March 2020

An Analysis of the Mayor's Preliminary Budget for 2021 and Financial Plan

Unlike most years, the 2021 Preliminary Budget and Financial Plan for 2022 through 2024 presented by the Mayor in January includes few if any new funding initiatives and relatively little change to the forecast of city tax revenue. The Mayor portrayed the plan as a prudent proposal in light of potential state actions that threaten to cost the city billions of dollars. As in prior financial plans, the de Blasio Administration anticipates that slower economic growth at both the national and local levels will lead to slower growth in tax revenue than the city has experienced in recent years.

Rather than new initiatives, most new funding in the budget would expand existing programs to cover shortfalls. The additional funding for special education Carter cases and transportation needs at the Department of Education (DOE) make up more than half of the entire new needs in the current year. Under the Mayor's plan, continued growth in expenditures is largely driven by three factors: debt service, salaries, and fringe benefits.

Using IBO's estimates of city revenues and expenses under the Mayor's budget program, we project that the budget for fiscal years 2020 and 2021 will total $95.8 billion and $96.2 billion, respectively, an increase of 0.3 percent between the two years. IBO expects both years to end with surpluses, which we assume will be used to prepay subsequent years' expenses.

These estimates, however, obscure the total size of the budget in each year by not accounting for the use of $4.2

Total Revenue and Expenditure Projections
Dollars in millions

	Actuals	Plan					Average
	2019	2020	2021	2022	2023	2024	Change 2019-2024
Total Revenue	**$92,436**	**$95,779**	**$96,444**	**$99,028**	**$101,655**	**$104,627**	**2.5%**
Total Taxes	61,312	64,399	66,091	68,356	70,574	73,500	3.7%
Total Expenditures	**$91,779**	**95,843**	**96,204**	**100,769**	**103,269**	**104,875**	**2.7%**
IBO Revenue Less Expenditures	**n/a**	**($65)**	**$240**	**($1,741)**	**($1,614)**	**($247)**	
IBO Surplus/(Gap) Projections		**$2,658**	**$240**	**($1,741)**	**($1,614)**	**($247)**	
Adjustments for Prepayments and Non-Recurring Expenses							
Net Prepayments	($355)	($1,498)	($2,658)	$0	$0	$0	
Reserve Funds	-	300	1,250	1,250	1,250	1,250	
Other Adjustments	-	(400)	31	130	257	393	
Total Expenditures (net of adjustments)	**$92,786**	**$97,441**	**$97,581**	**$99,389**	**$101,762**	**$103,232**	**2.2%**
City-Funded Expenditures (net of adjustments)	**$68,633**	**$71,809**	**$72,638**	**$74,126**	**$76,107**	**$77,529**	**2.5%**

NOTES: Figures may not add due to rounding.

New York City Independent Budget Office

IBO
New York City
Independent Budget Office
Ronnie Lowenstein, Director

110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632

Fax (212) 442-0350
iboenews@ibo.nyc.ny.us
www.ibo.nyc.ny.us

billion of 2019 resources to pay for 2020 expenses and the use of nearly $2.7 billion of 2020 resources to prepay some 2021 expenses. Adjusted for prepayments and non-recurring expenses, we project that the 2020 budget will total $97.4 billion (5.0 percent larger than the 2019 budget after similar adjustments) and the 2021 budget will reach $97.6 billion (an increase of 0.2 percent from 2020). For 2022 through 2024, IBO's re-estimates result in smaller budget gaps than those projected by the Mayor.

This report details IBO's latest economic forecast and projections of tax revenue and spending based on the Mayor's Preliminary Budget for 2021 and financial plan. Several weeks ago we published a set of charts and graphs highlighting key findings from our economic forecast and revenue and spending projections.

Economic Outlook

U.S. Economy. IBO's expectation for the U.S. economy is essentially unchanged since our December outlook. We forecast a continuation of the current economic expansion but with a slowdown in growth from 2019 to 2020, followed by somewhat faster though generally modest growth through 2024. (In this section, years refer to calendar years, unless otherwise noted.) The fiscal stimulus that boosted the economy in 2018 has faded, and growth in output and employment has slowed. Real gross domestic product (GDP) growth slowed to 2.3 percent in 2019, compared with 2.9 percent the year before.

IBO projects that the U.S. economy will continue to weaken over the course of this year, with growth bottoming out in the fourth quarter and gradually accelerating throughout 2021; we forecast GDP will increase 1.8 percent for 2020 as a whole, followed by an increase of 2.0 percent in 2021. For 2022 through 2024, annual GDP growth will average 2.4 percent, with the strongest gains expected in 2022. There are, however, considerable downside risks to our forecast.

The current expansion—now in its 11th year and the longest on record—has been sustained by consumer spending, which when adjusted for inflation, increased at an annual average rate of 3.0 percent over the last six years. Bolstering household spending are employment gains averaging 200,000 jobs a month for over six years and the gradual decline in the unemployment rate to its lowest levels in half a century, giving households both the means and confidence to spend.

Very low interest rates generated by an accommodative monetary policy have also encouraged consumption by reducing borrowing costs and making it easier for households to retire old debt; debt service burdens are at record lows. Finally, home prices rising every year since 2011 and the near-continuous rise in stock markets since 2009 have created positive wealth effects, increasing the willingness of households—particularly affluent households—to spend.

The combination of federal tax cuts enacted in December 2017 and $300 billion of spending increases that lawmakers agreed to in March 2018 created a powerful stimulus that boosted real GDP growth to 2.9 percent in 2018, up from 2.4 percent in 2017. But the impact of the fiscal stimulus diminished in 2019 and largely disappeared by the end of the year. At the same time, new rounds of tariffs were imposed by the U.S., prompting retaliatory actions by our trading partners. The trade war, combined with weakness among some of our largest trading partners—including China, the U.K., Germany, and Japan—took a toll on global trade and raised prices faced by U.S. consumers of imported goods. U.S. businesses, particularly manufacturers, have been cautious in their investment decisions given weak demand abroad and uncertainty surrounding the continuing trade wars. Real GDP growth slowed to 2.3 percent last year and the economy added fewer jobs than in 2018—2.1 million vs. 2.3 million.

Although these headwinds spell continued slowing of the U.S. economy through the end of next year, they do not necessarily signal a recession. IBO projects that a combination of favorable labor market and financial conditions will keep household spending strong enough to prolong the current expansion.

While employment growth has declined this year, it has remained sufficient to absorb new entrants into the labor force and keep the unemployment rate very low, supporting household incomes and giving consumers the confidence to spend. Moreover, stock prices have rebounded since their fall in late 2018 and continued to rise in 2019, setting new records and augmenting wealth effects that will help sustain consumer spending. Additionally, the late 2019 budget agreement between the Trump Administration and Congress, although smaller than the 2018 deal, will increase federal spending and provide fiscal stimulus to counter some of the economic headwinds in 2020.

There is considerably more downside risk to IBO's U.S. economic forecast than upside potential. Escalation of trade wars would further weaken the global economy and threaten the continuation of the current expansion.

Trade also faces a substantial threat if the 2019 Novel Coronavirus continues to spread. With the Center for Disease Control's recent warning of the likelihood of the virus spreading to the U.S., the potential for heightened economic effects is growing.

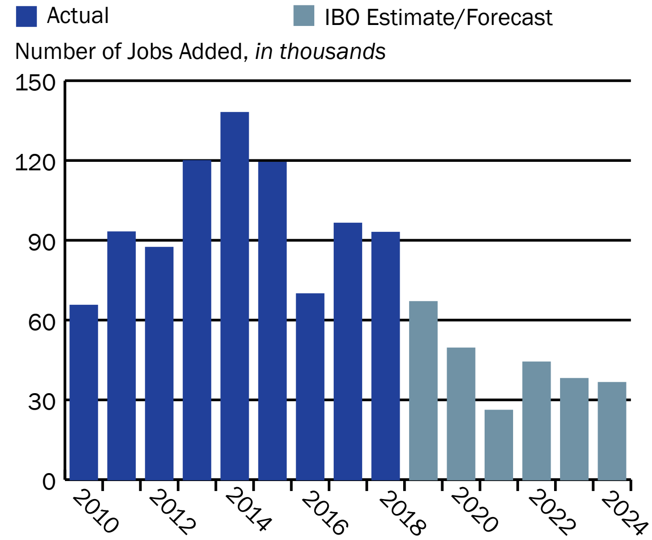
Sustained declines in employment growth also pose a threat, particularly if they result in an increase in the unemployment rate. Three or four months of employment growth of 100,000 or less could greatly shake consumer confidence, shrink spending, and derail the expansion. A sustained downturn on Wall Street or an unanticipated interest rate hike could have similar consequences.

IBO and the Mayor's Office of Management and Budget (OMB) both forecast slower growth for 2020, although the forecasts differ in the magnitude of the decline as well as its trajectory for subsequent years. IBO projects slower real GDP growth than does OMB for 2020 (1.8 percent vs. 2.1 percent). For 2021, IBO forecasts a modest rebound in real GDP growth, to 2.0 percent, followed by further strengthening to 2.8 percent in 2022. In contrast, OMB anticipates a prolonged slowdown, with growth in GDP gradually declining from 2.0 percent in 2021 to 1.5 percent in 2023.

New York City Economy. The city's economy has demonstrated strength for over a decade, with local employment, personal income, and property values all growing continuously in the years following the financial crisis of 2008-2009. These years have also been marked by greater diversification in the local economy with various sectors outside of finance driving growth in both employment and wages. However, the pace of growth in this record-setting expansion has slowed, and IBO forecasts that it will slow further in 2020 and into 2021, before picking up modestly in 2022 through 2024. The projected slowdown in the U.S. economy is one major factor in this outlook for the city economy, but there are also factors specific to New York that put the city at higher risk of a more prolonged slowdown during the forecast period, including a shrinking labor force.

Employment. IBO estimates that the city's payroll employment (the number of jobs reported by employers operating in the city filled either by residents or commuters) has grown by 66,900 jobs in 2019 (measured 4th quarter to 4th quarter). This is a marked decline from average annual growth of 98,000 jobs during the post-recessionary period (2010-2018). We project employment gains will slow further to 49,400 jobs in 2020 and then to just 26,000 in 2021. Our outlook for employment gains in 2022, 2023, and 2024 is slightly more robust at 44,200 jobs, 38,000 jobs, and 36,500 jobs, respectively. Compared with IBO's forecast in December, we now expect the slowdown to come slightly later, with the biggest downward adjustment in our outlook made to job growth in 2021.

Total Employment Growth (Q4-to-Q4)



SOURCES: Bureau of Labor Statistics data, with IBO seasonal adjustments; IBO economic forecast

New York City Independent Budget Office

Ambulatory Health Care. In recent years, much of the city's job growth has occurred in the health care sector, and in particular the ambulatory health care services industry, which includes home health care workers. (See here for more on employment trends in home health services.) We estimate that in 2019 this industry added 32,300 new jobs, which is nearly half of total city job growth for the year. While ambulatory care is expected to remain an important source of employment growth in the city, it is likely to lose some of its strength. New York State, looking to control Medicaid costs as it seeks to balance its own budget, is moving to increase regulation of the ambulatory care industry. Our current outlook assumes that this will constrain employment growth in this sector, which will slow to 21,800 in 2020 and then gradually decline to reach 14,500 in 2024—fewer than half the jobs added in 2019.

Employment shifts in other sectors have had less of an impact on the local economy.

Construction. Construction is expected to have shed 2,800 jobs in 2019, its first decline in employment since 2010. IBO projects that moderate growth will return to the sector, averaging 2,500 jobs per year over the next five

IBO versus Mayor's Office of Management and Budget Economic Forecasts						
	2019	2020	2021	2022	2023	2024
National Economy						
Real GDP Growth						
IBO	2.3	1.8	2.0	2.8	2.2	2.1
OMB	2.3	2.1	2.0	1.7	1.5	1.9
Inflation Rate						
IBO	1.8	2.3	2.4	2.4	2.3	2.4
OMB	1.8	1.8	1.8	2.4	2.5	2.4
Personal Income Growth						
IBO	4.5	4.0	4.1	4.4	4.1	4.0
OMB	4.5	3.7	4.3	4.4	4.3	4.6
Unemployment Rate						
IBO	3.7	3.5	4.0	4.3	4.4	4.4
OMB	3.7	3.5	3.5	3.8	4.3	4.5
10-Year Treasury Note Rate						
IBO	2.2	2.2	2.7	3.6	3.9	4.1
OMB	2.1	2.1	2.7	2.9	3.0	3.0
Federal Funds Rate						
IBO	2.2	1.6	1.7	2.4	2.9	3.0
OMB	2.2	1.7	2.1	2.4	2.6	2.6
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	66.9	49.4	26.0	44.2	38.0	36.5
IBO (annual average)	84.8	56.2	28.0	42.2	38.8	36.9
OMB (annual average)	84.0	56.5	41.6	40.4	35.7	30.2
Nonfarm Employment Growth						
IBO (Q4 to Q4)	1.5	1.1	0.6	0.9	0.8	0.8
IBO (annual average)	1.9	1.2	0.6	0.9	0.8	0.8
OMB (annual average)	1.8	1.2	0.9	0.9	0.7	0.6
Inflation Rate (CPI-U-NY)						
IBO	1.7	2.1	2.7	2.6	2.5	2.6
OMB	1.7	1.8	1.9	2.4	2.5	2.4
Personal Income ($ billions)						
IBO	669.7	692.0	716.3	750.0	780.9	811.5
OMB	665.6	688.9	713.5	737.8	764.8	793.6
Personal Income Growth						
IBO	4.7	3.3	3.5	4.7	4.1	3.9
OMB	3.2	3.5	3.6	3.4	3.7	3.8
Manhattan Office Rents ($/sq.ft)						
IBO	79.9	82.4	83.4	84.5	86.7	87.7
OMB	79.9	81.1	83.7	85.7	86.3	86.6

SOURCES: IBO; Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Note 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.

New York City Independent Budget Office

years—well below job growth in several years since the end of the last recession.

Wholesale and Retail Trade. When final data are available for 2019, we expect the wholesale and retail trade sectors to have added 1,200 and 5,200 jobs, respectively. Growth in these sectors follows three years of successive losses (2016 through 2018) for wholesale trade, and represents a second year of growth after three years of losses (2015 through 2017) for retail trade, as local retailers contend with high commercial rents and the continuing shift from sales at brick and mortar stores towards online shopping. IBO expects these sectors to once again contract modestly in 2020, shedding 700 and 1,500 jobs, respectively.

Accommodation and Food Services. After losing 4,400 jobs in 2018 and an additional 3,200 in 2019, accommodation and food services employment is projected to rebound slightly, adding 2,800 jobs in 2020 and smaller amounts thereafter; these expected gains, however, are far below the sector's annual average growth of 15,900 jobs that prevailed in 2010 through 2017.

Finance. The finance sector, which includes the still critically important securities industry, lost an estimated 2,900 jobs in 2019 after growing by an average of 3,700 jobs a year in 2017 and 2018. While IBO projects growth to return for 2020 and the rest of the forecast period, the average annual gains are small, at 1,200 jobs per year.

Professional, Scientific, and Technical Services. The professional services sector saw strong employment growth in 2019, with an expected gain of 14,000 jobs when all of the data are in. After growing impressively in the early years of the expansion, this sector had been slowing before 2019. IBO projects a return to slower growth, with the sector adding 4,000 jobs in 2020 and 1,400 jobs in 2021. We expect job gains to strengthen once again from 2022 through 2024, adding an average of 4,900 jobs annually.

Information. The information sector is expected to add 2,800 jobs in 2020, having averaged gains of 4,400 a year from 2010 through 2019. IBO expects the sector to continue adding jobs in 2021 through 2024, albeit at a slightly slower pace, averaging 2,300 jobs annually.

All of these last three sectors—finance, professional services, and information—have average wages that are much higher than the citywide average. Finance, which has the highest average wage in the city, has had less stable employment growth and accounts for a shrinking share of the city's total employment. The sustained growth in professional services and information has led to a more diversified base of employment and income for the city's residents, and we expect this trend to continue.

Labor Force. As with payroll employment above, growth of the city's household employment (measuring the number of working-age city residents who are employed) remained positive through 2018, leading the local unemployment rate to reach a low of 4.1 percent. However, we estimate a decline of 17,200 in household employment in 2019, with the unemployment rate ticking back up to 4.2 percent for the year. IBO expects two additional years of household employment declines before a modest recovery begins in 2022, with the local unemployment rate remaining at 4.2 percent in 2020 and then rising to between 4.4 percent and 4.6 percent in 2021 through 2024.

Data from the U.S. Census Bureau indicate that after adding over 450,000 residents from 2007 through 2016, the city's population declined by 38,900 in 2017, by 34,000 in 2018, and by 15,500 in 2019. IBO projects a further decline of 13,800 in 2020, which is a larger decline than we estimated in December. These declines are some of the city's largest since the 1970s, and are mirrored in the size of the labor force, which has been declining since 2018 and which we expect to continue shrinking through 2021.

Census Bureau figures suggest that this population decline is primarily attributable to an increase in out-migration of New Yorkers to other U.S. locales, instead of a pronounced decline in international in-migration. New York City's economy relies heavily on the large number of foreign migrants who arrive in the city each year. Changes in federal immigration policy that would reduce the flow of foreign migrants to the city pose an additional risk to population and labor force expansion in New York, which in turn is a threat to the city's economic growth.

Wages and Personal Income. Measured in nominal terms, personal income in New York City grew by an estimated 4.7 percent in 2019. Consistent with our expectations for slowing economic and employment growth, IBO expects somewhat slower personal income growth of 3.3 percent and 3.5 percent, in 2020 and 2021, respectively. This is followed by stronger gains from 2022 through 2024, at an annual average rate of 4.2 percent. Growth in real personal income, adjusted for inflation, follows a similar path, slowing to 1.5 percent per year in both 2020 and 2021, before rebounding to an average of 2.2 percent through 2024.

Average wages in the city, in nominal dollars, are estimated to have risen 4.4 percent in 2019, considerably stronger wage growth than had been anticipated in IBO's December forecast. IBO now expects wage growth to slow to 2.6 percent in 2020 and 1.6 percent in 2021 and then strengthen from 2022 through 2024, with annual increases averaging 2.6 percent—well below the 2019 increase of 4.4

percent. After adjusting for inflation, increases in average wages are considerably lower but follow the same basic pattern. We estimate real wage growth to have grown by 2.7 percent in 2019 and project it to slow to 0.9 percent in 2020. After this, we expect a modest decline of 0.4 percent in 2021, before real wages recover to an average of 0.5 percent growth in each year from 2022 through 2024.

Just as trends in employment differ across industries, different industries exhibit very different patterns of wage growth. Two sectors—professional, business, and technical services, joined by health and education services—are expected to continue dominating aggregate wage growth. IBO projects that these two sectors, taken together, will contribute 59.6 percent of aggregate wage growth from 2020 through 2024. In contrast, the securities sector, which accounted for 50.8 percent of total wage growth from 2003 through 2008, is projected to provide just 5.7 percent of total growth during the forecast period. Although diminished as a source of new jobs and wage growth, given the financial sector's outsized wages and profits, it remains a critical source of economic strength for the city.

Wall Street. New York Stock Exchange member firms posted strong profits in 2018 ($27.3 billion) and based on the first three quarters of the year, IBO estimates that the firms are on track for an even stronger year in 2019, with aggregate profits of $30.2 billion for the full year. Profits are expected to contract to $22.2 billion in 2020 and then $19.7 billion in 2021, before recovering somewhat in 2022 through 2024, when they are projected to average $23.9 billion.

Very low net interest expenses (interest expenses paid offset by interest income earned) have supported profits of brokers-dealers. Net interest expenses hit a low of $6.1 billion in 2015 and are estimated to have crept back up to $69.3 billion in 2019, but this is still far below the heights of the market before the financial crisis, when net interest expenses averaged $183.7 billion (2005-2007). The recent increases in net interest expenses have been more than offset by the concurrent rise in net operating revenues (revenue other than interest earnings minus non-interest expenses) from $20.4 billion in 2015 to an estimated $99.5 billion in 2019. While IBO expects both net interest expenses and net operating revenues to slowly decline for the next two years, the latter will decline faster, leading to our projection of a contraction in overall Wall Street profits.

Real Estate. Taxable real estate sales totaled $99.8 billion in 2019, a drop of 10.7 percent from 2018. The years 2017 and 2019 stand out as the only years since 2014 in which sales have failed to exceed $100 billion. Sales peaked at $126.3 billion in 2015 thanks to record-setting commercial sales of $77.9 billion, which included the $5.5 billion sale of the Stuyvesant Town-Peter Cooper Village rental apartment complex. (Sales of rental apartment buildings are classified as commercial for tax purposes.) In 2019, commercial sales dropped by 17.5 percent and residential sales by 2.6 percent, with the result that both were essentially identical at just under $50 billion each. Residential sales fell in every borough in 2019, with the exception of Manhattan, where they rose 3.0 percent. However, the Manhattan increase came after a decline of 15.0 percent in sales value in 2018.

IBO projects that aggregate real estate sales will again be just under $100 billion in 2020, with commercial sales comprising slightly over half of total value. Modest sales increases are expected for 2021 through 2024, with total sales reaching just under $107 billion by the end of this period. While commercial sales are forecast to remain at just over half the total, the market for rent-regulated apartment buildings is expected to be weak. The Housing Stability and Tenant Protection Act of 2019, passed by the New York State Legislature, eliminated high-rent and high-income vacancy decontrol, and made it much more difficult to recoup the cost of improvements to rent-stabilized apartment buildings. As a result, interest in purchasing these properties is expected to wane—although by no means collapse entirely—and prices will likely weaken.

As explained in more detail in the section on real estate-related taxes, recent rate increases in the real property transfer tax (RPTT) will ultimately provide more revenue for the state (or more precisely, the Metropolitan Transportation Authority), but will likely also depress sales prices as well as the total value of real estate sales.

Taxes and Other Revenue

IBO's forecast of revenue from taxes and other sources including fines, fees, and state and federal aid totals $95.8 billion for the current fiscal year, with roughly two-thirds of the total ($64.4 billion) coming from city taxes. Non-city sources such as state, federal, and other categorical grants account for 26.8 percent ($25.7 billion) of total revenue, and the balance comes from nontax city revenues (primarily fees, fines, and asset sales).

Our 2020 revenue forecast is $3.3 billion (3.6 percent) greater than the total in 2019. (All years in this section and the following sections refer to fiscal years unless otherwise noted.) Most of the additional revenue this year comes from the projected $3.1 billion (5.0 percent) increase in

IBO Revenue Projections
Dollars in millions

	Actuals 2019	Plan 2020	2021	2022	2023	2024	Average Change 2019-2024
Tax Revenue							
Property	$27,703	$29,799	31,262	32,627	33,979	35,803	5.3%
Personal Income	13,344	13,765	13,902	14,372	14,852	15,380	2.9%
General Sales	7,810	8,350	8,609	8,931	9,330	9,673	4.4%
Corporate	4,200	4,338	4,041	4,183	4,111	4,159	-0.2%
Unincorporated Business	2,029	1,956	2,071	2,155	2,198	2,283	2.4%
Real Property Transfer	1,547	1,381	1,436	1,485	1,479	1,504	-0.6%
Mortgage Recording	1,097	1,067	1,049	1,039	1,021	1,033	-1.2%
Utility	369	379	400	412	419	434	3.3%
Hotel Occupancy	625	643	647	660	681	703	2.4%
Commercial Rent	907	882	913	933	946	971	1.4%
Cigarette	29	29	28	27	26	25	-3.2%
Other Taxes and Audits	1,651	1,810	1,733	1,532	1,532	1,532	-1.5%
Total Taxes	**$61,312**	**$64,399**	**$66,091**	**$68,356**	**$70,574**	**$73,500**	**3.7%**
Other Revenue							
STaR Reimbursement	$181	$163	$167	$165	$163	$161	-2.3%
Miscellaneous Revenue	8,220	7,550	7,110	7,103	7,120	7,121	-2.8%
Unrestricted Intergovernmental Aid	151	111	-	-	-	-	n/a
Disallowances	113	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$8,664**	**$7,809**	**$7,262**	**$7,253**	**$7,268**	**$7,267**	**-3.5%**
Less: Intra-City Revenue	**($2,222)**	**($2,126)**	**($1,852)**	**($1,844)**	**($1,842)**	**($1,842)**	
TOTAL CITY-FUNDED REVENUE	**$67,754**	**$70,082**	**$71,501**	**$73,765**	**$76,000**	**$78,925**	**3.1%**
State Categorical Grants	$14,970	$15,636	$15,829	$16,289	$16,746	$16,830	2.4%
Federal Categorical Grants	7,719	8,280	7,470	7,339	7,276	7,241	-1.3%
Other Categorical Aid	1,340	1,061	968	959	958	955	-6.5%
Interfund Revenue	652	719	676	676	676	676	0.7%
TOTAL REVENUE	**$92,436**	**$95,779**	**$96,444**	**$99,028**	**$101,655**	**$104,627**	**2.5%**

NOTES: Remaining banking corporation tax revenue reported with corporate tax. Figures may not add due to rounding.
New York City Independent Budget Office

city tax collections, with large increases in the forecasts of real property tax, personal income tax (PIT), and sales tax collections, offset in part by projected declines in the real property transfer tax (RPTT), mortgage recording tax (MRT), and corporate taxes. The growth in tax revenue is partially offset by a projected decline of $855 million in nontax city revenue. Smaller contributions to total revenue growth come from a projected $666 million increase in state grants, mostly education-related aid, and a $561 million increase in federal grants.

Total revenue growth from 2020 to 2021 is projected to be modest—$665 million, or 0.7 percent. IBO expects tax revenue growth to be somewhat faster—2.6 percent ($1.7 billion)—but the city's nontax revenues for next year are projected to be $547 million lower than in 2020, due primarily to a lower forecast of miscellaneous revenue. Non-city revenues next year are also expected to be lower—2.9 percent, or $753 million—than in 2020 thanks largely to an anticipated drop in federal grants under OMB's assumption that much of the remaining Sandy aid is actually spent in 2020.

After 2021, IBO projects larger increases in total revenue, which is projected to grow at an average annual rate of 2.8 percent in 2022 through 2024 and reach $104.6 billion in the last year of the financial plan. City taxes are expected to outpace growth from other city revenue sources, as well as state and federal grants during these years. Taxes are forecast to increase at an average annual rate of 3.6 percent, while growth in non-city revenue sources is projected to average 1.0 percent a year.

Real Property Tax. IBO's forecast of real property tax revenue for this year is $29.8 billion, a gain of 7.6 percent from 2019. Based on the Department of Finance's tentative 2021 assessment roll released in January 2020, IBO forecasts $31.3 billion in property tax revenue next year, an increase of $1.5 billion, or 4.9 percent. If this forecast proves correct, it would be the smallest percentage increase in five years. This slower growth in property tax revenues is attributable to a relatively slow, 5.5 percent increase in the taxable assessed value of multifamily residences on the 2021 tentative roll. In the last five years, the value of multifamily residences has risen at an average annual rate of 9.0 percent and has been the largest driver of increases in property tax revenue. IBO forecasts revenue growth over the rest of the forecast period to average 4.6 percent a year, yielding $35.8 billion in 2024.

Background. The amount of tax owed on real property in New York City depends on the type of property, its value for tax purposes, and the applicable tax rate. Under New York State's property tax law, there are four classes of property in the city: Class 1 consists of one-, two-, and three-family homes; Class 2 comprises apartment buildings, including cooperatives and condominiums; Class 3 is exclusively real property owned by utility companies; and Class 4 consists of all other commercial and industrial properties.

The assessed value of a property for tax purposes (taxable assessed value) is established by the Department of Finance. The department first estimates each property's fair market value and then applies an assessment rate or percentage that reduces the amount of the property's value subject to the tax. For Class 1 property, no more than 6.0 percent of fair market value is taxable, while 45.0 percent of fair market value is taxable in Classes 2, 3, and 4. A property's resulting assessed value is then further reduced by any property tax exemptions in order to reach taxable assessed value. The amount of tax levied on a property is determined by multiplying the taxable assessed value by the applicable tax rate based on the property's tax class; the sum of this amount across all properties is the tax levy.

Tentative Assessment Roll for 2021. On the Department of Finance's tentative assessment roll for 2021, the aggregate market value, excluding fully tax-exempt properties, increased by 4.7 percent from 2020 to total $1.4 trillion. Class 2 and Class 4 saw the biggest increases at 6.1 percent and 4.5 percent, respectively, while Class 1 grew 4.3 percent. Similarly, Class 2 and Class 4 had the largest increases in total taxable assessed value—7.3 percent and 7.2 percent, respectively. Class 1 total assessed value increased by 5.4 percent.

After a period for appeals and review, a final roll for 2021 will be released in May 2020. Based on historical trends, IBO anticipates the final roll will show $270.4 billion in total taxable value. Class 4 properties would account for 47.8 percent of the total taxable value and Class 2 properties would account for 37.5 percent. We expect Class 1 properties, despite being nearly half of the city's total market value, will account for only 8.2 percent of total assessed value for tax purposes.

Revenue Outlook. IBO projects that property tax revenue will total $29.8 billion in the current fiscal year and $31.3 billion in 2021—an increase of 4.9 percent. Growth is expected to remain relatively constant over the remainder of the forecast period, averaging 4.6 percent annually from 2022 through 2024 to reach $35.8 billion.

IBO's property tax forecast for this year is just 0.4 percent greater than OMB's. However, the difference between the forecasts grows in 2021 and subsequent years. OMB forecasts $31.0 billion in 2021 revenue, $247.1 million less than IBO. OMB expects revenue growth to slow over the rest of the forecast period, with revenue reaching $34.0 billion in 2024, $1.8 billion below IBO's forecast.

Particularly in the near term, much of the difference between the two forecasts stems from factors other than estimates of property values. The amount of property tax revenue the city collects in any fiscal year is a product of the assessment roll, as well as the delinquency rate for current year tax bills, abatements granted, refunds for disputed assessments, and other property tax debits and credits. Collectively, these elements of property tax revenue are known as the property tax reserve. Some reserve components, such as delinquencies, are counted as debits, as they reduce expected tax revenue in the current year. Other components, such as payments made in a given fiscal year for liabilities from prior years, are counted as credits because they increase current-year tax revenue. Because the dollar value of the debits generally exceeds the dollar value of the credits, the net value of the reserve is nearly always negative. As a result, property tax revenue—and forecasts of it—are almost always less than the property tax levy.

For this year and next, most of the difference between IBO's and OMB's property tax revenue projections is attributable to differences in forecasting items included in the reserve. At this point in the current year, the entire gap between the two forecasts is due to differences in the projections of four reserve components: prior-year collections, refunds, delinquent accounts, and cancelled taxes. For 2021, about 80 percent of the difference between IBO and OMB is due to the reserve, while differences in the forecasts of the final roll and levy also contribute to differences in the revenue forecasts.

In later years of the forecast, differences in assessed value for tax purposes, particularly for Class 4 properties, account for much of the difference between IBO's and OMB's property tax forecast. Class 4 properties account for almost half of total taxable assessed value in any given year, and for the 2022 through 2024 period IBO forecasts faster Class 4 assessment growth than does OMB—3.8 percent average annual increases compared with 2.7 percent in the OMB forecast. IBO also projects faster taxable assessment growth for Class 2 properties. For 2024, when OMB is projecting levy growth of 2.1 percent in contrast to IBO's forecast of 3.9 percent, the four reserve components account for just under 12 percent of the difference between the two forecasts.

Real Estate-Related Taxes. The city receives revenue from two taxes related to real estate purchases or financing, and from a tax on commercial leases. The real property transfer tax is levied on the value of real estate sold, while the mortgage recording tax is levied on the value of mortgages, including certain refinancing activity. Together these two taxes are referred to as the transfer taxes. A third real estate-related tax, the commercial rent tax (CRT), is levied on the value of certain commercial property leases in parts of Manhattan.

Transfer tax revenue peaked at $3.3 billion in 2007, before the financial crisis strongly depressed the real estate market. While RPTT revenue has subsequently exceeded its 2007 level in 2015 and 2016, MRT revenue has never come close. As a result, the sum of RPTT and MRT has only exceeded $3 billion once in recent years (in 2016, and just barely), and is not projected to rise much above $2.5 billion within the next five years.

CRT revenue typically increases every year, independent of the overall condition of the commercial real estate market. From 2014 through 2019, CRT revenue increased an average of 5.0 percent per year. In 2020, however, IBO expects CRT revenue to decline 2.8 percent, to $882 million, due primarily to a reduction in the scope of the tax that became fully effective this fiscal year. We forecast growth will resume in 2021, but at a modest 2.4 percent average annual rate, with revenue reaching $971 million by 2024.

Real Property Transfer Tax. City RPTT revenue peaked at just over $1.7 billion in 2007, declined over the next three years in the wake of the financial crisis, and then began a recovery. After reaching an all-time peak of nearly $1.8 billion in 2016, revenue dropped sharply over the next two years, before rebounding to over $1.5 billion in 2019. (Actual and forecast amounts cited here do not include the portion of the city RPTT referred to as the "urban tax," which is imposed on commercial sales over $500,000 and is dedicated to the Metropolitan Transportation Authority.)

Year-to-year variations in RPTT revenue are driven primarily by trends in commercial property sales—especially office buildings, retail space, and rental apartment buildings. Commercial real estate sales and their corresponding RPTT revenue fluctuate much more—and are usually higher—than residential sales and tax revenue.

Until recently, commercial sales were consistently taxed at higher rates than residential transactions of the same value. While city RPTT rates continue to be higher for commercial than for residential properties, after recent hikes in state residential RPTT rates, New York City residences that are sold for $3 million or above actually pay more in combined city and state RPTT than do commercial properties selling for the same price. IBO expects the increase in residential RPTT to have a negative impact on sales of higher-valued properties.

In response to a softening of real estate sales in recent months, IBO lowered its forecast of RPTT collections for each year of the financial plan, though the general trajectory of revenue remains the same: a decrease in revenue during the current year and moderate increases thereafter. IBO projects city RPTT receipts of just under $1.4 billion in 2020, $166 million (10.7 percent) less than 2019 receipts, split almost evenly between residential and commercial sales. The decline is due to a projected 11.4 percent fall in tax revenue from commercial sales, combined with a small increase in residential RPTT. At the borough level, IBO projects the strongest increases in residential RPTT in Queens and Brooklyn (10.5 percent and 4.9 percent, respectively), an increase of 2.3 percent in the Bronx, virtually no change in Staten Island, and a decline of 4.8 percent in Manhattan. Modest growth in RPTT is projected starting in 2021, with collections from commercial transactions slightly outpacing those from residential sales. Total RPTT revenue is projected to reach just over $1.5 billion by 2024, considerably below the peak years of 2007, 2015, and 2016.

Although IBO has lowered its RPTT projection since last fall, OMB has reduced its RPTT projection by even more, leaving IBO's forecast above OMB's for each year of the financial plan period. Our 2020 forecast is $45 million (3.4 percent) above OMB's. From 2021 through 2024, IBO expects RPTT revenue to grow at twice the average annual rate forecast by OMB: 2.2 percent versus 1.1 percent.

Mortgage Recording Tax. Based on stronger-than-expected revenue in recent months, generally solid macroeconomic conditions, and a downward revision to our short-term forecast of mortgage rates, IBO has raised its MRT forecast for 2020 and 2021 by 3.1 percent and 2.2 percent, respectively, from our December projection. However, IBO's forecast still calls for MRT revenue to decline from its 2019 level during this year and next. The revised forecast of almost $1.1 billion in 2020 is $30 million (2.7 percent) less than 2019 collections. Modest declines are projected to continue through 2023, followed by a small uptick in 2024. IBO's forecast of 2024 MRT revenue—$1.0 billion—is considerably below both the prerecession peak of $1.6 billion in 2007 and the more recent peak of $1.2 billion in 2016.

MRT revenue does not follow the value of real estate sales as closely as does RPTT revenue, because not all sales involve a mortgage, and for sales with a mortgage, only the fraction of the purchase price financed by the mortgage is taxed. In addition, mortgage refinancing, which may be subject in whole or in part to the MRT, is not connected to the sale of a property. Finally, loans to purchase coop apartments are not considered mortgages under New York State law, and are thus not subject to the MRT.

Mortgage rates are an important determinant of the volume of taxable mortgages, but the strictness of residential lending standards also plays a role. In addition, changes in federal tax policy have reduced the number of households that can benefit from the deductibility of mortgage interest, which—all else equal—has decreased the demand for residential mortgages.

Although IBO projects year-over-year declines in MRT revenue through 2023, our forecast of MRT revenue exceeds OMB's in each year of the forecast period. OMB projects much steeper declines in mortgage recording tax revenue than IBO in 2020 through 2022. IBO's 2020 forecast is just $26 million (2.5 percent) above OMB's. The difference grows to $117 million (12.6 percent) in 2021 and $133 million (14.7 percent) in 2022. After 2022 the differences between the two forecasts decrease but remain substantial, with IBO's 2024 projection $75 million (7.8 percent) above OMB's.

Commercial Rent Tax. IBO's commercial rent tax forecast has barely changed since December. We project that CRT revenue will total $882 million in 2020, a decrease of $25 million (2.8 percent) from 2019. The forecast year-to-year decline in CRT would be the first in more than 20 years and is due in part to legislation enacted by the City Council that reduces the scope of the tax. IBO expects CRT revenue growth to resume next year, with growth averaging 2.4 percent a year to reach $971 million by 2024.

The CRT is a tax imposed on tenants who rent space for business, professional, or commercial purposes in certain areas of Manhattan below 96th Street. Not-for-profit entities, subtenants, tenants located in the World Trade Center area, and tenants located in the Commercial Revitalization Program abatement zone are all exempt from the tax.

Over time both the tax rate and the geographic area subject to the tax have been reduced. A bill passed by the City Council in 2017 created a credit that eliminates the tax for tenants paying from $250,000 to $499,999 in annualized rent, provided the total income of the tenant is $5 million or less. Under the new law, tenants paying rents of $250,000 to $499,999 but with income of $5 million to $10 million are eligible for a partial tax credit, as are tenants paying from $500,000 to $550,000 whose income does not exceed $10 million.

Although the new law took effect on July 1, 2018, because of the timing of CRT receipts, its full impact was not felt until the current fiscal year. In addition to the reduction in the scope of the CRT, tax receipts have also been negatively affected by a softening in average rents, due to factors that include newly built commercial space and a decline in brick-and-mortar retail sales.

Compared with OMB's, our latest forecast is slightly higher in 2020, 2021, and 2022, and slightly lower in 2023 and 2024. Looking at cumulative CRT revenue for the 2020 through 2024 period as a whole, IBO's forecast is just $11 million (0.2 percent) below OMB's.

Personal Income Tax. IBO forecasts $13.8 billion in net personal income tax revenue (gross collections minus refunds) in the current fiscal year, $421 million (3.2 percent) greater than 2019 receipts. Based on our expectations of a slowdown in U.S. economic growth in calendar year 2020, accompanied by the weakest local employment growth over the past decade, we project that PIT revenue will increase just 1.0 percent in fiscal year 2021, yielding $13.9 billion in revenue. IBO expects PIT revenue to grow at a more robust average annual rate of 3.4 percent over the following three years, reaching $15.4 billion in 2024.

Despite the economic weakness we forecast for this year and next, we have increased our forecast of personal income tax revenue by $153 million from our December outlook. This increase is mainly rooted in stronger-than-expected withholding collections through late January. Based on year-to-date collections, IBO now expects total withholding revenue to rise 6.1 percent in 2020. Another factor contributing to stronger 2020 PIT collections is installment payments, which are made by taxpayers who are self-employed and those realizing capital gains from the sale of real property or financial assets. With equity markets having performed much more solidly in calendar year 2019 than in the previous year, we project that installment payments will increase in fiscal year 2020, a move back towards more typical growth rates and in sharp contrast to the decline seen in 2019.

Stronger growth in PIT withholding and installment payments in 2020 will be partially offset by an anticipated decrease in extension payments, which are typically made in the spring by taxpayers who need more time beyond the April 15 deadline to file their taxes. With the enactment of the Tax Cuts and Jobs Act (TCJA), many changes to federal income tax law first took effect in calendar year 2018. Fiscal year 2019 revenue included an exceptionally high level of extension payments since many taxpayers were not able to accommodate the changes to file their 2018 returns on time. With taxpayers likely to have largely adjusted to the TCJA changes by now, IBO expects this year's extension payments to be lower than in 2019.

IBO projects that local economic growth will slow sharply in calendar years 2020 and 2021, with New York City forecast to add fewer jobs in 2021 than in any year since the Great Recession. We expect a combination of slow growth in the U.S. and city economies to constrain increases in PIT revenue to just 1.0 percent in fiscal 2021. Withholding receipts, the largest component of PIT revenue, are forecast to rise 3.6 percent next year, 2.5 percentage points below this year's rate. Similarly, we project that slower growth in employment and incomes will result in less revenue from final returns and extension payments. IBO expects slower real GDP growth to limit capital gains realizations, thereby weakening the growth of installment payments.

It is noteworthy that while growth in gross PIT revenue is expected to decelerate in 2021, we project a lower dollar volume of refunds to be issued as well. This is because the expected decline in total estimated payments (the sum of extension and installment payments) will likely reduce the amount of over-paid tax during the year, leading to lower refunds issued to over-payers. IBO's expectation of a smaller total amount of refunds will offset the expected slowdown in gross collections, leaving net collection growth still marginally positive.

During the latter part of the forecast period, we project a return of employment and wages in the city to steadier growth, following the uptick in U.S. economic growth in 2021. As a result, we forecast PIT revenue growth to accelerate, rising at an average annual rate of 3.4 percent in 2022 through 2024. Increasing collections of withholding, estimated payments, and final returns are all expected to contribute to steady growth. We estimate PIT revenue will reach $14.4 billion in 2022, $14.9 billion in 2023, and $15.4 billion in 2024.

IBO's personal income tax forecast exceeds OMB's for every year of the forecast period. Both forecasts have been increased since last fall, but since the sum of OMB's increases over the five years is more than twice IBO's increases ($2.1 billion compared with $1.0 billion), the differences in the two forecasts have become smaller. Our forecasts are greater than OMB's by $31 million (0.2 percent) this year, $90 million (0.7 percent) in 2021, and an average of $55 million a year in 2022 through 2024.

Business Income Taxes. IBO forecasts $6.3 billion in total revenue from New York City's business income taxes in 2020—the sum of collections of corporation taxes and the unincorporated business tax (UBT). While business income tax revenue as whole is expected to grow by $65 million (1.1 percent) from 2019 levels, the trends of the two taxes differ as they continue the patterns seen last year with corporate tax receipts increasing and UBT receipts decreasing.

Corporate Taxes. With $4.2 billion in net collections (gross collections minus refunds), 2019 was a standout year for the city's corporate taxes.[1] An increase of $763 million (22.2 percent) over 2018 receipts pushed 2019 corporate tax revenue to its highest level since 2007, prior to the financial crisis. Much of 2019's growth has been attributed to changes in federal tax law resulting from the 2017 Tax Cuts and Jobs Act, which for federal tax puposes broadened the tax base and, in turn, the city's tax base as well.[2]

Corporate tax collections to date this year have remained robust, but are expected to slow in the coming months. The waning of the fiscal stimulus from the tax cut and federal deficit-funded spending, along with other economic indicators suggest more modest growth for the remainder of 2020, and IBO forecasts $4.3 billion in corporate tax revenue, an increase of $139 million (3.3 percent) over 2019 collections. With U.S. economic growth projected to slow through calendar year 2020, IBO forecasts a $297 million (6.8 percent) decline in revenue, to $4.0 billion, in fiscal year 2021.

Modest growth is expected to return in 2022, with collections increasing by $142 million (3.5 percent). In the later years of the forecast, projected revenue changes are muted. We forecast a $72 million (1.7 percent) decline in 2023 followed by a $48 million (1.2 percent) gain to yield $4.2 billion in corporate tax revenue in 2024.

Both IBO and OMB have substantially increased their corporate tax projections for 2020 collections, with IBO's forecast exceeding OMB's by $15 million (0.4 percent). After that, OMB projects a steeper decline in 2021 and a weaker recovery in 2022, and IBO's forecast exceeds OMB's by $43 million (1.1 percent) in the former year and $129 million (3.2 percent) in the latter. OMB's more sustained growth path in the out-years reduces the difference in forecasts to $7 million in 2023 and $79 million in 2024.

Unincorporated Business Tax. The unincorporated business tax is levied on the profits of sole proprietorships, partnerships, and limited liability companies. Unlike the recent strength in corporate tax revenue, collections of the city's unincorporated business tax sank by $153 million (7.0 percent) to $2.0 billion in 2019. The decline in UBT receipts has continued into the current year, and while UBT revenue is expected to begin recovering in the coming months, it will not be enough to generate net growth for the year. For 2020, IBO currently projects a smaller, $73 million (3.6 percent) decline in UBT revenue, to yield just under $2.0 billion in collections.

UBT revenue is generally responsive to changes in earnings in the professional services sector and growth in proprietorship income. Given that both have either remained stable or grown in recent years, IBO projects a rebound in UBT revenue from its two-year slump, with growth of $115 million (5.9 percent) in 2021, followed by continued but slower growth of $85 million (4.1 percent) in 2022, $43 million (2.0 percent) in 2023, and $85 million (3.8 percent) in 2024. By the last year of the financial plan, we expect UBT revenue to reach $2.3 billion.

Since last fall, both IBO and OMB have reduced their UBT forecasts for 2020. IBO's 2020 unincorporated business tax forecast is now lower than OMB's by $37 million (1.9 percent). We expect a slightly stronger recovery of revenue growth than does OMB after 2020, resulting in a negligible difference between the two forecasts for 2021. For 2022, IBO again expects UBT revenue to grow faster than does OMB (4.1 percent vs. 2.7 percent) and our UBT forecast exceeds OMB's by $26 million (1.2 percent). Differences are smaller in 2023 and 2024, when IBO predicts $5 million and $20 million more revenue than OMB, respectively.

Sales Tax. Collections of the city's sales tax to date this year have been stronger than previously anticipated, and IBO has modestly increased its forecast of 2020 sales tax revenue to $8.35 billion, $540 million (6.9 percent) more than collections last year. We have also increased our forecast of sales tax revenue in each year after 2020, but the general growth pattern remains the same as in our December forecast: a much smaller increase in revenue in 2021, followed by faster but still moderate growth through the end of the financial plan period.

The large increase in sales tax revenue this year is in part due to the end of a three-year period during which the state retained a portion of the city's sale tax collections—an action that reduced city tax revenue by $150 million in 2019 but will have no effect on 2020. Most of the increase, however, is attributable to strong economic conditions. The long-running U.S. expansion coupled with steady personal income and employment growth in New York City since the end of the 2008-2009 recession have strengthened consumer confidence, driving spending by residents and commuters alike. Also fueling spending in the city is the strong positive wealth effect generated by Wall Street's bull market. Finally, consumer spending received a short-term boost from changes in the federal income tax that took effect at the beginning of calendar year 2018. On balance, the changes increased aggregate household disposable income of city residents, commuters, and domestic visitors alike despite limiting state and local tax deductions against federal taxable income for many high-income taxpayers.

Another factor likely contributing to recent growth in sales tax receipts is the expanded taxation of online purchases, which for years have been accounting for a growing portion of total consumer spending. The Supreme Court's June

2018 decision in South Dakota v. Wayfair granted states permission to require out-of-state sellers to collect sales taxes on goods sold to in-state customers, even if the seller has no stores or other facilities in the state. The ruling enabled New York State to put into effect already existing state law requiring most out-of-state vendors of tangible goods, including those with no physical presence in the state, to collect and remit state and local sales taxes to New York. In addition, as part of the 2019-2020 budget, the state adopted a provision to require online marketplaces such as eBay, with annual sales exceeding $300,000 and 100 sales of tangible goods to New York customers, to collect and remit state and local sales taxes.

With the outlook for slower economic growth in calendar years 2020 and 2021, IBO expects only a modest 3.1 percent increase of sales tax revenue in fiscal year 2021—less than half the rate of increase we forecast for this year—to reach $8.6 billion. Stronger city and national economic growth starting in calendar year 2021 is expected to boost sales tax collections after fiscal year 2021, although the projected increases will fall short of the 6.0 percent average annual growth we forecast from 2017 through 2020. IBO projects 3.7 percent sales tax revenue growth in 2022, yielding a total of $8.9 billion in revenue for the year. With a projection of 4.1 percent average annual growth in the following two years, IBO forecasts sales tax revenue of $9.7 billion in 2024.

IBO and OMB have very similar forecasts for 2020 through 2022, with the biggest difference in 2021, when IBO's forecast is only $10.6 million (0.1 percent) less than OMB's estimate. Starting in calendar year 2022, IBO forecasts faster GDP growth for the nation, and greater employment and personal income growth in the city, than does OMB. As a result, IBO's sales tax forecast is somewhat higher than OMB's after 2022, with differences of $122 million (1.3 percent) in fiscal year 2023 and $152 million (1.6 percent) in 2024.

Hotel Occupancy Tax. Hotel tax collections to date this fiscal year have been greater than previously expected, prompting IBO to raise its 2020 forecast from our December outlook. We now forecast $643 million in hotel tax revenue this year, a 2.8 percent ($18 million) increase over 2019 receipts. IBO projects only minimal revenue growth in 2021, followed by faster though still modest growth, yielding $703 million in hotel tax revenue in 2024.

The hotel tax is levied on hotel room charges in addition to state and city sales taxes. Projected hotel tax growth rates this year and in subsequent years of the forecast period are modest in comparison to revenue growth since the 2008-2009 recession. The long economic expansion, the accompanying growth of disposable income, and a robust flow of foreign visitors (who typically spend more than domestic tourists) have fueled annual increases in hotel tax collections over the last decade. From 2010 through 2019, collections increased to 5.875 percent of hotel bills, and revenue grew at an average annual rate of 6.2 percent, with the strongest growth occurring in the first half of that span. In comparison, IBO projects only 2.4 percent average annual growth of revenue during the forecast period.

IBO projects that hotel tax revenue will grow by 2.8 percent in 2020—nearly 2 percentage points below the 4.7 percent gain in 2019—and then essentially remain flat in 2021. IBO's 2021 hotel tax forecast is $647 million, a gain of only $4 million (0.6 percent) over our 2020 projection. Economic growth has slowed in some of the countries that send large numbers of foreign visitors to New York, including the U.K., China, Germany, and Japan, which we expect to take a toll on the number of hotel stays. The slowdown we project for the U.S. economy will also slow increases in domestic tourism and curtail business travel to New York by the end of this calendar year.

In addition to the number of overnight stays in the city, hotel tax revenue reflects the average price per room. The expanded inventory of hotel rooms, particularly outside of Manhattan where room rates are less expensive, is putting downward pressure on hotel rates. Competition from the continued growth of rentals through platforms such as Airbnb is also pressuring hotels to keep prices down. As a result, IBO forecasts only modest revenue growth even after 2021 when U.S. economic growth is expected to pick up, spurring an increase in domestic visitors to the city.

IBO's forecast of hotel tax revenue exceeds OMB's in each year, though the differences in the 2020 and 2021 projections are minor. After 2021, we forecast faster revenue growth than OMB, in line with the divergence of IBO's and OMB's macroeconomic outlook. The difference between the two forecasts grows from $3.7 million (0.6 percent) in 2021 to $34.1 million (5.1 percent) in 2024.

Projected Surpluses and Gaps

Based on the proposals included in the Mayor's Preliminary Budget and IBO's re-estimates of city spending and revenues, we project that the budgets for 2020 and 2021 will end with surpluses of nearly $2.7 billion and $240 million, respectively. Assuming the 2021 surplus is used to prepay expenses in the following year, we forecast budget

Pricing Differences Between IBO and the de Blasio Administration Items that Affect the Gap *Dollars in millions*					
	2020	**2021**	**2022**	**2023**	**2024**
Gaps as Estimated by the Mayor	**-**	**-**	**($2,433)**	**($2,686)**	**($2,659)**
Revenue					
Taxes					
Property	$127	$247	$356	$728	$1,845
Personal Income	31	90	72	39	53
General Sales	(4)	(11)	7	122	152
Corporate	15	43	129	7	79
Unincorporated Business	(37)	(2)	26	5	20
Real Property Transfer	45	140	170	125	107
Mortgage Recording	26	117	133	91	75
Utility	-	-	-	-	-
Hotel Occupancy	5	4	10	23	34
Commercial Rent	2	16	3	(13)	(19)
Cigarette	-	-	-	-	-
Other Taxes and Audits	-	-	-	-	-
Total Taxes	**$210**	**$644**	**$906**	**$1,127**	**$2,345**
STaR Reimbursement	-	-	-	-	-
Misc. Revenue	3	24	24	24	24
TOTAL REVENUE	**$213**	**$668**	**$930**	**$1,151**	**$2,369**
Expenditures					
Debt Service	$39	$28	$-	$-	$-
Fringe Benefits:					
Health Insurance - Education	(99)	(47)	39	155	247
Health Insurance - City University	(1)	(2)	20	17	13
Health Insurance - All Other Agencies	92	43	164	247	307
Public Assistance	20	21	21	20	20
Education	(96)	(63)	(74)	(144)	(173)
Fire	(50)	(50)	(50)	(50)	(50)
Police	(75)	(50)	(50)	(50)	(50)
Homeless Services	(124)	(216)	(216)	(216)	(216)
Parks	(12)	(15)	(15)	(15)	(15)
Sanitation	33	5	(6)	(30)	(30)
Housing	(4)	(6)	(6)	(6)	(6)
Campaign Finance Board	-	(30)	(20)	(3)	(2)
Small Business Services	-	(45)	(45)	(4)	(4)
TOTAL EXPENDITURES	**($277)**	**($427)**	**($238)**	**($79)**	**$42**
TOTAL IBO PRICING DIFFERENCES	**($65)**	**$240**	**$692**	**$1,072**	**$2,411**
IBO Prepayment Adjustment 2020/2021	-	-	-	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**$2,658**	**$240**	**($1,741)**	**($1,614)**	**($247)**

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Remaining banking corporation tax revenue reported with corporate tax. Figures may not add due to rounding.

New York City Independent Budget Office

gaps of $1.7 billion in 2022 (2.0 percent of projected city-funded expenditures), $1.6 billion in 2023 (2.1 percent), and $247 million (0.3 percent) in 2024. These gaps would be largely offset by the $1.25 billion of reserves already built into the budgets for each of these years. These reserves are included in the projected expenditures for each year but are not allocated to specific programs. Assuming that the reserves are not needed to cover shortfalls or unanticipated needs that emerge during the year, the reserves would be available to help close outstanding gaps.

IBO's projections include an additional $277 million in city-funded expenditures in 2020 as a result of our re-estimates of spending in the Preliminary Budget. This forecast of higher expenditures is partly offset by our tax and miscellaneous revenue forecast for 2020, which is $213 million above the estimate in the Mayor's financial plan. IBO's estimates of city revenues and expenditures result in a 2020 surplus of $2.66 billion, which is $65 million less than projected by the Mayor's Office of Management and Budget. Barring any significant new needs emerging in the remaining months of the fiscal year, we assume this surplus will be used to prepay some 2021 expenditures, helping to bring that year's budget into balance.

IBO estimates that city-generated revenues in 2021 will exceed planned city-funded expenditures. We expect city-funded spending in 2021 to total $427 million more than the de Blasio Administration has budgeted. The difference between the two spending forecasts for 2021 primarily stems from IBO's expectation that it will cost more than OMB projects to provide shelter for the homeless, overtime for uniformed employees, and pay tuition for charter school students. This additional spending is more than offset by IBO's projection that the city's 2021 tax and miscellaneous revenues will be $668 million greater than OMB has forecast. As a result, IBO projects that city-generated revenues will exceed planned city-funded expenditures in 2021, generating a surplus of $240 million that would be available to be rolled into 2022, reducing that year's budget gap.

For 2022, IBO's forecast of city-funded spending is $238 million greater than the Mayor's while our city-generated revenue forecast exceeds the Mayor's by $930 million. As a result, we expect that $692 million in additional resources will be available in 2022, lowering the projected budget gap to $1.74 billion. For 2023, IBO's forecast includes an additional $1.2 billion of city-generated revenues and $79 million more in city-funded expenditures for a net of $1.1 billion in additional resources, reducing the estimated budget gap to $1.61 billion. For the final year of the financial plan period, IBO expects an additional $2.37 billion in city-generated revenue coupled with $42 million less in city-funded expenditures, resulting in a total of $2.41 billion of additional resources and reducing the projected 2024 budget gap to $247 million.

IBO Expenditure Projections
Dollars in millions

	Actuals 2019	Plan 2020	2021	2022	2023	2024	Average Change 2019-2024
Agency Expenditures	**$66,769**	**$69,486**	**$67,412**	**$67,777**	**$68,080**	**$68,139**	**0.4%**
Fringe Benefits	10,212	11,362	11,802	12,607	13,416	14,227	6.9%
Labor Reserve	-	1,011	2,147	1,526	1,986	2,455	n/a
Total Agency Expenditures	**$76,981**	**$81,859**	**$81,361**	**$81,910**	**$83,482**	**$84,821**	**2.0%**
Other Expenditures							
Debt Service	$6,373	$5,646	$4,749	$8,158	$8,906	$9,366	8.0%
Pensions	9,941	9,832	9,939	10,422	10,458	10,112	0.3%
Judgments and Claims	706	733	727	742	758	775	1.9%
Subtotal Recurring Expenses	**$94,001**	**$98,070**	**$96,775**	**$101,232**	**$103,604**	**$105,074**	**2.3%**
General Reserve	-	$300	$1,000	$1,000	$1,000	$1,000	n/a
Capital Stabilization Reserve	-	-	250	250	250	250	n/a
Other Adjustments	-	(400)	31	130	257	393	n/a
Subtotal Non-Recurring Expenses	**-**	**($100)**	**$1,281**	**$1,380**	**$1,507**	**$1,643**	**n/a**
Less: Intra-City Expenditures	($2,222)	($2,126)	($1,852)	($1,844)	($1,842)	($1,842)	n/a
TOTAL EXPENDITURES	**$91,779**	**$95,843**	**$96,204**	**$100,769**	**$103,269**	**$104,875**	**2.7%**

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. Figures may not add due to rounding.

New York City Independent Budget Office

Spending

IBO projects that under the policies and programs expressed in the Mayor's latest financial plan, city spending adjusted for prepayments and other non-recurring expenses will total $97.4 billion in 2020, $97.6 billion in 2021, and grow to $103.2 billion in 2024; from 2019 through 2024, we expect total spending to increase an average of 2.2 percent a year. Similarly, we expect adjusted city-funded spending, which totaled $68.6 billion in 2019, to grow to $71.8 billion in 2020 and $77.5 billion in 2024, an average annual increase of 2.5 percent from 2019 through 2024.

After adjusting for prepayments and non-recurring expenditures, IBO expects city-funded agency spending, which excludes expenditures that are not centralized, to increase by nearly $974 million (1.8 percent) between this year and next.

Sources of Spending Growth. IBO estimates that agency expenditures will increase from $77.0 billion in 2019 to $81.9 billion this year, growth of 6.3 percent. In contrast, we expect agency expenditures to rise more slowly from 2019 through 2024, increasing at an average annual rate of 2.0 percent from 2019 through 2024.

Labor Settlements. Part of the explanation for this year's spike in agency spending is attributable to the settlement of the city's labor contracts with the uniformed unions, which established a pattern of wage increases for all uniformed union contracts for the 2017-2021 round of collective bargaining. The contracts, which are similar to the settlements reached with the civilian unions, provided the unions' members with wage increases totaling roughly 8 percent over the length of the contract. The Mayor's January Financial Plan includes an additional $72 million in the current year increasing to $100 million in 2024 to cover the cost of these settlements.

Fringe Benefits. Over the course of the financial plan, the primary driver of growth in agency spending is an increase in fringe benefit costs—in particular the cost of providing health care for city employees. In 2019, the city spent $10.2 billion on fringe benefits for city employees, $6.2 billion of which was the cost of health insurance for active and retired city employees. IBO estimates that 2020 fringe benefit costs will total $11.4 billion, $7.0 billion of which will be for health insurance expenses, comprising approximately 12 percent of the city's budget. By 2024, the city's fringe benefit costs are expected to increase to $14.2 billion, or nearly 14 percent of all city expenditures. We estimate that the cost of providing health insurance will increase by nearly 27 percent from 2020 through 2024, while fringe costs in total will increase by 25 percent during the same period.

Debt Service. Although the cost of debt service—payment of principal and interest on the funds the city borrows to finance capital projects—is currently lower than was estimated when this year's budget was adopted last spring, over the course of the financial plan IBO expects debt service to rise substantially as the city issues additional debt to finance its capital program. After adjusting for prepayments, debt service is projected to grow at an average annual rate of 7.8 percent, from $6.4 billion in 2019 to $9.4 billion in 2024, an increase of over $3.0 billion. 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 over the plan period. Debt service on new long-term bonds issued during the plan period is expected to add a total of approximately $2.2 billion to debt service costs by 2023, less any savings accrued from the retirement of older debt and refundings that may occur during that period. OMB's debt service forecast assumes the issuance of $3.0 billion of new debt for the remainder of the current year, increasing to $11.6 billion of new debt in 2024, for a total of $44.5 billion of new long-term debt issued during the plan period.

Salaries. In 2019, the city spent approximately $29.1 billion on wages and salaries for employees. The 2019 expenditure was over 6 percent greater than in the preceding year, primarily because a number of agreements with municipal labor unions on wage increases were finalized. Currently, nearly 80 percent of all city employees are working under labor agreements for the 2017-2021 round of bargaining. The Mayor's financial plan includes funding for the estimated cost of settlement of labor contracts that remain outstanding for the current round. These expenses are not specifically allocated to agency budgets, but rather are included in the centrally managed labor reserve fund. The January plan includes slightly over $1 billion for the current year and $2.1 billion for 2021 in the labor reserve, partly to cover the costs associated with settling the remaining labor contracts at the pattern set by the other contract agreements.

Pension Spending. In recent years there has been much critical discussion about the cost and viability of municipal pension funds. In the last 10 years New York City's contribution to its five pension systems has risen by over 55 percent, or an average of 4.5 percent annually, from $6.4 billion in 2009 to $9.9 billion in 2019. But as a result of the addition of a new pension tier and some actuarial changes, annual growth in the city's pension expenditures has slowed considerably in the last few years. The current financial plan budgets $9.8 billion for city pension costs in 2020. IBO estimates that increases in pension expenses across the plan period will average less than 1 percent a year, with expenditures rising to $10.1 billion in 2024. 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 2024.

Spending Re-estimates. IBO estimates that the Mayor's January plan understates the amount of city-funded expenditures needed in 2020 by $277 million. We expect city-funded spending will exceed the current plan for 2021 by $427 million and by $238 million in 2022. In the last two years of the financial plan, IBO's estimates of city-funded expenditures are very similar to those presented by the Mayor.

While IBO's estimates of expenditures funded with state and federal dollars do not directly affect the city's budget gaps, shortfalls in state and federal revenues can result in service reductions or a need for additional city dollars to replace funding that is not available from these other sources. IBO estimates that the January Financial Plan underestimates state and federal funding by $85 million in the current year. For 2021 through 2024, our estimate of the extent to which the financial plan underestimates state and federal aid ranges from $326 million in 2023 to $383 million in 2021. These underestimates are primarily the effect of OMB's customary under-budgeting of out-year federal and state funding, particularly in the police and fire departments. IBO's estimates of greater state and federal funding within these agencies' budgets is based on our analysis of 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 January plan reduces current-year planned debt service expenditures by $129 million, nearly $47 million of which results from reducing the assumed rate of interest on the city's variable rate bonds to 2.8 percent. This rate is still above most interest rate projections for the current year. Moreover, OMB's rate assumption for 2021 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 $39 million less than forecast by OMB this year and $28 million less in 2021.

Health Care Costs. The Mayor's January plan includes $7.1 billion for the city's provision of health care for current and retired city employees in 2020, rising to $9.5 billion in 2024. Based on historical increases in health care costs and federal forecasts, IBO's estimates of health care spending over the financial plan period are slightly lower than OMB projects. Although our estimate of the city's cost of providing health benefits in 2020 and 2021 are nearly identical to those of the de Blasio Administration, we expect the costs to be lower than presented in the Preliminary Budget by $223 million in 2022, $419 million in 2023, and $567 million in 2024.

Public Assistance Spending. IBO expects that city-funded spending on cash assistance for the poor will be lower than projected in the current financial plan. The city's cost estimates for public assistance are based on caseload projections that are nearly a year old. Because caseloads have been declining since the last projections were released, IBO expects that the cost to the city of public assistance will be lower than OMB estimates by approximately $20 million in each year of the financial plan period. In addition, we project that state and federal funds for public assistance will be $29 million lower each year than forecast by OMB.

Areas where IBO projects greater-than-budgeted spending:

Homeless Services. As in our analysis of prior plans, IBO's estimate of the cost of providing services for the homeless is the most notable difference between our forecast of expenditures and the Mayor's. IBO projects that the Department of Homeless Services (DHS) will require an additional $124 million in city funds for the current year, rising to $216 million in each of the subsequent years in the financial plan period.

IBO's forecast of greater-than-expected DHS expenditures is primarily the product of two factors. The first is IBO's assumption that the city is underfunding the provision of shelters, particularly for single adults. The city's current shelter cost estimate does not account for continued growth in the size of the single adult shelter population or for increases in the per diem cost of shelter. IBO estimates that increases in these shelter populations will require the city to provide an additional $117 million in 2020 and approximately $206 million for each year from 2021 through 2024. Our estimate of savings from a decline in the population of homeless families with children slightly offsets this cost increase.

In addition to costs related to understating growth in the homeless population, the Governor's Executive Budget also threatens to increase the city's cost of shelter provision. The Governor proposes to increase the city's share of the cost of services for families in shelters who are receiving Temporary Assistance for Needy Families from 10 percent to 15 percent. IBO estimates that the proposal—which would only affect the city among all of the localities in the state—would cost the city an additional $28 million. This change in share would also cost the city an additional $40 million in cash assistance, child welfare, and other expenditures.

Uniformed Overtime. We expect overtime costs for the police and fire departments will be higher than estimated in the Mayor's plan. Based on recent historical overtime usage in both departments, IBO anticipates that overtime costs for the police department will exceed the amount budgeted by $75 million in the current year and $50 million in each subsequent year of the financial plan. Similarly, we estimate that the city will spend an additional $50 million each year from 2020 through 2024 on fire department overtime costs.

Department of Education. IBO estimates that the city will have to provide an additional $96 million to the department in 2020, $63 million in 2021, $74 million in 2022, $144 million in 2023, and $173 million in 2024 for costs largely related to the city's funding of charter schools. Estimates of charter enrollment and basic tuition cost projections are the factors that drive IBO's charter school funding forecast. Our projections of charter school enrollment exceed the city's estimates by over 1,800 pupils in 2021, increasing to nearly 7,000 more pupils in 2024. Additionally, IBO projects modest increases in charter schools' basic tuition cost per pupil, which is set by the state. In contrast, the city's current estimates assume that per pupil costs remain constant.

Small Business Services. The budget for the Department of Small Business Services (SBS) has routinely been underfunded in the out-years of the financial plan. IBO estimates that SBS's city-funds budget will be $45 million more than budgeted in 2021 and 2022, and $4 million more in 2023 and 2024. Our assumption of higher costs is primarily the result of the budget not accounting for funding of the NYC Bus Program beyond the current year of the plan. The program, established in 2014, provides funds to reverse sharp cuts in wages for certain school bus drivers, attendants, dispatchers, and mechanics. Initially the grant was just for one year and capped at $42 million, but funding has been allocated every year since its implementation.

The January plan includes $41 million in funding for the program in 2020 but none in the remaining years of the plan period. Given the de Blasio Administration's support for this program, IBO assumes it will continue through 2022 at $41 million per year. We have not estimated this expenditure past 2022 as we do not know whether the Mayor and City Council who take office in January 2022 will continue to support this expenditure.

Campaign Finance Board. IBO projects that the Campaign Finance Board (CFB) will spend $30 million more than budgeted for 2021 and an additional $20 million in 2022 for matching funds for candidates running for city offices. CFB's current plan includes minimal funding for the provision of matching funds to candidates for city office. The next citywide election cycle will include elections for a new Mayor, Comptroller, and approximately two-thirds of the City Council. Term limits will also mean open races for four of the city's five Borough President offices. IBO's re-estimate of CFB spending for 2021 and 2022 is generally in line with expenditures in 2014, the last citywide election cycle without an incumbent Mayor running for re-election. In addition, our estimate takes into account recent legislation that raised public matching of campaign funds from 6:1 to 8:1.

Other Agencies. IBO projects that the Department of Sanitation (DSNY) will spend slightly less in 2020 and 2021 than currently planned and more than planned in the remaining years of the forecast period. We estimate that the department will spend $33 million less in 2020 and $5 million less in 2021, but $6 million more in 2022 and $30 million more in both 2023 and 2024.

The reduction in expenditures in the current year primarily results from our expectation that snow removal costs this year will be relatively modest. To date this year the city has seen very little in terms of snow and ice accumulation. Even after accounting for the possibility of a major snowstorm before the end of winter, IBO projects that the city will spend approximately $24 million less than currently budgeted for snow removal costs. Additional reductions in DSNY's budget for 2020 and 2021 result from IBO's expectation that the closure of the Fresh Kills landfill is proceeding more slowly than planned. IBO projects that the cost of closing Fresh Kills will be lower than currently budgeted in the first two years of the plan, although the entirety of the savings results from a delay in expenditures, with commensurate increases in expenditures for 2022 and 2023. Finally, IBO assumes that DSNY's budget for costs other than staffing related to recycling will require additional funding because these items currently cost considerably more than the city has budgeted.

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 department's budget will increase by $12 million in 2020 and approximately $15 million in each year from 2021 through 2024. We re-estimate planned expenditures primarily within such areas as auto maintenance, funding for the Wildlife Conservation Society, and human resources.

IBO estimates that the Department of Housing Preservation and Development's (HPD) budget will require an additional $4 million of city funds in the current year and $6 million in each succeeding year of the financial plan period. HPD pays for housing expenses when households are unable to inhabit their homes due to fire, flood, or the presence of other dangerous structural conditions. Our estimate is in line with historical spending levels. In addition, we assume that the city will supplement these city funds with federal Community Development Block Grant funding of $1.4 million in 2020 and $4 million in each year from 2021 through 2024.

Citywide Savings Plan. As in each of his previous financial plans, Mayor de Blasio has called on city agencies to suggest initiatives that provide the city with additional resources either through reduced city expenditures or increased revenues. For the first time in the Mayor's tenure, last spring's Executive Budget had a Program to Eliminate the Gap (PEG), which included an expansion of the city's partial hiring freeze. While last year's PEG was scheduled to yield savings resulting from the hiring freeze in the current year and beyond, nearly a year later the de Blasio Administration has yet to release any details on where and if the savings accrued.

The Mayor's January Financial Plan includes a Citywide Savings Plan (CSP) that provides $456 million of additional resources in the current fiscal year, $259 million in 2021, $183 million in 2022, $203 million in 2023 and $235 million in 2024. Including the initiatives from the November 2019 Financial Plan's CSP, the additional resources attributed to the CSP for 2020 and 2021 total approximately $1.2 billion.

IBO estimates that nearly 77 percent of the January plan's CSP for 2020 is the result of savings from reduced debt service costs and the realization of additional revenue, resources that would have likely materialized without agencies having to be proactive. Only slightly more than 1 percent of the current year resources in the CSP are the result of agency efficiency efforts, defined by OMB as "active changes to agency practices that improve the City's finances without reducing service levels." Efficiencies make up a larger share of the 2021-2024 CSP, comprising nearly 19 percent of the total for 2021 and 25 percent for 2022. But nearly all of this increase is the result of what the Department of Education describes as staffing efficiencies, which OMB estimates will save the city $39 million each year from 2021 through 2024.

Citywide Savings Program, January 2020
Dollars in thousands

	2020	2021	2022	2023	2024
Accruals	($7,762)	($2,261)	($2,000)	($2,000)	($2,000)
Additional Revenue	(221,593)	(8,963)	(3,230)	(3,230)	(3,230)
Debt Service	(129,157)	(12,333)	(15,050)	(35,876)	(67,839)
Efficiency	(5,765)	(48,654)	(46,351)	(46,351)	(46,351)
Funding Swap	(16,085)	(12,490)	(8,600)	(8,600)	(8,600)
Reestimates	(54,631)	(158,999)	(104,819)	(104,819)	(104,819)
Underspending	(6,247)	(2,188)	(1,000)	(1,000)	(1,000)
Vacancies	(14,621)	(12,697)	(1,500)	(1,500)	(1,500)
Total	**($455,861)**	**($258,585)**	**($182,550)**	**($203,376)**	**($235,339)**

SOURCE: IBO categorizations based on Mayor's Office of Management and Budget data

New York CIty Independent Budget Office

Pressure Points

IBO's forecast of continued, albeit slower, economic growth for the city yields estimated revenue growth that exceeds the growth in city-funded expenditures over the plan period. Coupled with our re-estimates of expenditures, these trends lead us to forecast relatively small and manageable out-year budget gaps. Yet, even with manageable gaps, a number of uncertainties exist that could greatly affect the stability of the financial plan. Primary among these uncertainties is the impending adoption of a state budget and the Governor's proposal for sweeping changes to the formula for funding the state's Medicaid program. Additional fiscal uncertainty arises from the status of the city's municipal labor contracts, many of which will begin to expire in 2021 and 2022. The persistent financial instability of the Metropolitan Transportation Authority and NYC Health + Hospitals (H+H) 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 a sizeable city financial contribution. Finally, the possibility of recession and an accompanying contraction of the local economy remain a threat, although less so than in the recent past.

State Budget. Governor Cuomo's Executive Budget proposal seeks to tackle an over $6 billion gap in the state budget for the upcoming fiscal year. It is widely estimated that nearly half of that gap is the result of rising costs in the state's Medicaid program. The Governor has proposed various changes in an attempt to rein in the program's costs, starting with a 1.0 percent cut to the program that took effect in January. His Executive Budget proposal would alter the state policy of capping localities' annual cost increases for Medicaid. The Governor has stated that the changes he has already proposed for Medicaid would not cost the city more than $221 million. Although the Governor's revised budget legislation clarified some aspects of the local share proposal, much remains unknown about how growth in local Medicaid spending will be measured making it difficult to provide robust estimates of the fiscal impact of the change on the city. Still, it is quite likely that the change would cost the city hundreds of millions of dollars annually.

The Governor is also counting on implementing recommendations from his Medicaid Redesign Team to generate $2.5 billion in savings in the upcoming state fiscal year. With the proposals due by April 1 and little information as to what reforms the redesign team will consider and recommend, it is impossible to estimate how any changes would affect the city's financial plan. The small window of time in which decisions on adjustments to the state's Medicaid program need to be made increase the likelihood that such decisions will not be thoroughly considered through the lens of their effects on local budgets.

Labor Costs. Currently, nearly 80 percent of all city employees are working under the terms of labor agreements for the 2017-2021 round of bargaining. The Mayor's financial plan includes funding for the estimated cost of settling the remaining outstanding labor contracts following the already established civilian and uniformed patterns for the current round of collective bargaining. Funding for labor contracts that are not yet settled is included in the centrally managed labor reserve fund, rather than allocated to the budgets of specific agencies. The January plan includes slightly over $1 billion in the current year and $2.1 billion in 2021 in the labor reserve, with much of that expected to be used as remaining contracts are settled.

The current financial plan also includes adequate funding for the cost of 1.0 percent annual salary increases in each year of the next contract cycle, which would begin in 2022. Given that annual salary increases have invariably exceeded 1.0 percent, it is very likely that the cost of future settlements will exceed the funding available in the labor reserve. Assuming the remaining outstanding contracts from the current round have been settled but no new contracts for the next round have been completed, IBO estimates that by the end of 2021, nearly 37 percent of the city's full-time workforce would be without a current labor contract. By the close of 2022, when a new mayoral administration will be in place, over 55 percent of the workforce would be working without a contract.

While IBO does not estimate wage increases that will be included in future labor contracts, we are able to estimate the total cost of each additional 1.0 percentage point wage increase. Because of the very small number of contracts expiring in fiscal year 2020, we estimate that each additional percent increase above the amount currently budgeted would cost the city only $1 million. By 2021, each additional percent of salary increase will cost the city $44 million, with subsequent years costing $258.2 million, $551.6 million, and $869.3 million in 2022, 2023, and 2024 respectively.

MTA and H+H. The city's contentious relationship with the state in regards to the MTA continues to be a source of fiscal uncertainty for the city. The transportation agency faces a number of financial challenges both in funding its operating expenses and financing and managing its capital program. In recent years the city has taken on a greater financial responsibility for the financing of the MTA's capital plan as well as providing the agency with additional funding for its operations.

Last year the city was compelled to provide $400 million for the MTA's "Action Plan" for emergency repairs to stabilize the subway system. This year the MTA has requested $3 billion from the city for the transportation authority's new five-year capital plan and an increase of approximately $100 million a year in the city's contribution towards operation of the MTA's paratransit system. The latter request is one of the "adjustments" needed to balance the MTA's 2020 operating budget. The MTA's operating shortfall is projected to grow to $1.9 billion in 2023, and pressure on the city to help close that gap may mount. Financing the balance of the 2015-2019 MTA capital plan and the start of the 2020-2024 plan, even if revenue from congestion pricing begins to flow in 2021, is likely to further increase the pressure on the transportation authority's operating budget. The risk for the city is that additional demands from the state to support the MTA will up-end the city's own fiscal balancing act.

New York City Health + Hospitals' still fragile fiscal health also continues to be a potential threat to the city's financial stability. While the state grapples with a large budget deficit, attributable in part to the rising cost of Medicaid, the Governor has already implemented a program that cuts Medicaid payments to hospitals by 1.0 percent. H+H estimates that this cut will cost the city's public hospital system approximately $65 million over the next two years. The Governor's panel of experts, the Medicaid Redesign Team, will likely propose further changes to the Medicaid program that could lead to even greater financial strain on H+H. In addition, potential changes in federal health care financing policies for Medicaid and Medicare, including some stemming from legal challenges to the Affordable Care Act, could further destabilize H+H's financial status.

NYCHA. Early last year NYCHA was compelled by the U.S. Department of Housing and Urban Development (HUD) to accept the terms of an action plan aimed at resolving the dangerous physical conditions that exist in NYCHA properties after years of underfunding, neglect, poor management, and lack of oversight. The agreement between HUD and NYCHA installed a federal monitor at NYCHA to ensure that the authority complied with its obligations under the plan.

In the year since the agreement was signed, NYCHA has developed plans to address some of the most critical deficiencies, including breakdown-prone heat and hot water systems and frequently broken elevators. These plans are the first steps in enhancing the quality of life for NYCHA tenants, but the cost of implementing the plans remains unknown. Estimates for the cost of bringing the entire public housing system up to standards are enormous. NYCHA's most recent five-year capital needs assesment calls for $32 billion of critical capital upgrades and a total capital need of $45 billion to bring all NYCHA properties into a state of good repair over the next two decades—the current five-year capital need has nearly doubled since its last assessment.

While the majority of NYCHA's capital funding has traditionally been an obligation of the federal government, in recent years the share of the agency's capital plan funded by Washington has diminished. In its current capital commitment plan for 2020 through 2024, the city is providing a total of $2.8 billion, slightly under half of NYCHA's $6.4 billion capital plan for the four years; notably the authority's capital plan covers only 20 percent of what the agency has identified as its critical capital needs over the next five years. The city is likely to face pressure to increase its capital contribution to NYCHA in order to prevent further deterioration of the city's public housing stock.

In Reserve

The Mayor and City Council continue to place substantial funds into reserve that would be available to help balance the budget in the face of either a sharp drop in revenue or the need for unexpected spending. The January plan includes $300 million in reserve funds for 2020—dollars budgeted as expenses but not attached to any specific budget function. At the start of the year, these reserves stood at $1.40 billion, but as is typically done at this point in the fiscal year, the city has drawn down some of the reserve and used it to bolster the surplus for the current year, which in turn will be used to balance the budget for 2021. If the remaining reserve funds go unused, they will also become part of the surplus. The financial plan also contains unallocated reserves of $1.25 billion in each year from 2021 through 2024.

In addition to these budgeted reserves, the de Blasio Administration has put aside an estimated $4.8 billion in the Retiree Health Benefits Trust (RHBT). While funds in the trust can only be used to pay all or part of the cost of retiree health benefits in a given year, a sizable sum would be available: $2.1 billion in 2020 and $2.3 billion in 2021. Retiree health costs paid with funds from the trust free up an equal amount of city funds in the budget for other needs, although dipping into the trust fund to provide budget relief makes the city's challenge of funding its future health care obligations to retirees more difficult.

If IBO's economic forecast and our re-estimates of city revenues and expenditures prove generally correct, then the city's fiscal condition should remain stable, with revenue growth exceeding expenditure growth over the financial plan period and 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 2020 with a total surplus of over $2.6 billion before drawing down the remaining $300 million in unallocated reserves in this year's budget. This surplus could be used to prepay 2021 expenses, creating a 2021 surplus of $240 million. These funds, along with $692 million in additional resources IBO expects in 2022 above what OMB has projected, could reduce the budget gap in that year to $1.5 billion (2.0 percent of estimated city-funded expenditures). Similarly, our forecasts of revenues and expenditures in the remainder of the financial plan reduce the city's budget gap in 2023 to $1.6 billion (2.1 percent of estimated city-funded expenditures) and $247 million (0.3 percent of estimated city-funded expenditures) in 2024. If the city is unable to close these gaps with additional revenues or savings, the $1.25 billion in reserves budgeted for each year of the financial plan and the funds allocated to the RHBT are available to help bring the budget into balance.

New York City's current economic expansion, measured by payroll employment, is entering its 11th year, making it the longest period of uninterrupted job growth on record. From 2015 through 2019, New York City added an average of 95,700 jobs annually and city tax revenue grew by over $10 billion, averaging 4.3 percent growth annually. IBO's current projections signal a sharp decline in job growth over the next two years, with slower growth across all private-sector industries. The sharp slowdown in New York City's job market is a product of our expectation that U.S. economic growth will slow in 2020 and 2021 and recover only slightly in 2022, combined with factors specific to New York, including a shrinking labor force, weaker property markets, and signs of contraction in the retail and tourism sectors.

Moreover, there are significant downside risks to IBO's economic and tax forecasts. The national economy is still facing headwinds from trade disputes and now may be effected by the spread of the coronavirus. Closer to home, there are threats posed by proposals in the Governor's budget that would shift some of the cost of closing the state's budget gap to the city. Fiscal challenges at the MTA, H+H, and NYCHA—agencies not under the city's direct control—could also put more pressure on City Hall for aid and further strain the city's budget.

ENDNOTES

[1]Prior to 2015, all corporations were taxed under either the general corporation tax (GCT) or banking corporation tax (BCT). With state and local tax reform, C-corporations are now taxed under the combined business corporation tax, while S-corporations are still taxed under the original GCT or BCT. The projections here refer to the sum of revenue from all three corporate tax mechanisms.
[2]Relevant base-broadening measures that have flowed through to the city's tax definitions include a limit on deductions for interest expenses and the inclusion of global intangible low-tax income.