total of $3 trillion of economic assistance for individuals, businesses, health care providers, states, and some local governments.

Relief spending bolstered household income and enabled many businesses to stay afloat and avoid layoffs, at least temporarily. Increases in personal income—due largely to increased transfer payments from government—fueled a sharp increase in consumer spending. Real GDP rebounded in the third quarter of 2020, rising at an annual rate of 33.4 percent. The unemployment rate, which peaked at 14.8 percent in April, fell to 7.9 percent by the end of the quarter. Growth slowed considerably in the fourth quarter, however, as a second, far more widespread wave of new Covid-19 infections developed, leading many states to re-impose the public health restrictions they had eased earlier in the year.

The outlook for the U.S. economy improved by the end of the year. Development of effective and safe vaccines came sooner than anticipated. Moreover, another round of fiscal stimulus— this one valued at $900 billion—was signed into law in late December. The legislation included provisions that increased household incomes, with most income tax filers quickly receiving checks of $600 per adult and dependent child. It also extended the duration and increased the amount of unemployment insurance benefits.

The foundation for a strong recovery was laid in the first quarter of 2021. The second wave of Covid-19 started to subside early in January, and after a somewhat chaotic start in some states, widespread vaccination got under way. In March, Congress passed the American Rescue Plan Act (ARPA), authorizing $1.9 trillion of spending in a wide variety of programs benefiting households, businesses, and state and local governments. ARPA provided another round of rebate checks to most tax filers, increasing the amount to $1,400 for adults and qualifying dependents; the grants begin to phase out for individuals with adjusted gross income of $75,000 (or $150,000 for couples filing jointly). ARPA also increases the earned income tax credit (EITC) and the child tax credit for tax year 2021, retroactively excludes the first $10,000 in unemployment benefits from 2020 income tax, and further extends enhanced unemployment benefits. Business-related provisions include subsidies for extended COBRA coverage, and extended payroll credits for employee retention and paid sick and family leave. ARPA also provides $350 billion of assistance to state and local governments.

Employment and output growth accelerated more rapidly in the first quarter than IBO—and many other forecasters—had expected. In spite of unseasonably cold weather in much of the country, the Bureau of Economic Analysis's initial estimate is that real GDP grew at an annual rate of 6.4 percent in the first quarter, up from 4.3 percent growth in the fourth quarter of 2020. Warmer weather, the easing of restrictions on business activities, pent-up demand for restaurants, live entertainment, recreation, and travel by high-income households (who have seen their savings rise during the pandemic) will continue to fuel fast rates of growth in the coming months. Assuming that the threat of the pandemic continues to recede, IBO expects real GDP growth to rebound to 6.1 percent in 2021, which will drive the unemployment rate down to 5.8 percent for the year.

For 2022, IBO forecasts somewhat slower real GDP growth of 4.0 percent and a further decline in the unemployment rate to 4.6 percent. Even with rapid economic growth this year and widespread vaccinations within the U.S., it will take longer for some industries—particularly travel-related industries—to approach or exceed pre-Covid-19 levels of employment and output. With many countries struggling to vaccinate their residents, global economic recovery will lag recovery in the U.S. and demand for U.S. exports will not rebound as quickly as domestic demand. IBO expects growth to gradually slow over the remainder of the forecast period, with real GDP growth averaging 2.1 percent from 2023 through 2025 and the unemployment rate falling to an average of 4.2 percent over the same period.

New York City Economy. After record job losses at the beginning of the Covid-19 crisis and subsequent months of strict public health restrictions limiting activity in many sectors, the city's economy has entered a period of recovery from the bottom of the sharpest and deepest local recession on record. Employment growth has resumed across most sectors, wages and personal income are strengthening, and real estate sales have begun to accelerate. In addition to the success of public health efforts to slow the spread of the virus and vaccinate as many New Yorkers as possible, the economic recovery has been aided by an influx of federal money, including

Projected Job Growth (Q4-to-Q4) By Sector
Gains and losses in thousands

	2019 Level	2020 Change	2021 Change	2022 Change	2023 Change	2024 Change	2025 Change	2025 Level
Total	**4,680.0**	**(615.3)**	**264.0**	**199.4**	**103.3**	**74.7**	**62.7**	**4,768.9**
Financial Activities	501.3	(34.3)	8.7	10.0	4.5	2.6	2.1	494.9
Professional and Business Services	790.9	(94.9)	61.6	36.8	18.4	9.7	8.9	831.4
Information	213.1	(18.9)	23.4	9.6	5.6	5.7	5.6	244.1
Education	270.7	(43.5)	5.5	6.3	8.0	5.7	2.5	255.1
Health and Social Services	820.3	(39.8)	36.9	31.8	24.5	20.0	17.4	911.0
Leisure and Hospitality	446.4	(216.5)	67.7	61.2	26.5	21.0	18.0	424.4
Wholesale and Retail Trade	483.0	(82.2)	22.2	22.7	8.1	2.7	1.2	457.6
Transportation and Utilities	150.7	(25.5)	8.8	8.3	3.2	1.9	1.8	149.2
Construction	158.6	(19.1)	16.0	7.8	3.6	1.7	1.6	170.2
Manufacturing	64.4	(12.2)	2.7	1.2	0.2	(0.6)	(0.9)	54.7
Other Private Sector	167.8	(5.2)	6.3	2.2	(0.3)	3.9	4.1	178.8
Government	612.8	(23.2)	4.2	1.5	1.0	0.4	0.4	597.0

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expanded unemployment benefits and multiple rounds of stimulus checks. While IBO projects that this recovery in the local economy will continue through 2021 and beyond, risks remain amid the unprecedented efforts to combat the pandemic, and sustained improvement in local economic conditions is far from certain.

Employment. Following the heavy losses in employment at the outset of the pandemic, IBO projects growth of 75,200 jobs in 2021, on an annual average basis. This is greater employment growth than projected in our last forecast in February, but is less than half of the 151,300 new jobs currently projected by OMB. IBO prefers measuring employment growth on a Q4-to-Q4 basis, however, because it measures the number of jobs at the beginning of the year compared with the number at the end, thereby avoiding potential distortions resulting from averaging across a year.[1] On a Q4-to-Q4 basis, we project that the city will add 264,000 jobs in 2021, or 42.9 percent of the jobs lost in 2020 (measured the same way).

IBO projects a gradual recovery, with pre-pandemic levels of employment reached by the third quarter of 2024. This is an improvement from our last forecast in February, when we projected that total employment would still be slightly below 2019 levels at the end of 2025. OMB is projecting a much faster recovery over the next two years, reaching pre-pandemic totals by the first quarter of 2023.

This slower growth is rooted in our outlook for key sectors of the local economy, including those heavily tied to tourism. In leisure and hospitality, IBO projects that (Q4-to-Q4) 67,700 jobs will be added in 2021, and 61,200 in 2022, regaining nearly 60 percent of the 216,000 jobs lost in this sector in 2020. We do not expect that pre-pandemic levels of employment in leisure and hospitality will be attained within the forecast period. Fewer restrictions on indoor gatherings will boost the business and profitability of bars and restaurants, and the reopening of major attractions such as Broadway will help revitalize tourism, at least among domestic travelers. Continued struggles with the virus around the world will keep international tourism depressed, however, and we expect business travel to be fundamentally changed after the pandemic with the widespread adoption of virtual meetings replacing in-person sessions. Retail trade is projected to fare better, regaining 18,700 jobs in 2021 and an additional 19,100 in 2022, nearly fully recovering the 39,500 jobs lost in 2020.

After the professional services sector lost 94,900 jobs in 2020, IBO projects gains of 61,600 jobs in 2021 and 36,800 in 2022, surpassing 2019 levels by the end of the latter year. The ability to return to offices, which increases demand for support staff, will aid this recovery.

Personal Income and Wages. In a recent report, IBO noted that despite the unprecedented job losses, personal income growth remained positive in 2020. The growth was attributable to a sharp rise in transfer payments, which rose from $106.6 billion to $155.9 billion, an increase of $49.3 billion (46.2 percent), while all other categories of income declined. The largest of these categories is employment-based earnings and wages, which accounted for 62.3 percent of personal income in 2020. After several years of sustained growth, earnings and wages fell by $13.3 billion (2.9 percent) from their 2019 levels, to $442.9 billion last year. Aggregate wages fell in most sectors as employment contracted, but the losses were partly offset by wage growth in certain sectors critical to operations during the pandemic, including health care and information. The heaviest losses were concentrated in lower-wage service sectors, especially leisure and hospitality. IBO projects that wages will recover this year, increasing by $12.8 billion (2.9 percent), followed by even stronger growth of $16.6 billion (3.6 percent) in 2022 and an average of 5.0 percent from 2023 through 2025.

Other categories of income are also expected to see recovery and growth in the immediate future, including proprietors' income, as more small businesses are able to reopen and operate at greater capacity under reduced public health restrictions. Transfers payments from the federal government to individual households are expected to remain high in 2021, in part due to the provisions of ARPA. IBO projects $150.4 billion in transfers to city residents this year, before a more substantial contraction of $18.6 billion (12.4 percent) in 2022, as transfers return to more typical levels.

In total, IBO projects personal income to grow by $10.3 billion (1.4 percent) in 2021, to reach $721.2 billion. We forecast slightly slower growth of $9.7 billion (1.3 percent) in 2022, before the sustained gains in employment and accelerating growth in wages pushes income growth upward as well, to an average of 5.1 percent for the remaining three years of the forecast period, reaching $849.0 billion in 2025.

Real Estate. New York City taxable real estate sales totaled $61.3 billion in 2020, the lowest level in nominal terms since 2010. As the city's economy recovers at a somewhat faster pace than IBO anticipated earlier this year, we have raised our forecast for growth in real estate sales. IBO now expects annual sales to total $77.5 billion in 2021, and $104.7 billion by 2025. For the period 2023 through 2025, IBO's current real estate sales forecast is $18.4 billion (6.5 percent) above our February forecast. In addition to reflecting a stronger economic recovery, sales will also be buoyed by continued low interest rates, although rates are expected to increase gradually beginning in 2021.

The value of residential sales fell 41.8 percent between the first and second quarters of 2020. By the first quarter of 2021, however, sales had recovered completely in all boroughs except Manhattan, where the value of sales dipped an additional 0.5 percent with respect to the same quarter one year earlier. IBO expects citywide residential sales to increase a total of just 10.4 percent from 2021 through 2025.

Commercial sales collapsed between the first and second quarters of 2020—a decline of 70.8 percent. While the value of transactions has recovered somewhat, they were still 13.8 percent lower during the first quarter of 2021 than during the same quarter one year earlier. IBO's commercial sales forecast of $53.6 billion in 2025, while more than double the level of $25.2 billion reached in 2020, is below the annual average of $57.2 billion the city experienced during the five years prior to the pandemic. There is still considerable uncertainty regarding the future of commercial real estate, particularly office and retail space. As work and shopping patterns continue to evolve, the commercial real estate market may experience weaker growth than IBO currently forecasts.

Wall Street. One area of the New York economy that did not suffer during 2020 was Wall Street. New York Stock Exchange member firms recorded $50.9 billion in profits for the year, 81.2 percent greater than the $28.1 billion recorded in 2019. Profits this high have only been surpassed once before, in 2009, in the immediate aftermath of steep losses suffered during the financial crisis, when a large amount of federal assistance aided key firms. The surge in profits has not been driven by particularly high revenues, but rather by a sharp reduction in interest expenses as the Federal Reserve has cut the federal funds rate to near zero in response to the pandemic. As the national economy continues to recover, IBO projects that interest rates will rise and that profits will return to lower and more typical levels: $25.5 billion in 2021, $19.1 billion in 2022, and an average of $20.8 billion annually from 2023 through 2025.

Risks. While many areas of the city economy are improving after the shock caused by the pandemic, and IBO projects that they will continue to improve for the rest of this year and beyond, the state of the local recovery remains fragile and susceptible to forces outside of the city's control. Many risks remain closely tied to the fate of the local and global battle against Covid-19. If local transmission rates and cases remain low, the vaccination effort is not blunted by vaccine-hesitancy, and variants of the virus do not create a new threat, the economic recovery could accelerate, especially with a rebound in tourism. If the virus mutates into a variant that is more contagious or resistant to currently available vaccines, it could lead to a new wave of infections, shaking consumer and business confidence and possibly renewing public health measures that would delay economic recovery.

Apart from China, most of the countries that are among the United States' largest trading partners are recovering more slowly from the pandemic than the U.S. Moreover, many poorer countries have had difficulty obtaining enough vaccine doses to inoculate a significant share of their populations. If disruptions in global trade and continued Covid-19 outbreaks elsewhere in the world reduce demand for U.S. exports or the ability of U.S. businesses to import needed inputs for production, economic growth could be slower than IBO projects.

There are also upside and downside risks attendant to the federal response to the crisis. In addition to transfer spending boosting personal income, large influxes of federal spending from ARPA and potentially from President Biden's proposed American Jobs Plan—a $2 trillion infrastructure and jobs package—could further stimulate the city's economy and hasten the recovery. This will be especially true in New York if money flows to infrastructure critical to the city's economic recovery and vitality, such as the MTA's capital program. However, the tax increases proposed to help fund the Jobs Plan, and the potential for inflationary pressure and rising interest rates, could counteract the stimulus provided by greater government spending.

Taxes and Other Revenues

The unprecedented flow of federal funds this year and next has boosted the city's total revenue budget to $100.7 billion in 2021, an increase of 6.0 percent over 2020. (For the balance of this report, years refer to city fiscal years unless otherwise noted.) With federal grants still accounting for an unusually large share of the total for 2022, the city's total revenue will shrink slightly to $100.2 billion and further in 2023. Slower growth resumes in 2024, with total revenues reaching $102.6 billion in 2025.

IBO Revenue Projections
Dollars in millions

	Actuals 2020	Plan 2021	2022	2023	2024	2025	Average Change 2020-2025
Tax Revenue							
Property	$29,650	$31,026	$29,842	$30,840	$31,221	$31,542	1.2%
Personal Income	13,551	13,449	14,246	15,166	15,682	16,276	3.7%
General Sales	7,372	6,582	7,842	8,584	9,298	9,620	5.5%
Corporate	4,509	4,187	4,229	4,358	4,527	4,675	0.7%
Unincorporated Business	1,939	1,930	1,975	2,083	2,168	2,258	3.1%
Real Property Transfer	1,135	1,011	1,182	1,347	1,466	1,543	6.3%
Mortgage Recording	975	838	941	972	1,057	1,162	3.6%
Commercial Rent	864	846	884	924	941	966	2.3%
Utility	356	357	374	376	383	395	2.1%
Hotel Occupancy	468	90	243	386	536	653	6.9%
Cigarette	26	20	19	18	17	16	(8.9%)
Other Taxes and Audits	2,080	2,051	1,754	1,554	1,554	1,554	(5.7%)
Total Taxes	**$62,924**	**$62,388**	**$63,531**	**$66,609**	**$68,849**	**$70,660**	**2.3%**
Other Revenue							
STaR Reimbursement	$165	$154	$152	$150	$148	$146	(2.5%)
Miscellaneous Revenue	7,398	7,257	6,904	6,918	6,909	6,922	(1.3%)
Unrestricted Intergovernmental Aid	11	1	-	-	-	-	n/a
Disallowances	(5)	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$7,569**	**$7,396**	**$7,041**	**$7,053**	**$7,042**	**$7,053**	**(1.4%)**
Less: Intra- City Revenue	**($2,129)**	**($2,091)**	**($1,891)**	**($1,858)**	**($1,858)**	**($1,853)**	
TOTAL CITY-FUNDED REVENUE	**$68,365**	**$67,693**	**$68,681**	**$71,805**	**$74,033**	**$75,860**	**2.1%**
State Categorical Grants	$15,334	$15,044	$15,949	$16,333	$16,652	$16,866	1.9%
Federal Categorical Grants	9,581	16,202	13,746	9,371	8,772	8,096	(3.3%)
Other Categorical Aid	1,105	1,140	1,059	1,031	1,029	1,028	(1.4%)
Interfund Revenue	650	658	725	725	725	725	2.2%
TOTAL REVENUE	**$95,035**	**$100,737**	**$100,160**	**$99,266**	**$101,211**	**$102,575**	**1.5%**

NOTES: Corporate taxes comprise three separate taxes: the business corporation tax for C corporations, the general corporation tax, and the banking corporation tax for S corporations. Figures may not add due to rounding.

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Thanks to the continued strength of the property tax this year, overall tax revenues—which account for the majority of total city revenues—have proved more resilient in the face of the pandemic than anticipated a year ago at its onset, falling by a modest 0.9 percent from 2020 to 2021. The situation reverses next year when the pandemic takes a toll on the property tax, but the city's other taxes rebound as the city's economic recovery gathers steam, and total tax revenue increases by 1.8 percent to reach $63.5 billion. With growth in virtually all taxes in 2023 through 2025, total tax revenue will reach $70.7 billion by the last year. IBO's tax forecast is higher than our prior estimate from February for each year from 2021 through 2025. The differences, which total $667 million (1.1 percent) in 2021, $164 million (0.3 percent) in 2022, and $1.0 billion (1.5 percent) in 2025, reflect the somewhat brighter economic outlook in our latest forecast.

OMB has also raised its total tax revenue forecast from earlier in the year, making larger changes than IBO's for the first three years of the forecast but smaller for the last two. With these changes IBO continues to project greater tax revenue than OMB each year from 2021 through 2025—the difference is a relatively small $110 million (0.18 percent) in 2021 but then ranges between $1.2 billion and $1.4 billion (roughly 2 percent) for the next four years.

Total revenues, including not only taxes, but also revenues from the city's fees, fines and other miscellaneous sources, state and federal grants and other categorical aid, and inter-fund revenues, are now forecast to total $100.7 billion for the current year, $4.4 billion more than in our February outlook. The increase in total revenue for 2021 is due primarily to a $4.0 billion increase in the estimate of federal grants that will be available under the recently enacted CRRSA and ARPA legislation. For 2022, the changes since our February forecast are even larger: $5.8 billion in total revenues, with the projection for federal funds rising by $6.1 billion since February. Changes for subsequent years are more modest as the one-time federal appropriations in the relief acts are used up by the city, and tax revenue growth resumes its typical role as the driver of total city revenue.

Real Property Tax. At this point in the fiscal year, changes in the forecast of property tax revenue for the current year are the result of differences in the outlook for collections, rather than a revised assessment roll or levy. IBO now projects that property tax revenue for 2021 will total $31.0 billion, an increase of $132 million since our February forecast, primarily due to an expected increase in overpayments and decrease in refunds.

IBO projects 2022 property tax revenue of $29.8 billion, a decrease of 3.8 percent from the current year—the first year-to-year decline in property tax revenue since 1998. The Department of Finance's tentative assessments for 2022 anticipate major declines in the market value of many commercial and residential rental buildings, particularly in Manhattan. IBO projects that property values will stabilize and slowly recover after 2022. Given the lags built into the property tax system, however, revenues will only grow at an average annual rate of 1.9 percent through 2025, when we expect them to reach $31.5 billion. By way of comparison, in the four years prior to the pandemic, property tax revenues had grown at an annual average rate of 6.4 percent.

IBO's latest property tax forecast exceeds OMB's by $72 million in 2021, $472 million in 2022, and $798 million in 2023. The difference between IBO's and OMB's revenue forecasts for 2022 and beyond is attributable to our forecast of a higher levy and smaller reserve compared to OMB. OMB's reserve forecast includes much larger allowances for refunds than IBO's includes.

Homeowner Rebate. The Mayor's Executive Budget included a proposal for a property tax rebate of up to $300 for the owners of Tax Class 1 properties (one-, two-, and three-family homes) that are their primary residence. As presented by the Mayor, the rebate would only be in effect for 2022. The administration has released very little information about who is eligible for the rebate. The budget documents indicate that the rebates will cost $90 million. Assuming most rebates will be for the full $300 (they would be smaller only if the property tax were less than $300), suggests that the city expects roughly 300,000 out of the nearly 700,000 Class 1 parcels to qualify.

Median Market Value and Property Taxes of the First 300,000 One-, Two, Three-Family Properties

Borough	Number of Properties	Median Market Value	Median Property Tax
Citywide	300,000	$581,000	$5,212
Manhattan	127	567,000	4,554
Bronx	48,591	588,000	5,365
Brooklyn	54,055	602,000	5,130
Queens	107,909	591,000	5,191
Staten Island	89,318	550,000	5,204

SOURCE: Department of Finance Fiscal Year 2022 Property Tax System data
NOTE: Properties are arrayed by market values.
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Because the eligibility criteria for the rebate are unknown, IBO analyzed the proposal by assuming that a goal of the initiative is to target the benefits to owner-occupants of properties with low market values, who tend to have relatively low household incomes. We identified the 300,000 lowest-valued Tax Class 1 properties based on their full market values, excluding all properties that are fully exempt from property taxes or are vacant land. (Some of the properties in our analysis are not primary residences, but we lacked the information needed to identify them.)

The maximum market value of these 300,000 properties is $728,000. Citywide, their median market value is $581,000; Brooklyn's median is highest while Manhattan's is lowest. (There are very few Class 1 Manhattan properties among the city's lowest-value properties.) Queens would have the highest number of homeowners benefiting from the rebate—about 108,000. The median citywide property tax for these lowest-valued properties is $5,212, which means that a $300 rebate would result in a 5.8 property tax cut.

Real Estate-Related Taxes.

Real Property Transfer Tax. The Real Property Transfer Tax (RPTT) is imposed on sales of residential and commercial property in New York City. RPTT revenue has fallen sharply in the wake of the coronavirus pandemic, with a decline of $412 million (26.6 percent) in 2020, and IBO forecasts an additional decline of $124 million (10.9 percent) for 2021. Sales of commercial properties—primarily office buildings, retail space, and rental apartments—have been especially hard-hit, a pattern typical of economic downturns. The value of residential sales has fared somewhat better than on the commercial side; after a smaller drop in the initial months of the pandemic, RPTT residential receipts were 9.2 percent higher in the third quarter of 2021 than in the same quarter a year ago. The impact of the decline in commercial sales on RPTT revenue is further magnified by the fact that commercial real estate is taxed at a higher transfer tax rate than similarly priced residential properties.

IBO expects a gradual recovery in RPTT revenue beginning in 2022, as commercial sales rebound from their very sharp drop of last spring and residential sales grow at a moderate pace. By 2025, revenues are projected to reach just over $1.5 billion. While the 2025 forecast represents growth of 52.6 percent in nominal terms compared with IBO's 2021 estimate of just over $1.0 billion, it would still leave nominal RPTT collections well short of the record levels of almost $1.8 billion reached in 2015 and 2016.

Compared with IBO's projections released earlier this calendar year, we have increased our forecasts of RPTT revenue for every year except 2022. The reduction of $71 million (5.7 percent) in the 2022 RPTT forecast reflects a downward adjustment in expected real estate sales growth, primarily on the commercial side.

Mortgage Recording Tax. The Mortgage Recording Tax (MRT) is imposed on the value of commercial and residential mortgages issued, including in some cases mortgage refinancings. The link between the value of properties sold and the amount of tax collected is less direct than in the case of RPTT because the share of the purchase price financed by borrowing varies between transactions, and because mortgage refinancings are not connected to a property sale.

Low interest rates, such as those of recent years, are often associated with greater mortgage activity and higher MRT. Low interest rates can also co-exist with weak housing demand and reduced levels of borrowing, however. The pandemic-induced decline in real estate activity during the latter part of 2020 and early part of 2021 led to a significant drop in MRT revenue—a decline of $122 million (11.1 percent) in 2020 with an additional drop of $137 million (14.0 percent) forecast for 2021. While mortgage rates currently remain low, IBO projects an increase to around 5.0 percent for a fixed-rate, 30-year mortgage by the end of 2025. Despite the higher mortgage rates, we expect improving economic conditions to lead to increased real estate sales and moderate growth in MRT revenue. After bottoming out at an estimated $838 million in 2021, revenues are projected to increase at an average annual rate of 8.5 percent, and reach almost $1.2 billion in 2025, similar to the levels of 2015 and 2016.

Our RPTT and MRT forecasts are higher than OMB's in each year from 2021 through 2025. Over the entire plan period, our RPTT forecast is $174 million (2.7 percent) higher, and our MRT forecast is $346 million (7.5 percent) higher.

Commercial Rent Tax. The Commercial Rent Tax (CRT) is a surcharge on the value of commercial rents paid in certain parts of Manhattan below 96th Street. CRT collections declined by $43 million (4.8 percent) in 2020 due to the recession brought on by the pandemic, as well as a reduction in the scope of the tax. IBO projects that revenues will fall an additional $18 million (2.1 percent) in 2021, to $846 million. We expect growth in CRT receipts to resume in 2022, with collections increasing by 4.5 percent, to $884 million. Growth is projected to continue through 2025, when receipts are forecast to reach $966 million.

IBO's latest CRT forecasts are practically identical to our February 2021 forecasts—a decline of $18 million, or 0.4 percent, over the entire 2021 through 2025 period. Our CRT forecasts are subject to greater than usual uncertainty, however, due to the possibility of major structural changes in Manhattan's markets for office and retail space.

IBO's CRT forecasts are slightly higher than those of OMB each year from 2021 through 2025. The greatest difference is in 2023, when IBO's forecast is $11 million (1.2 percent) above OMB's. In each of the remaining plan years, the difference between the two forecasts is less than 1 percent.

Personal Income Tax. IBO projects personal income tax (PIT) revenue of $13.4 billion for 2021, which is $102 million (0.8 percent) less than 2020 receipts. For the upcoming fiscal year, we forecast strong growth of 5.9 percent, yielding $14.2 billion in total PIT revenues. Revenue growth accelerates further in 2023, before slowing in 2024 and 2025 when PIT collections are forecast to reach $16.3 billion.

PIT revenue growth is cyclical. It generally decreases during recessions and increases during expansions. The onset of the pandemic last March and subsequent public health shutdown of much of the local economy quickly led to a decrease in withholding receipts (the largest component of PIT collections) in the last quarter of fiscal year 2020—a decline that has continued into the current year. Declines in withholding, however, have been far less steep than the plunge in employment the city experienced over the past year. This is because the job losses have been concentrated in low- and moderate-wage industries where remote work is often infeasible.

Despite the fact that withholding remains below its level in 2020, it is currently much stronger than IBO previously expected. Our latest forecast of withholding revenue in 2021 is 2.2 percent higher than we projected in February. Compared with 2020 withholding, we are now expecting a modest 1.8 percent decline for 2021. For the upcoming fiscal year, IBO forecasts a strong (6.3 percent) rebound in withholding revenues, led by employment growth that has accelerated this calendar year and that we expect to continue to grow strongly through next year.

We have also increased our forecast of estimated payments, which have been swelled by the bull market on Wall Street. Contrary to prior expectations of continued weakness in estimated payments, collections in the current calendar year have been strong and are expected to keep pace with anticipated economic growth over the next several quarters. For the current fiscal year, we project growth in estimated payments of 15.8 percent. Based on our expectation that economic growth will continue later this calendar year and into 2022, albeit at a slower pace, growth in capital gains and self-employment are forecast to continue, boosting estimated payments revenues by 6.0 percent for fiscal year 2022.

Given our expectation that economic growth will accelerate this calendar year and continue next year, IBO forecasts strong growth in PIT collections for the two upcoming fiscal years. For 2022, we project a 5.9 percent ($797 million) increase compared with collections in 2021, yielding $14.2 billion in revenue. Revenue growth will accelerate to 6.5 percent in 2023, when PIT revenue is expected to total $15.2 billion. PIT growth is projected to decelerate in the latter part of the forecast period to an annual average rate of 3.6 percent in 2024 and 2025, generating $16.3 billion in the final year of the financial plan period. As with our forecast for 2021, our revenue projections for 2022 through 2025 are higher than in our February forecast, reflecting an increase in our outlook for employment gains in the next two calendar years and the boost in personal income that will result from additional federal stimulus spending.

Our PIT forecast is 0.8 percent higher than OMB's in the current fiscal year, but the difference is larger, at 3.0 percent, in both 2022 and 2023 (an annual average of $429 million). The two forecasts are similar for withholding collections, which is the largest PIT component. The 3.0 percent difference in the total PIT revenue forecasts is primarily rooted in our projection of positive growth in estimated payments for those two years, where OMB projects two consecutive years of contraction. A similar pattern contributes to the differences in 2024 and 2025, when IBO's PIT forecast is 2.7 percent ($414 million) higher than OMB's, on an annual average basis.

Business Income Taxes. Despite initial concerns that the pandemic would have a sharp and immediate negative impact on the city's business income taxes—the three corporate taxes and the unincorporated business tax—these declines have not materialized as quickly or been as steep as IBO and others originally anticipated. In 2020, collections of the business income taxes (net of refunds) grew by $220 million (3.5 percent), to a record high of $6.4 billion. This was fueled by strong corporate collections in the first half of the fiscal year before the pandemic struck. IBO projects a reduction in collections for 2021, contracting by $331 million (5.1 percent) from the high of 2020. Collections are forecast to recover over the rest of forecast period, growing by $86 million (1.4 percent) in 2022, and by an average of $243 million (3.8 percent) in the final three years of the forecast period to reach $6.9 billion in 2025, well above 2020 levels.

Corporate Taxes. Since 2015, the city's corporate taxes, assessed on the profits of corporations operating within the city, are an amalgam of three separate taxes: the business corporation tax for C corporations, along with the general corporation tax and the banking corporation tax for S corporations. In this report, "corporate taxes" refers to the combined collections of the three underlying taxes. In 2020, the corporate taxes brought in $4.5 billion in net collections, an increase of $310 million (7.4 percent) over 2019 thanks to strong growth late in calendar year 2019.

Despite widespread expectations that corporate taxes would drop sharply in response to the pandemic, collections have remained relatively strong in 2021, although not at the record levels of 2020. IBO forecasts net collections of $4.2 billion for 2021, which is a decline of $322 million (7.1 percent) from 2020. This is substantially higher than our forecast from February, but it lags behind OMB's forecast of $4.4 billion, which assumes a very strong finish to the current fiscal year.

We project growth in corporate taxes to resume next year, although it will get off to a relatively slow start, increasing by $42 million (1.0 percent) in 2022, followed by more rapid growth of $129 million (3.1 percent) in 2023 and an average of $159 million (3.6 percent) in 2024 and 2025. Because IBO is projecting a larger drop this year and a slower recovery over the next two years—consistent with our expectation of a slower recovery in the local economy as a whole—our forecast remains below OMB's by $195 million (4.4 percent) in 2021, $149 million (3.4 percent) in 2022, and $250 million (5.4 percent) in 2023. After this, the pattern reverses, as IBO projects stronger growth than OMB in 2024 and 2025, and the difference between the two forecasts shrinks. By 2025, both IBO and OMB project collections of $4.7 billion, with only a $44 million (0.9 percent) difference between the two forecasts.

Unincorporated Business Tax. The unincorporated business tax (UBT) is assessed on profits from non-corporate businesses operating in the city, including proprietorships, partnerships, and limited liability companies. It is not unusual for the trajectory of UBT collections in any given period to differ from that of corporate tax collections. Unlike corporate tax revenues, which increased over the last two years, UBT collections declined in both 2019 and 2020, falling from $2.2 billion in 2018 to $1.9 billion in 2020. This decline came amid slowing growth in both employment and wages for key sectors, including professional and technical services.

Based on collection patterns so far in 2021, IBO projects that UBT revenues will remain essentially unchanged at $1.9 billion, declining by only $9 million. OMB projects a small increase of $23 million (1.2 percent) for 2021, with collections of $2.0 billion for the year. Taken together, these small differences result in IBO's forecast being lower than OMB's by $32 million (1.6 percent).

We project that UBT collections will recover in 2022 and beyond, with employment growth picking up in key sectors and small businesses seeing stronger profits as they are allowed to operate more freely with fewer public health restrictions. IBO forecasts UBT growth of $45 million (2.3 percent) in 2022, followed by $108 million (5.5 percent) in 2023, and an average of $88 million (4.1 percent) in 2024 and 2025. OMB projects a similar pattern of revenue growth and the divergence between the two forecasts generally shrinks over the forecast period. By 2025, both IBO and OMB project collections of $2.3 billion, and the difference is only $19 million (0.8 percent).

Sales Tax. Recent sales tax collections have fallen far short of IBO's expectations. Based on collections to date this year, we now forecast $6.6 billion in sales tax revenue for 2021. This is $790 million (10.7 percent) less than collections in 2020, marking a second consecutive year of decreasing revenue, following a $438 million (5.6 percent) decline from 2019 to 2020.

Among the city's tax sources, the impact of the pandemic on the sales tax has been greater than on any tax other than the hotel tax. The initial shutdown of all but essential commercial establishments, the deeply depressed state of the tourism industry, and the loss of spending by former commuters who are now working from homes outside the city have all taken their toll on the sales tax base. IBO's current forecast for sales tax collections in 2021 is $2.0 billion (23.5 percent) less than the sales tax forecast for 2021 that we made early in February 2020, shortly before the pandemic emerged in the U.S.

We expect that a combination of widespread vaccinations, easing restrictions on business activity, pent-up consumer demand, the return of some commuters, and more rapid economic growth will generate a strong sales tax rebound. IBO forecasts $7.8 billion in sales tax revenue in 2022, an increase of $1.3 billion (19.1 percent) from 2021 collections. For the remainder of the forecast period, we expect revenue growth to slow from the rapid pace of 2022 but remain strong, averaging 7.1 percent annually in 2023 through 2025 and generating $9.6 billion in sales tax receipts in 2025.

IBO's current year forecast is $98 million greater than OMB's. The difference between the forecasts grows to $419 million in 2022, reflecting IBO's expectation of faster economic growth in calendar year 2021. After 2022, the differences are smaller, with IBO's forecasts for 2023 through 2025 higher by an average of $223 million each year.

Hotel Occupancy Tax. IBO's forecast of hotel tax revenue plummeted this year, falling to $90 million, $378 million (80.8 percent) below 2020 collections, which were 25.2 percent lower than in 2019. The pandemic's damage to leisure and business travel to the city was swift, in part because New York City was the initial epicenter of Covid-19 hospitalizations and fatalities in the U.S. The drastic collapse of demand for hotel stays has forced a large share of hotels to close temporarily or go out of business entirely, and has slashed nightly room and occupancy rates of those hotels that have remained in operation.

Tourists have begun to return to the city, though so far, the return has been a trickle and the impact on tax revenues has been minimal. IBO's forecast assumes that the coronavirus will be largely controlled later this year and that pent-up demand for travel will generate a steady increase in the number of visitors—first domestic visitors and then international travelers. In turn, this will gradually increase hotel occupancy and hotel room rates, boosting tax revenue. IBO expects that it will take years before leisure tourism returns to pre-pandemic levels and we anticipate that business travel will remain lower than before the pandemic now that many businesses have had experience using low-cost technology to facilitate meetings.

IBO projects that hotel tax revenues will total $243 million in 2022, an increase of $154 million (170.8 percent) from our forecast for the current year, and $386 million for 2023, an increase of 58.8 percent from 2022. We expect tourism and the demand for hotel accommodations to remain strong after 2023, with hotel tax collections growing at an average annual rate of 30.0 percent over the following two years to reach $653 million in 2025, the first year in which collections will exceed revenue in 2019—before the onset of the pandemic.

IBO's forecast of hotel tax revenue is greater than OMB's by $15 million this year and by an average of $26 million a year in 2022 through 2025. The pattern of growth in the two forecasts are very similar, with an extraordinarily large jump in revenues in 2022—increases of 170.8 percent and 186.7 percent projected by IBO and OMB, respectively—followed by diminishing yet still very strong, double-digit rates of growth in the following years.

Spending

For 2022, IBO projects that revenues will exceed expenditures by nearly $1.3 billion, primarily the product of our forecast of greater property, personal income, and general sales tax revenues. For the out-years of the financial plan, the Mayor presents gaps of $3.9 billion, $3.7 billion and $3.9 billion for 2023, 2024 and 2025, respectively. IBO has restated these gaps, adding back the $1.0 billion of annual unallocated planned labor savings that the administration still includes in 2023 through 2025. The administration has accounted for the labor savings by reducing the city's planned healthcare expenditures in each of these years, but has not made programmatic changes that would facilitate these savings. Adjusting for the unallocated labor savings and for IBO's estimates of revenues and expenditures, IBO forecasts out-year gaps of $4.1 billion in 2023, $3.5 billion in 2024, and $3.6 billion in 2025.

Sources of Spending Growth. Much of the growth in total spending over the next four years will result from increases in two areas: fringe benefits for city employees and debt service. Debt service and most fringe benefits are not carried within the budgets of city agencies. IBO estimates that from 2021 through 2025 city spending on debt service will grow by an average of 10.2 percent annually (adjusted for prepayments of future year debt service costs with current year revenues), while fringe benefits will grow by an annual average of 4.3 percent. By way of comparison, after adjusting for nonrecurring expenses and prepayments, IBO expects citywide agency spending to decline between 2021 and 2025—primarily due to the influx of federal stimulus funds in the first years of the financial plan period. The lack of growth in agency spending is partially attributable to the absence of funding for wage increases in future contract settlements with the city's labor unions; if future settlements include wage increases, those funds would increase annual agency spending growth.

Fringe Benefits. IBO projects that citywide fringe benefit costs will total $11.3 billion in 2021, 10.9 percent of total adjusted spending. Adjusting for the $1.0 billion a year of unallocated labor savings taken from 2023 through 2025, fringe benefit costs increase in each year of the plan period, reaching $14.3 billion, or 13.4 percent of total city expenditures, by 2025—an annual average growth rate of 5.2 percent. The single largest factor driving growth in fringe costs is the provision of health care for current city employees and retirees. IBO estimates that the cost of the provision of health care will increase by an average of 7.4 percent per year from 2021 through 2025.

Debt Service. After adjusting for the prepayment of current year debt service costs with prior-year resources, IBO estimates that the city's debt service expenditures will total $6.3 billion in 2021 (6.2 percent of total spending) and that adjusted city debt service will reach $7.0 billion in 2022, a 10.3 percent increase. By the end of the financial plan period, debt service costs will total $9.4 billion (9.0 percent of total adjusted city expenditures), an increase averaging 6.1 percent a year from 2020 through 2025. In contrast, from 2014 through 2019, actual debt service costs increased an average of 3.2 percent annually. The projected increase in debt service costs is almost entirely a product of OMB's estimate of new long-term bond issuance. The city expects debt service on new long-term bonds issued during the plan period to add a total of approximately $2.7 billion to debt service costs by 2025, less any savings accrued from the retirement of older debt and refundings that may occur. OMB's debt service forecast

IBO Expenditure Projections
Dollars in millions

	Actuals 2020	Plan 2021	2022	2023	2024	2025	Average Change 2020 - 2025
Operational Expenditures							
Agency Expenditures	$70,000	$74,933	$72,364	$70,682	$70,667	$70,078	0.0%
Labor Reserve	-	764	1,308	952	1,138	1,515	n/a
Total Operational Expenditures	**$70,000**	**$75,698**	**$73,672**	**$71,634**	**$71,805**	**$71,593**	**0.5%**
Other Expenditures							
Fringe Benefits	$11,112	$11,276	$12,532	$11,961	$12,402	$13,337	3.7%
Debt Service	6,554	6,158	3,372	8,391	8,788	9,352	7.4%*
Pensions	9,784	9,503	10,263	10,468	10,660	10,597	1.6%
Judgments and Claims	709	582	887	758	775	791	2.2%
Subtotal Recurring Expenses	**$98,158**	**$103,217**	**$100,726**	**$103,212**	**$104,430**	**$105,670**	**1.5%**
General Reserve	-	$50	$300	$1,000	$1,000	$1,000	n/a
Capital Stabilization Reserve	-	-	-	250	250	250	n/a
Retiree Health Benefit Trust	(1,000)	-	-	-	-	-	n/a
Unallocated Labor Savings		-	-	(1,000)	(1,000)	(1,000)	n/a
Other Adjustments	-	(421)	(254)	(235)	(119)	0	n/a
Subtotal Non-Recurring Expenses	**($1,000)**	**($371)**	**$46**	**$15**	**$131**	**$250**	**n/a**
Less: Intra-City Expenditures	($2,129)	($2,091)	($1,891)	($1,858)	($1,858)	($1,853)	n/a
TOTAL EXPENDITURES	**$95,030**	**$100,754**	**$98,881**	**$101,369**	**$102,703**	**$104,068**	**1.8%**

NOTES: Other non-recurring adjustments include reserve funds, energy, lease, and non-labor inflation adjustments. *Debt service growth is unadjusted for prepayments of current year expenses with resources from the prior year. Adjusting for prepayments, annual average change in debt service costs is 6.1%. Fringe benefits include the cost of health benefits covered by the Retiree Health Benefit Trust. Adjusting for the $1.0 billion of unallocated labor savings in 2023-2025 annual change in fringe benefit costs is 5.2%. Figures may not add due to rounding.

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assumes the issuance of $9.2 billion of new debt in 2022, increasing to $11.4 billion of new debt in 2025, for a total of $42.9 billion of new long-term debt issued during the financial plan period. The city's Comptroller estimates that by 2025 New York City will have $23.4 billion more debt outstanding than at the end of 2020 (compared with the $12.9 billion increase in the prior five years).

Salaries. By the end of this fiscal year, IBO estimates that approximately 39 percent of all city employees will be working under expired labor agreements. By the end of 2022, nearly all labor agreements covering city employees will have expired. This is in addition to the 5 percent of the workforce that has not yet reached agreement with the city for the current, 2017-2021 round of collective bargaining.

The Mayor's financial plan includes funding for the estimated cost of contract settlements that remain outstanding for the current round of collective bargaining. These expenses are not specifically allocated to agency budgets, but rather are included in a centrally-managed labor reserve fund. The Executive Budget includes $764 million for the current year and $1.3 billion for 2022 in the labor reserve. More than one-third of the 2022 total is set aside to fund payments deferred from 2021 in an effort to balance the current year's budget. These deferrals include $375 million for lump sum payments to UFT members as part of the labor agreements made by the union and the de Blasio Administration at the beginning of his first term in office. The current plan does not include any funding for potential salary increases for the city's workforce in the first or second years of the next round of collective bargaining, only including a one percent increase for the third year.

Pension Spending. There has been much critical discussion about the cost and viability of municipal pension funds. Over the past decade, New York City's contributions to its five pension systems have risen by nearly 45 percent, growing by 4.2 percent annually, from $6.8 billion in 2010 to $9.8 billion in 2020. But the addition of a new pension tier and some changes in actuarial assumptions and methods has significantly slowed recent increases in city contributions. The current financial plan budgets $9.5 billion for city pension costs in 2021. IBO estimates that increases in pension expenses across the plan period will average 1.6 percent a year, with expenditures rising

Pricing Differences Between IBO and the de Blasio Administration
Items that Affect the Gap
Dollars in millions

	2021	2022	2023	2024	2025
Gaps as Estimated by the Mayor	**-**	**-**	**($3,905)**	**($3,700)**	**($3,936)**
Unallocated Planned Labor Savings	*-*	*-*	*(1,000)*	*(1,000)*	*(1,000)*
Reestimated Gap	**-**	**-**	**(4,905)**	**(4,700)**	**(4,936)**
Revenue				`	`
Taxes					
Property	$72	$472	$798	$750	$661
Personal Income	105	419	438	402	427
General Sales	98	419	245	306	119
Corporate	(195)	(149)	(250)	(154)	(44)
Unincorporated Business	(32)	(30)	(22)	(33)	(19)
Real Property Transfer	19	27	12	57	59
Mortgage Recording	22	47	53	86	138
Utility	-	-	-	-	-
Hotel Occupancy	15	28	36	16	23
Commercial Rent	5	4	11	4	7
Cigarette	-	-	-	-	-
Other Taxes and Audits	-	-	-	-	-
Total Taxes	**$110**	**$1,236**	**$1,322**	**$1,433**	**$1,371**
Tax Reduction Program Not Yet Enacted	-	90	-	-	-
Misc. Revenue	17	31	31	31	31
TOTAL REVENUE	**$127**	**$1,358**	**$1,353**	**$1,464**	**$1,402**
Expenditures					
Debt Service	$2	$88	$-	$-	$-
Fringe Benefits:					
Health Insurance-Education	7	(41)	(40)	110	201
Health Insurance-City University	0	(2)	(2)	5	8
Health Insurance-All Other Agencies	12	(72)	(73)	178	299
Public Assistance	(66)	(24)	(25)	(25)	(25)
Education	(4)	63	(205)	(314)	(314)
Fire	-	(25)	(25)	(25)	(25)
Police	(100)	(50)	(100)	(100)	(100)
Homeless Services	60	46	(8)	(8)	(8)
Correction	(50)	(39)	-	-	-
Board of Elections	-	-	(25)	(25)	(25)
Parks and Recreation	(6)	(12)	(19)	(19)	(19)
Small Business Services	-	(4)	(4)	(4)	(4)
Sanitation	-	(6)	(23)	(27)	(23)
Campaign Finance Board	-	-	(3)	(2)	(25)
TOTAL EXPENDITURES	**($144)**	**($79)**	**($551)**	**($255)**	**($59)**
TOTAL IBO PRICING DIFFERENCES	**($17)**	**$1,279**	**$802**	**$1,209**	**$1,343**
IBO Prepayment Adjustment 2021/2022	-	-	-	-	-
IBO SURPLUS / (GAP) PROJECTIONS	**($17)**	**$1,279**	**($4,103)**	**($3,491)**	**($3,593)**

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Corporate taxes comprise three separate taxes: the business corporation tax for C corporations, the general corporation tax, and the banking corporation tax for S corporations. Figures may not add due to rounding.

to $10.6 billion in 2025. Despite this relatively small percentage increase, in dollar terms the rising cost of the city's pension contributions remains one of the major drivers of increased city spending through 2025.

Spending Re-estimates. IBO projects that the Mayor's financial plan understates city-funded expenditures by $144 million in 2021, $79 million in 2022, and $551 million in 2023, $255 million for 2024, and $59 million in 2025. The agencies with the largest differences between IBO's estimates and the expenditure projections in the current financial plan are the Police Department, Human Resources Administration, and the Department of Education. Although IBO's estimates of expenditures funded with other-than-city dollars do not directly affect the city's budget gaps, shortfalls in state, federal or in other categorical aid can result in service reductions or the need for additional city spending. With record levels of federal funds flowing to the city, IBO projects that the financial plan overestimates state and federal funding by approximately $69 million in the current year. This trend reverses in 2022 through 2025, where we project that financial plan underestimates of state and federal aid range from $108 million in 2025 to $243 million in 2024. OMB typically underestimates federal and state funding in the out-years of the financial plan, particularly in the police and fire departments. IBO's estimates of state and federal funding within these agencies' budgets is based on actual levels of federal and state allocations in recent years.

Areas Where IBO Projects Less-than-Budgeted Spending:

Debt Service. After adjusting for prepayments, the Mayor's financial plan includes an $88 million reduction in planned debt service expenditures for the current year, over $49 million of which results from lowering the interest rate the city expects to pay on its outstanding variable rate debt from 1.35 percent to 0.5 percent. Unlike in previous years however, the city has not reduced its interest rate assumption for variable rate bonds in the next fiscal year, leaving the 2022 rate at 2.5 percent, which is still above most interest rate projections for the year. The reduction in the city's estimated expenses for variable rate debt in 2022, $14 million, is the result of OMB's modification of its estimate of outstanding debt in that year rather than the anticipated interest rate. OMB's interest rate assumptions for the city's variable rate debt in each of the out-years of the plan period remains at 4.25 percent.

Using historical data and forecasts from financial institutions to project interest rates on variable rate bonds, IBO estimates that the city's debt service costs will be $2 million less than forecast by OMB this year, the small size of the reduction a result of the already very low estimate ($24 million) of variable rate interest costs in the current year. For 2022, IBO estimates that the city will spend $88 million less than budgeted on variable rate bond interest.

Health Care Costs. The Mayor's financial plan includes $7.2 billion for the cost of the city's provision of health care for current and retired city employees in 2021, rising to $9.5 billion in 2025. Based on historical increases in health care costs and our projections of city headcount, IBO's estimates of the city's costs of providing health care differ somewhat from those projected by OMB.

For the current year, we assume expenditures that closely mirror the city's estimates. In 2022 and 2023, however, IBO projects that the city will spend $115 million more than is currently planned in each year. The shortfall we expect in the city's budget for health care is primarily the result of actions taken by the Department of Education in the Mayor's Executive Budget that greatly reduced planned spending on health care in the out-years of the plan period. By 2024, however, we expect actual health care costs to be lower than assumed in the financial plan by $293 million in 2024 and $508 million in 2025.

Homeless Services. IBO generally forecasts that the city's budget for the provision of services for the homeless underestimates the needed expenditures. Under the assumptions set forth in the financial plan, however, IBO projects that the Department of Homeless Services will actually require less funding in the current year and 2022, and only a little more in the out-years of the plan period. IBO's forecast is largely the product of two factors. The first, and largest, factor in our estimate is the continued decline in the shelter population of families with children, which has decreased by over 25 percent from its recent peak in October 2019. The population of adult families in the shelter system has experienced a similar downward trajectory, declining by over 27 percent since October 2019. Prior to 2019 the number of families in shelter had been increasing consistently, compelling the city to provide additional resources in the financial plan for the expected service needs. With the number of families currently in the shelter system at levels not seen since 2013, IBO estimates that the additional allocation of funding is no longer needed. We expect the cost of housing families with children will be $185 million less than budgeted in the current year and $379 million less next year; roughly one-third the cost of sheltering families with children is city-

IBO's Repricing of Department of Homeless Shelter Costs by Shelter Type
Dollars in thousands

	2021	2022	2023	2024	2025
Families					
City	($60,093)	($134,667)	($134,667)	($134,667)	($134,667)
State	(15,300)	(33,654)	(33,654)	(33,654)	(33,654)
Federal	(107,589)	(222,412)	(222,412)	(222,412)	(222,412)
Total	**($182,982)**	**($390,733)**	**($390,733)**	**($390,733)**	**($390,733)**
Single Adults					
City	$0	$88,170	$142,170	$142,170	$142,170
State	-	-	-	-	-
Federal	32,103	88,170	-	-	-
Total	**$32,103**	**$176,339**	**$142,170**	**$142,170**	**$142,170**
Total					
City	**($60,093)**	**($46,497)**	**$7,503**	**$7,503**	**$7,503**
State	**($15,300)**	**($33,654)**	**($33,654)**	**($33,654)**	**($33,654)**
Federal	**($75,486)**	**($134,242)**	**($222,412)**	**($222,412)**	**($222,412)**

NOTES: Families includes families with children and adult family homeless populations. Negative pricing differences decrease expenditures, positive pricing differences increase expenditures. This presentation differs from the pricing differences table on page 15.

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funded. We estimate that spending on shelter services for adult families are slightly over-budgeted for next year and beyond, by approximately $11 million annually ($8 million of which is city funds).

These cost assumptions are somewhat offset by our forecast that the population of homeless single adults will continue to increase above the rate estimated by the city. The economic turmoil brought about by the Covid-19 pandemic has intensified the upward trend in single adult homelessness. The most recent census counted over 18,000 homeless individuals in shelter, the highest recorded levels on record. Normally any increase in the single adult population would require an increase in city funds to cover the costs. However, during the pandemic the city has shifted much of this population into unused hotel space, in order to provide for necessary social distancing. The city is being reimbursed by FEMA for the entire cost of this emergency housing. As a result, we assume that in 2021 and 2022 the majority of our additional estimated costs for housing single adults will be absorbed by the federal government. However, once the national emergency has expired we estimate that these additional costs, $142 million annually, will be funded by the city.

Areas Where IBO Projects Greater-Than-Budgeted Spending:

Public Assistance Spending. IBO expects that city-funded spending on cash assistance for the poor will be greater than projected in the current financial plan. The city's cost estimates for public assistance are based on caseload projections that are a number of years old, while actual caseloads have fluctuated since the city's last projection, particularly during the pandemic. IBO bases its current forecast of the public assistance rolls on recent trends in caseloads. While IBO's estimate of the total cash assistance needs does not differ greatly from the totals presented in the financial plan, we do differ in our estimates of the caseload composition and, as a result, the blend of funding provided by source. Each of the city's cash assistance programs is funded differently, with some programs funded primarily with federal funds supplemented by city funds and others relying much more heavily on city sources. We project larger caseloads in those programs that require a bigger share of city funds and lower caseloads in the programs that rely more heavily on federal funding.

Breakdown of IBO's Repricing of Cash Assistance Funding By Source
Dollars in thousands

	2021	2022	2023	2024	2025
City	$65,545	$24,381	$24,594	$24,594	$24,594
State	54,323	30,326	30,413	30,413	30,413
Federal	(37,923)	(46,273)	(46,273)	(46,273)	(46,273)
TOTAL	**$81,945**	**$8,434**	**$8,734**	**$8,734**	**$8,734**

NOTE: Negative pricing differences decrease expenditures, positive pricing differences increase expenditures. This presentation differs from the pricing differences table on page 15.

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IBO estimates that the city has under budgeted the city-funded cost of public assistance by $66 million in the current year and by approximately $25 million in each of the succeeding years of the financial plan period. We also estimate that there will be a need for additional state funds, $54 million in 2021 and $30 million in the remainder of the plan years, for cash assistance spending. These additional funds are partially offset by our forecast of a reduction in federal funds, $38 million less in the current year and $46 million less in each of the remaining years of the financial plan.

Uniformed Overtime. We expect overtime costs for the uniformed employees at the police, fire and correction departments will be higher than estimated in the Mayor's current financial plan. Based on recent overtime usage in each of the departments, IBO anticipates that overtime costs for the Police Department will exceed the amount budgeted by $100 million in the current year, $50 million in 2022 and $100 million in each subsequent year of the financial plan. For the Fire Department, we estimate that overtime expenditures will exceed the current plan by $25 million in each year from 2022 through 2025. Overtime expenditures at the Department of Correction (DOC) for both uniformed and non-uniformed employees have already nearly surpassed the amount budgeted for this year. IBO estimates that at the current rate of overtime spending, DOC will require an additional $50 million in 2021 and $39 million in 2022 to cover increased overtime costs.

At budget adoption last June, the administration highlighted its plan to greatly reduce city expenditures on policing. The spending reduction focused primarily on a reduction in uniformed overtime expenses. While in recent years actual uniformed overtime spending at the NYPD has ranged from $600 million to $700 million, the budget for the current year includes only $240 million for this expense. In fact, the city has seen a sharp decline in NYPD uniformed overtime expenses in 2021, much of it attributable to the cancellation of nearly all major events such as parades and festivals that would have required an enhanced police presence. Despite the decrease in spending, based on actual expenditures to date IBO estimates that the department will require an additional $100 million for overtime expenses this year. In each of the remaining years of the plan period NYPD uniformed overtime is budgeted at around $350 million. With the resumption of larger public events becoming more likely in the coming months, IBO expects that much of the savings resulting from a pause on major events in the current year will not recur in future years. Our overtime estimate for 2022 assumes that at least half of the major events cancelled in 2021 will again require a large-scale police presence. For the out-years of the plan, IBO estimates that NYPD uniformed overtime costs will rise to roughly $450 million a year, somewhat lower than expenditures in recent years but greater than currently budgeted.

Department of Education. IBO estimates that the city will have to provide an additional $4 million to the Department of Education (DOE) in 2021, $205 million in 2023, and $314 million in both 2024 and 2025 for costs related to the city's funding of charter schools and for additional costs related to Medicaid funding. Conversely, we project that the department is over budgeted for these expenses by $63 million in 2022.

IBO's expectation that charter school enrollment will increase is the primary factor underlying our estimate of higher charter school spending. We expect enrollment to increase only slightly in 2022, followed by gradually accelerating growth over the remainder of the forecast period, while OMB's assumptions do no account for any increase in charter school enrollment. For 2024 and 2025,

IBO's Repricing of Department of Education Charter Tuition Expenses and Expected Medicaid Revenue
Dollars in thousands

	2021	2022	2023	2024	2025
Charter School Adjustment					
IBO Projected Charter Enrollment	*134,913*	*136,514*	*140,588*	*147,069*	*147,069*
OMB Budgeted Costs	$2,191,661	$2,382,514	$2,183,677	$2,183,677	$2,183,677
IBO Projected Costs	2,175,207	2,299,580	2,368,202	2,477,378	2,477,378
IBO Charter School Adjustment	**($16,454)**	**($82,934)**	**$184,525**	**$293,701**	**$293,701**
Medicaid Adjustment	$20,000	$20,000	$20,000	$20,000	$20,000
Total	**$3,546**	**($62,934)**	**$204,525**	**$313,701**	**$313,701**

NOTE: Negative pricing differences decrease expenditures, positive pricing differences increase expenditures. This presentation differs from the pricing differences table on page 15.

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we estimate that charter school enrollment will be 9 percent above current levels. Our higher estimates of enrollment are based upon the addition of grades at existing charter schools as well as the planned opening of new charters. Utilizing our charter school enrollment estimates, IBO projects an additional funding need of $185 million in 2023 and $294 million in 2024 and 2025 for charter schools. In the Executive Budget, the city allocated additional funding for charter schools in 2021 and 2022: $106 million of city and state funds in 2021 and $275 million of federal ARPA funds in 2022. These additions have increased charter school funding above what IBO's current estimates suggest would be required. As such, IBO anticipates that city funding of charter school expenses will be $16 million lower in 2021 and $83 million lower in 2022.

IBO's re-estimate of DOE spending also incorporates our expectation that an additional $20 million a year in city funds will be needed throughout the plan period for Medicaid transportation-related expenses. The DOE plans to submit reimbursement claims for these expenses, despite the fact that they have not yet been approved by the New York State Department of Health as Medicaid-eligible. Based on our assumption that these expenses will not be reimbursed, IBO estimates that the city will have to provide an additional $20 million each year.

Campaign Finance Board and Board of Elections. IBO projects that the Board of Elections will require an additional $25 million in each year from 2023 through 2025. The additional funds will bring the board's out-year budgets in line with recent annual expenditures.

We estimate that the Campaign Finance Board (CFB) will spend $3 million more than budgeted for 2023, $2 million more in 2024, and an additional $25 million in 2025 to provide matching funds for candidates running for city offices. CFB's current plan does not include adequate funding in 2023 and 2024 for elections, which will include races in all 51 council districts. The primaries for these elections will be held in June 2023, with the general election held in November 2023. The additional $25 million we estimate for 2025 is due to the citywide elections that are scheduled for November of that year.

Other Agencies. IBO projects that the Department of Sanitation (DSNY) will spend slightly more than planned in 2022 with increased needs in the out-years of the plan period. This is mostly due to costs related to the closure of the Fresh Kills Landfill, which are typically under-budgeted in the final years of the plan. Based on historical spending patterns, we estimate that DSNY will spend $6 million more than budgeted in 2022, $23 million more in both 2023 and 2025, and $27 million more in 2024.

Certain areas within the Department of Parks and Recreation's budget are typically underfunded or—in certain cases—not funded at all in the financial plan. Based on past expenditures, IBO estimates that the Parks Department will spend $6 million more than budgeted in 2021, $12 million more in 2022 and an additional $19 million in each year from 2023 through 2025. Our expenditure re-estimates are primarily within the areas of auto maintenance, funding for the Wildlife Conservation Society, and human resources.

IBO estimates that, based on recent actual spending levels, a variety of programs funded within the city's Department of Small Business Services will require an additional $4 million each year from 2022 through 2025.

Citywide Savings Program. Unlike in previous years, the current Executive Budget does not rely heavily on a program of identifying new agency savings. The administration assumes that the latest Citywide Savings Program (CSP) will yield a total of only $603 million of additional resources in 2021 and 2022, less than one-third the resources for the same years provided by the previous

Citywide Savings Program
Dollars in thousands

	2021	2022	2023	2024	2025
Accruals	($45,838)	$-	$-	$-	$-
Additional Revenue	(622)	-	-	-	-
Debt Service	(87,644)	(265,491)	(88,061)	(28,637)	(22,143)
Efficiency	(1,822)	(63,455)	(66,099)	(66,099)	(66,099)
Funding Swap	(17,150)	-	-	-	-
Reestimates	(110,467)	(10,110)	(58,296)	(74,858)	(77,850)
Total	**($263,543)**	**($339,056)**	**($212,456)**	**($169,593)**	**($166,091)**

SOURCE: Mayor's Office of Management and Budget

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financial plan's CSP. Nearly 59 percent of the savings in the current CSP for 2021 and 2022 results from adjustments made to the city's debt service expenses rather than actual changes in agency management. Of the remaining $250 million of resources identified in the first two years of the plan, $54 million is attributable to an assumed reduction in NYPD uniformed overtime expenses (a cut that IBO estimates is unlikely to be achieved) and $67 million results from the assumption of a reduction in energy expenses citywide.

Although the stated goal of the CSP process has been to reduce expenditures through more efficient uses of resources, IBO estimates that less than 11 percent ($65 million) of the resources identified in the most recent CSP for 2021 and 2022 are the result of increases in efficiency. The majority of these efficiency gains are attributable to the reduction in NYPD's uniformed overtime.

IBO estimates that over $166 million (28 percent) of new CSP-generated resources for 2021 and 2022 are the product of accrued savings for budgeted expenses that will not be needed in the current year and other re-estimates of spending. A small amount of the CSP (roughly $2 million) are savings that will be realized as a direct result of the Covid-19 pandemic, which brings the total of such savings across all three of this fiscal year's financial plans to $68 million. Most, if not all, of these savings would not have occurred in a typical year.

Impact of Federal Aid. The current financial plan includes an additional $15.8 billion of federal funds over the plan period, a 39.7 percent increase over the January financial plan. The large increase in federal funding is the result of the passage of the American Rescue Plan Act of March 2021 ($10.7 billion), as well as the recent adoption of the state budget, which allocated to the city the federal funds provided in the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) of December 2020 ($2.2 billion). The additional federal funds enabled the city to reinstate a number of spending cuts made since the pandemic's start (totaling $731 million), to expand funding for existing city services that support the city's recovery efforts (IBO has identified approximately $1.7 billion), and to eliminate the need to locate additional labor savings in the current and next year ($1.3 billion). The influx of federal funds also enabled the city to free up city funds that had been budgeted for other expenses, thereby allowing those funds to be reallocated to other areas, including replenishing the city's reserve funds ($1.8 billion).

IBO estimates that about 33 percent of the newly recognized ARPA and CRRSA funds, totaling about $4.2 billion, have been allocated to initiatives that are funded in each year of the plan period. If these programs are to continue past the current financial plan period, when the federal stimulus funds are no longer available, the city will need to locate alternative funding sources or cut spending in order to maintain budget balance.

ARPA Funding. The ARPA provided two tranches of funding directly to the city, one for general government expenses ($5.9 billion) and the other specifically allocated for education-related expenses ($4.8 billion). According to the ARPA legislation, these monies are available to fund the provision of government services that were reduced or curtailed as a result of the city's loss of revenue due to the Covid-19 public health emergency. The ARPA funds must be spent before December 31, 2024, which is the mid-point of fiscal year 2025.

The majority of the ARPA funds allocated to the city for general government expenses are budgeted for 2021 and 2022 ($1.9 billion and $3.0 billion respectively), with only limited amounts allocated to the out-years of the plan (ranging from $212 million to $439 million). In contrast, the ARPA education funds are more evenly spread across the plan period ($1.8 billion in 2022, $1.3 billion in 2023, $1.2 billion in 2024, and $530 million in 2025).

Because of the flexibility afforded to localities on the usage of the ARPA funds, there has been much discussion about how these funds could be most appropriately utilized. Many analysts have called upon the Mayor to take this opportunity to help bolster the city's finances in the out-years of the financial plan. With so much uncertainty relating to the future of the city's revenue streams, these commentators are concerned that using the federal funds for anything else would be profligacy. Others support using the additional funds to provide immediate assistance to those most affected by the pandemic, funding programs that also will help reinvigorate the economy and spur economic growth.

The Mayor's 2022 Executive Budget allocates about 21 percent of the ARPA stimulus funds to provide budget stabilization. The plan uses a total of $1.3 billion of ARPA funds in 2021 and 2022 to replace labor savings that are in the budget, but that the administration had been unable to achieve. At budget adoption last spring, the administration added $1 billion of unallocated labor savings to each year of the financial plan period, with the specific savings to be determined at a future date. While the administration was able to achieve $730 million of labor savings in the current year (primarily from delaying certain payments into the next year), none of these savings decreased the total need in the rest of the plan years. Without the addition of the federal ARPA funds, the administration would have had to identify additional labor cost reductions in 2021 and 2022, which may have included layoffs.

Additionally, the Mayor's Executive Budget utilizes hundreds of millions of ARPA resources to fund eligible expenses previously funded with city tax levy. This includes an additional $592 million of expenses in the Department of Sanitation (DSNY) and $280 million at the Department of Correction. These actions allowed the administration to reallocate these city funds to other areas of the budget.

Of the remaining $4.6 billion of direct ARPA funding for general government expenses, approximately $1.1 billion has been allocated to programs that are baselined through the financial plan period with the remainder used to provide funding for programs in only one or two years. If these baselined programs are to be fully-funded fully beyond the financial plan period, the city will need to locate resources to replace the federal stimulus-funding stream that will expire prior to the end of 2025. Baselined programmatic funding includes: $260 million budgeted for the cost of fully funding the indirect rate payments to non-profits that provide services for the city, $149 million for the partial restoration of a citywide hiring freeze, and $28 million for the restoration of DSNY's litter basket service. The bulk of this ARPA funding, $3.5 billion, is allocated for short-term programs aimed at assisting the city in its recovery efforts. Programs funded in this manner include: $329 million for housing rental voucher assistance; $250 million for a Citywide Cleanup Corps; $104 million for a small business grants program; and $77 million for the continuation of the Journey Home initiative aimed at ending long-term street homelessness.

Federal Stimulus Funding for Education. In addition to the $4.8 billion of ARPA money allocated directly for education expenses, the Executive Budget includes $2.2 billion of CRRSA funds for education, bringing the total federal education aid included in the current financial plan to $7.0 billion. IBO estimates that about 43 percent—approximately $3.0 billion—of the additional federal funds allocated for education are budgeted for permanent initiatives across the years of the financial plan. The single largest portion of these funds baselined in the plan (nearly $2.0 billion), is allocated for the expansion of the department's universal pre-kindergarten program to all three year-olds, a program that likely will continue long after the federal stimulus funds have expired. The remainder of the funds provide budgetary support for a variety of areas within DOE, including curriculum, programmatic, information technology, and operations. Additionally, $850 million is budgeted over the first three years of the plan period for an initiative providing academic support to students who, as a result of the past year of virtual schooling, have fallen behind in their academic attainment.

OMB has allocated the federal education stimulus funds in the current plan throughout the plan period, providing $146 million in the current year, $3.1 billion in 2022, $1.8 billion in 2023, $1.4 billion in 2024, and $530 million in 2025.

In Reserve. A final use of the ARPA money has been to replenish the city reserves that were drawn down as tax revenue fell in the wake of the pandemic. For many years it has been the city's practice to set aside funding for use in case of a fiscal emergency. Over the last year, these reserve funds have been critically important, enabling the administration to balance the budget and limit the need for steep cuts in spending in response to the sharp declines in tax collections. Early in the pandemic, as the city saw its revenues cratering, the de Blasio Administration accessed $1.0 billion of funds set aside in the Retiree Health Benefits Trust (RHBT) to assist in balancing the 2020 budget. The administration also planned to utilize an additional $1.6 billion of RHBT funds to balance the 2021 budget, but the recent influx of federal stimulus funds in the current financial plan allowed the Mayor to rescind the use of these funds. With the reinstatement of the $1.6 billion, the trust fund's balance stands at approximately $3.8 billion. Accessing the trust provides budgetary relief, but it also makes the city's challenge of funding its future health care obligations to retirees more difficult.

In order to help balance the 2022 budget, the city also utilized $1.15 billion of expense funds that were not allocated for a specific purpose—money that would normally have been set aside in the general reserve and the capital reserve at the start of the year. While drawing down any remaining unallocated funds typically occurs later in the fiscal year, the budget pressure this year led the city to draw down the money prior to the start of the fiscal year, leaving only the $100 million general reserve required under the City Charter. The Mayor's Executive Budget includes a restoration of $200 million of the general reserve funds utilized to balance the 2022 budget, bringing the total available reserve funds in the 2022 budget to $300 million. The Mayor's plan does not include any funding to restore the capital reserve in 2022.

The current financial plan includes $1.25 billion of unallocated reserves in each year for 2023, 2024, and 2025. If the $300 million of 2022 reserve funds go unused, as they have in the Mayor's pre-Covid budget plans, they would become part of this year's surplus and can help offset the shortfall projected for 2023. Similarly, if the much larger unallocated reserves included in the plan for 2023, 2024, and 2025 are not needed to address unexpected expenses or revenue shortfalls, they could be used to help balance subsequent years' budgets.

If IBO's economic forecast and our re-estimates of city revenues and expenditures prove generally correct, then the city's fiscal condition would remain stable, with current-year budget surpluses and future-year gaps of a size that the city has routinely managed in past years. We estimate that the city will end 2022 with a modest surplus of $1.3 billion before drawing down the remainder of the unallocated reserve in this year's budget. This surplus could be used to reduce the 2023 gap to $2.8 billion (3.9 percent of estimated city-funds revenues). Additionally, our forecasts of revenue and expenditures in the last two years of the financial plan, before using the unallocated reserves, assume budget gaps in 2024 of $3.5 billion (4.7 percent of estimated city-funds revenues) and $3.6 billion (4.7 percent of estimated city-funded spending) in 2025. These gaps would be substantially reduced to the extent that the unallocated budgeted reserves remained available. Of course, none of this stability in the plan would be achievable had it not been for the provision of billions of dollars of federal stimulus funding.

Pressure Points

There have been few periods in recent history in which New York City's financial stability has been fraught with as much uncertainty as it has in the last 14 months. The Covid-19 pandemic's effects on the city's economy are unparalleled in modern history. Economic models and assumptions that forecasters typically use to forecast revenues were not designed to handle the situation the city has faced over the last year or so. But today, with Covid-19 vaccinations readily available to all adults and restrictions on activities being eased, for the first time in a year many of the uncertainties and pressure points on the city's financial plan appear to be receding. The passage of ARPA in March and the adoption of the state budget in April provided billions of additional dollars to up the city's unsteady finances. Stronger-than-estimated tax collections in the current year have also provided the city with additional flexibility and stability. The 2022 Executive Budget and Financial Plan is a return to a level of normalcy in budgeting that has not been seen since prior to the pandemic.

But even as the city emerges from the uncertainty of the pandemic, there still exist a number of risks that have the potential to negatively affect the somewhat precarious balance of the financial plan and create even larger budget gaps than IBO has estimated. Primary among these uncertainties is the path of the pandemic. Additional fiscal uncertainty arises from the status of the city's municipal labor contracts, many of which have already begun to expire. This uncertainty is compounded by the fact that a new mayoral administration and an almost entirely new City Council both with a potentially new set of priorities, will take office in less than a year. The persistent financial instability of the Metropolitan Transportation Authority, which have been aggravated by the effects of Covid-19 on its ridership, as well as the large-scale capital needs required by the New York City Housing Authority (NYCHA), continue to pose risks to the city's finances, as each continues to require sizeable city financial contributions.

Impact of the Pandemic. The wide-scale implementation of the Covid-19 vaccination program has successfully provided vaccinations to millions of Americans. The continuing decline in new Covid-19 diagnoses and deaths both in New York and around the nation has brought about the loosening and elimination of many of the restrictions that have been in place over the past year. While many businesses have closed as a result of the pandemic, those that survived are beginning to see signs that economic activity is returning. But the pandemic's path has not been easy to predict. If the vaccine rollout stalls in the face of vaccine hesitancy and not enough people are vaccinated, it is possible that the virus or its variants will reappear and flourish. Such an occurrence could necessitate a reinstatement of many of the existing restrictions and a further retrenchment of economic activity.

Additionally, it is not clear what impact the pandemic has had on people's behavior. The widespread and successful utilization of remote work environments over the last year has forced many organizations to rethink the way they operate. The idea that employees need to all be housed in a large centralized office space may fade away as more organizations embrace work from home. Such a change could greatly affect the makeup of New York City's business districts by reducing the number of office workers who commute into the city on a daily basis, and reducing the demand for high-priced office space. Remote work may also spur more out-migration of city residents who no longer need to reside within easy commuting distance of their workplace.

There is also no way to predict how the pandemic has altered the tourism industry in the city. Prior to the pandemic, New York City was experiencing an extended renaissance in tourism. Each year record numbers of tourists and business travelers flocked to the city to experience what it had to offer. The pandemic nearly eliminated tourist-related economic activity over the past year. The extent to which tourists—particularly international tourists—will return to the city, and when that might occur, are particularly difficult to forecast. With so many New York City residents' employment and well-being directly tied to the tourism industry, even modest declines in tourism could have major impacts on the city's economy.

Labor Costs. IBO estimates that by the end of 2021, roughly 39 percent of all city employees will be working under expired labor agreements. Assuming no further settlements, by the end of 2022 nearly all labor agreements covering city employees will have expired. Moreover, 5 percent of the city's workforce have not settled contracts for the current, 2017-2021, contract period. While the financial plan includes funding for the estimated cost of settling these remaining outstanding labor contracts following the already-established civilian and uniformed patterns for the current round of collective bargaining, it includes little funding for the next round of contracts. In order to balance his 2020 and 2021 budgets, at the height of the pandemic, Mayor de Blasio removed $1.6 billion of funds that were allocated to cover the cost of wage increases in future labor settlements. Similar to when Mayor de Blasio came into office, the next mayor will probably have to negotiate new labor contracts with each of the city's labor unions.

IBO estimates that the cost of a 1.0 percent wage increase and associated fringe costs in each year of the next contract period would require an additional $2.4 billion to be added to the financial plan, $884 million of which would be needed in 2022 and 2023. Any settlement that exceeds increases of 1.0 percent would cost the city that much more. In past years, most annual salary increases have exceeded 1.0 percent, but given the current economic uncertainty, the city may take a hard line on negotiating larger increases. Conversely, many unions will likely push for bigger increases for their membership, particularly in light of the sacrifices many of their members made during the pandemic.

Metropolitan Transportation Authority. It is possible that no aspect of municipal services has been more affected by the Covid-19 pandemic than the city's public mass transit system. The pandemic devastated mass transit ridership, reducing fare collections to unsustainable levels, while toll collections at its bridges and tunnels is also down. In order to reduce costs the MTA reduced the frequency of service, even eliminating overnight service for the first time in the system's 115-year history. If not for multiple infusions of funds from federal stimulus programs ($3.9 billion in the CARES Act and $6.5 billion from ARPA), it is likely the MTA would have had to make further, more draconian cuts in its service, maintenance, and workforce.

While it appears the worst of the pandemic has passed and ridership levels creep back to pre-Covid levels, the authority's fiscal uncertainty endures. Even prior to the pandemic, the MTA's financial condition was precarious. In February 2020, the MTA's financial plan projected that its operating shortfall would grow to $1.9 billion in 2023. Moreover, the MTA's congestion pricing program, developed to provide funding for much-needed capital improvements to the system, was delayed by the pandemic. The delay has placed further strain on the transportation authority's finances and allowed its infrastructure to deteriorate further.

President Biden's proposed infrastructure program includes an additional $85 billion for transit systems nationwide that, if passed, would likely provide the MTA with billions of dollars for necessary capital improvements. But it is highly uncertain whether the plan will be passed in its current form. Even if an infrastructure program is enacted, the MTA's fiscal outlook is far from assured. Perhaps the most critical issue facing the MTA is how much of ridership and system-usage will return post-pandemic. The federal funds provided the authority with a temporary lifeline to support it through the critical period, but if ridership levels do not rebound the MTA will need to locate alternative sources of funding. In recent years, the city has been a primary source of additional funding for the authority. If the MTA's financial woes persist, New York City's ability to take on more of the burden will depend on the city's own fiscal outlook in the wake of the pandemic.

Housing Authority. In January 2019, in the wake of a court case documenting the New York City Housing Authority's (NYCHA) long-standing deficiencies in its provision of service, as well as its backlog in maintaining and upgrading its properties, NYCHA was compelled by the U.S. Department of Housing and Urban Development to accept direct federal oversight. A federal monitor was installed, tasked with ensuring that the housing authority develop and implement plans to address on-going repair and structural deficiencies in its housing stock, which have been estimated to cost roughly $40 billion.

While NYCHA's financial plan is balanced in the current year, the authority faces deficits averaging $300 million in each of the remaining years of its plan period, deficits that are due in part to the planned reorganization resulting from the federal oversight of the authority. Much of the underlying financial issues NYCHA faces stem from the federal government's historic underfunding of public housing. In order to minimize the impact of volatile federal funding, NYCHA has developed two programs that it expects will enable the authority to properly fund its capital needs and fundamentally change the nature of public housing in New York City. Both programs, Permanent Affordability Commitment Together (PACT) and the Blueprint for Change, involve the formation of new entities, either public-private partnerships or a housing preservation trust, that will enable NYCHA to access additional funding streams in order to provide for the upkeep of the public housing stock. However, each program faces considerable opposition from both tenants and elected officials and—in the case of the Blueprint for Change—would require state legislation and additional federal appropriations to bring to fruition. Each of these obstacles decreases the likelihood that these programs will be successful in improving NYCHA's financial outlook.

The city included little additional funding for NYCHA in the current financial plan. Only a small amount of the city's allocation of federal stimulus funding from ARPA has been allocated to NYCHA. It appears that the city is depending on the passage of President Biden's proposed national infrastructure plan to provide NYCHA with much-needed funding. The President's current infrastructure proposal includes $40 billion for improvements to the nation's public housing stock. Moreover, passage of an infrastructure plan, let alone the President's proposal, is far from certain. Uncertainty over the passage of a federal infrastructure package, combined with the uncertain future of the authority's plans to reduce costs, could strain the city's own finances. If NYCHA does not obtain the resources it needs, the city will encounter additional pressure to increase its capital contribution to the agency in order to prevent further deterioration of the city's public housing stock.

Take-Aways

Following a long 14 months, the current Executive Budget presents an extraordinary opportunity for the administration to set priorities and policy for the city's recovery. The plan's record amount of spending for the current and next year, made possible by the influx of federal stimulus, may enable the city to flourish, recharging and reinvigorating the city's economy.

While the current financial plan does provide additional funding to stabilize the city's budgetary future, the introduction of many new baselined expenditures could end up being a detriment to the city's finances. In order to sustain these programs past the expiration of the federal stimulus programs, the next mayor will have to locate billions of dollars, placing further pressure on the financial plan.

Based on IBO's estimates, the Mayor's Executive Budget is essentially in balance in the current year and next. While the financial plan for 2023 through 2025 include budget deficits, the gaps IBO forecasts are reasonable given the size of the plan and the level of budgeted reserves. As with most financial plans though, our current forecast is built on a foundation that could easily crumble. While some of the biggest issues of the past year have begun to be resolved, a few still exist that could wreak havoc on our budgetary assumptions.

The successful eradication of Covid-19 and a return to pre-pandemic levels of economic activity in the city is far from certain. The impending changes of the city's executive and legislative branches of government could alter the course that the current administration has set. While the election of Democratic majorities in both houses of Congress and the ascension of one of New York's senators to the position of Senate Majority Leader has allowed for some optimism regarding the provision of additional federal funding to the city, those political fortunes could be short-lived, essentially eliminating the city's opportunity to secure additional funds.

The city has endured one of the most tumultuous years in its modern history. The actions taken by the current administration and City Council, as well as by their successors over the coming year may prove to be the most significant decisions made for the city in generations.

Endnote

[1]As an example of this, the annual average for 2020 factors in the deepest losses of the Covid-19 crisis, when over 888,000 jobs were lost in the second quarter alone. The average for 2021 captures a year of recovery that started extremely slowly in the first quarter, but is expected to accelerate later in the year. These short-term patterns affect the averages and can distort the comparison between two years.

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