May 2016

Re-estimating the Mayor's Executive Budget and Finacial Plan Through 2020:

A Slowing Local Economy, But A Stable Budget Outlook

Mayor Bill de Blasio's Executive Budget for 2017 and Financial Plan Through 2020 proposes an increase in spending to support a bevy of new or expanded programs as well as a substantial infusion of city aid for the fiscally ailing municipal hospital system. His budget plan also includes doses of fiscal caution in the form of a larger citywide savings program and an increase in the amount of funds held in reserves.

Based on IBO's latest economic forecast and re-estimate of tax revenue and spending projections under the contours of the Mayor's executive budget and financial plan, there are reasons for optimism and prudence. Our latest economic forecast anticipates that local economic growth will slow, with a decline in job growth from the record levels of the past few years and a corresponding slowdown in revenue growth in the years ahead. Still, IBO expects that the city's fiscal condition will remain stable—budget surpluses this year and next and shortfalls in future years that will be relatively modest as a share of city-generated revenue.

IBO projects that the city will end the current fiscal year with a surplus of $3.5 billion, $151 million more than the Mayor's estimate. After adjusting for the use of this surplus to prepay some of next year's expenses, we project a comparatively small surplus of $812 million in 2017 under the Mayor's plan. This amount may understate the "real" surplus because the Mayor's plan includes two reserve funds within the 2017 budget totaling $1.5 billion—dollars that are recorded as expenditures but do not currently support any specific spending needs. Taking these reserves into account, the projected surplus for next year is effectively $2.3 billion.

Total Revenue and Expenditure Projections
Dollars in millions

	2016	2017	2018	2019	2020	Average Change
Total Revenue	**$82,185**	**$83,341**	**$85,730**	**$88,882**	**$92,459**	**3.0%**
Total Taxes	$53,074	$54,555	$57,288	$59,979	$62,911	4.3%
Total Expenditures	**$82,185**	**$82,529**	**$87,914**	**$91,095**	**$93,280**	**3.2%**
IBO Surplus/(Gap) Projections	**$0**	**$812**	**($2,184)**	**($2,213)**	**($821)**	
Adjusted for Prepayments and Debt Defeasances:						
Total Expenditures	$82,055	$86,036	$87,914	$91,095	$93,280	3.3%
City-Funded Expenditures	$58,831	$62,760	$64,913	$67,786	$69,520	4.3%

NOTES: IBO projects a surplus of $3.508 billion for 2016, $151 million above the de Blasio Administration's forecast. The surplus is used to prepay some 2017 expenditures, leaving 2016 with a balanced budget. Figures may not add due to rounding.
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This effective surplus could eliminate the shortfall IBO projects for 2018. Under the terms of the Mayor's plan, we expect a shortfall of $2.2 billion in 2018. But this budget gap would be closed if the reserves budgeted for next year do become part of the 2017 surplus. Even if some or all the reserves are needed for 2017, the projected budget gap for 2018 is a relatively manageable 3.5 percent of city-generated revenue. Likewise, the $2.2 billion budget gap IBO forecasts for 2019 is about 3.4 percent of our estimate for city-generated revenue in that year. Given that the Mayor's financial plan includes reserves of $1.0 billion annually in 2018 and 2019 (as well as 2020) the projected shortfalls are effectively even smaller than stated in each of these years.

Among other key findings from our review of the Mayor's executive budget and financial plan:

- Although we have increased our projection for employment in the city since our last forecast in March to 84,500 job this year, we have lowered our forecast for job growth in the subsequent years to an average of 52,000 in 2017 through 2020.

- IBO has revised its estimates for tax collections in 2017 through 2020 downward since our last forecast as well. Our estimate for tax revenues next year is now $54.6 billion, $303 million less than our prior forecast.

- Despite our downward revision of tax collections, our forecast still exceeds the Mayor's projections in each year of the financial plan—by $709 million in 2017 rising to $1.6 billion in 2020.

- Although the de Blasio Administration has added funding for homeless shelter spending in 2017, we expect the number of individuals and families in the system will exceed City Hall's estimates in future years. As a result, we project city-funded homeless shelter spending in 2018 will be $106 million greater than budgeted in the financial plan.

- Ongoing problems with a data system created under the Bloomberg Administration will continue to impede the city's ability to collect Medicaid reimbursements for certain special education services. While the city previously received reimbursements of more than $100 million annually, we expect the city will be reimbursed only $5.0 million this year.

U.S. and Local Economic Outlook

Economic Overview. Slower-than-expected growth in the first quarter of 2016 has led IBO once again to lower its near-term forecast of inflation-adjusted (real) gross domestic product (GDP) growth, to 2.0 percent for 2016. (In the economic outlook section, years refer to calendar years and monthly and quarterly data are seasonally adjusted.) But the general outlook remains the same as tighter labor markets and real wage gains continue to fuel consumer demand. Barring major shocks to the economy, we expect moderate growth to continue throughout the forecast period, with annual real GDP growth rebounding to 3.0 percent in 2017 before slowing again over the remainder of the forecast period. The Federal Reserve is expected to gradually transition to a tighter monetary policy that succeeds in constraining inflation without choking off growth.

The outlook for the New York City economy also remains largely unchanged from our March forecast. Employment growth in IBO's current forecast is somewhat higher than it was in March, though projected growth in personal income is lower, particularly for 2016. IBO forecasts the addition of 84,500 jobs in the city this year—7,300 more than our March forecast—but slower employment growth in subsequent years: 60,400 new jobs in 2017 and an average of 49,200 in 2018 through 2020. Professional and business services and health care and social assistance are expected to continue to account for large shares of total job gains, though at a slower pace than in recent years.

Projected personal income growth for 2016 is 4.7 percent—compared with 5.7 percent in our March forecast—though IBO forecasts faster income growth of 5.8 percent for 2017 and 5.4 percent for 2018. Wall Street profits are projected to average an annual $13 billion from 2016 through 2020, with weak revenue growth expected to keep profits below $15 billion a year throughout the forecast period. The financial industry's disproportionately large share of output and income in the city is now considerably smaller than before the last recession.

U.S. Economy. Since 2013, U.S. economic growth has generated a large number of new jobs—an average of 233,000 per month through the first quarter of 2016. Yet real GDP growth has been a modest 2.4 percent in each of the last two years, with even slower growth forecast for the first half of this year. Real GDP grew just 0.5 percent in the first quarter of 2016—far lower than expected. IBO has trimmed its forecast of real GDP growth for the year as a whole to 2.0 percent, down from the 2.3 percent

IBO versus Mayor's Office of Management and Budget Economic Forecasts						
	2015	2016	2017	2018	2019	2020
National Economy						
Real GDP Growth						
IBO	2.4	2.0	3.0	2.7	1.9	1.5
OMB	2.4	2.3	2.7	2.6	2.4	2.4
Inflation Rate						
IBO	0.1	1.4	2.8	2.9	2.8	2.4
OMB	0.1	0.8	2.3	2.7	2.7	2.6
Personal Income Growth						
IBO	4.4	4.3	6.1	6.4	4.7	3.6
OMB	4.4	4.0	4.9	5.1	5.0	4.9
Unemployment Rate						
IBO	5.3	4.9	4.7	4.5	4.7	5.0
OMB	5.3	4.8	4.7	4.8	4.9	4.9
10-Year Treasury Rate						
IBO	2.1	2.4	3.6	4.0	4.0	4.0
OMB	2.1	2.3	2.9	3.3	3.6	3.6
Federal Funds Rate						
IBO	0.1	0.6	2.0	3.6	3.7	3.6
OMB	0.1	0.6	1.4	2.4	3.0	3.0
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO	119.1	84.8	60.4	53.2	48.0	46.4
OMB	119.4	53.3	48.3	31.8	33.8	33.3
Nonfarm Employment Growth						
IBO	2.9	2.0	1.4	1.2	1.1	1.0
OMB	2.9	1.3	1.1	0.7	0.8	0.8
Inflation Rate (CPI-U-NY)						
IBO	0.1	2.0	2.9	3.2	3.0	2.6
OMB	0.1	1.0	2.5	2.8	2.8	2.8
Personal Income ($ billions)						
IBO	537.4	562.4	594.9	626.9	649.1	670.4
OMB	526.8	541.3	564.8	594.3	622.1	649.1
Personal Income Growth						
IBO	6.3	4.7	5.8	5.4	3.5	3.3
OMB	3.8	2.8	4.3	5.2	4.7	4.3
Manhattan Office Rents ($/sq.ft)						
IBO	77.1	79.5	81.2	82.1	83.9	85.1
OMB	76.8	80.0	82.9	83.4	84.9	85.0

SOURCE: Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-year treasury rate, federal funds rate, and Manhattan office rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal.

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we forecast in March. We expect growth to pick up in the latter half of 2016 and into 2017. For 2017, IBO forecasts 3.0 percent real GDP growth, followed by slowing growth in subsequent years—2.7 percent in 2018, 1.9 percent in 2019, and 1.5 percent in 2020.

Weak economic growth in the first quarter of this year was in part a reaction to recent financial market turbulence, which shook consumer confidence and shrunk household wealth. Consumers pulled back on spending, particularly spending for durable goods, which fell 1.6 percent in the first quarter. This sharp slowdown is not expected to persist, however, as tight labor markets and a projected increase in household formation point to a resumption of more robust spending. The Bureau of Labor Statistics' basic measure of unemployment has fluctuated between 4.9 percent and 5.0 percent since October. The bureau's U6 unemployment rate—a broader measure that includes the unemployed in the labor force, discouraged unemployed workers who have stopped looking for work, and part-time workers who would rather be working full-time—is 9.7 percent, as low as it has been in the last eight years. Other measures that show how the labor market has tightened include increases in the number of job openings as a share of total employment and the number of workers voluntarily quitting their jobs, which indicates confidence that other jobs are available.

After years of stagnant wage growth, labor markets have tightened enough to generate increases in real wages across all industrial sectors; the one exception—resources and mining—includes the depressed energy industry. Payroll data collected by Moody's Analytics indicates that workers who have not switched jobs in the last year saw their wages increase by 4.8 percent on average, with the greatest increases going to younger employees. The rising incomes of these workers are expected to fuel pent-up demand for consumer goods. The severity of the 2008-2009 recession and the tepid pace of economic growth during the subsequent expansion have led many younger workers (20- to 30-year olds) to live with their parents. But increases in real wages are expected to boost the number of households being formed this year and next, fueling demand for home furnishings and other consumer goods and generating faster economic growth.

With modest growth forecast for this year, IBO expects the Federal Reserve to proceed very cautiously in its plan to tighten monetary policy. Inflation is projected to remain modest at 1.4 percent, well below the 2.0 percent rate that the Federal Reserve considers conducive to stable growth. Faster economic growth in 2017 will lead to more aggressive tightening by the Federal Reserve, with 10-year Treasury yields rising from 2.4 percent this year to 3.6 percent in 2017. We expect the rate of inflation to jump to 2.8 percent in 2017, somewhat above the Federal Reserve's 2.0 percent target.

With low oil prices having forced many marginal energy producers, particularly shale operators, to cease production, oil prices are expected to begin rising again soon, reaching about $65 per barrel by the end of 2018—a slow increase unlikely to disrupt economic growth. In addition to our assumption that the Federal Reserve will be able to normalize monetary policy without provoking a recession, IBO's forecast is premised on there being no external shocks to the economy from a substantial worsening of the global economy's troubles. It also assumes that U.S. fiscal policy will limit deficits to 3.0 percent of GDP and stabilize the nation's debt-to-GDP ratio at current levels.

IBO expects that a combination of higher interest rates and the constraints of a labor force that cannot grow much faster due to the retirement of the baby boom generation will substantially slow economic growth towards the end of the forecast period, with inflation-adjusted GDP falling from 3.0 percent in 2017 to 2.7 percent in 2018 and 1.9 percent in 2019. In both the IBO and the Mayor's Office of Management and Budget (OMB) forecasts, real GDP growth peaks in 2017, though IBO's outlook is for slower growth this year and faster growth in 2017 than OMB projects.

New York City Economy. New York City is in the midst of an unprecedented employment boom, though wages, hours worked, and personal income send a more mixed signal. IBO expects that annual average employment growth will slow in 2016, from a gain of 119,000 in 2015 to an estimated 84,500 this year. (Note: Data on local employment reflects the Bureau of Labor Statistics recently released revisions.) Through the rest of the forecast period, we project employment growth will average about 52,000 jobs per year. Our forecast calls for a decline in personal income growth, from 6.3 percent in 2015 to 4.7 percent in 2016, before bouncing back somewhat to 5.8 percent in 2017 and then 5.4 percent in 2018. In comparison to IBO's forecast in March, projected employment growth is somewhat higher, particularly in 2016 and 2017, while personal income growth is expected to be lower, particularly in 2016.

Employment. IBO expects New York City payroll employment growth to slow over the next few years, with annual average growth dropping from 119,000 in 2015 to 84,500 in 2016 and 60,400 in 2017, and then averaging a bit under 50,000 per year over the last three years of the financial plan period. This marks a substantial fall-off from the record pace of the past several years. The projected deceleration is spread over all the major sectors of the city economy except government.

A sharp slowdown in retail trade has been underway since early last year and indeed year-over-year growth turned

Average Annual New York City Payroll Employment Growth
In thousands

Sector	History (2011-2015)	Forecast (2016-2020)
Total	**99.9**	**58.6**
Construction	5.5	4.4
Manufacturing	0.5	0.1
Wholesale Trade	1.6	0.9
Retail Trade	8.0	2.4
Transportation and Utilities	2.7	1.7
Information	4.8	3.5
Financial Activities	5.6	1.3
Professional and Business Services	24.2	16.6
Education and Health Care Services	24.3	16.0
Leisure and Hospitality	19.1	8.3
Other Services	4.3	1.4
Government	(0.7)	1.8

SOURCE: Bureau of Labor Statistics
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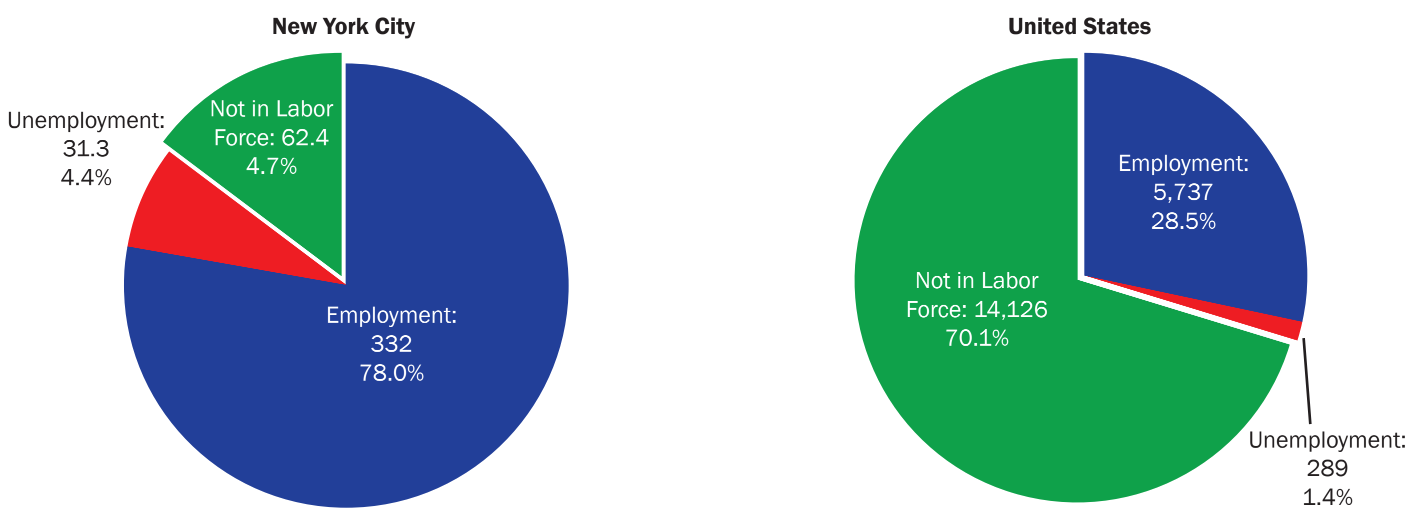
negative last August. Accommodation and food services (within the leisure and hospitality sector) have also weakened over the last two quarters, with the lowest year-over-year growth since the beginning of 2010. These trends are likely connected to the appreciation of the dollar and headwinds in the global economy, which have cut into the growth in international visitors to New York City.

Banking and real estate also saw weaker job gains over the first three months of 2016. To date there is little evidence of a slackening in professional and business services or in education and health care services, the two main engines of New York City job creation, but IBO expects slower growth to eventually bleed into these sectors as well.

Labor Force. New York City's unemployment rate has been edging up from October's post-recession low (5.1 percent) and stood at 5.5 percent in March. But at the same time the city's labor force participation rate rose to 61.5 percent, and the employment/population ratio hit 58.2 percent, both the highest levels ever recorded here. The higher unemployment rate is a by-product of the city's surging economy, which has been drawing swarms of new entrants and re-entrants into the city's labor force—and putting almost all of them to work. This has been the case throughout the expansion, and builds on the city's exceptional record in blunting declines in labor force participation during the last recession. The rest of the country has not fared so well either in boom or slump. Over the past eight years the employed population in the city has grown more than twice as fast as it has nationwide. The gain in employment accounts for nearly 80 percent of the increase in the city's adult population. For the country as a whole the gain in employment accounts for less than 30 percent of the increase in the adult population.

As the pace of job creation cools, the city's labor force participation rate is projected to edge down slightly, but the unemployment rate is also expected to hold steady at about 5.3 percent through 2016 and 2017. Slower out-year growth will push the unemployment rate up to 5.6 percent by the end of the financial plan period.

Change in the Number Employed, Unemployed, and Not in the Labor Force Since January 2008
In thousands



SOURCE: Bureau of Labor Statistics
NOTE: Reflects IBO's adjustment to pre-April 2010 New York City civilian noninstitutional population 16 years and older.
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Wages. A tightening labor market is beginning to yield stronger wage gains in 2016. IBO expects annual average wages and salaries to grow by 1.6 percent this year adjusted for inflation, followed by 1.8 percent and 1.9 percent growth over the next two years, though the slowing economy will weaken wage growth again towards the end of the financial plan period.

There is downside risk to this year's wage forecast due to the preliminary evidence of another lackluster (by the industry's standards) bonus season on Wall Street. Beyond that, proposed stricter rules for banker compensation could also reduce New York City wage growth. The regulations would defer 60 percent of the bonuses paid to executives and "material risk-takers" at large covered institutions for four years. Should these rules go into effect in something like their proposed form in 2017, they could considerably reduce the securities industry bonus pool, especially during the ensuing four-year interval before deferred bonuses begin getting paid. Much depends on how much of the pool would be exempt from the new rule (hedge funds are not covered in the current version) and how firms might restructure compensation under the new regime.

Personal Income. After reaching a post-recession high of 6.3 percent in 2015, personal income of city residents is expected to grow by 4.7 percent in 2016 and to average 4.5 percent growth in 2017 through 2020. IBO's outlook for 2016 has been lowered by 1 percentage point from our March forecast, with smaller downward adjustments for each subsequent year through 2020.

Wall Street. New York Stock Exchange member firms recorded a loss in the last quarter of 2015 and, given the string of poor earnings reports issued by the big banks, may have fared no better in the first quarter of 2016. IBO is projecting member-firm profits of $10.0 billion for 2016 as a whole (down from $14.3 billion in 2015), and weak revenue growth is expected to keep profits below $15 billion per year over the rest of the financial plan period.

Real Estate. IBO's long-term forecast for the real estate market is essentially unchanged since March. However, IBO has increased its sales projections for 2016, based primarily on the strength of residential markets. Continued low interest rates, some relaxing of credit standards, and the high cost of renting are all propelling the demand for home ownership. The luxury market continues to benefit from all-cash purchases, with a sizable share of buyers from outside the U.S.

Taxable residential sales in nominal dollars were $48.4 billion in 2015, slightly eclipsing the previous record of $48.3 billion set in 2007. However, adjusting for inflation, residential sales were considerably lower in 2015 than in the years 2005 through 2007.

Commercial sales have been the main driver of growth in real estate sales in recent years, but IBO projects a decline in sales in 2016 and 2017, and then slow growth through 2020, as major new office developments such as Hudson Yards are built out.

Tax Revenues

Overview. Although IBO's tax revenue forecast for the current year is somewhat higher than we projected in our March 2016 forecast, we have reduced our forecast for 2017 through 2020. (Unless otherwise noted, years refer to city fiscal years from here on.) For 2016, thanks to stronger than anticipated strength in the property tax and the transfer taxes, collections are now expected to be $185 million, or 0.3 percent, higher than in our March forecast. For subsequent years, we have revised the forecast for total tax revenues downward by $303 million in 2017 (-0.6 percent) and by an average of $81 million a year in 2018 through 2020; the property tax is the only major revenue source that we now expect to be stronger than we had forecast in March.

With these changes, IBO's tax revenue forecast for 2016 stands at $53.1 billion, an increase of 3.8 percent from 2015. Overall revenue growth is expected to slow in 2017 to 2.8 percent, with collections forecast to total $54.6 million. The weakness in 2017 is largely the result of declines of 6.7 percent and 7.0 percent, respectively, in revenues from the real property transfer tax (RPTT) and mortgage recording tax (MRT). Tax revenue growth is forecast to pick up beginning in 2018, when taxes are projected to yield a total of $57.3 billion, a gain of 5.0 percent. In 2019 and 2020, tax revenues will rise at an average annual rate of 4.8 percent to reach $62.9 billion by the last year of the financial plan.

IBO's forecast of tax revenues exceeds OMB's in each year of the plan, with the gap growing from $138 million (0.3 percent) in 2016 to $1.6 billion (2.7 percent) in 2020. For 2016, much of the difference is attributable to IBO's outlook for the business income taxes and the RPTT and MRT. In subsequent years, the biggest differences are in the forecasts for the property tax and the tax on personal income.

Total revenues, including the city's fees, fines, and other miscellaneous sources, state and federal grants and other

IBO Revenue Projections
Dollars in millions

	2016	2017	2018	2019	2020	Average Change
Tax Revenue						
Property	$22,784	$24,234	$25,938	$27,582	$29,212	6.4%
Personal Income	10,919	11,274	11,777	12,069	12,580	3.6%
General Sales	7,024	7,270	7,573	7,902	8,234	4.1%
General Corporation	3,931	4,017	4,115	4,256	4,361	2.6%
Unincorporated Business	2,064	2,089	2,149	2,262	2,348	3.3%
Real Property Transfer	1,744	1,627	1,641	1,713	1,788	0.6%
Mortgage Recording	1,223	1,138	1,119	1,130	1,154	-1.4%
Utility	365	385	402	412	418	3.5%
Hotel Occupancy	566	562	587	596	586	0.9%
Commercial Rent	786	814	845	868	891	3.2%
Cigarette	47	45	43	40	38	-5.0%
Other Taxes and Audits	1,670	1,299	1,299	1,299	1,299	-6.1%
NYS Sales Tax Intercept	($50)	($200)	($200)	($150)	$0	n/a
Total Taxes	**$53,074**	**$54,555**	**$57,288**	**$59,979**	**$62,911**	**4.3%**
Other Revenue						
STaR Reimbursement	$809	$788	$789	$789	$792	-0.5%
Miscellaneous Revenue	5,087	4,736	4,668	4,819	5,012	-0.4%
Unrestricted Intergovernmental Aid	6	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$5,887**	**$5,510**	**$5,442**	**$5,593**	**$5,788**	**-0.4%**
TOTAL CITY-FUNDED REVENUE	**$58,961**	**$60,065**	**$62,730**	**$65,573**	**$68,699**	**3.9%**
State Categorical Grants	$13,450	$13,674	$14,287	$14,757	$15,244	3.2%
Federal Categorical Grants	8,480	8,070	7,200	7,103	7,073	-4.4%
Other Categorical Aid	711	887	868	866	863	5.0%
Interfund Revenue	583	645	644	582	581	-0.1%
TOTAL REVENUE	**$82,185**	**$83,341**	**$85,730**	**$88,882**	**$92,459**	**3.0%**

NOTES: Remaining banking corporation tax revenues reported with general corporation tax. Figures may not add due to rounding.
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categorical aid, and interfund revenues are now forecast to total $82.2 billion for the current year, only slightly higher than in March, as a downward revision in expected revenue from nontax sources largely offsets the $502 million increase in the forecast for tax revenues in 2016. Changes for subsequent years were also modest, with revenue from all sources now expected to be $83.3 billion in 2017, growing to $92.5 billion by 2020.

Real Property Tax. IBO's updated forecast of 2016 property tax revenue incorporates changes to property tax reserve components as the fiscal year has progressed—at this point in the year there are no changes to current year assessments or to the levy. We have increased our 2016 revenue forecast by $184 million since March due in part to decreases in the amount of abatements provided to property owners, and we now expect the city's property tax revenue for 2016 to total $22.8 billion. Our forecast for property tax revenue in 2017 is $24.2 billion, an increase of 6.4 percent from this year. Collections are anticipated to grow at an average annual rate of 6.4 percent through 2020, when they are expected to reach $29.2 billion. The outlook for 2017 through 2020 has changed only modestly since March, reflecting small changes in forecasts for reserve components and the levy.

The state's enacted budget for 2017 included legislation converting the school tax relief (STAR) property tax exemption into a refundable New York State personal income tax credit. No new STAR property tax exemptions will be awarded beginning with the 2016-2017 tax roll, and existing recipients will be given the choice of retaining their exemption or switching to the state income tax credit. IBO's forecast reflects the program change by limiting

STAR exemption growth over the forecast period to less than 1 percent a year, an estimate reflecting an increase in exemption value due only to expected inflation rather than due jointly to inflation and changes in program take-up rates. It is too early to know how many city taxpayers will voluntarily switch to the refundable credit. IBO will update its forecast in the future as data become available.

Finally, the transition to an income tax credit will see the restoration of assessed value to the city's tax base. Since tax rates are set on pre-STAR assessed value, and because the city is already reimbursed by the state for lost property tax revenue, we do not expect the conversion of the STAR exemption into a refundable personal income tax credit to affect city property tax rates or revenue. With more of the tax base in the city's control, the proposal would increase local fiscal autonomy and accountability.

Property Transfer Taxes. IBO's current year forecasts of real property transfer tax and mortgage recording tax revenues—collectively referred to as the transfer taxes—are $1.7 billion and $1.2 billion, respectively, for a total of almost $3.0 billion. In nominal terms this is the highest combined total for RPTT and MRT since the all-time peak of $3.3 billion in 2007. These forecasts reflect a considerable upward revision from IBO's March 2016 projection as collections have remained stronger than expected. The RPTT forecast for 2016 is up 7.3 percent since March, while the MRT forecast has increased by 9.8 percent. IBO's 2017 forecasts have also been adjusted slightly upward compared with March, but still reflect a decline from 2016. Revenue adjustments for 2018 through 2020 were minor.

Combined, the RPTT and MRT are forecast to drop to just under $2.8 billion in 2017, decline very slightly in 2018, and increase to $2.9 billion—still below the 2007 peak—in 2020. The strong growth in RPTT revenue in recent years has been due primarily to increases in commercial real estate sales. Commercial sales rose to unprecedented levels in 2007, collapsed over the next few years, and then reached a new record of $75.2 billion in 2015. IBO has been projecting that commercial sales will return to more sustainable levels as the cost of credit eventually begins to rise and as large amounts of office space from new developments such as Hudson Yards become available, putting downward pressure on office rents.

While residential real estate sales are on track to reach an all-time high in 2016 (not adjusting for inflation), commercial sales will be lower than in 2015. Our forecast of a decline in commercial real estate sales leads us to project a year-to-year decrease of 1.2 percent in RPTT in 2016, to $1.7 billion, and a further 6.7 percent drop in 2017, to $1.6 billion. Modest increases in both residential and commercial sales over the following three years are projected to bring RPTT revenue to $1.8 billion in 2020. IBO's forecast for MRT revenue in 2016 is $1.2 billion, an increase of 5.9 percent over actual collections in 2015. MRT revenue is forecast to decline in 2017 and 2018, largely in response to rising interest rates, which will discourage refinancing activity. Very slight growth in 2019 and 2020 is expected to bring MRT revenue to $1.2 billion in 2020, still below the 2016 forecast, and far below the record of $1.6 billion set in 2007.

IBO's RPTT and MRT forecasts are greater than OMB's in every year from 2016 through 2020. Over the entire forecast period our combined revenue from the two taxes is $414 million higher. IBO's forecasts are between 1.0 and 3.0 percent higher than OMB's for most years of the financial plan, but for 2017, our MRT forecast is 5.5 percent greater. IBO attributes the difference to our expectation that low interest rates will linger into calendar year 2017, before rising to more historical levels.

While the values are different, the IBO and OMB forecasts display similar trends. Revenues bottom out in 2017 for the RPTT and in 2018 for the MRT, followed by a modest recovery in the case of RPTT, and almost flat revenue in the case of MRT.

Commercial Rent Tax. IBO's forecast for 2016 commercial rent tax (CRT) revenue is $786 million, 6.9 percent higher than 2015 collections. The intense activity in commercial real estate markets that has caused a surge in RPTT and MRT revenues reflects strong demand for retail and office space, which in turn has led to rising rents. For 2017, IBO projects slower CRT revenue growth of 3.6 percent to $814 million, as growth in office-using employment and average rents slows. We project that CRT revenue will rise 3.8 percent in 2018, followed by increases of 2.7 percent in 2019 and 2.6 percent in 2020. CRT revenue in 2020 is forecast to reach $891 million, 21.3 percent higher than in 2015.

The CRT is a tax imposed on tenants with gross annual rents of at least $250,000 renting space for business, professional, or commercial purposes in much of Manhattan below 96th Street. Commercial tenants located in the World Trade Center area and in the Commercial Revitalization Program abatement zone in lower Manhattan are exempt from the tax, as are most retail tenants south of Chambers Street.

Unlike the transfer taxes, CRT revenue has not experienced significant year-to-year fluctuations. CRT revenue has risen continuously since 1999, rising slightly even in the aftermath of the financial crisis. The 7.0 percent increase of CRT revenue in 2014 was the strongest since 2007. The projected deceleration in CRT growth after 2016 coincides with IBO's expectation of slower growth in rents, due to slower growth in office-using employment as well as considerable amounts of new office space becoming available. Much of this space is in areas of Manhattan that are exempt from the tax, such as the World Trade Center site. In addition, by expanding the overall supply of office space, these new developments will exert downward pressure on rents in areas that are subject to the CRT.

IBO's CRT forecast for 2016 is $16 million higher than OMB's, a difference of around 2.1 percent. IBO's 2017 and 2018 forecasts are 1.1 percent and 0.6 percent above OMB's, respectively, while our 2019 and 2020 forecasts are slightly lower.

Personal Income Tax. IBO forecasts $10.9 billion in personal income tax (PIT) revenue this fiscal year (2.7 percent growth) and $11.3 billion in 2017 (a year-to-year increase of 3.3 percent). The 2016 and 2017 forecasts are, respectively, $198 million and $118 million below our forecasts in March. The downward revision in our PIT forecast for 2016 is largely the result of lower than expected withholding collections in recent months. Despite solid city employment and income growth this past year, IBO projects that the decrease in year-end bonus compensation—particularly at financial services firms—will constrain withholding growth in 2016 to 3.1 percent, yielding $7.7 billion in revenue. A larger than expected total of refunds issued for liability (calendar) year 2015 was also a factor in the downward revision of our 2016 PIT forecast. IBO now projects refunds this year to equal the $1.3 billion refunded in 2015. Our forecast of estimated payments remains $3.2 billion, with an increase in quarterly installment payments from 2015 offsetting a decline in payments made by taxpayers filing for extensions.

IBO expects withholding collections to rebound in 2017, rising 8.1 percent. Still, this is less growth than IBO forecast in March, the result of a downward revision in our outlook for Wall Street revenues and bonus compensation in calendar year 2016. Both components of estimated payments—quarterly installment payments and extensions—are expected to be lower in 2017 than this year, resulting in our projection of an overall reduction of estimated payments of 5.0 percent.

IBO's forecast for PIT revenue in 2018 is $11.8 billion, an increase of 4.5 percent over the outlook for 2017. Withholdings are projected to grow 6.3 percent, less than the 8.1 percent gain expected in 2017, due to slower employment growth. Estimated payments are projected to grow by only 1.3 percent in 2018, but this weakness is more than offset by our forecast of an increase in other PIT components. We expect growth in PIT revenue to remain modest after 2018, averaging 3.4 percent annually through 2020 when revenue reaches $12.6 billion.

Relative to our March forecast, IBO now projects lower PIT for four of the five years 2016 through 2020; the exception is 2018. Meanwhile, OMB has reduced its PIT forecasts for each year, with lower projections of withholdings and higher projections of refunds in all years accounting for most of the declines. IBO's forecast for the current year differs by only $25 million (0.2 percent) from OMB's. For the following years, IBO's forecasts remain above OMB's by much larger amounts, with the biggest difference—$476 million, or 4.2 percent—in the forecasts for 2018.

Business Income Taxes. In 2015, revenue from the city's combined business income taxes grew at 2.9 percent to exceed $6.0 billion for the first time since 2007. For 2016, IBO forecasts a slight decline of $54 million (-0.9 percent) in collections. Revenue growth is expected to resume at an annual rate of 1.9 percent in 2017, and then continue to average 3.2 percent a year through 2020.

The city business tax reforms enacted in Albany last year essentially merged what had been a separate banking corporation tax (BCT) into the general corporation tax (GCT), effective retroactive to January 1, 2015. For liability years 2015 and beyond (liability years usually correspond to calendar years), banks are now subject to the GCT rather than the BCT. Thus, for the city's current fiscal year, IBO expects that most of the $1.2 billion revenue from banking corporations will be included in the GCT; only a fraction—$316 million—is expected to accrue as BCT revenue, the result of banks settling pre-reform liabilities from calendar years 2014 and earlier.

This year, IBO expects combined GCT and BCT revenues to be $156 million (3.9 percent) below their 2015 level of $4.1 billion. The decline in collections reflects the impact of the volatility in financial markets that began last summer, which has reduced corporate profits and curbed growth in business investments. A global slowdown, due primarily to slower growth in China and continued weakness in the eurozone, combined with appreciation of the U.S. dollar, has hurt New York City's leisure, hospitality, and retail sectors as well as export-oriented manufacturers in the city. Collections from the city's financial activities sector—historically a major contributor to business tax revenue—are also expected to decline as the sector undergoes a contraction spurred by recent market volatility, the impact of increased regulation on trading and compensation, and reduced profit margins due to historically low yields. Based on our expectation of greater stability in financial markets and stronger global demand, IBO expects corporate tax revenue to rise 2.2 percent in 2017, with somewhat faster growth—averaging 2.8 percent a year—from 2018 through 2020.

Unincorporated business tax (UBT) revenue increased 4.2 percent in 2015 and IBO expects it to rise 5.2 percent this year, with collections of nearly $2.1 billion. The increase in UBT revenue has been fueled mainly through growth of earnings and employment in the city's professional and business services sector. However, in anticipation of weaker profits accruing to financial sector firms (primarily hedge funds and other asset-management businesses), IBO expects slower, 1.2 percent growth in UBT revenue in 2017. Revenue growth is forecast to accelerate in 2018 and beyond, averaging 3.9 percent a year.

The differences between IBO's and OMB's forecasts of business income tax revenues are relatively small. IBO's forecast for the combined taxes is $64 million (1.1 percent) higher than OMB's in the current year; the corporate tax accounts for $27 million of the difference and UBT accounts for the remainder. For 2017, IBO's forecast for the combined taxes is $98 million (1.6 percent) higher than OMB's. Although OMB's forecast of 2018 business income taxes exceeds IBO's by $80 million (1.3 percent), in the final two years of the financial plan IBO's forecast of business tax revenue once again exceeds OMB's, with the difference averaging 1.4 percent a year.

General Sales Tax. IBO is forecasting sales tax revenue of just over $7 billion in 2016, a 4.3 percent gain over the prior fiscal year. Collections got off to a strong start but weakened during the holiday and immediate post-holiday period. This slippage is consistent with the marked drop-off in retail trade employment and slower growth in accommodation and food services in the latter half of calendar year 2015—both likely connected to the impact of the strong dollar and global economic turbulence on spending by international visitors to New York City. It is notable that through the first three quarters of fiscal year 2016, sales tax collections resulting from hotel stays fell 1.3 percent compared with the year before, while all other sales tax collections rose 4.4 percent.

IBO forecasts a dip in sales tax revenue growth in 2017 (3.5 percent) followed by average growth of 4.2 percent over the remainder of the financial plan.

However, in real dollar terms, sales tax revenue growth is expected to drop from 3.0 percent in 2016 to 1.9 percent in 2017 and average 1.8 percent per year over 2018-2020. This is consistent with the tapering growth in New York City personal income and employment in IBO's economic forecast.

These numbers do not include the state intercept of city sales tax revenue to realize savings generated from the city's refinancing of Sales Tax Asset Receivable Corporation (STARC) bonds. Under current law, a total of $600 million will be paid to the state out of city sales tax receipts at a rate of $16.7 million per month from April 2016 through March 2019. These transfers are not netted out of reported city sales tax revenue but rather appear as a separate (negative) revenue line. OMB has budgeted the first 12 months of the scheduled intercepts.

Also not included above is audit revenue. Sales tax audits are on pace to reach an unprecedented $253 million this year; more typically audits bring in $15 million to $20 million per year. This unprecedented amount is due to a $239 million prior-period adjustment stemming from a single, very large firm that had for five years mistakenly remitted all its payments as state sales taxes, instead of splitting its payment between the state and the city.

Hotel Occupancy Tax. Hotel occupancy tax collections were up strongly in September but since then have fallen 4.0 percent on a year-over-year basis (October-March). We expect the slippage to continue over the remainder of the fiscal year, resulting in a meager 1.8 percent increase in collections (to $566 million) for 2016 as a whole. As noted above, exchange rates and global economic headwinds have slowed the influx of international visitors. The supply of accommodations has also grown apace with the overall increase in visitors, with a rising share of new accommodations sited outside Manhattan. This has helped hold down room rates and dampen growth in hotel tax revenue.

IBO projects that hotel tax revenue will decline by another 0.7 percent in 2017, with uneven but generally weak growth (1.4 percent per year) following over the remainder of the financial plan.

Utility Tax. Utility tax collections fell 5.2 percent in 2015 and have fallen by another 5.2 percent over the first three quarters of the current fiscal year. For 2016 overall, the decline is expected to be 4.9 percent (to $364 million). The mild winter and sharp decline in gas and oil prices have been a boon for consumers but not for tax coffers. With oil prices now recouping some of the recent steep declines, IBO projects a modest (5.3 percent) rebound in utility tax collections in 2017 followed by moderate growth (an average of 2.9 percent per year) over remainder of the financial plan.

Spending

The differences between IBO's estimates for spending and the Mayor's under his financial plan are far more modest than the differences between our respective revenue estimates. After factoring in items that we expect to exceed the Mayor's cost estimates and others that we expect to be lower, IBO projects that spending this year will be $17 million less than the Mayor estimates and in 2017 our forecast is just $39 million above that of the de Blasio Administration. For 2018, we anticipate expenditures that exceed the Mayor's estimate by $310 million.

IBO estimates that total city spending (including state and federal aid) will rise from nearly $82.1 billion in 2016 to $86.0 billion in 2017, after adjusting for the use of this year's surplus to prepay some of next year's expenses as well as money previously set aside for this purpose. We project total spending will grow to $87.9 billion in 2018, exceed $90.0 billion by 2019, and reach nearly $93.3 billion in 2020.

Looking just at city-funded spending and again adjusting for the use of surpluses from previous years, we project that spending will grow from $58.8 billion this year to $62.8 billion in 2017, and reach $69.5 billion in 2020. IBO estimates that city-funded spending from 2016 through 2020 will grow at an annual average rate of 4.3 percent—exactly the same growth rate that we project for tax revenues.

The Largest Factors. While the Mayor has proposed increases in spending for a number of programs, there are three discrete areas of the budget that are the largest factors driving the anticipated growth in total city spending. Debt service, the interest and principal the city pays for the money it borrows for capital expenditures such as building schools and housing or buying sanitation trucks, is growing at the fastest rate. After adjusting for using prior surpluses to prepay some debt service, it is growing at an annual average rate of 7.7 percent and is expected to rise by $2.1 billion, increasing from just over $6 billion this year to about $8 billion in 2020.

Fringe benefits such as health insurance for city employees are the second fastest growing major component of the budget, increasing at an annual rate of 6.4 percent. Spending on fringe benefits is expected to increase by $2.6 billion, growing from $9.2 billion this year to $11.8 billion in 2020. This growth would be even higher without the health insurance savings targets negotiated with the city's labor unions, which are expected to yield $1.0 billion in savings in 2017 and $1.3 billion in 2018.

In dollar terms, the Department of Education is expected to see the biggest increase in spending. IBO projects Department of Education spending will grow by $3.3 billion, from $22.3 billion this year to $25.6 billion in 2020, annual growth averaging 3.5 percent.

More Costly Than Planned. Although IBO's spending estimates do not vary greatly from those presented by the Mayor, there are some noteworthy differences. IBO estimates that overtime for staff in the police, fire, and correction departments will be a combined $90 million higher than budgeted for 2017. Our estimate for additional overtime spending for these three departments grows to $115 million annually in 2018 through 2020.

Although the city has added funds for family and adult homeless shelter costs for 2017, we anticipate that the number of people in the shelter system will exceed the de Blasio Administrations projections for the succeeding years. As a result, we expect that city-funded homeless shelter spending in 2018 will be $106 million greater than allocated in the financial plan. We also expect shelter costs to exceed the budgeted amount by $97 million in 2019 and $79 million in 2020.

Ongoing problems with the education department's Special Education Student Information System will continue to impede the city's ability to collect Medicaid reimbursements for certain special education services. The Bloomberg Administration spent about $130 million to create the system, which so far has failed to enable the city to collect any significant amount of reimbursements and has left the education department unable to ensure that the more than 200,000 students with disabilities are receiving necessary services. In the past the city had recouped upwards of $100 million annually from Medicaid. For the current year, IBO has reduced its expectation of special education reimbursements by $13 million—meaning the city would receive $5.0 million this year.

IBO Expenditure Projections *Dollars in millions*						
	2016	**2017**	**2018**	**2019**	**2020**	**Average Change**
Agency Expenditures	**$56,861**	**$57,617**	**$57,903**	**$58,562**	**$58,904**	**0.9%**
Fringe Benefits	9,241	9,830	10,391	11,103	11,842	6.4%
Labor Reserve	340	437	1,149	2,146	2,516	n/a
Total Agency Expenditures	**$66,442**	**$67,885**	**$69,443**	**$71,811**	**$73,262**	**2.5%**
Other Expenditures						
Debt Service	$5,890	$3,046	$6,921	$7,429	$8,089	7.7%*
Pensions	9,288	9,422	9,710	9,853	9,785	1.3%
Judgments and Claims	665	676	692	707	725	2.2%
General Reserve	50	1,000	1,000	1,000	1,000	n/a
Retiree Health Benefits Trust	250	-	-	-	-	n/a
Capital Stabilization Reserve	-	500	-	-	-	n/a
Expenditure Adjustments	(400)	-	148	294	419	n/a
TOTAL EXPENDITURES	**$82,185**	**$82,529**	**$87,914**	**$91,095**	**$93,280**	**3.2%**

NOTES: *Represents the annual average change after adjusting for prepayments and debt defeasances. Expenditure adjustments include prior-year payables, energy, lease, and nonlabor inflation adjustments. Figures may not add due to rounding.

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Although the de Blasio Administration plans to invest about $7 million to fix the system in 2017, IBO anticipates reimbursements will fall $21 million below the Mayor's expectation of $41 million. In 2018, we project special education reimbursements will fall $65 million below the $97 million anticipated in the financial plan.

IBO also estimates that the elections in fiscal year 2018, which includes the September and November 2017 municipal elections, will cost a total of $80 million more than now budgeted for the Board of Elections and Campaign Finance Board.

Conversely, IBO estimates that the city will spend $75 million less than budgeted on debt service each year in 2017 through 2020. The de Blasio Administration has budgeted that expense in anticipation of short-term borrowing—but the city has not done any short-term borrowing in more than a decade.

New Spending. Unlike the de Blasio Administration's first two years in office, when budget plans featured hallmark initiatives such as universal pre-kindergarten, ThriveNYC, or the goal to create and preserve 200,000 affordable housing units, the executive budget this year has many new or expanded programmatic spending measures but none that stand out as signature efforts in the same way. Overall, the executive budget proposed $1.1 billion in new spending needs for 2017, nearly $770 million in 2018, and roughly $700 million in 2019 and 2020.

Among the new spending measures is a plan to come closer to achieving full funding for students under the formula for Fair Student Funding, at a cost of $161 million in 2017 and $310 million in 2018. Although it has been nine years since Fair Student Funding was implemented, in each year allocations have fallen short of what was needed to ensure that each school received at least its formula amount. The additional funding planned by the Mayor will ensure that no school receives less than 87 percent of its formula amount in 2017 and 90 percent in 2018 (see this IBO report for more information about Fair Student Funding). The Mayor is also proposing to increase funding by $17 million in 2017 for his Equity & Excellence plan for schools; another $9 million in 2017 (rising to $40 million by 2019) would be used to increase access to gym programs in elementary schools.

The de Blasio Administration has also proposed increasing the city's general subsidy for the fiscally ailing NYC Health + Hospitals by $160 million this year. In addition, the Mayor's plan includes the city's assumption of a total of $735 million in debt service for the hospital system in 2017-2020.

Other proposed additions to the city's expense budget include an increase of 50 Emergency Medical Service ambulance tours in areas of the Bronx and Queens where response times have been slow at a cost of $5.0 million in 2017 and $9.8 million in 2018. The Mayor also intends to increase the availability of health care on Rikers Island, beginning with an $8.7 million initiative in 2017 that grows to more than $24 million in 2020.

Additionally, the Mayor plans to forgo $122 million in revenue from the Water Board—eliminating the annual rent payment made by the board for the use of the city's water and sewer infrastructure. As a result of this savings to the board, the Mayor intends to provide owners of one- to three-family homes with one-time $183 credits on their water and sewer bills.

A Dubious Savings Plan? To partially offset some of the new spending, the executive budget includes an enhanced citywide savings program, which expands on savings proposals for 2016 through 2020 that were first introduced in the preliminary budget earlier this year. The executive budget adds $522 million in anticipated savings for this year, bringing the 2016 total to nearly $1.4 billion. The Mayor's updated savings plan adds more than $700 million annually in savings proposals to plans for the ensuing years through 2020. The plan, including components first announced with the preliminary budget, would eliminate about 900 city jobs through 2017, mostly by not filling vacancies as well as for reasons such as postponing the staffing of the city's marine transfer stations, several of which are taking longer than expected to complete.

The Mayor's savings plan has been criticized for relying too heavily on such maneuvers as debt service savings, caseload re-estimates, and federal or state assumption of some local costs rather than reductions or eliminations of city programs. The de Blasio Administration is not the first to count on these sorts of actions: Re-estimates and funding swaps that replace city-funded spending with federal or state dollars have been a key part of savings programs under prior mayoral administrations as well.

The single biggest source of savings in the de Blasio Administration's citywide plan—$305 million annually—comes from a re-estimate of Medicaid reimbursements, a change associated with the Affordable Care Act. These savings represent more than 40 percent of the $728 million in new spending reductions for 2017 in the executive budget.

Other expected savings range from improved management of purchasing by the city ($55 million annually in 2017 through 2020) to consolidating underused juvenile detention facilities ($1.3 million in savings in 2017 and $2.3 million annually in 2018-2020). The city will also save $58 million in 2018 because it will not have to provide interest support payments for the Hudson Yards project. The Mayor's budget office also projects that the city will save an additional $63 million in 2019 on Hudson Yards interest support as the city's outlay for that year is expected to fall to $27 million.

Capital Spending. The executive budget also included a new capital commitment plan for 2016 through 2020. The five-year plan for spending on school construction, affordable housing, water and sewer upgrades, equipment and other capital needs totals $67.1 billion, $59.4 billion of it city funds. The prior commitment plan, which accompanied the preliminary budget in January, covered the years 2016 through 2019. Looking just at those four years, the new plan has increased planned commitments by $4.8 billion and now totals $52.3 billion.

As in past years, two of the largest components of the plan are for repair, expansion and construction of schools ($14.2 billion over five years) and water, sewer, and related environmental protection projects ($12.3 billion). The spending on water and sewer projects includes a restoration of previously delayed funding for Tunnel No. 3. The new capital commitment plan includes a total of $357 million ($305 million newly restored) for the Brooklyn and Queens portion of the water tunnel project, which is now planned to be completed on an expedited schedule. Some other newly added capital projects range from a new police precinct building in Queens at a cost of $70 million to a $50 million new indoor swimming pool in Staten Island.

Pressure Points. While the Mayor's budget includes funding for a number of measures urged by the City Council such as added support for Beacon community centers ($5.7 million more in 2017, nearly $17 million more in 2018) and an increase of $12 million next year (and about $11 million annually through 2020) to hire additional maintenance workers for parks and playgrounds during "peak season," there will be pressure from the Council, other elected officials, and the public to fund additional needs. The day the Mayor released the executive budget, Council Speaker Melissa Mark-Viverito and Finance Chair Julissa Ferreras-Copeland issued a press release outlining some of their key concerns: increasing the availability of year-round and summer jobs for youth, providing legal services and job-training for the city's immigrant population, and addressing food insecurity.

There are many other issues that could generate pressure to increase spending. One issue is the loss of funding for 31,000 summer after-school slots for students. Last year, the Mayor shifted nearly $28 million in funds for these slots to his Renewal Schools program for struggling schools.

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

	2016	2017	2018	2019	2020
Gaps as Estimated by the Mayor	**$0**	**$0**	**($2,735)**	**($2,977)**	**($2,269)**
Revenue					
Taxes					
Property	($31)	$253	$540	$681	$1,047
Personal Income	25	284	476	349	395
General Sales	6	4	16	22	18
General Corporation	27	68	(79)	60	119
Unincorporated Business	37	29	(1)	16	(6)
Real Property Transfer	28	25	38	57	83
Mortgage Recording	31	59	44	26	23
Utility	(5)	4	8	5	(1)
Hotel Occupancy	1	21	24	9	(27)
Commercial Rent	16	9	5	(7)	(19)
Cigarette	2	2	1	(1)	(2)
Other Taxes and Audits	-	-	-	-	-
NYS Sales Tax Intercept	-	(50)	(200)	(150)	-
Subtotal	**$138**	**$709**	**$872**	**$1,068**	**$1,632**
STaR Reimbursement	(3)	(9)	(11)	(15)	(16)
TOTAL REVENUE	**$135**	**$700**	**$861**	**$1,053**	**$1,615**
Expenditures					
Debt Service	$-	$75	$75	$75	$75
Health Insurance	9	32	19	(14)	31
Education	7	(56)	(87)	(83)	(24)
Homeless Services	-	-	(106)	(97)	(79)
Police	-	(50)	(50)	(50)	(50)
Fire	-	(25)	(50)	(50)	(50)
Correction	-	(15)	(15)	(15)	(15)
Board of Elections	-	-	(40)	(25)	(25)
Campaign Finance Board	-	-	(40)	-	-
Small Business Services	-	-	(15)	(30)	(30)
TOTAL EXPENDITURES	**$17**	**($39)**	**($310)**	**($289)**	**($167)**
TOTAL IBO PRICING DIFFERENCES	**$151**	**$661**	**$551**	**$764**	**$1,448**
IBO Prepayment Adjustment 2016/2017	(151)	151	-	-	-
IBO SURPLUS /(GAP) PROJECTIONS	**$0**	**$812**	**($2,184)**	**($2,213)**	**($821)**

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

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Under pressure from the Council, advocates, and others, the Mayor restored funding for last summer's slots. Since then he has held to his assertion that it was a one-time restoration, a position that may be increasingly difficult to maintain as budget negotiations progress.

Another issue may be the shortfall in funding to maintain six-day service in the city's three library systems. Last year, the Mayor and Council together added $43 million to the budget to keep branch libraries open six days a week. Of this amount, $22 million was provided by the Mayor and has been included in the financial plan through 2020. The balance, $21 million annually, was not included in the executive budget.

Pay parity among pre-school teachers may be another issue that leads to additional spending. A starting teacher with a

Master's degree working for the Department of Education's universal pre-k program earns nearly $52,500. In the city's EarlyLearn pre-school programs, which the city contracts out to community-based child care centers, a teacher with the same experience would earn about $39,400. The pay disparity makes it increasingly difficult to find and retain teachers in the EarlyLearn programs. The disparity is particularly difficult when a child care center has contracts to provide both EarlyLearn and universal pre-k. The City Council estimates it would cost about $34 million in 2017 to provide pay parity for 800 teachers and directors and 2,000 support staff at child care centers running both programs.

Spending pressure could also come from the city's fiscally challenged public hospitals and public housing developments. Despite the substantial amount of funding the de Blasio Administration proposes for fiscally stabilizing NYC Health + Hospitals, the system may need additional budgetary support. NYC Health + Hospitals is counting on a considerable amount of support through state and federal actions, including waivers from the federal Centers for Medicare and Medicaid Services. If the hospital system's balance sheet continues to bleed red ink—and the Mayor determines closing hospitals or eliminating medical services is not politically feasible—then the city may well need to provide even more funding.

While the New York City Housing Authority's budget outlook does not look as threatening as the public hospitals' at the moment, the authority's fiscal condition is far from certain. The housing authority faces a $60 million shortfall in its $3.4 billion budget this year and a nearly $200 million gap in 2017—operating shortfalls not nearly as steep as those confronting the public hospitals.

Much of the housing authority's operating shortfall results from a roughly $160 million deficit in federal funding—under the federal formula for operating aid the city's public housing authority qualifies for about $1.1 billion but will receive about $910 million. There is a larger shortfall in funding for maintenance and repair. The housing authority needs an estimated $16.5 billion, well more than the current allocations from Washington or the city, to bring its aging developments to what is referred to as a state of good repair. Last year, the de Blasio Administration added $300 million in capital funds over three years for roof repairs. The Mayor has also added a new allocation of $73 million for façade repairs. If operating revenues fall short of expectations or there are emergency needs for structural repairs, the de Blasio Administration would be under considerable pressure to provide the housing authority with additional aid.

Government of Last Resort. Based on our latest economic forecast and re-estimates of city revenues and expenditures under the Mayor's current financial plan, New York's fiscal outlook remains relatively strong. We project the city will end the current fiscal year with a surplus of $3.5 billion, end next year with a surplus of more than $800 million, and, when reserves within the budget are taken into account, end 2018 in balance as well.

These estimates assume that local economic growth will slow but not contract—although the current expansion is already unusually long. But even if the U.S. and New York City economies were to slip into recession, the city has built up considerable reserves to weather at least the initial phase of a contraction. In addition to the $1 billion or more in reserve in each year of the financial plan, the de Blasio Administration and the City Council have made roughly $2 billion in deposits to the Retiree Health Benefits Trust, and the Mayor's executive budget includes an additional $250 million. Assuming a downturn similar in depth to the last two the city faced, these and other reserve funds should buy elected officials enough time to make the changes needed to bring the budget back into balance.

But as the Mayor warned when presenting the executive budget last month, the city faces challenges beyond economic cycles. New York City is the government of last resort for the poor and the homeless, and the direct provider of basic services for residents and businesses. While Albany and Washington can, for fiscal or other reasons, turn away from addressing local needs, municipal government does not have the same leeway. The problems are ours, and so too are the challenges of paying for them. These challenges could alter the city's fiscal condition, rapidly turning surpluses to shortfalls.