May 2017

Facing Continued Threats From Washington:

Mayor's Budget Maintains Substantial Reserves & Increases Local Spending

The city's Executive Budget for 2018 and Financial Plan Through 2021 ("Executive Budget") that was released in April maintained the broad contours of the prior financial plan from January, although the projected budget gaps in the later years of the plan have grown. Faced with evidence of a slowing local economy and myriad fiscal policy threats emanating from Washington, the de Blasio Administration identified a total of $700 million in additional resources for 2017 and 2018 that would be used to fund a variety of new and expanded programs while maintaining the city's current level of reserves. Although the budget includes a handful of big-ticket initiatives, they would require relatively little in the way of additional spending over the next few years.

IBO's economic forecast and our re-estimates of the Administration's revenue and spending projections offer some reasons for optimism about the city's fiscal outlook, although we share the Administration's cautious stance given the likelihood of major changes in federal policy on taxes, trade, health care, and immigration, all of which could impact the city's fisc. IBO projects that the city will end the current fiscal year with $219 million more in tax revenue than the Administration projects. This additional revenue, coupled with IBO's estimate that current year expenditures will be $91 million lower than the Mayor's Office of Management and Budget (OMB) expects, increase the 2017 surplus to $4.0 billion. Rather than the balanced budget OMB projects for 2018, IBO forecasts a surplus of $943 million, the product of our estimate that tax revenue will be $1.1 billion more than OMB expects and that $130 million in additional spending will be required under the Mayor's Executive Budget proposal.

Total Revenue and Expenditure Projections
Dollars in millions

	2017	2018	2019	2020	2021	Average Change
Total Revenue	**$85,728**	**$86,141**	**$88,622**	**$92,097**	**$95,291**	**2.7%**
Total Taxes	54,509	57,340	59,903	62,783	65,665	4.8%
Total Expenditures	**85,418**	**85,198**	**91,742**	**94,325**	**96,625**	**3.1%**
IBO Surplus/(Gap) Projections Before Use of Surplus	$310	$943	($3,120)	($2,228)	($1,334)	
IBO SURPLUS/(GAP) PROJECTIONS	**$-**	**$-**	**($1,867)**	**($2,228)**	**($1,334)**	
Adjusted for Prepayments and Debt Defeasances and Nonrecurring Expenses:						
Total Expenditures	$85,829	$87,675	$90,426	$92,909	$95,099	2.6%
City-Funded Expenditures	$60,782	$63,725	$66,794	$68,894	$70,752	3.9%

NOTES: IBO projects a surplus of $4.04 billion for 2017, $310 million above the de Blasio Administration's forecast. We assume that surpluses are used to prepay some succeeding year expenses, leaving 2017 and 2018 with a balanced budget. Figures may not add due to rounding.

New York City Independent Budget Office

IBO
New York City
Independent Budget Office
Ronnie Lowenstein, Director
110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632
Fax (212) 442-0350
iboenews@ibo.nyc.ny.us
www.ibo.nyc.ny.us

For 2019, IBO forecasts $853 million more tax revenue and $383 million more spending than projected by OMB. As a result of these additional revenues and expenditures, IBO estimates the 2019 gap will be $1.9 billion, 2.8 percent of city-funded expenditures. This figure may actually turn out to be smaller, as it does not account for the $1.25 billion allocated to reserve funds—dollars that are not budgeted for any specific expenditure but are included in the total spending forecast. If the city ultimately does not need to use these reserve funds, they could be freed up as surplus funds that can help reduce budget gaps in the succeeding years of the Mayor's budget plan. For the last years of the financial plan, IBO projects budget gaps of $2.2 billion (3.2 percent of city-funded expenditures) in 2020 and $1.3 billion (1.9 percent) in 2021. These out-year gaps are of a size the city has routinely managed in the past.

The Executive Budget was released under the shadow of a potential federal government shutdown, proposed changes to health care that would have large fiscal costs for the city and state, and continued threats by the Trump Administration to drastically cut funding to states and municipalities. Since the Executive Budget's release the federal shutdown was averted as Congressional leaders cobbled together a temporary funding plan to continue federal operations at least through the end of the summer, postponing for now some of the threatened cuts to federal programs that the city relies on to provide services. But passage of the American Health Care Act by the House earlier this month and the release of the outline of the Trump Administration's priorities on federal tax reform have reinforced concerns about threats to the city and state's fiscal stability.

Other key findings from our review of the Mayor's Executive Budget and financial plan:

- IBO expects the city to add 60,600 new jobs in 2017, a small increase over 2016 employment growth but only about half the annual job growth from 2013 through 2016.

- IBO's tax forecast for 2017 has changed little since our March outlook; for 2018 our forecast has increased by $578 million. Tax revenue growth in 2017 is only 3.0 percent, but is expected to accelerate in 2018 to 5.2 percent when collections reach $57.3 billion. Growth slows a bit in 2019 through 2021 to an annual average of 4.6 percent.

- IBO's property tax forecast exceeds the Mayor's projections by $634 million in 2018, rising to $1.2 billion in 2021. IBO's estimates for the personal income tax and the property transfer taxes are also consistently higher each year from 2018 through 2021.

- Total expenditures in the city's budget, adjusted for prepayments and nonrecurring items, will increase by 2.2 percent between 2017 and 2018. City-funded expenditures will rise more rapidly, however, increasing by 4.8 percent over the same period.

- Debt service and fringe benefit costs are major drivers of overall expenditure growth, growing by an average of 7.3 percent and 6.1 percent annually from 2017 through 2021.

- Department of Education spending is expected to grow by $3.9 billion from 2017 through 2021, the largest expenditure increase in dollar terms in the plan. The Mayor's 3-K for All initiative plays a small factor in this growth, beginning in two school districts in 2018 at a cost of $17 million and expanding to eight districts in 2021 at a cost of $157 million. Rising charter school enrollment and tuition payments also play a role in driving this spending growth, as will IBO's expectation that the city will have to make up a shortfall in anticipated Medicaid reimbursements for some special education services.

- Big ticket initiatives such as the initial steps to shift prisoners from Rikers Island to new facilities spread around the city, and an investment to deepen the affordability levels in the Mayor's housing program are part of the capital plan, so that their impact on the expense budget will come later in the form of debt service.

U.S. and Local Economic Outlook

IBO's general outlook for the U.S. economy is little changed from our forecast in March. We expect consumer spending to continue fueling economic growth this year and next as the Federal Reserve (the Fed) gradually transitions to a tighter monetary policy. While much remains uncertain about the Trump Administration's economic and fiscal plans and their fate in Congress, it is unlikely that their effects would be felt before the end of calendar year 2017. Barring major shocks to the economy, we expect moderate inflation-adjusted (real) gross domestic product (GDP) growth of 2.2 percent in 2017. (In our discussion of the economic outlook, years refer to calendar years and monthly and quarterly data are seasonally adjusted.) IBO forecasts an uptick in real GDP growth to 2.5 percent in 2018, based in part on our assumption that a tax cut program will be enacted, perhaps accompanied by a

IBO versus Mayor's Office of Management and Budget Economic Forecasts	2016	2017	2018	2019	2020	2021
National Economy						
Real GDP Growth						
IBO	1.6	2.2	2.5	2.1	1.6	1.9
OMB	1.6	2.3	2.5	2.3	2.3	2.2
Inflation Rate						
IBO	1.3	2.7	2.5	2.9	2.7	2.4
OMB	1.3	2.5	2.0	2.3	2.8	2.7
Personal Income Growth						
IBO	3.6	4.8	5.3	5.1	4.5	3.6
OMB	3.6	4.5	5.1	5.2	5.1	4.8
Unemployment Rate						
IBO	4.9	4.6	4.5	4.6	4.9	5.2
OMB	4.9	4.6	4.3	4.1	4.2	4.3
10-Year Treasury Note Rate						
IBO	1.8	2.7	3.6	4.3	4.3	4.1
OMB	1.8	2.8	3.4	3.9	4.1	4.1
Federal Funds Rate						
IBO	0.4	1.0	1.9	3.4	3.7	3.3
OMB	0.4	1.0	1.7	2.6	3.0	3.0
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	56.8	60.6	50.3	45.7	40.4	40.1
IBO (annual average)	86.1	62.3	47.8	47.6	41.1	42.2
OMB (annual average)	86.0	53.0	45.0	35.0	34.0	34.0
Nonfarm Employment Growth						
IBO (Q4 to Q4)	1.3	1.4	1.1	1.0	0.9	0.9
IBO (annual average)	2.0	1.4	1.1	1.1	0.9	0.9
OMB (annual average)	2.0	1.2	1.0	0.8	0.8	0.8
Inflation Rate (CPI-U-NY)						
IBO	1.1	2.8	2.7	3.2	2.9	2.7
OMB	1.1	2.5	2.0	2.4	2.7	2.7
Personal Income ($ billions)						
IBO	560.7	586.3	608.0	630.4	654.1	678.8
OMB	556.7	577.2	599.7	625.0	651.2	676.3
Personal Income Growth						
IBO	3.8	4.6	3.7	3.7	3.8	3.8
OMB	3.0	3.7	3.9	4.2	4.2	3.9
Manhattan Office Rents ($/sq.ft)						
IBO	78.2	79.4	80.5	81.5	82.4	82.7
OMB	78.4	80.0	79.7	79.3	79.4	78.9

SOURCE: Mayor's Office of Management and Budget
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Note 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.

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sizeable increase in military spending, providing fiscal stimulus to the economy. But policy uncertainties and potential missteps, such as large reductions in trade resulting from renouncing or reworking trade agreements, make the forecast for 2018 and beyond more tentative than usual.

There also is little change in IBO's outlook for the New York City economy. The pace of employment growth, which slowed greatly in 2016 to 56,800 jobs, is expected to decelerate over the next few years after a small increase in 2017. Measured on a fourth quarter-to-fourth quarter basis (Q4 over Q4), IBO forecasts the addition of 60,600 jobs in the city's economy in 2017 and 50,300 new jobs in 2018. Even as employment growth slows, the city's official unemployment rate, which fell in March to the lowest rate on record—4.0 percent—is expected to remain low. As a result of tight labor markets, real average wages, which decreased in four of the last five years, are expected to increase throughout the forecast period, with the largest increases in average wages and personal income projected for 2017.

U.S. Economy. In the current economic expansion, growth has been fueled by consumer demand, which in turn has been bolstered by rising employment and what are still relatively low debt service expenses for households. Though U.S. economic growth in 2016 was the slowest in five years, conditions favor continued growth in the near term. IBO projects consumer spending to be reinforced in the coming months as wages and personal income grow. The tight labor market that has developed in the last year is expected to accelerate wage gains. Moreover, the wealth effect that the bull stock market has created will also fuel spending. IBO projects personal income from both wage and nonwage sources will rise by 4.8 percent in 2017, up from an average of 3.6 percent last year. With increases in real wages putting upward pressure on prices, inflation is expected to accelerate from the very low rates that have prevailed in recent years to 2.7 percent in 2017, somewhat above the 2.3 percent average for the last 25 years and bolstering the Federal Reserve in continuing to tighten monetary policy.

Although recently released data on U.S. output have been weak, IBO forecasts moderate real GDP growth of 2.2 percent in 2017. The Bureau of Economic Analysis's (BEA) initial estimate of real GDP growth in the first quarter of 2017 is a sluggish 0.7 percent. Slower consumer spending in the near term, caused in part by a delay in issuing federal tax refunds, and disinvestment in business inventories contributed to weak growth. But in recent years BEA has been troubled by widely noted problems in measuring first-quarter growth, and it is likely that the recent estimate will be revised upward in two subsequent revisions.

Labor market data is more positive. Employment growth moderated somewhat in 2016, but average monthly job gains in the first four months of 2017—184,500—is virtually the same as the average last year. Slower employment growth is not unexpected given how tight the labor market has become. Employment growth has been strong enough to maintain an unemployment rate below 5.0 percent since last May, and the unemployment rate of 4.4 percent (April 2017) is now at its lowest level in 10 years.

The unemployment rate is now at or below what many economists consider full-employment: the threshold under which labor markets are tight enough to spur inflation. So far in this recovery real wage gains have been modest, but with the unemployment rate projected to remain below 5 percent throughout 2017, IBO expects real wages to grow more strongly, putting upward pressure on prices. Even with only modest wage gains to date, the rate of inflation has increased in recent months due to a rise in energy prices. With a 2.4 percent rise in the consumer price index for March, inflation is now above the Federal Reserve's 2.0 percent target.

We expect the Fed to tighten monetary policy more aggressively in 2017. IBO projects an increase in the federal funds rate—the interest rate the Fed charges on overnight loans between banks—from an average of 0.4 percent in 2016 to 1.0 percent this year; by raising the short-term interest rates directly under its control, the Fed puts upward pressure on longer-term rates. Moreover, prospects of fiscal stimulus from the spending and tax policies of the Trump Administration have financial markets anticipating greater inflation and, in turn, boosting long-term interest rates to compensate for increased risk. Yields on 10-year Treasury notes and longer-term bonds jumped in the last two quarters, and if financial markets sustain the higher rates, the Federal Reserve will have more leeway to raise short-term rates while maintaining a healthy spread between short- and long-term rates that compensates long-term investors for greater risk. IBO projects that interest rates on 10-year Treasury notes will increase to 2.7 percent in 2017, up from 1.8 percent in 2016.

IBO's 2017 forecast is not premised on any specific fiscal or economic policy actions. Tax cuts are on the near-term agenda of the President and the Republican majority in Congress, and the $15 billion additional military spending included in the legislation that funded federal government operations through the end of its current fiscal year suggests that further increases are a strong possibility. However, any boost to economic activity from these or other policies would likely not be felt until the first half of 2018 or beyond.

Our forecasts for 2018 and the following years assume there will be some fiscal stimulus to reinforce and strengthen economic growth, though growth will be moderated by gradually more contractionary monetary policy as the Federal Reserve continues to raise the federal funds rate and begins to slim its balance sheet. IBO projects real GDP growth to rise 0.3 percentage points to reach 2.5 percent in 2018 while the unemployment rate inches down to average 4.5 percent for the year. With little slack in labor markets, real wage growth will accelerate and fuel inflation, pushing long-term interest rates higher, with the rate on the 10- year Treasury note reaching 3.6 percent in 2018.

In the final three years of the forecast period, IBO expects growth to be constrained by higher interest rates and tightness in the labor market. Real GDP growth falls to 2.1 percent in 2019 and then 1.6 percent in 2020, with a modest rebound to 1.9 percent in 2021. Slower GDP growth will be accompanied by slower growth in personal income and modest increases in the unemployment rate.

Uncertainties and Risks. IBO's outlook for the continuation of moderate economic growth is premised on there being no shocks to financial or energy markets, and no major policy missteps over the next few years. It assumes the Federal Reserve succeeds in constraining inflation, and that any fiscal stimulus neither overheats the economy nor rattles financial markets over increasing budget deficits. But the potential combination of deep tax cuts and sharp increases in military spending, even if partially offset by other cuts in spending, could lead to rapid increases in the federal deficit and/or a sharp acceleration of inflation. Either outcome could unnerve financial markets, pushing up long-term interest rates as investors demand larger risk premiums. Moreover, because any fiscal stimulus would take effect when there is little slack in the labor market, the additional output leveraged from the investment will be smaller and its inflationary impact greater than would be true if the economy was still coping with high unemployment. Higher interest rates would dampen business investment and likely cause the dollar to appreciate further, reducing U.S. exports.

The Trump Administration has stepped-up efforts to deport undocumented workers from the U.S. and has worked on plans to limit immigration from certain countries. The degree to which these efforts are sustained and have their intended effect is uncertain. The risk for the economy is that the effects could be large enough to slow economic growth by reducing the size of the labor force and with it the demand for goods and services.

Energy policy is another area of uncertainty. IBO's forecast incorporates a gradual rise in oil prices starting in 2017. If the Trump Administration's easing of environmental and other regulations succeeds in increasing domestic production, one result is likely to be lower energy prices. Consumers have enjoyed lower prices at the gas pump and in heating their homes, but low prices also have made it unprofitable for high-cost producers to maintain production. Further declines in energy prices could undermine the President's goal of increasing employment and output in the energy sector, particularly in the coal industry.

Finally, changes in the regulation of financial markets and institutions create their own set of uncertainties and risks for the nation's economy as well as for the financial industry. The Trump Administration has begun to scale back the Dodd-Frank financial reform package enacted in 2010, but it is not clear how much of Dodd-Frank's regulatory regime will be dismantled. Reducing capital requirements and instituting less stringent stress testing of banks has the potential to increase profitability of financial institutions, but it could also undermine or even reverse the trend toward stronger bank balance sheets.

New York City Economy. IBO's city economic forecast anticipates a slowing of the pace of job creation throughout the plan period, accompanied, however, by low unemployment rates and an uptick in wage growth. In its broad contours the forecast is similar IBO's March projections.

Employment. New York City has added 700,000 jobs over the past seven and a half years, far surpassing the gains recorded in past expansions. However, the pace of job growth slowed notably in 2016 and IBO expects it to decelerate further over the next several years.

The city has seen particularly sharp slowdowns in retail and food services, a national pattern that may be exacerbated locally by high rents and rising labor costs. Job growth in construction, transportation, finance, and education has also slowed. Conversely, the health care sector—led by ambulatory care—just had its strongest year ever in terms of job gains, and accounted for over half of total city employment growth in 2016.

Both health care and business (professional, managerial, and administrative) services employment growth are forecast to weaken over the plan period, while in most other sectors, employment growth is projected to either stabilize or recover slightly (relative to 2016). These projections are little changed from IBO's March forecast.

Labor Force. According to the official statistics, the city's seasonally adjusted unemployment rate fell to 4.0 percent in March, the lowest on record. The rate was over 9.5 percent as recently as May 2012. However, in our prior economic outlook, we remarked on unusual patterns in

New York City Employment Growth
Q4 over Q4 change in thousands

	History				Forecast				
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Total Nonfarm	**119.0**	**136.1**	**116.5**	**56.8**	**60.6**	**50.3**	**45.7**	**40.4**	**40.1**
Total Private	**121.2**	**132.5**	**112.7**	**55.2**	**58.9**	**48.6**	**44.1**	**40.1**	**38.7**
Mining, Logging, and Construction	6.2	8.9	11.8	1.9	3.2	2.6	2.8	2.7	2.6
Manufacturing	1.0	0.2	0.9	(2.9)	(0.7)	(0.5)	(0.7)	(1.0)	(1.2)
Wholesale Trade	2.1	2.3	1.2	(3.1)	(1.1)	0.1	0.2	0.7	0.6
Retail Trade	13.6	10.4	(5.2)	(0.9)	1.7	1.2	1.2	1.9	2.2
Utilities	(0.1)	0.4	0.3	0.1	0.0	(0.1)	(0.1)	(0.1)	(0.2)
Transportation and Warehousing	1.1	3.3	5.5	0.7	0.2	1.1	1.5	1.4	1.5
Information	6.5	4.0	5.3	2.4	2.3	2.4	2.1	2.2	1.7
Finance and Insurance	0.8	7.8	8.2	(3.2)	1.9	1.8	1.7	2.3	2.3
Securities, Financial Investments, and Related Activities	(0.6)	3.5	5.3	(1.2)	2.5	2.1	1.8	2.0	1.9
Real Estate and Rental and Leasing	2.5	3.3	3.1	2.2	1.9	0.1	0.2	0.1	(0.2)
Professional, Scientific, and Technical Services	13.8	16.1	17.6	12.2	9.1	7.4	6.2	4.6	4.4
Management of Companies and Enterprises	1.9	3.0	(1.3)	(0.2)	0.4	0.3	0.3	0.4	0.2
Administrative and Support and Waste Management Services	4.9	9.9	13.1	10.4	7.0	6.8	5.8	3.9	4.7
Educational Services	13.5	13.0	9.1	1.4	4.5	3.0	2.5	3.6	3.9
Health Care and Social Assistance	23.5	23.1	21.3	30.0	21.3	16.9	14.0	10.4	10.8
Arts, Entertainment, and Recreation	6.3	2.3	3.9	1.3	0.8	0.3	0.1	0.2	0.3
Accommodation and Food Services	19.3	18.0	14.8	1.6	4.9	4.4	5.4	6.3	4.9
Other Services	4.2	6.5	3.1	1.5	1.4	0.9	0.9	0.4	0.2
Government	(2.2)	3.6	3.7	1.6	1.7	1.7	1.7	0.3	1.5

SOURCES: Bureau of Labor Statistics (March 2016 benchmark); Moody's Analytics

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recent New York City labor force statistics. These seem to have reemerged in the data for 2017.

If the official numbers are to be believed, the number of unemployed city residents has dropped by over 32,000 over the first three months of 2017—and the number of employed residents has shot up by nearly 100,000. This is more than the increase for all of 2016 and 2015 plus the last three months of 2014—more employment growth in one quarter than in the previous nine quarters.

IBO's labor force forecast uses historical data through the end of 2016, as revised by the Bureau of Labor Statistics in January. We project that the city's unemployment rate will average 4.9 percent in 2017 and over the rest of the forecast period (similar to our previous expectations). This is accompanied by a labor force participation rate that inches down from 59.8 percent in 2017 to 59.5 percent in 2021. It remains to be seen whether these results will be revised in light of the first quarter 2017 data, or whether the 2017 data will themselves be revised.

Wages. Adjusted for inflation, average wages fell for the fourth time in five years in 2016, but wage growth is expected to turn positive in 2017 and for the rest of the forecast period. Rising wages are projected across most of the city economy (with health care and manufacturing as notable exceptions), reflecting the fact that even as the pace of job creation slows the city is expected to remain at or near full employment. Even so, the projected overall average wage in 2021 will still fall short of the 2007 peak, mostly because financial investments sector (Wall Street) wages will have recouped only about a third of the ground lost over the past decade.

Personal Income. IBO expects personal income in New York City to grow 4.6 percent in 2017 (2.6 percent adjusted for inflation) and by an average of 3.7 percent per year from 2018 through 2021 (1.3 percent per year adjusted for inflation)—the latter years slightly weaker than forecast in March. Employee compensation and government social benefits are expected to account for considerably larger shares of the projected growth in personal income from 2017 through 2021 (a combined 66 percent) than has been the case over the past five years (54 percent), with

Average Wages in New York City
In 2016 dollars

	2007	2011	2016	2021	2007-2021
Total Nonfarm	$93,324	$89,782	$86,224	$90,137	
Percent Change		-3.8%	-4.0%	4.5%	-3.4%
Securities, Financial Investments, and Related Activities	474,081	410,101	374,250	400,545	
Percent Change		-13.5%	-8.7%	7.0%	-15.8%
All Other	73,662	74,838	74,175	77,341	
Percent Change		1.6%	-0.9%	4.3%	5.0%

NOTE: Based on IBO re-estimates of Bureau of Economic Analysis definition of industry employment and wages. 2016 is preliminary, 2021 is forecast.
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correspondingly smaller shares of forecast growth from capital and proprietors' income.

In recent years growth in retirement, medical, and disability benefits was partially offset by sharp declines in unemployment compensation, but with the city labor force now at or near full employment this will no longer exert a drag on overall government benefits growth.

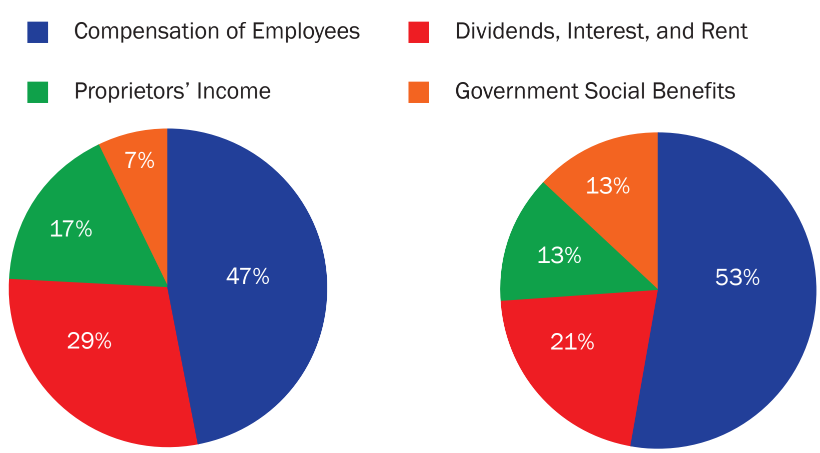
Wall Street. After New York Stock Exchange member firm broker dealer profits rose to $17.3 billion last year, IBO expects profits to dip to $16.0 billion in 2017 and then build to $19.8 billion by 2021, all slightly stronger than projected in IBO's March forecast. Reflecting increases in the Federal Reserve's benchmark rate, net interest costs increased by $6.2 billion in 2016, more than double the previous year's modern-era low, but net operating revenue jumped $9.2 billion. For the forecast period we project more moderate increases in both net interest costs (a cumulative $8.0 billion) and net operating revenues ($10.5 billion)—though even by 2021 both costs and revenues will still be just a fraction of the peaks attained prior to the 2008 crisis.

Exports and Tourism. As discussed in our March forecast, the value of New York City exports to the global economy slipped slightly in 2015, with declines in financial service and technology exports more than offsetting diminished growth in travel and tourism services. International tourism grew at a slower pace in 2015 and 2016 (offset to some degree by strong domestic tourism). Although a strengthening global economy should translate into resurgent growth in city exports and tourism, depressed travel bookings, attributed to uncertainty about federal travel bans and immigration policy, has led NYC & Company to forecast a 2.4 percent drop in foreign visitors to the city in 2017. Another source of policy-driven uncertainty is pending federal tax policy changes. If corporate tax reform includes changes leading to higher exchange rates, this could also weigh down city exports.

Real Estate. The basic pattern of IBO's real estate forecast

Components of New York City Personal Income Growth, 2012-2016

Components of New York City Personal Income Growth, 2017-2021



NOTES: Compensation of employees adjusted for residence. Social benefits includes net insurance settlements from business.
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remains the same as in March, but at lower levels of sales. Commercial sales are projected to drop sharply this year, and begin a recovery in 2018. Residential sales are projected to experience very modest growth this year and slightly higher growth in 2019-2021.

The downturn in commercial sales that began in 2016 has intensified, and IBO has reduced its projection of 2017 commercial sales by 12.9 percent compared with March. Annual forecasts in subsequent years have been brought down between 8 percent and 9 percent. The value of commercial sales fell almost 23 percent in 2016, and IBO now projects a further decline of almost 31 percent in 2017, followed by several years of strong growth. Because this growth comes off of a relatively low base, however, commercial sales in 2021 are still projected to be far below their 2015 peak. Rising interest rates, weak demand for retail space, and the completion of new office and retail developments such as Hudson Yards are all factors that will depress commercial real estate sales during the coming years.

Residential sales growth has slowed, but remains positive. IBO has reduced its forecast of 2017 residential sales by 2.7 percent compared with our March estimates and forecasts for each of the following years have been brought down by between 3 percent and 5 percent. Annual growth in residential sales is projected to be sluggish, with sales actually inching down in 2018, but because the growth comes off a very large base, sales in 2019-2021 are forecast to be at historically high levels in nominal terms. However, adjusting for inflation, residential sales will be considerably lower than during the peak years of 2005-2007.

Softness in the Manhattan residential market will be partially offset by recovery in other boroughs. While residential mortgage rates have dipped recently, IBO expects rates to resume their upward trend, peaking in 2020 and then leveling off.

Tax and Other Revenues

Overview. IBO's overall tax revenue forecast for the current year is virtually unchanged from what we projected in our March 2017 forecast. However, we have increased our forecast for 2018 through 2021. (Unless otherwise noted, years refer to city fiscal years from here on.) For 2017, thanks to an upward revision in anticipated audit revenue by OMB, collections are now expected to be $64 million, or 0.1 percent, higher than in our March forecast. But for the additional audit revenue, the 2017 tax revenue projection would have been $146 million below our March forecast, due to downward revisions in business and personal income (PIT) taxes and the real property transfer tax (RPTT).

For subsequent years, we have revised the forecast for total tax revenues upward by $578 million in 2018 (1.0 percent) and by an average of $311 million a year in 2019 through 2021; among the city's major tax sources, personal income, sales, and property taxes are all now expected to be stronger than we had forecast in March.

With these changes, IBO's tax revenue forecast projects 2017 collections will total $54.5 billion, an increase of 3.0 percent from 2016. Overall revenue growth is expected to pick-up in 2018 to 5.2 percent, with collections forecast to total $57.3 billion. The strength in 2018 is fueled by increases of 7.8 percent, 7.5 percent, and 5.8 percent, respectively, in revenues from the personal income, property, and sales taxes. Tax revenue growth is forecast to slow in 2019, but remain between 4.5 percent and 4.8 percent annually from 2019 through 2021, with revenues expected to reach $65.7 billion in the last year of the forecast period.

With OMB having reduced its tax revenue forecast for each year of the financial plan, and IBO having increased its forecasts for each of those years, the gap between the two sets of forecasts has widened considerably since our March estimates. IBO's forecast of tax revenues exceeds OMB's in each year of the plan, with the gap growing from $219 million (0.4 percent) in 2017 to $1.1 billion (1.9 percent) in 2018, and $1.5 billion (2.4 percent) in 2021. For 2017, much of the difference is attributable to IBO's outlook for the business income taxes and the two property transfer taxes: the RPTT and the mortgage recording tax (MRT). In subsequent years, the biggest differences are in the forecasts for the property tax, the personal income tax, and the property transfer taxes.

Total revenues, including the city's fees, fines, and other miscellaneous sources; state and federal grants and other categorical aid; and interfund revenues are now forecast to total $85.7 billion for the current year, $704 million more than we estimated in March. Most of the difference stems from the city drawing down a reserve set aside for the potential disallowance of state and federal claims. The city has determined that its exposure to such disallowances has declined, allowing it to free up cash by reducing the size of the reserve. Changes for subsequent years were modest, with revenue from all sources now expected to total $86.1 billion in 2018, growing to $95.3 billion by 2021.

Real Property Tax. IBO's updated forecast of 2017 property tax revenue incorporates changes to property tax reserve

IBO Revenue Projections
Dollars in millions

	2017	2018	2019	2020	2021	Average Change
Tax Revenue						
Property	$24,423	$26,263	$27,914	$29,536	$31,153	6.3%
Personal Income	10,952	11,810	12,201	12,724	13,339	5.1%
General Sales	7,004	7,411	7,740	8,170	8,461	4.8%
General Corporation	3,839	3,884	3,989	4,066	4,154	2.0%
Unincorporated Business	2,048	2,125	2,190	2,250	2,357	3.6%
Real Property Transfer	1,412	1,454	1,495	1,579	1,644	3.9%
Mortgage Recording	1,118	1,057	1,112	1,141	1,168	1.1%
Commercial Rent	820	851	876	899	939	3.4%
Utility	374	385	393	405	413	2.5%
Hotel Occupancy	588	613	638	662	686	4.0%
Cigarette	42	40	38	36	35	-5.0%
Other Taxes and Audits	1,889	1,446	1,317	1,317	1,317	-8.6%
Total Taxes	**$54,509**	**$57,340**	**$59,903**	**$62,783**	**$65,665**	**4.8%**
Other Revenue						
STaR Reimbursement	$556	$202	$200	$198	$196	-22.9%
Miscellaneous Revenue	7,011	6,480	6,640	6,854	6,841	-0.6%
Unrestricted Intergovernmental Aid	57	-	-	-	-	n/a
Less: Intra-City Revenue	(2,065)	(1,815)	(1,737)	(1,739)	(1,744)	n/a
Disallowances	613	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	**$6,172**	**$4,852**	**$5,088**	**$5,298**	**$5,278**	**-3.8%**
TOTAL CITY-FUNDED REVENUE	**$60,681**	**$62,192**	**$64,990**	**$68,082**	**$70,944**	**4.0%**
State Categorical Grants	$14,372	$14,360	$14,815	$15,313	$15,669	2.2%
Federal Categorical Grants	9,038	7,996	7,241	7,197	7,179	-5.6%
Other Categorical Aid	995	926	915	906	902	-2.4%
Interfund Revenue	641	667	662	599	597	-1.8%
TOTAL REVENUE	**$85,728**	**$86,141**	**$88,622**	**$92,097**	**$95,291**	**2.7%**

NOTES: Remaining banking corporation tax revenue reported with general corporation tax. Figures may not add due to rounding

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components as the fiscal year has progressed—at this point in the year there are no changes to current year assessments or to the levy. We have increased our 2017 revenue forecast by $206 million since March due in large part to fewer than anticipated delinquencies and refunds, and we now expect the city's property tax revenue for 2017 to total $24.4 billion. Our forecast for property tax revenue in 2018 is $26.3 billion, an increase of 7.5 percent from this year. Collections are anticipated to grow at an average annual rate of 6.3 percent through 2021, when they are expected to reach $31.2 billion. The outlook for 2018 through 2021 has changed only modestly since March, reflecting small changes in forecasts for reserve components and the levy.

Since our last forecast, a number of property tax policy issues have arisen, none of which affect our projections at this time. The state budget enacted in early April included a provision to restore the 421-a housing development tax incentive, which had been suspended in January 2016 when representatives of developers and the construction trade unions could not agree on wage levels for affordable housing projects receiving 421-a benefits. The state budget legislation includes wage provisions and a longer full exemption period for large rental buildings in designated areas of the city, as well as deeper and longer exemptions for other rental developments and some condos. The combination of the 2015 and 2017 legislation is forecast to add to the cost of the 421-a program compared with the costs that would have been expected under the pre-2015 rules. Although it will take a few years for projects built under the new rules to be completed, developers are allowed to apply retroactively for projects that started construction after January 1, 2016, which means that the new program could begin affecting property tax revenue before the end of the financial plan period. At present, neither IBO nor OMB have adjusted their property tax forecasts to account for changes in revenue resulting from either the 2015 or the 2017 legislation.

In his Executive Budget presentation, the Mayor expressed support for state legislation that would raise the income threshold for seniors and disabled homeowners to be eligible for property tax relief through the Senior Citizen Homeowners' Exemption and Disabled Homeowners' Exemption programs. The de Blasio Administration anticipates that if the required state legislation is enacted, the program expansions would save eligible taxpayers a total of $61.6 million in 2018. However, the Executive Budget documents include no potential revenue impact from this change.

In its response to the Mayor's Preliminary Budget, the City Council proposed a number of changes regarding assessments for residential properties including eliminating existing assessment caps for one- to three-family homes with an as-of-right property tax exemption. In the short-run, this policy change would likely be structured as revenue-neutral, and in the long-run it would cause a redistribution of tax burdens. Without greater detail on the City Council's proposal, it is unclear just how much tax burdens would change or who the winners and losers would be. An additional exemption would be available to multifamily homeowners who rent units to low-income tenants. The City Council also called for an expansion of the value of the veterans' exemption.

Finally, in April a coalition of developers, homeowners, and advocates called Tax Equity Now New York filed a lawsuit against the city and state alleging the city's property tax system violates state statute and the U.S. Constitution. The coalition alleges that similar types of property face dissimilar tax burdens, a matter IBO has consistently documented and analyzed over the last 20 years.[1]

Property Transfer Taxes. The downward revision in the forecast of real estate sales, particularly commercial sales, has led IBO to bring down its forecasts of the real property transfer tax and the mortgage recording tax for the period 2017-2021. IBO's current year forecasts of revenues from the RPTT and MRT—collectively referred to as the transfer taxes—are around $1.4 billion and $1.1 billion, respectively, for a total of just over $2.5 billion. The new total represents a decline of 15.9 percent from 2016, and a reduction of 3.4 percent from our estimate In March. The RPTT forecast is down 6.2 percent since March, while the MRT forecast is down just 0.4 percent.

RPTT revenue is directly correlated with the value of real estate sales, with higher rates for commercial properties and for properties sold for more than $500,000. MRT revenue, in contrast, varies with the value of mortgage originations. Since not all property sales involve a mortgage, and refinancing mortgages—which in many cases are taxable—do not involve a property sale, the relationship between the value of real estate sales and MRT collections is not as direct as in the case of RPTT.

The combined RPTT and MRT are forecast to drop very slightly in 2018, and increase at a modest pace through 2021. IBO expects that in 2021 the sum of the two taxes will be just over $2.8 billion, a reduction of around 6 percent from our March forecast. In inflation-adjusted terms the projected total of transfer tax revenue in 2021 is about 17 percent below the peak years of 2015 and 2016.

RPTT revenue set new records in 2015 and 2016, largely on the strength of commercial property sales. Commercial sales were also very strong in December 2016, possibly reflecting activity that had been on hold during the presidential campaign, as well as concern about interest rate increases and potential tax changes in the following calendar year. In general, however, commercial sales and their corresponding RPTT revenue have lagged since the beginning of 2017, while residential sales have been relatively strong. IBO's RPTT forecast for 2017 is $1.4 billion, a decline of 20.5 percent from 2016. Moderate growth is projected to resume in 2018 and continue through 2021, when RPTT revenue is forecast to reach $1.6 billion—7.4 percent below 2016 in nominal terms and 17.9 percent lower after adjusting for inflation.

MRT revenue has yet to return to the levels reached before the financial crisis of 2008. The highest level of collections in recent years was $1.23 billion in 2016. IBO projects that MRT revenue will fall to $1.12 billion in 2017 and $1.06 billion in 2018, and then slowly recover to $1.17 billion in 2021. Our MRT forecast for 2021 is 5.3 percent below 2016 revenue in nominal terms and 16.0 percent lower in inflation-adjusted terms.

Overall, residential mortgage rates have risen less than was anticipated a few months ago, and in some weeks of April 2017 they actually fell. Lower than anticipated mortgage rates have provided an impetus for refinancing activity. According to the Mortgage Bankers Association, in April 2017 refinancing made up over 40 percent of residential mortgage originations in the U.S., well above the 31 percent share that the bankers association had earlier forecast for the April-June quarter. IBO projects that the dip in mortgage rates will not persist, however, and expects higher rates will continue to depress purchases and refinancing activity.

IBO's RPTT and MRT forecasts are greater than OMB's in every year from 2017 through 2021. OMB lowered its forecasts for both taxes considerably between the January 2017 and April 2017 financial plans, at least partly in response to the observed downturn in commercial real estate sales. IBO projects a pattern of transfer tax collections over the plan period that is similar to OMB's, but at higher revenue levels. IBO's RPTT forecast is $67 million (5.0 percent) above OMB's in 2017, with the difference increasing each year and reaching $154 million (10.3 percent) in 2021. IBO's MRT forecast is $44 million (4.1 percent) above OMB's in 2017, with the difference growing to $148 million (14.5 percent) in 2021.

Commercial Rent Tax. IBO's forecast for 2017 commercial rent tax (CRT) revenue is $820 million, or 5.3 percent, higher than 2016 collections. The intense activity in commercial real estate markets that caused a surge in RPTT and MRT revenues over the last few years reflected a strong demand for retail and office space, which in turn led to rising rents and substantial increases in CRT revenue. As demand for commercial space returns to more moderate levels in the next few years and developments such as the World Trade Center (exempt from the CRT) and Hudson Yards put new space on the market, there will be downward pressure on rents and on CRT revenue. IBO projects that CRT revenue will continue to increase, but at a slower pace than in recent years: 3.8 percent in 2018, 2.9 percent in 2019, 2.6 percent in 2020, and 4.4 percent in 2021. In 2021 collections will reach $939 million, 20.6 percent above the level of 2016.

The CRT is a tax imposed on tenants who pay gross annual rents of at least $250,000 for business, professional, or commercial purposes in areas of Manhattan below 96th Street. Tenants located in the World Trade Center complex and most retail tenants south of Chambers Street are exempt from the tax, and tenants receiving an abatement under Lower Manhattan's Commercial Revitalization Program are eligible for a tax reduction.

The New York City Council's response to the Mayor's Preliminary Budget called for the Mayor to support legislation that would raise the exemption level for all CRT taxpayers from $250,000 of rent to $500,000. IBO has estimated that this change would benefit about 4,000 firms and reduce CRT revenue by roughly $52 million.

Unlike the transfer taxes, CRT revenue has not experienced significant year-to-year fluctuations. CRT revenue has risen continuously since 1999, increasing even in the aftermath of the financial crisis. The projected deceleration in CRT growth after 2017 coincides with IBO's expectation of slower growth in rents, due to stagnation in the retail sector, slower growth in office-using employment, and considerable amounts of new retail and office space becoming available. Much of this space is in areas of Lower Manhattan that are exempt from the tax, such as the World Trade Center site. In addition, by expanding the overall supply of retail and office space, these new developments will exert downward pressure on rents in areas that are subject to the CRT.

IBO's CRT forecasts are very close to OMB's: 0.5 percent and 0.3 percent higher in 2017 and 2018, respectively, and around 1.0 percent to 2.0 percent lower in 2019 through 2021.

Personal Income Tax. Collections of New York City's personal income tax have been lower than expected in recent months, prompting IBO to reduce its forecast of revenue for the current year. Conversely, our PIT forecast for 2018 and beyond has increased, but only because of recently enacted changes in the School Tax Relief (STAR) program.

IBO forecasts $11.0 billion in PIT revenue in 2017, a modest $219 million (2.0 percent) increase over 2016 collections and approximately half the increase we projected in March. The reduction in our forecast is primarily due to weaker-than-expected estimated payments in April, which brought total estimated payments in the July through April period of 2017 to their lowest level in five years compared with the same period in prior fiscal years. IBO now projects a 12.3 percent decline in estimated payments for the year as a whole. April receipts of withholding and final return payments were modestly lower than we had expected, while refunds were slightly higher.

IBO's personal income tax forecasts for 2018 and beyond would also have been reduced if the state had not eliminated the School Tax Relief program's lower city PIT rates in the recently enacted 2017-2018 budget. STAR had provided city tax filers with taxable incomes under $500,000 an approximately 6 percent reduction in city PIT rates, with the state reimbursing the city for the foregone revenue. Retroactive to January 1, 2017, this benefit has been replaced with a nonrefundable credit against New York State personal income tax liability for city residents that is equal in value to the city tax cut they had previously received. The substitution of a state credit for lower city PIT rates will increase city PIT collections by an estimated $333 million annually, starting in 2018. It will not increase total city revenue, however, because state reimbursement for what would have been lost city PIT revenue will also end.

With an expected $333 million addition to city PIT revenue from the change in the STAR program, IBO's forecast of 2018 PIT revenue is $11.8 billion, an $858 million (7.8 percent) annual increase. Without the additional STAR revenue, the increase would have been only 4.8 percent. The change in the STAR program will fuel 2018 withholding receipts by a projected 10.4 percent. Estimated payments are also expected to rise for the first time in three years, due to an increase in capital gains realizations, many of which will have been deferred from calendar year 2016 by taxpayers anticipating lower federal income tax rates under the Trump Administration.

After 2018, IBO forecasts more moderate PIT growth at an average annual rate of 4.1 percent, with collections reaching $13.3 billion in 2021.

IBO's forecast for PIT collections in the current year is very slightly ($6 million) below OMB's Executive Budget projection. For the years after 2017, IBO's forecasts are higher than OMB's. IBO expects personal income growth in calendar year 2017 to be considerably faster than does OMB (4.6 percent vs. 3.7 percent), fueling greater increases in both withholding and estimated payments. IBO's forecast exceeds OMB's by $155 million (1.3 percent) in 2018, and by an average of $134 million a year from 2019 through 2021.

Business Income Taxes. For 2017, IBO projects that combined revenue from the city's general corporation tax (GCT) and former banking corporation tax (BCT) will total $3.8 billion, 6.0 percent ($216 million) above their 2016 level. (As of January 1, 2015, the BCT was abolished and banks became subject to the GCT.) This forecast—which is just slightly lower than we projected in March—is driven by our expectation that cuts in federal corporate tax rates and lighter regulation will spur corporate profits and prompt business expansion. Strong growth in Wall Street profits in calendar year 2016 have helped boost GCT collections in fiscal year 2017.

As the Federal Reserve continues to tighten monetary policy by gradually raising the federal funds rate, IBO expects growth in corporate profits, business investment, and New York City private-sector employment to slow. We project that GCT revenue will total $3.9 billion in 2018 and $4.0 billion in 2019, increases of 1.2 percent and 2.7 percent, respectively. For each of the final two years of the financial plan, IBO forecasts revenue growth of 2.0 percent, bringing total corporate tax revenue collections to $4.2 billion in 2021.

After growing at a robust average rate of 4.1 percent annually in 2013 through 2016, revenue from the city's unincorporated business tax (UBT) reached $2.0 billion. However, IBO forecasts UBT collections to essentially remain flat in 2017, increasing by only $8 million (our March outlook was for a $17 million increase). Refunds so far this year have been higher than trend, reflecting adjustments by businesses to reduce overpayments that have built up. In addition, slower growth of business profits and lower business investment in calendar year 2016 are drags on current year UBT revenue growth that are countered to some extent by the stronger earnings accruing to proprietorships and partnerships.

In 2018, UBT revenue growth is forecast to accelerate to 3.8 percent with collections totaling $2.1 billion. Most of this increase results from higher earnings for proprietorships and partnerships (expected to rise 4.2 percent) and earnings in the professional and business services sector (projected to increase 4.9 percent). For 2019 through 2021, IBO forecasts UBT revenue to continue growing at an annual average rate of 3.5 percent, fueled by expected growth in earnings of unincorporated entities.

The differences between IBO's and OMB's forecasts of business income tax revenues are relatively small. IBO's forecast for the combined taxes is $67 million (1.1 percent) higher than OMB's in the current year; the corporate tax accounts for $45 million of the difference. For 2018, IBO's forecast for corporate tax revenue is $6 million lower than OMB's, while our forecast of UBT revenue is $12 million lower so that IBO's combined business tax revenue forecast is $17 million (0.3 percent) lower than OMB's. After 2018, IBO's forecast of corporate tax revenue exceeds OMB's by relatively small amounts (1.5 percent or less), but our UBT forecast is substantially lower (by as much as 5.8 percent). In 2019, IBO's forecast of total business tax revenue is $45 million lower than OMB's, and this difference grows to $104 million by 2021.

General Sales Tax. IBO forecasts $7.0 billion in city sales tax revenue in 2017, a $93 million (1.3 percent) increase over revenue in 2016. This estimate incorporates the impact of $200 million of sales tax collections diverted to the state as Sales Tax Asset Receivable Corporation

(STARC) payments between May 2016 and June 2017. (For more on the STARC diversion see this report.) Without this diversion projected revenue growth in 2017 would be 3.5 percent. IBO's current sales tax forecast for 2017 is $59 million higher than we forecast in March. The upward revision reflects higher-than-expected collections in March, which were 7.0 percent above collections a year earlier after adjusting for STARC.

The strength of recent collections and a forecast of faster personal income growth in calendar year 2017 have led to even larger upward revisions of IBO's sales tax forecasts for 2018 through 2021, exceeding $200 million in each year. Sales tax revenue is now expected to total $7.4 billion in 2018 (an increase of 5.8 percent) and reach $8.5 billion in 2021, with growth averaging 4.5 percent annually in 2019 through 2021.

IBO's sales tax forecast exceeds OMB's for 2017 by just $10 million—a difference of about one-tenth of 1 percent. For 2018, IBO's forecast is $41 million higher, but OMB has only included $150 million of what is scheduled to be a $200 million STARC diversion. If the full diversion occurs, IBO's forecast would exceed OMB's by $92 million (1.3 percent). For 2019, IBO's forecast is $141 million lower than OMB's, but our forecast reflects the scheduled final $150 million STARC diversion while OMB's does not. Adjusted for STARC, IBO's outlook exceeds OMB's for 2019 by $9 million. There are no STARC diversions scheduled for 2020 and 2021, when IBO's sales tax forecast is lower than OMB's by $76 million and $132 million, respectively.

Hotel Occupancy Tax. Reflecting some strength in recent collections, IBO's hotel tax forecast has increased since March, but only slightly—an increase of less than $1 million in the current year and increases averaging $4 million in the following years. For 2017, IBO forecasts hotel tax revenue of $587 million, 3.9 percent higher than in 2016. With faster domestic economic growth and improvements in the global economy expected to generate an increase in the number of visitors in 2018, hotel tax revenue is forecast to grow by 4.4 percent to $611 million. After 2018 revenue growth will slow slightly to an average of 3.8 percent annually through 2021, when hotel tax revenue is projected to reach $686 million.

IBO's forecast remains higher than OMB's each year of the financial plan, by $17 million in the current year and $43 million in 2018, rising to $78 million in 2021.

Spending

There is little difference between IBO and OMB in the outlook for total city expenditures in 2017. IBO's estimate is $85.4 billion, $35.1 million less than what the de Blasio Administration expects.[2] In 2018, IBO projects spending to total $85.2 billion, $338 million above the Administration's Executive Budget estimate. By 2021, IBO expects citywide expenditures to exceed $96.6 billion; more than $854 million greater than currently estimated by the de Blasio Administration.

Adjusting for the effects of the prepayment of some future expenditures with current year surpluses and other nonrecurring expenses, IBO anticipates the city's total spending to increase from $85.8 billion in 2017 to $95.1 billion in 2021, an average of 2.6 percent annually. From 2017 to 2018 total adjusted spending will increase by $1.8 billion or 2.2 percent. We estimate that adjusted city-funded expenditures will grow from $60.8 billion in 2017 to $70.8 billion in 2021. IBO's adjusted city-funded expenditure growth rate of 3.9 percent annually is lower than our 4.8 percent annual tax revenue growth rate for the same period.

Factors Driving Spending Growth. While spending growth in a few city agencies is expected to exceed the 2.6 percent overall adjusted annual average, in most agencies growth will be well below that level. Much of the growth in spending is driven by increased spending in just two areas—fringe benefits for city employees and debt service. IBO estimates that in 2017 the city's expenditure on debt service and fringe benefits will comprise 18.9 percent of the total adjusted budget. By 2021 these two expenses will make up 22.0 percent of the entire adjusted city budget.

In 2017 citywide fringe benefit costs total $9.9 billion (11.5 percent of adjusted total city expenditures). Although fringe costs actually decline to $9.7 billion in 2018, by 2021 these costs will increase to $12.5 billion (12.9 percent of adjusted total city expenditures), an annual average growth rate of 6.1 percent. The single largest factor driving growth in fringe costs is health insurance. Even accounting for the health care savings attributed to recent labor settlements with the municipal unions, health insurance costs are budgeted to increase by an average of 6.5 percent per year from 2017 through 2021.

Adjusting for the prepayment of debt service costs with prior-year revenues, IBO estimates that the city's debt service expenditures will increase from $6.4 billion in 2017 (7.5 percent of total adjusted city expenditures) to $6.6 billion in 2018, a 3.2 percent increase. By 2021

IBO Expenditure Projections
Dollars in millions

	2017	2018	2019	2020	2021	Average Change
Agency Expenditures	**$61,620**	**$62,022**	**$61,979**	**$62,450**	**$62,814**	**0.5%**
Fringe Benefits	9,856	9,719	10,795	11,693	12,483	6.1%
Labor Reserve	59	677	1,591	1,935	2,409	n/a
Total Agency Expenditures	**$71,535**	**$72,418**	**$74,365**	**$76,078**	**$77,706**	**2.1%**
Other Expenditures						
Debt Service	$5,937	$3,081	$7,225	$7,908	$8,396	7.3%*
Pensions	9,395	9,572	9,866	9,936	10,001	1.6%
Judgments and Claims	716	692	707	725	740	0.8%
General Reserve	300	1,000	1,000	1,000	1,000	n/a
Capital Stabilization Reserve	-	250	250	250	250	n/a
Expenditure Adjustments	(400)	-	66	166	276	n/a
Subtotal	**$87,483**	**$87,013**	**$93,479**	**$96,063**	**$98,369**	**3.0%**
Less: Intra-City Expenditures	($2,065)	($1,815)	($1,737)	($1,739)	($1,744)	n/a
TOTAL EXPENDITURES	**$85,418**	**$85,198**	**$91,742**	**$94,324**	**$96,625**	**3.1%**

NOTES: *Represents the annual average change after adjusting for prepayments and debt defeasances.
Expenditure adjustments include prior year payable adjustment, energy, lease, and nonlabor inflation adjustments. Expenditure totals are inclusive of intra-city expenses. Figures may not add due to rounding.

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we estimate debt service costs will total $8.4 billion (8.8 percent). IBO expects adjusted debt service costs will increase at an average rate of 7.0 percent from 2017 through 2021.

IBO estimates that the only city agencies in which annual expenditure growth will outpace the adjusted citywide expenditure growth rate are the departments of Education and Homeless Services. Spending for the Department of Education is expected to have the greatest growth in dollar terms, increasing by $3.9 billion from 2017 through 2021, an average growth rate of 3.9 percent. IBO projects that over the plan period spending increases by the Department of Homeless Services will outpace DOE spending growth in percentage terms. Expenditures for homeless services will grow from $1.75 billion in 2017 to $1.84 billion in 2021, a 3.4 percent average annual increase.

Expenditure Re-estimates. IBO's estimates for agency spending are similar to those set forth by the Mayor for most city agencies. Yet, for certain expenditures we diverge from the Administration's spending estimates. While IBO assumes that debt service costs will grow at a faster rate than all other city expenses, we expect these costs will be lower than the Administration has assumed for 2017 and 2018 in the Executive Budget. OMB has reduced its variable interest rate assumptions for 2017 but these rates still remain above the current market rate and their assumptions for 2018, which were not revised, are also still well above the market rate. IBO's assumption of lower variable rate interest reduces debt service costs by $34 million in 2017 and $119 million in 2018.

IBO projects additional expenditure savings based on the Administration's overestimate of public assistance costs. IBO estimates city-funded public assistance will be lower than OMB estimates by $37 million in 2017, $33 million in 2018, $32 million in 2019, and $34 million in 2020 and 2021.

Adjustments made by the Administration in the current financial plan to more accurately reflect overtime expenditures for the police and fire departments bring these agencies' overtime budgets in line with their likely expenditures for this year. For 2018 through 2021, however, IBO estimates that each department will require an additional $25 million a year to meet these expenses. While IBO does anticipate that the Department of Correction will require additional funding to meet its overtime needs in 2017, all but $5 million of these costs will be offset by accrued savings from hundreds of vacant positions in the department. IBO expects that once the department is able to fill these vacant positions, overtime expenses will decrease, with no additional funding for overtime required in 2018 through 2021.

Continued issues with implementation of the Special Education Student Information System (SESIS) have hampered the Department of Education's efforts to secure reimbursement for eligible Medicaid expenses. The de Blasio Administration assumes that the DOE will be able to obtain $41 million in reimbursements in 2017 and $97 million in each year from 2018 through 2021. So far in the current year the department has only managed to get reimbursed for $8 million of Medicaid claims. Until the issues involving SESIS can be resolved and the DOE establishes a better track record for Medicaid reimbursements, it is highly unlikely that the city will be reimbursed at planned levels. IBO estimates that in 2017, DOE's Medicaid reimbursements will total $15 million, growing to $25 million in 2018 and $41 million in 2019; we assume that by 2020 the DOE will have SESIS fully functional and therefore we have not modified the Administration's estimates for Medicaid reimbursement in 2020 and 2021. To offset the loss of federal funding, we assume that DOE will receive additional city funds to fill the gap: $26 million in 2017, $72 million in 2018, and $57 million in 2019.

IBO's projections of DOE spending on charter schools diverge somewhat from those of the de Blasio Administration. For 2018, we anticipate 2,000 fewer charter school students than projected by the Administration. In contrast, we expect 2,500 more students to be enrolled in charter schools in 2019, with the difference increasing to 18,000 in 2021. As a result, IBO projects that the education department's charter school costs will be greater than planned by $37 million in 2019, $138 million in 2020, and $273 million in 2021. IBO's estimates of increased costs reflect not only enrollment growth but also the new state-mandated charter school funding formula. We estimate that the new funding formula will increase tuition costs for each charter school student by $500 in 2018 and by another $100 in each of the remaining years of the plan.

In January's Preliminary Budget, the de Blasio Administration increased funding for the Department of Homeless Services to cover the cost of shelter care. IBO estimates that this additional funding will be sufficient to meet the shelter needs of homeless individuals and families in 2017. Based on IBO's shelter census estimate, however, shelter operating costs for both adult families and single adults are underfunded in 2018 through 2021. We estimate further needs of $162 million in 2018, $172 million in 2019, and $180 million in both 2020 and 2021, most of this coming from city funds. These funds do not reflect any additional operational costs associated with the Mayor's plan to open 90 new homeless shelters throughout the city. According to the Administration, these new facilities will enable the city to eliminate its reliance on hotels, the highest-priced shelter option, but they also will allow the city to eliminate the use of cluster sites, which are some of the least-expensive options—making the plan cost-neutral on the expense side.

Additional IBO re-estimates of Executive Budget spending include: $30 million in extra funds each year from 2019 through 2021 for the Board of Elections to bring funding in line with the agency's historical average spending levels; another $31 million a year in 2018 through 2021 for the Department of Small Business Services to restore the supplemental funding of wages for school bus drivers, attendants, dispatchers and mechanics; and an additional $7 million in 2018 and $9 million annually in 2019 through 2021 to bring the Department of Parks and Recreation's funding in line with past expenditures. Finally, we expect that $60 million currently in the Department of Housing Preservation and Development's budget for façade repair at NYCHA facilities in 2017 and 2018 will be pushed out to 2019 and 2020 to better reflect the agency's ability to spend the funds.

New Spending. The 2018 Executive Budget is the last submission of budgetary priorities by the de Blasio Administration prior to the mayoral election in November. After a year in which the Administration's financial plans focused on providing additional funding to sustain spending on existing programs rather than initiating new ones, the 2018 Executive Budget has once again taken to initiating major new initiatives, although in some cases the spending starts out relatively small in the first few years. One initiative in particular, the Mayor's plan to provide pre-k for all 3-year-olds, will cost $17 million in 2018 for two school districts but increase to eight districts at a cost of $157 million in 2021. Overall, the Executive Budget includes $235 million in city funding for new programs in 2017, $631 million in 2018, $502 million in 2019, $580 million in 2020, and $606 million in 2021.

In addition to funding for universal pre-k for 3-year-olds, the Mayor has added funding to the DOE budget for the purchase and installation of air conditioning units in all school classrooms by 2022 at a cost of between $5 million to $6 million a year. There is also $10 million in 2018 for additional support services for students in homeless shelters, extending what had been a one-year commitment of a similar amount for 2017, and $17 million added for lead testing and remediation in schools.

The Mayor has introduced a cross-agency initiative—HealingNYC—aimed at combatting the epidemic of opioid

Pricing Differences Between IBO and the de Blasio Administration Items that Affect the Gap *Dollars in millions*					
	2017	**2018**	**2019**	**2020**	**2021**
Gaps as Estimated by the Mayor	**-**	**-**	**($3,590)**	**($2,983)**	**($2,320)**
Revenue					
Taxes					
Property	$21	$634	$622	$918	$1,225
Personal Income	(6)	155	128	100	173
General Sales	10	42	(141)	(76)	(132)
General Corporation	45	(6)	7	62	41
Unincorporated Business	22	(12)	(52)	(121)	(145)
Real Property Transfer	67	90	95	118	154
Mortgage Recording	44	123	153	140	148
Utility	(3)	3	6	9	4
Hotel Occupancy	17	43	46	63	78
Commercial Rent	4	3	(8)	(20)	(16)
Cigarette	(2)	(2)	(3)	(4)	(4)
Other Taxes and Audits	-	-	-	-	-
Total Taxes	**$219**	**$1,074**	**$853**	**$1,189**	**$1,526**
TOTAL REVENUE	**$219**	**$1,074**	**$853**	**$1,189**	**$1,526**
Expenditures					
Debt Service	$34	$119	$-	$-	$-
Education	(26)	(42)	(94)	(138)	(274)
Homeless Services	-	(162)	(172)	(180)	(180)
Social Services	37	33	32	34	34
Police	-	(25)	(25)	(25)	(25)
Fire	-	(25)	(25)	(25)	(25)
Board of Elections	-	-	(30)	(30)	(30)
Housing	50	10	(30)	(30)	-
Small Business Services	-	(31)	(31)	(31)	(31)
Correction	(5)	-	-	-	-
Parks	-	(7)	(9)	(9)	(9)
TOTAL EXPENDITURES	**$91**	**($130)**	**($383)**	**($434)**	**($541)**
TOTAL IBO PRICING DIFFERENCES	**$310**	**$943**	**$470**	**$755**	**$986**
IBO Prepayment Adjustment 2017/2018	(310)	($943)	$1,253	-	-
IBO SURPLUS/(GAP) PROJECTIONS	**$-**	**$-**	**($1,867)**	**($2,228)**	**($1,334)**

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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abuse and reducing the number of fatalities related to the abuse of these drugs. The Mayor has provided funding for the initiative in the Department of Health and Mental Hygiene, the Office of the Chief Medical Examiner, NYC Health + Hospitals, and the police department. New funding for HealingNYC in the Executive Budget totals $3 million in 2017, $38 million in 2018, and roughly $35 million a year in 2019 through 2021.

Savings Plan. Beginning with the financial plan released last fall and again with January's Preliminary Budget, OMB initiated savings programs that provided a total of nearly $4.2 billion in additional resources (both expenditure reductions and revenue increases) over the course of the financial plan period, with $2.1 billion of those additional resources identified for 2017 and 2018. The Executive Budget includes additional savings that adds just under $2.0 billion in resources over the financial plan period, with

$700 million of that total projected for 2017 and 2018. The latest version of the savings plan brings the total for 2017 through 2021 to $6.1 billion, including $2.8 billion in resources for 2017 and 2018.

OMB assigns each initiative within the savings program into one of two categories: those that generate savings by improving agency efficiency and those that generate savings through other means such as re-estimating spending or eliminating vacant positions. According to OMB, 24.0 percent of the cumulative savings program through 2021 is the result of initiatives that increase agency efficiency; for 2017 and 2018, agency efficiencies are responsible for 14.6 percent of the additional resources.

IBO's analysis of the savings program finds that the share of resources derived from efficiency or productivity initiatives is less than OMB projects: roughly 18 percent, or $1.1 billion, of the total $6.1 billion savings program. In 2017 and 2018, the share of savings classified by IBO as resulting from efficiency initiatives is 9.4 percent.

Resources derived from the vast majority of the savings plan initiatives would likely have become available without any proactive effort by the agencies or OMB. Nearly 21 percent of the additional resources in the savings plan, $1.3 billion, in 2017 through 2021 are derived from re-estimates of debt service expenditures. Debt service cost re-estimates occur in nearly every financial plan and would have occurred in the absence of the savings program. IBO estimates that an additional 29.3 percent, $1.8 billion, of the savings program is the result of agency underspending. Approximately 23 percent, $1.4 billion, of additional resources realized in the savings program are the product of agencies tapping into new revenue sources or identifying funds from other than city sources to finance portions of their expense plan. Over $209 million, 3.4 percent, of the total savings program is the result of the elimination of vacancies or the accrual of budget authority that is no longer needed.

Capital Expenditures. The Executive Budget is accompanied by a 10-year capital strategy for 2018 through 2027 totaling $95.8 billion, $88.9 billion of which is city-funded. It is the largest plan produced by the city, $6.2 billion (6.9 percent) bigger than the preliminary 10-year capital strategy issued in January.

Education capital projects make up the largest share of the capital program, with $20.9 billion planned over the course of the 10-year plan. Infrastructure funding, for projects managed by the departments of Environmental Protection, Transportation and Sanitation as well as New York City Transit Authority projects funded by the city, total over $37 billion in the plan.

Significant additions to the capital plan include $1.9 billion for construction and preservation of affordable housing. These funds will be used to deepen the subsidies and thereby lower the incomes needed by households to afford more of the 200,000 units of housing the de Blasio Administration intends to create or preserve.

Nearly $300 million was added to the Department of Homeless Services' capital commitment plan from 2017 through 2023 for the rehabilitation and upgrades of existing facilities and the construction of new facilities. Of that increase $119 million is planned for family shelters and $181 million for adult shelters. These funds are part of the Mayor's effort to provide shelter-based care for all homeless adults and families that need it while enabling the agency to phase out its spending on high-cost temporary shelter options such as hotel rooms.

The plan also includes $1.1 billion for new Department of Correction jail facilities, primarily by reallocating funds formerly designated for other jail construction projects on Rikers Island. These funds are linked to the de Blasio Administration's recent decision to close the facilities on Rikers Island and replace them with facilities located near the courts in some or all of the boroughs.

Pressure Points. IBO's revenue and expenditure re-estimates reduce the budget gaps forecast for the out-years of the financial plan period, leaving shortfalls of $1.9 billion in 2019 (2.9 percent of city-funded spending), $2.2 billion in 2020 (3.2 percent), and $1.3 billion (1.9 percent) in 2021—gaps considered manageable by historical standards. However, there remains considerable uncertainty surrounding the Executive Budget. In particular, actions at the federal level could have a significant impact on the city's budget in the coming months. While the recent passage of a spending agreement in Washington provides some short-term respite from negative federal budgetary actions, there still remains the possibility that negotiations over next year's federal budget could result in cuts to the major federal programs on which the city and state rely.

The Trump Administration's recently released outline for tax reform would lower corporate taxes and income taxes for high-earning individuals. Lower rates would also reduce the tax advantages of purchasing tax exempt municipal bonds and low income housing tax credits—the latter are critical to financing the Mayor's housing plan. If enacted these changes could reduce demand for municipal bonds, thus increasing the city's cost of borrowing. The proposal to eliminate the deduction for state and local taxes paid would also shift more of the cost of New York's taxes onto local residents.

New York City's Health + Hospitals (H+H), already in dire financial straits and reliant on the city for fiscal stability, could stand to lose tens of millions of dollars of revenue depending on the final makeup of the American Health Care Act, federal legislation that would replace the Affordable Care Act. Because H+H is New York City's public hospital system, the city itself would likely be responsible for the corporation's budget shortfalls.

OMB has continued to assume that the city will receive considerable revenue from the sale of new taxi medallions. The current budget includes a total of $731 million of revenue in 2019 through 2021 from medallion sales. With the growth of alternative car service options such as Uber and Lyft, taxi owners and operators have seen a significant decline in their income and the value of their medallions, while the market for existing medallions has all but dried up. OMB recognized one consequence of these changes when it decreased its forecast of taxi medallion transfer tax revenues from $2 million a year to $200,000 a year. Yet OMB has retained its assumption of $731 million in revenue from the sale of new medallions in the financial plan. With no market for existing medallions, it is highly unlikely that there will be a strong market for new medallions any time soon.

The Executive Budget is the last financial plan before the citywide elections to be held in November. Perhaps with an eye on the election, Mayor de Blasio has already included funding in the budget for some new initiatives, but political pressures may result in further additions. Additional budgetary pressure will be exerted on the Mayor to provide funding for the City Council's initiatives. In April the Council presented a summary of its budget priorities in its response to the Mayor's Preliminary Budget. The Council's response includes numerous proposals that would add to city spending and cut city taxes.

The City Council has been especially vocal in its desire for an expansion of the Summer Youth Employment Program. In addition, the Council has been exerting pressure on the Administration to fund the indirect costs of human service providers who contract with the city. The Council also called for a number of changes to the city's tax program, including reducing the number of businesses subject to the commercial rent tax, providing relief for those who pay the unincorporated business tax, and increasing the property tax exemption for veterans. Another Council proposal would change the system for limiting assessment increases for one-, two-, and three-family homes, linked to preserving affordability. Securing adoption of this year's budget will require the Mayor to fund some of the Council's priorities, which will put additional strain on the city's financial plan.

Conclusion

IBO's latest economic forecast and our re-estimates of city revenues and expenditures, indicate that the city's fiscal condition is stable, with near-term budget surpluses and future year gaps of a size that the city has routinely managed in past years. We project that the city will end 2017 with a surplus of $4.0 billion. A projected surplus of $943 million estimated for 2018 will reduce the 2019 gap to $1.9 billion. Additionally, IBO's forecasts of revenue and expenditures in 2020 and 2021 will reduce the budget gaps in those years to $2.2 billion and $1.3 billion, respectively.

If the city experiences difficulty closing these gaps, there is $1.25 billion in reserves budgeted for each year of the financial plan available to help bring the budget into balance. In addition the city could rely on over $4 billion of funds set-aside for the cost of future retiree health benefits to assist in the elimination of the gaps.

While external factors could negatively affect the city's financial plan, the available reserves could at least mitigate, and perhaps cover, new demands on the city's finances, depending on the magnitude of any change. Even in the face of a large shock from Washington or the economy, our expectation is that the financial plan has enough of a cushion to provide elected officials with the time necessary to make the difficult budgetary decisions that would be needed.

Endnotes

[1]For example, see *Twenty-Five Years After S7000A: How Property Tax Burdens Have Shifted in New York City.*
[2]Total city expenditures are net of intra-city expenses.

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