Review of the Financial Plan of the City of New York

Report 16-2023

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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Over the past three years, New Yorkers have experienced ongoing economic and social disruptions arising from the COVID-19 pandemic and its many unanticipated effects on parts of the global economy. The City's economy continues to show resilience in the face of many challenges, enabling a slow but gradual recovery. A strong fiscal position is critical to encourage continued recovery, particularly if an increase in demand for services remains elevated amid economic uncertainty.

The City's Fiscal Year 2024 Preliminary Budget balances the coming fiscal year's budget and shows continued short-term improvement in the City's fiscal profile. The City took another step forward in its recent efforts to undertake savings initiatives to close future budget gaps, recognizing the need to manage its finances proactively to achieve long-term budgetary balance. It also recognized additional better-than-projected revenue from tax collections and the remainder of federal pandemic relief aid, providing a more transparent view of its current revenue picture. This transparency is needed for some of the City's spending risks, an issue which my office has raised consistently in recent years, and which should be outlined more clearly in future updates to the City's budget.

Many of the questions plaguing the City's economy remain out of its direct control, including the long-term makeup of its industry and property market composition, geopolitical tensions and their effect on supply chain issues, and inflation and the related response of central banks, all of which may affect the City's budget. The potential magnitude of the effects from these risks on the City's revenue, spending and future obligations suggests that preparation, both in terms of planning and continuing to set aside resources, is necessary in order for the City to avoid being caught off-guard. The balance between saving for a rainy day, maintaining the City's desirability and aiding those in need, while managing its uncertain fiscal position, remains a key challenge for the City in the coming years.

Further identification of efficiencies, tracking the performance of services delivered amid changing staffing trends, and continuing to build reserve levels to satisfy their stated purposes should inform the budget choices made by the City and be clearly presented to its stakeholders. These steps will enable the City to better insulate itself from financial pressures being felt by New York State and the Metropolitan Transportation Authority that could create additional spending obligations.

These actions will also allow the City to address unexpected challenges, including new spending obligations, and to strengthen its fiscal foundation to keep New York City attractive for residents and visitors and continue creating economic opportunity for all.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

Nearly three years after the onset of the pandemic in New York City, the budgetary choices made by the City are focused on managing its economic and social effects and charting a way forward. Amid a prolonged period of heightened economic global uncertainty that could throw the City's recovery off course, the $104.8 billion preliminary fiscal year (FY) 2024 budget, adjusted for surplus transfers (prepayments for future expenses), reflects better-than-projected revenue collections, the allocation of remaining federal pandemic relief funds and the accumulated impact of savings initiatives (see Figure 1).

Since adoption in June, little has been added to the planned FY 2024 budget in terms of new needs, while spending was reduced nearly $2 billion through the FY 2023 Program to Eliminate the Gap (PEG). The City's budget surplus for FY 2023, which will be used to make prepayments in FY 2024, has reached nearly $2.2 billion. This amount is less than the projected surplus ($3.7 billion) in the preliminary budget last year.

The choices made by the City between now and FY 2024 budget adoption in June are only one determinant of the size of the budget gaps it will face in the future. Fiscal risks stemming from uncertainty over the national economy and financial markets, the City's own lagging recovery and sheltering asylum seekers, which are not reflected in current budget figures, remain difficult to quantify, increasing the potential magnitude of volatility in the City's budget. State budget actions and the operating performance of the Metropolitan Transportation Authority and the New York City Housing Authority may also create additional fiscal pressures for the City.

One area of fiscal risk where there is now greater clarity is for costs associated with collective bargaining. The City and District Council 37 (DC 37) recently agreed to a contract settlement, which if ratified, would provide the basis to set a wage pattern. The agreement also highlights the budgetary volatility the City has faced recently. The City projects that total labor costs would eventually rise by $4.7 billion in FY 2027 and could reach $5.4 billion once fully annualized.

The FY 2024 budget also continues to phase out the reliance on other revenue sources, as federal pandemic aid declines from its peak of about $10 billion in FY 2022 to $2.4 billion in FY 2024. The City's own revenues will likely have to bear much of the burden of fully funding new or expanded pandemic-era services such as mental health programming, enhanced rental- and food-related income supports and access to legal counsel, if it intends on continuing these services. The Mayoral administration and City Council have also suggested new programming since the release of the January Plan that may require additional funding, creating further pressure on City spending as this federal aid is exhausted.

Growth forecasts for the nation's economy, which are broadly linked to the performance of the City's financial sector, remain troublesome. Even as inflation cools, consumer consumption and sentiment data over the past few months suggest a continued economic slowdown is likely nationally. The City is still recovering, leading it to gain jobs at a greater rate in 2022 than the nation, which has already recovered lost pandemic employment. However, recent growth rates overlook the inability of the City's labor market to fully recover pandemic job losses and its unemployment rate, which trailed the nation by more than two percentage points as of December 2022. The City is also experiencing elevated demand for social services as a greater share of residents face economic uncertainty.

On a positive note, City tax revenues have remained resilient in the short-term due to a multitude of factors, including federal relief for households and businesses buoying personal and business income taxes and the return of tourism and commuters aiding sales and hotel taxes. Most recently, valuations of property showed better-than-projected improvement, which should allow the City to make an upward adjustment for FY 2024 property tax revenues. OSC anticipates this improvement to City revenue in FY 2023 will carry forward, leading to better-than-projected revenues over the financial plan barring a severe recession. Stronger revenues will be critically important to close future gaps and offset dwindling federal pandemic relief aid without having to make more difficult decisions to reduce spending.

If tax revenues do not rise more quickly to fund existing needs, the City may have to build on its recent savings efforts. While debt service has been used to generate savings, much of the savings in FY 2024, and on a recurring basis, is associated with reducing head count. The City anticipated that not all of these vacated positions need to be filled to meet anticipated demand for municipal services and therefore reduced planned headcount to generate recurring savings. While these savings have been a useful fiscal salve, questions over the delivery of services have emerged. The City must take care to balance any additional savings made through staffing changes with the risk of deteriorating core services and timely aid to those in need, which are fundamental to its economic recovery.

The recent labor agreement also highlights the importance of setting aside better than projected revenue or expense savings to manage potential cost pressures. In contrast to last year, the City has not yet set aside any planned deposit into its rainy-day fund in FY 2023 compared to $500 million budgeted for deposit last year at the same point in time. OSC has recommended a more systematic approach for depositing funds into reserves, which would enhance the City's fiscal discipline and best prepare it for the uncertainties that lay ahead.

After balancing the FY 2024 budget, the City assumes budget gaps reemerge in FY 2025 at $3.2 billion, growing to nearly $6.5 billion in FY 2027. As a share of City fund revenues, the remaining out-year gaps average 6.3 percent — the highest level at this point in the budget cycle since FY 2012. In addition to the difficult-to-quantify risks noted earlier, the City still has substantial quantifiable risks, fueled by education and social services spending, uniformed services overtime and operating subsidies to the Metropolitan Transportation Authority (MTA). The City also has not yet budgeted for the costs of sheltering asylum seekers in FY 2024 or beyond, despite a very strong likelihood that its shelter population will remain elevated and its Humanitarian Emergency Response and Relief Centers (HERRCs) are likely to remain necessary after July 1, 2023.

In combination with the newly established wage pattern, OSC assumes a number of these risks will continue in the out-years, increasing the planned budget gap to more than $8.9 billion in FY 2025 and more than $13.8 billion (18 percent of city-fund revenues) in FY 2027, even when including offsets for stronger revenue collections (see Figure 2). Budget gaps of these sizes will require continued fiscal vigilance including the linking of agency spending with appropriate performance measures to track efficacy.

The budgetary challenges confronting the City are clear even as the fiscal picture remains murky. The City should continue to prioritize a full and equitable economic recovery while planning for a future downturn. Achieving a full recovery will also be made easier by building reserves, providing clarity and detail in the operational and budgetary challenges the City faces, and a more comprehensive review of performance linked to spending in these areas, which may help to justify future funding choices and their effects on maintaining quality City services. Further generation of savings and enhancements to existing revenue streams remains critical to stay within the City's fiscal limitations and work towards achieving long-term structural balance.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenues					
Taxes					
General Property Tax	$ 31,277	$ 31,871	$ 32,006	$ 32,018	$ 32,018
Other Taxes	37,004	36,296	37,891	39,299	40,366
Tax Audit Revenue	721	721	721	721	721
Subtotal: Taxes	$ 69,002	$ 68,888	$ 70,618	$ 72,038	$ 73,105
Miscellaneous Revenues	7,983	7,516	7,381	7,312	7,289
Unrestricted Intergovernmental Aid	252	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,213)	(1,902)	(1,900)	(1,896)	(1,896)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 75,009	$ 74,487	$ 76,084	$ 77,439	$ 78,483
Other Categorical Grants	1,172	1,060	1,057	1,055	1,054
Inter-Fund Revenues	726	698	699	699	699
Federal Categorical Grants	12,424	9,485	8,151	7,017	6,999
State Categorical Grants	17,057	16,925	17,163	17,217	17,281
Total Revenues	**$ 106,388**	**$ 102,655**	**$ 103,154**	**$ 103,427**	**$ 104,516**
Expenditures					
Personal Service					
Salaries and Wages	$ 31,497	$ 31,492	$ 31,937	$ 32,625	$ 33,323
Pensions	9,414	9,563	9,783	9,951	9,799
Fringe Benefits	12,535	13,501	14,379	15,119	15,726
Subtotal: Personal Service	$ 53,446	$ 54,556	$ 56,099	$ 57,695	$ 58,848
Other Than Personal Service					
Medical Assistance	6,564	6,385	6,385	6,385	6,535
Public Assistance	1,650	1,650	1,650	1,650	2,000
All Other	41,430	34,781	34,280	34,049	34,281
Subtotal: Other Than Personal Service	$ 49,644	$ 42,816	$ 42,315	$ 42,084	$ 42,816
Debt Service	7,654	7,901	8,356	9,105	9,767
FY 2022 Budget Stabilization & Discretionary Transfers	(6,114)	- - -	- - -	- - -	- - -
FY 2023 Budget Stabilization	2,166	(2,166)	- - -	- - -	- - -
Capital Stabilization Reserve	250	250	250	250	250
General Reserve	1,555	1,200	1,200	1,200	1,200
Less: Intra-City Expenses	(2,213)	(1,902)	(1,900)	(1,896)	(1,896)
Total Expenditures	**$ 106,388**	**$ 102,655**	**$ 106,320**	**$ 108,438**	**$ 110,985**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (3,166)**	**$ (5,011)**	**$ (6,469)**

Source: NYC Office of Management and Budget

FIGURE 2
OSC Risk Assessment of the New York City Financial Plan (in millions)

	Better/(Worse)				
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (3,166)**	**$ (5,011)**	**$ (6,469)**
Revenues					
Anticipated Categorical Aid for Asylum Seekers	(231)	1,867	1,400	700	350
Tax Revenue	530	1,200	1,050	1,250	1,860
Miscellaneous Revenue	- - -	100	100	100	100
Subtotal Revenue	**300**	**3,167**	**2,550**	**2,050**	**2,310**
Expenditures					
Payroll Savings	750	- - -	- - -	- - -	- - -
Variable Rate Debt Service	50	- - -	- - -	- - -	- - -
Debt Refunding	- - -	46	46	46	46
Operating Subsidies to the MTA	(80)	(113)	(259)	(424)	(478)
Social Services	(132)	(760)	(760)	(776)	(691)
Uniformed Agency Overtime	(507)	(456)	(457)	(460)	(460)
Department of Education	(783)	(903)	(1,277)	(2,124)	(2,758)
Early Intervention	- - -	(45)	(45)	(45)	(45)
School Health (Article 6) Programs	- - -	(39)	(39)	(39)	(39)
Public Health Corps	- - -	(13)	(25)	(61)	(61)
Residual Services for Asylum Seekers	(400)	(2,800)	(2,100)	(1,050)	(525)
Collective Bargaining[1]	(2,500)	(1,800)	(3,400)	(3,900)	(4,700)
Subtotal Expenditures[2]	**(3,602)**	**(6,883)**	**(8,316)**	**(8,833)**	**(9,712)**
OSC Risk Assessment	**(3,303)**	**(3,716)**	**(5,766)**	**(6,783)**	**(7,402)**
Potential Gaps Per OSC[3,4,5]	**$ (3,303)**	**$ (3,716)**	**$ (8,932)**	**$(11,794)**	**$ (13,871)**

1 The January Plan includes reserves sufficient to fund wage increases of 1.25 percent annually beginning after the expiration of the previous labor contract, which for many civilian employees began in 2021. Wage increases presented in the table assume wages rise 16.21 percent (compounded) during a five-year contract period without offsetting savings, consistent with the wage increases included in a tentative contract agreement between the City and the District Council 37. Once fully annualized beyond the financial plan period (including higher pension contributions), the cost is estimated to total $5.4 billion. FY 2023 includes retroactive pay and the cost of a one-time ratification bonus of $3,000 per employee.

2 See sections on Social Services and Department of Education for more detail on the financial plan risks at those agencies.

3 January Plan gaps are inclusive of a general reserve of $1.555 billion in FY 2023 and $1.2 billion in each of fiscal years 2024 through 2026. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2023 through 2026. The November Plan also includes reserves of about $279 million beginning in FY 2023 to fund potential changes to planned pension contributions from future actuarial audit recommendations.

4 State law requires surplus resources accumulated by the City to be deposited into its Revenue Stabilization Fund (RSF). As of the FY 2022, the balance held in the rainy-day fund is nearly $2 billion. These resources would be available to help balance the budget if there were a compelling fiscal need.

5 The City assumed the receipt of $1 billion in FY2023 only as federal reimbursement for asylum seeker costs. The State's FY 2024 executive budget would provide the City $377 million in FY 2023 and $696 million in FY 2024 as reimbursement for 29 percent of the State’s expected expenditures incurred for migrant shelter and Humanitarian Emergency Response and Relief Centers (HERRCS), and proposed a cost structure in which the City, State, and federal governments would share the costs. While anticipated funding has not been finalized, OSC assumes that costs will be shared each year.

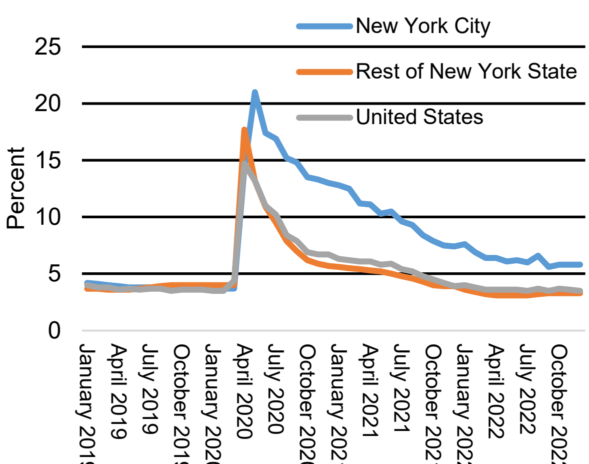
II. Economic Trends

The January Plan assumes the national economy will rebound from a challenging first half in 2023 to grow modestly in accordance with consensus economic forecasts of a mild recession. While national job growth persists and was especially strong in January 2023, it is expected to slow amid the Federal Reserve's response to stubborn inflation. Local job growth in 2022 was robust, with New York City outpacing the nation. As City employment continues to recover from the depths of the COVID-19 pandemic, it may be less susceptible to an immediate economic downturn than the nation (see Figure 3).

The National Economy

Despite facing two consecutive quarters of negative growth during the first half of 2022, the national economy rebounded quickly due to exports and consumer spending resulting in a real gross domestic product (GDP) growth rate of 2.1 percent for the year. However, consensus forecasts have maintained the possibility of a widespread downturn in the first half of 2023 as consumer spending and business activity are expected to slow considerably.

FIGURE 3
Unemployment Rates by Geography, 2019 to 2022



U.S. Bureau of Labor Statistics, Current Population Survey; NYS Department of Labor, Local Area Unemployment Statistics; OSC analysis

S&P Global, an economic forecasting company, has predicted the potential economic downturn will be short-lived, with the national economy resuming growth in the second half of 2023. Its latest February forecast suggests the economy may grow by 0.7 percent in 2023, more than expected in December at 0.3 percent, but still suffering an initial downturn. The City's January Plan relies on S&P Global's earlier, more cautious, estimate.

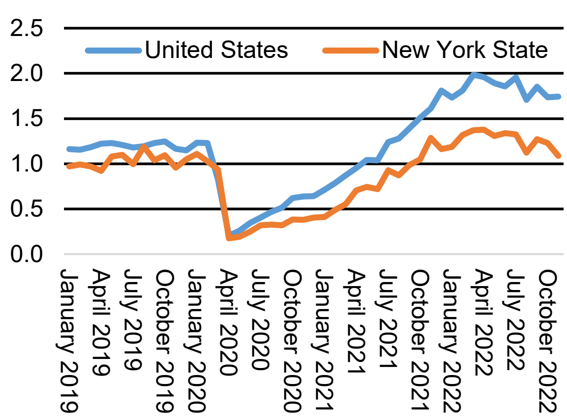
In recent weeks, national consumer sentiment has improved. In January, the University of Michigan's Consumer Sentiment index rose to its highest level since April 2022 after facing a setback in November amid economic uncertainty. In February, the Federal Reserve slowed the pace of federal funds rate increases to only 25 basis points following four 75-basis-point and one 50-basis-point increases to reach a range of 4.5 percent to 4.75 percent.

Over the course of the Federal Reserve's implementation of monetary policy, employment growth and wage growth had begun to retreat from their paces during the beginning of 2022. However, in January 2023, the national economy added 517,000 jobs (seasonally adjusted), more than double consensus expectations. At the same time, unemployment declined to 3.4 percent and wage growth weakened to 4.4 percent year over year. In January 2023, the consumer price index rose by 6.4 percent, showing significant improvement over the 9.1 percent in June 2022. These pieces of data have generally renewed the hope that the Federal Reserve's actions may result in price stability without inducing an economic recession.

Still, the Federal Reserve has maintained that inflation remains too high, and with the latest national jobs report, has suggested that it may need to raise rates to a higher peak than anticipated in its December economic projections. When it comes to the pace and magnitude of the rate hikes, however, officials continue to monitor relevant data points and to adjust their outlook accordingly. One such data point is job openings. The December 2022 job openings data suggest there were 1.9 openings for every unemployed person nationally, with 54 percent more openings than in January 2020.[6] However, openings in New York State lag the nation overall, as there were 7 percent more openings than in January 2020 (see Figure 4).

Job openings at the national level are most prevalent in the professional and business services (especially administrative and waste services), health care and social assistance, and

FIGURE 4
Number of Job Openings Per Unemployed Person by Geography, January 2019 to November 2022



Sources: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey; U.S. Bureau of Labor Statistics, Current Population Survey; NYS Department of Labor, Local Area Unemployment Statistics; OSC analysis

leisure and hospitality sectors (which has yet to recover pandemic job losses).

Among these industries, professional and business services are recruiting fewer workers now than in January 2020 (as they have recovered pandemic losses), but leisure and hospitality and education and health services are recruiting more.[7] State and City employers have been particularly more aggressive in their health care recruitment efforts than the nation. Job posting data (which relies on a different source than job opening data and may not fully capture the demand for workers) shows the City has posted nearly two times more health care jobs as of the end of January 2023 than prior to the pandemic, compared to less than half as many (43 percent) for the nation. These factors suggest certain sectors of the local job market may experience different employment trajectories than the nation.

New York City's Economy

Unlike the nation, New York City has yet to recover pandemic job losses, standing at 88 percent as of December 2022. While both saw average employment growth slow in 2022, the City outpaced the nation. Despite incurring job loss in October (seasonally adjusted), the City continues to recover its pandemic job losses.

As service industries such as leisure and hospitality benefit from the continued return of tourists and the office worker population, retail sales and hotel occupancy levels have strenghtened. However, service industries may face a slowdown in overall consumption, and thereby employment, later this year as the

[6] U.S. Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey," January 30, 2023, https://www.bls.gov/news.release/jltst.nr0.htm.

[7] Raj Chetty, et al., "Opportunity Insights Economic Tracker," 2020, https://tracktherecovery.org/. Note, the tracker follows only these industries: education, health services, manufacturing, financial activities, leisure and hospitality and professional and business services.

Federal Reserve remains steadfast in keeping rates elevated.

While media reporting has noted some sectors, i.e., technology and finance, have begun to shed jobs in response to the expectation of economic headwinds, these losses have yet to appear in City employment data in a sustained way. The City currently projects that total pre-pandemic job losses will return by the third quarter of 2024. Its forecast assumes the continued return of jobs in the leisure and hospitality sector, and further growth in the professional and business services and transportation and warehousing sectors.

While the information sector (which contains a substantial portion of technology employment) made headlines for job growth amid the pandemic and layoffs in recent months, the City expects to see continued job growth over the plan horizon. Local information sector employment is 7.9 percent greater than in 2019. However, the sector may face challenges if firms continue to shed jobs in anticipation of a sustained weakness in demand.[8]

Announcements of job losses at the national level have also impacted the finance sector. The City's prior economic forecast allowed for some weakness in the finance sector due to industry firm decisions to cut advisory and trading personnel amid economic challenges. However, the City expects that finance and securities jobs will decline in 2023 and not return to pre-pandemic levels until the end of 2027.

The shift in the City's employment forecast reflects the unsustainability of Wall Street's profitability over the last two years, reaching over $58 billion in 2021. The City currently expects New York Stock Exchange member firm profits to reach $24.5 billion in 2022, a 58 percent decline from the prior year. Firm profitability over the first three quarters of 2022 has declined drastically from last year, driven by interest expense amid the Federal Reserve's policy shift away from near-zero interest rates during the pandemic.[9] The City expects profitability to decline further by 18.1 percent in 2023 to reach $20.1 billion in alignment with the Federal Reserve's projection of an elevated federal funds rate through the end of the year. As a result, it expects securities industry bonuses to decline by 36 percent, a figure that would offset anticipated wage gains in the non-finance sector. However, the City's current projection for zero overall wage growth in 2023 may be too conservative.

While return-to-office has improved significantly since the beginning of last year, almost reaching 50 percent the last week of January 2023, it remains slow when compared to other large office markets. Anecdotal evidence suggests employers have begun to require employees to return to the office as the economic climate begins to deteriorate, although the return-to-office data has not shown a marked improvement since the end of last year. As a result, the trajectory of the commercial real estate market remains uncertain (with vacancy rates at 30-year highs and asking rents over two percent below pre-pandemic levels at $71.62).[10]

While commercial property (i.e., Class 4) values declined significantly during the height of the pandemic, they have since risen, with the latest fiscal year 2024 tentative roll showing

[8] OSC, *The Technology Sector in New York City*, Report 10-2023, October 2022, https://www.osc.state.ny.us/files/reports/osdc/pdf/report-10-2023.pdf.

[9] OSC, *The Securities Industry in New York City*, Report 11-2023, October 2022, https://www.osc.state.ny.us/files/reports/osdc/pdf/report-11-2023.pdf.

[10] OSC, New York City Industry Sector Dashboards, March 2022, https://www.osc.state.ny.us/osdc/reports/nyc-sectors/arts-entertainment-and-recreation.

considerable year-over-year growth. However, Class 4 property valuations are still 4.7 percent below their pre-pandemic peak. Three years into the pandemic, the long-term trajectory of hybrid work remains unclear amid a changing economic environment for employers and their workers.

III. Changes Since the June 2022 Plan

In June 2022, the City projected a balanced budget for FY 2023 and budget gaps of $4.2 billion in FY 2024, $3.7 billion in FY 2025 and nearly $4 billion in FY 2026 (see Figure 5). The November Plan narrowed the gap in FY 2024, but increased those in fiscal years 2025 and 2026, primarily due to increased pension contributions that were partially offset by the PEG. Two months later, the January Plan reflects overall increased revenue projections, a modest expansion of the PEG program largely to be generated from vacancy reductions, the use of pandemic relief funds to cover some city-funded costs, and relatively small new agency needs concentrated in FY 2023. These changes add another $1.5 billion in unanticipated resources in the current year that help close the gap in FY 2024. The combined changes in November 2022 and January 2023 produce a balanced budget for FY 2024, a reduced gap in FY 2025 ($3.2 billion), and a larger gap in FY 2026 ($5 billion). The FY 2027 gap, reported for the first time in the City's financial plan, totals $6.5 billion.

FIGURE 5
Financial Plan Reconciliation — City Funds
January 2023 Plan vs. June 2022 Plan
(in millions)

	Better/(Worse)			
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**
Projected Gaps Per June 2022 Plan	**$ - - -**	**$ (4,210)**	**$ (3,714)**	**$ (3,980)**
Revenue Reestimates				
Business Taxes	775	579	522	287
Sales Taxes	530	295	445	595
Hotel Taxes	121	24	16	14
Real Estate Transaction Taxes	(173)	(397)	(438)	(375)
Miscellaneous Revenues	367	235	100	17
Total Revenue Reestimates	**1,620**	**736**	**645**	**538**
Program to Eliminate the Gap (PEG)				
Agency Savings	1,043	1,785	1,663	1,638
Agency Cost Avoidance Initiatives	(57)	(92)	(376)	(376)
Debt Service	84	170	227	257
Subtotal	**1,070**	**1,863**	**1,514**	**1,519**
New Agency Needs	**(496)**	**(90)**	**(90)**	**(66)**
Updated Estimates				
Pension Contributions	- - -	(861)	(1,969)	(3,018)
Federal Funding Shifts	75	390	425	- - -
All Other	(102)	6	24	(4)
Subtotal	**(27)**	**(465)**	**(1,520)**	**(3,022)**
Total Expense Reestimates	**546**	**1,307**	**(96)**	**(1,569)**
Net Change	**2,166**	**2,043**	**549**	**(1,031)**
Gaps to Be Closed Before Prepayment	**$ 2,166**	**$ (2,166)**	**$ (3,166)**	**$ (5,011)**
FY 2023 Prepayment of FY 2024 Expenses	(2,166)	2,166	- - -	- - -
Gaps to Be Closed Per January 2023 Plan	**$ - - -**	**$ - - -**	**$ (3,166)**	**$ (5,011)**

Note: Columns may not add due to rounding. Miscellaneous Revenues exclude savings initiatives, which are reflected in the "Agency Savings" category.
Sources: NYC Office of Management and Budget; OSC analysis

The January Plan includes revised revenue forecasts, increasing by $1.6 billion in FY 2023, $736 million in FY 2024, and slightly smaller amounts in the out-years. Lower projections of real estate transaction taxes are outweighed by an improved outlook in other tax categories, primarily business and sales (see the "Revenue Trends" section).

Additional budgetary relief is identified in the January Plan PEG, although new savings amount to only a quarter of those introduced in the November Plan. These savings would be mostly generated by vacancy reductions, with some debt service savings and revenue reestimates. After accounting for budget neutral cost avoidance initiatives in the November Plan, combined net savings total $1.1 billion in FY 2023, $1.9 billion in FY 2024, and $1.5 billion in each of the following two fiscal years (see the "Program to Eliminate the Gap" section).

The January Plan also allocates unrestricted pandemic relief funding to offset some city-funded operational costs ($75 million in FY 2023, $390 million in FY 2024, and $425 million in FY 2025). With these funding shifts, the City has allocated virtually all remaining relief funds.

These favorable budget developments since June offset new costs identified in fiscal years 2023 through 2025 and partially offset them in FY 2026. In addition to the significant increases to planned pension contributions, unanticipated new spending includes relatively minor new agency needs.

The City now forecasts a surplus of $2.2 billion in FY 2023 which will be used to prepay debt service costs and balance the budget in FY 2024. The FY 2023 budget includes a general reserve ($1.555 billion) and a capital stabilization reserve ($250 million). The remaining gap in FY 2025 was reduced by $549 million to $3.2 billion, but the FY 2026 gap has grown by $1 billion to $5 billion, largely due to an increase of $3 billion in pension contributions. As a share of City fund revenues, the remaining out-year gaps average 6.3 percent ─ the highest level at this point in the budget cycle since FY 2012. Existing reserves (totaling $1.45 billion in each fiscal year) could be used to narrow the gaps to an average of 4.4 percent of revenues.

New Initiatives

New agency needs since June totaled $496 million in FY 2023, $90 million in each of fiscal years 2024 and 2025, and $66 million in FY 2026. Most of the January Plan additions ($291 million) are one-time expenditures the City does not expect will recur, including $140 million for higher overtime at the Fire Department, $35 million for overtime and other personnel costs at the Department of Sanitation, $35 million for criminal justice housing initiatives, and $28 million for the June primary elections.

The Plan also increases planned spending primarily for the Mayor's Housing Blueprint ($20 million in FY 2024 growing to $24 million by FY 2027) and for costs associated with the expansion of speed cameras ($4.4 million annually), and the Neighborhood Rat Reduction program ($1.6 million annually by FY 2027).

The January Plan includes $1 billion added in November for expenses relate to asylum seekers. However, the City has not added any recurring costs for asylum seekers in its financial plan beginning in FY 2024.

IV. State and Federal Actions

State Budget

On February 1, 2023, the executive budget for SFY 2024, which begins on April 1, 2023, was released. The Division of the Budget forecasts that the budget will be balanced in SFY 2024 but starting in SFY 2025 will have larger out-year gaps than forecasted in last year's enacted budget. Tax collections in SFY 2024 are expected to be $1.9 billion lower than anticipated in the midyear budget update. Tax collection projections were also taken down in SFY 2025 ($4.6 billion) and SFY 2026 ($4.2 billion) as fears of a possible recession persist. The City expects to receive $16.9 billion from State categorical aid in FY 2024.

On a net basis, the Division of the Budget estimates that the proposal would have a positive impact to the City of $250 million in FY 2023 and $467 million in FY 2024 (see Figure 6).

FIGURE 6
NYS Executive Budget Analysis of NYC Impact
(in millions) Better/(Worse)

	FY 2023	FY 2024
School Aid	- - -	594
Migrant Costs	377	696
MTA Aid	- - -	(438)
ACA eFMAP	(125)	(343)
Other Changes	(2)	(42)
Net Impact	**$ 250**	**$ 467**

Sources: NYS Division of the Budget; OSC analysis

The State has completed its phase-in of full funding of the Foundation Aid formula which will bring the City $569 million more than the prior year and proposes to increase expense-based and categorical school aid to the City by $25 million more than last year. Together, this funding is $413 million more than expected in the City's January Plan. The State executive budget dedicates $250 million of the statewide Foundation Aid increase to support high-impact tutoring for students struggling to recover from pandemic-related learning loss and at risk of falling below state standards. The City is required to reserve $35 million of its Foundation Aid allocation for this purpose.

The State would also provide the City $377 million in FY 2023 and $696 million in FY 2024 as reimbursement for 29 percent of the State's expected expenditures incurred for migrant shelter and the cost of HERRCs. The City has budgeted $1 billion for such costs in FY 2023 but has not yet budgeted for the cost of migrants in FY 2024 or beyond.

Excluding these large positive actions, the executive budget includes a number of other proposals, which could increase the City's costs by a net of $127 million in FY 2023 and $823 million in FY 2024.

Most significantly, the City would provide the MTA's operating budget a total of $438 million more in FY 2024. These costs will be recurring after FY 2024 as well. These include:

- Funding for all of the net operating expense, up from the 50 percent rate set in 2020, for the MTA's paratransit system ($234 million in FY 2024). The City's contribution is capped at $602 million in calendar year 2024 and the capped amount would increase by 10 percent annually. Beginning in 2029, the cap will also reset the first year of every five-year period, when the capped amount will be 110 percent of the City's actual paratransit cost in the preceding year.
- The City would pay the MTA's net fare losses from providing reduced fare MetroCards to its students after existing State reimbursements are factored in ($90 million in FY 2024). The City also would pay all of the MTA's administrative costs of this program. Currently, the City pays the MTA $45 million annually for the cost of student MetroCards.

- The City would match 47 percent of the State's payment to the MTA ($115 million starting in FY 2024) to offset the cost of exempting certain employers from paying the MTA Payroll Mobility Tax (PMT). The City also expects the payment of the higher PMT for its municipal workers will cost it $40 million more annually.

In addition, the State would retain the City's share of Affordable Care Act enhanced Federal Medical Assistance Percentage payments to offset the State's higher health care expenditures costing the City $125 million in FY 2023 and $343 million in FY 2024.

In FY 2024, the City would see a $29 million net increase from Medicaid costs related to the indigent care pool as the State redirects some of the city's federal funding. Other actions including the impact of proposed tax credits would have a net cost of $2 million in FY 2023 and $13 million in FY 2024.

The proposed executive budget contains other actions that may impact the City or its residents. The executive budget proposes to eliminate the regional cap on the number of charters for charter schools that may be issued in the City. The budget also proposes to permanently authorize the reissuance of any charter originally issued to a charter school that subsequently closed after July 1, 2015, due to surrender, revocation, termination or nonrenewal. These changes would permit the issuance of additional charters in the City. The City estimates that together, these actions could increase costs by as much as $1.3 billion by the time the schools are fully phased in.

In response to a court decision, the State would more than double the hourly rate paid to assigned counsel program attorneys for legal representation provided to children and indigent adults to $158 per hour. The State would also cap the cost per case at $10,000. Since the executive budget does not include any additional local assistance funding for this purpose, all increased program costs (estimated by the City to total $84 million annually) would be borne by the City.

The executive budget includes a provision that would provide to the MTA's operating budget 100 percent of the taxes and fees received from commercial gaming facilities in the City, including the 20 percent local share that the City would have received under current law. The State does not expect these revenues to be available until calendar year 2026.

The budget would extend the NYC Musical and Theatrical Production Tax Credit's current $3 million per production cap to productions that have their first performance prior to January 1, 2024, increase the aggregate program cap by an additional $100 million to total $300 million and extend the application deadline to June 30, 2025.

The executive budget does not replace the expired 421-a real estate tax abatement program but extends by four years to 2030 the deadline as to when developments receiving 421-a benefits must complete their projects.

The budget would also authorize the City to convert non-residential properties occupied before December 31, 1990 to residential use; authorize the City to legalize existing basement dwellings; allow the floor area ratio in the City to be higher than 12; proposes a property tax exemption in the City to encourage the conversion of commercial properties to residential properties that provide affordable housing; and proposes another property tax exemption to encourage major capital repairs to existing residential buildings.

The State would allow the City to reduce the speed limit on its streets to as low as 20 miles per hour and as low as 10 miles per hour in school zones and other traffic calming zones and would increase the maximum fines for parking certain overweight vehicles overnight in the City's residential neighborhoods to $400 for a first offense and $525 for subsequent offenses within six months. Currently, the maximum fee is $250 for a first offense and $500 for subsequent offenses.

To help the City more efficiently complete its capital projects, the State would allow the City to use new capital project delivery methods such as design-build contracts, construction manager-build contracts and construction manager-at-risk contracts. The State would also allow the City, the New York City Industrial Development Agency, the NYC Health + Hospitals (H+H), and the New York City Housing Authority (NYCHA) to obtain insurance for their construction projects and authorize the use of owner-controlled insurance programs and contractor-controlled insurance programs.

Lastly, the executive budget would commit another $500 million for a total of $2.9 billion of State funding to Amtrak's Gateway project, to build an additional rail tunnel between New York and New Jersey and to rehabilitate the existing tunnel.

Federal Actions

The January Plan assumes that total federal receipts for the operating budget will wind down after FY 2022, from $12.4 billion in FY 2023 to $9.5 billion in FY 2024, eventually declining over the next two years to $7 billion starting in FY 2026 as the City draws down the remainder of pandemic relief aid. The City's estimates also assume the receipt of $1 billion in federal reimbursement for local services to asylum seekers in FY 2023. These estimates also include $1.4 billion in a previously unbudgeted portion of its federal award from each of the local government and school fiscal relief funds, as discussed in our previous report on the City's financial plan.

Pandemic Relief

Over a three-year period ending FY 2022, the City has realized $19 billion in federal aid (including unrestricted aid) to respond to the impacts of COVID-19 (see Figure 7), with pandemic-related relief reaching a peak in FY 2022 at $10 billion. The January Plan anticipates the receipt of an additional $7.6 billion of such aid over the financial plan period, mostly in FY 2023, with the majority of these remaining funds devoted to education initiatives.

When the prior year and anticipated resources are combined with estimated savings passed on to the City from enhanced federal funding for Medicaid ($1.4 billion), the total federal pandemic support for the City government is expected to exceed $27 billion by FY 2025, a historic level of extraordinary assistance.

Reimbursement for Asylum Seekers

The State executive budget includes $1 billion over two years to help fund a portion of the cost of various services provided to asylum seekers residing in New York City. The January Plan, which was released shortly before the publication of the State executive budget, assumes the receipt of $1 billion from the Federal Emergency Management Agency (FEMA) in FY 2023 to compensate the City for such services, but assumes these costs will not recur beyond the current fiscal year.

In December 2022, the President signed into law a $1.7 trillion omnibus budget bill (the Consolidated Appropriations Act, 2023) to complete action on the federal FY 2023 budget, which began on October 1, 2022. The omnibus bill includes a transfer of $800 million from the U.S. Customs and Border Protection to FEMA, of which $785 million may be made available for the emergency food and shelter program for the purposes of providing shelter and other services

FIGURE 7
Federal Pandemic Relief by Major Category
(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Education Aid	$ - - -	$944.9	$2,874.6	$2,085.1	$1,747.9	$245.8	$ - - -	$ - - -
Fiscal Relief Funds	730.1	1,505.0	3,080.0	610.4	574.1	834.4	- - -	- - -
FEMA Reimbursement	1,147.0	3,064.3	2,161.3	515.9	1.0	- - -	- - -	- - -
Public Health Grants	41.5	880.6	422.6	422.7	28.5	0.1	- - -	- - -
Other	105.0	468.5	962.2	140.7	39.6	44.0	15.4	7.1
Subtotal	**$2,023.6**	**$6,863.4**	**$9,500.7**	**$3,774.7**	**$2,391.1**	**$1,124.3**	**$15.4**	**$7.1**
Unrestricted Aid	- - -	- - -	$498.4	$251.6	- - -	- - -	- - -	- - -
Total	**$2,023.6**	**$6,863.4**	**$9,999.1**	**$4,026.3**	**$2,391.1**	**$1,124.3**	**$15.4**	**$7.1**

Note: Totals may not add due to rounding. Actuals include adjustments to receivables. The City may also realize an estimated $1.4 billion in savings passed on to the City from enhanced federal funding for Medicaid.
Sources: NYC Office of Management and Budget; OSC analysis

to families and individuals encountered by the Department of Homeland Security.

Reportedly, the City is expected to receive a substantial share of this new FEMA funding, which will be distributed among multiple recipients. However, given the long lead time to collect on federal emergency reimbursements, it is possible that it will also take years to collect these funds.

Progress in Claiming

As of December 31, 2022, the City had collected or billed an estimated total of nearly $13 billion in federal pandemic revenue earned to date for eligible services provided since March 2020. The City has not yet claimed $6 billion in prior-year pandemic revenues earned to date. A sizable portion ($2.8 billion) has remained unclaimed for more than one year since the services were provided.

Virtually all of the long-term unclaimed receivables ($2.7 billion) are for reimbursements from FEMA. As noted in our March 2022 report on the City's financial plan, the process of claiming, billing and collecting reimbursement from FEMA has taken longer than in previous emergencies.

The City is now owed more than $5.3 billion from FEMA to date (including unrestricted aid linked to prior year FEMA-eligible services), significantly higher than any other receivable on record. The City also anticipates it will realize an additional $516 million in FY 2023 in reimbursements from FEMA for ongoing pandemic costs. Despite the delays in claiming these substantial reimbursements, the City's cash position is projected to remain adequate to meet its short-term cash flow needs

V. Program to Eliminate the Gap

Six days after the release of the November Plan, the City announced that it would implement another vacancy reduction initiative to help close its FY 2024 gap and to address new costs and fiscal uncertainties. This action comprised more than three quarters of the January PEG, which is anticipated to bring additional savings of $551 million for FY 2023 and FY 2024 combined, and an average of $394 million in each subsequent year. New savings in the January PEG total only a quarter of those introduced in the November 2022 PEG ($7.1 billion).

Cumulatively, the FY 2023 PEG includes anticipated total savings of $1.1 billion in FY 2023 and an average of $1.9 billion annually thereafter. While two-thirds of the savings identified in the November PEG were expense reestimates, the January PEG did not include any. Combined, more than half of total savings would now come from expense reestimates and 28 percent would come from agency efficiencies (see Figure 8).

The efficiencies identified in the January PEG would result entirely from the vacancy reductions. The City proposed eliminating 3,660 more vacancies in January, excluding uniformed, pedagogical, public safety, revenue-generating, and legally mandated titles. In total, the FY 2023 PEG would eliminate 4,374 positions in total, of which 97 percent were described as efficiencies.

For efficiencies, the largest headcount reductions are proposed at the Department of Social Services, the Police Department, the Department of Health and Mental Hygiene, and the Department of Education (see Figure 9). These reductions contribute to total efficiency savings of $2.45 billion for the plan period, or just over $2 billion when adjusted to exclude cost avoidance initiatives. A majority of the position titles have not yet been identified, but the City believes there will be no impact to services.

FIGURE 8
FY 2023 Program to Eliminate the Gap
(in millions)

	Positions	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Total
Agency Actions							
Efficiencies	(4,240)	294	536	537	541	546	2,454
Expense Reestimates	(134)	441	1,165	1,053	1,043	1,031	4,733
Revenue Reestimates	- - -	308	83	72	54	53	570
Agency Subtotal	**(4,374)**	**1,043**	**1,785**	**1,662**	**1,637**	**1,629**	**7,756**
Debt Service	**- - -**	**84**	**170**	**227**	**257**	**356**	**1,095**
Total Savings	**(4,374)**	**$ 1,127**	**$ 1,955**	**$ 1,890**	**$ 1,895**	**$ 1,985**	**$ 8,851**
Cost Avoidance Initiatives							
Efficiencies	- - -	(57)	(92)	(92)	(92)	(92)	(425)
Expense Reestimates	- - -	- - -	- - -	(284)	(284)	(284)	(852)
Cost Avoidance Total	**- - -**	**(57)**	**(92)**	**(376)**	**(376)**	**(376)**	**(1,277)**
Net Savings	**(4,374)**	**$ 1,070**	**$ 1,863**	**$ 1,514**	**$ 1,519**	**$ 1,609**	**$ 7,574**

Note: Totals may not add due to rounding. Changes in headcount are as of June 30, 2024.
Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 9

Positions Eliminated Through Actions Described as Agency Efficiencies

(Full-time employees)

Agency	November 2022	January 2023	Total
Department of Social Services	-	(773)	(773)
Police Department Civilian	-	(417)	(417)
Department of Health and Mental Hygiene	-	(403)	(403)
Department of Education Civilian	-	(390)	(390)
Department of Correction Civilian	-	(244)	(244)
City University Civilian	(55)	(156)	(211)
City University Pedagogical	(24)	-	(24)
Department of Parks and Recreation	(200)	-	(200)
Law Department	(93)	(84)	(177)
Department of Transportation	-	(155)	(155)
Department of Finance	-	(116)	(116)
Mayoralty	(17)	(97)	(114)
Fire Department Civilian	(96)	(16)	(112)
Department of Homeless Services	-	(107)	(107)
Citywide Administrative Services	-	(107)	(107)
Office of Technology and Innovation	-	(101)	(101)
All Other	(95)	(494)	(589)
Total	**(580)**	**(3,660)**	**(4,240)**

Source: NYC Office of Management and Budget

Expense reestimates total $4.7 billion over the plan period. However, both the expense reestimates and efficiencies contain cost avoidance initiatives, which simultaneously added and removed expenses from the financial plan, and do not reduce the previously published gaps. When adjusted for these actions, the expense reestimates would total $3.9 billion for the plan period.

Revenue reestimates will provide the smallest portion of PEG savings. These items total $570 million over the financial plan period, more than half of which would be achieved in FY 2023. Newly identified FY 2023 savings include additional speed camera revenue generated from expanding the program to weekends and overnight ($25 million), and higher than anticipated mobile franchise revenue at the Department of Information Technology and Telecommunications ($13.8 million).

Debt service savings will also contribute to a small portion of the PEG (12 percent), with $1.1 billion over the financial plan period. The majority of these savings were proposed in November ($750 million). The January Plan added savings of $345 million, which would be achieved through adjusting capital expenditure plans in the near term, thus pushing out borrowing in the plan period.

Most of the proposed PEG initiatives appear to be reasonably achievable and within the City's control to implement. However, going forward, OSC maintains its position that the City should not present cost avoidance initiatives as PEG savings as they do not actually reduce the stated gaps. Additionally, vacancy reductions are a reoccurring initiative included in last year's PEG and again in the current plan. Given the magnitude of current vacancies citywide (approximately 8.3 percent as of November; see the "Expenditure Trends" section), the City should be mindful of the impact of staffing reductions on service delivery.

VI. Revenue Trends

The January Plan increases the City's total revenue forecast (which includes locally generated revenues and federal and State categorical aid) from the November Plan by $1.2 billion in FY 2024 to $102.7 billion, due to a shift in federal pandemic aid from FY 2022 as well as better-than-expected locally generated revenues (i.e., City funds). However, as the City increased its FY 2023 forecast by an even larger amount ($2.4 billion), the January Plan expects a total revenue decline of 3.5 percent in FY 2024, reflecting waning federal grants and the assumption of a mild national recession.

The January Plan increases the forecast for federal grants by $613 million and $466 million fiscal years 2023 and 2024, respectively, due mostly to the shift of pandemic aid. The City's total revenue forecast still includes an as yet unapproved $1 billion from the federal government for managing asylum seeker intake and shelter for FY 2023, much of which has not been approved and represents a budgetary risk. No federal aid for asylum seekers is included after FY 2024.

Most of the increases to the total revenues forecast throughout the plan period is due to City funds. In FY 2024, City funds account for 73 percent of total revenues, or $74.5 billion (see Figure 10). Tax collections account for 92 percent of City funds revenues while miscellaneous revenues account for 8 percent.

With better-than-expected collections in the first half of the fiscal year, especially from business and sales taxes, the January Plan increases the forecast for tax collections in FY 2023 by $1.3 billion. In the first half of FY 2023, year-to-date collections were 13.2 percent higher ($5.2 billion) than the same period last year. However, with some collections beginning to show signs of weakness, particularly in personal income tax and real estate transactions taxes, total tax collections are expected to slow in the second half of the fiscal year. As a result, the City expects collections to decline for the first time since 2009, by 0.9 percent (see Figure 11).

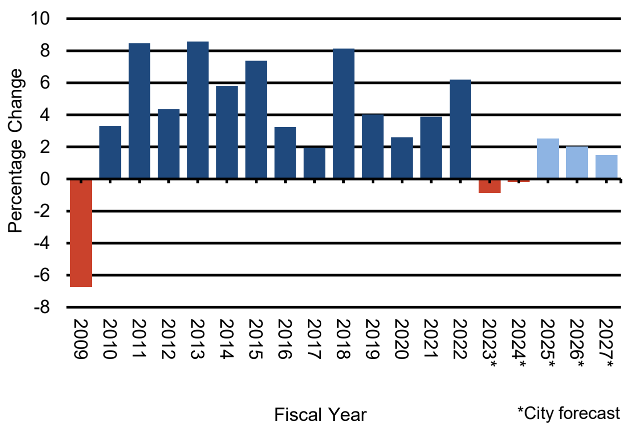
The City's expectation of a slowdown in economic growth will result in tax collections remaining relatively flat at $68.9 billion in FY 2024. Total collections are dragged down by an

FIGURE 10
Trends in City Fund Revenues
(in millions)

	FY 2023	FY 2024	Annual Growth	FY 2025	FY 2026	FY 2027	Average Three-Year Growth Rate
General Property Tax	$ 31,277	$ 31,871	1.9%	$ 32,006	$ 32,018	$ 32,018	0.2%
Personal Income Tax	15,284	14,844	-2.9%	15,462	15,869	16,269	3.1%
Sales Tax	9,131	9,266	1.5%	9,868,	10,549	10,935	5.7%
Business Taxes	7,490	7,154	-4.5%	7,332	7,474	7,602	2.0%
Real Estate Transaction Taxes	2,183	2,147	-1.6%	2,285	2,431	2,559	6.0%
Other Taxes	2,916	2,885	-1.1%	2,944	2,976	3,001	1.3%
Tax Audits	721	721	0.0%	721	721	721	0.0%
Subtotal: Taxes	**69,002**	**68,888**	**-0.2%**	**70,618**	**72,038**	**73,105**	**2.0%**
Miscellaneous Revenues	5,770	5,614	-2.7%	5,481	5,416	5,393	-1.3%
Unrestricted Intergov. Aid	252	0	NA	0	0	0	N/A
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**75,009**	**74,487**	**-0.7%**	**76,084**	**77,439**	**78,483**	**1.8%**

Note: Personal Income Tax includes the Pass-Through Entity Tax.
Sources: NYC Office of Management and Budget; OSC analysis.

FIGURE 11
Annual Percent Change in Tax Revenues



Note: Includes revenue from tax audits.
Sources: NYC Office of Management and Budget; OSC analysis

expected decline in non-property tax collections which the City expects will more than offset the gains in property taxes. However, the tentative property tax assessment roll, released after the January Plan, showed a larger increase in FY 2024 property values than the City had expected, will likely lead to more property tax collections than forecast.

In fiscal years 2025 through 2027, the City expects economic growth to improve, resulting in total revenues increasing by an annual average of 0.6 percent. Tax collections are expected to average 2 percent annual growth during this period, with growth in non-property tax collections (3.5 percent) outpacing that of property tax (0.2 percent). The relatively slow rate of growth in property tax collections reflects continued uncertainty in the commercial real estate market as workers have been slow to return to the office.

While OSC believes the City's cautious approach to its tax revenue forecast is appropriate as the economic outlook remains unclear, it estimates tax collections will likely be higher than the City's forecast by $530 million in FY 2023 and $1.2 billion in FY 2024.

General Property Tax

The City released the January Plan before the publication of the FY 2024 tentative property tax assessment roll, assuming a relatively small growth in taxable values of 1.6 percent. However, the tentative roll showed taxable values increasing by 4.4 percent. The City should reflect higher property tax revenues as a result in its next budget update (see Figure 12). For fiscal years 2017 to 2023, total taxable values declined by an average annual 1.1 percent from the tentative to final assessment rolls. Even with this potential rate of adjustment, taxable values would be significantly above the City's estimate.

With the FY 2024 tentative roll coming in significantly higher than expected, and accounting for the January Plan's expected annual growth rates by class, OSC believes that property tax collections may exceed the forecast by $1.4 billion over the plan horizon. This would represent an average annual growth rate of 1.4 percent for fiscal years 2024 to 2027, well above the City's expectation of 0.6 percent growth but well below the pre-pandemic average annual rate of 6.4 percent from fiscal years 2017 through 2021. Collections are expected to once again exceed $30 billion in FY 2023 (see Figure 13; next page).

FIGURE 12
Taxable Property Value Growth by Tax Class
City Projection and Actuals from Tentative Roll

Tax Class	FY24 Growth (Jan Plan Forecast)	FY24 Growth (Tentative Roll)
Class 1 (1-, 2-, and 3-family homes)	4.8%	6.0%
Class 2 (condos and co-ops)	2.4%	3.1%
Class 3 (utility properties)	3.6%	4.0%
Class 4 (commercial properties)	0.0%	5.2%
Overall	**1.6%**	**4.4%**

Sources: NYC Office of Management and Budget; NYC Department of Finance FY 2024 Tentative Property Tax Assessment Roll; OSC analysis

Despite the strength of the assessment roll, uncertainty in the commercial real estate market presents a significant continuing risk for property tax revenues (see OSC's Office Sector in New York City report for more information). While major tech companies helped support the office real estate market with continued leasing activity in the first two years of the pandemic, many of them have pulled back in 2022, either subletting some of their square footage or terminating their leases outright.[11] In addition, several tech companies have announced significant layoffs in recent weeks, including Meta, Alphabet, and Microsoft, among others.[12]

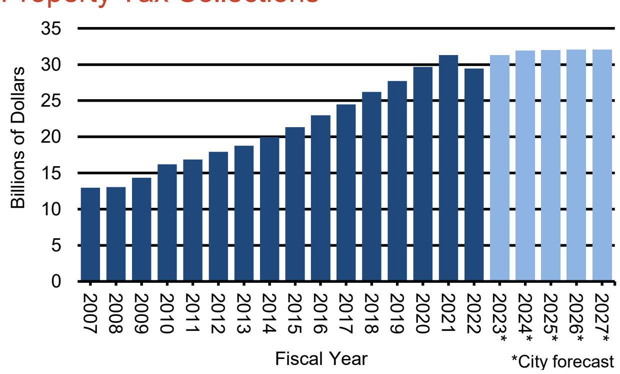
Lower asking rents during the pandemic caused a "flight to quality" where firms were able to secure more desirable office space at improved rents, resulting in higher vacancy rates at older office buildings. While both trophy and Class A office properties saw taxable value growth of 4.1 percent on the tentative roll, Class B increased by only 3.6 percent. If Class B and C office buildings struggle to secure tenants over an extended period, valuations of those properties may begin to decline, presenting an additional risk to collections.

Personal Income Tax

The January Plan's forecast for total PIT, the City's second-largest source of tax revenue, which includes a combination of PIT and the pass-through entity tax (PTET), remains unchanged from the June 2022 Plan. Total PIT is projected to decline by 8.5 percent in FY 2023 and by 2.9 percent in FY 2024 to reach $14.4 billion (see Figure 14; for more information on PTET, see OSC's April Plan report).[13] This reflects the City's forecast for slower economic growth in calendar year 2023.

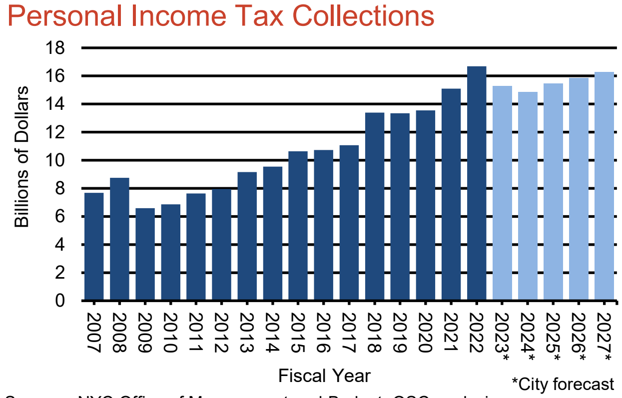
Year-to-date PIT (excluding PTET) collections through January were 7.3 percent higher than the same period last year. This increase resulted from a change in the timing of offset payments distributed by the State, which inflated the year-to-date collecitons. Excluding these offsets, year-to-date collections were 2.7 percent lower. The decline in PIT collections reflects large declines in nonwage income and Wall Street bonuses.

FIGURE 13
Property Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 14
Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[11] Courtney Vinopal, "Meta is Closing a Manhattan Office As It Consolidates Its New York City Presence," *Observer*, October 4, 2022, https://observer.com/2022/10/meta-is-closing-a-manhattan-office-as-it-consolidates-its-new-york-city-presence/.

[12] Kiara Alfonesca, "Tech layoffs 2023: Companies That Have Made Cuts," *ABC News*, January 23 2023, https://abcnews.go.com/Business/tech-layoffs-2023-companies-made-cuts/story?id=96564792.

[13] The SFY 2022-23 Enacted Budget created the PTET for the City which will go into effect in FY 2023. When combined with PIT, the PTET is expected to be revenue neutral for the City. See OSC's April Plan report for further discussion.

The City also expects employment growth and overall wage growth to slow in the rest of the fiscal year. As a result, the City expects a large decline in FY 2023 collections.

PTET collections started in December 2022 and totaled $1.7 billion. Taxpayers will be able to claim the credit in April 2023 to offset their PIT liability which will lower their estimated payments. The City expects taxpayers to claim the credit within the same fiscal year. However, there is uncertainty as to when taxpayers will choose to claim their credits.

While the forecast for total PIT was unchanged, the forecast for certain components were adjusted from the November Plan. The January Plan increased its forecast for the combined estimated payments and PTET (the components that are based on nonwage income). The Plan projects a decline of 17.6 percent in FY 2023 and a 7.3 percent decline in FY 2024 as the stock and real estate markets are expected to weaken further in calendar year 2023. The two fiscal years of decline in total PIT is driven mostly by the large declines in combined estimated payments and PTET, which more than offset the growth in withholding. Estimated payments and PTET will continue to drag total PIT collections down as the City expects the decline to continue through FY 2026 before rebounding in FY 2027.

The January Plan raised the forecast for withholding (i.e., the amount of tax taken from employee paychecks) and now expects an increase of 3.3 percent in FY 2023. This reflects better-than-expected growth in overall wages and employment in calendar year 2022 even as Wall Street bonuses are projected to be significantly less than in 2021. The decline in bonuses is expected to continue the following year. With nonfinance wage and employment growth also slowing in calendar year 2023, withholding growth is expected to slow to 2.0 percent in FY 2024.

The increases in the forecast for withholding and estimated payments and PTET were balanced out by higher forecast for refunds and lower forecasts for offsets and final payments. Total PIT and PTET collections are still forecast to decline by 2.9 percent in FY 2024 and average 3.1 percent annual growth in fiscal years 2025 through 2027, reflecting the City's assumption of a return to moderate economic growth in the out-years.

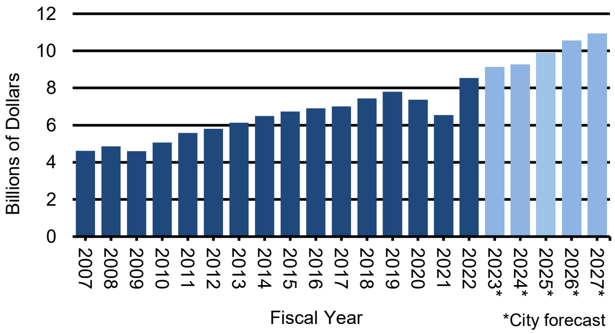
OSC estimates that tax collections may exceed the forecast by $400 million in FY 2024 and progressively more in the out-years as moderate economic growth should result in faster than anticipated growth in collections.

Sales Tax

The January Plan expects sales tax collections to reach $9.3 billion in FY 2024, 1.5 percent higher than FY 2023 (see Figure 15). Through the first half of FY 2023, sales tax collections grew 16.2 percent ($652 million) compared to the same period in FY 2022. However, the City only increased the FY 2023 forecast $530 million from the June Plan ($9.1 billion).

The City's FY 2023 adjustments reflect strong year-to-date collections from consumer spending, tourist activity and rising prices due to a period of high inflation. There is a further upside to FY 2023 collections as consumer sentiment improves. According to the Siena College Consumer Sentiment Index, consumer sentiment in New York State in the fourth quarter of 2022 rose one and a half points from the third quarter of 2022. Sentiment in the New York City area was also higher than the State and the nation. In the first nine months of state tax year 2023 (March-November 2022), New York City retail taxable sales continued to strengthen after reaching pre-pandemic levels, growing 8 percent compared to the same period in 2021.

FIGURE 15
Sales Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

Despite the resilience portrayed by economic indicators, uncertainty remains a key theme for consumption during the plan period. According to the latest Federal Reserve Beige Book, consumer spending has been mixed with non-auto retail sales having a lackluster holiday shopping season. Tourism has been strong but international visitors are spending less compared to pre-pandemic levels due in part to the strong dollar.[14] National retail sales have declined month-over-month in the last two months driven by gasoline prices falling from elevated levels. However, it may take some time before these national trends show an effect on the City's sales tax collections.

OSC estimates that given strong collections in the first half, collections will exceed the City's FY 2023 forecast by $100 million and reach $9.2 billion as elevated prices and continued consumption bolster collections in the short term. OSC expects an additional $300 million than in the City's FY 2024 forecast, with collections to reach $9.6 billion given the higher baseline anticipated in FY 2023 and continued spending by tourists and commuters. In fiscal years 2025 through 2027, OSC expects on average $233 million less than the City's forecast based on a slower growth projection than the City anticipates in the out-years.

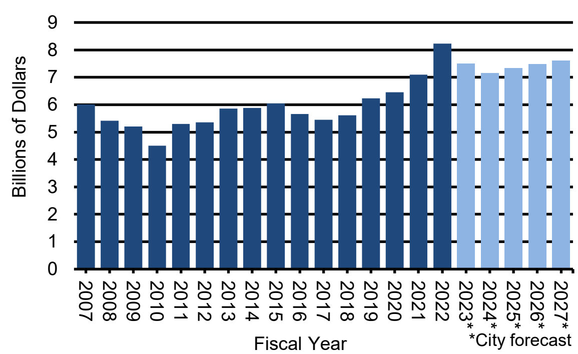
Business Taxes

The January Plan's FY 2023 business tax forecast is $775 million higher than the November Plan. The City raised its forecast for FY 2023 as collections in the first six months of the fiscal year have grown by 2.2 percent, compared to the same period the prior year.

Business taxes are projected to reach $7.5 billion in FY 2023 (see Figure 16), a decline of 9.0 percent from the record high of $8.2 billion in FY 2022.

The City also adjusted the FY 2024 forecast from the previous plan by $579 million. Despite the upward adjustment, the City still expects a year-over-year decline in business tax collections by 4.5 percent in FY 2024, fueled by business corporation taxes.

FIGURE 16
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

Business corporation taxes, which constitute more than two-thirds of the total business tax collections, are driven primarily by the profits of New York Stock Exchange member firms. As Wall Street profitability continues to decline from

[14] Federal Reserve, *Beige Book*, January 18, 2023, https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20230118.pdf.

its record highs during the pandemic, the FY 2024 forecast expects continued weakness in business corporation taxes from the second half of FY 2023. The January Plan projects Wall Street profits to reach $24.5 billion in 2022, a $3 billion upward adjustment from the November Plan, but 58 percent lower than 2021. This level would be comparable to the pre-pandemic profit level in 2017.

According to the New York City Department of Finance (DOF), service-related business corporations (e.g., social services, accounting, and food services), which represent 20 percent of net payments, saw a 2.4 percent decline in year-to-date net payments from FY 2022. The finance business corporations, which represent a larger share at 38 percent, also saw a decline in net payments of 12.5 percent compared to the same period in FY 2022.

Unincorporated business taxes (UBT) make up the remainder of total business tax collections. They are mostly driven by partnerships and small businesses, which include professional services, finance, insurance firms and restaurants. According to DOF, year-to-date collections through December were 9.3 percent higher than the same period last fiscal year. Finance sector firms, such as hedge funds, constitutes 36 percent of UBT net payments, and saw a 10.9 percent increase from fiscal years 2022 to 2023. While the service sector, which makes up more than 45 percent of UBT net payments, saw a 4.4 percent decline from fiscal years 2022 to 2023.

The January Plan expects an 8.9 percent decline in UBT taxes in FY 2023, with the finance sector driving the decline in the second half of the fiscal year. However, the City forecast UBT revenue to rebound and grow 1.9 percent in FY 2024.

Given the strength of year-to-date business tax collections, OSC makes an upward adjustment of $180 million to the City's FY 2023 forecast. OSC estimates collections will be higher than the City's projection by $150 million in FY 2024.

Real Estate Transaction Taxes

The City's forecast for real estate transaction taxes, which includes mortgage recording taxes, in FY 2024 is $2.1 billion in the January Plan, down $397 million from the November Plan and representing a 1.6 percent decline in collections from the prior fiscal year. This would be the second consecutive year of decline, as collections in FY 2023 are expected to fall by 32.6 percent (see Figure 17).

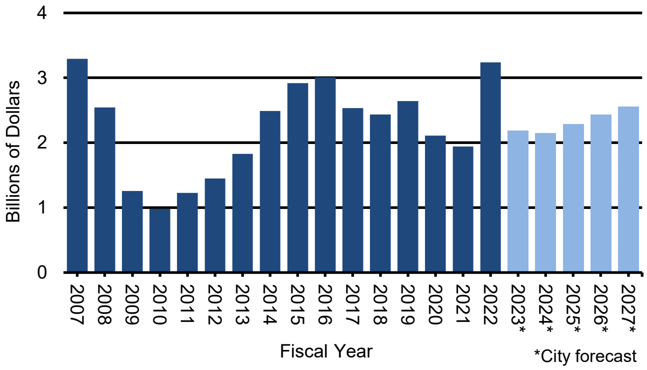
The residential real estate market slowed considerably in 2022 as interest rate increases reduced the affordability of home mortgages. Total home sales declined by 22.5 percent in 2022 compared to the prior year.[15] Declines were more pronounced in the luxury market (defined as properties valued at over $4 million), where sales fell 32.3 percent.[16] For the first half of FY 2023 (July through December), the number of luxury units sold is down 51 percent. Despite the apparent sluggishness in the market, transaction tax collections in the first half of the fiscal year (July to December) have declined by a more modest 13.6 percent compared to the same period in the previous fiscal year.

The commercial real estate market downturn has been, and is expected to be, more prolonged. Total commercial sales in the first half of FY 2023 are down 39.7 percent from FY 2022, and 29.2 percent from 2019. While vacancies are expected to peak in 2023, recent news of

[15] Based on data for the MSA, the most precise geography available in the dataset. Sales Count and Price Cuts, *Zillow Research*, https://www.zillow.com/research/data/.

[16] Luxury Market Report 2022, *Olshan Realty Inc*, https://www.olshan.com/marketreport.php.

FIGURE 17
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

downsizing from tech and financial firms may hamper the recovery there as well.

Uncertainty in the real estate market will continue into 2023. Mortgage rates have fallen from the highs seen last year, but uncertainty around interest rate expectations, coupled with fears of a recession, may continue to keep buyers away. Commercial property sales may continue to be weak as firms remain reluctant to make commitments during a period of elevated interest rates and economic uncertainty. Due to the strength in fiscal year-to-date collections, OSC expects that collections may exceed OMB's estimate by $100 million in FY 2023.

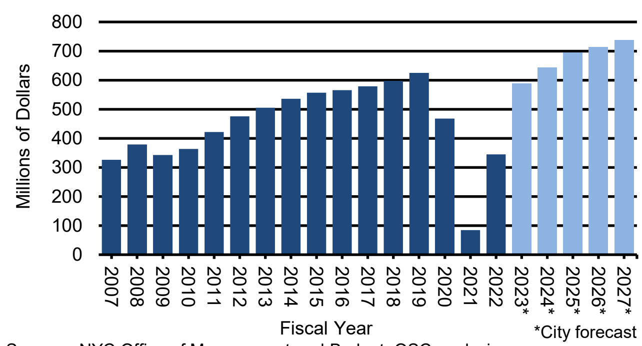
Hotel Tax

In the first half of FY 2023, collections reached $338 million, exceeding the amount from the same period in FY 2019. The January Plan increased the FY 2023 forecast by $121 million to $589 million while raising the out-year projections as well. Hotel tax collections are expected to increase by 9.3 percent in FY 2024 to reach $644 million, exceeding the pre-pandemic peak in FY 2019 (see Figure 18).

Higher room rates and a solid recovery in tourism have supported strong growth in collections. Hotel occupancy in the City reached 82.8 percent in December 2022, 6 percentage points lower than the December 2019 level, but an improvement from 72.2 percent in December 2021, according to Smith Travel Research (STR). Among the top 25 U.S. markets, New York City had the highest hotel occupancy rate in December 2022.[17]

New York City is set to add an additional 10,944 hotel rooms in 2023 (8.5 percent of existing supply), the most rooms in construction among the major U.S. city markets according to STR.[18] City tourism is expected to return to pre-pandemic levels in FY 2024. The full return of tourism and additional hotel rooms in FY 2024 will likely boost collections in FY 2024. OSC expects collections to be $150 million higher annually than the City's forecast starting in FY 2023. The City still expects collections to

FIGURE 18
Hotel Tax Revenues



Sources: NYC Office of Management and Budget; OSC analysis

[17] Smith Travel Research, *US Hotels Closed 2022 With Higher Rates Than Pre-Pandemic*, https://www.costar.com/article/970759849/str-us-hotels-closed-2022-with-higher-rates-than-pre-pandemic.

[18] Smith Travel Research, *US Hotel Construction Rises Year Over Year for First Time Since Late 2020*, https://www.costar.com/article/1674430575/str-us-hotel-construction-rises-year-over-year-for-first-time-since-late-2020.

increase in the out-years but at a slower pace, reaching $738 million by FY 2027.

Miscellaneous Revenues

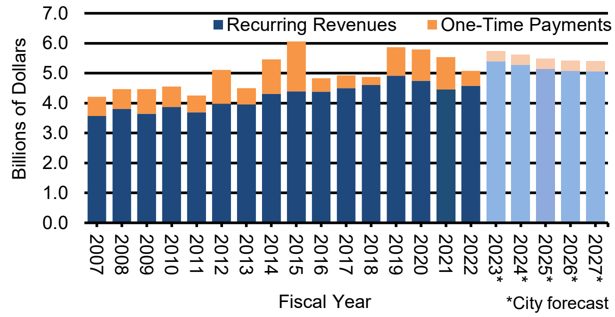
The January Plan expects miscellaneous revenues, consisting of recurring revenues and one-time payments, will total $5.6 billion in FY 2024 (a decrease of 2.7 percent). The City expects to see further declines in the out-years (see Figure 19).[19] The expected decline in FY 2024 is mostly driven by recurring revenues (lower fines and fees, licenses, permits, franchises, and water and sewer charges) as revenues reach pre-pandemic levels in FY 2023 and normalize in the out-years but still remain above FY 2019 levels. While the City's recurring revenues estimates are conservative, revenues could be higher in the out-years.

In the first half of FY 2023, total miscellaneous revenues increased 11.8 percent ($385 million) from the same period in FY 2022, driven by fines and fees, interest income, and charges for services. Subsequently, the City increased the FY 2023 total miscellaneous revenues forecast by $433 million and the FY 2024 forecast by $237 million from the November Plan.

The City increased out-year projections by $102 million in FY 2025, $19 million in FY 2026 and $24 million in FY 2027. The adjustments are driven primarily by interest income and water and sewer payments.

OSC estimates that with the strong growth in the first half of FY 2023, total miscellaneous revenues could be up $100 million annually from the City's forecast for fiscal years 2024 through 2027.

FIGURE 19
Total Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

[19] Miscellaneous revenues consist of recurring revenues (including fines, fees, forfeitures, charges for services, licenses and permits), and one-time payments (including settlements, litigation, asset sales and payments from agencies).

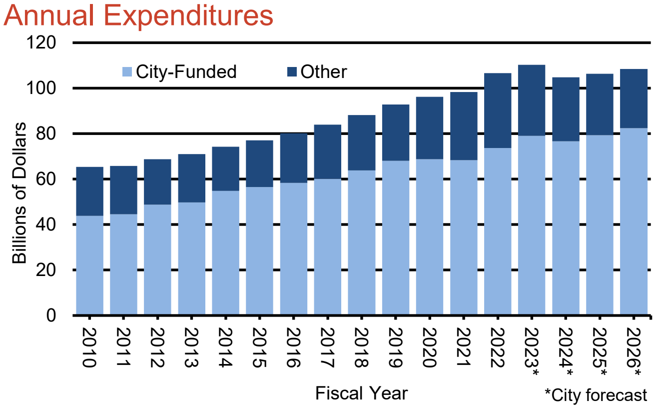
VII. Expenditure Trends

Citywide expenditures are projected to total $104.8 billion in FY 2024, after adjusting for $2.2 billion in surplus transfers, which obscure total expenditures (see Figure 20). The portion of citywide spending funded with locally generated revenue (i.e., City funds) is estimated at $76.7 billion. The portion funded with other sources, mostly federal and State categorical grants, is $28.2 billion (27 percent of total spending).

While city-funded spending is projected to rise by an average of 7.5 percent annually over a two-year period through FY 2023 (6.2 percent, adjusted for contingent reserves), the January Plan anticipates that spending would decline by 2.5 percent in FY 2024, excluding contingent reserves. The decline reflects the expectation that a significant portion of other-than-personal services (OTPS) spending for various local initiatives (mostly for education, public health and social services) in FY 2023 will not recur (including City Council member items), as well as the impact of agency cost-reduction initiatives (mainly vacancy reductions and a reduction in planned spending on the 3-K early childhood education program to reflect current enrollment trends).

The January Plan assumes city-funded spending will resume growing in FY 2025 and rise

FIGURE 20
Annual Expenditures



Note: Adjusted for surplus transfers and debt defeasances. City forecast includes budgeted reserves beginning in FY 2023.
Sources: NYC Office of Management and Budget; OSC analysis

relatively slowly compared to historical increases over the remainder of the plan period, growing by an annual average of 3.6 percent over the next three years. Projected wages increases and health insurance costs would be the largest cost drivers followed by debt service through the balance of the financial plan period. The January Plan assumes wage increases of 1.25 percent annually during the financial plan period. Wage increases are subject to collective bargaining between the City and the municipal unions.

The January Plan includes sizable risks and fiscal uncertainties. The City's labor cost estimates in the January Plan do not reflect the impact of a new labor agreement between the City and the DC 37, which was announced after the release of the Plan. If the agreement, which is subject to approval by the members, sets the wage pattern for other unions, the City estimates that total labor costs would exceed the levels assumed in the January Plan by $2.5 billion in FY 2023 (including retroactive pay and the cost of a one-time ratification bonus), rising to $4.7 billion by FY 2027 (for more detail, see "Collective Bargaining" section).

The current plan does not make any provision for the cost of services for asylum seekers to recur beyond FY 2023, which is very unlikely based on the continued influx of asylum seekers receiving support from the City. The January Plan assumes these costs in FY 2023 (estimated to total $1 billion) would be reimbursed by FEMA.

However, the State executive budget for State fiscal year (SFY) 2024 would provide the City with $377 million in FY 2023 and $696 million in FY 2024 as partial reimbursement for expenditures incurred for migrant shelter and Humanitarian Emergency Response and Relief Centers (HERRCs) costs. The State assumes that total costs would be shared nearly evenly by the City, State, and federal governments. These amounts suggest costs are likely to exceed $1 billion in FY 2023 and $2 billion in FY 2024. In sum, a total of up to $1.8 billion in federal and

State aid has been identified to help offset a portion of this budgetary risk in the short run, but OSC estimates that the City could still incur substantial residual costs during much of the financial plan period.

As in past years, OSC has identified other relatively large but manageable risks including higher-than-planned mandated operating subsidies for public transit, spending on certain education services, social services, and potentially higher overtime costs. In addition, the City projects its annual debt service based on conservative assumptions. As in prior years, actual spending could be lower than planned. The expenditure risks identified by OSC are estimated to total $3.6 billion in FY 2023, rising to $9.7 billion by FY 2027.

The City may also incur higher-than-planned discretionary costs for local initiatives funded in FY 2023 but are assumed to not recur (see OSC's "Fiscal Cliffs" Tool for more details). The City also funded a number of City Council member items in FY 2023 but does not assume funding for such items will recur over the balance of the plan period.

The City has some lead time to address its larger out-year risks and fiscal uncertainties and has expanded its PEG as part of the January Plan which is expected to generate savings averaging $1.9 billion annually over fiscal years 2024 through 2027 (see "PEG" section for more details). January Plan expenditure trends are shown in Figure 21 and discussed below.

Full-Time Staffing Levels

Between June 2020 and November 2022, the City's workforce declined by 6.5 percent (19,670 positions) to 280,776 employees (see Figure 22). As noted in a November 2022 OSC report on New York City staffing trends, the decline has been uneven, especially for some agency divisions and occupations. While the City has increased its efforts to hire and added more than 40,000 employees in FY 2022 (35 percent more employees than were added, on average, in each of the past 10 years), attrition rose even more quickly in that year and has continued to exceed hiring so far in FY 2023. As a result, the City's estimated vacancy rate is among the highest in recent memory (at 8.3 percent).

FIGURE 21

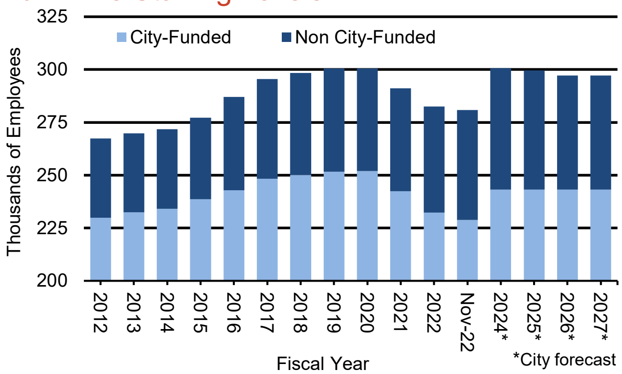
Trends in City-Funded Spending in January 2023 Financial Plan

(in millions)

	FY 2023	FY 2024	Annual Growth	FY 2025	FY 2026	FY 2027	Average Three-Year Growth Rate
Salaries and Wages	$20,895	$20,967	0.3%	$21,665	$22,836	$23,547	3.9%
Pension Contributions	9,269	9,419	1.6%	9,639	9,807	9,655	0.8%
Debt Service	7,488	7,749	3.5%	8,208	8,964	9,632	7.5%
Medicaid	6,462	6,283	-2.8%	6,283	6,283	6,433	0.8%
Health Insurance	6,622	7,267	9.7%	7,849	8,437	8,878	6.9%
Other Fringe Benefits	3,678	3,774	2.6%	3,907	4,076	4,242	4.0%
Energy	1,033	980	-5.2%	977	1,058	1,067	2.9%
Judgments and Claims	1,059	1,025	-3.3%	737	683	700	-11.9%
Public Assistance	819	891	8.8%	891	891	1,241	11.7%
Other	19,827	16,849	-15.0%	17,646	17,966	18,106	2.4%
Subtotal	**$77,152**	**$75,203**	**-2.5%**	**$77,801**	**$81,000**	**$83,500**	**3.6%**
General Reserve	1,555	1,200	NA	1,200	1,200	1,200	0.0%
Capital Stabilization Reserve	250	250	0.0%	250	250	250	0.0%
Total	**$78,957**	**$76,653**	**-2.9%**	**$79,251**	**$82,450**	**$84,950**	**3.5%**

Note: Totals may not add due to rounding. Spending is adjusted for surplus transfers.
Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 22
Full-Time Staffing Levels



Note: FY 2023 is shown as year-to-date actuals for November 2022.
Sources: NYC Office of Management and Budget; OSC analysis

While the full-time workforce has declined, the City believes it can continue to meet current and anticipated demands for municipal services with fewer employees than were budgeted as of June 2020. As a result, the City's FY 2023 PEG has reduced planned headcount by 6,441 full-time positions in FY 2024 (of which, 4,374 are city funded), mostly from eliminating a portion of its vacancies (see "PEG" section for more details).

The January Plan assumes full-time staffing will total 302,617 by the end of FY 2023, 21,787 positions (7.8 percent) greater than the current level (see Appendix A for more details). The target is ambitious given current trends. The City, like other public employers, is currently facing difficulties in recruiting and retaining employees. Recent media reports indicate that the delivery of some municipal services has been impaired due to short-term staffing shortages.

Since the beginning of FY 2023, the City lowered its forecast of personal service spending in that year by $588 million under the FY 2023 PEG, reflecting the vacancy reductions and other factors such as hiring and program implementation delays. While it has relaxed its hiring restrictions and is exploring options to reduce employee turnover, OSC anticipates the City will continue to have substantial vacancies at least through June 30, 2023. As a result, OSC estimates the City could generate an additional $750 million in such savings during FY 2023.

Overtime spending at the uniformed agencies reached a new record in FY 2022 (see the "Uniformed Agency Overtime" section for more details), and is currently on track to exceed last year's level. Any additional savings from vacancies could be utilized to help mitigate unplanned overtime spending in FY 2023.

Collective Bargaining

The new round of collective bargaining began for many civilian employees in 2021. Including the unsettled contracts from prior rounds, nearly the entire City represented workforce is working under expired contracts. Contracts for the remainder of the municipal workforce are scheduled to expire by the end of FY 2023.

OSC has previously noted that the new round of collective bargaining was a source of significant fiscal uncertainty facing the City's financial plan. On February 17, 2023, the City took its first step towards reducing this uncertainty with the announcement of a new five-plus year agreement with DC 37.

Under the agreement, wages would increase by 16.21 percent (on a compound basis) over a five-year period. The agreement, which will be voted on by the rank and file members sometime in the near future, also includes funding to provide a one-time ratification bonus of $3,000 per member, raise the minimum wage of DC 37 members to at least $18 per hour, and to improve retention and recruitment efforts. In addition, a committee would be created to explore flexible work options, such as remote work.

As of January 2023, the City had set aside resources in its labor reserve to fund wage increases of 1.25 percent in each year following the expiration of the 2017-2021 round of contracts. The City, which has a long history of pattern bargaining, assumes that the terms of the accord with DC 37 will set the wage pattern for all other unions.

Based on the tentative wage pattern, the City projects that total labor costs would exceed the amounts assumed in the January Plan by approximately $2.5 billion in FY 2023 (including retroactive pay and the one-time ratification bonus), $1.8 billion in FY 2024, $3.4 billion in FY 2025, $3.9 billion in FY 2026, and $4.7 billion in FY 2027. Once fully annualized, the recurring additional budgetary impact could total $5.4 billion.[20]

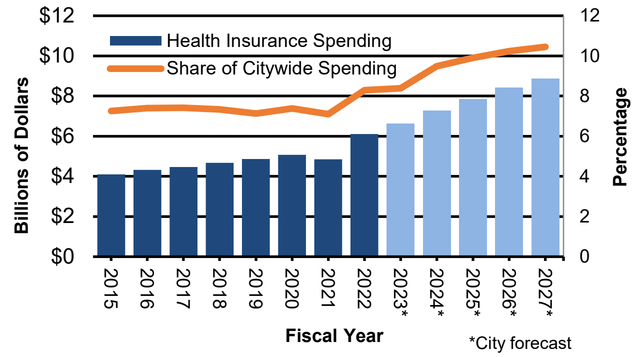
Health Insurance

Despite the achievement of $1.9 billion in recurring savings under the 2014 and 2018 agreements between the City and the Municipal Labor Committee (MLC), health insurance costs will reach $8.9 billion by FY 2027, 45 percent more than in FY 2022 (see Figure 23). Comparatively, city-funded spending would rise by 15.4 percent during the same five-year period through FY 2027. Health insurance costs, as a share of city-funded spending, would rise to an estimated 10.5 percent by FY 2027, which would be the highest share since at least FY 2010.

In September 2022, the City and the MLC reached agreement to jointly request the City Council's approval of an amendment to local law to permit the City to establish an alternative health insurance plan, jointly agreed upon by the parties, for any class of individuals eligible for coverage, e.g., retirees and their dependents. The City expects that the amendment to local law would address the concerns raised in a [lower court decision that had prevented the City from implementing a Medicare Advantage Plan (MAP) earlier this year], which was recently upheld by the State's appellate branch.

In December 2022, an independent arbitrator overseeing the health care dispute issued a written opinion and award in favor of the parties moving forward with the implementation of a MAP. The legislation jointly requested by the parties has been introduced in the City Council, but has not been advanced to the floor for a full member vote. In the meantime, the Mayor intends to implement a MAP, by July 1, 2023, as the only option available to retirees and their dependents. The arbitrator noted that implementation delays stemming from litigation has prevented the City from realizing at least $900 million in savings that could have supported the Health Stabilization Fund (HSF).

FIGURE 23
Health Insurance Costs
City-Funded



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Without the intended retiree health benefits savings from the implementation of a MAP for the City's more than 250,000 retirees, the balance of the HSF has been effectively exhausted. While the HSF held nearly $916 million as of January 2023, most of the balance ($767 million) is restricted to meet reserve requirements established by the City's health insurance carriers, leaving only $148 million to meet short-term contractual obligations, the payments for which have been delayed and currently exceed the available balance. The City reports that if the resources held in the HSF are exhausted, there could be a significant shift in costs to City employees, or the assumption of significant costs by the City.

[20] The wage increases are assumed to take effect every 12 months in each of the five years beginning the day after the expiration of the previous labor contract, the date of which varies by union and by local units within each union. The estimate includes anticipated costs for certain contracted workers (i.e., Purchase of Service).

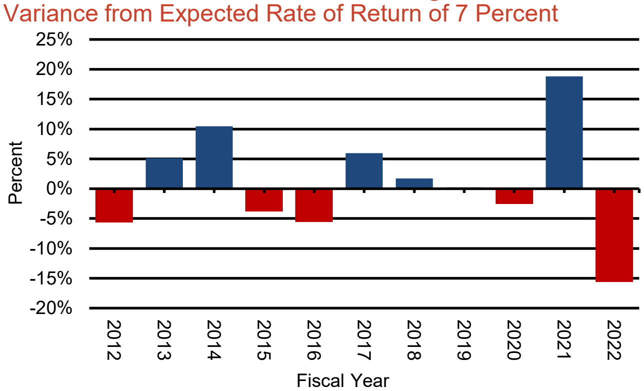
Pension Contributions

The City's pension contributions reflect actuarial estimates of the City's five major retirement systems prepared by the Office of the Actuary and include adjustments prepared by the NYC Office of Management and Budget to reflect new or anticipated changes. While significant revisions can occur, based on many factors including unanticipated mortality rates and annual investment performance, the City's pension contributions in recent years have been stable when measured over time.

The City made relatively large revisions to its out-year projections over the past two years, driven mostly by the impact of heightened volatility in the financial markets on pension fund investments. The City Actuary phases in recognition of the financial impact of unexpected investment gains over a period of five years, which takes effect beginning two years after the fiscal year ends, reducing budgetary volatility.

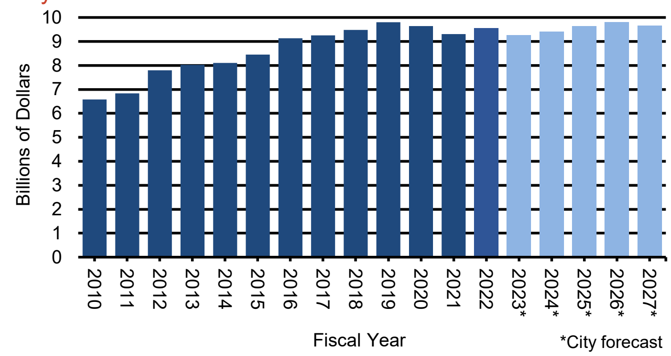
The pension funds experienced robust pension investment gains in FY 2021 (25.8 percent, which greatly exceeded the expected annual gain of 7 percent net of investment fees; see Figure 24) followed by an investment shortfall in FY 2022. The January Plan reflects the estimated impact of FY 2022 returns of negative 8.65 percent (a shortfall of 15.65 percent compared to the expected gain). Accordingly, the City anticipates contributions will total $9.3 billion in FY 2023, and then would rise gradually over the next four years to nearly $9.7 billion (12.3 percent of City fund revenues; see Figure 25).

FIGURE 24
Pension Fund Investment Earnings
Variance from Expected Rate of Return of 7 Percent



Sources: NYC Comptroller Annual Reports

FIGURE 25
Pension Contributions
City-Funded



Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

The January Plan also includes a reserve of about $279 million annually beginning in FY 2023 to fund potential changes from any future actuarial audit recommendations, as well as other adjustments from changes including planned headcount, wage growth assumptions, legislation and administrative expenses.

The City Comptroller has engaged an independent actuarial consultant pursuant to Section 96 of the New York City charter to conduct two consecutive biennial audits of the City's pension systems. The audits could result in recommendations to the City to modify the assumptions the City Actuary used to calculate annual employer contributions to the pension funds. The results of the first engagement are expected to be released sometime in Spring 2023, but the consultant is not expected to include recommendations until the second engagement is completed in early 2024.

The financial markets have remained volatile in FY 2023, driven by high inflation and the corresponding response by the Federal Reserve on interest rates, as well as geopolitical tensions, and their ongoing impact on the equity and commodity markets. The City Comptroller's Bureau of Asset Management reports that the pension systems gained, on average, 0.6 percent on their investments through December 31, 2022, compared to the expected gain of 7 percent.[21]

Medicaid

In December 2022, a historic high of 4.3 million New York City residents (about half of the City's population) were enrolled in Medicaid, which provides health insurance to low-income children and adults. This estimate includes approximately 1 million people who have enrolled in Medicaid since February 2020. The sharp increase coincides with the COVID-19 public health emergency (PHE). Enrollment growth rates in Staten Island (37 percent) and Queens (34 percent) exceeded citywide growth (28 percent) from February 2020 through December 2022. Medicaid enrollment in the rest of the State grew by 26 percent.[22]

The Families First Coronavirus Response Act permitted states to claim temporary federal Medicaid aid on the condition that these states were unable to terminate enrollment for most individuals enrolled in Medicaid as of March 18, 2020, through the PHE.[23] The continuous enrollment condition largely contributed to the rise in enrollment even as employment levels have generally improved in the City since the onset of the pandemic.

The expiration of the continuous enrollment condition and the receipt of temporary aid is no longer linked to the ending of the PHE with the passage of the Consolidated Appropriations Act, 2023. On March 31, 2023, the continuous enrollment condition expires and in each subsequent calendar quarter the temporary aid will be phased down and will end on December 31, 2023.

The January Plan assumes that the city-funded cost of Medicaid will total nearly $6.5 billion in FY 2023, and $6.3 billion annually in fiscal years 2024 through 2026 and $6.4 billion in FY 2027, largely unchanged from the City's November 2022 Plan.

Prior financial plans reflected $591 million in total Medicaid savings through September 2021. However, with the temporary aid extended through December 2023, OSC estimates the City may benefit from $1.4 billion in total savings. The City will utilize additional savings beyond what has been reflected in the City's financial plan to fund supplemental Medicaid payments to NYC Health + Hospitals (H+H).

The growth in Medicaid enrollment may start to reverse with the continued decline in unemployment levels and as the State returns to routine operations to determine eligibility starting on April 1, 2023. See OSC's report on COVID-19 Enrollment Trends for the impact of these policies on MetroPlus enrollment and H+H.

Projections of city-funded costs assume that the State will not require the City to cover a larger share of Medicaid program costs. However, the Executive Budget for SFY 2024 proposes that the State would retain the City's share of Affordable Care Act Medicaid savings to offset the State's higher health care expenditures increasing the City's Medicaid costs by $125 million in FY 2023 and $343 million in FY 2024. (see State and Federal Actions section).

[21] Since FY 2012, the pension funds have earned, on average, 7.5 percent on their investments.

[22] Nationally, Medicaid enrollment increased by 32.2 percent from February 2020 through October 2022.

[23] On May 11, 2023, the PHE will expire.

Social Services

The January Plan allocates $10.7 billion to the Department of Social Services' (DSS) budget in FY 2024, $22 million less than in the November Plan. This incorporates the City's vacancy reduction initiative (of which DSS comprises the largest component), with the Department slated to undergo a reduction of 938 full-time positions, 773 of them city-funded (see Figure 26).

FIGURE 26
Baseline Vacancy Reductions – DSS Beginning in FY 2023
(full-time positions)

Unit	
Public Assistance	355
Administration	260
Adult Services	110
Child Support Services	48
Subtotal - City Funded	773
Medical Assistance *(federally funded)*	165
Total	938

Sources: NYC Office of Management and Budget; OSC analysis

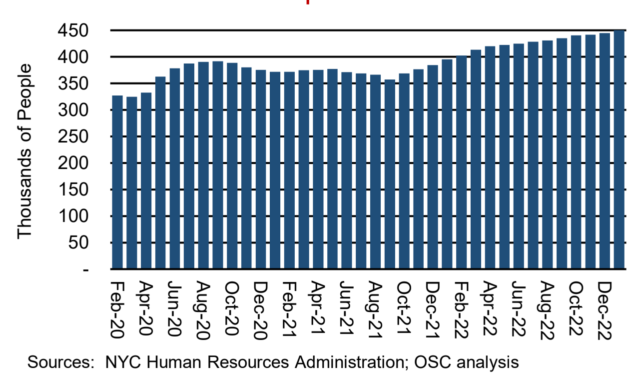
While the City maintains there will be no service impact, almost half of the city-funded staff reductions (349 positions, or 45 percent) have yet to be finalized. Among those that have been finalized, more than half (54 percent) are located in programs that administer benefits like cash and food assistance, including the Family Independence Administration. More than a third of these reductions (355 positions, or 38 percent) are planned for the Public Assistance unit. Furthermore, a class-action suit in Manhattan federal court was recently brought against the City for taking longer than 30 days to issue food assistance benefits to a number of eligible applicants (over half of those who applied in December, according to the lawsuit).

Cash Assistance

The January Plan makes no changes to spending on cash assistance compared to the November Plan for FY 2023 through FY 2026 (budgeted at $1.65 billion in FY 2024), even though enrollment continues to rise above budgeted projections.

Caseloads have grown each month since September 2021 (see Figure 27), by a total of 92,956 people, or about 21.4 percent, and are now at the highest level since February 2002. This increase coincides with the expiration of several federal unemployment and pandemic benefit programs. The City's assumed funding in the plan supports a monthly average caseload of 441,472, which was the November 2022 caseload. This compares to the current fiscal year-to-date average of 438,793. However, the caseload has increased continuously each month since September 2021, resulting in a January 2023 caseload (450,433) that was greater than what the City had budgeted.

FIGURE 27
Cash Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

Enrollment is likely to remain higher than pre-pandemic levels for the foreseeable future as a result of current economic conditions, and policies implemented during the pandemic which made it easier to apply for and maintain benefits remotely. Nearly all, 20 out of 23 of these administrative changes, are still in effect,

FIGURE 28
Social Services Risk Assessment
(in millions)

	Better/(Worse)				
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
DHS Prevailing Wage Security Guards	- - -	($66)	($66)	($66)	($66)
Foster Care – State budget rate increase	(47)	(118)	(118)	(118)	(118)
Expiration of Foster Care (Title IV-E) Waiver	- - -	(120)	(120)	(120)	(120)
Emergency Assistance to Families	- - -	(134)	(134)	(134)	(134)
Universal Access to Counsel in Housing Court	- - -	- - -	- - -	(16)	(16)
Public Assistance	(85)	(85)	(85)	(85)	- - -
Rental Assistance	- - -	(237)	(237)	(237)	(237)
Total	**($132)**	**($760)**	**($760)**	**($776)**	**($691)**

Sources: NYC Office of Management and Budget; OSC analysis

including a suspension of work-related requirements and the use of telephone (instead of in-person) interviews. Two of these policies have been made permanent and three have expired, with six others due to expire in the next three months. Supplemental food assistance payments, funded by federal pandemic aid, will also end after February 2023 with the passage of the Consolidated Appropriations Act, 2023. As a result, the City may need to spend as much as an additional $85 million annually from FY 2023 through FY 2026; in FY 2027, the budget increases by $350 million (see Social Services Risk Assessment, Figure 28, which includes spending on homeless services).

Homeless Services

The January Plan allocates $2.4 billion to the Department of Homeless Services (DHS) budget for FY 2024, $687 million less than what was budgeted for FY 2023. This drop is primarily due to the discontinuation of $577 million in one-time federal funding that was added solely to the FY 2023 budget (in the November Plan) to address current capacity strains on the shelter system.

However, the homeless population in shelters operated by the DHS continues to exceed historic records. From March 2022 to January 2023, the shelter population grew by half — 23,515 people, or 52 percent (see Figure 29). In that time, more than half of the people in shelter (32,702, or 60 percent) belonged to families with children.

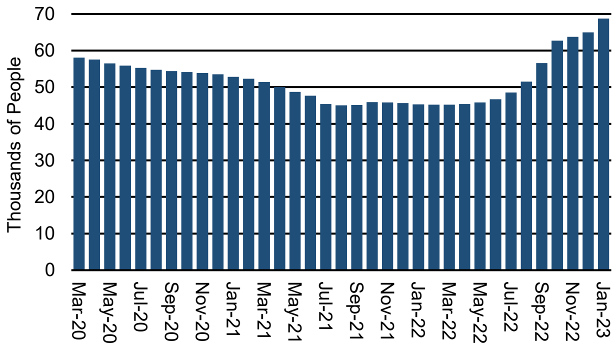
The recent growth in the shelter census has been attributed to the influx of asylum seekers to the City that began in March 2022. Since then, roughly 43,200 asylum seekers have arrived, with 21,325 of them making their way into the shelter system, resulting in an all-time high shelter census of 70,107 on January 29, 2023.

In addition to the drop-off in federal funding, the January Plan includes a savings initiative which begins midyear FY 2023 and annualizes to $4 million in FY 2024 — a component of the larger citywide vacancy reduction, through which DHS is slated to eliminate 107 full-time positions. Of these positions, 92 are located in the Shelter Intake and Program unit.

DHS continues to plan for annual savings of $119.8 million beginning in FY 2025, contingent upon the State receiving federal approval for an amendment to the Medicaid waiver program.

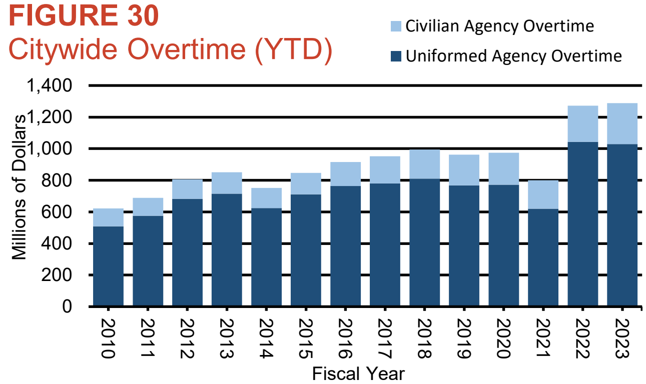
Through January 30, 2023, DHS has registered contracts with the annual value of $345 million to

FIGURE 29
People in Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

FIGURE 30
Citywide Overtime (YTD)



Note: Year-to-date spending is through January of each fiscal year.
Sources: NYC Office of Management and Budget; OSC analysis

shelter the asylum seekers. These contracts predominantly end in the first quarter of FY 2024 but there is nothing yet in the FY 2024 budget to reflect these costs. With the shelter census still elevated through the seventh month of the fiscal year, it seems unrealistic that the City will not incur costs related to migrants into at least next year. OSC currently estimates a risk of $2.8 billion for Residual Services for Asylum Seekers in FY 2024, of which DSS is estimated to be $1.7 billion (see "Expenditure Trends" section for more detail).

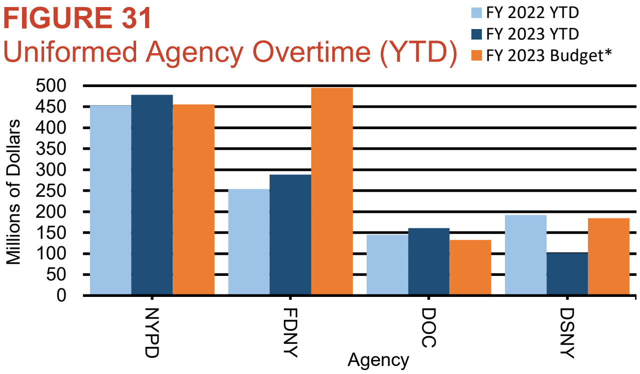
Uniformed Agency Overtime

Citywide overtime in FY 2023 through January totaled $1.29 billion, similar to costs through the same period in FY 2022 ($1.27 billion). Year-to-date overtime spending is at a historical high, significantly exceeding pre-pandemic levels (see Figure 30), partially due to an increase in demand for services coupled with elevated attrition that resulted in citywide vacancies, as detailed in a report by OSC on New York City municipal staffing trends.

Overtime costs at the uniformed agencies (i.e., police, fire, correction, and sanitation), which consistently account for about 80 percent of total overtime, totaled $1 billion through January, slightly less than spending last year through the same period by $14 million. However, increased spending at police, fire, and correction has been offset by a significant reduction in sanitation overtime (by $90 million or 47 percent). While the City added a combined $243 million since June for uniformed agency overtime in FY 2023, $213 million was solely for the Fire Department. Both the Police Department and Department of Correction have already exceeded their annual budgets by a combined $51 million with five months left in the fiscal year (see Figure 31).

The Police Department spent $479 million in overtime through January, $26 million more than last year through the same period. The Department is currently operating on unbudgeted overtime, having exceeded its total FY 2023 budget by $23 million through the first half of the fiscal year. The growth is primarily due to more activity-driven enforcement and crime reduction deployments, such as increased subway patrols. The Governor has committed to reimbursing the City for at least some transit overtime, but this is not yet reflected in the financial plan. Given current trends and assumptions, costs are projected to exceed the budget by over $400 million. Moreover, the City has only budgeted about $450 million annually in future years, which will be insufficient if recent trends continue.

FIGURE 31
Uniformed Agency Overtime (YTD)



Note: Year-to-date spending is through January.
Sources: NYC Office of Management and Budget; OSC analysis *Annual

Similarly, overtime at the Department of Correction ($161 million through January) was $17 million higher than last year and has already exceeded the annual budget for FY 2023 by $28 million. The Department's Action Plan, implemented last year, prioritizes reforms in staffing practices, which continues to be the main cause of higher overtime. However, given the Department has not yet been able to demonstrate changes are resulting in a systematic decline in overtime, OSC projects FY 2023 costs will total nearly $280 million. Assuming costs continue at current levels, the City will have to recognize unplanned costs to supplement its out-year budgets of $133 million annually.

Fire Department overtime also remains elevated, totaling $288 million, $34 million more than last year through the same period. However, the City has steadily added funds for the Fire Department, in contrast to Police and Correction, adding $12 million in the November Plan followed by $202 million in the January Plan to the FY 2023 budget (for a total of $495 million). About $60 million of the increase was from a costs shift within the existing payroll budget. This additional funding, which addresses temporary staffing issues, is projected to cover initially unplanned costs in FY 2023 based on current trends. As new hires begin to complete required trainings and become eligible to staff posts, increased use of overtime should begin to taper off. However, the Department's overtime budget remains at around $265 million annually after FY 2023, an amount the Department has exceeded since FY 2012.

Contrary to the other uniformed agencies, overtime at the Department of Sanitation has declined since last year by $90 million to a total of $101 million through January, falling within the budget for the period ($107 million). While high employee unavailability together with a year-long hiring freeze resulted in increased overtime in the past two fiscal years, the uniformed workforce is now fully staffed and overtime is gradually returning to pre-pandemic levels. The Department is also realizing cost benefits from unusually light snowfall this winter, minimizing seasonal demand for snow and ice removal. FY 2023 overtime is projected to total about $175 million, significantly less than last year ($284 million) and under budget ($185 million).

VIII. Debt Service and Capital Spending

In conjunction with its preliminary budget, the City released its preliminary 10-Year Capital Strategy (TYCS) for fiscal years 2024 through 2033, which totals $159.3 billion, $40.5 billion (34 percent) more than the preliminary strategy released in January 2021, by far the largest on record. The first five years of the strategy is expected to increase planned commitments by $12.8 billion, while the second half increases by $27.7 billion. Of the $159.3 billion total, $155.5 billion is funded by the City. The City is expected to release a final capital strategy in the spring that may include additional revisions to the program.

As shown in Figure 32 and discussed below, more than 80 percent of capital resources would be invested in projects involving education, environmental protection, housing, transportation, technology and equipment, corrections and parks.

The preliminary TYCS proposed by the City requires $127 billion in bonding, not including New York City Municipal Water Finance Authority (NYW) bonding. As a result, the City anticipates that debt service as a percentage of tax revenue will rise to 14.7 percent in FY 2031 assuming tax revenues grow as the City anticipates, just under the City's self-imposed cap of 15 percent but higher than the 13.5 percent forecasted in January 2021 for FY 2031.

FIGURE 32
Capital Strategy
(in millions)

Category	FY 2024 Prelim FY 24-33	FY 2022 Prelim FY 22-31	Variance
Transportation	$31,280	$18,497	$12,783
Environment	$29,046	$20,835	$8,212
Housing	$23,048	$12,874	$10,174
Education	$17.153	$21,013	$(3,861)
Tech & Equip.	$9,811	$8,299	$1,512
Corrections	$9,032	$9,359	$(327)
Parks	$8,747	$5,026	$3,722
All Other	$31,216	$22,889	$8,327
Total	**$159,332**	**$118,790**	**$40,542**

Sources: NYC Ten-Year Capital Plans; OSC analysis

The largest share of the TYCS (19.6 percent) is for transportation projects, which have been allocated $31.3 billion, $12.8 billion more than what was proposed in 2021 although $10.1 billion is allocated to the last five years of the TYCS. Compared to the previous TYCS, the City is adding a net of $3.9 billion for bridge life extension, a net of $2.3 billion for bridge reconstruction (both mostly for projects in the last five years of the strategy) and $2.1 billion for street reconstruction.

Environmental protection projects would be allocated $29 billion, focusing on maintaining and protecting the City's water supply. In the current TYCS, the City is adding $8.2 billion for environmental projects including $1.4 billion for water pollution control, $1.5 billion for water mains, sources and treatments, $4.3 billion for sewers and $800 million for water supply. These projects are funded by the debt of the NYW, which is a separate and distinct entity.

The $23 billion for housing includes $18.7 billion for Housing Preservation and Development (HPD). The funds for HPD allocate $7.6 billion for new construction, $5.4 billion for preservation, $4 billion for those with special needs and $847 million for the New York City Housing Authority's (NYCHA) Permanent Affordability Commitment Together (PACT) program. NYCHA itself will receive $4.4 billion which includes $2.9 billion of the capital funding required under the agreement reached with the federal government. The TYCS provides an additional $8.7 billion for HPD and $1.5 billion more for NYCHA or 79 percent more than in 2021. More than half of this additional funding will be for projects in the last five years of the TYCS. Much of this additional funding will be devoted to the City's recently announced blueprint for housing and homelessness.

Educational projects would be allocated $17.2 billion, with $7.7 billion for the rehabilitation of school components, $3.2 billion for new schools and $3.2 billion for miscellaneous capital improvements. The $3.9 billion reduction from the 2021 TYCS is mostly a function of the School Construction Authority not having a capital plan for the years after 2024. With the City mandated to establish reductions in class size starting in the 2023-24 school year, there may be a need for additional capital spending to adhere to the new State law.

The TYCS provides the Parks Department with $8.7 billion, 74 percent more than in the 2021 TYCS. This $3.7 billion in additional funding includes $2.5 billion more for neighborhood parks and playgrounds and $848 million more for major recreational facility reconstruction. Funding will decrease by $345 million in the first five years of the TYCS while increasing by $4.1 billion in fiscal years 2029 to 2033.

The TYCS would provide the MTA with $2.1 billion over the next 10 years. Of that amount, $1.7 billion is for the remainder of the $3 billion the City is providing for the MTA's 2020-24 Capital Program.

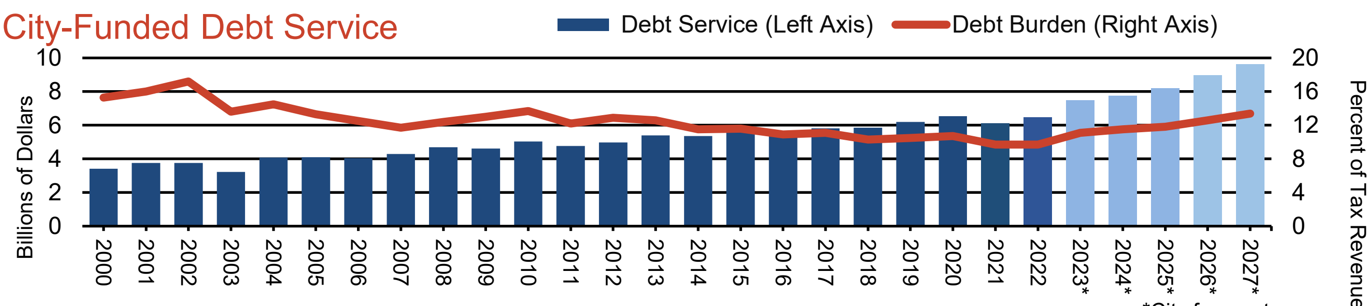
City-funded debt service is expected to grow by 28.6 percent from $7.5 billion in FY 2023 to $9.6 billion in FY 2027 (see Figure 33). The January Plan reflects $345 million in debt service savings mostly from a reduction in the planned debt issuance of more than $1.6 billion over the financial plan period. In February, the City refunded Transitional Finance Authority debt which will bring $46 million in savings annually in FY 2024 through FY 2027. These savings will be reflected in the City's April Plan.

Although the City continues to increase the forecasted level of bonding to fund more capital spending, it also continues to spend less than anticipated toward capital expenditures which leads to a reduced need for bonding in the short term. The City may continue to generate additional plan savings based on lower-than-planned capital expenditures and conservative interest rate assumptions. The City has not yet lowered its forecasted rate for variable rate debt in the January Plan. OSC estimates that the City may be able to achieve variable rate savings of $50 million in FY 2023.

The City's debt burden — debt service as a share of tax revenue — is expected to be 11.1 percent for FY 2023 and remain in the 12 percent to 13 percent range in fiscal years 2024 through 2027. OSC estimates that the debt burden will rise to 13.4 percent in FY 2027, based on projections submitted by the City. As a result, the City is projecting that it will remain below its self-imposed cap of 15 percent. The City, however, historically overestimates its debt service costs which keeps its debt burden lower than forecast. Over the past 10 years, actual debt service was 8.5 percent lower than the amount forecast in the adopted budget on average.

FIGURE 33

City-Funded Debt Service



Note: Debt service has been adjusted for prepayments and defeasances.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

IX. Semi-Autonomous Entities

Department of Education

The January Plan allocates approximately $37.5 billion to the Department of Education (DOE) in FY 2024 (including centrally-administered costs for pensions and other post-employment benefits). This amounts to over 36 percent of the City's total budget and is $334 million less than the Department's budget in the prior fiscal year. The City is expected to fund $19.8 billion (52.8 percent) of the DOE's FY 2024 budget, with the remainder funded by the State (36.6 percent) and by the federal government and other sources.

New York City received almost $7.7 billion in emergency federal education aid to help it weather the pandemic (though that number falls to slightly below $7 billion after adjusting for State actions that used a portion of the funds to supplant regular State aid). This is one-time aid that the City must spend before FY 2026, but the DOE has used it to create a number of recurring costs. These programs, including student mental health initiatives, preschool special education, programming restorations, community schools, and restorative justice initiatives, will require the City to identify $210 million in new funds in FY 2025, rising to $352 million annually in FY 2026, if it does not intend to cut programming in those years (see Figure 34). Additionally, federal funds were used to expand a number of existing programs, including bilingual education and dyslexia screening, which will require a further $112 million annually beginning in FY 2025.

The Governor's executive budget proposes increasing General Support for Public Schools in New York City by $594 million, providing the City with $413 million more in FY 2024 than it anticipates in the January Plan. The increase is largely driven by the final phase-in of the State's foundation aid formula. However, the City is slated to receive about 21 percent of the statewide foundation aid increase – comparable to last year's share but significantly lower than the City's pre-pandemic share of statewide foundation aid increases (averaging 53 percent annually between fiscal years 2015 through 2020). The State would also require the City to set aside $35 million of this aid to provide tutoring for students in grades 3-8 whose educations have been most impacted by the

FIGURE 34
OSC Risk Assessment of the Department of Education in the New York City Financial Plan (in millions)

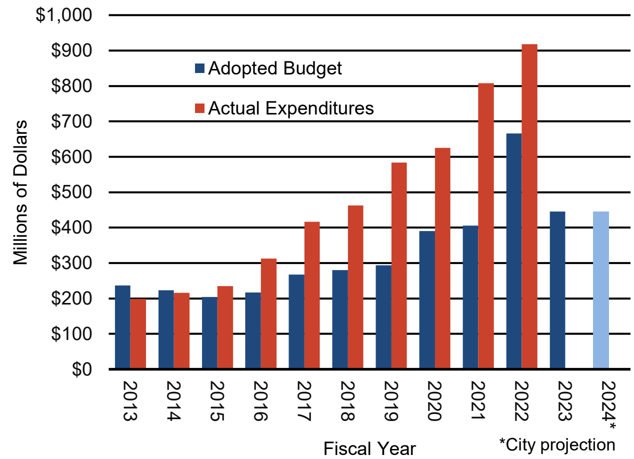
	Better/(Worse)				
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Carter Cases	(252)	(472)	(472)	(472)	(472)
Charter School Per-Pupil Tuition	- - -	(81)	(133)	(313)	(514)
Pupil Transportation	(294)	(350)	(350)	(350)	(350)
Class Size Reduction Compliance	- - -	- - -	- - -	(433)	(866)
Federally Funded Fiscal Cliffs	- - -	- - -	(210)	(352)	(352)
Federally Funded Program Expansions	- - -	- - -	(112)	(112)	(112)
Hold Harmless (2022-23 SY)	(200)	- - -	- - -	- - -	- - -
3-K	- - -	- - -	- - -	(92)	(92)
Asylum Seekers	(37)	- - -	- - -	- - -	- - -
OSC Risk Assessment	**(783)**	**(903)**	**(1,277)**	**(2,124)**	**(2,758)**

Sources: NYC Office of Management and Budget, NYC Department of Education; OSC analysis pandemic, and proposes expanding the regional cap on charter schools in New York City, which could generate substantial additional mandated costs for the DOE.

The January Plan reallocates $80 million in unspent federal pandemic aid from FY 2022 into FY 2024 to hold school budgets harmless against enrollment declines exacerbated by the pandemic. Last year, the City announced that it would also reallocate $200 million worth of federal pandemic aid to hold schools harmless for similar losses in the 2022-23 school year, but this adjustment is not included in the January Plan. Similarly, a November commitment to allocate $37 million to schools accommodating an influx of asylum seekers in FY 2023 has not yet been reflected in the Plan.

The January Plan does not adequately address several other substantial long-standing, pre-existing risks to the Department's budget. Spending on Carter Cases (federally-mandated special education costs) has more than doubled in the past five years, reaching $918 million in FY 2022 (see Figure 35). In recent years, the growth in spending has significantly outstripped the City's budgeted expectations, requiring the City to add significant additional funding in each fiscal year. Since the FY 2023 budget was adopted in June, the City has already reallocated $220 million in unspent federal pandemic aid from FY 2022 into FY 2023 to meet part of the need, but spending remains on pace to surpass FY 2022 levels. The City has not provided a rationale for the January Plan's expectation that these costs will drop to $666 million in FY 2023. Furthermore, DOE officials have stated that they expect the cost of Carter Cases to surpass $1 billion in the coming years. OSC estimates that the City will require another $252 million in FY 2023 and $472 million annually beginning in FY 2024 to maintain services at current levels.

FIGURE 35
New York City Carter Case Costs



Sources: NYC Office of Management and Budget; OSC analysis

The City has also underestimated its growing student transportation budget (which reached nearly $1.8 billion in FY 2022) by an average of $171 million in each of the past five adopted budgets, but the January Plan expects spending to fall by $123 million in FY 2023. OSC projects the City will have to add $294 million in FY 2023 and $350 million in each following year to continue providing transportation to students. Additionally, the Plan does not reflect future increases to charter school per-pupil tuition rates that are mandated in State law. The City's preliminary estimates show that such costs to the City could increase by $81 million in FY 2024, $133 million in FY 2025, $313 million in FY 2026, and $514 million in FY 2027 if not offset by additional State aid.

Finally, in last year's legislative session the State enacted a bill which would require the DOE to lower class sizes throughout the system within five years. The City estimates that once fully phased in, meeting the bill's requirements could increase the DOE's operating costs by as much as $1.3 billion annually (not counting capital and other space conversion costs) and necessitate the hiring of 7,000 new teachers. The January Plan does not include the costs of complying with the requirements; however the City is attempting to negotiate limiting class size reduction requirements to kindergarten through third-grade classrooms alone, which could substantially reduce such projected costs. The City's ability to meet the targets within the bill's timeline is in doubt, given the time required to construct or expand instructional space and recent difficulties the DOE has had in meeting its staffing targets. Nevertheless, the City would be required to show progress in reducing class sizes in each of the five ensuing years; should the City fail to meet one of these annual reduction targets, $354 million in State aid could be withheld that year, rising to $531 million each following year in which the targets still have not been achieved. The January Plan does not address the potential fiscal implications on the City's budget, but DOE officials maintain that it will be in compliance with State law.

Metropolitan Transportation Authority

In December 2022, the MTA adopted a budget and financial plan which forecast a $600 million budget gap. The gap is expected to be closed with new governmental funding or additional MTA actions in 2023. Projected budget gaps through 2026 total $11.4 billion, $1 billion higher than forecasted in July 2022. The out-year gaps have grown mostly from including in the budget the MTA's share of higher pension contributions as a result of FY 2022 investment losses in the New York City Employee Retirement Systems (NYCERS; $866 million over the financial plan period). OSC released a report in October that identified this risk to the MTA's budget.

The MTA has offset substantial ridership revenue declines with extraordinary federal relief aid since 2020. The MTA's financial plan proposes spreading out the use of the remaining $5.6 billion of federal funding to pay for operating deficits through 2026. The financial plan proposes using $1.3 billion of the total to offset outstanding liabilities, such as current year retiree health costs, to help moderate the size of the gaps in 2027 and 2028. The MTA plans to pay back a $2.9 billion note that it had borrowed from the Federal Reserve in 2020 to close operating gaps but, ultimately, was not needed. This will eliminate the need to issue a long-term bond to retire the note, saving $190 million of debt service annually starting in 2025.

The Authority also proposes a 5.5 percent increase in fare and toll yields in 2023, higher than the 4 percent proposed in July. A 4 percent increase in fares and tolls in 2025 remains in its financial plan. OSC released a report in November that showed that the MTA is more reliant on farebox revenue than other large transit systems in the nation.

The MTA increased its efficiency target savings from $100 million to $200 million in 2023 and $500 million in 2024. Although these savings are not specified, the MTA has indicated they can be achieved through technological efficiencies and improving employee availability.

The Authority's financial plan was adopted with the expectation that it would balance the 2023 budget with $600 million of new governmental funding or additional MTA actions such as further expense reductions, additional revenues or the acceleration of the use of federal COVID-19 aid which would increase the gaps after 2023. The financial plan assumes remaining budget gaps of $1.2 billion in both 2024 and 2025 and $1.6 billion in 2026 after it takes the actions noted above.

Subsequently, the Governor's executive budget for SFY 2023-24 proposes to provide $300 million in one-time funding in 2023 and also increase recurring funding to the MTA's operating budget by about $1.3 billion annually starting in 2024. The executive budget suggests $150 million of this additional funding can be used for additional public safety elements but this funding is not earmarked.

The executive budget proposes raising, in July 2023, the PMT for employers subject to the tax in the 12-county MTA region that have payrolls higher than $437,500 in any calendar quarter from 0.34 percent of payroll expense to 0.5 percent. Those who are self-employed who have earnings that exceed $50,000 annually will also have their PMT rate increase in phases from 0.34 percent to 0.42 percent in tax year 2023 to 0.5 percent starting on January 1, 2024. These increases are expected to bring the MTA $800 million more annually for its operating budget. The City is expected to provide another $438 million in city fiscal year 2024 to the MTA's operating budget, which is described in more detail in the State Budget and Federal Actions section. The MTA estimates that the City would provide it an additional $232 million in 2023 and $492 million in 2024.

The Governor's executive budget also includes a provision that would provide downstate casino revenue without appropriation by the State to the MTA. All of the 80 percent State share of taxes and fees that it receives from downstate gaming facilities outside the City would be dedicated to the MTA's operating budget. Likewise, 100 percent of the taxes and fees from gaming facilities in the City, including the 20 percent local share that the City would receive under current law would be dedicated to the operating budget. The State expects that the fees would provide as much as $1.5 billion and the taxes would provide between $462 million and $826 million annually but most likely not until 2026. The proposed law would be repealed in 2033.

The MTA released a financial plan in February that showed the gaps were basically unchanged from December's adopted budget as the MTA waits for the enactment of the State budget in April. The MTA, however, expects the proposed State budget aid to balance its gaps through 2026 but will not eliminate the need to raise fares and tolls by the proposed amounts.

New York City's January Plan does not include additional funds for the MTA's bus and paratransit services that it is required to pay, representing potential spending risks to the City. These risks are higher in the out-years due to federal funding used to offset the City's obligation for MTA bus service running out in 2025. The risks total $80 million in FY 2023, rising to $478 million in FY 2027 and would be even higher if the Governor's executive budget paratransit proposal is enacted.

The City also funds the Fair Fares program which provides discounted MetroCards to low-income riders. The City allocates $75 million annually for the program but if use of Fair Fares was to exceed the allotted amount, the City may have to increase its funding.

NYC Health + Hospitals

The City approved and released the H+H preliminary cash financial plan for FY 2024 on February 10, 2023 (H+H February Plan). The H+H February Plan reflects revenue and expenditure adjustments made since the prior plan released in May 2022. Changes were largely related to the delay in receipt of supplemental Medicaid and COVID-19 FEMA revenue, the operation of HERRCs, increased costs for temporary staffing and the potential impact of cuts to federal supplemental Medicaid scheduled to begin October 1, 2023.

In FY 2023, H+H anticipates the receipt of $953 million in prior-year supplemental Medicaid revenue. This will be largely offset by a decline in revenue from the delayed receipt of COVID-19 federal aid, the addition of $125 million in additional costs for temporary staffing and current-year supplemental Medicaid anticipated as part of its revenue-generating strategic initiatives that is now expected to be received in FY 2024. H+H expects to end the year with $563 million in cash, $188 million less than what was forecast in its previous plan.

H+H implemented a series of revenue-generating and cost reduction initiatives that are reflected in the February Plan. H+H expects to benefit from new Medicaid funding for mental health services of $23 million annually in fiscal years 2023 through 2025. H+H also anticipates it will need to generate an additional $150 million annually in unspecified State and federal investments starting in FY 2024 to offset the impact of federal Medicaid cuts.

Despite the implementation of its strategic initiatives, by FY 2027 H+H's deficits will reach $288 million and it will deplete its cash reserves.

H+H is part of a multi-agency effort in the City's response to the rising number of asylum seekers arriving in New York City. In September 2022, the Mayor announced the opening of several HERRCs. H+H is responsible for the management and operations of the HERRCs, either directly or through contracts, including intake, food, medical screenings and health care. According to an agreement between the City and H+H, the City will reimburse H+H for these operating and capital costs. As a result, H+H will seek additional sources of revenue to offset the City's obligation.

The City has budgeted $303 million for FY 2023 only in yet-to-be approved federal funding for H+H's management of the HERRCs. H+H has committed $92.4 million for the operation of four HERRCs through December 2022. During January and February 2023, the City and H+H opened three additional HERRCs to accommodate the continued influx of asylum seekers. OSC currently estimates that these costs will be higher in the current year and will extend through at least FY 2024, and estimates risks in FY 2023 of $121 million and in FY 2024 of $847 million.

H+H reports inpatient discharges are close to pre-pandemic levels and outpatient visits have exceeded pre-pandemic levels. Despite the positive trend, the agency is still facing financial challenges including the continued delay of federal COVID-19 relief aid, salary and staffing challenges and the increased costs for temporary staffing. Additionally, a provision included in the Families First Coronavirus Act that prevented states from terminating enrollment for most Medicaid beneficiaries in exchange for federal Medicaid aid will expire on March 31, 2023 (see the Medicaid section for more details). This will likely result in some of its patients losing Medicaid coverage, which could impact H+H since Medicaid is its major source of revenue. See OSC's report *MetroPlus Health Plan: COVID-19 Enrollment Trends* for additional details.

Nearly 9,000 nurses from H+H have union contracts that expire in March 2023. Since FY 2015, the City has provided financial support to H+H by covering the cost of collective bargaining agreements and until these contracts are settled it is unclear how it will financially impact the City or H+H.

The executive budget for SFY 2024 includes several proposals that would benefit healthcare providers across the State such as H+H. H+H could benefit financially from proposals that increase Medicaid rates for hospitals, nursing homes and primary care services and expanding Medicaid coverage for community health workers. H+H could also benefit from new capital investments for health care transformation projects.

The City continues to monitor H+H's cash position and will likely step in to provide further financial assistance and to explore other avenues to financially support the health care system if needed.

The City has indicated that H+H will produce only cash-based plans going forward. The New York

State Financial Emergency Act requires H+H to prepare its financial plan on an accrual basis. The last accrual-based financial plan was published on January 25, 2022. OSC, as part of its ongoing efforts to improve the financial reporting of public authorities, and properly understand the relationship between the City and its covered agencies, continues to recommend that H+H prepare its budget and financial plan on both an accrual and cash basis.[24]

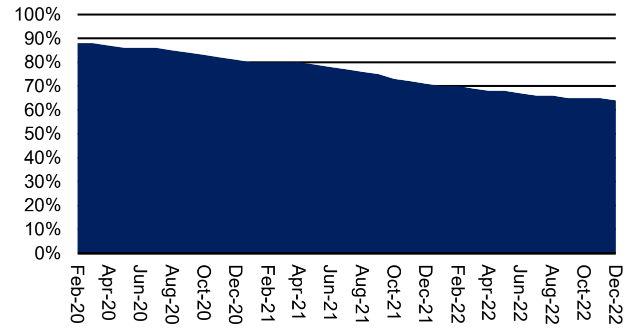
New York City Housing Authority

In December 2022, the New York City Housing Authority (NYCHA) board reported that although the agency had closed a $35 million operating deficit originally projected for the end of 2022, another $35 million deficit is expected at the end of 2023.

NYCHA has continued to experience a decline in its rent collection rate, which dropped from 88 percent in February 2020 (before the onset of the pandemic) to 64 percent in December 2022 (see Figure 36). This has resulted in a cumulative rent arrears balance of roughly $454 million across 73,028 households through the end of November 2022 (as compared to $125 million on December 31, 2019). The Authority has stated that this loss in collections may prevent it from meeting the deadlines listed in its agreement with the U.S. Department of Housing and Urban Development ("2019 HUD Agreement).

The Authority highlighted the role that the HUD Agreement plays in the structural issues it faces in its budget, along with the ongoing decline in rent revenue and the federal agency's underfunding of NYCHA's operating subsidy. Nationally, about 20 agencies are experiencing rent revenues shortfalls. During the board meeting, NYCHA stated that this underfunding is the result of HUD not adjusting its subsidy

FIGURE 36
NYCHA's Rent Collection Rate



Sources: New York City Housing Authority; OSC analysis

formula to account for the loss of rent revenue, nor the significant additional spending that is needed for NYCHA to perform the repairs required in the HUD Agreement.

Additionally, due to the submission of $121 million worth of Emergency Rental Assistance Program (ERAP) applications for 31,636 households who owe back rent (as of January 2023), current legislation bars NYCHA from taking residents who have applied to the State's rental assistance program to court for rent arrears, and from evicting them while their applications are pending. Despite a recent announcement that an additional $63 million will be added to the program, per the State's website, "applications from subsidized housing tenants whose rent is limited to a certain percentage of income (including public housing, Section 8 and FHEPS) are not currently able to be paid. State law requires that these applications be paid after all other eligible applicants have been reviewed and paid. Therefore, at this time, none of the subsidized housing applications can be paid regardless of the date their application was submitted." Until these cases are determined, NYCHA is also unable to evict and at the same time, residents are also unable to apply for the City's rent arrears assistance program.

[24] Prior to May 2005, H+H prepared its budget and four-year financial plan on a cash basis.

NYCHA's 2023 proposed budget includes a $65 million reserve withdrawal. This comes after withdrawals of $75 million in 2021 and a projected $100 million in 2022. The 2022 withdrawal was expected to leave NYCHA with a reserve balance of $211 million at the end of the year, which is less than a month's worth of operating expenses ($254 million). In 2023, this planned withdrawal would result in an estimated year-end balance of $145 million. HUD's guidelines recommend that housing authorities of NYCHA's size maintain a balance equal to four months of operating expenses.

The January Plan includes $347.8 million for NYCHA in FY 2023, virtually unchanged from the November Plan. Of this amount, $240.4 million will be City funds; the balance comes from federal funding, including $106 million in Community Development Block Grants (CDBG).

The City's Preliminary 10-Year Capital Strategy for fiscal years 2024 through 2033 provides $847 million to support NYCHA's Permanent Affordability Commitment Together (PACT) program, which leverages private and public financing sources to address its significant outstanding capital need. There is also $668 million in funding in the current fiscal year for the program. NYCHA also has its own capital allocation of $4.4 billion over 10 years, of which $2.9 billion is to meet the requirements of the 2019 monitoring agreement.

Appendix A: Full-Time Staffing Levels

(Number of full-time employees)

	Actual	Actual	Forecast	Jan. Plan	Variance – Better/(Worse) November 2022 Actual to June 2023 Forecast		
	June 2020	Nov. 2022	June 2023	June 2024	City Funds	Non-City Funds	Total Funds
Public Safety	**85,806**	**79,056**	**81,740**	**81,393**	**2,377**	**307**	**2,684**
Police Uniformed	35,910	34,112	35,030	35,030	918	0	918
Civilian	15,519	13,904	14,680	14,502	702	74	776
Fire Uniformed	11,047	10,716	10,954	10,954	230	8	238
Civilian	6,366	6,214	6,427	6,285	166	47	213
Correction Uniformed	9,237	6,668	7,060	7,060	392	0	392
Civilian	1,741	1,471	1,731	1,730	256	4	260
District Attys. & Prosec.	4,843	4,947	4,709	4,709	(341)	103	(238)
Probation	1,116	1,000	1,118	1,092	47	71	118
Board of Correction	27	24	31	31	7	0	7
Health & Welfare	**27,878**	**24,252**	**27,819**	**27,566**	**2,574**	**993**	**3,567**
Social Services	12,330	10,410	12,147	12,127	1,204	533	1,737
Children's Services	7,039	6,159	7,079	7,079	802	118	920
Health & Mental Hygiene	5,530	5,095	5,798	5,604	430	273	703
Homeless Services	2,119	1,835	1,952	1,920	99	18	117
Other	860	753	843	836	39	51	90
Environment & Infra.	**26,365**	**25,459**	**27,351**	**27,379**	**228**	**1,664**	**1,892**
Sanitation Uniformed	7,755	8,021	7,599	7,649	(481)	59	(422)
Civilian	2,107	1,861	1,907	1,902	33	13	46
Transportation	5,120	4,973	5,681	5,768	251	457	708
Parks & Recreation	4,236	4,175	4,661	4,586	394	92	486
Environmental Protection	5,891	5,353	6,312	6,286	10	949	959
Other	1,256	1,076	1,191	1,188	21	94	115
General Government	**12,634**	**11,127**	**12,291**	**11,981**	**894**	**270**	**1,164**
Finance	1,996	1,647	1,878	1,878	219	12	231
Law	1,713	1,428	1,527	1,523	86	13	99
Citywide Admin. Svcs.	2,403	2,013	2,341	2,323	197	131	328
Taxi & Limo. Comm’n.	584	444	505	505	61	0	61
Investigations	361	273	324	293	51	0	51
Board of Elections	682	700	517	517	(183)	0	(183)
Info. Tech. & Telecomm.	1,673	1,501	1,654	1,637	148	5	153
Other	3,222	3,121	3,545	3,305	315	109	424
Housing	**4,088**	**3,761**	**4,524**	**4,471**	**489**	**274**	**763**
Buildings	1,676	1,536	1,884	1,833	368	(20)	348
Housing Preservation	2,412	2,225	2,640	2,638	121	294	415
Dept. of Education	**134,684**	**128,740**	**140,004**	**139,184**	**8,027**	**3,237**	**11,264**
Pedagogues	121,077	116,214	126,895	126,075	7,643	3,038	10,681
Non-Pedagogues	13,607	12,526	13,109	13,109	384	199	583
City University of NY	**6,288**	**5,864**	**6,039**	**6,024**	**175**	**0**	**175**
Pedagogues	4,545	4,277	4,293	4,289	16	0	16
Non-Pedagogues	1,743	1,587	1,746	1,735	159	0	159
Elected Officials	**2,703**	**2,517**	**2,849**	**2,714**	**264**	**68**	**332**
Total	**300,446**	**280,776**	**302,617**	**300,712**	**15,028**	**6,813**	**21,841**

Sources: NYC Office of Management and Budget; OSC analysis

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