Review of the Financial Plan of the City of New York

Report 1-2021

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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New York City has been the epicenter of the novel coronavirus pandemic in the United States. The economic, social and budgetary impacts have been unprecedented, while the loss of life has been unimaginable.

After more than a decade of growth, most economists believe the nation is heading for a recession triggered by restrictions put in place to slow the spread of the novel coronavirus. While the length and severity of the economic downturn remain unknown, the implications will be painful for State and local governments.

With so many uncertainties, revenue losses could be greater and the recovery slower than anticipated in the City's latest financial plan. Thus, the City needs to be prepared to revise its forecasts as new information becomes available.

The City projects balanced budgets for fiscal years 2020 and 2021, but it continues to face large budget risks, including the potential for another round of State budget cuts. In addition, the City projects a budget gap of $5 billion in FY 2022.

In the absence of additional federal assistance, New York City will need to make difficult decisions to ensure its budget remains balanced.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

On January 16, 2020, Mayor de Blasio released his preliminary executive budget for FY 2021 and the associated four-year financial plan (the "January Plan"). The January Plan projected balanced budgets for fiscal years 2020 and 2021 on the assumption of continued economic growth, and manageable out-year budget gaps of $2.4 billion in FY 2022 and $2.7 billion in each of fiscal years 2023 and 2024.

On March 1, 2020, New York City reported its first confirmed case of COVID-19, a highly contagious respiratory disease. In the weeks that followed, the caseload grew rapidly in New York City and the downstate region, and the novel coronavirus spread across the nation.

In response, Governor Cuomo, as well as other governors, ordered residents to adopt social distancing measures and restricted the activities of most businesses. These steps slowed the spread of the disease and provided time for health care systems to prepare for an influx of COVID-19 patients.

These actions also greatly restricted economic activity, bringing the longest and largest job expansion in the nation's history to a halt. In April, the nation lost 20.5 million jobs, erasing most of the jobs gained since February 2010. The unemployment rate rose to 14.7 percent, the highest level since the end of World War II.

The Congressional Budget Office forecasts a nearly 40 percent drop (on an annualized basis) in the nation's gross domestic product in the second quarter of 2020 (the sharpest decline since the data series began in 1947), but a strong rebound in the second half of the year. It also expects the unemployment rate to average 15 percent in the second and third quarters, well above the peak during the Great Recession.

New York City residents filed a total of 831,100 initial claims for unemployment benefits during the eight-week period ending May 2, according to the New York State Department of Labor. The large number of claims suggests that most of the 920,500 jobs added in the City over the past ten years have been lost for the foreseeable future, and many may not return even when the economy fully reopens.

On April 16, 2020, the Mayor released his executive budget for FY 2021 and a revised financial plan (the "April Plan"; see Figure 1). The April Plan assumes that the gross city product will contract by 12.9 percent in 2020 (the largest decline since the data series began in 1980), before rebounding sharply in 2021 (12 percent).

The April Plan also assumes employment will decline by 563,000 jobs during the first three quarters of 2020 before growth resumes in the fourth quarter (a net loss of 350,000 jobs for all of 2020). While the City expects a sharp rebound in 2021, job losses may be greater and the recovery slower than the City anticipates.

The securities and tourism industries are vitally important to New York City's economy. The City expects the securities industry to lose $6.4 billion in 2020, its first loss since 2008. Hotel occupancy (which averaged 87 percent during the prior decade) was just 15 percent during the last week of March 2020, and is expected to recover slowly.

Based largely on these and other economic assumptions, the City lowered its City fund revenue forecast by $2.5 billion in FY 2020 and $5.4 billion in FY 2021 (a two-year revenue loss of nearly $7.9 billion). As a result, tax collections are now projected to fall by 3.1 percent in FY 2021, the first decline since the Great Recession. Making matters worse, the City estimates that the enacted State budget will increase the City's costs by $797 million over the two-year period.

Consequently, the City needed to close an $8.7 billion budget gap over the two-year period. To do so, the City will draw down its reserves ($4 billion) and expand its citywide savings program ($2.7 billion), and it anticipates federal budget relief ($2 billion) from recently approved federal initiatives.

The April Plan assumes only a modest reduction in the municipal work force. Despite the citywide savings program, the full-time City-funded work force is projected to total 253,656 employees at the end of FY 2021. While this is 507 fewer than in February 2020, the forecast is 2,028 higher than at the end of FY 2019.

Since the City is relying heavily on nonrecurring actions to balance the FY 2020 and FY 2021 budgets, the FY 2022 budget gap has more than doubled to $5 billion. The gaps for fiscal years 2023 and 2024 have also grown, reaching $4.5 billion and $4.9 billion, respectively.

Furthermore, the City continues to face significant budget risks. The April Plan, for example, does not fully reflect the impact of the State budget beyond FY 2021. Although the City funded a $360 million shortfall in anticipated State education aid in FY 2021, it made no provision in subsequent years. There is also some uncertainty about the amount of federal aid available for budget balancing purposes.

In addition, the Governor has indicated that further actions will be needed to balance the State budget in the absence of additional federal aid. These actions include an $8.2 billion cut in aid to localities. Although not yet specified, a cut of this size would likely have a large adverse impact on New York City.

With less than two months remaining in the City's fiscal year, there exists the potential for a significant shortfall in pension fund investment earnings, which could require the City to increase contributions beginning in FY 2022.

The resumption of economic activity and the growth of tax revenue will depend on factors largely beyond the City's control. These include the loosening of social distancing restrictions, changes in social and business behaviors, and the return of tourism. While the number of new COVID-19 cases is currently declining, many epidemiologists warn of a second wave of cases in the fall or during the annual flu season.

Thus, it remains to be seen whether the City's revenue forecasts are sufficiently conservative. Given the uncertainties inherent in making forecasts during times of crisis and the potential for a slower recovery, the City should be prepared to revise its revenue forecasts as new information becomes available. While the City currently has an adequate cash balance, its cash position will also have to be closely monitored.

One year ago, the City had reserves of $7.3 billion for fiscal years 2020 and 2021, including $4.7 billion in the Retiree Health Benefits Trust. The trust was created to fund future post-employment benefits other than pensions, but the City drew on these funds during the Great Recession. The City subsequently replenished and added to the trust.

In January 2020, the City drew down its reserves by $1.1 billion, and it now plans to draw down an additional $4 billion. The City will reduce the Retiree Health Benefits Trust (by $2.6 billion over two fiscal years); eliminate the FY 2021 capital stabilization reserve ($250 million); and reduce next year's general reserve from $1 billion to $100 million, the statutory minimum at the start of a fiscal year.

After years of economic growth, the global and U.S. economies appear headed for recession, although the length and severity remain unknown. In the absence of additional federal assistance, the City will need to make difficult decisions to maintain budget balance.

The City is entering a period of unprecedented uncertainty. Given the reduction in reserves and large budget risks, the City will need to prepare additional actions to ensure budget balance and to reduce the $5 billion budget gap in FY 2022. It should also commit to replenish the Retiree Health Benefits Trust when conditions permit.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues					
Taxes					
General Property Tax	$ 29,612	$ 30,834	$ 31,906	$ 32,831	$ 33,260
Other Taxes	31,502	28,431	32,007	33,723	34,579
Tax Audit Revenue	999	921	721	721	721
Subtotal: Taxes	**62,113**	**60,186**	**64,634**	**67,275**	**68,560**
Miscellaneous Revenues	7,552	6,877	6,830	6,815	6,817
Unrestricted Intergovernmental Aid	1,411	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,178)	(1,848)	(1,834)	(1,831)	(1,831)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	**68,883**	**65,200**	**69,615**	**72,244**	**73,531**
Other Categorical Grants	1,072	872	861	860	857
Inter-Fund Revenues	672	675	675	675	675
Federal Categorical Grants	10,832	7,137	6,964	6,922	6,917
State Categorical Grants	15,979	15,448	16,283	16,738	16,788
Total Revenues	**$ 97,438**	**$ 89,332**	**$ 94,398**	**$ 97,439**	**$ 98,768**
Expenditures					
Personal Service					
Salaries and Wages	$ 29,750	$ 30,355	$ 30,370	$ 31,255	$ 31,800
Pensions	9,819	9,927	10,502	10,434	10,106
Fringe Benefits	11,255	11,615	12,504	13,311	14,119
Retiree Health Benefits Trust	(1,000)	(1,600)	- - -	- - -	- - -
Subtotal: Personal Service	**49,824**	**50,297**	**53,376**	**55,000**	**56,025**
Other Than Personal Service					
Medical Assistance	5,987	5,399	5,915	5,915	5,915
Public Assistance	1,601	1,651	1,651	1,650	1,650
All Other	35,312	30,498	31,037	31,253	31,494
Subtotal: Other Than Personal Service	**42,900**	**37,548**	**38,603**	**38,818**	**39,059**
Debt Service	6,938	7,390	8,027	8,732	9,166
FY 2019 Budget Stabilization & Discretionary Transfers	(4,221)	- - -	- - -	- - -	- - -
FY 2020 Budget Stabilization	4,155	(4,155)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	- - -	250	250	250
General Reserve	20	100	1,000	1,000	1,000
Less: Intra-City Expenses	(2,178)	(1,848)	(1,834)	(1,831)	(1,831)
Total Expenditures	**$ 97,438**	**$ 89,332**	**$ 99,422**	**$ 101,969**	**$ 103,669**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (5,024)**	**$ (4,530)**	**$ (4,901)**

Source: NYC Office of Management and Budget

II. The COVID-19 Pandemic in New York City

According to the Centers for Disease Control and Prevention, coronavirus disease 2019 (COVID-19) is a respiratory illness that easily spreads from one person to another. The virus that causes COVID-19 is a novel coronavirus that was first identified in Wuhan, China, in December 2019, and has since spread around the world. Currently, there is no vaccine and no cure, although a number of possible therapeutic treatments are being tested.

As of May 12, 2020, there were 4.2 million confirmed cases globally and nearly 287,000 reported deaths. The United States had more confirmed cases (1.3 million) and more deaths (81,000) than any other country.

The first confirmed case of COVID-19 in New York State was on March 1, 2020, in New York City. Six days later, the Governor declared a disaster emergency in New York State, which is currently expected to remain in effect until September 7, 2020.

In the ensuing days as the COVID-19 caseload rose, the Governor issued additional executive orders that closed schools, canceled gatherings and events, closed gyms and movie theaters, prohibited restaurants and bars from serving food and beverages on-premises, and required all nonessential workers to work from home.

These social distancing measures were designed to slow the spread of the disease and to prevent the health care system from being overwhelmed. Early models suggested that New York State would need up to 140,000 hospital beds, nearly three times the 53,000 beds that existed before the pandemic.

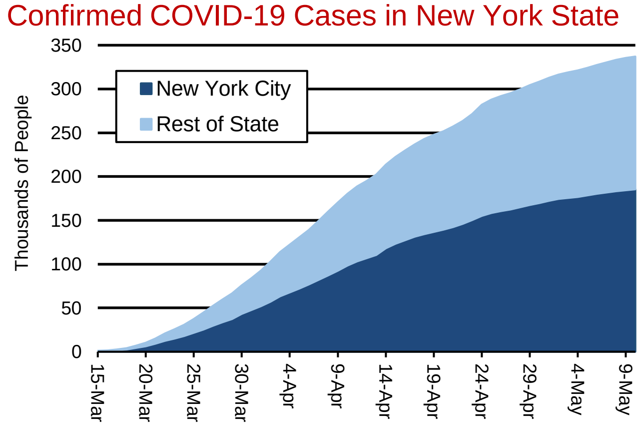
To address the projected bed shortage, hospitals were instructed to increase bed capacity by at least 50 percent. The federal government constructed a large medical facility at the Jacob K. Javits Convention Center, moved the USNS Comfort (a naval hospital ship) to Pier 90 on the west side of Manhattan, and established a number of smaller field hospitals in other locations in the City and the surrounding area.

Besides a shortage of beds, there were shortages of supplies, especially ventilators, and medical personnel. On March 24, 2020, the State projected that it would need up to 30,000 ventilators, but had only 4,000 on hand. The State purchased thousands of additional ventilators, and thousands more were made available from the federal stockpile.

The number of confirmed cases increased rapidly, but did not reach the levels initially projected. By early April, preliminary data suggested that the social distancing measures implemented by the State had begun to slow the rate of growth.

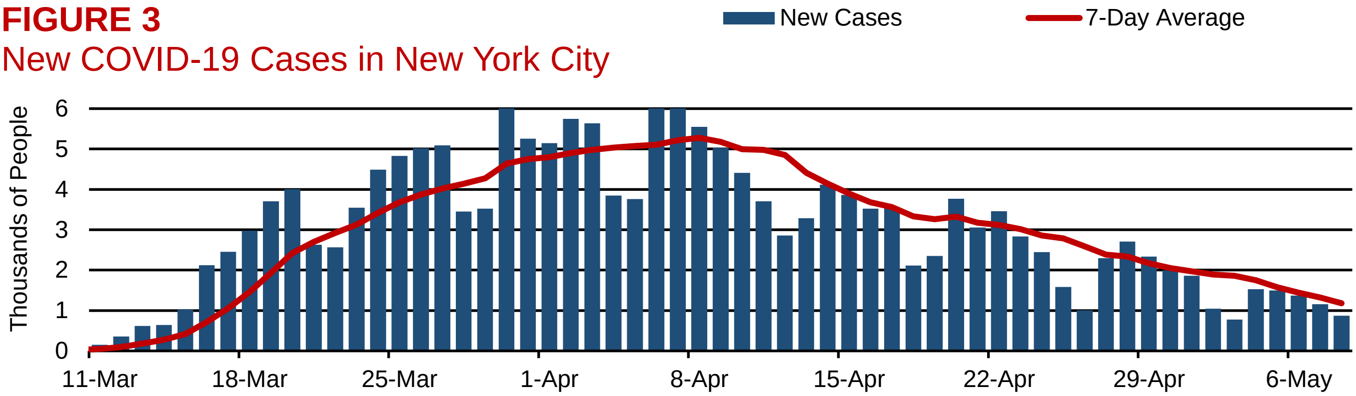
As of May 10, 2020, New York State had 337,055 confirmed cases of COVID-19 (see Figure 2), which represented one-quarter of the national total. Although New York City accounted for more than half of all cases statewide (185,357), every county in the state has been affected, with particularly large numbers of cases in the downstate region (i.e., Nassau, Rockland, Suffolk, and Westchester counties).

FIGURE 2
Confirmed COVID-19 Cases in New York State



Sources: NYS Department of Health; OSC analysis

FIGURE 3
New COVID-19 Cases in New York City



Note: As of May 12, 2020. As a result of reporting delays, most recent data may be incomplete.
Sources: NYC Department of Health and Mental Hygiene; OSC analysis

The number of new cases in New York City did not begin to decline until April 7 (see Figure 3). Since then, the number of new cases has slowly declined, but it still averaged almost 1,300 per day since the beginning of May.

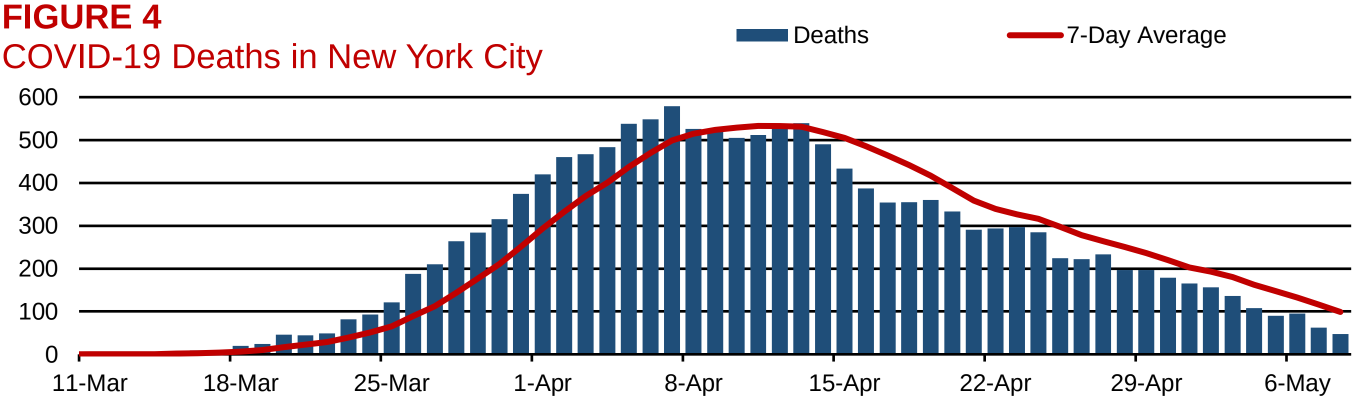
The number of deaths per day peaked on April 7, 2020 (see Figure 4), and after a brief plateau, the number began to slowly decline. By May 8, 2020, a total of 14,765 City residents had died from the virus.

According to State and City officials, 80 percent of COVID-19 patients on ventilators succumb to the virus. In addition, almost 60 percent of the people who have died of causes related to confirmed COVID-19 cases are Hispanic or African American, higher than their combined share of the population (53 percent). The higher death rate is attributed to various factors, including inequitable access to health care, the nature of employment, and a higher incidence of pre-existing conditions including diabetes, hypertension and asthma.

The highest numbers of positive cases of the virus have been in Queens and Brooklyn, but the highest rates per capita were found in the Bronx and Staten Island. Half of the City residents who have tested positive were over the age of 49 and one-quarter were over the age of 64, higher than their shares in the general population.

The Governor has established seven criteria that regions must meet before reopening. Three upstate regions have met the criteria and will begin reopening on May 15. New York City is likely to be among the last regions to reopen. Until a large share of the population becomes immune from exposure or from a vaccine, the novel coronavirus will likely continue to inhibit economic activity in New York City.

FIGURE 4
COVID-19 Deaths in New York City



Note: As of May 12, 2020. As a result of reporting delays, most recent data may be incomplete.
Sources: NYC Department of Health and Mental Hygiene; OSC analysis

III. Economic Trends

The COVID-19 pandemic has brought the longest and strongest labor market expansion in the nation's history to an abrupt halt, led to massive job losses, and set the stage for a recession. By the third week of March 2020, the Dow Jones Industrial Average and crude oil prices had lost one-third of their values, and consumer confidence was shaken. New York City, with more COVID-19 cases than anywhere else, is facing its greatest challenge in decades.

The Federal Reserve has taken steps not used since the 2008 financial crisis to provide liquidity and to stabilize the financial markets, and Congress approved trillions of dollars in stimulus funds. Some economists suggest a sharp rebound, while others believe the recovery will be slow and drawn out. The April Plan assumes a quick economic recovery, as discussed below.

National Overview

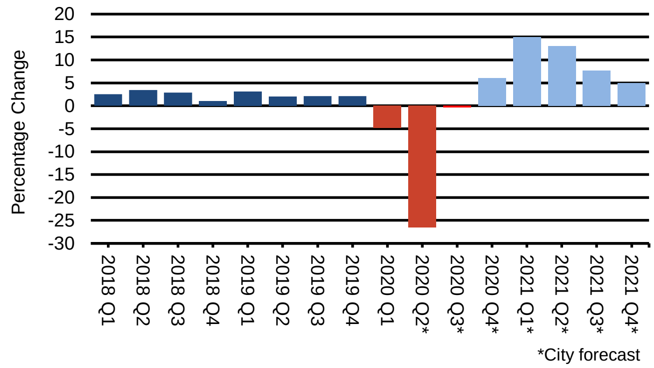
The gross domestic product (GDP) grew by an average of 2.4 percent over the past two years, but contracted by 4.8 percent in the first quarter of 2020 (see Figure 5), the first quarterly decline since the first quarter of 2014.

The April Plan assumes a large contraction in the GDP in the second quarter (27 percent on an annualized basis) and continued contraction in the third quarter (0.4 percent). The City expects growth to resume in the fourth quarter (6 percent) and then accelerate in the first quarter of 2021 (15 percent), before slowing.

The Congressional Budget Office (CBO) forecasts a much larger decline in GDP in the second quarter (40 percent on an annualized basis), but strong growth in the third (23.5 percent) and fourth quarters (10.5 percent).

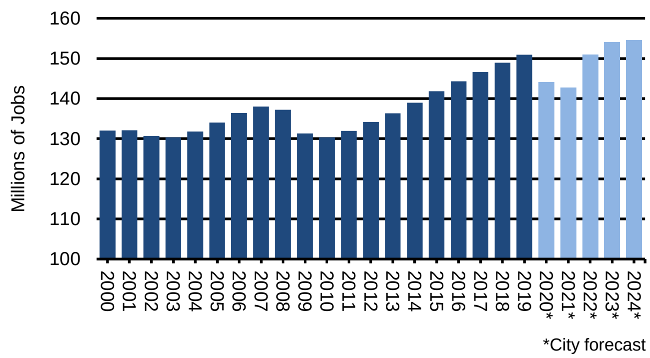
The April Plan assumes the nation will experience a net loss of 6.9 million jobs in 2020 and another 1.3 million jobs in 2021 (see Figure 6). In April, the nation lost 20.5 million jobs, erasing most of the 22.7 million jobs added since February 2010. IHS Markit (a consulting firm used by City) now predicts a 20 million job loss in 2020 but a record recovery in 2021. In light of these developments, the City's job forecast will likely be revised downward.

FIGURE 5
U.S. Gross Domestic Product



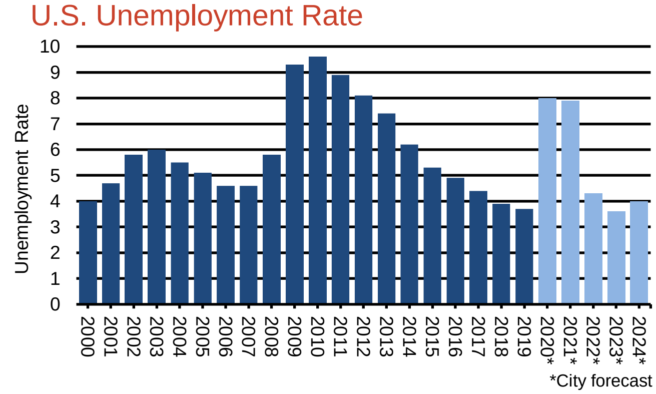
Sources: U.S. Bureau of Economic Analysis; NYC Office of Management and Budget

FIGURE 6
U.S. Employment



Sources: U.S. Bureau of Labor Statistics; NYC Office of Management and Budget

FIGURE 7
U.S. Unemployment Rate



Sources: U.S. Bureau of Labor Statistics; NYC Office of Management and Budget

The April Plan assumes the unemployment rate will average 8 percent during 2020 and 2021 (see Figure 7), before declining sharply to 4.3 percent in 2022. (In April, the unemployment rate rose to 14.7 percent, the highest level since the end of World War II.) The Congressional Budget Office believes the unemployment rate will average 15 percent during the second and third quarters, higher than during the Great Recession. It also forecasts higher annual unemployment rates than expected by the City.

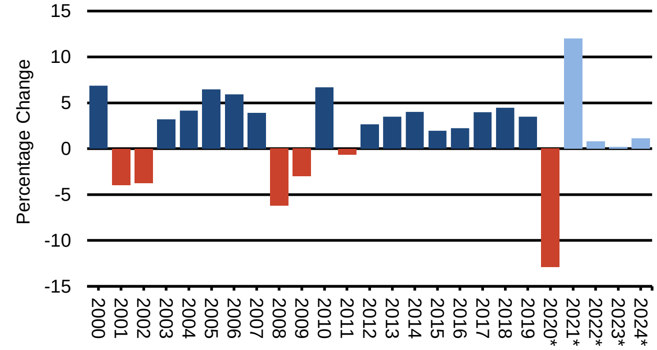
New York City Economy

The mandatory closure of all nonessential businesses and the implementation of social distancing measures have greatly reduced economic activity in New York City. The April Plan assumes that the gross city product (GCP) will contract by 12.9 percent in 2020 (see Figure 8), the largest decline since the data series began in 1980. The April Plan assumes a sharp rebound in 2021 with GCP growing by 12 percent, but slow growth in subsequent years.

New York City residents filed a total of 831,100 initial claims for unemployment benefits during the eight-week period ending May 2, according to the New York State Department of Labor. The large number of claims suggests that most of the 920,500 jobs added in the City over the past ten years have been lost for the foreseeable future, and many may not return even when the economy fully reopens.

The April Plan assumes that the City will lose 563,000 jobs during the first three quarters of 2020 before job growth resumes in the fourth quarter (a net loss of 350,000 jobs in 2020; see Figure 9). The hardest-hit employment sectors include leisure and hospitality, retail trade, and professional and business services. These three sectors account for more than two-thirds (68 percent) of the job losses projected by the City for 2020.

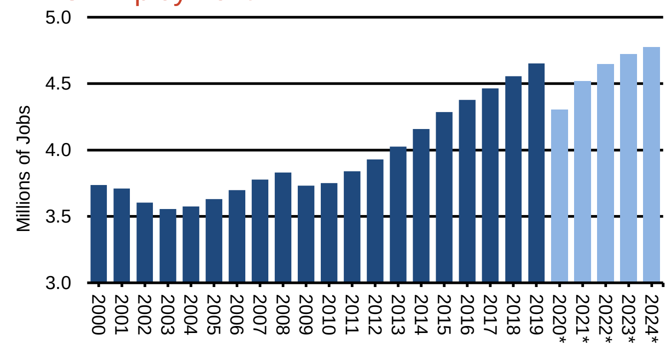
FIGURE 8
Change in NYC Gross City Product



Source: NYC Office of Management and Budget

*City forecast

FIGURE 9
NYC Employment



*City forecast

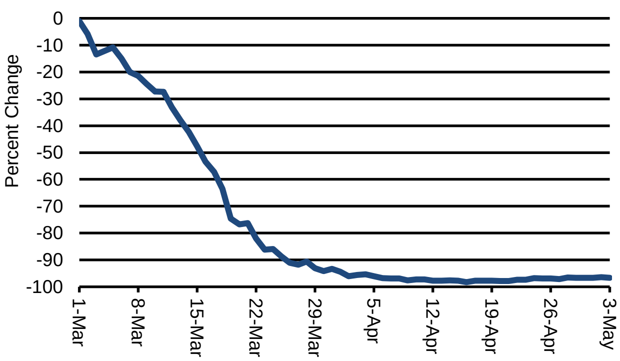
Sources: NYS Department of Labor; NYC Office of Management and Budget

The unemployment rate, which had reached a historic 43-year low of 3.4 percent in February 2020, inched up to 4.4 percent in March. However, given delays in reporting, the unemployment rate does not yet reflect the full economic impact of the pandemic.

The April Plan assumes job gains of 213,000 in 2021, with a strong rebound in the leisure and hospitality sector. Job gains, however, will be dependent on how quickly social distancing measures can be rolled back, any potential long-term changes in social interaction, and the status of the pandemic in other nations since New York City is heavily dependent on tourism. The City does not expect total employment to return to the pre-pandemic level until 2023.

Retail as well as leisure and hospitality are heavily dependent on tourism, and the number of visitors to New York City has declined sharply. The number of passengers screened by the Transportation Security Administration in New York City–area airports, for example, was down by 97 percent during April compared to one year earlier (see Figure 10).

FIGURE 10
Change in Passengers at NYC Airports



Note: Comparison is to same weekday of prior year.
Source: Transportation Security Administration

Hotel occupancy averaged 87 percent during the prior decade, but was just 15 percent during the last week of March 2020. Tourist attractions, such as museums, concert halls, movie theaters and Broadway theaters, have shut down in response to restrictions on public gatherings. Broadway theaters had record attendance in 2019, but are likely to lose more than $100 million in revenue in 2020.

The retail sector was already under pressure as consumers shifted to e-commerce, with job growth slowing in the past several years and the industry losing 4,100 jobs in 2019. The City expects the industry to lose 69,400 jobs in 2020 but then add 26,400 jobs in 2021.

The leisure and hospitality sector (which includes bars, restaurants and hotels) reached a record of 466,200 jobs in 2019, but the April Plan assumes employment will decline by 111,100 jobs in 2020, then grow by 88,800 jobs in 2021.

In 2019, personal services employment, which includes services such as barbershops, hair salons, dry cleaning and pet care, increased by 1,800 jobs, reaching a record high of 194,700 jobs. However, most of these services were deemed nonessential and were forced to close. The April Plan assumes employment in this sector will decline by 6,800 jobs in 2020, but then increase by 3,200 in 2021.

The health and social assistance sector is the largest employment sector in New York City, making up more than 17 percent of City employment. It has grown every year since 1990, reaching a record 799,400 jobs in 2019. The April Plan assumes the sector will be the only major private sector to grow, adding 36,000 jobs in 2020 and another 25,400 jobs in 2021.

Business services also makes up 17 percent of New York City employment, but has slightly fewer jobs than health care and social assistance. The sector had strong growth in 2019, adding 28,700 jobs to reach a record high of 794,100 jobs. Business services may be better situated to weather the current crisis because many employees are able to work remotely. The April Plan assumes the sector will lose 58,700 jobs in 2020 but gain 24,900 jobs in 2021.

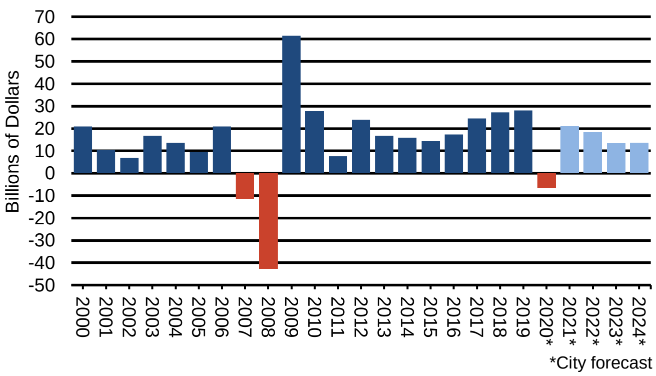
On March 27, 2020, the Governor expanded the definition of nonessential work to include construction on condominiums and commercial sites, although work on projects such as infrastructure, health care facilities, and affordable housing was permitted to continue. The suspension of construction activity in these areas makes job losses likely, and the April Plan forecasts a loss of 7,300 jobs in 2020.

Although the securities industry accounts for less than 5 percent of the City's private work force, it is responsible for one-fifth of private sector wages and 6 percent of City tax revenues. In addition, nearly 1 in 10 jobs in the City are either directly or indirectly associated with the securities industry.

Pretax profits in 2019 for the broker/dealer operations of New York Stock Exchange member firms (the traditional measure of securities industry profits) increased by 2.8 percent to $28.1 billion. It was the fourth consecutive year of growth in profits, which have nearly doubled since 2015.

Economic shocks have historically damaged securities industry profitability. Profits fell by 50 percent in 2001 after 9/11, and the industry reported large losses in 2007 and 2008 because of the financial crisis. The April Plan assumes that the securities industry will experience a loss of $6.4 billion in 2020 (the first loss since the 2008 financial crisis), before returning to profitability in 2021 with profits of $20.9 billion (see Figure 11).

FIGURE 11
NYSE Member Firm Profits



Sources: NYSE; NYC Office of Management and Budget

Bonuses are also affected by economic shocks (they fell by 33 percent in 2001 and by 47 percent in 2008), and the April Plan assumes bonuses will decline by 34 percent in 2020.

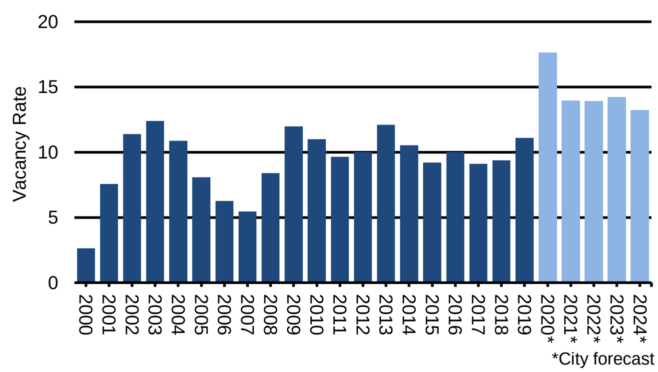
Employment in the securities industry increased by 2,100 jobs in 2019 to 182,100. The industry has added jobs in five of the past six years, increasing employment by a net total of 16,200 jobs. Nonetheless, employment is still 4 percent smaller than before the 2008 financial crisis.

In response to that crisis, the securities industry eliminated 22,700 jobs over three years before job growth resumed. With an expected sharp decline in profitability, the April Plan assumes that the industry will shed 7,000 jobs in 2020 but then add another 3,300 jobs in 2021.

Rising office employment since the end of the Great Recession has spurred the development of new office buildings. Since 2009, the number of private office workers has increased by 329,300 (27 percent) and the amount of office space has increased by 31 million square feet. In recent years, demand for office space has increasingly been driven by the tech industry.

The vacancy rate for office space in Manhattan inched up to 11.1 percent in 2019, but the April Plan assumes it will jump to 17.6 percent in 2020, significantly higher than after 9/11 and the 2008 financial crisis (see Figure 12). The City anticipates a significant drop in demand for space as businesses adapt to remote-work arrangements and disperse their work forces. Lower demand is also expected to result in a decline in asking rents of more than 10 percent in 2020 before rents rebound in 2021.

FIGURE 12
Vacancy Rate for Manhattan Commercial Space



Sources: Cushman & Wakefield; NYC Office of Management and Budget

IV. Changes Since the January 2020 Plan

In January 2020, the City projected balanced budgets for fiscal years 2020 and 2021 based on the expectation of a $2.7 billion surplus in FY 2020 and continued economic growth, and manageable out-year budget gaps of $2.4 billion in FY 2022 and $2.7 billion in each of fiscal years 2023 and 2024. In addition, the City's revenue forecasts were relatively conservative and it had significant reserves.

As a result of social distancing measures to slow the spread of the novel coronavirus that were implemented by the State and City in early March 2020, economic activity has been greatly restricted. Consequently, the City has lowered its City fund revenue forecast by $2.5 billion in FY 2020 and $5.4 billion in FY 2021 (a two-year loss of nearly $7.9 billion; see Figure 13). In addition, the City estimates that the enacted State budget will increase its costs by $797 million over the two-year period.

As a result of these adverse developments, the City needed to close a budget gap that totals $8.7 billion over the two-year period ($2.6 billion in FY 2020 and $6.1 billion in FY 2021). To balance these budgets, the April Plan includes a program to eliminate the gap (PEG). The PEG calls for drawing down reserves ($4 billion), a citywide savings program ($2.7 billion) and federal assistance ($2 billion).

Since the City is relying heavily on nonrecurring actions to balance the FY 2020 and FY 2021 budgets, the FY 2022 budget gap has more than doubled to $5 billion. The gaps for fiscal years 2023 and 2024 have also grown, reaching $4.5 billion and $4.9 billion, respectively.

FIGURE 13
Changes Since the January 2020 Plan—City Funds
(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Gaps Per January Plan	**$ - - -**	**$ - - -**	**$ (2,433)**	**$ (2,686)**	**$ (2,659)**
Adverse Developments					
Revenue Changes	(2,471)	(5,404)	(3,082)	(2,617)	(3,037)
State Budget Impact	(34)	(763)	(233)	(83)	(83)
Other Changes	(54)	42	(90)	15	6
Total	**(2,560)**	**(6,125)**	**(3,404)**	**(2,684)**	**(3,114)**
Baseline Gaps to be Closed	**(2,560)**	**(6,125)**	**(5,837)**	**(5,370)**	**(5,773)**
Program to Eliminate the Gap					
Reduce Reserves	1,280	2,750	- - -	- - -	- - -
Citywide Savings Program	1,163	1,499	813	840	872
Federal Assistance	1,548	444	- - -	- - -	- - -
Total	**3,991**	**4,693**	**813**	**840**	**872**
Surplus Transfer	**(1,431)**	**1,431**	- - -	- - -	- - -
Gaps Per April Plan	**$ - - -**	**$ - - -**	**$ (5,024)**	**$ (4,530)**	**$ (4,901)**

Sources: NYC Office of Management and Budget; OSC analysis

Revenue Changes

The April Plan assumes that City fund revenues for fiscal years 2020 and 2021 will be lower by a total of $7.9 billion compared to the estimates in the January Plan (see Figure 14). Tax collections are expected to be lower by $7.4 billion as discussed below, and the City also expects less revenue from fines, fees, interest income and other miscellaneous sources ($459 million).

- Personal income tax collections are expected to be lower by $2.6 billion, reflecting anticipated job losses and lower capital gains, bonuses and income.
- Sales tax collections are expected to be lower by $2.2 billion because of the closure of restaurants and retail shops, and other nonessential businesses. In addition, reduced tourism and job losses are expected to restrict spending.
- Business taxes are expected to be lower by $1.4 billion because corporations and small businesses will likely report large losses.
- Tax collections from real estate transactions are expected to be lower by $724 million since open houses have been restricted and demand is likely to be suppressed.
- General property tax collections are expected to be lower by $241 million, in large part from higher tax delinquencies.
- Hotel tax collections are expected to be lower by $274 million because tourism, particularly from overseas, will likely be depressed for an extended period.

Impact of the State Budget

According to the City, the enacted State budget for State fiscal year (SFY) 2020-2021 includes actions that will increase the City's operating budget costs by $797 million during fiscal years 2020 and 2021, and by smaller amounts in subsequent years (see Figure 15).

The largest impact will come from a shortfall in anticipated education aid. Although the State budget includes $11.3 billion in education aid for New York City (including $717 million in federal aid under the CARES Act), the allocation is $18 million less than the amount allocated in the current fiscal year and $360 million less than anticipated by the City for FY 2021. Although the City backfilled the State education aid shortfall with City funds in FY 2021, it made no provision for the shortfall in subsequent years.

FIGURE 14
Revenue Changes Since the January 2020 Plan—City Funds
(in millions)

	FY 2020	FY 2021	Two-Year Impact	FY 2022	FY 2023	FY 2024
Tax Revenues						
Sales Taxes	$ (1,141)	$ (1,106)	$ (2,247)	$ (558)	$ (503)	$ (567)
Personal Income Taxes	(481)	(2,141)	(2,622)	(1,325)	(1,084)	(1,057)
Business Taxes	(318)	(1,128)	(1,446)	(455)	(214)	(278)
Real Estate Transactions	(304)	(420)	(724)	(74)	(80)	(123)
General Property Taxes	(60)	(181)	(241)	(365)	(420)	(698)
Other Taxes	65	(201)	(136)	(54)	(34)	(32)
Total	**(2,239)**	**(5,177)**	**(7,416)**	**(2,831)**	**(2,335)**	**(2,755)**
Misc. Revenues	**(232)**	**(227)**	**(459)**	**(251)**	**(282)**	**(282)**
Total	**$ (2,471)**	**$ (5,404)**	**$ (7,875)**	**$ (3,082)**	**$ (2,617)**	**$ (3,037)**

Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 15

State Budget Impact on New York City's Financial Plan

(City funds in millions)

	Better/(Worse)				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Education Aid	$ - - -	$ (360)	- - -	- - -	- - -
Distressed Provider Assistance	- - -	(250)	(150)	- - -	- - -
MTA Paratransit Funding	- - -	(63)	- - -	- - -	- - -
Funding Shifts	(34)	(69)	(83)	(83)	(83)
Other	- - -	(22)	- - -	- - -	- - -
Total	**$ (34)**	**$ (763)**	**$ (233)**	**$ (83)**	**$ (83)**

Sources: NYC Office of Management and Budget; OSC analysis

The enacted State budget excludes certain proposals in the Governor's executive budget that would have significantly increased the City's Medicaid costs. However, the enacted budget includes a new initiative that requires the State Comptroller to divert $250 million in sales tax revenue intended for the City in FY 2021 and an additional $150 million in FY 2022 for deposit into the Distressed Provider Assistance Account. The fund is intended to help distressed hospitals and nursing homes throughout the State. Some of these funds could benefit facilities in the City.

The State budget also requires the City to increase its share (from one-third to half) of the net cost (i.e., after fare collections and subsidies) of the MTA's paratransit program, although the City's contribution would be capped through 2023. The City estimates that its costs will increase by $63 million in City FY 2021 on the assumption that ridership will be held down because of COVID-19. The City also will be required to match the State's $3 billion contribution to the MTA's 2020-2024 capital program, although these costs will likely be funded through the City's capital budget.

The State budget includes a number of additional actions that will shift costs from the State to the City. For example, the City will be required to fund a larger share (from 10 percent to 15 percent) of the cost of the family assistance and emergency family assistance programs. The City estimates that these actions could increase its costs by $103 million by the end of FY 2021.

Ownership of Pier 76 in Manhattan (currently used as a tow pound by the New York City Police Department) will be transferred from the City to the State by July 1, 2020, and then a possessory interest will be leased to the Hudson River Park Trust. The law calls for the City to vacate the pier by December 31, 2020, but if the City continues to occupy Pier 76 after that date, it would be required to compensate the trust ($12 million) and to pay fees of $3 million per month beginning on February 1, 2021. The April Plan assumes the State will waive the fees, as permitted under the law, if the City demonstrates progress in its efforts to relocate the tow pound.

The State has indicated that further actions will be needed to balance the State budget in the absence of additional federal aid. These actions include an $8.2 billion cut in aid to localities ($8 billion in later years). Although not yet specified, cuts of this magnitude would likely have an adverse impact on the City.

The enacted State budget grants the State budget director the authority to reduce most aid-to-localities appropriations and disbursements by any amount needed to achieve a balanced budget. The Division of the Budget is preparing a detailed plan itemizing the specific appropriations and disbursements that will be reduced or withheld, and expects to transmit the plan to both houses of the Legislature in May. The proposed reductions will go into effect within ten days if the Legislature does not adopt its own plan.

Reserves

One year ago, the City had $7.3 billion in reserves to mitigate unforeseen developments in fiscal years 2020 and 2021. The City's financial plan included more than $2.6 billion in budgeted reserves for these years, and the Retiree Health Benefits Trust had a balance of $4.7 billion. While the trust was established to fund future post-employment benefits other than pensions, the City drew on these funds to help manage through the Great Recession. Subsequently, the City replenished and added to the trust.

In January 2020, the City drew down the FY 2020 general reserve (by $850 million) and eliminated the FY 2020 capitalization reserve ($250 million) to offset unplanned spending and to help balance the FY 2021 budget.

To help offset the drop in tax revenues resulting from the pandemic, the City now intends to draw down its reserves by an additional $4 billion during fiscal years 2020 and 2021. The City will:

- Draw down $2.6 billion from the Retiree Health Benefits Trust during fiscal years 2020 ($1 billion) and 2021 ($1.6 billion);
- Eliminate the FY 2021 capital stabilization reserve ($250 million); and
- Reduce the FY 2021 general reserve from $1 billion to $100 million, the statutory minimum for the start of the fiscal year.

FY 2019 ended with a surplus of $4.2 billion, or $255 million less than the surplus that was transferred into FY 2019.[1] This means the FY 2019 budget was balanced, in part, with resources generated in prior years. The City expects to end FY 2020 with a slightly smaller surplus, but it includes $1 billion from the Retiree Health Benefits Trust, which was generated in prior years. Thus, the imbalance has grown to nearly $1.1 billion, another sign of fiscal stress.

[1] Adjusted to exclude a $100 million discretionary transfer to the Retiree Health Benefits Trust in FY 2019.

Citywide Savings Program

In November 2019, the Mayor announced a citywide savings program to help balance the FY 2021 budget, which was expanded in January 2020. At the time, these actions were sufficient to ensure a balanced budget for FY 2021, but the COVID-19 pandemic has created new budget gaps in fiscal years 2020 and 2021. As a result, the City had to take additional actions to ensure that the budgets for fiscal years 2020 and 2021 remain balanced.

In April, the City expanded the savings program to include new initiatives valued at nearly $2.7 billion during fiscal years 2020 and 2021, and more than $800 million annually thereafter.[2]

According to the City, almost two-thirds of the savings during the two-year period will come from underspending, reestimates, funding shifts and debt service. Less than one-fifth of the savings during the two-year period will come from efficiencies, mostly from a hiring freeze, eliminating vacant positions and closing unneeded correctional facilities because of the declining inmate population.

More than one-fifth (21 percent) of the savings ($561 million) over the two-year period will come from service reductions. About 80 percent of the service reductions in FY 2021 are concentrated in the departments of Education ($213 million), Youth and Community Development ($167 million) and Sanitation ($42 million).

Most of the savings in the Department of Education would come from a one-year reduction in discretionary funds ($140 million) that are allocated to schools. The Department of Sanitation would suspend the collection of organics and other recycling initiatives, and reduce litter basket service.

[2] The citywide savings program now has a total value of nearly $3.9 billion during fiscal years 2020 and 2021, and about $1.2 billion in each subsequent year.

Some of the service reductions result from the pandemic itself, which will prevent certain activities for the foreseeable future. For example, the Department of Youth has canceled summer youth programs ($175 million), and the City will keep its outdoor pools closed through the summer ($12 million).

Debt service will account for $641 million (12 percent) of the citywide savings program in the April Plan during fiscal years 2020 through 2024. Most of the savings come from delays in capital expenditures and from bond refundings and reofferings.

Given the sharp reduction in reserves and the risks still facing the budget, the City should prepare additional actions to ensure the FY 2021 budget remains balanced and to reduce the $5 billion budget gap projected for FY 2022.

Federal Assistance

On March 13, 2020, after 47 states had confirmed cases of COVID-19, the President declared a national emergency. In March 2020, Congress passed three stimulus bills to address the pandemic's impact on the public health system and the economy.

As discussed below, the April Plan anticipates the receipt of nearly $4.3 billion in federal assistance. Of this amount, the City assumes $2.3 billion will be used to cover costs associated with the pandemic and that the remainder ($2 billion) will be available to help balance the budget.

- $1.9 billion from the Federal Emergency Management Agency (FEMA) to reimburse the City for costs related to the pandemic, including $250 million that will be used to fund overtime in the uniformed agencies.
- $1.4 billion from the Coronavirus Relief Fund. The use of these funds is restricted to unforeseen financial needs associated with the COVID-19 emergency during the period of March 1, 2020, to December 30, 2020. In addition, payroll expenses for public health and public safety employees whose services are substantially dedicated to mitigating or responding to the COVID-19 emergency are presumed to be eligible expenses.

  The April Plan assumes that $800 million of the $1.4 billion will be available to help balance the budget. The City also assumes that the remaining $600 million will be used to meet FEMA's local share requirement. If the requirement is waived as the President has suggested, an additional $600 million could become available for other purposes.
- $942 million from a 6.2 percentage point increase in the federal Medicaid reimbursement rate for claims covering most Medicaid recipients. The City intends to use these funds to help balance the budget during fiscal years 2020 and 2021, but the actual amount available to the City will depend on the length of the national emergency.[3] The April Plan assumes the national emergency will last 12 months, while the State budget assumes 6 months.

In April 2020, Congress approved a fourth stimulus bill that includes $321 billion to replenish funds for the Paycheck Protection Program, which benefits small businesses. The bill also calls for an additional $75 billion for hospitals and $25 billion for COVID-19 testing. The bill, however, does not include funding for state and local governments to offset revenue losses. The Speaker of the House of Representatives has indicated that States and localities may need almost $1 trillion to offset revenue losses from the pandemic.

[3] The April Plan allocates $498 million to FY 2020 and $444 million to FY 2021.

V. Revenue Trends

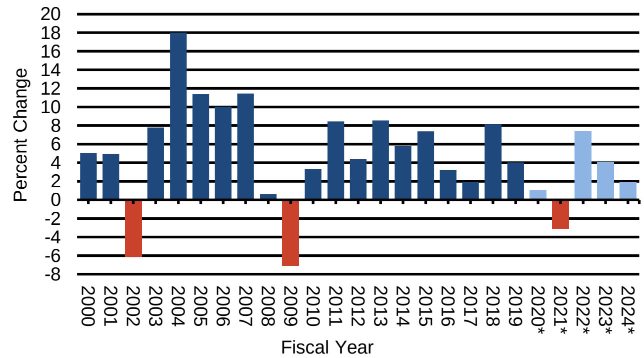
The April Plan assumes that revenues, including federal and State categorical aid, will total $89.3 billion in FY 2021. Locally generated revenues (i.e., City funds) are projected to decline by 5.3 percent to $65.2 billion, the first decline since FY 2009 (see Appendix A).

Tax collections account for more than 90 percent of City fund revenues. In response to the pandemic, the City lowered its tax revenue forecast by a cumulative total of $15.7 billion for fiscal years 2020 through 2024 compared to the estimates in the January Plan (see Figure 16).

The April Plan assumes tax collections will decline by 3.1 percent ($1.9 billion) in FY 2021, the first decline since the Great Recession (see Figure 17). Collections are now projected to total $60.2 billion in FY 2021, which is $5.4 billion less than projected in the January Plan.

The City expects tax revenues to rebound sharply in FY 2022, growing by 7.4 percent and exceeding the pre-pandemic level by $3.1 billion. It expects growth to slow to 4.1 percent in FY 2023 and 1.9 percent in FY 2024. (Tax revenues grew at an average annual rate of 5.5 percent in the decade prior to the pandemic.)

FIGURE 17
Annual Change in Tax Revenues

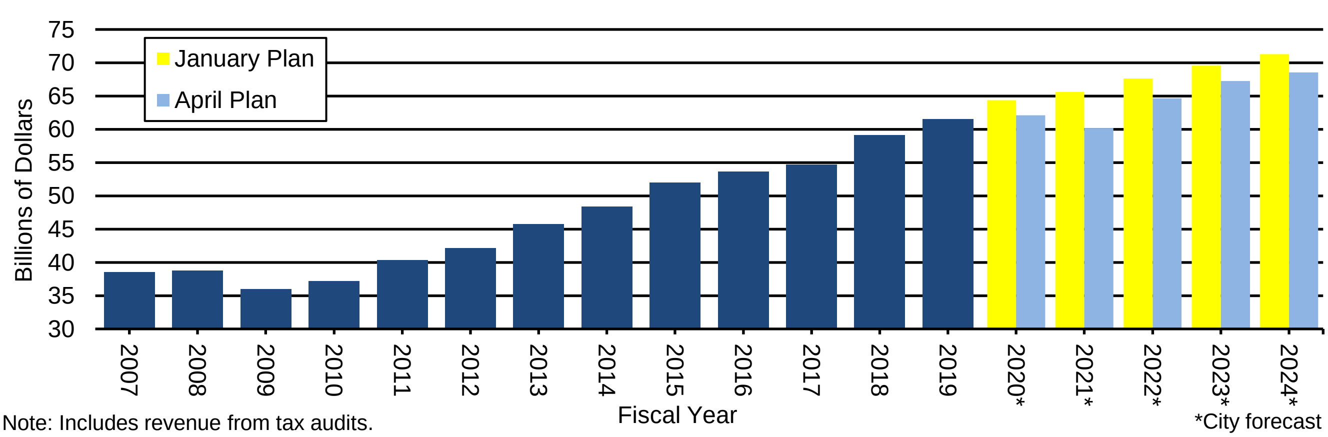


Note: Includes revenue from tax audits. *City forecast
Sources: NYC Office of Management and Budget; OSC analysis

The resumption of economic activity in New York City and the growth of tax revenue will depend on factors largely beyond the City's control. These include the loosening of social distancing measures, changes in social and business behaviors, and the return of tourism. In addition, while the number of new COVID-19 cases are declining, many epidemiologists warn of a second wave of cases in the fall or during the annual flu season.

It remains to be seen whether the City's revenue forecasts are sufficiently conservative. Given the uncertainties inherent in making revenue forecasts during times of crisis, the City should be prepared to revise its estimates as new information becomes available.

FIGURE 16
Tax Revenues



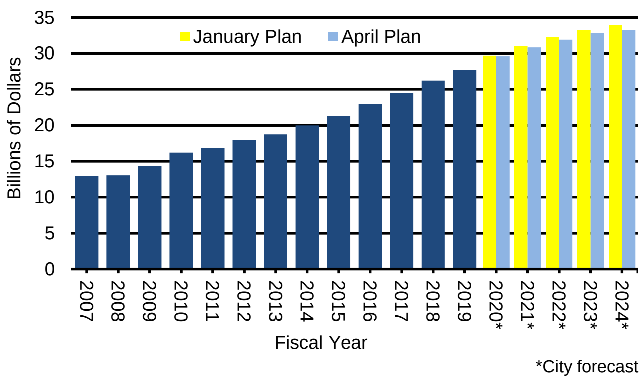
Note: Includes revenue from tax audits. *City forecast
Source: NYC Office of Management and Budget

General Real Property Tax

The property tax is the City's largest and most stable source of tax revenue, accounting for half of all tax collections. Collections are projected to grow by 4.1 percent in FY 2021 to $30.8 billion, the smallest increase since FY 2008.

Since January, the City has lowered its property tax forecast by a total of $1.7 billion during the financial plan period (see Figure 18), reflecting an expectation of slower growth in property values and an increase in tax delinquencies.

FIGURE 18
Property Tax Revenues



Source: NYC Office of Management and Budget

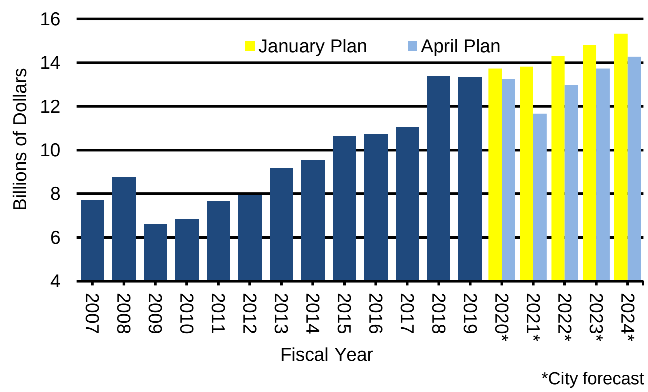
State law includes provisions that minimize the impact of large market value fluctuations on assessments by phasing in these changes over several years (i.e., creating a pipeline). As the value of the pipeline declines, property tax collections will reflect the slowing property market growth more closely. As a result, the April Plan assumes revenue growth will continue to decelerate in the remainder of the financial plan period, growing by only 1.3 percent in FY 2024.

In response to litigation challenging the fairness and constitutionality of the City's property tax system, the Mayor and the City Council Speaker established an advisory commission to develop recommendations to make the City's property tax system simpler, clearer and fairer, while ensuring that there is no reduction in the revenue used to fund essential City services. The commission released its preliminary report in January 2020, but the final report is expected to be delayed because of the pandemic. The citywide property tax rate has not increased since January 2009, although property taxes have grown by 91 percent because of higher assessed values.

Personal Income Tax

Personal income tax collections are projected to total $13.3 billion in FY 2020 and $11.7 billion in FY 2021 (see Figure 19). These estimates are $481 million and $2.1 billion less than forecast in the January Plan, respectively. Consequently, the April Plan assumes personal income tax collections will fall by 11.9 percent in FY 2021, the largest decline since the Great Recession.

FIGURE 19
Personal Income Tax Revenues



Source: NYC Office of Management and Budget

Despite the expectation of a quick rebound, the City lowered its forecast for the remainder of the financial plan period by a total of $3.5 billion because it does not expect income to reach the levels previously forecast.

Collections from withholding (i.e., the amount of tax taken from employees' paychecks) were strong during the first three quarters of FY 2020, rising by 6.6 percent. Growth was supported by strong job gains, strong wage growth and an increase in bonuses. However, the City expects withholding to fall off during the fourth quarter of the fiscal year, holding down growth to 4.0 percent for all of FY 2020.

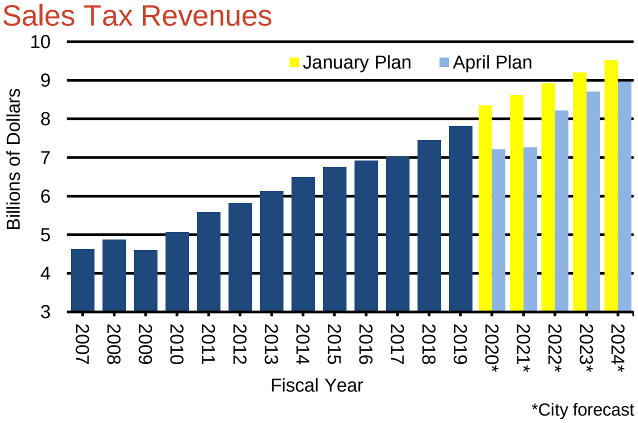
The City lowered its withholding forecast for FY 2021 by $1.7 billion. As a result, collections are projected to decline by 12 percent in FY 2021, a larger drop than in either of the past two recessions. The City's forecast assumes the loss of 350,400 jobs, a 9.7 percent decline in wages and a 34 percent decline in securities bonuses for work performed in 2020.

While the January Plan had assumed a slight decline in estimated personal income tax payments in FY 2020, the City now projects a decline of 12.9 percent. The revised forecast assumes a 45 percent decline in capital gains. Estimated payments are projected to decline by another 11.7 percent in FY 2021 to $2.4 billion, which is $519 million less than projected in the January Plan. While the tax filing deadline has been extended from April 15 to July 15, the payments will still accrue to 2020.

Sales Tax

Sales tax collections rely on industries hit hard by the shutdown of nonessential businesses, including retail establishments, restaurants and tourism. As a result, the City lowered its sales tax forecast by $1.1 billion and $1.4 billion in fiscal years 2020 and 2021 (see Figure 20). According to Siena College Research Institute, consumer sentiment in the first quarter of 2020 reached its lowest point in New York City since 2011.

FIGURE 20
Sales Tax Revenues



Source: NYC Office of Management and Budget

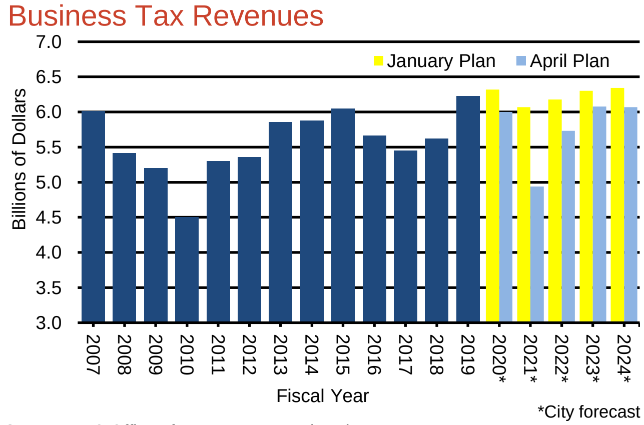
Collections are now expected to decline by $597 million in FY 2020, the largest decline on record. March collections declined by 12 percent compared to one year earlier, and the City expects collections to fall by more than 40 percent in the last quarter of FY 2020.

The April Plan assumes sales tax revenue will total $7.2 billion in FY 2020 and only slightly more in FY 2021. Revenue will be held down in fiscal years 2021 and 2022 because the State will divert $400 million in sales tax collections intended for the City to help distressed health care facilities across the State.

Business Taxes

The City imposes income taxes on corporations and unincorporated businesses, which are expected to generate $4.9 billion in FY 2021, $1.1 billion less than projected in the January Plan (see Figure 21). This level is the lowest since FY 2010 and $1.3 billion less than the record set in FY 2019.

FIGURE 21
Business Tax Revenues



Source: NYC Office of Management and Budget

Although the City expects tax revenue from business corporations to fall only slightly short of its January forecast in FY 2020, it expects collections to decline by 26 percent in FY 2021 to $3.2 billion, a sharper decline than any year during the two previous recessions.

The securities industry is responsible for a large share of the City's corporate tax revenue. The April Plan, however, assumes that the securities industry will lose $6.4 billion in 2020, its first annual loss since the 2008 financial crisis. The City expects the industry to return to profitability in the following year ($20.9 billion).

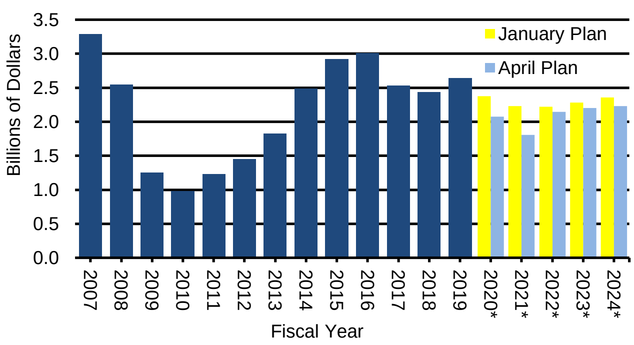
Tax revenue from unincorporated businesses are expected to decline by 15 percent in FY 2020 to $1.7 billion, the lowest level since FY 2012. The decline is slightly larger than the drop that occurred during the Great Recession. Collections are expected to return to the FY 2019 record level by FY 2023.

Real Estate Transaction Taxes

The April Plan assumes collections from real estate transaction taxes will fall by 21.6 percent ($571 million) in FY 2020 to $2.1 billion as transaction activity stalls in the fourth quarter. Some of the loss, however, may be offset by increased refinancing activities as home owners take advantage of historically low interest rates.

Collections are projected to decline sharply by another 12.8 percent in FY 2021, $420 million below the forecast in the January Plan. Although transaction revenue is projected to rebound in FY 2022 (growing by 18.8 percent), collections are expected to remain well below the 2019 level during the financial plan period (see Figure 22).

FIGURE 22
Real Estate Transaction Tax Revenues

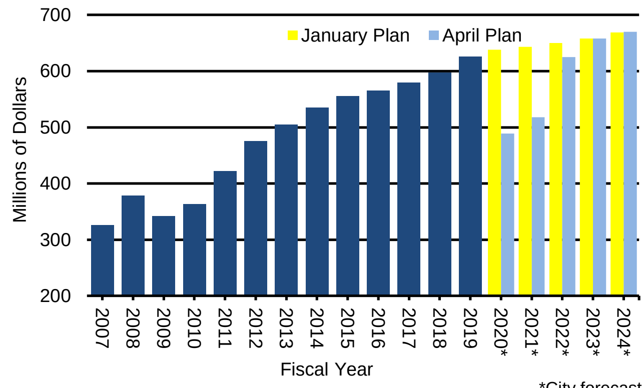


Source: NYC Office of Management and Budget

Hotel Tax

Hotel tax collections are expected to decline by 22 percent in FY 2020, the steepest decline since the 2001 recession. The revised forecast reflects the virtual halt of tourism in 2020 after a record-high number of visitors in 2019. Hotel occupancy, for example, fell to 15 percent in the last week of March. The April Plan anticipates $489 million from hotel taxes in FY 2020 (see Figure 23), $149 million less than expected in the January Plan.

FIGURE 23
Hotel Tax Revenues



Source: NYC Office of Management and Budget

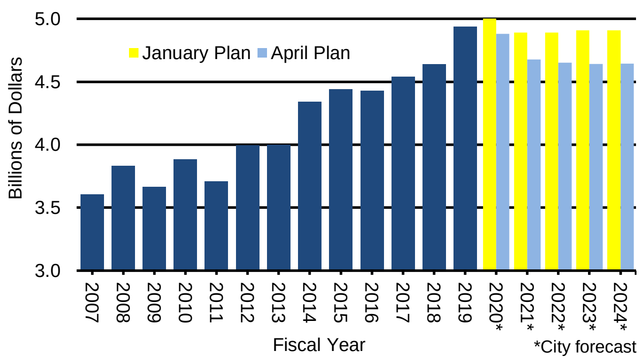
Collections are expected to increase by only 5.9 percent in FY 2021, reaching $518 million (the lowest level since FY 2013). This reflects the City's assumption that nonessential businesses, such as museums, concert halls and Broadway theaters, will gradually reopen in FY 2021, and tourism will begin to recover.

By FY 2022, the City expects tourism and hotel occupancy to return to pre-pandemic levels. As a result, hotel tax revenue is expected to increase by 21 percent to $625 million, close to the record set in FY 2019. However, growth may be slow if people remain hesitant to travel or attend crowded venues.

Miscellaneous Revenues

Miscellaneous revenues include recurring revenue from fines, fees, interest income, water and sewer rental payments, and other sources. The City reduced its forecast for recurring miscellaneous revenues by $339 million for fiscal years 2020 and 2021 (see Figure 24), reflecting the historically low federal funds rate, which will reduce interest income (by $184 million), and fewer fines from parking, speed cameras, red-light cameras and bus-lane cameras. The April Plan assumes revenues will remain essentially flat in subsequent years, but they could grow faster than the City expects as economic activity resumes.

FIGURE 24
Recurring Miscellaneous Revenues

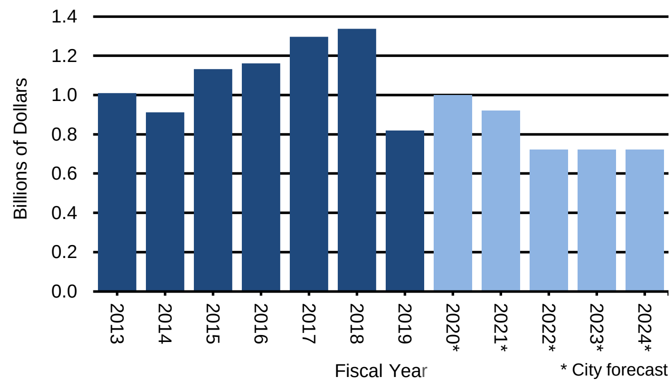


Note: Recurring revenues include fines, fees, forfeitures and licenses.
Source: NYC Office of Management and Budget

Audit Revenue

Each year, the Department of Finance conducts audits of individuals and businesses to ensure compliance with the tax code. The City did not revise its forecast because audit revenues are based on liabilities from prior years, so they are not expected to be impacted by the pandemic. The City estimates that audit revenue will total $999 million in FY 2020 and $921 million in FY 2021 (see Figure 25).

FIGURE 25
Audit Revenue



Source: NYC Office of Management and Budget

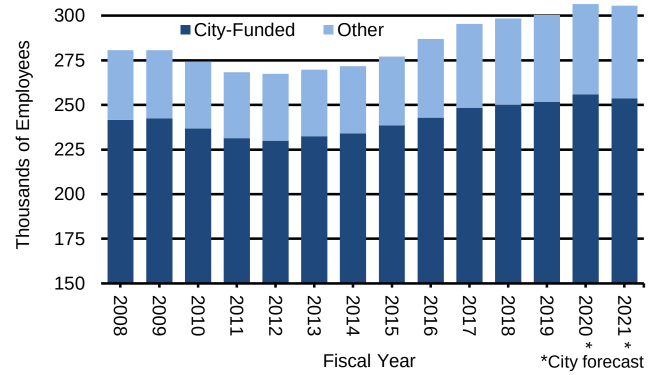
VI. Expenditure Trends

Expenditures are projected to total $89.3 billion in FY 2021, including programs funded with federal and State categorical grants. The portion funded with locally generated revenue (i.e., City funds) is expected to increase by only 0.6 percent to $69.4 billion after adjusting for surplus transfers that can mask expenditure trends (see Appendix B).

To mitigate the adverse impact of the COVID-19 pandemic on City fund revenues, the City reduced its reserves and expanded the citywide savings program. While these actions reduced planned spending by $4.2 billion in FY 2021 (see Figure 26), they had much less impact in subsequent years since the City relied heavily on nonrecurring actions to balance the FY 2021 budget. As a result, while City-funded spending is projected to increase by only 1.3 percent in FY 2021, spending will increase by 3.6 percent in FY 2022.

Further, the April Plan does not fully reflect the impact of the recently enacted State budget beyond FY 2021, or the likelihood of a significant shortfall in pension investment earnings in FY 2020, both of which could greatly increase the City's costs.

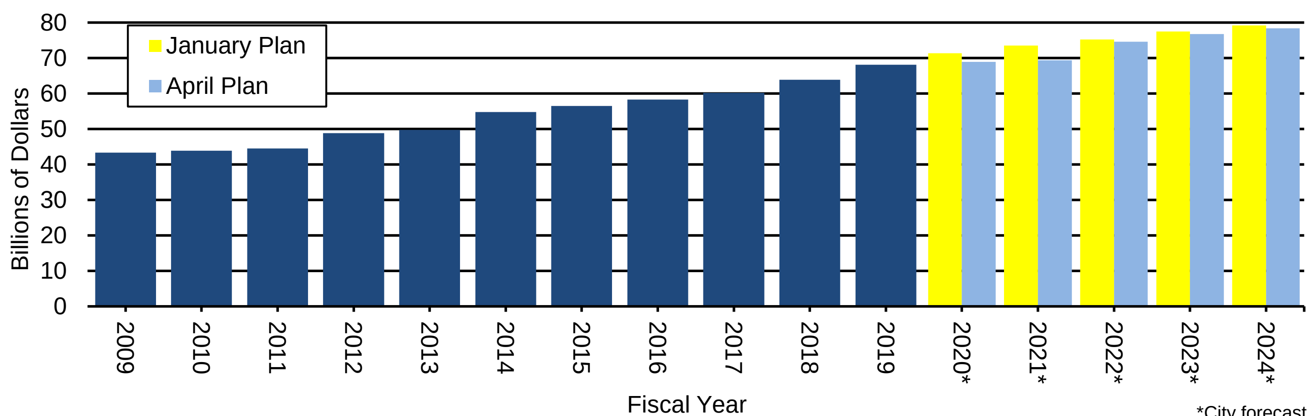
FIGURE 27
Full-Time Staffing Levels



Sources: NYC Office of Management and Budget; OSC analysis

The April Plan assumes that the City-funded full-time work force will decline by 2,231 employees between fiscal years 2020 and 2021, but most of the reduction results from closing jails on Rikers Island because of the declining inmate population. Despite the citywide savings program, which eliminated 4,102 planned hires, the work force is projected to total 253,656 employees at the end of FY 2021 (see Figure 27). While 507 fewer than in February 2020, the forecast is 2,028 higher than at the end of FY 2019 (see Appendix C for more details).

FIGURE 26
City-Funded Expenditures



Note: Adjusted for surplus transfers and debt defeasances.
Sources: NYC Office of Management and Budget; OSC analysis

Collective Bargaining

As of May 2020, 82 percent of the municipal work force had reached new labor agreements for the 2017-2021 round of bargaining. For most employees, the agreements call for compounded wage and benefit increases of 7.95 percent over a 43-month period.[4]

The April Plan assumes that all uniformed employees will receive a similar wage increase, but over 36 months. This assumption is based on an agreement reached in December 2019 with a coalition of eight unions that represent one-quarter of all uniformed employees. The City estimates that the cost of these agreements will exceed the civilian pattern by $72 million in FY 2020, rising to $100 million by FY 2024.

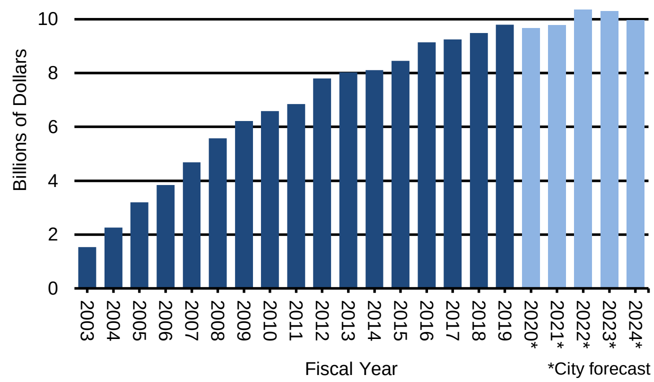
The Patrolmen's Benevolent Association, which represents police officers, has filed for binding arbitration. A panel was selected in September 2018, but proceedings have been deferred until sometime after the end of the COVID-19 shutdown. According to State law, arbitration awards for disputes between the City and police officers are limited to two years.

Pension Contributions

Pension contributions are projected to remain at about the same level during fiscal years 2020 and 2021 after growing rapidly for many years (see Figure 28). Still, contributions are projected to total $9.8 billion in FY 2021, representing 15 percent of City fund revenues.

The April Plan includes reserves of $200 million in FY 2022 and $275 million beginning in FY 2023 to fund changes that may result from the next biennial independent review of the City's pension systems as mandated by the City Charter. The independent review is expected to be completed sometime in 2021.

FIGURE 28
Pension Contributions
City-Funded



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

The City's pension funds had earned, on average, about 9 percent on their investments through February 14, 2020. Since then, the financial markets have fallen sharply and volatility has increased. As a result, the pension funds have lost an estimated 4 percent on their investments as of May 8, 2020, compared to an expected annual gain of 7 percent (a shortfall of about 12 percentage points).

Each percentage-point shortfall could increase pension contributions by about $32 million in FY 2022, $63 million in FY 2023 and $95 million in FY 2024. Consequently, the City potentially faces a large unfunded liability unless performance improves significantly by the end of the fiscal year.

The financial condition of the five pension systems has improved since FY 2014, when the City adopted new, more transparent financial reporting standards. Although the unfunded net liability for all five systems declined by $16.6 billion since FY 2013, the unfunded liability totaled $43.3 billion in FY 2019.

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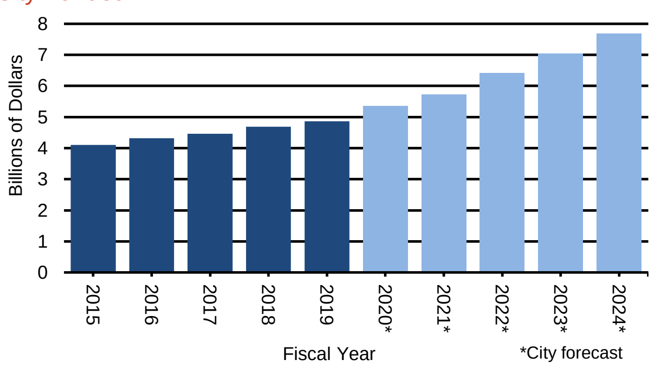
[4] Includes funding equal to two wage increases of 0.25 percent to fund benefit items.

Health Insurance

In May 2014, the City and the Municipal Labor Committee (MLC) reached the first of two agreements to generate health insurance savings to help fund wage increases for municipal employees. Under the first agreement, the parties agreed to generate $3.4 billion during fiscal years 2015 through 2018, and $1.3 billion in recurring savings beginning in FY 2019.

Under the second agreement, the City realized budgetary savings of $193 million in FY 2019, and the April Plan assumes savings of $300 million in FY 2020 and $600 million in FY 2021, plus recurring savings of $600 million beginning in FY 2022. According to the agreement, the annual savings targets could be met with nonrecurring savings. The health stabilization fund, which had a balance of $1.4 billion as of April 2020, has been used in the past to help fund labor agreements and to help balance the budget.

FIGURE 29
Health Insurance Costs
City-Funded



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

Together, the two agreements are expected to produce cumulative savings of $10.3 billion through FY 2022 and recurring savings of $1.9 billion beginning in FY 2022. The savings were used to help fund wage increases for the municipal work force. Despite the agreements, health insurance costs are projected to reach nearly $7.7 billion by FY 2024 (see Figure 29), 58 percent more than in FY 2019.

Debt Service

City-funded debt service is projected to grow from $6.2 billion in FY 2019 to nearly $9 billion by FY 2024 (see Figure 30), an increase of 45 percent. In recent years, however, debt service has grown more slowly than projected by the City because of historically low interest rates and lower-than-planned capital commitments. For FY 2021, the City may realize savings of $100 million from variable-rate debt.

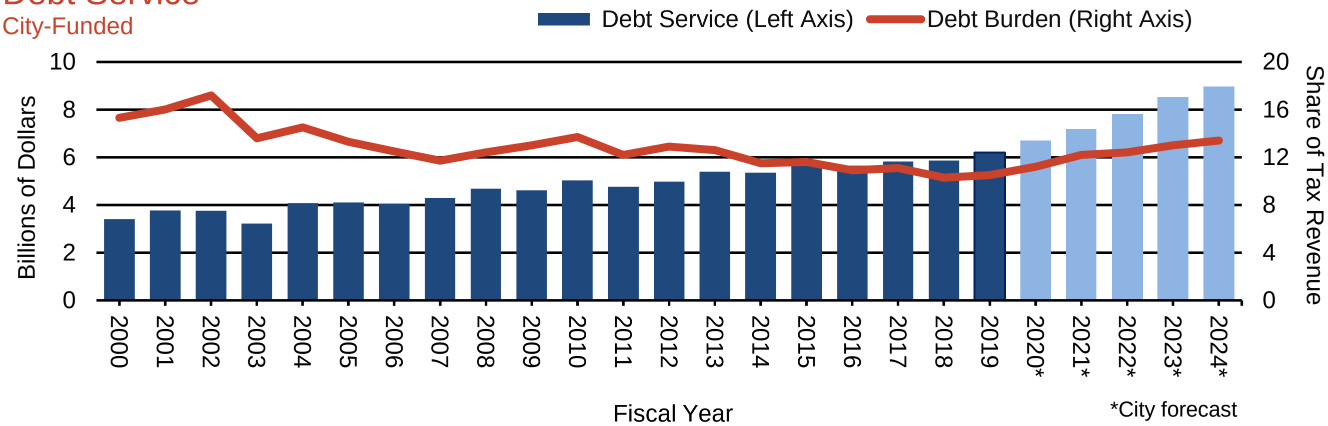
The City and its related entities have $9.5 billion in outstanding variable-rate debt, which typically provides attractive financing costs relative to long-term fixed-rate debt. While variable-rate debt continues to provide significant savings relative to fixed-rate debt, certain events can cause unexpected increased costs, including rising interest rates and the deterioration of the City's credit (see Section VIII, "Other Issues").

While the City reduced planned City-funded capital commitments for fiscal years 2020 through 2024 by a net of $2.4 billion, its ten-year capital strategy is still the largest in the City's history. Capital commitments are projected to total $126 billion through 2029, most of which would be funded by the City (93 percent).

Debt service as a share of tax revenue (i.e., the debt burden) reached a recessionary peak of 13.7 percent in FY 2010, but gradually declined to 10.5 percent by FY 2019 as the economy improved. The debt burden, however, is now projected to grow to 12.2 percent in FY 2021, which is higher than projected in the January Plan (11.4 percent).

Even though the City reduced its debt service forecast for FY 2021, the burden has grown because of the tax revenue loss associated with the COVID-19 pandemic. The burden is projected to approach the recessionary peak by FY 2024 (13.4 percent), but remain below the City's ceiling of 15 percent.

FIGURE 30
Debt Service
City-Funded



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

The City established a $250 million annual capital stabilization reserve in FY 2016 with the goal of preventing the debt burden from rising too quickly in the event of a rapid hike in interest rates or a sharp decline in tax revenue. The City plans to use the reserve to help balance the budget in FY 2021, but the reserve remains intact in subsequent years of the April Plan.

Medical Assistance

Medicaid provides health insurance to low-income children and adults, and pays more toward long-term-care costs than any other source. Medicaid also provides subsidies to health care providers that serve large numbers of low-income patients and uninsured patients, such as the Health and Hospitals Corporation.

The City's Medicaid caseload grew steadily after the Great Recession and accelerated after January 1, 2014, when Medicaid eligibility expanded under the federal Affordable Care Act. Enrollment reached almost 3.7 million people in December 2015. Since then, the Medicaid caseload has gradually declined, to about 3.4 million as of August 2019 (the latest data available). The caseload, however, will likely grow given the expected impact of the COVID-19 pandemic on the economy.

The federal Families First Coronavirus Response Act temporarily increases the federal government's share of Medicaid costs by 6.2 percentage points for every quarter during the national health emergency, which will be applied to claims for most Medicaid recipients. The April Plan assumes the emergency declaration will remain in effect for 12 months ending on December 31, 2020, and that the City will receive $942 million. The actual amount, however, will depend on the length of the emergency period.

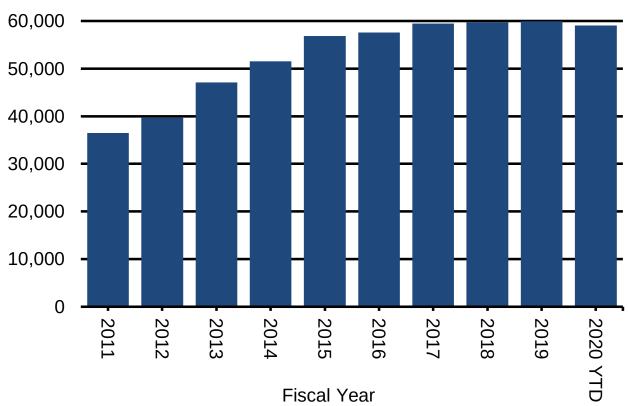
In 2015, the State completed a three-year takeover of the growth in the local share of Medicaid. The Governor's executive budget included initiatives that would have required New York City to shoulder a larger share of the cost of Medicaid, but these proposals were not included in the enacted State budget. The receipt of additional Medicaid funds under the federal act was contingent on states maintaining "eligibility standards, methodologies, or procedures" in the Medicaid program that were in effect on January 1, 2020.

The April Plan assumes the City-funded cost of Medicaid will temporarily decline from $6.1 billion in FY 2019 to $5.3 billion in FY 2021 with the receipt of federal aid, before rising to $5.8 billion annually beginning in FY 2022. These estimates assume the State will not require the City to shoulder a larger share of Medicaid.

Homeless Services

The homeless population in shelters operated by the Department of Homeless Services (DHS) increased by 63 percent between fiscal years 2011 and 2017. While the rate of growth slowed after 2017, the population still set an all-time record in 2019 (see Figure 31).

FIGURE 31
Homeless Shelter Population



Note: FY 2020 data through April 2020.
Sources: NYC Department of Homeless Services; OSC analysis

As of April 2020, the population had declined by a net of 2 percent through the first ten months of the fiscal year compared to the same period one year earlier. While the number of people in families with children living in shelters had fallen by 4 percent, the number of single adults had increased by 5 percent.

The COVID-19 pandemic has also impacted the City's shelter system, particularly the congregate shelters that house single adults, largely in dormitory-type settings. The City reports that 763 homeless people living in the City's shelters have tested positive for the virus. A total of 75 homeless people have died, including those who were not in City's shelters.

The City already houses about 11,000 people in hotels because of insufficient space in traditional shelters. The City expects to also use hotels to relocate another 2,500 single-adult shelter residents who display symptoms or have tested positive for COVID-19, and other residents at high risk of developing the virus, such as residents over age 70 and those located in some of the City's most crowded shelters.

Costs at the DHS have almost tripled since 2011, reaching $2.2 billion in FY 2019 ($1.4 billion in City funds). The April Plan assumes these costs will total $2.1 billion in FY 2021 ($1.3 billion in City funds), reflecting an anticipated continued decline in caseload.

Fair Fares

In January 2019, the City launched a program known as Fair Fares NYC to provide discounted MTA subway and bus fares to New Yorkers whose incomes are at or below the federal poverty line and who do not already participate in any transportation discount program.

The April Plan reduced funding for the program to less than $41 million from $106 million in FY 2020, reflecting a sharp decline in subway and bus ridership because of the COVID-19 pandemic. The April Plan includes $106 million for the program in FY 2021, and though the City may realize savings that year if ridership is slow to recover, the program is not funded beyond FY 2021.

VII. Semi-Autonomous Entities

Department of Education

New York City has the largest public school system in the nation, serving over 1.1 million students in more than 1,800 schools. The department employs more than 134,000 full-time employees (including nearly 121,000 pedagogical employees) and another 13,000 full-time-equivalent employees.

New York City schools have been closed since March 16 because of the COVID-19 pandemic, with students engaging in remote learning since March 23, and the Mayor has indicated that school buildings will not reopen during the current school year. While schools are closed, the department has used remote learning and will continue providing three daily, free, grab-and-go meals at 435 meal distribution centers scattered throughout the City using the existing school feeding programs.

The April Plan allocates $34.2 billion to the Department of Education for FY 2021, which is 38 percent of the City's total budget. Of this amount, the City is expected to fund $19.6 billion (57 percent), with the remainder funded by the State (36 percent) and the federal government and other sources (7 percent).

The FY 2021 allocation is $638 million less than the amount allocated in the current fiscal year, reflecting a shortfall in anticipated State education aid and City budget cuts.

Although the State budget includes $11.3 billion in education aid for New York City (including $717 million in federal aid under the CARES Act), the allocation is $18 million less than the amount allocated in the current fiscal year and $360 million less than the January Plan had anticipated for FY 2021.

Although the City backfilled the State education aid shortfall with City funds in FY 2021, it made no provision for the shortfall in subsequent years. Consequently, the April Plan assumes the State will increase education aid by $852 million in FY 2022, more than twice the average in the past ten years, which appears very unlikely given the financial challenges facing the State.

The April Plan includes new cost-saving initiatives that will reduce City funding to the department by $470 million in FY 2021. Of this amount, $213 million would come from service reductions, including a reduction in discretionary funding to schools and certain Equity and Excellence for All programs. The department will also delay for one year an expansion of 3-K programs.

Under federal law, school districts must provide necessary services to students with disabilities. If the district is unable to do so itself, it must fund such services in what are known as "Carter" cases. The City has made recent investments to improve its capacity to provide such services, but the cost of Carter cases continues to exceed expectations. The January Plan added $150 million for this purpose in FY 2020, but no additional funding in subsequent years.

The City now expects spending on Carter cases to reach $540 million in FY 2020, more than double the FY 2015 amount. However, the April Plan assumes these costs will decline by $135 million in FY 2021. Until the City can demonstrate that the cost of Carter cases has begun to decline, these costs are likely to exceed the estimates in the April Plan by $150 million annually beginning in FY 2021.

Likewise, the cost of student transportation has grown faster than anticipated, requiring the City to add funding in each of the past four fiscal years (averaging $74 million annually). The City has added $99 million in FY 2020 for this purpose, but did not include any additional funding in later years.

Metropolitan Transportation Authority

In February 2020, the MTA released a financial plan covering calendar years 2020 through 2023. The MTA projected balanced budgets for 2019 through 2022 and a budget gap of $130 million in 2023. These estimates assumed biennial fare and toll increases of 4 percent beginning in 2021 and the successful implementation of the MTA's transformation plan, which was expected to save $1.6 billion over the financial plan period.

In response to the COVID-19 pandemic, nonessential businesses were forced to close and many people are working from home, have been furloughed or have lost their jobs. As a result, utilization of the MTA's services has dropped precipitously. Ridership has declined on the subway by 93 percent, on Metro-North Railroad by 95 percent, and on the Long Island Rail Road by 97 percent, and bridge and tunnel crossings are down by 62 percent.

In addition, the MTA estimates that it is losing $142 million per week in fare and toll revenue when compared to its February 2020 financial plan. In March alone, fare and toll revenue was $249 million less than planned.

The recently enacted federal CARES Act provides $25 billion to mass transit agencies for costs related to the pandemic response and for operating its services. The MTA expects to receive $3.9 billion in grants from that allocation.

In April 2020, the MTA announced that its consultant had estimated that even after accounting for the funding under the CARES Act, the impact of the pandemic on the 2020 budget could be an additional $3.1 billion to $4.6 billion. As a result, the MTA is seeking $3.9 billion of additional federal assistance (which is the midpoint of the estimated operating impact). The MTA's consultant also estimated that the impact of the pandemic on the 2021 budget could range from $5.1 billion to $7.8 billion.

The enacted State budget authorizes the MTA to borrow up to $10 billion during calendar years 2020 through 2022 to offset decreases in revenue or increases in operating costs that are due, in whole or in part, to the pandemic.

The State budget also authorizes the MTA to use congestion pricing lockbox revenues during 2020 and 2021 to mitigate the operating budget impact of the pandemic. These revenues were previously earmarked for the MTA's 2020-2024 capital program. Revenues in the lockbox currently include funds from State and City sales taxes and real estate–related taxes on high-end properties in the City. The MTA had expected to receive an annual average of $682 million from these sources in 2021 and 2022.

Congestion pricing revenues (estimated at $1 billion annually) could become available in 2021 from the lockbox if the federal government approves the MTA's congestion pricing plan in the near future.

The MTA is required to repay any lockbox funds used for operating purposes from any federal funds or insurance proceeds received as a result of the pandemic, but only if funds remain after the MTA fully repays any COVID-19 related public or private commitments.

The enacted State budget also commits the State and the City to each provide $3 billion for the MTA's 2020-2024 capital program. While a capital appropriation for the State's commitment is included in the State budget, the sources of funding have not been identified. In the event that the City does not certify that it made its payment when due, the State budget director is authorized to direct the State Comptroller to divert other State payments intended for the City into a new fund (i.e., the MTA Capital Assistance Fund) and to provide these funds to the MTA.

The State budget also requires the City to increase (from one-third to half) its share of the net cost of the paratransit program through 2023. The City's payments will be capped at

$215 million in 2020, $277 million in 2021, $290 million in 2022 and $310 million in 2023. If payments are not made, the State Comptroller will divert State payments intended for the City into a new fund (the MTA Paratransit Assistance Fund) and then pay the MTA.

The MTA has begun managing its cash liquidity to help it steer through the fiscal implications resulting from the pandemic. The MTA currently has liquidity of $2.8 billion, including a $1 billion line of credit that it has drawn upon.

The MTA has announced that it has put a halt to new capital commitments to preserve liquidity. The MTA is expected to reassess the implementation of its capital plans by June 2020.

The MTA is considering various options to balance its operating budget this year, including using $1.6 billion in pay-as-you-go funding that had been set aside for use in the capital program; implementing various unspecified debt restructuring options that could generate as much as $1.8 billion; and applying new federal flexibility to use $655 million in federal capital grants in its operating budget.

The State is required to provide $7.3 billion for the MTA's 2015-2019 capital program when all other MTA sources of funding are exhausted. According to the MTA, it has committed all of its own capital resources through that capital program and has begun to initiate projects against the State funding commitment.

The MTA plans to issue bond anticipation notes to cover the State's obligation, which will be paid off with proceeds from long-term MTA bonds.[5] The MTA's budget assumes that the State will provide ongoing annual appropriations equal to the debt service on the long-term bonds. According to the MTA, the debt service on these bonds is expected to total $31 million in 2020, rising to $256 million in 2023.

State law requires the City to contribute $2.7 billion to the 2015-2019 capital program, and it has allocated $2.1 billion in its capital program. The remaining $600 million will be provided as part of an agreement between the MTA and the City concerning the MTA's former headquarters on Madison Avenue. Real estate and other revenues generated from the future development of the MTA's headquarters site will be dedicated to the MTA's capital program.

The MTA's transportation revenue bonds have been downgraded by three rating agencies. Consequently, the cost of borrowing for operating or capital purposes may be more expensive than in past years.

The State has recently indicated that it may need to reduce funding to the MTA if the State does not receive additional federal aid to help balance its budget. In addition, any recession that could follow from the pandemic will have a substantial impact on the MTA's finances. Dedicated taxes and subsidies, which provide nearly half of the MTA's revenue, could have large shortfalls. There is also a risk that a significant percentage of ridership will not return after the pandemic subsides or will return more slowly than expected. As a result, fares and tolls could rise higher than currently planned by the MTA.

Health and Hospitals Corporation

The Health and Hospitals Corporation is the largest public health system in the country and provides health and mental health services to about 1.1 million City residents. It has more than 5,000 hospital beds throughout its 11 hospitals, but only about 330 are equipped to function as intensive care unit (ICU) beds.

Even before the COVID-19 pandemic, the Corporation faced significant financial challenges, including the declining use of services, reduced federal funding, and a large

[5] The MTA has $2 billion in outstanding bond anticipation notes that were issued to cover the State's commitment.

share of patients who lack health insurance. While the Corporation has made progress in recent years in improving its financial condition, it faces further financial and operational stress from the COVID-19 pandemic.

Within weeks of New York City's first confirmed case of COVID-19, the Corporation had more than doubled its medical bed capacity and had added almost 1,000 ICU beds. The Corporation also contracted with 20 hotels to increase bed capacity for patients who were recovering from COVID-19 but not well enough to return home. To accommodate the influx of patients and increased bed capacity, the Corporation has added 515 doctors, nurse practitioners and physician assistants, and 2,000 nurses.

The Corporation is still assessing the full impact of the pandemic on its financial plan. However, it anticipates that it will receive $778 million in reimbursement from FEMA for costs incurred from the pandemic. The Corporation has already received $118 million in federal aid from other programs for health care–related expenses or lost revenues related to the pandemic.

The CARES Act delays cuts to federal supplemental Medicaid payments from May 23, 2020, to December 1, 2020. The delay will benefit the Corporation by $237 million in FY 2021 since its financial plan had assumed the cuts would take effect as planned.

The Corporation is still assessing the budgetary impact of the Medicaid Redesign Team (MRT) initiatives included in the enacted State budget for SFY 2021. The MRT initiatives are expected to result in statewide savings of $2.2 billion in SFY 2021 and $2.7 billion in SFY 2022. The initiatives include reductions to certain Medicaid payments to safety net hospitals such as the Corporation, cuts to managed care plans, and an increase in across-the-board rate reductions from 1 percent to 1.5 percent.

The impact of these initiatives could be mitigated by other MRT provisions that convert certain supplemental Medicaid payments to rate increases. However, the New York State Department of Health and the Corporation have yet to complete a memorandum of understanding that would set out the terms, which would also require federal approval.

The operational and financial impact of the COVID-19 pandemic on the Corporation will be dependent on the pandemic's severity and duration. While the budgetary impact could be mitigated by financial support from the federal government, the City could also be called upon to increase its financial support.

New York City Housing Authority

The New York City Housing Authority (NYCHA) manages about 174,000 apartments that house more than 380,000 residents. This represents 8 percent of the City's rental apartments.

NYCHA is under the purview of a federal monitor pursuant to an agreement between the City, NYCHA, the secretary of the U.S. Department of Housing and Urban Development, and the Southern District of New York. The agreement is designed to remedy lead paint conditions as well as resolve deficiencies related to heat, mold, elevators and pests. The work mandated by the agreement, however, may be impacted by the pandemic.

The federal CARES Act includes $685 million for public housing operating assistance and another $850 million for administering public housing Section 8 programs. NYCHA estimates that it will receive $166 million from these sources.

Despite federal assistance, NYCHA expects the pandemic to significantly impact rent collections. (Tenant rents comprise 27 percent of NYCHA's $3.8 billion 2020 operating budget.) NYCHA anticipates a decrease in rental revenue from reductions in rent due to lower incomes, a new policy to delay rent increases by 90 days, and an increase in rent delinquencies.

VIII. Other Issues

Credit Rating

The City-funded portion of the City's capital program is financed through general obligation (GO) bonds secured by the City's full faith and credit, and bonds issued by the Transitional Finance Authority (TFA) are secured by personal income tax and (if needed) sales tax revenues.

In March 2019, Moody's Investment Service upgraded the City's rating one notch to Aa1 from Aa2. The upgrade was attributed to the continued strengthening and diversification of the City's economy and strong ongoing financial management. The City's GO credit is currently rated AA by Standard & Poor's and AA by Fitch Ratings. The City's TFA debt is currently rated higher (AAA by S&P, AAA by Fitch and Aaa by Moody's).[6]

The ratings by the three major credit rating agencies are the highest since at least the 1970s fiscal crisis. This has enabled the City to access the credit markets to meet its financing needs, and to keep borrowing costs at reasonable rates.

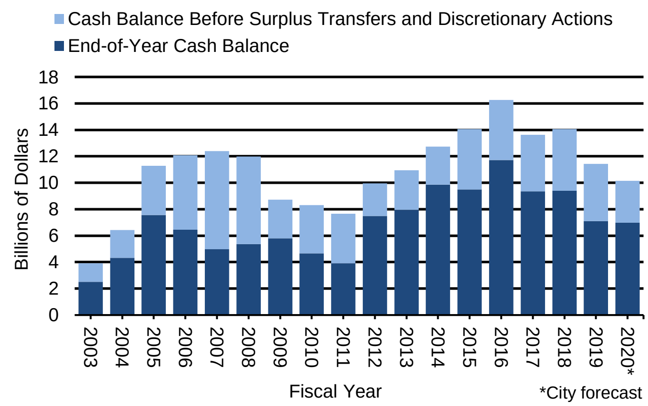
Moody's and Fitch have revised their outlook for both credits from stable to negative. Moody's cites "a sudden and severe decline in the City's sales and income taxes as the negative economic effects of efforts to stem Coronavirus take hold, and the significant actions the City will need to take to balance the budget in the next year and possibly beyond." Moody's also notes, however, that it expects "City revenue to return closer to normal patterns when social distancing ends and the economy starts to normalize."

Fitch states that "slower growth began to emerge before the Coronavirus hit, and if it is sustained would be likely to make matching recurring expenses to recurring revenues more difficult."

Cash Flow

The City has not needed to borrow to meet its short-term cash needs since FY 2004, but the loss of revenue and unexpected costs associated with the pandemic are putting pressure on the City's cash position. The City has taken a number of steps to preserve cash, including a deferment of nearly $1 billion in payroll taxes. As a result of these actions and the City's strong cash position before the pandemic, the City expects to end FY 2020 with a cash balance of $10 billion (see Figure 32).

FIGURE 32
Year-End Cash Balance



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

The April Plan assumes the City will not need to borrow to meet its cash flow needs during the financial plan period, but the situation could change if its cash position deteriorates. While the City continues to have access to the credit markets, the Federal Reserve has established a municipal liquidity facility to help state and local governments manage their cash flow pressures by purchasing short-term notes directly.

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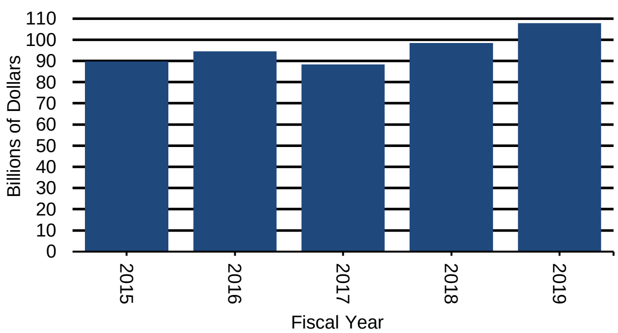
6 Fitch and S&P do not make a rating distinction between TFA senior and subordinate bonds. Moody's rates TFA subordinate bonds one notch lower (Aa1) than it rates senior bonds.

Post-Employment Benefits

The City's unfunded liability for post-employment benefits other than pensions (OPEBs) reached $108 billion in FY 2019 (see Figure 33), an increase of $18 billion (20 percent) in four years.[7]

The City, like many state and local governments, does not fund its OPEB liabilities on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from $2.5 billion in FY 2019 to $3.2 billion in FY 2024, an increase of 28 percent.

FIGURE 33
Unfunded OPEB Liability

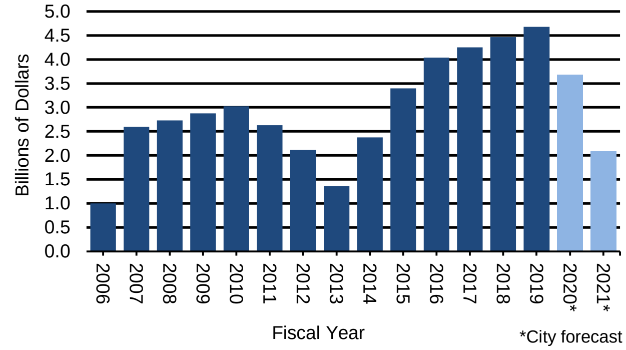


Sources: NYC Actuary; OSC analysis

Retiree Health Benefits Trust

In FY 2006, the City established the Retiree Health Benefits Trust (RHBT) to help fund the future cost of OPEBs. During fiscal years 2006 and 2007, the City deposited $2.5 billion of surplus resources into the RHBT. These resources were invested and earned interest, with the balance exceeding $3 billion by FY 2010.

FIGURE 34
RHBT Year-End Balance



Note: Adjusted for prepayments.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

While the RHBT was intended to help fund future OPEB liabilities, it has been used as a rainy-day fund in the past. The City drew down more than half of the resources in the RHBT during fiscal years 2011 through 2013 as it managed through the Great Recession (see Figure 34).

Since then, the City has replenished and added to the trust. By the end of FY 2019, the RHBT had a balance of $4.7 billion, significantly higher than before the Great Recession. However, the City plans to draw down $1 billion in FY 2020 and another $1.6 billion in FY 2021 to help balance the budgets in those years, leaving a balance of $2.1 billion, the lowest level since FY 2013.

[7] Annual OPEB expenses include the service costs, interest expenses, and increases (or decreases) from the recognition of unanticipated actuarial experiences (e.g., mortality rates) and changes in actuarial assumptions and methods.

Appendix A: City-Fund Revenue Trends

(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Property Tax	$ 29,612	$ 30,834	$ 31,906	$ 32,831	$ 33,260
Personal Income Tax	13,253	11,671	12,975	13,729	14,270
Sales Tax	7,213	7,264	8,216	8,705	8,954
Business Taxes	5,998	4,943	5,728	6,083	6,065
Real Estate Transaction Taxes	2,073	1,808	2,147	2,204	2,232
Other Taxes	2,965	2,745	2,941	3,002	3,058
Tax Audits	999	921	721	721	721
Subtotal: Taxes	**62,113**	**60,186**	**64,634**	**67,275**	**68,560**
Miscellaneous Revenues	5,374	5,029	4,996	4,984	4,986
Unrestricted Intergovernmental Aid	1,411	- - -	- - -	- - -	- - -
Grant Disallowances	(15)	(15)	(15)	(15)	(15)
Total	**$ 68,883**	**$ 65,200**	**$ 69,615**	**$ 72,244**	**$ 73,531**

Annual Rate of Growth	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Property Tax	6.9%	4.1%	3.5%	2.9%	1.3%
Personal Income Tax	-0.7%	-11.9%	11.2%	5.8%	3.9%
Sales Tax	-7.6%	0.7%	13.1%	6.0%	2.9%
Business Taxes	-3.7%	-17.6%	15.9%	6.2%	-0.3%
Real Estate Transaction Taxes	-21.6%	-12.8%	18.8%	2.7%	1.3%
Other Taxes	0.7%	-7.4%	7.1%	2.1%	1.9%
Tax Audits	22.2%	-7.8%	-21.7%	- - -	- - -
Subtotal: Taxes	**1.0%**	**-3.1%**	**7.4%**	**4.1%**	**1.9%**
Miscellaneous Revenues	-10.4%	-6.4%	-0.7%	-0.2%	- - -
Unrestricted Intergovernmental Aid	N/A	N/A	- - -	- - -	- - -
Grant Disallowances	- - -	- - -	- - -	- - -	- - -
Total	**1.7%**	**-5.3%**	**6.8%**	**3.8%**	**1.8%**

Sources: NYC Office of Management and Budget; OSC analysis

Appendix B: City-Fund Expenditure Trends

(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	2024
Salaries and Wages	$ 20,515	$ 21,760	$ 20,970	$ 21,507	$ 22,051
Pension Contributions	9,674	9,783	10,358	10,290	9,962
Debt Service	6,713	7,173	7,813	8,523	8,971
Medicaid	5,885	5,297	5,813	5,813	5,813
Health Insurance	5,354	5,722	6,406	7,034	7,676
Other Fringe Benefits	3,252	3,293	3,509	3,666	3,833
Energy	732	764	814	857	889
Judgments and Claims	593	587	602	618	635
Public Assistance	779	890	890	890	890
Other	16,832	15,587	16,214	16,327	16,463
Subtotal	**70,329**	**70,855**	**73,389**	**75,524**	**77,182**
General Reserve	20	100	1,000	1,000	1,000
Capital Stabilization Reserve	- - -	- - -	250	250	250
Retiree Health Benefits Trust	(1,000)	(1,600)	- - -	- - -	- - -
Prior Years' Expenses	(400)	- - -	- - -	- - -	- - -
Total	**$ 68,949**	**$ 69,355**	**$ 74,639**	**$ 76,774**	**$ 78,432**

Annual Rate of Growth	FY 2020	FY 2021	FY 2022	FY 2023	2024
Salaries and Wages	1.6%	6.1%	-3.6%	2.6%	2.5%
Pension Contributions	-1.2%	1.1%	5.9%	-0.7%	-3.2%
Debt Service	8.3%	6.8%	8.9%	9.1%	5.3%
Medicaid	-2.9%	-10.0%	9.7%	- - -	- - -
Health Insurance	10.2%	6.9%	12.0%	9.8%	9.1%
Other Fringe Benefits	6.3%	1.3%	6.5%	4.5%	4.6%
Energy	-6.7%	4.4%	6.6%	5.2%	3.8%
Judgments and Claims	0.9%	-0.9%	2.6%	2.6%	2.7%
Public Assistance	19.4%	14.2%	- - -	- - -	- - -
Other	5.6%	-7.4%	4.0%	0.7%	0.8%
Subtotal	**3.2%**	**0.7%**	**3.6%**	**2.9%**	**2.2%**
General Reserve	N/A	N/A	N/A	- - -	- - -
Capital Stabilization Reserve	N/A	N/A	N/A	- - -	- - -
Retiree Health Benefits Trust	N/A	N/A	N/A	- - -	- - -
Prior Years' Expenses	N/A	N/A	- - -	- - -	- - -
Total	**1.2%**	**0.6%**	**7.6%**	**2.9%**	**2.2%**

Note: Debt service and totals have been adjusted for surplus transfers. Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSC analysis

Appendix C: Full-Time Staffing Levels

		Actual FY 2019	Actual Feb 2020	Forecast FY 2020	Plan FY 2021
Public Safety		**86,248**	**86,275**	**85,375**	**83,273**
Police	Uniformed	36,461	36,634	36,178	36,178
	Civilian	15,209	15,398	15,796	15,484
Fire	Uniformed	11,239	11,198	10,936	10,935
	Civilian	6,015	6,159	6,339	6,336
Correction	Uniformed	10,189	9,566	8,949	7,219
	Civilian	1,743	1,750	1,920	1,911
District Attys. & Prosecutors		4,511	4,698	4,293	4,278
Probation		852	845	928	896
Board of Correction		29	27	36	36
Health & Welfare		**23,784**	**23,774**	**25,475**	**25,560**
Social Services		9,649	9,562	10,996	10,977
Children's Services		7,043	7,222	7,002	7,259
Health & Mental Hygiene		4,189	4,166	4,394	4,409
Homeless Services		2,287	2,144	2,373	2,208
Other		616	680	710	707
Environment & Infrastructure		**15,968**	**16,948**	**16,685**	**16,173**
Sanitation	Uniformed	7,893	7,910	7,842	7,425
	Civilian	2,073	2,079	2,174	2,166
Transportation		2,243	2,972	2,520	2,537
Parks & Recreation		3,470	3,662	3,794	3,693
Other		289	325	355	352
General Government		**11,141**	**11,556**	**12,174**	**12,208**
Finance		1,968	2,035	2,127	2,121
Law		1,667	1,682	1,818	1,829
Citywide Admin. Services		1,736	1,821	1,899	1,880
Taxi & Limo. Commission		561	591	596	593
Investigations		353	364	403	381
Board of Elections		544	684	517	517
Info. Tech. & Telecomm.		1,505	1,577	1,768	1,846
Other		2,807	2,802	3,046	3,041
Housing		**2,347**	**2,441**	**2,626**	**2,601**
Buildings		1,611	1,661	1,799	1,781
Housing Preservation		736	780	827	820
Department of Education		**103,434**	**104,494**	**104,602**	**104,904**
	Pedagogues	92,077	92,886	93,734	94,083
	Non-Pedagogues	11,357	11,608	10,868	10,821
City University of New York		**6,433**	**6,332**	**6,387**	**6,387**
	Pedagogues	4,599	4,573	4,441	4,441
	Non-Pedagogues	1,834	1,759	1,946	1,946
Elected Officials		**2,273**	**2,343**	**2,563**	**2,550**
Total		**251,628**	**254,163**	**255,887**	**253,656**

Note: City-funded staffing only. Excludes positions funded entirely with federal and State categorical grants.
Sources: NYC Office of Management and Budget; OSC analysis

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