



THE CITY OF NEW YORK  
INDEPENDENT BUDGET OFFICE

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**Testimony of Ronnie Lowenstein**  
**Director, New York City Independent Budget Office**  
**To the New York City Council Finance Committee**  
**On the Mayor's Preliminary Budget for 2015 and Financial Plan through 2018**

**March 5, 2014**

Good afternoon Chairwoman Ferreras and members of the Finance Committee. I am Ronnie Lowenstein, director of New York City's Independent Budget Office. I want to begin by taking the opportunity to congratulate Council Member Ferreras on her new role as Chair of this committee and express IBO's enthusiasm for assisting you and your Council colleagues in the months ahead. IBO is always available to meet with Council Members or staff to answer questions about our work or respond to your requests for information and analysis.

I am here today to present the highlights of our latest economic forecast and tax revenue and spending projections, which are based on the budget plan issued by Mayor de Blasio last month. Tables that provide additional details underscoring our projections are attached to this testimony. Although IBO's formal response to the Mayor's preliminary budget is not due until April, over the next few weeks we will release brief write-ups that focus on specific issues surrounding the Mayor's budget plan. The first of these pieces, focusing on the [potential cost of labor settlements](#), was released last Friday.

To start the review of our forecast and analysis let's go straight to the bottom line—our estimate of the city's surplus. Based on our economic forecast and projections of tax revenue and spending, we expect the city will end the current fiscal year with a surplus of \$2.0 billion, \$244 million more than the Mayor estimates. Assuming that the entire 2014 surplus is used to prepay some of next year's expenses, we expect that fiscal year 2015 will end with a surplus of \$1.2 billion. The Mayor's plan projects no surplus in 2015. And while we anticipate that 2016 will end with a small surplus, the Mayor projects a shortfall of \$1.1 billion for that year.

While IBO's projections foretell a healthy fiscal outlook for the city, there are important reasons for caution. The biggest reason, which comes as no surprise to anyone in this room, is the unknown cost of settling the more than 150 expired municipal labor contracts. As the paper we issued last week showed, there are many ways in which the contracts could be settled, and a wide range of potential costs to the city. The estimated effect on the budget in 2014 of the handful of scenarios we examined last week ranged from \$500 million to \$7.1 billion. A \$500 million settlement would diminish the surplus IBO projects for this year. A \$7.1 billion settlement would eclipse the surplus along with the funds set aside in the retiree health benefits trust and the budget's general reserve.

Expired labor contracts are not the only reason for caution. IBO's economic and revenue forecast is based on the assumption New York City can continue to enjoy solid job growth over the next few years

despite continued weakness in the securities industry, the long-time engine of the city's economy. In addition to economic risks, cutbacks in federal aid could pose issues for the city in the near-term. Taking a longer-term view, the costs of protecting the city from future Sandy-like storms are likely to require considerable capital investment.

Setting such cautions aside, our forecast for the city's economy is for moderate, if not spectacular, growth. Over the past three years the city has experienced annual average job gains of 81,000 (or 2.1 percent a year) and we reached the milestone of 4 million jobs late in calendar year 2013. IBO expects the city to continue to see job growth over the next few years, but at a more modest pace. We project job gains averaging 68,100 in 2014 through 2016 (1.7 percent), with education and health care, business services, leisure and hospitality, and retail trade continuing to be the main drivers of employment growth.

Missing from those leaders in job growth is the financial sector, and in particular the securities industry. While we expect job gains on Wall Street to improve a bit over the recent past, a combination of tighter regulation and rising interest rates is expected to curtail securities industry profits and limit employment gains. That we have experienced strong overall job growth without significant impetus from Wall Street reflects a city with a more diversified economy. But without Wall Street—and its high average wages—as the principal driver, personal income growth in the city is weaker than we would otherwise expect given the level of recent employment gains. Although the business services sector pays relatively high wages, all sectors pale in comparison with securities. In 2013, securities sector wages and salaries averaged nearly \$352,000. Wages and salaries in all other industries averaged about \$70,600 last year.

Based on our economic forecast, we expect city tax revenues will continue to grow at a steady pace, averaging annual growth of 5.3 percent over the 2014-2018 financial plan period. IBO's estimates of tax revenues are higher than those presented by the de Blasio Administration, in part due to our expectation of somewhat stronger employment growth. Our forecast of tax revenues exceeds the Mayor's estimates by about \$300 million for this year and more than \$1 billion a year in 2015 and 2016.

Some of the largest differences are in our estimates for personal income and business income tax collections. We expect baseline personal income tax revenue, which excludes the proposed surcharge on higher income taxpayers, to exceed the de Blasio Administration's estimates by \$120 million this year and by more than \$300 million in each of the next two years. The higher collections are largely driven by our expectation of more local job growth. We anticipate that business tax collections—general corporation, unincorporated business, and banking corporation taxes—will exceed the Mayor's estimates by about \$100 million this year, nearly \$400 million in 2015, and more than \$660 million in 2016. IBO's outlook for U.S. economic growth is stronger than that of the de Blasio Administration and as a result we expect higher profits for many New York City-based firms.

Turning to the spending side of the budget, we project total expenditures to grow at an annual average of 2.6 percent, roughly half the rate of growth of tax revenues. Of course, that estimate of spending growth is absent any costs related to settling the expired municipal labor contracts and could increase substantially when an accord is reached.

We have several notable differences in our spending estimates from those projected by the Mayor, the largest of which is in the budget for the Department of Education. The budget does not include funding for all of the charter schools scheduled to open this fall under the Mayor's recent announcement, nor does it include sufficient funds for the charter schools that are already open and expected to expand the grades they include in the coming years. We estimate a \$75 million shortfall for these purposes next year and \$166 million in 2016—an amount that grows to nearly \$500 million by 2018.

IBO also projects that spending on overtime for the police and correction departments will be a combined \$40 million a year more than budgeted for 2015 and 2016 based on expenditures in prior years. Likewise, we expect that spending by the Board of Elections will be \$25 million a year more than budgeted given the board's recent pattern of overspending. In addition, IBO estimates that spending on shelter for homeless families will be higher than budgeted. Based on the recent trend in the shelter census, we project city spending on family shelter will be \$9 million higher than budgeted for 2015 and \$24 million higher when state and federal funds for homeless families are included.

In the scope of a \$75 billion budget, these spending differences are not large. But they take on added significance with the additional demands on resources likely to occur with the settlement of expired labor contracts.

Thank you again for the opportunity to testify today and I am pleased to answer your questions at this time. I also want to again extend my invitation to meet with you and Council staff to discuss any additional issues that may arise.

**Total Revenue and Expenditure Projections***Dollars in millions*

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Average Change</b>
<b>Total Revenue</b>	<b>\$74,093</b>	<b>\$75,289</b>	<b>\$78,290</b>	<b>\$81,276</b>	<b>\$83,733</b>	<b>3.1%</b>
Total Taxes	46,196	49,181	51,786	54,299	56,708	5.3%
<b>Total Expenditures</b>	<b>\$74,093</b>	<b>\$74,103</b>	<b>\$78,159</b>	<b>\$80,181</b>	<b>\$82,242</b>	<b>2.6%</b>
<b>IBO Surplus / (Gap) Projections</b>	<b>\$-</b>	<b>\$1,186</b>	<b>\$131</b>	<b>\$1,095</b>	<b>\$1,491</b>	
<b>Adjusted for Prepayments:</b>						
Total Expenditures	\$74,924	\$76,216	\$78,262	\$80,181	\$82,242	2.4%
City-Funded Expenditures	\$53,394	\$56,062	\$57,767	\$59,231	\$60,901	3.3%

NOTES: IBO projects a surplus of \$2.0 billion for 2014, \$244 million above the de Blasio Administration's forecast. The surplus is used to prepay some 2015 expenditures, leaving 2014 with a balanced budget. Total taxes include universal pre-K personal income tax proposal. 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

	2014	2015	2016	2017	2018
<b>Gaps as Estimated by the Mayor</b>	<b>\$-</b>	<b>\$-</b>	<b>\$(1,059)</b>	<b>\$(530)</b>	<b>\$(370)</b>
<b>Revenue</b>					
Taxes					
Property	\$5	\$106	\$36	\$258	\$586
Personal Income	120	307	346	396	488
General Sales	24	135	135	179	194
General Corporation	95	101	219	265	298
Unincorporated Business	6	183	263	350	438
Banking Corporation	3	105	182	244	239
Real Property Transfer	25	2	39	51	33
Mortgage Recording	(18)	35	36	37	17
Utility	24	33	28	35	40
Hotel Occupancy	12	36	52	66	74
Commercial Rent	5	15	13	3	(11)
Cigarette	1	1	1	(1)	(2)
<b>Subtotal</b>	<b>\$302</b>	<b>\$1,058</b>	<b>\$1,349</b>	<b>\$1,884</b>	<b>\$2,393</b>
STaR Reimbursement	\$7	\$11	\$9	\$9	\$13
Universal Pre-K (PIT increase)	-	24	45	36	36
<b>TOTAL REVENUE</b>	<b>\$309</b>	<b>\$1,093</b>	<b>\$1,403</b>	<b>\$1,929</b>	<b>\$2,443</b>
<b>Expenditures</b>					
Fringe Benefits:					
Health Insurance - Education	\$14	\$13	\$34	\$38	\$15
Health Insurance - City University	(39)	(6)	(13)	(22)	(31)
Health Insurance - All Other Agencies	9	(12)	5	41	42
Education	(32)	(75)	(166)	(288)	(494)
Police	(25)	(25)	(25)	(25)	(25)
Board of Elections	-	(25)	(25)	(25)	(25)
Correction	-	(15)	(15)	(15)	(15)
Homeless Services	(5)	(10)	(10)	(10)	(10)
Public Assistance	3	5	5	5	5
Small Business Services	10	(2)	(4)	(4)	(4)
Campaign Finance Board	-	-	-	-	(40)
<b>TOTAL EXPENDITURES</b>	<b>\$(65)</b>	<b>\$(152)</b>	<b>\$(214)</b>	<b>\$(305)</b>	<b>\$(582)</b>
<b>TOTAL IBO PRICING DIFFERENCES</b>	<b>\$244</b>	<b>\$941</b>	<b>\$1,189</b>	<b>\$1,624</b>	<b>\$1,861</b>
IBO Prepayment Adjustment 2014/2015	(244)	244	-	-	-
<b>IBO SURPLUS / (GAP) PROJECTIONS</b>	<b>\$-</b>	<b>\$1,186</b>	<b>\$131</b>	<b>\$1,095</b>	<b>\$1,491</b>

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

**IBO Revenue Projections***Dollars in millions*

	2014	2015	2016	2017	2018	Average Change
<b>Tax Revenue</b>						
Property	\$19,786	\$20,887	\$21,851	\$22,961	\$24,165	5.1%
Personal Income	8,783	9,458	9,989	10,451	10,856	5.4%
General Sales	6,448	6,765	7,050	7,349	7,616	4.2%
General Corporation	2,814	2,921	3,120	3,281	3,425	5.0%
Unincorporated Business	1,852	2,108	2,287	2,449	2,621	9.1%
Banking Corporation	1,220	1,273	1,365	1,434	1,465	4.7%
Real Property Transfer	1,458	1,323	1,469	1,566	1,629	2.8%
Mortgage Recording	932	889	998	1,057	1,092	4.0%
Utility	408	432	445	459	474	3.8%
Hotel Occupancy	541	575	612	643	675	5.7%
Commercial Rent	694	730	758	781	801	3.6%
Cigarette	58	56	54	51	49	-4.0%
Other Taxes, Audits, and PEGs	1,202	1,211	1,211	1,211	1,211	0.2%
<b>Total Taxes Before Proposal</b>	<b>\$46,196</b>	<b>\$48,627</b>	<b>\$51,208</b>	<b>\$53,694</b>	<b>\$56,078</b>	<b>5.0%</b>
<b>Tax Proposal</b>						
Universal Pre-K (PIT increase)	\$0	\$554	\$578	\$605	\$630	n/a
<b>Total Taxes After Proposal</b>	<b>\$46,196</b>	<b>\$49,181</b>	<b>\$51,786</b>	<b>\$54,299</b>	<b>\$56,708</b>	<b>5.3%</b>
<b>Other Revenue</b>						
STaR Reimbursement	\$844	\$883	\$886	\$890	\$894	1.4%
Miscellaneous Revenue	5,537	5,085	5,139	5,152	4,805	-3.5%
Unrestricted Intergovernmental Aid	-	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	n/a
<b>Total Other Revenue</b>	<b>\$6,367</b>	<b>\$5,954</b>	<b>\$6,010</b>	<b>\$6,027</b>	<b>\$5,684</b>	<b>-2.8%</b>
<b>TOTAL CITY-FUNDED REVENUE</b>	<b>\$52,563</b>	<b>\$55,135</b>	<b>\$57,795</b>	<b>\$60,326</b>	<b>\$62,392</b>	<b>4.4%</b>
State Categorical Grants	\$11,708	\$11,907	\$12,277	\$12,748	\$13,144	2.9%
Federal Categorical Grants	8,400	6,846	6,835	6,824	6,823	-5.1%
Other Categorical Aid	876	881	869	865	861	-0.5%
Interfund Revenue	546	520	513	513	513	-1.5%
<b>TOTAL REVENUE</b>	<b>\$74,093</b>	<b>\$75,289</b>	<b>\$78,290</b>	<b>\$81,276</b>	<b>\$83,733</b>	<b>3.1%</b>

NOTES: Figures may not add due to rounding.

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**IBO Expenditure Projections***Dollars in millions*

	2014	2015	2016	2017	2018	Average Change
<b>Health &amp; Social Services</b>						
Social Services						
Medicaid	\$6,547	\$6,629	\$6,598	\$6,598	\$6,598	0.2%
All Other Social Services	3,039	2,917	2,909	2,910	2,910	-1.1%
HHC	263	81	81	81	81	-25.5%
Health	1,404	1,362	1,358	1,358	1,358	-0.8%
Children Services	2,793	2,828	2,828	2,828	2,828	0.3%
Homeless	1,054	1,018	1,018	1,018	1,018	-0.9%
Other Related Services	647	750	719	732	741	3.5%
<b>Subtotal</b>	<b>\$15,747</b>	<b>\$15,586</b>	<b>\$15,510</b>	<b>\$15,524</b>	<b>\$15,533</b>	<b>-0.3%</b>
<b>Education</b>						
DOE (excluding labor reserve)	\$19,693	\$20,515	\$21,122	\$21,779	\$22,352	3.2%
CUNY	880	852	846	837	845	-1.0%
<b>Subtotal</b>	<b>\$20,573</b>	<b>\$21,367</b>	<b>\$21,969</b>	<b>\$22,616</b>	<b>\$23,197</b>	<b>3.0%</b>
<b>Uniformed Services</b>						
Police	\$4,739	\$4,657	\$4,645	\$4,638	\$4,638	-0.5%
Fire	1,962	1,862	1,841	1,823	1,787	-2.3%
Correction	1,070	1,078	1,078	1,078	1,078	0.2%
Sanitation	1,418	1,477	1,484	1,463	1,464	0.8%
<b>Subtotal</b>	<b>\$9,190</b>	<b>\$9,074</b>	<b>\$9,048</b>	<b>\$9,002</b>	<b>\$8,966</b>	<b>-0.6%</b>
<b>All Other Agencies</b>	<b>\$9,294</b>	<b>\$8,096</b>	<b>\$8,193</b>	<b>\$8,331</b>	<b>\$8,490</b>	<b>-2.4%*</b>
<b>Other Expenditures</b>						
Fringe Benefits	\$5,038	\$5,261	\$5,674	\$6,108	\$6,644	7.2%**
Debt Service	4,977	4,719	7,294	7,624	7,825	8.0%*
Pensions	8,197	8,205	8,324	8,428	8,605	1.2%
Judgments and Claims	663	674	710	746	782	4.2%
General Reserve	150	600	600	600	600	n/a
Labor Reserve:						
Education	-	-	-	-	-	n/a
All Other Agencies	265	465	714	983	1,268	n/a
Expenditure Adjustments	-	56	123	219	333	n/a
<b>TOTAL EXPENDITURES</b>	<b>\$74,093</b>	<b>\$74,103</b>	<b>\$78,159</b>	<b>\$80,181</b>	<b>\$82,242</b>	<b>2.6%</b>

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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<b>IBO versus Mayor's Office of Management and Budget Economic Forecasts</b>						
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>National Economy</b>						
Real GDP Growth						
IBO	1.9	2.8	3.5	3.2	2.7	2.4
OMB	1.9	2.5	3.1	3.3	3.2	3.0
Inflation Rate						
IBO	1.5	2.0	2.4	2.4	2.5	2.4
OMB	1.5	1.4	1.7	1.9	1.9	2.0
Personal Income Growth						
IBO	2.9	5.6	6.9	5.9	4.9	4.5
OMB	2.8	4.7	4.8	5.2	5.5	5.2
Unemployment Rate						
IBO	7.4	6.4	6.0	5.7	5.5	5.4
OMB	7.4	6.6	6.0	5.7	5.3	5.1
10-Year Treasury Bond Rate						
IBO	2.4	3.3	4.2	5.1	4.9	4.7
OMB	2.3	3.3	3.5	4.0	4.6	4.6
Federal Funds Rate						
IBO	0.1	0.1	0.3	2.3	3.6	4.1
OMB	0.1	0.1	0.4	2.2	3.8	4.0
<b>NYC Economy</b>						
Nonfarm New Jobs (thousands)						
IBO	77.0	70.3	67.5	66.4	55.7	49.2
OMB	77.0	57.0	52.0	56.0	54.0	54.0
Nonfarm Employment Growth						
IBO	1.9	1.8	1.7	1.6	1.3	1.2
OMB	2.0	1.4	1.3	1.4	1.3	1.3
Inflation Rate (CPI-U-NY)						
IBO	1.7	2.1	2.9	2.9	3.0	2.9
OMB	1.7	1.6	1.9	2.1	2.1	2.2
Personal Income (\$ billions)						
IBO	486.8	515.3	547.6	579.6	606.6	634.3
OMB	481.8	503.1	522.9	546.9	574.8	602.3
Personal Income Growth						
IBO	3.6	5.9	6.3	5.8	4.7	4.6
OMB	2.0	4.4	3.9	4.6	5.1	4.8
Manhattan Office Rents (\$/sq.ft)						
IBO	68.4	68.0	69.9	72.3	73.4	75.2
OMB	68.4	67.5	69.4	71.0	73.3	75.2
SOURCE: Mayor's Office of Management and Budget						
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 2013, New York City personal income and growth rates are estimated, pending Bureau of Economic Analysis release.						
<i>New York City Independent Budget Office</i>						