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Testimony of Ronnie Lowenstein
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To the New York City Council Committee on Finance
Hearing on the Executive Budget for 2023 and Financial Plan Through 2023

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Good morning Chairman Dromm and members of the City Council. I am Ronnie Lowenstein, director of the New York City Independent Budget Office. Thank you for the opportunity to be here this morning and present a summary of our latest economic forecast and projections of tax revenue and spending based on the Mayor's Executive Budget for 2020 and Financial Plan. (The full report is attached.)

With the city benefitting from record economic growth over the past 10 years, concerns have mounted that a nearly inevitable recession lurks around the corner. While our latest economic forecast does not point to a downturn, it does anticipate much weaker U.S. economic growth over the financial plan period, particularly in calendar year 2020. Despite this forecast, we expect the city's fiscal condition to remain relatively sound.

IBO projects the city will end the current year with a $3.9 billion surplus, $375 million more than estimated by the Mayor's budget office. We anticipate the city will end fiscal year 2020 with a surplus of $675 million, which would reduce the projected budget gap for 2021 to $1.7 billion—an amount largely covered by the reserves already built into the budget.

These gap and surplus projections do not derive from a bright economic outlook for the city. We expect that job growth in the city will tumble next year to about 34,000 from roughly 73,000 this year. Both of those amounts are well below the nearly 100,000 new jobs a year the city has been averaging since the last recession.

Likewise, we expect slower but continued growth in city tax collections. IBO projects that tax revenue growth will average 3.7 percent annually from 2018 through 2023—the slowest five year annual average since the recession. We estimate the property and sales taxes will show the steadiest and strongest growth. IBO projects that property tax collections will grow at an annual average rate of 5.5 percent, rising from $26.2 billion in 2018 to $34.3 billion in 2023—nearly half the total tax revenue we forecast for that year. IBO projects that sales tax revenue will increase at an annual rate of 4.0 percent, growing from $7.4 billion in 2018 to nearly $9.1 billion in 2023. In contrast, we expect increases in the cyclically sensitive tax on personal income to average just 1.6 percent a year over the same period.

On the other side of the ledger, the Executive Budget proposes relatively modest increases in spending. With the Mayor not proposing any new big-ticket initiatives, much of the increase in spending by city agencies derives from unforeseen increases in the cost of providing services, lower-than-expected state funding, or unfunded state mandates. As a result, we estimate that city-funded spending growth will average 3.3 percent a year from 2018 through 2023, after adjusting for use of prior-year surpluses and reserve funds not allocated to specific programs. Under our projections, city-funded spending would rise from $64.4 billion in 2018 to $75.8 billion in 2023.

Much of this growth stems from two areas of the budget: debt service on the funds the city borrows for capital projects and fringe benefits, including health insurance, for city employees. IBO estimates that

that in 2019 city spending on debt service and fringe benefits will comprise more than 18 percent of the city budget—a share that we expect will grow to nearly 22 percent in 2023.

Conversely, total agency spending on programs, adjusted for prepayments, will grow at a rate of 1.7 percent over the financial plan period. Although we project a relatively small annual increase in agency spending growth, we expect a number of programs will be more costly than budgeted by the Mayor's office. For example, we estimate that homeless services will cost about $120 million more a year than currently budgeted. Much of this additional cost comes from recent trends in meeting the shelter needs of homeless single adults.

As in past years, IBO also estimates that spending on overtime for the police, fire, and correction departments will be higher than budgeted. Taken together, we project that overtime costs for the three agencies will exceed the levels budgeted by a total of $115 million each year from 2020 through 2023. Another example is spending on charter schools, where we expect enrollment will increase more rapidly than estimated by the Mayor's office. As a result, we estimate that the city's charter school costs will be $22 million more than budgeted in 2020, growing to $150 million more in 2023.

While these and other higher-than-budgeted costs are more than offset by our projections of higher tax revenues than estimated by the Mayor's budget office, a number of issues have the potential to disrupt the balance of the financial plan. One such issue is the settlement with the federal government over repair issues at the New York City Housing Authority. As IBO demonstrated in a report earlier this year, the capital funds allocated to meet the repair targets under the agreement are not likely to be sufficient and may require additional city funding.

The fiscal condition of New York City Health + Hospitals presents another potential budget risk for the city. If the hospital system's so-called transformation plan unravels or Washington were to reduce its support for safety net hospitals, the city may well have to add to the $2 billion a year it already provides to the public hospitals. The Metropolitan Transportation Authority presents a similar risk, despite Albany passing congestion pricing and other supports to help meet the capital needs of the transit system. The particulars of the congestion-pricing plan remain uncertain and if the plan ultimately does not provide sufficient revenue, then the city could need to fund more of the system's repair needs.

Continued partisan rancor in Washington also poses the risk of further fiscal turmoil that can drag down the U.S. economy and the city with it. One upcoming issue is the need to increase the U.S. debt ceiling. Absent an increase, the Congressional Budget Office warns that the federal government could run out of cash by September.

Assuming such risks fail to materialize, IBO's economic forecast points to continued moderate growth in the city's tax revenue—although at a pace well below the average in the decade since the last recession. This growth would enable the city to fund the spending increases that are part of the Mayor's latest financial plan. These increases are in line with recent levels of spending growth and below our projection of growth in tax revenue for the years ahead. As a result, the budget gaps that IBO forecasts for the out-years of the financial plan are manageable and comparable in percentage terms to previous shortfalls the city has closed without much difficulty.

Thank you and I am glad to answer any questions you may have.