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Testimony of George Sweeting
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To the New York City Council Committee on Finance
Regarding the Mayor's Preliminary Budget for 2023 and Financial Plan through 2026
March 2, 2022

Good afternoon Chair Brannan and members of the Finance Committee. I am George Sweeting, acting director of the New York City Independent Budget Office. We welcome the opportunity to discuss our latest economic forecast for the city and our analysis of the Mayor's Preliminary Budget for 2023 and Financial Plan through 2026.

As the latest wave of the Covid-19 pandemic brought on by the Omicron variant recedes, the city's economic recovery from the unprecedented employment losses of early 2020 has continued, although the pace has slowed recently. Between the 1st and 2nd quarters of 2020, the city lost 886,600 jobs or about 20 percent of its pre-pandemic employment total. IBO's economic outlook assumes that despite job gains each year, the city does not recover those losses until late in 2025, years after the rest of the U.S. has recovered from its' Covid-19 employment losses, leaving the city with an unemployment rate more than double the nation's.

As frequently noted, the job losses disproportionately fell on workers in low-wage sectors such as leisure and hospitality where nearly 50 percent of workers lost their jobs, and retail trade where the losses amounted to 17 percent. Unfortunately, employment recovery has also been inconsistent among industries, with the same low-wage sectors experiencing some of the slowest rates of recovery. Neither leisure and hospitality, nor retail trade are expected to regain their pre-pandemic employment levels by the end of 2026.

Other economic indicators present a somewhat more upbeat view of the local economy. After falling slightly in 2020, aggregate wages in the city grew by an estimated 9.3 percent in 2021 and are expected to grow at an annual rate of 6.0 percent in 2022 through 2026. Personal income also continued to grow, even in 2020, helped by the increase in transfer payments such as unemployment benefits, stimulus checks, and refundable tax credits. Although transfer payments are forecast to return to more normal levels, personal income overall is forecast to grow by 3.1 percent in 2022 and then accelerate to an average of 5.1 percent annually in 2023 through 2026.

Wall Street firms, helped by the Federal Reserve's low interest rate policy in the aftermath of the recession, have enjoyed near record profits that also boosted city tax receipts. With the Fed moving to contain inflation by tightening monetary policy, IBO expects Wall Street profits to return to more typical levels. The city's real estate markets initially fell sharply in 2020 but bounced back strongly in 2021, with sales volume increasing by 81 percent from the prior year. Residential sales have been particularly strong, setting an all-time record for aggregate sales volume in 2021. IBO projects a decline in real estate transactions in 2022, as the Federal Reserve's monetary policies are expected to result in higher mortgage rates.

The economic recovery that got underway in mid-2020 helped boost tax revenues in fiscal year 2021, and although they are forecast to fall slightly in 2022 they still remain well above the forecasts made two years ago at the depth of the recession. Tax revenues are forecast to grow by 3.1 percent annually in 2023 through 2026. IBO's forecast for tax revenues in those years exceed OMB's by from $1.7 billion to $2.5 billion, although IBO expects spending to also be higher than OMB projects in each year of the plan with uniform overtime, charter school tuition, and the cost of housing vouchers accounting for most of the differences. These stronger than expected tax revenues, combined with $13 billion in federal fiscal relief has strengthened the city's fiscal shape, at least for the next few years.

The Preliminary Budget restored a staple of financial plans in years before the de Blasio Administration known as the Program to Eliminate the Gap or PEG program, although in function and scale it is not very different from what was known as the Citywide Savings Program under de Blasio. IBO's review of the latest PEG program finds that of the $866 million total savings in 2022, $48 million result from efficiencies. By 2026, efficiencies are $72 million out of $1.2 billion. The largest amounts each year come from funding swaps, spending re-estimates, and reclaiming vacancies, none of which represent examples of doing more with less.

IBO expects the city will end fiscal year 2022 with a surplus of $187 million more than OMB estimates, which we assume will be used to prepay 2023 expenses. Our revenue and spending re-estimates result in a projected $1.6 billion surplus in 2023. For 2024 through 2026, IBO is projecting gaps of less than $1 billion in each year. Unallocated reserves of over $1.2 billion built into each year's budget are available to fill shortfalls should they emerge, leaving these years essentially in balance.

While looking brighter, the city's fiscal outlook faces both near-term and long-term risks. In the near-term, the course of the pandemic remains uncertain. The emergence of the Delta and Omicron variants highlight the threat that future variants could emerge and undermine the public health progress that has been made so far. Another near-term risk is the threat to peace and security in Europe brought on by the Russian invasion of Ukraine. In addition to the loss of life and the threat of normalizing the use of violence to settle disputes in Europe, the assault has already sparked a jump in energy prices and disrupted supply chains which could derail the global economic recovery from the Covid-19 recession. Closer to home the city faces contract negotiations with its municipal labor force with insufficient funds socked away to pay for a settlement on terms similar to those in the expiring contracts.

Longer-term risks for the city concern how people and businesses adapt to the post-pandemic world. Will international tourism and business travel return to pre-pandemic levels and if so, when? The city's hotels, restaurants, stores, and entertainment venues depend greatly on visitors to the city, and if their numbers are permanently lessened, those businesses and the people who work in them face a difficult future. The city's large businesses that rent space in the city's office buildings have become much more comfortable with remote work and meeting virtually rather than in person. As firms' long-term leases come due, at least some are likely to reduce the amount of space they lease. How many do so, and how much space they actually shed, will affect the value of office properties in the city and in turn, the basis for the city's largest tax revenue source, the real property tax. Finally, while early evidence suggests that many of those who left the city in March and April 2020 have since returned, there still remains a risk that the ease of remote work, lingering health and safety concerns, the need for major transportation infrastructure investment with limited means to pay for it, and the increasing tax cost of living in New York will make the city a less attractive place to live and work and gradually contribute to shrinking the city's population and labor force.

Today IBO has begun issuing the first of a number of reports concerning the Mayor's Preliminary Budget, including a brief outlining our economic and revenue forecasts, a Snapshot providing the key findings from our review of the Preliminary Budget, and a brief on the headcount adjustments made in the PEG program. We will be releasing numerous briefs in the coming weeks highlighting specific issues in the Preliminary Budget.

Thank you for the opportunity to testify today and I will be happy to answer questions.