New York City Independent Budget Office

Fiscal Outlook

December 2019

Revenues, Risks & Reserves:

NYC's Budget Remains Sound Despite Slowing Economy, Fiscal Perils from Albany & Beyond

IBO remains cautiously confident about New York City's fiscal outlook. While risks to the near term outlook remain, IBO expects the city to end the current fiscal year with a surplus of $635 million that will be used to prepay expenses for next year, leaving a gap of $2.9 billion for fiscal year 2021, which begins on July 1, 2020. (All years refer to fiscal years unless otherwise noted.) However, IBO assumes next year's gap will almost certainly be smaller than that because it does not account for funds in the current year's budget that have not been allocated to any function. Assuming there is no need to shift these reserves to meet shortfalls, they will be rolled into 2021 reducing the projected gap to $1.6 billion (2.1 percent of city-funded expenditures). The city has routinely dealt with future budget gaps of this scale and we expect the de Blasio Administration and City Council to do so again in the 2021 budget adoption process. Similarly, we expect that the gaps currently projected for 2022 and 2023 are manageable.

IBO's outlook for the local economy is for the expansion underway since the end of the Great Recession to continue, although at a slower pace. IBO expects employment, personal income and wage growth to all slow late in calendar year 2019 (data for the final quarter are not yet available) and

Total Revenue and Expenditure Projections
Dollars in millions

	Actuals	Plan				Average Change
	2019	2020	2021	2022	2023	2019 -2023
Total Revenue	**$92,436**	**$94,649**	**$95,544**	**$98,650**	**$101,455**	**2.4%**
Total Taxes	61,312	63,985	65,218	67,942	70,286	3.5%
Total Expenditures	**$91,779**	**$94,564**	**$98,506**	**$100,982**	**$103,531**	**3.1%**
IBO Revenue Less Expenditures	**n/a**	**$84**	**($2,962)**	**($2,332)**	**($2,076)**	
IBO Prepayment Adjustment 2020/2021	n/a	(84)	84	-	-	
IBO Surplus/(Gap) Projections		**-**	**($2,878)**	**($2,332)**	**($2,076)**	
Adjusted for Prepayments and Non-Recurring Expenses						
Net Prepayments	($355)	($3,671)	($550)	-	-	n/a
Reserve Funds	-	1,400	1,250	1,250	1,250	n/a
Other Adjustments	-	-	72	180	306	n/a
Total Expenditures (net of adjustments)	**$92,786**	**$96,835**	**$97,734**	**$99,552**	**$101,974**	**2.4%**
Total City-Funded Expenditures (net of adjustments)	**$68,633**	**$71,623**	**$72,767**	**$74,213**	**$76,192**	**2.6%**

NOTES: IBO projects a surplus of $635 million in 2020, $84 million more than the de Blasio Administration. The surplus could be used to prepay some 2021 expenditures reducting the 2021 gap to $2.9 billion, leaving 2020 with a balanced budget. Figures may not add due to rounding.

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continue into 2021. We have already seen slowing job growth so far this year, with a substantial share of the city's new jobs continuing to be in low-wage industries, particularly home health care. Additionally, the city's real estate market, often a catalyst for economic growth, has experienced declines in both the number of real estate transactions as well as median sales prices over the past year.

Despite our forecast of slower economic growth, IBO continues to project relative strength in the growth of city tax collections—thanks largely to the property tax—at rates that exceed planned expenditures. But there are also reasons for greater caution. We expect tax revenue growth in 2020 to fall sharply from 4.0 percent in 2019 to 1.9 percent as personal income tax revenue grows more slowly and the business income and property transfer taxes see actual declines in revenue.

Budgetary stress from potential actions at the federal and state level are also risks to the city's fiscal health. This is particularly true for the state, where recent revelations of larger-than-expected budget deficits in Albany have increased budgetary uncertainty for the city. The city's financial plan would be greatly affected if the state sought to reduce its deficit in part through actions that include reductions in expected state aid to the city or demands that the city increase contributions for transit or other services.

IBO's analysis of the city's fiscal outlook starts with current year conditions adjusted for actions included in the Mayor's November 2019 Financial Plan. The Mayor's latest plan looks similar to his recent financial plans, with few expensive new initiatives, considerable funding set aside in reserve and relatively small out-year budget gaps as a share of total city-funded spending.

The Mayor's current financial plan includes a surplus of $550 million in 2020 that will be used to prepay 2021 expenses. This surplus stems from the recognition of $482 million of additional tax revenue in 2020 along with a savings program that provides $224 million of additional resources in the current year. Over 56 percent of the these savings result from reductions in planned debt service expenses and fringe benefit adjustments due to lower-than-expected city employment and an increase in the federal fringe reimbursement rate—savings that would have occurred without the city having taken any action.

Based on IBO's own forecasts of the economy, city tax revenue, and spending under the Mayor's plan, we estimate the city will have $245 million in additional city-generated revenue in the current year, offset by another $160 million of spending. This would result in an additional $85 million of surplus funds—over and above the $550 million projected by the Mayor's Office Management and Budget (OMB). Assuming the 2020 surplus is used to prepay some of next year's expenditures, and after accounting for $53 million of additional resources IBO estimates the city will accrue in 2021, we expect next year's budget gap will be just under $2.9 billion, 4.0 percent of city-funded expenditures.

While IBO does assume more surplus funds in the current year than OMB, the size of the additional surplus is much less than in recent years. Typically, our larger surplus estimates derive from higher tax revenue projections. But the difference between our revenue estimates and those of OMB's have narrowed. IBO's revenue forecast for the current year is only 0.4 percent higher than the Mayor's estimate, while in 2021 our forecast exceeds the Mayor's by 0.6 percent. By 2023, IBO's revenue estimate exceeds the de Blasio Administration's by a relatively modest 2.0 percent.

IBO's 2020 surplus estimate does not include the $1.4 billion currently allocated for two reserves within the 2020 budget—these reserves count as expenditures but do not support any specific spending needs. If these funds are not used to cover unexpected spending needs or revenue shortfalls in the current year, they will become part of the 2020 surplus. The reserve funds would close nearly half of the remaining budget gap IBO forecasts for 2021.

For the last two years of the financial plan period (2022 and 2023) we project relatively manageable shortfalls of $2.33 billion and $2.08 billion, respectively. These gaps too would be substantially reduced through the use of the reserves of $1.25 billion built into the financial plan in both 2022 and 2023, assuming the reserves are not needed to fill revenue shortfalls or fund additional spending.

Economic Outlook

With the fiscal stimulus attributable to the federal Tax Cuts and Jobs Act (TJCA) waning and tariffs taking a toll on global trade, U.S. economic growth has already begun to slow. The economy has added 180,000 jobs per month so far this year, down from a monthly average of 223,000 in 2018. After adjusting for inflation, increases in gross domestic product (GDP) over the past two quarters have been modest: 2.0 percent and 2.1 percent in the second and third quarters, respectively, well below the 2.9 percent growth the U.S. reached in 2018. IBO forecasts continued economic growth, but at slower rates in the next two years—from a projected 2.3 percent real GDP growth in 2019, to 1.7 percent and 2.0 percent real growth in 2020 and 2021, respectively. (In our discussion of the economic outlook, years refer to calendar years and monthly and quarterly data are seasonally adjusted.) Consumer spending has fueled the current expansion and can be expected to stay strong so long as the economy continues to add enough new jobs to keep unemployment low. Aside from more cautious consumer behavior, the main risk to IBO's outlook comes from an escalation of trade wars, which would further damage an already weak global economy.

The growth of New York City's economy has also slowed in 2019. IBO projects employment growth of 65,000 for the year (4th quarter to 4th quarter), compared with an average of 98,000 jobs a year from 2010 through 2018. IBO forecasts slower employment growth of 50,100 in 2020, and even smaller job gains in the following years. Slower employment growth coupled with slowing growth in the labor force is expected to increase the unemployment rate but only slightly—from a projected 4.2 percent in 2019 to no more than 4.5 percent during the forecast period. Health care and social service employment is expected to grow more slowly but this sector will continue to provide more new jobs than any other. Job growth in the professional and business services sector, a steady source of new jobs in recent years, is also projected to slow, but it will account for the largest share of wage gains during the forecast period.

U.S. Economy. The current expansion of the U.S. economy entered its 11th year last June and became the longest on record. Consumer spending, which has driven the expansion, is expected to remain strong enough to sustain economic growth, though IBO anticipates slower growth through the end of 2020. The fiscal stimulus that boosted growth in 2018 has been fading this year, and output and employment growth has slowed. IBO forecasts that real gross domestic product will increase 2.3 percent in

IBO versus Mayor's Office of Management and Budget Economic Forecasts

	2019	2020	2021	2022	2023
National Economy					
Real GDP Growth					
IBO	2.3	1.7	2.0	3.0	2.2
OMB	2.3	2.1	1.9	1.6	1.5
Inflation Rate					
IBO	1.7	2.0	2.5	2.3	2.3
OMB	1.8	2.3	2.3	2.4	2.3
Personal Income Growth					
IBO	4.8	4.1	3.8	4.6	4.2
OMB	4.9	4.5	4.5	4.3	4.2
Unemployment Rate					
IBO	3.7	3.6	4.3	4.4	4.5
OMB	3.7	3.5	3.6	3.8	4.2
10-Year Treasury Note Rate					
IBO	2.2	2.4	3.1	3.9	4.1
OMB	2.1	2.1	2.7	3.1	3.3
Federal Funds Rate					
IBO	2.2	1.5	1.6	2.4	2.9
OMB	2.2	1.7	2.1	2.4	2.6
New York City Economy					
Nonfarm New Jobs (thousands)					
IBO (Q4 to Q4)	65.0	50.1	34.9	49.6	45.0
IBO (annual average)	84.4	54.8	33.9	48.9	45.4
OMB (annual average)	75.3	50.8	55.2	48.8	47.5
Nonfarm Employment Growth					
IBO (Q4 to Q4)	1.4	1.1	0.7	1.0	0.9
IBO (annual average)	1.9	1.2	0.7	1.0	1.0
OMB (annual average)	1.7	1.1	1.2	1.0	1.0
Inflation Rate (CPI-U-NY)					
IBO	1.6	2.0	2.7	2.6	2.6
OMB	1.8	2.3	2.3	2.4	2.3
Personal Income ($ billions)					
IBO	668.5	682.2	701.8	734.0	765.3
OMB	669.2	693.3	718.5	743.3	769.7
Personal Income Growth					
IBO	3.9	2.1	2.9	4.6	4.3
OMB	3.9	3.6	3.6	3.5	3.5
Manhattan Office Rents ($/sq.ft)					
IBO	82.6	85.3	86.5	88.1	89.6
OMB	82.7	84.7	86.6	88.5	88.6

SOURCES IBO; Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Note, 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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2019, compared with 2.9 percent growth the year before, and 1.7 percent in 2020—one of the slowest annual growth rates since the last recession. Growth at the U.S. level is expected to be slowest in 2020, Q4 and then gradually accelerate in 2021, to a projected 2.0 percent real GDP growth. For 2022 and 2023, the average annual rate of growth is 2.6 percent, with faster growth in in 2022. There are, however, considerable downside risks to our forecast.

The current expansion has been sustained by consumer spending, which when adjusted for inflation increased at an annual average rate of 3.0 percent over the last five years. Bolstering household spending are employment gains averaging 200,000 jobs each month for over 9 years and the gradual decline of the unemployment rate to its lowest level in 50 years, giving households both the means and confidence to spend. Very low interest rates generated by an accommodative monetary policy has also encouraged consumption by reducing borrowing costs and making it easier for households to retire old debt; debt service burdens are at record lows. Finally, the resumption of rising home prices since 2011 and the near-continuous rise in stock markets since 2009 have created positive wealth effects, increasing the willingness of households—particularly affluent households—to spend.

The combination of federal tax cuts enacted in December 2017 with the Tax Cuts and Jobs Act and $300 billion of spending increases that lawmakers agreed to in March 2018 created a powerful stimulus that boosted real GDP growth to 2.9 percent in 2018, up from 2.4 percent in 2017. The impact of the fiscal stimulus has waned in 2019 at the same time tariffs have taken a toll on global trade. The U.S. economy has added 180,000 jobs per month through November this year, down from a monthly average of 223,000 in 2018. Real GDP growth in the last two quarters was modest: 2.0 percent and 2.1 percent in the second and third quarters, respectively. For 2019 as a whole, IBO forecasts 2.3 percent real GDP growth.

Another headwind slowing U.S. growth has been economic weakness among some of our largest trading partners, including China, the U.K., Germany, and Japan. U.S. businesses, particularly manufacturers, have been cautious in their investment decisions given weak demand abroad and to a lesser degree at home, and the uncertainties of tariffs and trade wars. In the second and third quarters of 2019 real gross private investment decreased a total of 1.9 percent.

With a slowdown in employment growth and lingering worries of recession, many consumers have also been more cautious in their spending this year. The growth of real personal consumption expenditures slowed in the first three quarters of 2019. In particular, spending by high-income households, who account for a disproportionate share of total spending, has softened in reaction to swings in the value of their financial assets over the last two years.

Although these headwinds spell continued slowing of the U.S. economy through the end of next year, they do not necessarily signal a recession. IBO projects that a combination of favorable labor market and financial conditions will keep household spending strong enough to prolong the current expansion. While employment growth has declined this year, it has remained sufficient to absorb new entrants into the labor force and keep the unemployment rate very low, supporting household incomes and giving consumers enough confidence to spend. Moreover, stock prices have rebounded since last fall's sharp drops, creating wealth effects that will help sustain consumer spending, particularly among high-income households.

There is considerably more downside risk to IBO's U.S. economic forecast than upside potential. Escalation of trade wars would further weaken the global economy and threaten the continuation of the current expansion. Further declines in employment growth—particularly if sustained over consecutive months—also pose a threat, particularly if they result in an increase in the unemployment rate. Three or four months of employment growth of 100,000 or less could greatly shake consumer confidence, contract spending, and derail the expansion. A sustained downturn on Wall Street could have the same consequences.

IBO's forecast of near-term deceleration of economic growth is shared by the Mayor's Office of Management and Budget, though the forecast for 2020 and the trajectory in subsequent years differs substantially. IBO projects slower real GDP growth than does OMB for 2020 (1.7 percent vs. 2.1 percent). For 2021, IBO forecasts a modest rebound in real GDP growth, to 2.0 percent, compared with OMB's expectation of a slowdown in economic growth to 1.9 percent. For the following years, IBO projects even faster growth of 3.0 percent in 2022 followed by another dip. OMB expects growth to continue to drift lower through the end of the forecast period.

New York City Economy. The city's economy has continued one of its longest running expansions in 2019, with local employment, personal income, and property values all growing for a decade following the 2008-2009 financial crisis. But the pace of the expansion has slowed markedly this year and we forecast that it will slow further in 2020 and 2021 before growth picks up modestly in 2022 through 2023. While the projected slowing of the U.S. economy is a factor in the outlook for the city economy, there are also factors specific to New York that heighten the risk of a more prolonged slowdown through the forecast period.

Employment. Employment growth (measured 4th quarter to 4th quarter) averaged 98,000 a year from 2010 through 2018, but IBO projects it to total just 65,000 in 2019 and slow further to 50,100 in 2020 and then 34,900 in 2021. Our outlook for employment gains in 2022 and 2023 is only slightly more robust at 49,600 and 45,000, respectively. Slower employment growth is expected to lead to higher unemployment and slower growth in wages and output than the city has been experiencing in recent years.

As has been true in recent years, much of the city's job growth is occurring in the health care area, in particular the ambulatory health care services industry, which includes home health care workers. (See here for more on trends in home health services.) Nearly half of the city's job growth in 2019 (30,800 out of 65,000) is expected to occur in this industry. Over the past few years, IBO's economic outlook has included an assumption that growth in home health care services would slow sharply, only to see industry employment once again significantly exceed our forecast. In light of the fact that New York State is moving to increase regulation of the ambulatory care industry to better control Medicaid spending on these services, our current outlook assumes that employment growth in the industry will remain strong but slow to 21,400 in 2020 and then gradually decline in 2021 through 2023.

IBO expects employment growth in other sectors of the economy to be less volatile. Wholesale and retail trade are forecast to add 2,200 and 4,700 jobs, respectively, when 2019 final data is complete. These increases would reverse—for at least one year—a pattern of employment declines as local retailers contend with high commercial rents and the continuing shift towards online shopping rather than sales at brick and mortar stores. In 2020 and beyond, trade employment is projected to change only slightly. After losing 4,400 jobs in 2018 and barely growing in 2019, accommodation and food services employment is forecast to rebound slightly, adding 3,600 jobs in 2020 and smaller amounts thereafter; these expected gains, however, are far below the annual average growth of 15,900 jobs that prevailed in 2010 through 2017. The securities and finance sector, after growing by an average of 3,800 jobs annually in 2017 and 2018, is expected to shed 2,600 jobs in 2019, before recovering somewhat with modest annual gains through 2023.

Professional, scientific, and technical services are seeing strong employment growth in 2019 (an expected gain of 9,200 jobs), sustaining a pattern of steady growth since 2010 that has averaged 12,200 jobs each year. IBO expects employment growth in these sectors to slow sharply in 2020 and 2021 when only about 3,100 jobs are expected to be added, before bouncing back somewhat in 2022 and 2023 when job growth will average 5,800. Similarly, the information sector is slated to add 4,400 jobs this year, having averaged a gain of 4,700 each year from 2010. IBO expects the sector's growth to continue in 2020 through 2023, albeit at a slower pace, averaging 2,700 jobs annually. The continued strength in these sectors, with wages above the city average (even if still well below those in securities and finance) has helped diversify the city's sources of employment and income growth and is expected to continue doing so in the coming years.

Labor Force. Data from the U.S. Census Bureau indicate that after adding over 450,000 residents between 2007 and 2016, the city's population declined by 38,900 in 2017 and 34,100 in 2018; IBO projects a further, although smaller, decline in 2019 of 5,300. These declines are some of the largest in the city since the 1970s. Census Bureau figures suggest that weaker population growth over the past few years is primarily the result of an increase in out-migration of New Yorkers to other U.S. locales, rather than a steep decline in international in-migration. New York City's economy relies heavily on the large number of foreign migrants who arrive in the city each year. Changes in federal immigration policy that reduce the flow of foreign migrants to the city would be an additional impediment to population growth in New York. In turn, slower population growth would weigh on job growth in the city if the labor force cannot meet the demands of local employers.

As the city's household employment growth slowed but remained positive from 2015 through 2018, the local unemployment rate fell to 4.0 percent in late 2018 bringing the rate for the full year to 4.1 percent. With an actual decline in household employment of 12,100 forecast for 2019, the unemployment rate is no longer shrinking and IBO now expects it to average 4.2 percent for the year. We project that the unemployment rate will remain at 4.2 percent in 2020 and then rise to between 4.4 percent and 4.5 percent in 2021 through 2023.

Wages and Personal Income. Average wages in the city, as measured in nominal dollars, rose 2.4 percent in 2018, but IBO expects that final data for the current year to show somewhat stronger wage growth of 3.4 percent for 2019, followed by a return to growth of 2.4 percent for 2020. We project that nominal wage growth will slow from 2021 to 2023, with annual increases averaging just 2.1 percent. In inflation-adjusted terms these figures are considerably lower, although the basic pattern remains the same: we expect a 0.3 percent decline in real wages in 2018, followed by real wage growth of 1.6 percent this year and 0.7 percent in 2020. After adjusting for inflation, wage growth effectively stalls from 2021 through 2023, averaging only 0.1 percent a year.

Measured in nominal terms, personal income in New York City is forecast to grow 3.9 percent in 2019, well below the gains of 7.9 percent and 5.0 percent logged in 2017 and 2018, respectively. IBO expects somewhat slower personal income growth in 2020 and 2021 (averaging 2.5 percent), followed by stronger growth in 2022 and 2023 (an average of 4.5 percent). Real personal income growth follows a similar path, slowing to less than 1.0 percent per year in 2020 and 2021, before rebounding.[1] In inflation-adjusted terms, IBO projects that personal income will increase 2.2 percent in 2019, unchanged from 2018 and considerably below the 5.2 percent growth the city enjoyed in 2017. We expect even weaker growth in real personal income for 2020 and 2021, 0.4 percent and 0.8 percent, respectively, and growth averaging 2.3 percent over the final two years of the forecast period.

Just as the sources of employment growth since the last recession show a shift away from reliance on securities and other financial services as drivers of the local economy, the sectors responsible for driving much of the aggregate wage growth in recent years are professional business and technical services and health and education services. IBO projects that these two sectors taken together will contribute nearly 60 percent of real aggregate wage growth from 2019 through 2023. The securities sector, which alone accounted for 50.8 percent of wage growth in 2003 through 2008, will only supply 5.8 percent of the real wage growth during the forecast period. Although diminished as a source of new jobs and wage growth, given the financial sector's outsized wages and profits, it remains a critical source of economic strength for the city.

Wall Street. New York Stock Exchange member firms enjoyed strong profits in 2017 ($24.5 billion) and 2018 ($27.3 billion) and IBO forecasts that the firms are on-track for another strong year in 2019 ($28.4 billion). We expect profits to retreat in 2020 to $22.2 billion and fall further to $20.0 billion in 2021, before recovering somewhat in 2022 and 2023.

Profits of brokers-dealers have been buoyed in the years since the 2008-2009 financial crisis by very low net interest expenses (interest expenses paid offset by interest income earned). Although in recent years such expenses have been increasing, they remain below the amounts paid before the crisis. Net interest expenses hit a low of $6.1 billion in 2015 and then steadily climbed to $50.4 billion in 2018 and are projected to reach $77.5 billion in 2019. The recent increase is partially due to the Federal Reserve's now-suspended policy of gradually raising the federal funds rate. However, increases in net interest expenses have been more than offset by the concurrent rise in net operating revenues (revenue other than interest earnings minus non-interest expenses) from $20.4 billion in 2015 to a projected $105.7 billion in 2019. While we expect both net interest expenses and net operating revenues to slowly decline in 2020 through 2023, the latter will decline faster, accounting for our projection of a gradual contraction in profits.

Real Estate. IBO estimates that taxable real estate sales in New York City will reach nearly $100 billion in 2019, a decline of more than 10 percent over 2018, but well above the sales of $93 billion recorded in 2017. This year, sales are nearly equally split between residential and commercial properties. This represents a drop of less than 2 percent in residential sales compared with the previous year, but a decline of over 17 percent in commercial sales.

The federal income tax changes enacted in December 2017 increased the standard deductions for taxpayers, and put limits on the federal deductibility of state and local taxes as well as of interest on mortgages. Many observers expected that these measures would depress the residential housing market. In fact, residential sales have fallen only slightly in the last two years from their 2017 peak. The persistence of low mortgage rates has been one factor in the continued strength of the residential market despite the tax law changes.

IBO projects that residential sales will decline in 2019 compared with 2018 in all boroughs except Manhattan. We expect residential sales growth citywide to average only 1.5 percent annually in 2020 through 2023.

In 2018, Manhattan experienced the largest decline in residential sales value of any borough, but in 2019 it is set to be the only borough with an increase in sales—although the increase is a fairly modest 3.5 percent. The increase for Manhattan in 2019 is likely due to the looming effective date of the new “mansion tax” on July 1, 2019 after which an additional tax would be imposed on sales over $2 million with a top rate of 2.9 percent on sales of homes priced over $25 million. There was a rush to complete sales in June and thereby avoid the new tax. Sales of residences priced at over $25 million (all in Manhattan) were especially strong leading up to the imposition of the tax, and for the 2019 calendar year as a whole the aggregate value of such sales will be around 25 percent higher than in 2018.

Commercial sales reached an all-time peak in inflation adjusted terms in 2007, just before the financial crisis. They then fell sharply, but by 2015 had reached a new nominal peak. Sales declined during the following two years, had a partial recovery in 2018, and have again declined in 2019. Such volatility is not unexpected as commercial sales generally experience greater year-to-year variability than do residential sales. This is due in part to transactions involving very high-value properties that are not necessarily directly related to overall economic conditions. There have actually been more of these high-value sales (defined here as sales price over $100 million) in the first 11 months of 2019 than during the same period last year (83 vs. 73), but the total value of the sales has been less ($22.8 billion compared with $31.9 billion in 2018).

One factor behind the decline in commercial sales in recent years has been a sharp drop in the sales of rental apartment buildings, particularly in Manhattan, where sales of such buildings peaked at $13.8 billion in 2014 but are projected to reach just over $5 billion in 2019. New rent laws passed last spring restrict the ability of owners of rent-regulated apartments to pass on the cost of building improvements to tenants. These and other legislative changes may lead to a further diminished demand for owning rental properties, particularly rent-regulated ones. Another factor that has negatively affected commercial real estate is the surge in online shopping, which has depressed the market for retail properties.

IBO projects an average annual growth of 2.2 percent in commercial sales from 2020 through 2023, while the value of residential sales is projected to grow at an average annual rate of 1.5 percent. Total sales are projected to reach just over $114 billion in 2023, well below the record levels in inflation adjusted terms posted in 2007.

Taxes and Other Revenue

IBO’s forecast of revenue from taxes and other sources including fines, fees, and state and federal aid totals $94.6 billion for the current fiscal year, with roughly two-thirds of the total ($64.0 billion) coming from city taxes, 26.6 percent ($25.2 billion) from non-city sources such as state, federal, and other categorical grants, and the balance from nontax city revenues (primarily fees, fines, and asset sales). Our 2020 revenue forecast is $2.4 billion (2.2 percent) greater than the total in 2019. (All years in this section and the following sections refer to fiscal years unless otherwise noted.) Most of the additional revenue this year comes from the projected $2.7 billion (4.4 percent) increase in city taxes, with large increases in the forecasts of real property tax, personal income tax (PIT), and sales tax collections, offset in part by projected declines in the real property transfer tax (RPTT), mortgage recording tax (MRT), and corporation tax. The growth in tax revenue is partially offset by a projected decline of $1.1 billion in nontax city revenue. Smaller contributions to total revenue growth come from a projected $475 million increase in state grants, mostly education-related aid, and a $316 million increase in federal grants.

Total revenue growth from 2020 to 2021 is projected to be modest—$895 million or 0.9 percent. IBO expects tax revenue growth to be somewhat faster—1.9 percent ($1.2 billion)—but the city’s nontax revenues for next year are projected to be $336 million lower than in 2020, due primarily to a lower forecast of miscellaneous revenue. Non-city revenues next year are also expected to be lower—1.0 percent or $246 million—than in 2020 thanks largely to an anticipated drop in federal grants under OMB’s assumption that much of the remaining Sandy aid is actually spent in 2020.

After 2021, IBO projects larger increases in total revenue, which is projected to grow at an average annual rate of 3.0 percent in 2022 and 2023 and reach $101.5 billion in the last year of the financial plan. City taxes are expected to outpace growth from other city revenue sources, as well as state and federal grants in 2022 and 2023. Taxes are forecast to increase at an average annual rate of 3.8 percent, while growth in non-city revenue sources is projected to average 1.6 percent a year in 2022 and 2023.

The first part of this section presents IBO’s tax revenue forecast, followed by a detailed discussion of each of the city’s major tax sources. It concludes with a brief overview of the outlook for nontax revenues.

Tax Revenues. IBO’s forecast for tax revenue in the current fiscal year is $64.0 billion, a gain of 4.4 percent

($2.7 billion) from 2019. IBO expects the slowdown in the local economy which began this year to continue through calendar year 2020 and into 2021, leading to slower tax revenue growth in 2021 and subsequent years. For 2021 IBO forecasts $65.2 billion in total tax revenue, 1.9 percent ($1.2 billion) greater than the 2020 forecast. We project that tax revenues will rise at an average rate of 3.8 percent annually over the final two years of the financial plan period and total $70.3 billion in 2023.

IBO forecasts large increases in 2020 revenue from the real property tax and the general sales tax, together totaling $2.6 million—$2.1 billion from the real property tax. The general corporation tax, one of the city's most volatile, is expected to bring in $184 million (4.3 percent) less than in 2019 after posting a 23.6 percent gain from 2017 to 2018. IBO also projects smaller declines in the real property transfer and mortgage recording taxes, as the city's real estate market has cooled.

For 2021, IBO forecasts $65.2 billion in total tax collections. General corporation tax revenue is expected to shrink again, this time by 8.0 percent. While other major taxes are forecast to increase in 2021, the growth rates are slower, most notably for the real property tax which is projected to grow by 4.6 percent—the smallest increase since the last year of the Great Recession. Property tax growth is little changed over the last two years of the forecast, averaging 4.5 percent annually, although it will still rank as the fastest growing of the city's taxes in 2023. The annual growth rate of total tax collections in 2023 is expected to be 3.4 percent.

IBO's tax forecast exceeds OMB's by $245 million in 2020

IBO Revenue Projections
Dollars in millions

		Plan				
	Actuals 2019	**2020**	**2021**	**2022**	**2023**	**Average Change 2019 -2023**
Tax Revenue						
Property	$27,703	$29,799	$31,172	$32,617	$34,031	5.3%
Personal Income	13,344	13,612	13,667	14,145	14,667	2.4%
General Sales	7,810	8,277	8,473	8,858	9,192	4.2%
Corporate	4,200	4,085	3,734	3,943	3,865	-2.1%
Unincorporated Business	2,029	2,015	2,137	2,240	2,304	3.2%
Real Property Transfer	1,547	1,478	1,528	1,565	1,592	0.7%
Mortgage Recording	1,097	1,035	1,026	1,039	1,061	-0.8%
Utility	369	385	410	421	430	3.9%
Hotel Occupancy	625	628	640	660	680	2.1%
Commercial Rent	907	873	908	932	944	1.0%
Cigarette	29	33	33	32	31	1.3%
Other Taxes and Audits	1,651	1,765	1,490	1,490	1,490	-2.5%
Total Taxes	**$61,312**	**$63,985**	**$65,218**	**$67,942**	**$70,286**	**2.8%**
Other Revenue						
STaR Reimbursement	$181	$163	$180	$178	$176	-0.7%
Miscellaneous Revenue	8,220	7,398	7,045	7,049	7,067	-3.7%
Unrestricted Intergovernmental Aid	151	-	-	-	-	n/a
Disallowances	113	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$8,664**	**$7,546**	**$7,210**	**$7,212**	**$7,228**	**-4.4%**
Less: Intra-City Revenue	**($2,222)**	**($2,095)**	**($ 1,851)**	**$$1,843)**	**($1,841)**	
TOTAL CITY-FUNDED REVENUE	**$S67,754**	**$69,436**	**$70,577**	**$73,311**	**$75,673**	**2.8%**
State Categorical Grants	$14,970	15,446	15,791	16,261	16,717	2.8%
Federal Categorical Grants	7,719	8,035	7,580	7,492	7,480	-0.8%
Other Categorical Aid	1,340	1,015	923	913	912	-9.2%
Interfund Revenue	652	717	674	673	673	0.8%
TOTAL REVENUE	**$92,436**	**$94,649**	**$95,544**	**$98,650**	**$101,455**	**2.4%**

NOTES: Remaining banking corporation tax revenue reported with general corporation tax. Figures may not add due to rounding.
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and by $377 million for 2021. These differences are 0.4 percent in 2020 and 0.6 percent in 2021; in both years the differences are much smaller than typical. In the current year, the largest differences in percentage terms are in the real property transfer tax (1.6 percent) and the mortgage recording tax (6.0 percent). The difference in the two forecasts widens somewhat in 2022 and 2023. By the latter year, IBO's total tax revenue forecast exceeds OMB's by $2.9 billion (4.1 percent).

Real Property Tax. IBO projects property tax revenue will grow from $29.8 billion in 2020 to $31.2 billion in 2021, a 4.6 percent increase. Growth will continue at virtually the same pace through the remaining two years of the forecast, with revenues reaching $34.0 billion in 2023.

Background. The amount of tax owed on real property in New York City depends on the type of property, its value for tax purposes, and the applicable tax rate. Under New York State's property tax law, there are four classes of property in the city: Class 1 consists of one-, two-, and three-family homes; Class 2 comprises apartment buildings, including rentals, cooperatives and condominiums; Class 3 is exclusively real property owned by utility companies; and Class 4 consists of all other commercial and industrial properties. Each class's share of the levy is determined under state law that allows only small shifts in the share of the overall property tax borne by each class. The city then divides the apportioned citywide levy by the taxable assessed value of property for each class, resulting in a class-specific tax rate that determines how much a taxpayer in a particular class owes per $100 of their property's taxable value.

The assessed value of a property for tax purposes (taxable assessed value) is established by the Department of Finance. Each year, the department estimates each property's fair market value and then applies an assessment percentage, which reduces the amount of the property's value subject to the property tax. For Class 1 property, no more than 6.0 percent of fair market value is taxable, while 45.0 percent of fair market value is taxable in Classes 2, 3, and 4; the assessment ratios for each class are set by the Finance Commissioner. A property's resulting assessed value is then further reduced by any property tax exemptions in order to reach taxable assessed value.

Because of differences in assessment percentages, exemptions, and assessment practices across property types, the share of the levy borne by each class is not proportional to its share of market value. One critical difference in assessment practices affects taxable assessed values for coops and condos in Class 2. Under state law, the city is required to value coops and condos as if they were income producing rental properties rather than valuing them based on sales prices of comparable properties, the basis for valuing Class 1 properties. IBO estimates that valuing coops and condos based on income results in market values for tax purposes that are discounted by roughly 78 percent compared with sales-based estimates.

Assessment Roll for 2021. The tentative assessment roll for fiscal year 2021 is scheduled for release in January 2020. After a period for appeals and review, a final roll will be released in May, which will be the basis for tax bills levied in fiscal year 2021. IBO projects that aggregate market value on the final roll will be 4.5 percent greater than on this year's roll, while assessed value for tax purposes is forecast to grow by 5.2 percent.

Class 1. The aggregate market value of Class 1 properties on the 2021 roll is expected to be 3.5 percent higher than this year's. From 2018 to 2019 (through November), the median sales price of all Class 1 properties grew 3.8 percent. In the previous five years, median sales prices had grown 6.8 percent annually, on average.

IBO projects assessed value for tax purposes in 2021 will increase by 3.3 percent over 2020. The difference between market value growth and assessment growth results from a provision of the state property tax law. For Class 1 properties in New York City, the assessed value moves toward a target assessment of 6.0 percent of market value, with assessment increases capped at 6.0 percent a year and 20.0 percent over five years. As long as a parcel's assessed value under the cap is less than the target assessment of 6.0 percent of market value, the ratio of assessed value to market value will trend upwards towards 6.0 percent. If the assessed value under the cap reaches 6.0 of market value, the latter by definition becomes the new assessed value. When the housing market is strong, the median ratio of assessed value to market value tends to fall as increases in market values outpace increases in the capped assessments. For single-family homes outside Manhattan, the median ratio of assessed to market value declined from 5.4 percent in 2004 to a low of 3.7 percent in 2008. More recently, the median ratio for single-family homes outside Manhattan has been slowly rising, growing from 4.0 percent in 2009 to 4.4 percent in 2020—still well below the 6.0 percent target.

Class 2 and Class 4. IBO projects that on the final roll for

2021, the official aggregate market value for Class 2 will total $351.5 billion, a 6.8 percent increase over 2020. Aggregate market value for Class 4 property is expected to reach $332.2 billion, 4.3 percent greater than 2020.

Aggregate assessed value for tax purposes for Class 2 is expected to be $101.2.0 billion, a 5.3 percent increase from the 2020 roll, and $129.5 billion for Class 4, a 5.5 percent change from the previous year.

The growth in Class 2 and Class 4 assessments for tax purposes is partly attributable to the city's method for translating changes in market value into assessed value. In most cases changes in parcels' assessed values are phased in over five years. The assessed value changes from the preceding four years that have yet to be recognized on the tax roll form a pipeline of future increases. IBO's assessed value projections thus are in part a reflection of the strong real estate market in recent years, which has allowed the pipeline to increase from $6.3 billion in 2011 to $22.3 billion in 2021.

Outlook for Market & Assessed Values in 2022 & 2023. IBO forecasts an increase in aggregate market value of 3.4 percent in 2022 and 4.1 percent in 2023, the last two years of the financial plan. Market value in Class 1 is expected to grow 2.7 percent in both 2022 and 2023, while the increase in market value in Class 2 is expected to equal 3.5 percent in 2022 and 6.5 percent in 2023. Market value growth for Class 4 is projected to be 4.5 percent in 2022 and 4.3 percent in 2023.

Aggregate assessed value for tax purposes is projected to grow by 4.6 percent in 2022 and 4.3 percent in 2023. Class 1 taxable assessed values are forecast to grow an average of 3.6 percent annually over the two years. IBO expects Class 2 taxable assessed values to grow by 4.6 percent in 2022 and 4.3 percent in 2023; for Class 4, the forecast calls for an increase of 4.8 in 2022 and 4.4 percent in 2023. Based on these estimates, the pipeline of changes in assessed value for Classes 2 and 4 remaining to be recognized on the tax roll will fall from $22.3 billion in 2021 to $20.7 billion in 2022 and $20.6 billion in 2023.

Revenue Outlook. IBO anticipates property tax revenue will total $29.8 billion at the close of 2020 and $31.2 billion in 2021—an increase of 4.6 percent. Growth is expected to average 4.5 percent annually over the following two years, with revenue reaching $34.0 billion in 2023.

IBO's property tax forecast exceeds OMB's by $177 million in 2020, and by increasing amounts in the following years. The difference grows to $921 million by 2023. Much of the difference between IBO's forecast and OMB's stems from elements of the property tax system other than the market outlook. The amount of property tax revenue the city collects in any fiscal year is determined not just by the assessment roll and tax rates, but also by the delinquency rate, abatements granted, refunds for disputed assessments, collections from prior years, and other property tax debits and credits collectively known as the property tax reserve. Most of the variance between IBO's and OMB's property tax revenue projections for 2020 and 2021 is attributable to differences in forecasting items included in the reserve. Some reserve components, such as delinquencies, are counted as debits, thus reducing current year tax revenue. Other components, such as payments made in a given fiscal year for prior year liability, are counted as credits, thus increasing current year tax revenue. Because the dollar value of the debits generally exceeds the dollar value of the credits, the net value of the reserve is nearly always negative, which is why anticipated revenue is always less than the forecast for the property tax levy.

At this point in the fiscal year, with the assessment roll and levy finalized last spring, the only differences between the IBO and OMB property tax revenue forecasts for 2020 will stem from the reserve. Virtually the entire difference between OMB's and IBO's revenue forecasts is due to four components in the reserve: prior-year collections, refunds, delinquencies, and cancelled taxes. Later in the forecast period, differences in the levy forecasts play a greater role so that by 2023, about half of the difference in the forecasts of total property tax revenue is due to the divergence of the two levy projections. From 2020 through 2023, IBO forecasts annual levy increases averaging 4.4 percent, compared with 3.5 percent in OMB's forecast.

Real Estate-Related Taxes. The city receives revenue from two taxes related to real estate purchases or financing. The real property transfer tax is levied on the value of real estate sold, while the mortgage recording tax is levied on the value of mortgages, including certain refinancing activity. Together these two taxes are referred to as the transfer taxes.

After declines in 2017 and 2018, the sum of RPTT and MRT revenues rose 8.4 percent, to $2.6 billion, in 2019. IBO projects a decline of 5.0 percent, to $2.5 billion, in 2020, followed by small increases through 2023, when we project revenues will reach $2.65 billion, barely above the total for 2019, and well below the levels of 2015 and

2016. By way of comparison, at its all-time peak in 2007, RPTT and MRT totaled $3.3 billion, equivalent to over $4.0 billion in 2019 dollars.

Real Property Transfer Tax. Revenue from the real property transfer tax was over $1.5 billion in 2019, an increase of 11.4 percent from the previous year. RPTT collections vary with both the level and the composition of real estate sales. Commercial properties are taxed at a higher rate than residential properties, and for both commercial and residential sales, the tax rate is higher when the price exceeds $500,000.

Following the financial crisis of more than a decade ago, real estate sales and RPTT revenue fell sharply. Sales and tax revenue hit bottom in 2010, and then began to recover. In 2015 and 2016, RPTT revenue was just under $1.8 billion, the highest nominal levels recorded since the tax's establishment in 1959. The major factor behind the high level of tax collections during these years was the surge in commercial sales, and in particular, the role of high-value commercial transactions. While in some cases year-to-year movements in these sales respond to broader market conditions, in other cases the variations have an element of randomness.

The value of commercial sales priced over $100 million was $40.2 billion in 2015 and $36.1 billion in 2016. In 2017 these high-value commercial sales fell almost 45 percent, to just $20.0 billion. While the number of commercial sales transactions across all price ranges also fell in 2017, the decline was relatively modest: less than 7 percent. With large commercial sales falling, RPTT collections also fell by 20.3 percent in 2017, and an additional 1.9 percent in 2018. The drop in tax revenue from commercial sales was partially offset by a rise in residential sales, which set new records in those years.

In 2019, RPTT revenue from commercial sales rebounded strongly, while revenue from residential sales dipped slightly. Commercial sales contributed around 56 percent of RPTT revenue in 2019. IBO projects that in 2020 the value of commercial sales will be slightly below that of residential sales, but due to higher tax rates on commercial sales, these will contribute over half of total RPTT revenue.

IBO's forecast of RPTT revenue for 2020 is slightly under $1.5 billion, a decline of $69 million (4.5 percent) from 2019. Collections at the end of 2019 were stronger than IBO had forecast in April, while collections for the first five months of 2020 have been well below the levels of the same period last year. We forecast modest increases at an average annual rate of 2.5 percent over the following years, with revenue reaching just under $1.6 billion by 2023.

IBO's forecast of RPTT revenue follows the same pattern as OMB's. IBO's forecasts are slightly (1.4 percent to 1.6 percent) above OMB's in 2020 through 2022, and just 0.4 percent higher in 2023.

Increase in RPTT to Support the Metropolitan Transportation Authority. Effective July 1, 2019, there are additional RPTT charges on sales in New York City. There is now a 0.25 percent tax on sales of commercial property valued at $2 million or more. Residential sales of $2 million or more are also subject to a new, sliding charge on top of the existing RPTT. This charge begins at 0.25 percent of the sales price on properties sold for $2 million or more but less than $3 million, and tops out at 2.9 percent on residential sales valued at $25 million or more.

OMB projects that the revenue from these new city taxes will be $385 million in 2020, reaching $420 million by 2024. However, because the revenue will go directly to support public transit service provided by the Metropolitan Transportation Authority (MTA), it is not included in the IBO and OMB forecasts reported here.

Mortgage Recording Tax. MRT revenue was just under $1.1 billion in 2019, an increase of roughly $50 million from 2018, but below the levels of 2015 through 2017, and far below the all-time nominal peak of almost $1.6 billion in 2007, a period of relatively loose lending standards and intense refinancing activity.

The MRT does not track the value of real estate sales as closely as does the RPTT, because not all sales involve a mortgage, and for sales with a mortgage, the fraction of the purchase price that is financed varies by transaction. In addition, mortgage refinancing, which may be subject in whole or in part to the MRT, is not connected to a property sale.

Declines in MRT revenue often coincide with higher interest rates, which discourage both initial financing of mortgages and mortgage refinancing, although they can also result from periods of slow economic growth and weak demand.

Interest rates rose through 2018 and the first half of 2019, and then began declining. In a lagged response to these changes in interest rates, which occurred within the context of a strong economy, MRT revenue initially fell and then rose. Although a recent increase in refinancing activity, as documented by data from the Mortgage Bankers Association, has strengthened MRT collections, IBO expects that increases in mortgage rates over the next two quarters will result in 2020 MRT revenue falling 5.6 percent below its level in 2019. MRT revenue is projected to be essentially flat in 2021 (a decline of less than 1 percent), followed by successively larger increases in 2022 and 2023. We forecast that MRT revenue will total $1.06 billion in 2023, still 3.3 percent below the level of 2019.

IBO's forecast follows a similar pattern to OMB's but is consistently higher: from 3.8 percent to 6.0 percent above OMB's.

Commercial Rent Tax. The commercial rent tax (CRT), is levied on the value of certain commercial property leases in parts of Manhattan. IBO expects commercial rent tax revenue to total $873 million in 2020, a decline of 3.8 percent from 2019. We then project revenue to grow at an average annual rate of 2.6 percent, reaching $944 million in 2023.

Over time, both the tax rate and the geographic area subject to the tax have been reduced. Currently, the CRT is imposed on tenants who rent space for business, professional, or commercial purposes in certain areas of Manhattan below 96th Street. Not-for-profit entities, subtenants, tenants located in the World Trade Center area, and tenants located in the Commercial Revitalization Program abatement zone are all exempt from the tax, as are businesses with total annual rent and income below certain thresholds.

A bill passed by the City Council in November 2017 and effective beginning July 1, 2018, eliminated or reduced the CRT for many tenants paying from $250,000 to $550,000 in annual rent. (Tenants paying less than $250,000 were already exempt.) Under the new legislation, tenants paying from $250,000 to $499,999 in annualized rent pay no tax, so long as their total income is $5 million or less. Tenants in this rent range whose income is from $5 million to $10 million are eligible for a partial tax credit, as are tenants paying from $500,000 to $550,000 whose income does not exceed $10 million.

IBO's forecast takes into account the reduction in the scope of the tax, but also growth in average rents and new rental space coming on line. Because of the timing of CRT receipts, 2020 is the first fiscal year subject to the full impact of the new CRT legislation. IBO projects that revenue from the CRT will reach $873 million in 2020, a decline of $34 million (3.8 percent) from 2019, and the first year-to-year decline in more than 20 years. IBO projects annual increases will average 2.6 percent over the next three years, with revenue reaching $944 million in 2023.

IBO's forecast is slightly above OMB's for 2020 through 2022, and $21 million (2.2 percent) below OMB's projection for 2023. Over the full 2020 through 2023 period, total collections are practically identical under the two forecasts.

Personal Income Tax. IBO forecasts $13.6 billion in net personal income tax revenue (gross collections minus refunds) in 2020, $268 million (2.0 percent) greater than 2019 receipts. We expect PIT revenue to remain virtually the same in 2021, with only a $55 million (0.4 percent) increase, primarily due to IBO's assumption that national economic growth will slow in the next calendar year, producing total revenue of $13.7 billion. After 2021, we expect PIT collections to grow at a stronger average annual rate of 3.6 percent, with revenue of $14.1 billion in 2022 and $14.7 billion in 2023.

The lackluster increase in PIT revenue that we forecast for 2020 is partially rooted in the after-effects of federal tax changes enacted in December 2017. Changes in the federal tax code, which took effect on January 1, 2018, spurred a very sharp increase in estimated payments made by taxpayers filing for extensions last spring, as the new rules meant many taxpayers (and their accountants and tax lawyers) needed more time to file calendar year 2018 returns. IBO expects extension payments to return to more typical levels in 2020 and beyond.

While extension estimated payments are projected to be much lower this year than last, installment estimated payments are expected to grow; these payments are made by taxpayers who are self-employed or who anticipate realizing capital gains from the sale of real property or financial assets as quarterly installments against their tax liability. With IBO anticipating much slower economic growth in the near future, we expect some investors to lock in gains by cashing out some of their financial assets. And given the current volatility of equity markets, we also expect the frequency of financial asset transactions to increase, which will further add to total capital gains realizations, in turn boosting installment payments.

Withholding collections have also been strong so far this fiscal year (July through November), at 6.2 percent above the same period last year. However, since we anticipate lower bonus compensation levels this year relative to last, we expect full year withholding collections to grow at a somewhat lower rate of 5.0 percent compared with 2019.

The projected economic slowdown in calendar year 2020 will put downward pressure on income and employment growth in New York City in fiscal year 2021. IBO forecasts a relatively sharp drop in estimated payments in 2021 and slower growth in withholdings. These two factors constrain the growth in total PIT revenue in 2021, which will be essentially flat at $13.7 billion, an increase of only 0.4 percent.

IBO expects growth in employment and personal income to pick up after calendar year 2021, albeit modestly. With New York City employment projected to increase by about 1 percent a year in 2022 and 2023, we anticipate modest growth in withholdings (rising at an average annual rate of 4.2 percent) and estimated payments (1.2 percent). As a result, IBO expects PIT revenue to total $14.1 billion in 2022, which is $478 million (3.5 percent) higher than the preceding year. For 2023 we expect collections to increase by $522 million (3.7 percent), yielding a total of $14.7 billion in PIT revenue.

Our PIT forecast exceeds OMB's in all years but 2020, when the two forecasts are virtually the same. In 2021, OMB projects a 1.4 percent decrease in PIT revenue, in contrast to our forecast of a slight, 0.4 percent increase in collections. As a result, our 2021 forecast is $238 million greater than OMB's. For 2022 and 2023, we project collections will increase at an average annual rate of 3.6 percent, compared with OMB's projection of 3.2 percent. This results in our forecast exceeding OMB's by an average of $330 million in these two years.

Business Income Taxes. In 2019, New York City collected $6.2 billion in business income tax revenue. This includes revenue from both the city's corporate taxes, levied on the profits of C-corporations and S-corporations doing business in the city, and the unincorporated business tax (UBT), assessed on profits from businesses organized in non-corporate structures (including sole proprietorships, partnerships, and limited liability companies). That represents an increase of $609 million (10.8 percent) over 2018 revenue, growth entirely driven by strength in corporate tax collections. While corporate tax revenue has grown, UBT collections have been weak, a fairly common pattern of divergent growth among the business income taxes. IBO projects that combined corporate tax and UBT collections will contract slightly in 2020, by $129 million (2.1 percent) to yield $6.1 billion in revenue.

Corporate Taxes. With $4.2 billion in net collections (gross collections minus refunds), 2019 was a standout year for the city's corporate taxes.[2] Increasing by 22.2 percent over 2018, 2019 corporate tax revenue was at its highest level since 2007, prior to the financial crisis. Much of 2019's growth has been attributed to changes in federal tax law resulting from the 2017 Tax Cuts and Jobs Act, which lowered the top federal tax rate on corporate income from 35 percent to 21 percent and broadened the tax base.[3] A substantial portion of this boost is expected to be temporary, as taxes were paid on long-deferred profits that have now been realized under new provisions of the law.

For 2020, IBO forecasts a $114 million (2.7 percent) decrease in corporate tax revenue from the heights of 2019 as the stimulus from tax reform wanes, for a total of $4.1 billion. Although key economic indicators suggest an even quicker return to a more modest level of corporate tax revenue in 2020, collections so far this year have remained robust, exceeding the amount collected over the same period in 2019. Whether IBO's forecast of a return to more moderate rates of growth in corporate taxes is borne out will depend on collection patterns in the coming months, particularly patterns of refunds, which are more volatile than gross collections and can be boosted by reductions in final liabilities from prior years.

IBO projects a further decline of corporate tax revenue for 2021. Revenue is forecast to fall by $351 million (8.6 percent) to $3.7 billion as collections continue their descent from the tremendous growth of 2019, and respond to the projected U.S. economic slowdown beginning in calendar year 2020. Growth is projected to return in 2022, with collections increasing by $209 million (5.6 percent), followed by a modest decline of $78 million (2.0 percent) in 2023 to end the year with $3.9 billion in collections.

IBO's projected decline in 2020 collections is somewhat smaller than OMB's projection of a $156 million (3.7 percent) contraction. By 2021, IBO and OMB each forecast nearly the same amount of net corporate tax revenue; however, the different starting points in 2020 mean that IBO projects a larger annual decline ($351 million) than OMB, which forecasts a decline of $317 million (7.8 percent). OMB projects slower growth in 2022 of $63 million (1.7 percent) and continued, but minimal, growth in 2023 of $25 million (0.7 percent). By the end of the forecast period, IBO's estimate exceeds OMB's by $50 million, or 1.3 percent.

Unincorporated Business Tax. Unlike the recent strength in corporate tax revenue, collections of the city's unincorporated business tax sank to $2.0 billion in 2019.

This represents a decline of $153 million (7.0 percent), with the weakness continuing so far in the current year. UBT revenue is expected to begin recovering in the coming months, although not by quite enough to generate net growth for the year. IBO currently projects another, though much smaller, decline of $15 million (0.7 percent) in UBT revenue for 2020, with collections again totaling $2.0 billion.

UBT revenue is particularly driven by earnings in the professional services sector and proprietorship income, both of which have continued to grow in recent years. Therefore, IBO projects the UBT to bounce back from this two-year slump in 2021, growing by $122 million (6.1 percent). After this stronger burst of growth in 2021, IBO anticipates continued but slower growth in UBT revenue, increasing by $104 million (4.9 percent) in 2022, and by $64 million (2.9 percent) in 2023.

Although both OMB and IBO forecast little change in unincorporated business tax revenue in 2020, the forecasts for 2021 diverge sharply; OMB expects net collections to increase 12.7 percent to reach $2.3 billion, more than double the rate of growth projected by IBO. If OMB's 2021 forecast proves correct, it would be the largest annual increase in UBT revenue since 2007. OMB forecasts more muted growth in subsequent years, with revenue increasing by $58 million (2.5 percent) in 2022 and $63 million (2.7 percent) in 2023. Despite IBO's expectation of faster UBT growth in 2022 and 2023, the $157 million difference between IBO and OMB for 2021 results in our forecast remaining well below OMB's for the rest of the forecast period; the difference is $111 million, or 4.6 percent, in 2023.

Sales Tax. The general sales tax is the city's third largest source of tax revenue, bringing in almost 13 percent of all tax collections in 2019. IBO's forecast of sales tax revenue in 2020 is $8.3 billion, a $467 million (6.0 percent) increase over the previous year's receipts. Almost a third of the revenue growth this year is due to the end of a three-year period during which the state retained a portion of the city's sale tax collections—an action that reduced city tax revenue by $150 million in 2019 but will have no effect on 2020 revenue.[4] With the outlook of slower economic growth in calendar years 2020 and 2021, IBO forecasts more moderate sales tax growth after fiscal year 2020, at an annual rate averaging 3.6 percent in 2021 through 2023. We expect revenue to reach $9.2 billion by 2023.

Apart from recession periods, revenue from the city's sales tax increases virtually every year. After 2010, when an increase in the sales tax rate from 4.0 percent to 4.5 percent boosted collections, revenue grew at an annual rate averaging 4.9 percent through 2019. The long-running U.S. expansion coupled with steady personal income and employment growth in New York City over many years have strengthened consumer confidence, driving spending by residents and commuters alike. Also fueling spending in the city is the strong positive wealth effect generated by Wall Street's bull market and, until recently, rising home prices. Tourism, which has been setting new records year after year, has provided another growing source of sales tax revenue. Finally, IBO assumes that spending received a boost from changes in the federal income tax that took effect at the beginning of calendar year 2018, which on balance increased aggregate household disposable income of city residents, commuters, and domestic visitors alike despite limiting many high-income taxpayers' state and local tax deductions against federal taxable income.

Another factor likely contributing to growth in sales tax receipts is the expanded taxation of online purchases, which for years have been accounting for a growing portion of total consumer spending. The Supreme Court's June 2018 decision in *South Dakota v. Wayfair* granted states permission to require out-of-state sellers to collect sales taxes on goods sold to in-state customers, even if the seller has no physical in-state presence. The ruling enabled New York State to put into effect already existing state law requiring most out-of-state vendors of tangible goods, including those with no physical presence in the state, to collect and remit state and local taxes to New York. In addition, in its 2019-2020 budget the state adopted a provision to require online marketplaces such as eBay, with annual sales exceeding $300,000 and 100 sales of tangible goods to New York customers, to collect and remit state and local sales taxes.

Sales tax receipts increased by $367 million (4.9 percent) in 2019, yielding $7.8 billion in city revenue. In recent months, the growth of sales tax collections has been even more robust; through Novmeber of this fiscal year, collections are 7.7 percent greater than in the comparable period last year. Sales tax revenue has remained strong even as growth in city employment and personal income has slowed. With further deceleration of the local economy forecast for the coming months, we expect revenue growth to slow over the remainder of the fiscal year. IBO's sales tax forecast for the full 12 months of 2020 is $8.3 billion, 6.0 percent ($467 million) greater than 2019 receipts.

IBO projects slower sales tax revenue growth for the remainder of the forecast period after 2020. With the weakest growth of city employment and income in our forecast coming in the second half of calendar year 2020 and first half of calendar year 2021, IBO projects a modest $196 million (2.4 percent) increase in sales tax revenue for fiscal year 2021, to $8.5 billion. With somewhat stronger city and national economic growth projected over the next two years, we expect sales tax revenue to reach $8.9 billion in 2022 and $9.2 billion in 2023—annual growth averaging 4.2 percent.

IBO and OMB have very similar forecasts over the four-year period. IBO's sales tax forecast for this year and next are slightly lower than OMB's, by $14 million (0.2 percent) in 2020 and $80 million (0.9 percent) in 2021. In 2022 and 2023, IBO's forecast is higher than OMB's, but again the differences are quite modest: $6 million (0.1 percent) and $58 million (0.6 percent), respectively.

Hotel Occupancy Tax. IBO anticipates a minimal increase in hotel tax revenue this year and only modest increases in the following years. We forecast a $2.4 million (0.4 percent) increase in collections this year—from $625.4 million in 2019 to $627.8 million in 2020. Revenue growth of 2.0 percent is expected next year, generating $640 million in hotel tax receipts. IBO projects 3.0 percent average annual increases in hotel tax revenue in 2022 and 2023.

Since March 2009, the rate on the city's tax on hotel occupancy has been 5.875 percent of hotel bills plus, in most cases, $2 per night.[5] It is levied in addition to New York City and State general sales taxes. The long economic expansion, the accompanying growth of disposable income, and a robust flow of foreign visitors (who typically spend more than domestic tourists) have fueled annual increases in hotel tax collections over the last decade. In 2019 revenue grew 4.7 percent, to $625 million—the largest increase in the last five years.

Hotel tax collections so far in 2020 are greater than during the same months a year ago, but we expect the year-to-year increases to diminish as the fiscal year progresses. IBO forecasts $628 million in hotel tax revenue for the current year, only 0.4 percent growth over 2019 receipts. Economic growth has slowed in some of the countries that send large numbers of foreign visitors to New York, including the U.K., China, Germany, and Japan, which we expect to take a toll on the number of hotel stays. Meanwhile the slowdown we project for the U.S. economy will slow increases in domestic tourism and curtail business travel to New York.

In addition to the number of overnight stays in the city, hotel tax revenue reflects the average price per room. The expanded inventory of hotel rooms, particularly outside of Manhattan where room rates are less expensive, is putting downward pressure on hotel rates. Competition from the continued growth of rentals through platforms such as Airbnb is also pressuring hotels to keep prices down.

After 2020, we expect somewhat larger but still relatively modest increases in hotel tax collections. IBO forecasts $640 million for 2021 hotel tax receipts, 2.0 percent above our projection for the current year. The growth rate picks up to an average of 3.0 percent in 2022 and 2023, with revenue of $660 million and $680 million, respectively.

IBO's outlook for hotel tax revenue in 2020 is virtually identical to OMB's. Over the following three years, we forecast faster revenue growth than OMB, in line with the divergence of IBO's and OMB's macroeconomic outlook. IBO's forecast of hotel tax receipts in 2021 is $10 million (1.6 percent) greater than OMB's. The difference between the two forecasts grows to $17 million (2.6 percent) in 2022 and $22 million (3.3 percent) in 2023.

Other Revenues. The city's nontax revenues—a variety of fees, fines, charges, asset sales, interest income, and other miscellaneous revenue—are expected to total $7.5 billion this year, a drop of $1.1 billion from 2019. IBO forecasts another drop of $336 million, to $7.2 billion, in nontax city revenues in 2021, with the decline mostly among miscellaneous revenue. The changes in these revenue sources in 2020 and 2021 are fairly modest by recent standards. The Mayor's November financial plan anticipates little additional change in total revenue from these sources in 2021 through 2023.

State, federal, and other categorical aid and interfund revenue are the other sources of non-city revenues. Together, they are expected to total $25.2 billion this year, an increase of $531 million (2.2 percent) over 2019. After dropping by a projected $246 million in combined non-city funds in 2021, these sources are expected to grow by an average of $408 million in the two subsequent years. In 2023 the de Blasio Administration anticipates $25.8 billion in non-city revenue.

Federal grants, which are projected to be $8.0 billion this year but then fall to $7.6 billion in the upcoming fiscal year, are the main reason non-city revenue is expected to decrease in 2021. A decrease in Hurricane Sandy assistance from the federal government, from $210 million in 2020 to $5 million in 2021, accounts for most of the decline in federal aid. The projected decline is based on

IBO Expenditure Projections *Dollars in millions*						
		Plan				Average Change 2019 -2023
	Actuals 2019	**2020**	**2021**	**2022**	**2023**	
Agency Expenditures	**$66,769**	**$69,587**	**$67,230**	**$67,883**	**$68,327**	**0.6%**
Fringe Benefits	10,212	10,342	11,874	12,547	13,249	6.7%
Labor Reserve	-	1,093	2,128	1,511	1,965	n/a
Total Agency Expenditures	**$76,981**	**$81,022**	**$81,232**	**$81,941**	**$83,541**	**2.1%**
Other Expenditures						
Debt Service	$6,373	$3,561	$6,963	$8,173	$8,942	8.8%
Pensions	9,941	9,965	10,113	10,538	10,575	1.6%
Judgments and Claims	706	712	727	742	758	1.8%
Subtotal Recurring Expenses	**$94,001**	**$95,260**	**$99,035**	**$101,394**	**$103,816**	**2.5%**
General Reserve	-	$1,150	$1,000	$1,000	$1,000	n/a
Capital Stabilization Reserve	-	250	250	250	250	n/a
Other Adjustments	-	-	72	180	306	n/a
Subtotal Non-Recurring Expenses	**-**	**$1,400**	**$1,322**	**$1,430**	**$1,556**	**n/a**
Less: Intra-City Expenditures	($2,222)	($2,095)	($1,851)	($1,843)	($1,841)	n/a
TOTAL EXPENDITURES	**$91,779**	**$94,565**	**$98,506**	**$100,981**	**$103,531**	**3.1%**

NOTES: Other non-recurring 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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the assumption that 2020 Sandy-related federal aid will actually be spent this year and not rolled into the 2021 budget. Assuming this money is spent as scheduled, the city will have received a total of over $5 billion from the federal government since 2013 to assist efforts to recover from Hurricane Sandy.

State grants account for $15.4 billion (61.3 percent) of total non-city revenue in 2020, with about three-quarters of state aid given for education purposes. Most of the state aid growth over the financial plan period is Foundation Aid (the largest category of state education aid), which is expected to increase by 3.9 percent annually from 2020 through 2023.

Spending

IBO projects that within the framework of the policies expressed in the Mayor's latest financial plan, total city spending, including state and federal grant-funded programs, will grow from $94.6 billion in the current fiscal year to $98.5 billion next year. Adjusting each year's expenditures for the prepayment of expenses with prior-year resources as well as for other non-recurring expenditures such as the reserve funds, IBO estimates that spending in 2020 will grow by 4.4 percent from 2019. Spending growth will then slow, increasing at an annual average rate of 1.7 percent from 2020 through 2023, from $96.8 billion to $102.0 billion. Considering solely city-funded expenditures and again adjusting for prepayments and non-recurring expenses, IBO estimates spending will grow from $68.6 billion in 2019 to $71.6 billion in 2020, $72.8 billion in 2021, and reach $76.2 billion in 2023, an average increase of 2.1 percent a year from 2020 through 2023. This is slower spending growth than the 3.2 percent we project in tax revenue growth over the same period.

Nearly all growth in expenditures in the financial plan is the result of centralized non-agency related budgeted spending. This includes budgeted expenditures for debt service, fringe benefits (particularly health insurance costs), as well as funding allocated to the labor reserve. The latter funding is earmarked to cover prospective costs related to the settlement of municipal labor contracts. Once contracts are settled, however, the money is moved from the labor reserve into individual agency budgets, which shifts spending growth from the non-agency part of the budget to the agency side.

One of the few sizable new agency expenditures is funding to cover costs related to state mandated bail reform. The de Blasio Administration is adding nearly $92 million to the budget this year to meet expenses related to bail reform and expanding the city's supervised release program.

Fringe Benefits and Debt Service Spending. Spending growth over the plan period comes largely from a few areas within the budget, particularly in the costs of fringe benefits and debt service. The increase in the cost of providing fringe benefits for city employees and retirees, including health insurance costs but excluding the cost of pensions, is one of the largest areas of spending growth across the plan period. From 2019 through 2023, IBO projects that these costs will increase from approximately $10.2 billion to over $13.2 billion, an annual growth rate averaging 6.7 percent. Health care costs, by far the biggest component of fringe benefits, will grow at an average annual rate of 8.1 percent during the same period, from $6.2 billion in 2019 to $8.5 billion in 2023.

IBO projects that debt service costs—payment of principal and interest on the funds the city borrows to finance capital projects—adjusted for prepayments of current year debt with prior-year resources will exceed $7 billion in 2020. Over the course of the financial plan we expect debt service costs to rise substantially as the city issues additional debt to finance its historically large capital program. After adjustment for prepayments, debt service is projected to grow at an average annual rate of 8.8 percent—faster than any other single major expense in the budget—from $6.4 billion spent in 2019 to a planned $8.9 billion in 2023, an increase of $2.6 billion.

Pension Spending. The city's cost to fund its five pension systems continues to be a large portion of the non-agency expenses in the financial plan. In 2019 the city spent $9.9 billion, or nearly 11 percent of its adjusted expenditures, on pension costs. While pension costs continue to make up a large portion of the city's expenses in each year of the financial plan period, increases in pension costs continue to trail the growth of the budget as a whole. The city's pension costs are estimated to increase from $10 billion in the current year to $10.6 billion by 2023, an average annual growth rate of 2.0 percent. Because the city's pension funds enjoyed asset gains/earnings of 7.24 percent last year, somewhat above the 7.0 percent gains assumed under the plans, the city reduced its planned expenditure by $18 million in 2021, $36 million in 2022, and $54 million in 2023.

Agency Spending. While non-agency specific expenditures increase across the entire plan period, growth in agency-specific budgets—which excludes the centralized costs of fringe benefits, debt service, pensions, and the labor reserve—is mostly flat throughout the plan with some agencies experiencing decreased budgets over the period. IBO projects that city-funded spending for the Department of Education will decrease slightly between 2020 and 2021 before increasing by $494 million in 2022 and $278 million in 2023. The only agencies in which we estimate annual growth in city-funded spending across all years of the plan are the Department of Sanitation (DSNY) and the Department of Transportation (DOT). IBO estimates DSNY expenditures will grow by a modest 1.2 percent annually from 2020 through 2023, increasing by a total of $67 million while DOT's expenditures will grow by an average of 2.0 percent annually for a total increase of $42 million.

Labor Costs. Approximately 70 percent of all city employees are currently working under the terms of existing labor contracts with the costs of those contracts reflected in individual agency budgets. Salary increases for the remaining 30 percent of city employees who are working under expired contracts are included in the city's labor reserve. This reserve currently contains sufficient funds to cover the cost of settling all expired contracts under the same basic terms as provided to other municipal workers. In addition, the labor reserve includes funding for 2023 for salary increases of 1.25 percent as current contracts begin to expire. While budgeted centrally for now, the funds in the labor reserve will eventually be moved into the appropriate agencies' budgets once contracts are settled. As a result, some agencies are currently under-budgeted for their staffing costs; once a new round of contracts has been ratified, the budgets of these agencies will increase as money is transferred out of the labor reserve.

Increased Federal- & State-Funded Spending. Much of the agency spending growth in the November plan identified by IBO results from the recognition of additional state and federal (non-city) funding. IBO estimates that on net, 2020 non-city funding will be slightly greater ($10 million) than currently budgeted. For the last three years of the financial plan we assume approximately $561 million of additional non-city funding annually above the Mayor's estimates. This deferred recognition of non-city funding is consistent with the city's practice of waiting until receiving some grants before adding the spending to the budget. IBO estimates state and federal categorical grant funding will grow at an average rate of 1.6 percent annually from $22.7 billion last year to a projected 2023 total of $24.2 billion.

Citywide Savings Plan. The November 2019 plan once again includes a citywide savings program comprised of actions that will either reduce agency expenditures or increase agency revenues. The current savings plan includes $224 million of savings in the current year and $249 million in 2021. However, because some of the savings are non-recurring, the amount of annual savings declines in

Tallying the Citywide Savings Program				
	Fiscal Year			
	2020	2021	2022	2023
Accruals	($12,056)	($781)	($149)	($149)
Additional Revenue	(15,777)	(11,715)	(171)	(171)
Debt Service	109,248)	(35,972)	(20,289)	4,299
Efficiency	(55,917)	(143,222)	(140,970)	(141,522)
Funding Swap	(23,481)	(15,206)	-	-
Vacancies	(1,790)	(5,146)	-	-
Re-estimates	(6,123)	(37,430)	(35,500)	(35,500)
TOTAL	**($224,392)**	**($249,472)**	**($197,079)**	**($173,043)**

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subsequent years, shrinking to $173 million in 2023.

The single largest area of savings in the plan is the result of actions taken within the city's debt service budget. For 2020 and 2021, savings from lower than previously anticipated debt service costs total over $145 million, 31 percent of the two-year citywide savings plan total. An additional $66 million, 14 percent of the 2020 and 2021 savings plan, is the result of increased revenue streams and the substitution of city expense funds with other funds for certain expenditures.

Of the total savings for 2020 and 2021, IBO estimates that $196 million is ascribed to agency efficiencies, with the majority of these efficiency savings attributed to the phased closure of Department of Correction facilities. Nearly $118 million, 59 percent, of the efficiency savings in 2020 and 2021 are the result of savings from the closure of the Brooklyn Detention Center and the Eric M. Taylor Center on Rikers Island. Much of the remaining efficiency savings in the plan are accrued by the Department of Education from its severance program for teachers in the Absent Teacher Reserve (ATR). The ATR severance program is budgeted to save the city $41 million over the next two years.

Spending Re-estimates. IBO's estimates of some components of city-funded spending differ from those presented by the Mayor in the November plan, with some elements higher and others lower. Because the total amount under-budgeted exceeds the sum over-budgeted, IBO projects that city-funded spending will be about $160 million greater than projected by the Mayor in the current year and $349 million more in 2021. In the final two years of the financial plan period, we expect city-funded expenditures to exceed the Mayor's estimates by $297 million and $245 million, respectively.

Areas where IBO projects less-than-budgeted spending:

Debt Service Savings. Although OMB reduced its forecast for 2020 debt service costs by $109 million in the November plan, we estimate that this year's cost of debt service will be an additional $84 million below the city's revised projections. Recent cuts to short-term interest rates by the Federal Reserve and the continued relatively low interest rate environment in which the city issues debt point to a continuation of low interest costs on the city's variable rate bonds. The de Blasio Administration's 2020 variable rate bond interest assumptions—3.56 percent for tax-exempt bonds—remain well above current interest rates.

IBO bases its projection of debt service savings on conservative estimates of current year variable interest rates using historical data and forecasts from financial institutions. OMB's interest rate assumptions for the out-years of the plan—4.25 percent for tax-exempt bonds—is also much higher than most experts currently assume. Still, given uncertainty regarding future monetary policy, IBO's forecast of debt service costs in those years follows OMB's. If interest rates were to continue at current levels for the remainder of the financial plan period, the city's debt service expenditures would decrease by $124 million per year.

Health Care Cost Re-Estimates. The Mayor's November plan includes $7.1 billion for the city's provision of health care for current and retired city employees in 2020, growing to $8.7 billion in 2023. Increases in the cost of providing health care benefits to city employees and retirees is one of the principal drivers of increased city spending over the plan period. The Mayor's plan assumes an average of 6.8 percent annual growth in the city's health care expenses. Based on historical increases in health care costs and federal forecasts, IBO estimates a slightly slower growth rate for the city's health care costs, averaging 5.9 percent. As a result, while our forecast of current year health care costs is in line with the forecast presented by the de Blasio Administration, we expect these costs to be lower than presented in the November plan by $17 million in 2021, $120 million in 2022, and $221 million in 2023.

Public Assistance Spending. IBO expects that city-funded spending on cash assistance for the poor will be lower than projected by the de Blasio Administration. Based upon the city's recent public assistance rolls, IBO projects that city-funded public assistance will be lower than OMB estimates by approximately $20 million in each year of the financial

Pricing Differences Between IBO and the de Blasio Administration Items that Affect the Gap *Dollars in millions*				
	2020	**2021**	**2022**	**2023**
Gaps as Estimated by the Mayor	-	($3,015)	($2,951)	($3,197)
Revenue				
Taxes				
Property	$177	$262	$467	$921
Personal Income	(4)	238	289	371
General Sales	(14)	(80)	6	58
General Corporation	41	7	153	50
Unincorporated Business	(21)	(157)	(112)	(111)
Real Property Transfer	22	24	21	6
Mortgage Recording	38	58	48	47
Utility	-	-	-	-
Hotel Occupancy	-	10	17	22
Commercial Rent	6	14	2	(21)
Cigarette	-	-	-	-
Other Taxes and Audits	-	-	-	-
Total Taxes	**$245**	**$377**	**$892**	**$1,343**
STaR Reimbursement	-	-	-	-
Misc. Revenue	-	25	25	25
TOTAL REVENUE	**$245**	**$402**	**$917**	**$1,368**
Expenditures				
Debt Service	$84	$-	$-	$-
Fringe Benefits:				
Health Insurance-Education	(246)	(188)	(103)	19
Health Insurance-City University	3	2	25	22
Health Insurance-All Other Agencies	245	203	198	181
Social Services	20	21	21	20
Homeless Services	(68)	(88)	(89)	(89)
Fire	(50)	(50)	(50)	(50)
Police	(75)	(50)	(50)	(50)
Correction	(4)	(4)	(4)	(4)
Education	(33)	(41)	(73)	(101)
Sanitation	(23)	(61)	(89)	(130)
Small Business Services	-	(48)	(48)	(48)
Parks	(12)	(15)	(15)	(15)
Campaign Finance Board	-	(30)	(20)	-
TOTAL EXPENDITURES	**($160)**	**($349)**	**($297)**	**($245)**
TOTAL IBO PRICING DIFFERENCES	**$85**	**$53**	**$620**	**$1,123**
IBO Prepayment Adjustment 2020/2021	(85)	85	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**-**	**($2,878)**	**($2,332)**	**($2,076)**

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

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plan. In addition, we expect that state and federal funds for public assistance will be nearly $21 million lower than OMB estimates in 2020 and $29 million lower in each year from 2021 through 2023.

Although not re-estimated by IBO, the city also appears to be under-spending the funds budgeted for the Fair Fares program—half-price MetroCards for low-income New Yorkers—by about $70 million.

Areas where IBO projects greater-than-budgeted spending:

Homeless Services. IBO's estimate of the cost of providing shelter for homeless individuals and families is considerably higher than the amount budgeted by the de Blasio Administration. While our assumption of reduced shelter populations for both families with children and adult-only families results in lower cost estimates for those types of shelters, these savings are more than offset by our forecast of continued growth in the single adult shelter population—about 2 percent a year through 2023. IBO projects an additional need of $68 million in city funds in the current year with an additional $89 million needed in each of the remaining years of the financial plan period. (This estimate does not reflect the Mayor's recently announced plan for housing and informal shelter for the city's chronic street homeless population, which he presented after the release of the November financial plan.)

IBO's projected decline in the number of families sheltered by the Department of Homeless Services is largely due to the city's efforts to purchase cluster-site buildings now used by the department to shelter homeless families and to convert the buildings into permanent housing for families with children. As a result, we estimate the average daily population of families with children sheltered by the Department of Homeless Services will fall by 2.6 percent from 2020 to 2021.

Overtime Costs in Uniformed Agencies. As in past years, we expect overtime costs for uniformed employees in both the police and fire departments will be higher than estimated in the Mayor's plan. Based on actual usage patterns in the current year and recent historical overtime usage, IBO anticipates that overtime costs for the police department will exceed the current plan by $75 million in 2020 and $50 million each year from 2021 through 2023. Similarly, we estimate that the city will spend an additional $50 million each year from 2020 through 2023 on fire department overtime costs. The fire department's cost increase is split equally between civilian and uniformed overtime needs.

Unlike the other two uniformed agencies, the Department of Correction has seemingly over-budgeted its uniformed overtime costs but under-budgeted the cost of overtime among its civilian workforce. The net result is that IBO estimates the agency will spend an additional $4 million above what OMB has budgeted for overtime costs in each year of the plan period.

Department of Education. IBO estimates that the city will need to provide an additional $33 million in the current year, $41 million in 2021, $73 million in 2022, and $101 million in 2023 for the cost of charter school enrollment. We base our cost assumptions upon a steeper growth projection for the city's charter school enrollment, taking into account increases from existing schools adding grades towards their fully authorized compliment as well as schools that have been authorized but not yet opened. In 2020 we expect charter school enrollment to be approximately 2,000 students above the level projected by OMB. By 2023, IBO's charter school enrollment estimate exceeds OMB's by more than 6,200 students.

Small Business Services. IBO assumes that the Department of Small Business Services (SBS) budget is underfunded in the out-years of the financial plan. As a result, we have increased city-funded expenditures for SBS by $48 million each year from 2021 through 2023. IBO's estimate of higher costs is primarily the result of the city not accounting for funding of the NYC Bus Program beyond the current year of the plan. The program, established in 2014, provides funds to offset significant wage cuts for certain school bus drivers, attendants, dispatchers, and mechanics, which is paid through the SBS budget. Initially the grant was for one year and capped at $42 million, but funding has been allocated every year since its implementation. SBS has spent approximately $41 million on the NYC Bus Program in each of the past two years. The November plan includes some funding for the program in 2020, but not for the remainder of the plan period. On the expectation that these payments will continue, IBO assumes the agency will need an additional $41 million each year from 2021 through 2022.

Similarly, SBS's financial plan does not include funding past the current year for several programs that have been included annually in past budgets. IBO assumes that SBS will need an additional $7 million in each year from 2021 through 2023 for these programs to continue.

Campaign Finance Board. IBO projects that the Campaign Finance Board (CFB) will require an additional $30 million more than currently budgeted for 2021 and $20 million more than budgeted in 2022. These years will see the next primaries and general election for all city elected offices including a new Mayor, Comptroller, and much of the City

Council. Because the primaries will take place in June 2021 and the general election in November 2021, the election will span two fiscal years and thus the additional funding is split between the two years. IBO's re-estimates of CFB spending are generally in line with expenditures in 2014, the last citywide election cycle without an incumbent Mayor running for re-election.

Other Cost Increases. IBO estimates that the Department of Sanitation will spend $23 million more than assumed by OMB in the current fiscal year, increasing to $130 million by 2023. Primarily driving our estimate is the expectation of additional spending within the department's collection and street cleaning budget. Waste collection and street cleaning comprise over 43 percent of the department's city-funded plan in the current year. IBO's expenditure estimates for collection and street cleaning are based on growth rates that more closely mirror actual growth in the agency's city-funds expenditures for these services over the past five years. In the current year we expect the department will require an additional $33 million for its collection and street cleaning budget. By 2023 we estimate the addiditonal need for these functions will be slightly over $100 million.

Conversely, we estimate in the first two years of the plan some of the higher street cleaning costs will be offset by less-than-budgeted expenses related to the closing of the Fresh Kills landfill. By 2023, though, we estimate that DSNY will need an additional $25 million more than currently budgeted for landfill closure as well, bringing the agency's total shortfall to $130 million.

IBO estimates that the parks department will require an additional $12 million of city funding in the current year and approximately $15 million in each of the remaining three years of the financial plan period. The additional needs occur in a number of areas of the department's budget, including the cost of fleet maintenance, technical expenses, the cost of supplies, and the management of the city's zoos. Planned expenditure in these areas over the plan period are much lower, in some cases as low as zero, than actual expenditures in recent years.

Pressure Points. With the sum of our assumed additional expenses offset by our higher revenue forecasts, coupled with out-year gaps that are manageable and well within the city's ability to balance, IBO considers the Mayor's November financial plan to stand on relatively solid footing. There are, however, a number of external risks that could shake that foundation and leave the city scrambling to address larger-than-anticipated gaps. Primary among these uncertainties are future state budget actions, the fiscal challenges faced by the New York City Housing Authority (NYCHA), and the possibility that slowing economic growth gives way to recession—an actual contraction of the economy. The plan also includes no provision for increased support to the Metropolitan Transportation Authority or NYC Health + Hospitals (H+H), despite evidence that both of these entities face their own daunting fiscal challenges.

State Budget Gap. The state's financial plan currently assumes a $6.1 billion deficit for the next fiscal year. The deficit, much larger than originally anticipated, is primarily the result of a $4 billion increase in the state's annual Medicaid expenditures. The New York State Division of the Budget has estimated that if left unaddressed the state's budget gap will grow to $8.5 billion by 2023, more than 11 percent of the state's projected general funds revenue for the year. In recent years, the state has resorted to a number of strategies for closing its budget gaps that were aimed more at short-term relief than addressing the underlying problems—such as deferring a Medicaid payment from the 2019 state fiscal year to 2020.

Short-term stop-gap measures are unlikely to be enough to provide for the state's continued fiscal stability. The Governor and State Legislature will have to agree to a number of strategies, which could include increasing revenue as well as reductions in state-funded services and cuts in state aid for school districts and localities. Last year state grants funded over 16 percent of city expenditures, primarily for education and health and social service agencies. Reductions in state funding would require the city to cut services to many of its neediest populations or to provide additional city funds in order to continue these services at current levels.

New York City Housing Authority. As the result of a January 2019 agreement between the federal housing agency and the city, a monitor was appointed to oversee the management of the city's public housing stock. While it appears that some of NYCHA's long-neglected infrastructure issues are finally being addressed, the estimated cost to bring the entire public housing system up to standards is enormous. The authority's properties continue to be plagued by heat and hot water issues, lead paint hazards, and various other issues that threaten the health and welfare of its residents. NYCHA estimates that its housing portfolio currently has $32 billion of critical needs capital upgrades to be completed over the next 5 years and a total capital need of $45 billion to bring all

NYCHA properties into a state of good repair over the next 20 years. NYCHA's total estimated capital need has nearly doubled since its last assessment just six years ago.

While the majority of NYCHA's capital funding has traditionally been an obligation of the federal government, in recent years the share of the agency's capital plan funded by Washington has diminished. In its current capital commitment plan for 2020 through 2023, the city is providing a total of $2.4 billion, slightly over one-third of NYCHA's $6.4 billion capital plan for the four years; notably the authority's capital plan covers only 20 percent of what the agency has identified as its critical capital needs over a five-year period. The city is likely to face pressure to increase its capital contribution to NYCHA in order to prevent further deterioration of the city's public housing stock.

Economic Risks. The city is in the 11th year of an extraordinarily long period of economic expansion following the 2008-2009 financial crisis. Yet all economic expansions eventually end. IBO's economic forecast includes a marked slowdown in the local economy beginning late in calendar year 2019 and continuing through 2020 into 2021, with slower growth expected in personal income, wages, and employment. Already there are signs of a softening in critical areas, including the market for real estate. With tax revenue growth expected to slow from 4.4 percent in the current year to 1.9 percent in 2021, these could be portents of a potential downturn in the city's financial condition. On the federal level, unchecked increases in the federal deficit and rapid growth in federal debt could also negatively affect the city's diminished but still critical financial sector.

MTA and H+H. The MTA—a state agency with only a limited governance role for the city—faces significant operating budget short-falls in the near term as well as major challenges in financing and managing its capital program. In recent years, the state has floated proposals to require the city to increase its support for the MTA's operating budget and its financing plan. Last year the state forced the city to pay $400 million for the MTA's "Action Plan" to make emergency repairs to stabilize the subway system. This year the state has already included a new requirement for the city to provide $100 million annually for the MTA's paratransit system. This is one of the "adjustments" needed to fill an estimated $800 million hole in the MTA's operating budget. The MTA's shortfall grows to $2 billion by 2023, and pressure on the city to help close that gap may mount. Financing the balance of the 2015-2019 MTA capital plan and the start of the 2020-2024 plan, even with expected congestion pricing revenue, is likely to further increase the pressure on the transportation authority's operating budget. The risk for the city is that additional demands from the state to support the MTA will up-end the city's own fiscal balancing act.

H+H continues to be dependent on a mix of city subsidies as it struggles to improve its fiscal condition. However, its recent success in increasing revenue and controlling expenses suggests that the near-term risk that the system would need additional support has lessened. Still, potential changes in federal health care financing policies for Medicaid and Medicare, including some stemming from the Affordable Care Act, could pose challenges to H+H and the success of its transformation plan.

In Reserve

The Mayor and the City Council continue to place substantial funds into reserve that would be available to help balance the budget in the face of either a sharp drop in revenue or the need for unexpected spending. The November plan includes $1.4 billion in reserve funds for 2020—dollars budgeted as expenses but not attached to any specific budget function. If the funds go unused, as they have in the Mayor's prior budget plans, they would become part of this year's surplus and can help offset the shortfall projected for 2021. The financial plan also contains slightly smaller unallocated reserves of $1.25 billion in each year from 2021 through 2023.

In addition to these budgeted reserves, the de Blasio Administration has put aside an estimated $4.8 billion in the Retiree Health Benefits Trust. While funds in the trust can only be used to pay all or part of the cost of retiree health benefits in a given year, it is a sizable sum: $2.2 billion in 2020 and $2.3 billion in 2021. Retiree health costs paid with funds from the trust free up an equal amount of city funds in the budget for other needs, although dipping into the trust fund to provide budget relief only makes the city's challenge of funding its future health care obligations to retirees more difficult.

If IBO's economic forecast and our re-estimates of city revenues and expenditures prove generally correct, and the problems of NYCHA, the MTA, and the state do not also become the city's problems, then the city's fiscal condition should remain stable, with current-year budget surpluses and future-year gaps of a size that the city has routinely managed in past years. We estimate that the city will end 2020 with a modest surplus of $635 million before drawing down any portion of the unallocated reserve in this year's budget. This surplus would reduce the 2021 gap to $2.9 billion (4.1 percent of estimated city-funded expenses). If all of the $1.4 billion reserve built into the 2020 budget were still available at the end of the year and used to prepay 2021 expenses, then the gap in next year's budget would shrink to $1.6 billion (2.1 percent of city-funded expenses). Additionally, our forecasts of revenue and expenditures in the last two years of the financial plan before using the unallocated reserves reduce the city's budget gap in 2022 to $2.3 billion (3.2 percent of estimated city-funded spending) and $2.1 billion (2.7 percent of estimated city-funded spending) in 2023. These gaps would be substantially reduced using the funds set aside as budgeted reserves for each year of the financial plan.

Balancing our analysis of the city's financial plan, the risks the city faces, and the amount of reserves built into the plan, IBO concludes that the city's outlook for the coming fiscal year is sound. There remains, however, the possibility of this sound outlook turning to fiscal dissonance in the following years.

Endnotes

[1] In inflation-adjusted terms, IBO projects that personal income will increase 2.2 percent in 2019, unchanged from 2018 and considerably below the 5.2 percent growth the city enjoyed in 2017. We expect even weaker growth in real personal income for 2020 and 2021, 0.4 percent and 0.8 percent, respectively, and growth averaging 2.3 percent over the final two years of the forecast period.

[1] Prior to 2015, all corporations were taxed under either the general corporation tax (GCT) or banking corporation tax (BCT). With state and local tax reform, C-corporations are now taxed under the combined business corporation tax, while S-corporations are still taxed under the original GCT or BCT. The projections here refer to the sum of revenue from all three corporate tax mechanisms.

[3] Relevant base-broadening measures that have flowed through to the city's tax definitions include a limit on deductions for interest expenses and the inclusion of global intangible low-tax income.

[4] For more information, see IBO's April 2017 report, "A Slowing Economy Portends Slowing Growth in City Tax Revenue."

[5] In 2009, the city enacted a local law that temporarily increased the hotel tax rate from 5.0 percent to 5.875 percent. The 0.875 percent increase has been renewed several times, most recently in November of this year, keeping it in effect under current law until December 1, 2023.