

June 2015

Behind the Numbers: Details of IBO's Latest Economic & Tax Revenue Forecasts

Economic Forecast

IBO's current forecast for the New York City economy is slightly less optimistic than our forecast in March's preliminary budget report, but the general trajectory of the economy remains the same. Though projected employment is somewhat lower than in March, employment growth is expected to continue through 2019, albeit at a more moderate pace than last year. The unemployment rate will also fall for several years, narrowing the gap between the U.S. and city rates. We have increased our forecast of wage growth, though the projected average rate of growth is still weak in comparison to growth during prerecession economic expansions.

Employment. Following record payroll employment gains of 120,700 (3.0 percent) in 2014, IBO expects annual average growth to decelerate to 88,200 (2.1 percent) in 2015 and 75,100 (1.8 percent) in 2016, and then to continue to ease off over the rest of the financial plan period. (All years in this section refer to calendar years.) As of April 2015 the city has added 502,900 jobs since the employment trough in November 2009—already the strongest expansion of local employment on record. IBO projects that the city will gain another 280,000 jobs through the end of 2019, barring an economic shock severe enough to cause the U.S. economy to contract. If growth were to remain positive throughout the forecast period, the city will have gone 10 years without a recession, longer than any previously documented run.

As has been the case since this expansion began, the bulk of the city's expected job gains will be in educational and health care services (28.9 percent), professional and business services (23.9 percent), leisure and hospitality (15.9 percent), and trade (12.2 percent). While IBO expects

employment gains to continue, the growth in employment is projected to slow across almost all sectors. The drop-off will be relatively mild in health care and professional services and especially steep in hospitality and trade. Only construction, securities, and government are expected to see growth accelerate.

Labor Force. New York City's unemployment rate fell by over 2 percentage points from late 2013 to late 2014. But as of this April, at 6.5 percent, the city's unemployment rate was still over a percentage point higher than the national rate of 5.4 percent—a gap that was virtually nonexistent before the recession. Nonetheless, New York City has done far better than the nation as a whole in absorbing a growing population into the ranks of the employed. The civilian noninstitutional adult population has grown by 372,000 in the city since January 2008, and for every 100 adults added about 64 more are employed, 20 more are unemployed but looking for work, and 16 more are out of the labor force.¹ Over the same period the adult population in the nation overall has increased by 17.6 million, but for every 100 adults added just 17 more are employed and 5 more are unemployed, while 78 more are out of the labor force.

The city's unemployment rate will continue to drop, reaching 5.3 percent by the end of the forecast period and halving the current gap with the national rate. Concurrently, the city will continue to outperform the nation in matching employment growth to population growth.

Wages. IBO's [March report](#) on the preliminary budget discussed in depth the contrast between the city's strong employment growth and weak wage growth in the current expansion, as a consequence of which the overall average wage in 2014 (\$84,420) was still 5.3 percent below the inflation-adjusted prerecession peak hit in 2007 (\$89,168).



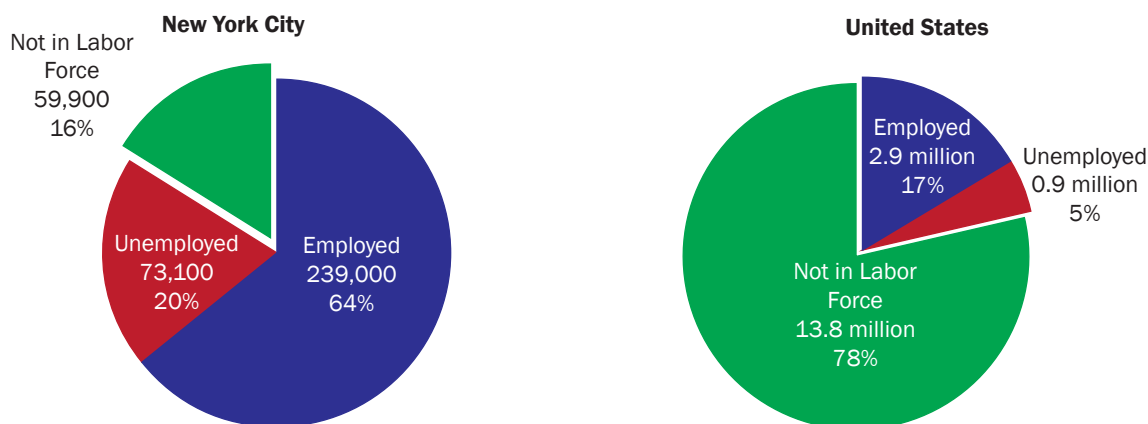
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Change in the Number Employed, Unemployed, and Not in the Labor Force Since January 2008



SOURCE: Bureau of Labor Statistics

NOTE: Reflects benchmark adjustment to pre-April 2010 New York City civilian noninstitutional population 16 years and older.

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Our current forecast calls for somewhat stronger wage increases, with real growth averaging 1.9 percent per year through 2019. This growth rate is almost double the 1.0 percent average annual growth in real wages seen in the last five years, though still not on par with the growth during the two previous expansions—1992-2000 and 2003-2008, when average real wages grew at annual rates of 2.8 percent and 2.9 percent, respectively.

Prior to the recession, aggregate wage growth in the city was dominated by booms and busts in the very high wage securities industry. Much of the recent weakness in overall wage growth reflects the fact that no securities industry boom followed the industry's most recent bust: headcounts remain 11.7 percent smaller than in the financial sector's precrisis heyday and average compensation is still 15.5 percent below its 2007 peak (though still far above the citywide average).

Securities wage growth is expected to remain subdued in the forecast period; the projected pickup in overall average wage growth in the city is entirely due to increased growth across the industry spectrum outside of securities.

Wall Street. The structural and regulatory changes underway in the financial sector do not seem to be

reflected in New York Stock Exchange member-firm broker-dealer profits in recent quarters. Profits ran to \$16.0 billion in 2014 (about the same as in the prior two years), and are projected to rise at about the rate of inflation over the next five years, reaching \$18.7 billion by 2019. These would be solid numbers by precrisis standards.

However, current and forecast member-firm net operating revenues—\$157.8 billion in 2014, rising to \$187.9 billion by 2019—are far below the 2007 peak of \$322.9 billion. The principal reason why Wall Street continues to be profitable after the collapse in revenue is that net interest expenses (member-firm interest payments less member-firm interest receipts) have also shrunk dramatically, plunging from \$220.6 billion in 2007 to just \$6.5 billion in 2014. Net interest expenses are expected to remain very low, rising only to \$18.8 billion by 2019. Although if interest rates rise more rapidly than IBO anticipates, Wall Street profits will be squeezed unless operating revenues rebound.

Real Estate. The city's real estate market has recovered strongly since the 2008 crash, though as measured by the inflation-adjusted value of sales subject to the real property transfer tax (RPTT), in 2014 it was still 18.4 percent off of its 2007 peak. Over the forecast period real estate sales

| Annual Average Real Wage Growth in Expansion and Recession, 1990-2019 | | | | | | | | |
|---|----------------------|----------------------------|-------------|--------------|-------------|--------------|-------------|-------------|
| | Average Wage In 2014 | Annual Average Wage Growth | | | | | | |
| | | 1990-1992 | 1992-2000 | 2000-2003 | 2003-2008 | 2008-2009 | 2009-2014 | 2014-2019f |
| All Jobs | \$84,420 | 3.6% | 2.8% | -0.9% | 2.9% | -8.1% | 1.0% | 1.9% |
| Securities Sector | \$369,210 | 19.8% | 5.0% | -1.7% | 8.6% | -20.3% | 2.0% | 2.1% |
| All Other | \$72,274 | 1.4% | 2.0% | 0.0% | 1.2% | -2.8% | 1.1% | 1.9% |
| Memo: Employment Change | | (283,400) | 438,676 | (186,960) | 262,740 | (100,877) | 409,638 | 319,403 |

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| IBO Versus Mayor's Office of Management and Budget Economic Forecasts | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| National Economy | | | | | | |
| Real GDP Growth | | | | | | |
| IBO | 2.4 | 2.6 | 3.3 | 2.8 | 2.4 | 1.9 |
| OMB | 2.4 | 3.0 | 2.6 | 2.7 | 2.5 | 2.9 |
| Inflation Rate | | | | | | |
| IBO | 1.6 | 0.6 | 2.6 | 2.7 | 2.7 | 2.5 |
| OMB | 1.6 | -0.3 | 2.5 | 2.2 | 2.3 | 2.3 |
| Personal Income Growth | | | | | | |
| IBO | 4.0 | 6.0 | 6.8 | 6.5 | 5.6 | 4.3 |
| OMB | 4.0 | 3.9 | 4.8 | 5.4 | 4.9 | 5.1 |
| Unemployment Rate | | | | | | |
| IBO | 6.1 | 5.4 | 5.1 | 4.9 | 4.9 | 4.9 |
| OMB | 6.2 | 5.5 | 5.3 | 5.2 | 5.3 | 5.3 |
| 10-Year Treasury Bond Rate | | | | | | |
| IBO | 2.5 | 2.5 | 3.6 | 4.5 | 4.5 | 4.4 |
| OMB | 2.5 | 2.5 | 3.3 | 3.9 | 4.0 | 4.0 |
| Federal Funds Rate | | | | | | |
| IBO | 0.1 | 0.3 | 1.9 | 3.4 | 4.0 | 3.9 |
| OMB | 0.1 | 0.4 | 1.6 | 3.3 | 3.8 | 3.8 |
| NYC Economy | | | | | | |
| Nonfarm New Jobs (thousands) | | | | | | |
| IBO | 120.7 | 88.2 | 75.1 | 60.0 | 50.0 | 45.5 |
| OMB | 121.0 | 67.0 | 62.0 | 56.0 | 49.0 | 47.0 |
| Nonfarm Employment Growth | | | | | | |
| IBO | 3.0 | 2.1 | 1.8 | 1.4 | 1.2 | 1.0 |
| OMB | 3.0 | 1.6 | 1.5 | 1.3 | 1.2 | 1.1 |
| Inflation Rate (CPI-U-NY) | | | | | | |
| IBO | 1.3 | 0.9 | 3.1 | 3.1 | 3.2 | 3.0 |
| OMB | 1.3 | 0.3 | 2.6 | 2.4 | 2.5 | 2.4 |
| Personal Income (\$ billions) | | | | | | |
| IBO | 510.6 | 535.2 | 564.5 | 596.4 | 627.8 | 653.7 |
| OMB | 505.1 | 519.4 | 538.5 | 562.7 | 586.1 | 610.1 |
| Personal Income Growth | | | | | | |
| IBO | 5.9 | 4.8 | 5.5 | 5.7 | 5.3 | 4.1 |
| OMB | 4.9 | 2.8 | 3.7 | 4.5 | 4.2 | 4.1 |
| Manhattan Office Rents (\$/sq.ft) | | | | | | |
| IBO | 73.7 | 77.4 | 80.1 | 82.3 | 84.0 | 85.6 |
| OMB | 73.7 | 77.2 | 82.0 | 83.6 | 86.8 | 88.6 |
| SOURCE: Mayor's Office of Management and Budget | | | | | | |
| NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal. For 2014, New York City personal income and growth rates are estimated, pending Bureau of Economic Analysis release. | | | | | | |
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are expected to grow only slightly above the rate of inflation and in 2019 will still total nearly 16 percent below the 2007 peak in real dollar terms. Rising interest rates are expected to put a damper on both commercial and residential sales towards the end of 2015, and the availability of new office space at Hudson Yards and the World Trade Center sites will also cool off the commercial market.

Risks to the Economic Forecast. Underlying IBO's forecast of the local economy is a generally favorable outlook for the U.S. economy despite the reported decline in the nation's output during the first quarter of 2015.² This outlook does not substantially differ from what we described in our March report on the Mayor's preliminary budget. Job growth and the beginnings of wage gains in many industries combined with households' pent-up demand and improved financial position continue to bode well for economic growth, which IBO projects will peak in the middle of 2016. There are a number of downside risks to our forecast of continued U.S. economic growth, however, some familiar and two that have become apparent more recently.

The strong appreciation of the U.S. dollar against almost all other major currencies in the past year has dampened the net exports component of gross domestic product (GDP). Since the middle of 2014 the dollar's value has increased almost 15 percent against a trade-weighted index of other currencies, making U.S.-produced goods and services less competitive in foreign markets, while making imports cheaper and more competitive. Further appreciation of the dollar against most currencies is limited in IBO's forecast (the Japanese yen being the major exception). But if the appreciation continues, the harm to U.S. economic growth would mount over time and substantially reduce real GDP growth.

A second development is the plummet in energy prices since the middle of 2014. This has led to a decline in domestic energy production. Many had expected the corresponding reduction in energy costs—particularly gas—to boost consumer spending, but the impact has been less than anticipated. The adverse impact on real GDP from the former has outweighed the positive contributions of the latter. The first-quarter slowdown in employment growth was in large part due to the loss of 29,000 energy-related jobs as investment in energy production fell. Meanwhile the lift to consumers' disposable incomes from savings at the gas pump—an estimated \$1,000 or more this year for the typical U.S. household—has largely been used to pay down debt or to increase savings and not spent on consumer goods as most analysts had expected. Our forecast of resumption in U.S. economic growth assumes that energy

prices will only gradually increase in the next year and a half with prices and production gradually stabilizing. If prices again fall and go below their previous lows many operators will no longer be able to compete, leading to further shrinkage of the industry. If prices escalate too quickly, consumers will no longer feel confident that their savings on gas is anything more than a temporary phenomenon, making them all the more reluctant to spend their savings.

In our March report, we discussed several risks that have persisted for many years. Potential missteps in domestic monetary and fiscal policies pose one set of risks. IBO's macro forecast is premised on both an orderly rise in Federal Reserve interest rates that manages to avoid sharp increases in long-term rates, which would undermine housing growth and other investment, and a lack of Congressional brinksmanship in future budget and debt ceiling negotiations, which would undermine consumer and business confidence. A worsening of economic and monetary problems outside of the U.S. continues to pose others risks to U.S. economic growth. Slower growth or recessions have troubled many of the world's largest economies (and the U.S.'s largest trading partners) for several years, and further deterioration could trigger a slower growth or a recession. Moreover, any shock to global finance from the troubled eurozone or China would damage the nation's economy and have a major impact on New York City's economy, given the city's role as a global financial center.

Revenue Forecast

Overview. IBO's tax forecast has been revised only slightly since our March outlook was published. For 2015, stronger than anticipated collections in recent months have led us to add \$523 million (1.0 percent) to our current year forecast. In contrast, our slightly less optimistic economic forecast over the next few years prompted small downward revisions to our tax forecasts for 2016 through 2019, with the downward revisions averaging about \$257 million, a decline of 0.6 percent or less each year. (Unless otherwise noted, years refer to city fiscal years in our revenue discussion.) For the current year, there were notable increases in the forecasts for the personal income tax (PIT), real property transfer tax, and mortgage recording tax (MRT). The downward revisions in subsequent years are driven by lower forecasts for the business income taxes—and to a lesser extent—the property tax.

With these changes, IBO's tax revenue forecast for 2015 is now \$50.4 billion, a 6.0 percent increase over 2014.

| IBO Revenue Projections | | | | | | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------------|
| <i>Dollars in millions</i> | | | | | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 | Average Change |
| Tax Revenue | | | | | | |
| Property | \$21,271 | \$22,356 | \$23,587 | \$24,947 | \$26,389 | 5.5% |
| Personal Income | 10,309 | 10,433 | 10,632 | 10,878 | 11,406 | 2.6% |
| General Sales | 6,727 | 7,090 | 7,397 | 7,674 | 7,946 | 4.3% |
| General Corporation | 3,153 | 4,151 | 4,429 | 4,634 | 4,802 | 11.1% |
| Unincorporated Business | 1,984 | 2,121 | 2,289 | 2,475 | 2,654 | 7.5% |
| Banking Corporation | 846 | 80 | 5 | - | - | n/a |
| Real Property Transfer | 1,664 | 1,577 | 1,657 | 1,701 | 1,743 | 1.2% |
| Mortgage Recording | 1,106 | 1,040 | 1,072 | 1,098 | 1,127 | 0.5% |
| Utility | 401 | 426 | 441 | 456 | 469 | 4.0% |
| Hotel Occupancy | 576 | 620 | 661 | 687 | 707 | 5.3% |
| Commercial Rent | 744 | 785 | 810 | 844 | 859 | 3.7% |
| Cigarette | 48 | 46 | 44 | 41 | 39 | -5.0% |
| Other Taxes and Audits | 1,570 | 1,228 | 1,226 | 1,226 | 1,226 | -6.0% |
| Total Taxes | \$50,399 | \$51,951 | \$54,249 | \$56,661 | \$59,367 | 4.2% |
| Other Revenue | | | | | | |
| STaR Reimbursement | \$860 | \$764 | \$796 | \$800 | \$804 | -1.7% |
| Miscellaneous Revenue | 6,185 | 4,770 | 4,921 | 5,011 | 5,075 | -4.8% |
| Unrestricted Intergovernmental Aid | - | - | - | - | - | n/a |
| Disallowances | (15) | (15) | (15) | (15) | (15) | n/a |
| Total Other Revenue | \$7,030 | \$5,518 | \$5,702 | \$5,795 | \$5,865 | -4.4% |
| TOTAL CITY-FUNDED REVENUE | \$57,429 | \$57,469 | \$59,951 | \$62,457 | \$65,232 | 3.2% |
| State Categorical Grants | \$12,524 | \$12,984 | \$13,353 | \$13,759 | \$14,090 | 3.0% |
| Federal Categorical Grants | 8,376 | 7,611 | 7,312 | 6,881 | 6,780 | -5.1% |
| Other Categorical Aid | 893 | 869 | 877 | 882 | 879 | -0.4% |
| Interfund Revenue | 559 | 575 | 546 | 548 | 548 | -0.5% |
| TOTAL REVENUE | \$79,782 | \$79,507 | \$82,038 | \$84,526 | \$87,530 | 2.3% |

NOTE: Figures may not add due to rounding.

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Growth in tax revenues is expected to be slower in the coming years, averaging 4.2 percent annually in 2016 through 2019, as collections grow from \$52.0 billion in the former to \$59.4 billion in the latter.

IBO's tax revenue forecast remains higher than the Mayor's Office of Management and Budget's for each year from 2015 through 2019, with differences growing from \$206 million in the first year to \$2.5 billion in the last. Some of the biggest differences—in percentage terms—are in the business income taxes and the hotel occupancy tax. There are also large differences in dollar terms for the real property tax and the personal income tax.

Total revenues, including the city's fees, fines and other miscellaneous nontax sources, state and federal grants and other categorical aid, and interfund revenues are now

projected to total \$79.8 billion in 2015, \$1.0 billion higher than in our March forecast, with roughly half the difference coming from taxes and \$419 million from increased miscellaneous revenues. There were much smaller changes to the outlook for total revenues in 2016 through 2019, which are now projected to reach \$79.5 billion next year and \$87.6 billion in the last year of the financial plan.

Real Property Tax. IBO's May forecast of 2015 property tax revenue incorporates changes to property tax reserve components as the fiscal year has progressed—at this point in the year there are no changes to current year assessments or to the levy. We have increased our 2015 revenue forecast by \$99 million due to the city refunding less money than previously projected, and we now expect the city's property tax revenue for 2015 to total \$21.3 billion. Our forecast for property tax revenue in 2016 is \$22.4

billion, an increase of 5.1 percent from this year. Somewhat faster revenue growth—averaging 5.7 percent annually—is projected for 2017 through 2019, with collections expected to reach \$26.4 billion in the latter year.

An administrative decision to change the treatment of 6,205 city-owned properties on the tax roll led IBO to reduce the anticipated levy for 2016 and beyond, but this change is not expected to affect property tax collections. Prior to the 2016 final roll, the Department of Finance maintained these properties' tax exemption as city-owned property by applying an abatement to fully offset their levy. Beginning with the 2016 final roll, the properties will instead be granted a full tax exemption, thereby reducing their taxable assessed value to zero. The impact of the change is to remove \$808.3 million of assessed value from the final roll for next year.

The final 2016 assessment roll was released after our forecast was completed. It showed more assessed value than we had anticipated, which is likely to yield an additional \$150 million in revenue for the fiscal year. This additional revenue has not yet been reflected in our forecast summary and gap/surplus projections.

IBO's revised forecast also does not take into account revenue impacts of the Mayor's proposed changes to the 421-a property tax exemption program. Although the proposal was discussed in conjunction with the executive budget, it was not incorporated in the financial plan. IBO [has estimated](#) that if the proposal were enacted, the amount of tax revenue forgone would be \$2.7 billion higher in the first 10 years the changes were fully in effect than if the current program were extended with no changes. Over the same time frame, the changes would be expected to lead to the creation or preservation of 13,241 additional affordable housing units.

Real Estate-Related Taxes. Revenues from three real estate-related taxes—the commercial rent tax (CRT), the real property transfer tax, and the mortgage recording tax—totaled almost \$3.2 billion in 2014, the second highest amount on record (\$3.8 billion was collected in 2007 at the height of the boom in real estate). IBO expects collections from the three taxes to reach \$3.5 billion in 2015, dip slightly to \$3.4 billion in 2016, and rebound to \$3.7 billion by 2019.

The CRT is a surcharge on certain commercial rents in a restricted area of Manhattan, the RPTT is a tax on the value of all real estate sales in the city, and the MRT is a tax on the value of residential and commercial mortgages, whether for purchase or refinance. CRT collections have

experienced steady growth over time, while RPTT and MRT collections are subject to major fluctuations in response to changing conditions in the real estate market.

IBO's forecast of the CRT is essentially unchanged since March. Revenues are projected to be \$744 million in 2015, increasing to \$859 million by 2019.

In light of stronger-than-expected collections in recent months, IBO has increased its forecasts of RPTT and MRT revenues for 2015. Collections have benefitted from continued low interest rates and generally positive economic conditions. The RPTT forecast for 2015 is up 8.3 percent over our March estimate, while the projection for the MRT is up 11.4 percent. These increases are due in part to a surge of high-value commercial sales. IBO assumes that the intense level of commercial real estate activity seen this year will not be sustained, particularly in light of our forecast of an increase in interest rates, which are expected to reduce sales activity by the middle of 2016.

IBO now anticipates that the current strength of the real estate market will spill over into the first months of 2016 and we have raised our forecast of RPTT and MRT revenues for 2016 accordingly. However, the revisions to the 2016 forecast are much smaller than those for 2015. Whereas in March revenues from the two taxes were projected to be essentially the same in 2016 as in 2015, IBO now forecasts year-over-year declines of 5.2 percent for RPTT and 6.0 percent for MRT.

RPTT and MRT collections are forecast to resume growing at a modest rate in 2017. By 2019, IBO expects RPTT revenues to reach \$1.74 billion, just above the previous record of \$1.72 billion set in 2007—but well below that mark in inflation-adjusted terms. We project that MRT revenue will reach \$1.1 billion in 2019, far short of their 2007 peak of \$1.6 billion.

The Mayor has proposed a so-called “mansion tax” in the form of an RPTT surcharge on residences sold for more than \$1.75 million. The tax rate would be 1.0 percent on the first \$5 million of the transaction, and 1.5 percent on any additional amount. [IBO anticipates](#) that this tax would generate around \$200 million per year in revenue, an amount similar to the city's estimate. Although the administration has been pursuing this proposal in Albany, estimates of RPTT revenue in the Mayor's executive budget do not include any revenue from the proposed tax.

Personal Income Tax. With the exception of our forecast for current year collections, IBO's forecast of personal income

tax revenue has changed little since March. April PIT receipts were much higher than expected, prompting IBO to increase our 2015 forecast by \$304 million, to \$10.3 billion. The revised forecast is 8.1 percent greater than revenue in 2014.

Estimated payments made in April by taxpayers seeking extensions in the deadline for filing tax (calendar) year 2014 returns accounted for about \$250 million of the unexpected revenue. Also contributing to the surge in revenue was almost \$100 million of unanticipated state/city offset payments—an accounting adjustment to reconcile the state's initial transfer to the city of PIT revenue collected by the state on behalf of the city, with the final determination of the actual amount of city revenue collected by the state. Higher-than-expected refunds in April, however, offset a portion of the unanticipated collections.

IBO has also raised its PIT forecast for 2016 but by a much smaller amount—only \$62 million, bringing expected revenues to \$10.4 billion for the year, 1.2 percent growth over 2015. Most of this increase comes from a higher forecast of offsets. The high level of extension payments boosting city coffers this year is not likely to be repeated in 2016. With IBO projecting somewhat softer employment and income growth in the latter half of calendar year 2015 and beyond, we have nudged down our post-2016 forecasts of PIT revenue by an average of \$41 million each year. PIT collections after 2016 are expected to increase at an average annual rate of 3.0 percent through 2019—relatively modest growth compared with past expansions.

Business Income Taxes. In line with our current forecast of somewhat slower economic growth than we had expected in March, IBO has reduced its estimates of 2015 collections from the city's business income taxes by a total of \$149 million. The combined revenue from the city's three business income taxes is now projected to be \$6.0 billion in 2015, a 1.8 percent increase from 2014. Combined business income tax revenue growth is expected to accelerate to 6.2 percent in 2016, yielding \$6.4 billion in revenue. Growth is projected to average 5.5 percent annually in 2017 through 2019.

The city business tax reforms enacted in Albany earlier this year merged the current banking corporation tax (BCT) into the general corporation tax (GCT), effective January 1, 2015. IBO forecasts \$846 million in BCT revenue in 2015. In the following years, the city will collect diminishing amounts of the BCT revenue as banks settle pre-reform liabilities, for calendar year 2014 and earlier years. Banks'

tax payments for liability (calendar) year 2015 and beyond will be reported as GCT revenue.

The revenue from the general corporation tax, the largest of the business income taxes, is forecast at \$3.2 billion for 2015, which incorporates an estimated \$320 million shift of bank tax payments for liability year 2015 from BCT to GCT. Excluding the shift, we expect GCT revenue to grow at 2.4 percent for 2015, while the combined revenue from GCT and BCT would continue to be around \$4 billion, close to 2014 levels. The essentially flat combined revenue reflects the slow pace of expansion of earnings in sectors other than finance at both the national as well as the local level, and moderate profits growth in the financial sector as firms adjust to new regulations and higher legal settlement expenses. In 2016, combined revenue from the general corporation tax and banking corporation tax is expected to grow at a faster rate of 5.8 percent to \$4.2 billion.

IBO's forecast for unincorporated business tax (UBT) revenue in 2015 is now \$2.0 billion, 5.4 percent above 2014 collections. Although IBO had forecast a much stronger expansion in UBT revenue in March, we revised our forecast following the contraction of the U.S. economy in the first quarter of 2015 and expectations that earnings in financial and professional and business services would increase at a more moderate rate. Growth of UBT revenue is expected to accelerate to 6.9 percent in 2016—an increase of \$137 million over the 2015 level—as earnings rise across the board, especially in the securities, investment, and related financial activities industries. IBO expects UBT revenue to continue to grow at an average annual rate of 7.8 percent in 2017 through 2019, as a tightening labor market raises earnings for professionals in these unincorporated enterprises.

Sales Tax. After growing almost 5 percent through January, sales tax collections in February and March were lower than expected, dragging the rate of revenue growth through March down to 3.6 percent. IBO projects sales tax revenue of \$6.7 billion (3.6 percent growth) for 2015 as a whole, with growth picking up from March but remaining at a slower pace than was seen earlier in the year.

The effect of growing personal income on consumer spending is constrained by somewhat shaky consumer confidence, which continues to fluctuate from month to month. In recent months, consumer confidence has risen after months of particularly strong national employment growth (eg. the post-recession peak in consumer confidence in January 2015 followed two months of very

healthy employment gains, averaging 376,000), and vice-versa. As growth in the U.S. economy accelerates, consumer confidence is expected to improve. That, combined with local personal income growth of 5.5 percent in calendar year 2016, is expected to increase sales tax revenue growth to 5.4 percent in fiscal year 2016.

New York City experienced a record number of visitors in calendar year 2014 and IBO expects a new record to be set again this year, with growth in both domestic and international tourism. However, the appreciation of the U.S. dollar relative to the euro, the Brazilian real, and other currencies is projected to decrease the amount spent per capita in New York City by international tourists in the near term.

Slower economic growth nationally and locally starting in calendar year 2017 is expected to constrain growth in sales tax collections. IBO projects annual average increases of 3.9 percent in 2017 through 2019, with revenue reaching \$7.9 billion in 2019.

Hotel Tax. IBO projects hotel occupancy tax revenue of \$576 million in 2015, an increase of 7.4 percent from 2014. With almost 10 percent growth in the number of hotel rooms throughout the city expected in calendar year 2015—on top of a roughly 6 percent expansion last

year—we are anticipating a considerable drop in hotel room occupancy rates, on the order of 3 to 4 percentage points from last year’s record of 89.2 percent. But with the gains in hotel room volume comes the capacity to absorb larger numbers of visitors, and this is reflected in IBO’s 2016 hotel occupancy tax revenue forecast of \$620 million (growth of 7.6 percent).

Growth in hotel tax collections is expected to slow later in the forecast period due to slower growth in personal income and national economic output starting in calendar year 2017. IBO expects annual average increases of 4.5 percent in 2017 through 2019, with revenue reaching \$707 million in 2019.

Endnotes

¹The 2010 Census imposed a substantial reduction in the city’s population estimate, but not in its employment and unemployment numbers, starting in April 2010. We have benchmarked the pre-April 2010 population series to the new Census to make pre- and post-April 2010 labor force ratios more comparable. The city adult population growth figure reflects that adjustment.
²The latest official calculation of real GDP growth is -.07 percent on an annual basis for the first quarter of 2015. But with employment growth averaging 219,000 in the first five months of this year and noted problems with first-quarter data from prior years, many economists believe that the official number is a statistical aberration that understates the health of the U.S. economy in the first quarter and does not indicate further contraction this year. IBO’s revised forecast of real GDP growth is 2.6 percent in 2015 and 3.3 percent in 2016.

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