May 2022

Continued But Tempered Growth in Delicate Times:

A Reestimate of the Mayor's Executive Budget

Overview

When the Mayor announced his Executive Budget at his first 100 days address in Brooklyn, the tone was noticeably different from that of his speech outlining his Preliminary Budget just two months earlier. While much of the Preliminary Budget discussion focused on the Mayor's plan to reduce city spending, introducing a $5 billion savings program over five years; the Executive Budget proposed an almost equal amount of new city-funded needs over the same period. The shift in tone may be reasonable, as the city's recovery from the pandemic-induced recession continues to surpass earlier expectations, including ours of two months ago. There are several forces, however, that taint this otherwise rosy picture, particularly the specter of slowed or negative economic growth as the Federal Reserve raises interest rates to tamp down inflation, and the outstanding settlement of the city's labor contracts, nearly all of which are already expired.

Strong April collections from the personal income tax have increased the Independent Budget Office's (IBO) tax forecast for fiscal year 2022 compared with our prior estimate by $3.5 billion (5.4 percent). Recent upward revisions to employment data reveal that the city is on track to reach pre-pandemic

Total Revenue and Expenditure Projections
Dollars in millions

	Actuals	Plan					Average Change
	2021	2022	2023	2024	2025	2026	2021-2026
Total Revenue	**$98,215**	**$111,335**	**$101,793**	**$102,511**	**$103,815**	**$104,787**	**1.3%**
Total Taxes	65,380	67,974	67,595	69,133	70,960	72,878	2.2%
Total Expenditures	**$100,372**	**109,150**	**100,748**	**105,628**	**106,402**	**107,745**	**1.4%**
IBO Revenue Less Expenditures	n/a	$2,185	$1,045	($3,118)	($2,588)	($2,958)	
IBO Prepayment Adjustment 2022/2023	n/a	($2,185)	$2,185	-	-	-	
IBO Surplus/(Gap) Projections		**$0**	**$3,230**	**($3,118)**	**($2,588)**	**($2,958)**	
Adjustments for Prepayments and Non-Recurring Expenses							
Net Prepayments	($1,863)	$835	$5,272	-	-	-	
Reserve Funds	-	50	1,305	1,250	1,250	1,250	
Other Adjustments	-	-	(105)	2	97	288	
Total Expenditures (net of adjustments)	**$102,235**	**$108,265**	**$94,276**	**$104,376**	**$105,055**	**$106,206**	**0.8%**
City-Funded Expenditures (net of adjustments)	**$73,056**	**$70,934**	**$65,755**	**$76,468**	**$77,685**	**$79,800**	**1.5%**

NOTES: Figures may not add due to rounding. Net prepayments include payments of debt service. In 2021 the city prepaid $425 million of 2022 retiree health benefit costs; this adjustment was made in the total expenditure line. Negative adjustments for prepayments add to the total expenditures, positive adjustments reduce total expenditures.

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employment by early 2024, more than a year earlier than IBO predicted in March. And tourism—a critical part of the New York City economy—continues its rebound with hotel occupancy rates nearly hitting pre-pandemic levels in March and April. Even with these positive signs, there is cause for concern. While IBO's economic forecast assumes that the Federal Reserve is able to temper inflation without triggering a recession, the potential slowdown in growth has caused us to modestly lower our rather sanguine March tax revenue forecasts for fiscal years 2023 through 2026, although our estimates are still higher than the Mayor's.

Based on our forecast of revenues and our reestimates of spending within the Executive Budget, IBO projects that the city is on track to end the current fiscal year with a substantial $2.2 billion surplus; this is on top of the $5.9 billion in prepayments and additions to reserves the Mayor has already budgeted for this year. If all these additional surplus funds are applied as a prepayment for 2023 expenses, this would result in a surplus of $3.2 billion in 2023. IBO estimates that expenses will exceed revenues for fiscal years 2024 through 2026, resulting in gaps of $3.1 billion, $2.6 billion and $3.0 billion respectively—all somewhat lower than those projected by the Mayor and considered manageable by historical standards, particularly after accounting for the $1.25 billion in reserves of unallocated funds built into each of these budgets. One factor contributing to these out-year gaps is IBO's estimate that the city is funding an increasing number of ongoing education programs with time-limited federal Covid-19 aid. Based on reallocations made in the Executive Budget, IBO now estimates that the Department of Education will face a funding need reaching $1.1 billion for these programs in fiscal year 2026.

A cost yet to be fully accounted for in the city's budget or IBO's reestimates of it—but one that will likely have a large and lasting impact on the city's balance sheet—is that of collective bargaining settlements with the city's municipal unions. Nearly all of the city's labor contracts are either already expired or are set to expire during calendar year 2022. Prior to the Executive Budget, the labor reserve only included funding for 1.0 percent wage increases in the third year of new contracts. While the Mayor did include some new funding in the Executive Budget—$1.7 billion over the plan's five-year period to support 0.5 percent raises for the first two years of new contracts—history suggests that these settlements are likely to be well over current budgeted amounts. In the last round negotiated by the de Blasio Administration, the settlements included three increases of 2.0 percent, 2.25 percent, and 3.0 percent, respectively.

U.S. and Local Economic Outlook

The U.S. economy's continued recovery from the short, but deep Covid-induced recession in 2020 is meeting strong headwinds from high inflation and heightened international tensions. This has prompted IBO to lower its forecast of real GDP growth to 3.2 percent in 2022 and 2.7 percent in 2023, becoming even slower in subsequent years. (In this section, years refer to calendar years unless otherwise noted.) The Federal Reserve's attempts to tame inflation through interest rate increases and quantitative tightening will dampen the growth spurred by low unemployment and strong consumer demand requiring adroit management of expectations and actions. In fact, a misstep in monetary policy by the Federal Reserve is the largest risk to IBO's outlook of continued growth.

With the expectation of sustained, albeit slower, national economic growth, New York City is expected to continue on its path toward recovery. Recent upward revisions in employment figures for 2021 mean that city employment will reach pre-pandemic levels more than a year earlier than our most recent forecast. Other key indicators show signs of marked strength, including wages and salaries, personal income, visitor counts, and residential real estate sales. However, concerns remain. We forecast a slower recovery in sectors dependent on in-person work, such as a leisure and hospitality, compared with traditionally office-based sectors such as professional services and information. Rising interest rates, which are likely to cool real estate markets and reduce Wall Street earnings, could undermine the still-fragile local recovery in the near future.

U.S. Economy. IBO has lowered its forecast of real GDP growth in calendar years 2022 and 2023 to 3.2 percent and 2.7 percent, respectively, down from our projections in March of 4.1 percent growth this year and 3.1 percent in 2023. While some standard indicators—such as low unemployment and strong consumer demand—point to a sustained U.S. economic expansion, other factors such as high inflation spurred by supply chain disruptions and high energy costs, along with heightened international tensions, point to an elevated risk of slower or negative growth. The Federal Reserve's ability to slow the economy and tame inflation without triggering a severe slowdown is far from certain, and it is the biggest risk to IBO's projection of continued modest growth over the entire forecast period.

Progress in vaccinating large numbers of Americans, an accommodative monetary policy, federal fiscal stimulus,

IBO versus Mayor's Office of Management and Budget Economic Forecasts						
	2021	**2022**	**2023**	**2024**	**2025**	**2026**
National Economy						
Real GDP Growth						
IBO	5.7	3.2	2.7	2.8	2.5	2.4
OMB	5.7	3.3	2.7	2.9	2.8	2.5
Inflation Rate						
IBO	4.7	6.6	2.6	2.2	2.3	2.3
OMB	4.7	6.2	2.6	2.1	2.1	2.2
Personal Income Growth						
IBO	7.4	2.4	5.4	5.0	4.5	4.4
OMB	7.4	2.2	5.9	5.6	5.5	5.2
Unemployment Rate						
IBO	5.4	3.5	3.4	3.6	3.8	4.0
OMB	5.4	3.6	3.6	3.7	3.7	3.6
10-Year Treasury Bond Rate						
IBO	1.4	2.6	3.2	3.4	3.7	4.0
OMB	1.4	2.1	2.8	3.1	3.1	3.1
Federal Funds Rate						
IBO	0.1	1.1	2.7	2.5	2.5	2.5
OMB	0.1	0.8	2.0	2.5	2.6	2.6
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	262.5	193.0	109.6	84.3	70.9	60.6
OMB (Q4 to Q4)	258.3	132.1	123.4	92.0	104.6	92.7
Nonfarm Employment Growth						
IBO (Q4 to Q4)	6.4	4.4	2.4	1.8	1.5	1.3
OMB (Q4 to Q4)	6.3	3.0	2.8	2.0	2.2	1.9
Inflation Rate (CPI-U-NY)						
IBO	3.3	4.4	2.5	2.4	2.5	2.5
OMB	3.3	5.0	2.3	2.1	2.2	2.3
Personal Income ($ billions)						
IBO	714.2	730.3	772.9	816.0	857.2	899.0
OMB	714.7	716.8	751.8	789.6	830.4	870.4
Personal Income Growth						
IBO	5.4	2.3	5.8	5.6	5.1	4.9
OMB	5.5	0.3	4.9	5.0	5.2	4.8
Manhattan Office Rents ($/sq.ft)						
IBO	76.2	73.8	75.0	75.9	77.2	77.5
OMB	76.3	71.0	70.7	70.8	73.5	75.1

SOURCE: 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.

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employment growth, and pent-up consumer demand all contributed to a strong rebound in 2021 from the 2020 Covid-induced recession. Real GDP increased by 5.7 percent last year, and the national unemployment rate fell continuously throughout the year, reaching 3.9 percent by December. One development that does not bode well for future growth is the acceleration of inflation that began in 2021 and continued into 2022, the result of supply side constraints in the global economy, combined with high levels of consumer demand.

Prior to Covid's disruption of global supply chains, inflation had been tame for many years, averaging 1.8 percent annually during the last economic expansion, as measured by the Bureau of Labor Statistics' consumer price index. The inflation rate rose from 2.1 percent in December 2020 to 9.6 percent in December 2021, the highest level in 40 years. Double-digit increases in the price of energy have had an outsized effect on overall inflation, and Russia's invasion of Ukraine has caused disruptions in energy markets, pushing energy prices even higher.

Understanding that tighter monetary policy would be necessary to fight inflation, along with the waning of fiscal stimulus and transfer payments, a slowdown in the U.S. economy has long been expected by IBO and other forecasters. But the acceleration of inflation since last year raised the risk that it could become entrenched in companies' prices and employees' wage demands, prompting the Federal Reserve to take more decisive action.

The Federal Reserve has indicated its intention to fight inflation more aggressively by raising the Federal Funds rate more frequently than previously planned, and in early May it raised the rate by 0.5 percentage points, the largest increase in over two decades. It also is instituting a policy of quantitative tightening by reducing its balance sheet of securities in order to reduce liquidity in credit markets and put upward pressure on long-term interest rates.

With a strong labor market fueling consumer demand, IBO expects that the Federal Reserve will be able to pursue a contractionary monetary policy and achieve a "soft landing," where inflation is tamed without squelching moderate growth. We forecast 3.2 percent real GDP growth this year, with the unemployment rate falling slightly to 3.5 percent. We project an increase in the federal funds rate from 0.1 percent last year to 1.1 percent this year and 2.7 percent in 2023, and a corresponding rise in interest rates for Treasury Bonds and other longer-term assets. IBO expects that the combination of rate increases, the shrinking of the Federal Reserve's balance sheet and the easing of shortages of goods caused by the pandemic, will help to slow inflation from 6.6 percent this year to 2.6 percent in 2023. After 2023, we forecast modest but relatively stable GDP growth at an annual average rate of 2.6 percent, accompanied by rising but still low unemployment rates and inflation holding just under the Federal Reserve's 2.5 percent target rate.

While we expect a soft landing, it is not certain that the Federal Reserve will be able to avoid a recession in its efforts to curb inflation in the past year. Rising interest rates are already making bonds more attractive investments than some securities, and prices on Wall Street have been sliding. Frequent changes in interest rates could also rattle financial markets and further increase consumer and business uncertainty. In short, the Federal Reserve is facing a very difficult task, and any misstep in its attempts to slow inflation is the major risk to IBO's forecast of continued growth. The possibility that spillover effects of sanctions imposed on Russia could choke off growth in Europe, or that the geopolitical situation worsens, further increase the risk of a recession.

Though it is no longer the most likely risk to IBO's forecast, the impact of Covid-19 virus remains a major threat to growth. While our forecast is not premised on the elimination of Covid as a public health risk, we assume that increased vaccination rates and better treatments will result in successive waves of Covid infections becoming less disruptive to public health and economic activity. But the virus has already proved to be unpredictable, and there remains the risk of new outbreaks that increase caseloads, strain health care systems, and further disrupt global trade and supply chains.

Local Economy. Despite the unprecedented impacts of the Covid-19 pandemic on the city's economy, the recovery has been consistent and continues at an even faster pace than previously anticipated. Recent revisions to employment data reveal that 2021 was an even stronger year for job growth than previously believed, and the city is on track to reach pre-pandemic employment levels by 2024. Wages and personal income continue to demonstrate substantial strength, enough to weather decreased government transfer payments as Covid-era relief programs expire. Tourism continues to rebound, and was only temporarily impacted by new waves of the virus. In addition, real estate sales have set recent records, particularly in the residential market.

However, there are still some mixed signals and risks that cannot be ignored. Certain higher-wage sectors have enjoyed a particularly quick return to full employment and positive outlook for the future. Some of the city's lower-wage sectors—most notably retail trade and leisure/hospitality—continue to experience a much slower recovery, fueling concerns over income inequality. While Wall Street has posted near record-breaking profits for the past two years, the imminence of higher interest rates and likely slower growth will almost certainly result in lower profits in the coming years. While less uncertain and alarming than it was two years ago, the course of the virus continues to move in unpredictable ways and has the potential to continue upending tourism and industries that rely on it. Finally, geopolitical instability poses risks to all economic activity, nationally and locally.

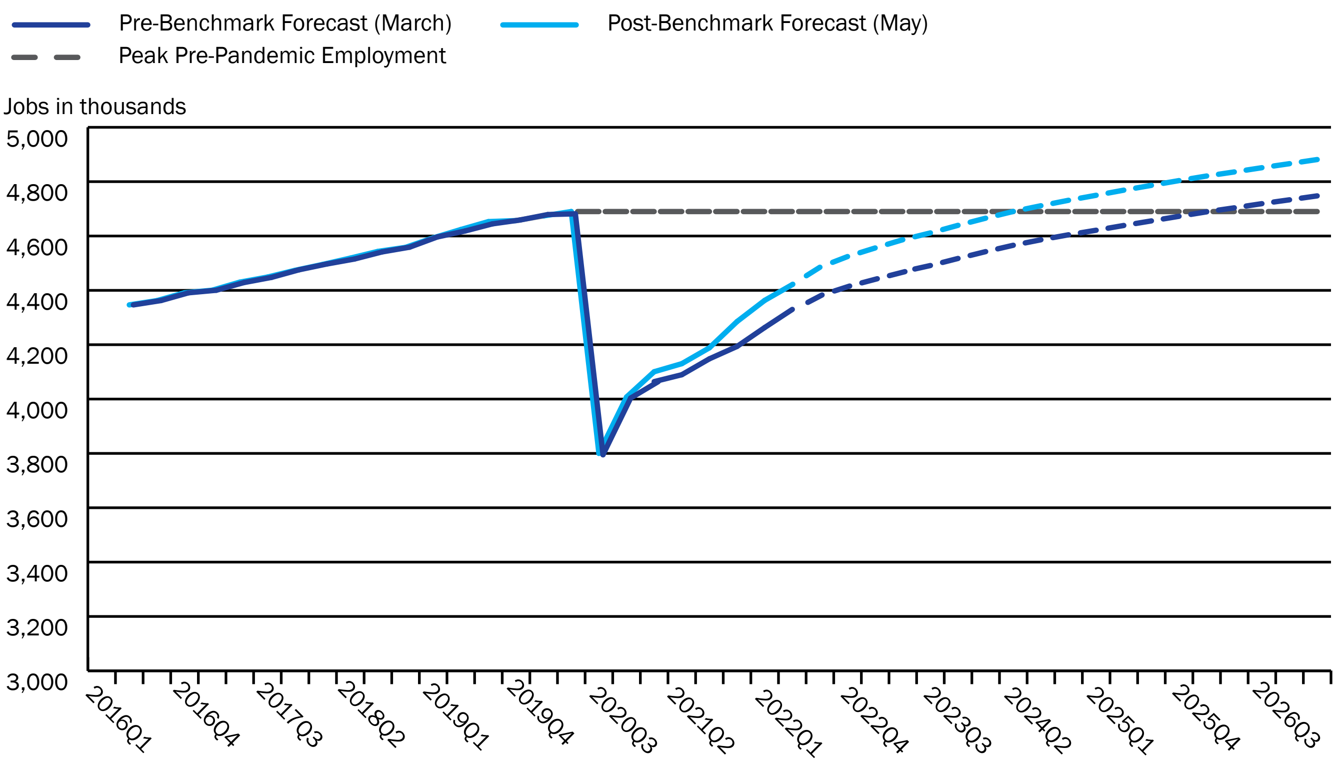
Employment. The city continues to recover from the heavy job losses sustained at the beginning of the pandemic, when total employment plummeted from 4.7 million jobs to 3.8 million in a single quarter. However, recent data indicate that the recovery has been more robust than previously anticipated. In late March, the Bureau of Labor Statistics completed its annual benchmarking process, which converts survey-based employment estimates into a population-based employment count. This led to substantial upward revisions in the city's employment figures for 2021. In our last report, IBO estimated that the city had gained 199,000 jobs for the year (measured on a Q4-to-Q4 basis), reaching 91.1 percent of pre-pandemic employment. However, the full count reveals that the city actually gained 262,500 jobs in 2021, bringing total employment to 93.0 percent of pre-pandemic levels, at 4.4 million jobs.

IBO projects that this employment recovery will continue in the coming years, with an additional 193,000 jobs added in 2022, 109,600 jobs in 2023, and an average of 71,900 jobs in each year from 2024 through 2026. While we previously projected that full pre-pandemic employment would not be reached until late in 2025, we now project that level will be reached in the first quarter of 2024.

While the revisions to 2021 employment were distributed across most industries, the most notable addition was nearly 40,000 jobs to the struggling leisure and hospitality sector, where the heaviest losses were sustained at the beginning of the pandemic. Even with this adjustment, however, the recovery in this sector remains weaker than in any other—by the end of 2021 employment was still more than 100,000 jobs below its pre-pandemic level of over 460,000 (a difference of 23.2 percent). IBO projects that the sector will nearly, but not quite, reach pre-pandemic levels by the end of the forecast period in 2026. The only other sector projected not to fully recover over this period is the closely related retail trade industry. All other major industries are expected to exceed pre-pandemic employment by the end of this year, with the exception of financial activities, which had already been on a slower growth trajectory before the pandemic, and was not as severely impacted by it.

Wages and Personal Income. While there is still a way to go before total city employment recovers to its pre-pandemic levels, aggregate wages and salaries have

Recovery of Total City Employment to Pre-Pandemic Levels Now Expected in 2024



NOTE: Dashed blue lines indicate projected job growth.

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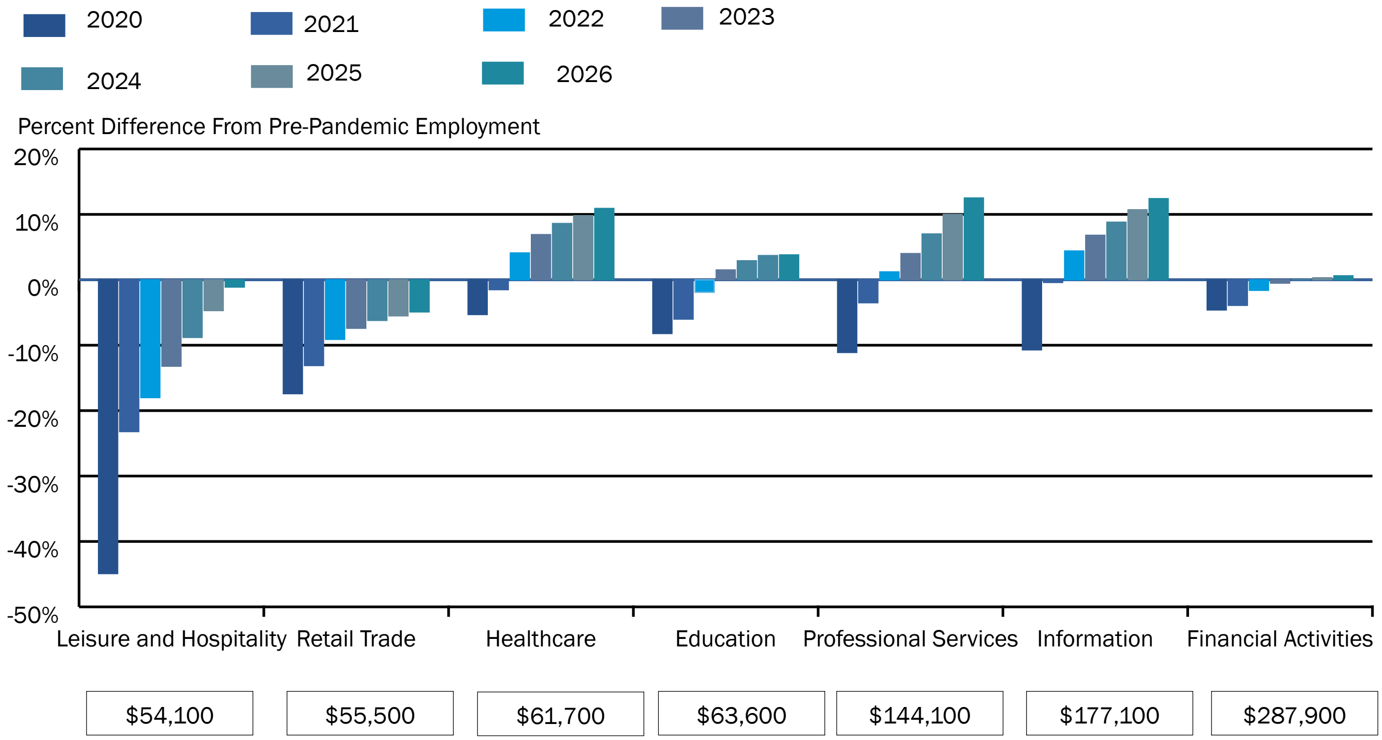
Leisure and Hospitality, Retail Trade, Recovering Most Slowly After Pandemic Shock



NOTE: Boxes indicate average wages (total wages/total employment) by sector in 2021.

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rebounded more quickly. After taking an initial hit at the beginning of the Covid crisis, wages fell by 1.3 percent, from $449.3 billion in 2019 to $443.4 billion in 2020. Growth resumed almost immediately, however, and in 2021 wages and salaries grew by 8.9 percent to reach $482.8 billion. IBO projects another year of strong growth for 2022, at 8.2 percent, before moderating a bit and averaging 5.9 percent in 2023 through 2026. This puts aggregate wages at $658.1 billion by the end of the forecast period.

The reason for the disconnect between a sluggish recovery in employment and much stronger wage growth can be understood in part by looking at the sectoral composition of the recovery. The two sectors lagging most notably behind—leisure and hospitality, and retail trade—have relatively low average wages. This is in contrast to the two sectors with the strongest employment outlooks—professional services and information—that have some of the highest average wages in the city (in addition to financial activities).

Wages and salaries are the largest component of personal income in the city, which means the outlook for personal income growth is also strong. Personal income never experienced an annual decline, even at the height of the pandemic, thanks to a large increase in transfer payments from the federal government (unemployment payments, stimulus checks, refundable tax credits, and public assistance). After growing by $45.7 billion (42.8 percent) in 2020, and an additional $5.3 billion (3.5 percent) in 2021 to reach $157.9 billion, IBO projects that for 2022, as more Covid-era programs expire, transfer payments will contract by $23.9 billion (15.2 percent) to $134.0 billion, before resuming much slower and more typical levels of growth in the future years.

Despite the contraction in transfer payments, the robust growth projected for wages and salaries, along with other income components, such as proprietor's income, is more than enough to keep personal income growth positive. We forecast that in 2022, personal income will grow by $16.1 billion (2.3 percent) to reach $730.3 billion. Slightly faster growth is then expected to resume, averaging 5.3 percent from 2023 through 2026, with personal income reaching $899.0 billion by the last year of the forecast. One potential downside risk to the personal income forecast, however, is income from interest and dividends, which accounted for $134.8 billion, or 18.9 percent of total personal income in the city in 2021. Given recent stock market volatility, declining equity prices, and with the Federal Reserve signaling a more aggressive schedule of interest rate increases to combat inflation, the dividend portion of this income category could take a disproportionate hit.

Tourism. Beginning in March 2020, the pandemic devastated tourism and business travel in the city. The number of visitors fell by two-thirds in calendar year 2020. By early 2021, however, leisure travel to the city began to increase. As the Covid-19 vaccines became widely available, domestic tourism grew more quickly, particularly in August and September 2021, when Broadway shows and other tourist attractions re-opened. The number of hotel stays increased steadily in the latter half of 2021 until mid-December, when the arrival of the virus's Omicron variant resulted in many cancellations of planned visits.

Omicron's interruption to the tourism revival was temporary, however, and by March and April hotel occupancy rates and room rates came close to matching post-Covid records set in December 2021. IBO's outlook is for tourism to continue to recover throughout the forecast period, with particularly strong growth in 2022 and 2023. Currently, most visitors to the city are domestic tourists, and it will take longer for large numbers of visitors from other countries to return. The continued abatement of Covid will help attract more foreign visitors, however new geopolitical concerns, including the war in Ukraine may counteract this trend. International tourists are particularly important to the local economy because, on average, they stay longer and spend roughly three times more money in the city than their domestic counterparts.

Although IBO projects that leisure travel to the city will recover over the next few years, we expect the pandemic will have a long-lasting impact on business travel. During the pandemic, businesses and individuals gained experience using telecommunications technology and improved their ability to facilitate meetings and otherwise operate remotely. Many businesses will decide to continue using this technology, allowing them to avoid more costly travel. Reflecting the continued weakness of business travel, mid-week occupancy has lagged behind weekend stays.

Real Estate. After a banner year in 2021, the New York City real estate market continued its strong performance in the first quarter of 2022. Total taxable sales were $35.9 billion, slightly below the sales of $36.2 billion the previous quarter, yet far above the sales of $21.6 billion recorded in the first quarter of 2021. If sales were to continue at the first-quarter pace for the rest of 2022, the total for the year would easily break the existing record of $120.1 billion set in 2016. However, IBO anticipates that actual sales will be around $105 billion, slightly above the $100 billion recorded in 2019, just before the pandemic hit.

The pandemic had a much more adverse impact on commercial real estate than on residential. In 2019, taxable commercial and residential sales in New York City were each around $50 billion. In 2020, commercial sales plunged to $29.3 billion, while residential sales dropped just slightly, to $47.4 billion. Commercial transactions recovered strongly in the fourth quarter of 2021 and the first quarter of 2022, with taxable sales of $18.3 billion and $16.5 billion, respectively. IBO expects the commercial market to cool considerably in coming months, as pent-up demand from the Covid-induced slump of 2020 recedes, rising mortgage rates deter potential buyers, and because the long-term outlook for office and retail space remains uncertain.

The residential real estate market has defied the expectation from early in the pandemic that there would be a widespread exodus from the city, particularly Manhattan. The value of taxable residential sales dropped just 4.8 percent in 2020 compared with 2019, and in 2021 reached an all-time high of $68.1 billion. Sales were extraordinarily strong in the first quarter of 2022, at $19.5 billion. However, IBO projects that the residential market will soon begin cooling off. While this is largely in response to rising mortgage rates, the rise of remote work also has clear implications for residential real estate. Manhattan and nearby neighborhoods (especially in Brooklyn and Queens) may maintain their attractiveness due to amenities, but access to Manhattan employment centers may become less of a consideration in household location decisions.

As noted above, IBO projects that annual real estate sales will be around $105 billion in 2022, about $6 billion below sales in 2021. Sales are projected to remain at around $100 billion from 2023 through 2026, with the residential share continuing to hover around 55 percent.

Wall Street. The securities industry's extremely strong performance throughout the pandemic has stood in contrast to other parts of the local economy that were, at least temporarily, shaken. Total profits for 2021 were $58.4 billion, just shy of the all-time highest amount recorded in 2009 (which was aided by a large influx of federal money after the financial crisis). However, these profits have largely been sustained over the past two years by extremely low interest expenses. With the Federal Reserve signaling plans for multiple interest rate increases to combat inflation, these expenses are certain to rise and profits are projected to return to lower and more sustainable levels. IBO forecasts profits of $25.1 billion in 2022, $26.4 billion in 2023, and an average of $32.9 billion in 2024 through 2026.

Taxes and Other Revenues

The unprecedented flow of federal Covid-19 stimulus funds and stronger than anticipated collections for most of the city's taxes this year have boosted the city's total revenue budget to $111.3 billion in 2022, an increase of 13.4 percent over 2021. (For the balance of this report, years refer to city fiscal years unless otherwise noted.) With federal grants accounting for a more typical share of the total in 2023, the city's total revenue will shrink to $101.8 billion. Slow revenue growth resumes in 2024 and continues through 2026 at an annual average rate of 1.0 percent, with total revenues reaching $104.8 billion by the final year.

With the major exception of the real property tax and the hotel occupancy tax, the city's tax revenues have proven more resilient in the face of the pandemic than anticipated back in 2020. Overall tax revenues—which account for the majority of total city revenues—will total $68.0 billion in 2022, a 4.0 percent increase over 2021. Personal income tax, sales tax, and the property transfer taxes have been particularly strong this year. Thanks to higher than anticipated spring collections from personal income taxes, IBO's tax forecast for 2022 is higher than in our prior estimate from March by $3.5 billion (5.4 percent).

The outlook for 2023 is quite different. While property tax revenue is expected to bounce back, most other major tax sources are expected to decline, with overall tax revenue falling to $67.6 billion, a decline of 0.6 percent from 2022. Tax revenue growth resumes in 2024, albeit at a tepid pace averaging 2.5 percent annually in 2024 through 2026, with revenue totaling $72.9 billion in the final year. By comparison, in the decade following the Great Recession, annual growth fell below 3.0 percent only once, and averaged 6.0 percent.

Compared with our prior forecast in March, we have lowered projected total tax revenues by $114 million (-0.2 percent) in 2023, $597 million (-0.9 percent) in 2024, $860 million (-1.2 percent) in 2025, and $570 million (-0.8 percent) in 2026, reflecting the weaker economic outlook in our latest forecast.

In contrast, in the Executive Budget, OMB raised its total tax revenue forecast from earlier in the year for 2022 and 2023 and made smaller reductions in the outlook for 2024 and 2025. Even with these changes, IBO continues to project greater revenue than OMB each year from 2022 through 2026— notably the difference is largest for the current year at $2.5 billion (3.8 percent). The differences in the remaining years of the forecasts range from $1.3 billion (2.2 percent) in 2023 to $1.9 billion (2.7 percent) in 2026.

Total revenues, including not only taxes, but also revenues from the city's fees, fines and other miscellaneous sources, state and federal grants and other categorical aid, and inter-fund revenues are now forecast to total $111.3 billion for the current year—$4.2 billion more than in our March forecast. The increase in total revenue for 2022 is due largely to the flood of tax revenue the city collected this spring, although the city has also budgeted about $1.1 billion in additional federal aid since the Preliminary Budget was released.

This increase in federal aid includes almost $460 million in additional Federal Emergency Management Agency (FEMA) funding in 2022 for the city's Covid-19 response. According the Mayor's Office of Management and Budget (OMB), the balance of the federal funds added are non-Covid related grants.

In addition to FEMA reimbursements, the city has received a total $13 billion in federal stimulus funding for relief and recovery from the pandemic. This includes $5.9 billion in American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds, $4.8 billion in ARPA education aid, and $2.2 billion from Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) funding. The funds were awarded last year and are available through city fiscal year 2025 and 2026, depending on the source. Much of this stimulus revenue is expected to be used this year ($7.0 billion) and next ($2.1 billion).

Changes in the outlook for total revenues for 2024 through 2026 were more modest as the one-time federal appropriations in the relief acts are used up by the city, and tax revenue growth resumes its typical role as the driver of total city revenue.

Real Property Tax. At this point in the fiscal year, updates in the forecast of property tax revenue for the current year are only the result of changes in the outlook for collections, rather than a revised assessment roll or levy. IBO now projects that property tax revenue for 2022 will total $29.5 billion, an increase of $56 million since our March forecast, primarily due to small positive adjustments in the outlook for total payments and abatements.

IBO projects 2023 property tax revenue of $31.5 billion, an increase of 6.9 percent from the current year as assessments recover much of the Covid-19 induced reductions on the 2022 assessment roll. (See IBO's recent

IBO Revenue Projections
Dollars in millions

	Actuals 2021	Plan 2022	2023	2024	2025	2026	Average Change 2021-2026
Tax Revenue							
Property	$31,311	$29,479	$31,513	$31,949	$32,393	$32,891	1.0%
Personal Income	15,101	16,497	14,884	15,136	15,782	16,308	1.6%
General Sales	6,553	8,186	8,464	8,842	9,147	9,574	7.9%
Corporate Taxes	5,019	5,064	4,497	4,628	4,782	5,071	0.2%
Unincorporated Business	2,077	2,365	2,353	2,479	2,577	2,687	5.3%
Real Property Transfer	1,045	1,734	1,466	1,546	1,587	1,590	8.8%
Mortgage Recording	896	1,265	1,073	1,065	1,133	1,146	5.0%
Commercial Rent	869	884	914	933	964	976	2.4%
Utility	356	385	379	395	403	418	3.2%
Hotel Occupancy	85	327	489	597	631	658	50.7%
Cigarette	22	20	18	17	16	16	(5.9%)
Other Taxes and Audits	2,046	1,767	1,544	1,544	1,544	1,544	(5.5%)
Total Taxes	**$65,380**	**$67,974**	**$67,595**	**$69,133**	**$70,960**	**$72,878**	**2.2%**
Other Revenue							
STaR Reimbursement	$154	$146	$144	$142	$140	$138	(2.1%)
Miscellaneous Revenue	5,682	7,360	7,268	7,281	7,287	7,308	5.2%
Unrestricted Intergovernmental Aid	1	792	252	-	-	-	n/a
Disallowances	(24)	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$5,813**	**$8,283**	**$7,649**	**$7,408**	**$7,412**	**$7,431**	**5.0%**
TOTAL CITY-FUNDED REVENUE	**$71,193**	**$76,257**	**$75,244**	**$76,541**	**$78,373**	**$80,309**	**2.4%**
State Categorical Grants	$14,597	$16,427	$16,808	$16,942	$17,186	$17,238	3.4%
Federal Categorical Grants	12,620	19,024	9,909	9,175	8,395	7,381	(10.2%)
Other Categorical Aid	1,177	1,194	1,069	1,061	1,060	1,057	(2.1%)
SUB-TOTAL REVENUE	**$99,587**	**$112,901**	**$103,030**	**$103,718**	**$105,014**	**$105,986**	**1.3%**
Interfund Revenue	634	686	735	731	730	730	2.8%
Less: Intra- City Revenue	**($2,006)**	**($2,253)**	**($1,972)**	**($1,939)**	**($1,929)**	**($1,928)**	
TOTAL REVENUE	**$98,215**	**$111,335**	**$101,793**	**$102,511**	**$103,815**	**$104,787**	**1.3%**

NOTES: Corporate taxes comprise three separate taxes: the business corporation tax for C corporations, the general corporation tax, and the banking corporation tax for S corporations. Personal Income Tax is inclusive of revenue generated from the Pass-Through Entity Tax enacted in 2022. Figures may not add due to rounding.

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brief on the reversal of these reductions.) After bouncing back in 2023, IBO projects revenues to slow sharply, growing at an average annual rate of only 1.4 percent through 2026, when property tax collections are expected to reach $32.9 billion. By contrast, in the five years before the pandemic affected revenues, property tax revenue grew by an annual average of 6.4 percent, due entirely to higher assessed values as there was no change in the city's overall property tax rate.

IBO's latest property tax forecast exceeds OMB's by $53 million in 2022, $313 million in 2023, $257 million in 2024, $567 million in 2025 and $1.1 billion in 2026. The differences between IBO's and OMB's revenue forecasts in 2022 and 2023 are almost entirely due to our forecast of a smaller property tax reserve for delinquency, abatements, overpayments, and refunds. The differences in 2024 and beyond are primarily the result of IBO having a higher levy forecast than OMB. OMB's reserve forecast for the latter years also includes much smaller allowances for cancellations due to lowered assessments than does IBO's.

The Mayor's Executive Budget includes an expense for a property tax abatement for property owners to retrofit spaces to create new childcare facilities. The budget documents indicate that the abatement—which was enacted as part of the state budget agreement in early April—will cost $25 million per year from 2024 to 2026, although little information has been made available as to how the abatement would be implemented.

Although Covid-19 has altered many organizations' assumptions about the amount of space they will want or need to lease in the future, IBO's forecast does not anticipate dramatic changes in the demand for office space or in the values of office properties during the rest of the financial plan period through 2026. But looking beyond the near-term forecast, the picture is less clear. The long length of standard commercial leases in the city—10 years or more in many cases—means that a minority of leases have come up for renewal or termination since the pandemic began.[1] As more leases expire, firms will be looking hard for evidence that it is necessary to continue leasing enough space to accommodate their full office workforce in one space at the same time. Firms that have prospered under hybrid or fully remote work arrangements may conclude that they can operate successfully while leasing less or no space in an expensive business district such as midtown Manhattan. Workers' experience with less frequent commutes into Manhattan's office districts that allow a more pleasant work/life balance may also force firms to offer more flexible work arrangements that result in less need for office space.

Should companies decide to reduce the amount of space they lease—thereby affecting the values of office properties—it would have profound consequences for New York's property tax revenue. The levy for Manhattan office properties is $6.3 billion, or 19.7 percent of the total levy. One sign that some of these adjustments are already underway is the elevated vacancy rate for Manhattan offices. Cushman & Wakefield's calendar year 2022 first quarter report shows that the vacancy rate for Manhattan offices has increased to 21.0 percent, which according to their analysis is a historic high. It is still not clear whether this higher vacancy rate will persist into the future, or is instead a temporary adjustment as more companies evaluate their need for office space.

Real Property Transfer Tax. The Real Property Transfer Tax (RPTT) is a tax on the sale of residential and commercial property in New York City. RPTT revenue fell sharply in the wake of the Covid-19 pandemic, with declines of $412 million (26.7 percent) in 2020, and an additional $90 million (7.9 percent) in 2021. However, RPTT receipts have rebounded sharply in 2022. Despite some weakening in revenue in April 2022, IBO projects that collections for the year will reach $1.7 billion, their highest level since 2016. This would represent an increase of $689 million (65.9 percent) compared with 2021, by far the largest year-over-year increase in the history of the tax. IBO projects that RPTT revenues will fall to $1.5 billion in 2023, a decline of $268 million, or 15.5 percent. A slow recovery beginning in 2024 will bring collections to $1.6 billion by 2026, just slightly above the pre-pandemic level of 2019.

IBO's current projection of a dip in RPTT revenue, followed by modest growth through 2026, is the same pattern as we forecast in March. However, we have increased our revenue estimates for each year in the forecast period. The increase for 2022 is substantial—$161 million, or 10.2 percent. The increases for 2023 through 2026 are more modest, totaling $210 million over the four years.

OMB's RPTT forecasts follow a pattern similar to those of IBO, with a dip in 2023, followed by annual increases in 2024 through 2026. IBO's forecasts are above OMB's in 2022 through 2024, and lower in 2025 and 2026. Over the entire 2022-2026 period, IBO's forecast of RPTT revenues is $50 million (0.6 percent) above OMB's.

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

Low interest rates are often associated with greater mortgage activity, and therefore higher MRT revenues. However, low interest rates can also be consistent with a weak housing market and a low demand for credit. The pandemic-induced decline in the real estate market in the latter part of calendar year 2020 and the early part of 2021 led to a significant drop in MRT collections, despite mortgage rates remaining at historically low levels. MRT revenues fell by $122 million (11.1 percent) in 2020, and another $78 million (8.0 percent) in 2021. In 2022, mortgage activity rebounded sharply, and IBO projects that total collections for the year will be just below $1.3 billion. However, with the Federal Reserve starting to tighten monetary policy, including raising the federal funds rate, there has already been an impact on mortgage rates. Just a few months ago, many observers did not expect the 30-year mortgage rate to reach 5.0 percent until calendar 2024. In fact, as of early May 2022, rates had already reached almost 5.3 percent, the highest level since calendar 2009.

Based on MRT collections from April 2022, higher interest rates already seem to be having a negative effect on tax revenue. However, the more significant impact will occur in 2023, when IBO forecasts a $192 million (15.2 percent) decline from 2022 collections. From a level of almost $1.1 billion in 2023, MRT revenue is projected to decline an additional $8 million (0.1 percent) in 2024, and then increase by a total of $81 million in 2025 and 2026.

IBO's projections of MRT revenues are above OMB's in each year of the forecast period: $91 million (7.8 percent) in 2022, $112 million (11.7 percent) in 2023, and smaller amounts in 2024 through 2026.

Commercial Rent Tax. The Commercial Rent Tax (CRT) is a surcharge on the value of commercial rents paid in certain parts of Manhattan below 96th Street. CRT collections declined by $43 million (4.8 percent) in 2020 due to the recession brought on by the pandemic, as well as a reduction in the scope of the tax. Revenues rose by just $4.8 million (less than 1 percent) in 2021, and IBO forecasts a modest increase of $15.3 million (1.8 percent) to $884 million for 2022. Projections for 2023 and beyond are subject to more uncertainty, as it is less clear how demand for leased commercial space will fare in the face of widespread remote work, online shopping, and a tourism sector that remains weak. IBO's current forecast projects 2.5 percent average annual growth from 2023 through 2026, with CRT revenues reaching $976 million in 2026.

OMB in its April 2022 financial plan has reduced its forecast of CRT revenues for 2022 by $43 million (4.8 percent), to $860 million, with collections nearly constant through the rest of the plan period. Revenues for 2026 are estimated at $868 million, a reduction of $144 million (14.2 percent) with respect to OMB's February 2023 plan, and 11.1 percent below IBO's current forecast.

Corporate Taxes. Despite early concerns that the Covid-19 crisis would have an immediate negative impact on corporate tax collections, resilience in key industries and federal interventions have resulted in tax revenue that has remained strong since the onset of the pandemic.[2] Both 2020 and 2021 set successive records for net collections of corporate tax revenue, at $4.5 billion and $5.0 billion, respectively.

Collections thus far in 2022 have continued to outpace even the record collections of 2021. However, with four more months of collections still to come in the 2022 fiscal year, there are several reasons to expect collections to substantially slow in the near future.[3] These include a robust schedule of interest rate hikes from the Federal Reserve to combat inflation, alongside economic and geopolitical instability resulting from the war in Ukraine, and renewed Covid-19 shutdowns in China. IBO projects that despite this coming expected reduction in collections, the strength in the earlier part of the year will yield total net collections of $5.1 billion for 2022, a slight increase of $45 million (0.9 percent) over 2021. This is $268 million greater than our projection just two months ago in March, as recent collections have been strong.

The impact of the slowdown, for the reasons discussed above, will be felt much more substantially in 2023, when we project collections to contract by $567 million (11.2 percent) to yield a total of $4.5 billion. After this, IBO forecasts a return to growth, but at a more moderate pace than the record growth of the past few years, with collections increasing by $131 million (2.9 percent) in 2024, $154 million (3.3 percent) in 2025, and $289 million (6.0 percent) in 2026, returning to a total of $5.1 billion. The projections for these last three years of the forecast period incorporate an estimated $25 million tax expenditure resulting from New York State's new childcare business tax credit for eligible employers providing childcare services to their employees. All of the projections from 2023 through 2026 are lower than our March forecast, driven primarily by a reduced long-term forecast for national corporate profits.

IBO's corporate tax projections are higher than OMB's for the entirety of the forecast period. In 2022, the gap is $191 million (3.9 percent), as OMB is projecting a much sharper slowdown during the final months of the year, with net collections totaling $4.9 billion, a 2.9 percent decline from 2021. In 2023, OMB projects an even bigger decline than IBO, resulting in a difference of $210 million (4.9 percent). The gap expands even further in 2024, when IBO projects resumed growth while OMB projects collections to remain essentially flat, increasing the difference to $334 million (7.8 percent). Projected growth rates in 2025 and 2026 are very similar, resulting in a gap of about the same size for the remainder of the forecast period.

Unincorporated Business Tax. The city's unincorporated business tax (UBT) is levied on the profits of businesses that are organized in a form other than a corporation, including sole-proprietorships, partnerships, and limited liability companies. In 2021, net collections of the UBT totaled $2.1 billion, an increase of $138 million (7.1 percent) over 2020. Similar to the corporate taxes, collections thus far in 2022 have remained extremely strong, outpacing 2021 collections by an even greater margin. Based on collection patterns at this point in the year, IBO projects total UBT revenue of $2.4 billion, an increase of $288 million (13.9 percent) and a record high for UBT collections.

In 2023, IBO projects UBT revenue to remain essentially flat, decreasing by just $12 million (0.5 percent). The high growth in 2022 and minor decrease in 2023 contrast with the corporate taxes' pattern of a minor increase in 2022, followed by a sharp decline in 2023. While influenced by similar economic forces affecting the business environment generally, it is not unusual for these two taxes to grow or decline on different trajectories. One reason for this divergence is that UBT collections are particularly affected by behavior in the city's professional services sector, which was well situated over the past two years to weather the pandemic and the shift to at-home work. The outlook for employment and earnings growth in the sector are some of the more optimistic forecasts among major sectors in the city's economy. Fairly robust revenue growth is projected to return in 2024, with collections increasing by $126 million (5.3 percent) and averaging $104 million (4.1 percent) in 2025 and 2026. By the end of the forecast period, we forecast net UBT collections of $2.7 billion.

Compared with OMB, IBO's forecast for 2022 is $131 million (5.9 percent) higher. OMB also projects substantial growth over 2021, but similar to the outlook for corporate taxes, is forecasting a much steeper slowdown in the coming months after the record growth during the first part of the fiscal year. OMB also projects a larger decline in 2023, by 2.5 percent, resulting in the gap between the two forecasts widening to $175 million (8.1 percent). IBO's slightly higher growth forecast for 2024 through 2026, averaging 4.5 percent per year, results in a difference averaging $211 million (8.9 percent) over these years.

Personal Income Tax. IBO projects a relatively sharp increase in personal income tax (PIT) revenue this fiscal year, followed by a decline of comparable scale next year. For 2022, we project PIT revenue to reach $16.5 billion, which is a 9.2 percent increase relative to last year's extraordinarily high total of $15.1 billion. This strong growth is a change of course from the decline we anticipated in our last forecast in March, mainly due to remarkably strong extension payments during April. For 2023 we project PIT revenue to decline by 9.8 percent, as collections fall to $14.9 billion. Revenue growth is expected to resume in 2024 with a modest gain of 1.7 percent, followed by more robust growth in 2025 and 2026 when revenues are expected to grow by an annual average of 3.8 percent in 2025 and 2026. IBO projects PIT revenues to reach $16.3 billion by the end of the forecast period.

So far, the current fiscal year has been marked by notably strong growth over the preceding year. Withholdings in the last few months have reached near record levels, and with employment gains anticipated to continue for the next several quarters, we expect withholdings to grow by 10.5 percent by the end of this fiscal year. Another strong boost came from final returns, where April collections were the highest monthly amount on record since 1980. Extension payments—made by those who need to delay filing their income tax returns beyond the usual tax day deadline—were the highest on record at $2.3 billion in April, bringing our forecast for extension payments for the full fiscal year to 24.6 percent above last year's total.

In calendar year 2021, New York State joined a dozen other states that adopted a workaround for some taxpayers subject to limitations imposed by the 2017 Tax Cuts and Jobs Act (TCJA). The TCJA imposed a $10,000 cap on the amount of state and local taxes (SALT) that previously could be deducted from federal income tax. Because New York has some of the highest income tax rates in the nation, many higher-income residents faced steep increases in their federal income tax liability because their state and local taxes were usually much higher than the $10,000 they could deduct from their federal taxes beginning in 2018. In response, the state enacted legislation that allows resident shareholders of partnerships and S corporations (known as pass-through entities) to pay a pass-through entity tax (PTET) at rates ranging from 6.85 to 10.9 percent on their share of the entity's taxable income.

Unlike the personal income tax, the PTET paid to the state can still be deducted from the federal income tax, allowing taxpayers eligible for the PTET to bypass the cap on SALT deductions for those earnings. Shareholders paying the PTET are given a credit against their state personal income tax equal to their PTET payments for tax years beginning on or after January 1, 2021. This arrangement is revenue neutral for the state as the new PTET payments are exactly offset by lower PIT liability after the credit is applied.

Earlier this year, the state enacted a similar PTET structure for New York City, whereby resident shareholders of qualifying pass-through entities can opt to pay a city PTET imposed at the flat rate of 3.876 percent on their share of the entity's earnings and receive an offsetting PIT credit. The city's PTET is effective for tax years beginning on or after January 1, 2023 and is included in the above forecast of personal income tax collections. It is expected to incentivize high earners in the city to pay the PTET, which will reduce their city PIT liability by an equal offsetting amount. Based on the state's estimated PTET revenue and the city's tax rate, OMB has estimated the city will receive $375 million in PTET revenue in 2023, $1.5 billion each year in 2024 and 2025, and $1.1 billion in 2026. Because of the offsetting credit for PTET payments against the city's income tax, PIT revenues will be reduced in each year by those amounts. As with the state's PTET structure, there is no net effect on total city tax revenue because the new PTET payments are offset by lower PIT collections.

Aside from the changes resulting from the enactment of the PTET, we expect withholdings to grow 4.8 percent in 2023, fueled primarily by strong employment growth projected for calendar year 2022. Gains from withholdings, however, are expected to be offset by a decline in installment payments, since higher-income taxpayers will likely opt for PTET and lower their estimated PIT payments. Furthermore, some installment payments are paid by taxpayers who realize capital gains during the tax year, and the anticipated acceleration of interest rate increases by the Federal Reserve in the coming months are expected to have a dampening effect in the near term on real estate transactions and other activities that can lead to gains from capital. The stock market sharply declined in April in response to interest rate hikes and other destabilizing factors—such as inflationary pressures, high oil prices, and supply chain shortages. These volatilities could depress near-term capital gains realizations, posing a downward risk on our installments' forecast.

We also expect final returns to decline from their exceptionally high levels in 2022—although they will still remain higher than the historical average—and for refunds to increase. With all income tax components combined, including revenue from the PTET, we project PIT revenue to reach $14.9 billion in 2023, which is 9.8 percent lower than this year. The largest proportion of this decline is due to extension payments being projected to drop by more than half from their record peak of 2022.

The effect of PTET is expected to become most visible in 2024, when it is forecast to make up more than 10 percent of the city's net PIT revenue, according to OMB. To account for that, we have lowered our installment payments' forecast from March by about $1.5 billion, which is the same amount as the projected PTET revenue for 2024. This reduction translates to a 57.7 percent decline in installments. Apart from the PTET effect, we have not changed our installments forecast substantially since March as we maintain the same general outlook that interest rate hikes will dampen financial activities and capital gains. IBO projects a steady, but slower, continuation of growth in withholdings by 3.1 percent, aligned with our projection of employment growth. In total, our forecast for net PIT revenue in 2024 is $15.1 billion—1.7 percent above the revenues in the preceding year.

In the last two years of the forecast period (2025 and 2026) IBO projects a steady growth in withholdings at an annual average rate of 4.0 percent. Installments in 2025 are expected to remain at relatively low levels similar to 2024, but to start to grow in 2026—with the assumption that the SALT limitation will expire that year and the PTET revenue will decline. We project net PIT revenue to grow by an average of 3.8 percent in the last two years of the forecast period, reaching $16.3 million in 2026.

IBO's net PIT forecast is above OMB's forecast in every year of the forecast period. Our projected PIT revenue is 12.0 percent ($1.8 billion) higher than OMB in the current fiscal year, and 2.7 percent ($393 million) higher in 2023. In the following years, IBO's forecast is on average 2.3 percent ($350 million) higher each year.

It is noteworthy that the main reason for the large difference between our forecast and OMB's in 2022 is the unexpectedly large amount of extension payments in April. Extension payments are highly volatile from year to year (in recent years, they have ranged from $731 million in 2018 to over $2.3 billion this year). Because OMB generates its Executive Budget PIT forecast prior to the full receipt of April payments—a particularly important month for extension payments—there can be large differences between ours and OMB's depending on extension payments in April. This year, the difference between OMB's forecast of extensions and the actual collections is $1.1 billion. Excluding April collections in our projections for 2022, IBO's and OMB's 2022 PIT forecast would have been much closer.

Sales Tax. Fueled by robust consumer spending during and after the holiday season, and the return of large numbers of tourists visiting New York, recent collections of the city's sales tax have been stronger than previously anticipated. IBO has increased its forecast of 2022 sales tax revenue to $8.2 billion, almost 25 percent greater than 2021 collections. The expected slowdown of the economy's expansion, however, has prompted IBO to lower our forecast of revenue growth after the current year. We forecast $8.5 million in sales tax collections in 2023, 3.4 percent more than in 2022. In 2024 through 2026, revenue increases are projected to average 4.2 percent annually, yielding $9.6 billion in sales tax revenue at the end of the forecast period.

After a two-year decline in collections, there has been a strong rebound in sales tax revenue this year. The availability of the Covid-19 vaccines, local employment growth, the return of some commuters, the revival of domestic tourism, and rapid expansion of the U. S. economy in calendar year 2021 fueled a surge in sales tax revenue in fiscal year 2022. The mid-December to mid-January wave of Covid infections due to the Omicron variant reduced consumer spending, and the number of tourists, but the effect was short-lived and the disruption to revenue growth was limited. At $8.2 billion, our forecast of 2022 receipts exceeds revenue in the last full pre-pandemic year (2019) by $376 million.

IBO expects continued increases sales tax collections after the current year, but it has lowered projected growth through 2026 due to a slower forecast of real GDP growth and, in the short-run, the persistence of high levels of inflation. Our 2023 sales tax forecast, $8.5 billion, is 3.4 percent greater than projected 2022 collections, a modest rate of growth when compared with the average annual rate of growth—5.5 percent—during the 10 years of the previous economic expansion (2010 through 2019). With an assumption that the Federal Reserve will succeed in taming inflation without sparking a recession, we expect a modest pick-up of revenue growth after 2023. Also contributing to growing sales tax revenue in 2024 and beyond are increases in the number of international visitors, who on average spend more money in the city than do domestic tourists.

While the possible emergence of a more virulent Covid variant remains a threat, rapid inflation and the expected slowdown of U.S. economic growth now pose greater risks. Although not anticipated in our economic forecast, each could shake consumer confidence and reduce consumption spending if they were to occur. A weakened economy could also interrupt the revival of tourism in the city, reducing visitor spending, which accounts for a large portion of taxable sales in the city. The war in Ukraine, Covid-related shutdowns in China, and other geopolitical conflicts and their effect on the global economy also pose a risk, particularly if the number of tourists from other countries is greatly reduced.

IBO's sales tax forecasts for 2022 through 2024 exceed OMB's, by $57 million (0.7 percent) growing to $108 million (1.2 percent) in 2024. After 2024, IBO expects slower revenue growth than does OMB, and its forecast collections are smaller: by $27 million (0.3 percent) and $118 million (1.2 percent) in 2025 and 2026 respectively.

Hotel Occupancy Tax. For the current fiscal year, monthly hotel occupancy tax collections continue to be stronger than expected, and IBO has again raised its forecast of 2022 tax revenue, to $327 million—close to four times the amount collected in 2021. We expect hotel tax revenue to continue to grow strongly in the next two years, yielding $489 million in 2023 and $597 million in 2024.

After the Covid-19 pandemic devastated tourism and business travel in the city and hotel occupancy rates and room rates plunged, revenue from the hotel tax collapsed, from $625 million in 2019 to $85 million in 2021. As the Covid-19 vaccines became widely available in calendar year 2021 and travel restrictions eased, domestic tourists started returning to the city. There was not a substantial increase in hotel tax collections at the start of fiscal year 2022 because an Executive Order by the Mayor suspended the largest component of the tax (5.875 percent of room charges) from June through August in an effort to boost tourism, reducing 2022 revenue by an estimated $60 million. But the increasing numbers of visitors has fueled a surge of hotel tax revenue during most of the year, and we expect 2022 revenue to total $327 million.

With an outlook for continued U.S. economic growth, IBO forecasts strong increases in hotel tax collections, generating $489 million and $597 million in 2023 and 2024, respectively. We project the fast growth in the number of tourist and hotel stays to continue in the next two years, boosting hotel occupancy and putting upward pressure on room rates. Though IBO assumes that business travel to the city will not return to pre-Covid levels, growth in the number of international tourists, whose return has lagged behind that of domestic visitors, but who typically stay for longer periods of time, will increase, providing an additional boost to hotel tax receipts. After 2024, hotel tax receipts are expected to increase at rates more typical of economic expansions: by an average of 5.0 percent in 2025 and 2026, to generate $658 million by 2026.

As with the sales tax, our hotel tax forecast is premised on the current economic expansion continuing in the coming years (even if at a slower pace than previously expected), and on Covid having less of an effect on public health and consumer confidence in the future. The chance that U.S. economic growth slows more than IBO's macro forecast assumes, which would reduce consumer confidence and the ability of potential tourists to afford a visit to the city, has become the major risk to the hotel tax forecast, surpassing the uncertainty regarding the future course of the pandemic. Geopolitical events that dampen the number of international tourists could also lower revenue significantly.

Both IBO and OMB predict large increases in hotel tax revenue through 2026. IBO's forecasts are substantially higher than OMB's for 2022 and 2023—by $42 million (14.6 percent) and $59 million (13.8 percent), respectively. Starting in 2024, our projected revenue growth is slower than OMB's, leaving IBO's 2024 forecast only $11 million (1.9 percent) higher than OMB's. In the last two years of the financial plan, our revenue forecast is lower than OMB's, by $65 million (9.3 percent) and $58 million (8.1 percent) in 2025 and 2026, respectively.

Other Revenues. The city's nontax revenues—a variety of fees, fines, charges, asset sales, interest income, and other miscellaneous revenue—are expected to total $8.3 billion this year, an increase of about $2.5 billion from 2021. This includes the anticipation of $792 million in unrestricted intergovernmental aid resulting from reimbursement for certain Covid-related expenditures made by the city in 2020 and 2021. With a smaller such transfer expected in 2023, nontax city revenues are forecast to fall by $634 million to $7.6 billion in 2023. IBO anticipates little additional change in the total from these revenue sources from 2023 through 2026.

State, federal, other categorical aid, and interfund revenue are the remaining sources among non-city revenues. They are expected to total $37.3 billion this year, an increase of nearly $8.3 billion over 2021. This is largely driven by a large jump in federal categorical aid planned for 2022, with a total of $19.0 billion expected compared with $12.6 billion in federal aid in 2021, which was already higher than most years. State aid is also expected to grow in 2022, although to a lesser extent; increasing from $14.6 billion in 2021 to $16.4 billion in 2022. Following this year, state grants are expected to remain near their 2022 level, but federal aid returns to a level more consistent with the recent past, dropping by $9.9 billion in 2023. Federal aid is projected to decline further in 2024, falling to $9.2 billion, less than half of the $19.0 billion the city is projected to receive from the federal government in 2022.

The large influx of federal grants in 2022 is the result of federal Covid-19 aid, both through federal stimulus packages (ARPA and CRRSA) and FEMA funding. The city currently plans to spend about $7.0 billion of its more than $13.0 billion in stimulus funding in the current fiscal year, with lesser amounts budgeted in 2023 ($2.1 billion) 2024 ($1.8 billion) and 2025 ($530 million). The city's use of these funds is varied: with some funds making up for revenue losses stemming from the pandemic-induced recession; and some going to help to pay for the extraordinary costs of responding to the pandemic, such as test and trace operations, vaccination drives, and providing PPE for city workers. Lastly, some of the aid is helping the city start or expand programs, particularly at the Department of Education, as outlined in the following section, leaving questions about funding the programs once the federal aid is exhausted.

Spending

IBO projects that based on the proposals included in the Executive Budget, along with our spending reestimates, city spending in 2022 will total $109.1 billion. We expect spending to decline by $8.4 billion in 2023 to $100.7 billion. This drop is largely the result of the city's plan to spend $9.9 billion in federal Covid-19 related aid, including stimulus and FEMA funds in 2022, compared with $2.1 billion from the same sources planned for 2023. Following this decline, IBO estimates that spending will grow each year of the financial plan to reach $107.7 billion in 2026 (average annual growth of 2.3 percent). Most of the growth IBO projects over the plan period is for centralized costs, which include debt service and fringe benefit costs for city employees. We project agency spending to remain relatively flat over the plan period, largely because the city has yet to settle labor contracts for the current round of collective bargaining with the municipal unions.

IBO's spending estimates, like our revenue estimates, are higher in all years than those presented in the Mayor's plan, although the differences in spending are smaller than those we project for the revenues. IBO estimates city-funded expenditures—which impact the city's overall gaps and surpluses—to be greater than OMB's budgeted amounts by $300 million in 2022, $451 million in 2023, $542 million in 2024, $662 million in 2025, and $1.2 billion in 2026.

These differences result from IBO projecting that the city has over-budgeted in some areas, while under-budgeting in others. Overall, IBO has found that the city has provided more funding than necessary for some of its centrally

IBO Expenditure Projections *Dollars in millions*							
		Plan					**Average Change 2021-2026**
	Actuals 2021	**2022**	**2023**	**2024**	**2025**	**2026**	
Operational Expenditures							
Agency Expenditures	$72,752	$80,772	$75,114	$73,496	$73,648	$73,535	0.2%
Labor Reserve	-	764	1,066	1,358	1,808	2,291	n/a
Total Operational Expenditures	**$72,752**	**$81,536**	**$76,180**	**$74,854**	**$75,456**	**$75,826**	**0.8%**
Other Expenditures							
Fringe Benefits	$11,794	$12,315	$11,615	$13,220	$13,845	$14,518	4.2%
Debt Service	8,193	5,781	3,001	8,119	8,630	9,407	2.8%
Pensions	9,446	9,727	9,665	9,048	8,176	7,561	(4.4%)
Judgments and Claims	618	1,294	1,058	1,075	877	823	5.9%
Subtotal Recurring Expenses	**$102,804**	**$110,652**	**$101,520**	**$106,315**	**$106,984**	**$108,135**	**1.0%**
General Reserve	-	$50	$1,055	$1,000	$1,000	$1,000	n/a
Capital Stabilization Reserve	-	-	$250	$ 250	250	250	n/a
Retiree Health Benefit Trust	(425)	-	-	-	-	-	n/a
Revenue Stabilization Fund		700	-	-	-	-	n/a
Other Adjustments	-	-	(105)	2	97	288	n/a
Subtotal Non-Recurring Expenses	**($425)**	**$750**	**$1,200**	**$1,252**	**$1,347**	**$1,538**	**n/a**
Less: Intra-City Expenditures	($2,006)	($2,253)	($1,972)	($1,939)	($1,929)	($1,928)	n/a
TOTAL EXPENDITURES	**$100,372**	**$109,150**	**$100,748**	**$105,628**	**$106,402**	**$107,745**	**1.4%**

NOTES: Other non-recurring adjustments include citywide savings, energy, lease, and non-labor inflation adjustments. Debt service growth is unadjusted for prepayments of current year expenses with resources from the prior year. Fringe benefits include the cost of health benefits covered by the Retiree Health Benefit Trust. Figures may not add due to rounding.

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budgeted expenditures, primarily health care payments for municipal workers. These areas, however, are more than offset by underestimates for certain agency costs. The agencies where IBO estimates that the most additional city-funding will be necessary are the Department of Education, followed by the New York City Police Department, and the Department of Social Services

Fringe Benefits Drive Spending Growth, Although IBO Estimates Slightly Slower Rates Than City. The cost of providing fringe benefits other than pensions for city employees and retirees is one of the largest areas of spending growth across the plan period. In 2022 through 2026, IBO projects that these costs will increase from approximately $12.3 billion to nearly $14.5 billion, an annual growth rate averaging 4.2 percent. IBO expects health care costs for employees and retirees—by far the largest component of fringe benefits— to grow from $7.5 billion in 2022 to $9.6 billion in 2026 or 6.3 percent annually over the plan period. This is slower than the city's expected growth rate of 8.5 percent. IBO's lower growth rate is due in part to lower assumptions for growth in headcount, as well as more conservative assumptions for the pace of health care cost increases. As a result of these differences, we expect the city's health care costs will be less than presented in the Executive Budget by somewhat modest amounts in the near term—$73 million in 2022 and $37 million in 2023—but growing to $543 million in 2024, $883 million in 2025, and $927 million in 2026.

The growth of health care costs is tied directly to ongoing labor contract negotiation, as the city and unions are legally required to make all substantial changes through the collective bargaining process. The city is still negotiating with the Municipal Labor Committee—an umbrella organization representing labor in negotiations that impact all municipal employees—over long-term cost trends in providing health benefits. The Joint Health Stabilization Fund, a fund intended to maintain a premium-free option for employees and their families, has developed a structural deficit that IBO has previously testified could be depleted within three to four years without intervention. A judge's decision in 2021 to halt the implementation of the city's plan to move hundreds of thousands of retirees from traditional Medicare to a specialized Medicare Advantage plan was a significant setback in remedying this structural

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

	2022	2023	2024	2025	2026
Gaps as Estimated by the Mayor	**-**	**-**	**($3,937)**	**($3,386)**	**($3,749)**
Revenue					
Taxes					
Property	$53	$313	$257	$567	$1,055
Personal Income	1,781	393	292	320	439
General Sales	57	89	108	(28)	(118)
Corporate	191	210	334	338	347
Unincorporated Business	131	175	198	211	224
Real Property Transfer	109	71	17	(49)	(98)
Mortgage Recording	91	112	50	46	28
Hotel Occupancy	42	59	11	(65)	(58)
Commercial Rent	24	52	70	98	108
Utility	-	-	-	-	-
Cigarette	-	-	-	-	-
Other Taxes and Audits	-	-	-	-	-
Total Taxes	**$2,479**	**$1,475**	**$1,338**	**$1,439**	**$1,926**
Misc. Revenue	6	22	22	22	23
TOTAL REVENUE	**$2,485**	**$1,497**	**$1,360**	**$1,461**	**$1,949**
Expenditures					
Debt Service	($6)	$42	$-	$-	$-
Fringe Benefits:					
Health Insurance-Education	25	13	201	345	367
Health Insurance-City University of New York	1	1	9	14	14
Health Insurance-All Other Agencies	47	24	333	524	546
Education	(199)	(84)	(469)	(894)	(1,429)
Police	(100)	(200)	(200)	(200)	(200)
Fire		(50)	(50)	(50)	(50)
Correction	(55)	(77)	(39)	(39)	(39)
Children's Services		63	8	7	7
Board of Elections	-	(50)	(50)	(50)	(50)
Taxi & Limousine Commission	38	(13)	(13)	(13)	
Sanitation		(8)	(23)	(39)	(69)
Homeless Services	(39)	(29)	(49)	(50)	(50)
Campaign Finance Board	-	-	-	(25)	(10)
Environmental Protection		(22)	(11)	(4)	(4)
Social Services		(39)	(158)	(158)	(158)
Small Business Services	(5)	(5)	(5)	(5)	(5)
Transportation	-	-	(9)	(9)	(9)
Parks	(6)	(17)	(17)	(17)	(17)
TOTAL EXPENDITURES	**($300)**	**($451)**	**($542)**	**($662)**	**($1,156)**
TOTAL IBO PRICING DIFFERENCES	**$2,185**	**$1,046**	**$818**	**$799**	**$793**
IBO Prepayment Adjustment 2022/2023	($2,185)	$2,185	-	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**-**	**$3,231**	**($3,119)**	**($2,587)**	**($2,956)**

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

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Executive Budget Increases Headcount, Following Previously Announced Vacancy Reductions.

The Preliminary Budget released in February included a Program to Eliminate the Gap (PEG) that reduced the city's authorized headcount by 3,500 in the current year and up to 6,500 in 2025. The majority of these net reductions came from the elimination of vacancies across numerous agencies. In contrast, the Executive Budget increases the headcount by nearly 3,000 in 2023, 2,400 in both 2024 and 2025, and nearly 3,000 in 2026. Where in the February plan nearly every agency was impacted by across-the-board cuts, in the Executive Budget, three agencies account for much of the new authorized headcount: 719 of the new personnel are slated for the Parks Department, 578 new uniformed corrections officers, and 188 mental health professionals for the Fire Department's Emergency Medical Service.

In another sign of further easing of the lean pandemic budgeting, the Mayor has continued to reduce the targets set by the de Blasio administration for hiring and attrition management. This initiative, introduced in January 2021, required agencies to leave two positions unfilled for every new hire beginning in 2023. Prior to this budget, the program aimed to reduce the city's headcount by 2,000 heads and move another 500 to federal funding. The Executive Budget reduced the target to just over 1,000 positions each year and reallocated the $41 million in federal funding meant to support the 500 positions to other initiatives.

Despite the new positions in the budget, there is still a significant gap between the actual daily full time headcount of the city, which stands at approximately 283,000 as of the writing of this report, and the planned headcount of 306,000. As we reported in March, the city has struggled to keep up with the post-pandemic rate of attrition, and the impact is felt unevenly across agencies. While the overall vacancy rate at city agencies is 7.5 percent, 12 mayoral agencies with more than 1,000 employees have greater than 10 percent full time vacancy rates, including the Department of Buildings (24 percent), Design & Construction (17 percent) and Social Services (15 percent).

deficit, and the city ultimately may be forced to negotiate for other, less desirable health savings to avoid tinkering with premium-free coverage.

New Initiatives Increase Agency Spending; But Additional Spending Likely. The Executive Budget proposes increases in city spending to support a number of new or expanded initiatives at city agencies. The Mayor has largely characterized the new spending as investments in public safety. Indeed, the largest single new city-funded program over the plan period is the $212 million added annually for Mayor Adams's Subway Safety Plan beginning in 2023, with funding spread among a number of agencies. Other new city-funded initiatives include $101 million annually for the Department of Youth and Community Development (DYCD) to expand the city's Summer Rising Program—a summer school program administered jointly by DYCD and the DOE, although this increase only baselines funding for the DYCD portion of the program. Other increases include $53 million in 2023 growing to $69 million in 2026 for the portion of the Mayor's Streets Plan included in the expense budget, and $41 million annually for the Department of Parks and Recreation's Parks Improvement Program beginning in 2023. Despite these additions, and in some cases because of them (where the city has included only partial funding for what IBO has determined to be ongoing programs), IBO projects that the Mayor's financial plan understates agency expenditures.

Use of Federal Stimulus for Ongoing Education Programs Increases Future Year Gaps. IBO estimates that the city will need to provide an additional $199 million for the Department of Education budget in the current year, $84 million in 2023, $469 million in 2024, $894 million in 2025, and reaching to $1.4 billion in 2026. These shortfalls, particularly those in 2024 through 2026, are largely the result of the city using time-limited federal Covid-19 stimulus funds to pay for programs that IBO anticipates will continue past the funds' expiration.

DOE Use of Stimulus Funding Increases Out-Year Gaps. The passage of the ARPA and CRRSA legislation in Washington provided more than $7 billion of resources for the DOE to spend from 2021 through 2025. In prior reports, IBO has highlighted that the city is using a portion of these funds to pay for education programs that are likely to continue even after the federal funding sources expire. This means the city will need to either cut spending in other areas or find alternative sources of funding to keep these programs running once the federal funding is gone. In the Executive Budget, the city reallocated $309 million of federal stimulus to pay for programs in 2023 that IBO expects will continue long-term. (These funds were previously budgeted for programs IBO identified as short-term needs, including support for: Academic Recovery and Students, IT, Instruction, and Operations.) Only $112 million of federal

Additional City Funding Required to Maintain Long-Term Federally-Funded Education Initiatives in 2026 and Beyond
Dollars in millions

Initiative	Additional Funding Required
Initiatives Added in Executive Budget	
Summer Rising	$176.0
Pathways Expansion	52.3
Contracted Nursing	49.0
Digital Learning	13.4
Bilingual Education Expansion	13.2
Safe Supportive Schools	9.2
Literacy and Dyslexia Screening	7.8
Translation and Interpretation	7.1
Gifted and Talented Expansion	4.8
Parent and Family Engagement	3.8
Sub-Total Initiatives Added in Executive Budget	**$336.6**
Initiatives Included in Prior Budgets	
3-K Expansion	$393.1
Preschool Special Ed	94.6
Restorations	93.7
Mental Health for All	85.8
Programmatic Support	52.0
Community School Expansion	51.2
Restorative Justice Expansion	14.8
PSAL Expansion	7.1
Indirect Cost Rate	5.2
Positive Learning Collaborative	5.0
Sub-Total Initiatives Included in Prior Budgets	**$802.5**
Total Long-Term Need	**$1,139.2**

SOURCES: IBO Analysis of Mayor's Office of Management and Budget Revenue Financial Plan Detail, Fiscal Year 2023 Executive Budget and Fiscal Year 2022 Executive Budget; Financial Management System; Communication with the Mayor's Office of Management and Budget

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aid was reallocated for these programs in 2024 and the city has not funded these programs at all in future years. IBO projects that the amount of additional city funding needed to cover these programs is: $225 million in 2024, $604 million in 2025, and $1.1 billion in 2026. This is $220 million more that IBO previously projected the city would have to cover for stimulus-funded programs in 2024, and $337 million more for 2025 and 2026.

The largest source of the increase results from the DOE funding a portion of its share of the city's Summer Rising program with ARPA funds. Mayor Adams has announced an expansion of the program, which debuted last summer and is a combination of summer school (administered by the DOE) and summer camp (administered by DYCD) to serve 210,00 kindergarten to 12th grade students, up from about 200,000 students last year. While the budget included new baselined funding of $101 million in each year of the financial plan for DYCD; for the DOE, the Executive Budget only included the addition of $176 million in ARPA funds for this summer's program (the fiscal year 2023 program). Given that funding has been baselined for the DYCD costs through 2026, IBO expects the city will have to pay the DOE portion as well in future years.

Many of the other new and expanded education programs announced with the Mayor's Executive Budget are funded with federal stimulus dollars for 2023 and 2024 only, but appear likely to continue. These include: the expansion of DOE's Pathways program ($52 million need past 2024), a new digital learning program ($13 million need past 2024), increased dyslexia and literacy screenings ($8 million need past 2024), the city's Gifted and Talented expansion ($5 million need past 2024), as well as other programs (for a complete list see the accompanying table).

Other Department of Education Underestimates. Along with the addition of city funds to pay for the continuation of programs currently funded with federal stimulus dollars, IBO anticipates that the DOE will also require additional city funding for charter schools. IBO projects higher charter school enrollment in the current year and steeper enrollment growth in the out-years of the financial plan period than is assumed by the Adams Administration. Our estimate of charter enrollment takes into account existing charter schools adding grades towards their fully authorized complement of students, as well as schools that have been authorized but have not opened. Based on our enrollment figures, we estimate the department will require an additional $199 million in 2022, $59 million in 2023, $224 million in 2024 and $270 million in both 2025 and 2026 to meet the mandated funding for charter schools.

Lastly, IBO projects that the city will need to provide $20 million in 2023 through 2026 based on the expectation that federal Medicaid funding for DOE transportation expenses will be lower than the Adams Administration anticipates. The DOE is still counting on $20 million of annual Medicaid reimbursements for eligible transportation expenses in 2023 and beyond, even after taking down that revenue for 2022 in the Executive Budget. State legislation would be required to allow these costs to be eligible for Medicaid reimbursement. IBO expects the city to have to fund these costs in future years as well.

Additional Funds Needed for Overtime Costs at Uniformed Agencies. IBO projects that overtime costs are underfunded for many of the uniformed agencies. According to IBO estimates, the NYPD is currently on pace to spend $752 million on overtime in 2022—about 50 percent more than it did in 2021, but in line with pre-pandemic levels. Even with the addition of $92 million in overtime funding for 2022 in the Executive Budget, the NYPD budget for the current year includes only $607 million for overtime expenses. IBO estimates that the NYPD will require about $100 million more to fund its overtime expenses in the current year, with the roughly $45 million remaining in additional overtime costs to be covered through underspending in other areas of the police budget. These totals include all NYPD overtime, both civilian and uniform. The overtime of uniformed officers generally accounts for more than 80 percent of these costs or $654 million of the total overtime IBO expects the NYPD to incur this year. The NYPD has budgeted $452 million in each of the out-years of the plan period for civilian and uniformed overtime expenses or $372 for uniform alone. Based on historical patterns of spending on overtime and underspending in other areas of its budget, IBO estimates that NYPD will require $200 million more than is currently budgeted in 2023 and future years.

The New York City Fire Department (FDNY) is on pace to spend $422 million on overtime in 2022, based on expenditures through March, in line with its budgeted amount. The department has budgeted only $282 million in 2023 and roughly $265 million in 2024 through 2026 for overtime costs, however. Given historical spending and current year-to-date expenses, IBO estimates that the department will need at least $50 million in additional funding in each year from 2023 through 2026. Similar to the NYPD, the FDNY typically underspends in other areas of its budget, which enables it to cover a portion of the additional overtime expenditure.

For the Department of Correction (DOC), IBO estimates that in the current year the agency will require an additional $55 million for overtime expenses, bringing its overtime budget up to $246 million for 2022. DOC currently has $192 million planned for overtime, including $52 million in federal ARPA funds added in the Executive Budget. By the end of April, however, DOC's overtime spending had exceeded $206 million, a number primarily driven by high rates of staff absenteeism and corrections officers leaving DOC in significant numbers.

Much is uncertain about the future management of the city's jails. The DOC must soon provide a reform plan for Rikers Island to federal court and it could be placed under federal receivership, the result of a lawsuit over longstanding dangerous conditions on Rikers. Under a receivership, DOC would no longer have complete control of the city's jails. Given the uncertainty around the outcome of this case, IBO estimates that DOC may have to continue pay overtime costs at a rate similar to this year for part of the next fiscal year as reform plans are finalized and implemented.

More Funds Necessary for City's Rental Assistance Program. Although the city added funds for its housing voucher program in the Executive Budget, IBO projects that another $39 million in city funding is still necessary to pay for the program next year, growing to a $157 million need in 2024 through 2026. Last fall, the city increased the value of its housing vouchers—known as City Fighting Homelessness and Eviction Prevention Supplement (City FHEPS)—to match the amount paid by federal Section 8 vouchers and also to remove the five-year time limit for voucher recipients. IBO expects that the combination of the end of the Covid-19 related eviction moratorium in January and the recent rule change that made the vouchers both more generous and longer-lasting will increase the cost of the program compared with prior year costs. In total, IBO estimates that the costs for the rental subsidy program in 2023 and beyond to be about $343 million while the city has budgeted $304 million in 2023 and only $185 million in future years. There is $255 million budgeted for the program this year, which IBO estimates to be adequate.

Subway Safety Plan Adds Funds for Homeless Services. In February 2022, Mayor Adams announced a Subway Safety Plan, which focused on moving individuals experiencing homelessness, particularly those with mental illness, off the subways and streets and into shelter. For the Department of Homeless Services, which received the majority of the program's funding, the Executive Budget added $6 million to the current year and then baselined Subway Safety Plan funding at $171 million annually beginning in 2023. Of this annual $171 million, $140 million is planned for stabilization and safe haven shelter beds, $19 million for drop-in centers with enhanced medical and behavioral support services, and $12 million in additional funds for subway outreach.

This large influx of city funds to the DHS budget obviates IBO's prior estimate that additional shelter and outreach funding from the city would be necessary. Following the release of the Preliminary Budget in March, IBO forecast that the city would need additional funding to pay for single adult shelters following growth in this population during the height of the pandemic. (The city's homeless shelters are largely divided into two separate systems, one that serves families with children and one that serves single adults.) The funding added as part of the Subway Safety plan for shelter beds exceeds IBO's previously projected outstanding need. IBO also forecast in March that additional funding would be necessary to meet the Mayor's street outreach goals outlined in the Subway Safety Plan. The $12 million added for 2023 and beyond in the Executive Budget for subway outreach under the plan similarly eliminated the need IBO had previously anticipated.

While shelters appear to be adequately funded for now, IBO does expect some additional city funding to be necessary for DHS for some administrative costs; although the need is much more modest compared with our past shelter funding reestimates. The Executive Budget added $33 million ($20 million in city funds) to cover prevailing wages for contracted shelter security guards in 2023, with funding already in place to cover the cost in 2022. Although prevailing wages are expected to be ongoing, the city has not yet baselined the cost in future years, and IBO expects around $34 million ($21 million in city funds) will be needed annually going forward. IBO also expects additional funding to be needed for other administrative costs at DHS, based on historical spending. These include contracting, information technology, legal, and other agency costs. IBO estimates $39 million more than currently budgeted are necessary in 2022 and $29 million in 2024, and $50 million in both 2025 and 2026.

Other Agency Spending Reestimates. Additional IBO reestimates of Executive Budget spending include: $50 million in extra funds each year from 2023 through 2026 for the Board of Elections to bring funding in line with the agency's historical average spending levels; another $8 million in 2023 growing to $69 million in 2026 for the Department of Sanitation, primarily the result of IBO's estimate that the department's waste export contract costs will be greater than currently budgeted, and to a lesser extent because the city is currently using federal ARPA aid to fund its street litter basket services, which IBO anticipates the city will continue after the funding expires; and an additional $6 million in 2022 growing to $17 million annually in 2023 through 2026 to bring the Department of Parks and Recreation's funding in line with past expenditures.

Relatively Modest Program to Eliminate the Gap. The Executive Budget once again includes a Program to Eliminate the Gap (PEG) comprised of actions that will either reduce agency expenditures or increase agency revenues—although this plan's PEG is much smaller than the $5.3 billion savings plan the Mayor presented with the Preliminary Budget. The current PEG includes $965 million in savings over the five years of the financial plan, with $270 million of savings in the current year. More than half of the savings planned for this year result from lower than anticipated spending on personal costs. From 2023 through 2026, the PEG totals $141 million, $161 million, $187 million, and $204 million, respectively. In those years nearly all the planned savings are the result of lower than previously anticipated debt service costs, save for about $14 million each year due to the city's reduction of its vehicle fleet.

In Reserves

With the legalization of a true rainy day fund for the city in 2021, the Revenue Stabilization Fund has become the favored destination for surplus funds. The new fund allows the city to carry forward revenue accrued in prior years for use in the future. The Adams Administration increased the deposit into the Revenue Stabilization Fund by a modest $200 million in the Executive Budget, increasing 2022 deposits thus far to $700 million, for a total of $1.2 billion in the fund. The city has yet to establish rules for the Revenue Stabilization fund, either for what constitutes a "rainy day" or an acceptable level of reserves, and thus it remains unclear what under what conditions the city will be able to tap into the fund, or even continue to make contributions.

As typically happens at this point in the fiscal year, the city reduced its general reserve by $200 million. The city's general reserve is a budgeted expenditure that is not allocated to a specific city expense. In times of need OMB can shift funds from the general reserve to cover specific expenses, thus lowering the city's overall expense budget and concurrently the amount of revenue needed to balance the budget.

The city also holds approximately $4.2 billion effectively in reserve in the Retiree Health Benefits Trust (RHBT), a fund which is intended to accumulate assets to pay for Other Post Employment Benefits (OPEB) on a long-term basis. It is often counted, however, towards the short-term reserves of the city due to its function in practice—serving as a pass-through entity to pay for annual retiree health costs. The Executive Budget includes a $425 million pre-payment of

2022 retiree health costs using 2021's surplus, and adds a $500 million prepayment of 2023 costs with surpluses from the 2022 budget. Neither of these pre-payments impact the long-term reserves of the RHBT, as the city's contribution to the trust fund is reduced by the amount prepaid.

Pressure Points

For the last two years, the greatest risk to IBO's economic forecast has been the course of the Covid-19 pandemic, and while it remains a threat to both the health of the city's residents and its finances—barring more virulent variants—it may no longer be the largest risk, particularly in the near term.

Rising Interest Rates, Risk of Recession, Market Decline. Our economic forecast relies on the assumption that the Federal Reserve will succeed in its efforts to tame inflation by tightening monetary policy without causing a recession. However, the Fed's ability to do so is far from certain and presents the greatest risk to IBO's economic forecast of continued modest growth over the entire forecast period. Rising interest rates combined with continued geopolitical tensions and renewed supply change disruptions caused by Russia's invasion of Ukraine, have already led to significant losses in equity markets. For New York City, these market disruptions threaten the near record profits earned by Wall Street in recent years—and the income taxes on them which helped sustain the city coffers during the pandemic.

In addition to risk on the revenue side, rising interest rates are likely to erode recent sources of savings for the city. Given the strength of the market, the city's pensions concluded 2021 at historic highs, reaching nearly fully-funded status after an unusually profitable year. Because of this, the city's pension contributions were forecast to decline by more than 23 percent by 2026 as favorable returns are phased in. This year has been far more sobering, with the value of investments declining from their previous high. If investments do not substantially recover in the next six weeks, losses may reverse previous gains and require larger contributions than currently budgeted in future years of the plan.

One of the most reliable sources of savings for the city in recent years has come from refinancing variable rate debt. The city begins each year with a conservative placeholder, stating that it expects to pay 4.25 percent interest on debt in the year. Given that the city will spend over $5 billion on principal and interest in the current fiscal year and the Fe deral Reserve held the federal funds rate at nearly zero for the duration of the pandemic, it has been a virtual certainty that the placeholder rate was too high. Based on our forecasts, IBO anticipates that interest rates will rise slightly above what the city predicts in 2022, but such savings will be more difficult to come by in 2023 as rates are expected to climb. While the city typically only reduces its estimates for variable rate debt in the short-term, the loss of this virtual built in savings tool will make it more difficult to close out-year gaps.

Expired Labor Contracts. In 2020, then-Mayor de Blasio balanced his budget in part by removing the first two 1.0 percent wage increases from the central Labor Reserve. Labor contracts impact the budget unevenly as union contracts do not expire all at once, meaning that the "first year" of one contract may occur in 2021 while another may not begin until mid-way through 2022. Mayor Adams' budget restores a 0.5 percent wage increase for each of the first two years of new contracts, totaling $1.7 billion over the five year plan period. As with his predecessor, the move implies that any additional wage increases will require labor to pay for the increases with concessions. District Council 37, the city's largest civilian union, has been working with an expired contract since May of last year. In the past DC 37's negotiations with the city come first in collective bargaining and set the "pattern" for future labor settlements. A settlement with the union is likely imminent.

It is unlikely that unions will settle for 0.5 percent raises as inflation has risen sharply in the past year. In the last collective bargaining round, civilian pay rose by 7.4 percent over 44 months. By the city's own calculations, restoring 1 percent to the labor reserve would cost an additional $119 million in the nearly closed 2022 fiscal year, and almost a quarter billion in 2023 rising to a half billion by 2026. While the city's Office of Labor Relations and the municipal unions are expected to work together to find additional health care savings to offset some negotiated wage increases, it is nearly certain that labor costs will rise in the next year of financial plans.

Longer-Term Impact of the Pandemic. A recent survey by the Partnership for New York City showed that only 8 percent of Manhattan office employees are commuting to their offices five days a week and that nearly 80 percent of companies surveyed plan on using a hybrid model of work post-pandemic compared to 6 percent before 2020.[4] This change in working habits could greatly affect New York City's economy, altering the composition of the city's business districts by decreasing the number of office workers who commute into the city on a daily basis, and reducing the demand for office space. The ease of remote work could also spur more out-migration of city residents who no longer need to reside within easy commuting distance of their workplace. While IBO's forecast does not anticipate dramatic changes in the demand for office space or the values of office properties during the rest of the financial plan period from 2024 to 2026, largely due to the length of commercial leases, looking beyond the near-term forecast there is a considerable amount of uncertainty.

Conclusion

The city's recovery from the pandemic has been more consistent and faster than many predicted at the outset. In the Executive Budget, the Adams Administration increased city expenditures reflecting this positive outlook, particularly compared with his more restrained Preliminary Budget released in February. While IBO has lowered its tax revenue forecast of just two months ago, due to the anticipated slowdown in economic growth brought on by the Fed's efforts to tamp down inflation, our estimates of tax revenues still exceed OMB's in each year of the plan. Our estimates of expenditures are also higher, although to a lesser extent, resulting in a bigger surplus than forecast by the Mayor in the current year, and somewhat smaller gaps in the out-years. However, there is no shortage of potential fiscal hurdles for the city in the years ahead; most critical for the near term is the resolution of the outstanding municipal labor contracts.

Endnotes

[1] Office leases tend to be long-term and usually include clauses that make it difficult to end them early. So even if companies decide that they need less space, it may take a while before they can downsize their offices.
[2]Since 2015, the city collects taxes on the profits of corporations operating in the city from three individual mechanisms; the business corporation tax is levied on C-Corporations, while the general corporation and banking corporation taxes are levied on S-Corporations. In this report, corporate collections refer to the combination or revenue from all three taxes.
[3]While the city's fiscal year ends in June, corporate tax collections from July and August are accrued back to the previous fiscal year.
[4]Return to Office Survey Results - Partnership for New York City (pfnyc.org)