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**Testimony of the New York City Independent Budget Office
To the New York City Council Committee on Finance
Regarding the Mayor's Executive Budget for 2024 and Financial Plan through 2027
May 23, 2023**

Good afternoon, Chair Brannan and members of the New York City Council Committee on Finance. I am Louisa Chafee, Director of the New York City Independent Budget Office (IBO). Thank you for the opportunity to testify. Joining me are five key members of my team. They include Assistant Directors Jacob Berman (Social and Community Services), Michael Jacobs (Economics), Sarah Stefanski (Housing, Environment & Infrastructure), and Sarita Subramanian (Education), and Budget Analyst Brian Cain.

Today's testimony refers to and relies on IBO's Charter-mandated report on the Executive Budget, issued on May 15th. This report can be found at the [IBO website](http://www.ibo.nyc.ny.us). I have also brought copies for your convenience. IBO is proud to provide nonpartisan budgetary, economic, and policy analysis that helps to increase New Yorkers' understanding of and participation in the budget process and that assists you, as elected representatives, in exercising your oversight, budgetary and legislative responsibilities.

This year, IBO's economic analysis is cautiously optimistic for New York City's short-term fiscal health. Based on IBO's revenue forecasts and re-estimates of City spending, IBO projects an additional fiscal year 2023 surplus of \$2.1 billion, beyond the \$3.0 billion in budget stabilization funds in the Executive Budget. Assuming the \$2.1 billion are applied as prepayments for fiscal year 2024 expenses, next year's budget is balanced.

Widening budget gaps in fiscal years 2025 through 2027 will pose challenges as the City emerges from the COVID-19 pandemic. The out-year gaps grow larger in that time frame, ranging from \$5.8 billion to \$7.7 billion. Relative to the current year, IBO anticipates that, over the course of the plan, expenditures will increase by 11.1 percent while revenues will grow by only 1.9 percent. Despite comparable growth in taxes and expenditures, this growing gap underscores the importance of federal and state revenue to the City's ongoing fiscal health.

Over the course of the financial plan, IBO forecasts that City-funded costs will be \$10.9 billion greater than the projections in the Executive Budget.

My team and I are available today to answer any questions you may have concerning our May 15th Executive Budget report, but to begin our discussion, I will flag three multi-agency risk areas and several agency-specific points.

- **Significant uncertainties remain in the labor force arena:** Two of New York City's largest unions, District Council 37 (DC 37) and the Police Benevolent Association (PBA), have ratified their contracts and the Executive Budget assumes they will set the pattern for other municipal unions. In addition to scheduled raises, these contracts include language concerning potential workplace adaptations

such as remote work, compressed schedules, and extended tours. Such innovations could be challenging for other unions, such as the United Federation of Teachers (UFT), whose members typically must work in person and during specified hours. With the UFT contract as yet unsettled, the City does not have full certainty on labor force costs. The large number of vacancies in the City workforce also adds uncertainties. Based on actual spending during the current year, and taking account of both vacancies and overtime spending, IBO projects that the City will save nearly \$700 million (in budgeted City funds) for personal services in fiscal year 2023, only a portion of which will be offset by the costs of the new labor settlements. IBO has flagged rising concerns that persistent vacancies may mean that some agencies miss key performance targets, a result that could also be costly. Not in IBO's report, but of note, given the concerns of the City Council, is the lack of fiscal recognition of workers funded through the City's human services contracts with nonprofit providers.

- ***Exhaustion of federal stimulus funding –risk for the Department of Education (DOE):*** The end of the federal stimulus fund pipeline presents an obvious budgetary risk for DOE, stemming from the City's use of some of its stimulus allocation to pay for recurring programs, such as Summer Rising, contracted nursing services, Pathways to Graduation, pre-school special education, and mental health counseling. While there will be other (smaller) gaps in agencies besides DOE, such as for the Department of Transportation's Open Restaurants program, IBO estimates that the City will need to provide additional funding to DOE in each of the upcoming fiscal years—\$5 million in 2023, \$285 million in 2024, \$678 million in 2025, and \$881 million annually in 2026 and 2027, to replace federal stimulus funds.
- ***Escalating costs and uncertain arrival trends for asylum seekers:*** The costs associated with asylum seekers have significantly increased during 2023, with the continuing influx of asylum seekers and escalations in shelter costs as the City continues to ramp up capacity. Prior to the General Welfare Committee hearing on the Executive Budget, IBO analyzed three scenarios for the cost of services across fiscal years 2023 and 2024, which yielded a range from \$2.7 billion at the low end to \$3.7 billion at the upper end, the latter being about \$600 million less than costs projected in the Executive Budget.

In addition to these uncertainties, IBO's report also flags several agency-specific issues, including:

- ***Chronic underfunding of the New York City Housing Authority (NYCHA) presents near-term challenges:*** Although the City will cover the estimated \$80 million cost to NYCHA of the DC 37 labor settlement, the Executive Budget has few other subsidies for NYCHA's operations. In December 2022, NYCHA reported that it was owed around half a billion dollars in unpaid rent, with its rent collection rate at 63 percent as of this past March. Until recently, the state's Emergency Rental Assistance Program (ERAP) was unavailable to NYCHA residents. Although residents are now eligible, ERAP is unlikely to provide sufficient funds to address pending arrears. If nothing is done to address this, NYCHA may need to reduce property maintenance spending in 2024, which could compel the City to provide additional subsidies to pay for structural work required under NYCHA's federal monitor agreement. Meanwhile, as IBO previously reported, NYCHA's \$40 billion in unfunded capital needs may lead to further deterioration of the housing stock, again potentially requiring further subsidies to meet legal obligations.

- ***State Budget changes impacting paratransit:*** IBO estimates that the City's paratransit subsidy (known as Access-A-Ride) will need to increase by \$707 million across the financial plan. This includes an adjustment for the increase in the City's paratransit subsidy rate for 2024 and 2025 enacted in the State Budget, as well as adjustments to the financial plan's annual baseline to reflect the Metropolitan Transportation Authority's projected growth in paratransit costs.
- ***Smaller but noteworthy gaps in Executive Budget funding for many key programs:*** The Executive Budget omits funding for many social and community services initiatives added by the City Council every year at budget adoption, including key youth, aging, library, cultural, and health and mental hygiene programs throughout the City. In addition, IBO noted several critical programs and services that were materially underfunded in the Executive Budget. One example: IBO estimates that the Human Resources Administration (HRA) will continue to spend \$247 million annually for legal services, including anti-eviction and related services, as well as deportation defense legal services, across all plan years. To baseline legal services funding at this level, not including the expansion of the Right to Counsel program, will require an additional \$9 million in City funds in fiscal year 2023, \$56 million in fiscal years 2024 and 2025, and \$72 million in fiscal years 2026 and 2027. This is a relatively small sum for an agency with a 2024 budget of more than \$11 billion, but a service of critical importance to New Yorkers facing homelessness, and to asylum-seekers.

Thank you for your time. We are happy to answer any questions.

Modest Economic Recovery, With Persistent Budget Challenges

Overview

The Independent Budget Office (IBO) is charged with the responsibility under the New York City Charter of providing city officials and the public with nonpartisan information on the city budget and the economy. Each year, IBO publishes a report analyzing the Executive Budget for the upcoming fiscal year. This report focuses on where IBO's projections differ from those set forth in the Executive Budget.

This year, IBO's analysis of the Mayor's Executive Budget supports cautious optimism about the short-term fiscal health of the city, but notes that increasing budget gaps in fiscal years 2025 through 2027¹ will pose challenges to the city as it continues to recover from disruptions triggered by the COVID-19 pandemic.

Some of the risks to the city's finances are not fully within its control:

- Ongoing political deadlock over the federal debt ceiling creates the risk of a global downturn.
- The city is likely to have to bear significant costs to shelter and provide services to record numbers of asylum-seeking families and individuals who have—either on their own or at the orchestration of officials in states along the southern border—arrived in New York City.
- On the revenue side, while jobs have rebounded and tax collections have not been impacted as much as feared, remote work and spending pattern changes accelerated by the pandemic may have a longer-range effect on taxes and growth in several employment sectors.

As these broader risks challenge the city, more localized concerns remain. Although there is more clarity on some risks presented in the Preliminary Budget, other issues remain to be addressed in the future. For example, the city has finalized agreements with only two of its largest unions. The exhaustion of the remaining \$3.7 billion in federal stimulus dollars that the city has used, not only for costs directly related to the pandemic but also to expand popular programs, creates potential fiscal cliffs in the latter years of the financial plan. Options for filling such gaps have yet to be identified. Finally, the Executive Budget, released April 26th, could not at that time reflect adjustments to the city budget based on the state budget, which was enacted nearly four weeks after its April 1st due date.

On the broader economic front, IBO's forecast stays steady from its Preliminary Budget report, remaining cautiously optimistic that the US will not enter a recession. By the end of 2022, there were 4.6 million jobs in New York City. Employment growth has been robust after heavy losses in early 2020 and city employment has reached 99.1 percent of its pre-pandemic peak. IBO forecasts the city will make a full employment recovery by the end of 2023,

Program to Eliminate the Gap (PEG)

In response to various challenges and uncertainties, the Office of Management and Budget (OMB) issued a letter to agency heads on April 4, 2023, calling for a blanket four percent reduction starting in 2024 in the city funded budgets for all agencies, excluding the Department of Education (DOE) and the City University of New York (CUNY), which were both subject to a three percent reduction. This was the third PEG request this fiscal year, this time seeking approximately \$6.4 billion in reductions from 2024 through 2027. In the end, several agencies were held harmless in the Executive Budget, which included a PEG reduction of \$3.9 billion over the plan window. Notwithstanding these cuts, the overall budget was increased by \$16.1 billion, largely due to the newly adopted labor contract.

although this will not be experienced across the board in all sectors. An anticipated slowdown of national economic growth is likely to slow job growth in the city. For 2023, IBO projects 72,900 jobs will be added. IBO anticipates that the rate of job growth will pick up again in 2024, with 98,500 jobs added, before gradually declining from 2025 through 2027, averaging 70,500 jobs per year. Similarly, wages will continue to grow, albeit more slowly.

Economic growth rates help drive resulting tax receipts. Overall, IBO's analysis yielded a slightly different revenue forecast from that of the Executive Budget, as detailed in this report. Among the highlights:

- IBO's forecast of personal income tax (PIT) revenues is generally higher than the Executive Budget. For 2023, IBO's projected net PIT revenue is \$579 million (3.6 percent higher). For 2024 through 2026, the difference averages \$383 million. Only in the final year of the forecast period does the Executive Budget PIT forecast exceed IBO's.
- IBO's Real Property Tax (RPT) forecast of \$31.5 billion for 2023 is 0.3 percent greater than the Executive Budget, while its forecast for 2024 revenue is \$685.9 million (2.1 percent) less than the Executive Budget. However, IBO's RPT forecast exceeds the Executive Budget for the remainder of the forecast period, with the difference reaching \$2.9 billion (8.7 percent) in 2027.

IBO Total Revenue and Expenditure Projections Fiscal Years 2023-2027							
<i>Dollars in millions</i>							
	Prior Year Actuals 2022	Projections					Average Annual Change 2023-2027
		2023	2024	2025	2026	2027	
Total Revenue	\$107,430	\$109,570	\$106,275	\$107,829	\$108,679	\$111,701	0.8%
Total City Taxes	69,431	72,071	70,939	74,437	76,556	79,538	2.8%
Total Expenditures	\$104,360	\$107,488	\$108,336	\$113,613	\$115,745	\$119,392	2.7%
IBO Revenue Less Expenditures	n/a	\$2,082	(\$2,061)	(\$5,784)	(\$7,066)	(\$7,691)	
IBO Prepayment Adjustment 2023/2024	n/a	(\$2,082)	\$2,082	-	-	-	
IBO Surplus/(Gap) Projections		\$0	\$21	(\$5,784)	(\$7,066)	(\$7,691)	
<i>New York City Independent Budget Office 5/15/2023</i>							

IBO's Overall Revenue and Expenditure Estimates

Based on its revenue forecasts and re-estimates of city spending within the financial plan, IBO projects an additional current year surplus of \$2.1 billion. If these funds are applied as prepayments for 2024 expenses, beyond the \$3.0 billion that the Executive Budget allocates towards budget stabilization measures, IBO estimates that the budget will be effectively balanced, with a negligible surplus of \$21 million. The cloud on the horizon is anticipated out-year gaps from 2025 through 2027, ranging from \$5.8 billion to \$7.7 billion, when IBO expects expenditures will increase by 11.1 percent (relative to 2023), but revenues will only grow by 1.9 percent. Despite comparable growth in taxes and expenditures, this growing gap underscores the importance of federal and state revenues to the city's ongoing fiscal health.

In a detailed look at expenditures set forth in the Executive Budget, IBO has identified several areas in which its estimates reflect either over- or under- budgeted amounts in the Executive Budget. This includes several under-funded program areas which historically have been omitted or understated in the

Executive Budget, only to be restored during negotiations to finalize the Adopted Budget. Each of these variances are described in IBO's re-estimates of forecasted city expenditures. Notable examples include:

- Exhaustion of COVID-19 related federal funding will impact city programs, particularly education. IBO estimates that the city will need an additional \$5 million for the Department of Education (DOE) budget in 2023, \$285 million in 2024, \$668 million in 2025, and \$881 million annually in 2026 and 2027. The city has used federal COVID-19 stimulus funds to pay for programs that IBO anticipates will continue beyond the funds' exhaustion.
- Similarly, the uniformed services agencies—the Police, Fire, Correction, and Sanitation Departments—historically have, at times, had very high overtime costs. Although most of the uniformed agencies are on track to spend less than the amounts budgeted in 2023, IBO expects that more funding will be necessary in future years. IBO estimates the city will spend \$435 million more than budgeted levels in 2024 on uniformed personnel costs.
- As the city's active headcount has declined, there are some savings in personal services costs. Concerns are rising, however, that staffing reductions have left some agencies unable to meet key performance targets, as documented in the Mayor's Management Report, which may reflect a reduction in service delivery.
- In an example of a small re-estimate of a high impact service, the city did not maintain out-year funding for key legal assistance programs, including anti-eviction and related services, and deportation defense services. This will require an additional \$9 million in city funds in 2023, \$56 million annually in 2024 and 2025 and \$72 million annually for 2026 and 2027.

IBO Expenditure Projections Fiscal Years 2023-2027							
<i>Dollars in millions</i>							
	Prior Year Actuals 2022	Projections					Average Annual Change 2022- 2027
		2023	2024	2025	2026	2027	
Operational Expenditures							
Agency Expenditures	\$77,713	\$79,768	\$76,722	\$75,819	\$74,850	\$75,713	-0.5%
Labor Reserve	933	3,008	3,003	4,309	5,420	6,537	n/a
Total Operational Expenditures	\$78,646	\$82,776	\$79,725	\$80,128	\$80,270	\$82,251	0.5%
Other Expenditures							
Fringe Benefits	\$8,557	\$11,584	\$13,538	\$14,409	\$15,017	\$15,641	12.8%
Debt Service	6,294	5,220	4,876	8,266	9,034	9,725	9.1%
Pensions	9,599	9,414	9,634	10,415	10,878	11,060	2.9%
Judgments and Claims	1,242	1,199	1,165	877	823	840	-7.5%
Subtotal Recurring Expenditures	\$104,337	\$110,193	\$108,938	\$114,096	\$116,023	\$119,517	2.80%
General Reserve	\$0	\$50	\$1,200	\$1,200	\$1,200	\$1,200	n/a
Capital Stabilization Reserve	0	0	250	250	250	250	n/a
Retiree Health Benefit Trust	792	0	0	0	0	0	n/a
Rainy Day Fund Deposit	1,450	0	0	0	0	0	n/a
Other Adjustments	0	(400)	0	111	320	472	n/a
Subtotal Non-Recurring Expenses	2,242	(350)	1,450	1,561	1,770	1,922	n/a
Intra-City Expenditures	\$2,220	\$2,355	\$2,052	\$2,044	\$2,047	\$2,047	n/a
TOTAL EXPENDITURES, Less Intra-City	\$104,360	\$107,488	\$108,336	\$113,613	\$115,745	\$119,392	2.70%
NOTES: Other non-recurring adjustments include reserve funds, energy, lease, and non-labor inflation adjustments. Fringe benefits include the cost of health benefits covered by the Retiree Health Benefit Trust. Figures may not add due to rounding.							
<i>New York City Independent Budget Office 5/15/2023</i>							

Spending

Based on the Executive Budget, together with IBO's spending re-estimates (see table below), city spending in 2023 will total \$107.5 billion, which IBO anticipates will increase to \$108.3 billion in 2024.

Pricing Differences Between IBO and the Fiscal Year 2024 Executive Budget Items that Affect the Gap					
<i>Dollars in millions (city funding only)</i>					
	2023	2024	2025	2026	2027
Gaps as Estimated in the Executive Budget	-	-	(\$4,196)	(\$5,952)	(\$6,977)
TOTAL REVENUE-CITY	\$1,129	(\$119)	\$1,681	\$2,159	\$2,688
Expenditures-City Funded					
Asylum Seeker Costs (city funds only—for full analysis, see pp. 8-10)					
Asylum Seeker Costs	\$40	\$377	\$0	\$0	\$0
Personal Services					
Collective Bargaining	(\$370)	(\$462)	(\$460)	(\$254)	(\$209)
Civilian & Pedagogical PS Savings	550	452	321	172	0
Debt Service					
Debt Service	36	(95)	0	0	0
Youth and Aging					
Youth and Community Development	\$0	(\$186)	(\$186)	(\$192)	(\$192)
Aging	0	(60)	(87)	(72)	(72)
General Government					
Elections, Campaign Finance, Business Services, Citywide Administrative Services, Office of Technology & Innovation	\$50	(\$115)	(\$201)	(\$234)	(\$215)
Public Safety and Judicial					
Emergency Management	\$0	\$0	\$0	\$0	\$0
Police	(6)	(275)	(228)	(194)	(194)
Fire	74	(122)	(137)	(134)	(134)
Correction	37	(112)	(110)	(79)	(79)
Education					
Education	(153)	(574)	(928)	(1,199)	(1,199)
City University of New York					
City University of New York	\$0	(\$31)	(\$31)	(\$31)	(\$31)
Social Services and Homeless Services					
Children's Services	\$79	\$54	\$55	\$54	\$54
Human Resources Administration	(9)	(317)	(318)	(325)	(325)
Homeless Services	623	(9)	(400)	(352)	(350)
Environmental Protection and Sanitation					
Environmental Protection	\$0	\$0	(\$52)	(\$65)	(\$70)
Sanitation	17	(88)	(94)	(102)	(110)
Transportation Services					
Miscellaneous - MTA Paratransit Costs	\$0	(\$238)	(\$254)	(\$103)	(\$112)
Transportation	0	0	(3)	(7)	(7)
Parks, Recreation, and Cultural Activities					
Cultural Affairs	\$0	(\$52)	(\$52)	(\$52)	(\$52)
Parks and Recreation	(14)	(22)	(22)	(22)	(22)
Housing and Buildings					
Buildings	\$0	\$17	\$0	\$0	\$0
Libraries					
New York, Brooklyn, Queens Libraries	\$0	(\$15)	(\$15)	(\$15)	(\$15)
Health					
Health and Mental Hygiene	\$0	(\$68)	(\$68)	(\$68)	(\$68)
TOTAL EXPENDITURES-CITY	\$954	(\$1,942)	(\$3,270)	(\$3,273)	(\$3,401)
TOTAL IBO PRICING DIFFERENCES	\$2,083	(\$2,061)	(\$1,589)	(\$1,115)	(\$713)
IBO Prepayment Adjustment 2023/2024	(2,083)	2,083	0	0	0
IBO SURPLUS/(GAP) PROJECTIONS	\$0	\$21	(\$5,784)	(\$7,066)	(\$7,691)
NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. The categorization of agencies in IBO's chart generally mirrors the presentation of agencies in the Comptroller's Annual Comprehensive Financial Report. Figures may not add due to rounding.					
New York City Independent Budget Office 5/15/2023					

Over the course of the financial plan, IBO forecasts that city-funded costs will be \$10.9 billion greater than the projections in the Executive Budget. The following discussion highlights areas where IBO anticipates over- or under-budgeted spending across the financial plan. Two critical areas for these re-estimates are personal services (including changes based on collective bargaining) and education. IBO's forecast also materially differs from spending projected in the Executive Budget with respect to asylum seeker shelter costs and the Metropolitan Transportation Authority (MTA). IBO has also identified a series of smaller variances pertaining to other city agencies and City Council-funded initiatives, the latter of which are typically added at budget adoption.

Personal Services

IBO anticipates funding adjustments related to personal services (PS) costs include those related to collective bargaining, staffing vacancies, and uniform spending.

IBO Adjustments to Personal Services - Executive Budget 2023						
<i>Dollars in millions (city funding only)</i>						
Adjustment	2023	2024	2025	2026	2027	Total
Collective Bargaining	\$370	\$462	\$460	\$254	\$209	\$1,755
Civilian & Pedagogical Spending Trends	(550)	(452)	(321)	(172)	-	(1,495)
Uniform Spending Trends	(132)	435	396	329	329	1,358
Total IBO Personal Services Adjustment	(\$312)	\$445	\$535	\$411	\$538	\$1,618
NOTES: The net impact of collective bargaining, vacancy savings, and overtime costs are presented in the table above. Negative amounts represent savings compared to the Executive Budget. This table reflects city-funded expenditures. Figures may not add due to rounding.						
<i>New York City Independent Budget Office 5/15/2023</i>						

Labor Settlements

Since the Preliminary Budget, two of the city's largest unions, District Council 37 (DC 37) and the Police Benevolent Association (PBA), have ratified contracts with the city. Assuming these contracts set the pattern for collective bargaining with all other municipal unions, IBO forecasts that the city cost of the new contracts for all employees will total \$17.8 billion from 2023 through 2027, reflecting the cost above the amount set aside in the city's labor reserve. IBO's estimate is \$1.8 billion more than the corresponding amount added to the Executive Budget.

Risk Factor: Work from Home and Union Contracts

The DC 37 contract, approved by 97.7 percent of voters, creates, among other benefits, a Flexible Work Committee to develop policies that guide remote work and compressed schedules. The PBA contract, approved by 97.6 percent of voters, creates a pilot program that will allow officers to test working extended tours of 10 and 12 hour shifts.

Such remote and condensed work options are more challenging for positions typically required to be in person and to work specified hours, such as the United Federation of Teachers (UFT).

Civilian and Pedagogical Spending Trends

Alongside increased anticipated costs related to collective bargaining, IBO projects reduced PS expenditures among civilian and pedagogical budgets, mainly resulting from vacancies across most city agencies. PS budgets for civilian and pedagogical staff reflect the authorized headcounts for each agency,

and hence do not account for savings that occur due to vacancies occurring since the beginning of the pandemic. Between January 2020 and April 2023, the number of full-time municipal employees fell from 301,000 to 283,000. Considering actual PS spending from the current year to date, IBO projects total 2023 PS costs for civilian and pedagogical staff will be \$721 million lower than budgeted. These amounts decrease throughout the plan window because IBO assumes active headcount will rise over time.

Risk Factor: Vacancies in Active Headcount

There is now widespread concern that the decline of active headcount has left some agencies unable to meet key performance targets. While higher wages and some other terms (such as the remote work pilot program) may stall or reverse the downward trend of active headcount, the effect of labor agreements on headcount is currently unclear. If headcount rises, the total cost of collective bargaining will increase more than IBO estimates.

Uniformed Services Agencies Spending Trends

Similarly, IBO used current year spending to date to project total PS costs for the uniformed services agencies—the Police, Fire, Correction, and Sanitation Departments—which typically have high overtime costs. In 2023, most of the uniformed services agencies are on track to spend less than the amounts budgeted, as their budgets have been buoyed by funding increases in the Preliminary and Executive Budgets. For the Department of Sanitation in particular, this past winter’s lack of any snowfall requiring plowing or removal contributed to lower overtime costs. IBO projects a decrease of \$132 million in PS costs across these agencies in 2023. IBO expects the out-years of the financial plan to be more typical than this year, estimating the city will need to spend \$435 million more than budgeted levels in 2024. The additional funding need decreases over the financial plan, with IBO estimating \$329 million more will be needed in 2027 for uniformed PS costs.

Education

IBO estimates that the city will need to provide an additional \$4.1 billion in city funds over the financial plan for the Department of Education (DOE) budget: \$153 million for the current year, \$574 million in 2024, \$928 million in 2025, and \$1.2 billion in both 2026 and 2027. The shortfalls in 2023 and 2024 are driven by additional expenditures for students with disabilities, through what are termed Carter Cases, explained in further detail in the accompanying Risk Factor box.

Shortfalls in the education budget in 2025, 2026, and 2027 will also arise from the city’s reliance on time-limited COVID-19 relief funds to support programs that IBO anticipates will continue past the funds’ exhaustion. IBO also estimates that DOE will require additional city funds to cover contracts for bus transportation—an area where the city adds to the budget on an annual basis to cover expenditures.

On the other hand, higher-than-budgeted state education aid now resulting from the state’s Enacted Budget will free up additional city funds. Finally, IBO has revised its projections for charter school costs to reflect both the trend of slower

Risk Factor: “Carter Cases”

“Carter Cases” refer to expenditures incurred by the city to pay for private school tuition, where families enroll students with disabilities in private schools because public schools cannot meet their needs. [City spending on Carter Cases](#) has grown rapidly, reaching \$918 million in 2022. Despite much lower amounts budgeted for 2023 and beyond, IBO anticipates this spending will remain high, requiring an additional \$207 million in 2023 and \$472 million each year from 2024 through 2027. The 2023 gap has narrowed since [IBO’s Preliminary Budget Analysis](#), from \$252 million to \$207 million, as the city added \$45 million to the budget.

enrollment growth over the past two years and a projected increase in the number of new charter schools following the passage of the state budget. The overall need for charter school funding will decrease by \$528 million in the financial plan window. Other costs will rise as shown in the table below.

City Will Likely Need to Add \$574 Million to the Department of Education Budget for Next Year					
<i>Dollars in millions</i>					
	2023	2024	2025	2026	2027
Required City Increases	\$232	\$939	\$1,366	\$1,604	\$1,604
Pupil Transportation	0	111	145	180	180
Carter Cases	207	472	472	472	472
Adoption Adds	0	51	51	51	51
Long-Term CRRSA & ARPA-funded Programs	5	285	678	881	881
Medicaid Expenses Ineligible for Federal Reimbursement	20	20	20	20	20
Estimated City Reductions	(\$79)	(\$365)	(\$438)	(\$405)	(\$405)
Charter Schools	(79)	(74)	(147)	(114)	(114)
Less City Funding Needed due to Foundation Aid Increase	0	(234)	(234)	(234)	(234)
Less City Funding Needed due to Other State Education Aid Increases	0	(57)	(57)	(57)	(57)
Projected Net Change	\$153	\$574	\$928	\$1,199	\$1,199
SOURCES: IBO analysis of NYC Financial Management System data, OMB Financial Plan documents, correspondence with OMB, NYSED Enrollment and State Aid data, and NY State Budget documents.					
<i>New York City Independent Budget Office 5/15/2023</i>					

Additional Funds Needed for DOE Budget Gaps

IBO estimates that an additional \$111 million for bus contracts will be required in 2024, increasing to \$180 million each year for 2026 and 2027. While the DOE has budgeted less in 2024 than in the current year, expenditures have increased by an average of \$70 million annually since 2019.

IBO projects that the city will need to provide \$20 million from 2023 through 2026 based on the expectation that federal Medicaid funding for DOE transportation expenses will be lower than the administration anticipates. DOE is budgeted to receive \$20 million of annual Medicaid reimbursement for transportation expenses that, according to state law, are currently ineligible for reimbursement.

State legislation capping the city's class sizes enacted in September 2022—to be phased in over five years starting in 2023—did not include additional funding but will require fiscal supports because of additional costs for classrooms and teachers.

Finally, long-term programs currently funded by COVID-19 federal aid account for more than half of the increases to city funding for the last two out-years of the plan period, an impact discussed below in the Federal Stimulus section.

Increased State Aid and Lower Charter Enrollment Growth

IBO estimates that less city funding will be necessary for DOE due to increases in state aid for education and, in a departure from past IBO estimates, slower enrollment growth in charter schools.

In most years, the Executive Budget revises the city's projection for state education aid based on the state budget. This year, because the city Executive Budget was required to be released before the state budget process was complete, its forecast for state education aid could not (at the time of its release) incorporate additional aid from the state budget's School Aid projections. IBO estimates that the city will receive an additional \$234 million in 2024 for Foundation Aid, the state's main funding source for public schools. This increase is the final installment in the state's three-year process of phasing in full funding for the Foundation Aid formula. Additionally, IBO expects the city to receive \$57 million more in other state education aid compared with what is budgeted by the city.

In the past, IBO assumed that new and expanding charter schools would meet their total authorized enrollment over the term of their charter; however, IBO now anticipates that charter school enrollment will continue to follow a two-year trend of modest increases (about half a percent) in enrollment. Additionally, state law now allows for the authorization of up to 14 new charters within New York City. Based on the two-year average of new charter openings and the average first-year enrollment, as well as the number of existing charter applications with pre-approval, IBO's DOE estimates include the impact of six new charter schools opening in 2025, and an additional six in 2026.

Shelter and Housing Expenditures

IBO's analysis of city spending includes re-estimates of expenditures for shelter and related services by the Department of Homeless Services (DHS). IBO projects that DHS has sufficient funds to cover costs for non-asylum seeker populations in 2023. In 2024, for the non-asylum seeker populations, IBO estimates that DHS is overbudgeted for families with children but underbudgeted for families of related adults and individuals, which largely offset each other. For the asylum-seeker population cost estimate, please see the section below.

Asylum Seeker Services Funding

The Executive Budget includes \$4.3 billion in total costs related to asylum seekers over 2023 and 2024, \$2.7 billion of which is budgeted with city funds. Another \$1.0 billion is budgeted in 2025, with \$710 million in city funds. These costs are spread out across the Departments of Emergency Management, Homeless Services, Housing Preservation and Development (HPD), Health and Mental Hygiene, Design and Construction, Citywide Administrative Services, and the Human Resources Administration, Health + Hospitals, and Office of Technology and Innovation. The Executive Budget replaced the previously budgeted \$1.0 billion in federal funding that had been added to the November Plan with city and state funds, but added \$600 million in federal funds to Health + Hospitals in 2024. The Executive Budget also reflects the state's commitment to reimburse the city for 29 percent of costs associated with sheltering asylum seekers, up to \$1.0 billion in reimbursement over this year and next year.

Currently, the city is operating over 120 emergency shelters and Humanitarian Emergency Response and Relief Centers (HERRCs); the Executive Budget also includes funding in HPD to operate hotels for sheltering asylum seekers outside the city. Since the Preliminary Budget, costs associated with asylum seekers have increased, largely due to a continuing influx of asylum seekers into the city and increased cost of shelter as the city rapidly expands capacity. As the city scales up capacity, it exhausts more cost-effective options, resulting in higher nightly shelter costs for both families and individuals.

By the end of April, there were approximately 37,000 asylum seekers staying in the city's care, with 27,100 in DHS shelters. This is about 7,400 more individuals than when the Preliminary Budget was released in January. Around 70 percent of asylum seeker households in DHS shelters are families with minor children, 10 percent are families of related adults, and 20 percent are individuals.

IBO agrees with the Preliminary and Executive Budgets in that costs to New York City for recent asylum seekers are high and have escalated. However, given the uncertainties in arrivals, service engagement, and departures, IBO created [three cost scenario forecasts](#). About 80 percent of the total costs are for shelter and food, with the remaining 20 percent budgeted for related non-shelter costs, in IBO's estimation. IBO took account of three factors that contribute to total costs in deriving its estimate:

- IBO projected the number of asylum-seeking households based on trends over the past 11 months, recognizing that the wide pattern of variation continues to make estimation a challenge, particularly the lifting of federal COVID-based border controls (Title 42) and the potential imposition of new responses to any surge.
- IBO examined costs associated with sheltering asylum seeker households. As of the Executive Budget, nightly shelter costs for these households were 68 percent higher for families with children, 65 percent higher for related adult families, and 15 percent higher for single adults, as compared to DHS nightly costs last year. Thus, rather than use DHS shelter rates, IBO adopted the city's April 2023 cost projections for each of the three types of households.
- IBO examined 2023 spending trends for non-shelter costs, such as administrative, legal, information technology, emergency management, health, and other services. IBO adjusted those costs for the remainder of the current year and next year, to reflect the fact that such costs would be likely to escalate as the city continues to ramp up capacity.

Given the many uncertainties, IBO also applied a lower-cost and a higher-cost scenario to its forecasts. IBO used the same assumptions for the baseline population (fluctuating entry and departure levels), but then increased or decreased shelter costs to provide a range. This accounts for the potential that the city could find cost efficiencies next year, or face higher costs as new shelter sites prove harder to obtain. IBO's lower-cost scenario is \$2.7 billion across 2023 and 2024, and its higher-cost scenario is \$3.7 billion, about \$600 million less than the Executive Budget. IBO also estimates that the city will receive as much

Risk Factor: Uncertainties in Estimating Asylum Seeker Arrival Trends

Predicting the size of the asylum-seeking population arriving in New York City, seeking support from city services, and length of stay is extremely challenging. Highly fluid variables include:

- Changes in US border enforcement (both lifting of Title 42 and the potential addition of other border regulations)
- Movement of asylum seekers from border states to New York City
- Predicting the use of city services by asylum seekers
- Role of local, state, and federal governments.

as \$261 million less in state funding across 2023 and 2024 than is anticipated in the Executive Budget. Furthermore, IBO does not expect the city to receive the \$600 million in federal funds that the Executive Budget added to Health + Hospitals in 2024, as it is unclear what the national funding for asylum seeker aid will be or how it will be allocated to states and cities.

Other Shelter and Housing Re-Estimates

Beginning in 2025, IBO's estimates do not distinguish between shelter costs for asylum seeker and non-asylum seeker households. Accordingly, the IBO projects \$400 million in additional city shelter costs in 2025 and around \$350 million annually in 2026 and 2027. This projection assumes that the city will continue to receive federal Temporary Assistance for Needy Families and state Safety Net Assistance funding to cover shelter costs for non-asylum seeker families following current reimbursement trends. The city funds multiple housing voucher programs to help households move from shelter to permanent housing. The Executive Budget adds approximately \$416 million to the previously budgeted \$154 million for these voucher programs in 2023, for a new total of \$570 million. In 2024 and 2025, the Executive Budget baselines the voucher programs at \$18 million, increasing to \$26 million in 2026.

Risk Factor: NYCHA Funding

The New York City Housing Authority (NYCHA) shows deficits in every year of its 2023 financial plan. (NYCHA budgets on a calendar year basis.) In December 2022, NYCHA estimated it was owed nearly half a billion dollars in unpaid rent since 2019. Its rent collection rate was only 63 percent as of March 2023. While many New York renters could turn to the state's Emergency Rental Assistance Program (ERAP) for help with arrears, NYCHA residents were not initially eligible. Although the state recently appropriated \$391 million statewide in additional ERAP funds and revised eligibility to include NYCHA residents, only a fraction of NYCHA's unpaid rent balances are likely to be covered.

Due to financial constraints, NYCHA has said it may need to reduce spending on property maintenance in 2024, and although the city is covering the estimated \$80 million cost to NYCHA of the DC 37 labor settlement, the Executive Budget has few other subsidies for NYCHA's operating budget. With additional state or federal funding unlikely for the rest of the year, the city may be forced to provide additional subsidies to NYCHA in the coming months in support of structural work that is required under NYCHA's federal monitor agreement.

While NYCHA's falling rent collection rate is placing immediate pressure on its budget, [NYCHA's \\$40 billion in capital needs](#) present a more significant risk to the city. One of NYCHA's major capital programs, Permanent Affordability Commitment Together (PACT), is underway. Meanwhile, little progress has been made to implement NYCHA's other major capital program, the Public Housing Preservation Trust, a public benefit corporation developed to raise additional funding for capital repairs. NYCHA's slow progress to implement the Trust program is concerning, as delays in implementing capital programs risk further deterioration of NYCHA's housing stock and may require further city subsidies, particularly to meet the requirements of the federal monitor agreement.

Metropolitan Transportation Authority (MTA)

The Executive Budget did not anticipate additional paratransit costs that became clear with the adoption of the state budget. Starting in July of this year, the city is required to subsidize MTA's paratransit operating costs at 80 percent—up from 50 percent—after fares and dedicated tax revenues. This increase is limited to 2024 and 2025 and is capped at \$165 million in additional contributions each fiscal year. IBO estimates this policy will increase the city's paratransit subsidy by \$163 million in 2024 and \$165 million in 2025, for a total of \$328 million over the two years—or about 30 percent more than the \$1.1 billion the MTA previously projected. The Executive Budget was lower than the previous MTA projections throughout the financial plan, so IBO increased these contributions by \$707 million through 2027 to match the MTA projections.

Paratransit subsidies to be paid by the city will address only a small portion of the MTA's projected \$4.7 billion operating deficits through 2026. The state's Enacted Budget also contained significant additional revenue for the MTA, including \$300 million in one-time state pandemic assistance and an increase to the top rate of the MTA-dedicated metropolitan commuter transportation mobility tax for New York City-based employers, which is expected to generate \$1.1 billion annually. Other promised MTA deficit-reduction measures remain to be seen. The state budget dedicates 100 percent of forthcoming downstate casino licensing fees and a large portion of casino tax revenues to the MTA, but these will not materialize for several years. The MTA's deficit projections also assume the authority will identify \$400 million in unspecified operating efficiencies. If these revenues and savings do not materialize, the MTA could look to the city for additional help to fill its operating deficits.

Other Agency Re-Estimates

IBO General Spending Adjustments							
<i>Dollars in millions (city funding only)</i>							
Agency	Primary Adjustment	2023	2024	2025	2026	2027	Total
Human Resources	Rental & Legal Assistance	\$9	\$317	\$318	\$325	\$325	\$1,296
Miscellaneous	MTA Paratransit	0	238	254	103	112	707
Homeless Services	Shelter Services (not Asylum Seekers)	(623)	9	400	352	350	489
Board of Elections	Out Year Baseline	0	85	85	85	85	340
Campaign Finance	Out Year Baseline	0	0	85	75	60	220
Environmental Protection	Utilities & Environmental Management	0	0	52	65	70	188
Small Business Services	Out Year Baseline	0	30	31	37	32	130
Parks & Recreation	Forestry and Zoos	14	22	22	22	22	101
Sanitation	Waste Export Contracts	11	14	14	24	32	95
Technology & Innovation	Big Apple Connect	0	0	0	(37)	(37)	(74)
Transportation	Open Restaurants	0	0	3	7	7	17
Children's Services	Additional State Revenue	(79)	(54)	(55)	(54)	(54)	(296)
Citywide Total		(\$668)	\$662	\$1,210	\$1,078	\$1,078	\$3,359
NOTE: Totals may not add due to rounding.							
<i>New York City Independent Budget Office 5/15/2023</i>							

- **Department of Environmental Protection (DEP):** DEP has under-budgeted for non-personnel costs associated with utilities and environmental management starting in 2025. IBO estimates an additional \$52 million in city spending in 2025, growing to \$70 million in 2027.
- **Department of Sanitation (DSNY):** Beyond its examination of uniformed PS spending for DSNY, IBO also re-estimated waste export contracts. IBO forecasts that these contracts will increase between 2 percent and 5 percent annually, based upon historical trends, and therefore estimates \$11 million in additional city funds will be needed in 2023, growing to \$32 million in 2027.
- **Department of Parks and Recreation (DPR):** IBO estimates \$14 million in additional city funding will be needed for forestry and zoo expenses in 2023 and approximately \$22 million annually starting in 2024. DPR spends about \$32 million on forestry and horticulture services annually, but the Executive Budget baselines funding at \$24 million starting in 2024. Similarly, spending for zoo maintenance and operations was \$21 million last year, but starting this year is baselined at \$8 million. Previous budgets show this money is typically added into the current year as the fiscal year concludes.
- **Human Resources Administration (HRA):** IBO estimates that HRA will continue to spend \$247 million annually for legal services, including anti-eviction and related services, as well as deportation

defense legal services, in all plan years. This will require an additional \$9 million in city funds in 2023, \$56 million in 2024 and 2025 and \$72 million for 2026 and 2027.

- **Administration for Children’s Services (ACS):** The Administration for Children’s Services routinely receives more state funding for preventive services and fringe benefits than reflected in the Executive Budget. IBO estimates that \$79 million in additional state funding will reduce city spending by an equivalent amount in 2023 and anticipates state funding will offset about \$54 million in costs annually from 2024 through 2027.
- **Office of Technology and Innovation (OTI):** IBO estimates the Big Apple Connect program, which discounts the cost of internet services to NYCHA residents, will continue beyond 2025, requiring an additional \$37 million annually for 2026 and 2027.
- **Board of Elections (BOE):** IBO adds annual funding of \$85 million for the BOE starting in 2024.
- **Campaign Finance Board (CFB):** IBO estimates that additional funding of \$60 million is required each year starting in 2025 because CFB is underfunded in the out-years, as well as \$25 million in 2025 and \$15 million in 2026 to reflect higher costs during election years.
- **Department of Transportation (DOT):** IBO estimates that administering the Open Restaurants program will require an additional \$3 million in funding for 2025, and \$7 million annually starting in 2026 as federal COVID-19 funding ends. Depending on how fees are structured for the permanent Open Restaurants program, these costs may be more than offset by additional revenues.
- **Small Business Services (SBS):** IBO estimates that the Chamber on the Go, worker cooperative programs, and borough-based “One-Stop Centers,” among other SBS initiatives, will require an annual average of \$33 million in additional funding.

Anticipated City Council Additions

The Executive Budget does not reflect additions made by the City Council during the Adopted Budget cycle, which are the result of negotiations between the City Council and the Mayor. These are added to the upcoming year at budget adoption.

IBO Adjustments for Adoption Adds						
Dollars in millions (city funding only)						
Agency	Description	2024	2025	2026	2027	Total
NY Research Library	Multiple Programs	\$1	\$1	\$1	\$1	\$4
NY Public Library	Multiple Programs	5	5	5	5	21
Brooklyn Public Library	Multiple Programs	4	4	4	4	16
Queens Public Library	Multiple Programs	4	4	4	4	17
Education	Multiple Programs	51	51	51	51	204
City University	Vallone Scholarship & Other Programs	31	31	31	31	124
Department for the Aging	Transport, Meals, Senior Centers	60	87	72	72	291
Cultural Affairs	Multiple Programs	52	52	52	52	208
Youth & Community Development	Community Center & Other Programs	186	186	192	192	755
Health & Mental Hygiene	Multiple Programs	68	68	68	68	272
Citywide Total		\$462	\$490	\$481	\$481	\$1,913
NOTE: Figures may not add due to rounding.						
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While the allocations differ each year as a result of the negotiations and council member priorities, the overall amount does not change dramatically from year to year. IBO baselines most of these City Council initiatives, for total of \$1.9 billion in additional expenditures from 2024 through 2027. Many of these initiatives fund social services and compose the entirety of IBO's re-estimates for the Department of Cultural Affairs (DCLA), the Brooklyn, Queens, and New York Library systems, the Department for the Aging (DFTA), the Department of Youth and Community Development (DYCD), and the Department of Health and Mental Hygiene (DOHMH).

Reserves, Budget Stabilization, and Discretionary Transfers

The city maintains two types of reserve funds. The first type, comprised of the Revenue Stabilization Fund and the Retiree Health Benefits Trust (RHBT), are outside the city's general fund. They are funded through deposits from surpluses in city revenue and their balances are rolled over each year.

- The Revenue Stabilization Fund, often termed the "Rainy Day Fund," currently holds \$1.9 billion. Since 2021, the city has used it as the primary reserve fund, separate from the general fund. The city may draw down 50 percent of its balance at a time, or more if the mayor declares a "state of emergency" certifying a compelling fiscal need. There are currently no constraints on how drawn-down funds may be used. The city has also not promulgated standards regarding what constitutes a "state of emergency" or justifiable circumstances for drawing down funds.
- The RHBT accumulates assets to pay for Other Post-Employment Benefits (OPEB) on a long-term basis. It is often counted as short-term city reserves due to the practice of its use as a pass-through entity to pay for annual retiree health costs. The RHBT currently contains \$4.6 billion.

The city has not yet decided to make discretionary transfers of city funds to the Rainy Day Fund or RHBT this year. As noted in the Spending section above, IBO has identified a \$2.1 billion additional operating surplus for 2023, which IBO assumes will be used to offset expenditures in 2024.

The second type of reserve funds are general fund reserves, divided between the general reserve and the capital stabilization reserve. The funds are built into each year of the financial plan and are only allocated to specific costs during the year as needs arise. For 2024 through 2027, the plan includes \$1.45 billion of budgeted reserves in each year.

After declining to tap into the general or capital stabilization reserve funds during the November or January Financial Plans, under the Executive Budget the city would reduce current year general reserves to \$50 million and would fully empty the capital stabilization reserve to offset 2023 agency spending. This move was expected and was announced alongside a prepayment of general obligation debt of \$868 million, bringing the total amount of budget stabilization funding to \$3.035 billion in 2023.²

Risk Factor: Retiree Healthcare Changes

The city's ongoing shift from its current Senior Care program into a Medicare Advantage program through Aetna presents a new budget risk factor. The city estimates that this change will result in about \$600 million in annual savings as costs shift from the city to the federal government. As a result of agreements with the Municipal Labor Committee, savings from this switch will be contributed annually to the Joint Health Insurance Premium Stabilization Fund. The assets of this fund are controlled jointly by the city and the unions. The change is slated to start September 1, 2023, as retirees enrolled in Senior Care are automatically enrolled in the Medicare Advantage plan. However, this may be subject to a legal challenge launched by retirees seeking to compel the city to retain the current plan. Should the plaintiffs obtain relief, the city may need a different source of savings than what is assumed within the plan.

Taxes and Other Revenues

IBO's revenue forecast, from taxes and other sources—fines, fees, state and federal aid, and other categorical grants—totals \$109.6 billion for the current fiscal year, \$2.1 billion more than in 2022. The increase stems from \$2.6 billion (3.8 percent) growth in tax revenue to \$72.1 billion, offset by a decline in non-tax revenue. For 2024, total revenue is expected to decline 3.3 percent to \$106.3 billion, due to: projected reductions in total tax revenue; anticipated declines in corporation and personal income tax receipts; minimal growth in property tax revenue; and projected federal aid reductions in 2024 (returning to more typical levels after the large boost for COVID-19 relief).

IBO forecasts the resumption of tax revenue growth after 2024, with projected growth rates of 4.9 percent and 2.8 percent in 2025 and 2026, respectively. Total revenue growth is expected to be very weak in both years, with 1.4 percent growth in 2025 to yield \$107.8 billion and 0.8 percent growth in 2026 to yield \$108.7 billion. Driven by increased revenue from all major taxes, total revenue then increases 2.8 percent to \$111.7 billion in 2027, finally surpassing 2023 revenue.

IBO Revenue Projections Fiscal Years 2023-2027							
<i>Dollars in millions</i>							
	Prior Year Actuals 2022	Projections					Average Annual Change 2023- 2027
		2023	2024	2025	2026	2027	
City Tax Revenue							
Property	\$29,436	\$31,520	\$31,583	\$32,815	\$33,882	\$35,981	4%
Personal Income	16,697	16,520	15,442	16,681	17,116	17,227	1%
General Sales	8,544	9,466	9,829	10,328	10,707	11,052	5%
Corporate Taxes	5,682	5,612	5,321	5,445	5,398	5,542	0%
Unincorporated Business	2,547	2,528	2,584	2,693	2,743	2,802	2%
Real Property Transfer	1,903	1,316	1,363	1,468	1,552	1,619	-3%
Mortgage Recording	1,336	1,008	997	1,068	1,106	1,159	-3%
Commercial Rent	876	882	899	917	934	957	2%
Utility	396	440	449	452	461	477	4%
Hotel Occupancy	345	636	661	720	761	785	18%
Cannabis	0	0	12	20	30	38	0%
Other Taxes and Audits	1,669	2,142	1,798	1,830	1,865	1,898	3%
Total City Taxes	\$69,431	\$72,071	\$70,939	\$74,437	\$76,556	\$79,538	3%
Other Revenue							
STaR Reimbursement	\$146	\$138	\$136	\$134	\$132	\$130	-2%
Miscellaneous Revenue	7,323	8,252	7,794	7,625	7,563	7,519	1%
Unrestricted							
Intergovernmental Aid	498	297	0	0	0	0	1%
Disallowances	(35)	(15)	(15)	(15)	(15)	(15)	n/a
Total Other Revenue	\$7,933	\$8,672	\$7,915	\$7,744	\$7,680	\$7,634	-1%
TOTAL CITY-FUNDED REVENUE	\$77,364	\$80,743	\$78,854	\$82,181	\$84,236	\$87,172	2%
State Categorical Grants	\$15,847	\$17,726	\$17,583	\$17,540	\$17,333	\$17,432	2%
Federal Categorical Grants	15,047	11,629	10,050	8,306	7,307	7,291	-13%
Other Categorical Aid	737	1,124	1,120	1,119	1,117	1,119	9%
SUB-TOTAL REVENUE	\$108,995	\$111,223	\$107,607	\$109,146	\$109,993	\$113,013	1%
Interfund Revenue	\$655	\$702	\$720	\$727	\$733	\$735	2%
Intra-City Revenue	2,220	2,355	2,052	2,044	2,047	2,047	-2%
TOTAL REVENUE, Less Intra-City	\$107,430	\$109,570	\$106,275	\$107,829	\$108,679	\$111,701	1%
NOTES: Corporate taxes comprise three separate taxes: the business corporation tax for C corporations, the general corporation tax, and the banking corporation tax for S corporations. Personal Income Tax is inclusive of revenue generated from the Pass-Through Entity Tax enacted in 2022.							
<i>New York City Independent Budget Office 5/15/2023</i>							

Meanwhile, federal revenues are projected to drop by an average of 13.5 percent annually to \$7.3 billion in 2027, less than half the \$15 billion the city received in 2022. Absent this projected decrease in federal revenues, the city's out-year gaps would essentially be eliminated. Also declining, albeit gradually, over the forecast period is miscellaneous revenues from fines, fees, and other charges, from \$8.3 billion in 2023 to \$7.5 billion in 2027.

Personal Income Tax (PIT)

IBO forecasts:

- For 2023, a 1.1 percent (\$178 million) decline in total PIT revenue, to \$16.5 billion, inclusive of revenue from the city's relatively new Pass-Through Entity Tax (PTET).
- For 2024, a more severe decline, with the sum of these taxes dropping by another 6.5 percent to \$15.4 billion.
- From 2025 through 2027, revenue growth to intensify, reaching \$17.2 billion in 2027.

The back-to-back revenue declines in IBO's near-term PIT forecast result from projections of sharp reductions in quarterly estimated payments and final returns. With a more optimistic employment outlook, withholding receipts (which represent most PIT revenue), are expected to grow by 4.3 percent this year, and 3.0 percent in 2024, driven by growth in employment and wages. By contrast, noticeable declines are expected in estimated payments made by self-employed taxpayers and those who realize capital gains, owing to interest rate hikes and external factors that negatively affect stock markets, real estate transactions, and realized capital gains. IBO also forecasts reductions in final return payments in 2023 and 2024, given that these sources showed exceptionally strong revenues in 2022.

The city's PTET, which took effect in calendar year 2022, reduces PIT collections in fiscal years 2023 through 2026. Taxpayers with pass-through business incomes can pay the PTET on that income and receive a credit of an equal amount against their PIT liability, as a way of bypassing the \$10,000 federal cap on state and local tax deductions (SALT) that was imposed after 2018. (Unlike PIT liability, PTET payments are not subject to any limits to their federal tax deductibility.) Based on the state's estimated PTET revenue and the city's tax rate, the Executive Budget estimates the city will receive \$2.467 billion in PTET revenue in 2023, \$1.5 billion each year in 2024 and 2025, and \$1.125 billion in 2026. IBO has not made an independent forecast of PTET collections.

IBO's economic outlook after 2024 is characterized by modest but steady growth in employment and wages, and lower inflation rates. With that backdrop, IBO expects all major PIT components to grow in that period. IBO forecasts withholdings to grow by 4.4 percent on an average annual basis, reaching \$13.3 billion in 2027. IBO also projects a strong growth in quarterly estimated payments and final returns, reaching \$1.8 billion and \$571 million, respectively, in 2027.

IBO's forecast of PIT and PTET revenues together is higher than the Executive Budget for every year of the forecast period except 2027.

Real Property Tax (RPT)

IBO forecasts:

- For 2023, RPT revenue of \$31.5 billion—\$88.4 million more (0.3 percent greater) than the Executive Budget forecast—which represents a 7.1 percent increase relative to 2022.

- For 2024, revenue of \$31.6 billion, which is \$685.9 million (2.1 percent) less than the Executive Budget forecast. This is an increase of \$62.9 million or 0.2 percent over 2023. This forecast is based on the Department of Finance (DOF) tentative 2024 assessment roll released in January 2023.
- From 2025 through 2027, annual average growth of 4.4 percent over the rest of the forecast period, reaching \$36.0 billion in 2027, compared to the Executive Budget forecast of 0.9 percent growth. The difference in resulting revenue would reach \$2.9 billion (8.7 percent) in 2027.

Faster growth in property tax revenues in 2023 results primarily from an increase in assessed values of Class 2 (rental apartment and condo or coop buildings) and Class 4 (commercial) properties. The city lowered the values of such properties by 12.7 percent on the 2022 final roll in anticipation of the impact of the pandemic on rental income. This reduction, however, proved to be an overestimate of that impact, so a much less severe decline in rental income is reflected in the 2023 growth.

Based on the DOF tentative assessment roll for 2024, IBO estimates that total market value of taxable properties will increase by 3.8 percent from 2023 to total \$1.447 trillion. Market value growth is primarily driven by Class 1 (one to three-unit residential properties) at 7.0 percent, and Class 3 (utility properties) at 3.8 percent, with the market values of Class 2 and Class 4 each projected to grow by under 1.0 percent. Growth rates are more moderate in total taxable assessed values: Class 1 and Class 3 are still projected to have the largest growth rates at 3.7 percent and 3.8 percent, respectively, while growth for Class 2 is projected at 2.4 percent. Taxable assessed values for Class 4 are expected to remain relatively unchanged.

After a period for appeals and review, a final roll for 2024 will be released in June 2023. Based on historical trends, IBO anticipates the final roll will show \$279.7 billion in total taxable value. Class 4 properties would account for 44.0 percent of the total taxable value and Class 2 properties would account for 39.7 percent. Class 1 properties, despite representing over half of the city's total market value, are anticipated to only account for 9.0 percent of total assessed value for tax purposes.

IBO's less optimistic forecast for 2024 is driven by a lower estimate of the tax reserve, which is the sum of current year tax delinquencies, abatements granted, refunds for disputed assessments, and other property tax debits and credits. However, with the Executive Budget reflecting slower revenue growth starting in 2025, IBO forecasts faster growth in assessed values than the Executive Budget, particularly for Class 2 and Class 4 properties.

Real Property Transfer Tax (RPTT)

IBO forecasts:

- For 2023, RPTT revenue of \$1.3 billion, exceeding the Executive Budget forecast by \$46 million (3.6 percent). This is 30.8 percent lower than the unexpectedly high \$1.9 billion collected in 2022.
- From 2024 through 2027, revenue growing at a 5.3 percent annual average rate to yield \$1.6 billion in RPTT revenue in 2027. IBO's RPTT forecast exceeds the Executive Budget by an average of \$29 million annually for these four years.

The RPTT is imposed on sales of residential and commercial property in the city. In the wake of the COVID-19 pandemic, RPTT revenue declined by almost a third in 2020 and 2021 together, even as the mortgage rates fell to their lowest levels in at least 50 years. Tax receipts from sales of commercial

properties—office buildings, retail space, and rental apartments—were especially hard-hit, as is typical in economic downturns. But as the economic recovery took hold in calendar year 2021, real estate activity in the city surged and RPTT receipts swelled in fiscal year 2022.

The surge did not last: RPTT collections have fallen in 2023. Increases in interest rates have weakened real estate sales, especially for residential properties. Contributing further to the decline in tax receipts are increased adoption of hybrid and full-time remote work schedules and continued growth in on-line shopping, which has reduced demand for office and retail space. While IBO projects a recovery in RPTT revenues after 2023, projected 2027 collections are relatively modest considering actual and projected trends.

Mortgage Recording Tax (MRT)

IBO forecasts:

- For 2023, \$1.0 billion in MRT revenue, which is \$328 million (24.6 percent) less than 2022 receipts and \$98 million above the Executive Budget.
- From 2024 through 2027, beginning with an inconsequential (\$11 million) decrease in 2024 and then rising steadily at an average annual rate of 5.2 percent, to yield \$1.2 billion by the end of the forecast period. IBO's forecast averages \$120 million annually above the Executive Budget for this period.

The MRT is imposed on the value of commercial and residential mortgages issued, including some refinancings (typically at the high end). Following the pandemic-induced decline in real estate activity, by early 2022, low rates and deferred transactions stimulated mortgage borrowing and refinancing, boosting MRT receipts. Mortgage rate increases that accompanied the Federal Reserve's tightening of monetary policy in the beginning of 2022 did dampen collections overall, but the increase of MRT revenues in 2022 was strong, 49.0 percent (\$439.6 million) greater than in 2021. The increase in mortgage rates that began in 2022 has led to a decline in the total value of mortgages issued for city real estate. The effect of higher interest rates on mortgage activity is having its greatest effect on MRT revenue this year, generating a large decrease in MRT receipts. Continued weakness in the commercial real estate market, as well as the persistence of higher mortgage rates than seen during the last economic expansion, is expected to produce little change in MRT collections in 2024. The resumption of revenue growth that IBO forecasts after 2024 is modest in comparison to growth during the decade before the pandemic, when MRT collections grew at an average annual rate of 11.6 percent.

Commercial Rent Tax (CRT)

IBO forecasts:

- For 2023, the city will receive \$882 million in CRT revenue.
- For 2024, the city will receive \$899 million in CRT revenue.
- From 2025 through 2027, modest growth at an average annual rate of 2.1 percent to reach \$957 million by 2027. IBO's forecasts average slightly higher than the Executive Budget, around \$7.2 million more, in each year from 2023 through 2027.

The CRT is a surcharge on the value of commercial rents paid in certain parts of Manhattan below 96th Street. IBO forecasts \$882 million in CRT revenue in 2023 and \$899 million in 2024—i.e., slightly more than in each of the last three years but below \$907 million seen in 2019. The pandemic-induced recession and a reduction in the scope of the tax generated an unprecedented decrease in CRT

collections in 2020. The slow rate of growth in the last few years that then is projected to continue in 2023 and 2024 results from a sluggish demand for office space, reflecting greater remote work and an anemic retail sector challenged by online shopping.

Corporate Taxes

IBO forecasts:

- For 2023, \$5.6 billion in corporate tax revenue, \$69 million (1.2 percent) less than 2022 collections. This is \$261 million (4.9 percent) greater than the Executive Budget, which projects a steeper drop in collections in the final months of the year.
- For 2024, a decline of \$291 million (5.2 percent), bringing total collections down to \$5.3 billion. This is 2.5 percent higher than the Executive Budget.
- From 2025 through 2027, revenue growth averaging 0.7 percent through 2026, and by 2.7 percent in 2027, to reach \$5.5 billion at the end of the forecast period, \$514 million (10.2 percent) higher than the Executive Budget. This revenue growth remains substantially lower than growth rates in most years of the pre-COVID-19 economic expansion.

In 2022, corporate tax collections totaled \$5.7 billion, the third consecutive record-breaking year. Collections through 2023 have remained strong, though IBO projects some contraction during the remainder of this year and next, based on reduced economic growth, higher interest, and constrained profits. As US economic growth is projected to accelerate in the latter half of calendar year 2024, IBO's corporate tax forecasts thereafter exceeds the Executive Budget.

Unincorporated Business Tax (UBT)

IBO forecasts:

- For 2023, revenue decline of \$19 million (0.7 percent), which is \$39 million (1.6 percent) higher than the Executive Budget forecast. This follows a record-setting year in 2022, when UBT collections reached \$2.5 billion.
- From 2024 through 2025, respectively, growth of \$56 million (2.2 percent) and \$108 million (4.2 percent).
- From 2026 through 2027, growth averaging \$55 million (2.0 percent). IBO's forecast for 2024-2027 averages \$44 million (1.7 percent) above the Executive Budget.

New Revenue Source: Cannabis Taxes

In January 2023, the first legal cannabis dispensary in New York City opened its doors. Since then several new dispensaries have opened, and additional licenses have been awarded for dispensaries to open in the future.

Legalization and taxation of adult-use cannabis sale and consumption presents a new revenue stream for the city. While cannabis is not subject to general state and local sales taxes, retail cannabis sales are subject to a 13 percent excise tax, of which 9 percent accrues to the state and the remaining 4 percent to localities, including the city. Cannabis sales and production are also subject a potency tax based on the THC content of each cannabis product.

Through April 2023, cannabis tax collection in New York City has totaled about \$200,000, based on roughly four months of sales. The Executive Budget estimates that the total tax collection in 2023 will be \$418,000, followed by a rapid rise to \$12 million in 2024. By 2027, the Executive Budget anticipates cannabis tax collections of \$38 million. IBO has not yet independently forecast cannabis tax collections. Risk factors impacting the estimating process include uncertainty as to the pace of dispensary openings, and the proliferation of unlicensed retail stores selling cannabis products, often manufactured outside New York, which means these sales will escape both the retail cannabis tax and the potency tax.

Sales Tax

IBO forecasts:

- For 2023, revenue of \$9.5 billion, 10.8 percent (\$922 million) greater than 2022 receipts.
- For 2024, slower growth at a rate of 3.8 percent, to yield \$9.8 billion.
- From 2023 through 2025, IBO's forecast of sales tax collections slightly exceeds that of the Executive Budget, by \$57 million (0.6 percent) in 2024 and by under \$10 million in 2023 and 2025.
- From 2025 through 2027, steady growth, up to \$11.1 billion in 2027. With potential economic weakening, IBO's projected average annual rate of sales tax growth in 2025 through 2027 is 4.0 percent, somewhat less than the 4.9 percent average annual growth rate in the period from 2011 through 2019. But since the Executive Budget projects relatively faster revenue growth after 2024, averaging 5.1 percent annually, IBO forecasts sales tax revenue will be \$197 million lower in 2026 and \$300 million lower in 2027 than the Executive Budget.

Sales tax collections to date have been generally stronger than expected. The factors fueling a 30.4 percent post-pandemic surge in sales tax collections in 2022—local employment growth, the expansion of the U. S. economy in 2021 and 2022, the availability of vaccines, the revival of tourism to New York City, the return of some commuters, and inflation—have continued to drive collections in 2023.

Hotel Occupancy Tax

IBO forecasts:

- For 2023, \$636 million in revenue, which is 84.6 percent (\$292 million) more than in 2022 and surpasses the pre-pandemic peak in 2019. This is slightly below the Executive Budget forecast.
- For 2024, another 3.9 percent increase in hotel tax revenue, to \$661 million in 2024, again slightly below the Executive Budget.
- From 2025 through 2027, solid revenue growth averaging 5.9 percent annually, yielding \$785 million of collections in 2027. IBO's forecast averages \$20 million above the Executive Budget.

During the COVID-19 pandemic, tourism collapsed and hotel tax plummeted from \$635 million in 2019 to \$85 million in 2021. The rebound in tourism—for leisure and business, by domestic and international visitors alike—has exceeded prior predictions. Average daily hotel rates in calendar year 2022 surpassed the pre-pandemic peak by 10-percent and occupancy rates have almost reached pre-pandemic levels. Hotel occupancy tax collections so far this year have thus been greater than expected. While tourism is expected to continue to grow during the forecast period, in anticipation of slower US economic growth the latter half of this year and the beginning of the next, IBO's 2024 forecast is more modest.

Federal Stimulus Funds

New York City was allocated approximately \$13.5 billion in stimulus funds from the American Rescue Plan Act of 2021 (ARPA) and the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA). To date, a total of 37 city agencies have spent these funds on a broad array of city services. IBO estimates that about 16 percent of the total allocation has been spent on or is budgeted for direct COVID-19 responses, i.e., programs and uses specific to addressing the effects of the

pandemic, all of which are anticipated to end as the city recovers. About 81 percent of the stimulus package funding has been spent on or budgeted for regular and ongoing government programs and expenditures. The remaining 3 percent is currently unbudgeted.

Currently, \$4.1 billion remains unspent, including \$3.7 billion budgeted for non-COVID-19 uses. That latter amount covers expenses that must either be eliminated upon exhaustion of the stimulus funds or funded by another source, including \$379 million in 2023, \$2.4 billion 2024, and \$900 million in 2025.

The exhaustion of COVID-19 funding in 2025 will have an acute effect on the city’s education spending, which is where the city targeted much of its stimulus allocation. IBO estimates that the city will need to provide an additional \$5 million for the DOE budget in 2023, \$285 million in 2024, \$678 million in 2025, and \$881 million annually in 2026 and 2027. The city has used stimulus funds to pay for programs that are likely to continue beyond the funds’ expiration, including Summer Rising, contracted nursing services, Pathways to Graduation, pre-school special education, mental health counseling, and others.

State Budget

Delayed by over a month, the state passed its budget on May 3, 2023. Its late arrival left numerous open questions as the city finalized the Executive Budget, and resulted in a city budget that does not reflect state changes to city aid. In its Executive Budget, the city only made changes to reflect anticipated state reimbursement for shelter costs associated with the asylum seeker crisis. The city will have to adjust the financial plan during the Adopted Budget cycle to account for the items that were left out. By contrast, as of its May 15th report date, IBO was able to include some of the state changes in its re-estimates of the Executive Budget and has further adjusted them based upon its estimates of actual costs.

IBO Adjustments to Reflect the State Budget						
<i>Dollars in millions</i>						
Agency	Description	2024	2025	2026	2027	Total
Education	Foundation and State Formula Aid	\$291	\$291	\$291	\$291	\$1,164
Miscellaneous	MTA Paratransit Contribution	238	254	103	112	707
Citywide Total		\$529	\$545	\$394	\$403	\$1,871
NOTE: Figures may not add due to rounding.						
<i>New York City Independent Budget Office 5/15/2023</i>						

Economic Outlook

IBO’s economic forecast for the New York City economy is premised on slow US economic growth in the near term.³ (In this section, years refer to calendar years unless otherwise noted.) Both IBO and the Executive Budget forecast slower growth in city employment this year, followed by greater growth in subsequent years. This year, IBO’s employment forecast, however, is substantially greater—the addition of 72,900 jobs, compared with 21,400 jobs in the Executive Budget forecast. For the years after 2023, differences are smaller, with IBO predicting fewer new jobs compared with the Executive Budget in all years except 2025. The IBO and Executive Budget forecasts also differ significantly in the outlook for inflation. IBO forecasts 4.3 percent inflation locally this year, compared with 3.5 percent in the Executive Budget projections. IBO also forecasts greater inflation after 2023, ranging from 2.3 percent to 2.7 percent annually. Projected inflation is 1.9 percent or less each year in the Executive Budget outlook.

New York City continues to lag behind the rest of the country in reaching full recovery of its pre-pandemic employment. Wages and personal income—major drivers of tax revenue—had been propped

up, first by an influx of COVID-19 assistance payments from the federal government, and then by resilience in higher-wage sectors such as professional services, information, and finance. Lower-wage sectors, such as retail trade and leisure and hospitality, which are more directly reliant on tourism, have continued to languish behind their national counterparts, as well as behind other industry sectors in the city. While IBO has not greatly altered its forecast of total employment growth from previous forecasts, its latest projections incorporate some recent changes in the outlook for several sectors.

Employment

By the end of 2022, there were 4.6 million jobs in New York City's economy. Employment growth has been robust after the heavy losses in early 2020, with Q4-to-Q4 job growth of 263,700 in 2021 and 233,400 in 2022. IBO now forecasts the city will make a full employment recovery by the end of 2023, after the benchmark adjustment in March brought city employment to 99.1 percent of the pre-pandemic peak. As noted above, IBO projects 72,900 jobs to be added in 2023, with the rate of job growth picking up again in 2024 (98,500 jobs added), before gradually declining from 2025 through 2027, averaging 70,500 jobs per year.

One of the most prominent changes to IBO's latest employment forecast is an improved outlook for job growth in the leisure and hospitality sector, the industry hit hardest by the pandemic. After a 63.0 percent decline in the first two quarters of 2020, leisure and hospitality has had one of the most sluggish recoveries of all sectors, followed by retail trade. However, the healthy return of tourism to the city has improved the sector's employment trajectory. IBO now projects that full recovery will be achieved by the first quarter of 2024 and continue to grow beyond. While historically closely related to leisure and hospitality, the outlook for the retail trade sector remains weak. There has been some retail recovery spurred by the return of tourism, which at 305,000 jobs is currently at 88.2 percent of its pre-pandemic employment. However, due to permanent changes in shopping habits which were accelerated by the pandemic, IBO projects that this industry will not again attain the pre-pandemic level of employment.

IBO's forecast has been reduced for growth in the financial activities sector, where the securities industry is projected to experience a decline of 2,400 of its 194,000 jobs in 2023, before minimal growth resumes. IBO also expects slow growth in the information sector during the entire forecast period. As information and finance are the two sectors in the city with the highest average wages, these changes to their outlook—although not particularly large in terms of the number of jobs—are worth carefully tracking for potential impacts to the city's economic environment and resulting revenues.

Wages, Salaries, and Personal Income

Wages and salaries account for the single largest share of personal income in the city (73.8 percent in 2022). Last year, aggregate wages and salaries in the city were \$541.1 billion, an increase of \$50.2 billion (10.2 percent) over 2021, the second year of strong growth after a downturn at the onset of the pandemic in 2020. This wage growth was seen across all sectors of the city's economy, as employment continued growing in almost every industry, albeit not equally across sectors.

The three sectors with the highest average wage—financial activities, information, and professional services—accounted for \$29.4 billion (58.6 percent) of this growth, despite only explaining 32.1 percent of total employment growth. The lower-wage leisure and hospitality sector had the highest aggregate wage growth of any industry by percentage at 29.0 percent over 2021, reflecting a tighter labor market and upward inflationary pressure. However, the wage differential means that while it contributed nearly the same amount to total employment growth (26.2 percent of the total), it saw an aggregate wage increase accounting for just \$5.0 billion (10 percent) of the total.

IBO projects that wages will continue to grow, albeit at a slower pace, tracking trends in the employment forecast. In 2023, IBO expects wage and salary growth of \$30.1 billion (5.6 percent), which will increase to an average of \$34.1 billion (5.5 percent) in 2024 through 2027.

Personal income includes categories beyond wages and salaries, such as non-wage benefits, proprietor's income, dividends and interest income, and transfer payments. Total personal income growth in 2022 was low, at 1.3 percent, largely due to a sharp decline in transfer payments from the federal and state governments as pandemic-era programs expired. However, continued growth in wages and salaries along with the other categories (including a return to growth in transfer payments through other programs) are projected to restore personal income growth by \$42.4 billion (5.8 percent) in 2023, bringing it to \$775.9 billion. After this, total personal income is projected to grow at an annual average rate of 4.8 percent, reaching \$934.2 billion in 2027.

Key Sectors: Real Estate and Wall Street

The value of taxable real estate sales in New York City reached \$119.8 billion in 2022, the second-highest amount on record and the second consecutive increase since the pandemic-induced downturn in 2020. The pandemic-induced real estate downturn and subsequent rebound followed a typical pattern: compared with residential sales, the decline in commercial sales was greater and its recovery was slower. In 2020, commercial sales dropped 49.5 percent from the previous year, while residential sales declined by 27.5 percent. Since 2020, residential sales surged from \$36.1 billion in 2020 to their highest amount of record, \$71.0 billion, a 96.7 percent increase over two years. Over the same period, commercial sales increased by 93.2 percent, from \$25.2 billion in 2020 to \$48.7 billion in 2022.

Higher interest rates are expected to bring real estate sales down in 2023, before modest growth resumes in future years. Residential sales for 2023 are projected to be \$54.6 billion, rising to \$62.9 billion by 2026, while commercial sales are forecasted to increase from \$32.0 billion to \$34.8 billion over the same period. These revenue totals are low compared to most of the years leading up to the pandemic, especially when the impact of inflation is considered.

At \$58.4 billion, 2021 New York Stock Exchange profits neared an all-time nominal record high. However, these strong profits were driven largely by a continuing low interest rate environment, which was a monetary policy response to the COVID-19 crisis. To combat rising inflation, the Federal Reserve began raising rates last year to levels not seen since 2008. Accordingly, interest expenses have increased, reducing financial firms' profits. Based on reported income and expense data through the first three quarters of 2022, IBO estimated that profits for the entire year would total \$24.3 billion, 58.4 percent less than in 2021. (With fourth-quarter profits reported, it is now clear that the forecast was accurate.) Profits are expected to increase nominally through 2027, averaging \$22.3 billion (4.2 percent).

¹IBO's reference to years refers to city fiscal years, unless otherwise noted.

²Budget stabilization refers to prepayments of future year expenses, most often through prepayment of debt incurred through the city's capital outlays. For the sake of simplicity, IBO also includes discretionary transfers to either the Rainy Day Fund or the RHBT as part of the term "budget stabilization," as they also provide an outlet for the city's operating surplus.

³The Federal Reserve’s effort to tamp down inflation in the national economy with a series of interest rate hikes over the last year has moderated inflation to some extent, but it also has slowed economic growth. Still, the labor market and consumer spending have remained strong enough to sustain growth. IBO forecasts 1.7 percent real Gross Domestic Product (GDP) growth this year and next, and IBO anticipates that the Federal Reserve will succeed in bringing inflation closer to its two percent target range by the beginning of 2025. At this point, IBO expects the Federal Reserve to respond by moving towards a more neutral monetary policy with respect to growth. With the economy on a firmer footing, IBO expects national growth to accelerate from 2025, with GDP increasing by an average of 2.6 percent in 2025 through 2027. There are many risks to this modest growth forecast including: interest rate hikes constraining business and consumer demand; additional bank failures undermining consumer confidence; lasting bull markets creating negative wealth effects; and Congressional brinksmanship leading to a default on federal debt.

On May 16, IBO corrected typographical errors and omissions in its summary of 2024 RPT revenues. The corrected summary states “For 2024, revenue is \$31.6 billion, which is \$685.9 million (about 2.1 percent) less than the Executive budget.” This version reflects that.