

# THE COUNCIL OF THE CITY OF NEW YORK

Hon. Corey Johnson  
Speaker of the Council

Hon. Daniel Dromm  
Chair, Finance Committee



Report of the Finance Division on the  
Fiscal 2019 Economic and Revenue Forecast  
May 24, 2018

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## Introduction

On April 26, 2018, Mayor de Blasio released the Executive Budget for Fiscal 2019, which included \$2.1 billion<sup>1</sup> in newly identified resources in Fiscal 2018 and 2019 to cover new spending needs and other adjustments. Not included in that budget however were a number of Council priorities as laid out in the Council's budget response, including fair fares, a property tax rebate, and increased budgetary reserves.

On May 7<sup>th</sup>, the Council began a series of oversight hearings on the proposed budget, beginning with OMB and continuing with hearings of agencies with substantive changes to their proposed budgets. Today's hearing marks the end of this oversight process, and will lead into negotiation of the Adopted Budget. Those negotiations will focus, in part, on how, and if, the outstanding Council priorities can be funded.

Since the Executive Budget is balanced in Fiscal 2018 and 2019, any new spending initiatives will require corresponding new resources. While those resources could come from repurposing funds allocated for new proposals from the Executive and Preliminary Budgets, it is highly likely that even without any reallocations, additional resources will be identified in Fiscal 2018 by the time the budget is adopted for Fiscal 2019.

This "discovery" of additional resources stems from the Administration's practice of conservative budgeting; the City tends to underestimate revenues, and overestimate expenses as it is easier to manage a surplus of resources rather than a shortage.

As the City moves closer to an Adopted Budget, it is able to more accurately predict actual revenue collections and operating expenses<sup>2</sup> of the current fiscal year which is nearing its end. The conservative budgeting means that this adjustment of the budget often equates to additional resources. Since most of these resources are identified in the fiscal year that is coming to a close, the City uses the Budget Stabilization Account (BSA) to roll some of this into the upcoming fiscal year. These resources in turn can provide negotiating room on priorities not included in the Executive Budget.

This report will provide background on how these new resources are identified and, by using the Finance Division forecast, what new revenue resources may reasonably be expected in this year's adopted budget.

## Projected Additional Resources

Over the last nine years, the projection of City Funds<sup>3</sup> for the current fiscal year increased by \$228 million, or 0.4 percent on average, between the Executive and the Adopted budgets.

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<sup>1</sup> \$1.1 billion in new revenues, about \$750 million in savings, and \$250 million in a take-down of the General Reserve.

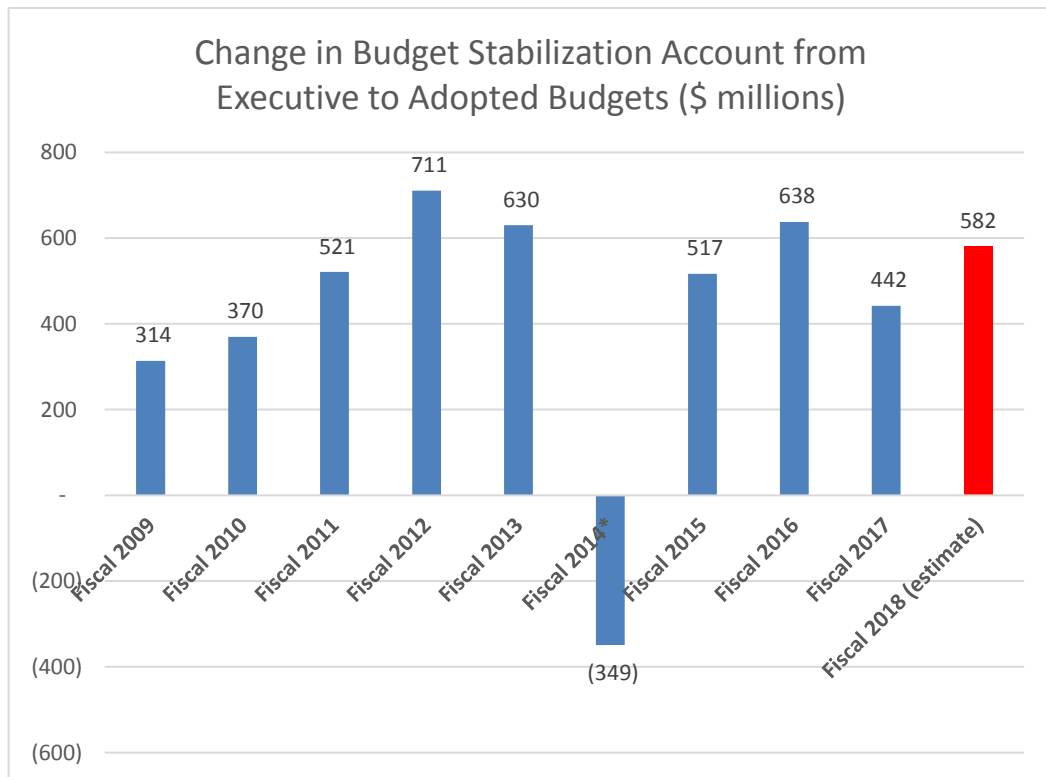
<sup>2</sup> There are other ways to make resources available in the Adopted Budget; these include changing budget priorities, savings and re-estimates of costs, and substituting State and Federal funds for City Funds.

<sup>3</sup> City Funds consists of City tax revenues, miscellaneous revenues, less intra-city revenue. In other words, it is the portion of the budget that does not include State, Federal, and other categorical grants.

Finance Division’s forecast, discussed below, suggests that due to a strengthened economy and temporary effects from policy changes, this increase for Fiscal 2018 will be \$527 million, more than twice the average. However, as the fiscal year is drawing to a close, there is very little need for that funding in the current year. Therefore, the City will most likely roll much of that increased funding into Fiscal 2019 through the BSA.

The BSA achieves this function by prepaying debt service and certain subsidies, such as those to the City’s library systems or to NYC Health + Hospitals. In Fiscal 2017, the surplus roll was \$4.2 billion, and in the Fiscal 2019 Executive Plan, the roll is currently \$3.6 billion. Much like the projection of City Funds, the BSA will almost certainly be higher in the Adopted Budget.

Since 2009, the BSA has grown on average 16 percent between the Executive and Adopted Budgets. If this average holds this fiscal year, the BSA would grow by \$582 million in the Adopted Budget, in revenue and expense resources. However, as noted above, the Finance Division predicts revenue resources in Fiscal 2018 to be \$527 million above OMB’s Executive Budget forecast, meaning the BSA increase could be even higher than average. Ultimately, if the BSA grows from year to year, it means that budgetary reserves are increasing.



Less likely to appear in the Adopted Budget are increases in Fiscal 2019 revenues. OMB tends to make only minor changes to the City Funds forecast for the new fiscal year between the

<sup>4</sup> Note on Fiscal 2014: although OMB’s projection of the BSA went down from the Executive to the Adopted budget due to a lowering of the prepayment of general obligation debt, the Administration added \$864 million to the Retiree Health Benefits Trust, so technically reserves increased during Fiscal 2014 but these funds were not used in the Adopted Budget.

Executive Budget and the Adopted Budget. From Fiscal 2010 to Fiscal 2018, the projection of City Funds for the following fiscal year increased by an average of only 0.2 percent, or \$130 million, between the Executive and the Adopted Budgets. The Finance Division's forecast suggests that tax revenues will be \$989 million higher in Fiscal 2019 than in the Executive Budget. OMB could increase its forecast at Adoption by several times its usual ratio and still have a conservative forecast.

## Forecast

While Council Finance expects greater revenues in Fiscal 2018 and 2019 than is currently projected in the Executive Budget, not all those increased revenues are the same. While some of the larger revenues reflect a strong economy, changes to Federal tax law mean that some of this bump in funding might be temporary. Understanding how much of this increase in revenues represents a temporary bump is useful when considering if those resources should be used to fill one-shot funding priorities or longer-term programs. The following section will provide a background on the nature of and reasons for the revenue increases that Council Finance forecasts.

## National Economy

The Finance Division expects the U.S economy to grow by a healthy 2.8 percent in both 2018 and 2019, and then decelerate to a modest 1.6 percent by 2022.<sup>5</sup> This pattern reflects a short term stimulus from the Tax Cuts and Jobs Act (TCJA) and the Bipartisan Spending Act. It also reflects the belief that economic growth will slow as interest rates, pushed up by the stimulus-related deficits, will continue to rise.<sup>6</sup> The economy's strength over the next two years will be buttressed by consumer spending, business investment, exports and housing investment. Consumer activity will continue to be supported by growing employment and higher disposable income. Increasing global demand will allow the dollar to fall, leading to further growth in exports.

Employment growth will continue to contribute to the economic expansion, and the unemployment rate is expected to fall from the already low 3.9 percent to 3.5 percent by 2019.<sup>7</sup> Average wage growth is finally gaining traction, and is expected to accelerate due to a

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<sup>5</sup> IHS Markit, 'Executive Summaries,' May 2018. The Finance Division uses economic forecasts generated by IHS Markit, an independent research firm.

<sup>6</sup> Both the Congressional Budget Office and Joint Committee on Taxation estimate increased deficits of around one trillion dollars over ten years from the TCJA alone. Joint Committee on Taxation, Macroeconomic Analysis of the Conference Agreement for H.R.1, the "Tax Cuts and Jobs Act" JCX-69-17 December 22, 2017, Congressional Budget Office, "Estimated deficits and debt under the Chairman's Mark of the Tax Cuts and Jobs Act", November 13, 2017.

<sup>7</sup> US Bureau of Labor Statistics, April 2018

tightening labor market. The rise in the employment cost index of employee compensation<sup>8</sup> is expected to increase from 2.5 percent in 2017 to 3.0 percent in 2018 and 3.5 percent by 2021.<sup>9</sup>

Inflation measures have moved back to the Federal Reserve's two percent target range. IHS forecasts that stronger growth and higher inflation will prompt the Fed to raise its benchmark rate a total of four times in 2018.<sup>10</sup> This will boost interest rates and soften economic growth going forward.

## City Economy

The Finance Division expects the City's economy to continue to show signs of slowing, due to diminishing slack in the labor market, housing costs, and rising interest rates. However, the slowdown in the economy will be temporarily offset by modest economic growth generated by the TCJA and the Bipartisan Budget Act of 2018. Nonetheless, both federal actions will raise interest rates, further constraining investment and economic growth in the long-run.

The slower growth pattern is clearly seen in the Finance Division's employment forecast (see figure and table below) which portrays a gradual slowdown, followed by a sharp deceleration after 2019.

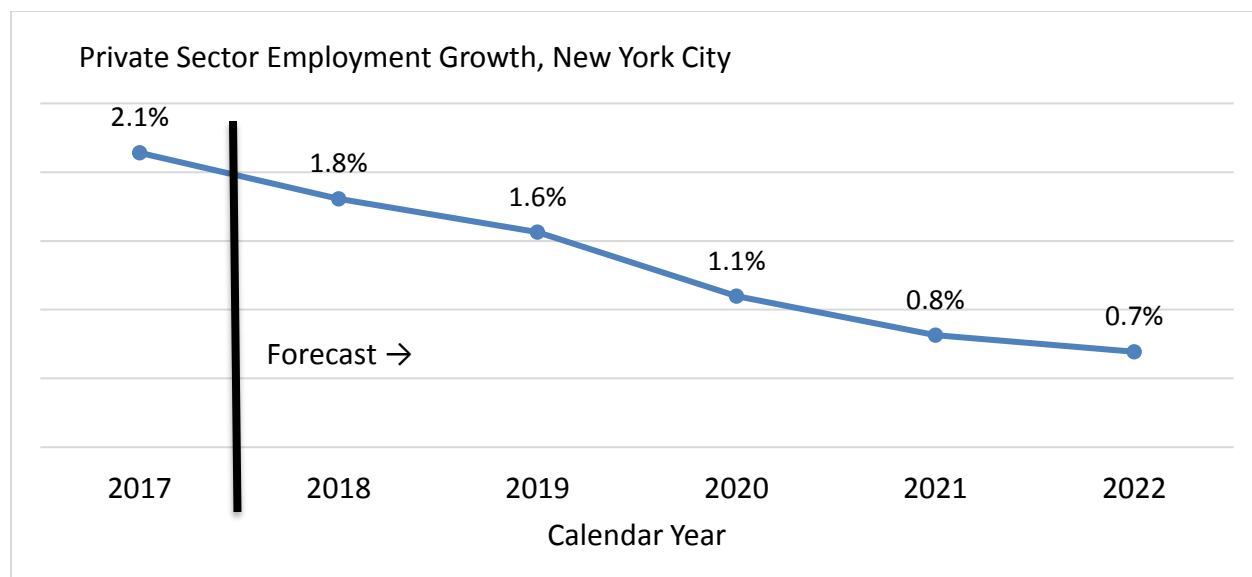
- **From 2018 to 2019.** The finance sector will see a slight increase in its payroll, aided by the TCJA's steep tax cuts for businesses and ongoing deregulation. The business services sector will also see slower, albeit still strong, growth through 2019, thanks to the same changes in taxation and regulation. The leisure and hospitality sector will continue to grow moderately from increased disposable income and an upward trend in tourism, with visitors drawn by a weaker dollar. Healthcare will continue its dynamic payroll expansion, aided by widespread insurance and aging baby boomers.
- **After 2019.** With the exception of healthcare and education, employment in the major City sectors is projected to decelerate after 2019 as the stimulus runs its course, and faces the aforementioned bottlenecks to growth. The healthcare and education sectors added jobs even during the last recession, and will likely maintain healthy payroll growth throughout the Financial Plan. A major risk to the health sector is a successful repeal of the Affordable Care Act. Meanwhile, retail employment which experienced moderate growth recently, will be faced with flat growth going forward as customers continue to shift from in-store to online purchasing.

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<sup>8</sup> This is a quarterly economic series, similar to the consumer price index (CPI). The CPI tracks inflation, while the ECI tracks changes in the cost of labor in the US Economy and is published by the Bureau of Labor Statistics.

<sup>9</sup> IHS U.S Executive Summaries: the employment cost index of growth in hourly labor compensation May 2018.

<sup>10</sup> IHS Markit, 'Executive Summaries,' May 2018.



*Source: New York City Council Finance Division*

#### Annual Employment Growth by Sector (Calendar Years)

	2017	2018	2019	2020	2021	2022
Total Private Sector	2.1%	1.8%	1.6%	1.1%	0.8%	0.7%
Finance	0.8%	0.9%	1.1%	0.7%	0.5%	0.4%
Business Services	2.8%	2.4%	2.0%	1.4%	1.0%	0.8%
Accommodation	2.6%	1.1%	1.5%	0.7%	0.5%	0.3%
Retail	0.3%	1.4%	0.6%	0.4%	0.0%	-0.1%
Information	2.3%	0.3%	1.3%	1.1%	0.9%	0.8%
Health Care	4.9%	4.8%	5.0%	5.2%	5.4%	5.6%

*Source: New York City Council Finance Division*

Average wage growth is expected to reach a four-year peak in 2018, boosted by huge Wall Street bonuses, before dropping to an average of 3.2 percent in the next four years.

One of the restrictions to urban economic growth is a limited supply of available office space. Fortunately, this is not presently the case in New York. Nearly 1.8 million square feet of new office space is coming on the market in the second quarter of 2018 from the completion of Three World Trade Center. Over the next two years, 13.4 million square feet of office development will arrive on the market, although with above-average asking rents.<sup>11</sup>

A more likely bottleneck going forward is the high cost of housing in the city. While asking rents have softened in recent months, the City remains one of the country's most expensive housing

<sup>11</sup> Cushman & Wakefield, Marketbeat: Manhattan Office Q1 2018



markets.<sup>12</sup> As of April 2018, the median rent of a one-bedroom apartment in Brooklyn was \$2,750 a month.<sup>13</sup> This may encourage workers and firms to look elsewhere in search of a lower cost of living.

### *Comparison to OMB's Forecast*

The Finance Division's April economic forecast projects a continuous deceleration in employment growth. This is similar to OMB's forecast, although the pattern is different. The Finance Division forecasts private sector job growth to fall to a still moderate 1.8 percent in 2018, and slowing only slightly to 1.6 percent in 2019. It will then decelerate more sharply to 1.1 percent in 2020, reaching 0.7 percent in 2022. OMB's sees an immediate sharp drop, reaching 1.3 percent in 2018, with milder deceleration thereafter, reaching 0.8 percent in 2022. The Finance Division forecasts growth in the private sector average wage to reach 4.9 percent in 2018, helped by unusually high bonuses. It will then remain at around 3.2 percent annual growth throughout the financial plan. OMB's forecast of the total average wage begins at 3.2 percent growth in 2018, but then falls mildly through the financial plan to 2.8 percent in 2022.<sup>14</sup>

<b>Forecast of Selected Economic Indicators: National and New York City, CY2018-2022</b>					
	<b>CY18</b>	<b>CY19</b>	<b>CY20</b>	<b>CY21</b>	<b>CY22</b>
<b>NATIONAL ECONOMY*</b>					
<b>Real GDP %</b>	<b>2.8</b>	<b>2.8</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>
<b>Private Employment</b>					
Level Change, '000	2,357	2,069	964	655	339
Percent Change, %	1.9	1.6	0.7	0.5	0.3
<b>Unemployment Rate, %</b>	<b>3.9</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>
<b>Total Wages %</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>
<b>Interest rates %</b>					
3-Month Treasury Bill	2.02	2.76	3.17	3.19	3.19
30-Year Conventional Mortgage Fixed	4.65	5.11	5.33	5.39	5.39
<b>NEW YORK CITY ECONOMY</b>					
<b>Real GCP %*</b>	<b>2.6</b>	<b>2.5</b>	<b>1.9</b>	<b>1.5</b>	<b>1.5</b>
<b>Private Employment</b>					
Level Change, '000	70	62	44	33	28
Percent Change, %	1.8	1.6	1.1	0.8	0.7
<b>Average Private Wages %</b>	<b>4.9</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
<b>Total Private Wages %</b>	<b>6.7</b>	<b>4.7</b>	<b>4.3</b>	<b>4.0</b>	<b>4.0</b>
<b>NYSE Member Firms %</b>					
Total Revenue	10.1	1.2	2.0	3.7	4.4
Total Compensation	(1.5)	0.0	2.1	3.1	3.5

**Source:** IHS Markit, May 2018; New York City Council Finance Division (City)

\* Calculated by IHS Markit

<sup>12</sup> Carmiel, O. (2018). Free-Falling New York Rents Plunge 12% in Queens. Bloomberg.

<https://www.bloomberg.com/news/articles/2018-05-10/with-nyc-rents-sliding-queens-leads-the-way-on-landlord-breaks>

<sup>13</sup> Douglas Elliman Real Estate, Elliman Report: Manhattan, Brooklyn & Queens Rentals, April 2018.

<sup>14</sup> OMB forecasts wages for both the private and public sectors, while the Finance Division's forecasts are confined to the private sector.

## Tax Revenues

The Finance Division forecasts that tax collections in Fiscal 2018 will be up \$4.2 billion over the prior year which equates to a dynamic 7.6 percent growth rate. This is following tepid growth of just 2.1 percent in Fiscal 2017. The overwhelming driver of the upswing is the personal income tax (PIT), whose double-digit growth is in part a product of tax policy changes at the federal level. Fiscal 2018 revenues are also benefiting from a revived unincorporated business tax, strong property tax collections, and a slower decline in real estate transaction taxes. Total tax collections will soften to 3.9 percent growth or just \$2.3 billion in Fiscal 2019. Outyear growth will slow to 3.6 percent by 2022. The slower growth reflects the national and City economies, as interest rates rise and the initial stimulatory effects of the TCJA reverse.

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

#### Council Forecast

*Dollars in Millions*

	FY18	FY19	FY20	FY21	FY22
Real Property	\$26,298	\$28,011	\$29,948	\$31,687	\$33,405
Personal Income	12,959	12,968	13,456	13,740	13,870
General Corporation	3,284	3,514	3,557	3,666	3,756
Unincorporated Business	2,222	2,291	2,331	2,393	2,457
Sales	7,397	7,817	8,123	8,428	8,713
Commercial Rent	855	859	897	937	973
Real Property Transfer	1,395	1,439	1,427	1,467	1,481
Mortgage Recording	1,045	1,077	1,071	1,124	1,135
Utility	356	363	378	388	408
Hotel	582	601	623	642	661
All Other	1,003	970	966	963	966
Audits	1,399	1,156	821	821	821
<b>Total Taxes</b>	<b>\$58,794</b>	<b>\$61,066</b>	<b>\$63,599</b>	<b>\$66,255</b>	<b>\$68,645</b>
<i>OMB Financial Plan</i>	<i>\$58,267</i>	<i>\$60,076</i>	<i>\$62,349</i>	<i>\$64,762</i>	<i>\$66,495</i>

*Source: Council Finance Division*

### *Income and Unincorporated Business Taxes*

By far the biggest story in the revenue budget is the enormous growth of the PIT and the unincorporated business tax (UBT) since the beginning of December. Spurred by the strong economic conditions and tax law changes at the federal level, the PIT is up 22 percent and UBT is up 17 percent from the same point last year. Complicating the story is how much of this revenue increase reflects underlying economic strength that might persist over the next few years and how much is transitory, reflecting adjustments to the new tax regime.

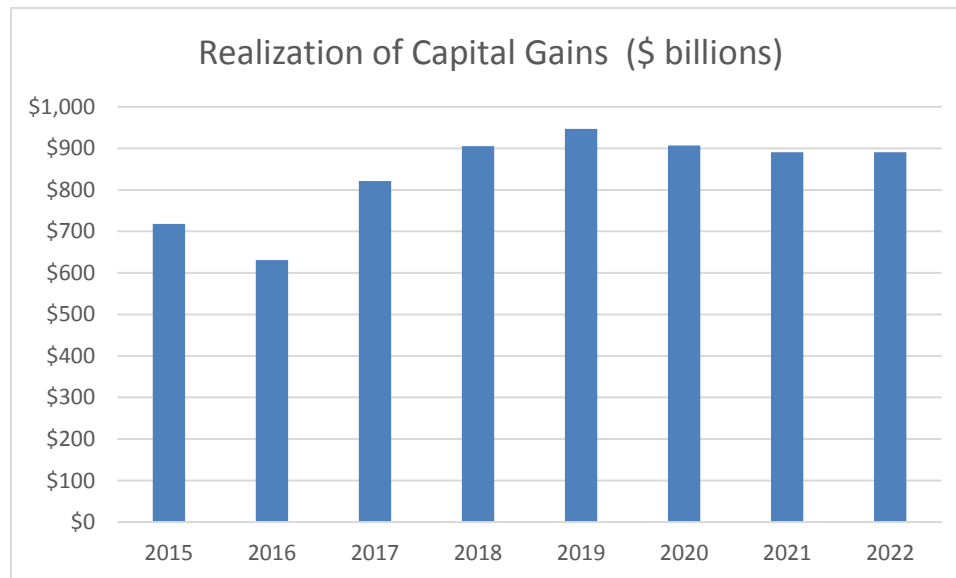
The TCJA is the most significant change to federal taxes in 30 years; it would be surprising if a change on this scale had no impact on New York City's personal and business income taxes.<sup>15</sup> In

<sup>15</sup> New York State's Fiscal 2018-2019 Enacted Budget decouples New York City's taxes from the TCJA in a number of important areas. The effects discussed here reflect behavioral effects related to the change in Federal taxes rather than legal changes that pass through to New York City tax law.

addition, the Emergency Economic Stabilization Act of 2008 required repatriation of certain offshore deferred-compensation accounts by the end of 2017. These accounts are typically used by hedge fund management partnerships, and once repatriated they are subject to income tax.

Deferred compensation repatriations provide evidence that the revenue bump is temporary. The City is a center of fund management and so beneficiaries of these funds are likely to be disproportionately concentrated in the City and its suburbs. This income from these deferred compensation repatriations are one shots and are nearly impossible to forecast. In addition, TCJA's limits to the deductibility of state and local taxes (SALT) disproportionately affects the City relative to the nation as a whole. This could increase the TCJA's impact on the timing of realizing capital gains.<sup>16</sup>

Arguing that at least some of this strength will persist for a while is the forecast of capital gains realizations from the Congressional Budget Office. Capital gains occur when assets like equities or real estate go up in value. Realizations occur when assets are sold and those gains become taxable.



Source: Congressional Budget Office

The stock market is strong; the S&P 500 is up 65 percent over the past five years. As a result, there are a lot of gains to realize and Congressional Budget Office expects realized capital gains to continue to rise through calendar year 2019.<sup>17</sup> This should help strengthen PIT collections through Fiscal 2019 and into Fiscal 2020. While the level of realizations may fall, they do not go

<sup>16</sup> It is important not to overstate the impact of SALT. A large number of wealthy taxpayers are not allowed to itemize their taxes, because they are subject to the Alternative Minimum Tax (AMT). In 2015, 40 percent of taxpayers with incomes between \$500,000 and one million dollars did not itemize, probably for that reason. Around 64 percent of taxpayers with incomes over one million dollars also did not itemize. These taxpayers had no such incentive to cash in their capital gains before 2018, especially with markets still vibrant.

<sup>17</sup> Congressional Budget Office, 'The Budget and Economic Outlook: 2018 to 2028,' April 2018

down to calendar year 2017 levels in the forecast period. However, the Finance Division believes that this growth in the equity market is not expected to be permanent, with a 2.5 percent decline in the S&P 500 Index in 2019, and weak growth in the next few years.<sup>18</sup> In other words, the pipeline of gains available for realization could run out, removing some fuel from the income tax collections.

Some of the tax rule changes also probably encouraged tax payers to make payments earlier than they normally would. So payments that might have been made in April or May, were made earlier in December or January. This ends up inflating the year-to-date numbers when compared to the full year. Therefore, Council Finance's PIT and UBT forecasts for Fiscal 2018 are slightly lower than the year-to-date numbers, albeit still very strong.

Faced with this uncertainty, the Finance Division has chosen to err on the side of caution. Reflecting this, the Finance Division's forecast for PIT is up \$998 million for Fiscal 2018 but only \$467 million for Fiscal 2019 compared to the forecast released April 10<sup>th</sup> with the Council's Response to the Fiscal 2019 Preliminary Budget.

Revenues from the PIT will effectively soar 12.3 percent in Fiscal 2018, or \$1.36 billion over 2017, after adjusting for the PIT STAR changes by New York State.<sup>19</sup> PIT collections grow less than 0.1 percent in Fiscal 2019, reflecting the temporary nature of some of Fiscal 2018's gains. In the outyears growth remains slow, reflecting a slowing New York City Economy.

The UBT has enjoyed a strong year when it comes to collections. Year-to-date collections have grown over 17 percent as of March 2018 in comparison to the same period last year. A significant portion of the growth in UBT collections stem from capping the SALT deduction as part of the TCJA. Many taxpayers were forced to prepay their 2018 taxes in December in order to be able to take the full SALT deduction. Also, some of the unexpected increase in UBT collections come from the required repatriation of the off-shore deferred compensation accounts by hedge-fund managers. As a result, the Finance Division expects the UBT to grow 10.9 percent in Fiscal 2018 and 3.1 percent in Fiscal 2019.

### *Real Property Tax*

Property tax collections will maintain strong annual growth of five to eight percent throughout the financial plan. This stems from a recent history of strong market value growth, which will keep assessment growth strong through the plan.

The forecast is based on the preliminary assessment roll, but the final roll, to be released on May 25, is expected to bring reductions in assessments due to actions by the Tax Commission and the Department of Finance. The forecast for Fiscal 2018 is similar to that of

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<sup>18</sup> IHS Markit, 'U.S. Executive Summary' May 2018.

<sup>19</sup> The State's School Tax Relief (STAR) program has subsidized the New York City PIT payers by paying a share of their taxes. This resulted in tax rates lower than they would normally be in the absence of the subsidy. The State reimbursed the City for the resulting reduced tax revenues through STAR aid. Starting in tax year 2017, the State changed the structure of the aid by stopping the subsidy to the City's PIT payers and giving taxpayers a State credit on their State PIT. The State also discontinued the STAR aid to the City.

the Preliminary Budget and OMB's current Executive forecast, with minor differences due to updated projections for certain components of the property tax reserve.

Property tax collections in Fiscal 2019 through 2022 are expected to grow slightly more than six percent per year, though growth is expected to moderate somewhat in the outyears. Rising interest rates and the federal tax law changes after the TCJA are expected to have an impact on market values, though due to the structure of the tax, these changes will have a lagged impact on assessed values.

### *General Corporation Tax*

Collections from the General Corporation Tax (GCT) have continuously declined since the City enacted the corporate tax reform in 2015. As of March 2018, GCT collections have dropped over three percent compared to the same period last year. The persistent decrease in collections, in spite of the strong economy, stem from firms overpaying their taxes due to the uncertainties surrounding how the then reform would affect their liabilities. Since then, the firms have been using the overpayments to offset their liabilities. However, the Finance Division believes that this store of overpayments is mostly exhausted which will cause GCT collections to begin to rise again. As such, the Finance Division expects the GCT to drop further in Fiscal 2018 by 4.7 percent as the overpayments are mostly used up, before rebounding in Fiscal 2019 with 7.0 percent growth.

### *Other Taxes*

Sales Tax collections increased by a strong 5.4 percent in Fiscal 2018, buoyed by higher disposable income from increased employment, rising wages, and lower federal tax withholdings from the federal tax changes. Growth in collections, along with employment and wages, will gradually soften during the outyears.

The transaction taxes, real property transfer (RPTT) and mortgage recording (MRT), declined in Fiscal 2017 compared to the previous year. After a five-year period of double-digit growth, the transaction taxes slowed in Fiscal 2016 before declining in Fiscal 2017, largely driven by a slowdown in the commercial real estate market. The mild downward trend is expected to continue through Fiscal 2018 before positive growth returns in Fiscal 2019, slightly earlier than previously forecasted.

### *Comparison to OMB's Forecast*

The Finance Division's overall tax revenue forecast is stronger than OMB's throughout the financial plan. Combining Fiscal 2018 and 2019, the Finance Division forecasts \$1.52 billion in additional tax revenues. The Finance Division's Executive Budget forecast is also stronger than its previous forecast during the Preliminary Budget Response, expecting \$1.47 billion in additional revenues from 2018 and 2019.

<b>Council Forecast: Difference from OMB Forecast</b>					
<i>Dollars in Millions</i>					
	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Real Property	\$104	\$222	\$653	\$976	\$1,703
Personal Income	301	589	487	350	148
General Corp. & Banking Corp.	(14)	(79)	(49)	26	152
Unincorporated Business	17	20	(41)	(75)	(33)
Sales	(2)	55	(44)	(63)	(66)
Commercial Rent	7	(8)	4	21	24
Real Property Transfer	(9)	(20)	(8)	(18)	(51)
Mortgage Recording	57	139	147	172	156
Utility	(26)	(24)	(18)	(22)	(13)
Hotel	(7)	(5)	18	27	31
Other	0	0	0	0	0
Audits	100	100	100	100	100
<b>Total Taxes</b>	<b>\$527</b>	<b>\$989</b>	<b>\$1,250</b>	<b>\$1,493</b>	<b>\$2,150</b>

*Source: Council Finance Division, OMB Fiscal 2019 Executive Budget*

## Risks to Forecast

The Finance Division expects slower but still positive growth over the next four years. There are, however, significant downward and positive risks, most of which would filter down from the national level or geopolitical events.

Interest rates may climb more vigorously than anticipated, significantly increasing the costs of businesses and consumers. This may be generated by higher than expected inflation, and the Federal Reserve having to address it more severely than the gradual approach it has taken up to now.

President Trump's decision to withdraw from the Iran nuclear agreement could result in higher oil prices, diverting consumers from other types of spending. IHS already forecasts oil prices rising to \$70 dollars a barrel by the last quarter of 2018.<sup>20</sup> An oil supply shock could drastically hamstring businesses and consumers in their activities, and further stoke inflation.

On the positive side, the federal stimulus may have a longer-term impact on growth than anticipated, and successfully jumpstart labor productivity, which has been languishing since the last recession.

<sup>20</sup> IHS Markit, 'Executive Summaries,' May 2018.

## Appendix

<b>Council Forecast: Growth Rates</b>					
	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Real Property	7.6%	6.5%	6.9%	5.8%	5.4%
Personal Income	17.1%	0.1%	3.8%	2.1%	0.9%
General Corporation	(4.7%)	7.0%	1.2%	3.1%	2.5%
Unincorporated Business	10.8%	3.1%	1.7%	2.7%	2.7%
Sales	5.4%	5.7%	3.9%	3.7%	3.4%
Commercial Rent	4.8%	0.5%	4.4%	4.4%	3.8%
Real Property Transfer	(1.5%)	3.2%	(0.8%)	2.8%	0.9%
Mortgage Recording	(6.5%)	3.0%	(0.5%)	4.9%	1.0%
Utility	(3.9%)	1.9%	4.2%	2.6%	5.1%
Hotel	0.5%	3.2%	3.7%	3.0%	3.1%
Other	(5.0%)	(3.3%)	(0.4%)	(0.3%)	0.3%
Audits	8.0%	(17.4%)	(29.0%)	0.0%	0.0%
<b>Total Taxes</b>	<b>7.6%</b>	<b>3.9%</b>	<b>4.1%</b>	<b>4.2%</b>	<b>3.6%</b>

*Source: Council Finance Division*

<b>Pricing Differences Between IBO and the de Blasio Administration</b>					
<b>Items that Affect the Gap</b>					
<i>Dollars in millions</i>					
	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
<b>Gaps as Estimated by the Mayor</b>	\$-	\$-	(\$3,216)	(\$2,857)	(\$2,254)
<b>Revenue</b>					
Taxes					
Property	\$210	\$381	\$408	\$558	\$1,034
Personal Income	442	485	197	228	154
General Sales	(4)	(68)	(17)	(94)	(93)
General Corporation	109	85	170	165	350
Unincorporated Business	20	16	38	28	139
Real Property Transfer	(11)	(35)	28	39	28
Mortgage Recording	16	(3)	43	61	73
Utility	(8)	3	(5)	(16)	(22)
Hotel Occupancy	(2)	(11)	7	7	2
Commercial Rent	3	9	(1)	5	8
Cigarette	-	-	-	-	-
Other Taxes and Audits	-	-	-	-	-
<b>Total Taxes</b>	<b>\$774</b>	<b>\$861</b>	<b>\$869</b>	<b>\$982</b>	<b>\$1,673</b>
STAR Reimbursement	-	-	-	-	-
Misc. Revenue	-	27	29	30	30
<b>TOTAL REVENUE</b>	<b>\$774</b>	<b>\$888</b>	<b>\$898</b>	<b>\$1,012</b>	<b>\$1,702</b>

*Source: NYC Independent Budget Office. Figures may not add due to rounding.*

**Fiscal 2019 Executive Budget Revenue Plan***Dollars in Millions*

	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
<b>Taxes</b>					
Real Estate	\$26,194	\$27,789	\$29,295	\$30,711	\$31,702
Sales	7,399	7,762	8,167	8,491	8,779
Mortgage Recording	988	938	924	952	979
Personal Income	12,658	12,378	12,969	13,390	13,722
General Corporation	3,298	3,593	3,606	3,640	3,604
Banking Corporation	0				
Unincorporated Business	2,205	2,271	2,372	2,468	2,490
Utility	382	387	396	410	421
Hotel	589	606	605	615	630
Commercial Rent	848	867	893	916	949
Real Property Transfer	1,404	1,459	1,435	1,485	1,532
Cigarette	36	35	34	33	32
All Other	778	750	750	750	756
Audit	1,299	1,056	721	721	721
Tax Program					
STAR	189	185	182	180	178
<b>Total Taxes</b>	<b>\$58,267</b>	<b>\$60,076</b>	<b>\$62,349</b>	<b>\$64,762</b>	<b>\$66,495</b>
<b>Federal Categorical Grants</b>	<b>\$8,799</b>	<b>\$7,507</b>	<b>\$7,127</b>	<b>\$7,106</b>	<b>\$7,089</b>
<b>State Categorical Grants</b>	<b>\$14,865</b>	<b>\$14,969</b>	<b>\$15,299</b>	<b>\$15,760</b>	<b>\$16,243</b>
<b>Non-Governmental Grants (Other Cat.)</b>	<b>\$1,734</b>	<b>\$1,561</b>	<b>\$1,512</b>	<b>\$1,504</b>	<b>\$1,499</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	1,023	1,005	1,007	1,006	1,006
Water and Sewer Charges	1,423	1,450	1,449	1,436	1,416
Licenses, Permits, Franchises	740	689	719	716	725
Rental Income	263	254	251	250	250
Fines and Forfeitures	975	943	938	928	917
Other Miscellaneous	386	434	444	343	342
Interest Income	110	190	252	282	284
Intra City	2,208	1,824	1,770	1,774	1,774
<b>Total Miscellaneous</b>	<b>7,128</b>	<b>6,789</b>	<b>6,830</b>	<b>6,735</b>	<b>6,714</b>
Net Disallowances & Transfers	(2,123)	(1,839)	(1,785)	(1,789)	(1,789)
<b>Total Revenue</b>	<b>\$88,670</b>	<b>\$89,063</b>	<b>\$91,332</b>	<b>\$94,078</b>	<b>\$96,251</b>
<b>City Funds</b>	<b>\$63,272</b>	<b>\$65,026</b>	<b>\$67,394</b>	<b>\$69,708</b>	<b>\$71,420</b>
<b>Federal &amp; State Revenue</b>	<b>\$23,664</b>	<b>\$22,476</b>	<b>\$22,426</b>	<b>\$22,866</b>	<b>\$23,332</b>
<b>Federal &amp; State as a Percent of Total</b>	<b>26.7%</b>	<b>25.2%</b>	<b>24.6%</b>	<b>24.3%</b>	<b>24.2%</b>
<b>City Funds as a Percent of Total Revenue</b>	<b>71.4%</b>	<b>73.0%</b>	<b>73.8%</b>	<b>74.1%</b>	<b>74.2%</b>

*Source: OMB Fiscal 2019 Executive Budget*



**Fiscal 2019 Executive Budget: Revenue Changes from Fiscal 2019 Preliminary Plan***Dollars in Millions*

	FY18	FY19	FY20	FY21	FY22
<b>Taxes</b>					
Real Estate	\$114	\$115	\$141	\$273	\$981
Sales	59	(144)	(60)	(86)	67
Mortgage Recording	22	10	(19)	(2)	5
Personal Income	801	194	213	120	16
General Corporation	(112)	(121)	(113)	(96)	(163)
Banking Corporation	0	0	0	0	0
Unincorporated Business	83	6	(8)	(22)	(33)
Utility	1	(3)	(3)	(2)	(3)
Hotel	0	15	10	10	10
Commercial Rent	0	15	18	11	7
Real Property Transfer	6	(10)	(53)	(26)	(15)
Cigarette	0	0	0	0	0
All Other	(1)	0	0	0	0
Audit	0	0	0	0	0
Tax Program	0	0	0	0	0
STAR	0	0	0	0	0
<b>Total Taxes</b>	<b>\$973</b>	<b>\$77</b>	<b>\$126</b>	<b>\$180</b>	<b>\$872</b>
<b>Federal Categorical Grants</b>	<b>\$149</b>	<b>\$287</b>	<b>\$154</b>	<b>\$151</b>	<b>\$151</b>
<b>State Categorical Grants</b>	<b>\$89</b>	<b>\$1</b>	<b>(\$163)</b>	<b>(\$78)</b>	<b>(\$8)</b>
<b>Non-Governmental Grants (Other Cat.)</b>	<b>(\$38)</b>	<b>\$21</b>	<b>\$46</b>	<b>\$43</b>	<b>\$39</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	17	\$20	\$23	\$22	\$22
Water and Sewer Charges	(1)	57	49	44	27
Licenses, Permits, Franchises	11	10	24	27	33
Rental Income	5	0	1	0	0
Fines and Forfeitures	8	13	17	17	16
Other Miscellaneous	17	(101)	(257)	(367)	(197)
Interest Income	0	11	20	8	0
Intra City	76	67	21	20	20
<b>Total Miscellaneous</b>	<b>\$133</b>	<b>\$78</b>	<b>(\$102)</b>	<b>(\$228)</b>	<b>(\$79)</b>
Net Disallowances & Transfers	(\$76)	(\$68)	(\$21)	(\$20)	(\$20)
<b>Total Revenue</b>	<b>\$1,230</b>	<b>\$396</b>	<b>\$40</b>	<b>\$48</b>	<b>\$955</b>
<b>City Funds</b>	<b>\$1,030</b>	<b>\$87</b>	<b>\$3</b>	<b>(\$69)</b>	<b>\$773</b>
<b>Federal &amp; State Revenue</b>	<b>\$238</b>	<b>\$288</b>	<b>(\$9)</b>	<b>\$73</b>	<b>\$143</b>

*Source: OMB Fiscal 2019 Executive Budget. Figures may not add due to rounding.*