



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

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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 2021 and Financial Plan Through 2024

May 6, 2020

Good afternoon Chair Dromm and members of the City Council. I am Ronnie Lowenstein, director of the New York City Independent Budget Office. Joining me is George Sweeting, IBO's deputy director. Just two months ago, we testified to you on our projections for the local economy and the city's budget. We cautioned that the local economy was slowing and job growth would no longer be nearly as robust as it had been in the recent past. At that time we also projected that tax revenue growth would be steady, if not particularly strong. The Covid-19 pandemic has rendered those projections moot.

Our just completed economic forecast and projections for tax revenue and spending under the contours of the Mayor's Executive Budget tell a far grimmer story for the city. We project the city has a budget gap of \$544 million that must be closed in the two months remaining in the current fiscal year. We also estimate a shortfall in the upcoming fiscal year of \$830 million and a budget gap that balloons to nearly \$6.0 billion in 2022, just 14 months from now.

The likelihood of a rapid economic rebound to help boost tax collections to close the shortfalls is slim. We forecast the city will lose 475,000 jobs from the fourth quarter of calendar year 2019 through the fourth quarter of this year. We expect four out of every five of these job losses will occur in the current quarter, the months of April through June. Nearly 60 percent of these lost jobs will be concentrated in just two industries: one is trade, particularly retail trade, the other is leisure and hospitality. But nearly every major employment sector will experience declines.

By the end of next calendar year, we expect that the city will regain only about 20 percent of the lost jobs. It will take two more years before employment in the city reaches pre-pandemic levels.

A similarly grim forecast for tax revenues accompanies our bleak outlook for jobs. Tax revenue for 2020 is now projected to fall \$2.9 billion (4.6 percent) below what we were expecting in our Preliminary Budget report; for 2021 the shortfall is \$6.6 billion (9.9 percent). We expect tax collections will total about \$61.5 billion this fiscal year, a gain of only 0.2 percent from 2019 and the picture for 2021 is considerably worse. We anticipate tax revenues for 2021 will total about \$2 billion less than this year, a year-over-year decline of 3.2 percent.

Given the falloff in employment, it is no surprise that collections from the personal income tax are projected to fall precipitously. We estimate that personal income tax revenue will total about \$13.2 billion this fiscal year, roughly \$165 million less than last year. Next year the projected fall is far steeper, to \$11.8 billion, a decline of about \$1.4 billion. Volatility in financial and property markets is also likely to take a toll on capital gains, which will reduce revenue from personal income tax estimated payments.

With many of the city's businesses closed or greatly curtailed, we also project a substantial slide in sales tax revenue. That decline hits hard in the current year, falling from about \$7.8 billion last year to \$6.8 billion this year, a loss of \$1 billion in revenue. The slide continues next year when we expect receipts will be about \$100 million less than this year.

Two other taxes for which we project revenues will fall substantially next year are the business corporation and real property transfer taxes. IBO estimates that corporate tax collections will decline from about \$4.1 billion this year to just under \$3.1 billion in 2021, a loss of roughly \$1 billion in revenue. With the expectation of a substantial decline in real estate sales over the coming year, we expect collections from the real property transfer tax to fall by about \$240 million next year to \$976 million.

On the expense side of the budget, we estimate spending will be nearly \$360 million more than budgeted by the Mayor in 2021. Some of the largest differences are in the costs for homeless services (\$187 million), overtime for police officers and firefighters (\$100 million), and business services (\$45 million).

Some budget observers have noted that despite the bleak economic picture for the city, the Mayor's Executive Budget increases city-funded spending by about \$225 million in 2021 to \$69.6 billion (when adjusted for the use of surpluses and other nonrecurring revenue). Recent budget actions in Albany, however, more than account for the increase. For example, lower than anticipated state education aid for next year led the Mayor to allocate an additional \$382 million in city funds to maintain services. Similarly, the state cut about \$120 million in Temporary Assistance for Needy Families funds, which the Executive Budget backfills, and required the city to increase support for Access-a-Ride by \$63 million. Additionally, the state took \$250 million in city sales tax revenue in 2021 and an additional \$150 million in 2022 to aid distressed hospitals.

As the demands on the city budget grow and the city's tax revenues diminish, our reserve funds are also waning. To take an example from a [report](#) we released yesterday, there is only \$100 million in reserves budgeted for next year, compared with the \$1.4 billion we started with this year. Declines in reserves will make replacing future cuts in aid from Albany with city funds increasingly daunting. About 10 days ago the Governor proposed new cuts in aid as the state's fiscal condition worsened, warning of the potential for a 20 percent cut in education aid—a reduction that would cost the city \$2.3 billion.

While any set of economic and fiscal projections come with some uncertainty, we now face uncertainties of an extraordinary magnitude—from the course of the coronavirus and its potential resurgence to how businesses and consumers react in the gradual reopening of the economy to whether aid to states and localities will be forthcoming from Washington. Amid these uncertainties, there is also a growing demand for public services at the same time we expect tax revenues to decline. These growing needs against a backdrop of substantial instability will produce formidable budget challenges in the months ahead.

Thank you for the opportunity to testify to and we are pleased to answer any questions you may have.

Total Revenue and Expenditure Projections

Dollars in millions

	Actuals 2019	Plan					Average Change 2019-2024
		2020	2021	2022	2023	2024	
Total Revenue	\$92,436	\$97,031	\$89,484	\$94,296	\$97,639	\$100,109	1.6%
Total Taxes	61,312	61,461	59,523	63,715	66,661	69,119	2.4%
Total Expenditures	\$91,779	\$97,575	\$90,313	\$100,287	\$102,606	\$104,096	2.6%
IBO Revenue Less Expenditures	n/a	(\$544)	(\$830)	(\$5,991)	(\$4,966)	(\$3,986)	
IBO Prepayment Adjustment 2020/2021	n/a	-	-	-	-	-	
IBO Surplus/(Gap) Projections		(\$544)	(\$830)	(\$5,991)	(\$4,966)	(\$3,986)	
Adjustments for Prepayments and Non-Recurring Expenses							
Net Prepayments	(\$355)	(\$66)	(\$4,155)	\$0	\$0	\$0	
Reserve Funds	0	20	100	1,250	1,250	1,250	
Other Adjustments	0	(400)	0	117	261	395	
Total Expenditures (net of adjustments)	\$92,786	\$98,021	\$94,368	\$98,920	\$101,095	\$102,451	2.0%
City-Funded Expenditures (net of adjustments)	\$68,633	\$69,386	\$69,612	\$73,509	\$75,273	\$76,616	2.2%

NOTE: Figures may not add due to rounding.

New York City Independent Budget Office

Correction: This table was updated on May 11, 2020 to fix a spreadsheet error in the amount of state aid projected for the Department of Housing Preservation and Development in 2023.

IBO Revenue Projections
Dollars in millions

	Actuals 2019	Plan					Average Change 2019-2024
		2020	2021	2022	2023	2024	
Tax Revenue							
Property	\$27,703	\$29,662	\$30,945	\$32,131	\$33,344	\$34,364	4.4%
Personal Income	13,344	13,179	11,841	13,144	13,862	14,555	1.8%
General Sales	7,810	6,787	6,673	7,289	7,960	8,317	1.3%
Corporation	4,200	4,137	3,086	3,706	3,741	3,873	-1.6%
Unincorporated Business	2,029	1,684	1,649	1,825	1,906	2,018	-0.1%
Real Property Transfer	1,547	1,215	976	1,284	1,413	1,489	-0.8%
Mortgage Recording	1,097	998	905	947	960	974	-2.3%
Utility	369	349	363	400	401	416	2.4%
Hotel Occupancy	625	479	448	510	547	577	-1.6%
Commercial Rent	907	875	856	901	947	960	1.1%
Cigarette	29	27	26	25	24	23	-4.8%
Other Taxes and Audits	1,651	2,070	1,754	1,554	1,554	1,554	-1.2%
Total Taxes	\$61,312	\$61,461	\$59,523	\$63,715	\$66,661	\$69,119	2.4%
Other Revenue							
STaR Reimbursement	\$181	\$165	\$167	\$165	\$163	\$161	-2.3%
Miscellaneous Revenue	8,220	7,552	6,901	6,854	6,839	6,841	-3.6%
Unrestricted Intergovernmental Aid	151	1,411	-	-	-	-	n/a
Disallowances	113	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	\$8,664	\$9,113	\$7,053	\$7,004	\$6,987	\$6,987	-4.2%
Less: Intra-City Revenue	(\$2,222)	(\$2,178)	(\$1,848)	(\$1,834)	(\$1,831)	(\$1,831)	
TOTAL CITY-FUNDED REVENUE	\$67,754	\$68,397	\$64,728	\$68,885	\$71,817	\$74,274	1.9%
State Categorical Grants	\$14,970	\$15,943	\$15,503	\$16,345	\$16,801	\$16,850	2.4%
Federal Categorical Grants	7,719	10,908	7,626	7,451	7,406	7,371	-0.9%
Other Categorical Aid	1,340	1,111	952	941	940	938	-6.9%
Interfund Revenue	652	672	675	675	675	675	0.7%
TOTAL REVENUE	\$92,436	\$97,031	\$89,484	\$94,296	\$97,639	\$100,109	1.6%

NOTES: Remaining banking corporation tax revenue reported with general corporation tax. Figures may not add due to rounding.

New York City Independent Budget Office

Correction: This table was updated on May 11, 2020 to fix a spreadsheet error in the amount of state aid projected for the Department of Housing Preservation and Development in 2023.

IBO Expenditure Projections*Dollars in millions*

	Actuals 2019	Plan					Average Change 2019-2024
		2020	2021	2022	2023	2024	
Agency Expenditures	\$66,769	\$71,477	\$66,328	\$67,912	\$68,629	\$68,550	0.5%
Fringe Benefits	10,212	10,267	9,992	12,269	12,859	13,489	5.7%
Labor Reserve	-	864	1,936	1,303	1,745	2,196	n/a
Total Agency Expenditures	\$76,981	\$82,608	\$78,256	\$81,484	\$83,233	\$84,235	1.8%
Other Expenditures							
Debt Service	\$6,373	\$6,973	\$3,151	\$8,027	\$8,732	\$9,166	7.5%
Pensions	9,941	9,819	9,927	10,502	10,434	10,106	0.3%
Judgments and Claims	706	733	727	742	758	775	1.9%
Subtotal Recurring Expenses	\$94,001	\$100,133	\$92,061	\$100,754	\$103,157	\$104,282	2.1%
General Reserve	-	\$20	\$100	\$1,000	\$1,000	\$1,000	n/a
Capital Stabilization Reserve	-	-	-	250	250	250	n/a
Other Adjustments	-	(400)	-	117	261	395	n/a
Subtotal Nonrecurring Expenses	-	(\$380)	\$100	\$1,367	\$1,511	\$1,645	n/a
Less: Intra-City Expenditures	(\$2,222)	(\$2,178)	(\$1,848)	(\$1,834)	(\$1,831)	(\$1,831)	n/a
TOTAL EXPENDITURES	\$91,779	\$97,575	\$90,313	\$100,287	\$102,837	\$104,096	2.6%

NOTES: Other nonrecurring 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. Figures may not add due to rounding.

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Pricing Differences Between IBO and the de Blasio Administration

Items that Affect the Gap

Dollars in millions

	2020	2021	2022	2023	2024
Gaps as Estimated by the Mayor	-	-	(\$5,024)	(\$4,530)	(\$4,901)
Revenue					
Taxes					
Property	\$50	\$111	\$225	\$513	\$1,104
Personal Income	(74)	170	169	133	285
General Sales	(426)	(591)	(927)	(745)	(637)
Corporation	(142)	(75)	(144)	(328)	(87)
Unincorporated Business	(35)	(133)	(53)	(108)	(87)
Real Property Transfer	84	(68)	14	108	167
Mortgage Recording	56	141	70	61	64
Utility	-	-	-	-	-
Hotel Occupancy	(10)	(70)	(115)	(111)	(93)
Commercial Rent	11	18	8	24	5
Cigarette	-	-	-	-	-
Other Taxes and Audits	-	-	-	-	-
Total Taxes	(\$487)	(\$496)	(\$754)	(\$451)	\$720
STaR Reimbursement	-	-	-	-	-
Misc. Revenue	-	24	24	24	24
TOTAL REVENUE	(\$487)	(\$472)	(\$730)	(\$427)	\$744
Expenditures					
Debt Service	\$99	\$84	\$-	\$-	\$-
Fringe Benefits:					
Health Insurance-Education	(4)	11	89	173	244
Health Insurance-City University	-	-	4	7	10
Health Insurance-All Other Agencies	(6)	12	141	271	377
Public Assistance	-	(49)	(61)	(61)	(61)
Education	(10)	(50)	(23)	(46)	(46)
Fire	(25)	(50)	(50)	(50)	(50)
Police	(50)	(50)	(50)	(50)	(50)
Homeless Services	(60)	(187)	(188)	(188)	(188)
Small Business Services	-	(45)	(45)	(4)	(4)
Sanitation	-	-	(1)	(25)	(25)
Campaign Finance Board	-	-	(20)	(3)	(2)
Board of Elections	-	(25)	(25)	(25)	(25)
Parks and Recreation	-	(9)	(9)	(9)	(9)
TOTAL EXPENDITURES	(\$57)	(\$358)	(\$237)	(\$9)	\$171
TOTAL IBO PRICING DIFFERENCES	(\$544)	(\$830)	(\$967)	(\$436)	\$915
IBO Prepayment Adjustment 2020/2021	-	-	-	-	-
IBO SURPLUS/(GAP) PROJECTIONS	(\$544)	(\$830)	(\$5,991)	(\$4,966)	(\$3,986)

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Remaining banking corporation tax revenue reported with corporation tax. Figures may not add due to rounding.

IBO versus Mayor's Office of Management and Budget Economic Forecasts						
	2019	2020	2021	2022	2023	2024
National Economy						
Real GDP Growth						
IBO	2.3	-5.8	2.3	6.8	4.7	2.5
OMB	2.3	-5.4	6.3	4.0	1.6	1.3
Inflation Rate						
IBO	1.8	0.6	2.5	2.9	2.6	2.6
OMB	1.8	0.7	2.1	2.7	2.7	2.4
Personal Income Growth						
IBO	4.4	0.5	1.6	5.8	6.0	5.0
OMB	4.4	1.7	3.1	4.7	3.8	3.9
Unemployment Rate						
IBO	3.7	8.4	9.2	6.9	4.9	4.5
OMB	3.7	8.0	7.9	4.3	3.6	4.0
10-Year Treasury Note Rate						
IBO	2.1	0.8	1.3	2.2	3.0	3.7
OMB	2.1	0.8	1.0	1.3	1.6	1.8
Federal Funds Rate						
IBO	2.2	0.4	0.1	0.1	0.7	1.7
OMB	2.2	0.4	0.1	0.1	0.1	0.1
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	83.3	-474.4	96.3	125.8	145.1	163.5
IBO (annual average)	100.1	-315.3	-87.0	127.1	136.6	157.3
OMB (annual average)	99.6	-350.4	213.3	130.3	72.9	55.4
Nonfarm Employment Growth						
IBO (Q4 to Q4)	1.8	-10.1	2.3	2.9	3.3	3.6
IBO (annual average)	2.2	-6.8	-2.0	3.0	3.1	3.5
OMB (annual average)	2.2	-7.5	5.0	2.9	1.6	1.2
Inflation Rate (CPI-U-NY)						
IBO	1.7	1.4	2.9	2.9	2.6	2.7
OMB	1.7	0.7	1.9	2.5	2.6	2.4
Personal Income (\$ billions)						
IBO	667.2	656.3	661.9	701.8	744.1	788.6
OMB	668.0	661.5	694.2	715.9	740.0	769.5
Personal Income Growth						
IBO	4.7	-1.6	0.9	6.0	6.0	6.0
OMB	3.6	-1.0	4.9	3.1	3.4	4.0
Manhattan Office Rents (\$/sq.ft)						
IBO	79.9	74.6	75.9	78.9	82.2	86.0
OMB	79.8	71.7	76.7	79.3	81.2	83.1

SOURCE: IBO; 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.

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