

# 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 Executive Budget**

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## Overview of the Report

On May 6, 2020, the New York City Council’s Committee on Finance will hold the first hearing on the Fiscal 2021 Executive Budget (the Budget), released on April 16, 2020. Representatives of the Mayor’s Office of Management and Budget (OMB) are expected to testify. This report, one of two prepared for this hearing, discusses the New York City Council Finance Division’s economic and tax revenue forecast. The other report will focus on the overall budget with an emphasis on the expense and the capital budgets.

It requires no reminder that these are difficult times, with mounting costs in human lives and economic damage from the COVID-19 pandemic. Attending the sharp downturn in the City’s economy and tax revenues are the profound uncertainties that challenge the best attempts at forecasting.

All forecasts are dependent on assumptions. The assumptions now include questions about a novel virus that the scientific community is still struggling to understand. Such assumptions include: the time trajectory in containing infections, what constitutes an acceptably safe level to relax social distancing, what that means in terms of what businesses and people can do, and when will we see a vaccine or at least treatments to ameliorate the harshest symptoms. There are also behavioral assumptions such as how long it will take for people to feel safe enough to return to the stores and restaurants, once legally able to do so.

All of this is in addition to the economic analysis of a global recession and consequences from the small and large business bankruptcies and collapsing oil prices.

To make matters more critical, not only is there a vaster range of uncertainties in the forecast, but the Fiscal 2021 Executive Budget lacks the adequate reserves to absorb the downward risks. In Fiscal 2021 the General Reserve contains only \$100 million and other sources of reserves such as the Retiree Health Benefit Trust are already committed to the plan.

The Finance Division tax revenue forecast is greater than OMB’s forecast by \$296 million in Fiscal 2020 and by \$367 million in Fiscal 2021. It is considerably below its own forecast for the Preliminary Budget by \$2.29 billion in Fiscal 2020 and \$6.35 billion in Fiscal 2021.<sup>1</sup>

## Economic Forecast

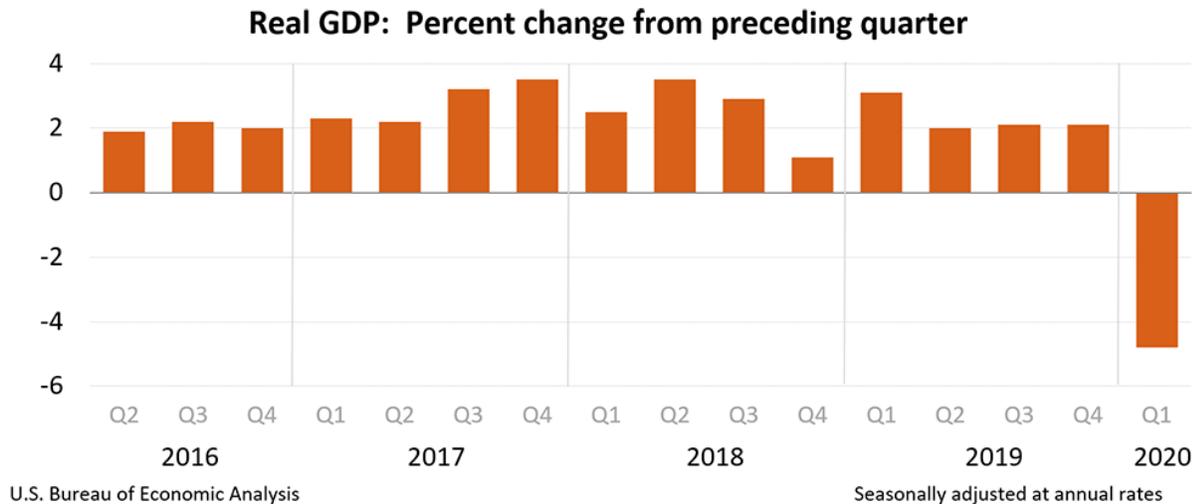
### National Economy

On April 29, 2020 the Census Bureau released its “advanced” estimate of first quarter real gross domestic product.<sup>2</sup> Dropping at an annual rate of 4.8 percent, this is the sharpest decline in GDP since the Great Recession. Triggered by government stay-at-home orders in March, personal consumption expenditures dropped 7.6 percent, and private investment in equipment fell 15.2 percent.

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<sup>1</sup> “Report to the Committee on Finance: Economic and Revenue Forecast Preliminary Budget Fiscal 2021”, New York City Council, March 2, 2020.

<sup>2</sup> Gross Domestic Product, 1<sup>st</sup> Quarter 2020 (Advance Estimate). Bureau of Economic Analysis.  
<https://www.bea.gov/news/2020/gross-domestic-product-1st-quarter-2020-advance-estimate>



Considering this decline reflects only the second half of March (one-sixth of the quarter), we can expect the second quarter drop to be even more dramatic. In fact, the Congressional Budget Office has projected the economic downturn to continue through June, with second quarter GDP declining by 12 percent.<sup>3</sup>

Unemployment in the US has skyrocketed to levels unseen. As of April 30, over 30 million people have filed for unemployment – wiping away all jobs created since the Great Recession. As noted by Heidi Shierholz of the Economic Policy Institute, “such job loss would translate into an unemployment rate of 20.5 percent.”<sup>4</sup> The distribution of unemployment remains strikingly uneven – the white unemployment rate is about 0.9 times the overall unemployment rate, while the black unemployment rate tends to be 1.8 times the overall unemployment rate. “That means that an overall unemployment rate of 20.5 percent would translate into a white unemployment rate of 18.4 percent and a black unemployment rate of 36.8 percent,” according to Shierholz.

According to IHS Markit, assuming COVID-19 infection rates fall to manageable levels, and states gradually relax directives on social distancing, the fall in GDP could end in the third quarter of 2020, and resume positive growth in the fourth quarter of 2020. The nadir of employment would probably lag GDP by one quarter. The pace of recovery, however, will be considerably slower than the pace of contraction, as even as stores and events slowly reopen, many Americans will be very cautious in exercising their regained mobility.<sup>5</sup>

<sup>3</sup> CBO’s Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021. Congressional Budget Office. <https://www.cbo.gov/publication/56335>

<sup>4</sup> Shierholz, Heidi. Nearly 28 million workers applied for unemployment insurance benefits in the last six weeks.” Working Economics Blog. Economic Policy Institute. April 30, 2020. <https://www.epi.org/blog/nearly-28-million-workers-applied-for-unemployment-insurance-benefits-in-the-last-six-weeks-congress-must-act-to-mitigate-harm-from-unprecedented-joblessness/>

<sup>5</sup> IHS Markit, ‘U.S. Weekly Economic Commentary,’ April 24, 2020, pg 2

## City Economy

The City's economy was going strong – at least up through February 2020. Private-sector payroll expanded by 92,300 in 2019 compared to 2018, representing a healthy 2.3 percent growth.<sup>6</sup>

By the third week in March, the mounting toll of COVID-19 infections and deaths prompted New York State Governor Andrew Cuomo to shutdown schools, dining-in facilities of restaurants and bars, non-essential retail, and entertainment gatherings. Travel had been curtailed and hotels were struggling. New Yorkers were enjoined to stay at home as much as possible, restraining them from patronizing the establishments allowed to remain open. These actions, intending to flatten the accelerating curve of infections, have paralyzed the City economy, and resulted in mass layoffs, surpassing those of 9/11 or the Great Recession in 2008. As of April 25, the past seven weeks have witnessed 733,305 City residents filing for unemployment insurance<sup>7</sup> - 15.8 percent of total payroll in 2019.

Over the course of the first quarter of 2020, private-sector payroll has shrunk by an estimated 231,000. This does not include the additional 17,000 independent contract workers laid off. The Finance Division estimates employment to hemorrhage by 602,000 in the second quarter – much of which has been already witnessed, and drop 55,000 in the third quarter. In all, the Finance Division projects a total peak-to-trough drop in private-sector payroll of 888,000, a 21.5 percent decline unprecedented since the Great Depression. Providing there is a noticeable decline in the rate of infections and death, and improvements in treatment and testing, the Finance Division projects the decline in employment to end in the fourth quarter of 2020, followed by a very timid recovery in the first quarter of 2021 and an accelerated pace thereafter. The peak in employment in the fourth quarter of 2019 is not expected to be revisited until the fourth quarter of 2023.

While private sector payroll is expected to fall by 21.5 percent, the unemployment rate will likely rise by a small fraction of the magnitude. The unemployed are defined as persons actively looking for work. In an environment of legally-mandated shutdowns of entire sectors and weak consumer demand, considerably more than half of those laid off are likely to leave the labor force until conditions change. This will be seen in a sharp decline in the labor force participation rate, which as of February 2020 was 63.2 percent.

The economic pain while widespread, is not equally shared. Low-income New Yorkers are shouldering disproportionate hardships. The sectors impacted by social distancing are disproportionately low-paying, such as food and hotel service, retail, administrative support, transportation and warehousing. The Finance Division estimates that 62 percent of New Yorkers who filed for unemployment benefits since the week ending March 11, were in industries with an average wage under \$70,000.<sup>8</sup>

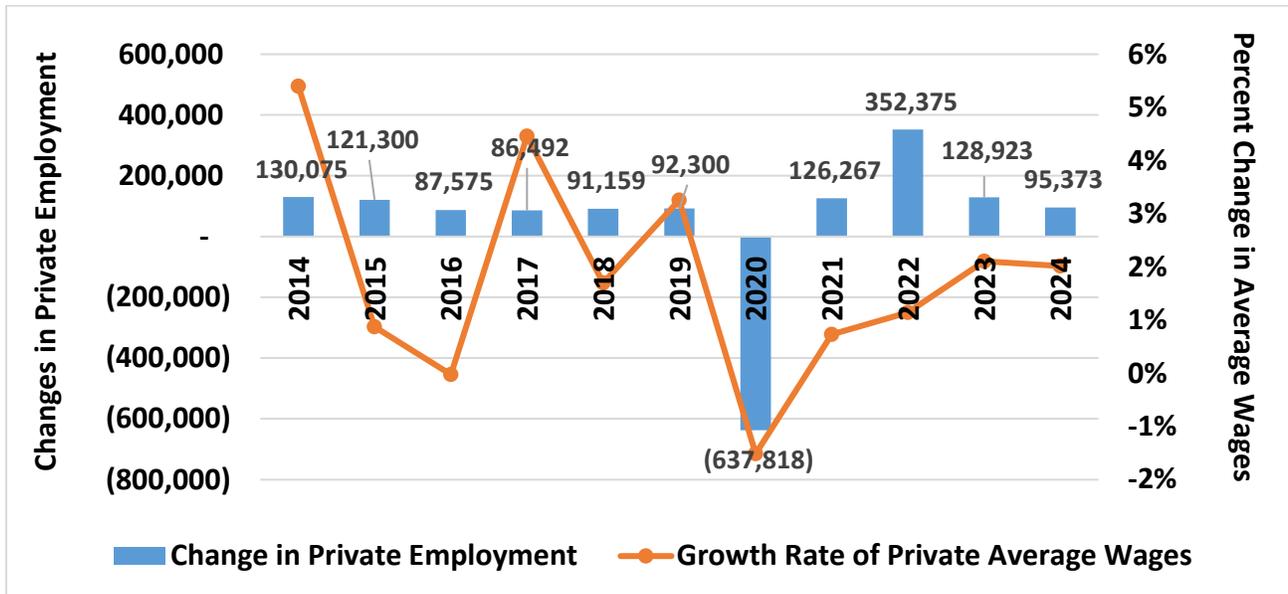
The private sector average wage in the City is estimated to have grown 3.3 percent in 2019. The Finance Division expects the average wage to fall 1.5 percent in 2020, due to reduced hours stemming from social distancing and the weakened demand for labor. The average wage will inch-

<sup>6</sup> New York State Department of Labor, 'Current Employment Statistics (CES),' April 2020

<sup>7</sup> <https://labor.ny.gov/stats/PDFs/Research-Notes-Initial-Claims-WE-4252020.pdf>

<sup>8</sup> The New York State unemployment statistics cited above, breaks down filers for unemployment benefits in New York State by sector. A New York City breakdown was extrapolated with estimated percentages of those laid-off in each sector.

up 0.7 percent in 2021, and sluggishly accelerate to 1.1 percent and 2.1 percent in 2022 and 2023 respectively.



Source: New York State Department of Labor, Current Employment Statistics (CES) and Quarterly Census of Employment and Wages (QCEW)

It’s still too early to receive real time data to quantify how the near-closing of the City’s economy is affecting commercial and residential real estate markets. Business decisions to expand their workspaces have obviously been put on hold. The ubiquitous virtual workplaces and meetings are likely to establish a new pattern once office spaces are allowed to open, with many more staff working remotely. Based on reduced demand, the Finance Division forecasts asking rents for class A midtown office space falling 4.8 percent from \$82.76 per square foot (psf) in the first quarter of 2020 to \$78.82 psf by the fourth quarter 2020. During the same interval, class A downtown office space is estimated to drop 16.1 percent from \$66.76 psf to \$56.03 psf.<sup>9</sup>

As of the first quarter of 2020, the City’s housing market remained vibrant. In Brooklyn, the median sales price and number of sales rose year-over-year by 5.0 percent and 13.9 percent respectively. In northwest Queens, the sales price and number of sales rose 20.5 percent and 15.3 percent respectively.<sup>10</sup> Subsequent reports, however, are likely to show a stark decline in home sales, as New Yorkers place on hold any large investment during a particularly uncertain recession.

By the middle of March, the pandemic’s impact on the rental market was already palpable. In Manhattan, Brooklyn and northwest Queens, new lease signings plummeted year-over-year by 37.7 percent, 45.7 percent and 33.9 percent respectively.<sup>11</sup> Stay-at-home behavior has made apartment

<sup>9</sup> Cushman & Wakefield, ‘Marketbeat: Manhattan Office,’ Q1 2020

<sup>10</sup> Elliman Report: ‘Brooklyn Sales and Northwest Queens Sales,’ Q1 2020

<sup>11</sup> Elliman Report: ‘Manhattan, Brooklyn and Queens Rentals,’ March 2020

viewing undoable. Landlords are also being squeezed by a large percent of renters who've lost their jobs and can't afford their rent. During the first five days of April, 31 percent of tenants had failed to pay their rent, compared to 18 percent a year before.<sup>12</sup>

The City's hotel industry is facing its greatest threat on record. For the week ending April 18, the citywide occupancy rate was only 33.3 percent, down from 92.2 percent a year ago. This has driven down the average daily room rate by 55.4 percent from a year ago.<sup>13</sup>

The Finance Division projects a more severe employment downturn but less of an average wage reduction than does OMB. The Finance Division expects private sector employment to plummet 15.7 percent in 2020, unprecedented in the post-war era. Employment would then recover very modestly by 3.7 percent in 2021, and more robustly by 9.9 percent in 2022. OMB projects total employment to drop by 7.9 percent in 2020, and rebound by 5.0 percent in 2021, slowing to 2.9 percent in 2022. The Finance Division forecasts the private sector average wage to fall by 1.5 percent in 2020 and grow by 0.7 percent in 2021. OMB projects the total average wage to fall by 3.4 percent in 2020 and grow by 2.5 percent in 2021.

Forecast of Selected Economic Indicators: National and New York City, CY2019-2024						
	CY19	CY20	CY21	CY22	CY23	CY24
<b>NATIONAL ECONOMY*</b>						
<b>Real GDP %</b>	<b>2.3</b>	<b>(5.4)</b>	<b>6.3</b>	<b>4.0</b>	<b>1.6</b>	<b>1.3</b>
<b>Private Employment</b>						
Level Change, '000	1,904	(7,129)	(1,371)	8,040	3,011	248
Percent Change, %	1.5	(5.6)	(1.1)	6.7	2.4	0.2
<b>Unemployment Rate, %</b>	<b>3.7</b>	<b>8.0</b>	<b>7.9</b>	<b>4.3</b>	<b>3.6</b>	<b>4.0</b>
<b>Total Wages %</b>	<b>3.0</b>	<b>1.2</b>	<b>0.0</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>
<b>Interest rates %</b>						
3-Month Treasury Bill	2.1	0.3	0.1	0.1	0.1	0.1
30-Year Conventional Mortgage Fixed	3.9	3.2	3.0	3.1	3.2	3.5
<b>NEW YORK CITY ECONOMY</b>						
<b>Real GCP %*</b>	<b>2.7</b>	<b>(3.3)</b>	<b>3.8</b>	<b>2.8</b>	<b>1.5</b>	<b>1.1</b>
<b>Private Employment</b>						
Level Change, '000	92	(638)	126	352	129	95
Percent Change, %	2.3	(15.7)	3.7	9.9	3.3	2.4
<b>Average Private Wages %</b>	<b>3.3</b>	<b>(1.5)</b>	<b>0.7</b>	<b>1.1</b>	<b>2.1</b>	<b>2.0</b>
<b>Total Private Wages %</b>	<b>5.7</b>	<b>(15.8)</b>	<b>2.4</b>	<b>11.7</b>	<b>5.5</b>	<b>4.5</b>
<b>NYSE Member Firms %</b>						
Total Revenue	9.8	(27.7)	22.6	15.4	4.5	3.2
Total Compensation	3.5	(10.6)	5.3	4.0	0.4	0.0

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

\* Calculated by IHS Markit

## Tax Revenue Forecast

Up through March, total collections for Fiscal 2020 were a healthy 5.8 percent over the previous year. With the shutdown of the national economy in mid-March to battle COVID-19, the Finance Division forecasts tax revenue growth to sharply decelerate to 1.5 percent in Fiscal 2020. Businesses are expected to be allowed to reopen in phases beginning sometime in the second half of calendar year 2020 (or first half of Fiscal 2021). This will facilitate rehiring, business receipts and subsequent

<sup>12</sup> Survey by the National Multifamily Housing Council cited in <https://www.nytimes.com/2020/04/08/business/economy/coronavirus-rent.html>

<sup>13</sup> NYC & Co., 'STR US Weekly Hotel Review – Comparative Cities Report,' week ending April 18, 2020

increases in collections. However, the economy will be at such a low ebb by the beginning of Fiscal 2021, and the subsequent pace of recovery so slow and in phases, that aggregate tax collections in 2021 are expected to be 3.0 percent lower than in 2020. During these two years, the greatest decline in revenues will be seen in the personal income tax, the two business taxes, and the two real estate transaction taxes. Tax collections are expected to normalize in the outyears, averaging 4.6 percent annually.

### Personal Income Tax

The Finance Division expects collections from the personal income tax (PIT) to decline less than one percent in Fiscal 2020. The decline represents a big reduction from the 3.5 percent growth projected by the Division in February. This downward revision can be attributed to the impact of COVID-19 on withholdings and estimated payments for the remainder of this fiscal year.

Up through March, withholding collections continued to grow at a strong pace in Fiscal 2020, by close to seven percent compared to the same period last year. The surge in collections was driven by continued increases in employment and wages through the first three quarters of the fiscal year. The response to the COVID-19 outbreak brought economic activity in the City to a standstill since mid-March, resulting in mass layoffs across multiple sectors and reduced wages. As a result, the Finance Division is now projecting only a 2.8 percent growth in withholdings for Fiscal 2020, instead of the 5.7 percent growth it forecasted in February. The federal CARES Act, which increased the weekly unemployment benefits and expanded the eligibility criteria, is expected to cushion some of the negative impact of COVID-19 on withholding collection for the remainder of Fiscal 2020. Without this stimulus, the real impact on Fiscal 2020 withholdings would have been far more drastic.

Estimated payments through the first three quarters of Fiscal 2020, stood at 4.5 percent above the same period the previous year. However, payments for the last quarter are projected to decline by a huge 20 percent, wiping out the previous gains and causing total estimated payments for Fiscal 2020 to drop more than nine percent. The decline can be attributed to reductions in projected capital gains realizations and other nonwage income, as COVID-19 casts a heavy shadow on equity markets and business activity in the City. It must be noted that the Finance Division expects any estimated payment deferred from April to July to be recognized as part of Fiscal 2020 revenues.<sup>14</sup>

Collections from the various PIT components are expected to experience even steeper declines in Fiscal 2021, resulting in a 12.2 percent drop in total PIT revenues that year. This expected year-over-year decline – the largest since the Great Recession – reflects overall weaknesses in the economy as COVID-19 continues to drag down the job market and cause volatilities in the stock market. Withholdings are expected to decline by 8.6 percent, reflecting the much reduced tax base by the beginning of the fiscal year. Additionally, as the boost from the temporary extension and increase in unemployment benefits expires, there will be a further drop in total income. Estimated payments for Fiscal 2021 are also expected to drop 24.6 percent, reflecting declines in net capital gain realizations in the first three quarters of the fiscal year.

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<sup>14</sup> Following the federal government's lead, New York State and the City are allowing taxpayers defer their State and City PIT estimated payments which were due on April 15<sup>th</sup> to July 15<sup>th</sup>.

PIT collections are expected to rebound in the outyears, with collections growing at an average rate over six percent. The City economy is expected to largely recover by calendar year 2022, as employment and total wages return to healthier levels of growth.

### Business Corporation Tax

Following an outstanding 22 percent increase the previous year, collections from the business corporation tax are expected to grow only three percent in Fiscal 2020. Year-to-date collections through the third quarter of the fiscal year were up 19.0 percent compared to the same period last fiscal year. However, collections are expected to suffer a massive hit in the coming months, offsetting most of the gains from the first three quarters. The expected decline is attributed to a sharp drop in corporate profits in the last quarter of the fiscal year, as COVID-19 continues to severely downsize business activities in the City.

The brunt of COVID-19's impact on the business corporation tax is expected in Fiscal 2021, with collections projected to decline 21.6 percent. The steep drop reflects the economic fallout from COVID-19, as corporations continue to experience larger declines in profits for the first three quarters of Fiscal 2021. Collections are expected to rebound strongly in the outyears, growing at an average rate of 9.3 percent.

### Unincorporated Business Tax

The Finance Division expected collections from the unincorporated business tax (UBT) to decline in Fiscal 2020 even prior to the outbreak of COVID-19 in the City. The performance of the UBT has been weak all fiscal year, with collections through the first three quarters down six percent compared to the same period last year. The Finance Division expects collections to see an even more dramatic decline in the last quarter, causing total UBT revenues to drop 10.5 percent in Fiscal 2020. This sharper decline is attributed to lower earnings by unincorporated businesses, related to the sudden halt or downsizing of business activity in response to COVID-19.

Collections from the UBT are expected to continue falling in Fiscal 2021, with the tax suffering a 6.4 percent drop that year. The expected decline in Fiscal 2021 collections reflects a weakened City economy as businesses struggle to pick up where they left off after the lockdown has been lifted. Collections, however, are expected to bounce back in the outyears and grow at an average rate of 5.5 percent, as the economy eventually makes a full recovery.

### Sales Tax

Sales tax collections for Fiscal 2020 are expected to drop by 4.2 percent over last year.<sup>15 16</sup> Although collections for the year started strong, COVID-19 has had a significant effect on collections for the

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<sup>15</sup> This includes the Sales Tax Assets Receivable Corporation (STAR C) 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.

<sup>16</sup> 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

last quarter of the fiscal year, as the City implemented social distancing, businesses were shuttered, and individuals slashed unnecessary spending. Collections are forecasted to grow slightly by 0.8 percent in Fiscal 2021.<sup>17</sup> The Finance Division projects a 5.6 percent average growth rate for Fiscal 2022 through Fiscal 2024, reflecting a slow recovery.

### Transaction Taxes

**Mortgage Recording Tax (MRT).** With much of the City's day-to-day businesses activities suspended, few opportunities currently exist for the purchase of property. The slowdown in real estate sales is expected to flow through Fiscal 2021 as it becomes more apparent that "opening up" the economy will be a scaled, calculated process. It is expected that MRT collections will gain traction in Fiscal 2022 at the earliest. However, with interest rates at record lows, it is expected that refinancing activity will increase over the next two years, slightly softening the blow to MRT collections.

**Real Property Transfer Tax (RPTT).** The Finance Division does not expect RPTT collections to suffer dramatically beyond Fiscal 2021, anticipating that fundamental market conditions (low interest rates and low sales prices) will accommodate buying activity again beginning in Fiscal 2022. With much uncertainty surrounding the way and speed at which the City will re-open, it is clear that collections will decline not only in the current fiscal year, but in Fiscal 2021. The recent SL Green Realty failed \$815 million deal<sup>18</sup>, coupled with the shutdown of much of the City, affirms that a frozen commercial real estate market in NYC will not thaw in time to maintain normal collections levels for Fiscal 2020 and 2021. The Finance Division expects growth in RPTT collections to return towards its previous trend in the outyears of the Financial Plan, but from a lower base.

### Commercial Rent Tax

New COVID-19 related impacts on the local economy have shifted assumptions effecting the Council's Fiscal 2021 Executive Budget forecast for the Commercial Rent Tax (CRT). Reductions in asking rents and slowing demand for commercial space in the current fiscal year are likely to

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million in 2020, \$170 million in 2021 and increase 1 percent annually from 2022 onward, and is taken in monthly installments.

<sup>17</sup> This include the MTA State Intercept and the Distressed Provider Assistance Account intercept. The NYS Education, Labor and Family Assistance (ELFA) Budget (S. 7056-B PART ZZ) legislates that NYS will intercept a portion of NYC sales tax collections and redirect them to the New York State Agency Trust Fund, under a Distressed Provider Assistance Account, for the purpose of relief for financially distressed hospitals and nursing home facilities. This is in addition to the monthly MTA sales tax intercept that is placed into the NYS Agency Trust Fund which is already in effect. The Comptroller will withhold a portion of sales tax collections, penalties and fees, in the amounts of \$200M in quarterly installments on January 15, April 15, July 15, and October 15. The comptroller will defer withholding the total value of the withholdings that would have occurred on April 15, 2020, July 15, 2020, October 15, 2020 and January 15, 2021 until January 15, 2021. At which time, the full \$200M will be withheld and the normal quarterly installments will occur thereafter. The cost to City revenue will be \$250 million in 2021 and \$150 million in 2022, for a total cost of \$400 million. This act shall end two years after the effective date. Without the MTA and the Distressed Provider Assistance Account intercepts, sales tax collection growth is 4.1 percent.

<sup>18</sup> SL Green's \$815 Million Deal to Sell New York City Office Tower Falls Apart, 3/24/2020, Wall Street Journal, <https://www.wsj.com/articles/sl-green-815-million-deal-to-sell-new-york-city-office-tower-falls-apart-11585100373>

continue well into Fiscal 2021, making it more likely that the rebound in CRT collections occur in Fiscal 2022, not Fiscal 2021 as previously forecast. Growth in the outyears will continue at a modest pace, reflecting a reduced base of properties entering into new leases in both Fiscal 2020 and Fiscal 2021.

### Real Property Tax

Property tax collections are expected to maintain decelerated growth throughout the financial plan, with year-over-year growth forecast to peak at 6.9 percent in Fiscal 2020 and average 3.7 percent from Fiscal 2021 through 2024. A recent history of robust market value growth has driven a steady level of assessment growth, which will assist in keeping property tax revenue resilient through the financial plan.

Over the previous five-year period (Fiscal 2015–2019), the Department of Finance’s (DOF) market value estimate grew by an average annual rate of 7.8 percent. Similarly, assessed values are up 6.7 percent, representing an additional \$17.2 billion in billable assessed value for Fiscal 2021. The Finance Division expects COVID-19 to effect market values over the next several years. Assessment growth will remain propped up by the strong market values over the last five years, allowing tax collections to continue steady growth over the next two years, but with slower growth in the outyears when the effect of declining market values begin to materialize.

The Finance Division’s forecast for Fiscal 2020 is similar to OMB’s forecast, with minor differences attributable to updated projections for certain components of the property tax reserve. The significant factor driving slower growth in the outyears reflects greater property tax reserves to account for an expected increase in payment delinquencies and deferrals. Other factors effecting the slower growth include expectations of rising interest rates, and the loss of valuable federal deductions for state and local taxes.

<b>New York City Council Finance Division - Tax Revenue Growth Rates</b>					
	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Real Property	6.9%	3.8%	5.1%	4.1%	1.6%
Personal Income	(0.7%)	(12.2%)	9.3%	5.8%	3.4%
Business Corporate	2.9%	(21.6%)	18.1%	9.2%	0.5%
Unincorporated	(10.5%)	(6.4%)	11.8%	3.9%	0.7%
Sales	(4.2%)	0.8%	8.8%	5.2%	2.9%
Commercial Rent	(2.0%)	4.7%	4.7%	4.4%	(5.0%)
Real Property Transfer	(27.8%)	(10.0%)	20.0%	2.6%	1.5%
Mortgage Recording	(14.2%)	(10.0%)	3.0%	2.1%	1.2%
Utility	(4.9%)	(4.9%)	(0.1%)	0.7%	0.7%
Hotels	(25.0%)	3.5%	14.7%	18.0%	2.2%
All Others	21.0%	(18.8%)	(0.3%)	(0.3%)	(0.3%)
Audits	10.0%	2.4%	(10.8%)	0.0%	0.0%
<b>Total Taxes</b>	<b>1.5%</b>	<b>(3.0%)</b>	<b>7.2%</b>	<b>4.8%</b>	<b>1.8%</b>

*Source: New York City Council Finance Division, Executive Plan Fiscal 2021*

<b>New York City Council Finance Division - Tax Revenue Difference From OMB</b>					
<i>Dollars in Millions</i>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Real Property	(\$0)	(\$94)	\$411	\$803	\$900
Personal Income	(7)	(39)	(261)	(280)	(370)
Business Corporate	43	230	154	304	434
Unincorporated	98	(82)	23	(40)	(117)
Sales	269	277	(8)	(69)	(64)
Commercial Rent	25	93	82	95	12
Real Property Transfer	(14)	(39)	(64)	(68)	(67)
Mortgage Recording	(1)	83	(5)	(9)	(9)
Utility	2	(29)	(66)	(65)	(77)
Hotels	(20)	(32)	(68)	(1)	2
All Others	0	0	0	0	0
Audits	(100)	0	100	100	100
<b>Total Taxes</b>	<b>\$296</b>	<b>\$367</b>	<b>\$297</b>	<b>\$770</b>	<b>\$743</b>

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

## Risks to the Forecast

The City's revenues historically vary with the ups and downs of the city and national economy and the economic fallout of COVID-19 is not an exception. This is a time of unusual and extreme difficulty in forecasting the economy and tax revenues. Besides the usual economic factors, the forecast depends on the nature of COVID-19. The spread of the virus, its impact on the population, and the measures and time necessary to contain it are still unknown, and are the main risk factors in how and when the economy will evolve. The Finance Division lays out some framework of the potential range of economic risks as a result of COVID-19.

The biggest risk would come from a global economic contraction. In April, the International Monetary Fund (IMF) projected global growth to contract three percent in 2020.<sup>19</sup> A three percent fall in output would be far more severe than the last recession, when the world economy contracted by less than one percent between 2008 and 2009.

<sup>19</sup> International Monetary Fund, World Economic Outlook, April 2020: The Great Lockdown: <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

Non-financial firms have undertaken extensive borrowing, often to buy back stock. Servicing this debt under current conditions will be difficult for some firms. The impact of defaults and bankruptcies could deepen the recession and weaken the recovery.

The financial condition of state and local governments may also weaken the economy. Unlike the federal government, these governments are generally required to balance their budgets. According to a forecast by the Center for Budget and Policy Priorities, states will exhaust their rainy day funds, use the aid provided in the federal stimulus bills, and still be short \$510 billion in revenue between State Fiscal 2020 and 2022.<sup>20</sup> These reductions can only be met by reduced spending and higher taxes. Either of these options would slow the economic recovery. Attempting to solve this problem through defaults on state and local debt or state bankruptcies, as proposed by Senator McConnell, would worsen the situation by undermining the municipal bond market.<sup>21</sup>

Furthermore, risks stem from the Federal economic response to this crisis. The \$2 trillion CARES act was a good step, strengthening (temporarily) automatic stabilizers and worker supports like unemployment insurance and providing a lifeline to small businesses. However, there are already indications that some aspects, like the Paycheck Protection Program are not sufficiently funded, so further resources will be needed to prevent the economy from further collapse. The possibility of a vigorous fourth stimulus bill is a positive risk to the forecast.

Another risk is the growing risk of deflation. In addition to causing a deep recession, the crisis is also creating a massive slack in goods (unused machines and capacity) and labor (mass unemployment), as well as driving a price collapse in commodities such as oil and industrial metals. That makes debt deflation possible, increasing the risk of insolvency.

Lastly, tensions with China and fears of contagion will further disrupt trade, which would be a drag on the economy.

## Conclusion

The following are five takeaways from the report:

1. A national recession began in the first quarter of 2020 and will continue through the third quarter of the year. This assumes it will be possible to relax some of the measures necessary to contain COVID-19 in the late spring and early summer. In 2020 GDP will contract by 5.4 percent.
2. The City's economy is also in recession. In all, the Finance Division projects a total peak-to-trough drop in private-sector payroll of 888,000, a 21.5 percent decline unprecedented since the Great Depression. The Finance Division projects the decline in employment to end in the fourth quarter of 2020, a very timid recovery in the first quarter of 2021, and an accelerated pace thereafter.

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<sup>20</sup> <https://www.cbpp.org/blog/new-cbo-projections-suggest-even-bigger-state-shortfalls>

<sup>21</sup> <https://www.theatlantic.com/ideas/archive/2020/04/why-mitch-mcconnell-wants-states-go-bankrupt/610714/>

3. The Finance Division tax revenue forecast is above OMB's forecast by \$296 million in Fiscal 2020 and by \$367 million in Fiscal 2021. It is considerably below its own forecast from the Preliminary Budget by \$2.29 billion in Fiscal 2020 and \$6.35 billion in Fiscal 2021.<sup>22</sup>
4. There is an unusual level of risk to this forecast. The forecast depends on the nature of COVID-19. The recession is now global and it interacts with already weakened balance sheets of non-financial firms. State and local governments are now reacting to the revenue losses associated with the recession. It is difficult to estimate how all of this will impact the City's economy.
5. The Fiscal 2021 Executive Budget lacks the adequate reserves to absorb the downward risks. In Fiscal 2021 the General Reserve contains only \$100 million and other sources of reserves such as the Retiree Health Benefit Trust are already committed to the plan.

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<sup>22</sup> "Report to the Committee on Finance: Economic and Revenue Forecast Preliminary Budget Fiscal 2021", New York City Council, March 2, 2020.

## Appendix

### New York City Council Finance Division - Tax Revenue Levels

Dollars in Millions

	FY19*	FY20	FY21	FY22	FY23	FY24
Real Property	\$27,703	\$29,612	\$30,740	\$32,317	\$33,634	\$34,160
Personal Income	13,345	13,246	11,632	12,714	13,449	13,900
Business Corporate	4,200	4,322	3,391	4,004	4,373	4,394
Unincorporated	2,029	1,817	1,700	1,901	1,974	1,988
Sales	7,810	7,482	7,541	8,208	8,636	8,890
Commercial Rent	907	889	931	975	1,018	967
Real Property Transfer	1,547	1,117	1,005	1,206	1,237	1,255
Mortgage Recording	1,097	941	847	872	890	901
Utility	369	351	334	334	336	339
Hotels	625	469	486	557	657	672
All Others	1,044	1,263	1,026	1,023	1,020	1,017
Audits	818	899	921	821	821	821
<b>Total Taxes</b>	<b>\$61,495</b>	<b>\$62,409</b>	<b>\$60,553</b>	<b>\$64,931</b>	<b>\$68,045</b>	<b>\$69,303</b>
OMB	\$61,495	\$62,113	\$60,186	\$64,634	\$67,275	\$68,560

\*Actuals

Source: New York City Council Finance Division Executive Plan Fiscal 2021

### Fiscal 2021 Executive Financial Plan - OMB Revenue Plan

Dollars in Millions

	FY20	FY21	FY21	FY23	FY24
<b>Taxes</b>					
Real Property	\$29,612	\$30,834	\$31,906	\$32,831	\$33,260
Sales	7,213	7,264	8,216	8,705	8,954
Mortgage Recording	942	764	877	899	910
Personal Income	13,253	11,671	12,975	13,729	14,270
General Corporation	4,310	3,161	3,850	4,069	3,960
Banking Corporation	(31)	0	0	0	0
Unincorporated Business	1,719	1,782	1,878	2,014	2,105
Utility	349	363	400	401	416
Hotel	489	518	625	658	670
Commercial Rent	864	838	893	923	955
Real Property Transfer	1,131	1,044	1,270	1,305	1,322
Cigarette	27	26	25	24	23
All Other	1,071	833	833	833	833
Audit	999	921	721	721	721
Tax Program	0	0	0	0	0
STAR	165	167	165	163	161
<b>Total Taxes</b>	<b>\$62,113</b>	<b>\$60,186</b>	<b>\$64,634</b>	<b>\$67,275</b>	<b>\$68,560</b>
<b>Federal Categorical Grants</b>	<b>\$10,832</b>	<b>\$7,137</b>	<b>\$6,964</b>	<b>\$6,922</b>	<b>\$6,917</b>
<b>State Categorical Grants</b>	<b>\$15,979</b>	<b>\$15,448</b>	<b>\$16,283</b>	<b>\$16,738</b>	<b>\$16,788</b>
<b>Non-Governmental Grants (Other Cat.)</b>	<b>\$1,744</b>	<b>\$1,547</b>	<b>\$1,536</b>	<b>\$1,535</b>	<b>\$1,532</b>
<b>Unrest. / Anticipated State &amp; Federal Aid</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Miscellaneous Revenue</b>					
Charges for Services	\$971	\$1,039	\$1,034	\$1,034	\$1,034
Water and Sewer Charges	1,708	1,578	1,565	1,559	1,559
Licenses, Permits, Franchises	709	691	695	695	697
Rental Income	261	247	243	243	243
Fines and Forfeitures	1,108	1,111	1,103	1,098	1,099
Other Miscellaneous	494	351	343	342	341
Interest Income	123	12	13	13	13
Intra City	2,178	1,848	1,834	1,831	1,831
<b>Total Miscellaneous</b>	<b>\$7,552</b>	<b>\$6,877</b>	<b>\$6,830</b>	<b>\$6,815</b>	<b>\$6,817</b>
<b>Net Disallowances &amp; Transfers</b>	<b>(\$782)</b>	<b>(\$1,863)</b>	<b>(\$1,849)</b>	<b>(\$1,846)</b>	<b>(\$1,846)</b>
<b>Total Revenue</b>	<b>\$97,438</b>	<b>\$89,332</b>	<b>\$94,398</b>	<b>\$97,439</b>	<b>\$98,768</b>
<b>City Funds</b>	<b>\$68,883</b>	<b>\$65,200</b>	<b>\$69,615</b>	<b>\$72,244</b>	<b>\$73,531</b>
<b>Federal &amp; State Revenue</b>	<b>\$26,811</b>	<b>\$22,585</b>	<b>\$23,247</b>	<b>\$23,660</b>	<b>\$23,705</b>
<b>Federal &amp; State as a Percent of Total</b>	<b>27.52%</b>	<b>25.28%</b>	<b>24.63%</b>	<b>24.28%</b>	<b>24.00%</b>
<b>City Funds as a Percent of Total Revenue</b>	<b>70.69%</b>	<b>72.99%</b>	<b>73.75%</b>	<b>74.14%</b>	<b>74.45%</b>

Source: OMB Fiscal 2021 Executive Financial Plan

<b>Fiscal 2021 Executive Financial Plan - OMB Revenue Changes from Fiscal 2021 Preliminary Financial Plan</b>					
<i>Dollars in Millions</i>					
	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
<b>Taxes</b>					
Real Property	(\$60)	(\$181)	(\$365)	(\$420)	(\$698)
Sales	(1,141)	(1,356)	(708)	(503)	(567)
Mortgage Recording	(99)	(168)	(29)	(31)	(48)
Personal Income	(481)	(2,141)	(1,325)	(1,084)	(1,057)
General Corporation	(31)	(837)	(204)	(35)	(120)
Banking Corporation	(13)	0	0	0	0
Unincorporated Business	(274)	(291)	(251)	(179)	(158)
Utility	(30)	(37)	(12)	(18)	(18)
Hotel	(149)	(125)	(25)	0	1
Commercial Rent	(16)	(59)	(37)	(36)	(35)
Real Property Transfer	(205)	(252)	(45)	(49)	(75)
Cigarette	(2)	(2)	(2)	(2)	(2)
All Other	260	21	22	22	22
Audit	0	0	0	0	0
Tax Program	0	0	0	0	0
STAR	2	0	0	0	0
<b>Total Taxes</b>	<b>(\$2,239)</b>	<b>(\$5,428)</b>	<b>(\$2,981)</b>	<b>(\$2,335)</b>	<b>(\$2,755)</b>
<b>Federal Categorical Grants</b>	<b>\$2,674</b>	<b>\$24</b>	<b>(\$46)</b>	<b>(\$54)</b>	<b>(\$54)</b>
<b>State Categorical Grants</b>	<b>\$305</b>	<b>(\$355)</b>	<b>\$20</b>	<b>\$18</b>	<b>\$19</b>
<b>Non-Governmental Grants (Other Cat.)</b>	<b>\$19</b>	<b>(\$3)</b>	<b>(\$4)</b>	<b>(\$4)</b>	<b>(\$5)</b>
<b>Unrest. / Anticipated State &amp; Federal Aid</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Miscellaneous Revenue</b>					
Charges for Services	(\$88)	(\$3)	(\$6)	(\$6)	(\$6)
Water and Sewer Charges	119	5	10	10	10
Licenses, Permits, Franchises	(58)	(51)	(53)	(58)	(58)
Rental Income	3	1	0	0	0
Fines and Forfeitures	(74)	(9)	0	(5)	(4)
Other Miscellaneous	83	4	0	0	0
Interest Income	(32)	(152)	(190)	(211)	(211)
Intra City	52	(4)	(10)	(11)	(11)
<b>Total Miscellaneous</b>	<b>\$5</b>	<b>(\$209)</b>	<b>(\$249)</b>	<b>(\$281)</b>	<b>(\$280)</b>
<b>Net Disallowances &amp; Transfers</b>	<b>\$1,248</b>	<b>\$4</b>	<b>\$10</b>	<b>\$11</b>	<b>\$11</b>
<b>Total Revenue</b>	<b>\$2,012</b>	<b>(\$5,967)</b>	<b>(\$3,250)</b>	<b>(\$2,645)</b>	<b>(\$3,064)</b>
<b>City Funds</b>	<b>(\$986)</b>	<b>(\$5,633)</b>	<b>(\$3,220)</b>	<b>(\$2,605)</b>	<b>(\$3,024)</b>
<b>Federal &amp; State Revenue</b>	<b>\$2,979</b>	<b>(\$331)</b>	<b>(\$26)</b>	<b>(\$36)</b>	<b>(\$35)</b>

Source: OMB Fiscal 2021 Executive Financial Plan and Fiscal 2021 Preliminary Financial Plan