

May 2015

## The Big Picture:

# Re-estimating the Mayor's 2016 Executive Budget and Financial Plan Through 2019

**Surplus & Gap Projections.** IBO projects the city will end the current fiscal year with a surplus of just over \$3 billion, nearly identical to the amount expected by the de Blasio Administration. We forecast a comparatively modest surplus of \$685 million in 2016 and then relatively small annual shortfalls of about \$450 million in fiscal years 2017 through 2019. Our projected gap of \$448 million in fiscal year 2017 is less than a third of the shortfall projected by the Mayor and is less than 1 percent of our estimate of city-generated revenues—a considerably smaller share compared with shortfalls under some recent financial plan projections.

Our surplus and gap estimates are derived from IBO's latest economic and tax revenue forecast along with our re-estimate of spending under the framework of the Executive Budget for 2016 and financial plan released last week. Tables summarizing our economic, tax, and spending projections are attached to this brief report.

**Economic & Tax Revenue Forecast.** Our estimate of a \$685 million surplus for 2016, as well as substantially smaller shortfalls than projected by the de Blasio Administration for the ensuing years of the financial plan, is largely a reflection of IBO's forecast of higher tax revenues. IBO's projection for tax revenues is driven by our economic forecast, which has dimmed slightly since our forecast in March but still remains brighter than the de Blasio Administration's forecast.

A key component of our economic forecast is the outlook for local job creation. Following record employment growth of 120,700 in calendar year 2014, we expect annual growth to slow to 88,200 this year and 75,100 next year, and continue to slacken over the following two years. Much as in the

Total Revenue and Expenditure Projections						
<i>Dollars in millions</i>						
	2015	2016	2017	2018	2019	Average Change
<b>Total Revenue</b>	<b>\$79,782</b>	<b>\$79,507</b>	<b>\$82,038</b>	<b>\$84,526</b>	<b>\$87,530</b>	<b>2.3%</b>
Total Taxes	50,399	51,951	54,249	56,661	59,367	4.2%
<b>Total Expenditures</b>	<b>79,782</b>	<b>78,823</b>	<b>82,486</b>	<b>84,972</b>	<b>87,988</b>	<b>2.5%</b>
<b>IBO Surplus/(Gap) Projections</b>	<b>\$--</b>	<b>\$685</b>	<b>(\$448)</b>	<b>(\$445)</b>	<b>(\$457)</b>	
<b>Adjusted for Prepayments &amp; Transfers:</b>						
Total Expenditures	\$78,583	\$82,200	\$82,687	\$85,170	\$87,988	2.9%
City-Funded Expenditures	\$56,230	\$60,162	\$60,600	\$63,100	\$65,690	4.0%
NOTES: IBO projects a surplus of \$3.04 billion for 2015, \$3 million above the de Blasio Administration's forecast. The surplus is used to prepay some 2016 expenditures, leaving 2015 with a balanced budget. Figures may not add due to rounding.						
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recent past, the industry sectors generating many of the new jobs in 2015 through 2019 will be education and health care services, professional and business services, leisure and hospitality, and trade. With a large share of the job growth centered in low- or medium-wage industries, and an unusually small share in the high-paying securities industry, wage growth will continue to be relatively modest compared with previous expansions.

Another factor underlying our forecast is the expectation of rising interest rates, which would likely curtail residential and commercial real estate sales. Additionally, the considerable amount of new office space becoming available at Hudson Yards, the World Trade Center, and other locations could dampen sales of commercial buildings.

Based on these and other factors, IBO projects that tax revenues will grow from \$50.4 billion this fiscal year to \$59.4 billion in 2019, an average annual growth rate of 4.2 percent. Consistent with our somewhat brighter economic forecast than the de Blasio Administration's, IBO's projections for tax collections are higher than the Mayor's. The difference grows from a modest \$206 million in the current year to \$688 million in 2016. The difference widens considerably in the following years, growing from \$1.3 billion in 2017 to nearly \$2.5 billion in 2019.

**Spending Estimates.** IBO's estimates for total spending are also a bit higher than projected by the Mayor. We project spending will total \$79.8 billion this year and grow at an annual average rate of 2.5 percent to reach nearly \$88 billion in 2019.

There are a number of areas for which we project spending will be higher than estimated by the de Blasio Administration. Looking just at 2016, we estimate that city expenditures on education, driven by charter school expansion that has been planned but not yet included in the Mayor's projections and by lower-than-expected reimbursements from Medicaid for certain special education services, will cost \$102 million more than the Mayor's projection. We also expect that police and correction department overtime will together cost \$65 million more than budgeted, and the city will spend \$53 million more than currently allocated for homeless services.

As in the past, overall spending growth will be led by just a few big ticket items. We project expenditures on health insurance and other fringe benefits for city employees will rise at an annual average rate of 6.6 percent and reach \$6.5 billion by 2019 (not including staff in the education department and the city university system, as well as contributions to the retiree health fund). Debt service on funds the city borrows for its capital projects is expected to rise an average of 6.3 percent annually (after adjusting for prepayments) and total \$7.6 billion in 2019.

**Capital Plan.** In conjunction with the executive budget, the Mayor issued the Ten-Year Capital Strategy for 2016-2025. The strategy outlines a total of \$83.8 billion in capital spending over the 10 years, \$16 billion more than under the preliminary strategy released in February. More than 90 percent of the funds for the 10-year plan, or \$75.5 billion, would come from the city. The plan also anticipates \$5 billion in federal funds, \$3 billion from the state, and a small amount of private funding.

The strategy incorporates a \$30.4 billion investment in sewers, highways, bridges and other city infrastructure; \$23.4 billion in school construction, expansion, and renovation; and \$8.4 billion in housing construction and renovation. The remaining funds go to a variety of purposes such as economic development, park repairs, jail improvements, and public hospital upgrades.

**Fiscal Pressures.** Given the relatively small budget shortfalls projected by IBO for 2017-2019 and the sizable reserves contained in the Mayor's financial plan—including general reserves of \$1 billion annually and \$2.6 billion in the Retiree Health Benefits Trust—the city's fiscal outlook remains solid. But this outlook presumes no economic downturn through 2019. If that forecast holds the city will have gone an unprecedented 10 years without a recession.

The economy is not the only risk to our budget estimates. There is also pressure to increase spending for purposes such as hiring more police officers and expanding library hours. The fiscal stress faced by New York's public hospitals, housing authority, and the Metropolitan Transportation Authority could also lead to additional city expenditures.

Over the next few weeks IBO will publish findings from our analysis of specific programs in the Mayor's budget plan as well as provide a more detailed explanation of our economic and revenue forecast.

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

	2015	2016	2017	2018	2019	Average Change
<b>Health &amp; Social Services</b>						
Social Services						
Medicaid	\$6,601	\$6,570	\$6,572	\$6,573	\$6,573	-0.1%
All Other Social Services	3,309	3,295	3,311	3,337	3,329	0.2%
HHC	217	163	214	236	242	2.7%
Health	1,525	1,479	1,473	1,477	1,480	-0.7%
Children Services	2,782	2,846	2,859	2,864	2,873	0.8%
Homeless	1,160	1,147	1,145	1,150	1,149	-0.2%
Other Related Services	727	635	626	625	625	-3.7%
<b>Subtotal</b>	<b>\$16,321</b>	<b>\$16,135</b>	<b>\$16,201</b>	<b>\$16,263</b>	<b>\$16,271</b>	<b>-0.1%</b>
<b>Education</b>						
DOE (excluding labor reserve)	\$20,830	\$21,674	\$22,580	\$23,478	\$24,287	3.9%
CUNY	914	891	895	901	910	-0.1%
<b>Subtotal</b>	<b>\$21,743</b>	<b>\$22,566</b>	<b>\$23,475</b>	<b>\$24,379</b>	<b>\$25,197</b>	<b>3.8%</b>
<b>Uniformed Services</b>						
Police	\$5,029	\$4,931	\$4,931	\$4,975	\$5,019	0.0%
Fire	1,995	1,959	1,942	1,917	1,920	-1.0%
Correction	1,142	1,231	1,213	1,212	1,216	1.6%
Sanitation	1,496	1,542	1,588	1,593	1,601	1.7%
<b>Subtotal</b>	<b>\$9,662</b>	<b>\$9,664</b>	<b>\$9,673</b>	<b>\$9,699</b>	<b>\$9,757</b>	<b>0.2%</b>
<b>All Other Agencies</b>	<b>\$10,121</b>	<b>\$9,682</b>	<b>\$9,420</b>	<b>\$9,099</b>	<b>\$9,005</b>	<b>-2.9%</b>
<b>Other Expenditures</b>						
Fringe Benefits	\$5,026	\$5,274	\$5,654	\$6,090	\$6,479	6.6%**
Debt Service	6,889	3,420	6,746	7,098	7,632	6.3%*
Pensions	8,495	8,631	8,594	8,601	8,699	0.6%
Judgments and Claims	695	710	746	782	817	4.1%
Retiree Health Benefits Trust	280	-	-	-	-	n/a
General Reserve	50	1,000	1,000	1,000	1,000	n/a
Capital Stabilization Reserve	-	500	-	-	-	n/a
Labor Reserve:						
Education	11	-	-	-	-	n/a
All Other Agencies	731	1,241	840	1,685	2,724	n/a
Expenditure Adjustments	(243)	-	137	277	406	n/a
<b>TOTAL EXPENDITURES</b>	<b>\$79,782</b>	<b>\$78,823</b>	<b>\$82,486</b>	<b>\$84,972</b>	<b>\$87,988</b>	<b>2.5%</b>

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

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

Expenditure adjustments include energy, lease, non-labor inflation and prior payable adjustments. Figures may not add due to rounding.

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**Pricing Differences Between IBO and the de Blasio Administration**

Items that Affect the Gap

Dollars in millions

	2015	2016	2017	2018	2019
<b>Gaps as Estimated by the Mayor</b>	<b>\$—</b>	<b>\$—</b>	<b>(\$1,572)</b>	<b>(\$1,967)</b>	<b>(\$2,881)</b>
<b>Revenue</b>					
<b>Taxes</b>					
Property	\$1	\$116	\$321	\$675	\$1,053
Personal Income	242	124	218	231	422
General Sales	(29)	52	77	57	60
General Corporation	(83)	86	206	307	337
Unincorporated Business	15	67	149	242	328
Banking Corporation	(7)	3	(1)	-	-
Real Property Transfer	39	64	92	87	83
Mortgage Recording	13	56	60	59	63
Utility	3	28	32	33	36
Hotel Occupancy	9	81	109	122	136
Commercial Rent	4	15	5	4	(16)
Cigarette	(1)	(2)	(3)	(5)	(6)
<b>Subtotal</b>	<b>\$206</b>	<b>\$688</b>	<b>\$1,264</b>	<b>\$1,812</b>	<b>\$2,497</b>
STaR Reimbursement	0	(1)	(1)	(0)	0
<b>TOTAL REVENUE</b>	<b>\$206</b>	<b>\$687</b>	<b>\$1,263</b>	<b>\$1,812</b>	<b>\$2,497</b>
<b>Expenditures</b>					
Debt Service	-	75	75	75	75
Fringe Benefits:					
Health Insurance—Education	(8)	99	54	2	89
Health Insurance—City University	(14)	24	26	24	25
Health Insurance—All Other Agencies	(89)	18	(31)	(61)	52
Education	(46)	(102)	(122)	(141)	(161)
Police	(50)	(50)	(50)	(50)	(50)
Board of Elections	-	-	(25)	(25)	(25)
Correction	-	(15)	(15)	(15)	(15)
Homeless Services	-	(53)	(46)	(46)	(46)
Small Business Services	4	(1)	(5)	(13)	(17)
Campaign Finance Board	-	-	-	(40)	-
<b>TOTAL EXPENDITURES</b>	<b>(203)</b>	<b>(5)</b>	<b>(139)</b>	<b>(290)</b>	<b>(73)</b>
<b>TOTAL IBO PRICING DIFFERENCES</b>	<b>\$3</b>	<b>\$682</b>	<b>\$1,124</b>	<b>\$1,522</b>	<b>\$2,424</b>
IBO Prepayment Adjustment 2015/2016	(3)	3	-	-	-
<b>IBO SURPLUS/(GAP) PROJECTIONS</b>	<b>\$—</b>	<b>\$685</b>	<b>(\$448)</b>	<b>(\$445)</b>	<b>(\$457)</b>

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

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

	2015	2016	2017	2018	2019	Average Change
<b>Tax Revenue</b>						
Property	\$21,271	\$22,356	\$23,587	\$24,947	\$26,389	5.5%
Personal Income	10,309	10,433	10,632	10,878	11,406	2.6%
General Sales	6,727	7,090	7,397	7,674	7,946	4.3%
General Corporation	3,153	4,151	4,429	4,634	4,802	11.1%
Unincorporated Business	1,984	2,121	2,289	2,475	2,654	7.5%
Banking Corporation	846	80	5	-	-	n/a
Real Property Transfer	1,664	1,577	1,657	1,701	1,743	1.2%
Mortgage Recording	1,106	1,040	1,072	1,098	1,127	0.5%
Utility	401	426	441	456	469	4.0%
Hotel Occupancy	576	620	661	687	707	5.3%
Commercial Rent	744	785	810	844	859	3.7%
Cigarette	48	46	44	41	39	-5.0%
Other Taxes and Audits	1,570	1,228	1,226	1,226	1,226	-6.0%
<b>Total Taxes</b>	<b>\$50,399</b>	<b>\$51,951</b>	<b>\$54,249</b>	<b>\$56,661</b>	<b>\$59,367</b>	<b>4.2%</b>
<b>Other Revenue</b>						
STaR Reimbursement	\$860	\$764	\$796	\$800	\$804	-1.7%
Miscellaneous Revenue	6,185	4,770	4,921	5,011	5,075	-4.8%
Unrestricted Intergovernmental Aid	-	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	n/a
<b>Total Other Revenue</b>	<b>\$7,030</b>	<b>\$5,518</b>	<b>\$5,702</b>	<b>\$5,795</b>	<b>\$5,865</b>	<b>-4.4%</b>
<b>TOTAL CITY-FUNDED REVENUE</b>	<b>\$57,429</b>	<b>\$57,469</b>	<b>\$59,951</b>	<b>\$62,457</b>	<b>\$65,232</b>	<b>3.2%</b>
State Categorical Grants	\$12,524	\$12,984	\$13,353	\$13,759	\$14,090	3.0%
Federal Categorical Grants	8,376	7,611	7,312	6,881	6,780	-5.1%
Other Categorical Aid	893	869	877	882	879	-0.4%
Interfund Revenue	559	575	546	548	548	-0.5%
<b>TOTAL REVENUE</b>	<b>\$79,782</b>	<b>\$79,507</b>	<b>\$82,038</b>	<b>\$84,526</b>	<b>\$87,530</b>	<b>2.3%</b>

NOTE: Figures may not add due to rounding.

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<b>IBO Versus Mayor's Office of Management and Budget Economic Forecasts</b>						
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>National Economy</b>						
Real GDP Growth						
IBO	2.4	2.6	3.3	2.8	2.4	1.9
OMB	2.4	3.0	2.6	2.7	2.5	2.9
Inflation Rate						
IBO	1.6	0.6	2.6	2.7	2.7	2.5
OMB	1.6	-0.3	2.5	2.2	2.3	2.3
Personal Income Growth						
IBO	4.0	6.0	6.8	6.5	5.6	4.3
OMB	4.0	3.9	4.8	5.4	4.9	5.1
Unemployment Rate						
IBO	6.1	5.4	5.1	4.9	4.9	4.9
OMB	6.2	5.5	5.3	5.2	5.3	5.3
10-Year Treasury Bond Rate						
IBO	2.5	2.5	3.6	4.5	4.5	4.4
OMB	2.5	2.5	3.3	3.9	4.0	4.0
Federal Funds Rate						
IBO	0.1	0.3	1.9	3.4	4.0	3.9
OMB	0.1	0.4	1.6	3.3	3.8	3.8
<b>NYC Economy</b>						
Nonfarm New Jobs (thousands)						
IBO	120.7	88.2	75.1	60.0	50.0	45.5
OMB	121.0	67.0	62.0	56.0	49.0	47.0
Nonfarm Employment Growth						
IBO	3.0	2.1	1.8	1.4	1.2	1.0
OMB	3.0	1.6	1.5	1.3	1.2	1.1
Inflation Rate (CPI-U-NY)						
IBO	1.3	0.9	3.1	3.1	3.2	3.0
OMB	1.3	0.3	2.6	2.4	2.5	2.4
Personal Income (\$ billions)						
IBO	510.6	535.2	564.5	596.4	627.8	653.7
OMB	505.1	519.4	538.5	562.7	586.1	610.1
Personal Income Growth						
IBO	5.9	4.8	5.5	5.7	5.3	4.1
OMB	4.9	2.8	3.7	4.5	4.2	4.1
Manhattan Office Rents (\$/sq.ft)						
IBO	73.7	77.4	80.1	82.3	84.0	85.6
OMB	73.7	77.2	82.0	83.6	86.8	88.6
SOURCE: Mayor's Office of Management and Budget NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal. For 2014, New York City personal income and growth rates are estimated, pending Bureau of Economic Analysis release.						
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