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Testimony of Ronnie Lowenstein
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To the New York City Council Finance Committee
On the Executive Budget for 2022 and Financial Plan Through 2025

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Good afternoon Chairperson Dromm and members of the City Council Finance Committee. I am Ronnie Lowenstein, director of the city's Independent Budget Office; and with me is George Sweeting, IBO's deputy director; and Jonathan Rosenberg, IBO's director of budget review. We are pleased to have the opportunity to outline our latest economic forecast and review of the Mayor's Executive Budget and financial plan through 2025.

Since we last testified in March, the city's economic and fiscal outlook have brightened. A "double shot" of federal stimulus funds and the vaccination of about 40 percent of city residents against Covid-19 are the primary reasons. But the city's rebound is far from certain. The Executive Budget and financial plan reflects the de Blasio Administration's approach to using the federal stimulus funds to prime the recovery and, as the Mayor's term winds down, shape its legacy.

Perhaps the primary key to the city's recovery, and the Mayor's legacy, will be New York's job growth in the coming months and years. After record job losses as Covid-19 swept the city—losses of about 615,000 jobs from the fourth quarter of 2019 through the fourth quarter of 2020—we are now seeing substantial job gains. We estimate the city will add about 264,000 jobs this year (Q4 to Q4). Still, we do not project the city will recover all its lost jobs until the third quarter of 2024—and some of the hardest hit sectors will not see a full recovery before the end of the financial plan period. For example, we project restaurants, hotels, and other leisure and hospitality businesses will still have about 22,000 fewer jobs at the end of 2025 than they did in 2019. We project wholesale and retail trade jobs will also remain below their 2019 level.

While our forecast of job gains are somewhat below those of the Mayor's Office of Management and Budget, our projection of tax revenues is stronger. For fiscal years 2022 through 2025, we estimate from $1.2 billion to $1.4 billion more in annual tax revenues than the Mayor's budget office. The largest dollar differences are in our estimates of property and personal income tax receipts. Conversely, we expect corporate income tax revenue will be below the levels estimated by OMB. Overall, our outlook for tax revenue has strengthened compared with our estimates in February—a reflection of the city's somewhat brighter economic outlook.

Although the Mayor's budget office also increased its forecast of tax revenues, new federal stimulus dollars are what is fueling the restoration of earlier budget cuts and the inclusion of new or expanded programs in the Executive Budget. The Mayor's financial plan now includes a total of $12.9 billion in new federal relief funds through 2025. This includes $5.9 billion in American Rescue Plan Act funds that flow directly to the city and $7.0 billion for education, which flows from the rescue act and the Coronavirus Response and Relief Supplemental Appropriations Act (some allocated by the state). IBO estimates that these funds enabled the city to make $731 million in restorations to programs cut back due to the pandemic, to expand existing programs aiding the city's recovery efforts by $1.7 billion, and to use $1.3 billion to forestall municipal layoffs this year and next year. In addition, the Mayor's plan uses $1.8 billion to bolster the city's reserve funds.

Many of the new recovery-oriented programs in the Mayor's plan are funded short-term, such as the City Cleanup Corps. But we estimate that about a third of the newly recognized federal dollars—roughly $4.2 billion—have been allocated to fund initiatives in each year of the financial plan. Looking just at the city's $7.0 billion in federal pandemic aid for education, about $3 billion, or more than 40 percent, has been budgeted for initiatives continuing through 2025. The bulk of this, $2.0 billion, is for the expansion of the 3K program, an extension of universal pre-K, perhaps the signature program of the de Blasio Administration and its legacy.

Though 3K and other programs funded through 2025 with federal stimulus dollars may be worthwhile, it leads to the obvious question of how to fund them when the federal dollars are no longer available. If these programs are to continue, the next Mayor and City Council will need to locate alternative funding sources or cut spending in order to maintain budget balance.

For now, though, the city's budget outlook is manageable. Based on the Executive Budget and financial plan, we project the city faces a $4.1 billion budget gap in 2023. But with our expectation of a $1.3 billion surplus in 2022 that can be used to help close the 2023 shortfall, that year's gap looks less challenging. For 2024 and 2025, we project gaps of about $3.5 billion to $3.6 billion annually.

Each of these gaps also should be viewed in the context of the size of the city budget and the level of budgeted reserves. With the influx of federal funds, the Mayor has proposed replenishing the Retiree Health Benefits Trust to a balance of roughly $3.8 billion. In addition, the Mayor's plan includes an unallocated reserve within the budget of $300 million in 2022 and $1.25 billion annually from 2023 through 2025. Assuming these reserves are not needed to cover unexpected expenses or revenue shortfalls, they can be used to help close projected budget gaps.

Like any forecast, this budget includes a variety of risks. Primary among these risks is the continued course of the pandemic and the changes it may have had on people's behavior. If the vaccine rollout stalls and not enough people are vaccinated or variants emerge that are vaccine-resistant, many of the public health restrictions that affected economic activity over the past year may need to be put back into place. If white-collar workers do not return to their offices on a regular basis, it can greatly affect the makeup of the city's business districts and the value of high-priced commercial space. Nor is it certain that tourists, especially international tourists, will return in the numbers the city experienced in the past, which would greatly affect hotel, entertainment, and other tourist-dependent businesses.

Some of the other risks to the city's fiscal outlook are somewhat more prosaic. Two prime examples are the continued fiscal strains on the Metropolitan Transportation Authority and the city's public housing authority. While neither are directly city agencies, they are both critical to the city and pressure could build for additional city subsidies. Pressure on the budget can also come from the municipal labor force.

By the end of 2022, nearly all city labor agreements will have expired. There is little funding in the city's labor reserve for the next round of contracts. An increase of just 1.0 percent would add $2.4 billion in expenses to the financial plan through 2025.

New York City has endured one of its most tumultuous years in modern history. Actions taken by the Mayor and this Council, as well as its successors, may prove to be among the most significant decisions made for the city in generations.

Our full report on the Mayor's Executive Budget and financial plan is available here. And George, Jonathan, and I are happy to answer any questions you may have.