

THE COUNCIL OF THE CITY OF NEW YORK

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Report to the Committee on Finance
**Economic and Revenue Forecast for the
Fiscal 2021 Preliminary Budget**

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Overview of the Report

On March 2, 2020, the New York City Council's Committee on Finance will hold the first hearing on the Fiscal 2021 Preliminary Budget (the Budget), released on January 16, 2020. Representatives of the Mayor's Office of Management and Budget (OMB) are expected to testify. This report, one of three prepared for this hearing, discusses the New York City Council Finance Division's economic and tax revenue forecast. The other two reports will focus on the overall budget with an emphasis on the expense budget and the capital budget.

The Finance Division forecasts that the U.S. and New York City economies will continue to grow in the coming years, though at a slower pace in the outyears. Both the national and City economies remain at or near full employment through the forecast period between 2020 and 2024, so slower growth can only be expected.

The Finance Division also forecasts City tax revenue to keep growing in the coming years. The Finance Division tax revenue forecast is above OMB's forecast by \$346 million in Fiscal 2020 and \$1,290 million in Fiscal 2021.

Economic Forecast

National Economy

As measured by real gross domestic product (GDP), the U.S. economy grew at a 2.3 percent annual rate in 2019, the slowest pace in three years, according to the "advance" estimate released by the U.S. Bureau of Economic Analysis at the end of January.¹ GDP has not expanded by three percent or more for a full calendar year since 2005. The current expansion, now in its eleventh year, is expected to continue, but at lower-than-trend growth rates. GDP will increase 2.1 percent in 2020 and 2.0 percent in 2021, according to IHS Markit.²

Annual growth is unlikely to hit the Trump Administration's prediction of 3 percent, given the diminishing stimulus from the Tax Cuts and Jobs Act of 2017 (TCJA), as well as trade policy uncertainty.³ On the latter point, a number of tariffs enacted over the previous year have had the effect of reducing the country's trade deficit, but largely by reducing U.S. demand, not by raising U.S. production. Shortly after the U.S. imposed tariffs on China in September, for example, American companies reduced purchases from China. With a 'phase-one' trade deal now signed and certain tariffs reduced, imports from China will begin to climb in the coming months. Additional anxieties have also been calmed following President Trump's signing of the new North American trade agreement with Canada and Mexico. However, the president has instructed the Commerce Department to begin imposing tariffs on other U.S. trading partners, further frictions are certainly plausible, especially with the European Union.

¹ "Gross Domestic Product, Fourth Quarter and Year 2019 (Advance Estimate), Bureau of Economic Analysis. <https://www.bea.gov/news/2020/gross-domestic-product-fourth-quarter-and-year-2019-advance-estimate>

² IHS Markit, 'Executive Summaries,' February 2020.

³ Economic Report of the President. February 2020. Pg 299. <https://www.whitehouse.gov/wp-content/uploads/2020/02/2020-Economic-Report-of-the-President-WHCEA.pdf>

Consumer confidence has hit two-year highs despite uncertainty around trade policies, and this has helped drive spending. Consumer spending is expected to grow 2.6 percent in 2020, 2.2 percent in 2021, and 2.1 percent in 2022.⁴ That said, credit card debt more than 90 days overdue, rose to a record high in the final quarter of 2019. The number of people seriously behind on their payments has increased,⁵ and total credit card balances (\$930 billion) are well above the previous peak seen before the Great Recession (\$870 billion in the fourth quarter 2008).⁶ As explained in the text box below, there are important ramifications to consumer-driven economic expansions.

Total nonfarm employment has risen every month for 112 months, averaging an increase of 175,000 jobs a month in 2019.⁷ The most celebrated achievement of the current expansion has been the decline in the unemployment rate, from a high of 10 percent to a low of 3.4 percent as of January 2020. Unemployment is expected to remain at this rate in 2020 and 2021 before increasing gradually – reaching 4.5 percent in 2024. Despite the lowest unemployment rate since 1969, growth in compensation has remained moderate. Real disposable income is expected to increase by 2.3 percent annually in both 2020 and 2021.⁸ This would represent a raise of 16 cents for someone making the federal minimum wage of \$7.25 per hour.

All-in-all, continued economic growth is expected going forward, but at more moderate levels. The likelihood of a recession is low in the near-to-medium term.

⁴ Id.

⁵ The proportion of credit card debt in serious delinquency rose to 5.2 percent in the fourth quarter, the highest level in almost eight years.

⁶ Quarterly Report on Household Debt and Credit 2019:Q4. Federal Reserve Bank of New York. Research and Statistics Group.

https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2019Q4.pdf

⁷ The Employment Situation – January 2020. Bureau of Labor Statistics.

<https://www.bls.gov/news.release/empsit.nr0.htm>

⁸ IHS Markit, “Executive Summaries,” February 2020. Pg 4.

IMPLICATION OF A CONSUMPTION-LED EXPANSION

As highlighted in recent commentary, the current economic expansion is the longest on record. Having beat out the previous record of 120 months between March 1991 and March 2001, February marked the 128th month of expansion, according to the National Bureau of Economic Research. Compared to previous expansions, however, this one has been particularly slow growing. GDP has grown by just 2.3 percent annually, compared to 2.8 percent in the expansion of the 1990's. Interestingly, the composition of that growth has also changed.

American households are responsible for fueling the bulk of activity in the economy, and this has become more and more the case in recent expansions. Personal consumption expenditures accounted for 68 percent of GDP in 2019, up from a low of 58.9 percent in 1967.* This composition of growth matters for medium-term growth prospects. As discussed in Kharroubi and Kohlscheen (2017), economic growth is systematically weaker when it is led by consumption as opposed to investment.** In other words, if the share of private consumption in GDP increases, future growth slowdowns are likely. In that sense, an investment revival may be necessary for the next sustainable expansion. It is unknown how long the divergence between consumers (willing to spend) and American businesses (reluctant to spend) will continue, but if business anxiety spreads to households – who then cut back their own spending – the likelihood of a recession is greatly elevated.

*Share of gross domestic product: personal consumption expenditures. National Income and Product Accounts. US Bureau of Economic Analysis.
<https://fred.stlouisfed.org/series/DPCERE1Q156NBEA>

**Kharroubi, Enisse and Emanuel Kohlscheen. "Consumption-led expansions." BIS Quarterly Review, March 2017.
https://www.bis.org/publ/qtrpdf/r_qt1703e.pdf

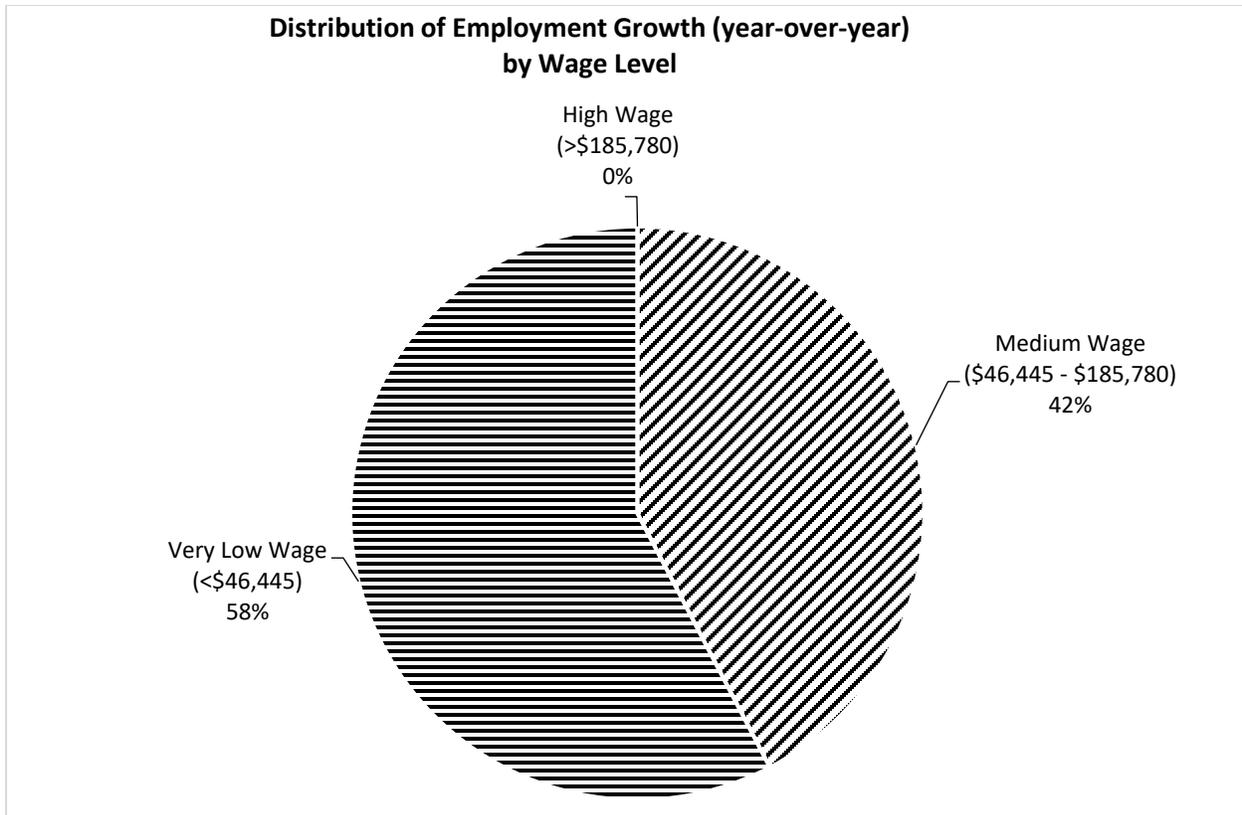
City Economy

New York City's economy continues to show signs of positive but slower growth. Total private sector payroll employment expanded by 80,100 or 2.0 percent in 2019 compared to 2018.⁹ While still very healthy growth compared to historical rates, it has been decelerating from the 83,000 jobs added in 2018, and 86,500 in 2017. This two percent growth in 2019 marks the slowest pace of growth since 2010.

Employment growth in 2019 was predominantly generated by very low wage industries, such as food services, retail, ambulatory healthcare and social services. Approximately 58 percent of the 87,200 total nonagricultural jobs added in 2019 came from these very low paying industries, with average salaries under \$46,445. Another 42 percent was generated by industries paying medium wages averaging between \$46,445 and \$185,780. There was zero percent change in positions in high-paying industries with average salaries of \$185,780 or more. This was due to a loss of 1,350 positions in the securities industry almost fully offsetting gains in banking and management of enterprises.¹⁰

⁹ New York State Department of Labor, 'Current Employment Statistic (CES),' December 2019.

¹⁰ New York State Department of Labor, 'Quarterly Census of Employment and Wages (QCEW),' 2Q 2019 (wages); and 'Current Employment Statistics (CES),' December 2019.



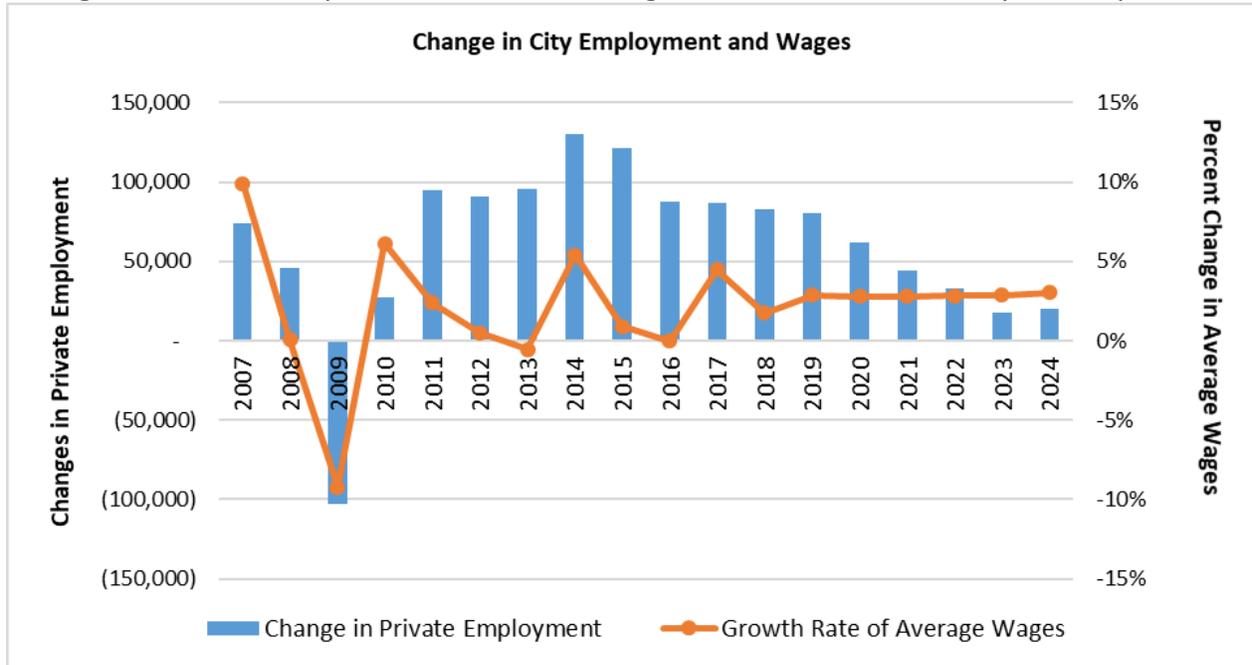
Source: New York City Council Finance Division calculations, using employment and average wage data from the New York State Department of Labor, 'Current Employment Statistics (CES),' December 2019, and 'Quarterly Census of Employment and Wages (QCEW),' 2Q 2019.¹¹

Job growth among the major sectors was mixed in 2019. The broad-based and mostly medium wage professional and business services, expanded at a faster pace than the total private sector. Health care and social assistance continued to accelerate the expansion of its payroll, with most of the new hires being low-paying home health aides. The information super-sector also accelerated its pace of expansion, despite continued declines in its publishing subsector. Even retail jobs, which have been challenged by online purchases, expanded – though weakly in 2019, thanks to exceptional consumer confidence. Other job sectors experienced headwinds. Finance and insurance reduced its payroll in 2019, particularly from its valuable securities industry. Employment in leisure and hospitality decelerated sharply in 2018, after eight years of double-digit growth, and was weaker in 2019.

¹¹ The \$46,445 cutoff represents 50 percent of New York City's area median income for the average family size of 2.7 members, used by the U.S. Housing and Urban Development as a threshold for benefits. The \$185,780 cutoff represents 200 percent of the City's area median income.

The City’s labor market remains tight, with the unemployment rate reaching a record low of 3.9 percent in December 2019 and the labor force participation rate close to a record high of 60.5 percent.¹²

Wages. Average hourly wage growth in the private sector is unevenly driven by the highly volatile bonuses paid in the securities industry. The securities industry comprises around 20 percent of total wages paid in the private sector. While the average private sector wage is estimated to have risen 2.9 percent in 2019, when the securities industry is excluded, the growth rate rises to 3.6 percent. The difference is due to a 17 percent cut in average Wall Street bonuses in 2018, paid out mostly in 2019. During the forecast period, the private sector wage rate is expected to average around 2.9 percent, and excluding the securities industry, 3.4 percent.¹³



Source: NYS Department of Labor, Current Employment Statistics and Quarterly Census of Employment and Wages; NYCC Finance Division (forecasts).

Looking Ahead. The Finance Division expects the slowdown in job creation to continue. Private sector employment growth is projected to decline to one and a half percent and continue to decelerate through 2024. Most of the City’s major sectors are expected to follow this pattern of decreasing job growth. Job creation in the health care and social services sector is expected to grow at a slower but still healthy rate. The information and retail sectors are also expected to experience decline in employment growth in 2020. However, the financial sector, as well as business and professional services are projected to add more jobs in 2020 than they did in 2019.

¹² New York City’s labor force participation rate reached a record high of 60.9 percent between November 2018 and March 2019.

¹³ Finance Division’s estimate for 2019, using data from the New York State Department of Labor, ‘Quarterly Census of Employment and Wages (QCEW),’ Q2 2019.

Real Estate. The Manhattan office market saw 9.1 million square feet (msf) in new leasing in the fourth quarter of 2019, a 24.7 percent increase over the third quarter. The increase was led by Facebook leasing 1.5 msf in Hudson Yards, and Amazon leasing 338,593 square feet (sf) on West 34th Street. Total new leasing in 2019 came to 34.7 msf, setting a record of three consecutive years of adding over 30 msf. New office construction also set a record in 2019, reaching 8.7 msf, the highest level in 33 years.¹⁴

The housing market was mixed in the fourth quarter of 2019. Manhattan co-op and condo sales fell year-over-year, most sharply for luxury apartments. In Brooklyn and Queens, condo and 1-3 family house sales increased, but co-op sales fell. Growth in median sales prices were flat in Manhattan, moderate in Brooklyn and strong in Queens. The median prices of a Brooklyn condo and co-op were \$827,277 and \$407,500 respectively.¹⁵ Median rents grew sizably in the City, with the median rent of a one-bedroom apartment in Brooklyn climbing 5.7 percent annually, reaching \$2,800 a month.¹⁶ High housing prices and rents continue to make it difficult to reside in the City.

Hotels. Hotels sold 38.9 million room nights in 2019, a 2.3 percent increase over 2018. However, total room inventory expanded by 3.1 percent that year, helping to push down average room rates from \$292 in 2018 to \$285. This resulted in flat revenue growth year-over-year for the industry. Going forward, the coronavirus is an additional challenge. While Chinese tourists comprised only 1.6 percent of total visitors to the City in 2018, foreign tourists spend an estimated four times the amount as domestic visitors and have significantly longer stays.¹⁷

Comparison to OMB's Forecast

Both the Finance Division and OMB forecast a further slowdown in employment growth through the Financial Plan. The Finance Division projects private sector job growth in 2020 and 2021 of 1.5 percent and 1.1 percent respectively, compared to OMB's total employment growth of 1.2 percent and 0.9 percent respectively.¹⁸ In the outyears, the Finance Division's projects a sharper slowdown, with only 0.5 percent growth by 2024, compared to OMB's 0.6 percent. The Finance Division projects average private sector wage growth of 2.8 percent in both 2020 and 2021, reflecting lackluster bonus growth on Wall Street. Wage growth will inch-up to 2.9 percent average growth in the outyears. OMB forecasts especially weak wage growth of 2.3 percent in 2020, jumping to 2.9 percent in 2021, and then slowing to average outyear growth of 2.4 percent.

¹⁴ [Cushman & Wakefield, Marketbeat: Manhattan Office, Q4 2019](#)

¹⁵ [Douglas Elliman Real Estate, Elliman Report: Manhattan, Brooklyn & Queens Sales, Q4 2019](#)

¹⁶ [Douglas Elliman Real Estate, Elliman Report: Manhattan, Brooklyn & Queens Rentals, January 2020](#)

¹⁷ NYC & Company

¹⁸ The Finance Division forecasts private sector employment and average wages, while OMB forecasts total employment and average wages of all payroll workers.

Forecast of Selected Economic Indicators: National and New York City, CY2019-2024						
	CY19	CY20	CY21	CY22	CY23	CY24
NATIONAL ECONOMY*						
Real GDP %	2.3	2.1	2.0	1.7	1.5	1.8
Private Employment						
Level Change, '000	2,218	1,668	1,193	489	(139)	(37)
Percent Change, %	1.8	1.3	0.9	0.4	(0.1)	(0.0)
Unemployment Rate, %	3.7	3.4	3.4	3.7	4.2	4.5
Total Wages %	3.0	3.2	3.3	3.4	3.4	3.6
Interest rates %						
3-Month Treasury Bill	2.1	1.5	1.6	1.9	2.1	2.4
30-Year Conventional Mortgage Fixed	3.9	3.8	4.2	4.5	4.6	4.7
NEW YORK CITY ECONOMY						
Real GCP %*	2.5	1.8	1.5	1.1	1.0	1.4
Private Employment						
Level Change, '000	80	62	44	33	18	20
Percent Change, %	2.0	1.5	1.1	0.8	0.4	0.5
Average Private Wages %	2.9	2.8	2.8	2.8	2.9	3.0
Total Private Wages %	5.0	4.4	3.9	3.6	3.3	3.5
NYSE Member Firms %						
Total Revenue	13.1	7.7	0.6	3.8	3.6	4.1
Total Compensation	0.1	1.7	(1.1)	0.4	0.5	0.8

Source: IHS Markit, Feb 2020; New York City Council Finance Division (City)

** Calculated by IHS Markit*

Tax Revenue Forecast

The Finance Division forecasts tax collections in Fiscal 2020 to be \$3.2 billion over the prior year, a 5.2 percent increase over Fiscal 2019. The biggest drivers of growth are the Property Tax, the Sales Tax and the Business Corporation Tax. Negative growth is seen in the Real Property Transfer Tax and the Unincorporated Business Tax. In 2021, total collections will increase by \$2.2 billion, a 3.4 percent increase. From 2022 to 2024, revenue growth will average around 3.6 percent.

Property Tax

Property tax collections are expected to maintain strong growth throughout the financial plan period, with year-over-year growth forecasted to peak at 7.2 percent in Fiscal 2020 and average 4.9 percent from Fiscal 2021 through 2024. The Finance Division's forecast for Fiscal 2020 is similar to OMB's forecast, with minor differences due to updated projections for certain components of the property tax reserve. Slower growth in the outyears reflects expectations of rising interest rates, and the loss of valuable federal deductions for state and local taxes.

Growth in property tax revenue is driven by a recent history of strong market value growth, which will sustain strong assessment growth through the financial plan period. Over the previous five-year period (Fiscal 2015 – 2019), market values as estimated by the Department of Finance (DOF) grew by an average annual rate of 7.8 percent. In January 2020, DOF released the preliminary assessment roll for Fiscal 2021, which showed growth in market values of 4.7 percent, with 3.6 percent of the growth due to market forces. Similarly, assessed values are up 6.7 percent, representing an additional \$17.2 billion in billable assessed value for Fiscal 2021.

Personal Income Tax (PIT)

The Finance Division forecasts personal income tax (PIT) revenues to rebound with 3.5 percent growth in Fiscal 2020, following a slight decline in Fiscal 2019. The expected increases in collections can be attributed to a combination of economic factors and recent tax policy changes.

Withholdings have been driving total PIT revenues so far this year. Collections through January are up more than six percent when compared to the same period last year. The Finance Division expects withholdings to maintain this pace of collections going forward and end the fiscal year with 5.7 percent growth. This reflects continued wage growth and decelerating employment growth.

Estimated payments, on the other hand, have been lukewarm so far this year, as economic factors and the federal cap on state and local tax (SALT) deductions continue to influence collections. After dropping nearly 16 percent last year, estimated payments are expected to somewhat stabilize over the next few years. Although estimated payments through January are about five percent higher compared to the same period last year, payments are expected to slow down in the coming months, ending this fiscal year with growth of only 0.2 percent. The recent federal tax changes continue to affect the timing of estimated payments. Extension payments were elevated in Fiscal 2019 due to uncertainties stemming from the massive changes from the TCJA. As a result, extension payments are expected to fall significantly below the high levels seen last year, as taxpayers have a better understanding of their liabilities this year. The negligible increase in estimated payments for Fiscal 2020 also reflects the projected growth in capital gains being offset by a weak real estate market.

For Fiscal 2021, PIT collection growth is projected to decelerate to almost two percent, as withholdings slow and estimated payments decline. Withholdings will reflect a slowdown in employment and the overall City economy. Estimated payments will decline from reduced capital gains realizations in the calendar year. PIT collections are expected to grow at an average of 3.5 percent in the outyears.

Business Taxes

After experiencing a phenomenal 11 percent growth last fiscal year – the highest since Fiscal 2011 – collections from the two business taxes are forecasted to grow by a mere 1.4 percent in Fiscal 2020. The moderate growth is driven by an expected boost in business corporation tax collections, offset by a decrease in unincorporated business tax collections.

Business tax collections are expected to increase by slightly more than two percent in Fiscal 2021 and grow at an average rate of about two percent in the outyears.

Business Corporation Tax (BCT). Following three years of continuous decline, collections from the BCT rebounded with 22 percent growth in Fiscal 2019. The surge in last year's collections can be attributed to strong corporate profits coupled with positive impacts from the federal tax law changes enacted by the TCJA. By broadening the tax base and sharply lowering tax rates on both domestic and foreign earnings, TCJA encouraged businesses to repatriate and pay taxes on long-deferred foreign profits. This had a positive flow-through effect on the City's corporate income tax base and boosted collections as a result.

The robust collections seen last year have continued into Fiscal 2020, as collections through January 2020 are close to 26 percent higher than the same period last fiscal year. However, the Finance Division expects collections to slow going forward as the impact from TCJA fades, finishing Fiscal 2020 with 4.5 percent growth. Growth will be sustained by a projected increase in corporate profits for calendar year 2020.

Collections for Fiscal 2021 are expected to experience roughly zero growth, as growing corporate profits are offset by a decelerating City economy. Collections are expected to pick up again in the outyears, growing at an average rate of 2.8 percent.

Unincorporated Business Tax (UBT). Unlike the BCT, collections from the UBT continued to show signs of weakening. After growing 8.9 percent in Fiscal 2018, UBT collections dropped 7.2 percent in Fiscal 2019. The huge decline in Fiscal 2019 represented a return to normal levels of collection after the previous year's revenues were boosted by taxpayers' response to changes in federal tax laws enacted by the TCJA and Emergency Economic Stabilization Act.

The downward correction in UBT collections has continued into this year so far. Year-to-date UBT collections through January 2020 are 4.5 percent below what they were in the same period of Fiscal 2019. The Finance Division expects collections to pick up slightly in the coming months but still end Fiscal 2020 with a three percent decline. The forecasted year-over-year drop may reflect a potential erosion of the UBT base, as the TCJA is expected to prompt larger pass-through entities to convert to C-Corporations in order to take advantage of the steeper tax cuts provided by TCJA. An analysis by the Penn Wharton Budget Model projected that, in the wake of TCJA, about 17.5 percent of pass-through entities nationwide would convert to C Corporations in order to shelter some of their earning from taxes.¹⁹

Collections are, however, expected to bounce back with 1.5 percent growth in Fiscal 2021, and then continue to grow at an average rate of 3.8 percent in the outyears.

Sales Tax

Sales tax revenues are forecasted to grow 7.4 percent in Fiscal 2020, spurred by consumer spending and tourism.²⁰ Collections were supported by a strong holiday shopping season, which experienced improved retail sales compared to previous years. Collections are forecasted to grow more moderately at 3.3 percent in Fiscal 2021. The Finance Division's projects a 2.9

¹⁹ Penn Wharton Budget Model, "[Projecting the Mass Conversion from Pass-Through Entities to C-Corporations,](#)" [June 12, 2018.](#)

²⁰ This includes the Sales Tax Assets Receivable Corporation (STARC) bonds. The 2016-2017 New York State Enacted Budget legislation enabled New York State to appropriate and reduce collections for 2016, 2017, 2018, and 2019 by \$50 million, \$200 million, \$200 million, and \$150 million, respectively, in order to recoup the savings New York City achieved through refinancing STAR C bonds.

²¹ This includes the MTA State Intercept. The 2019-2020 New York State Enacted Budget legislation appropriates a portion of sales tax revenue generated from legislation that requires remote sellers making \$500,000 in sales or 100 transactions (as New York State aligns the SCOUTS Wayfair v. South Dakota decision), as well as online marketplaces such as Amazon (Part G of the 2019-2020 New York State Enacted Budget), to collect and remit sales tax on sales to NYS residents for the purpose of the MTA, retroactive June 21, 2018. The amounts to be intercepted by the State are \$127.5 million in 2020, \$170 million in 2021 and increase 1 percent annually from 2022 onward, and is taken in monthly installments.

percent average growth rate for Fiscal 2022 through Fiscal 2024, reflecting slower growth in employment.

Real Estate Transaction Taxes

The real estate transaction taxes, which include Real Property Transfer (RPTT) and Mortgage Recording (MRT), are experiencing a decline in collections up through January of Fiscal 2020. Total collections from the two taxes are expected to decline 4.9 percent in Fiscal 2020. The forecast for subsequent years projects a rebound in Fiscal 2021 and modest 2 to 3 percent growth in the outyears. Significant headwinds – including a cooling market for luxury condos, a possible rising interest-rate environment, and continued effects of federal tax law changes – may soften revenues from residential transactions. Recent policy decisions have also disrupted the timing of transactions as purchasers of high-value residential properties moved quickly to preempt new mansion taxes, and sales of multifamily residential properties paused as the realities of reforms to rent regulations worked themselves out in prices. While OMB’s forecast expects these forces to drive declines in revenues through Fiscal 2022, the Finance Division is less pessimistic about the magnitude of the effects moving forward throughout the Financial Plan.

Comparison to OMB’s Forecast

The Finance Division’s tax revenue forecast exceeds OMB’s through the Financial Plan. Combined collections for Fiscal 2020 and 2021 exceed OMB projections by \$1.64 billion. The Finance Division’s February forecast is however, weaker than its previous forecast in November, with collections for Fiscal 2020 and 2021 reduced by \$293 million.

New York City Council Finance Division - Tax Revenue Growth Rates					
	FY20	FY21	FY22	FY23	FY24
Real Property	7.2%	5.0%	4.9%	4.7%	4.9%
Personal Income	3.5%	2.0%	2.3%	3.2%	2.6%
Business Corporate	4.5%	0.0%	2.1%	3.2%	3.3%
Unincorporated	(3.0%)	1.5%	3.0%	3.5%	4.9%
Sales	7.4%	3.3%	3.3%	2.8%	2.7%
Commercial Rent	5.3%	6.1%	5.3%	5.1%	(5.2%)
Real Property Transfer	(9.5%)	8.3%	1.6%	2.7%	1.4%
Mortgage Recording	1.7%	3.4%	2.1%	1.8%	1.3%
Utility	(4.9%)	(4.9%)	(0.1%)	0.7%	0.7%
Hotels	(1.7%)	1.6%	2.6%	2.6%	2.2%
All Others	(3.9%)	0.3%	(0.3%)	(0.3%)	(0.3%)
Audits	22.2%	(7.8%)	(10.8%)	0.0%	0.0%
Total Taxes	5.2%	3.4%	3.5%	3.8%	3.6%

Source: New York City Council Finance Division, Preliminary Budget Fiscal 2021

New York City Council Finance Division - Tax Revenue Difference From OMB					
<i>Dollars in Millions</i>					
	FY20	FY21	FY22	FY23	FY24
Real Property	\$31	\$180	\$461	\$1,023	\$2,000
Personal Income	79	276	108	61	(64)
Business Corporate	64	391	425	517	693
Unincorporated	(25)	(76)	(72)	(63)	(30)
Sales	36	48	33	(1)	(69)
Commercial Rent	75	116	137	163	73
Real Property Transfer	64	219	225	227	206
Mortgage Recording	74	221	270	267	256
Utility	(28)	(66)	(78)	(83)	(95)
Hotels	(23)	(18)	(9)	(1)	3
All Others	0	0	0	0	0
Audits	0	0	100	100	100
Total Taxes	\$346	\$1,290	\$1,600	\$2,210	\$3,072

Source: New York City Council Finance Division, NYC Office of Management and Budget, Preliminary Budget Fiscal 2021

Risks to the Revenue Budget

Risks to the Economic Forecast

The Finance Division's economic forecast contains appreciable downside and upside risks. The current U.S. expansion will reach its eleventh year this June, and the labor market is at or near full employment. Under these conditions the risk of the economy overheating and inflation accelerating rises. If this occurs, the Federal Reserve would respond by raising interest rates more rapidly than currently expected. As discussed in the box above, the economy is largely dependent on rising consumption spending. Should higher inflation and rising interest rates cause a loss of business and consumer access to capital and consequent loss of consumer confidence, the economy would contract. If rising interest rates cause housing prices to fall, the impact on consumption could push us into a recession.²² New York City could be hard hit, with unexpected higher interest rates driving down the value of existing bonds, causing losses for Wall Street banks, as well as individual investors. This weakens income and tax revenue growth in the City.

Further weakening of the global economy presents additional risk. In January the International Monetary Fund (IMF) projected global growth to rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020. However, recent developments in the second largest economy threaten global growth. As China grapples with the coronavirus, the possible economic damage is mounting around the world. A report published by Reuters in February indicated that they expect a slump in China's economic growth to 4.5 percent in the first quarter of 2020, down from six percent the previous quarter. This would represent the slowest pace of Chinese economic growth since the financial crisis.²³ Ramifications from the coronavirus are starting to weigh on global economic activity. China is the world's biggest oil importer, and with the coronavirus hitting

²² IHS Market "Executive Summary: US Economic" February 2020.

²³ <https://uk.reuters.com/article/uk-china-health-economy-poll/chinese-economy-clobbered-by-coronavirus-but-set-to-recover-soon-reuters-poll-idUKKBN20801Y>

manufacturing and travel, the International Energy Agency (IEA) has predicted the first drop in global oil demand in a decade. Demand is expected to fall by 435,000 barrels year-on-year in the first quarter of 2020.²⁴ The U.S. Federal Reserve expressed concerns about the potential economic impact on the domestic economy during its last January meeting. If international conditions deteriorate further, it would be a drag on U.S. growth and the financial markets on which New York City depends.

On the other hand, most forecasters see the economic impact of the virus on the U.S. economy to be small and temporary.²⁵ As a producer and exporter of services, the New York City economy is likely to be immune to most of the virus' economic transmission mechanisms. The one exception is the virus reducing travel for tourism, business and trade shows.²⁶ Consequently, transportation, accommodations, and the arts and leisure sectors could see some impact.

There are upside risks as well. A more substantial return of the housing market is a positive indicator of economic stability in the U.S. economy. In addition, the national forecast used by Finance assumes a recovery of labor productivity growth from 2019's weak 1.5 percent to a still modest 1.8 percent over the forecast period. Should productivity grow at a faster rate, an acceleration of wages, consumption and GDP growth without inflationary pressure becomes possible.²⁷

Risks to the Revenue Forecast

Much of the risk to the revenue forecast stems directly from an economy slowing more precipitously than expected. Tax policy changes also provide another layer of uncertainty. Wall Street and corporate America may prove less immune than anticipated to global weakness, trade tensions, and crises such as the coronavirus, reducing collections in the business and personal income taxes.

On the upside, if the national and City economies lose momentum more moderately than forecasted, collections would be better than expected from the personal income tax, business taxes and the sales tax. The adverse effects from the TCJA may be more muted than anticipated. Decisions to change one's location typically occur slowly, and many wealthy New Yorkers were already subject to the alternative minimum tax that disallowed a SALT deduction. Under such a scenario, collections from the property and related taxes would prove greater than forecasted.

²⁴ <https://www.iea.org/reports/oil-market-report-february-2020>

²⁵ <https://www.reuters.com/article/us-usa-economy-poll/u-s-economy-to-dodge-coronavirus-blow-but-risks-to-downside-reuters-poll-idUSKBN20E00N>

²⁶ For transmissions mechanisms: Webcast Wells Fargo Securities Forecast Update: Effects of Wuhan Coronavirus February 2, 2020. <https://engage.vevent.com/index.jsp?eid=5904&seid=20819>

²⁷ IHS Market "Executive Summary: US Economic" February 2020.

Appendices

New York City Council Finance Division - Tax Revenue Levels

Dollars in Millions

	FY19*	FY20	FY21	FY22	FY23	FY24
Real Property	\$27,703	\$29,703	\$31,195	\$32,732	\$34,274	\$35,958
Personal Income	13,345	13,813	14,088	14,408	14,874	15,263
Business Corporate	4,200	4,387	4,389	4,479	4,621	4,773
Unincorporated	2,029	1,968	1,997	2,057	2,130	2,233
Sales	7,810	8,390	8,668	8,957	9,207	9,452
Commercial Rent	907	955	1,013	1,067	1,122	1,063
Real Property Transfer	1,547	1,400	1,515	1,540	1,581	1,603
Mortgage Recording	1,097	1,115	1,153	1,176	1,197	1,214
Utility	369	351	334	334	336	339
Hotels	625	615	625	641	657	672
All Others	1,044	1,003	1,006	1,003	1,000	997
Audits	818	999	921	821	821	821
Total Taxes	\$61,495	\$64,698	\$66,904	\$69,216	\$71,820	\$74,387
OMB	\$61,495	\$64,352	\$65,614	\$67,615	\$69,610	\$71,315

**Actuals*

Source: New York City Council Finance Division Preliminary Budget Fiscal 2021

Preliminary Budget Fiscal 2021 - OMB Revenue Plan*Dollars in Millions*

	FY20	FY21	FY21	FY23	FY24
Taxes					
Real Estate	\$29,672	\$31,015	\$32,271	\$33,251	\$33,958
Sales	8,354	8,620	8,924	9,208	9,521
Mortgage Recording	1,041	932	906	930	958
Personal Income	13,734	13,812	14,300	14,813	15,327
General Corporation	4,341	3,998	4,054	4,104	4,080
Banking Corporation	(18)	0	0	0	0
Unincorporated Business	1,993	2,073	2,129	2,193	2,263
Utility	379	400	412	419	434
Hotel	638	643	650	658	669
Commercial Rent	880	897	930	959	990
Real Property Transfer	1,336	1,296	1,315	1,354	1,397
Cigarette	29	28	27	26	25
All Other	811	812	811	811	811
Audit	999	921	721	721	721
Tax Program	0	0	0	0	0
STAR	163	167	165	163	161
Total Taxes	\$64,352	\$65,614	\$67,615	\$69,610	\$71,315
Federal Categorical Grants	\$8,158	\$7,113	\$7,010	\$6,976	\$6,971
State Categorical Grants	\$15,674	\$15,803	\$16,263	\$16,720	\$16,769
Non-Governmental Grants (Other Cat.)	\$1,725	\$1,550	\$1,540	\$1,539	\$1,537
Unrest. / Anticipated State & Federal Aid	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue					
Charges for Services	\$1,059	\$1,042	\$1,040	\$1,040	\$1,040
Water and Sewer Charges	1,589	1,573	1,555	1,549	1,549
Licenses, Permits, Franchises	767	742	748	753	755
Rental Income	258	246	243	243	243
Fines and Forfeitures	1,182	1,120	1,103	1,103	1,103
Other Miscellaneous	411	347	343	342	341
Interest Income	155	164	203	224	224
Intra City	2,126	1,852	1,844	1,842	1,842
Total Miscellaneous	\$7,547	\$7,086	\$7,079	\$7,096	\$7,097
Net Disallowances & Transfers	(\$2,030)	(\$1,867)	(\$1,859)	(\$1,857)	(\$1,857)
Total Revenue	\$95,426	\$95,299	\$97,648	\$100,084	\$101,832
City Funds	\$69,869	\$70,833	\$72,835	\$74,849	\$76,555
Federal & State Revenue	\$23,832	\$22,916	\$23,273	\$23,696	\$23,740
Federal & State as a Percent of Total	24.97%	24.05%	23.83%	23.68%	23.31%
City Funds as a Percent of Total Revenue	73.22%	74.33%	74.59%	74.79%	75.18%

Source: OMB Fiscal 2021 Preliminary Budget

Preliminary Budget Fiscal 2021 - OMB Revenue Changes from Fiscal 2020 Adopted Budget*Dollars in Millions*

	FY20	FY21	FY22	FY23
Taxes				
Real Estate	\$57	\$106	\$121	\$141
Sales	87	67	72	74
Mortgage Recording	83	(36)	(85)	(84)
Personal Income	367	383	444	517
General Corporation	619	271	264	289
Banking Corporation	(18)	0	0	0
Unincorporated Business	(148)	(221)	(223)	(222)
Utility	(18)	(10)	(9)	(11)
Hotel	11	13	7	0
Commercial Rent	10	3	0	(6)
Real Property Transfer	(150)	(208)	(229)	(232)
Cigarette	(5)	(5)	(5)	(5)
All Other	43	43	42	42
Audit	0	200	0	0
Tax Program	0	0	0	0
STAR	(7)	(13)	(13)	(13)
Total Taxes	\$931	\$593	\$386	\$490
Federal Categorical Grants	\$930	\$42	\$12	\$9
State Categorical Grants	\$336	\$93	\$85	\$37
Non-Governmental Grants (Other Cat.)	\$62	\$8	\$5	\$4
Unrest. / Anticipated State & Federal Aid	\$0	\$0	\$0	\$0
Miscellaneous Revenue				
Charges for Services	\$41	\$27	\$25	\$26
Water and Sewer Charges	73	55	55	54
Licenses, Permits, Franchises	9	0	0	1
Rental Income	4	(4)	(7)	(7)
Fines and Forfeitures	166	142	138	142
Other Miscellaneous	71	10	8	8
Interest Income	(80)	(88)	(51)	(32)
Intra City	306	35	29	28
Total Miscellaneous	\$590	\$177	\$197	\$220
Net Disallowances & Transfers	(\$195)	(\$35)	(\$29)	(\$28)
Total Revenue	\$2,654	\$878	\$656	\$732
City Funds	\$1,326	\$735	\$554	\$682
Federal & State Revenue	\$1,266	\$135	\$97	\$46

Source: OMB Fiscal 2021 Preliminary Budget and Fiscal 2020 Adopted Budget