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Please be advised that three days after IBO released the projections in this testimony, the state Department of Labor dramatically revised its jobs numbers for 2011. We are now revising our forecast.

**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 2013 and Financial Plan through 2016**

March 5, 2012

Good afternoon Chairman Recchia and members of the committee. I am Ronnie Lowenstein, director of New York City's Independent Budget Office. I am pleased to be here today to provide you with some details from IBO's latest economic forecast and our tax revenue and spending projections based on the Mayor's Preliminary Budget. Tables presenting our projections are attached to this testimony, and our report that provides a fuller analysis will be available later this month.

I'll begin by outlining the broad picture. Based on our economic forecast and tax and spending projections under the Mayor's plan, we estimate that the city will end the current fiscal year with roughly the same surplus, about \$1.3 billion, as the Bloomberg Administration anticipates. We project a relatively small surplus of \$42 million for 2013. Our estimates are very close to those of the Mayor's because our tax forecasts for 2012 and 2013 are quite similar.

IBO's tax forecast and resulting budget gap projections begin to diverge from those of the Bloomberg Administration in 2014. Our gap projection for 2014 is \$2.5 billion, or roughly \$510 million less than the Mayor's. With our tax forecasts for 2015 and 2016 showing even stronger growth, our projections for shortfalls in those years are substantially less than the Mayor's.

There are some key points underlying those numbers that I'd like to highlight, with particular attention to our economic forecast and the fragile recovery now underway. For the past few years many economic observers, including IBO, have noted that impending regulations and capital requirements for the securities industry would likely mean a smaller and less profitable Wall Street. For New York City, a less profitable securities sector will slow growth throughout the local economy, with consequences for job growth and tax collections.

We estimate that Wall Street profits will have totaled \$10.5 billion in calendar year 2011, well below the level of recent years, and that bonuses for the year will decline by 25 percent—nearly twice the rate estimated by the state Comptroller last week. We anticipate Wall Street firms will shed 4,300 jobs this year and aggregate wages, including bonuses, will decline by 7.5 percent.

Our forecast is now taking into account the changing regulatory environment in the financial sector, the effects of which can be seen in differences with our projections from just a few months ago. In December, we projected that the city would add 38,800 jobs in calendar year 2012—we have now dropped that number to 22,000. While in December we had estimated job growth of nearly 50,000 for calendar year 2013, we have lowered our projection to 44,400.

The decline in our jobs projections also affects our outlook for tax revenue compared with our estimates in December. While our projection for this fiscal year is about \$230 million higher than our previous estimate, our outlook for fiscal year 2013 is \$43.2 billion, or nearly \$460 million less. Likewise, our tax revenue estimate for fiscal year 2014 is now \$44.9 billion, or about \$630 million less than in December.

While structural changes on Wall Street are constraining local job and tax revenue growth, the fact remains that New York City is still adding jobs. As through much of the recent past, health and social services are the biggest contributors to job growth. The sector accounts for nearly 2 out of every 5 jobs added over the 2012-2016 period, averaging an increase of 18,600 jobs annually. Professional and business services are expected to add an average of 9,000 jobs annually over the 2012-2016 period and leisure and hospitality an average of 6,300 per year. Steady, if not robust growth, is forecast for all the major taxes including property, sales, personal, and business income.

There are a number of factors that could undermine IBO's economic and tax projections, along with our surplus and gap estimates. The growth in the U.S. economy seen towards the end of calendar year 2011 could be stymied by continuing problems in the euro zone. Rising oil prices due to tensions in the Middle East and slower economic growth in China could also weaken the recovery. Closer to home, gridlock in Washington over U.S. tax, spending, and debt policy could also hamper recovery nationally and locally. And while IBO's forecast has sought to recognize the effects that increasing regulations and capital requirements may have on Wall Street profits and what that means for local tax collections, this is still an evolving landscape.

But it is evolving at a time when we have significantly fewer resources to fall back on. As you know, the Mayor's plan for balancing the 2013 budget counts on \$1 billion in taxi medallion sales, a proposal now tied up in the courts. And the shortfall for 2014 persists even as the Bloomberg Administration anticipates using the last \$1 billion left in the Retiree Health Benefits Trust Fund.

Our forthcoming report on the Mayor's February plan will provide details I have omitted today on our spending projections as well as IBO's estimate of savings from proposals such as the new pension tier for city employees.

Thank you for the opportunity to speak to you today and I will gladly answer any of your questions.

Total Revenue and Expenditure Projections

Dollars in millions

	2012	2013	2014	2015	2016	Average Change
Total Revenues	\$67,266	\$69,308	\$70,064	\$72,907	\$75,983	3.1%
<i>Total Taxes</i>	41,275	43,161	44,934	47,657	50,531	5.2%
Total Expenditures	67,266	69,265	72,593	75,184	76,929	3.4%
IBO Surplus/(Gap) Projections	\$-	\$42	\$(2,529)	\$(2,278)	\$(946)	
Adjusted for Prepayments:						
Total Expenditures	\$69,738	\$70,535	\$72,593	\$75,184	\$76,929	2.5%
City Funded Expenditures	\$49,046	\$50,764	\$52,816	\$55,350	\$56,993	3.8%

SOURCE: IBO

NOTES: IBO projects a surplus of \$1.270 billion for 2012, \$27 million below the Bloomberg Administration's forecast. The surplus is used to prepay some 2013 expenditures, leaving 2012 with a balanced budget. Estimates exclude intra-city revenues and expenditures. City funded expenditures exclude state, federal and other categorical grants, and interfund agreement amounts. Figures may not add due to rounding.

IBO Expenditure Projections*Dollars in millions*

	2012	2013	2014	2015	2016	Average Change
Health & Social Services						
Social Services						
Medicaid	\$6,466	\$6,510	\$6,647	\$6,826	\$6,924	1.7%
All Other Social Services	2,968	2,843	2,820	2,836	2,836	-1.1%
HHC	76	68	67	67	67	-3.0%
Health	1,618	1,533	1,529	1,517	1,517	-1.6%
Children Services	2,859	2,705	2,702	2,702	2,702	-1.4%
Homeless	860	872	871	871	871	0.3%
Other Related Services	562	452	440	436	436	-6.2%
Subtotal	\$15,408	\$14,984	\$15,076	\$15,255	\$15,352	-0.1%
Education						
DOE (excluding labor reserve)	\$19,326	\$19,646	\$20,188	\$20,516	\$20,807	1.9%
CUNY	745	740	717	715	704	-1.4%
Subtotal	\$20,070	\$20,386	\$20,905	\$21,231	\$21,511	1.7%
Uniformed Services						
Police	\$4,720	\$4,545	\$4,537	\$4,536	\$4,535	-1.0%
Fire	1,806	1,749	1,699	1,654	1,654	-2.2%
Correction	1,086	1,066	1,075	1,055	1,055	-0.7%
Sanitation	1,332	1,343	1,463	1,462	1,462	2.4%
Subtotal	\$8,945	\$8,703	\$8,774	\$8,707	\$8,706	-0.7%
All Other Agencies	\$7,476	\$7,152	\$7,336	\$7,461	\$7,637	0.0%*
Other Expenditures						
Fringe Benefits (excluding DOE)	\$3,852	\$3,792	\$4,167	\$5,572	\$6,017	7.4%**
Debt Service	3,304	5,008	6,797	7,163	7,436	7.3%*
Pensions	7,875	8,020	7,954	7,840	7,915	0.6%**
Judgments and Claims	655	685	718	754	790	4.8%
General Reserve	100	300	300	300	300	n/a
Labor Reserve:						
Education	-	-	-	-	-	n/a
All Other Agencies	82	164	323	540	796	n/a
Expenditure Adjustments	(502)	72	243	362	470	n/a
TOTAL Expenditures	\$67,266	\$69,265	\$72,593	\$75,184	\$76,929	3.4%

SOURCE: IBO

NOTES: *Represents the annual average rate of growth/(decline) after adjusting for prepayments.

**The annual average change excludes estimated savings assumed by the Bloomberg Administration's pension reform proposal and Retiree Health Benefits Trust fringe benefits adjustment. Expenditure adjustments include prior-year payables, energy and lease, and non-labor inflation adjustments. Estimates exclude intra-city expenses. Figures may not add due to rounding.

Pricing Differences Between IBO and the Bloomberg Administration

Items that Affect the Gap

Dollars in millions

	2012	2013	2014	2015	2016
Gaps as Estimated by the Mayor	\$-	\$-	\$(3,040)	\$(3,516)	\$(3,394)
Revenues					
Taxes					
Property	\$(9)	\$(120)	\$(51)	\$170	\$511
Personal Income	116	34	237	514	1,026
General Sales	(80)	1	91	152	294
General Corporation	67	55	88	161	241
Unincorporated Business	(19)	67	119	198	308
Banking Corporation	(193)	51	205	352	412
Real Property Transfer	46	65	70	49	50
Mortgage Recording	11	41	33	28	39
Utility	(6)	(9)	(11)	(20)	(18)
Hotel Occupancy	(22)	(13)	(43)	(71)	(75)
Commercial Rent	(5)	(6)	(8)	(12)	(16)
	(3)	(3)	(3)	(3)	(3)
	\$(97)	\$163	\$728	\$1,519	\$2,769
STaR Reimbursement	-	3	7	12	16
Total Revenues	\$(97)	\$166	\$734	\$1,530	\$2,785
Expenditures					
Education	\$78	\$(21)	\$(108)	\$(210)	\$(258)
Public Assistance	1	5	8	8	8
Homeless	(4)	(34)	(35)	(36)	(36)
Police	-	(25)	(25)	(25)	(25)
Correction	-	(15)	(15)	(15)	(15)
Campaign Finance	-	-	(34)	-	-
Parks and Recreation	(5)	(11)	(12)	(12)	(12)
Small Business Services	-	4	(3)	(3)	(1)
Total Expenditures	\$70	\$(97)	\$(223)	\$(292)	\$(338)
Total IBO Pricing Differences	\$(27)	\$69	\$511	\$1,239	\$2,448
IBO Prepayment Adjustment 2012 / 2013	\$27	\$(27)	-	-	-
IBO Surplus/(Gap) Projections	\$-	\$42	\$(2,529)	\$(2,278)	\$(946)

SOURCE: IBO

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*

	2012	2013	2014	2015	2016	Average Change
Tax Revenue						
Property	\$17,803	\$18,263	\$18,934	\$19,819	\$20,802	4.0%
Personal Income	8,095	8,563	8,813	9,688	10,581	6.9%
General Sales	5,787	6,067	6,418	6,752	7,133	5.4%
General Corporation	2,569	2,694	2,807	2,977	3,182	5.5%
Unincorporated Business	1,703	1,871	1,995	2,147	2,330	8.2%
Banking Corporation	1,143	1,332	1,384	1,521	1,636	9.4%
Real Property Transfer	908	973	1,093	1,174	1,205	7.3%
Mortgage Recording	524	613	703	767	798	11.1%
Utility	395	408	421	433	447	3.2%
Hotel Occupancy	454	451	438	435	454	0.0%
Commercial Rent	617	636	655	674	694	3.0%
Cigarette	67	66	64	62	61	-2.5%
Other Taxes, Audits, and PEG's	1,211	1,224	1,207	1,208	1,208	-0.1%
Total Taxes	\$41,275	\$43,161	\$44,934	\$47,657	\$50,531	5.2%
Other Revenue						
STaR Reimbursement	\$790	\$864	\$866	\$870	\$875	2.6%
Miscellaneous Revenues	4,498	5,527	4,503	4,560	4,656	0.9%
Unrestricted Intergovernmental Aid	25	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0%
Total Other Revenue	\$5,298	\$6,375	\$5,353	\$5,416	\$5,516	1.0%
Total City Funded Revenue	\$46,574	\$49,536	\$50,287	\$53,073	\$56,047	4.7%
State Categorical Grants	\$11,323	\$11,389	\$11,506	\$11,644	\$11,762	1.0%
Federal Categorical Grants	7,759	6,919	6,816	6,739	6,737	-3.5%
Other Categorical Aid	1,058	954	950	948	934	-3.1%
Interfund Revenues	551	509	504	504	504	-2.2%
TOTAL Revenues	\$ 67,266	\$ 69,308	\$ 70,064	\$ 72,907	\$ 75,983	3.1%

SOURCE: IBO

NOTES: Estimates exclude intra-city revenues. Figures may not add due to rounding.

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

	2011	2012	2013	2014	2015	2016
National Economy						
Real GDP Growth						
IBO	1.7	2.4	3.0	3.6	3.3	2.9
OMB	1.7	2.1	2.5	3.4	3.2	2.7
Inflation Rate						
IBO	3.2	2.1	2.4	2.9	2.4	2.0
OMB	3.1	1.5	1.7	2.2	2.2	2.0
Personal Income Growth						
IBO	4.7	3.9	4.8	5.3	4.7	4.6
OMB	4.7	3.5	4.0	5.2	5.3	5.1
Unemployment Rate						
IBO	8.9	8.3	7.8	7.2	6.5	5.9
OMB	8.9	8.9	8.6	7.9	7.1	6.7
10-Year Treasury Bond Rate						
IBO	2.8	3.2	4.8	4.6	4.6	4.8
OMB	2.8	2.7	2.9	3.6	4.6	5.0
Federal Funds Rate						
IBO	0.1	0.1	0.3	1.7	3.4	4.0
OMB	0.1	0.1	0.1	1.2	3.3	4.0
NYC Economy						
Nonfarm New Jobs (thousands)						
IBO	32.5	22.0	44.4	52.5	64.0	56.0
OMB	33.0	27.0	46.0	45.0	54.0	41.0
Nonfarm Employment Growth						
IBO	0.9	0.6	1.2	1.4	1.7	1.4
OMB	0.9	0.7	1.2	1.2	1.4	1.0
Inflation Rate (CPI-U-NY)						
IBO	2.8	2.6	3.1	3.4	2.9	2.5
OMB	2.8	1.8	1.9	2.3	2.4	2.2
Personal Income (\$ billions)						
IBO	448.5	459.2	484.3	510.9	537.4	564.7
OMB	440.9	450.4	464.2	483.1	503.0	523.9
Personal Income Growth						
IBO	3.9	2.4	5.5	5.5	5.2	5.1
OMB	4.2	2.1	3.1	4.1	4.1	4.2
Manhattan Office Rents (\$/sq.ft)						
IBO	64.1	64.8	64.6	64.5	65.5	66.5
OMB	64.3	67.2	72.7	72.1	77.7	83.8

SOURCES: IBO; 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 2011, New York City personal income and growth rates are estimated, pending Bureau of Economic Analysis release.