New York City Independent Budget Office Fiscal Outlook

December 2022

Current Year Surplus Projected Despite Slowing Economy, Future Year Challenges Remain

One week after releasing his November Financial Plan, Mayor Adams warned that the city must prepare for an "economic tsunami," the result of a variety of forces, including weakening of the national and local economies, high inflation, and pension fund losses in financial markets. While IBO forecasts that the city's very robust recovery from the pandemic-induced recession of 2020 will slow substantially in coming months, we project that the city will avoid another recession. To be sure, IBO's fiscal outlook is not one of rosy optimism or even one of calm seas. It is, however, somewhat brighter than that put forth by the Adams administration.

Despite forecasting slowing growth over the next 12 months, IBO projects that the city will end 2023 with a sizable $2.2 billion surplus. (All years refer to fiscal years unless otherwise noted.) This surplus is largely thanks to higher than anticipated tax revenues during the first half of the current fiscal year; an excess that is likely to be much smaller over the remainder of the year. After adjusting for

Total Revenue and Expenditure Projections
Dollars in millions

	Actuals	Plan				Average Change
	2022	2023	2024	2025	2026	2022–2026
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**	**110,111**	**1.5%**
IBO Revenue Less Expenditures	**n/a**	**$2,160**	**($2,367)**	**($3,560)**	**($4,553)**	
IBO Prepayment Adjustment 2023/2024	n/a	($2,160)	$2,160	-	-	
IBO Surplus/(Gap) Projections		$0	($207)	($3,560)	($4,553)	
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**	**$108,319**	**-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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the prepayment of next year's expenses with this surplus, IBO forecasts a negligible gap of $207 million in 2024. IBO's projected gaps widen to $3.6 billion and $4.5 billion in fiscal years 2025 and 2026, respectively. While these gaps are substantial, they are not far outside the order of magnitude that the city has addressed in recent years.

Overall, IBO forecasts that after nearly two years of brisk economic expansion and recovery from the 2020 recession, the U.S. economy will slow to little or no growth through the middle of calendar year 2023. IBO's outlook for the local economy has similarly softened. The city's employment growth is expected to moderate compared with recent gains to 44,600 new jobs expected in calendar year 2023 (compared with an expected 205,200 increase in calendar year 2022). Based on this economic forecast, IBO expects tax revenue growth to slow for the remainder of 2023, turning negative in some cases, with aggregate tax revenue growth of less than 1 percent compared with 2022. This weakness continues into 2024, with total tax revenue expected to shrink slightly. While tax growth resumes in 2025, it is expected to remain weak for most revenue sources.

In addition to facing stagnant tax revenues, there are some other unanticipated challenges facing the city. By the start of the fiscal year, individuals and families seeking asylum from unrest in their home countries had started arriving to New York City. Arrival numbers soon swelled when governments of border states and cities began transporting asylum seekers to the city. Faced with this influx, the city scrambled to provide shelter and other services. The Adams administration has responded by budgeting $1 billion unspecified federal aid in its November Financial Plan to pay for these costs in 2023, despite no public indication from Washington that such aid is forthcoming. As such, IBO's estimates that the city will be on the hook for many costs associated with this population. After accounting for some funds already included in the city budget, we include in our estimate of city expenditures $374 million in additional city funds in 2023 and $628 million in 2024 to cover these costs.

The city is also facing some other, more easily anticipated, challenges. The administration has begun the process of negotiating with the municipal unions on the next round of collective bargaining contracts, nearly all of which are expired. The unknown cost of these contracts is one of the largest risks to the city's fiscal condition. The city's budget holds money in the labor reserve to cover potential raises. Currently, the labor reserve holds enough funds for annual increases of 1.25 percent. Given the level of recent inflation there is reason to believe that the city will be pressed hard by the unions to offer raises above that level. By the city's own estimate, an additional percentage point increase in wages would increase the city's personnel budget by roughly $450 million in the first full year following negotiations.

Since he assumed office, Mayor Adams has kept to a budgetary strategy of riding the brakes on expenditures and building the city's reserves to historic levels. The mayor has included savings plans, known as Programs to Eliminate the Gap (PEGs), in both his preliminary budget for 2023 released last February and his November plan. After releasing the November plan, the administration also announced that, with some exceptions, it would be eliminating 50 percent of vacant civilian positions at most city agencies as part of the preliminary budget for 2024, expected to be released in January, to help with reducing the projected outyear gaps. The number of full-time municipal employees has fallen since the start of the pandemic from 301,000 in January 2020 to just under 282,000 in September 2022, increasing the number of municipal vacancies. While the city has reduced costs through the decline of active headcount, there is growing concern that these reductions have left at least some agencies unable to meet performance targets for delivering city services—another cause for concern for the city's fiscal outlook.

U.S. and Local Economic Outlook

IBO's outlook for the U.S. and local economy for the next two years is one of sluggish growth, underpinned by the assumption the Federal Reserve succeeds in its effort to temper inflation without causing a recession. On the national front, we anticipate minimal growth in the first half of 2023 as the Fed continues to raise interest rates. (Unless otherwise noted, all years in the economic forecasts sections refer to calendar years.) We expect inflation to slow and growth to pick up some speed in the second half of the year, for GDP growth of 0.7 percent for all of 2023. After 2023, IBO expects the national economy will continue to strengthen and that GDP growth will increase to 3.0 percent in 2026.

Our forecast for the New York City tracks that of the U.S. economy with slower growth in the coming 12 months. IBO forecasts employment gains in the coming year to slow dramatically—with the addition of 44,600 jobs in 2023—less than half of what we projected in our last forecast in May. This will slow the city's return to its pre-pandemic employment levels, which we now expect the city to reach

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.

New York City Indpendent Budget Office in the third quarter of 2024, two quarters later than what we projected in the spring. We expect employment growth to pick up in early 2024, however, with the addition of another 90,500 jobs by the end of that year.

U.S. Economy. IBO's outlook for the U.S. economy assumes little or no growth through the middle of 2023. IBO projects a slowdown of real GDP growth, from 1.8 percent in 2022 to 0.7 percent in 2023. Concern that inflation, which developed as the economy recovered from the 2020 recession, was becoming embedded in expectations of prices and wages prompted the Federal Reserve to raise interest rates in order to reduce demand and tamp down inflation. In IBO's forecast, the Fed's efforts succeed in slowing growth enough to bring inflation under control without slowing the economy so much that it brings on a recession, a scenario known as a "soft landing". With the economy on firmer footing by the end of next year, IBO projects real GDP growth of 2.1 percent in 2024, rising to 2.8 percent and 3.0 percent in 2025 and 2026, respectively. However, a soft landing of the economy in the coming year is far from certain, and a real risk of recession remains.

Following the brief but steep Covid-induced recession in the first half of 2020, progress in vaccinating large numbers of Americans, an accommodative monetary policy, substantial federal fiscal stimulus, employment growth, and pent-up consumer demand all contributed to a strong rebound in 2021. 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 2021.

Steady increases in employment, enhanced and extended unemployment insurance benefits (and other enacted federal income supports), a wealth effect created by the run-up of equity prices, and pent-up demand together, fueled strong growth of consumer spending in 2021. The domestic and global economies, however, were unable to meet that demand due to various supply side constraints, generating inflation. The constraints included: shortages of lumber and other materials, which led to delays in housing construction; bottlenecks in vehicle production due to a shortage semiconductors and other parts; Covid's disruption in the supply of intermediate and consumer goods imported from other countries; and a persistent labor shortage that prevented many U.S. businesses from increasing output despite consumer demand.

This elevated demand, combined with supply channel disruptions and labor constraints resulted in an acceleration of inflation beginning in 2021, which continued into 2022. Prior to Covid's disruption of economic growth, inflation had been tame for many years, averaging 1.8 percent annually during the last economic expansion from 2010 to 2019, as measured by the Bureau of Labor Statistics' consumer price index (CPI)—close to the 2.0 percent "target" rate of the personal consumption expenditures index, a related measure of inflation, that the Federal Reserve considers optimal for sustainable economic growth.[1] In 2021, the inflation rate increased almost steadily, from 1.4 percent growth in January over the same month the year before to 7.1 percent in December.

At the start of 2022, opinions among economists and forecasters differed as to whether rising prices would be temporary or persist if unchecked by a tighter monetary policy. Believing that the global economy would gradually adjust to ease supply bottlenecks and reduce shortages, IBO's outlook for the U.S. economy assumed that inflation would abate in 2022. But inflation continued to accelerate, reaching 9.0 percent in June, the highest level in over 40 years. Double-digit increases in energy prices, which began in mid-2021, have had an outsized effect on overall inflation. In addition, Russia's invasion of Ukraine and the resulting war exacerbated disruptions in energy markets, pushing energy prices even higher.

With the aim of slowing growth to reduce inflation, in March 2022 the Fed began to increase the federal funds rate—the rate at which depository institutions can borrow and lend excess reserves from each other overnight—for the first time since 2019. Proceeding with caution so as not to rattle financial markets, the initial increase was a modest 0.25 percent rate hike. But the persistence of inflation prompted to the Fed to raise the federal funds rate more aggressively, with six more rate hikes so far this year: a 0.5 percent rate increase in May, and 0.75 percent increases in June, July, September, and November, and a 0.5 percent increase in December. The current rate is 4.3 percent, up from 0.1 percent in February.

The acceleration of inflation in the first half of this year was accompanied by both the continuation of a strong labor market, in which the U.S. added on average 444,000 jobs every month and the unemployment rate continued to fall, and strong increases in consumer spending, averaging 7.4 percent on an annualized basis. However, real GDP declined, by -1.6 percent and -0.6 percent in the first two quarters of this year, respectively. Though the shorthand definition of a recession is a decline in output for two consecutive quarters, this period did not include a pervasive downturn affecting employment and demand. Much of the contraction was due to inventory depletion, an decrease in exports relative to imports, and a winding down of Covid-related federal spending—even as employment and consumer spending remained strong. But by the end of the second quarter, there was some evidence of slower job growth and weakening consumer demand, outcomes desired by the Federal Reserve.

Real GDP increased in the third quarter of this year, by 2.9 percent (Bureau of Economic Analysis, second estimate), but several developments did not bode well for future growth. Monthly employment gains fell (although they remained relatively strong), and consumer spending growth slowed. Though the falling price of oil led to some moderation of inflation, monthly increases in the CPI remained well above the Fed's target rate. With inflation eroding household spending power, households have increased their use of debt and at the end of the third quarter outstanding credit card balances were 15 percent higher than the year before. Moreover, with the Fed signaling its intention to continue raising interest rates IBO projects virtually no growth in the fourth quarter of 2022, resulting in a 1.8 percent increase in real GDP for the entire year.

IBO's economic outlook is premised on the Fed's ability to achieve a "soft landing," in which efforts to reduce growth will dampen inflation without generating a recession. We expect the Fed to continue raising interest rates in 2023, although less aggressively than in 2022, resulting in a federal funds rate that averages 4.6 percent in 2023. We anticipate minimal output growth in the first half of 2023, followed by a gradual acceleration in the second half, generating a real GDP increase of 0.7 percent for the entire year. We forecast a moderation of inflation to 4.0 percent for the year in response to slower growth, and steady if small increases in the unemployment rate to 4.1 percent in the fourth quarter of 2023.

After 2023, IBO anticipates economic growth to be on firmer footing, with the expectation that inflation will continue to slow and be near the Fed's target rate by the end of 2024. This will prompt the Fed to move toward a more neutral monetary policy with respect to growth. We forecast steady increases in real GDP each year, from 2.1 percent growth in 2024, to 2.8 percent and 3.0 percent growth in 2025 and 2026, respectively.

Uncertainties and Risks. IBO's forecast of the U.S. economy is far from certain. Under the best of circumstances, the Fed's ability to achieve a soft landing is difficult, and a misstep in monetary policy is the biggest risk to our economic outlook. A recession can easily result if the Fed's actions are too aggressive, particularly if unanticipated by financial markets, generating a spike in long-term interest rates that chokes off business output and consumer spending. A recession can also result if the Fed's actions are too cautious and fail to tame inflation.

Continued employment growth is helping to sustain consumer demand which should help avoid a recession. Moreover, the labor shortages that many employers have been dealing with in the last two years make businesses less likely to shed employees were the demand for their output to soften—wanting to have enough labor to expand production once growth resumes.

The persistence of inflation so far, in the face of the Federal Reserve's tight monetary policy, increases the chances that it will not be able to avoid a recession. Despite the Fed's efforts, the rate of inflation has fallen only moderately—from 9.1 percent in June to 7.1 percent in November. Energy costs have fallen substantially since their high last summer, but food inflation has declined only modestly, and inflation of shelter costs has not decreased at all. The longer inflation persists at above-target rates, the further the Fed will have to raise interest rates, which increases the likelihood of the economy falling into a recession.

There are many other risks to IBO's forecast of a slower U.S. economic growth without a recession. A major disruption of international trade, particularly if it led to higher energy prices or hindered the supply of goods needed by U.S. businesses, would constrain domestic production, increase inflation, and likely cause a recession. In this regard, an escalation of the fighting between Ukraine and Russia would have significant economic consequences, as would a mutation of the Covid virus to a more debilitating transmissible form. Interest rate increases could lead to further appreciation of the U.S. dollar, greatly harming export-oriented industries. Finally, a reversal of recent stock market gains and lasting return to the bear market that developed earlier this year, could create a negative wealth effect that could greatly reduce consumers' willingness to spend.

IBO's and the mayor's Office of Management and Budget's (OMB) forecasts of slow U.S. economic growth in 2023 differ little from one another, with real GDP increases of only 0.7 percent by IBO and 0.8 percent as presented in the administration's November 2022 Financial Plan. Both forecasts call for slower growth to produce only a modest rise in the unemployment rate, to 4.0 percent (IBO) and 3.9

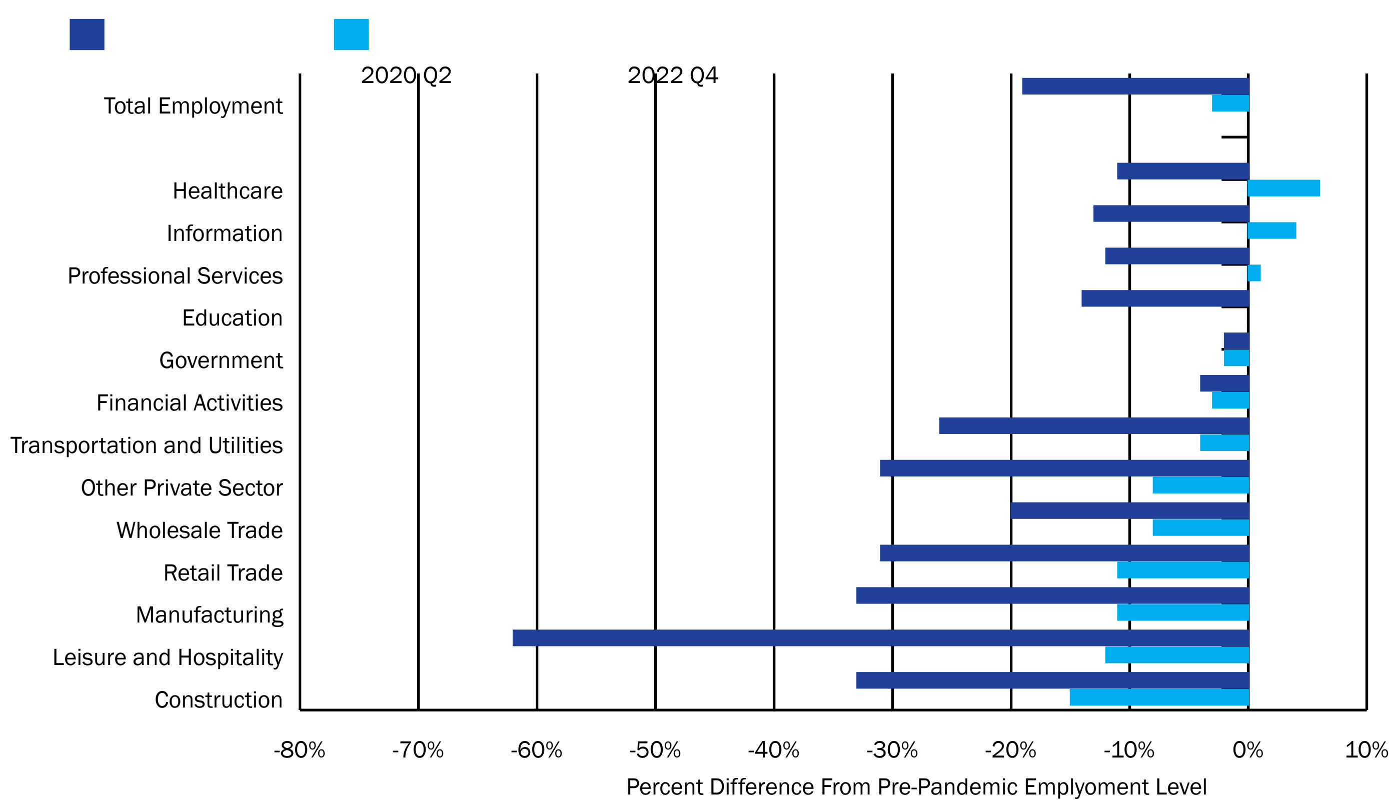
percent (OMB). Both predict that the Fed will continue to raise interest rates, leading to a moderation of inflation, to 4.0 percent and 3.9 percent, in the IBO and OMB forecasts, respectively. In each year after 2023, gradual economic growth is projected, though the annual rates of real GDP growth in IBO's forecast—2.1 percent in 2024 rising to 3.0 percent by 2026—are faster than OMB's predictions, which stay under 2.0 percent growth until 2026. IBO's and OMB's predicted inflation rates are similar, nearing the Fed's 2.0 percent target rate by 2026.

New York City Economy. The New York City economy has traced a path similar to that followed by the U.S. economy towards recovery from the sharp downturn at the onset of the Covid-19 pandemic, although the pace of the city's recovery has lagged. Recovery in the local economy continues, as it regains jobs lost in the record-breaking plunge in 2020. However, as the U.S. economy slows under the weight of the Federal Reserve's interest rate hikes, some economic forecasts now include the possibility of a mild recession in 2023. IBO's outlook for the local economy has also softened since our last report in May—we are now expecting minimal growth in the coming months, although not a recession. The robust employment growth, record-setting sales in the residential real estate market, and soaring Wall Street profits of the past two years are expected to slow substantially, particularly in early 2023, before resuming more sustained growth in 2024 and beyond.

Employment. New York City has been recovering from the record-breaking loss of over 890,400 jobs in the first and second quarters of 2020, which represented 19.0 percent of the city's 4.7 million jobs. The recovery began quickly, getting underway in the third quarter, and the total for the year was a net loss of 573,500 jobs (all annual employment numbers are measured on a Q4-to-Q4 basis). More than 262,700 jobs were regained in 2021, and based on preliminary monthly figures through October, IBO estimates that 2022 will end with a net gain of another 205,200 jobs, which would bring employment back to 97.4 percent of the pre-pandemic level. The city's recovery has lagged the national jobs recovery, which reached 100 percent of pre-pandemic employment in August 2020, based on preliminary statistics.

However, given the broader economic slowdown expected nationwide, we project that local employment growth will slow substantially in coming quarters, to an annual gain of

Recovery From Pandemic Job Losses Varies by Sector



SOURCES: Bureau of Labor Statistics, IBO Employment Forecast

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44,600 jobs for 2023. This projected gain is substantially lower than our forecast from May, when we projected a gain of 109,600 jobs. We forecast growth to double to 90,500 jobs in 2024, before moderating slightly to an average of 84,100 jobs in 2025 and 2026. We now project that the city will reach 100 percent of its pre-pandemic employment in the third quarter of 2024. By the end of the forecast period in 2026, IBO expects employment in the city to reach 4.9 million jobs, or 3.4 percent higher than peak levels before the Covid-induced crash.

Not all sectors have recovered at the same pace. Only three sectors have reached and surpassed full pre-pandemic employment: professional services, information, and (by the widest margin) healthcare. Information and healthcare, in particular, have been vital sectors for addressing the challenges of the ongoing Covid-19 crisis. Of the city's major sectors, leisure and hospitality and retail trade have recovered most slowly, with current employment still more than 10 percent below their pre-pandemic peaks. Construction and manufacturing also had extremely slow recoveries, although they represent much smaller segments of total city employment.

While the projected slowdown in employment growth for 2023 is distributed across all sectors, many of the same patterns hold. In leisure and hospitality, which had lost 214,500 jobs in 2020 and managed to regain a total of 151,900 through 2021 and 2022, growth is projected to slow to just 11,500 next year. Employment in financial activities is projected to remain essentially flat, although this was not a high-growth sector in terms of the number of jobs even before Covid-19. Other high-wage sectors, such as information and professional services are also projected to experience weakness in 2023, with information employment expected to decline by 2,500 jobs; however, these industries had already fully regained their pre-pandemic employment levels and these changes are not expected to undermine their recovery from the 2020 recession.

Our current employment outlook is somewhat more robust than OMB's, particularly for 2023. Compared to IBO's projection that growth will slow to 44,600 jobs gained for the year, OMB is projecting that just 10,400 jobs will be added. The growth projections for 2024 through 2026 are very similar, but OMB's forecast of a steeper slowdown in the coming year would put the city on a longer path to full recovery from the Covid-19 crash.

Wages, Salaries, and Personal Income. Throughout the pandemic, growth in aggregate earnings from wages and salaries has fared better than total employment growth, declining by just 1.3 percent in 2020, from $449.4 billion to $443.4 billion in 2021. Wages and salaries resumed substantial growth, increasing by 10.3 percent and an estimated 9.1 percent in 2022, reaching $533.7 billion. The reason for this divergence is the composition of the employment force in the city and the differences in the impact of the pandemic across sectors. Most of the job losses were concentrated in lower-wage industries such as leisure and hospitality, while high-wage industries —most notably financial activities—were substantially less affected. In addition, growth has resumed more robustly in other high-wage sectors, such as information and professional services, while the lower-wage sectors continue to lag in terms of employment.

Given the widespread slowdown in the employment forecast for 2023, however, growth in total wages and salaries is also projected to substantially slow next year, to 4.8 percent and reach $559.2 billion. More historically typical growth rates are forecast after that, averaging 5.8 percent in 2024 through 2026, and ending the forecast period at $661.3 billion.

Wages and salaries are the largest component of personal income in the city, accounting for an estimated 73.5 of total personal income in 2022. Additional sources of personal income include other labor-related income (such as benefits and retirement contributions), proprietor's income, dividends and interest income, and government transfers. At the outset of the pandemic, the amount of government transfers dramatically increased, in the form of expanded unemployment benefits, stimulus payments, and other federal and state programs, to bolster the economy through the shock. Transfer payments grew from $107.0 billion in 2019 to $151.0 billion 2020, an increase of 41.1 percent. They grew even further in 2021, by an additional 4.4 percent. As Covid-era programs began to expire, the amount of government transfers received by city residents has markedly contracted in 2022, to an estimated $126.3 billion, 19.9 percent below 2021 levels.

Despite continued growth in wages and salaries and the other private income categories, this large reduction in transfer payments has slowed the growth in overall personal income for 2022. After growing by 5.6 percent and 6.0 percent in 2020 and 2021, respectively, personal income is estimated to have grown by just 0.5 percent this year, from $722.2 billion to $725.8 billion. Despite the slowdown in wage and salary growth next year, sustained growth in all the other categories is enough for personal income growth to resume at more typical levels throughout the forecast period, averaging 4.9 percent in 2023 through 2026, and ending at $879.7 billion.

Real Estate. IBO projects that taxable real estate sales in New York City will total around $120 billion in 2022, the second-highest nominal value ever recorded, after the 2015 total of $126.3 billion. The sales estimate for 2022 represents a strong recovery from the pandemic-incited crash of 2020, when the total value of transactions was just $61.3 billion. Projected property sales for 2022 are about 8 percent above the 2021 total of $111.3 billion. Actual sales for the months January through September were 15.5 percent higher in 2022 than the previous year, but sales began to weaken in October.

As is typical of real estate downturns in New York City, the decline in sales in 2020 impacted the commercial market much more than the residential sector. In 2018, the dollar amount of commercial sales was 18.3 percent above residential sales, and in 2019 sales in the two sectors were essentially equal. In 2020, commercial sales dropped 49.5 percent from the previous year, while residential sales declined by only 27.5 percent. Both commercial and residential sales recovered strongly in 2021, but the year-over-year increase in residential sales, at 88.7 percent, was greater than the increase in commercial sales at 71.2 percent.

Based on sales through November, IBO projects that commercial sales for 2022 will be $48.2 billion, 11.7 percent above 2021, while residential sales will be $71.9 billion, 5.6 percent higher than the previous year. If this forecast holds, taxable residential sales, in nominal terms, will hit a new record in 2022, surpassing 2021.

IBO projects a decline of around 15.9 percent in the value of real estate sales in 2023 compared with 2022, to $101.0 billion. Commercial sales are projected to drop by 12.8 percent, and residential sales by 18.0 percent. These projections are based on IBO's forecast of significant economic weakening in early 2023, combined with interest rates that continue to be high by the recent standards, and weakness in the office market as remote work becomes a firmly established practice. IBO projects that both commercial and residential sales will rise modestly in 2024 and 2025, once mortgage rates stop increasing in late 2023. IBO's forecast of real estate sales in 2025 is $112.5 billion, with residential sales continuing to exceed commercial sales by a margin of 57 to 43 percent.

During the initial months of the pandemic there were dire projections of a steep and permanent decline in the city's real estate market. While initial fears of a collapse in office employment and a major exodus of residents and jobs from the city appear to have been unrealized so far, signs of weakness in the market remain. In addition to the softness of the office sector, certain segments of the residential market, in particular lower-priced properties in peripheral neighborhoods, are facing weak demand. On the other hand, prices remain strong in what are considered highly desirable neighborhoods of Manhattan, Brooklyn, and to a limited extent, Queens.

Wall Street. At $58.3 billion, 2021 New York Stock Exchange profits neared the all-time nominal record set in 2009, during the recovery from the financial crisis. However, high profits in recent years have been driven largely by a long-term low interest rate environment, which was renewed in response to the Covid-19 crisis. As the Federal Reserve has raised rates this year to levels not seen since 2008 in an effort to slow the economy and to bring inflation under control, interest expenses have increased and accordingly reduced profits. IBO projects that 2022 profits will total $24.3 billion, a decline of 58.4 percent.

While substantially reduced from the profits of the last two years, this level of current-year profits is more in line with typical pre-Covid era years, which averaged $22.3 billion from 2015 through 2019. Given the forecast that the national economy will slow but not enter recession, and interest rates will not need to be substantially cut in order to restart growth, we project that profits will be reduced further, averaging $18.3 billion in 2024 and 2025, before resuming growth and averaging $22.0 billion in 2025 and 2026.

Local Risks. While all economic forecasts inherently face both upside potential and downside risks, the downside risks are of particular concern at the current time, when macroeconomic projections range from continued (if much slower) GDP growth to a mild recession. Certainly, the possibility of recession is the most significant risk, but recent economic conditions have already posed challenges for the city's economy.

Persistently high inflation illustrates the ways in which the city's economy is uniquely impacted by national economic conditions. The city has a high reliance on the finance industry when it comes to wages and salaries, which fuels personal and business income tax collections as well as tax revenue from high-value real estate transactions. Higher interest rates to combat inflation cut into profits for the securities industry through higher borrowing costs and discourage real estate transactions, all of which has the potential to ripple through the rest of the local economy. Conversely, to the extent that recent high inflation has been driven especially by rising energy costs, many city residents have been less individually impacted than those in other parts of the country because they are not as reliant on personal oil consumption for transportation needs.

Should the economy slip into recession and interest rates be cut to spur growth, that could – at least in the short-term—benefit the finance industry by reducing borrowing costs, while also encouraging additional growth in the real estate market. However, the city also has a very large tourism sector, which means a higher-than-average concentration of workers in related industries, such as leisure and hospitality and retail trade. Any reduction in tourism as a result of a national recession or jumps in the exchange rate that discourage foreign tourists would undercut recovery in these industries. They have already lagged other sectors in the city and provide largely lower-wage jobs, which are important drivers to the broader population's economic health.

Taxes and Other Revenue

IBO's forecast of revenue from taxes and other sources including fines, fees, and state and federal aid totals $105.4 billion for the current fiscal year, $2.0 billion less than in 2022—a year in which spending was boosted with Federal Covid-19 fiscal relief funding. For 2024, total revenue is expected to decline to $103.4 billion (a drop of 1.9 percent) as federal aid continues to return to more typical levels after the large boost for Covid relief and support. Total revenue growth is expected to be very weak in the following two years, by 0.9 percent in 2025 and 1.2 percent in 2026. The forecast for total revenue of $105.6 billion in 2025 barely exceeds the 2023 amount. (All years in this section and the following sections refer to fiscal years unless otherwise noted.)

For 2022, federal aid played an outsized role in the city's total revenues and the size of the total budget as the federal government provided the city with extraordinary Covid-related fiscal relief. Some of this aid was used to replace lost tax revenues resulting from the Covid-induced recession, some was used to reimburse the city for expenses incurred as it responded to the pandemic, and some was used to expand services such as offering pre-kindergarten programs to all 3-year-olds in the city.

City taxes will generate $70.0 billion in revenue this year, and other city revenue such as fees, fines, and asset sales will yield an additional $7.9 billion. IBO forecasts that non-city sources will account for $28.9 billion or 27.5 percent of total revenues in 2023. The outlook for 2024 assumes that federal aid continues to return to its more typical levels, following the spending down of Covid-related aid, while city tax revenues fall slightly and the tax share of total revenue returns to a more normal 67.6 percent ($69.8 billion).

Notably the Adams administration has included $1 billion in this year's budget in new federal aid to help the city provide services to the influx of asylum-seekers. IBO has assumed this revenue will not be received and therefore our estimate of federal categorical grants for 2023 does not include those funds.

Tax collections so far this year have been stronger than anticipated when the budget was adopted—through October collections were $1.4 billion (5.3 percent) above plan with the biggest differences in personal and business income taxes, and the sales tax. IBO's tax forecasts generally anticipate slower revenue growth in the remaining months of 2023 leaving tax revenues for the full year only 0.8 percent higher than 2022 at $70.0 billion. Tax collections are expected to further weaken in 2024, falling slightly by 0.2 percent. IBO forecasts modest tax revenue growth in 2025 of 2.8 percent, with revenue gains of between 3.5 percent and 5.5 percent from most of the city's major tax sources other than the real property tax which is expected to limp along at 1.4 percent. A similar pattern holds for 2026, with the real property tax continuing to lag the other major tax sources.

After 2024, city taxes are expected to outpace growth from other city revenue sources, as well as state and federal grants in 2025 and 2026. Tax revenues are forecast to increase at an average annual rate of 1.7 percent, while non-city revenue sources are projected to shrink by 3.1 percent on average in 2025 and 2026.

The first part of this section presents IBO's tax revenue forecast, followed by a detailed discussion of each of the city's major tax sources. It concludes with a brief discussion of non-tax revenues.

Tax Revenues. IBO's forecast for tax revenue in 2023 is $70.0 billion—an increase of 0.8 percent ($527 million) from the prior year—as inflation, high oil and gas prices, new supply chain issues and geopolitical unease sparked by Russia's invasion of Ukraine, and the lingering economic effects of the pandemic sapp tax collections, although not to the extent that we had originally expected last spring.

IBO Revenue Projections
Dollars in millions

	Actuals 2022	Plan 2023	2024	2025	2026	Average Change 2022–2026
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.

New York City Indpendent Budget Office

IBO now expects that because of the Federal Reserve's rate hikes aimed at reducing inflation in calendar year 2023 economic growth will be very weak, although our current projections do not include a recession. With the economic slowdown, tax revenues are expected to fall slightly in 2024 to $69.8 billion, and then rebound modestly in 2025 and 2026, with tax revenue in the latter year expected to amount to $73.7 billion.

Except for the real property tax, the commercial rent tax, the sales tax, and the hotel tax, collections from all the city's other major tax sources are expected to fall in 2023. The corporate income taxes, which boomed during 2022, are expected to fall by 14.1 percent in 2023, a decline of $799 million. The decline reflects the expectation of a sharp slowdown in economic growth in the balance of the fiscal year. The personal income tax (PIT) also saw strong growth last year driven by robust capital gains realizations and large bonus payments on Wall Street, but with neither of those sources expected to contribute much to PIT revenue growth this year, collections are expected to fall by $267 million (-1.6 percent). The mortgage recording tax and the real property transfer tax are expected to fall by 19.6 percent and 25.0 percent, respectively, as higher interest rates and continued uncertainty about the future of commercial real estate have at least temporarily slowed property markets in the city.

The real property tax has rebounded from an uncommon contraction in 2022, growing by $2.1 billion (7.1 percent) this year. Sales tax revenue is forecast to be $293 million higher than in 2022 (an increase of 7.1 percent). The largest increase in percentage terms is forecast for the hotel occupancy tax. With tourist visits to the city slowly increasing, hotel occupancy and revenue are recovering, although they remain below their pre-pandemic levels. IBO projects the hotel tax revenues will expand by 49.0 percent from 2022 to 2023 to $514 million.

For 2024, IBO forecasts $69.8 billion in total tax collections, although the possibility that the economic slowdown could be deeper than we anticipate adds considerable uncertainty to our revenue projections. Most of the taxes will grow modestly on a year-over-year basis. The personal income tax is an exception; as we expect it to fall by 7.9 percent, as lower capital gains realizations pull down final return and extension payments. IBO forecasts that all the city's major tax sources will grow in 2025 and again in 2026 as we assume the Federal Reserve eases off on interest rates and growth returns to more normal levels.

IBO's tax forecast exceeds OMB's by $2.4 billion in 2023 and by $1.6 billion for 2024. One reason there is such a large difference this year is that OMB did not adjust its outlook, even with year-to-date collections estimated to be $1.4 billion above what was expected last June when this year's budget was adopted. IBO's projections for the corporate income taxes, the unincorporated business tax, the personal income tax, the hotel occupancy tax, and the mortgage recording tax all exceed OMB's by at least 7.0 percent for 2023, with smaller differences for the real property tax (0.8 percent) and sales tax (2.7 percent). The differences between IBO's and OMB's forecasts for 2024 are generally smaller than the differences for 2023, resulting in an overall difference of 2.3 percent. The difference between the forecasts widens slightly after 2024. IBO's total tax revenue forecast exceeds OMB's by $1.9 billion (2.7 percent) in 2025 and $2.3 billion (23.3 percent) in 2026.

Real Property Tax. IBO forecasts 2023 property tax revenue of $31.5 billion, an increase of $2.1 billion (7.1 percent) from 2022. This increase partially reversed the estimated market value decreases imposed in 2022 under the assumption that Covid-19 would lower demand for commercial and rental properties and hence their market values. Property tax revenue is expected to increase in 2024, albeit at a slower pace, to $32.1 billion, 1.9 percent above the 2023 total. Growth will continue at virtually the same sluggish pace through the remaining two years of the forecast.

Background. The amount of tax owed on real property in New York City depends on the type of property, its value for tax purposes, and the applicable tax rate. Under New York State's real property tax law, there are four classes of property in the city: Class 1 consists of one-, two-, and three-family homes; Class 2 comprises apartment buildings, including rentals, cooperatives and condominiums; Class 3 is exclusively real property owned by utility companies; and Class 4 consists of all other commercial and industrial properties. Each class's share of the levy is determined under state law that allows only small shifts in the share of the overall property tax borne by each class. The assessed value of a property for tax purposes (taxable assessed value) is established by the Department of Finance. The department estimates each property's fair market value and then applies an assessment percentage, which reduces the amount of the property's value subject to the property tax. Practices in estimating market value, assessment percentages, exemptions, and tax rates vary across property types, and the share of the levy borne by each class is not proportional to its share of the market value used for tax purposes.

Assessment Roll for 2024. The tentative assessment roll for 2024 is scheduled for release in January 2023. After a period for appeals and review, a final roll will be released in May, which will be the basis for property owners' 2024 liabilities. IBO projects that aggregate market value on the final roll will be 10.8 percent greater than on last year's roll—the largest increase in five years–while assessed value for tax purposes is forecast to grow by 2.3 percent.

Class One. For the 2024 roll, IBO forecasts a 12.5 percent increase in the aggregate market value of Class 1 properties, compared with this year's roll, and a 3.7 percent increase in total assessed value for tax purposes. The difference between market value growth and assessment growth results from a provision of the state property tax law. For Class 1 properties in New York City, the assessed value moves toward a target assessment of 6.0 percent of market value, with assessment increases capped at 6.0 percent a year or 20.0 percent over five years. As long as a parcel's assessed value is less than the target assessment of 6.0 percent of market value, the ratio of assessed value to market value will trend upwards towards 6.0 percent. If the assessed value under the cap reaches 6.0 percent of market value, the latter becomes the new assessed value. When the housing market is strong, the median ratio of assessed value to market value tends to fall as increases in market value outpace increases in the capped assessments.

The median ratio for single-family homes outside Manhattan has been slowly rising, growing from 4.0 percent in 2009 to 4.3 percent in 2023—still well below the 6.0 percent target.

Class 2 and Class 4. IBO projects that on the final roll for 2024, aggregate market value for Class 2 properties will total $378.2 billion, an 8.7 percent increase over 2023. Aggregate market value for Class 4 is expected to reach $325.7 billion, a 10.3 percent increase over 2023. Aggregate assessed value for tax purposes for Class 2 is expected to be $111.1 billion, a 2.4 percent increase from the 2023 roll, and $125.3 billion for Class 4, a 1.7 percent change from the previous year. Assessed values for these properties will grow more slowly than market values due to a feature of the state law that smooths out year-to-year changes in values. In most cases changes in assessed values in Class 2 and Class 4 are phased in over five years. The assessed value changes from the preceding four years that have yet to be recognized on the tax roll form a pipeline of assessment changes that can result in higher assessments, even when current market values are stable or declining. This feature of the property tax system prevents property tax revenue from being immediately sensitive to business cycle shocks. IBO's assessed value projections thus are in part a reflection of the big decrease in aggregate market values of Class 2 and 4 properties by DOF on the 2022 roll and subsequent increases in market values of Class 2 and 4 properties in 2023.

Outlook for Market and Assessed Values in 2025 and 2026. IBO forecasts an increase in aggregate market value of 4.7 percent in 2025 and 5.0 percent in 2026, the last two years of the financial plan. Market value in Class 1 is expected to grow 5.4 percent in 2025 and 5.2 percent in 2026, while the increase in Class 2 market value is projected to reach 4.3 percent and 6.0 percent in 2025 and 2026, respectively. We expect market value growth in Class 4 to increase 3.4 percent in 2025 and 3.3 percent in 2026.

Aggregate assessed value for tax purposes is projected to grow by 2.0 percent in 2025 and 2.1 percent in 2026. IBO expects the fastest growth in taxable assessed value to occur in Class 1, with an average increase of 3.6 percent each year. Class 2 taxable assessed values are expected to grow 2.0 and 2.4 percent, respectively, in 2025 and 2026. Finally, we project that taxable assessed values in Class 4 will remain roughly constant at 1.1 percent annual average growth in 2025 and 2026.

Revenue Outlook. IBO anticipates property tax revenue in 2023 will total $31.5 billion, $2.1 billion (7.1 percent) more than 2022 receipts, and increase 1.9 percent in 2024 to yield $32.1 billion in revenue. Growth is expected to average 1.9 percent annually over the following two years, with revenue reaching $33.3 billion in 2026. IBO's property tax forecasts exceed OMB's by $244 million in 2023 and $251 million in 2023, and by increasing amounts in the final two years of the forecast period.

Much of the difference between IBO's forecast and OMB's stems from elements of the property tax system other than the market outlook. The total of these additional elements is known as the property tax reserve which also helps determine the amount of tax revenue the city collects in any fiscal year. The reserve consists of items that either add to tax receipts, such as payments for prior-year liabilities, or reduce net collections, such as delinquencies on current liabilities or payment of refunds. Because the dollar value of the debits generally exceeds the dollar value of the credits, the net value of the reserve is nearly always negative, which is why anticipated revenue is always less than the forecast for the property tax levy.

With the assessment roll and levy for 2023 finalized last spring, the only differences between the IBO and OMB property tax revenue forecasts for this year stem from different estimates of the reserve. After the current year, differences in the projections also reflect divergence in levy forecasts. IBO projects annual increases in the levy averaging 2.2 percent in 2024 through 2026, compared with 0.7 percent on average during these years in the OMB forecast.

Property Tax Rebate. The Mayor's November plan included an expense for a $150 property tax rebate for property owners earning $25,000 or less. The budget documents indicate that the rebate will cost the city $90 million in 2023.

Real Estate-Related Taxes. The city receives revenue from two taxes related to real estate purchases or financing. The real property transfer tax (RPTT) is levied on the value of real estate sold, while the mortgage recording tax (MRT) is levied on the value of mortgages, including certain refinancing activity. Together these taxes are often referred to as the transfer taxes.

With the onset of the Covid pandemic, revenue from each of the transfer taxes decreased substantially in both 2020 and 2021. The sum of RPTT and MRT collections fell by 20.2 percent in 2020, to $2.1 billion, and by another 8.0 percent, to $1.9 billion, in 2021. A strong recovery followed in 2022, with the sum of the two taxes reaching $3.2 billion, an increase of 66.8 percent over the prior year. Revenues have softened in the initial months of 2023, and IBO projects a decline of 22.7 percent for the year, to $2.5 billion. For the following three years, IBO forecasts moderate but declining growth: 7.6 percent in 2024, 4.5 percent in 2025, and 4.1 percent in 2026. The projected sum of RPTT and MRT revenues in 2026 is $2.9 billion, 9.6 percent below the 2022 peak, and a very modest total compared to the all-time high of $3.3 billion in transfer tax revenues reached in 2007—a contrast that is especially striking when adjusted for inflation.

Real Property Transfer Tax. RPTT revenues reached $1.9 billion in 2022, the highest level ever recorded in nominal terms. IBO's forecast of RPTT revenue for 2023 is $1.4 billion, a decrease of 25.0 percent over 2022. While this sum represents a large year-over-year decline, it is not greatly different from RPTT collections in the pre-pandemic years of 2017-2019. IBO projects moderate increases in RPTT revenue during the years 2024-2026, with revenue reaching just over $1.7 billion by 2026. This would leave RPTT receipts at the end of the forecast period well below the 2022 record. Nevertheless, revenue from the RPTT has recovered strongly from its pandemic-induced low of $1.0 billion in 2021. The pandemic caused RPTT collections from commercial sales to fall more steeply than collections from the sale of residences. Commercial RPTT dropped 36.3 percent and 27.3 percent in 2020 and 2021, respectively. The decline in residential RPTT was much smaller, 12.6 percent in 2020, followed by an increase of 7.6 percent in 2021. As a result, the share of total RPTT revenue derived from the sale of commercial properties fell to 38.2 percent in 2021, down from 55.6 percent in 2019 before the pandemic. One factor behind the decline in RPTT revenue in the wake of the pandemic was a reduction in the number of large commercial transactions, defined here as sales of commercial property priced over $100 million. There were 108 such transactions in 2019, 57 in 2020, and just 40 in 2021. The number then rebounded strongly, to 95 in 2022.

IBO's projections of RPTT revenue are based on a forecast of softening real estate sales in the current year, followed by moderate growth in 2024 through 2026. Our current forecast for 2023 is $38 million (2.6 percent) below our projection from last spring. Our RPTT forecasts for 2024 through 2026 have all been increased: by $11 million (0.7 percent) in 2024, $60 million (3.8 percent) in 2025, and $148 million (9.3 percent) in 2026.

While RPTT revenue, particularly on the residential side, recovered strongly in 2022, there are still many questions surrounding the future of the New York City real estate market. This is especially true of the commercial sector, in particular Manhattan office buildings. Even if a hybrid model combining some days in the office with remote work eventually dominates a model based strictly on remote work, demand for office space could conceivably face no growth or negative growth for a considerable period into the future. Retail space faces the continuing challenge of growth in on-line shopping, while demand for other commercial space could also contract depending on how industries such as leisure and hospitality recover from the devastation wreaked by the pandemic. On the residential side, Manhattan may maintain its attractiveness based on its proximity to amenities, but access to employment could become less important. In general, more remote work will create greater incentives to move out of the city, whether for cost or amenity reasons.

Both IBO's and OMB's RPTT forecasts follow a similar trajectory, with a sharp drop in 2023, and moderate growth in 2024 through 2026. IBO's 2023 projection is $33 million (2.4 percent) above OMB's. IBO's forecasts remain above OMB's through 2026. For the entire 2023-2026 period, IBO's forecasts are a total of $122 million (2.0 percent) above OMB's.

Mortgage Recording Tax. IBO's forecast of MRT revenue for 2023 is $1.1 billion, a decline of 19.6 percent from 2022 collections of $1.3 billion, the highest level in nominal terms in recent years. We project a $61 million (5.7 percent) increase in collections in 2024, based on our expectation of mortgage rates beginning a slight decline later in the year. With the expectation of moderate rebounds in mortgage activity in 2025 and 2026, IBO forecasts MRT revenue of slightly under $1.2 billion during both years. In each year of the forecast, MRT revenue will remain far below the all-time maximum of $1.6 billion reached in 2007, which occurred in the midst of a housing finance bubble that culminated in the financial crash of 2008.

Revenue from the mortgage recording tax does not track the value of real estate sales as closely as do RPTT receipts because not all sales involve a mortgage, and for sales with a mortgage, the fraction of the purchase price that is financed varies by transaction. In addition, mortgage refinancing, which may be subject in whole or in part to the MRT, is not associated with the sale of a property.

MRT collections fell 11.1 percent in 2020, and an additional 8.1 percent in 2021. The 2020 decline in MRT revenue in the wake of the pandemic was significantly less steep than the declines in RPTT. While Covid-19 and the ensuing lockdown took a major toll on the economy, credit markets continued to function normally, unlike what happened after the financial meltdown of 2008. Persistently low mortgage rates stimulated purchases of property, as well as the refinancing of existing mortgages, thereby limiting the decline in MRT revenue.

Compared with our May 2022 forecasts, IBO's current projections of MRT revenue are essentially the same (just $1 million higher) in 2023, and higher in the following years: by $70 million (6.6 percent) in 2024, $34 million (3.0 percent) in 2025, and $45 million (3.9 percent) in 2026. Despite the softness in the real estate market expected for 2023, more dire projections of a collapse in the market in the wake of the pandemic have not materialized.

IBO's mortgage recording tax forecasts are above OMB's for the entire 2023 through 2026 period—by $113 million (11.8 percent) for 2023, $120 million (11.8 percent) in 2024, $80 million (7.4 percent) in 2025, and $73 million (6.5 percent) in 2026.

Commercial Rent Tax. IBO forecasts $900 million in commercial rent tax (CRT)revenue in 2023, $23.8 million (2.7 percent) greater than 2022 collections. Projected annual revenue growth in the following three years averages 1.7 percent, yielding $946 million in CRT receipts by 2026.

The CRT is levied on the value of certain commercial property leases in parts of Manhattan. Despite the persistence of work from home since March 2020 and the continually growing importance of online shopping, CRT revenues have remained resilient throughout the pandemic. This suggests that commercial tenants are generally maintaining their leases, either in the expectation of a need for space in the future or because of the difficulties of terminating multi-year leases before they expire. Tenants who pay the CRT are typically medium to large businesses. Local legislation enacted in November 2017 eliminated or reduced the CRT for many tenants paying from $250,000 to $550,000 in annual rent; tenants paying under $250,000 were already exempt.

CRT revenues declined 4.8 percent in 2020, to $863.9 million, the first decline in over 20 years. While the pandemic may have had a negative impact on receipts, IBO was already forecasting a decrease in CRT revenues in 2020, the first year in which the full impact of the 2017 legislative changes were expected to occur. CRT collections increased slightly, to $868.7 million, in 2021, and to $876.2 million in 2022. IBO projects that revenues will continue to increase over the forecast period, reaching $946 million in 2026, an increase of 8.0 percent over 2022. These forecasts assume a continued modest recovery in the Manhattan commercial real estate market, stimulated in part by a drop in interest rates after 2023. If, on the other hand, the demand for office and real estate space in Manhattan weakens further, declines in CRT revenues would be possible.

IBO's commercial rent tax forecasts have declined since May—a drop of $96 million (2.5 percent) for the period 2023-2026. Compared with OMB's projections, IBO's forecast for the entire period is $232 million (6.7 percent) higher.

Personal Income Tax and PTET. After two years of strong growth, IBO projects a slight decline in personal income tax revenue for the current year. (In these totals, we also include revenues from the Pass-Through Entity Tax or PTET, see below for more details). We forecast these revenues will decrease by 1.6 percent in 2023, yielding a total of $16.4 billion. The decline in collections is expected to continue into 2024, when revenues are forecast to drop even further by 7.9 percent to $15.1 billion. In the final two years of the forecast, IBO projects collections to grow modestly but steadily by 4.3 percent in 2025 and 1.7 percent in 2026, when revenues are estimated to reach $16.0 billion.

Pass-Through Entity Tax Revenues. 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, a cap that is set to sunset in 2025. 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, 2022 and is included in the above forecast of personal income tax collections, as well our revenue table. It is expected to incentivize high-income 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 $1.9 billion 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 are 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.

Exclusive of the PTET, IBO forecasts that PIT revenue, net of tax refunds, will total $14.6 billion in 2023. These collections are expected to decline 2024, when PIT revenues are forecast to drop by 6.3 percent to $13.6 billion. In the final two years of the forecast IBO projects PIT collections to grow modestly but steadily at an average annual rate of 4.6 percent, to reach an estimated $14.9 billion in 2026.

Sharp declines in estimated payments and final returns this year. Despite 3.6 percent expected growth in withholdings—the component that usually represents at least two-thirds of total PIT revenues each year—total PIT revenues in the current fiscal year are projected to decline. (In discussing PIT components PTET revenue is excluded). As of this writing, year-to-date withholdings for the current fiscal year have grown by about 10 percent relative to last year. Given our projection of slowing economic growth and an escalated risk of recession for calendar year 2023, we forecast minimal to no growth in withholdings for the remainder of this fiscal year, resulting in $11.3 billion by the end of the year. Because we anticipate the economic slowdown to spill over into 2024, we expect withholdings will grow only very modestly next fiscal year, by 1.0 percent to reach $11.4 billion.

While some growth is forecast for withholdings this year and next year, we expect quarterly estimated payments to decline substantially. These payments are paid primarily by self-employed taxpayers and those realizing capital gains. An important factor in asset transactions that result in capital gains is the interest rate. In its attempt to slow the economy and rein in inflation, the Federal Reserve has implemented multiple rounds of interest rate hikes this year and is expected to follow with a few more rate increases next year. These rate increases have had a dampening effect on the stock market and corresponding capital gains, as well as residential and business real estate sales and other investment activities. Because interest rate increases are expected to continue until at least the first quarter of calendar year 2023, we project PIT revenues from installment payments to decline by about $600 million in 2023 and by another $600 million in 2024, or by 26.7 percent and 38.1 percent, respectively.

Another factor contributing to the PIT revenue slowdown in the current fiscal year are extension payments, paid by taxpayers who need to file their taxes after the usual April 15 deadline. Because the number and income levels of taxpayers who request extensions are not easily known, extension payments vary greatly from year to year, ranging between $731 million and $2.5 billion in the last five years. For this year, we estimate that extension payments will decrease by $1.5 billion, or 59.4 percent, from their record high level last year, resulting in collections of $1 billion. Another 12.0 percent decline in extensions is forecast for 2024.

We also expect final returns to decline by 30.0 percent, or more than $250 million, this year, and another 11.8 percent, or $70 million, in 2024. By the same token, our projection for tax refunds is $260 million higher in 2023 than in the prior year, followed by a $100 million decrease in 2024. Overall, declines in estimated payments and final returns nullify the relatively strong growth in withholdings in the near term, and result in a 12.8 percent decline in PIT revenue this year, followed by a 6.3 percent decline in 2024.

After a period of stagnant employment growth and economic activity next calendar year, we expect the city's economy to resume modest but steady growth in calendar year 2024. The impact of this growth is reflected in all PIT components for 2025 and 2026. We forecast the largest component, withholdings, to grow at an annual average rate of 4.2 percent in the last two years of the forecast period, reaching $12.4 billion in 2026. With the assumption that the Fed's actions are successful in bringing inflation under control, we project an end to interest rate hikes after calendar year 2023 and we expect installment payments to also grow remarkably by an average of 20.8 percent each year, bringing in $1.5 billion in revenues in 2026—still far from the record high revenue of $2.3 billion from this revenue component in 2021. Part of these strong gains is balanced by tax refunds, which we expect to grow by 2.2 percent on an annual average basis. In total, PIT revenues are forecast to grow 4.7 percent in 2025 and 4.5 percent in 2026, yielding $14.9 billion in tax revenues in 2026.

IBO's PIT revenue forecast is above OMB's in each year of the forecast period. Our largest difference is in the current fiscal year, where our revenue estimate is 8.6 percent, or $1.1 billion, higher. This large difference stems from IBO's higher projection for extension payments. OMB's forecast for extension payments in 2023 is $107 million, which is exceptionally low and unprecedented in the last decade or more. While extension payments vary greatly from year to year, we forecast $1 billion revenue for the current fiscal year, in line with typical revenues in the last five years prior to Covid. In addition, OMB has not adjusted its PIT forecast to reflect year-to-date collections in 2023, which have exceeded the financial plan forecasts by over $600 million through October. IBO's forecast for 2024 through 2026 are, on average, 1.9 percent, or $263 million, higher than OMB's.

Corporate Taxes. Corporate income tax collections set a record for the third consecutive year in 2022, totaling $5.7 billion. This surpassed 2021 collections by over $660 million (13.2 percent). The corporate taxes have demonstrated resilience throughout the pandemic and have not had an annual decline since 2017, even though corporate profits experienced a temporary and sharp decline in 2020, following the onset of the global health crisis.[2] Part of this continued strength can be attributed to the fact that provisions of federal tax law allow corporations to shift net operating losses for up to five years, meaning that some taxable profits in a given tax year can reflect net profits realized in different years.

IBO projects that corporate tax revenue will decline from these heights in 2023 by $799 million (14.1 percent) to reach a total of $4.9 billion. Collections to date have remained essentially on pace with 2022 levels, but we expect that they will contract later in the year, as economic growth slows, and corporate profits remain essentially flat throughout calendar year 2023. In particular, corporate tax revenue would be negatively impacted if key industries in the city—including finance, information, and real estate— experience reduced profits in light of the macroeconomic slowdown.

We forecast a return to growth after this one-year decline, although the growth in 2024 is minimal at just $70 million (1.4 percent). Slightly higher growth is projected in 2025 and 2026, averaging $162 million (3.2 percent) and ending the forecast period at $5.3 billion, which remains below the high of 2022.

OMB, in comparison, projects a much steeper drop in corporate collections, contracting by $1.1 billion (20.2 percent) in 2023 and a further $243 million (5.4 percent) in 2024. With a combined decline of $1.4 billion (24.4 percent) this would be the largest two-year reduction in corporate collections, in percentage terms, since 2008 and 2009 in the aftermath of the financial crisis. The divergent pattern between OMB's pessimistic outlook and IBO's projection of a shallower and more temporary contraction results in a larger-than-usual gap between the two forecasts, with IBO's projection being $346 million (7.6 percent) higher in 2023 and growing to $659 million higher in 2024 and $676 million in 2025. In 2026, IBO's forecast is $552 million more than OMB's.

Unincorporated Business Tax. The city's unincorporated business tax (UBT) is collected on the profits of businesses that are organized as sole-proprietorships, partnerships, and LLCs rather than as corporations. Similar to the corporate taxes, UBT collections hit an all-time high in 2022, growing over 2021 collections by $470 million (22.6 percent) to total $2.5 billion, net of refunds. Unlike the corporate taxes, however, this was not part of such a sustained growth pattern, as UBT revenue had modestly declined in both 2019 and 2020. Divergent patterns between corporate and UBT collections are not uncommon, as a significant amount of UBT revenue is derived from different industries —particularly professional and technical services, including legal services.

Given the expectation of a general economic slowdown, however, IBO projects that UBT revenue will follow a similar pattern to the corporate taxes and contract by $198 million (7.8 percent) in 2023, generating a total $2.3 billion in revenue. After this, we forecast a return to a moderate amount growth in the following years, by $97 million (4.1 percent) in 2024 and an average of $121 million (4.8 percent) in 2025 and 2026. UBT collections are projected to end the forecast period at $2.7 billion, above 2022's total collections.

OMB also projects a decline in UBT revenue for 2023, and similar to their corporate forecast, OMB's decline is larger than IBO's at $369 million (14.5 percent) leading IBO's forecast to exceed OMB's by $171 million (7.9 percent). OMB's growth projection for 2024 is slightly faster at $103 million (3.5 percent), and slightly slower in 2025 and 2026, averaging $91 million (3.9 percent). By 2026, OMB projects UBT revenue to total $2.5 billion, slightly below 2022 collections and $226 million (9.2 percent) below IBO's forecast total.

Sales Tax. The economy's strong recovery from the Covid-induced recession of 2020 and accelerated inflation generated $8.5 billion in sales tax revenue last year, a $2.0 billion increase over 2021 receipts. Collections have continued to grow this year, but at a slower pace. IBO's forecast of $8.8 billion in 2023 revenue is 3.4 percent ($294 million) greater than 2022 receipts. With the expectation of a slowdown in job growth and a moderation of inflation in calendar year 2023, we forecast a 2.4 percent growth in collections to $9.0 billion in 2024. For 2025 and 2026, sales tax revenue is projected to increase at an average annual rate of 3.9 percent to yield $9.8 billion in 2026.

The sales tax is typically one of the least volatile sources of revenue for the city, with collections generally increasing except during recessions. The Covid-induced recession of 2020 had a larger impact on city sales tax collections than any previous recession in the last 40 years; revenue declined for two years in a row—by 5.6 percent in 2020 and 11.1 percent in 2021. The availability of 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 30.4 percent surge in sales tax revenue in fiscal year 2022. Inflation also contributed to the large increase in receipts. The $8.5 billion received in 2022 is about $800 million higher than IBO projected a year ago, when the acceleration of inflation during the second half of the fiscal year was not foreseen.

Sales tax revenue to date in 2023 has exceeded expectations from when the budget was adopted last June, and it is likely to continue to do so once the city receives the tax collected during holiday season shopping. The revival of tourism in the city has been strong, including a growing number of international visitors, who on average spend more money in the city than domestic tourists. The number of employees commuting into the city remains far lower than pre-pandemic, but it is increasing, sluggishly, adding to taxable sales in the city and revenue growth. IBO anticipates slower revenue growth in the second half of 2023, however, because of a marked slowdown in the national and local economies. Our sales tax forecast for the current fiscal year of $8.8 billion is 3.4 percent more than 2022 collections.

With a projected addition of only 44,600 new jobs in calendar year 2023, compared with an expected addition of 205,200 in 2022, we expect the slower growth in the city to continue dampening sales tax revenue growth in fiscal year 2024. The expectation of slower inflation and slower national growth also will affect revenue in the coming year. Our 2024 forecast is $9.0 billion, 2.4 percent greater than 2023 revenue. After 2024, we expect growth to pick up, yielding $9.4 billion and $9.8 billion in 2025 and 2026, respectively. The 3.9 percent average annual growth in these two years is less than 4.9 percent, the average in 2011 through 2019—pre-pandemic years that excludes 2010 when a permanent increase in the sales tax rate that took effect.

The differences between IBO's and OMB's sales tax forecasts, where IBO predicts more revenue that OMB in 2023 and 2024 but less revenue in 2025 and 2026, are not large. But the trajectories of revenue growth differ. Whereas revenue growth slows in 2024 in IBO's forecast, it is expected to accelerate in OMB's projections. As a result, the difference between IBO's and OMB's forecasts diminishes: IBO's forecast is $236 million higher for the current year but only $78 million higher for 2024. OMB has not updated their forecast since the budget was in June, when the extent to which national and local economic growth would weaken was not anticipated. For 2025 and 2026, OMB projects 5.3 percent annual growth on average, compared with 3.9 percent for IBO, and its forecasts exceed IBO's by $49 million and then $178 million in those two years, respectively.

Hotel Occupancy Tax. The steady revival of tourism in New York City in the last two years has fueled collections of the city's hotel tax, which have exceeded previous expectations for much of 2022 and so far in 2023. IBO forecasts $514 million in revenue for the current year, a

49.0 percent increase over 2022 revenue. With an outlook of continued, if slower, U.S. economic growth in the coming years, collections are projected to grow through 2026. With collections of $645 million and $725 million forecast for 2025 and 2026, respectively, collections will exceed the record amount of hotel tax revenue set in 2019.

When New York became the first hotspot in the country for Covid infection and much of the city's businesses shut down in calendar year 2020, a 10-year period in which tourist travel to the city steadily increased came to an end. Hotel tax revenue plunged from $625 million in fiscal year 2019 to $85 million in 2021, the lowest level in 33 years. The number of visitors fell by two-thirds, and at the end of the calendar year, hotel occupancy rates were a third and rooms rates were half of what they were the year before. This decline in occupancy understates the extent to which hotel stays decreased given that the total inventory of hotel rooms in the city declined due to temporary and permanent closings of many hotels—the number of rooms shrank by 30 percent at the height of the pandemic according to one study.

As Covid vaccinations became widely available in calendar year 2021 and travel restrictions eased, leisure tourists started to return, first domestic visitors and eventually tourists from other countries. The reopening of Broadway theatres and other tourist attractions in the second half of the year generated a large increase in the number of visitors. The effect on hotel tax revenue was not initially evident in large part because the de Blasio administration suspended the major component of the hotel tax—a 5.85 percent tax on hotel bills—from June through August 2021—a move that primarily affected fiscal year 2022 receipts. (The other component of the tax is a charge of $2.00 per day that the room is rented.) Starting in December 2021, quarterly tax collections started to increase dramatically, and by the end of fiscal year 2022, hotel tax revenue for the year was $345 million, about $100 million more than IBO had projected a year ago.

Pent-up demand for leisure travel has led to a surge in tourism this calendar year. NYC & Company projects 56.4 million visitors by the end of calendar year 2022, up 24 million from the year before. The increase in tourists from other countries has been particularly strong, and the projection for 2022 includes 9 million international visitors. So far, the strength of the U.S. dollar against other currencies does not appear to be discouraging international visitors, although if the dollar's appreciation continues it might eventually become a constraint on the number of foreign visitors. The total number of tourists anticipated is about 85 percent of the record number of visitors set in calendar year 2019. The number of business travelers to the city has also increased, and they are projected to account for 16 percent of all visitors, up from 12 percent in 2021, but still short of their 20 percent share in pre-pandemic years. The number of hotels in Manhattan and Brooklyn has also been increasing and is now estimated to be 94 percent of the pre-Covid inventory.

Tax receipts to date in this fiscal year have continued to increase, and IBO forecasts $514 million of hotel tax revenue in 2023, up $169 million (49.0 percent) from 2022. Beyond the increase in the number of tourists, revenue is being fueled by general inflation, and sharp increase of room rates in luxury hotels, where rates now exceed 2019 rates by 32 percent.

Though IBO expects little economic growth in the first half of calendar year 2023, our forecast of 2024 hotel tax revenue, $577 million, indicates another year of strong revenue growth. The economic slowdown we are projecting does not entail a decline in U.S. personal income or enough of a rise in unemployment to break the pent-up demand for travel. Without a recession in the forecast, continued growth in the number of tourists toward pre-pandemic levels, particularly international visitors, is expected. Revenue from hotel tax steadily rises each year. We project collections of $645 million in 2025, the first year in which revenue from the city's hotel tax, exceeds 2019 revenue, and $725 million in 2026.

OMB is also predicting a large increase in hotel tax revenue this year. Their forecast for 2023 is $468 million, 9.7 percent ($45 million) greater than IBO's projection. OMB's projections are less than IBO's for 2024 and 2025, by $43 million and $34 million, respectively, reflecting the administration's expectation of slower inflation and national income growth compared with IBO's projections. For 2026 the IBO forecast is $26 million (3.7 percent) greater than OMB's.

Other Revenues. The city's nontax revenues—a variety of fees, fines, charges, asset sales, interest income, other miscellaneous revenue, and $252 million in unrestricted intergovernmental aid resulting from reimbursement for certain Covid-related expenditures—are expected to total $7.9 billion this year. Other revenues will total roughly $7.4 billion each year from 2024 through 2026.

State, federal, other categorical aid, and interfund revenue are the remaining sources among non-city revenues. IBO estimates that revenue from federal sources will total $10.8 billion in 2023, $9.3 billion in 2024, $8.0

billion in 2025, and $7.3 billion in 2026. The decrease over time comes as federal Covid-related aid continues to wind down. New York City was allocated $13.5 billion in federal stimulus funds through two Covid-19 relief packages—the American Rescue Plan Act of 2021 (ARPA) and the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA). This comprises $5.9 billion in unrestricted State and Local Fiscal Relief Funds through ARPA and $7.2 billion in restricted education aid (awarded through ARPA and CRRSAA). The city has also received some smaller awards through ARPA, totaling around $380 million for transportation, remote learning technology, and Section 8 housing vouchers.

As of the release of the November plan, the city has spent approximately $8.6 billion of these federal Covid-19 related stimulus funds. Budgeted but unspent funds total $3.4 billion. This leaves $1.5 billion to be budgeted at the discretion of the administration and City Council. The city has used its Covid stimulus funds in a variety of ways. Some have been used to make up for revenue losses stemming from the pandemic-induced recession. Others have been used to pay for some of the extraordinary costs of responding to the pandemic such as test and trace operations, vaccination drives, and providing PPE for city workers. Some of the aid has been used to start or expand programs, leaving questions about funding once the federal aid is exhausted.

Notably, in the November plan, OMB also included $1 billion in federal revenues to cover the costs of services provided to the city's newly arrived asylum seekers in 2023. The city has not identified a specific federal funding source for this money, nor has it provided any indication from the federal government that this money will be granted. Therefore, IBO removed this funding from our estimate of federal funding and increased city-funded budgets for agencies providing services to this population by a total of $374 million in 2023, and $628 million in 2024. (See the side bar in the Agency Spending section for more details on these estimates.)

State grants are forecast to grow to $16.9 billion in 2023 and are expected to remain at near that higher level through 2026. About three-quarters of state aid is for education purposes. Foundation aid, which is the largest category of state education aid, is expected to bring the city $8.9 billion in 2023, accounting for almost half of all state aid.

Spending

IBO projects that based on the proposals included in the mayor's November Financial Plan, along with our own spending re-estimates, city spending from all revenue sources in 2023 will total $103.2 billion. We expect total spending to increase by $2.5 billion in 2024 to $105.7 billion and to reach $110.1 billion in 2026 (average growth of 1.5 percent from 2022 through 2026). Nearly all expenditure growth in the financial plan results from centralized spending, rather than spending by individual agencies. Centralized spending includes debt service expenditures, fringe benefits (particularly health insurance costs), pensions, and funding allocated to the labor reserve, which is earmarked to cover prospective costs related to the settlement of municipal labor contracts. Once contracts are settled, however, the money is moved from the labor reserve into individual agency budgets, which shifts spending growth from the non-agency part of the budget to the agency side.

IBO's estimates of some components of city-funded spending—which impact the city's overall gaps and surpluses—differ from those presented by the mayor in the November plan, with some elements higher and others lower. The net effect of these differences is that IBO projects that city-funded spending will be about $228 million more than forecasted by the administration in the current year. IBO estimates city-funded expenditures will exceed the mayor's planned amounts by $1.1 billion in 2024, $829 million in 2025, and $956 million in 2026.

Central Costs

Fringe Benefits. The cost of providing fringe benefits other than pensions for city employees and retirees is the largest areas of spending growth across the plan period. From 2023 through 2026, IBO projects that these costs will increase from approximately $11.5 billion to nearly $14.2 billion, an annual growth rate averaging 7.3 percent. By comparison, non-centralized agency expenditures are projected to fall over the same period at an annual average rate of -1.9 percent.

Health care costs are by far the largest component of fringe benefits. Based on historical increases and federal forecasts IBO estimates that the city's health care costs will grow at an average annual rate of 6.1 percent from 2023 through 2026—from $7.8 billion to $9.3 billion. This growth, however, is less rapid than that presented by the mayor. The mayor's plan, adjusted for prepayments and unallocated savings, assumes 8.5 percent annual average

IBO Expenditure Projections
Dollars in millions

	Actuals 2022	Plan 2023	2024	2025	2026	Average Change 2022–2026
Operational Expenditures						
Agency Expenditures	$79,955	77,156	73,444	73,045	72,905	-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**	**$76,131**	**-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**	**$110,260**	**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**	**$110,111**	**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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growth in the city's health care expenses, over the same period. Therefore, IBO forecasts the city's health care costs will be less than presented in the November plan by $363 million in 2023 and $761 million, $1.0 billion, and $1.1 billion in 2024, 2025, and 2026, respectively.

Pension and Other Post-Employment Benefit Costs. The city's cost to fund its five pension systems is the primary driver of the outyear budget gap increases compared with past estimates, even as recent as last spring. In 2021, the city's pension investments experienced gains of nearly 26 percent, leading OMB to reduce budgeted contributions to the city's pensions in future years. However, due to a negative 8.7 percent investment return on the pension fund assets in 2022—the actuarial assumption is an annual gain of 7.0 percent—adjustments made in the November plan more than reversed these gains; the November plan increases the budgeted pension contributions for 2024 through 2026. Investment gains and losses are phased in over time, and as a result the November plan pension costs increase by $861 million, $2.0 billion, and $3.0 billion in 2024 through 2026, respectively. When these adjustments are aggregated with the declines in the city's pension contributions projected just one year ago, the net increases to pension contributions in the November plan are $57 million, $369 million, and $618 million, in 2024, 2025, and 2026 respectively. The city's pension contribution for the current year totals $9.4 billion and remains relatively flat over the plan period with an average annual increase of 1.9 percent from 2023 through 2026.

Debt Service. After adjusting for prepayments, IBO estimates total debt service costs, the payment of principal and interest on funds the city borrows to finance capital projects, will total approximately $8.3 billion in 2023 and $7.2 billion in 2024. Debt service costs are expected to continue to grow, reaching 8.4 billion and $9.2 billion in 2025 and 2026, respectively.

IBO's estimate of debt service is slightly lower than OMB's for 2023 and 2024, by $85 million and $11 million, respectively. IBO assumes a lower interest rate for the city's variable rate debt (2.6 percent compared with OMB's estimate of 4 percent). While maintaining a structural surplus in our debt service budget is looked upon favorably by the credit rating institutions, IBO's lower forecast of the year-end actuals allows the excess appropriation to

Program to Eliminate the Gap Falls Short of Targets

In September 2022, the Adams administration issued a savings target (known as a Program to Eliminate the Gap or PEG) to all mayoral agencies of 3.0 percent in 2023, and 4.75 percent in 2024 and the outyears. This ambitious target was to reduce the city funded budget by $1.4 billion in 2023, and approximately $2.2 billion 2024 and future years. When the mayor's November plan was released, it reflected a PEG of $824 million for agencies under direct mayoral control, with an additional $92 million submitted in centrally managed costs and by non-mayoral agencies, totaling a PEG of $916 million in 2023. In 2024, the administration's financial plan included stated PEGs of $1.6 billion, and then $1.5 billion in 2025 and 2026.

However, after accounting for new needs, other adjustments, and PEG reversals in other places in the financial plan, the administration only achieved reductions of $705 million and $554 million in 2023 and 2024, respectively. Of the 60 mayoral agencies, only 19 achieved the PEG target in each year of the financial plan. In fact, the administration's savings plan is offset in several cases by dollar for dollar increases to the very budget categories targeted by the PEGs. These reversals totaled $57 million in 2023, and $72 million in 2024. In other words, the administration effectively negated its own budget cuts with equal increases outside the PEG category, which it referred to as "Cost Avoidance Offsets" in the financial plan documents. This pattern is present in the PEG program of three of the four uniformed agencies: correction, fire, and sanitation. While the police department did not reverse its PEGs, it did effectively reverse some prior civilianization initiatives aimed at reducing uniform overtime costs. In the November plan, most of the police department's PEG comes from achieving personal service reductions. While most of those savings come from unspecified sources, the police department is eliminating 83 civilian positions in 2023, and 123 through 2026, yielding $2.1 million in savings 2023 and $3.4 million in the outyears. Historically, the department has increased civilian headcount to reduce strains on uniform personnel completing administrative tasks. This reduction would seem to counter those previous efforts.

The administration's PEG plan for several other agencies includes reductions in their personal services budgets in the outyears, although without a reduction in headcount. It is possible that these reductions will still constrain those agencies' hiring, however it is a less sure way of ensuring savings than eliminating the positions. Additionally, this will likely restrict agencies' ability to award promotions and salary increases to staff, potentially exacerbating agency attrition. The savings published in this plan are not likely to be the last, as the mayor has called for a round of vacancy reductions in the upcoming Preliminary Budget. These cuts would reduce civilian vacancies by 50 percent at most agencies, although how exactly these reductions would be distributed remains to be seen.

be allocated elsewhere within the budget. Often the city utilizes the surplus to contribute to prepayment of next year's debt service costs. However, with relatively high interest rates compared to recent history, the gap between OMB's estimates of variable rate debt costs and IBO's own estimates has shrunk, and with it, the amount available to help balance next year's budget.

Labor Contracts. The city has currently budgeted for a 1.25 percent pay increase for city employees in the next round of labor negotiations. It is unlikely that unions will settle for 1.25 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, a 1 percent increase in wage and salaries would yield a $450 million increase in the city's budget for the next fiscal year. The city's financial plan allocates funding—referred to as the labor reserve— each year for future collective bargaining contracts.[3] The reserve currently holds money for bargaining agreements not yet settled from the previous round of bargaining (which ended in 2021) and enough for annual increases of 1.25 percent in the next round of bargaining. 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 above what is currently budgeted for in the labor reserve in 2024 and beyond, which IBO counts as one of the biggest risks to the city's fiscal condition.

Agency Spending

Unlike centralized spending, which is expected to rise

IBO Estimate of Additional City Funds Necessary to Cover Asylum Seeker Costs

The November Financial Plan includes $1 billion of unspecified federal funding in 2023 to reimburse the city for costs of providing services to tens of thousands of individuals and families who have arrived in New York City in recent months seeking asylum from unrest in their home countries. The Adams administration has not provided details about which federal program could be tapped to provide this funding. 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 many of these costs. Building off our recently published analysis of the cost of providing services to this population, IBO estimates the city will require $374 million in additional city funds to cover these expenditures in 2023. For 2024, IBO estimates that another $628 million in city funds, specifically for shelter, will be necessary. To be clear, this estimate, unlike our estimate published in November, does not reflect the entire cost of providing services to this population; but rather it presents what additional funds IBO currently projects are necessary to be added to the city budget, as we estimate that some portions of the costs can be covered with existing funding.

Shelter Costs. Overall, IBO projects the city will require $261 million in 2023 and $628 million in 2024 more in city funding than is currently budgeted for shelter costs for asylum seekers. Of the $1 billion in federal asylum-seeker funding it added in the November plan, the city allocated $577 million for the Department of Homeless Services (DHS) for 2023 only. IBO's estimate builds from our November analysis of shelter costs for asylum seekers, taking into account forecast growth in the population while at the same time accounting for funds already included in the DHS budget for shelter services that can be used to cover some of the asylum-seeker costs, particularly in 2023.

For the purposes of IBO's agency re-estimates we include all asylum seeker shelter costs in the budget of DHS. Not all asylum-seeking households in the city's care have entered DHS-operated shelters; some are housed in Humanitarian Emergency Response and Relief Centers (HERRCs). Since the city's "demobilization" of the weatherized temporary shelter on Randall's Island, however, the city's HERCC housing has been in hotels, which is one of the ways DHS provides shelter, particularly when the shelter census is growing. Therefore, IBO uses the same approach in estimating all the shelter costs, whether in regular DHS facilities, or HERRCs. We have included ongoing HERRC shelter costs in our DHS re-estimate (whether the HERRC contracts are paid through other agencies is unlikely to impact the city's overall cost). These estimates of shelter costs do not currently include the costs to build, move, or demobilize the weatherized temporary facility because the administration has yet to release details of these costs.

IBO's adjustment for DHS is larger in 2024 than 2023 partially because IBO assumes that asylum-seeking households will continue to arrive in New York and enter the shelter system in the coming months and will stay in the shelter system for at least a year, and partially because DHS had less in city funds budgeted for shelter costs in 2024. *(Continues on next page.)*

IBO Re-estimate of Funds Needed for Asylum-Seeker Services
Dollars in millions

	OMB	IBO		
Agency	**Federal 2023**	**Federal 2023**	**City 2023**	**City 2024**
Homeless Services	$577	$ -	$261	$628
Health and Hospitals	310	-	-	-
Emergency Management	50	-	50	-
Technology and Innovation	30	-	30	-
Social Services	23	-	23	-
Citywide Administrative Services	10	-	10	-
Total City Funds	**$ 1,000**	**$ -**	**$374**	**$628**

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Other Costs. In addition to the $577 million in federal funds that the city included for shelter services in the DHS budget, the administration also included $310 million for costs incurred by H+H, the city's public hospital system, $50 million for New York City Emergency Management (NYCEM), $30 million for the city's Office of Technology Innovation (OTI), $23 million for the Human Resources Administration (HRA), and $10 million for the Department of Citywide and Administrative Services. All these costs were budgeted only for 2023.

Except for the $310 million for H+H, IBO estimates that all these costs ($113 million) will have to be covered by city funds this year. While the mayor has released few details on the use and calculation of these funds, at least some of this funding is expected to cover the costs of the HERRC facilities. According to OMB, the NYCEM portion of the costs are to provide managerial and administrative functions at the HERRCs, and the OTI costs are associated with technology services related to the establishment of the HERRCs.

While IBO removed the unspecified $310 million in federal funds for H+H from our estimate of the city's budget, we did not similarly increase city funds for these costs. It is unclear how much of this total is intended for direct medical services or for other costs relating to asylum seekers. As a public hospital system, H+H maintains its own budget, separate from the city's, and it receives funds from multiple entities, including some subsidies from the city. While there is the risk that some of costs incurred by H+H will need to be at least partially covered by the city, the extent of this is unclear at this time. For now, we assume that all health and medical-related costs for asylum seekers will be borne by H+H and indirectly Medicaid and insurers, rather than the city.

Lastly, one notable exception of funds to be added to the city's budget are for education-related costs. The mayor did not allocate any of the $1 billion in asylum-seeker federal aid for the Department of Education. While IBO projects that there will be costs associated with educating children from the families of asylum seekers—both through a special allocation announced in October, as well as adjustment to the Fair Student Funding allocations of the individual schools where these students are enrolled—IBO estimates the DOE is likely to use existing funding to cover these costs as it reallocates funds during its mid-year adjustment process to be completed early next year. (Typically, in January or February of each school year, adjustments are made to schools' Fair Student Funding allocations to account for differences between school's projected enrollment and their audited enrollment as of the end of October.)

across the entire plan period, agency spending is expected to decrease. IBO estimates that agency spending, which totaled $80.9 billion in 2022 will decrease to $77.2 billion in 2023 and again to $73.4 billion in 2024, where it will remain essentially flat for 2025 and 2026 at $73.0 billion and $72.9 billion respectively. The decline from 2022 through 2024 is primarily the result of the city's spending down federal Covid-19 related aid; including the federal stimulus funds through ARPA and CRRSAA, which expire in 2024 or 2025, depending on the specific funding source. Overall, the city drew down $5.8 billion or 42 percent of these stimulus funds in 2022, the first full year in which the city had access to them, and budgeted more of the remaining funds for 2023, $2.3 billion or 17 percent of the total funds, than each of the two outyears.

Despite the overall decreases in expenditures, IBO estimates city-funded agency spending (costs paid for with city revenues, as opposed to other sources, such as federal or state funding) will be higher than the mayor's forecast in every year of the financial plan, with the greatest differences in the areas of education, public safety and judicial agencies, and the city's social services agencies. IBO's re-estimates reflect a substantial funding need stemming from the drop in federal Covid aid for long-term education program and an increase in city funds that IBO anticipates will be necessary to cover the costs associated with the newly arrived asylum seekers. IBO differs with the administration's assumption that most of the cost of providing these services will be reimbursed with unspecified federal funds. (See sidebar for full details).

Department of Education. IBO estimates that the Department of Education (DOE) will require an additional $51 million in city funds in 2023 compared with what it has currently budgeted. This increases substantially to $439 million in 2024, $764 million in 2025, and $966 million by 2026. The need for additional city funding in the latter years of the financial plan is primarily caused by the drop off in federal Covid-19 aid, which currently supports several

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)	(242)
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)**	**($956)**
TOTAL IBO PRICING DIFFERENCES	**$2,160**	**$523**	**$1,020**	**$1,362**
IBO Prepayment Adjustment 2023/2024	**$(2,160)**	**$2,160**	**$-**	**$-**
IBO SURPLUS/(GAP) PROJECTIONS	**-**	**($207)**	**($3,560)**	**($4,553)**

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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large critical programs in DOE's budget. For 2026, $881 million of IBO's projected need is attributed to programs currently funded by federal aid that will need to be covered by the city and are not yet budgeted. There are many such programs, but the programs with the largest shortfalls include Summer Rising for $236 million, 3-K expansion for $92 million, and Mental Health for All for $92 million.

Along with the addition of city funds to pay for the continuation of programs currently funded with federal dollars, IBO anticipates that the DOE will also require additional city funding for charter schools. The DOE does not project growth for the charter school population. IBO's adjustment is based upon our forecasted growth in the enrollment of existing charter schools and the opening of remaining charters under the state cap. To cover these costs, IBO estimates the DOE will require $26 million in 2023, $134 million in 2024, and $66 million in both 2025 and 2026.

Lastly, IBO projects that the city will need to provide the DOE with $20 million in each year of the financial plan based on our expectation that federal Medicaid funding for DOE transportation expenses will be lower than the Adams administration anticipates. The DOE has requested that the state Department of Health authorize these costs for reimbursement. However, the state's appetite for this change remains in question. IBO expects the city to have to fund these costs instead.

Public Safety and Judicial. IBO projects that the city will require an additional $318 million in 2023 and an average of about $222 million in each outyear of the financial plan for its public safety and judicial services agencies, which include police, fire, corrections, and emergency management. Most of these additional costs are due to the fact that IBO projects that overtime costs are underfunded for many of the uniformed agencies.

According to IBO estimates, the New York City Police Department (NYPD) is currently on pace to spend $639 million on overtime in 2023—in line with the average over the past three years. The NYPD budget for the current year includes only $374 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 $165 million remaining in additional overtime costs to be covered through underspending in other areas of the police budget. These totals include all police overtime, both civilian and uniform.

The fire department is on pace to spend $382 million on overtime in 2023, based on expenditures through October. The department has budgeted $263 million in 2023 and roughly $253 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 2023, and $25 million each year from 2024 through 2026. Like the NYPD, the fire department typically underspends in other areas of its budget, which enables it to cover a portion of the additional overtime expenditure internally.

Since the beginning of the Covid-19 pandemic, high overtime costs at the Department of Correction (DOC) have been primarily driven by high rates of staff absenteeism and corrections officers leaving DOC in significant numbers. By the release of the November plan, less than 40 percent into the current fiscal year, DOC had already spent 72 percent of its total overtime budget for the year IBO estimates that in the current year the agency will require an additional $118 million for overtime expenses, bringing its overtime budget up to $250 million for 2023. IBO further estimates DOC will need an additional $103 million in 2024, $93 million in 2025, and $83 million in 2026 to cover overtime spending.

IBO's re-estimate of the New York City Emergency Management's budget (NYCEM) shifted $50 million from federal-funded spending to city spending in 2023; this is part of the $1 billion in federal funds that OMB has budgeted to cover the costs associated with the city's services to the newly arrived asylum seekers. IBO also increased city costs for NYCEM in the outyears by an average of $5 million each year to bring funding levels up to historical spending.

Social Service Agencies. IBO projects that the city will require an additional $283 million in 2023, growing to $920 million in 2024, and an average of about $580 million in 2025 and 2026 for its social services agencies. These agencies include the Human Resources Administration, Department of Homeless Services, and Department of the Aging. The largest projected increase in funds is for homeless services in each year of the plan.

IBO projects the Department of Homeless Services (DHS) will require $261 million in 2023 and $628 million in 2024 more in city funding than is currently budgeted. These increases are the result of the shelter services that the city is providing to the newly arrived asylum seekers—costs that the Adams administration anticipates being covered through the yet-to-be-identified federal funding. Of the $1 billion in federal asylum-seeker funding it added in the

November plan, the city allocated $577 million for DHS for 2023. IBO assumes all the shelter costs for the asylum-seekers will need to be covered with city funds. IBO also estimates that DHS costs will be higher than currently budgeted for 2025 and 2026 (by about $260 million in each year); however, we do not break out these by the asylum-seeking population given the uncertainty about changes in the size of this population in the long run.

In addition to the funds for DHS, IBO estimates additional city funding will be needed for the Human Resources Administration's (HRA). Some of this additional funding is due to IBO anticipating that the city will have to cover asylum-seeker costs with city funds, not federal. The city included $23 million in federally funded for costs related to asylum seekers in the HRA budget, which IBO assumes will instead be paid with city-funded costs.

The majority of the additional city funds required for HRA, according to IBO estimates, however, is for the Family Homeless and Evictions Preventions Supplement (CityFHEPS) rental assistance program. Despite budgeting $255 million for this program in 2023, planned funding for the program falls to an average of $21 million in 2024 through 2026. IBO expects this program to remain critical in future years as well, and to cost the city approximately the same amount as budgeted in 2023, requiring the addition of $237 million in city funds to both 2024 and 2025, and $229 million to 2026.

Finally, IBO estimates that city-funded expenditures for the Department for the Aging (DFTA) exceed what the mayor had budgeted by $55 million, $89 million, and $74 million, in 2024 through 2026, respectively. These increases are related to senior centers, meals, transport, and general senior services programs. OMB has not provided funding for these programs in the outyears, but typically adds funding to the budget before the start of that fiscal year, generally during the Executive or Adopted budget.

General Government. The mayor's budget anticipates decreases in spending on some of the Department of Youth and Community Development's (DYCD) most popular youth programming. However, IBO projects that these programs will be sustained at current levels, with total costs remaining relatively flat over the budget period. Specifically, IBO believes that after school programs and in-person school programs are currently underbudgeted in the November plan. Historically, these programs receive additional discretionary funding as the fiscal year goes on. To reflect this, IBO increased the DYCD budget forecast by $125 million in 2024, 2025, and 2026, respectively.

IBO expects the Board of Elections and Campaign Finance Board to be higher than the mayor's current estimate by a total of $60 million in 2024, $75 million in 2025, and $65 million in 2026. This reflects the difference between the current budgets and the average spending in the agencies over the past five years. These changes are included in the "General Government" row of the Pricing Differences table.

IBO has increased Small Business Services outyear budgets to match historic spending for programs, funding that is typically added during the negotiations for the adopted budget. This increases the city expenditures by $27 million in 2024, and $25 million in 2025 and out.

Lastly, for the Department of Citywide Administrative Services (DCAS) and the Office of Technology and Innovation (OTI), IBO shifted a total of $40 million from federal to city spending in 2023, related to the asylum-seeker funding. IBO also added $27 million to OTI in 2026 for the continuation of the Big Apple Connect broadband program.

In Reserve

Included with the November plan are a record level of reserves, totaling more than $8.2 billion available for use in the current fiscal year. The city maintains two types of reserve funds. The first type of reserve funds, comprised of the Revenue Stabilization Fund and the Retiree Health Benefits Trust, are outside the general fund and are funded through deposits from surpluses in city revenue and their balances are rolled over each year. The Revenue Stabilization Fund (often referred to as the Rainy Day Fund) currently holds $1.9 billion. Since 2021 when it

Reserve Funds & Their Balances
Dollars in millions

General Fund Reserves	Fiscal Year 2023	Fiscal Years 2024-2026
General Reserve	**$1,555**	**$1,200**
Capital Stabilization Reserve	250	250
Subtotal–General Reserve Funds	**$1,805**	**$1,450**
Reserve Fund Balances as of November Plan Release		
Revenue Stabilization Fund (Rainy Day Fund)	$1,950	
Retiree Health Benefit Trust	4,600	
Subtotal–Reserve Funds	**$6,550**	

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was initially established, the city has broadly switched to utilizing it as its primary separate reserve fund. The city is allowed to draw down 50 percent of the balance in the fund at a time or more, if the mayor declares a “state of emergency” certifying a compelling fiscal need to tap the reserve fund. There are currently no constraints on how the funds may be used. However, the city has not yet promulgated standards regarding what constitutes a “state of emergency” or what would be a justifiable circumstance in which to draw down funds. The city also has $4.6 billion 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 passthrough entity to pay for annual retiree health costs.

The second type of reserve funds are general fund reserves, divided between the general reserve and capital stabilization reserve. These funds are built into each year of the financial plan and are only allocated to specific costs during the fiscal year as needs arise. For 2023, the November plan includes $1.8 billion in general fund reserves, composed of $1.6 billion in the general reserve and $250 million in the capital stabilization reserve. For 2024 through 2026, the plan includes $1.45 billion of budgeted reserves in each year.

If the $1.8 billion of current year general fund reserves go unused, they would become part of this year’s surplus and could offset the deficits IBO currently projects for 2024 by prepaying an additional portion of that year’s expenses. (Historically, the city uses surplus funds in the current year to make early payments of debt service or contributions to retiree health care costs due in the coming fiscal year.) Similarly, the reserves included in the plan for 2024, 2025, and 2026 could be used to help reduce projected gaps in subsequent years’ budgets. Conversely, surplus revenue could be used to make additional deposits into one of the separate reserve funds. One decision that will grow in importance as interest rates remain elevated in the near term is the whether the city should use its operating surplus to prepay debt or put funds away in the Revenue Stabilization Fund. In the past several years as interest rates have been held close to zero, it has made sense to use the Revenue Stabilization Fund, but with interest rates and inflation on the rise, the future value of a dollar in the reserves will decrease more rapidly, potentially making it more cost-effective to prepay variable rate debt instead.

Pressure Points

Interest Rates, Recession, Market Decline. The risks associated with IBO’s economic outlook and its ensuing tax forecast are plentiful. Chief among them is that the Federal Reserve is unable to tamp down inflation without triggering a recession, or that growth slows more than IBO’s forecast anticipates. Persistently high interest rates also present their own risks. The city relies on the finance industry, whose wages and salaries help fuel personal and business income tax collections. Higher interest rates are expected to slow growth and tamp down inflation, but they also reduce profits for the securities industry through higher borrowing costs, which has the potential to ripple through the city’s main tax sources. Higher interest rates are likely to lead to further appreciation of the U.S. dollar, harming export-oriented industries and making exchange rates less favorable to the international tourists who the city is wooing to help sustain the recovery of the leisure and hospitality sector.

Collective Bargaining, Active Headcount, and Service Delivery. Perhaps one of the greatest risks the city is facing is the maintenance of its own work force. Since the start of the pandemic, the size of the city workforce has declined from a total of 301,000 active full-time employees in January 2020 to 284,000 full-time active employees as January 2022 when Mayor Adams took office, down to under 282,000 through the first nine months of the Adams administration. As active headcount has fallen, Mayor Adams reduced the number of vacant positions, constraining agencies’ ability to replace lost workers. In his first budget released this past February, Mayor Adams included a savings program largely targeted at reducing budgeted personal costs by eliminating vacant positions. And in November, shortly after releasing the November plan, the administration sent a letter to agencies informing them there would be a 50 percent reduction in most civilian vacancies for the upcoming preliminary budget, which is set to be released in January.

While the administration has made the argument that the decrease in the number of full-time city employees is not resulting in service delivery reductions, there is growing evidence to the contrary as the total city work force has shrunk in size. Agencies have credited staffing difficulties with drops in performance metrics in the Mayor’s Management Report (MMR) for Fiscal Year 2022. For example, the Department of Housing Preservation and Development reported in the MMR that staffing challenges have contributed to longer housing maintenance code complaint response times and fewer affordable housing starts. Similarly, the Department of Finance reported longer times to process tax audits.[4]

Compounding this is uncertainty around future labor costs as the city negotiates new contracts with collective bargaining units. The city's budget holds labor reserves sufficient to support 1.25 percent annual increases over the budget period of 2023 through 2026. Contract settlements above that level would require additional resources beyond what is currently allocated in the financial plan.

Asylum-Seeker Funds. IBO has assumed that federal funds the administration has budgeted to cover the costs associated with providing services to the city's newly arrived asylum weeks are far from certain and added our own estimates of those costs to be covered by city funds. However, there is a risk that costs may be even more than what we have estimated thus far. The costs to city are dependent on the number of arrivals, what services they require, and how long they remain in the city, which given the novelty of the current situation is difficult to predict.

In mid-October the Biden administration announced the reinstatement of a Trump administration immigration policy known as Title 42. Title 42 refers to a public health rule that seeks to prevent the spread of communicable diseases across international borders, referencing the Covid-19 pandemic. The policy curbs much of the immigration at the U.S–Mexico border, including people entering to seek asylum. However, a federal judge ruled against the Biden administration's use of Title 42 policies. Although legal proceedings around Title 42 are still playing out, the ruling lifting the policy is expected to go into effect on December 21, which would likely add to the number of people crossing the border. This adds further uncertainty to the total cost of the asylum-seeking population.

In addition to the increased risk of even greater city costs than IBO has estimated, it is also possible that the federal or state government could come through with aid to support these costs. While IBO has yet to see evidence that this aid is forthcoming, any federal funding acquired would reduce city-funded costs this year and next.

Housing Authority. The beleaguered New York City Housing Authority (NYCHA) continues to struggle under the weight of its $40 billion in capital needs. NYCHA's repair backlog has ballooned to 670,000 open work orders and the authority's rent collection rate has plummeted to just 65 percent, as of October 2022. A shake up in the authority's management has created further uncertainty; in September, the CEO of NYCHA, Gregory Russ, stepped down following the arsenic water-testing scandal at NYCHA developments on the Lower East Side. While an interim CEO, Lisa Bova-Hiatt, has stepped into the role, a permanent CEO has yet to be chosen. Last time a search was conducted for NYCHA CEO, it took over a year to fill the post.

The city continues to provide substantial support for NYCHA and the possibility for even greater support to the city's largest landlord is a risk to the city's fiscal outlook. The city allocates hundreds of millions in funding to NYCHA's operating budget in support of capital projects staff, for raises negotiated as part of labor agreements with unions representing NYCHA workers, and other programs. On the capital side, the city provides hundreds of millions in support for NYCHA capital projects, in excess of its obligations under the 2019 federal monitor agreement.

Despite city funding, NYCHA's operating budget continues to show large deficits next calendar year and in later years of the plan. In the 2023 calendar year, NYCHA's $4.15 billion operating budget shows an $136 million deficit, growing to $168 million in 2024, $222 million in 2025, and $279 million in 2026. To balance its budget, the authority will either need to further city funding, draw down its operating reserves (which have dwindled to just $330 million) or barring these, to slow hiring and reduce contract spending, thereby increasing the already considerable backlog of maintenance and repair work orders.

This summer, NYCHA succeeded in gaining state approval for its new housing preservation trust plan. The new plan would see the authority transfer developments to the newly created Housing Preservation Trust, which would manage the developments and assume debt for capital repairs. The Trust plan is untested, however, and whether NYCHA can carry it out successfully remains to be seen. NYCHA plans to address its capital needs using both the Trust and the ongoing Permanent Affordability Commitment Together (PACT) program, which converts NYCHA developments to private management under Section 8 while raising funding for capital repairs. While the PACT program was originally pitched as mainly self-sustaining, this year, the Adams administration has added $1.4 billion in new capital funding over the plan to subsidize PACT real estate deals. While PACT and the Trust will hopefully reduce NYCHA's reliance on city subsidy in the long run, the possibility remains that both programs may need additional city funding to be successfully implemented.

Metropolitan Transportation Authority (MTA). With public transit ridership stalled at two-thirds of pre-pandemic levels, the MTA continues to face large annual operating deficits. The authority's latest 2023-2026 Financial Plan, released at the end of November, projects $11.4 billion in total deficits over the next four years. (Unlike the city and state, the MTA budgets using calendar years.) With only $5.6 billion of federal Covid aid remaining, the challenge for the MTA will be closing this gap without further eroding ridership through service cuts or unacceptable levels of fare increases.

The authority is counting on increased government support. In a bid for new subsidies, the MTA reduced the amount of federal Covid aid it plans to use to balance its 2023 budget, instead budgeting $600 million in unspecified 'New Government Funding". This funding—which the MTA described as potentially "city, state, and federal" in its November board meeting—would be on top of higher fare increases of 5.5 percent in 2023 and 2025, and $1.3 billion in new, also unspecified "MTA Operating Efficiencies" over the next four years.

Some of the MTA's federal aid dollars are being redirected toward reducing the authority's long-run costs: the MTA now plans to repay its 2020 emergency borrowing from the Federal Reserve's Municipal Liquidity Facility rather than issue long-term bonds in 2023, a move that will reduce the MTA's debt service by $558 million over its four-year plan period.

But the authority's reliance on still-to-be-determined government funding and savings—not to mention assumed inflation and annual wage growth at just two percent—does not bode well for the MTA's ability to stick to this plan. The MTA's financial position is critical to New York City's bottom line; not only does the city directly subsidize some MTA services, such as paratransit and MTA Bus Company routes, but the city's economy relies on continued MTA service levels. Absent further state or federal funding, the MTA could look to the city to help fill its operating deficits as soon as next year.

Conclusion

Rather than at the foot of a tidal wave as predicted by Mayor Adams, the economic and budgetary outlook of the city sits seemingly in a slow clearing fog. While the near term is buoyed by a budget surplus in the current year, thanks to two years of rebounding economic indicators and strong tax collections, growth is slowing and is projected to slow further over the next 12 months. The city government, along with its economy, faces near-term challenges, from retaining its workforce and negotiating nearly all its municipal contracts during a time of high wage growth and slowing tax revenue growth, to the unexpected arrival of tens of thousands of asylum seekers requiring city services to the financial challenges of some of the public realm's most critical institutions (NYCHA and the MTA). While the threat of a mild recession exists, the near term economic and fiscal conditions appear to be mostly under control—the greater threats are likely 18 to 24 months off. The choices of city leaders, and to a lesser extent, state and federal leaders, make will help determine the city's ability to weather those threats.

Endnotes

[1]The personal consumption expenditures index is produced by the U.S. Bureau of Economic Analysis using price data from businesses. The BLS's consumer price index is based on data from consumers, among other differences.
[2]In New York City, the profits of all C-corporations have been taxed under the Business Corporation Tax since 2015, while S-corporations are taxed under either the General Corporation Tax or Banking Corporation Tax. In this report, corporate taxes refer to the combined total of all three.
[3]Note that the Labor Reserve is budgeted for a specific level of anticipated increase, differing from the types of reserves discussed in the "In Reserve" section of this report, which are budgeted for unexpected costs.
[4]Fiscal Year 2022 Mayor's Management Report: Accessed at: 2022_mmr.pdf (nyc.gov)