THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 • FAX (212) 442-0350 •EMAIL: iboenews@ibo.nyc.ny.us
http://www.ibo.nyc.ny.us

Testimony of Ronnie Lowenstein
Director, New York City Independent Budget Office
To the New York City Council Finance Committee

March 2, 2021

Good afternoon Council Member Dromm and members of the Finance Committee. I am Ronnie Lowenstein, director of the New York City Independent Budget Office, and am pleased to discuss our latest economic forecast for the city and analysis of the Mayor's Preliminary Budget for 2022 and financial plan through 2025.

When the Covid-19 pandemic swept the city just about a year ago, the effect on the local economy was almost instantaneous. The shutdown of many local businesses triggered an economic crisis that left tens of thousands of residents out of work. New York City lost 557,000 jobs between the end of 2019 and the end of 2020, with many of those lost jobs in the restaurant, retail, and tourism sectors—jobs held by people in households and communities also enduring the worst of the pandemic. Even under our current forecast of employment growth over the next four years, the city would still have fewer jobs in 2025 than it did in 2019.

While the pandemic decimated the local economy seemingly overnight, the effect on the city's budget has been less immediate. Although the city has suffered substantial budget strains in the past year, we have not yet tumbled into full-fledged fiscal crisis. Whether we do will depend on a number of factors, ranging from decisions made in Washington and Albany to the course of the pandemic and how—in the long term—this experience shapes people's decisions about how and where to live, work, and travel.

Reflecting this less-immediate effect on the New York City budget, IBO estimates the city will end the current fiscal year with a surplus of $3.6 billion, $258 million more than expected by the de Blasio Administration. This surplus comes despite our projection of tax collections falling by nearly 2.0 percent this year compared with 2020. While some of the surplus results from the strength of the preceding year and the prepayment of some of this year's expenses, tax revenue has held up better than expected by many fiscal observers, including IBO.

Our projections for fiscal year 2022 and beyond underscore the ongoing strain on the city's budget. We expect tax revenues will grow by less than 3 percent, but the city will end next year with a modest surplus of $500 million. Despite the expectation of continued growth in tax revenues, without substantial surpluses to roll forward we project budget shortfalls of about $4 billion in each of the following years in the financial plan (roughly 5 percent of city-funded expenditures in 2023). While these projected budget gaps are fairly large, there is also some cushion: the budget includes more than $1 billion in unallocated reserves in each year for 2023-2025 and funds remain in the Retiree Health Benefits Trust.

While economic and budget projections are always subject to a number of questions, we face a current landscape littered with uncertainty. Not all of these uncertainties, though, are negatives. One has already been resolved positively for the city. Just as the Mayor prepared to release the Preliminary Budget, the Biden Administration announced that the Federal Emergency Management Agency (FEMA) would fully reimburse eligible Covid-related expenses, rather than at the agency's typically 75 percent share. This means the city will receive nearly $1.2 billion more in aid than accounted for in the Preliminary Budget. The Mayor has said that nearly $200 million will go to reversing planned cuts to school spending, leaving about $950 million still to be allocated. It is worth noting the city still shouldered about $1.3 billion in Covid-related spending on its own.

Another development on the horizon that could bode well for the city is the increasing likelihood of a new round of federal aid. At the moment it appears the city may receive upwards of $5 billion in direct federal assistance, but that could change as a final deal approaches.

But there are also a number of uncertainties that could be very problematic for the city economically and fiscally. One overarching risk is the course of the pandemic. While infections and hospitalizations have trended downward of late, much hinges on the availability of vaccinations and whether enough people will avail themselves of it. A related concern is how long the vaccination will be effective and whether it will protect against coronavirus mutations. There also is the issue of behavioral changes: will some substantial portion of the workforce continue to work remotely all or part of the time, and will travelers for business or leisure return to the city? These are vital questions for the retail, leisure and hospitality sectors of the local economy that have been particularly hard hit by the pandemic.

Also of major concern is the fiscal condition of the Metropolitan Transportation Authority (MTA), a key thread to the city's economic and social fabric. The MTA's fare revenue plummeted as ridership declined with the onset of the pandemic and dedicated tax revenues fell in the wake of reduced economic activity. The MTA faces an estimated $8 billion operating shortfall over calendar years 2022 through 2024. While the aid package currently being negotiated in Washington includes support for the MTA, the outcome remains uncertain.

Another uncertainty is the $1 billion in unspecified labor savings contained in each year of the Mayor's budget plan. Savings were achieved this year by deferring retroactive payments and payments to union welfare funds, but it remains unclear how savings will be achieved next year and in the years through fiscal year 2025.

New York State could also prove a challenge to the city's budget balance. The state's fiscal condition is arguably more tenuous than the city's and Albany is not shy about sending its problems south to the city. The Governor's budget includes the possibility of mid-year cuts in aid to schools and localities, which would then force the city to either cut services or find local funds to replace state dollars.

With these and a number of other critical variables, the city's economic and fiscal future remains precarious. A major factor will be how the pandemic changes the way people work and live. If, for example, there is more work from home and less business travel, how will that effect commercial real estate as well as retail, restaurants, and hotels? A changing economic landscape can have major fiscal effects.

We have issued a number of publications on the Preliminary Budget, including a snapshot of our latest economic and revenue forecast and key findings about the Mayor's budget plan, a discussion of aid from

FEMA, and a review of shifts in the homeless shelter population and its effect on spending. Yesterday we released details of our economic forecast and this morning our tax revenue forecast.

More publications will follow in the days and weeks ahead.

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