



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

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Testimony of Ronnie Lowenstein
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To the New York City Council Finance Committee
On the Preliminary Budget for 2016 and Financial Plan Through 2019

March 4, 2015

Good afternoon Chairwoman Ferreras and members of the City Council Finance Committee. I am Ronnie Lowenstein, director of the city's Independent Budget Office. Thank you for the opportunity to be here today and present highlights of IBO's latest economic forecast along with our projections of tax revenues and city spending under the framework of the Mayor's Preliminary Budget for 2016 and Financial Plan Through 2019. Attached to your copies of my presentation is a set of tables that provide more details than I will discuss in this written testimony.

Nearly a year ago today, I came before this committee to testify on the de Blasio Administration's first budget plan. At that time I described the city's fiscal outlook as healthy. At the same time, I offered a number of reasons for caution. A year later, the city's fiscal outlook remains healthy, with our projection for growth in tax collections outpacing our expectations for increases in city spending over fiscal years 2015 through 2019. But there are still ample reasons for caution.

Our estimates of city surpluses over the five-year period—and we project surpluses in all of them—are a clear indication of the city's ongoing fiscal well-being. We project the city will end the current fiscal year with a surplus of \$1.8 billion, \$182 million more than anticipated by the Mayor. While the Mayor has, of course, presented a balanced budget for next year, our expectation for 2016 is a surplus of \$1.3 billion. And we project relatively modest surpluses of more than \$300 million in each of the ensuing years through 2019.

A key factor underlying these surplus projections is our economic forecast. IBO anticipates growth throughout the plan period, although this growth slows after calendar year 2016. Our expectation for increased tax revenue follows a similar pattern. While over the course of the five-year plan period we estimate tax revenues will increase by an average of 4.6 percent annually, the growth is a bit higher than the average in 2015 and 2016 and lower in 2017 and 2018.

IBO's projection for the city's job growth underscores this pattern. We forecast job growth averaging nearly 82,000 annually in calendar years 2015 and 2016, and then slowing over the next two years to an average of roughly 58,000.

Looking a little more closely not just at the number of new jobs but at which sectors are growing and their wages, we see a continued evolution in the city's employment mix. Over the 2015-2019 period, we expect average annual employment growth of roughly 2.0 percent both in relatively high-paying industries (wages over \$100,000) and in low-paying industries (under \$50,000). Jobs in middle-wage industries are expected to grow at an annual rate of 1.1 percent. This is considerably different than in the five years after the last recession, when job growth in low-wage industries such as retail trade and hospitality grew at more than four times the rate of middle-wage industries such as construction, wholesale trade, and government. Within the high-wage industries, the very highest paying—securities and finance—is expected to lag behind job increases in information and professional and business services.

Our outlook for city tax revenues over the financial-plan period reflects sustained but comparatively moderate growth, particularly compared with increases over the past two years. During fiscal years 2013 and 2014, tax revenue grew at an average rate of 7.3 percent; we project average growth this year and next at a more modest rate of 4.9 percent.

The mix of taxes growing at a faster or slower rate is also changing compared with the prior two years. IBO anticipates a much faster rate of growth in 2015 and 2016 in the unincorporated business tax due to strong growth in professional and business services, which over time have become less closely tied to the fortunes of the finance sector. With property tax bills capturing more of the growth in local property values that is required to be phased-in over time, as well as new construction and newly taxable properties, we also expect to see a somewhat faster growth rate in property tax revenue than in the past two years.

Conversely, we project slower growth rates in 2015 and 2016 in the property transfer taxes and the general corporation tax. Over the past two years sales of large office and apartment buildings have fueled double-digit growth in the property transfer taxes, a pattern we do not expect to continue. Revenue growth from the general corporation tax will slow as Wall Street profits are expected to remain flat due to rising interest rates and the effect of new regulations.

As noted before, IBO expects the growth of tax revenues to outpace spending growth under the Mayor's plan. Our expectation of moderate increases in expenditures occurs despite the lack of a set of proposals for spending reductions, reductions previous mayors have routinely undertaken. Mayor de Blasio has said to expect proposals for spending cuts to accompany his next budget plan in April.

Although the current plan does not include a spending reduction program, the budget continues to hold substantial reserves, including roughly \$2 billion in the Retiree Health Benefit Trust and a \$750 million annual general reserve for 2016 through 2019. The preliminary budget also does not contain any big ticket expense budget proposal such as last year's plan for expanding prekindergarten. But there are a number of smaller initiatives. These range, for example, from the elimination of a \$72 million annual

reimbursement from the housing authority to cover policing costs to \$16 million over two years for the expansion of community-based health clinics.

IBO's projection of spending under the Mayor's plan takes into account our expectation that a number of services will be more costly than budgeted. One example is education spending, which we estimate will be \$152 million higher than budgeted by the de Blasio Administration in 2016 because the plan does not include sufficient funds for charter schools already scheduled to open or expand next year and the expectation that Medicaid reimbursements for certain school services will be less than projected. Another example is the cost of shelter for the homeless, which we anticipate will be \$32 million higher than budgeted.

Even with our higher expenditure estimates in some areas, IBO is projecting budget surpluses in each of the years of the Mayor's plan. But there are a number of factors that could erode these surplus estimates.

One factor is Albany. The Governor's budget plan has left a large question mark around the level of state education aid the city can expect. Last year's \$190 million expansion of after-school programs for middle school students was funded with part of the increase in state education aid. It is unclear if these state dollars will be available again. The Mayor also expects additional state funding to enable expanding universal prekindergarten by another 20,000 seats. Following release of his financial plan, the Mayor urged Albany to provide \$300 million for the housing authority, a sum Mayor de Blasio said the city would match although it is not part of his current budget.

Other factors are more local. Mayoral initiatives such as the expansion of ferry service and bus rapid transit are not funded in the current expense budget plan. It also remains unclear if the Mayor's proposal to reform the city's business taxes will in fact be revenue neutral, at least in the early years of the overhaul. Additionally, members of the City Council and other elected officials have also suggested a number of service enhancements and initiatives. Increasing the police force by 1,000 officers, for example, would cost about \$100 million in the first year.

IBO's full report on the Mayor's preliminary budget and financial plan is not due for a number of weeks. Before then we intend to release brief sections of the report covering issues that we believe will be of interest to you and the broader public as the Council's hearings proceed.

Thank you for the opportunity to be here today and I am pleased to answer any questions you may have.

Total Revenue and Expenditure Projections*Dollars in millions*

	2015	2016	2017	2018	2019	Average Change
Total Revenue	\$78,760	\$79,497	\$81,929	\$84,723	\$87,606	2.7%
Total Taxes	49,876	52,225	54,553	56,874	59,606	4.6%
Total Expenditures	78,760	78,232	81,568	84,409	87,254	2.6%
IBO Surplus/(Gap) Projections	\$0	\$1,265	\$360	\$315	\$353	
Adjusted for Prepayments:						
Total Expenditures	\$79,121	\$80,329	\$81,769	\$84,607	\$87,254	2.5%
City-Funded Expenditures	\$56,848	\$58,978	\$60,188	\$62,601	\$65,300	3.5%

NOTES: IBO projects a surplus of \$1.76 billion for 2015, \$182 million above the de Blasio Administration's forecast. The surplus is used to prepay some 2016 expenditures, leaving 2015 with a balanced budget. Figures may not add due to rounding.

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Pricing Differences Between IBO and the de Blasio Administration

Items that Affect the Gap
Dollars in millions

	2015	2016	2017	2018	2019
Gaps as Estimated by the Mayor	\$0	\$0	(\$1,048)	(\$1,370)	(\$2,074)
Revenue					
Taxes					
Property	\$2	\$439	\$548	\$826	\$1,204
Personal Income	188	295	379	312	540
General Sales	(1)	39	57	24	10
General Corporation	(10)	69	147	197	220
Unincorporated Business	41	195	358	500	609
Banking Corporation	0	20	63	97	94
Real Property Transfer	36	37	57	55	46
Mortgage Recording	33	58	40	24	21
Utility	5	24	30	29	29
Hotel Occupancy	6	62	81	100	128
Commercial Rent	7	21	9	(6)	(21)
Cigarette	2	1	(1)	(2)	(3)
Subtotal	\$308	\$1,259	\$1,768	\$2,156	\$2,877
STaR Reimbursement	0	(28)	(27)	(21)	(16)
Taxi Medallion Sales	(5)	(47)	(36)	(38)	(69)
TOTAL REVENUE	\$303	\$1,184	\$1,705	\$2,097	\$2,792
Expenditures					
Debt Service	104	75	75	75	75
Fringe Benefits:					
Health Insurance - Education	(31)	20	(36)	(60)	(33)
Health Insurance - City University	(37)	10	10	8	2
Health Insurance - All Other Agencies	34	83	(32)	(53)	(44)
Education	(125)	(152)	(173)	(192)	(212)
Police	(50)	(50)	(50)	(50)	(50)
Board of Elections	-	(25)	(25)	(25)	(25)
Corrections	-	(15)	(15)	(15)	(15)
Homeless Services	(10)	(32)	(32)	(32)	(32)
Public Assistance	(10)	(12)	(13)	(13)	(13)
Small Business Services	4	(2)	(6)	(14)	(18)
Campaign Finance Board	-	-	-	(40)	-
TOTAL EXPENDITURES	(121)	(100)	(297)	(411)	(365)
TOTAL IBO PRICING DIFFERENCES	\$182	\$1,084	\$1,408	\$1,686	\$2,427
IBO Prepayment Adjustment 2015/2016	(182)	182	-	-	-
IBO SURPLUS/(GAP) PROJECTIONS	\$0	\$1,265	\$360	\$315	\$353

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Figures may not add due to rounding.

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IBO Revenue Projections*Dollars in millions*

	2015	2016	2017	2018	2019	Average Change
Tax Revenue						
Property	\$21,172	\$22,552	\$23,689	\$24,977	\$26,424	5.7%
Personal Income	10,005	10,371	10,687	10,903	11,448	3.4%
General Sales	6,781	7,084	7,384	7,648	7,903	3.9%
General Corporation	2,890	3,019	3,183	3,333	3,466	4.7%
Unincorporated Business	2,070	2,313	2,525	2,751	2,954	9.3%
Banking Corporation	1,171	1,214	1,253	1,288	1,312	2.9%
Real Property Transfer	1,537	1,543	1,614	1,667	1,707	2.7%
Mortgage Recording	993	1,002	1,026	1,054	1,092	2.4%
Utility	403	428	443	457	469	3.9%
Hotel Occupancy	573	612	646	674	697	5.0%
Commercial Rent	742	786	809	829	844	3.3%
Cigarette	51	49	46	44	42	-5.0%
Other Taxes and Audits	1,488	1,252	1,248	1,248	1,248	-4.3%
Total Taxes	\$49,876	\$52,225	\$54,553	\$56,874	\$59,606	4.6%
Other Revenue						
STaR Reimbursement	\$861	\$849	\$854	\$860	\$865	0.1%
Miscellaneous Revenue	5,766	5,087	4,955	5,000	5,196	-2.6%
Unrestricted Intergovernmental Aid	-	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	\$6,612	\$5,921	\$5,794	\$5,844	\$6,046	-2.2%
TOTAL CITY-FUNDED REVENUE	\$56,487	\$58,146	\$60,347	\$62,718	\$65,652	3.8%
State Categorical Grants	\$12,462	\$12,774	\$13,184	\$13,641	\$13,685	2.4%
Federal Categorical Grants	8,328	7,161	6,977	6,934	6,841	-4.8%
Other Categorical Aid	910	869	877	885	882	-0.8%
Interfund Revenue	573	547	543	545	545	-1.2%
TOTAL REVENUE	\$78,760	\$79,497	\$81,929	\$84,723	\$87,606	2.7%

NOTE: Figures may not add due to rounding.

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IBO Expenditure Projections*Dollars in millions*

	2015	2016	2017	2018	2019	Average Change
Health & Social Services						
Social Services						
Medicaid	\$6,600	\$6,569	\$6,571	\$6,572	\$6,572	-0.1%
All Other Social Services	3,280	3,142	3,134	3,120	3,106	-1.4%
HHC	209	150	193	208	214	0.5%
Health	1,479	1,459	1,461	1,455	1,456	-0.4%
Children Services	2,861	2,875	2,884	2,886	2,886	0.2%
Homeless	1,120	1,114	1,112	1,112	1,115	-0.1%
Other Related Services	717	571	573	573	573	-5.4%
Subtotal	\$16,268	\$15,880	\$15,929	\$15,927	\$15,922	-0.5%
Education						
DOE (excluding labor reserve)	\$20,963	\$21,664	\$22,598	\$23,556	\$24,106	3.6%
CUNY	935	863	870	876	883	-1.4%
Subtotal	\$21,898	\$22,527	\$23,468	\$24,432	\$24,990	3.4%
Uniformed Services						
Police	\$4,979	\$4,842	\$4,827	\$4,832	\$4,835	-0.7%
Fire	1,982	1,952	1,938	1,912	1,915	-0.9%
Correction	1,141	1,185	1,173	1,176	1,180	0.8%
Sanitation	1,483	1,568	1,562	1,561	1,559	1.3%
Subtotal	\$9,585	\$9,547	\$9,500	\$9,481	\$9,489	-0.3%
All Other Agencies	\$10,066	\$8,975	\$8,876	\$8,967	\$8,901	-3.0%
Other Expenditures						
Fringe Benefits	\$4,928	\$5,209	\$5,651	\$6,076	\$6,567	7.4%**
Debt Service	5,778	4,859	7,138	7,463	7,977	6.8%*
Pensions	8,455	8,405	8,375	8,360	8,457	0.0%
Judgments and Claims	695	710	746	782	817	4.1%
General Reserve	300	750	750	750	750	n/a
Labor Reserve:						
Education	11	-	-	-	-	n/a
All Other Agencies	841	1,328	971	1,870	2,961	n/a
Expenditure Adjustments	(65)	43	164	300	423	n/a
TOTAL EXPENDITURES	\$78,760	\$78,232	\$81,568	\$84,409	\$87,254	2.6%

NOTES: *Represents the annual average change after adjusting for prepayments.

**Fringe benefits exclude DOE and CUNY expenditures, which are reported within DOE and CUNY budget amounts.

Expenditure adjustments include energy, lease and non-labor inflation adjustments.

Figures may not add due to rounding.

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IBO versus Mayor's Office of Management and Budget Economic Forecasts						
	2014	2015	2016	2017	2018	2019
National Economy						
Real GDP Growth						
IBO	2.4	3.4	3.3	2.9	2.4	2.1
OMB	2.4	3.0	2.7	2.8	2.5	2.8
Inflation Rate						
IBO	1.7	1.1	2.5	2.9	2.8	2.2
OMB	1.6	0.3	2.2	2.3	2.5	2.5
Personal Income Growth						
IBO	3.9	5.2	6.7	6.3	5.4	4.0
OMB	3.9	4.3	5.0	5.6	5.0	5.2
Unemployment Rate						
IBO	6.2	5.5	5.2	5.0	4.9	4.9
OMB	6.2	5.6	5.3	5.2	5.2	5.1
10-Year Treasury Bond Rate						
IBO	2.5	2.9	4.0	4.6	4.5	4.5
OMB	2.5	2.8	3.6	4.2	4.4	4.4
Federal Funds Rate						
IBO	0.1	0.3	2.1	3.5	4.0	4.1
OMB	0.1	0.4	1.6	3.3	3.8	3.8
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO	86.4	83.3	80.1	63.3	53.5	45.7
OMB	91.0	65.0	64.0	60.0	45.0	41.0
Nonfarm Employment Growth						
IBO	2.2	2.1	1.9	1.5	1.3	1.1
OMB	2.3	1.6	1.6	1.4	1.1	1.0
Inflation Rate (CPI-U-NY)						
IBO	1.3	1.2	3.0	3.3	3.3	3.1
OMB	1.5	0.9	2.3	2.4	2.6	2.6
Personal Income (\$ billions)						
IBO	510.4	533.3	561.6	590.6	618.2	641.4
OMB	503.7	519.0	539.3	565.0	589.1	613.2
Personal Income Growth						
IBO	5.9	4.5	5.3	5.2	4.7	3.7
OMB	4.6	3.0	3.9	4.8	4.3	4.1
Manhattan Office Rents (\$/sq.ft)						
IBO	72.1	76.7	78.6	80.5	82.0	83.4
OMB	73.7	76.7	80.6	82.9	86.3	87.6
<p>SOURCE: Mayor's Office of Management and Budget</p> <p>NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, 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. For 2014, New York City personal income and growth rates are estimated, pending Bureau of Economic Analysis release.</p>						

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