

SNAPSHOT:

IBO's Updated Economic and Revenue Forecast and Review of the Adopted Budget for 2021

July 21, 2020



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Key Findings



564,200

New York City will lose an estimated 564,200 jobs in 2020, with the biggest losses—197,000 jobs—in the leisure and hospitality industry. In the years 2015-2019, the city averaged job gains of 93,400 annually.



\$8.5 Billion

Since our forecast for city tax revenues in January, we have lowered our projection for tax collections in fiscal years 2020 and 2021 by a combined \$8.5 billion. Our forecast for 2022 has dropped by nearly \$5 billion.



\$981 million

Under the city's newly adopted budget, which includes \$1 billion in unspecified labor savings, IBO projects a fiscal year 2021 surplus of \$981 million. These funds could help close the \$4.5 billion budget shortfall we estimate for 2022.



5.5%

While city-funded spending is essentially flat over fiscal years 2019-2021 at around \$68 billion a year, we project that it will rise to nearly \$72 billion in 2022, an increase of 5.5 percent from 2021.



3.7%

IBO estimates city tax revenue will fall from \$62.2 billion in fiscal year 2020 to \$59.9 billion in 2021, a decline of 3.7 percent.



\$400 million

The budget adopted last month assumes that overtime spending by the NYPD will fall to \$268 million in 2021. IBO estimates that police spending on overtime will be \$400 million more than budgeted.

Downside Risks & Upside Potential



The Course of the Pandemic

By far the greatest uncertainty is the course of the Covid-19 pandemic and progress in combating the disease. IBO's latest economic forecast assumed that U.S. infections peaked in May, with total infections of 3.3 million by year's end. We expected that states would have to slow the pace of business re-openings as infections stayed higher than governors had hoped, effectively stalling the recovery of employment and output in the second half of 2020 and early 2021.

While pessimistic, our assumptions may not have been pessimistic enough. New U.S. infections—which declined from late April through early June—have again accelerated, far surpassing the May peak, with 3.3 million infections already recorded as of July 15th. While a better-than-expected course is still possible, particularly if an effective vaccine quickly becomes available, there is a greater chance that the pandemic will spin further out of control, pushing the economy into a more prolonged recession and further depressing tax revenues.



State Budget

This year's state budget includes provisions allowing imposition of mid-year reductions in state aid for localities and school districts if— as expected—gaps emerge in the state's financial plan. The budget law sets up three points in the year when the Governor can propose reductions to the adopted budget, which take effect unless the Legislature comes up with equivalent alternative savings. Although the first test point passed with no action taken, the Governor's budget office has already stated that balancing the budget would require a recurring reduction in state aid for localities, which IBO estimates would cut education aid to the city by \$2.3 billion. The threat of such action by the Governor will remain for the balance of the state fiscal year.

Downside Risks & Upside Potential



Labor Savings in the City Budget

The city's financial plan assumes \$1 billion each year in unspecified labor savings. The Mayor has stated that if the savings are not identified by October, he will be forced to cut the city's labor force by 22,000. How these savings would be achieved and what impact they would have on city services are unknown at this point, adding to the uncertainty surrounding this year's budget.



The MTA

Although not directly part of the city's budget, the ability of the MTA to provide the subway, bus, and commuter rail service essential to running the city's economy is in grave doubt. Having lost large amounts of revenue from fares, tolls and dedicated taxes, the MTA has asked for a second \$3.9 billion in emergency federal aid in order to avoid massive service cuts that would imperil the city's eventual economic recovery. The response from Washington has been cool so far. Longer term regional growth is also highly dependent on the transportation authority's capacity to finance its capital plan, which includes investment in new subway cars, upgrades to subway signal systems, and restoration of state of good repair.



Police Overtime Savings

As part of the agreement between the Mayor and the City Council to reduce the budget of the New York City Police Department, the city pledged to reduce total NYPD overtime spending by \$335 million. The city has faced great difficulty in controlling the use of overtime and now estimates that police overtime totaled \$820 million in 2020, the fiscal year that just ended. While this figure is swelled by the response to the Black Lives Matter protests, overtime has averaged \$723 million each year from 2017 through 2019. The budget assumes overtime can be reduced by roughly 60 percent from the 2017-2019 average to \$268 million in 2021; no reductions in overtime are scheduled for 2022 through 2024. IBO estimates that 2021 NYPD overtime will actually be \$400 million higher than budgeted.

Downside Risks & Upside Potential



NYCHA and Health + Hospitals

The pandemic has worsened the already-troubled financial condition of two other critical entities that are affiliated with the city although not part of the city's budget. Operating expenses have increased for both the housing authority and H+H, even as revenues fell. Although the federal government has provided some relief, both entities will likely need further assistance to restore their finances to at least their pre-pandemic condition. While more federal aid may be forthcoming, the city may also be forced to increase its already substantial contributions to NYCHA and H+H.



Federal Assistance

The city's budget does not include any assumptions regarding increased federal aid. However, additional assistance to states and localities in a new stimulus bill would ease the city's fiscal challenge brought on by reduced tax revenues, extra costs incurred in fighting the pandemic, and greater demands on the city's safety net programs. More aid for New York State from a federal stimulus bill would also diminish the risk that the state would shift additional fiscal burdens to the city.



The Mayor's Request for Borrowing Authority

The Mayor has asked the state for authorization to issue up to \$5 billion of long-term bonds with the proceeds to be used to cover shortfalls in the city's operating budget caused by the pandemic. This would require suspending current prohibitions against such borrowing and has not advanced in Albany. If borrowing were approved, the city could reduce the need for further spending cuts or tax increases to address looming budget gaps.

Revenue and Expenditure Projections

Dollars in millions

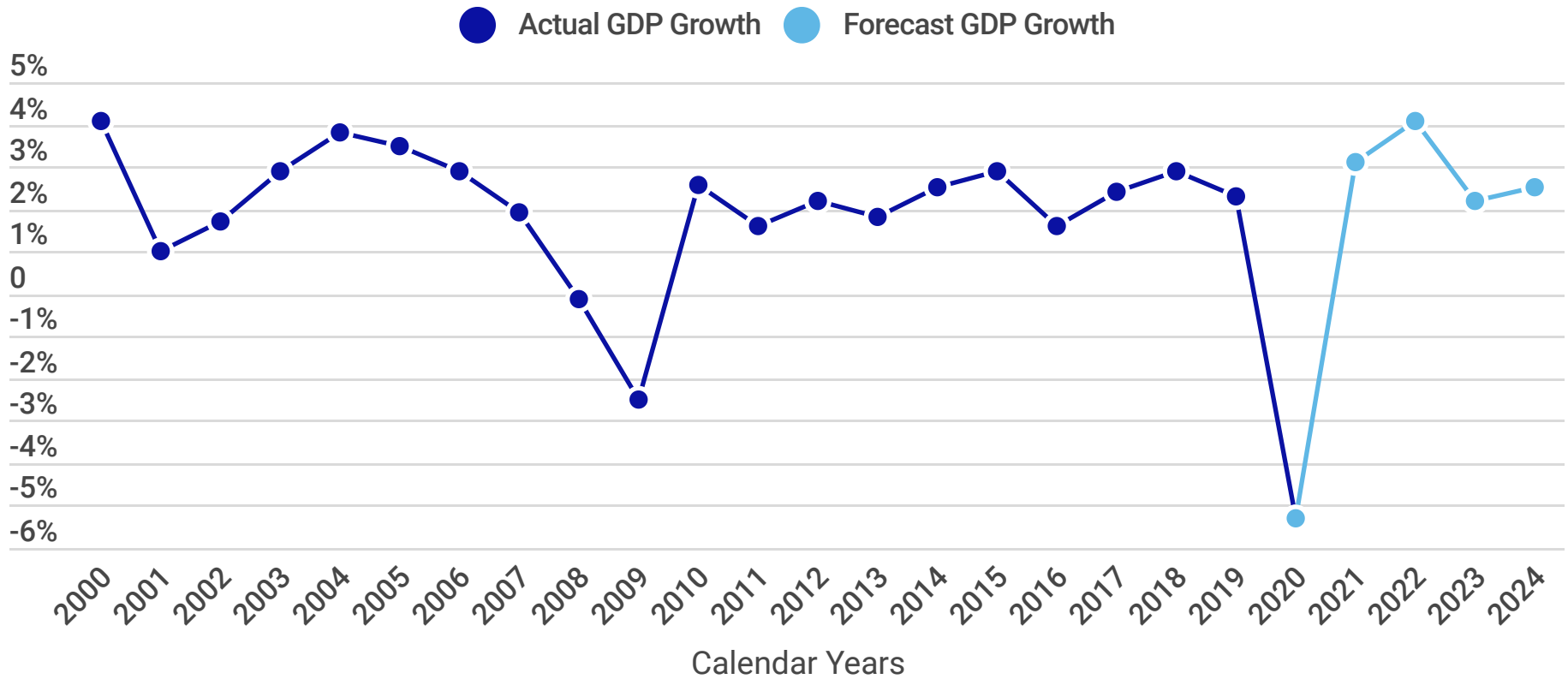
IBO projects surpluses in 2020 and 2021 totaling \$981 million. These additional resources could be used to reduce the estimated \$4.5 billion gap that IBO estimates for 2022.

	Fiscal Year						Average Change 2019- 2024
	Actuals 2019	2020	2021	2022	2023	2024	
Total Revenue	\$92,436	\$97,959	\$90,197	\$94,121	\$97,990	\$100,411	1.7%
Total Taxes	61,312	62,165	59,860	63,445	66,902	69,294	2.5%
Total Expenditures	\$91,779	\$97,830	\$89,345	\$98,639	\$100,640	\$101,914	2.1%
IBO Revenue Less Expenditures		\$130	\$852	(\$4,518)	(\$2,650)	(\$1,503)	
IBO Prepayment Adjustment		(130)	130				
IBO Surplus/(Gap) Projections		\$-	\$981	(\$4,518)	(\$2,650)	(\$1,503)	
Adjustments for Prepayments and Nonrecurring Expenses							
Net Prepayments	\$355	\$402	\$3,819	\$-	\$-	\$-	
Reserve Funds	-	(20)	(100)	(1,250)	(1,250)	(1,250)	
Other Adjustments	-	400	-	(117)	(262)	(396)	
Total Expenditures (net of adjustments)	\$92,786	\$98,612	\$93,064	\$97,272	\$99,128	\$100,268	1.6%
City-Funded Expenditures (net of adjustments)	\$68,633	\$68,555	\$68,014	\$71,771	\$73,200	\$74,310	1.6%

U.S. Real Gross Domestic Product Growth: IBO and OMB

Annual Real Gross Domestic Product Growth, With IBO Forecast

IBO forecasts that real gross domestic product will contract by 5.3 percent in 2020, more than twice the reduction in 2009 during the Great Recession.

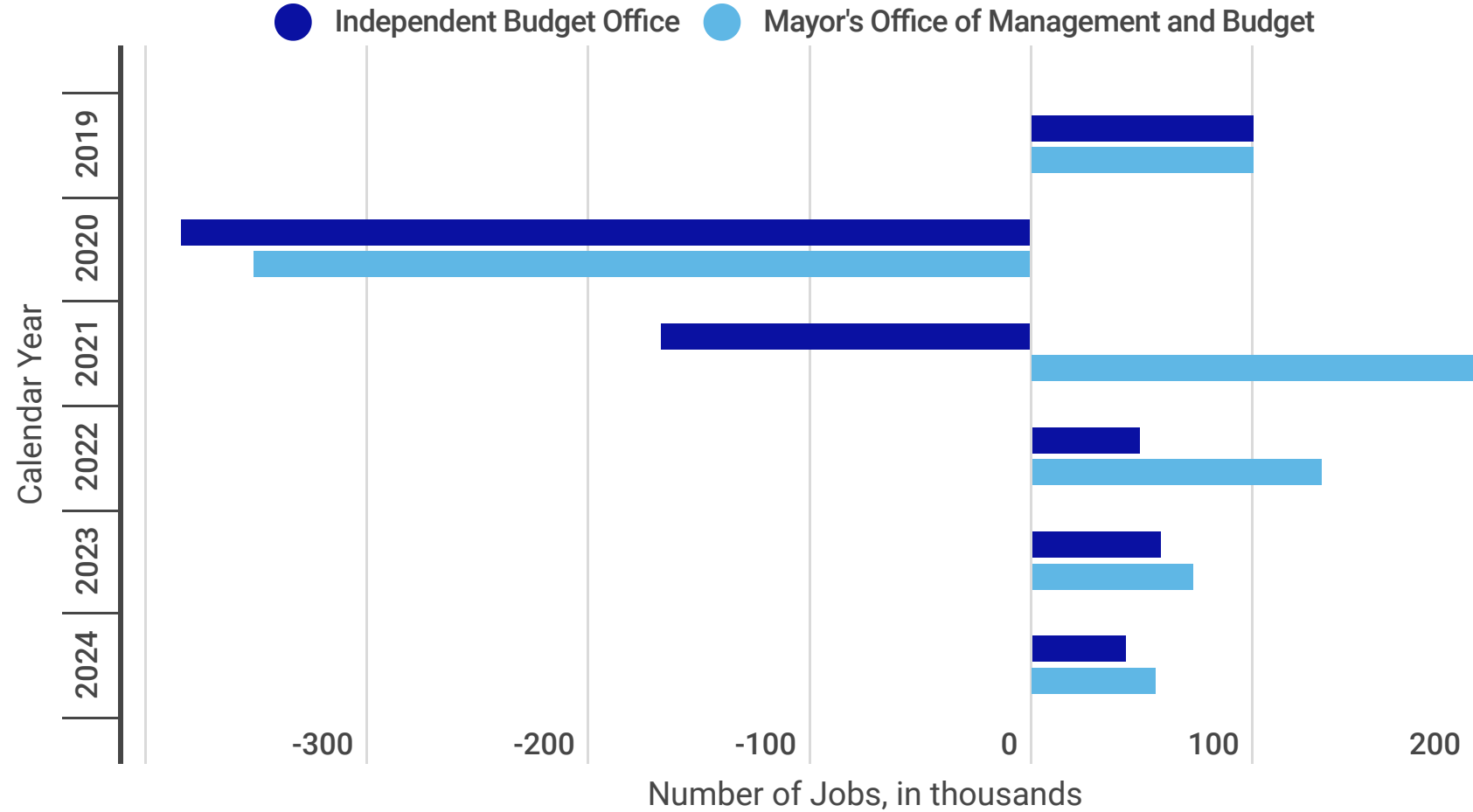


Comparison of IBO and OMB Projections of Real Gross Domestic Product Growth Rates

	2019 (Actual)	2020	2021	2022	2023	2024
IBO	2.3%	(5.3%)	3.1%	4.1%	2.2%	2.5%
OMB	2.3%	(5.4%)	6.3%	4.0%	1.6%	1.3%

Employment Growth in New York City: IBO and OMB

Growth Projections on an Annualized Basis

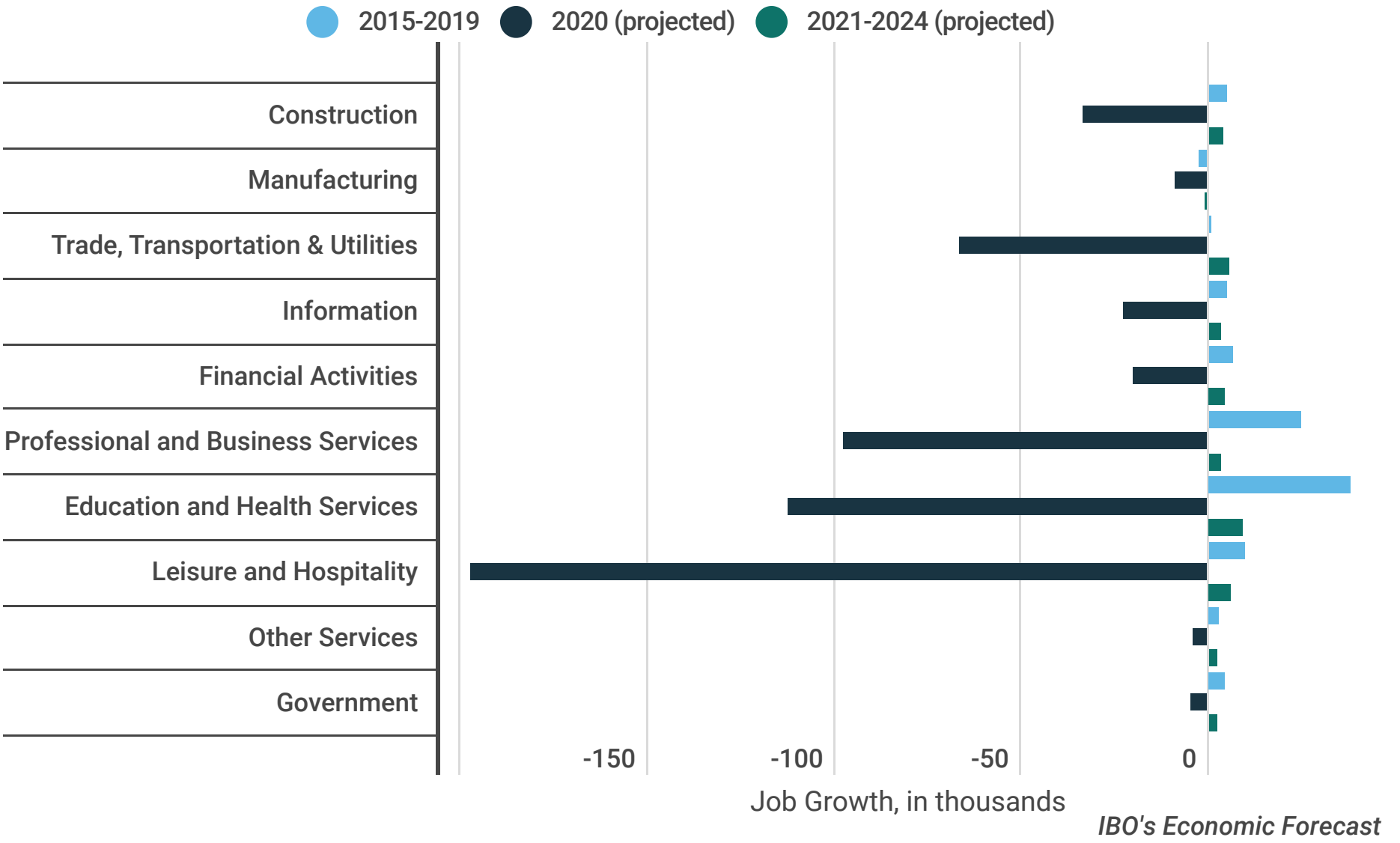


Growth Projections on a Q4 to Q4 Basis

	2019 (Actual)	2020	2021	2022	2023	2024
IBO	83.3	(564.2)	11.6	47.3	52.0	39.0

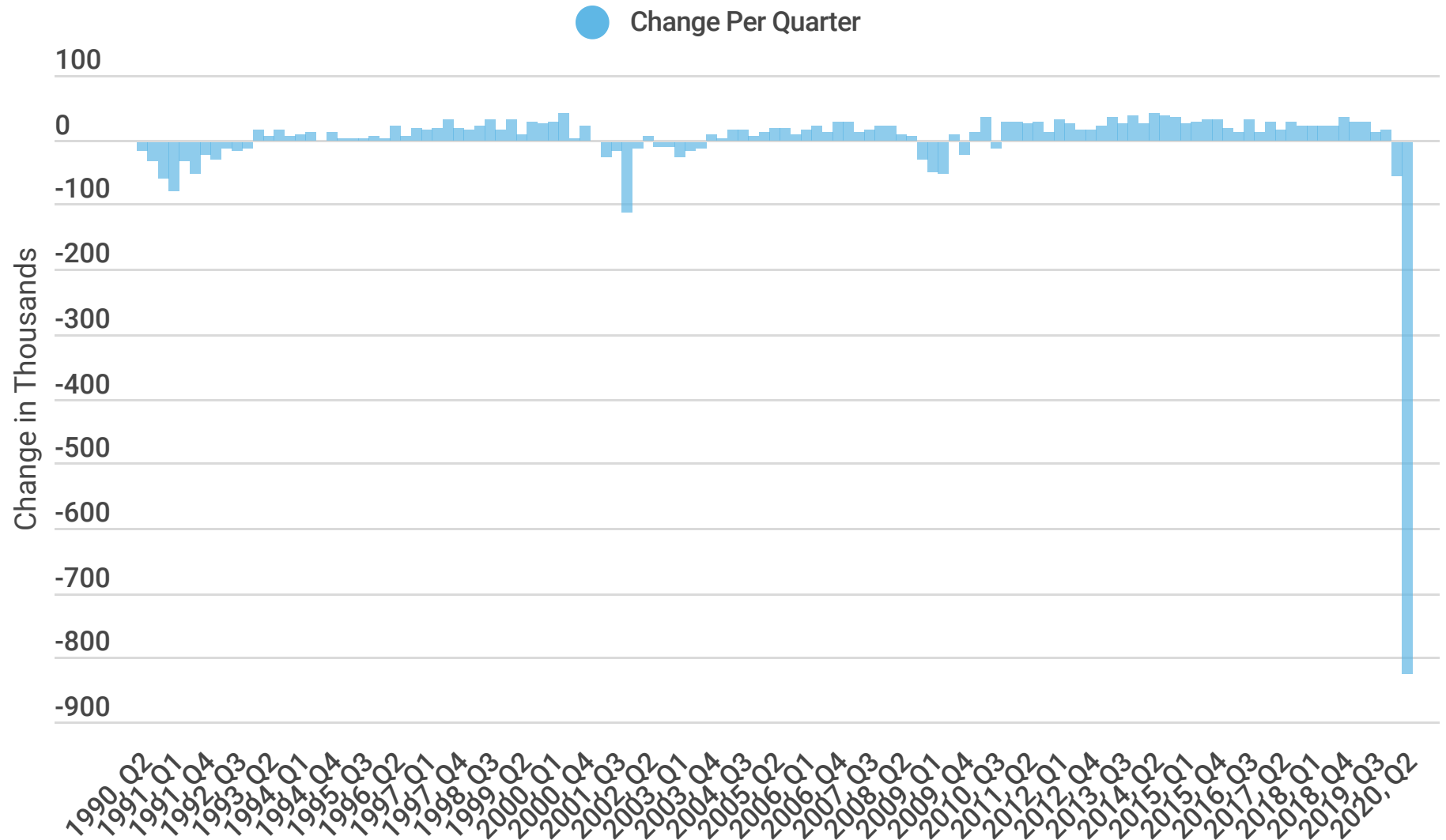
Annual Change in New York City Employment by Industry, Q4 to Q4

From 2015 through 2019, total employment increased by an average of 93,400 jobs each year. IBO estimates that this year the city will lose 564,200 jobs, with the largest losses occurring in the leisure and hospitality industry. From 2021 through 2024, IBO expects the city to recoup only 149,900 jobs—an average annual increase of 37,500 jobs per year.



Total Employment, by Quarter

Following a loss of 53,000 jobs in the first quarter of 2020, the city shed an additional 822,000 jobs in the second quarter, the largest reduction in a single quarter since official records began in the 1950s.

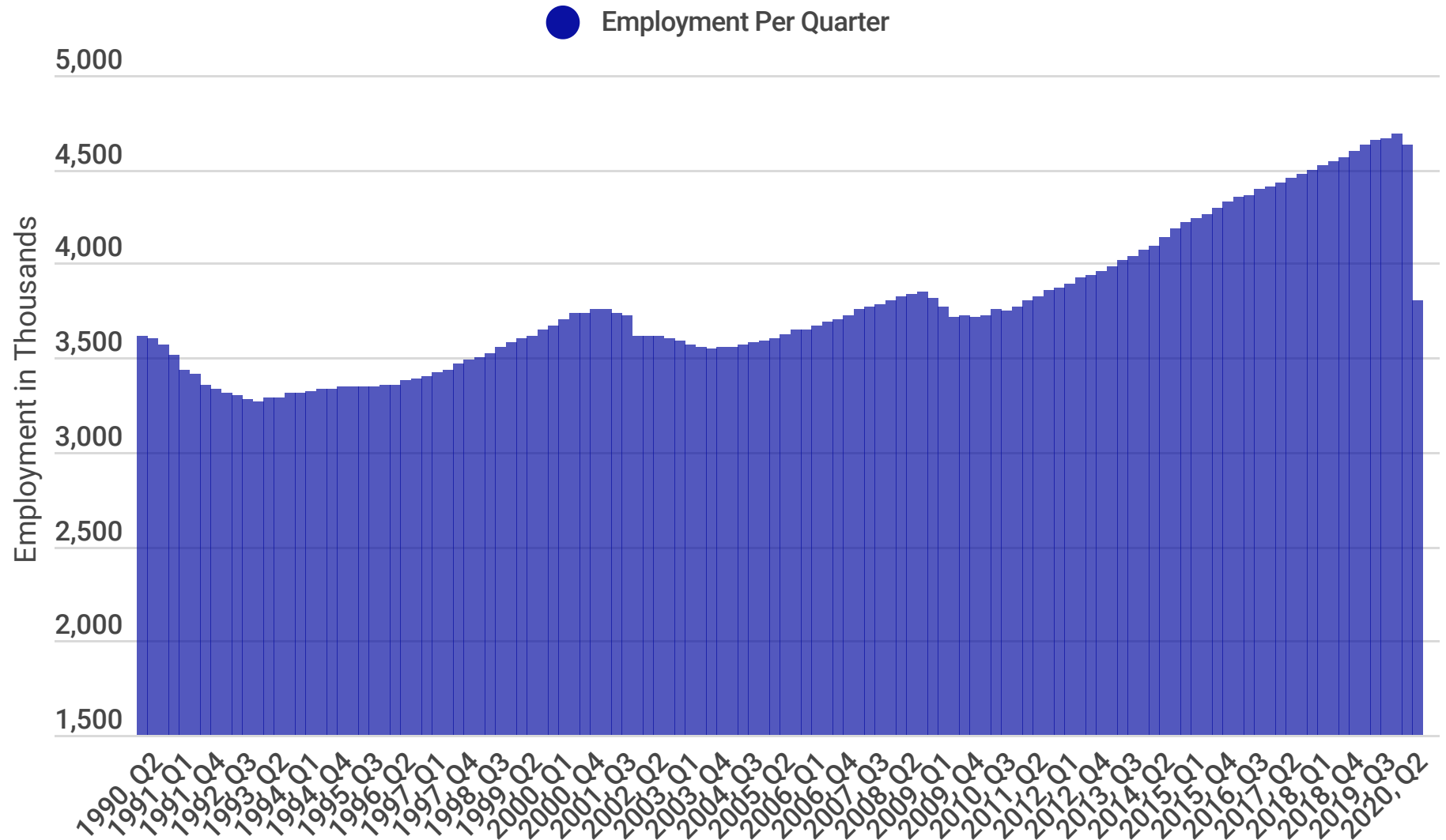


SOURCE: Bureau of Labor Statistics

IBO's Economic Forecast

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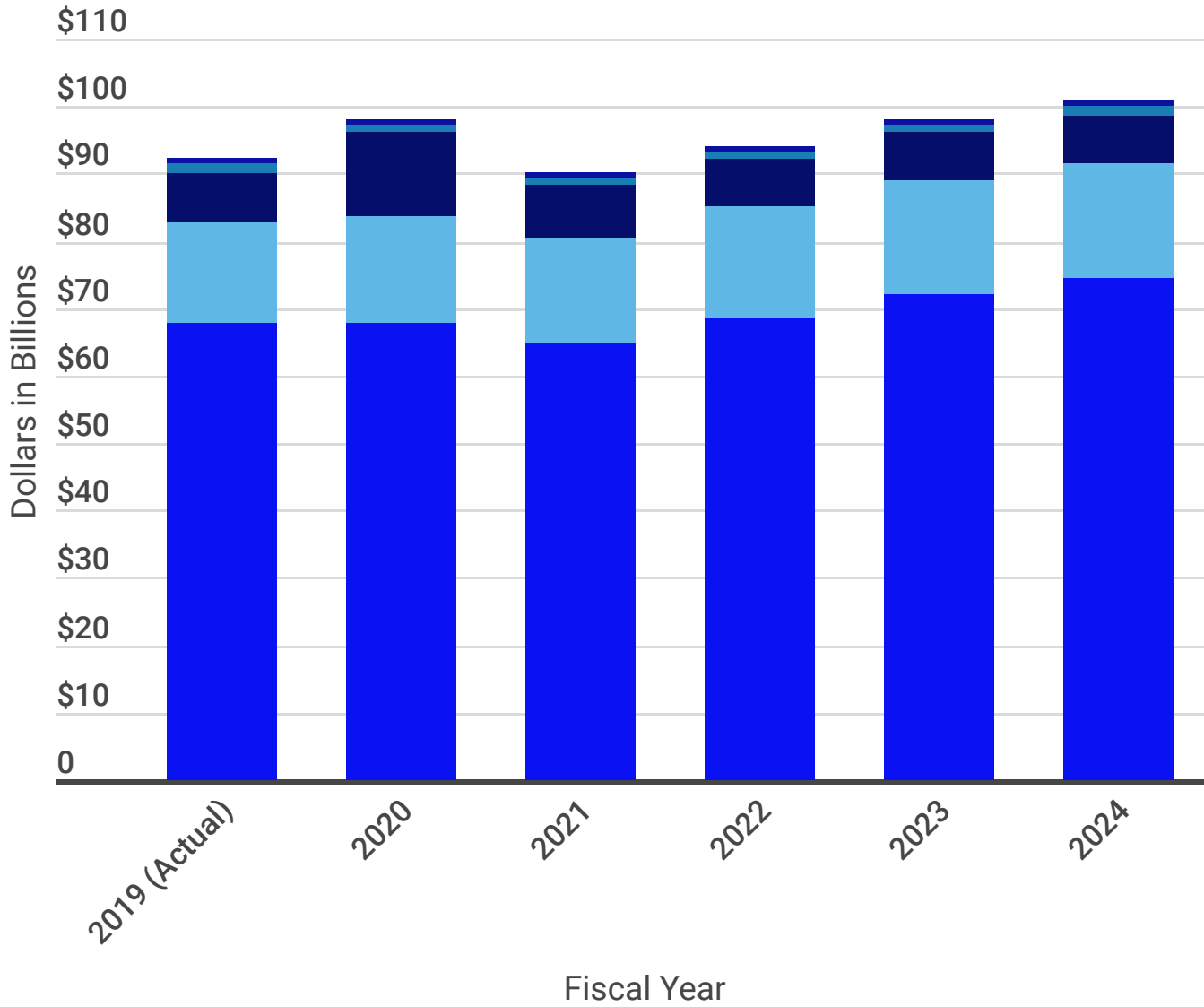


SOURCE: Bureau of Labor Statistics


IBO's Economic Forecast

Total City Revenue

- City-Funded Revenue
- State Categorical Grants
- Federal Categorical Grants
- Other Categorical Aid
- Interfund Revenue



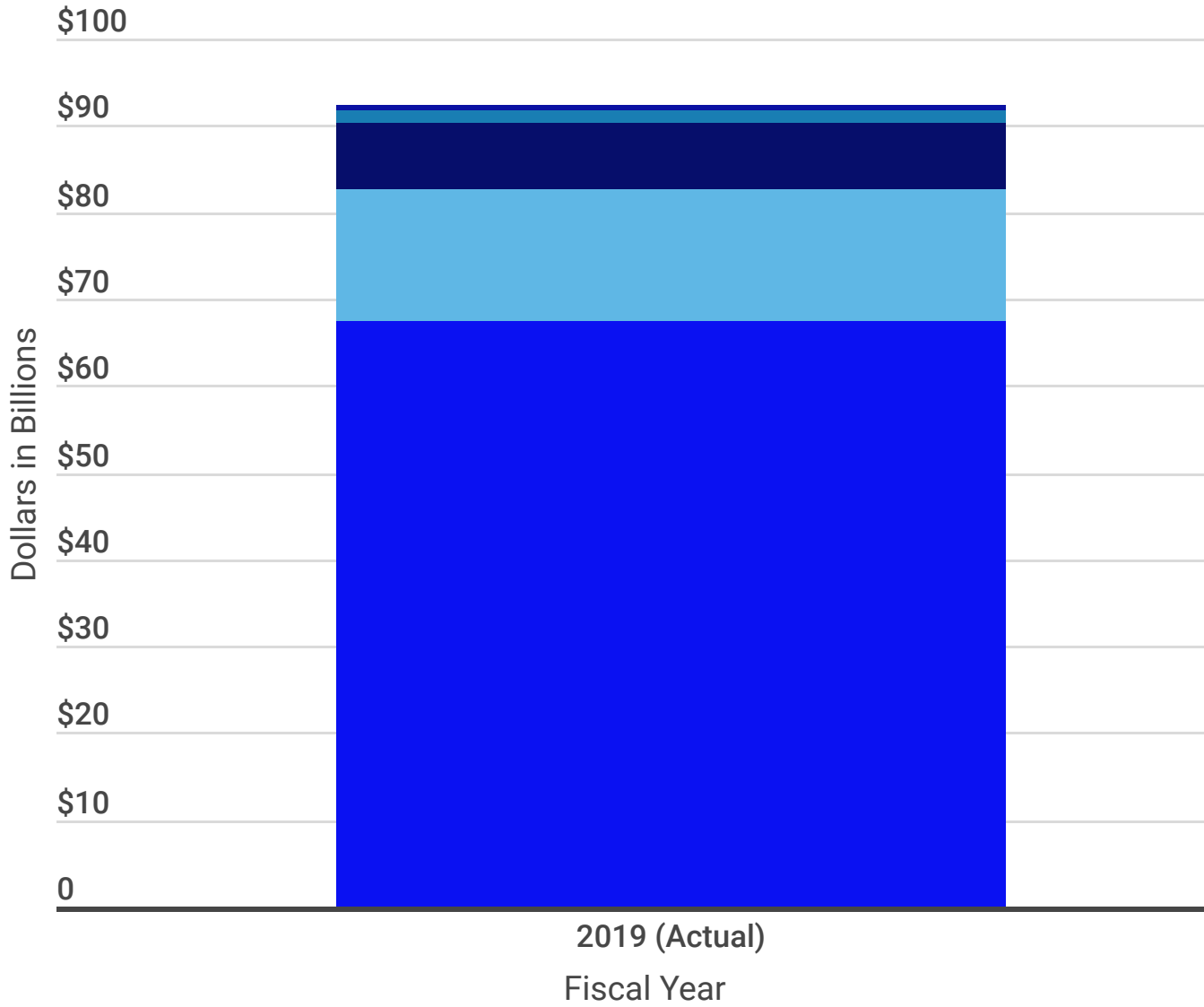
Year-Over-Year Change

- 
2019-2020
 6.0%
- 
2020-2021
 (7.9%)
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2021-2022
 4.4%
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 4.1%
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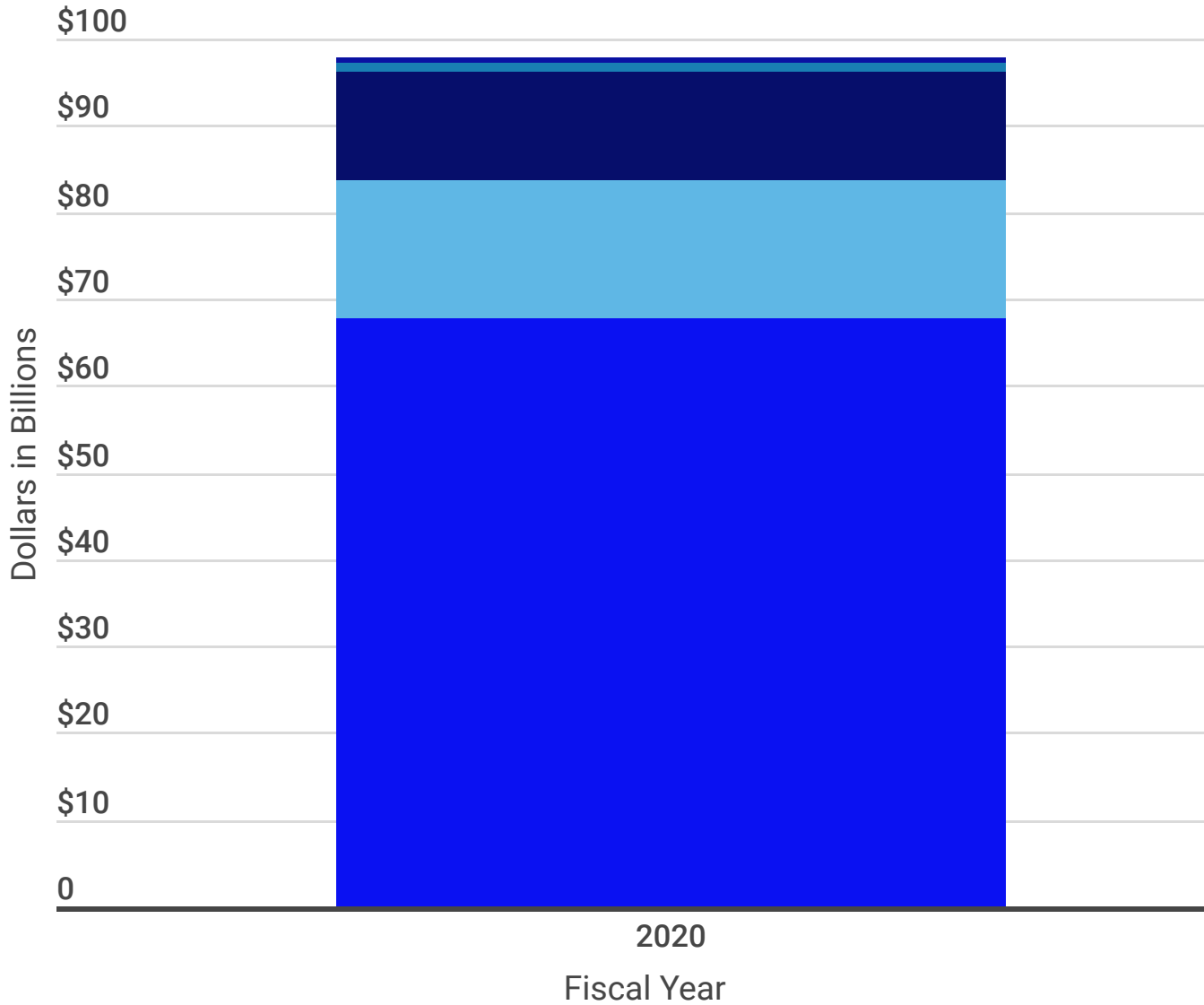
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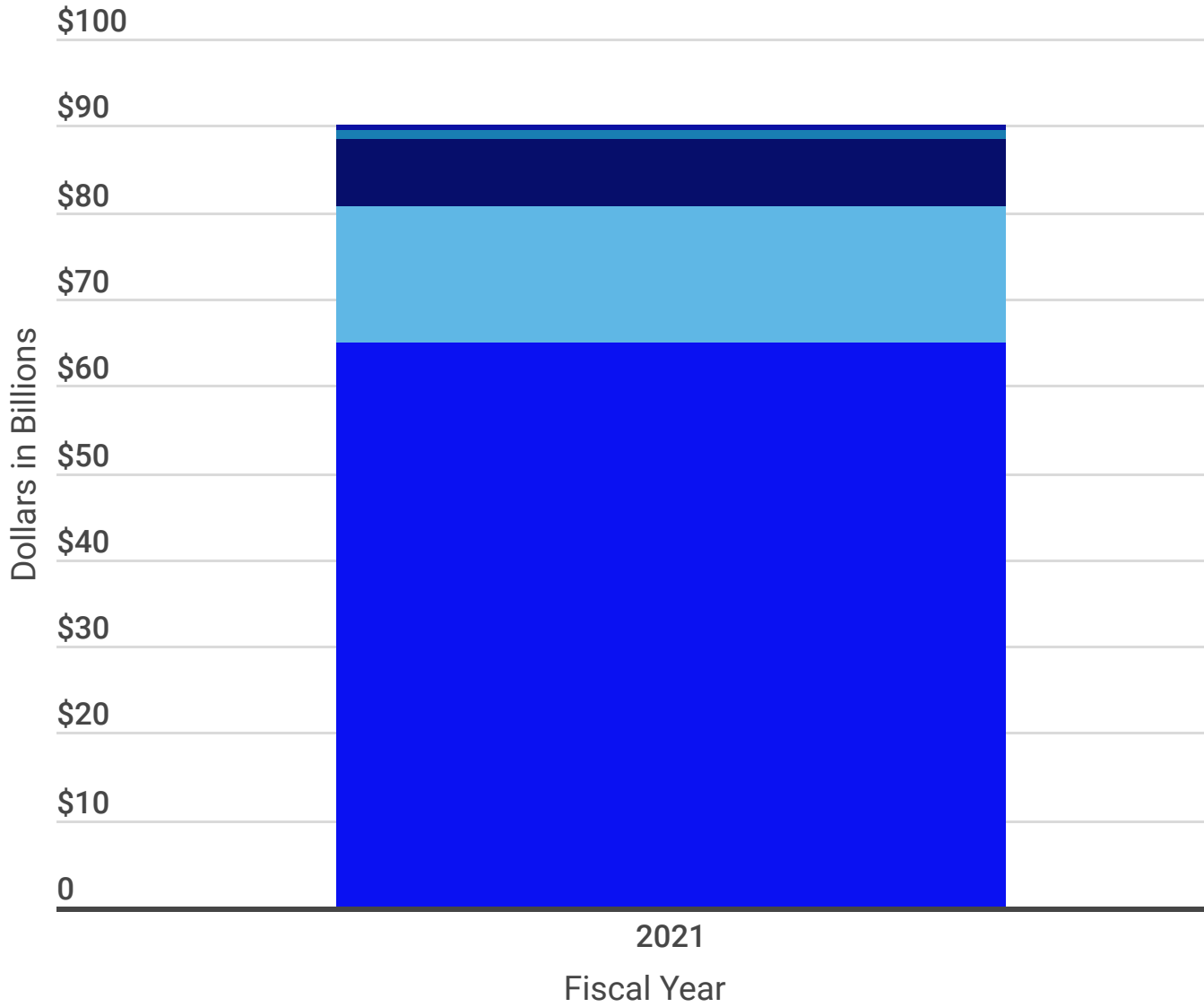
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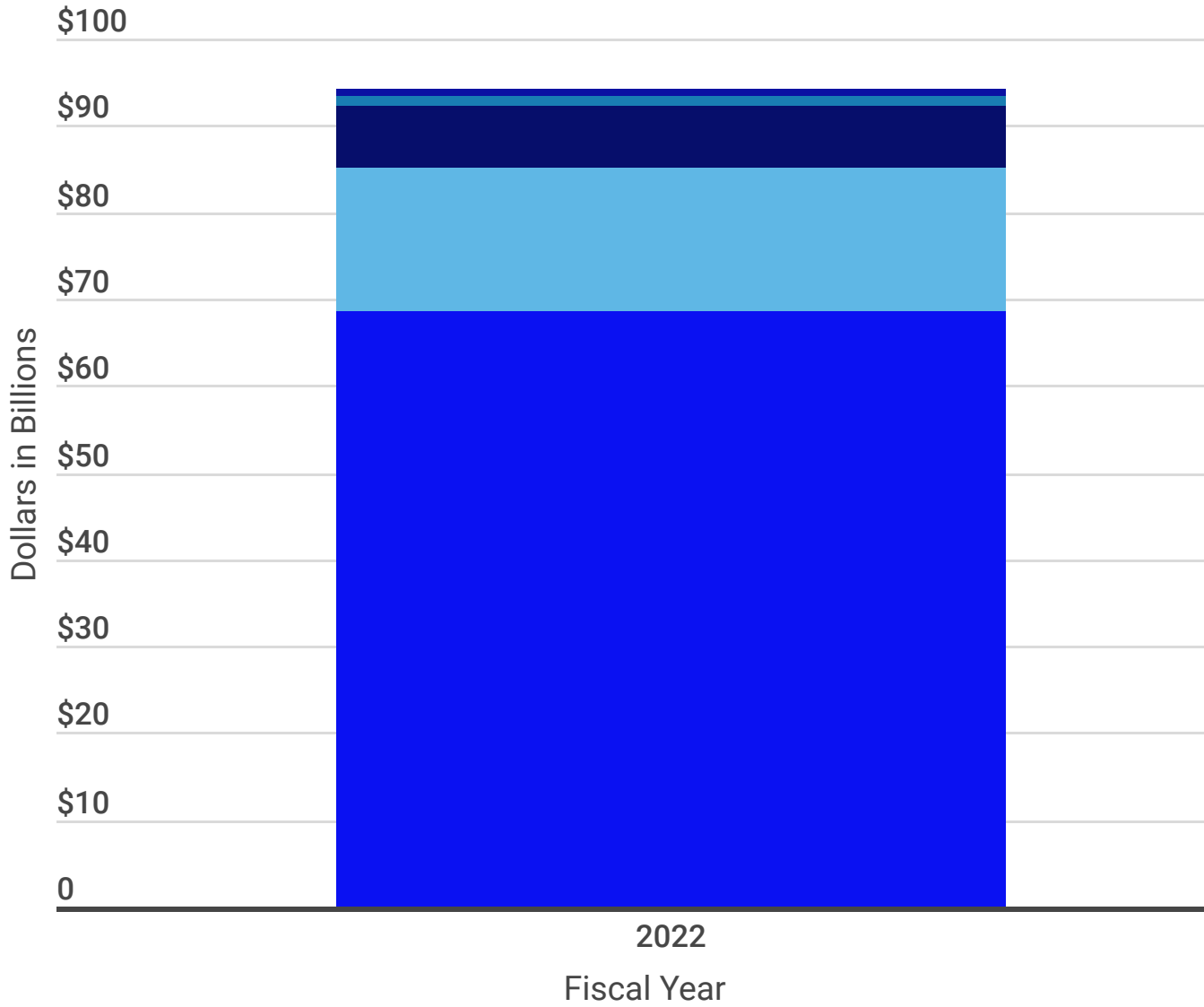
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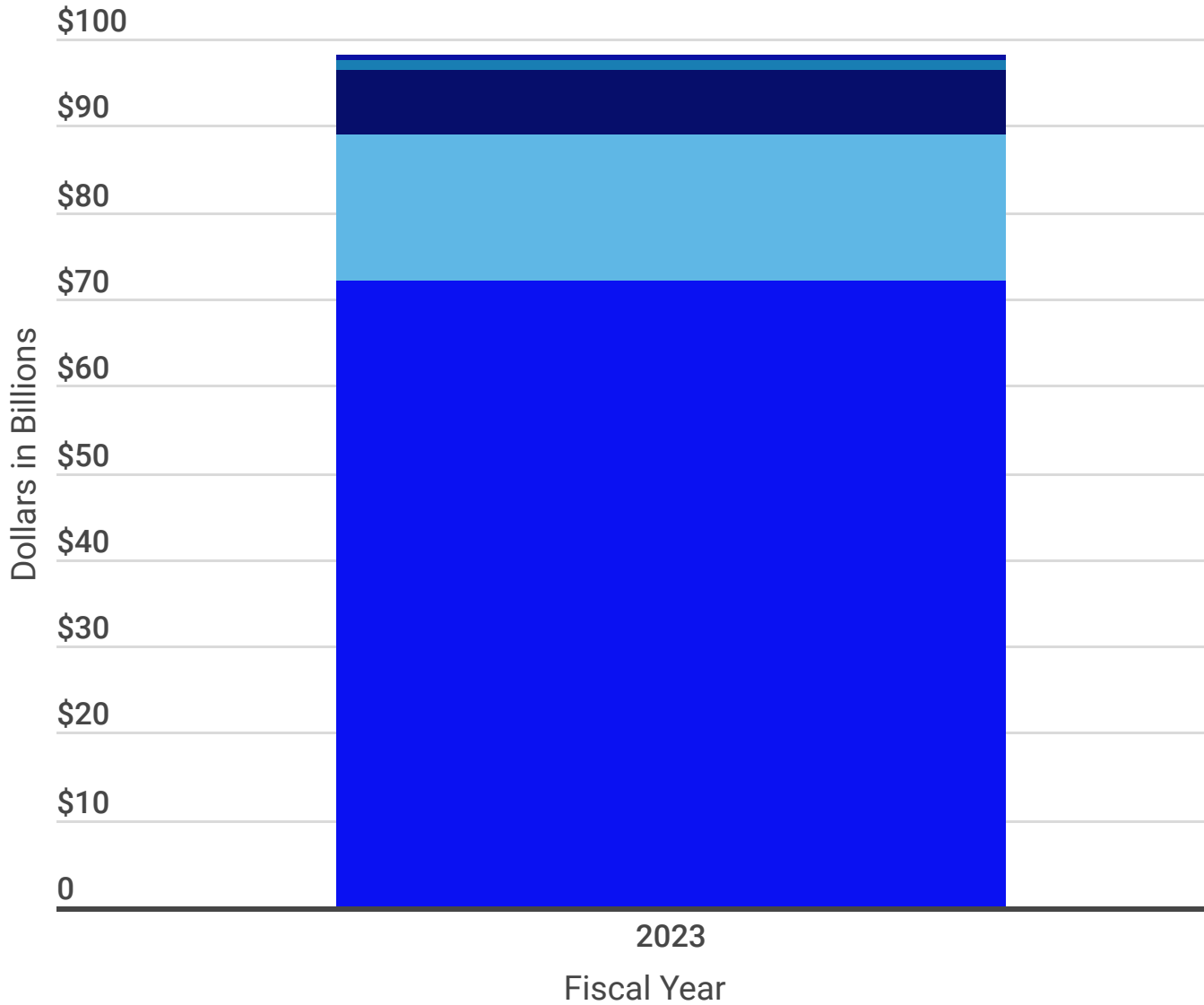
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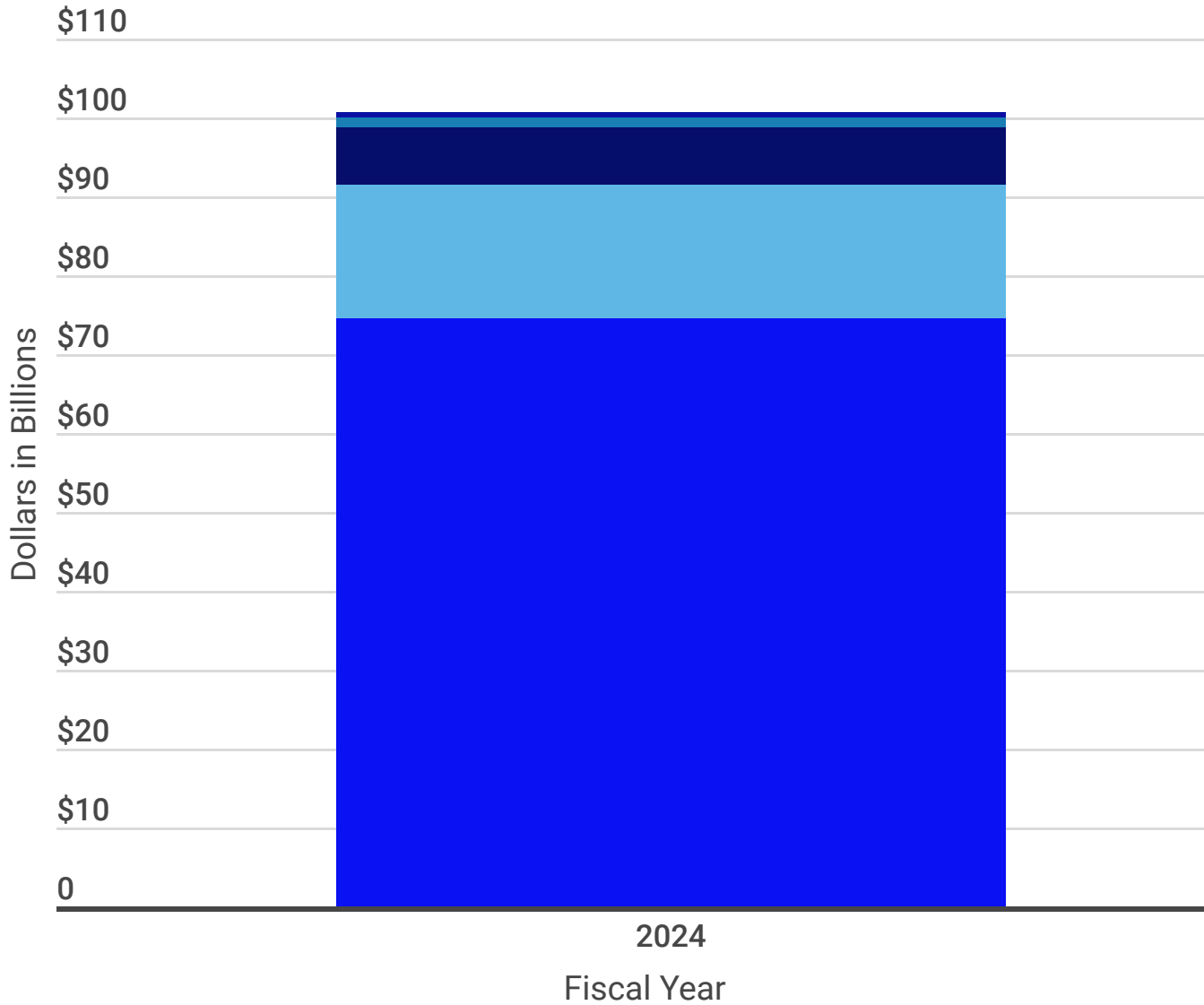
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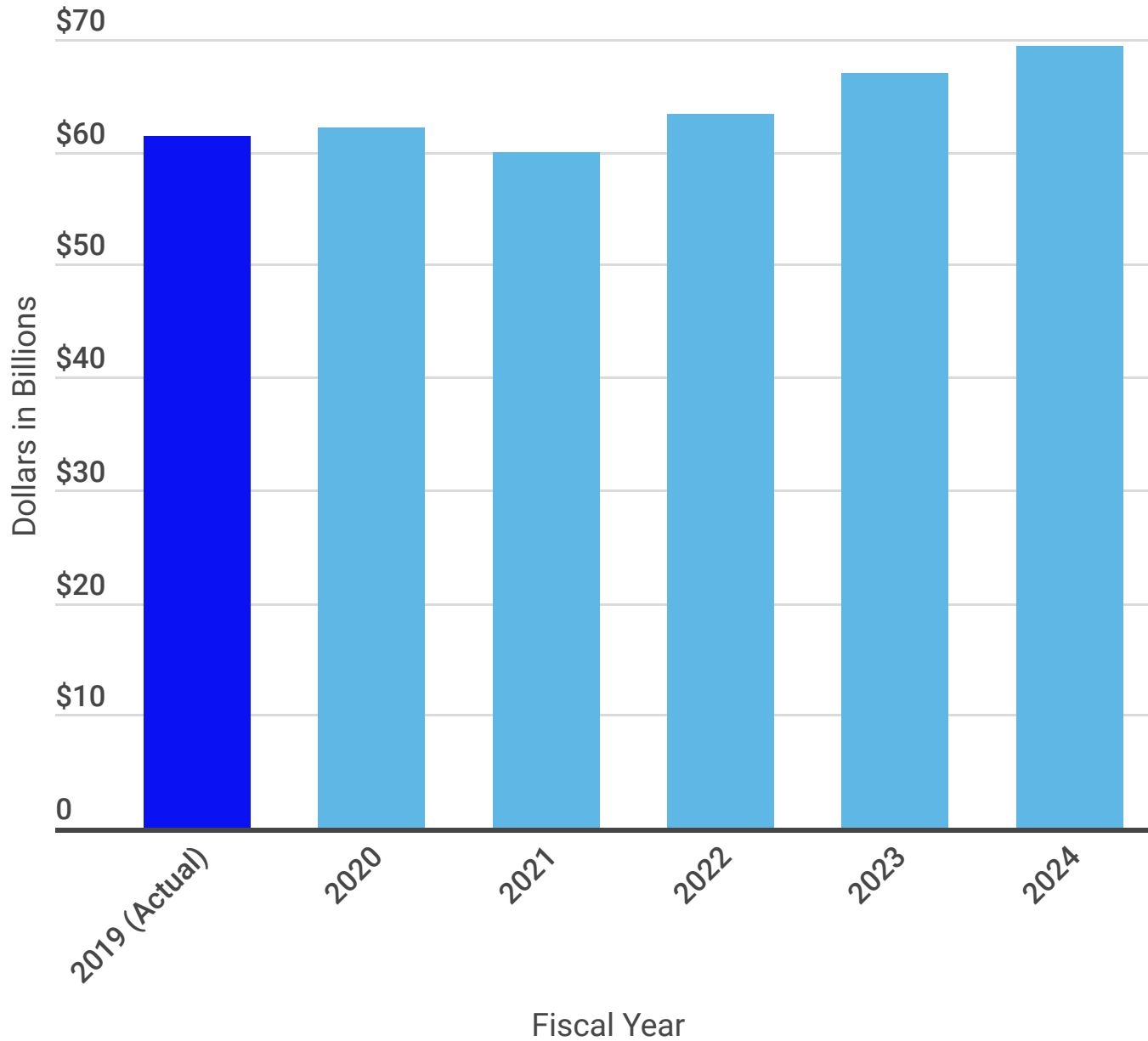


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IBO's Revenue Forecast

City Tax Revenue



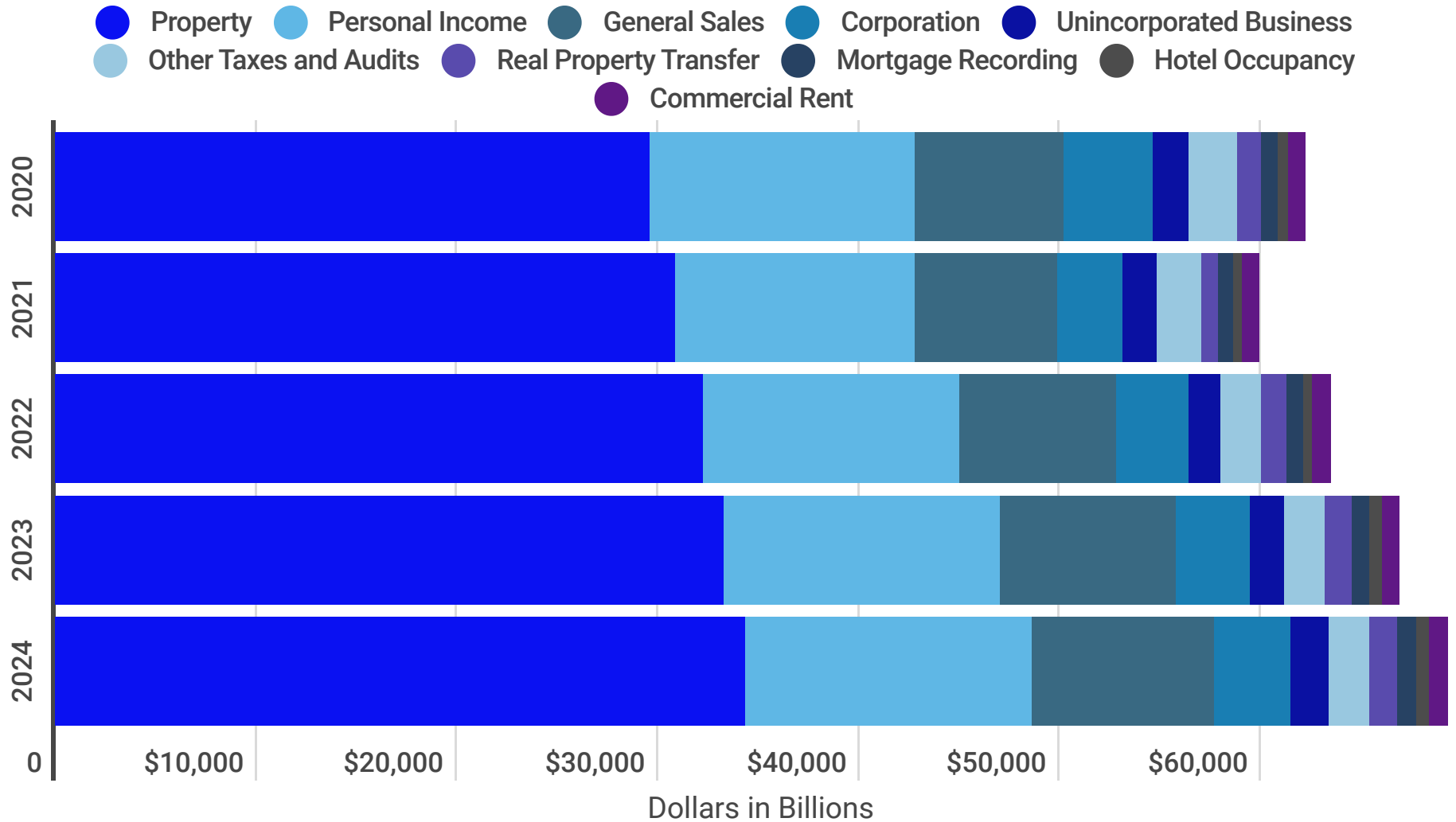
Year-Over-Year Change

↑	2019-2020	1.4%
↓	2020-2021	(3.7%)
↑	2021-2022	6.0%
↑	2022-2023	5.4%
↑	2023-2024	3.6%

IBO's Revenue Forecast

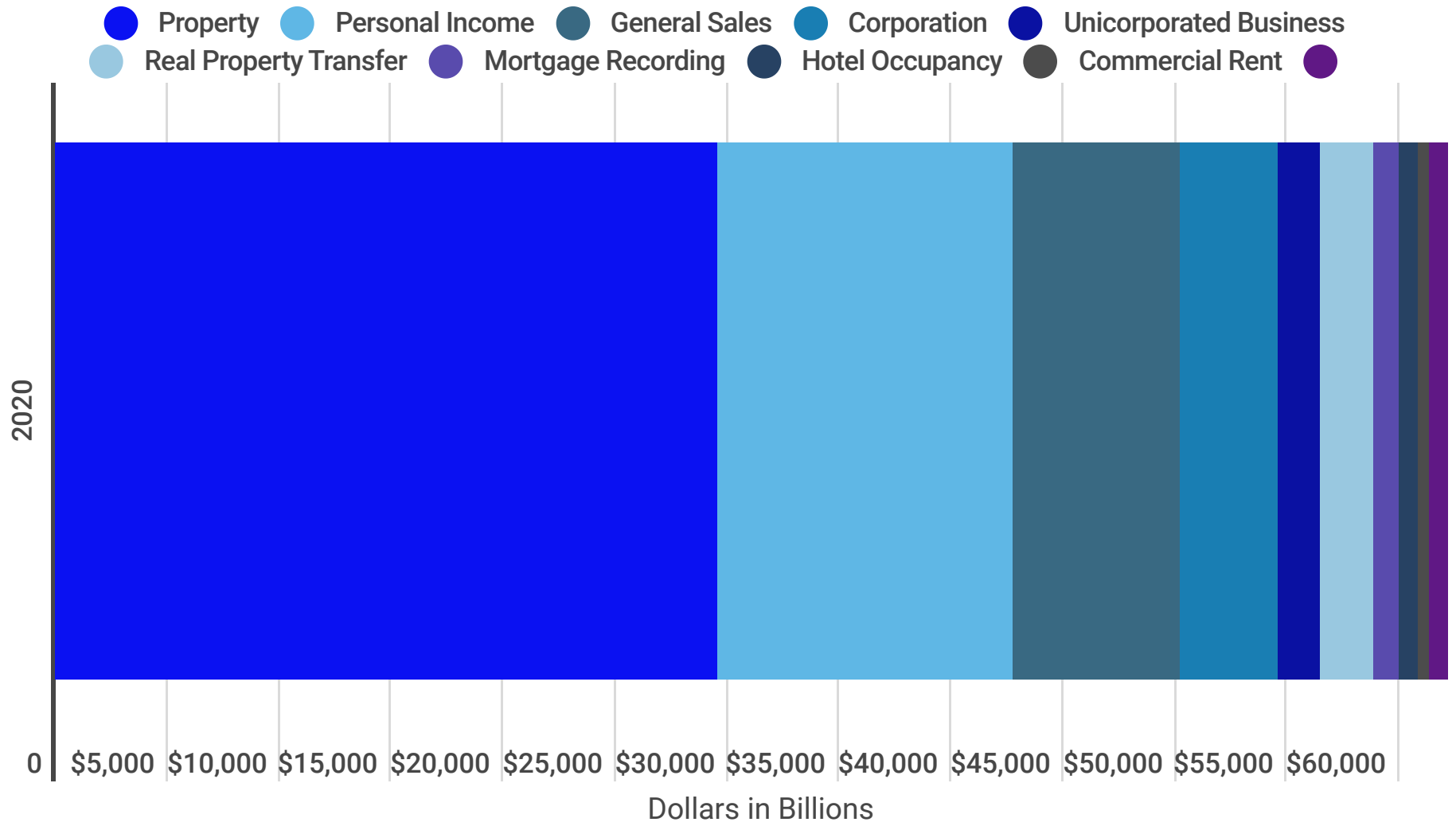
Projected Revenue by Tax

Although IBO expects the growth in property tax revenue will slow in each year of the forecast period, it will remain by far the city's largest source of revenue. Collections of business and personal income, sales, real estate-related, and hotel taxes are all expected to decline sharply in 2021 before growth returns in 2022.



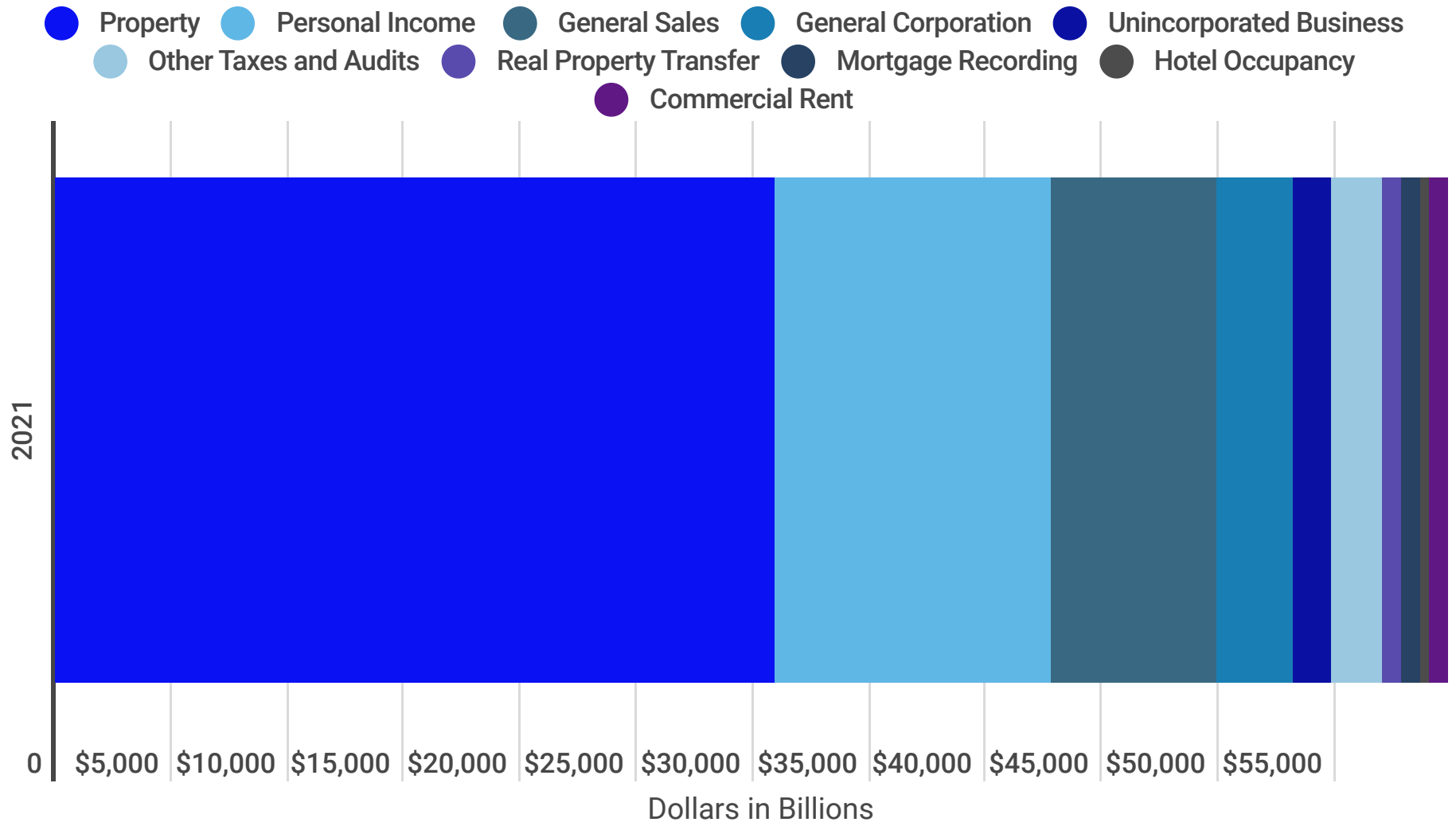
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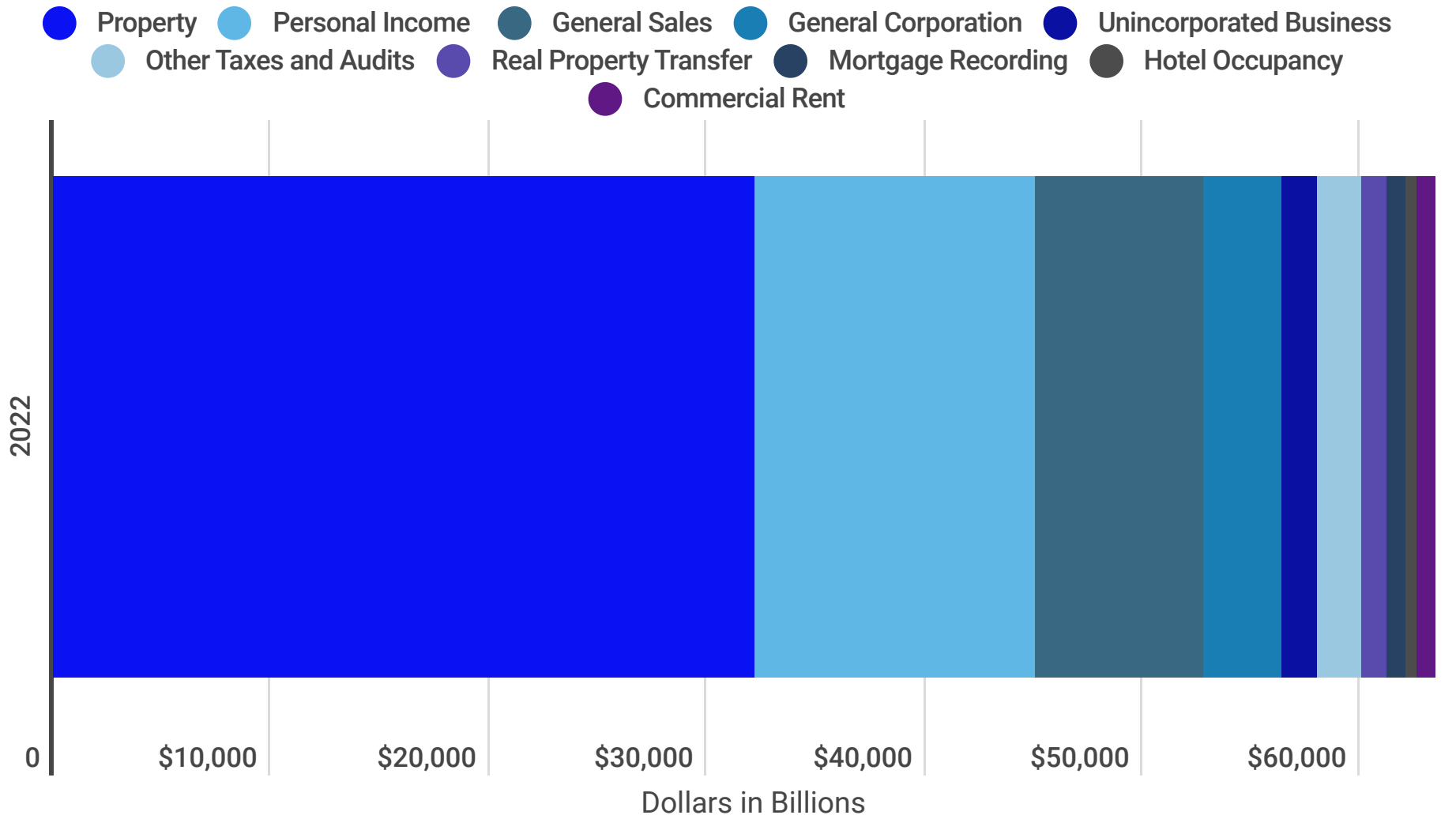
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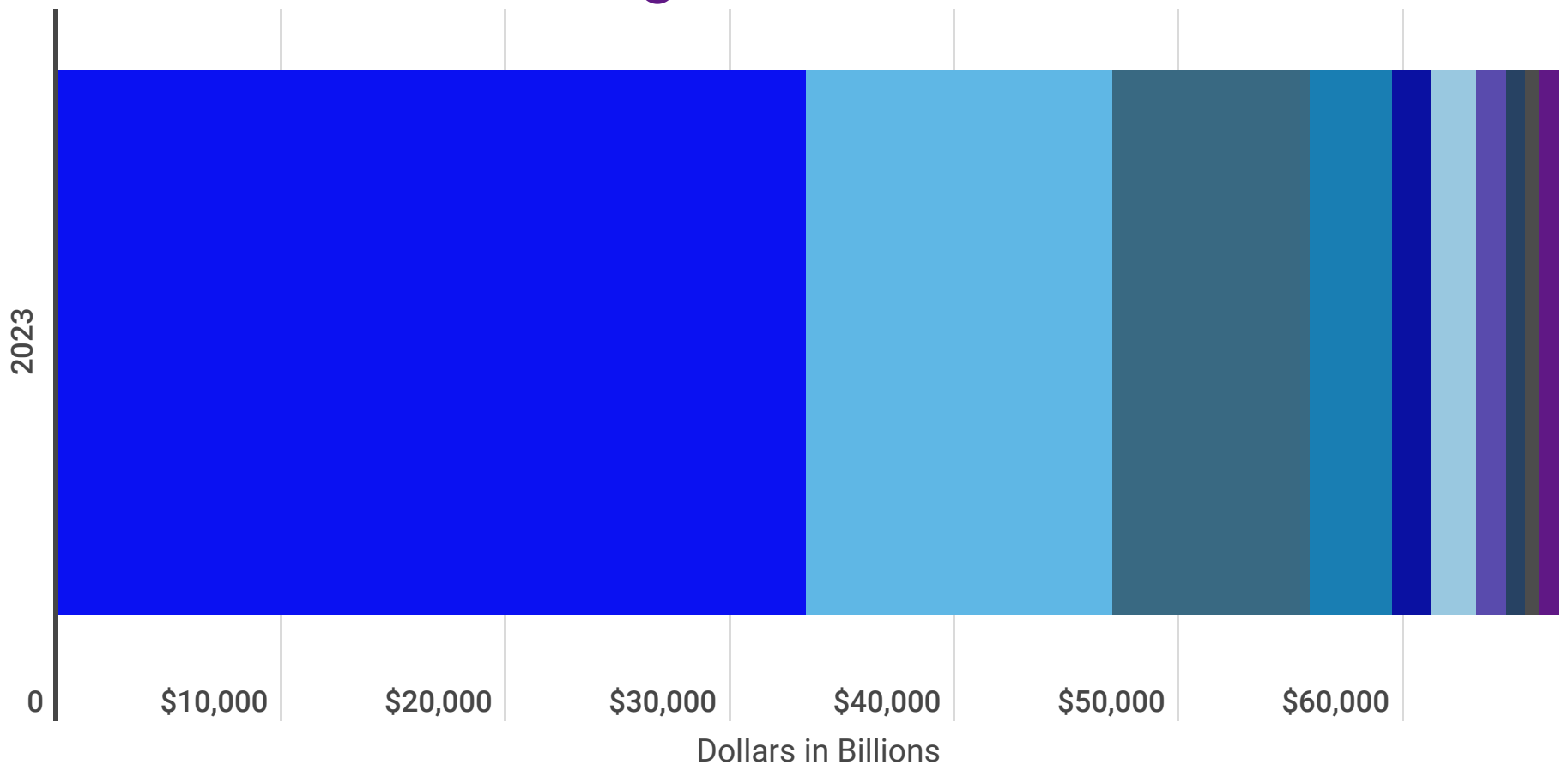
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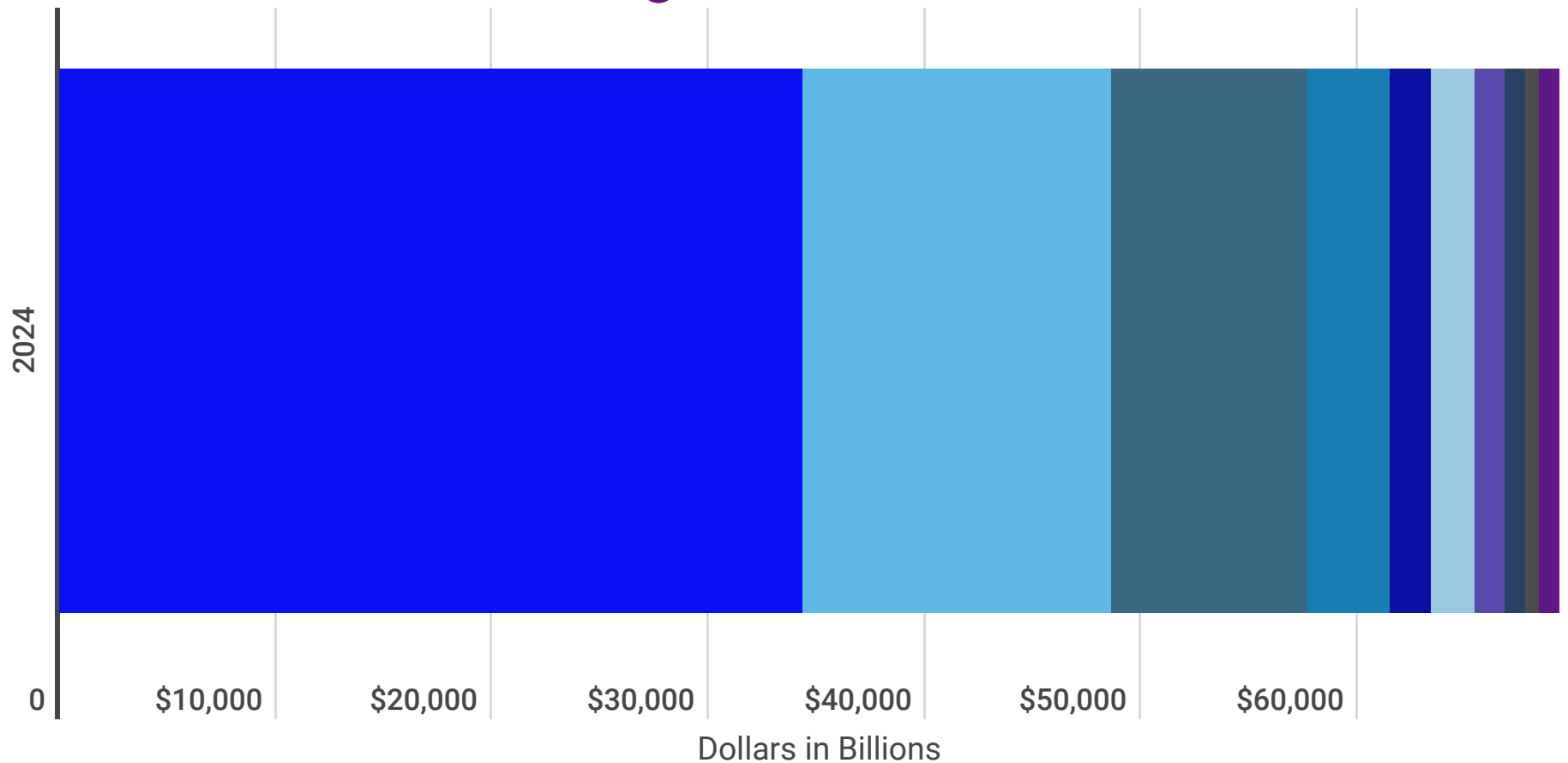
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- Real Property Transfer
- Mortgage Recording
- Hotel Occupancy
- Commercial Rent



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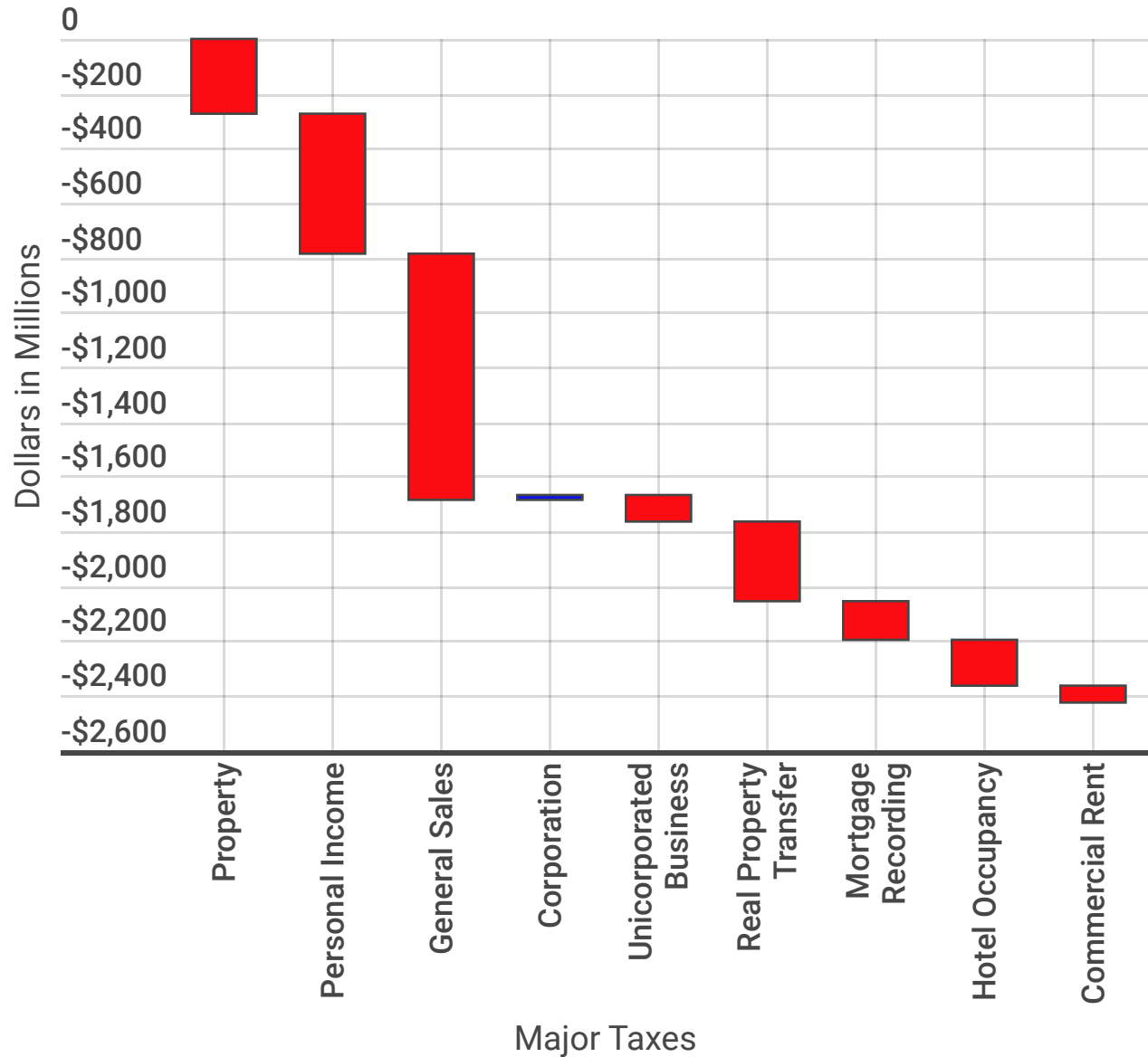
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Change in IBO's Tax Revenue Forecast Since January 2020 (2020)

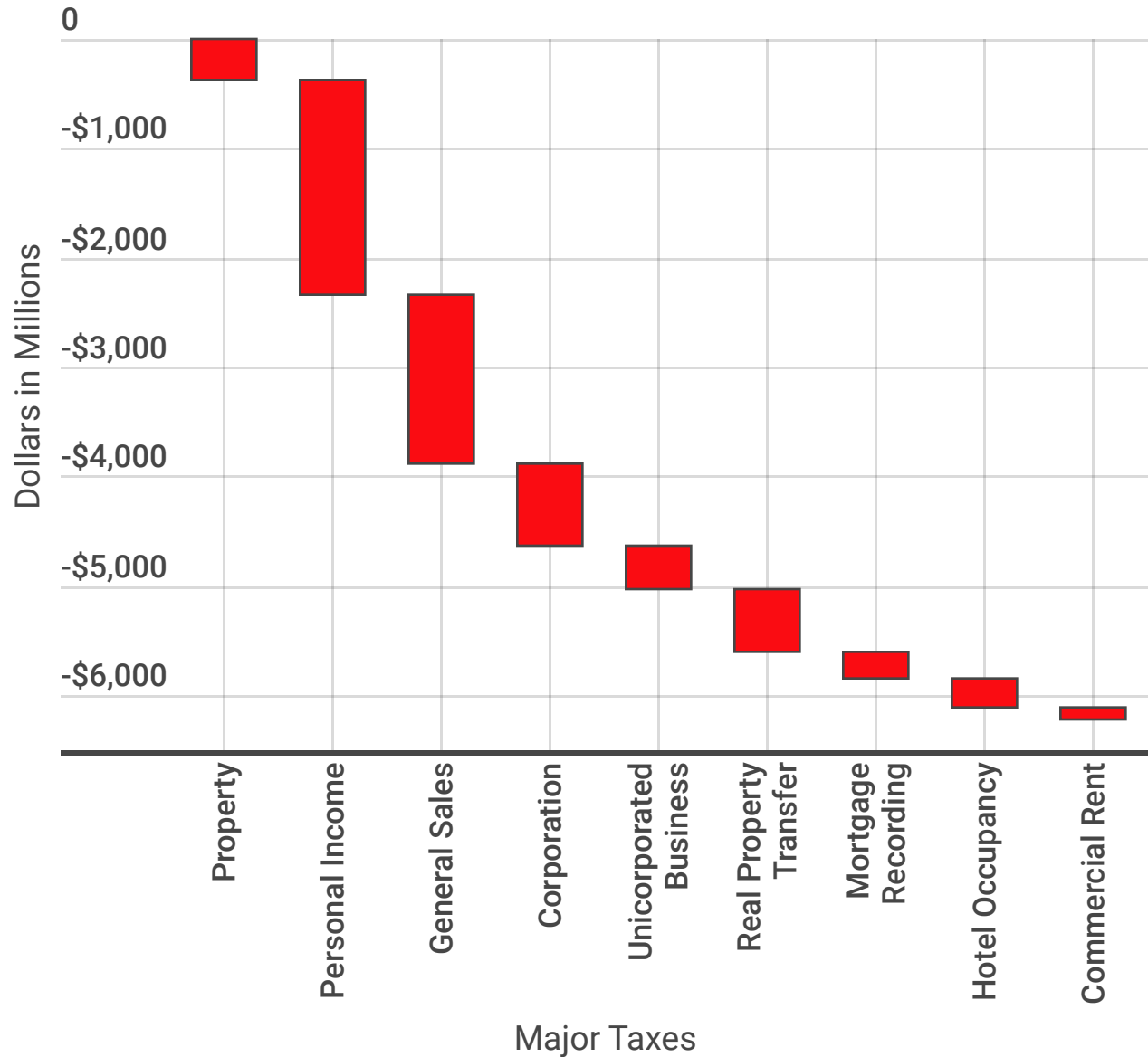
■ Higher Estimate Than January 2020
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Fiscal Year	Total Change in IBO's Forecast Since January, dollars in millions
2020	(\$2,234.7)
2021	(6,230.7)
2022	(4,911.5)
2023	(3,672.8)
2024	(4,205.5)

Change in IBO's Tax Revenue Forecast Since January 2020 (2021)

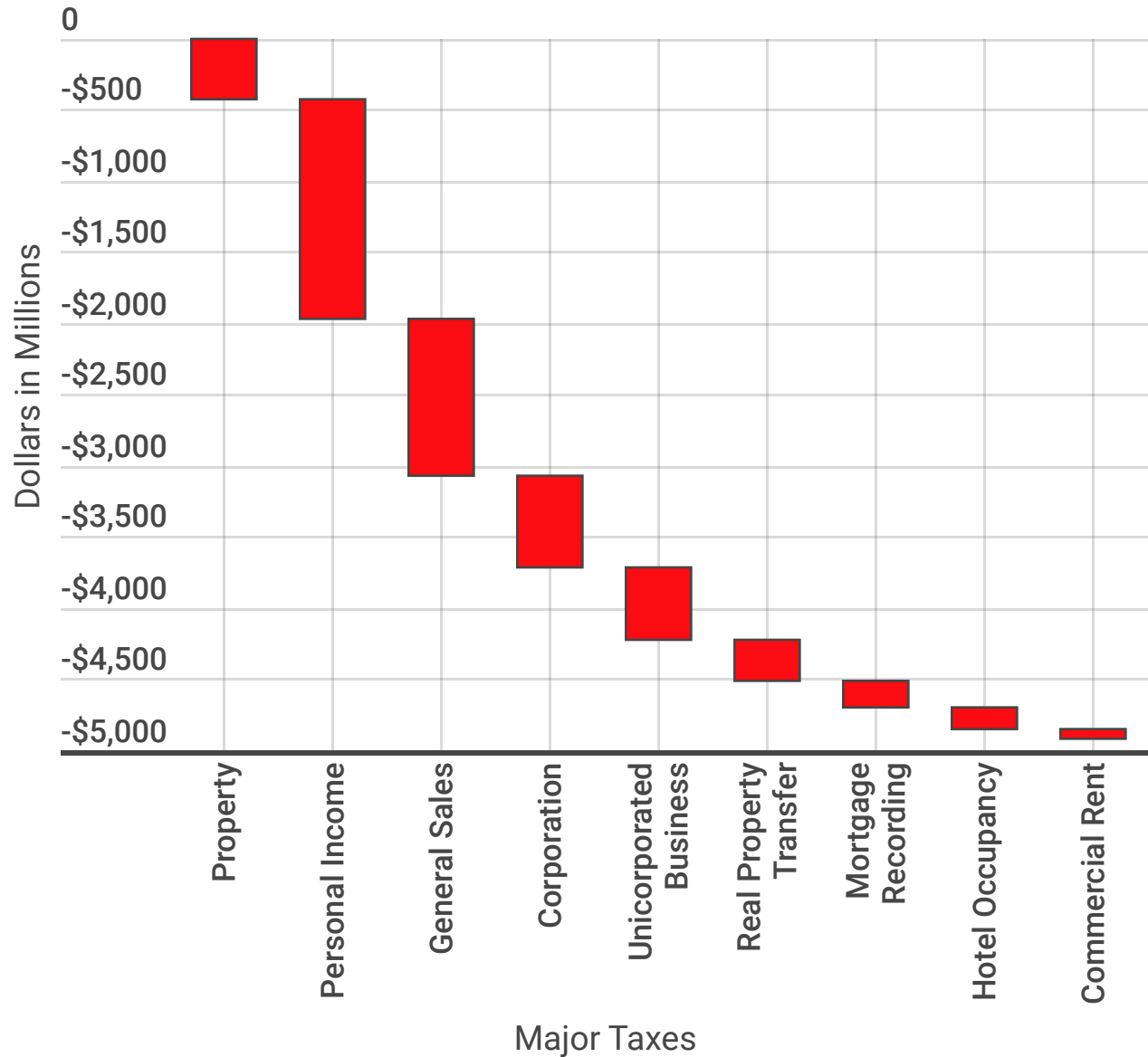
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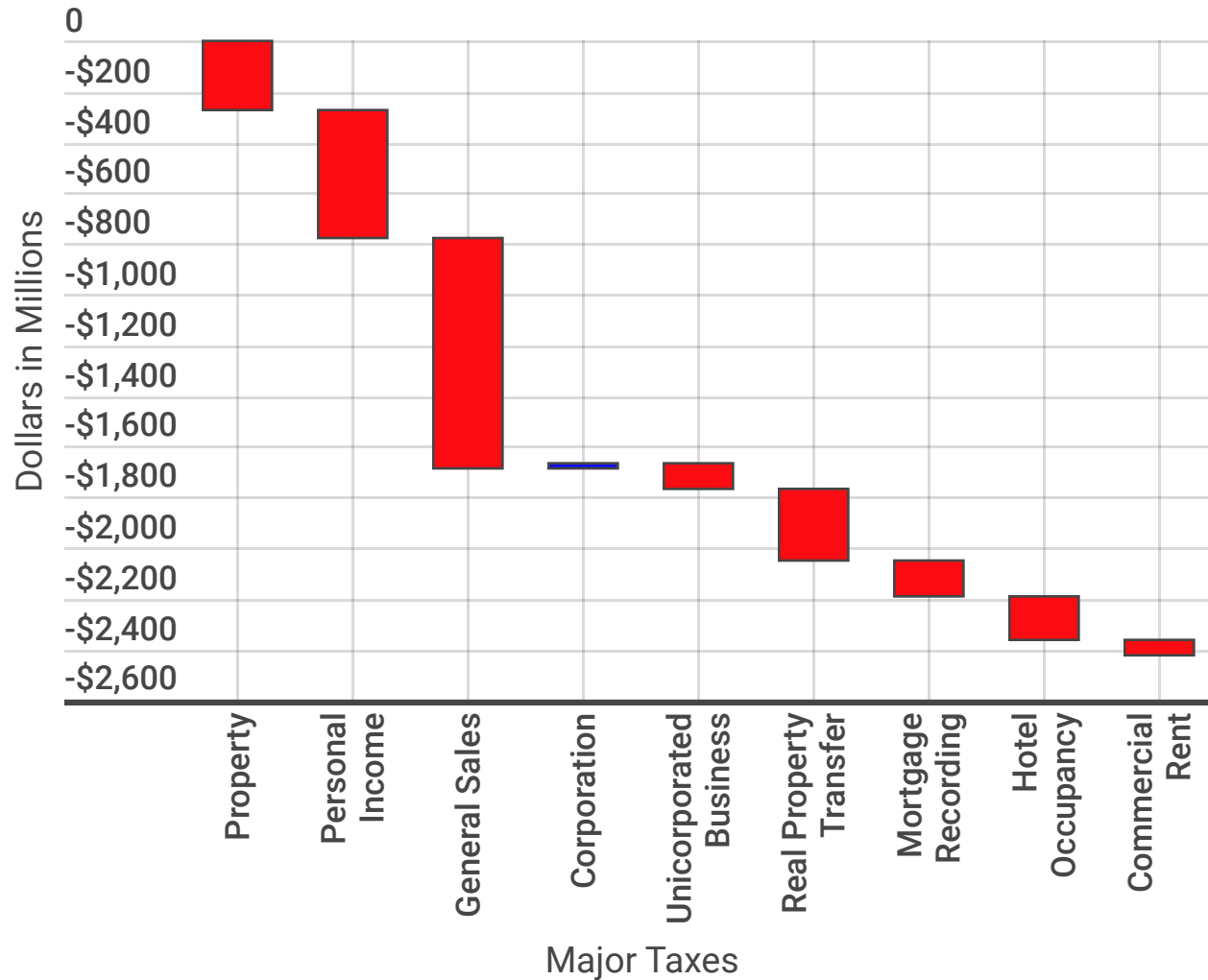


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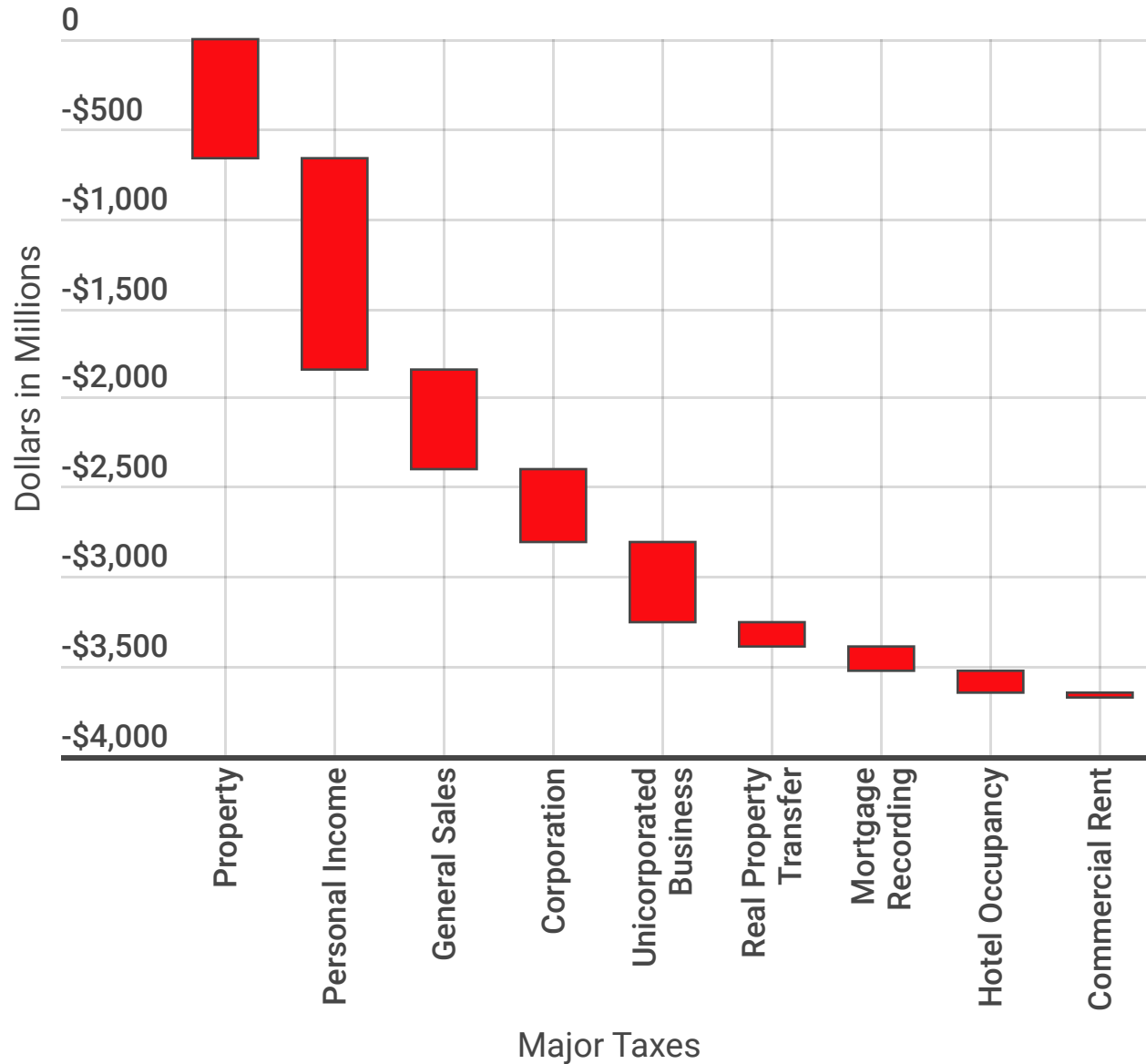
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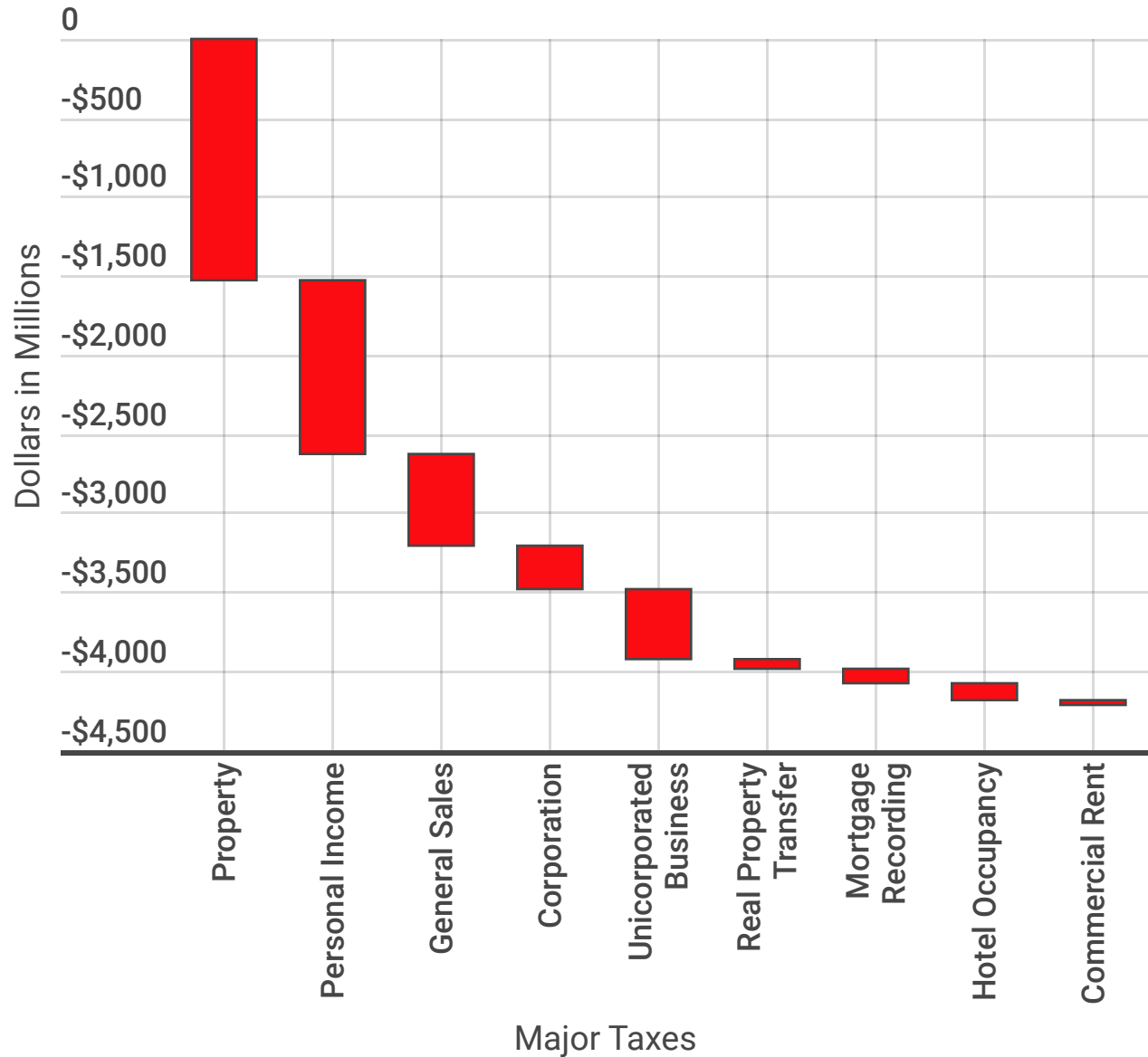
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Change in IBO's Tax Revenue Forecast Since January 2020 (2024)

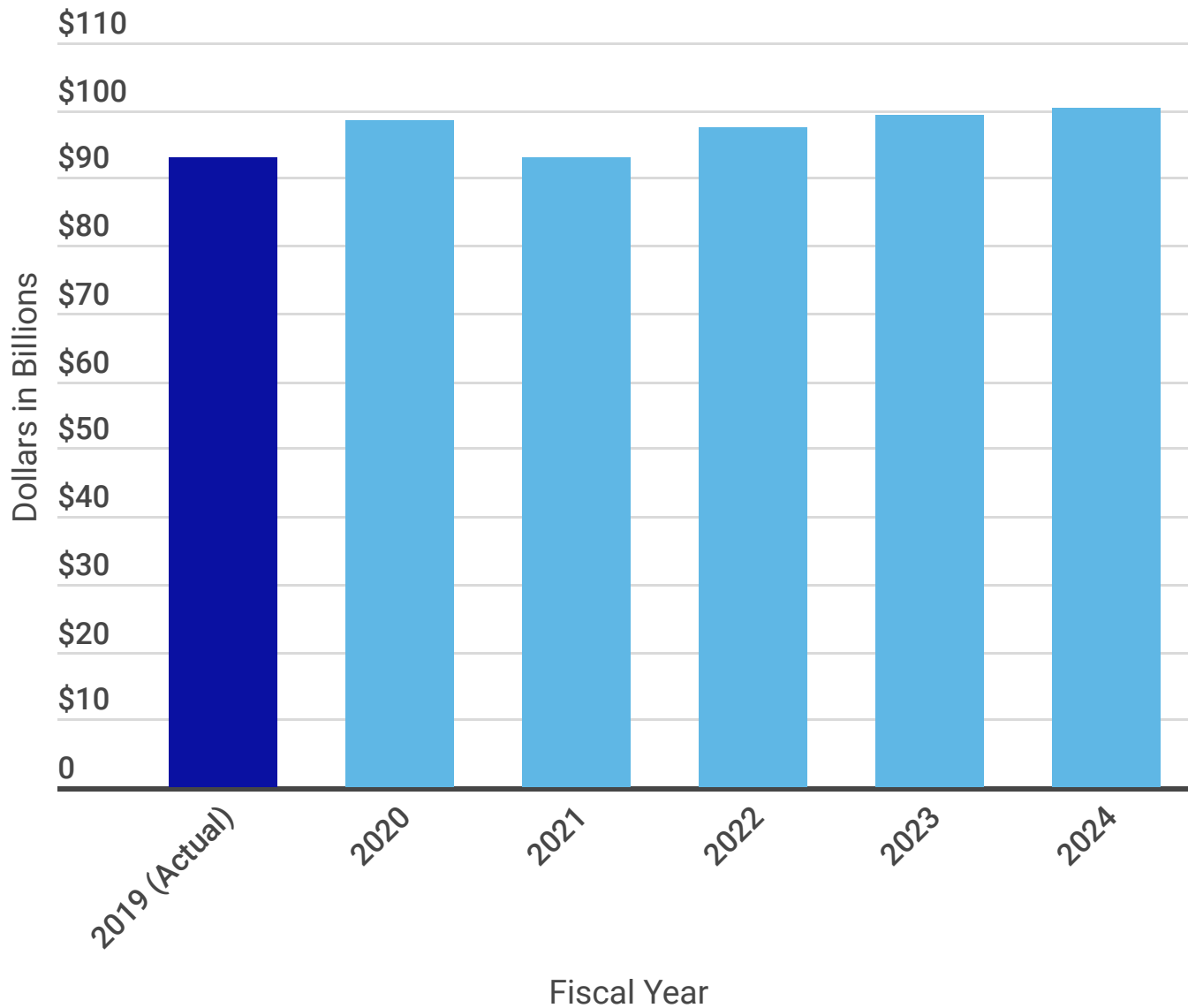
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Total City Expenditures

Adjusted for prepayments and nonrecurring expenses



Year-Over-Year Change



2019-2020

6.3%



2020-2021

(5.6%)



2021-2022

4.5%



2022-2023

1.9%



2023-2024

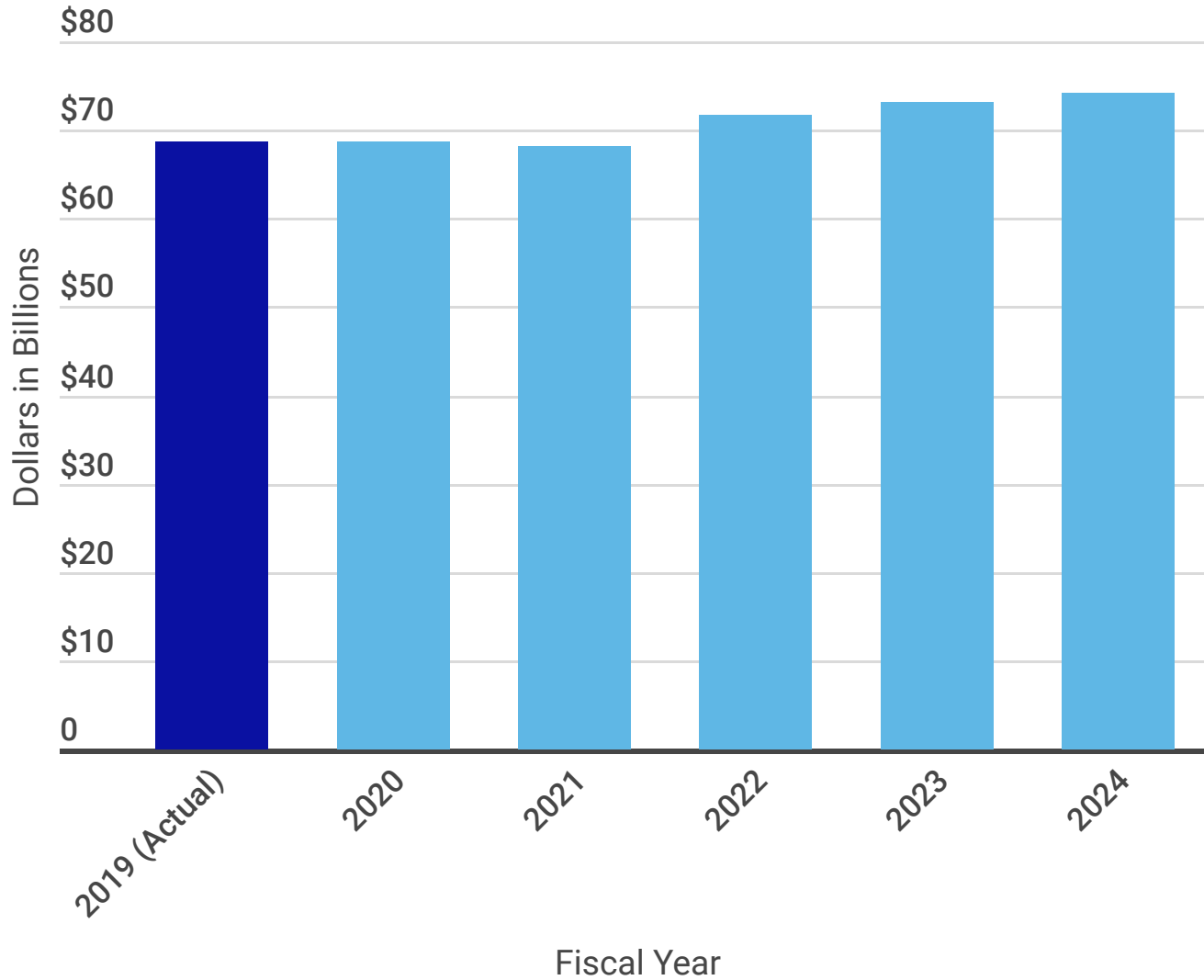
1.2%

IBO's Expenditure Forecast

City-Funded Expenditures

Adjusted for prepayments and nonrecurring expenses

IBO expects growth in city-funded expenditures to resume in 2022, after remaining essentially flat from 2019-2021.



Year-Over-Year Change



2019-2020

(0.1%)



2020-2021

(0.8%)



2021-2022

5.5%



2022-2023

2.0%



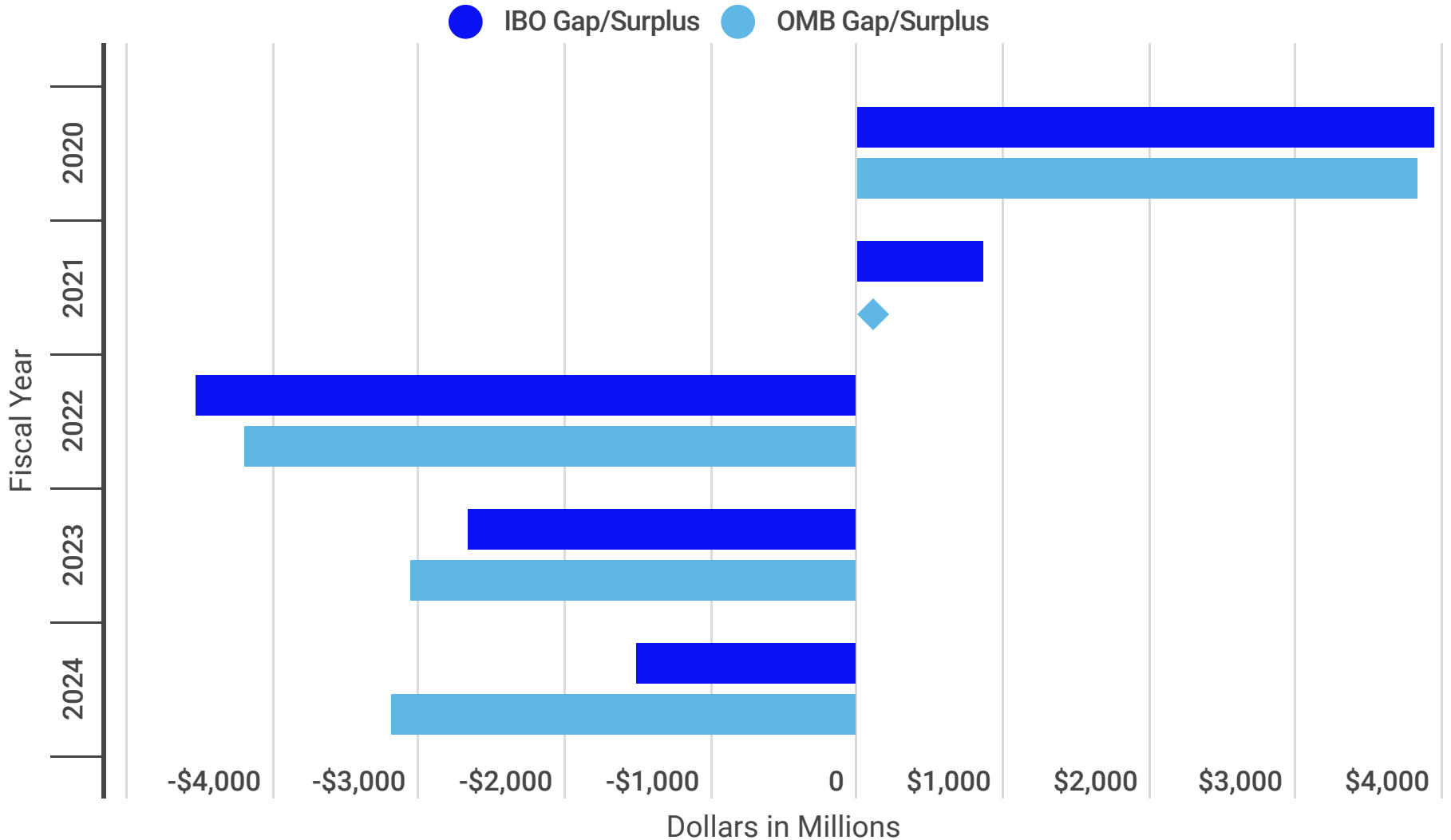
2023-2024

1.5%

IBO's Expenditure Forecast

Budget Gaps and Surpluses: IBO and OMB

IBO estimates a \$4.5 billion gap in 2022. This gap could be partially closed through the use of existing reserve funds, \$1.25 billion of budgeted reserves and just under \$2.1 billion of funds remaining in the Retiree Health Benefit Trust Fund.



IBO's Gap/Surplus

IBO Revenue Estimates-Slide 1

Dollars in millions

	Fiscal Year						Average Change 2019-2024
	2019 Actual	2020	2021	2022	2023	2024	
TAX REVENUES							
Property	\$27,703	\$29,526	\$30,892	\$32,195	\$33,314	\$34,282	4.4%
Personal Income	13,344	13,256	11,937	12,830	13,670	14,274	1.4%
General Sales	7,810	7,445	7,064	7,829	8,774	9,089	3.1%
Corporate	4,200	4,355	3,283	3,537	3,702	3,881	-1.6%
Unincorporated Business	2,029	1,861	1,678	1,649	1,748	1,847	-1.9%
Real Property Transfer	1,547	1,093	869	1,194	1,342	1,444	-1.4%
Mortgage Recording	1,097	926	796	852	893	935	-3.1%
Utility	369	346	363	400	401	416	2.4%
Hotel Occupancy	625	476	385	505	557	609	-0.5%
Commercial Rent	907	816	813	874	923	941	0.7%
Cigarette	29	25	26	25	24	23	-4.8%
Other Taxes and Audits	1,651	2,039	1,754	1,554	1,554	1,554	-1.2%
Total Taxes	\$61,312	\$62,165	\$59,860	\$63,445	\$66,902	\$69,294	2.5%

NOTE: Figures may not add due to rounding.

Appendix

IBO Revenue Estimates-Slide 2

Dollars in millions

		Fiscal Year						
	2019 Actual	2020	2021	2022	2023	2024	Average Change 2019-2024	
OTHER REVENUE								
STaR Reimbursement	\$181	\$165	\$161	\$159	\$157	\$155	-3.1%	
Miscellaneous Revenue	8,220	7,563	6,985	6,869	-	-	-3.6%	
Unrestricted Intergovernmental Aid	151	253	-	-	-	-	n/a	
Disallowances	113	(15)	(15)	(15)	(15)	(15)	n/a	
Total Other Revenue	\$8,664	\$7,966	\$7,131	\$7,013	\$6,996	\$6,994	-4.2%	
Less: Intracity Revenue	(\$2,222)	(\$2,228)	(\$1,843)	(\$1,838)	(\$1,836)	(\$1,836)		
TOTAL CITY-FUNDED REVENUE	\$67,754	\$67,903	\$65,148	\$68,620	\$72,062	\$74,452	1.9%	
State Categorical Grants	\$14,970	\$15,847	\$15,490	\$16,350	\$16,806	\$16,855	2.4%	
Federal Categorical Grants	7,719	12,447	7,829	7,407	7,379	7,363	-0.9%	
Other Categorical Aid	1,340	1,103	1,055	1,069	1,068	1,066	-4.5%	
Interfund Revenue	652	660	675	675	675	675	0.7%	
TOTAL REVENUE	\$92,436	\$97,959	\$90,197	\$94,121	\$97,990	\$100,411	1.7%	

NOTE: Figures may not add due to rounding.

Appendix

Pricing Differences Between IBO and the de Blasio Administration

Items That Affect the Gap-Slide 1

Dollars in millions

	Fiscal Year				
	2020	2021	2022	2023	2024
Gaps as Estimated by the Mayor	-	-	(\$4,180)	(\$3,043)	(\$3,182)
Revenue					
Taxes					
Property	(\$4)	\$201	\$353	\$608	\$1,211
Personal Income	3	266	(145)	(59)	4
General Sales	97	300	(260)	107	173
General Corporation	76	122	(313)	(367)	(79)
Unincorporated Business	142	21	(104)	(141)	(133)
Real Property Transfer	(31)	75	194	192	244
Mortgage Recording	(23)	232	162	102	107
Utility	-	-	-	-	-
Hotel Occupancy	(1)	117	(55)	(90)	(50)
Commercial Rent	-	45	23	44	31
Cigarette	-	-	-	-	-

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

Appendix

Pricing Differences Between IBO and the de Blasio Administration

Items That Affect the Gap-Slide 2

Dollars in millions

	Fiscal Year				
	2020	2021	2022	2023	2024
Other Taxes and Audits	-	-	-	-	-
Total Taxes	\$260	\$1,379	(\$144)	\$396	\$1,507
STaR Reimbursement	-	-	-	-	-
Misc. Revenue	-	24	24	24	24
TOTAL REVENUE	\$260	\$1,403	(\$120)	\$420	\$1,531
Expenditures					
Debt Service	\$-	\$131	\$-	\$-	\$-
Fringe Benefits:					
Health Insurance - Education	(47)	(1)	63	157	232
Health Insurance - City University	(2)	-	3	7	9
Health Insurance - All Other Agencies	(61)	(1)	78	197	292
Public Assistance	-	(89)	(89)	(89)	(89)
Education	(20)	(43)	(9)	(22)	(22)
Fire	-	(50)	(50)	(50)	(50)

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

Appendix

Pricing Differences Between IBO and the de Blasio Administration Items That Affect the Gap-Slide 3

Dollars in millions

	Fiscal Year				
	2020	2021	2022	2023	2024
Police	-	(400)	(50)	(50)	(50)
Homeless Services	-	(7)	(67)	(112)	(112)
Small Business Services	-	(45)	(45)	(3)	(3)
Correction	-	(21)	-	-	-
Sanitation	-	5	(4)	(28)	(28)
Campaign Finance Board	-	-	(20)	(3)	(2)
Board of Elections	-	(25)	(25)	(25)	(25)
Parks and Rec.	-	(5)	(5)	(5)	(5)
TOTAL EXPENDITURES	(\$130)	(\$551)	(\$220)	(\$26)	\$147
TOTAL IBO PRICING DIFFERENCES	\$130	\$852	(\$340)	\$394	\$1,678
IBO Prepayment Adjustment 2020/2021	(130)	130	-	-	-
IBO SURPLUS/(GAP) PROJECTIONS	-	982	(4,520)	(2,649)	(1,504)

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

Appendix