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Testimony of Ronnie Lowenstein
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To the New York City Council Finance Division
On the Mayor's Executive Budget for 2019 and Financial Plan

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Good afternoon Chairman Dromm and members of the New York City Council. I am Ronnie Lowenstein, director of the New York City Independent Budget Office and I thank you for the opportunity to be here today.

Earlier this month we released our report on the Mayor's Executive Budget for 2019 and the financial plan through 2022. Our report takes a wide-ranging look at many different aspects of the Mayor's plan, including our re-estimates of revenues and expenses. In the short time available today, I would like to focus on two aspects of our report: our projections of budget gaps under the plan and the sufficiency of reserves in the city's budget.

Based on IBO's economic forecast for the city and our projections of revenue and spending under the contours of the Mayor's plan, we find that the city's near-term fiscal outlook remains sound. We project that the city will end this year with a surplus of $4.3 billion, $677 million more than the Mayor expects. And while the de Blasio Administration has presented a balanced budget for 2019, we forecast a surplus of $825 million. Assuming our projected surplus for 2019 is used to prepay some of the next year's expenses, 2020 is left with a shortfall of $742 million—just 1.0 percent of planned city-funded expenditures. While we project the shortfall will grow to $1.5 billion (2.0 percent) in 2021, these are budget gaps of a size the city has routinely managed in past years.

These projections of surpluses followed by relatively small gaps are not driven by an upbeat economic forecast. We project a marked slowdown in job growth over the next few years and, as a result, slower growth in tax revenues than we have recently experienced. IBO estimates that job gains in the city will slow from 96,000 in 2017 (4th quarter to 4th quarter) to 70,000 this year, 60,000 next year, and 52,000 in 2020. We expect tax collections to grow at an average rate of 3.7 percent a year from 2018 through 2022, the slowest four-year growth rate since the recovery from the last recession. Much of the growth is driven by the property tax, with revenues expected to rise at an average annual rate of 5.5 percent over the financial plan period. In contrast, after extraordinary gains in 2018, IBO projects that personal income tax collections will actually *decline in* 2019 and grow at an average rate of just 1.4 percent from 2018 through 2022.

Of course, there are a number of factors that could upend our projections. While doomsday scenarios related to federal funding for the city have yet to occur, the threat remains real. The Trump Administration continues to pressure cities to accept the President's immigration policies or face the potential loss of considerable federal funding. While New York City has so far steadfastly refused and not yet lost federal aid because of this position, this could change. The President has also proposed budgets that would reduce—or eviscerate—health and social services, transportation and other funding. If Congress were to support these proposals, it would force the city to make difficult choices about which, if any, shortfalls it could cover.

While the unpredictable behavior of the Trump Administration makes certain that a high level of fiscal uncertainty will continue to originate in Washington, Albany is exerting its own fiscal pressure on the city. The recent state budget has in fact added about $500 million in unexpected costs to the city for next year. This includes more than $250 million for the state-initiated subway action plan and nearly $110 million related to implementing the state's Raise the Age legislation. And the Albany-related tab could grow. Seemingly overnight the Governor created the post of Independent Emergency Manager for the city's ailing public housing. Under the loosely defined purview of the emergency manager, the city could be required to add substantial new funding to meet the repair needs of housing authority developments.

Another potential source of fiscal pressure is the need to renegotiate many of the city's now expiring labor contracts. The de Blasio Administration has set aside funds for 1 percent annual raises and has said any other benefits must be funded with union givebacks, a position that may prove difficult to hold.

But what could be the most debilitating risk to the city's fiscal outlook is the potential for a recession. Even a mild recession could generate the loss of 100,000 or more jobs and reduce tax revenue by upwards of a billion dollars.

As a hedge against such risks, the Mayor and the Council have built a record level of reserves. The Mayor's budget maintains $1.25 billion in reserve funds within each year of the financial plan and about $4.3 billion has been maintained in a separate trust to help pay retiree health benefits. Some fiscal observers have questioned whether this is enough. Our current level of reserves is unlikely to be sufficient to sustain the city through the biggest risk, a recession. But the reserves we currently have would be enough to provide the time to allow the Council, the Mayor, and other policymakers to develop other ways to bring the budget into balance.

While it is hard to argue against the idea of building a further hedge against unexpected costs or steep economic downturn by increasing the reserves, it is important to recognize that sizable reserves can themselves be a risk. With leaders in Albany pointing to the city's substantial reserves, officials felt empowered to make decisions in the new state budget that will cost New York City more than $500 million in 2019 and nearly $300 million more annually through 2022. Determining the right level of reserves may be as much a political as a fiscal decision.

Thank you again, and I would be pleased to answer any questions.