THE COUNCIL OF THE CITY OF NEW YORK

Hon. Corey Johnson
Speaker of the Council

Hon. Daniel Dromm
Chair, Committee on Finance

Report to the Committee on Finance

Economic and Revenue Forecast for the Fiscal 2020 Preliminary Budget

March 6, 2019

Finance Division
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Overview of the Report

On March 6, 2019, the New York City Council's Committee on Finance will hold the first hearing on the Fiscal 2020 Preliminary Budget (the Budget), released on February 7, 2019. Representatives of the Mayor's Office of Management and Budget (OMB) are expected to testify. This report, one of three prepared for this hearing, discusses the New York City Council Finance Division's economic and tax revenue forecast. The other two reports will focus on the overall budget with an emphasis on the expense budget and the capital budget.

The Finance Division forecasts that the national and New York City economies, as well as City tax revenues, will continue to grow in the coming year, though at a slower pace in the outyears. Both the U.S. and City economies remain at or near full employment through the forecast period between 2019 and 2023, so slower growth can only be expected. There is however, some concern over the sharply reduced estimated payments to the City's personal income tax this year. While this reduction is believed to be the transitory effects of a bad year on Wall Street and a one-year adjustment to the federal income tax changes, there is uncertainty moving forward.

The Finance Division's tax revenue forecast is above OMB's forecast by $221 million in Fiscal 2019 and $698 million in Fiscal 2020.

Economic Forecast

National Economy

The U.S. economy remains on a steady footing, despite worrying conditions towards the end of 2018. During the fourth quarter of 2018, the S&P 500 index dropped 15 percent from the previous quarter, with a drop of ten percent in December alone. This caused quite a scare, but a very sharp reversal has since taken place, with the S&P rallying 17 percent off the December low.[1] Growth prospects are expected to be solid for the rest of 2019, with the S&P gaining an estimated 18 percent, according to IHS Markit.[2]

Following growth of three percent in 2018, real gross domestic product (GDP) is expected to grow by 2.1 percent in 2019 before decelerating to 1.5 percent by 2022. The five-week partial shutdown of the federal government is expected to reduce GDP growth by 0.1 percent in the fourth quarter of 2018 and the first quarter of 2019, respectively. GDP growth in the second quarter is expected to increase by 0.2 percentage point, with the furloughed workers having returned to work. The net effect of the partial shutdown will likely be very small.

As is often the case, much of the recent gains were driven by consumer spending. Household spending was likely lifted in 2018 by the Tax Cuts and Jobs Act (TCJA), boosting real consumer spending by $40 billion in 2018, according to estimates from the Joint Committee on Taxation.[3] Consumer spending is expected to remain solid in 2019 – growing 2.2 percent – thanks to falling

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[1] This bounce back should not be surprising. Given the reduction in valuations in December, the S&P index became much more attractive, so buyers returned in droves.

[2] IHS Markit, 'Executive Summaries,' February 2018.

[3] See New York State Division of Budget's "FY 2019 Economic and Revenue Outlook" for calculation. Pg 25-26. https://www.budget.ny.gov/pubs/archive/fy19/exec/fy19ero/economicRevenueOutlook.pdf

gas prices and still low interest rates. That said, the stimulus from the TCJA is beginning to wind down.

The tightening labor market is expected to continue. According to the Bureau of Labor Statistics' 'Job Openings and Labor Turnover Survey (JOLTS),' the number of job openings hit a historic high in December, reaching 7.3 million, exceeding the number of unemployed by more than one million.[4] Nonfarm payroll employment gains averaged 232,000 per month over the six months ending in January 2019, but are expected to slow to an average of 190,000 per month from February through June. Because of this slowdown in job growth, the country's unemployment rate will hit its trough this spring, not dipping below 3.6 percent. It will stay there through 2020 before rising gradually as growth slides below trend.[5]

The Federal Reserve is split over whether or not to raise interest rates this year. According to minutes from its late-January meeting, Federal Reserve officials agreed to pause further hikes until risks to the economy are better understood. Chairperson Jerome Powell has declined to say whether the bank maintained a bias for tighter or easier policy, a clear turn from his preference to raise rates as recently as December. Nevertheless, the Federal Reserve has indicated the financial system is "substantially more resilient" than before the Great Recession.[6]

All-in-all, the relatively fast pace of economic growth in 2017 and 2018 may be difficult

Forgotten Workers in the US?

The Finance Division's forecast mostly focuses on how the economy impacts City finances, not on the social welfare of the population. There are certain concerns, however, which will occasionally be highlighted, such as the country's labor force participation rate (LFPR).

The U.S. LFPR, the percentage of the population 16 and older who are either employed or seeking employment, has not recovered since the Great Recession. Having slid from a pre-recession high of 66.4 percent in January of 2007 to a low of 62.4 percent in September of 2015, the LFPR ended 2018 at just 63.1 percent. There are a few reasons for the decline and lack of bounce-back. Firstly, more and more baby boomers are reaching retirement age, choosing not to "participate." Additionally, fewer younger workers are participating, opting for school instead. Finally, there has been an increase in both the number of discouraged workers and the number of prime-age people in the US who are not working as a result of disabilities.

Looking at the LFPR for what is called the core workforce, those ages 25-54, gives a more detailed view of the labor market as it ignores the employment volatility of high school and college years, as well as the retirement years of those 55 and older. Looking at 12-month moving averages, the LFPR for the 25-54 core cohort has declined from a June 2000 high of 84.2 percent to a low of 80.8 percent in October of 2015. Since then the rate has only fractionally recovered to 82.1 as of January 2019. According to Finance Division calculations, today's 25-54 cohort would require nearly 2.6 million additional people in the labor force to match the peak rate at the turn of the century.

These trends suggest a considerable structural change is occurring in the economy. This begs the question: what will become of the millions of workers left outside of the labor market, and what is the social cost?

[4] Job Openings and Labor Turnover Survey – December 2018. Bureau of Labor Statistics. https://www.bls.gov/news.release/jolts.nr0.htm
[5] IHS Markit, 'Executive Summaries,' February 2018.
[6] Monetary Policy Report – February 22, 2019. Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/monetarypolicy/files/20190222_mprfullreport.pdf

to sustain. The economy will slow but a recession will most likely be averted in 2019. If the expansion reaches into July, it will become the longest since 1850.

City Economy

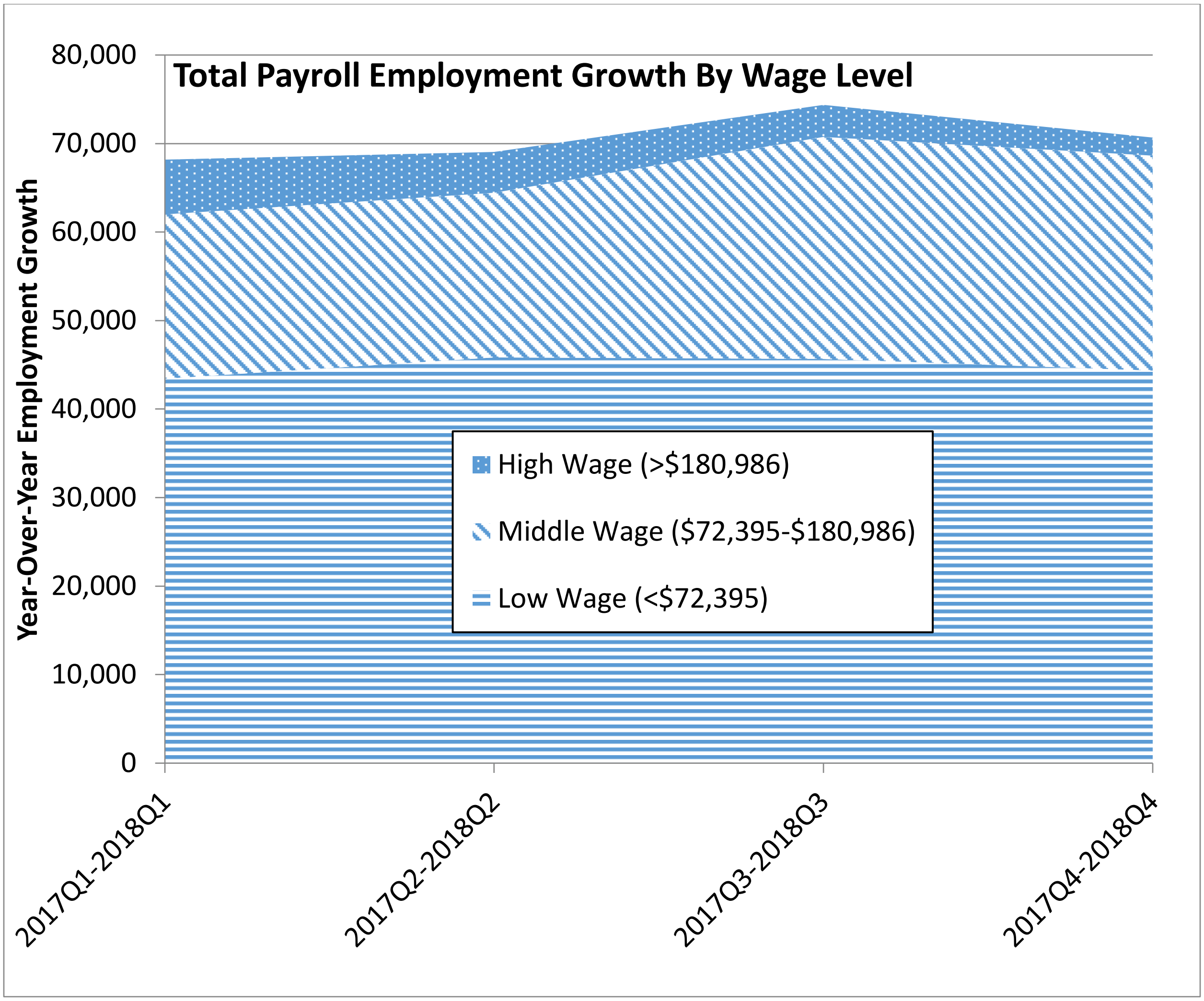
The New York City economy has been showing signs of a slowdown, as evidenced by the continued decline in annual job growth, which peaked at 131,000 in 2014. In 2018, the City added only 72,700 new jobs – a ten percent drop from the 81,000 added in the prior year.

The continued slack in employment growth mirrors the major sectors of the economy. The professional and business service sector added only 13,600 jobs in 2018, a 56 percent decline since its post-recession peak in 2015. Between 2010 and 2017, this broad-based generator of middle-class employment contributed an average of 24 percent of additional private-sector jobs. In 2018 that share shrunk to 18 percent. The finance sector added only 2,950 jobs in 2018, its slowest job growth since 2013. The information sector shed jobs last year, driven by the continuous decline in publishing. Leisure and hospitality, long a reliable source of low-paying positions, is now experiencing a slowdown, with its share of private sector jobs going from eight percent between 2014 and 2016 to only four percent in 2018.

The brightest spot in 2018 was the health care and social services sector, which continued to expand at a healthy pace. Having added 32,000 positions, it comprised 43 percent of additional private sector jobs, the largest share since 2010. The struggling retail sector also came around in 2018, adding about 4,400 jobs – the largest number since 2014.

As in the past four years, employment growth in 2018 largely came from low-paying industries, such as retail, food services, ambulatory healthcare, and social assistance. Approximately 61 percent of the additional private sector jobs in 2018 were generated by low-paying industries with average salaries under $72,400. About 34 percent came from industries paying a medium-wage, while the remaining 5 percent came from high-paying industries with average salaries of over $181,000.[7]

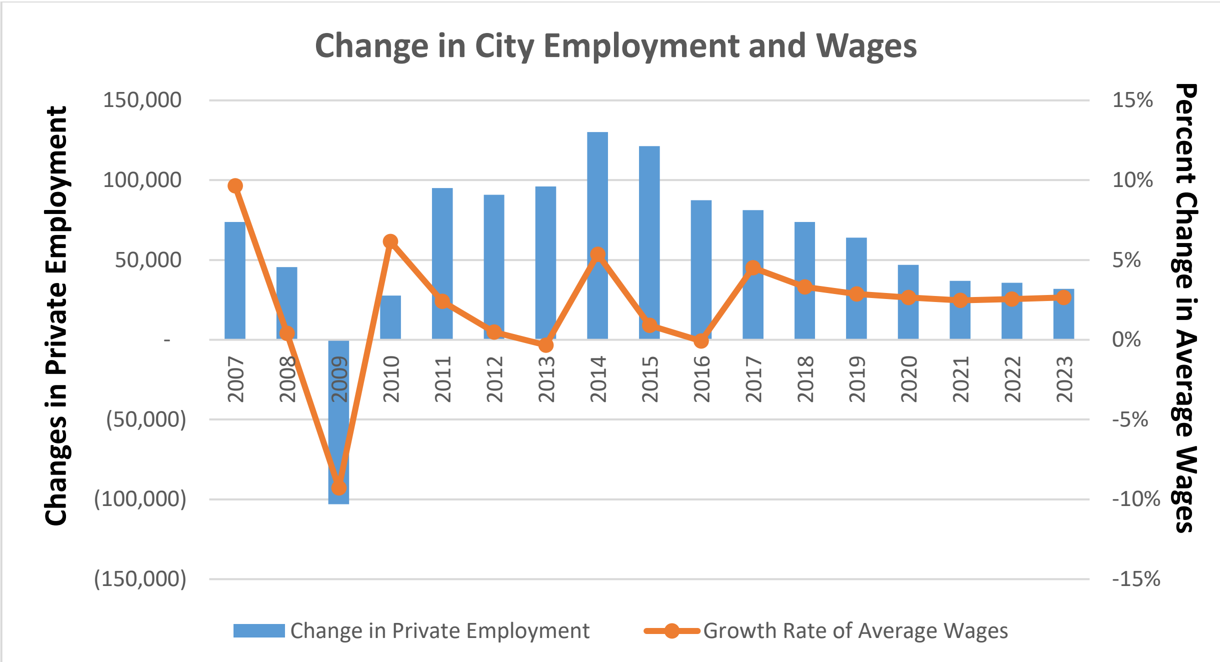
[7] New York State Department of Labor: Current Employment Statistics (CES) and Quarterly Census of Employment and Wages. Wages are in 2018 dollars.
The wage threshold demarcating low wages is 80 percent of the City's Area Medium Income (AMI), at which households become eligible for benefits from the U.S. Department of Housing and Urban Development. The high wage threshold represents 200 percent of the AMI.



Source: *New York City Council Finance Division*

Labor Market. The continuous decline in job growth can be attributed to the tightening of the labor market. In 2018, the City's unemployment rate dropped to a record low of 4.1 percent. At the same time, the City's LFPR remained significantly high in spite of dropping slightly from 60.9 percent to 60.8 percent. The high LFPR can be attributed to the fact that the City continues to attract young people from the rest of the country and abroad. In contrast, the national LFPR has been generally falling since 2000.

Wages. Average wage growth has been extremely volatile, driven mainly by the securities industry with its exorbitant but unstable bonuses. A steep drop in securities industry compensation is expected to push down the private sector average wage growth to 3.3 percent in 2018. Excluding the security industry, private sector average wages grew 3.4 percent in 2018. Average wages are expected to decline throughout the financial plan, from 2.9 percent in 2019 to 2.6 percent in 2023.



Source: *New York State Department of Labor, Current Employment Statistics and Quarterly Census of Employment and Wages; New York City Council Finance Division (forecasts). Private sector wages are actuals through 2018. Private sector growth of average wages are actuals through 2018 Q3 and forecast for 2018 Q4.*

Looking Ahead. The Finance Division expects the City economy to continue to add more jobs going forward. However, the rate of job growth is projected to decline throughout the financial plan years, caused by significant declines in job creation by some of the major sectors.

- **From 2019 to 2020.** The finance sector will continue to add jobs at a slower pace in 2019, making it five consecutive years of declining job growth. The sector will then see a slight uptick in employment growth in 2020. Payroll in the professional and business sector is also projected to see slower growth in both 2019 and 2020, reflecting a slowdown in the growth of the national economy. The health services and accommodation sectors are expected to add jobs at a higher pace in 2019 when compared to the previous year. However, both sectors are projected to experience declines in employment growth in 2020.

- **After 2020.** The aforementioned sectors are expected to see more significant declines in employment growth in the outyears. Job growth in the financial sector is projected to slow to an average of 0.3 percent annually – the slowest pace since 2013. Demand for business services will be hit by a national economy growing more sluggishly. The retail sector, with customers continuing to shift from in-store to online purchasing, is expected to lose about 2,400 jobs on average between 2021 and 2023.

Annual Employment Growth by Sector						
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
Total Private Sector	1.9%	1.6%	1.2%	0.9%	0.9%	0.8%
Finance	0.6%	0.5%	0.6%	0.3%	0.3%	0.3%
Business Services	1.8%	1.7%	1.4%	1.1%	1.0%	0.9%
Leisure & Hospitality	1.9%	1.7%	1.1%	0.8%	0.7%	0.6%
Retail	1.2%	-0.2%	-0.1%	-0.7%	-0.6%	-0.8%
Information	0.0%	0.2%	0.4%	0.0%	0.0%	0.1%
Health Care & Education	3.8%	4.1%	3.3%	3.1%	3.1%	2.9%

Source: *New York City Council Finance Division*

Real Estate. A major bottleneck to urban growth nationally is the shrinking supply of available office space. This is fortunately not the current situation in New York City. Office leasing in Manhattan reached a record 35.9 million square feet in 2018, a 17.7 percent increase over 2017. Vacancy rates in the fourth quarter of 2018 increased to 9.2 percent from 8.9 percent a year before. Average asking rents remained flat throughout 2018 at $72.28 per square foot. [8]

A more likely bottleneck in New York City going forward is the high cost of housing. As of January 2019, the median rent of a one-bedroom apartment in Brooklyn was $2,800 a month, a 5.7 percent jump over a year ago.[9] Purchasing a co-op in Queens carries a median sales price of $300,000, 9.1 percent above a year ago.[10] Workers and firms may increasingly prefer locations other than New York that offer a more manageable cost of living.

Hotels. The hotel industry remains vibrant. Rooms rented per night increased 3.9 percent in 2018 and average room rates rose to $291 from $281 a year ago. Hotel occupancy also firmed to 88.1 percent from 87.6 percent. Surprisingly, all this occurred as the inventory of available rooms expanded by 3.2 percent.[11]

Comparison to OMB's Forecast[12]

Both the Finance Division and OMB recognize a slowdown in job creation through the Financial Plan years. The Finance Division expects private sector employment to grow by a modest 1.6 percent in 2019, and significantly decelerate to 0.8 percent by 2023. OMB projects total employment to grow by a tepid 1.2 percent in 2019 and weaken just a bit further to 1.0 percent in the succeeding years through 2023.[13] The average wage growth trajectory is also very similar to OMB's, with the Finance Division's growth rates being slightly stronger. The Finance Division projects private sector average wage growth of 2.9 percent in 2019, softening to 2.6 percent by 2023. OMB expects total average wage growth of 2.7 percent in 2019, slowing to 2.3 percent by 2023.

[8] Cushman & Wakefield, Marketbeat: Manhattan Office Q4 2018
[9] Douglas Elliman Real Estate, Elliman Report: Manhattan, Brooklyn & Queens Rentals, January 2019
[10] Douglas Elliman Real Estate, Elliman Report: Queens Sales, Q4 2018'
[11] NYC & Company, NYC Hotel Occupancy, ADR & Room Demand
[12] OMB forecasts employment and wages for the private and public sectors combined, while the Finance Division's forecasts are confined to the private sector.
[13] Office of Management and Budget, "Forecast Documentation: February 2019 Financial Plan"

Forecast of Selected Economic Indicators: National and New York City, CY2018-2023	CY18	CY19	CY20	CY21	CY22	CY23
NATIONAL ECONOMY*						
Real GDP %	**2.9**	**2.5**	**2.0**	**1.5**	**1.5**	**1.4**
Private Employment						
Level Change, '000	2,341	1,956	1,219	697	492	289
Percent Change, %	1.9	1.5	0.9	0.5	0.4	0.2
Unemployment Rate, %	**3.9**	**3.6**	**3.7**	**3.9**	**4.1**	**4.3**
Total Wages %	**3.0**	**3.2**	**3.3**	**3.4**	**3.5**	**3.4**
Interest rates %						
3-Month Treasury Bill	2.0	**2.6**	**2.8**	**2.9**	**2.9**	**2.8**
30-Year Conventional Mortgage Fixed	4.5	**4.8**	**5.0**	**5.1**	**5.1**	**5.1**
NEW YORK CITY ECONOMY						
Real GCP %*	2.8	2.6	**2.0**	**1.5**	**1.5**	**1.3**
Private Employment						
Level Change, '000	74	64	47	37	36	32
Percent Change, %	1.9	1.6	1.2	0.9	0.9	0.8
Average Private Wages %	3.3	2.9	2.7	2.5	2.6	2.6
Total Private Wages %	5.3	4.6	3.9	3.4	3.4	3.4
NYSE Member Firms %						
Total Revenue	20.4	7.1	2.1	0.8	1.7	3.8
Total Compensation	4.9	1.8	(0.1)	(0.7)	(0.2)	1.0

Source: *IHS Markit, Feb 2019; New York City Council Finance Division (City)*

** Calculated by IHS Markit*

Tax Revenue Forecast

The Finance Division forecasts tax collections in Fiscal 2019 to be $1.8 billion over the prior year, a moderate 3.0 percent increase. This follows the explosive growth of 8.2 percent in Fiscal 2018, stoked by federal fiscal policy. The drivers of growth are the property tax, sales tax, the business corporation tax, and the two real property transaction taxes. In 2020, total collections will increase by $2.7 billion or 4.5 percent growth. From 2021 through 2023, average revenue growth will slow to around 3.9 percent, in synch with the City's economy.

Property Tax

Property tax collections are expected to maintain strong growth throughout the Financial Plan, with revenues forecasted to grow 6.7 percent in both Fiscal 2019 and Fiscal 2020. The Finance Division's forecast for Fiscal 2019 is similar to that of OMB's forecast, with minor differences due to updated projections for certain components of the property tax reserve. Growth is expected to slow in subsequent years, reaching 4.3 percent by Fiscal 2023. This is due to rising interest rates, and the loss of valuable federal income tax deductions for state and local taxes (SALT).

Growth in property tax revenue is driven by a recent history of strong market value growth, which will sustain strong assessment growth through the financial plan period. Over the previous five year period (Fiscal 2014 through Fiscal 2018), market values as estimated by the Department of Finance (DOF) grew by an average annual rate of 6.6 percent. In January 2019, DOF released the preliminary assessment roll for Fiscal 2020, which showed growth in market values of 5.8

percent, with 83 percent of the growth due to market forces. Similarly, assessed values are up 8.3 percent, representing $259.7 billion in billable assessed value.

Personal Income Tax (PIT)

After a remarkable 20.9 percent growth in Fiscal 2018, PIT collections are expected to drop 7.3 percent in Fiscal 2019. Collections for last fiscal year were boosted by prepayments in response to the $10,000 cap on SALT deductions, as well as the repatriation of non-qualified deferred compensation.[14] While much of the decline in collections for Fiscal 2019 is a return to normal levels after the temporary spike, a significant portion can also be attributed to lower than expected estimated payments, driven by economic and recurring factors.

In December 2018 and January 2019 combined, estimated payments were $326 million (or 31 percent) lower than what OMB projected in its November 2018 forecast. The disappointing collections is largely a result of a sharp and unexpected downturn in equity market performance towards the end of 2018. It may additionally reflect a possible change in taxpayer behavior in response to altered incentives and uncertainties generated by the cap on SALT deductions. In light of this weakness, the Finance Division is taking down its forecast of estimated payments, expecting it to finish Fiscal 2019 with a 29 percent decline over the last fiscal year. The forecast is also consistent with New York State's expectation of a 5.5 decline in net capital gains realization for 2019, the major driver of estimated payments.

Withholdings, on the other hand, are expected to grow very moderately by 2.3 percent in Fiscal 2019, from slower growth in employment and reduced Wall Street bonuses.

For Fiscal 2020, PIT collections are forecasted to rebound by 4.7 percent growth, with both estimated payments and withholdings experiencing increases. The growth in collections for Fiscal 2020 reflect the expected increases in wages and capital gains realizations. Collections for the outyears are expected to grow at an average rate of 3.7 percent.

Business Taxes

The Finance Division forecasts collections from the two business taxes – Business Corporation and Unincorporated Business Taxes – to finish Fiscal 2019 with 4.7 percent growth, after seeing a three percent growth in Fiscal 2018. Collections are then expected to sharply decelerate to only 0.2 percent in Fiscal 2020.

Business Corporation Tax (BCT). BCT collections have been declining since the City merged the General Corporation and the Banking Corporation taxes as part of the 2015 business tax reform. Following a 0.2 percent decline in Fiscal 2018, robust collections have returned, and the Finance Division expects revenues to rebound by 8.5 percent growth in Fiscal 2019. The expected increase in collections can be attributed to strong growth in corporate profits. It also demonstrates that corporations have finally used up their overpayments for tax year 2015, and are again making payments that actually reflect their liabilities. In Fiscal 2020, however, BCT collections are expected to drop 0.6 percent, reflecting slack in the economy, coupled with expected declines in

[14] The cap on SALT deductions was enacted by the TCJA, while the repatriation of non-qualified deferred compensation was enacted by the Emergency Economic Stabilization Act of 2008. See the Finance Division's report on the Fiscal 2019 Economic and Revenue Forecast, May 24, 2018 (Executive Budget) for how the two federal tax changes temporarily boosted the City's Unincorporated Business Tax collections.

stock prices. Collections are expected to rebound with an average growth rate of 1.7 percent in the outyears.

Unincorporated Business Tax (UBT). The UBT, on the other hand, is projected to see a 1.4 percent drop in collections for Fiscal 2019. As of December 2018, year-to-date UBT collections were down 16 percent when compared to the same period of the prior year. Revenues from Fiscal 2018 were boosted by changes in federal tax laws enacted by the TCJA and the Emergency Economic Stabilization Act of 2008.[15] The expected decline for Fiscal 2019 represents a correction from the abnormal growth the UBT experienced the last fiscal year. The tax is expected to grow 1.7 percent in Fiscal 2020, with the growth rate accelerating sharply by an average of 4.2 percent in the outyears.

Sales Tax

Sales tax revenues are forecasted to grow 5.1 percent in Fiscal 2019, buoyed by strong consumer confidence, increased personal income, the City's low unemployment rate, and thriving tourism.[16] Collections were supported by a strong holiday shopping season, which experienced improved retail sales compared to recent years. Collections are forecast to grow more moderately at 4.1 percent in Fiscal 2020. The forecast projects a 3.7 percent average growth rate for Fiscal 2021 through Fiscal 2023, reflecting slower growth in employment.

Real Estate Transaction Taxes

The real estate transaction taxes, Real Property Transfer (RPTT) and Mortgage Recording (MRT), are experiencing a rebound in Fiscal 2019 after two years of declining revenues, with both expected to achieve double-digit growth. This trend reversal largely follows strengthening in the commercial real estate market. The forecast for subsequent years expects relatively flat growth. Despite the bounce-back in commercial real estate, headwinds, including softening in the luxury condo market, a potential rising interest-rate environment, and continued effects of federal tax law changes may soften revenues from residential transactions. The Finance Division's major departure from OMB's forecast in the outyears stems from OMB's expectation of significant declines in MRT revenues from commercial transactions in Fiscal 2020, which this forecast is less pessimistic about.

Comparison to OMB's Forecast

The Finance Division's overall tax revenue forecast is stronger than OMB's throughout the Financial Plan, and collections for Fiscal 2019 and 2020 exceed those of OMB by $918 million. The Finance Division's February forecast is, however, weaker than its previous forecast in November, with collections for Fiscal 2019 and 2020 reduced by $517 million.

[15] See the Finance Division's report on the Fiscal 2019 Economic and Revenue Forecast, May 24, 2018 (Executive Budget) for how the two federal tax changes boosted the City's UBT temporarily.

[16] This includes the Sales Tax Assets Receivable Corporation (STARC) reduction. The 2016-2017 New York State Enacted Budget legislation enables New York State to reduce 2016, 2017, 2018, and 2019 collections by $50 million, $20 million, $200 million, and $150 million respectively, in order to recoup the savings New York City achieved through refinancing STARC.

New York City Council Finance Division - Tax Revenue Growth Rates					
	FY19	**FY20**	**FY21**	**FY22**	**FY23**
Real Property	6.7%	6.7%	5.8%	5.3%	4.3%
Personal Income	(7.3%)	4.7%	3.2%	3.8%	4.2%
Business Corporate	8.5%	(0.6%)	1.4%	1.7%	2.0%
Unincorporated	(1.4%)	1.7%	3.0%	4.2%	5.3%
Sales	5.1%	4.1%	3.6%	3.7%	3.7%
Commercial Rent	2.7%	1.7%	4.7%	4.0%	3.9%
Real Property Transfer	10.8%	(1.4%)	0.7%	0.4%	1.1%
Mortgage Recording	11.0%	2.2%	0.1%	0.1%	0.1%
Utility	7.0%	0.7%	2.0%	(0.4%)	0.5%
Hotels	7.4%	3.0%	4.3%	4.5%	4.1%
All Others	22.2%	(5.6%)	(0.3%)	(0.3%)	(0.3%)
Audits	(13.6%)	(5.0%)	(25.2%)	0.0%	0.0%
Total Taxes	**3.0%**	**4.5%**	**3.7%**	**4.1%**	**3.8%**

Source: *New York City Council Finance Division, Preliminary Budget Fiscal 2020*

New York City Council Finance Division - Tax Revenue Difference From OMB					
$ millions	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
Real Property	$113	$329	$682	$1,129	$1,612
Personal Income	(41)	(12)	93	174	283
Business Corporate	(69)	57	98	108	122
Unincorporated	(4)	(143)	(175)	(112)	(53)
Sales	11	(31)	(5)	6	48
Commercial Rent	1	36	55	58	61
Real Property Transfer	11	76	67	37	9
Mortgage Recording	68	258	248	230	206
Utility	10	3	(3)	(15)	(22)
Hotels	20	25	60	77	98
All Others	0	0	0	0	0
Audits	100	100	100	100	100
Total Taxes	**$221**	**$698**	**$1,221**	**$1,792**	**$2,465**

Source: *New York City Council Finance Division, NYC Office of Management and Budget, Preliminary Budget Fiscal 2020*

Risks to the Revenue Budget

Risks to the Economic Forecast

The current U.S. expansion is reaching its tenth year, and the labor market is at or near full employment. Under these conditions the risk of the economy overheating and inflation accelerating rises. If this occurs, the Federal Reserve would respond by raising interest rates more rapidly than currently expected. This would increase the danger of overstepping the mark and strangling commercial and consumer activity, leading to a sharper slowdown or possibly recession. New York City would be especially hard hit, with the sharply higher interest rates driving down the value of existing bonds, causing losses for Wall Street banks, as well as individual investors. The danger of escalating interest rates has been heightened by the additional stimulus and government borrowing from the federal tax cuts and spending legislation.

The global economy is slowing down. This has been exacerbated by the ongoing trade war with China. For Europe, the impact of an abrupt Brexit would do additional harm. If international conditions further deteriorate, it would be a drag on U.S. growth and the financial markets on which New York City depends.

There are upside risks as well. Labor productivity increased in 2018 to 1.3 percent from 1.1 percent the previous year. The TCJA significantly cuts corporate tax rates, plus temporarily allows for full business expensing. If this incentivizes a sustained increase in business fixed-investment, it may result in higher than expected labor productivity growth going forward, and increase the living standard.

Risks to the Revenue Forecast

Normally, the primary risks to the revenue forecast follow directly from the economy. This year however, there is considerable uncertainty about taxpayer behavior responding to major changes in tax policy. There is no tight formula reassuring us that the huge drop in PIT estimated payments in December and January will be significantly offset by strong extension payments in April, an underlying assumption of the forecast. There is also a great degree of uncertainty surrounding the level of refunds, which may be greater than anticipated.

There are upside risks as well. The Finance Division has, until this forecast, employed a forecast of capital gains realizations by the Congressional Budget Office (CBO) for projecting growth rates in estimated payments. The Finance Division's current forecast however, uses alternative measures. The CBO forecast bases its strong growth in capital gains on the current spree of stock buybacks, increasing share values, facilitated by the plunge in federal corporate tax rates. Normally, New York's personal income tax is one of the beneficiaries of such sprees. However, it is necessary to adjust for the taxpayer behavioral changes in high tax jurisdictions like New York from capping the SALT deduction. Much of the realizations initially earmarked for 2018 were pushed forward to 2017 to salvage full deductibility of SALT. Consequently, the CBO forecast of especially strong capital gains realizations in 2018 may not apply to New York City taxpayers. If the CBO forecast of strong realized capital gains proves to be more applicable to the City than assumed, there would be additional PIT revenues.

There are also risks concerning property tax collections in the outyears. The Finance Division assumes a moderate slowdown in collections due to the higher cost of home ownership. This is due to both the cap on SALT and the reduced mortgage interest deduction. Underlying the forecast is the appreciation that decisions to change one's location occur slowly, factoring in family roots in one's community. The fact that many affluent New Yorkers have paid the alternative minimum tax, and were not allowed to deduct for SALT in the past, further limits the incentive to move. If the tax changes however, should trigger more of a hemorrhage of homeowners than a gradual decline, there could be a severe reduction in property tax revenues over the next few years.

Policy Risks from New York State

Outside of tax revenues, there is a threat that aid from New York State will decrease. The Fiscal 2019-2020 New York State Executive Budget includes a few cuts and cost shifts that will impact New York City and its budget to the tune of roughly $600 million if enacted. These shortfalls include $300 million in School Aid, $125 million for the Family Assistance portion of the Temporary Assistance for Needy Families block grant, $59 million for public health programs, and $13 million for Persons in Need of Supervision preventive diversion services, which keeps at-risk youth out of foster care and detention.

Reflecting a $2.3 billion decline in revenue, the Governor's 30-day amendments to the Fiscal 2019-2020 Executive Budget proposed a number of revisions, including a substantial $550 million cut to the State's Medicaid program. This includes reducing indigent care funding, which provides additional support to hospitals that have a large percentage of Medicaid and uninsured patients. Additionally, the budget proposes a $75 million cut to the Consumer Directed Personal Assistance Program (CDPAP), a Statewide Medicaid program which allows people to choose their own at-home care. If enacted, such cuts will result in additional losses to the City.

On the upside, the State budget includes a proposal to eliminate the "internet tax advantage," which allows third-party marketplace providers like Amazon and eBay from collecting and remitting the New York sales tax of four percent, as well as the New York City local sales tax of 4.5 percent. Because of a Supreme Court ruling in June, the sales taxes will now also apply to purchases made from larger out-of-state retailers. Initially expected to increase City collections by $125 million, the 30-day amendments have accelerated the implementation date from September 1st to June 1st, which will result in even more sales tax receipts for the City.

Appendices

New York City Council Finance Division - Tax Revenue Levels

Dollars in Millions

	FY18*	FY19	FY20	FY21	FY22	FY23
Real Property	$26,219	$27,978	$29,858	$31,591	$33,279	$34,722
Personal Income	13,380	12,404	12,981	13,402	13,908	14,492
Business Corporate	3,437	3,730	3,708	3,758	3,820	3,896
Unincorporated	2,182	2,151	2,187	2,252	2,346	2,472
Sales	7,443	7,820	8,138	8,434	8,746	9,070
Commercial Rent	853	877	891	933	970	1,008
Real Property Transfer	1,388	1,539	1,517	1,527	1,533	1,550
Mortgage Recording	1,049	1,165	1,191	1,192	1,194	1,195
Utility	370	396	399	407	406	408
Hotels	597	641	661	689	720	749
All Others	854	1,043	985	982	979	976
Audits	1,337	1,156	1,098	821	821	821
Total Taxes	**$59,111**	**$60,901**	**$63,613**	**$65,989**	**$68,722**	**$71,360**
OMB's Projections	$59,111	$60,681	$62,916	$64,768	$66,930	$68,895

**Actuals*

Source: *New York City Council Finance Division Preliminary Budget Fiscal 2020*

Preliminary Budget Fiscal 2020 - OMB Revenue Plan
Dollars in Millions

	FY19	FY20	FY21	FY22	FY23
Taxes					
Real Estate	$27,865	$29,529	$30,909	$32,150	$33,110
Sales	7,809	8,169	8,439	8,740	9,022
Mortgage Recording	1,097	933	944	964	989
Personal Income	12,445	12,993	13,309	13,734	14,209
General Corporation	3,870	3,651	3,660	3,712	3,774
Banking Corporation	(71)	0	0	0	0
Unincorporated Business	2,155	2,330	2,427	2,458	2,525
Utility	386	396	410	421	430
Hotel	621	636	629	643	651
Commercial Rent	876	855	878	912	947
Real Propery Transfer	1,528	1,441	1,460	1,496	1,541
Cigarette	36	34	33	32	31
All Other	826	769	769	769	769
Audit	1,057	998	721	721	721
Tax Program	0	0	0	0	0
STAR	181	182	180	178	176
Total Taxes	**$60,681**	**$62,916**	**$64,768**	**$66,930**	**$68,895**
Federal Categorical Grants	**$8,471**	**$7,327**	**$7,205**	**$7,133**	**$7,120**
State Categorical Grants	**$15,258**	**$15,390**	**$15,837**	**$16,305**	**$16,353**
Non-Governmental Grants (Other Cat.)	**$1,888**	**$1,587**	**$1,530**	**$1,523**	**$1,523**
Unrest. / Anticipated State & Federal Aid	**$151**	**$0**	**$0**	**$0**	**$0**
Miscellaneous Revenue					
Charges for Services	$1,025	$1,009	$1,008	$1,008	$1,007
Water and Sewer Charges	1,464	1,456	1,446	1,426	1,426
Licenses, Permits, Franchises	728	755	739	747	751
Rental Income	259	254	250	250	250
Fines and Forfeitures	980	956	933	920	916
Other Miscellaneous	830	345	344	343	343
Interest Income	193	230	256	259	250
Intra City	2,154	1,794	1,796	1,794	1,792
Total Miscellaneous	**$7,633**	**$6,799**	**$6,772**	**$6,747**	**$6,735**
Net Disallowances & Transfers	($2,063)	($1,809)	($1,811)	($1,809)	($1,807)
Total Revenue	**$92,019**	**$92,210**	**$94,301**	**$96,829**	**$98,819**
City Funds	**$66,251**	**$67,906**	**$69,729**	**$71,868**	**$73,823**
Federal & State Revenue	**$23,729**	**$22,717**	**$23,042**	**$23,438**	**$23,473**
Federal & State as a Percent of Total	**25.79%**	**24.64%**	**24.43%**	**24.21%**	**23.75%**
City Funds as a Percent of Total Revenue	**72.00%**	**73.64%**	**73.94%**	**74.22%**	**74.71%**

Source *: OMB Fiscal 2020 Preliminary Budget*

Preliminary Budget Fiscal 2020 - OMB Revenue Changes from Fiscal 2019 Adopted Budget
Dollars in Millions

	FY19	FY20	FY21	FY22
Taxes				
Real Estate	$76	$234	$198	$448
Sales	47	2	(52)	(39)
Mortgage Recording	159	9	(8)	(15)
Personal Income	67	24	(81)	12
General Corporation	277	45	20	108
Banking Corporation	(71)	0	0	0
Unincorported Business	(116)	(42)	(41)	(32)
Utility	(1)	0	0	0
Hotel	15	31	14	13
Commercial Rent	9	(38)	(38)	(37)
Real Propery Transfer	69	6	(25)	(36)
Cigarette	1	0	0	0
All Other	76	19	19	13
Audit	1	277	0	0
Tax Program	0	0	0	0
STAR	(4)	0	0	0
Total Taxes	**$605**	**$567**	**$6**	**$435**
Federal Categorical Grants	$879	$198	$97	$41
State Categorical Grants	$282	$88	$74	$59
Non-Governmental Grants (Other Cat.)	$326	$74	$25	$24
Unrest. / Anticipated State & Federal Aid	$0	$0	$0	$0
Miscellaneous Revenue				
Charges for Services	$20	$2	$2	$2
Water and Sewer Charges	12	7	10	10
Licenses, Permits, Franchises	39	36	23	22
Rental Income	5	3	0	0
Fines and Forfeitures	37	18	5	3
Other Miscellaneous	396	1	1	1
Interest Income	3	(22)	(26)	(25)
Intra City	329	23	20	18
Total Miscellaneous	**$841**	**$68**	**$35**	**$31**
Net Disallowances & Transfers	($223)	($23)	($20)	(18)
Total Revenue	**$2,861**	**$972**	**$217**	**$572**
City Funds	**$1,223**	**$612**	**$21**	**$448**
Federal & State Revenue	**$1,312**	**$286**	**$171**	**$100**

Source: OMB Fiscal 2020 Preliminary Budget and Fiscal 2019 Adopted Budget