New York City Independent Budget Office
Fiscal Outlook

January 2022

A Forecast in Uncertain Times:

Modest Budget Shortfalls Projected, But Risks To Outlook Increase as Infections Surge

After eight years in office, and through one of the most turbulent periods in the city's recent history, the de Blasio Administration's final financial plan has presented the Adams Administration with a remarkably stable fiscal outlook for fiscal years 2022 through 2025. IBO projects that within the framework of the Mayor's latest financial plan, the city has nearly enough resources available to balance each year of the plan without the need for tax increases or major cuts to city services. The current fiscal outlook seemed highly unlikely 18 months ago, when IBO and other fiscal analysts estimated that the city's out-year budget gaps ranged from $4 billion to $6 billion.

Underlying this relatively rosy picture, however, is an extraordinary level of uncertainty. The city could not have managed to avoid tax hikes or service cuts without the aid provided by the various federal pandemic-related stimulus packages. The unprecedented influx of federal dollars enabled the de Blasio Administration to continue, and even expand, many city services without the need for tax increases, which have been required during previous periods of fiscal upheaval. The receipt of

Total Revenue and Expenditure Projections
Dollars in millions

	Actuals	Plan				Average Change
	2021	2022	2023	2024	2025	2021-2025
Total Revenue	**$98,215**	**$104,407**	**$100,084**	**$102,014**	**$103,396**	**1.3%**
Total Taxes	65,380	63,796	66,807	69,206	71,029	2.1%
Total Expenditures	**$100,372**	**103,469**	**101,904**	**103,142**	**103,938**	**0.9%**
IBO Revenue Less Expenditures	**n/a**	**$938**	**($1,820)**	**($1,128)**	**($543)**	
Unallocated Planned Labor Savings	*n/a*	$0	($500)	($500)	($500)	
IBO Prepayment Adjustment 2022/2023	n/a	($938)	$938	-	-	
IBO Surplus/(Gap) Projections		$0	($1,382)	($1,628)	($1,043)	
Adjustments for Prepayments and Non-Recurring Expenses						
Net Prepayments	$1,863	($5,142)	$965	-	-	
Reserve Funds	-	300	1,250	1,250	1,250	
Other Adjustments	-	-	(56)	61	183	
Total Expenditures (net of adjustments)	**$98,509**	**$108,311**	**$99,745**	**$101,831**	**$102,505**	**1.0%**
City-Funded Expenditures (net of adjustments)	**$69,330**	**$73,661**	**$71,705**	**$74,265**	**$75,414**	**2.1%**

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

New York City Independent Budget Office

IBO
New York City
Independent Budget Office
Ronnie Lowenstein, Director
110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632
Fax (212) 442-0350
iboenews@ibo.nyc.ny.us
www.ibo.nyc.ny.us

billions of dollars of federal aid over the financial plan period masks much of the underlying fiscal uncertainty that the city faces. The increasingly unpredictable nature of the spread of Covid-19 variants continues to confound economic forecasts and will remain one of—if not the primary—risk to the stability of the city's financial plan.

In addition to the uncertainty brought about by the pandemic, the Adams Administration also faces another unknown, although one it has more control over—the cost of labor settlements with the city's municipal unions. By the end of calendar 2022, nearly all of the city's labor force will be working under the terms of expired contracts; just over half is working under expired contracts now. While some funding is included in the current financial plan for wage increases, if the Adams Administration were to reach terms that mirrored the de Blasio Administration's most recent settlements, this would increase city costs by about $500 million this fiscal year, increasing to $2.5 billion in 2025.

IBO projects that after nearly a year and a half of brisk economic growth and recovery from the 2020 recession, the U.S. economy will continue to expand in calendar year 2022, albeit at a slower pace than in 2021, with real GDP growth slowing from a very robust 5.6 percent in 2021 to 4.4 percent in 2022 and 2.9 percent in 2023. With strong growth generating a demand for workers, the nation as a whole has regained nearly all of the jobs lost during the pandemic-induced recession of 2020, and is expected to surpass its pre-pandemic employment level during 2022.

Although parts of the city's economy are doing well, New York City's economy has genereally lagged the nation's, particularly on employment, with only about 35 percent of the jobs lost in calendar year 2020 recovered by the end of 2021. IBO expects employment growth to diminish each year from 2022 through 2025; the city is projected not to recover all of the jobs lost in 2020 until late in 2025. On the other hand, other indicators such as total personal income, profits on Wall Street, and residential real estate sales have been strong this year and point towards continued recovery for the city.

The rapid emergence of the Omicron variant in recent weeks is shaking some of the assumptions underlying this forecast, which was completed in early December as the variant was just emerging abroad. The surge in infections that the city and the nation are now experiencing suggests that our projections are more likely to be overly optimistic than overly pessimistic.

On the spending side, IBO projects that within the framework of the Mayor's latest financial plan, total city expenditures, including state and federal grant-funded programs, will grow from $103.5 billion in the current fiscal year to $103.9 billion in 2025. The very small growth over the plan period is the result of the current year's expenditures being greatly inflated by the introduction of billions of dollars of federal stimulus funds. IBO estimates next year's expenditures will actually be $1.6 billion less than in fiscal year 2022. Adjusting each year's expenditures for the prepayment of expenses with prior-year resources as well as for other non-recurring expenditures, IBO estimates that spending in fiscal year 2022 will grow by 10.0 percent from the actual level of expenditure in 2021. Adjusted spending will decline in 2023 to $99.7 billion and then grow slowly over the final two years of the plan period, at an average annual rate of 1.4 percent.

Considering solely city-funded expenditures, and again adjusting for prepayments and non-recurring expenses, IBO estimates spending will increase from $69.3 billion in fiscal year 2021 to $73.7 billion in 2022, and then decline to $71.7 billion in 2023 before rising to $74.3 billion in 2024 and $75.4 billion in 2025.

Economic Forecast

The economic recovery from the Covid-induced recession in the first half of 2020 strengthened in 2021, in large part due to the availability of effective vaccines. (In this economics section, years refer to calendar years unless otherwise noted.) This development, plus other conditions favorable for growth—continued business re-openings, expansionary monetary and fiscal policies, and pent-up consumer demand—generated an estimated 5.6 percent increase in real (inflation adjusted) GDP for 2021. With further fiscal stimulus and progress in containing the economic effects of the pandemic, IBO forecasts 4.4 percent real GDP growth in 2022, and slower rates of growth ranging from 2.5 percent to 2.9 percent in subsequent years. The uncertainties of the pandemic's future course, the adequacy of federal fiscal stimulus, and the Federal Reserve's ability to unwind its accommodative monetary policy without choking off growth are all substantial downside risks to our forecast.

Recent trends present a mixed picture of the city's economic condition. In terms of employment, New York City's recovery has lagged behind that of the nation. IBO estimates that the city gained a total of 213,000 jobs in 2021, just over one-third of the 615,000 lost in 2020. We project this growth to slow to 175,000 jobs in 2022 and 100,000 in 2023, and that pre-pandemic levels of employment will not be reached

IBO versus Mayor's Office of Management and Budget Economic Forecasts	2020	2021	2022	2023	2024	2025
National Economy						
Real GDP Growth						
IBO	-3.4	5.6	4.4	2.9	2.8	2.5
OMB	-3.4	5.7	4.5	2.7	2.9	2.6
Inflation Rate						
IBO	1.2	4.6	4.2	2.3	2.3	2.3
OMB	1.2	4.2	2.4	1.8	2.1	2.2
Personal Income Growth						
IBO	6.5	7.0	0.7	5.0	5.1	4.6
OMB	6.5	6.3	0.6	4.9	5.4	5.3
Unemployment Rate						
IBO	8.1	5.4	3.6	3.5	3.6	3.9
OMB	8.1	5.6	4.2	3.6	3.3	3.3
10-Year Treasury Note Rate						
IBO	0.9	1.5	2.2	2.8	3.4	3.7
OMB	0.9	1.4	1.7	2.1	2.3	2.6
Federal Funds Rate						
IBO	0.4	0.1	0.2	1.0	2.0	2.5
OMB	0.4	0.1	0.1	0.2	0.5	1.0
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	-615.2	212.6	174.8	100.2	76.0	66.8
OMB (Q4 to Q4)	-616.0	231.7	176.1	163.2	82.8	131.7
Nonfarm Employment Growth						
IBO (Q4 to Q4)	-13.1	5.2	4.1	2.3	1.7	1.4
OMB (Q4 to Q4)	-13.3	5.7	4.1	3.7	1.8	2.8
Inflation Rate (CPI-U-NY)						
IBO	1.7	3.3	3.5	2.6	2.5	2.5
OMB	1.7	3.3	2.2	1.8	2.1	2.2
Personal Income ($ billions)						
IBO	686.8	719.4	736.5	773.2	815.3	857.0
OMB	704.0	735.1	739.4	773.4	811.3	848.3
Personal Income Growth						
IBO	4.3	4.7	2.4	5.0	5.4	5.1
OMB	5.1	4.4	0.6	4.6	4.9	4.6
Manhattan Office Rents ($/sq.ft)						
IBO	79.5	77.8	79.1	79.7	81.4	83.3
OMB	80.2	76.3	76.6	77.3	78.3	80.1

SOURCE: IBO; Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Note Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal.

New York City Independent Budget Office

until late in 2025. Certain sectors are particularly struggling to regain jobs, most notably leisure and hospitality, which is heavily dependent on tourism.

In contrast to the disappointing growth in local employment, some other key indicators have been strong. Personal income has grown by a total of 4.3 percent in 2020 and an estimated 4.7 percent in 2021, supported by higher transfer payments from the federal government over the past two years and—more recently—by rising wages and salaries. Another driver of income growth has been the securities industry. Aided by low rates of interest, Wall Street profits soared to $48.3 billion through the third quarter of 2021. Extrapolating for the full year, we projects profits of $58.8 billion, one of the highest levels on record. Finally, although the market for residential real estate has rebounded from losses in 2020, commercial real estate sales remain depressed from pre-pandemic levels, and there are questions about the long-term impact of the rise in remote work on property values. Looking ahead, IBO projects continued long-term improvement in the city's economy, but the considerable uncertainties related to the pandemic still make for a cautious and tentative outlook.

U.S. Economy. Progress in vaccinating large numbers of Americans, an accommodative monetary policy, federal fiscal stimulus, and pent-up consumer demand all contributed to the U.S. economy's rapid expansion in 2021, even in the face of waves of Covid-19 infections. IBO forecasts 5.6 percent real GDP growth for the year that just ended. We expect conditions favorable to growth to continue in 2022, with more moderate but still robust GDP growth of 4.4 percent. Growth will weaken, but continue through the end of the financial plan period, with GDP increases of 2.9 percent, 2.8 percent, and 2.5 percent in 2023, 2024, and 2025, respectively. There are substantial downside risks to IBO's forecast, as it rests on a number of critical assumptions: the impact of the pandemic on the economy diminishing over time; additional federal fiscal stimulus; and the Federal Reserve's ability to begin tightening monetary policy without bringing about an end to the expansion.

Made before year-end data were available, IBO's forecast of 5.6 percent growth in real GDP in 2021 marks a strong if not yet complete recovery from the very steep but brief Covid-induced recession in the first half of 2020. Recovery from the recession was well underway in the second half of the year. As the spread of infections slowed in the summer of 2020, restrictions were eased, allowing many sectors of the economy to re-open. Economic growth was boosted by aggressive monetary and fiscal policies. The Fed kept the federal funds rate, the rate at which at which commercial banks borrow and lend excess reserves overnight, near zero and pledged to provide liquidity to support credit markets.

Congress had enacted four emergency relief bills by early summer, which taken together provided a total of $3 trillion of economic assistance for individuals, businesses, health care providers, states, and some local governments. Another round of fiscal stimulus was signed into law in late December of 2020. Relief spending bolstered household income and enabled many businesses to stay afloat and avoid layoffs, at least temporarily. Increases in personal income (due largely to increased transfer payments from the federal and state governments) coupled with pent-up demand, fueled a sharp increase in consumer spending. Towards the end of the year, the faster-than-expected development of safe and effective vaccines provided a boost to consumer confidence.

The conditions supporting growth in the latter half of 2020 continued into 2021. An additional fiscal stimulus package, the American Rescue Plan Act (ARPA), enacted by Congress in March, authorized $1.9 trillion of spending in a wide variety of programs and tax credits. Another round of rebate checks, one-year increases in the earned income tax credit (EITC) and the child tax credit, and an extension of enhanced unemployment benefits were among the benefits households received. Business-related provisions included subsidies to extend COBRA coverage, extended payroll credits for employee retention, and paid sick and family leave. ARPA also provided $350 billion of assistance to state and local governments.

The combination of expansionary monetary and fiscal policies and the roll-out of vaccines fueled the rapid expansion of the U.S. economy in the first half of 2021. Real GDP increased at annualized rates of 6.3 percent and 6.7 percent in Q1 and Q2, respectively, reflecting double-digit increases in consumer spending in the two quarters. The unemployment rate, which stood at 6.7 percent at the end of 2020, fell to 5.9 percent in June and then to 4.2 percent by November, even as economic growth slowed. The spread of the Delta variant in the middle of the year, labor supply shortages, supply chain disruptions, and weaker consumer spending all contributed to slow the rate of GDP growth to 2.3 percent in the third quarter. IBO expects that when data for Q4 is released, it will show the resumption of stronger economic growth towards the end of the year and support our forecast of 5.6 percent GDP growth for the year as a whole. This growth marks a robust recovery from 2020, particularly in light of Covid-19's continued disruption of global supply chains and its effect on labor force participation.

The combination of strong consumer demand fueled by federal transfer payments and rising wages, plus Covid's disruption of global supply chains caused inflation to spike in the second half of 2021. As measured by the Bureau of Labor Statistic's consumer price index, inflation rose at an annual rate of 6.9 percent in November, the highest rate in almost 40 years. The degree to which the sharp rise in prices is temporary or longer lasting is subject to debate. The longer inflation remains elevated, however, the more likely that people will begin to incorporate higher prices into their expectations and the more difficult it will be for the Fed to return to a more neutral monetary stance without putting an end to the expansion.

Based on our assumption of further progress in containing the economic impact of waves of Covid infections, additional fiscal support, and successful monetary policy, IBO forecasts 4.4 percent real GDP growth in 2022 and a further decline in the unemployment rate to 3.6 percent. Despite the projected tightening of the labor market, we forecast that the rate of inflation will edge down to 4.2 percent in 2022 from 4.6 percent in 2021, as the Federal Reserve begins to tighten monetary policy.

Based on the assumption that the Fed will be able to tamp down inflation without putting an end to the expansion, we project that growth will moderate over the remainder of the forecast period. Following the projected 4.4 percent increase in real GDP we forecast for 2022, IBO expects growth to gradually slow to 2.9 percent in 2023, 2.8 percent in 2024, and 2.5 percent in 2025. With an already tight labor market expected by the end of 2022, we project that the unemployment rate will bottom out at 3.5 percent in 2023 before rising to a still-low rate of 3.9 percent in 2025.

The major risk to IBO's economic forecast is that efforts to contain Covid infections and illnesses falter. The premise of IBO's economic forecast is not the elimination of Covid-19. Early hopes for an eradication of the virus have been dashed by the arrival of new variants of the virus and breakthrough cases in which already vaccinated persons still contract the disease. Rather, our assumption is that increased vaccination rates, better treatments, and perhaps mutations of the virus to less harmful variants will result in successive waves of Covid infections becoming less disruptive to the health care system and the economy. How and when the current wave of the Omicron variant ends should inform our understanding of Covid's potential economic impact in the coming years.

Other risks concern fiscal and monetary policies. IBO's forecast was premised on enactment of the Biden administration's Build Back Better (BBB) legislation, which packaged spending increases with tax cuts to provide $1.75 trillion of fiscal stimulus over 10 years. Failure of Congress to enact BBB or provide an equivalent stimulus through separate pieces of legislation would reduce real GDP growth in 2022 by as much as 0.75 percentage points. There is also the risk that the recent spike in inflation in recent months will make it more difficult for the Fed to gradually wind down its expansionary policies without jeopardizing economic growth.

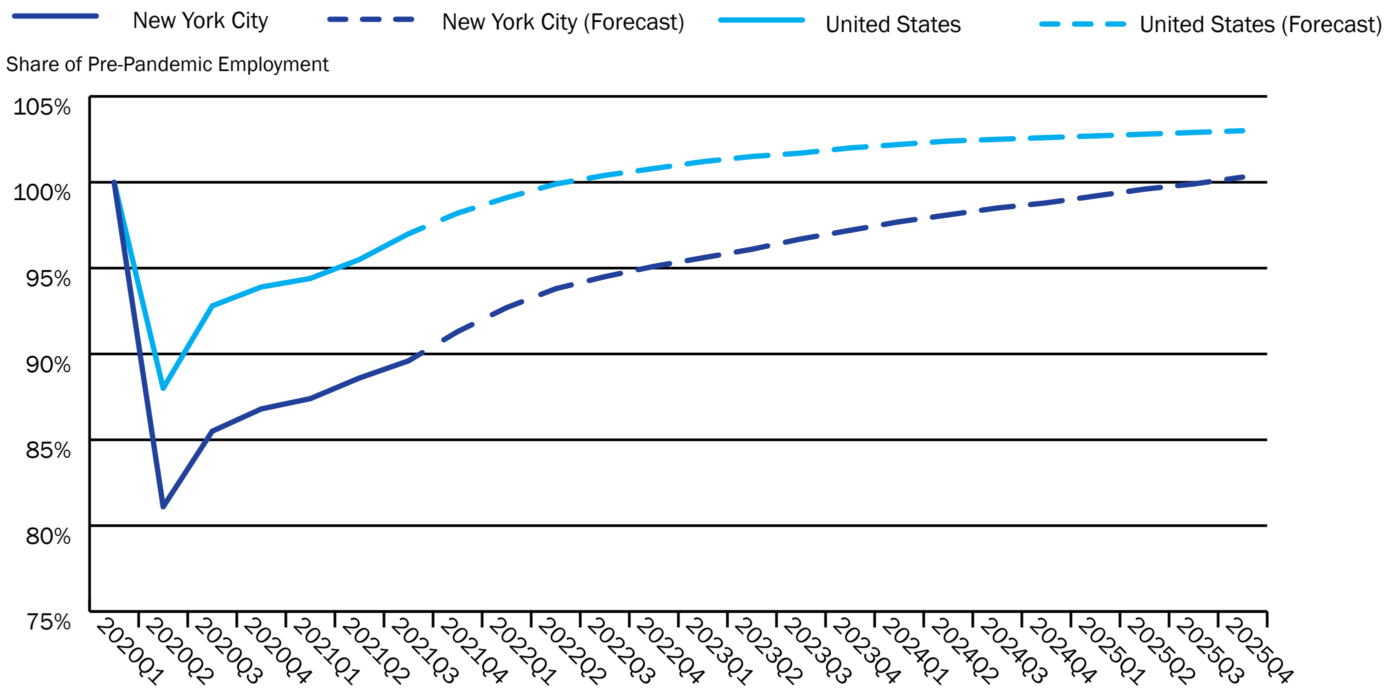
Differences between IBO's and OMB's projections for the U.S economy are relatively small. The forecasts of real GDP growth in 2021, 2022, and beyond are almost the same. IBO forecasts a higher rate of inflation in 2022 than does OMB (4.2 percent vs. 2.4 percent), with the two forecasts gradually converging over the remainder of the period. For 2022, IBO projects a lower unemployment rate than OMB (3.6 percent vs. 4.2 percent), though forecasts for subsequent years are similar.

New York City Economy. Nearly two years into the Covid-19 pandemic, New York City's economy has been on a path toward recovery. The scale of the initial shock was greater for the city than for the U.S. as a whole, however, and the pace of its recovery has been less robust. Employment and commercial real estate sales remain depressed, even against the projections of just a few months ago. However, other key economic indicators such as personal income, Wall Street profits, and residential real estate continue to rise, telling a more complex story. The positive effects from the widespread administration of vaccines in the city have been partly offset by the rise of the new and more contagious Omicron variant. There may be less uncertainty now than there was at this time last year, but uncertainty and fragility are still pronounced elements of our forecast of local economic conditions.

Employment. IBO estimates that by the end of 2021, employment in New York City grew by about 213,000 jobs (measured on a Q4-to-Q4 basis), which is about 35 percent of the 615,000 jobs the city lost over the course of 2020. This growth falls short of our projections in May, before the rise of major new virus variants such as Delta and Omicron, when we projected an annual gain of 264,000 jobs. While we had previously forecast that the city would reach pre-pandemic employment in the middle of 2024, we now project that this will not happen until late in 2025. This contrasts to the national economy, which has already reached 97 percent of pre-pandemic employment and is projected to hit 100 percent by the middle of 2022.

New York has long had a different industrial mix than the rest of the country, relying more heavily on service production than on goods, some of which are tied closely to tourism and travel. Because of this, it is important to consider not just overall employment, but trends across different industries. While all sectors lost jobs in 2020 as a result of the

New York City Employment Recovery Lags Behind U.S., Projected To Reach Pre-Pandemic Levels in Late 2025



SOURCES: IBO; Bureau of Labor Statistics

New York City Independent Budget Office

pandemic, some industries suffered relatively smaller losses and are projected to recover more quickly. IBO expects the information, professional services, health/social services, and government sectors all to surpass their pre-pandemic employment by the end of the forecast period.

Many other sectors saw an outsized negative impact, however, and are projected to remain below their 2019 levels throughout the forecast period. Most markedly, we project that the leisure and hospitality sector, which lost 62.0 percent of total employment between the first and second quarters of 2020 during the onset of the pandemic

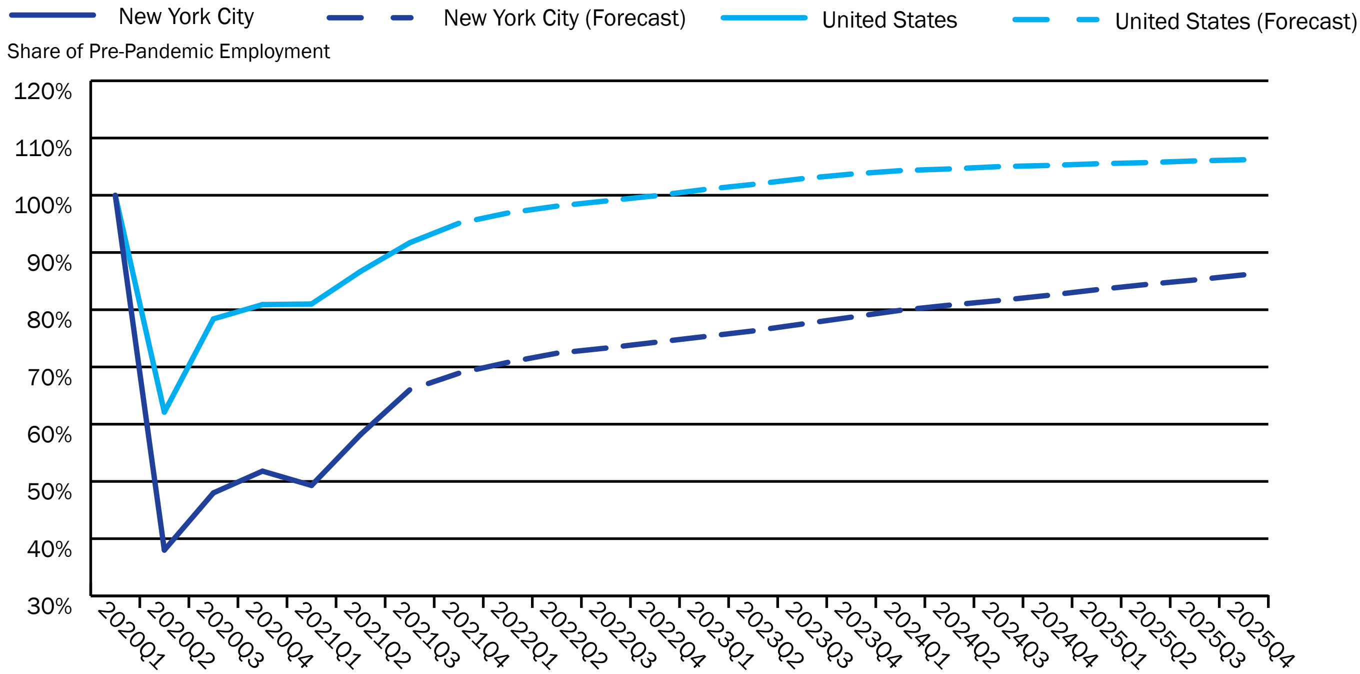
Projected Job Growth (Q4-to-Q4) By Sector
Gains and Losses in Thousands of Jobs

		Change						
	2019 Level	2020	2021	2022	2023	2024	2025	2025 Level
Total Employment	**4,679.1**	**(615.2)**	**212.6**	**174.8**	**100.2**	**76.0**	**66.8**	**4,694.3**
Construction	160.2	(19.3)	(3.3)	7.2	5.4	4.8	3.9	158.8
Manufacturing	66.0	(14.7)	2.7	1.5	0.2	(0.3)	(0.5)	54.9
Wholesale and Retail Trade	487.1	(84.9)	22.3	17.4	9.8	5.8	4.1	461.6
Transportation and Utilities	150.1	(23.8)	(4.4)	5.0	2.7	2.0	1.8	133.5
Information	220.9	(18.9)	17.3	8.1	5.8	4.4	4.3	241.9
Financial Activities	486.7	(21.7)	(6.5)	13.3	4.8	2.0	1.3	479.9
Professional Services	779.9	(85.4)	27.4	26.8	15.2	20.3	22.1	806.2
Education	261.0	(31.7)	15.2	8.4	6.2	2.1	0.7	261.9
Health and Social Services	810.2	(36.5)	45.1	48.3	24.4	13.7	12.4	917.6
Leisure and Hospitality	469.2	(230.8)	78.9	24.7	20.2	17.8	16.4	396.4
Other Private Sector	196.2	(42.4)	9.0	9.4	3.3	1.8	1.7	178.9
Government	591.7	(5.0)	9.0	4.8	2.1	1.5	(1.4)	602.8

SOURCE: IBO; Bureau of Labor Statistics
NOTE: 2019 and 2020 are actual figures; Other years are forecast by IBO.

New York City Independent Budget Office

City's Leisure and Hospitality Employment Recovery Lags Behind U.S. Most Severely, Still at Two-Thirds of Pre-Pandemic Levels



SOURCES: IBO; Bureau of Labor Statistics

New York City Independent Budget Office

(286,000 jobs out of 460,000), has only reached 66.0 percent of pre-pandemic employment thus far, and will still be at 86.1 percent by the end of 2025.

Employment in this sector is closely linked to tourism, and is therefore dependent on trends in domestic and international leisure travel, which will likely remain both weak and volatile as the pandemic continues to surge and recede around the globe. It is also dependent on trends in business travel, and we expect a long-term and marked decline in company-financed trips, since the past two years have shown that many meetings can be successfully conducted online without the need to travel. Our projections for recovery in the city's leisure and hospitality industry remain well below national forecasts, given both New York's hub as a global center of business, as well as its repeated status as an epicenter for new outbreaks of the virus and its variants.

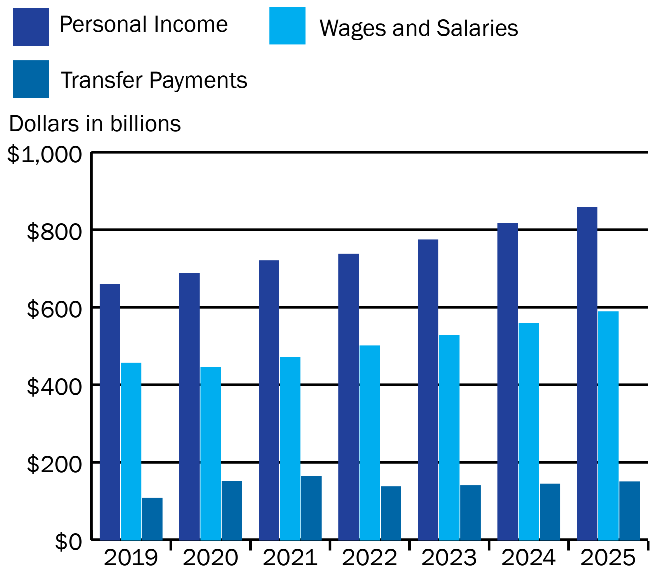
Among the other sectors that experienced an outsized loss and for which we are forecasting a slower recovery is the wholesale and retail trade sector, which lost 17.4 percent of pre-pandemic employment in 2020 (84,900 jobs out of 487,100) and is not expected to regain its previous employment levels by the end of 2025. The bleak outlook for trade is in part due to IBO's expectation of fewer people commuting into the city on a daily basis, as well as fewer tourists and business travelers.

Personal Income. In contrast to the story of a precipitous decline and a prolonged recovery in employment, personal income in New York City has fared relatively well throughout the pandemic. In 2020, personal income totaled $686.8 billion, an increase of $28.4 billion (4.3 percent) over 2019, and IBO projects it will reach $719.4 billion (4.7 percent growth) in 2021. We expect personal income growth to slow to 2.4 percent in 2022 and then accelerate to an average rate of 5.2 percent over the remaining three years of the forecast period, reaching $857.0 billion in 2025.

Personal income is the sum of many components, but by far the largest is wages and salaries. Wages and salaries declined alongside almost every other income category in 2020, from $455.3 billion to $444.2 billion (2.4 percent). Other major categories, such as proprietor's income and other labor compensation, also declined. The 2020 growth in personal income in New York City was sustained entirely by a large increase in government transfer payments, the result of providing stimulus payments, expanding unemployment insurance benefits, and increasing the child tax credit—federal efforts to combat the negative economic effects of the pandemic.

Transfer payments are projected to shrink in the coming years, while earnings and other income categories will resume growth, keeping personal income growth positive

New York City Personal Income Rose Through the Pandemic Despite Wages and Salary Losses in 2020, Sustained by Increased Transfer Payments



SOURCE: IBO
NOTE: 2019 and 2020 are actuals. 2022-2025 are forecast.
New York City Independent Budget Office

overall. The divergence of patterns between employment and income may seem incongruous, but it illustrates the compositional effects of the city's economy. The industry that best weathered the pandemic and with the brightest outlook for employment growth, information, is a higher-wage industry, with average wages of $167,600 per year in 2020. Meanwhile, the industry that lost the most jobs—leisure and hospitality—is a lower-wage industry, with wages averaging just $56,700 in 2020. This concentration has minimized the impact of the Covid-19 recession on total personal income in the city.

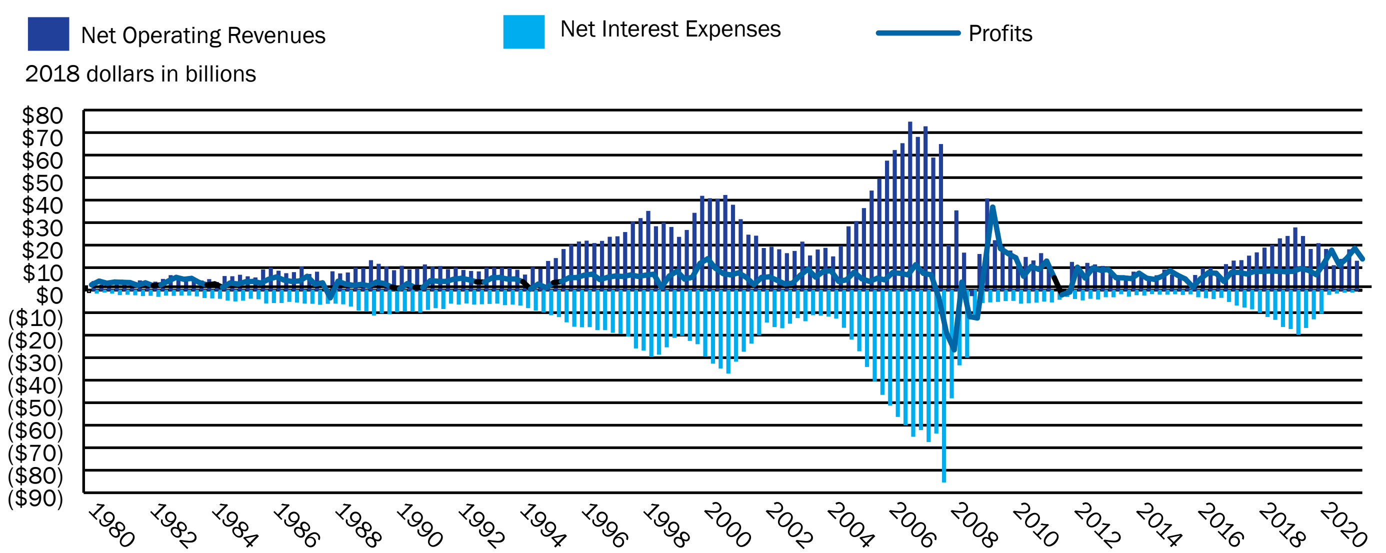
Real Estate. IBO projects that taxable real estate sales in New York City will top $100 billion in 2021, a significant increase after sales totaled just $61.3 billion in 2020. Our forecast for 2021 is roughly equal to the average of the three years prior to the pandemic, 2017 through 2019.

While the rebound in residential sales has been surprisingly strong, the most notable aspect of the real estate market is the continued weakness of the commercial sector. As has been typical of economic downturns in New York City, the pandemic has had a much greater negative impact on commercial real estate than on the market for residential properties. In 2020, the value of taxable commercial sales fell 49.5 percent with respect to 2019, while the value of residential sales declined just 27.5 percent.

While both commercial and residential sales increased in 2021, IBO's forecast of commercial sales for the year ($35.4 billion) would be the second-lowest total (after 2020) since the years following the financial meltdown of 2008. On the other hand, we expect residential sales to reach an all-time high of $67.9 billion in 2021. Given ongoing uncertainty over work patterns and the demand for office space in the aftermath of the pandemic, the future of the commercial real estate market remains particularly unsettled.

IBO projects that real estate sales in 2022 will total $95.7 billion, a decline of 7.4 percent compared with 2021. We

Quarterly Net Operating Revenues, Net Interest Expenses, and Profits of New York Stock Exchange Member Firms



SOURCE: IBO; Intercontinental Exchange
NOTES: Net operating revenues are non-interest revenues less non-interest expenses. Net interest expenses are interest revenues.
New York City Independent Budget Office

expect commercial sales to rise after their substantial slump, while residential sales are forecast to fall in response to anticipated increases in mortgage interest rates. We project that both commercial and residential sales will rise modestly in 2023 and 2024, and decline slightly in 2025. IBO's forecast of real estate sales in 2025 is $100.7 billion, with commercial sales comprising slightly over half of total sales.

Wall Street. Despite mixed results in other areas, one key component of the local economy has been doing undeniably well: Wall Street. IBO projects that profits in 2021 will total $58.8 billion, the second consecutive year of near-record highs (2009 remains the all-time peak with the federal bailout following the 2008 financial crisis helping Wall Street firms generate $82.1 billion in profits when adjusted for inflation).

It is important to note that the profits earned in 2021 do not derive from particularly high operating revenues, but rather from particularly low (even negligible) interest expenses, due to federal action to cut rates and boost economic activity after the onset of the pandemic. As the national recovery continues and inflation concerns mount, IBO expects the Federal Reserve to begin raising interest rates, which will increase securities industry expenses and drive profits down toward more sustainable, long-term levels in the range of $30 billion to $35 billion for the remainder of the forecast period.

Taxes and Other Revenue

IBO's forecast of revenue from taxes and other sources including fines, fees, and state and federal aid totals $104.4 billion for the current fiscal year, $6.2 billion more than in 2021. Total revenue is expected to decline next year to $100.1 billion (a drop of 4.1 percent) as federal aid begins to return to more typical levels after a large boost for Covid relief and support. IBO forecasts total revenue to grow slowly in the following two years, by 1.9 percent in 2024 and 1.4 percent in 2025, although the forecast for total revenue of $103.4 billion in 2025 is below the 2022 amount. (All years in this section and the following sections refer to fiscal years unless otherwise noted.)

For 2022, federal aid is playing an outsized role in the city's total revenues and the size of the total budget as the federal government has provided the city with extraordinary Covid-related relief funds. The city is using some of this aid to replace lost tax revenues resulting from the Covid-induced recession, some to reimburse the city for expenses incurred as it responds to the pandemic, and some to expand services such as offering pre-kindergarten programs to all three-year olds in the city.

Although roughly two-thirds of the city's total revenue each year typically comes from taxes, with the unusual amount of federal assistance this year, the share has shrunk to 61.1 percent. IBO forecasts city taxes will provide $63.8 billion in revenue, and other city revenue such as fees, fines, and asset sales will yield $8.0 billion. IBO projects that non-city sources will account for $34.7 billion or 33.2 percent of total revenues in 2022. The outlook for 2023 assumes that federal aid begins to return to its more typical levels while city tax revenues resume growing and the tax share of total revenue returns to a more normal 66.7 percent ($66.8 billion).

When fiscal year 2021 closed this fall, tax revenues had soared past the projections made last spring when the city adopted its 2022 budget, by $1.1 billion. Tax revenues this year also have been somewhat stronger than anticipated when the budget was adopted, but are still generally weaker than in 2021, shrinking by $1.6 billion (-2.4 percent). IBO forecasts a resumption of tax revenue growth in 2023 of 4.7 percent, with revenue gains from most of the city's major tax sources other than the corporate income tax.

After 2023, IBO expects city taxes to outpace growth from other city revenue sources, as well as state and federal grants in 2024 and 2025. We forecast tax revenues to increase at an average annual rate of 3.1 percent, while non-city revenue sources are projected to shrink by -1.7 percent on average in 2024 and 2025.

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 the current fiscal year is $63.8 billion, a decline of 2.4 percent ($1.6 billion) from 2021, as the economic damage from the pandemic saps tax collections, although not to the extent that we had originally expected last spring. IBO expects recovery from the economic contraction to pick up steam in calendar year 2022, leading to a 4.7 percent rebound in tax revenue in 2023, followed by somewhat slower but still solid growth in 2024 and 2025. For 2023, IBO forecasts $66.8 billion in total tax revenue, $3.0 billion greater than the forecast for 2022. We project that tax revenues will rise at an average rate of 3.1 percent annually over the final two years of the financial plan and total $71.0 billion in 2025.

IBO Revenue Projections *Dollars in millions*						
		Plan				Average
	Actuals 2021	2022	2023	2024	2025	Change 2021-2025
Tax Revenue						
Property	$31,311	$29,583	$30,511	$31,101	$31,599	0.2%
Personal Income	15,101	14,086	15,287	15,909	16,534	2.3%
General Sales	6,553	7,712	8,555	9,069	9,409	9.5%
Corporate Taxes	5,019	4,632	4,592	4,896	5,055	0.2%
Unincorporated Business	2,077	2,056	2,159	2,288	2,380	3.5%
Real Property Transfer	1,045	1,338	1,402	1,459	1,463	8.8%
Mortgage Recording	896	1,097	1,011	1,060	1,078	4.7%
Commercial Rent	869	886	929	947	968	2.7%
Utility	356	377	376	383	395	2.6%
Hotel Occupancy	85	246	413	523	577	61.6%
Cigarette	22	20	18	17	16	-7.4%
Other Taxes and Audits	2,046	1,763	1,554	1,554	1,554	-6.7%
Total Taxes	**$65,380**	**$63,796**	**$66,807**	**$69,206**	**$71,029**	**2.1%**
Other Revenue						
STaR Reimbursement	$154	$149	$150	$148	$146	-1.2%
Miscellaneous Revenue	5,682	7,161	6,552	6,559	6,589	3.8%
Unrestricted Intergovernmental Aid	1	750	-	-	-	n/a
Disallowances	(24)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$5,813**	**$8,045**	**$6,687**	**$6,692**	**$6,720**	**3.7%**
TOTAL CITY-FUNDED REVENUE	**$71,193**	**$71,841**	**$73,493**	**$75,898**	**$77,748**	**2.9%**
State Categorical Grants	$14,597	$16,253	$16,421	$16,648	$16,897	3.7%
Federal Categorical Grants	12,620	16,531	9,857	9,161	8,438	-9.6%
Other Categorical Aid	1,177	1,137	1,030	1,027	1,026	-3.4%
Subtotal Revenue	**$99,587**	**$105,762**	**$100,801**	**$102,734**	**$104,109**	**1.1%**
Interfund Revenue	634	729	732	730	730	3.6%
Less: Intra- City Revenue	**($2,006)**	**($2,084)**	**($1,449)**	**($1,450)**	**($1,444)**	
TOTAL REVENUE	**$98,215**	**$104,407**	**$100,084**	**$102,014**	**$103,396**	**1.3%**

NOTES: Corporate taxes comprise three separate taxes: the business corporation tax for C corporations, the general corporation tax, and the banking corporation tax for S corporations. Figures may not add due to rounding.

New York City Independent Budget Office

With the exception of the sales tax, hotel tax, and the taxes associated with property transfers, collections from all of the city's other major tax sources are expected to fall in 2022. The real property tax is expected to shrink by 5.5 percent—the first year-over-year decline since at least 2001. Personal income tax collections are forecast to fall by $1.0 billion (6.7 percent) and corporate tax revenues will decline by $387 million (7.7 percent). IBO projects that these declines will be partially offset by revenue growth in 2022 in other taxes. Sales tax revenue is forecast to be $1.2 billion higher than in 2021 (a gain of 17.7 percent) and collections from the city's real property transfer tax ($293 million or 28.0 percent) and the mortgage recording tax ($201 million or 22.4 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 far below their pre-pandemic levels. IBO projects the hotel tax revenues will nearly triple from 2021 to 2022 to $246 million.

For 2023, IBO forecasts $66.8 billion in total tax collections as the economic recovery gains traction, although the unknown course of the pandemic adds great uncertainty to our revenue projections. Most of the taxes will grow year-over-year with some of the strongest rebounds coming in the general sales tax (up by $843 million or 10.9 percent), the personal income tax ($1.2 billion increase or 8.5 percent), the property tax (a gain of $928 million or 3.1 percent), and the hotel occupancy tax which is expected to continue its rebound from the nadir of 2021, growing from $246 million in 2022 to $413 million in 2023. IBO forecasts that all of the major tax sources will grow in 2024 and again in 2025 as the city's economy moves past the recession and subsequent rebound to a more stable growth path.

IBO's tax forecast exceeds OMB's by $1.5 billion in 2022 and again by $1.5 billion for 2023. The differences are not large in percentage terms (2.4 percent in 2022 and 2.3 percent in 2023). In the current year, where IBO's forecast exceeds OMB's most in percentage terms is for the mortgage recording tax (16.8 percent), the real property transfer tax (10.8 percent) and the hotel occupancy tax (11.0 percent). The differences between IBO's and OMB's forecasts for 2023 are similar to the differences in 2022. The difference between the forecasts widens slightly after 2023. IBO's total tax revenue forecast exceeds OMB's by $1.8 billion (2.7 percent) in 2024 and $1.7 billion (2.5 percent) in 2025.

Real Property Tax. IBO forecasts 2022 property tax revenue of $29.6 billion, a decrease of $1.7 billion (5.5 percent) from 2021, largely reflecting the Department of Finance's (DOF) action to reduce estimated market values in anticipation of the effects of Covid-19 on the rents of commercial and rental properties. Property tax revenue is expected to begin recovering in 2023, increasing to $30.5 billion, 3.1 percent above the 2022 total. We expect growth to slow through the remaining two years of the forecast, with increases averaging 1.8 percent a year.

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' 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 city's finance department. DOF 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 market value.

Assessment Roll for 2023. The tentative assessment roll for fiscal year 2023 is scheduled for release later this month. After a period for appeals and review, a final roll will be released in May, which will be the basis for property owners' 2023 liabilities. IBO projects that aggregate market value on the final roll will be 9.4 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 3.0 percent.

Class 1. For the 2023 roll, IBO forecasts a 10.0 percent increase in the aggregate market value of Class 1 properties, compared with this year's roll, and a 3.9 percent increase in assessed value for tax purposes of these properties. 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.

For single-family homes outside Manhattan, the median ratio of assessed to market value declined from 5.4 percent in 2004 to a low of 3.7 percent in 2008. More recently, the median ratio for single-family homes outside Manhattan has been slowly rising, growing from 4.0 percent in 2009 to 4.4 percent in 2022—still well below the 6.0 percent target.

Class 2 and Class 4. IBO projects that on the final roll for 2023, aggregate market value for Class 2 properties will total $337.5 billion, a 5.8 percent increase over 2022. Aggregate market value for Class 4 is expected to reach $304.5 billion, a 13.1 percent increase over 2022. Aggregate assessed value for tax purposes for Class 2 is expected to be $105.6 billion, a 4.1 percent increase from the 2022 roll, and $116.1 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 made by DOF on the 2022 roll—a combined decrease of 12.7 percent. There is still a pipeline of $3.1 billion of assessment reductions remaining to be factored into the calculation of future assessed values of Class 2 and Class 4 properties.

Although DOF does not use sales price for determining market values for taxation purposes, they can serve as a benchmark for assessment accuracy. A comparison of the decline in market value on the 2022 roll of Class 2 and Class 4 properties with the decline of sales prices of properties sold during the pandemic suggests that DOF might have over-stated the loss of value in Class 2 and Class 4. The median sales price per square foot of Class 2 and Class 4 properties sold decreased by 5.3 percent, compared with an 11.0 percent decline in the median market value per square foot of those same properties.

Outlook for Market and Assessed Values in 2024 and 2025. IBO forecasts an increase in aggregate market value of 4.6 percent in 2024 and 4.2 percent in 2025, the last two years of the financial plan. Market value in Class 1 is expected to grow 4.0 percent in 2024 and 3.9 percent in 2025, while the increase in Class 2 market value is projected to reach 5.2 percent and 5.5 percent in 2024 and 2025, respectively. In contrast, we expect market value growth in Class 4 to decline from 5.6 percent in 2024 to 3.4 percent in 2025.

Aggregate assessed value for tax purposes is projected to grow by 2.0 percent in 2024 and 1.7 percent in 2025. IBO expects the fastest growth in taxable assessed value to occur in Class 1, with an average increase of 3.7 percent each year. Class 2 taxable assessed values are expected to grow 2.3 and 1.4 percent, respectively, in 2024 and 2025. Finally, we project that taxable assess value in Class 4 will remain roughly constant at 1.0 percent annual average growth in 2024 and 0.9 percent in 2025.

Revenue Outlook. IBO forecasts property tax revenue in 2022 will total $29.6 billion, $1.7 billion (5.5 percent) less than 2021 receipts, and increase 3.1 percent in 2023 to yield $30.5 billion in revenue. Growth is expected to average 1.8 percent annually over the following two years, with revenue reaching $31.6 billion in 2025, finally exceeding the $31.3 billion collected in 2021—before the pandemic could impact property tax revenues. IBO's property tax forecasts exceed OMB's by $300 million in 2022 and $469 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 property tax reserve 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 2022 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 2.4 percent in 2023 through 2025, compared with 1.6 percent on average during these years in the OMB forecast.

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-19 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. IBO projects strong growth of 25.5 percent in 2022, to $2.4 billion, followed by a small decline in 2023, and modest growth in 2024 and 2025. We forecast that the combined revenue for the two taxes in 2025 will total just over $2.5 billion. While this represents a significant recovery from the revenue collapse of 2020-2021, the 2025 forecast is very modest compared to the all-time high of $3.3 billion in revenues reached in 2007—a contrast that is especially striking when adjusted for inflation.

Real Property Transfer Tax. IBO's forecast of RPTT revenue for 2022 is $1.3 billion, an increase of 28.0 percent over 2021. IBO projects moderate increases in the following years, with revenue reaching almost $1.5 billion by 2025. This would still leave RPTT receipts well below the record high $1.8 billion collected in 2016. Revenue from the real property transfer tax was $1.0 billion in 2021, $502 million less than in 2019. In response to the pandemic, RPTT collections from commercial sales fell 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 declines in residential RPTT were much smaller: 7.9 percent in 2020, and an additional 6.0 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 53.6 percent in 2019. A major contributor to the decline in RPTT revenue in the last two years has been 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, compared with 57 in 2020, and just 40 in 2021.

IBO's projections of RPTT revenue are based on a forecast of strong growth in real estate sales in the current year, followed by moderate growth in 2023 and 2024, and a slight decline in 2025. Collections in the first half of 2022 were much higher than we previously anticipated, and our current forecast for the year is $156 million (13.2 percent) above our projection last spring. Our RPTT forecast for 2023 is also greater than previously expected, although the forecasts for 2024 and 2025 have been reduced. These changes in our RPTT forecasts are based on our expectation that the Federal Reserve will soon begin tightening monetary policy in response to the spike in inflation, thereby encouraging buyers and sellers to shift sales forward while mortgage rates are still low.

With all the questions surrounding the future of the New York City real estate market, IBO's projections of RPTT revenue are subject to even greater-than-usual uncertainty. The dramatic increase in remote work during the pandemic is leading many households and businesses to reconsider where they locate. A large-scale, permanent shift to working from home could cause significant declines in the demand for both office and residential space in the city. 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.

Both IBO's and OMB's RPTT forecasts follow a similar trajectory, with a strong recovery beginning in 2022, and modest growth in 2023 through 2024. IBO's 2022 projection is $131 million (10.8 percent) above OMB's. IBO's forecasts remain above OMB's through 2024, and then slightly lower in 2025. For the entire 2022-2025 period, IBO's forecasts are a total of $227 million (4.2 percent) above OMB's.

Mortgage Recording Tax. IBO's forecast of MRT revenue for 2022 is $1.1 billion, an increase of 22.4 percent from 2021. We project an $86 million (7.8 percent) decline in collections in 2023, based on our expectation that mortgage rates will rise and the value of mortgage originations for both purchase and refinancing will fall. With the expectation of moderate rebounds in mortgage activity in 2024 and 2025, IBO forecasts $1.1 billion in MRT revenue for 2025, close to the collections we project for the current year. In each year of the forecast, MRT revenue will remain far below the all-time maximum of $1.6 billion reached in 2007, 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 8.0 percent in 2021. These declines in MRT revenue in the wake of the pandemic were 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 have stimulated purchases of property, as well as the refinancing of existing mortgages, thereby limiting the decline in MRT revenue.

Compared with our May 2021 forecasts, IBO's current projections of MRT revenue in this year and next are considerably higher—by $156 million (16.6 percent) and $39 million (4.0 percent). Despite initial fears of a massive population exodus from the city, the residential property market remains strong, and low mortgage rates continue to stimulate both purchases and refinancing.

IBO's mortgage recording tax forecasts are above OMB's for the entire 2022 through 2025 period—by $158 million (16.8 percent) for 2022 and diminishing amounts in subsequent years.

Commercial Rent Tax. IBO forecasts $886 million in commercial rent tax revenue in 2022, $17 million (2.0 percent) greater than 2021 collections. Projected annual revenue growth in the following three years averages 3.0 percent, yielding $968 million in receipts by 2025.

The commercial rent tax (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 $864 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 $869 million, in 2021, and are projected to increase each year through the end of the forecast period. IBO projects that revenues will reach $968 million in 2025, an increase of 11.4 percent over 2021. These forecasts assume a gradual return to pre-pandemic conditions in the Manhattan commercial real estate market. A major collapse in the demand for office or retail space would lead to declines in CRT revenues.

IBO's commercial rent tax forecasts have barely changed since May. Compared with OMB's projections, they are slightly higher, by a total of $37 million (1.0 percent) over the entire 2022-2025 forecast period.

Personal Income Tax. IBO forecasts personal income tax (PIT) revenue of $14.1 billion in 2022, $1.0 billion (6.7 percent) less than 2021 collections. We project strong revenue growth of 8.5 percent in 2023, yielding $15.3 billion in PIT revenues, followed by slower annual average growth of 4.0 percent in 2024 and 2025. IBO forecasts $16.5 billion of PIT revenue in the last year of the financial plan.

We have slightly lowered our 2022 forecast by 1.1 percent ($160 million) from our last projection in May due to the economic impacts of the (then new) Delta variant that started spreading in the U.S. over the summer. At the same time, final collections for last year (2021) ended up significantly higher than we projected in May, when we underestimated 2021 PIT revenues by $1.7 billion. More than half of this underestimation ($950 million) is attributable to extension payments—payments made by filers seeking extensions beyond the normal April 15th deadline for final returns. Extension payments vary greatly from year to year, ranging from $731 million to $1.9 billion in the last four years, and in most years, almost all extension payments are received in April. But last year, an exceptionally large amount of payments was received in May because the deadline for filing calendar year 2020 tax returns was postponed until July 15th. The large amount of extension payments received last May far exceeded our expectations and noticeably increased the PIT revenue for last fiscal year. The combination of the unexpectedly high 2021 collections and reduction in our 2022 forecast means that instead of the growth in PIT revenue we anticipated for 2022, we now project a 6.7 percent decline.

While we do forecast a decline in total PIT revenues for 2022, we project 6.0 percent growth in withholdings, the largest component of PIT revenue, this year. Withholding receipts are far more sensitive to changes in aggregate wages than total employment. Because the brunt of the impact of the Covid-19 pandemic's shutdowns in New York City were borne by lower-wage industries—those that require in-person presence like hospitality or retail—the sharp decline in total employment did not translate into a proportional decline in wages and withholdings. Although nearly a fifth of the city's jobs were lost shortly before the start of the 2021 fiscal year, withholding revenue fell by only 1.4 percent for the year. Since the start of the 2022 fiscal year in July, withholding collections have been strong and we expect Wall Street bonuses to be particularly high, which will further boost withholdings. As the city continues to add new jobs (albeit at a slower pace than we previously estimated) and aggregate wages continue to grow, we expect withholdings to total $10.4 billion by the end of the current fiscal year.

Fiscal year 2021 was also an exceptionally strong year for estimated payments made by filers realizing capital gains and the self-employed in anticipation of the calendar year's tax liability on their income. (Note: This paragraph excludes estimated payments made by taxpayers that file extensions). Last year estimated payments increased by over a third from the year before, reaching $2.3 billion. For 2022, we forecast $2.1 billion in estimated payments, a decline of $213 million (9.1 percent) from the preceding year's exceptionally high level. The decline is rooted in our expectation that increases in interest rates in calendar year 2022 will put a damper on further increases in capital gains by reducing home sales and cooling Wall Street's bull market.

Final returns also exceeded our expectations for 2021, fueled by strong earnings in tax year 2020. With total employment growing more slowly than we had expected in our forecast last spring, IBO now projects a sharp decline in final returns and a large increase in refunds in 2022 as compared with 2021.

IBO forecasts $15.3 billion of PIT revenue in 2023, 8.5 percent greater than we forecast for the current year. We project 7.0 percent growth in withholdings, yielding $11.1 billion in tax revenue. This forecast is based on our expectation that strong employment and wage growth will continue through calendar year 2022 and into 2023, although the future course of the pandemic could greatly alter those expectations.

Based on our forecast of more modest but steady growth in employment and wages from calendar year 2023 onward, IBO forecasts that PIT revenue will grow by 4.1 percent to reach $15.9 billion in 2024, followed by 3.9 percent growth in 2025, bringing total revenue to $16.5 billion by the end of the forecast period.

IBO's personal income tax revenue forecast exceeds OMB's in every year of the financial plan period. Our 2022 forecast is 2.4 percent ($332 million) higher than OMB's, primarily due to IBO's higher withholding forecast, which in turn reflects our expectation of faster income growth in calendar years 2021 and 2022. Differences between the two forecasts increase in the subsequent years, with IBO being higher by an average of $625 million (4.1 percent) each year from 2023 through 2025.

Business Income Taxes. Despite the lingering effects of the pandemic, total collections of the business income taxes continued to grow in 2021 and reached $7.1 billion—$648 million (10.0 percent) greater than revenue in the preceding year. For 2022, however, IBO forecasts a 5.8 percent decline in business tax collections to $6.7 billion. We project revenue growth to resume in 2023, averaging a modest 3.6 percent annual rate to yield $7.4 billion in 2025.

Profits and losses of businesses paying one of the city's three corporate taxes or the unincorporated business tax (UBT) are driven by economic growth (or lack of it) in the city. But changes in business tax collections from year to year often diverge from broader economic conditions because corporations' tax liabilities are also a function of profits and losses in past and future years.

Corporate Taxes. Since 2015, the city's corporate taxes, assessed on the profits of corporations operating within the city, are an amalgam of three separate taxes: C corporations are subject to the business corporation tax; while S corporations pay either the general corporation tax or the banking corporation tax, depending on the type of business. In this report, "corporate taxes" refers to the combined collections of these three taxes. In 2021, net corporate tax revenue (gross collections minus refunds) increased by $510 million (11.3 percent) to reach a record high of $5.0 billion. The strength of corporate profits surprised both IBO and OMB, with each forecasting substantially lower corporate tax revenue in the spring of that year.

After three successive years of strong revenue growth, however, we expect the lagged effects of the pandemic will reduce corporate liabilities and weaken tax collections, pulling down revenue from the record highs of recent years. IBO forecasts that revenue will decline by $387 million (7.7 percent) in 2022 and $41 million (0.9 percent) in 2023. We project a return to more moderate growth in 2024 and 2025, averaging $232 million (4.9 percent), with $5.1 billion in corporate tax revenue by the end of the forecast period.

IBO's corporate tax forecast surpasses OMB's by $212 million (4.8 percent) in 2022, with the latter projecting a larger decline in collections of $599 million (11.9 percent), reversing all of the growth in 2021. The situation flips in 2023, when IBO projects continued decline but OMB projects a return to revenue growth; as a result, IBO's forecast is slightly below OMB's, by $16 million (0.4

percent). IBO's stronger revenue growth projections in the following years put its forecasts above OMB's, by $215 million (4.6 percent) and $336 million (7.1 percent), in 2024 and 2025, respectively.

Unincorporated Business Tax. The city assesses its unincorporated business tax (UBT) on the profits of businesses operating in the city that are structured as something other than a corporation, such as sole proprietorships and partnerships. In 2021, UBT collections yielded $2.1 billion in revenue, an increase of $138 million (7.1 percent). As with corporate taxes, 2021 receipts surpassed previous projections by both IBO and OMB, although not as dramatically. Unlike corporate collections, UBT revenue, which peaked in 2018, had been declining for two years prior to its surge last year.

IBO projects a modest $21 million (1.0 percent) decline in UBT revenue for 2022. After that, IBO expects growth to resume, by $103 million in 2023 and an average of $111 million in 2024 and 2025, ending the forecast period at $2.4 billion in net collections.

UBT revenue may well be particularly susceptible to the pandemic's effect on the economy. The UBT is a unique tax that does not exist in most other local jurisdictions, including New York State. UBT revenue is heavily concentrated among sectors that are conducive to remote work, such as professional services, financial activities, and information. This may allow unincorporated businesses great flexibility to relocate—thereby avoiding the city's business tax liability in the future.

IBO's projections for UBT revenue are consistently higher than OMB's throughout the forecast period. For 2022, OMB projects a steep $118 million (5.7 percent) drop in UBT collections, and IBO's forecast is $97 million (5.0 percent) above OMB's. While OMB expects a stronger rebound in 2023 than does IBO, it is projecting slower revenue growth in 2024 and 2025. By the end of the forecast period, IBO's forecast exceeds OMB's by $103 million (4.5 percent).

Sales Tax. Beginning in the spring of 2021, the economy's recovery from the Covid-precipitated recession of 2020 has fueled increases in spending on taxable goods and services, and growth in sales tax collections has resumed. IBO forecasts $7.7 billion in sales tax revenue this year, $1.2 billion (17.7 percent) greater than 2021 collections, followed by an $843 million (10.9 percent) revenue increase to yield $8.6 billion in 2023. With the expectation that the nation's and the city's economies will continue to expand throughout the forecast period, IBO forecasts $9.4 billion in sales tax revenue in 2025, as annual growth averages 4.9 percent in 2024 and 2025.

The sales tax is typically one of the least volatile sources of revenue for the city, with collections generally increasing except during recessions. The spread of Covid-19 to the U.S. and the subsequent lock down of much of the economy in an effort to control the outbreak triggered a recession that began in February 2020. The pandemic-induced recession had a larger impact on city sales tax collections than any previous recession in the last 40 years. Although the recession did not begin until the second half of fiscal year 2020, city sales tax revenue declined 5.6 percent for the year as a whole. The decline in sales taxes was nearly twice as steep in 2021, 11.1 percent, when the pandemic affected the entire year.

Sales tax payments, which can take weeks or longer to process, plunged beginning in April 2020. The initial shutdown of all but essential commercial establishments, the deeply depressed state of the tourism industry, and the loss of spending by former commuters who began working from homes outside the city all took their toll on the sales tax base. Taxable sales in the city in the March through May quarter of 2020 were 36.6 less than in the same quarter the previous year.

Taxable sales in the subsequent quarters were also lower in comparison to the same period the year before, but by smaller amounts. Restrictions on business activity were gradually eased, with the reopening of non-essential businesses and the start of the outdoor dining program in June 2020. In the June through August 2020 quarter, pent-up consumer demand, funded by savings built up during the shutdowns and increases in government transfer payments, fueled a surge of spending on many goods, including autos, home furnishings, building materials, and clothing. Purchases of computer software and hardware also increased substantially, and spending in eating and drinking places began to recover. In spite of these increases in spending, monthly sales tax revenue at the end of fiscal year 2020 and into 2021 remained far lower compared with the same months the year before.

By April 2021, however, sales tax collections began to grow steadily and at a faster pace. The increasing availability of the Covid-19 vaccine, the rapid expansion of the U.S. economy in the first half of calendar year 2021, faster growth in local employment, the return of some commuters, and the beginnings of a revival of tourism all contributed to the upward trend in revenue. This trend has continued into the current fiscal year. Based on our expectation of robust economic growth in calendar year 2022, IBO forecasts a strong rebound of sales tax revenue to $7.7 billion this fiscal year, a $1.2 billion (17.7 percent) increase over 2021 collections.

We project further revenue increases in each of the following years of the forecast period, the result of sustained economic growth, continued recovery of local employment, and increased numbers of international visitors, who on average spend more money in the city than do domestic tourists. IBO expects increases in sales tax revenue to slow from this year's very rapid rate to still-strong growth of 10.9 percent in 2023 and an annual average of 4.9 percent in 2024 and 2025, with collections totaling $9.4 billion in the latter year.

The major risk to IBO's forecast of sales tax is Covid-related. A worsening of the pandemic could lead to renewed limits on economic activity, and it could shake consumer confidence and reduce consumption spending. These developments could turn the clock back to where the city's economy was nearly two years ago.

The general trajectory of IBO's sales tax forecast is the same as OMB's: a very strong rebound of collections in the current year, followed by relatively strong but diminishing rates of growth in the following years. Revenue growth in 2022 is faster in the IBO forecast than in OMB's—17.7 percent vs. 13.7 percent—resulting in IBO's forecast exceeding OMB's by $262 million. Beginning in 2023, OMB is projecting faster rates of sales tax revenue growth. The difference between the IBO and OMB forecasts diminishes to $216 million in 2023 and $77 million in 2024. For 2025, our sales tax forecast is $92 million less than OMB's.

Hotel Occupancy Tax. Tourists have gradually begun to return to the city, a trend IBO expects to persist throughout the forecast period despite the recent surge in Covid-19 cases. After an 86.5 percent plunge in hotel tax collections over the last two years, we expect revenues will total $246 million in 2022, nearly three times greater than in 2021. Revenue growth is projected to remain strong throughout the remainder of the forecast period, with receipts reaching $577 million in 2025. These revenues are still well below hotel tax collections in each of the three fiscal years prior to the arrival of Covid-19 in 2020.

New York City's tax on hotel stays equals 5.875 percent of room charges plus, in virtually all cases, a daily $2.00 charge. In the last two fiscal years revenue from the hotel occupancy tax collapsed from $625 million in 2019 (the year before the pandemic), to $468 million in 2020 (when the pandemic hit the city during the second half of the year), and then to $85 million last year (a full year of the pandemic). Hotel tax collections in 2021 were at their lowest level in 33 years.

Beginning in March 2020, the pandemic devastated tourism and business travel. The number of visitors to the city fell by two-thirds in calendar year 2020. As tourism collapsed, hotel occupancy rates and room rates plunged. For calendar year 2020, room rates averaged $151 per day, compared with $254 in 2019. By the fourth quarter of 2020, the occupancy rate was 30.1 percent, compared with 89.9 percent in the fourth quarter of 2019. 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.

Calendar year 2020 marked a low point in the number visitors to New York City. Beginning in early 2021, however, leisure travel to the city began to increase. As the Covid vaccines became widely available, domestic tourism grew more quickly, particularly in August and September 2021, when Broadway shows and other tourist attractions re-opened. The number of hotel stays has continually increased in recent months, and for the week ending on December 11, 2021, the hotel occupancy rate was 81.5 percent, the highest level since the onset of the pandemic, but still 13 percentage points below the same week two years ago. Reflecting the continued weakness of business travel, mid-week occupancy has lagged behind weekend stays.

IBO's outlook is for the recovery of tourism to continue throughout the forecast period, with particularly strong growth in calendar years 2022 and 2023. Under the assumptions that the current surge in cases is quickly reversed and that the U.S. will see another year of solid economic growth in calendar year 2022, IBO forecasts $246 million in hotel tax revenue this fiscal year. Collections so far this fiscal year have not been as strong as the increase in tourism, in part because of the de Blasio Administration's Executive Order that suspended the 5.875 percent portion of the tax from June through August 2021—a move that primarily affected 2022 receipts.

We expect general economic growth and pent-up demand for leisure travel will fuel further tourism and generate substantial increases in hotel tax revenue in the second half of the current fiscal year and next year. Our forecast for 2023 hotel tax revenue is $413 million, $167 million (67.6 percent) greater than projected collections this year. In addition to increasing the number of overnight stays in the city, growing demand for accommodations is expected to result in higher room rates, which itself would increase hotel tax collections.

IBO forecasts hotel tax revenue of $523 million in 2024 and $577 million in 2025, increases of 26.6 percent and 10.4 percent, respectively. At $577 million, our 2025 forecast of the hotel tax is still far below the $625 million received in 2019. Currently, most visitors to the city are domestic tourists. In contrast, we expect hotel tax revenues over the next few years will be fueled in large part by increasing numbers of international visitors. Although it is taking longer for international tourists to return, they are particularly important to the local economy because on average they stay longer and spend more money on accommodations than their domestic counterparts. IBO expects that increasing numbers of foreign travelers will provide a boost to hotel tax revenue in the last two years of the forecast period.

Although IBO projects that tourism to recover over the next few years, we expect that the pandemic will have a long-lasting impact on business travel. During the pandemic businesses and individuals gained experience using telecommunications technology and improving their ability to facilitate meetings and otherwise operate remotely. Many businesses will decide to continue using this technology, allowing them to avoid more costly travel.

Like the sales tax, the major risk to the hotel tax forecast is the possibility that the Covid-19 pandemic will worsen, as it has over the past few weeks, with cases in the city skyrocketing due to the Omicron variant, or if dangerous new variants continue to emerge. This could reduce the desire and ability of potential visitors to travel which would in turn reduce the number of hotel stays and lower occupancy tax revenues.

While both IBO and OMB predict large increases in hotel tax revenue through 2025. IBO's forecasts for 2022 and 2023 are substantially higher than OMB's November projection—by $24 million (11.0 percent) and $63 million (18.0 percent), respectively. For 2024, the two forecasts differ by only $3 million; our forecast for 2025 is $53 million (8.4 percent) lower than OMB's.

Other Revenues. The city's nontax revenues—a variety of fees, fines, charges, asset sales, interest income, and other miscellaneous revenue—are expected to total $8.0 billion this year, an increase of nearly $2.0 billion from 2021. This includes the anticipation of $750 million in unrestricted intergovernmental aid resulting from reimbursement for certain Covid-related expenditures by the city in 2020 and 2021. Without a similar transfer in 2023, as well as a drop in miscellaneous revenues, nontax city revenues are forecast to shrink by $1.4 billion to $6.7 billion in 2023. IBO anticipates little additional change in the total from these revenue sources from 2023 through 2025.

Total city-funded revenue, which also includes intra-city funding (transfers between city agencies for providing services such as telecommunications) is expected to barely grow from 2021 ($71.2 billion) to 2022 ($71.8 billion). With the resumption of tax revenue growth projected for 2023 through 2025, total city-funded revenue will grow by 2.9 percent annually, on average, over those three years, reaching $77.8 billion in 2025.

State, federal, other categorical aid, and interfund revenue are the remaining sources among non-city revenues. They are expected to total $34.7 billion this year, an increase of nearly $6.0 billion over 2021 as both state and federal categorical aid jumped in 2022. Following this year, state grants are expected to remain near their 2022 level, but federal aid returns to a level more consistent with the recent past, dropping by $6.7 billion for 2023. Federal aid is projected to decline further in 2024 and 2025, falling to $8.4 billion, barely half of the $16.5 billion the city is projected to receive from the federal government in 2022.

The $3.9 billion increase in federal grants for the city between 2021 and 2022 reflects the influx of federal Covid relief and fiscal support authorized by a series of legislative packages in 2020 and early 2021 to help meet the needs of local governments dealing with the pandemic. Federal grants are now expected to total $16.5 billion this year, with the city deciding to use nearly $6.5 billion of its allocated federal stimulus funds to meet fiscal needs this year. State and local governments have discretion in when the funds are used, although authorization to access these funds will expire in 2024 or 2025, depending on the specific funding source. The city has used these funds in a number of ways. Some have been used to make up for revenue losses stemming from the pandemic-induced recession. Some have gone to helping to pay for the extraordinary costs of responding to the pandemic, such as test and trace operations, vaccination drives, and providing PPE for city workers. Lastly, some of the aid has helped the city start or expand programs, leaving questions about funding once the federal aid is exhausted.

State grants grew by $1.7 billion to $16.3 billion in 2022, and are expected to remain near that higher level through 2025. About three-quarters of state aid is for education purposes. Foundation aid, which is the largest category of state education aid, is expected to total $8.6 billion in 2022 and accounts for almost half of all state aid. The amount of foundation aid coming to the city was boosted in last year's state budget with a new commitment to keep the planned increases in coming years.

Spending

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), and funding allocated to the labor reserve, which is earmarked to cover prospective costs related to the settlement of future municipal labor contracts. Once contracts are settled, appropriations are moved from the labor reserve into individual agency budgets to cover increases in agency payrolls. This transfer shifts spending growth from the non-agency part of the budget to the agency side, without changing the total.

The two areas of expenditure with the greatest growth over the plan period are fringe benefits for city employees and the debt service costs on the bonds and notes the city issues.

Fringe Benefits. The cost of providing fringe benefits other than pensions for city employees and retirees is one of the largest areas of spending growth across the plan period. From 2021 through 2025, IBO projects that these costs will increase from approximately $11.8 billion to nearly $13.4 billion, an annual growth rate averaging 3.2 percent, which greatly exceeds the annual growth rate of non-centralized agency expenditures (-0.7 percent) during the same period. Health care costs, by far the biggest component of fringe benefits, will grow at an average annual rate of 5.1 percent during the same period, from $7.4 billion in 2021 to $9.1 billion in 2025.

One item notably absent from the current financial plan are savings to be derived from the planned transfer of the

IBO Expenditure Projections
Dollars in millions

		Plan				Average Change
	Actuals 2021	2022	2023	2024	2025	2021-2025
Operational Expenditures						
Agency Expenditures	$72,752	$78,807	$71,131	$70,638	$70,644	-0.7%
Labor Reserve	-	1,216	852	1,035	1,412	n/a
Total Operational Expenditures	**$72,752**	**$80,023**	**$71,983**	**$71,673**	**$72,056**	**-0.2%**
Other Expenditures						
Fringe Benefits	$11,794	$11,474	$12,246	$12,801	$13,395	3.2%
Debt Service	$8,193	1,987	6,857	8,335	8,880	2.0%*
Pensions	9,446	9,932	9,665	9,048	8,176	-3.5%
Judgments and Claims	618	1,337	908	925	941	11.1%
Subtotal Recurring Expenses	**$102,804**	**$104,753**	**$101,659**	**$102,781**	**$103,449**	**0.2%**
General Reserve	-	$300	$1,000	$1,000	$1,000	n/a
Capital Stabilization Reserve	-	-	250	250	250	n/a
Retiree Health Benefit Trust	(425)	-	-	-	-	n/a
Unallocated Labor Savings		-	500	500	500	n/a
Rainy Day Fund Deposit		500	-	-	-	n/a
Other Adjustments	-	-	(56)	61	183	n/a
Subtotal Non-Recurring Expenses	**($425)**	**$800**	**$1,694**	**$1,811**	**$1,933**	**n/a**
Less: Intra-City Expenditures	($2,006)	($2,084)	($1,449)	($1,450)	($1,444)	n/a
TOTAL EXPENDITURES	**$100,372**	**$103,469**	**$101,904**	**$103,142**	**$103,938**	**0.9%**

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. Adjusting for prepayments, annual average change in debt service costs is 8.8%. Fringe benefits include the cost of health benefits covered by the Retiree Health Benefit Trust. Adjusting for the $500 million of unallocated labor savings in 2023-2025 annual change in fringe benefit costs is 3.3%.
Figures may not add due to rounding.

New York City Independent Budget Office

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

	2022	2023	2024	2025
Gaps as Estimated by the Mayor	**-**	**($2,882)**	**($2,731)**	**($2,140)**
Unallocated Planned Labor Savings	*-*	*(500)*	*(500)*	*(500)*
Reestimated Gap	**-**	**($3,382)**	**($3,231)**	**($2,640)**
Revenue				
Taxes				
Property	$300	$469	$629	$718
Personal Income	332	559	629	685
General Sales	262	216	77	(92)
Corporate	212	(16)	215	336
Unincorporated Business	97	54	87	103
Real Property Transfer	131	67	50	(21)
Mortgage Recording	158	92	89	54
Utility	-	-	-	-
Hotel Occupancy	24	63	3	(53)
Commercial Rent	2	16	10	9
Cigarette	-	-	-	-
Other Taxes and Audits	-	-	-	-
Total Taxes	**$1,517**	**$1,519**	**$1,790**	**$1,740**
Misc. Revenue	22	22	22	22
TOTAL REVENUE	**$1,539**	**$1,541**	**$1,812**	**$1,761**
Expenditures				
Debt Service	$86	$173	$-	$-
Fringe Benefits:				
Health Insurance - Education	(26)	31	252	418
Health Insurance - City University	(1)	2	11	16
Health Insurance - All Other Agencies	(48)	49	360	552
Education	(301)	(453)	(556)	(818)
Police	(100)	(100)	(100)	(100)
Fire	(50)	(50)	(50)	(50)
Correction	(141)	(16)	-	-
Board of Elections	-	(50)	(50)	(50)
Sanitation	(6)	(10)	(25)	(38)
Homeless Services	-	(25)	(25)	(25)
Campaign Finance Board	-	(10)	(5)	(50)
Social Services	(5)	(6)	(6)	(6)
Other	(9)	(14)	(14)	(13)
TOTAL EXPENDITURES	**($601)**	**($479)**	**($209)**	**($164)**
TOTAL IBO PRICING DIFFERENCES	**$938**	**$1,062**	**$1,603**	**$1,597**
IBO Prepayment Adjustment 2022/2023	($938)	$938	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**-**	**($1,382)**	**($1,628)**	**($1,043)**

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.

New Yprk City Independent Budget Office provision of the city's retiree health care benefits from traditional Medicare and Medigap coverage to a Medicare Advantage Plus Plan. The city assumes that the planned change would free up nearly $600 million annually, as some of the retiree health expenses formerly borne by the city are instead covered by the federal government. However, recent court orders have temporarily blocked the city from initiating the Medicare Advantage Plan in January 2022 as originally scheduled. While the court has signaled that it will eventually allow the new retiree health plan to launch, the eventual savings achieved through the transfer will still not accrue to the city.

Based on agreements made by the city with the Municipal Labor Committee (MLC), an umbrella organization representing the city's unionized workforce, all of the savings resulting from ending the city's financial support for Medigap insurance will be contributed annually to the Joint Health Insurance Premium Stabilization Fund. The assets of this fund, controlled jointly by the Administration and the unions, are used for a variety of purposes including the funding of unions' welfare fund benefits, among them the PICA Drug Program, Teladoc and mental health subsidies. The structure of the agreement between the city and the unions effectively transfers these city dollars from the general operating budget to a fund administered outside the ordinary budget process.

Debt Service. IBO projects that after adjusting for prepayments, debt service, the payment of principal and interest on funds the city borrows to finance capital projects, will total approximately $6.7 billion in 2022, an increase of $374 million over the 2021 adjusted debt service expenditure. Over the course of the financial plan we expect debt service costs to rise substantially as the city issues additional debt to finance its historically large capital program. After adjustment for prepayments, debt service is forecast to grow from $6.3 billion in 2021 to $8.9 billion in 2025, an average annual rate of 8.8 percent—faster than any other major expense in the budget.

Labor Contracts. By the final day of the de Blasio Administration more than 52 percent of the city's workforce will be working under the terms of expired labor agreements. Most of the contracts covering the remaining 48 percent of city employees, including the United Federation of Teachers (the city's largest municipal union) will expire prior to the end of calendar year 2022. The Mayor's financial plan includes funding for the estimated cost of contract settlements that remain outstanding for the current round of collective bargaining. These expenses, $1.2 billion for the current year and $852 million for 2023, are included in the centrally managed labor reserve fund pending resolution of the contracts. The current plan does not include any funding for potential salary increases for the city's workforce in the first or second years of the next round of collective bargaining, and only includes a 1.0 percent increase for the third year.

Pension Spending. The city's cost to fund its five pension systems continues to be a large share of the non-agency expenses in the financial plan. In 2021, the city spent $9.4 billion, or over 9.4 percent, of its adjusted expenditures on pension costs. However, whereas in recent plans the city's annual pension contribution increased in each successive year, the growth rate for the cost of required pension contributions is actually negative in the current plan. In 2021 the city's pension systems achieved a 25.8 percent return on investments, greatly outpacing the 7.0 percent gains assumed for the plans' investments. The exceptional rate of return on the funds' assets (a level not achieved in at least the last 20 years) allowed the city to decrease its planned contributions to the pension systems compared to the previous financial plan by $804 million in 2023, $1.6 billion in 2024 and $2.4 billion in 2025. The city's pension contribution for the current year totals $9.9 billion, but by the end of the financial plan period it declines to just over $8 billion, an average annual decrease of 6.3 percent from 2023 though 2025. Pensions are one of the only major portions of the city budget that are declining over the course of the plan period.

Agency Spending. Unlike much centralized spending, such as debt service and fringe benefit costs, which are expected to rise across the entire plan period, agency-specific spending is mostly flat, with most agencies experiencing decreased budgets over the period. This is due to the city's practice of budgeting the cost of anticipated future salary increases in the centralized labor reserve. IBO estimates that agency spending, which totaled $72.8 billion in 2021 will increase to $78.8 billion in 2022 (the increase primarily the product of the inflow of federal stimulus dollars), before declining to $71.1 billion in 2023 and then to $70.6 billion in 2024 and 2025. Because of the additional support provided by federal stimulus funds in the first years of the plan, non-centralized expenditures in all city agencies decline somewhat across the plan period. The only major city agencies in which we estimate average annual city-funded expenditure growth will exceed the growth of city-funded revenues are the Department of Sanitation (9.7 percent), the Department of Education (3.9 percent) and the Department of Correction (3.6 percent).

But the increase across the plan period in Sanitation and Correction is wholly the result of the city utilizing federal stimulus dollars to fund general operational costs of the agencies in the current year instead of city tax levy, thereby making the current year city-funded expenditures artificially lower than they would normally be.

Federal- and State-Funded Spending. Enactment of the American Rescue Plan Act (ARPA) and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) early in calendar year 2021 provided the city with nearly $13 billion in federal aid for stimulus and recovery. IBO estimates that the city spent nearly $1.6 billion of these funds in 2021, with approximately $6.5 billion budgeted in the current fiscal year. The remaining $4.6 billion is budgeted for 2021 through 2025. The front loading of the majority of the federal stimulus funds has inflated total 2022 planned expenditures to nearly $103.5 billion.

IBO estimates that in 2022 the city will spend a record $16.5 billion of federal funds (almost 16 percent of all city expenditures). This includes the Covid-19 related stimulus funds, as well as FEMA reimbursement for expenses related to Covid-19 and Community Development Block Grants. Along with the $16.3 billion of state funds that IBO expects the city to receive, nearly one-third of the 2022 budget is scheduled to be funded from non-city entities. However, in the remaining years of the plan, as federal stimulus funds are exhausted, the size of the total plan and the share of the plan funded by the federal dollars both shrink. In 2023, IBO estimates federal funds will make up only 10 percent of budgeted expenditures ($9.9 billion in total) while total expenditures will drop by over $1.6 billion. By 2025 we expect federal funds to provide slightly over 8 percent of the city's expense budget. As the federal funding is drawn down, IBO estimates that the overall expense budget in 2025 will still be slightly more than total expenditures planned for 2022.

IBO estimates non-city funding in 2022 will be slightly greater ($22 million) than currently budgeted. Similarly, we project that state and federal funding in 2023 through 2025 will exceed the Mayor's estimates by $582 million, $558 million, and $533 million, respectively. This deferred recognition of state and federal funding is consistent with the city's long-standing practice of waiting until some grants have been received before adding the spending to the budget.

Citywide Savings Program. The November plan once again includes a Citywide Savings Program comprised of actions that will either reduce agency expenditures or increase agency revenues. The current savings plan includes $508 million of savings in the current year and $475 million in 2023. By far the single largest area of savings in the plan is in the city's debt service budget. Lower than previously anticipated debt service costs in 2022 and 2023 are expected to provide a total of over $634 million in savings, 64 percent of the two-year citywide savings total. Unlike in previous plans, none of the savings in the program is ascribed to agency efficiency initiatives. Instead nearly all of the savings are from actions that would have occurred absent the citywide savings program. Of the remaining $350 million of non-debt related savings in 2022 and 2023, approximately $204 million (58 percent) is the result of lower-than-anticipated personal service spending and savings from related costs of fringe benefits, with much of the remaining resources derived from additional revenue that was not accounted for in prior plans.

Planned Labor Savings. In an attempt to balance the financial plan during the height of the Covid-19 pandemic in the spring of 2020, the de Blasio Administration included $1 billion of recurring savings in each year of the plan. These savings were to be identified through negotiations with the city's labor unions. In the nearly 18 months since the inclusion of these savings in the financial plan the city and its labor unions have still not agreed to any strategy to reduce the city's labor costs; the only agreements made were to defer certain labor payments from one fiscal year to the next. Eventually, with the influx of funding from ARPA the city was able to rescind the remaining need for any additional labor savings in 2021 or 2022. In the November plan, the Administration further reduced the need for these labor savings in 2023 through 2025, from $1 billion annually to $500 million annually. These savings are currently budgeted as reduced health care costs for city employees, although it is unlikely that the city will meet this goal through reduced health care costs alone (see IBO's spending re-estimates below). Currently there is no specific plan for attaining these savings.

Spending Re-estimates. IBO's estimates of some components of city-funded spending differ from those presented by the Mayor in the November plan, with some elements higher and others lower. Because the total amount under-budgeted exceeds the sum over-budgeted, IBO projects that city-funded spending will be about $601 million greater than projected by the Mayor in the current year. IBO estimates city-funded expenditures will exceed the planned amount by $479 million in 2023, while in the final two years of the financial plan period we expect these expenditures to exceed the plan by $209 million and $164 million, respectively.

Areas where IBO projects less-than-budgeted spending:

Debt Service Savings. In the November plan the de Blasio Administration lowered its forecast of current-year debt service costs by $238 million, primarily the result of reducing the Administration's estimates of debt to be issued; these savings were counted by OMB as part of the Citywide Savings Program's total. IBO estimates that this year's debt service costs will be an additional $86 million below the city's revised projections; for 2023 we estimate the city's debt service costs will be $173 million less than currently planned. The de Blasio Administration's variable rate bond interest assumption for the current year—1.94 percent for tax-exempt bonds—remains well above current interest rates. Based on a combination of historical data and forecasts from financial institutions, IBO projects that interest costs on variable rate debt will remain low over the remainder of this year, resulting in a reduction of variable rate bond interest payments for 2022. OMB's interest rate assumptions for 2023—4.25 percent for tax-exempt bonds—is also much higher than most experts currently forecast. Given the Federal Reserve's announcement that it will ramp up its efforts to constrain inflation, we assume that the variable interest rate the city will pay in 2023 will still be slightly higher than in 2022, but our interest rate estimate for next year still generates lower debt service costs than estimated by the Administration. For 2024 and 2025, IBO's forecast of debt service costs follows OMB's.

Health Care Cost Re-estimates. The Mayor's November plan includes $7.3 billion for the city's provision of health care for current and retired city employees in 2022 (adding $425 million of health care expenses prepaid with 2021 resources increases the 2022 total to $7.7 billion), growing to $9.6 billion in 2025. The out-year amounts, however, include unallocated labor savings of $500 million a year that the Mayor included in the plan. These savings were taken out of the health care budget as a placeholder, thereby artificially lowering the city's projected health care costs because it is unlikely that all of the labor savings will be generated through health care cost reductions. When actual areas of savings are determined, they will be parsed out to other areas of the budget, which will require increasing the city's budget for health care to maintain the same level of service.

As a result, the city's 2025 cost for the provision of health care for its employees and retirees is actually $10.1 billion—the $9.6 billion as shown in the budget plus $500 million of unallocated labor savings for the year. Increases in the cost of providing health care benefits to city employees and retirees is one of the principal drivers of increased city spending over the plan period. The Mayor's plan, adjusted for prepayments and unallocated savings, assumes 9.3 percent annual average growth in the city's health care expenses from 2022 through 2025. Based on historical increases in health care costs and federal forecasts, however, IBO estimates that the city's health care costs will increase less rapidly. As a result we expect the city's health care costs, adjusted for the assumption that $500 million of labor savings will occur elsewhere in the budget, will be greater than presented in the November plan by $75 million in 2022, but less than projected by the de Blasio Administration for 2023, 2024, and 2025, by $81 million, $623 million, and $986 million, respectively.

Areas where IBO projects greater-than-budgeted spending:

Overtime Costs in Uniformed Agencies. IBO projects that the city's financial plan has underestimated the cost of overtime in many of the uniformed agencies. The New York City Police Department (NYPD) is currently on pace to spend $723 million on uniformed overtime in 2022, over 50 percent more than last year but similar to pre-pandemic annual expenditures. However, the department's budget for the current year includes only $435 million for overtime expenses. IBO estimates that the department will require about $100 million more to fund its overtime expenses in the current year and that the remaining roughly $200 million of overtime costs will be covered through underspending in other areas of its budget. The department has budgeted $394 million in each of the out-years of the plan period for overtime expenses. Based on historical patterns of spending on overtime and underspending in other areas of its budget, we estimate that the department will require an additional $100 million in each year to cover the cost of its overtime expenses.

Based on expenditures to date, the New York City Fire Department (FDNY) is on pace to spend $402 million on overtime in 2022, $147 million more than currently budgeted. The department has budgeted $235 million in 2023 and $234 million in both 2024 and 2025 for overtime. Based on historical spending and current year to date expenses, IBO estimates that the department will need at least $50 million additional funding in each year from 2022 through 2025. Similar to the NYPD, the FDNY typically underspends in other areas of its budget which enables it to cover a portion of the additional overtime expenditure.

IBO estimates that in the current year the Department of Correction's (DOC) budget for overtime expenses is $141 million less than what will be needed for the full year. DOC's overtime budget for 2022 is slightly under $88 million. However, by the end of November 2021 the department had spent over $96 million on overtime. While the DOC has been able to bring down the annual cost of overtime in recent years, a number of factors have led to an upward tick in overtime in the current year. The department has seen a large increase in corrections officers leaving the department, in addition to a sharp rise in leave taken by corrections officers. The decreased headcount along with the increased number of officers on leave has resulted in understaffing at the department's facilities. Because the department must meet minimum staffing levels in the jails, it has been forced to use overtime to ensure sufficient manpower. If, as IBO assumes, the department's overtime expenses for the remainder of the year continue at levels similar to the first five months of 2022, the department will spend a total of $229 million in overtime in the current year, a level not seen since 2017 when the department spent over $266 million on overtime costs.

IBO expects that the Department will have been able to hire enough new corrections officers to ameliorate the expanded need for overtime by 2023. Based on our assumption that next year's overtime expenditures will be similar to the $149 million spent in 2021, we project that the agency will require an additional $16 million in 2023.

Department of Education. IBO estimates that the city will need to provide an additional $301 million in the current year, $453 million in 2023, $556 million in 2024, and $818 million in 2025 for the Department of Education (DOE) budget. The majority of our increased cost estimate stems from our expectation of additional costs related to the city's charter schools. IBO projects higher charter school enrollment in the current year and steeper enrollment growth in the out-years of the financial plan period than is assumed by the de Blasio Administration. IBO's estimate of charter enrollment takes into account existing charter schools adding grades towards their fully authorized complement of students, as well as schools that have been authorized but have not opened. Based on our enrollment figures, we estimate the department will require an additional $281 million in 2022, $428 million in 2023, and $531 million in both 2024 and 2025 to meet the mandated funding for charter schools.

The passage of the ARPA and CRRSA legislation in Washington provided over $7 billion of resources for the DOE to spend between 2021 and 2025. The stimulus dollars were used by the de Blasio Administration to fund a variety of DOE programs. While the funding will allow for most of these programs to continue uninterrupted through much of the plan period, once the federal funds expire there will be a need for alternative funding sources to maintain similar levels of service. The current financial plan does not include any funding to replace the federal stimulus funds for the DOE's Positive Learning Collaborative program starting in 2023. This program will require an additional $5 million in each year of the financial plan to continue at existing levels. By 2025 the DOE will require a total of $267 million to make up for the expiration of federal stimulus dollars being used to fund a variety of other programs. IBO assumes that it will be necessary to provide city-funds to continue providing these various services. (See IBO's 2021 brief on federal education aid for more details.)

In addition, IBO projects that the city will need to provide $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 de Blasio Administration anticipates. Last year, the state passed legislation that would make certain transportation costs eligible for Medicaid reimbursement, but Governor Cuomo's veto of the bill leaves the prior eligibility rules in effect. Although the DOE is still counting on $20 million of annual Medicaid reimbursements for eligible transportation expenses, IBO expects the city to have to fund these costs instead.

Board of Elections and Campaign Finance Board. Based on the recent history of expenditures by the city's Board of Elections and the amount budgeted for the current year, IBO projects that the board will require an additional $50 million each year from 2023 through 2025.

Although the Campaign Finance Board (CFB) typically spends more in election years than in non-election years, the board's current financial plan assumes a similar level of expenditures in each of the out-years of the plan. Under the City Charter, every 20 years City Council terms are shortened to two years, rather than four. This is to allow City Council elections based on new district lines that are re-drawn using the new decennial census to take place sooner rather than later. As a result, in calendar year 2023 every seat in the City Council is up for election. IBO assumes that the CFB will require at least an additional $10 million in 2023 and $5 million in 2024 in order to provide public financing for all qualified candidates in City Council primaries and the general election. With the primaries for the next round of citywide elections taking place in 2025, we assume the CFB will need an additional $50 million in that year to cover the additional costs.

Public Assistance Spending. In the first five months of the pandemic New York City's public assistance caseload experienced a sharp increase, growing by over 20 percent by late 2020. The provision of billions of dollars of direct and indirect federal aid to families and individuals helped to slow and then reverse the growth in the city's public assistance caseload. By September 2021, the caseload had fallen nearly 9 percent from its recent peak. IBO estimates that the downward trend will continue in the near term, although not as fast as assumed by the Administration. As a result, IBO estimates that the city's Department of Social Services has slightly underestimated the need for public assistance funding in the current year by $5 million, and by $6 million in each of the subsequent years of the plan period.

Homeless Services. IBO estimates that the city will spend $25 million more than is included in the current financial plan in each year from 2023 through 2025 for services to homeless individuals and families. The Department of Homeless Services (DHS) has budgeted $101 million in the current year from the city's allocation of federal ARPA funds for its outreach effort to address street homelessness. This allocation brings the homeless outreach budget for 2022 to over $231 million. In 2023 and 2024, federal funding allocated for the program declines to $18 million while the total budget for the program decreases to $139 million. Since the onset of the pandemic street homelessness has become a much more visible issue in the city. It is unlikely that street homelessness will decrease substantially'in the near future. As a result, IBO estimates that the city will have to provide at least $25 million in additional funding annually, replacing the federal funding, in order for the program to continue at an adequate level through the remainder of the plan period.

IBO often projects that additional funding will be needed to provide shelter services. Based on our population projections, however, we expect that the funding planned for homeless shelters is adequate. While funding for single adult shelters is likely insufficient to cover the projected population, IBO estimates that the city has over-budgeted the cost of providing family shelter services over the plan period, which offsets the additional single adult shelter cost. The current shelter population is the lowest it has been during the de Blasio Administration. As federal Covid-related funding sources phase out and the pandemic eviction moratorium ends, however, homeless shelter population trends could easily reverse, which would drive up the cost of shelter provision.

Sanitation. IBO expects that the Department of Sanitation (DSNY) will require an additional $6 million in the current year, $10 million in 2023, $25 million in 2024, and $38 million in 2025. These needs are primarily the result of our estimate that the department's waste export contract costs will be greater than presented in the financial plan.

In Reserve

The financial plan released just two months prior to the onset of the Covid-19 pandemic included record levels of budgeted reserves, including approximately $4.7 billion of resources set aside in the city's Retiree Health Benefits Trust (RHBT). The RHBT funds, while ostensibly established to accumulate assets to help cover the city's long-term liability for retiree health care costs, has effectively functioned as the city's rainy day fund, available to assist in balancing the budget in the face of either a sharp drop in revenue or the need for unexpected spending.

The economic crisis resulting from the Covid-19 pandemic demonstrated how and when such reserve funds would be necessary. Over the last year and a half the city has drawn down most of the reserves built into the budget and accessed $1.0 billion of funds set aside in the RHBT. The Administration planned to draw down an additional $1.6 billion from the RHBT, which would have left the fund with a little more than $2 billion in reserve. It was only the influx of federal stimulus dollars in early 2021 that enabled the Administration to rescind its decision to further deplete the trust. As a result, by the end of 2021 the RHBT's balance was $4.2 billion, roughly 10 percent lower than the fund's pre-pandemic level.

In February 2021, the city established a true rainy day fund (the Revenue Stabilization Fund) following changes to the City Charter approved by voters in a 2019 referendum, and necessary legislation enacted by the state in 2020. The new fund allows the city to carry forward revenue accrued in prior years for use in the future. After an initial deposit of nearly $500 million, the Administration's current financial plan includes a deposit of $500 million in the current year. The circumstances under which these resources can be tapped have not yet been established.

In addition to off-budget reserve funds, the city also maintains reserves built into its financial plan. These reserves are appropriated as part of the budget but remain unallocated for any specific spending. The November plan includes $300 million in budgeted reserves in the current year. The plan also includes $1.25 billion of unallocated reserves in each year for 2023, 2024, and 2025. If the $300 million of current year reserve funds go unused, as they have in the Mayor's prior budgets, they would become part of this year's surplus and can help offset the shortfall projected for 2023 by prepaying some of that year's expenses—the city typically makes early payments of debt service due in coming fiscal year. Similarly, if the much larger unallocated reserves included in the plan for 2023, 2024, and 2025 are not needed to address unexpected expenses or revenue shortfalls in those years, they could be used to help balance subsequent years' budgets.

If IBO's economic forecast and our re-estimates of city revenues and expenditures prove generally correct, then the city's fiscal condition would remain stable, with current-year budget surpluses and future-year gaps of a size that the city has routinely managed in past years. We estimate that the city will end 2022 with a modest surplus of $938 million before drawing down the remainder of the unallocated reserve in this year's budget. If all of this year's surplus were used to prepay 2023 expenses, the 2023 adjusted gap would be reduced to $1.4 billion (1.9 percent of estimated city-funded expenses). Additionally, our forecasts of revenue and expenditures in the last two years of the financial plan before using the unallocated reserves reduce the city's adjusted budget gap in 2024 to $1.6 billion (2.2 percent of estimated city-funded spending) and $1.0 billion (1.4 percent of estimated city-funded spending) in 2025. These gaps would be substantially reduced to the extent that the unallocated budgeted reserves remain available.

Pressure Points

At this time last year it would have been hard to imagine that the city's ensuing financial plans would be balanced without the need for major service cuts or tax increases. Additionally, it would have seemed improbable that the plans' out-year gaps would be manageable within the existing structure of the financial plan. Yet, despite the auspicious outlook, the current financial plan exists in a world with unprecedented level of uncertainty. Primary among these uncertainties is the future course of the Covid-19 pandemic and how it may affect the local and national economies. Higher inflation, labor shortages in selected industries and supply chain disruption brought about by the Covid-related worldwide shut downs remain constant reminders of the interconnectivity and fragility of local economies across the globe. While the city has been able to weather much of the storm through a combination of federal aid and a better than expected rebound in tax revenues, there still remain a number of risks to the city's budgetary outlook.

Direction of Pandemic. The implementation of the Covid-19 vaccination program has successfully provided vaccinations to millions of Americans. While the program has provided hope for millions of people, vaccine refusal in some parts of the country, the continued mutation of the virus, and the uncertain efficacy of the vaccines in dealing with new variants, have combined to slow a return to normalcy. Some areas of the country, including New York City, are experiencing infection rates that exceed rates from early on in the pandemic's spread. While mortality rates have declined as vaccines and new treatments have become available, it is clear that the virus will continue to have a major impact on public health.

The widespread utilization of remote work environments over the last year has forced many organizations to rethink the way they operate. The idea that employees need to all be housed in a large centralized office space may fade away as more organizations embrace work from home. Such a change could greatly affect the makeup of New York City's business districts by decreasing the number of office workers who commute into the city on a daily basis and reducing the demand for office space. Ease of working remotely could also spur more out-migration of city residents who no longer need to reside within easy commuting distance of their workplace.

It is also exceedingly difficult to predict how the pandemic will alter the tourism industry in the city. Prior to the pandemic, New York City was experiencing an extended renaissance in tourism. Each year record numbers of tourists and business travelers flocked to the city to experience what it had to offer. The pandemic nearly eliminated tourist-related economic activity over the past year. The extent to which tourists—particularly international tourists—will return to the city, and when that might occur, are particularly difficult to forecast. With so many New York City residents' employment and well-being directly tied to the tourism industry, even modest declines in tourism could have major impacts on the city's economy.

Labor Settlements. The current financial plan includes funding for only a 1 percent wage increase in the third year of labor settlements. Absent the settlement of any collective bargaining agreements, by the end of calendar year 2022 nearly all of the city's labor force will be working under the terms of expired contracts. The Adams Administration will have to negotiate with many unions whose members were on the front lines of the city's efforts during the pandemic. If the Adams Administration follows a pattern similar to the most recent labor settlement (the civilian pattern for the last round of settlements included three annual increases of 2.0 percent, 2.25 percent, and 3.0 percent), IBO estimates the cost of providing wage increases for the next three-year period would be at least an additional $510 million in 2022, $1.1 billion in 2023, $1.8 billion in 2024, and $2.5 billion in 2025. Although some of these costs may be offset by negotiated labor savings, as they have been in recent rounds of collective bargaining, these increases provide additional uncertainty in a financial plan that is fraught with uncertainty.

Education. IBO estimates that approximately $3.2 billion of the federal stimulus funds from ARPA and CRRSA allocated to the DOE are budgeted to fund long-term programs in the department's financial plan. These federal funds are utilized primarily for expansions of existing DOE programs that are likely to continue after the federal aid has been depleted. Most notably, this includes the expansion of 3-K, the city's preschool program for 3-year-olds. IBO estimates that maintaining all of the long-term recurring education expenses that are currently funded with federal stimulus aid would require an additional $267 million in 2025 and $787 million in 2026, with the cost growing over time. It is unlikely that the programs funded with federal stimulus will taper off or end once federal dollars are no longer available. Therefore, we assume that the funding for these expanded programs will eventually need to be provided largely from city resources.

Metropolitan Transportation Authority (MTA). As with so much of New York City's recovery, the region's transit system is experiencing gradual improvements amidst an uncertain future. The MTA's current financial condition is certainly much improved over expectations from even six months ago. In addition to the inflow of federal Covid relief, gradually increasing ridership and recovering regional tax revenues have together allowed the MTA to push back planned fare increases until mid- calendar year 2022 at the earliest and cancel savings measures like service reductions and wage freezes. Transit ridership has slowly grown to around 60 percent of pre-pandemic levels, while tolled trips on the MTA's bridges and tunnels have recently reached levels not experienced since early 2020. In a bid to attract even more riders back to the transit system, the MTA announced fare-discount pilots launching at the end of February 2022, including weekly fare-capping for riders who use OMNY (the MTA's contactless fare payment system) and multi-ride discounts for commuter rail customers. But it remains to be seen if these efforts will deliver new ridership or simply cut into fare revenues.

Despite the more buoyant outlook, there are a number of potential pitfalls in the path to recovery for the authority. Most significant among those is the structural imbalance of the MTA's financial plan. The remianing $10.5 billion of federal stimulus funds earmarked for the MTA, along with almost half of the $2.9 billion in one-time Municipal Liquidity Facility borrowing proceeds, is budgeted to cover annual operating shortfalls through 2025. With the Omicron Covid-19 variant now surging in New York City, riders who no longer feel safe taking mass transit and in particular remote workers may not return to the system for some time. While receipt of federal infrastructure funding through the Infrastructure Investment and Jobs Act is forthcoming and congestion pricing revenues are expected to begin flowing late in 2023, these funds will largely be dedicated to much-needed long-term capital work. Absent the realization of new revenue sources or additional savings the MTA will need more funding in order to balance its operating budget beginning in 2026. The MTA's services are critical to the economic health and well-being of the region. As a result, the city could be compelled to provide the MTA additional funding or alternative sources of revenue to ensure that service levels remained adequate for the region.

On the capital side, the federal Infrastructure Investment and Jobs Act is expected to provide at least $3.5 billion to the MTA through formula funding, and competitive grant dollars will likely yield much more. This funding will help reduce some of the cost of the agency's future debt service, and may jumpstart funding of the agency's 2020-2024 Capital Plan. But the MTA's capital need greatly exceeds currently available resources. The current plan, which was amended in December, includes a total need of $55.3 billion, with only $3.9 billion (7.0 percent) of funding clearly identified. The public transit system cannot operate efficiently with outdated and broken down infrastructure. Continued deferral of maintenance will only cost the city and the region more in the long run.

Housing Authority. Nearly three years ago, the New York City Housing Authority (NYCHA) was compelled by the U.S. Department of Housing and Urban Development to enter into an oversight agreement in order to address repair and structural issues: lead-based paint, mold, heat and elevator repairs, health and safety inspections, pests, and waste disposal. As part of the agreement, a federal monitor was installed, tasked with ensuring that the housing authority develop and implement plans to address on-going repair and structural deficiencies in its housing stock.

NYCHA's financial plan for the current calendar year totals $4.1 billion and includes a $35 million deficit, despite the authority planning to spend $100 million from its operating reserves. In the remaining four years of the plan, operating deficits increase, averaging $200 million a year. Additionally, the federal monitor recently released a report calling for increased staffing levels (or vendor equivalents) and staff training for NYCHA, particularly around quality assurance. These increases will further exacerbate an already strained financial plan for the authority.

Many of the underlying financial issues NYCHA faces stem from the federal government's historic underfunding of public housing. The volatility of federal support for public housing has led the authority to seek out alternate, more stable and predictable sources of revenue to support capital repairs and maintenance. NYCHA has developed two programs, Permanent Affordability Commitment Together (PACT) and the Blueprint for Change, that it expects will enable the authority to properly fund its capital needs and fundamentally change the nature of public housing in New York City. Both programs involve the formation of new entities, either public-private partnerships or a housing preservation trust that would enable NYCHA to access additional funding streams it otherwise cannot directly tap into as a public housing authority. PACT projects are already underway, but initiating the Blueprint's housing preservation trust program would require state legislation and additional federal appropriations. While NYCHA's efforts to create the housing preservation trust have stalled and face continued skepticism from tenants and housing advocates, it is possible that the new governor will be supportive of the authority's efforts.

Now that President Biden's proposed Build Back Better Act—which was to include billions of dollars for capital needs for public housing nationwide—is hanging by a thread, it further complicates the authority's plans to fulfill its commitment to the federal monitor. If NYCHA does not obtain the resources it needs, and continues to rely on its reserves to meet operating expenses the city will encounter additional pressure to increase its capital and expense contributions to the agency in order to prevent further deterioration of the city's public housing stock.

Conclusion

During the nearly two years since the Covid-19 pandemic began in New York City, the city's fiscal and budgetary outlook have ranged from bleak pessimism to unexpected sanguinity, stopping at nearly every stage between. The feeling of hopelessness in the spring of 2020 morphed into optimistic enthusiasm by the end of the calendar year with the approval and initiation of a vaccination program. The passage of huge federal relief packages at the beginning of calendar year 2021 and the gradual resumption of economic activity in the city buoyed optimism that the city and the nation were moving on to a recovery from the ravages of the pandemic. Yet the city's economy is recovering far more gradually the nation's. In addition, frustration with Washington's partisan gridlock blocking policy making on virtually all fronts, coupled with new, even more contagious strains of the virus that have pushed infection rates to levels not seen since the beginning of the pandemic, have created an environment in which predictions are even more fraught than usual.

While the fundamentals of the city's financial plan appear to be relatively strong, with enough planned revenues and other non-allocated resources available to support planned expenditures, the level of uncertainty behind the generally reassuring numbers suggest the need for extraordinary vigilance when assessing the city's fiscal outlook.