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Testimony of Ronnie Lowenstein
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To the New York City Council Finance Committee
On the Mayor's Executive Budget for 2013

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Good afternoon Chairman Recchia and members of the New York City Council. My name is Ronnie Lowenstein and I am director of the city's Independent Budget Office. Over the past three weeks you have heard testimony from commissioners of city agencies and today from the Mayor's budget director. Their presentations drew a fiscal picture of New York City in which the local economy is stronger than in many other cities and towns, where employment has reached an all-time high, but where austerity remains necessary.

If you have had an opportunity to read IBO's report on the Mayor's Executive Budget, you know that our view of the city's fiscal climate is appropriately cautious but less pessimistic than that of the Bloomberg Administration. Based on IBO's most recent forecast of revenue and spending under the Mayor's Executive Budget for 2013 and Financial Plan through 2016, we expect the city to end the current fiscal year with a $1.8 billion surplus—similar to the Mayor's estimate.

Assuming that surplus is used to prepay some of next year's expenses and other portions of the Mayor's budget plan are approved by the City Council, we estimate that the city will end 2013 with a surplus of $570 million. While we project significant shortfalls in the following years, these budget gaps are smaller than those estimated by the Bloomberg Administration.

I will take a few moments to outline a few key economic assumptions that underlie our estimates of budget surpluses and gaps. The city's economy, while expected to continue to outpace the U.S. economy, is nonetheless affected by national economic trends and recent news on the U.S. economy has been troubling. IBO's forecast for real gross domestic product growth of 2.4 percent in 2012 and 2.8 percent in 2013 reflects these concerns and is roughly in line with the consensus of professional forecasters published in May by the Federal Reserve Bank of Philadelphia. The forecast by the Mayor's Office of Management and Budget for this fundamental indicator is on the low end of the consensus range, particularly for 2013.

Our expectations for New York City job growth—and the tax revenues those jobs provide—are similarly less negative than the Mayor's. The Bloomberg Administration projects job growth of 50,000 for 2012—an increase the city may have already achieved. In contrast, IBO expects the city to add about 70,000 jobs this year, slightly below last year's gains. The differences are even larger for 2013, with IBO forecasting the addition of over 73,000 jobs, compared with just 44,000 projected by the Bloomberg Administration.

IBO anticipates relatively strong job growth despite our expectation of continued weakness in the financial industry, which typically generates outsized earnings and tax revenues relative to the number of workers in the sector. While yesterday's news on first quarter profits was welcome, IBO remains wary of a repeat of the past two years when first quarter profits were also strong but then weakened in subsequent quarters. Because of our projection of weakness on Wall Street, IBO's estimates for wage and personal income growth are lower than might be expected given the job gains in the rest of the local economy. In turn, our forecast for tax revenue growth is slower than might be expected. Yet our estimate of tax revenues in fiscal year 2013 is $43.4 billion, nearly $600 million more than the Mayor's.

While mayors are generally cautious in their fiscal estimates, Mayor Bloomberg may be particularly cautious with his revenue estimates this year given the economic uncertainties. Continued economic turbulence in Europe and the potential for a stalemate in Washington on U.S. fiscal policy provide significant reasons for caution.

On the other side of the ledger, IBO also projects that spending will be a bit higher than estimated by the Mayor. The largest source of that difference is funding for charter schools. Funds have not been provided in the budget for schools set to open in the future. We estimate that $138 million in additional funds are needed for 2014, growing to $373 million in 2016.

There are a number of other areas in which spending will exceed the amounts currently budgeted. For example, we estimate that health insurance for city employees will cost about $70 million more than budgeted for 2013, overtime for police and corrections officers will be $40 million higher, and providing shelter for homeless families will cost nearly $30 million more. In addition, funds typically added by the Council for child care services, library subsidies, cultural programs and other needs are not reflected in our estimates but are likely to be included in the negotiations with the Mayor and will increase spending above the projected level.

In addition to national and international economic factors that suggest caution in revenue estimates, the Mayor may have another reason for concern. The Executive Budget proposes to achieve balance in 2013 with the help of $2.5 billion in one-shots, revenue that will not recur in subsequent years. Of that amount, $1.0 billion is far from certain, as we noted last month in our report on the Mayor's plan. Last week a court decision underscored that uncertainty, at least temporarily halting the Mayor's plan to raise $1.0 billion from the sale of 2,000 new taxi medallions. Even if the courts eventually allow the sale to continue, it is unclear that the medallions will garner the anticipated revenue.

But an even greater challenge may come in balancing the budget for 2014, when the one-shot revenues from 2013 are no longer available and IBO projects that the city faces a shortfall of $2.4 billion. The use of one-shots to keep 2013 in balance simply postpones some of the tough decisions about the underlying shortfalls in the city's budget. When the many expired municipal labor contracts and the lack of funds set aside for labor agreements in the 2010-2012 round of negotiations are added to the fiscal equation, the city's budget problems deepen.

Although IBO expects tax revenues to be higher and out-year budget gaps to be lower than forecast by the Bloomberg Administration, the city's fiscal landscape remains challenging. Thank you again for the opportunity to be here today and I am pleased to answer any questions you may have.