



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

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Testimony of George Sweeting
Acting Director, New York City Independent Budget Office
To the New York City Council Committee on Finance
Regarding the Mayor's November Financial Plan
December 8, 2022

Good afternoon, Chair Brannan and members of the City Council Committee on Finance. I am George Sweeting, acting director of the New York City Independent Budget Office. With me is Logan Clark, IBO's assistant director for budget review. Thank you for the opportunity to be part of today's hearing on the Mayor's November Financial Plan for fiscal years 2023 through 2026. My testimony will focus on some key issues raised by the financial plan. It is based on work that is still underway for our Fiscal Outlook report, which we expect to release in about 10 days. Although I do not anticipate changes in our economic and revenue forecasts before the Fiscal Outlook report is published, there may still be changes on the spending side as we continue to work with the Office of Management and Budget (OMB) and other agencies to shore up our understanding of all the changes in the plan. [Tables](#) presenting our projections that I will discuss today are attached to this testimony.

The Bottom Line First. IBO's Fiscal Outlook finds the city will have a budget surplus for 2023 of \$2.2 billion, a negligible deficit in 2024, followed by deficits of \$3.5 billion in 2025 and \$4.5 billion in 2026. (Years refer to city fiscal years unless otherwise noted.) This incorporates our expectations of weak tax revenue growth, albeit higher than the mayor estimates, offset somewhat by expenses that we expect the city will incur, which are not included in OMB's spending plan. (The outyear gaps, although smaller than those estimated by OMB, are substantial and will require action by the mayor and the City Council unless revenues recover faster than expected.)

Economic and Revenue Forecasts. IBO's economic forecast is premised on slowing growth in the both the national and local economies over the next 12 months, although we do not anticipate negative growth for a sustained period. We assume the Federal Reserve's use of monetary policy to fight inflation will succeed without tipping the economy into recession. Inflation is expected to return to near the Federal Reserve's target during calendar year 2024. For calendar year 2022, we expect the New York City economy to add about 205,200 jobs as our recovery from the unprecedented job losses in the 2020 recession continues, although IBO projects that the city will still be 105,540 jobs (or 2.3 percent) below its pre-pandemic level at the end of this year. For calendar year 2023, gains slow to 44,600 jobs before bouncing back somewhat to 90,500 in 2024, 85,900 in 2025, and 82,400 in 2026. The employment recovery remains uneven among the sectors. Industries such as construction, retail trade, and leisure and hospitality are all estimated to be at less than 90 percent of their 2019 level at the end of this year. Others such as information, professional services, and health care have fully recovered to their 2019 levels.

We also expect personal income in the city to bounce back from slowed growth in calendar year 2022, to average annual growth of nearly 5.0 percent in 2023 through 2026. As for real estate values, IBO projects 9.6 percent growth in the aggregate estimated market value for tax purposes on the new assessment roll due next month, reflecting the current strength of the real estate market. Class 1 is expected to show the largest increase at 12.5 percent.

After double-digit growth in many of the city's main tax sources in 2022, tax revenue growth is expected to slow in 2023—turning negative in some cases—with aggregate tax revenue growth of only 0.8 percent over 2022. The declines are particularly large in percentage terms for the income taxes and property transfer taxes. Sales tax (at 3.2 percent growth) and real property tax (at 7.1 percent growth) are the exceptions among the city's major tax sources. This weakness continues into 2024, with total tax revenue expected to shrink by 0.2 percent. Growth is expected to remain weak for most tax revenue sources in 2025 and 2026, averaging 2.7 percent annually in those years.

IBO has raised its tax revenue forecasts by about \$1 billion from last spring for each year of the financial plan. Because OMB chose not to raise its tax forecast, even though collections have exceeded expectations since this year's budget was adopted, the differences between IBO's and OMB's tax forecasts have grown and now stand at \$2.4 billion in the current year, \$1.6 billion for next year, \$1.9 billion in 2025, and \$2.3 billion in 2026.

Issues on the Spending Side. I will highlight a few of the key issues that emerged during our review of the November plan.

Savings Plan Comes up Short. This past September, the administration issued savings targets to all mayoral agencies of 3.0 percent in fiscal year 2023, and 4.75 percent in fiscal years 2024 through 2026. The targets, known as the Program to Eliminate the Gap or PEG, were set to yield savings of \$1.4 billion in 2023 and \$2.2 billion in fiscal years 2024 and later. However, the administration did not meet these goals. OMB's November Financial Plan includes PEG savings equaling \$821 million from mayoral agencies, plus an additional \$94 million from centrally managed costs and non-mayoral agencies, for a total of \$916 million in 2023. In 2024, 2025, and 2026 the plan identifies at least \$1.3 billion in recurring savings. This is not uncommon as agencies often find it easier to make cuts in the outyears of a plan when they have more time to plan and implement recurring savings initiatives. After accounting for new needs, other adjustments, and PEG reversals, the administration, however, only achieved reductions of \$705 million and \$554 million in fiscal years 2023 and 2024, respectively. Out of roughly 55 mayoral agencies, only 18 achieved their PEG target in each year of the November plan.

Along with not fully achieving the original PEG target, the administration's PEG plan is offset in several cases by dollar for dollar increases to the very same budget lines targeted by the PEGs. These actions effectively negate these budget cuts with an equal increase outside of the PEG category labelled "Cost Avoidances Offsets." This pattern is present in the PEG program of three of the four uniformed agencies: Correction, Fire, and Sanitation. While none of the police department PEGs were reversed, some prior civilianization initiatives aimed at reducing uniformed overtime costs were. Most of the police department's PEG savings comes from unspecified personal service reductions.

Since the release of the November plan, the Adams administration has ordered an additional round of cuts, this time targeted at slowing hiring and eliminating vacant positions. These PEGs are expected to be incorporated in the Preliminary Budget that will be released in January.

The Costs of Services for Recent Asylum Seekers and Who Pays. The administration has included \$1 billion in federal assistance in the financial plan for 2023 with the expectation that it will be used to reimburse the city for costs associated with the flow of asylum seekers being transported from the southern border to New York City. The administration has not provided details about which federal program could be tapped to provide this funding to the city. IBO's analysis of existing authority for the Federal Emergency Management Agency (FEMA) suggests it is unlikely to be the source of more than a very small portion of the \$1 billion. Without a federal funding source identified, IBO assumes that the city would be required to cover the costs associated with the newly-arrived asylum seekers. Building off our recently published [analysis](#) of the cost of providing services to this population, and including some additional costs outlined in the mayor's November Financial Plan, IBO estimates the city will require \$373 million in additional city funds to cover these costs in 2023. For 2024, IBO estimates that another \$628 million in city funds, specifically for shelter costs will be necessary, under the assumption that new asylum seekers continue to arrive in the coming months. (OMB has budgeted all of the asylum-seeker costs and related federal aid for 2023).

IBO has made other adjustments (repricings) to OMB's spending projections. Police, fire, and correction overtime account for most of the \$318 million in additional public safety spending projected by IBO for 2023 and \$232 million in 2024. The Department of Education is expected to need \$764 million in 2025 and \$966 million in 2026 above what the mayor has currently budgeted for programmatic costs. This includes \$678 million in 2025 and \$881 million in 2026 if it wants to maintain services launched with federal Covid relief funds that will run out during fiscal years 2024 and 2025, such as expanded 3K. In total, these repricings result in IBO estimating higher city-funded expenditures in each year of the financial plan: \$228 million in 2023, \$1.1 billion in 2024, \$829 million in 2025, and \$928 million in 2026.

Labor Settlements Likely to Cost More Than Budgeted. The financial plan includes a reserve for future collective bargaining settlements as contracts with most of the city's unions having either already expired or scheduled to do so by the end of calendar year 2023. The amount in the reserve is sufficient to provide for a settlement with a raise of 2.5 percent annually. However, given the steep rise in inflation over the past year, it is likely the unions will hold out for higher settlements, which would add to the budget gaps.

Thank you again, and I'm happy to answer your questions.

Total Revenue and Expenditure Projections						
<i>Dollars in millions</i>						
	Actuals 2022	Plan				Average Change 2022–2026
		2023	2024	2025	2026	
Total Revenue	\$107,450	\$105,387	\$103,370	\$104,283	\$105,559	-0.4%
Total Taxes	69,450	69,978	69,847	71,790	73,705	1.5%
Total Expenditures	\$103,568	103,227	105,737	107,844	110,084	1.5%
IBO Revenue Less Expenditures	n/a	\$2,160	(\$2,367)	(\$3,560)	(\$4,525)	
IBO Prepayment Adjustment 2023/2024	n/a	(\$2,160)	\$2,160	-	-	
IBO Surplus/(Gap) Projections		\$0	(\$207)	(\$3,560)	(\$4,525)	
Adjustments for Prepayments and Non-Recurring Expenses						
Net Prepayments	(\$6,114)	\$705	(\$705)	\$0	\$0	
Annually Budgeted Reserve Funds	-	1,805	1,450	1,450	1,450	
Other Adjustments	-	-	53	150	343	
Total Expenditures (net of adjustments)	\$109,682	\$100,717	\$104,938	\$106,244	\$108,292	-0.3%
City-Funded Expenditures (net of adjustments)	\$83,498	\$71,405	\$76,477	\$79,004	\$81,729	-0.5%
NOTES: Figures may not add due to rounding. Net prepayments include payments of debt service. Between 2021 and 2022 the city prepaid \$792 million of 2023 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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IBO Expenditure Projections						
<i>Dollars in millions</i>						
	Actuals 2022	Plan				Average Change 2022–2026
		2023	2024	2025	2026	
Operational Expenditures						
Agency Expenditures	\$79,955	77,156	73,444	73,045	72,878	-2.3%
Labor Reserve	933	1,385	1,910	2,556	3,225	n/a
Total Operational Expenditures	\$80,888	\$78,541	\$75,354	\$75,601	\$76,104	-1.5%
Other Expenditures						
Fringe Benefits	8,557	11,460	12,855	13,491	14,152	13.4%
Debt Service	6,294	2,952	7,239	8,435	9,203	10.0%
Pensions	9,599	9,414	9,563	9,783	9,951	0.9%
Judgments and Claims	1,242	1,199	1,165	877	823	-9.8%
Subtotal Recurring Expenses	\$106,579	\$103,565	\$106,176	\$108,187	\$110,233	0.8%
General Reserve	-	1,555	1,200	1,200	1,200	n/a
Capital Stabilization Reserve	-	250	250	250	250	n/a
Retiree Health Benefit Trust	(792)	-	-	-	-	n/a
Rainy Day Fund Deposit	-	-	-	-	-	n/a
Other Adjustments	-	-	53	150	343	n/a
Subtotal Non-Recurring Expenses	(\$792)	\$1,805	\$1,503	\$1,600	\$1,793	n/a
Less: Intra-City Expenditures	(\$2,220)	(\$2,143)	(\$1,943)	(\$1,944)	(\$1,941)	n/a
TOTAL EXPENDITURES	\$103,568	\$103,227	\$105,737	\$107,844	\$110,084	1.5%
NOTES: Other non-recurring adjustments include reserve funds, energy, lease, and non-labor inflation adjustments. Debt service growth is unadjusted for prepayments of current year expenses with resources from the prior year. 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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IBO versus Mayor's Office of Management and Budget Economic Forecasts						
	2021	2022	2023	2024	2025	2026
National Economy						
Real GDP Growth						
IBO	6.0	1.8	0.7	2.1	2.8	3.0
OMB	5.7	1.7	0.8	1.3	1.9	2.0
Inflation Rate						
IBO	4.7	8.1	4.0	2.4	2.2	2.1
OMB	4.7	8.1	3.9	2.2	2.2	2.2
Personal Income Growth						
IBO	7.4	2.3	5.3	4.7	4.4	4.7
OMB	7.5	3.0	4.6	3.8	4.5	4.6
Unemployment Rate						
IBO	5.4	3.7	4.0	4.0	3.8	4.0
OMB	5.4	3.7	3.9	4.5	4.7	4.5
10-Year Treasury Note Rate						
IBO	1.5	3.0	4.6	4.1	3.8	4.0
OMB	1.4	2.8	3.4	3.3	3.3	3.2
Federal Funds Rate						
IBO	0.1	1.7	4.6	3.9	3.0	2.5
OMB	0.1	1.7	4.1	3.6	2.9	2.8
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	262.7	205.2	44.6	90.5	85.9	82.4
OMB (Q4 to Q4)	258.1	212.2	10.4	90.3	85.2	87.3
Nonfarm Employment Growth						
IBO (Q4 to Q4)	6.4	4.7	1.0	2.0	1.8	1.7
OMB (Q4 to Q4)	6.3	4.9	0.2	2.0	1.8	1.8
Inflation Rate (CPI-U-NY)						
IBO	3.3	6.1	3.8	2.5	2.3	2.3
OMB	3.3	6.1	3.2	2.1	1.8	1.7
Personal Income (\$ billions)						
IBO	722.2	725.8	762.7	800.6	835.1	879.7
OMB	718.2	720.0	742.9	772.8	811.3	849.4
Personal Income Growth						
IBO	6.0	0.5	5.1	5.0	4.3	5.3
OMB	6.0	0.2	3.2	4.0	5.0	4.7
Manhattan Office Rents (\$/sq.ft)						
IBO	76.2	77.9	76.4	77.5	78.6	79.1
OMB	76.3	76.8	75.2	75.7	76.9	78.1
SOURCES: IBO; Mayor's Office of Management and Budget NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal.						
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IBO Revenue Projections

Dollars in millions

	Actuals 2022	Plan				Average Change 2022-2026
		2023	2024	2025	2026	
Tax Revenue						
Property	\$29,436	\$31,521	\$32,123	\$32,586	\$33,342	3.2%
Personal Income	16,697	16,430	15,136	15,782	16,044	-1.0%
General Sales	8,544	8,837	9,049	9,374	9,776	3.4%
Corporate Taxes	5,682	4,883	4,953	5,120	5,276	-1.8%
Unincorporated Business	2,547	2,349	2,447	2,574	2,689	1.4%
Real Property Transfer	1,903	1,428	1,557	1,647	1,738	-2.2%
Mortgage Recording	1,336	1,074	1,135	1,167	1,191	-2.8%
Commercial Rent	876	900	914	931	946	1.9%
Utility	396	379	395	403	418	1.4%
Hotel Occupancy	345	514	577	645	725	20.4%
Cigarette	20	18	17	16	16	-5.0%
Other Taxes and Audits	1,669	1,644	1,544	1,544	1,544	-1.9%
Total Taxes	\$69,450	\$69,978	\$69,847	\$71,790	\$73,705	1.5%
Other Revenue						
STaR Reimbursement	\$146	\$144	\$142	\$140	\$138	-1.5%
Miscellaneous Revenue	7,323	7,495	7,311	7,314	7,330	0.0%
Unrestricted Intergovernmental Aid	498	252	-	-	-	n/a
Disallowances	(35)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	\$7,933	\$7,876	\$7,438	\$7,439	\$7,453	-1.5%
TOTAL CITY-FUNDED REVENUE	\$77,383	\$77,854	\$77,285	\$79,230	\$81,158	1.2%
State Categorical Grants	\$15,847	\$16,939	\$16,899	\$17,138	\$17,192	2.1%
Federal Categorical Grants	15,047	10,829	9,294	8,024	7,316	-16.5%
Other Categorical Aid	737	1,166	1,097	1,097	1,095	10.4%
SUB-TOTAL REVENUE	\$109,015	\$106,788	\$104,575	\$105,488	\$106,762	-0.5%
Interfund Revenue	655	742	738	738	738	3.0%
Less: Intra- City Revenue	(\$2,220)	(\$2,143)	(\$1,943)	(\$1,944)	(\$1,941)	
TOTAL REVENUE	\$107,450	\$105,387	\$103,370	\$104,283	\$105,559	-0.4%

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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Pricing Differences Between IBO and the Adams Administration

Items that Affect the Gap

Dollars in millions

	2023	2024	2025	2026
Gaps as Estimated by the Mayor	-	(\$2,890)	(\$4,580)	(\$5,915)
Revenue				
Taxes				
Property	\$244	\$252	\$580	\$1,324
Personal Income	1,146	292	320	175
General Sales	236	78	(49)	(178)
Corporate Taxes	346	659	676	552
Unincorporated Business	171	166	208	226
Real Property Transfer	33	28	11	50
Mortgage Recording	113	120	80	73
Commercial Rent	38	51	65	78
Hotel Occupancy	46	(43)	(34)	26
Utility	0	0	0	0
Cigarette	0	0	0	0
Other Taxes and Audits	(1)	(1)	(1)	0
Total Taxes	\$2,373	\$1,602	\$1,857	\$2,326
Other City Revenue				
STaR Reimbursement	\$0	\$0	\$0	\$0
Miscellaneous Revenue	15	15	15	15
Unrestricted Intergovernmental Aid	0	0	0	0
Disallowances	0	0	0	0
Total Other City Revenue	\$15	\$15	\$15	\$15
Intra-City	\$-	(\$24)	(\$24)	(\$24)
TOTAL REVENUE - CITY	\$2,388	\$1,593	\$1,849	\$2,318
Expenditures-City Funded				
Fringe Benefits				
Fringe-Education	\$124	\$276	\$382	\$421
Fringe-City University	6	12	16	16
Fringe Benefits-All Other Agencies	233	473	610	653
Debt Service	85	11	0	0
General Government	(40)	(213)	(225)	(215)
Public Safety and Judicial	(318)	(232)	(222)	(212)
Education	(51)	(439)	(764)	(966)
Social Services, Homeless Services, Aging	(283)	(920)	(587)	(571)
Environmental Protection and Sanitation	(13)	(16)	(18)	(34)
Transportation Services	0	0	0	0
Parks, Recreation, and Cultural Activities	0	(20)	(20)	(20)
Housing and Buildings	29	0	0	0
Health	0	0	0	0
TOTAL EXPENDITURES - CITY	(\$228)	(\$1,070)	(\$829)	(\$928)
TOTAL IBO PRICING DIFFERENCES	\$2,160	\$523	\$1,020	\$1,390
IBO Prepayment Adjustment 2023/2024	\$(2,160)	\$2,160	\$-	\$-
IBO SURPLUS/(GAP) PROJECTIONS	-	(\$207)	(\$3,560)	(\$4,525)

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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