

THE COUNCIL OF THE CITY OF NEW YORK

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Report to the Committee on Finance Economic and Revenue Forecast Tax Revenue Collections and Cash Plan

May 24, 2021

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Overview of the Report

On May 24, 2021, the New York City Council's Committee on Finance will hold the penultimate hearing on the Fiscal 2022 Executive Budget (the Budget). Representatives of the Mayor's Office of Management and Budget (OMB) are expected to testify. This report discusses the New York City Council Finance Division's economic and tax revenue forecast.

Over the last four months the outlook for economic growth and tax revenue has improved dramatically. Progress in administering the COVID vaccines allows the relaxation of public health restrictions, and eases consumer and employee concerns that have hurt face to face industries in the service sector of the economy. The fiscal stimulus from the American Rescue Plan Act provides a boost to spending. Reflecting this, between January and April, IHS Markit has raised its forecast of real gross domestic product (GDP) from 4 percent to 6.7 percent for 2021.

These same forces are boosting the City's economy. However the City, like many other large cities with a relatively large share of office jobs, is seeing a slower recovery than the nation as a whole.¹

Still, the increasing economic activity and rising incomes result in an improved outlook for City tax revenues. Reflecting on this, the Administration's tax revenue forecast has been raised by \$3.8 billion for Fiscal 2021 through Fiscal 2025, since the Fiscal 2022 Preliminary Budget's forecast in January.

The Council's Finance Division believes the Administration still underestimates the tax revenue impact from the economic recovery. The Finance Division's forecast is \$322 million above the Administration for Fiscal 2021 and \$1.1 billion above the Administration for Fiscal 2022. Over the forecast period the Finance Division's forecast exceeds the Administration's by \$6.1 billion.

Current Economic Conditions

National Conditions

In the first quarter of 2021, real GDP grew by an annualized rate of 6.4 percent, following 4.3 percent growth in the fourth quarter 2020.² The increase in first quarter GDP reflected the continued economic recovery, contributed to by the reopening of establishments, and the robust government response to the COVID-19 pandemic. Government assistance payments, such as direct payments, enhanced unemployment benefits, and Paycheck Protection Plan loans, were distributed to households and businesses through the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act.

The first quarter's robust pace was driven by consumer spending, which soared at an annual rate of 10.7 percent, including a stunning 41.4 percent increase in spending on durable goods and a 14.4 percent increase for nondurable goods. Spending on services, however, increased by a more modest 4.6 percent, reflecting persistent consumer wariness in returning to restaurants, airplanes, and hotels.

Employment growth sharply decelerated to only 266,000 payroll jobs in April, following increases of 770,000 jobs in March, and 536,000 in February, arousing concerns, and speculation as to its causes. April employment remained about eight million jobs below the pre-pandemic level, yet about 14 million above

¹ Joanna Kim and Tracy Hadden Loh, [What the recovery from the Great Recession reveals about post-pandemic work and cities \(brookings.edu\)](#) The Brookings Institution, March 22, 2021.

² U.S. Bureau of Labor Statistics <https://www.bea.gov/news/2021/gross-domestic-product-first-quarter-2021-advanceestimate#:~:text=Current%E2%80%91dollar%20GDP%20increased%2010.7,a%20level%20of%20%2422.05%20trillion>.

the trough reached in April 2020. The unemployment rate also inched-up to 6.1 percent in April from 6.0 percent the month before.

City Conditions

The City's labor market is on track to recover after being decimated by the pandemic. The recovery, however, still lags the rest of the country, as the City was disproportionately affected by the pandemic. In March and April of 2020, when the infection and hospitalization rates reached its peak, the City lost 884,000 jobs – a decline of 19 percent. In comparison, the U.S. lost only 14.7 percent of its total employment over the same period. The labor market has partially recovered since then, with the City recovering only 34.2 percent of its lost positions as of March 2021. The U.S., on the other hand, has restored 62.4 percent of its lost jobs over the same period.

As of March 2021, the net loss in payroll jobs in the City since February 2020 came to 582,000, a 12.5 percent decline. The net loss for the U.S. over the same period, was only 5.5 percent. There is also a significant difference in the unemployment rate. While the City's jobless rate stood at 11.7 percent as of March 2021, the U.S. rate was six percent.³

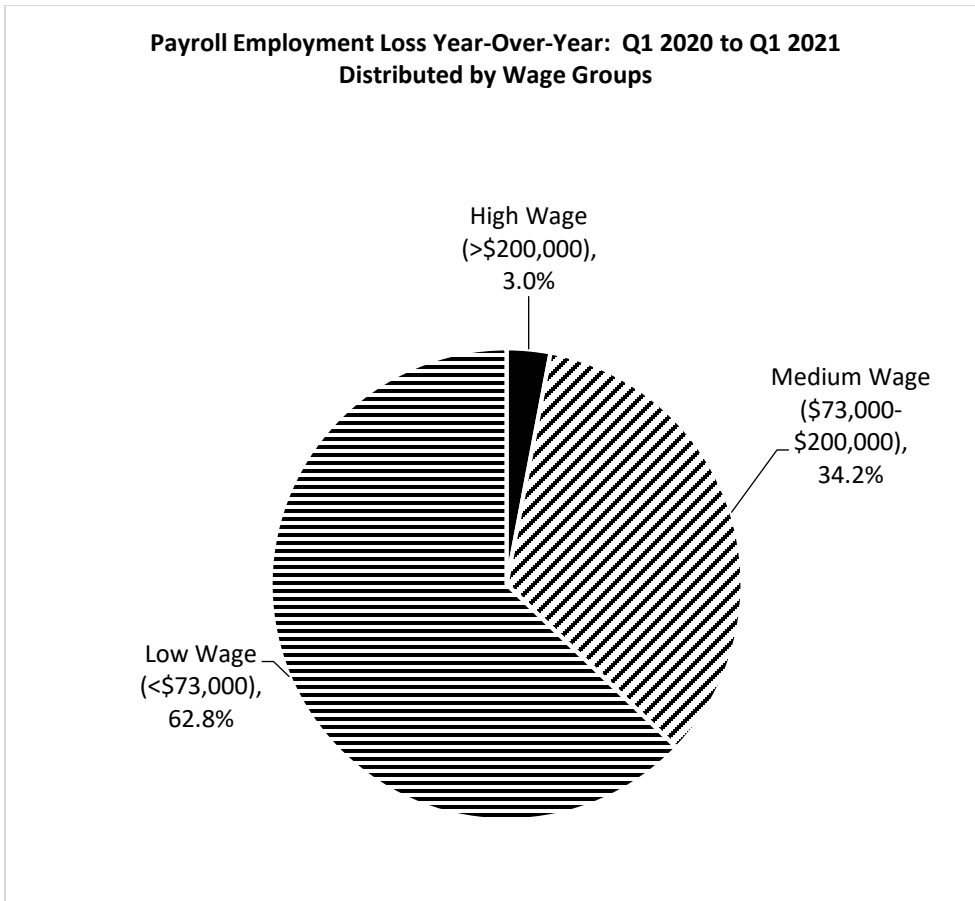
The disparity can be attributed to the more aggressive measures the City employed to deal with Covid-19 compared to the rest of the country. As the City became the epicenter, various sectors of the economy were shut down and residents admonished to shelter in place, bringing business and consumer activity to an abrupt halt and leading to massive layoffs. The City has remained slow and cautious in reopening, even as the infection rate has subsided, and the vaccination rate grows. Restaurants, cultural venues, and other businesses in the City, having been restricted in their indoor capacity, have only been allowed to resume full capacity as of May 19. The subway has also recently resumed 24-hour services. Broadway shows, on the other hand, are not scheduled to fully reopen until September 14.

In the first quarter of 2021, private sector employment experienced a 14.6 percent drop compared to the same period a year ago. The pandemic-induced job losses were concentrated in low to moderate paying industries entailing person-to-person contact. Approximately 63 percent of the pandemic-related job losses are from industries that pay under \$73,000 a year. The percentage increases when including self-employed and gig workers.⁴ About 40.5 percent of the jobs lost came from medium-wage industries, while only three percent came from high-wage industries with salaries over \$200,000.⁵

³ New York State Department of Labor, Labor Statistics, March 2021, and U.S. Department of Labor, Employment Situation, March 2021 (seasonally adjusted).

⁴ New York State Department of Labor, 'Current Employment Statistics,' March 2021 (not seasonally adjusted).

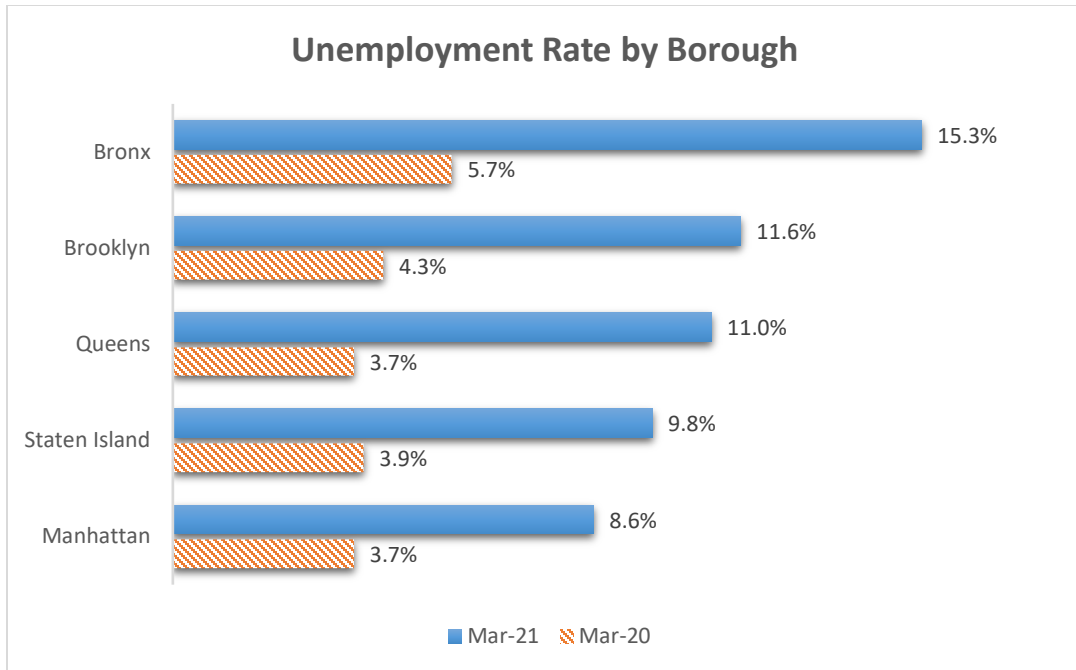
⁵ New York State Department of Labor: 'Current Employment Statistics' (CES), Q1 2021 and Quarterly Census of Employment and Wages (QCEW) Q3 2020. Wages are in 2020 dollars (not seasonally adjusted).



Source: New York State Department of Labor, ‘Current Employment Statistics’ (CES), and Quarterly Census of Employment and Wages (QCEW), March 2021.

Unemployment rates have soared across all five boroughs since the outbreak of the pandemic a year ago. The jobless rate in each borough jumped significantly in March compared to the same period last year. ⁶

⁶ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, March 2021.



Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, March 2021.

On the bright side, the City experienced strong employment growth of 28,700 and 40,700 in February and March, respectively. The City’s unemployment rate dropped significantly in March from 12.9 percent to 11.7 percent, the lowest since the onset of the pandemic. While this double-digit rate is cold comfort, it hopefully indicates a turning point and a downward trajectory.⁷

Due to the disproportionate loss of low-paying jobs, changes in the private sector average wage are not clearly reflecting wage pressures within sectors, as they normally do. Instead, they are mostly capturing the dramatic shift in the employment mix, with the fewer low-paying jobs receiving less weight, and the remaining high-wage jobs more weight. Consequently, the Finance Division’s estimate of dynamic 8.8 percent wage growth in 2020, represents the decreased representation of low-wage workers in the salary-weighted average wage rather than a true increase in the wage rate.

Residential real estate in the City is a mixed picture. Sales of co-ops, condos and 1-3 family houses continued their recovery, which began late last year. Between the fourth quarter of 2020 and the first quarter of 2021, sales soared by 28.7 percent in Manhattan and 39.8 percent in Queens. Sales have finally surpassed their pre-pandemic levels in Manhattan, Brooklyn, and Queens. Median home prices advanced quarter-to-quarter by a little under three percent, except for a 1.2 percent decline in Queens. Prices were above their pre-pandemic level in Brooklyn and Manhattan. The rental market was weaker across the board, with median rents in Brooklyn, Manhattan, and Queens down by between 10 and 17 percent year-over-year.

Commercial real estate has significantly weakened. New Manhattan office leasing eked out only 3.6 million square feet (msf) in the first quarter of 2021, 38.4 percent lower than one year ago, and way below the first quarter average of 8.3 msf between 2017 and 2021. The Manhattan office vacancy rate shot up to 16.3 percent from 11.3 percent one year ago – the highest level since the third quarter of 1994. Manhattan overall

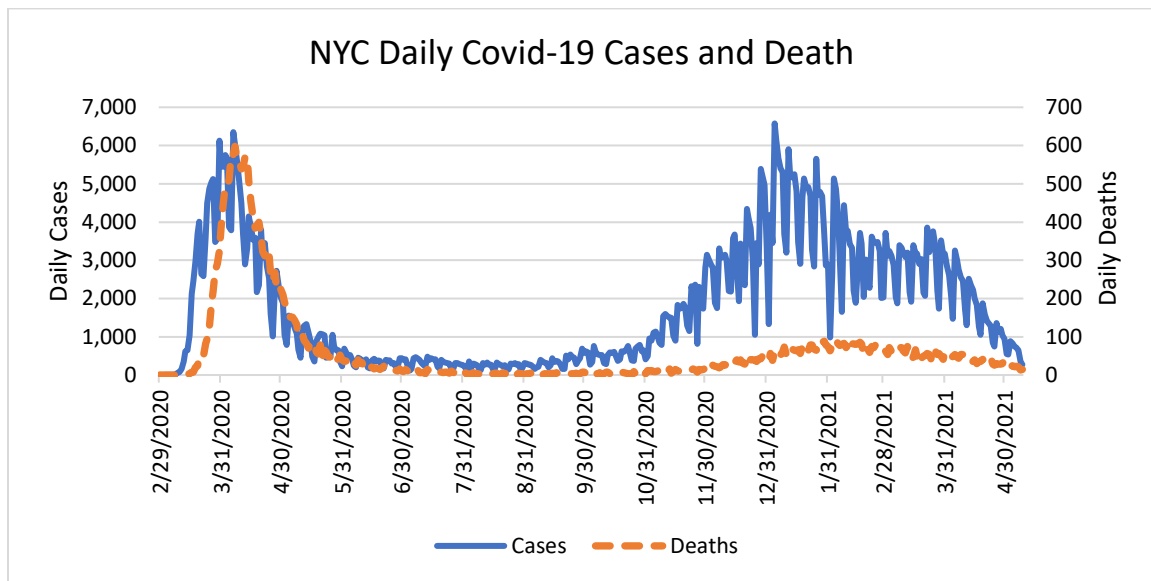
⁷ New York State Department of Labor: ‘Current Employment Statistics’ (CES), March 2021 (seasonally adjusted) and ‘Local Area Unemployment Statistics’ (LAUS), March 2021.

asking rents declined over the past two quarters by \$0.75 per square foot (psf) to \$72.41 psf. Class A asking rents dropped by \$0.87 psf to \$79.81 psf.

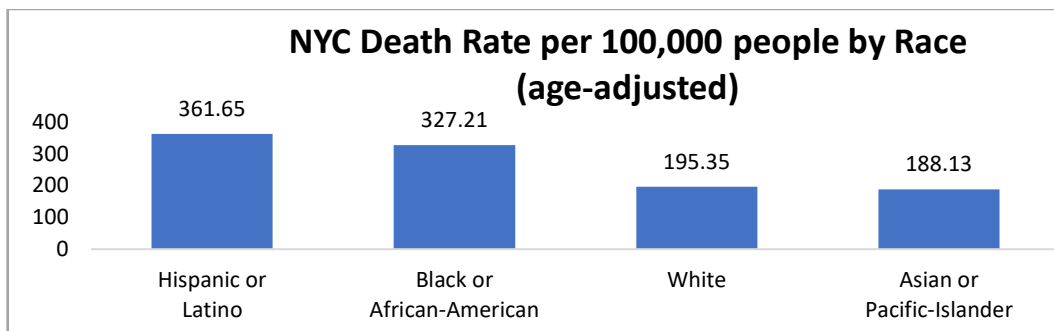
The City’s hotel industry was one of the hardest hit by the pandemic. As of the week of May 8, 2021, the hotel occupancy rate has crawled back to 53.7 percent, 8.7 percent higher than a year ago.⁸ Business travel, a sizable slice of the hotel business, is “moribund,” according to the Federal Reserve. The same can be said for international tourism. A growing component of hotel use is now from domestic weekenders and subsidized housing for the homeless.

COVID-19

One year ago, New York City was the epicenter of the COVID-19 pandemic. However, the number of daily cases and deaths has declined significantly, even in the last couple of days. As of May 12, 2021, the United States had 32.6 million cases in total, with approximately 774,942 in New York City. While the rate of deaths among those infected with the virus reached 1.8 percent in the United States, the rate in the City reached 3.6 percent – 2 times as high. The highest rates of cases, hospitalizations, and deaths were concentrated in communities of color and within the boroughs of Queens and the Bronx.

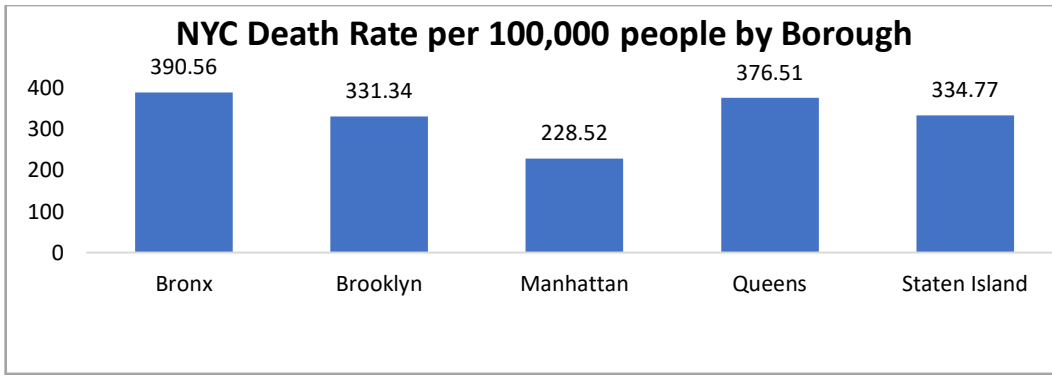


Source: NYC Department of Health, May 12, 2021



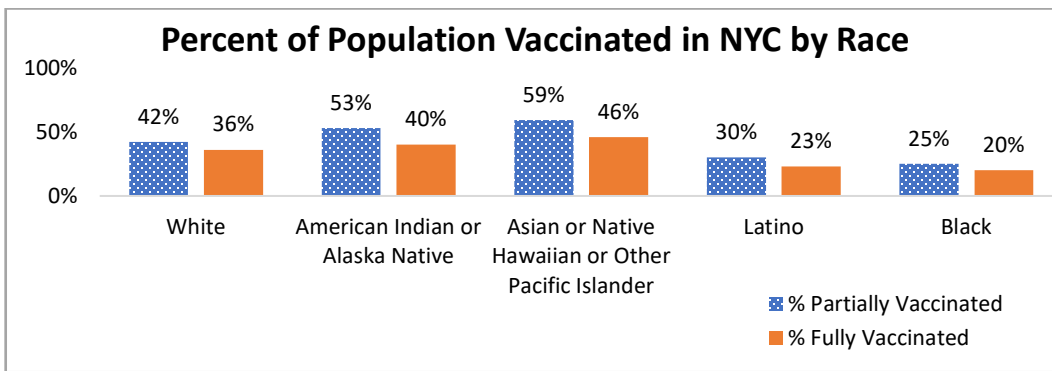
Source: NYC Department of Health, May 12, 2021

⁸ NYC & Company, May 8, 2018

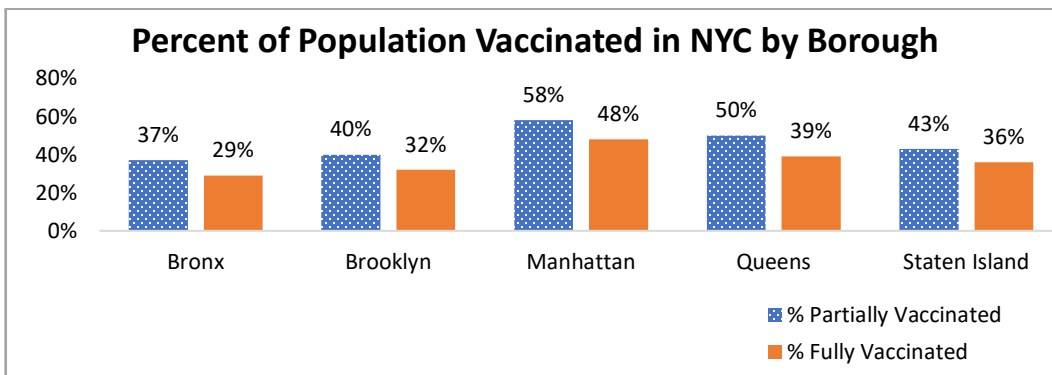


Source: NYC Department of Health, May 12, 2021

On May 10, the U.S. Food and Drug Administration authorized the Pfizer vaccine for use in adolescents aged 12 to 15. In New York are there 900,000 young people in this age group that would be able to qualify for the vaccine.⁹ IHS Markit’s May forecast estimates that the country will achieve herd immunity by the summer, rather than late in the year as their previous forecast estimated.¹⁰ As of May 12, 2021, the City of New York has administered 85.7 percent of the vaccines that were delivered. About 3.1 million adults in New York City have been fully vaccinated while 3.8 million adults have been partially vaccinated.



Source: NYC Department of Health, May 12, 2021



Source: NYC Department of Health, May 12, 2021

⁹ Christopher Labos, “It is race between Vaccines and Variants”, McGill University Office of Science and Society” April2, 2021 [It's a Race Between Vaccines and Variants | Office for Science and Society - McGill University](https://www.mcgill.ca/science-society/article/2021/04/02/its-a-race-between-vaccines-and-variants).

¹⁰ IHS Markit, “U.S. Executive Summary: US Economic Outlook”, May 2021.

Forecast

National Forecast

Economic growth is expected to accelerate through the remainder of 2021. Government spending has provided millions of households with additional funds available for increased spending. In addition, vaccinations continue to reduce the threat of the virus, thereby enabling more consumers to engage in the kinds of social interactions that boost spending. IHS Markit estimates that real GDP is likely to recover its previous peak in the second quarter of 2021.

The unemployment rate has fallen to an estimated 5.3 percent in 2021, and is projected to continue to decline, as the economy expands and more workers return to the labor force. The unemployment rate is expected to return to its pre-pandemic rate of 3.6 percent in the fourth quarter of 2022.

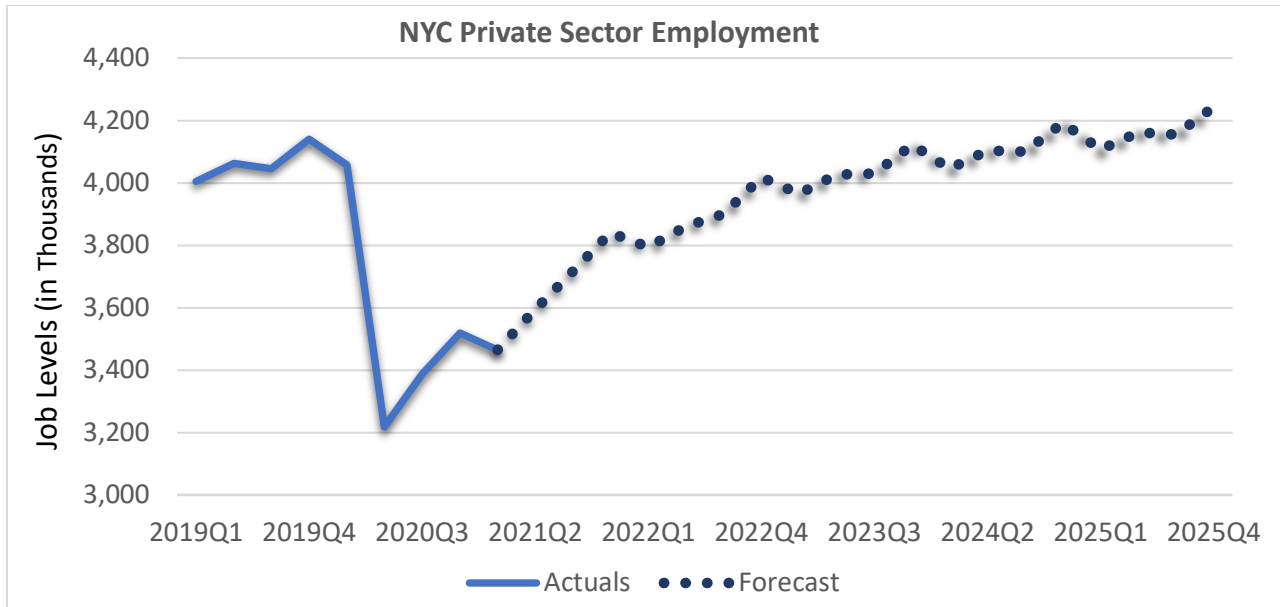
	2020	2021	2022	2023	2024	2025
Real GDP	3.5%	6.7%	4.7%	1.9%	2.2%	2.2%
Unemployment Rate	8.1%	5.3%	3.8%	3.5%	3.5%	3.6%

City Forecast

The Finance Division expects the labor market to gain some steam for the rest of the year, as the City recovers some of the pandemic-related job losses. Private sector jobs are expected to grow by around 322,000 from the beginning to the end of 2021¹¹, as the federal stimulus and the aggressive vaccination campaign continue to fuel the economy. Beyond this year, employment levels are expected to continue to increase steadily throughout the forecast period, but not returning to the pre-pandemic level until roughly the fourth quarter of 2023.

Overall, the City's job recovery is expected to outpace that of the rest of the country throughout the forecast period. As vaccinations outpace the spread of the new variants of the virus and the number of new cases continue to diminish, all remaining limitations are projected to be relaxed by 2022, with employees returning to offices and riding the subway again. Businesses that have been operating below capacity – such as restaurants, bars, entertainment and sporting events, and gyms – are expected to reopen at full capacity and without previous restriction.

¹¹ The 'beginning to the end of 2021' is measured by the fourth quarter of 2020 to the fourth quarter of 2021.



Source: New York City Council, Finance Division

As the City economy gradually reopens and workers in low-paying sectors are rehired, average wage growth is expected to decelerate from 8.8 percent in 2020 to 1.9 percent in 2021 and 1.6 percent 2022, reflecting greater weight from low-wage workers, partially offset by upward wage pressures from a growing economy.

The City’s hotel industry is not expected to return to its former vitality in the near future, until visitors are fully confident that the ravages of the pandemic are behind them. Even then, business travel may have permanently shifted to low-cost virtual meetings.

The Finance Division expects slower employment growth in the City than OMB. OMB expects total payroll employment to expand by 400,000 from the beginning to the end of 2021. The Finance Division expects 322,000 additional private sector jobs during the same period of time.¹² OMB forecasts employment growing by 3.7 percent and 6.8 percent in 2021 and 2022 respectively. The Finance Division expects growth rates of 3.1 percent and 6.5 percent, respectively. OMB projects employment to return to its pre-pandemic level around the end of 2022 and the beginning of 2023. The Finance Division believes that this will take almost a year longer, stretching to the fourth quarter of 2023.

The Finance Division expects slower average wage growth compared to OMB. Both forecasts expect 1.9 percent growth in 2021. In 2022 and 2023, OMB projects wage growth of 2.5 percent and 3.1 percent, respectively. The Finance Division expects 1.6 percent and 1.5 percent growth. The Division’s slower growth is attributed to the increasing presence of low-wage workers in calculating the average wage.

¹² While OMB forecasts total payroll employment and the Finance Division forecasts private sector payroll employment, the two forecasts remain comparable. This is because there was minimal change in public sector employment during the pandemic, leaving almost all the job loss and recovery in the private sector.

Forecast of Selected Economic Indicators: National and New York City, CY2020-2025						
	CY20	CY21	CY22	CY23	CY24	CY25
NATIONAL ECONOMY*						
Real GDP %	(3.5)	6.7	4.7	1.9	2.2	2.2
Total Employment						
Level Change, '000	(8,648)	4,584	5,232	1,956	1,472	1,026
Percent Change, %	(5.7)	3.2	3.6	1.3	1.0	0.7
Unemployment Rate, %	8.1	5.3	3.8	3.5	3.5	3.6
Total Wages %	2.9	3.3	3.7	3.5	3.1	3.0
Interest rates %						
3-Month Treasury Bill	0.4	0.0	0.1	0.1	0.2	0.5
30-Year Conventional Mortgage Fixed	3.1	3.1	3.5	3.7	3.9	4.1
NEW YORK CITY ECONOMY						
Real GCP %*	(6.0)	6.0	5.7	2.7	3.1	2.7
Private Employment						
Level Change, '000	(518)	109	239	142	74	56
Percent Change, %	(12.7)	3.1	6.5	3.7	1.8	1.4
Average Private Wages %	8.8	1.9	1.6	1.5	2.5	2.9
Total Private Wages %	(4.2)	3.7	8.0	5.2	4.4	4.0
NYSE Member Firms %						
Total Revenue	(12.4)	7.0	14.9	10.0	3.9	1.4
Total Compensation	5.7	5.0	4.9	3.0	1.0	0.0
Source: IHS Markit, May 2021; New York City Council Finance Division (City)						
* Calculated by IHS Markit						

Cash Flow

As New York City continues to vaccinate its population and offer widely available vaccinations, Covid-19 related cases and expenses have decrease during Fiscal 2021. The City's cash balance was a subject of concern given the nature of the pandemic and the recession. This was especially true during the spring of 2020. Since then, things have improved, including the assistance from federal aid. In the second quarter of Fiscal 2021, the City recorded an unrested cash balance of \$7.7 billion¹³. Typically, the lowest daily cash balance of the fiscal year occurs during the second quarter. This year's seasonal low measured \$2.1 billion versus \$1.7 billion in second quarter of Fiscal 2020. As of May, however, the City's central treasury balance "cash balance or funds available for expenditure" stood at \$8.0 billion, up from \$7.4 billion the same month a year ago. The Finance Division believes careful management of cash will be necessary, given the level of uncertainty under the current health and economic situation. The current financial plan does not anticipate any short-term borrowing to address low cash balances. However, should it be necessary, borrowing of this kind can be undertaken without State legislation.

¹³ New York City Comptroller office, Cash Balance Report and May Economic Newsletter: <https://comptroller.nyc.gov/reports/new-york-city-quarterly-cash-report/>

Tax Revenue Forecast

New York City Council Finance Division - Tax Revenue Growth Rates						
	FY20	FY21	FY22	FY23	FY24	FY25
Real Property	7.0%	5.1%	(5.4%)	3.3%	4.5%	0.8%
Personal Income	1.5%	(1.4%)	5.3%	6.3%	2.4%	3.0%
Business Corporate	7.4%	(2.3%)	3.1%	2.1%	1.6%	2.8%
Unincorporated	(4.4%)	1.9%	3.8%	4.5%	2.7%	0.3%
Sales	(5.6%)	(11.6%)	19.2%	7.9%	9.2%	3.8%
Commercial Rent	(4.7%)	(3.1%)	6.0%	3.5%	3.9%	4.3%
Real Property Transfer	(26.6%)	(12.8%)	30.0%	8.7%	5.7%	4.0%
Mortgage Recording	(11.2%)	(14.5%)	16.2%	7.5%	5.0%	3.5%
Utility	(3.5%)	2.4%	6.6%	1.7%	2.4%	1.7%
Hotels	(25.2%)	(82.2%)	145.0%	81.5%	39.9%	23.5%
All Others	17.9%	(14.4%)	(13.3%)	9.5%	(0.3%)	(0.3%)
Audits	22.2%	17.2%	(23.1%)	0.0%	0.0%	0.0%
Total Taxes	2.5%	(0.5%)	1.1%	4.9%	4.4%	2.1%

Source: New York City Council Finance Division, Executive Plan Fiscal 2022

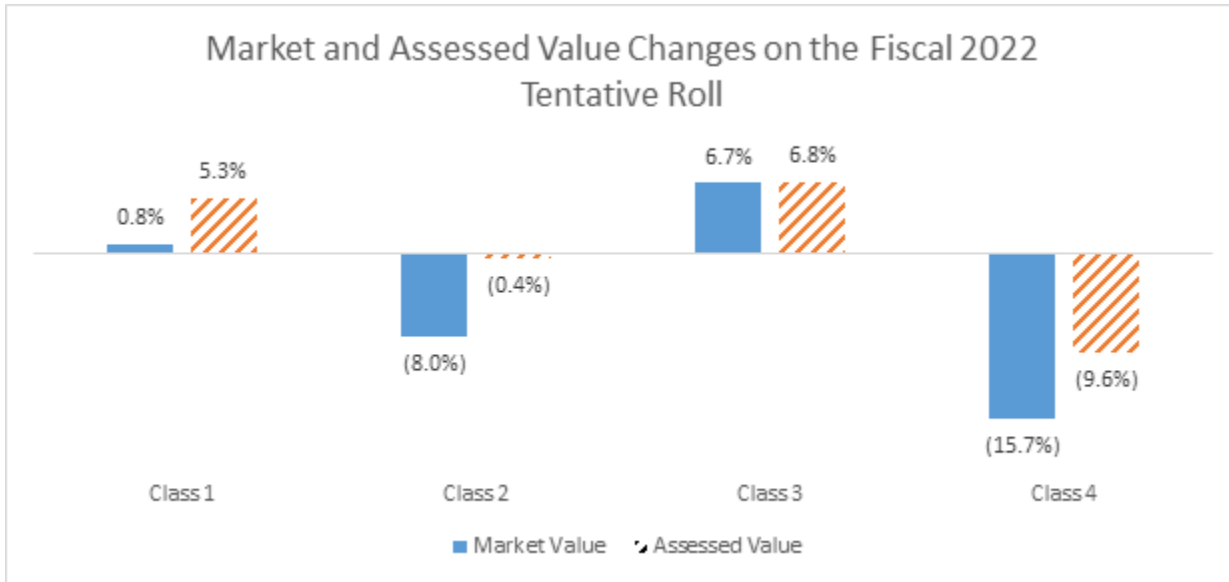
Total tax collections in Fiscal 2020 grew by a modest 2.5 percent compared to Fiscal 2019, comprising a stark contrast between dynamic 6.9 percent growth up through March 2020, and a 7.6 percent collapse through the remainder of the year, as COVID-19 shut down the City's economy. The Finance Division forecasts collections declining 0.5 percent in Fiscal 2021, with most of the losses from the sales, hotel, and real estate transaction taxes, partially offset by increases in the property tax. OMB anticipates a steeper 1.0 percent decline in 2021, expecting less property tax revenues.¹⁴ In Fiscal 2022, the Finance Division forecasts collections rebounding by a modest 1.1 percent, as the economy reopens. OMB projects a slight decline of 0.1 percent from a softer rebound in the sales tax. Both the Finance Division and OMB anticipate revenue growth to accelerate to 4.9 percent in 2023, and then soften in 2024 and 2025.

Real Property Tax

Based on the Department of Finance's (DOF) Fiscal 2022 Tentative Roll, the Finance Division expects property tax assessments to decline in Fiscal 2022 by 5.4 percent, leading the way for a 5.4 percent (\$1.7 billion) decrease in property tax revenue in Fiscal 2022.

The Tentative Roll reports that overall market values for all property classes declined 5.2 percent, with market values for Classes Two and Four (C24) bearing a disproportionate level of the overall impact. Since DOF determines the market value for C24 properties based on income generated by the property, C24 market values undergo a dramatic and immediate impact for Fiscal 2022, given the degree of missed rent payments over the course of the pandemic. Since the income data DOF typically uses to determine C24 market values has a one-year lag, DOF could not employ its standard methodology to predict market values if it hoped to capture the pandemic's impact on the City's real estate. Therefore, DOF developed a new set of statistical models and processes to forecast property income using macroeconomic data from 2020, which it then used to determine C24 market values in the Tentative Roll. The graph below lists the year-over-year changes in market value and assessed value by class.

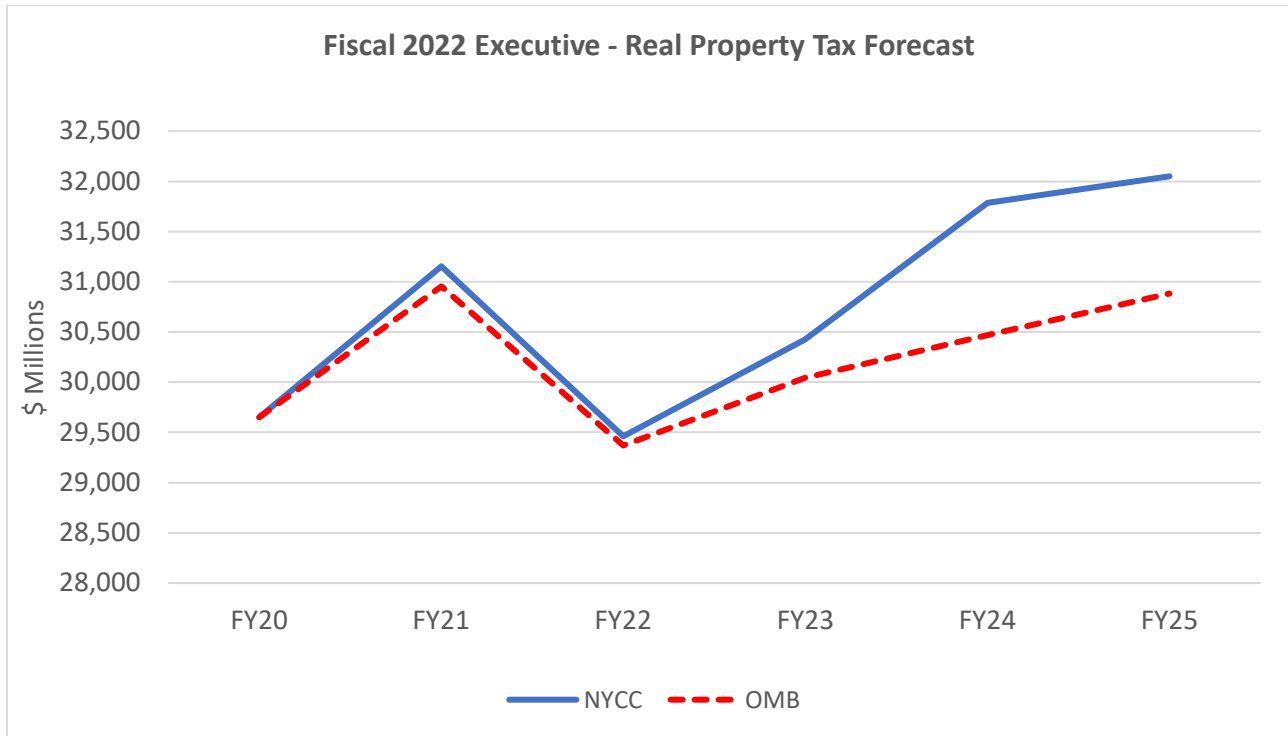
¹⁴ Year-to-date collections through March, plus personal income, and sales tax collections for April, are currently 0.7 percent above the same period in Fiscal 2020. However, personal income tax filing and estimated payment deadlines were deferred until July in Fiscal 2020, and consequently are not included in the YTD growth rate. Factoring-in the deferred payments in Fiscal 2020 would reduce revenue growth in Fiscal 2021.



The alarming decline in C24 assessed values stems from a rare technical shift in assessments for Fiscal 2022. Generally, C24 properties get taxed on the lesser of the actual or transitional assessed value. The property tax system sets the actual assessed value at 45 percent of the market value, while transitional assessed value phases-in assessment changes over a five-year period. Consequently, actual assessed value responds immediately to shifts in market value, while transitional assessed value employs a smoothing effect to level out big shifts, by lagging market value changes. Since market values tend to rise year-over-year, transitional assessed value often falls below actual assessed value, and properties therefore get taxed most often on the lower transitional assessed value.

Since C24 properties represent over 80 percent of all assessments, the smoothness of the transitional assessed value provides a critical buffer that maintains the historical stability of the property tax. However, since C24 market values dropped so quickly and severely, the City will tax an overwhelming number of properties using actual assessed value in Fiscal 2022. Given that actual assessed value immediately responds to changes in market value, the Finance Division expects C24 assessments to become subject to increased volatility throughout Fiscal 2022 and into Fiscal 2023.

The Finance Division’s forecast predicts property tax collections to increase 5 percent in the current fiscal year, as assessments still reflect pre-pandemic market values. The pandemic’s impact on assessments does not surface in the forecast until Fiscal 2022, at which point property tax revenues decline 5.4 percent. Revenue growth from the property tax returns in Fiscal 2023-2025 at an average of 2.9 percent. The forecast assumes the reserve for uncollectable taxes to remain consistent with prior years, totaling 6.5 percent of the property tax levy in Fiscal 2021, 6.6 percent in Fiscal 2022, and averaging 6.6 percent in Fiscal 2023-2025.



The Finance Division pays particularly close attention to the delinquency component of the reserve for uncollectable taxes, which provides an indicator of financial health of property owners and stability of property tax payments. As of April 10, the City’s delinquency rate equaled 2.7 percent of the property tax levy. The delinquency rate typically decreases over the course of the last quarter of the fiscal year, as delinquent property owners submit payments. During this time last year, the City maintained a delinquency rate of 2.5 percent, which fell to 1.5 percent at the close of the fiscal year. The forecast assumes the delinquency rate to again fall in or around 1.5 percent for Fiscal 2021.

Personal and Business Income Tax

The highlight of the Finance Division’s tax revenue forecast is the resurgence in personal and business income taxes. The two income-sensitive taxes have seen huge boost in collections since the third quarter of the fiscal year. Considering the recent surge in collections and the overall economic outlook going forward, the Finance Division is raising its forecast for Fiscal 2021, with both taxes expected to experience slower rates of decline than previously forecasted.

Personal income taxes (PIT) are now expected to experience a slight decline in Fiscal 2021. PIT collections through April have soared compared to the same period last year, as withholdings and estimated payments have seen major boosts since January. Withholdings have been spurred by the gradual recovery of the City’s labor market, as well as the federal government’s extension of enhanced unemployment insurance. Estimated payments continue to be fueled by the vibrant equities market. Despite the improvement in recent collections, total PIT for Fiscal 2021 is projected to be 1.4 percent lower than the previous year.

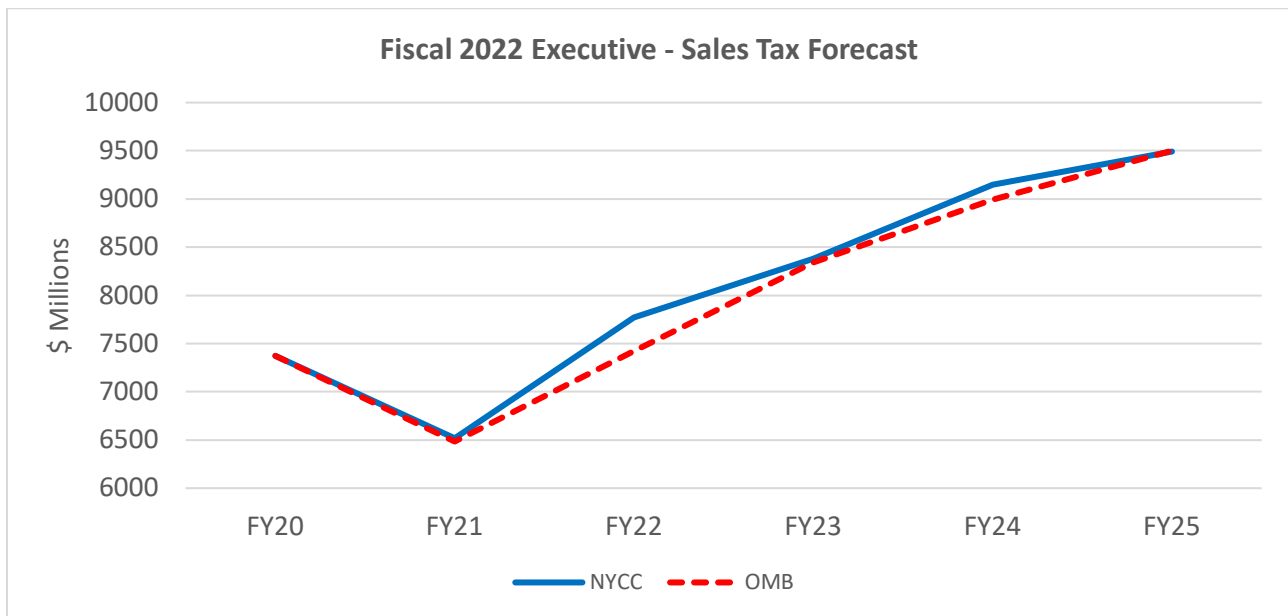
PIT collections are expected to bounce back with 5.6 percent growth in Fiscal 2022, as all City sectors reopen fully, and people return to work. The projected growth can be attributed to rebounds in both withholdings and estimated payments, resulting from strong capital gains realizations and increased total wages in Fiscal 2022.

Collections from the two business taxes are expected to decline by 1.1 percent in Fiscal 2021, as the business corporation and unincorporated business taxes move in opposite directions at the end of the fiscal year. The projected decline reflects the lingering effects of Covid-19, despite a boost in recent collections by the federal stimulus to businesses and the easing of various restrictions. Like the PIT, the current business tax forecast represents a much slower rate of decline compared to the 6.3 percent drop forecasted in February.

Business tax collections are projected to rebound in Fiscal 2022, as remaining restrictions are lifted and business activities in the City return to normal levels. The forecasted rebound can be attributed to an expected increase in corporate profits and an overall stronger economy.

Sales Tax

Consumer retrenchment, travel restrictions and other strict social distancing policies are expected to reduce sales tax collections for Fiscal 2021. Sales tax collections for Fiscal 2021 are expected to drop by 11.6 percent over the previous year.¹⁵ The Finance Division projects that the virus will be fully under control by the fourth quarter of Fiscal 2021 and will result in collections jumping 19.2 percent. For Fiscal 2023, Fiscal 2024, and Fiscal 2025, collections will increase 7.9 percent, 9.2 percent, and 3.8 percent year-over-year, respectively.



¹⁵ This includes 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.

Real Estate Transaction Taxes

After the pandemic sent real estate markets spiraling towards the end of the third quarter of Fiscal 2020, residential transactions gained traction in the first quarter of Fiscal 2021 resulting from pent-up demand. While luxury residential sales continue to break records in the current year, commercial deal flow remains in a holding pattern until the market can adequately price in the pandemic's long-term implications on commercial properties.

Mortgage Recording Tax (MRT)

The Finance Division expects the slowdown in commercial real estate sales to flow through the rest of Fiscal 2021, dragging MRT collections down by 14.5 percent. The forecast, however, predicts MRT collections to surpass pre-pandemic levels in Fiscal 2022, with a 5.3 percent average growth through the end of the forecast period. Low interest rates assist in maintaining a supportive environment for mortgage refinancing, giving MRT collections a small lift over the forecast period.

Real Property Transfer Tax (RPTT)

The Finance Division's forecast predicts RPTT collections to continue their current trajectory, falling 12.8 percent in Fiscal 2021 after a 28.5 percent drop in Fiscal 2020. The forecast includes a substantial rebound of 30 percent growth in Fiscal 2022, before returning to average growth of 6.1 percent for the remainder of the forecast period. According to the forecast, collections return to pre-pandemic levels in Fiscal 2025.

Commercial Rent Tax

Commercial Rent Tax (CRT) collections continued to decline marginally year-over-year in the first three quarters of Fiscal 2021, during an atypical period for commercial leasing. With large portions of the City shut down in response to the pandemic, employers adapted the way their employees could continue to contribute to everyday operations. Remote working environments, however, introduced the prospect of long-term disruption in CRT collections, as many employers and employees recognize the benefits of out-of-office productivity. However, long-term commercial leases provide a safeguard for CRT collections over the forecast period. Although new leasing activity continues to suffer in the current year, the uptick in commercial subleases maintains a buffer in filling in the gap in CRT payments created by vacant commercial space.

The Finance Division's forecast predicts a 3.1 percent decrease in Fiscal 2021 before growing at an average rate of 4.4 percent over the forecast period. Collections are expected to surpass pre-pandemic levels by Fiscal 2023.

Compared to OMB Fiscal 2022 Preliminary Plan

The Finance Division forecasts \$1.4 billion in additional tax revenues in Fiscal 2021 and 2020 over OMB's Executive Budget, with the main contributors being (in decreasing order of magnitude) the sales tax, property tax and personal income tax. The Finance Division's forecast for the Executive Budget exceeded its previous estimate for the Preliminary Budget by \$1.4 billion in 2021 and 2022. OMB's Executive Budget forecast exceeded its Preliminary Budget estimate by \$1.5 billion in 2021 and 2022. The major contributors to both the Finance Division's and OMB's upward revisions were (in decreasing magnitude) the personal income tax, the corporation tax, and the property tax. Both revisions were also offset by reduced estimates of sales tax revenues.

New York City Council Finance Division - Tax Revenue Difference From OMB					
<i>Dollars in Millions</i>	FY21	FY22	FY23	FY24	FY25
Real Property	\$200	\$91	\$382	\$1,318	\$1,170
Personal Income	24	251	243	56	(46)
Business Corporate	23	163	29	32	126
Unincorporated	14	46	38	1	(69)
Sales	34	346	41	155	(9)
Commercial Rent	(4)	7	5	17	37
Real Property Transfer	(2)	132	64	70	54
Mortgage Recording	17	74	122	122	107
Utility	8	15	20	22	17
Hotels	8	(11)	20	(2)	10
All Others	0	0	0	0	0
Audits	0	(21)	179	179	179
Total Taxes	\$322	\$1,094	\$1,145	\$1,971	\$1,574

Source: New York City Council Finance Division, NYC Office of Management and Budget, Executive Plan Fiscal 2022

Risks to the Forecast

This is a time of uncertainty which makes forecasting the economy and tax revenue extremely difficult, as COVID-19 remains the primary risk to our current forecast. The accelerating rate of vaccinations in the U.S. suggests that the end of the pandemic or, at least, of the immediate economic impact from the pandemic may really be in sight. This raises two questions for our economic forecast. The first is just how fast and how strong the economic recovery will be; the second is what the new normal will look like and whether the pandemic has done permanent damage to the economy. In addition, there are major risks that are not about the behavior of the virus.

- Rising inflation, Consumer prices jumped 4.2% in the 12 months through April, up from 2.6% in March. This marks the biggest increase since September 2008. Rising inflation could upset the bond and equities markets and negatively impact consumer spending.
- Financial market volatility, a falling stock market could hurt wealth creation, which would then slow down consumer spending. It also makes it more difficult for businesses to raise capital, which can harm investment spending.
- The global economic recovery from the Covid-19 pandemic will be highly uneven, with developing countries struggling to slowly stave off continuous infections and reopen their economies.
- Widespread economic changes could reduce the value and productivity of existing capital. For example, increased adoption of work-at-home systems could reduce the value of existing office buildings, which account for large share of private nonresidential capital in the United States.
- Rising Interest rates would make mortgages more expensive, derailing the housing market's recovery. High interest rates would also negatively impact business borrowing.

- Lastly, minor risks include tensions in the Middle East and the political uncertainty from partisan divides in Congress, which can potentially have a negative impact the economy.

Appendix

New York City Council Finance Division - Tax Revenue Levels						
<i>Dollars in Millions</i>						
	FY20*	FY21	FY22	FY23	FY24	FY25
Real Property	\$29,650	\$31,154	\$29,461	\$30,424	\$31,789	\$32,051
Personal Income	13,551	13,368	14,078	14,971	15,336	15,803
Business Corporate	4,509	4,405	4,541	4,637	4,713	4,845
Unincorporated	1,939	1,976	2,051	2,143	2,202	2,208
Sales	7,372	6,518	7,769	8,380	9,147	9,492
Commercial Rent	864	837	887	918	954	996
Real Property Transfer	1,135	990	1,287	1,399	1,479	1,538
Mortgage Recording	974	833	968	1,041	1,093	1,131
Utility	356	365	389	396	405	412
Hotels	468	83	204	370	518	640
All Others	1,231	1,054	914	1,001	998	995
Audits	999	1,171	900	900	900	900
Total Taxes	\$63,048	\$62,754	\$63,450	\$66,582	\$69,535	\$71,009

**Actuals*

Source: New York City Council Finance Division, Fiscal 2022 Executive Plan

Fiscal 2022 Executive Financial Plan - OMB Revenue Plan					
<i>Dollars in Millions</i>					
Taxes	FY21	FY22	FY23	FY24	FY25
Real Property	\$30,954	\$29,370	\$30,042	\$30,471	\$30,881
Sales	6,484	7,423	8,339	8,992	9,501
Mortgage Recording	816	894	919	971	1,024
Personal Income	13,344	13,827	14,728	15,280	15,849
General Corporation	4,382	4,378	4,608	4,681	4,719
Banking Corporation	0	0	0	0	0
Unincorporated Business	1,962	2,005	2,105	2,201	2,277
Utility	357	374	376	383	395
Hotel	75	215	350	520	630
Commercial Rent	841	880	913	937	959
Real Property Transfer	992	1,155	1,335	1,409	1,484
Cigarette	20	19	18	17	16
All Other	880	833	833	833	833
Audit	1,171	921	721	721	721
Tax Program	0	(90)	0	0	0
STAR	154	152	150	148	146
Total Taxes	\$62,432	\$62,356	\$65,437	\$67,564	\$69,435
Federal Categorical Grants	\$16,305	\$13,566	\$9,157	\$8,598	\$7,904
State Categorical Grants	\$15,011	\$15,921	\$16,305	\$16,624	\$16,874
Non-Governmental Grants (Other Cat.)	\$1,779	\$1,750	\$1,718	\$1,716	\$1,715
Unrest. / Anticipated State & Federal Aid	\$1	\$0	\$0	\$0	\$0
Miscellaneous Revenue					
Charges for Services	\$896	\$1,023	\$1,037	\$1,041	\$1,041
Water and Sewer Charges	1,721	1,634	1,614	1,596	1,594
Licenses, Permits, Franchises	607	658	686	688	686
Rental Income	258	248	248	248	248
Fines and Forfeitures	986	1,067	1,093	1,093	1,093
Other Miscellaneous	666	343	341	341	340
Interest Income	14	9	10	13	36
Intra City	2,091	1,891	1,858	1,858	1,853
Total Miscellaneous	\$7,239	\$6,873	\$6,887	\$6,878	\$6,891
Net Disallowances & Transfers	(\$2,106)	(\$1,906)	(\$1,873)	(\$1,873)	(\$1,868)
Total Revenue	\$100,661	\$98,560	\$97,631	\$99,507	\$100,951
City Funds	\$67,565	\$67,323	\$70,451	\$72,569	\$74,458
Federal & State Revenue	\$31,316	\$29,487	\$25,462	\$25,222	\$24,778
Federal & State as a Percent of Total	31.11%	29.92%	26.08%	25.35%	24.54%
City Funds as a Percent of Total Revenue	67.12%	68.31%	72.16%	72.93%	73.76%

Source: OMB Fiscal 2022 Executive Financial Plan

Fiscal 2022 Executive Financial Plan - Changes from the Preliminary Financial Plan*Dollars in Millions*

	FY21	FY22	FY23	FY24	FY25
Taxes					
Real Property	\$263	\$0	\$0	\$0	\$0
Sales	(67)	(225)	(75)	0	50
Mortgage Recording	46	9	2	(8)	(21)
Personal Income	600	321	471	504	516
General Corporation	452	143	211	298	309
Banking Corporation	0	0	0	0	0
Unincorporated Business	30	0	15	31	24
Utility	(2)	0	(1)	(1)	2
Hotel	0	(10)	0	0	0
Commercial Rent	10	6	11	12	13
Real Property Transfer	56	14	3	(12)	(32)
Cigarette	(4)	(4)	(4)	(4)	(4)
All Other	(12)	0	0	0	0
Audit	0	0	0	0	0
Tax Program	0	(90)	0	0	0
STAR	1	0	0	0	0
Total Taxes	\$1,373	\$164	\$633	\$820	\$857
Federal Categorical Grants	\$4,439	\$6,490	\$2,211	\$1,669	\$980
State Categorical Grants	(\$100)	(\$406)	(\$460)	(\$190)	\$60
Non-Governmental Grants (Other Cat.)	(\$49)	\$24	\$74	\$74	\$74
Unrest. / Anticipated State & Federal Aid	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue					
Charges for Services	(72)	(10)	4	8	8
Water and Sewer Charges	1	73	56	39	37
Licenses, Permits, Franchises	(42)	(28)	1	1	1
Rental Income	13	5	5	5	5
Fines and Forfeitures	33	(36)	(5)	(5)	(5)
Other Miscellaneous	11	0	(1)	0	0
Interest Income	0	(1)	(1)	1	23
Intra City	30	80	51	52	47
Total Miscellaneous	(\$26)	\$83	\$110	\$101	\$116
Net Disallowances & Transfers	(\$30)	(\$80)	(\$51)	(\$52)	(\$47)
Total Revenue	\$5,607	\$6,275	\$2,517	\$2,422	\$2,040
City Funds	\$1,317	\$167	\$692	\$869	\$926
Federal & State Revenue	\$4,339	\$6,084	\$1,751	\$1,479	\$1,040

Source: OMB Fiscal 2022 Executive Financial Plan and Fiscal 2022 Preliminary Financial Plan