Review of the Financial Plan of the City of New York

Report 2-2021

OFFICE OF THE NEW YORK STATE COMPTROLLER
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Message from the Comptroller

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The economic, social and budgetary fallout from the COVID-19 pandemic on New York City has been unprecedented, while the loss of life has been unimaginable. Even though the number of new COVID-19 cases has fallen dramatically since the peak in early April, almost 19,000 City residents have died from the virus.

Restrictions put in place to slow the spread of the disease triggered a national recession. In New York City, job losses in March and April were the largest since the Great Depression. The City lost one-fifth of its jobs, erasing nearly all of the job gains of the past decade.

In June, the City projected a two-year revenue loss of $9.6 billion, requiring it to take actions to offset the loss. Although the City projects a balanced budget in the current fiscal year, it projects a budget gap of $4.2 billion for next year. In addition, its four-year financial plan includes sizable risks.

The City's financial plan is counting on a strong rebound next year, with record job gains and strong growth in nonproperty tax collections. The pace of the recovery, however, will depend on factors that are largely outside the City's control, including the possibility of a second wave of the novel coronavirus and changes in social and business practices.

In the absence of additional federal aid, the Governor has indicated that further actions will be needed to close a $13.3 billion gap in the State's budget, including an $8.2 billion largely recurring reduction in aid to localities. Although still unspecified, a cut of this size would likely have a large adverse impact on the City's budget and its residents.

The Metropolitan Transportation Authority, which is critically important to the regional economy, faces an unprecedented financial crisis. Although it has received $4 billion in federal aid, it still projects a budget gap of $9 billion over this year and next. Even with additional federal aid, the MTA has indicated that it will still need to make difficult choices to balance its budget.

New York City, New York State and the Metropolitan Transportation Authority all need additional federal aid to mitigate the impact of the COVID-19 pandemic on their budgets. The three are closely intertwined, and failure to aid one could adversely affect the others. Without additional federal aid, difficult decisions will have to be made to ensure budget balance, which could make it harder for the region to recover.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

In January 2020, New York City projected balanced budgets for fiscal years 2020 and 2021 and manageable out-year budget gaps on the assumption of continued economic growth. Just a few months later, the nation entered a recession because of the COVID-19 pandemic and the City faced its greatest challenge in decades.

The social, economic and budgetary impacts of the pandemic have been unprecedented. While the number of new COVID-19 cases has fallen dramatically since the peak in early April, almost 19,000 City residents have already died from the virus.

Social distancing measures and restrictions on nonessential businesses helped slow the spread of the disease, but also sharply reduced economic activity. In New York City, more than 944,000 jobs were lost in March and April, the largest job loss since the Great Depression.

The loss represented one-fifth of the jobs in the City and erased nearly all of the job gains over the past ten years. The unemployment rate, which had fallen to a record low of 3.4 percent in February 2020, shot up to 20.4 percent in June, the highest level in 44 years. The rate was even higher among minorities. While the City regained 121,800 jobs in May and June, it may take years for the City to fully recover.

The budgetary impact has also been costly. In April, the City projected a two-year revenue loss of $7.9 billion for fiscal years 2020 and 2021. By June, when the City submitted a revised financial plan to the New York State Financial Control Board (the “June Plan”; see Figure 1), the City had raised its estimate to $9.6 billion.

Tax collections account for most of the loss, falling short of the January forecast by $9 billion. Nonproperty tax collections are projected to drop by 14.1 percent in FY 2021 ($4.6 billion), the largest decline since the Great Recession.

In addition, the City estimates that the enacted State budget for State fiscal year 2021 will increase the City’s costs by $797 million over the two-year period. The June Plan also funds agency needs and City Council initiatives.

To offset the two-year revenue loss and address its other needs, the City freed up $11.4 billion in resources. Nearly $4.1 billion came from reserves, including $2.6 billion from the Retiree Health Benefits Trust. The trust was established to help fund future post-employment benefits other than pensions, and the City should commit to replenish the trust when conditions permit. The City also reduced the general reserve for FY 2021 from $1 billion to $100 million, the statutory minimum for the start of the fiscal year.

As of now, federal aid will provide nearly $1.9 billion in budget relief, but those resources are also nonrecurring. Since January, the City has increased the citywide savings program by nearly $4.6 billion for fiscal years 2020 and 2021. The recurring value, however, falls to less than $1.4 billion beginning in FY 2022, half the FY 2021 amount.

Despite the citywide savings program, the City’s financial plan anticipates only a modest reduction in the municipal work force. Over the past eight years, the full-time City-funded work force has grown by more than 24,000 employees, reaching a record level in February 2020. The June Plan assumes the work force will decline by 3,656 employees between February and the end of the current fiscal year.

City-funded debt service is projected to reach $9 billion by FY 2024, an increase of 44 percent in just five years. Debt service as a share of tax revenue would reach 13.5 percent, below the City’s ceiling of 15 percent but close to the peak reached during the Great Recession.

Another concern is the decline in the size of the City surplus. Each year, the City generates a surplus that it transfers to the following year to help balance that year’s budget. While the City ended FY 2020 with a surplus of $3.8 billion, it was $400 million less than the surplus transferred from FY 2019.

The FY 2020 surplus included $1.1 billion in federal budget relief and $1 billion from the Retiree Health Benefits Trust. After taking that into account, the surplus from current-year operations was $2.5 billion less than in FY 2019.

Despite a balanced budget in the current fiscal year, the City projects a budget gap of $4.2 billion in FY 2022. The gap results largely from the City's reliance on nonrecurring resources to balance this year's budget. The City has managed gaps of this magnitude in the past, but there are risks that could greatly increase the size of the projected budget gap (see Figure 2).

The Office of the State Comptroller has quantified budget risks of $1.8 billion in FY 2021 and more than $2.3 billion in subsequent years, which could increase next year's budget gap to $6.5 billion. The June Plan, for example, assumes $1 billion in recurring labor savings, but the City has yet to reach an agreement with the municipal unions. It also assumes that wage increases in the first two years of the next round of collective bargaining will be funded through improved productivity.

The City reduced the budget for police overtime by $350 million in FY 2021 in response to calls for police reform. However, it has not yet produced a plan to realize the savings and maintain public safety.

It also remains to be seen whether the City's revenue forecasts are sufficiently conservative. The June Plan anticipates a strong rebound next year, with record job gains and strong growth in nonproperty tax collections (14.1 percent), but the recovery may be slower than anticipated.

While the City recently entered Phase 4 of the State's four-phase plan to reopen the economy, some activities are still not permitted and others are limited. The pace of the recovery will also depend on other factors, such as the severity of a potential second wave of the novel coronavirus, the availability of a vaccine or effective treatments, and long-term changes in social and business practices.

In addition, the June Plan does not fully reflect the impact of the enacted State budget beyond the current fiscal year. For example, although the City funded a $360 million shortfall in anticipated State education aid in FY 2021, it made no provision in subsequent years.

Moreover, in the absence of additional federal aid, the Governor has indicated that further actions will be needed to close a $13.3 billion gap in the State's budget, including an $8.2 billion largely recurring reduction in aid to localities. Although still unspecified, a cut of this size would likely have a large adverse impact on the City's budget and its residents.

The Metropolitan Transportation Authority (MTA) is critically important to the regional economy, but it faces an unprecedented financial crisis. Although it has received $4 billion in federal aid, it still projects a combined budget gap of $9 billion for 2020 and 2021.

New York City, New York State and the MTA all need additional federal aid to mitigate the impact of the COVID-19 pandemic on their budgets. The three are closely intertwined, and failure to aid one could adversely affect the others.

Congress is currently debating the size and the content of another COVID-19 relief bill, but the outcome is uncertain. Without additional federal aid, the City will need to make difficult choices to ensure budget balance in the current fiscal year and to close next year's budget gap.

In conclusion, the City faces unprecedented fiscal and economic challenges that could make balancing the budget difficult. Given the size of the budget risks outlined in this report and the City's diminished reserves, the Office of the State Comptroller urges the City to prepare additional actions to balance the budget.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2021	FY 2022	FY 2023	FY 2024
Revenues				
Taxes				
General Property Tax	$ 30,691	$ 31,842	$ 32,706	$ 33,071
Other Taxes	27,030	31,185	33,236	34,150
Tax Audit Revenue	921	721	721	721
Subtotal: Taxes	$ 58,642	$ 63,748	$ 66,663	$ 67,942
Miscellaneous Revenues	6,960	6,844	6,829	6,829
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,842)	(1,837)	(1,834)	(1,834)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 63,745	$ 68,740	$ 71,643	$ 72,922
Other Categorical Grants	975	989	988	986
Inter-Fund Revenues	677	675	675	675
Federal Categorical Grants	7,370	6,966	6,922	6,917
State Categorical Grants	15,425	16,284	16,739	16,788
Total Revenues	**$ 88,192**	**$ 93,654**	**$ 96,967**	**$ 98,288**
Expenditures				
Personal Service				
Salaries and Wages	$ 29,749	$ 29,972	$ 30,536	$ 30,815
Pensions	9,932	10,482	10,374	10,070
Fringe Benefits	10,565	11,456	12,255	13,060
Retiree Health Benefits Trust	(1,600)	- - -	- - -	- - -
Subtotal: Personal Service	$ 48,646	$ 51,910	$ 53,165	$ 53,945
Other Than Personal Service				
Medical Assistance	5,238	5,915	5,915	5,915
Public Assistance	1,628	1,651	1,650	1,650
All Other	30,871	30,939	31,153	31,399
Subtotal: Other Than Personal Service	$ 37,737	$ 38,505	$ 38,718	$ 38,964
Debt Service	7,370	8,006	8,711	9,145
FY 2019 Budget Stabilization & Discretionary Transfers	- - -	- - -	- - -	- - -
FY 2020 Budget Stabilization	(3,819)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	250	250	250
General Reserve	100	1,000	1,000	1,000
Less: Intra-City Expenses	(1,842)	(1,837)	(1,834)	(1,834)
Total Expenditures	**$ 88,192**	**$ 97,834**	**$ 100,010**	**$ 101,470**
Gap to be Closed	**$ - - -**	**$ (4,180)**	**$ (3,043)**	**$ (3,182)**

Source: NYC Office of Management and Budget

FIGURE 2
Office of the State Comptroller
Risk Assessment of the New York City Financial Plan
(in millions)

	Better/(Worse)			
	FY 2021	FY 2022	FY 2023	FY 2024
Gaps Per NYC Financial Plan	**$ - - -**	**$ (4,180)**	**$ (3,043)**	**$ (3,182)**
Labor Savings[1]	(1,000)	(1,000)	(1,000)	(1,000)
Police Overtime	(450)	(100)	(100)	(100)
Education Funding	(258)	(618)	(618)	(618)
Tax Revenues	(250)	(325)	(325)	(325)
Fair Fares NYC Program	- - -	(106)	(106)	(106)
MTA Paratransit Funding	- - -	(100)	(100)	(100)
Pension Contributions	- - -	(66)	(133)	(200)
Debt Service	150	- - -	- - -	- - -
OSC Risk Assessment[2]	**(1,808)**	**(2,315)**	**(2,382)**	**(2,449)**
Potential Gaps Per OSC[3,4]	**$ (1,808)**	**$ (6,495)**	**$ (5,425)**	**$ (5,631)**

1 The June Plan also assumes that wage increases during the first two years of the next round of collective bargaining will be funded with productivity improvements. This assumption allowed the City to reduce its reserve for collective bargaining by $53 million in FY 2021, $217 million in FY 2022, $540 million in FY 2023 and $805 million in FY 2024 (a total of $1.6 billion during the financial plan period).

2 In the absence of additional federal aid, the Governor has indicated that further actions will be needed to close a $13.3 billion gap in the State's budget, including an $8.2 billion largely recurring reduction in State aid to localities. The City anticipates $15.4 billion in State aid in FY 2021. Although still unspecified, a cut of the size contemplated by the State could reduce aid to the City by about $3 billion, but the actual amount could depend on whether the State receives any federal aid and how the cut is applied to various programs.

3 The June Plan includes a general reserve of $100 million in FY 2021 and $1 billion in each of fiscal years 2022 through 2024. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2022 through 2024. The June Plan also includes reserves of $200 million in FY 2022 and $275 million beginning in FY 2023 to fund potential changes in the actuarial assumptions and methodologies used to calculate employer pension contributions. The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of $2.1 billion.

4 State law now requires surplus resources accumulated by the City to be deposited into a rainy-day fund (i.e., the Revenue Stabilization Fund). Since the late 1980s, the City has reported an annual surplus of $5 million, and at the end of FY 2019 the general fund balance totaled $488 million. These resources would be available to help balance the budget if there were a compelling fiscal need.

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. While there is currently no vaccine or cure, more than 150 vaccines are in development globally and there has been progress developing treatments.

The first confirmed case of COVID-19 in New York State was identified 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.

By early April, the social distancing measures implemented by the State had begun to slow the rate of growth in cases. In New York City, the number of new cases has declined slowly since peaking on April 6, 2020, and is now at about the same level as in early March when the crisis began (see Figure 3). State data indicate that the share of people who test positive has fallen to 1 percent daily, far lower than earlier levels.

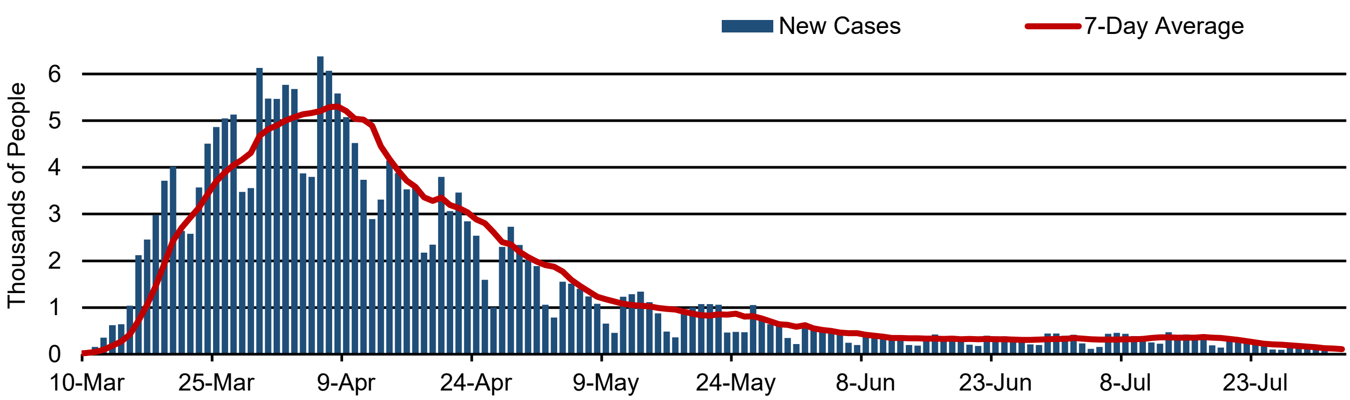
As of August 2, 2020, there were over 18 million confirmed COVID-19 cases globally and over 690,000 reported deaths. The United States had more confirmed cases (4.7 million) and more deaths (155,000) than any other country.

New York State had nearly 417,000 confirmed cases of COVID-19. Although New York City accounted for more than half of all cases statewide (226,000), every county in the state has been affected, with particularly large numbers of cases in the downstate region (i.e., Nassau, Suffolk and Westchester counties).

The highest numbers of confirmed cases have been in Queens and Brooklyn, but the highest rates per capita have been in the Bronx. One-quarter of City residents who tested positive were over age 64, higher than the share of that age group among the City's general population.

The number of confirmed deaths per day has declined to fewer than 12 since reaching a peak of 597 on April 7, 2020. However, almost 19,000 City residents have died from the virus (more than 25,000 state residents have died). Almost two-thirds (64 percent) of the people in New York City who have died were Hispanic or African American, higher than their combined share of the total population (53 percent).

FIGURE 3
New COVID-19 Cases in New York City



Note: As of August 2, 2020. As a result of reporting delays, most recent data may be incomplete.
Sources: NYC Department of Health and Mental Hygiene; OSC analysis

The City has reported that the three ZIP codes with the highest death rates are located within East New York, Edgemere, Far Rockaway, Flushing and Murray Hill. The lowest rates have occurred in ZIP codes in Lower Manhattan.

On May 11, the Governor released his plan to phase in the reopening of businesses, cultural sites, religious institutions and schools in the ten regions that make up the State. As part of the plan, the State established seven criteria based on coronavirus-related data that regions must meet before they can reopen. Criteria include infection rates, the availability of testing and tracing for the disease, and hospital capacity.

The State has scaled up testing at higher per capita rates than any state in the nation and any country in the world, with more than 800 testing sites statewide. It also is working with former New York City Mayor Michael Bloomberg and the Johns Hopkins Bloomberg School of Public Health to implement a statewide contact tracing program.

Contact tracing helps prevent the spread of COVID-19 by identifying close contacts of patients who have tested positive, notifying them of their exposure and instructing them to isolate for 14 days. The program is expected to have as many as 17,000 tracers statewide.

The New York City Health and Hospitals Corporation is coordinating the tracing program in New York City, and estimates the cost could exceed $1 billion. The Corporation and the City will seek funding for the program from federal resources, patient insurance and other still unidentified sources. The City has more than 240 testing sites (including 60 operated by the Corporation), and the Corporation has hired 3,000 contact tracers for the program.

Once a region has met the State's criteria, businesses may reopen, subject to State approval, in four phases. The first phase includes construction, manufacturing and select retail for curbside pickup. The second includes outdoor restaurant dining, office-based work and in-store retail. The third includes indoor restaurant dining and personal care services, and the fourth includes arts, entertainment and education.

If the State Department of Health determines that the criteria for reopening continue to be met, regions are permitted to advance to the next phase. Additionally, each business must put in place new safety precautions, including adjusted hours and shifts to reduce workplace density, and social distancing protocols. Businesses must require all employees and customers to wear masks if they are in frequent contact with others.

Regions in the northern part of the State began to reopen on May 15. New York City, the epicenter of the COVID-19 virus, was the last region in the State to begin reopening. While the City recently entered Phase 4, the resumption of indoor dining and other activities has been put off indefinitely.

It remains to be seen when all businesses in the City will be able to fully reopen, and what the impact of increased economic activity might be on the spread of the disease. Until a large share of the population becomes immune from exposure or effective vaccines or treatments become available, the novel coronavirus will likely continue to inhibit economic activity.

III. Economic Trends

The COVID-19 pandemic brought the longest and strongest job expansion in the nation's history to an abrupt halt, leading to massive job losses and a recession. By the third week of March, the Dow Jones Industrial Average lost more than one-third of its value and consumer confidence was shaken. While the Dow has recovered a large share of its losses, it remains volatile and below its pre-pandemic peak.

New York City has witnessed a slow but steady decline in new COVID-19 cases and hospitalizations, and restrictions on economic activity are slowly being lifted. After losing 944,100 jobs between February and April, the City added 121,800 jobs in May and June. The pace of the recovery, however, will depend on changes in social and business practices, and whether there will be a spike in infections as the economy reopens.

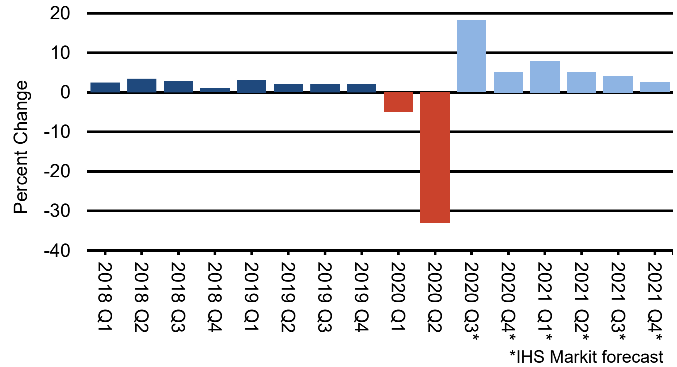
National Overview

In February, the nation officially entered a recession as restrictions to slow the spread of the novel coronavirus sharply curtailed economic activity. The economy is expected to pick up during the second half of the year as restrictions are gradually lifted.

The gross domestic product (GDP) contracted by 5 percent in the first quarter of 2020 and by an historic 32.9 percent (on an annualized basis) in the second quarter (see Figure 4). IHS Markit (an economic consulting firm) projects a strong rebound in the second half, but not enough to reverse all of the damage. The recent spike in COVID-19 cases in some western and southern states (e.g., California, Arizona, Florida and Texas) will slow the recovery.

Congress has approved four stimulus bills with a combined value of $2.4 trillion, and the Federal Reserve has already increased its balance sheet by about $3 trillion. Although the Fed is committed to using its full range of tools to support the economy, the chairman has stated that the severity of the downturn will depend on the policy actions taken at all levels of government to provide relief and support the recovery. Congress is considering another stimulus bill that would aid businesses, households, and state and local governments.

FIGURE 4
U.S. Gross Domestic Product



Sources: U.S. Bureau of Economic Analysis; IHS Markit

The nation lost a total of 22.2 million jobs in March and April, erasing nearly all of the jobs gained since 2010. The nation added 2.7 million jobs in May and another 4.8 million jobs in June as states began to lift restrictions on economic activity. As shown in Figure 5, the unemployment rate has declined from 14.7 percent in April to 11.1 percent in June, but it was still higher than the monthly peak reached during the Great Recession (10 percent).

FIGURE 5
U.S. Monthly Unemployment Rate

Note: Data is seasonally adjusted.
Source: U.S. Bureau of Labor Statistics

New York City Economy

The mandatory closure of all nonessential businesses and the implementation of social distancing measures greatly reduced economic activity in New York City. The City assumes that the gross city product will contract by 12.9 percent in 2020 (see Figure 6), the largest decline since the data series began in 1980. The City expects a strong rebound in 2021, but slow growth thereafter.

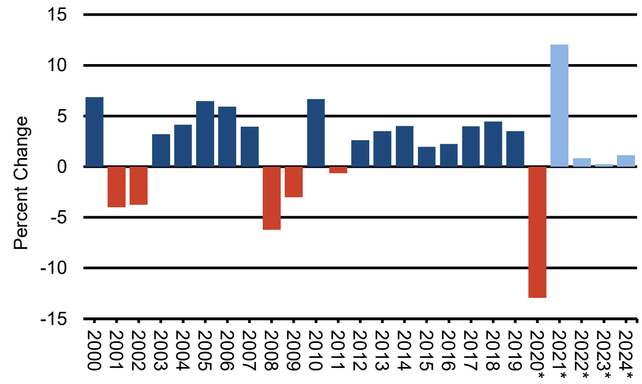
According to the New York State Department of Labor, total employment fell by 944,100 jobs in March and April (see Figure 7), representing one-fifth of the jobs in the City and erasing nearly all of the job gains over the past ten years. (The number of job losses is likely even higher because undocumented and self-employed workers were not included.) While most jobs will come back as economic activity picks up, it may take years for the City to fully recover.

The City regained only 4,400 jobs in May, but job growth accelerated in June with the addition of 117,400 jobs as businesses began to reopen. Most of the gains were in leisure and hospitality, health care, construction and retail.

Figure 8 shows that after the unemployment rate reached a record low of 3.4 percent in February 2020, it rose to 20.4 percent in June, the highest level since the data series began in 1976. (The rate in the rest of the state averaged 12.2 percent.) The unemployment rate ranged from 16 percent in Manhattan to 24.7 percent in the Bronx, which was almost five times higher than one year earlier. Minorities and young workers had the highest unemployment rates.

The City has not changed its employment forecast since the April 2020 financial plan even though actual job losses in March and April were greater than the City had anticipated. The June Plan assumes the City will lose 350,400 jobs in 2020 (the largest one-year loss on record), but the Office of the State Comptroller (OSC) believes the loss could exceed 400,000 jobs.

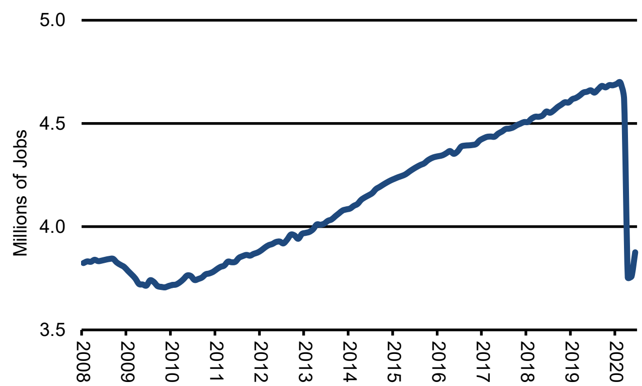
FIGURE 6
Change in NYC Gross City Product



Source: NYC Office of Management and Budget

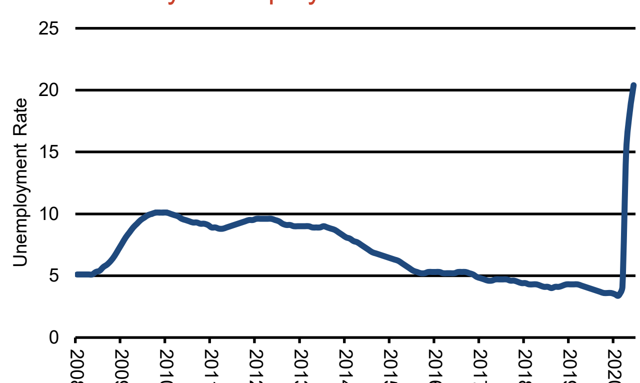
*City forecast

FIGURE 7
NYC Monthly Employment



Note: Data is seasonally adjusted.
Source: NYS Department of Labor

FIGURE 8
NYC Monthly Unemployment Rate



Note: Data is seasonally adjusted.
Source: NYS Department of Labor

The City anticipates job gains of 213,300 in 2021, with a strong rebound in the leisure and hospitality sector. Although the June Plan expects total employment to return to the pre-pandemic level in 2023, the pace of the recovery will depend on the availability of a vaccine or effective treatments.

The construction industry lost 77,000 jobs in March and April, but it was able to resume operations on June 8 when the City began Phase 1 of the State's four-phase plan to reopen the economy.[5] Most of these jobs are likely to return in 2020.

The retail sector lost 90,900 jobs in March and April. Nonessential retail stores were allowed to reopen in Phase 1, but sales were limited to curbside and in-store pickup. In-store retail, with some restrictions, resumed on June 22 when the City entered Phase 2. This sector was already under pressure before the pandemic, increasing the possibility that a full recovery will be difficult.

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. However, the sector lost 106,300 jobs in March and April, and current trends suggest a job loss in 2020.

Business services also makes up 17 percent of employment, but it has slightly fewer jobs than health care and social assistance. The sector lost 116,100 jobs in March and April. Many businesses have resumed operations, but offices are limited to 50 percent occupancy and many workers continue to work from home. Given restrictions on offices and possible changes in business practices, this sector may also be slow to recover.

Most businesses that provide personal services, including barbershops, massage parlors and nail salons, were deemed nonessential and were forced to close. Some were able to reopen in Phase 2 (e.g., hair salons and barbershops) and others were able to reopen on July 8, when the City entered Phase 3. The sector lost 61,500 jobs in March and April, and a full recovery may depend on whether customers are comfortable resuming pre-pandemic activities.

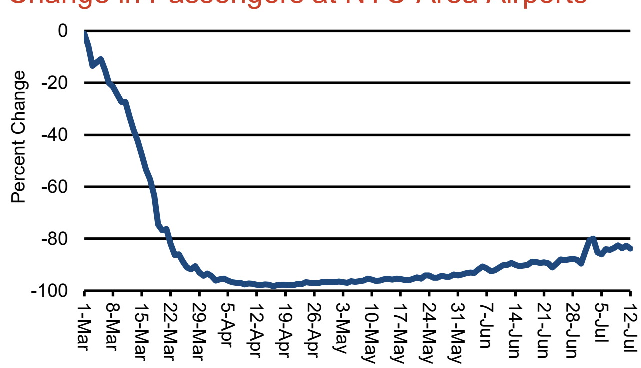
The City's economy is heavily dependent on tourism, but the number of visitors has fallen sharply. Although the number of passengers screened by the Transportation Security Administration in New York City–area airports has begun to rise, it remains far below last year's level (see Figure 9).

On July 20, the City entered Phase 4, the final phase of reopening the economy. It allows low-risk outdoor activities, such as zoos and botanical gardens, to reopen at limited capacity. Other tourist attractions, such as art galleries, concert halls, movie theaters, casinos and Broadway theaters, will have to wait for approval.

The leisure and hospitality sector (which includes bars, restaurants and hotels) was the hardest-hit employment sector, losing two-thirds of its jobs (307,400) in March and April. Hotel occupancy, which fell to 15 percent in March after averaging

FIGURE 9

Change in Passengers at NYC-Area Airports



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

[5] For this discussion, OSC used estimates of seasonally adjusted employment sector data prepared by the New York City Office of Management and Budget.

87 percent in the prior decade, has averaged about 40 percent since the end of April. Phase 2 allows outdoor dining, but the resumption of indoor dining has been postponed indefinitely, which will slow the sector's recovery.

The securities industry has added jobs in five of the past six years, but employment (182,100 jobs in 2019) was still 4 percent smaller than before the 2008 financial crisis. The industry lost 2,600 jobs in March and April, and the City expects the industry to shed additional jobs in 2020 as profits decline sharply.

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

Economic shocks have historically damaged securities industry profitability. Pretax 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. In 2019, profits increased to $28.1 billion, the highest level in a decade (see Figure 10).

The June Plan assumes that the securities industry will experience a loss of $6.4 billion in 2020 (the first loss since 2008). The industry, however, reported pre-tax profits of $10.7 billion in the first quarter, the best quarter in a decade.

While the industry has not yet reported for the second quarter, the nation's largest bank-holding companies reported a sharp drop in profitability as firms increased reserves in anticipation of losses due to the pandemic.

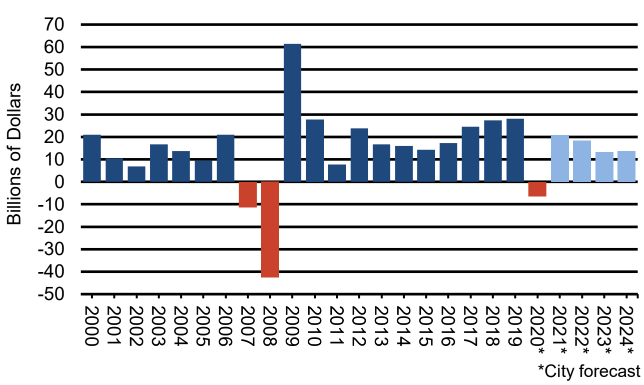
Economic shocks also affect bonuses. Bonuses paid to securities industry employees in the City fell by 33 percent in 2001 and by 47 percent in 2008. The June Plan assumes industry bonuses will decline by 34 percent in 2020, but Johnson Associates (a compensation consulting firm) suggests bonuses may not fall as precipitously.

Rising office employment since the end of the Great Recession has spurred the development of new office buildings. The amount of office space has increased by 31 million square feet between 2009 and 2019, and the number of private office workers increased by 329,600 (27 percent). In recent years, demand for office space has increasingly been driven by the tech industry.

The June Plan assumes that the vacancy rate for office space in Manhattan will jump from 11.1 percent in 2019 to 17.6 percent in 2020, significantly higher than after 9/11 and the 2008 financial crisis (see Figure 11). The City anticipates a 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.

FIGURE 10

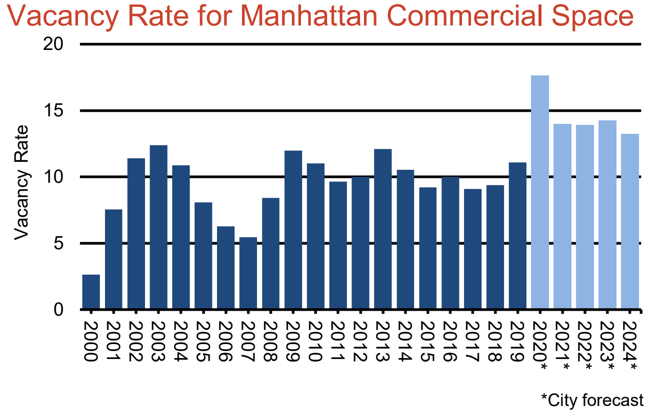
NYSE Member Firm Profits



Sources: NYSE; NYC Office of Management and Budget

FIGURE 11

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, and manageable out-year budget gaps based on the assumption of continued economic growth. Further, its revenue forecasts were relatively conservative, and it had significant reserves.

Social distancing measures and restrictions on nonessential businesses helped slow the spread of the novel coronavirus, but also sharply reduced economic activity. In April, the City lowered its revenue forecast for fiscal years 2020 and 2021 by a total of $7.9 billion. As it became clear that the economic and budgetary fallout would be greater than initially forecast, the City raised its estimate to $9.6 billion (see Figure 12).

In addition, the City estimates that the enacted State budget for State fiscal year (SFY) 2021 will increase its costs by $797 million over the two-year period, and the City funded new agency needs ($545 million) and City Council initiatives ($376 million).

To offset the revenue loss and to address its other needs, the City freed up $11.4 billion in resources. Nearly $4.1 billion came from reserves, including $2.6 billion held in the Retiree Health Benefits Trust. The trust was created to help fund the future cost of post-employment benefits other than pensions, but the City has used the trust as a rainy-day fund in the past. Federal aid will provide $1.7 billion in budget relief, but those resources are also nonrecurring.

Since January, the City has increased the citywide savings program by $4.6 billion for fiscal years 2020 and 2021. The recurring value of the program, however, falls to less than $1.4 billion beginning in FY 2022, half the FY 2021 amount.

FIGURE 12
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 Shortfall	(2,551)	(7,094)	(3,966)	(3,227)	(3,654)
State Budget Impact	(34)	(763)	(233)	(83)	(83)
Agency New Needs	(448)	(97)	(15)	(15)	(15)
Subtotal	**(3,033)**	**(7,954)**	**(4,214)**	**(3,324)**	**(3,752)**
City Council Initiatives		**(376)**			
Other Changes	**15**	**(5)**	**(70)**	**77**	**39**
Baseline Gaps to be Closed	**(3,019)**	**(8,335)**	**(6,716)**	**(5,933)**	**(6,373)**
Program to Eliminate the Gap					
Citywide Savings Program	1,728	2,832	1,320	1,350	1,386
Reduce Reserves	1,280	2,803	217	540	805
Labor Savings	- - -	1,000	1,000	1,000	1,000
Federal Assistance[1]	1,106	605	- - -	- - -	- - -
Total	**4,114**	**7,240**	**2,537**	**2,890**	**3,191**
Surplus Transfer[2]	**(1,095)**	**1,095**	- - -	- - -	- - -
Gaps Per June Plan	**$ - - -**	**$ - - -**	**$ (4,180)**	**$ (3,043)**	**$ (3,182)**

[1] Another $144 million in federal budget relief is reflected in the citywide savings program, bringing the total to nearly $1.9 billion.
[2] In total, the City forecasts a surplus of $3.8 billion in FY 2020.
Sources: NYC Office of Management and Budget; OSC analysis

The June Plan anticipates $1 billion in recurring labor savings, but the City has yet to reach a collective bargaining agreement with the municipal unions. If negotiations are unsuccessful and the City does not receive additional federal aid, the Mayor plans to lay off 22,000 City workers, effective October 1, 2020.

The FY 2022 budget gap has grown from $2.4 billion in January to nearly $4.2 billion. The gaps for fiscal years 2023 and 2024 have also grown, but remain modest. The City, however, still faces sizable budget risks, including the possibility of additional State budget cuts, which could greatly increase the gaps. The budgets for fiscal years 2022 through 2024 include $1.25 billion in budgeted reserves.

Revenue Shortfall

The June Plan assumes that City fund revenues for fiscal years 2020 and 2021 will be lower by a total of $9.6 billion compared to the estimates in the January 2020 Plan (see Figure 13). Tax collections are expected to be lower by $9 billion as discussed below, and the City also expects less revenue from fines, fees, interest income and other miscellaneous sources ($642 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 $2.6 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 $1.6 billion because corporations and small businesses will likely report large losses.
- Tax collections from real estate transactions are expected to be lower by $1.2 billion since open houses have been restricted and demand is likely to be suppressed.
- General property tax collections are expected to be lower by $466 million, in large part from higher tax delinquencies.
- Hotel tax collections are expected to be lower by $536 million because tourism, particularly from overseas, will likely be depressed for an extended period.

FIGURE 13
Revenue Shortfall 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	$ (1,006)	$ (1,606)	$ (2,612)	$ (685)	$ (541)	$ (605)
Personal Income Taxes	(481)	(2,141)	(2,622)	(1,325)	(1,084)	(1,057)
Business Taxes	(318)	(1,253)	(1,571)	(580)	(339)	(403)
Real Estate Transactions	(304)	(870)	(1,174)	(531)	(343)	(327)
General Property Taxes	(142)	(324)	(466)	(429)	(545)	(887)
Other Taxes	(31)	(527)	(558)	(167)	(95)	(94)
Total	**(2,282)**	**(6,721)**	**(9,003)**	**(3,717)**	**(2,947)**	**(3,373)**
Misc. Revenues	**(269)**	**(373)**	**(642)**	**(249)**	**(280)**	**(281)**
Total	**$ (2,551)**	**$ (7,094)**	**$ (9,645)**	**$ (3,966)**	**$ (3,227)**	**$ (3,654)**

Sources: NYC Office of Management and Budget; OSC analysis

Impact of the State Budget

According to the City, the enacted State budget for SFY 2020-2021 includes actions that increased the City's operating budget costs by $797 million during fiscal years 2020 and 2021, and by smaller amounts in subsequent years (see Figure 14).

The largest impact came 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 $360 million less than anticipated by the City for FY 2021 (and $18 million less than allocated in FY 2020). Although the City backfilled the State education aid shortfall with City funds in FY 2021, the June Plan makes no provision for the shortfall in subsequent years.

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 fund half of the net cost (i.e., after fare collections and subsidies) of the MTA's paratransit program. While the June Plan includes $63 million in FY 2021 to fund these costs, it made no provision in subsequent years. Further, the cost could be higher if ridership returns to pre-pandemic levels, although the City's contribution is capped through 2023.

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 actions that will shift costs from the State to the City. For example, the City will be required to fund a larger share 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 in fiscal years 2021 and 2022.

Ownership of Pier 76 in Manhattan (currently used as a tow pound by the New York City Police Department) was to be transferred from the City to the State on July 1, 2020, and a possessory interest 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 June

FIGURE 14
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

Plan assumes the State will waive the fees, as permitted under the law, if the City demonstrates progress relocating the tow pound.

The Governor has indicated that in the absence of additional federal aid, further actions will be needed to close a $13.3 billion gap in the State budget. These actions include an $8.2 billion largely recurring reduction in State aid to localities. The June Plan anticipates $15.4 billion in State aid in FY 2021. Although still unspecified, a cut of the size contemplated by the State could reduce State aid to the City by about $3 billion, but the actual amount could depend on whether the State receives any federal aid and how the cut is applied to various programs.

According to the State Division of the Budget (DOB), 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. In addition, the budget director is authorized to withhold all or some of specific local aid payments during SFY 2021 if the budget is deemed unbalanced, and if the budget director deems that such withholding is necessary to respond to the direct and indirect economic, financial, and social effects of the COVID-19 pandemic.

Congress is debating another COVID-19 relief bill, but the outcome is uncertain. The DOB has indicated that the earliest that the State now expects to transmit a detailed local aid reduction plan to the Legislature is late in the second quarter of SFY 2021. If such a plan were released, the proposed reductions would go into effect within ten days if the Legislature does not adopt its own plan.

In the interim, without assurance of additional federal aid, the State has begun withholding a minimum of 20 percent of most local aid payments to achieve the savings anticipated in its financial 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.

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 drew down its reserves by nearly $1.3 billion in FY 2020. Of this amount, $1 billion came from the Retiree Health Benefits Trust (RHBT) and $280 million came from the FY 2020 general reserve.

The City will draw down its reserves by another $2.8 billion in FY 2021 (for a total of $4.1 billion over two years). The City has already lowered the FY 2021 general reserve from $1 billion to $100 million (the statutory minimum for the start of the fiscal year) and eliminated the FY 2021 capital stabilization reserve ($250 million). It plans to draw down another $1.6 billion from the RHBT by the end of the fiscal year.

The City also reduced its reserve for collective bargaining. The June Plan assumes that wage increases in the first two years of the next round of collective bargaining will be funded through productivity improvements, freeing up $1.6 billion during the financial plan period.

Each year, the City generates a surplus that it transfers to the following year to help balance that year's budget. While FY 2020 ended with an estimated surplus of $3.8 billion, it was $400 million less than in FY 2019. In addition, the FY 2020 surplus included $1.1 billion in federal budget relief and $1 billion from the RHBT. After taking that into account, the surplus from current-year operations was $2.5 billion less than at the end of FY 2019.

FIGURE 15
Citywide Savings Program
(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Agency Actions					
Expense Re-estimates	$ 1,166	$ 1,438	$ 464	$ 452	$ 458
Funding Shifts & Revenues	590	468	183	183	183
Efficiencies	179	834	723	726	730
Service Reductions	43	426	146	145	145
Subtotal	**1,977**	**3,166**	**1,516**	**1,505**	**1,516**
Debt Service	**431**	**173**	**182**	**221**	**285**
Total	**$ 2,408**	**$ 3,339**	**$ 1,699**	**$ 1,726**	**$ 1,801**

Note: Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSC analysis

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 created new budget gaps in fiscal years 2020 and 2021.

To close these gaps, the City took additional actions in April and June valued at nearly $4.6 billion during fiscal years 2020 and 2021. Two-thirds will come from nonrecurring resources. As a result, the recurring value of these additional gap-closing actions declines to less than $1.4 billion beginning in FY 2022, half of the amount projected for FY 2021.

The citywide savings program now has a total value of $5.7 billion during fiscal years 2020 and 2021, but the recurring value falls to an average of $1.7 billion annually beginning in FY 2022 (see Figure 15). According to the City, efficiencies account for more than 40 percent of the recurring savings.

Federal Assistance

On March 13, 2020, after 47 states had confirmed cases of COVID-19, the President declared a national emergency. In March and April 2020, Congress passed four stimulus bills to address the pandemic's impact on the public health system and the economy, which the Congressional Budget Office estimates will have a budgetary impact of $2.4 trillion over a decade.

The June Plan anticipates the receipt of nearly $5 billion in federal assistance from previously approved COVID-19 relief bills. Of this amount, $3 billion will be used to cover costs associated with the pandemic and nearly $1.9 billion will be used to balance the budget.

- $2.7 billion from the Federal Emergency Management Agency (FEMA) to reimburse the City for costs related to the pandemic, including $172 million for overtime and fringe benefits, mostly in the uniformed agencies.
- $1.45 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 from 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 June Plan assumes that $793 million of the $1.45 billion will be available to help balance the budget. The City also assumes that the remaining $661 million will be used for additional costs associated with the COVID-19 emergency. If FEMA's local share requirement is waived as the President has suggested, most of the $661 million could become available for other purposes.

- $742 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. The June Plan assumes the national emergency will last 12 months, while the State budget assumes 6 months.

In May 2020, the House of Representatives approved a $3.4 trillion stimulus bill, which includes more than $900 billion to help states and localities offset revenue losses from the pandemic. On July 27, the Senate majority released a number of bills (with an estimated aggregate value of $1 trillion) to mitigate the economic impact of the pandemic. While the Senate majority would provide $105 billion to help schools reopen, the bills do not provide additional budget relief to states and localities to offset revenue losses.

V. Revenue Trends

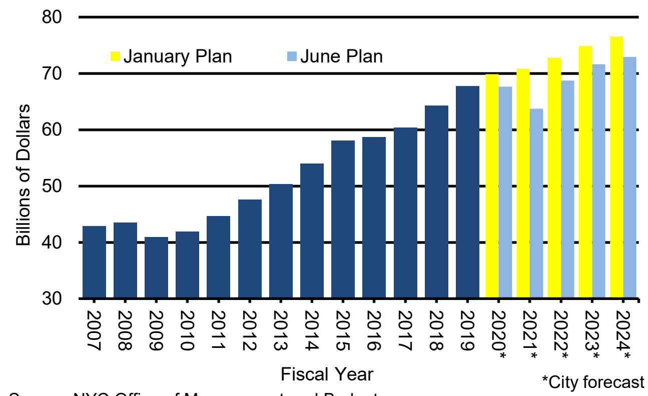
The June Plan assumes that revenues, including federal and State categorical aid, will total $88.2 billion in FY 2021. This estimate includes $5 billion in federal aid to cover costs associated with the COVID-19 pandemic. While the federal aid provides some budget relief, it does not offset revenue losses from the pandemic.

Since January, the City has lowered its forecast for locally generated revenues (i.e., City funds) by $9.6 billion for fiscal years 2020 and 2021, reflecting the economic impact of the pandemic and the enacted State budget (see Figure 16). In FY 2021, City fund revenues are projected to decline by 5.8 percent to $63.7 billion (see Appendix A), the largest decline since FY 2009.

Tax collections account for more than 90 percent of City fund revenues and are now expected to fall short of the January forecast by $9 billion over the two-year period because of the pandemic. In addition, the State will divert $400 million in sales tax collections in fiscal years 2021 and 2022 to help distressed health care facilities across the State.

As a result, tax collections will total $58.6 billion in FY 2021, $7 billion less than projected in January. Economically sensitive nonproperty tax collections are forecast by the City to fall by 14.1 percent in FY 2021, but then rebound sharply in FY 2022 by 14.1 percent (see Figure 17), though collections would remain below the pre-pandemic level.

FIGURE 16
City-Fund Revenues

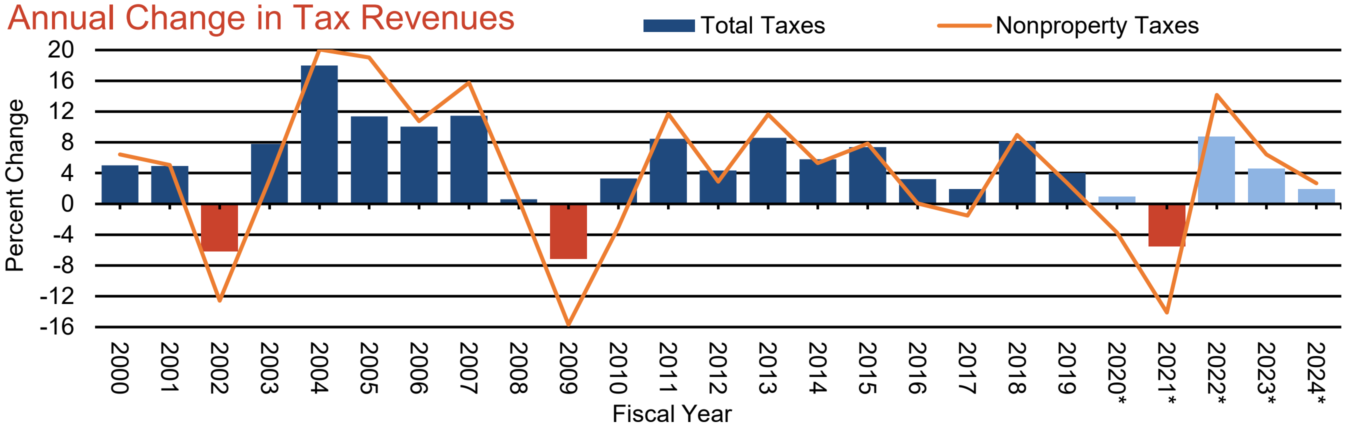


Source: NYC Office of Management and Budget

The June Plan assumes that the growth in tax collections will slow from 8.7 percent in FY 2022 to 4.6 percent in FY 2023 and then 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.

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 potential for a second wave of COVID-19 cases, changes in social and business practices, and the return of tourism.

FIGURE 17
Annual Change in Tax Revenues

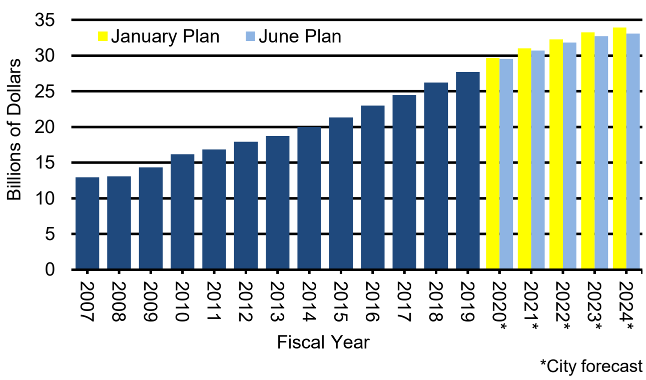


Note: Includes revenue from tax audits.
Sources: NYC Office of Management and Budget; OSC analysis

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 3.9 percent in FY 2021 to $30.7 billion. While this is the smallest increase since FY 2008, it is the only major tax with projected growth in FY 2021. With an expectation of slower growth in property values and an increase in tax delinquencies, the City lowered its January forecast by a total of $2.3 billion during the financial plan period (see Figure 18).

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). The value of the pipeline declined during the previous several fiscal years as property market value growth slowed. The June Plan assumes revenue growth will continue to decelerate in the remainder of the financial plan period, growing by only 1.1 percent in FY 2024.

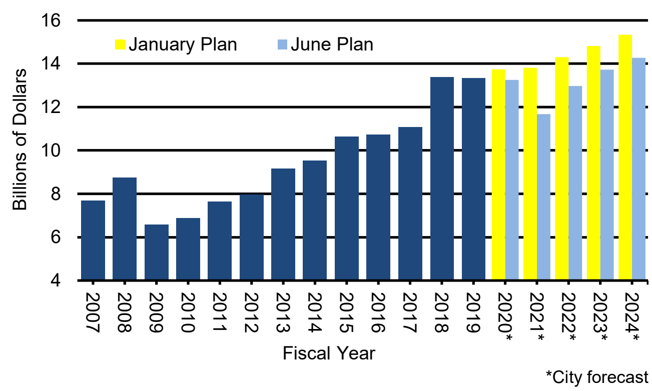
Changing the property tax rate is a complicated process with serious potential effects for property owners, renters and businesses. But the tax rate, along with other factors, has long been viewed by some as a source of inequity within the City's property tax system. The overall property tax rate has not increased since January 2009.

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.

Personal Income Tax

After a 0.7 percent decline in FY 2020, personal income tax collections are projected to decline by 11.9 percent in FY 2021, the largest decline since the Great Recession. The City expects collections to total $11.7 billion in FY 2021, $2.1 billion less than in the January Plan (see Figure 19). The City does not expect collections to reach the pre-pandemic level until FY 2023.

FIGURE 19
Personal Income Tax Revenues



Source: NYC Office of Management and Budget

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, withholding declined by 7.4 percent in the fourth quarter of the fiscal year, holding down growth to 3.4 percent for all of FY 2020.

The City assumes withholding collections will decline by 12.3 percent in FY 2021, a larger drop than in either of the past two recessions. The June Plan forecast for FY 2021 is $1.8 billion lower than the January Plan. This reflects the City's forecast of 350,400 jobs lost, a 9.7 percent decline in wages and a 34 percent decline in securities bonuses for work performed in 2020. However, collections could be lower in FY 2021 because of larger-than-expected job losses.

After projecting an 8.9 percent decline in FY 2020, the June Plan expects estimated personal income tax payments to decline by another 15.6 percent in FY 2021 to $2.4 billion, which is $519 million less than projected in the January Plan. This reflects the City's assumption of declines in capital gains in calendar years 2019 and 2020. While the tax filing deadline was extended from April 15 to July 15, the payments will still accrue to FY 2020. OSC estimates collections could be lower by $75 million annually because of lower-than-expected nonwage income.

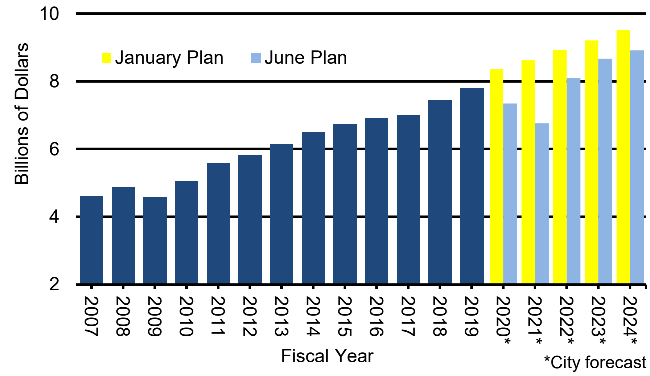
The City forecasts that personal income tax collections will increase by 11.2 percent to reach $13 billion in FY 2022. The growth reflects an expected recovery in jobs, wages and capital gains. The June Plan expects collections to grow by an annual average rate of 4.9 percent in the final two years of the financial plan period, reaching $14.3 billion in FY 2024.

Sales Tax

Following an expected decline of 5.9 percent in FY 2020, the June Plan assumes sales tax collections will decline by another 7.9 percent in FY 2021, the largest decline since FY 2002. Collections are projected to total $6.8 billion, $1.0 billion less than in FY 2019 (see Figure 20).

The City expects that the economic impact from job losses, low consumer spending and low tourism activity will keep sales tax collections down in FY 2021. Although the City recently entered Phase 4, the final phase for reopening the economy, the resumption of indoor dining and other activities has been postponed.

FIGURE 20
Sales Tax Revenues



Source: NYC Office of Management and Budget

The June Plan estimates that sales tax revenue will increase by 19.6 percent in FY 2022 to reach a record high of $8.1 billion, and that growth will continue, averaging 5.0 percent annually in the final two years of the financial plan period. 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.

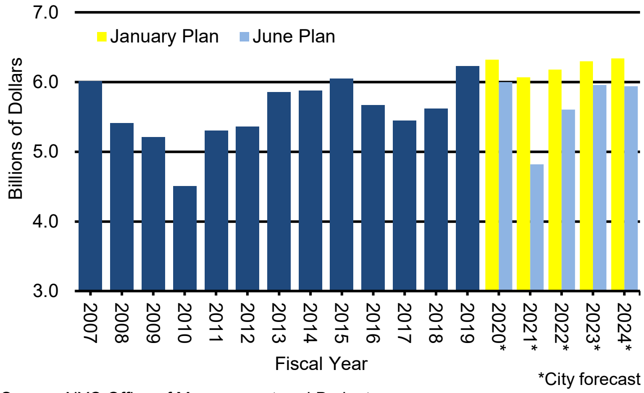
OSC estimates that collections in FY 2021 could be $75 million less than projected by the City because of lower visitor spending, as travel bans and quarantines are likely to continue for a while. Also, collections could be lower than the City's forecast by $150 million annually beginning in FY 2022.

Business Taxes

The City imposes income taxes on corporations and unincorporated businesses, which are expected to generate $4.8 billion in FY 2021, the lowest since FY 2010 and $1.3 billion less than projected in the January Plan (see Figure 21).

The City expects the impact of the pandemic on revenues from business corporations to become fully visible in FY 2021. Collections are projected

FIGURE 21
Business Tax Revenues



Source: NYC Office of Management and Budget

to fall by 26.1 percent to $3.2 billion, a sharper decline than any year during the two previous recessions. Even though a sharp rebound is expected in FY 2022, collections are not projected to reach the record level of FY 2020 during the financial plan period.

The securities industry is responsible for a large share of the City's corporate tax revenue. The June 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 is expected to decline by 18 percent from $2 billion in FY 2019 to $1.7 billion in FY 2021, the lowest level since FY 2012. The decline is larger than the drop that occurred after the Great Recession (16 percent). OSC estimates collections could be lower than the City's forecast by $100 million annually. Collections are expected to gradually return to the FY 2019 record level by FY 2024.

Hotel Tax

After declining by 23.7 percent in FY 2020, hotel tax collections are expected to decline by another 43.8 percent in FY 2021, the largest decline ever. The June Plan expects collections to fall to $268 million in FY 2021, $375 million less than expected in the January Plan (see Figure 22). The forecast reflects a slow recovery after the pandemic-related shutdowns effectively halted tourism.

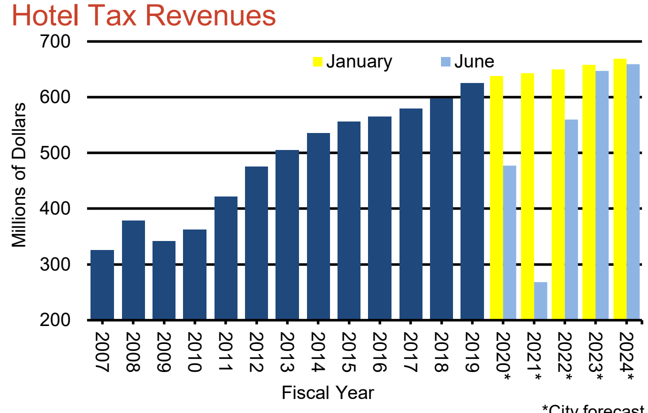
Hotel occupancy fell to 15 percent in the last week of March, though it has averaged about 40 percent since the end of April. Still, occupancy levels are likely to remain depressed for a while. Travel bans are still in place for international travelers coming to the United States, and visitors to New York from states with high numbers of COVID-19 cases are required to self-quarantine, which has deterred visitors.

In addition, while certain outdoor tourist attractions have been allowed to reopen with limited capacity, a decision on reopening others has been postponed. Broadway theaters are closed until at least calendar year 2021.

The June Plan expects collections to more than double in FY 2022, reaching $560 million. This reflects the City's assumptions that all nonessential businesses will be open in FY 2022 and that tourism will recover.

By FY 2023, the City expects hotel tax revenue to return to pre-pandemic levels and reach a record high of $647 million. However, growth may be slower if people remain hesitant to travel or to attend events at crowded venues.

FIGURE 22
Hotel Tax Revenues

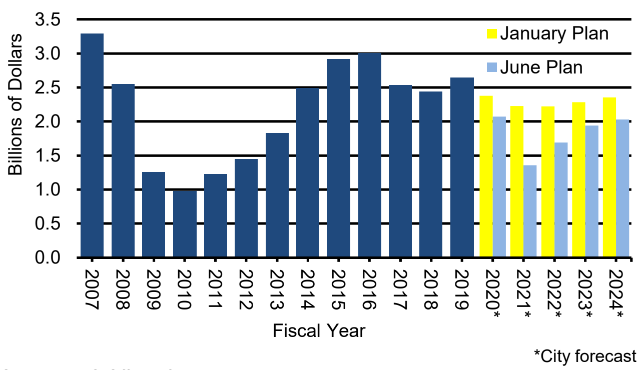


Source: NYC Office of Management and Budget

Real Estate Transaction Taxes

After declining by 21.6 percent in FY 2020 to $2.1 billion, real estate transaction tax collections are projected to decline sharply by 34.5 percent in FY 2021 to $1.4 billion, $870 million below the forecast in the January Plan. Although the City projects that transaction revenue will rebound in FY 2022 (growing by 24.4 percent), it expects collections to remain well below the 2019 level during the financial plan period (see Figure 23).

FIGURE 23
Real Estate Transaction Tax Revenues



Source: NYC Office of Management and Budget

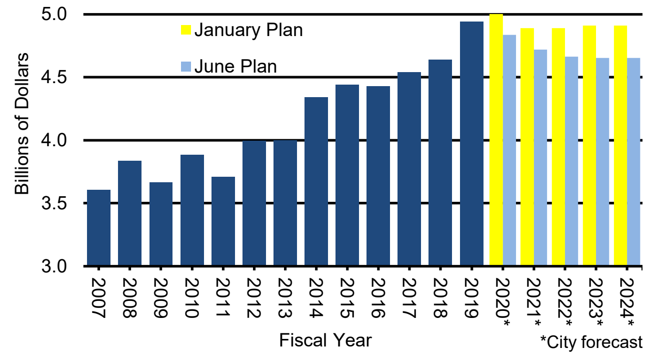
Miscellaneous Revenues

The June Plan assumes miscellaneous revenues will total $5.3 billion in FY 2020 and then average $5 billion during fiscal years 2021 through 2024. Miscellaneous revenues include recurring revenues from fines, fees, interest income, water and sewer payments and other sources.

Recurring miscellaneous revenues are expected to total $4.7 billion in FY 2021, down from $4.8 billion in FY 2020 (see Figure 24) as they continue to be affected by issues related to the pandemic. In the out-years, the City expects recurring miscellaneous revenues to remain flat.

Interest income is a major factor in the decline expected in FY 2021 ($126 million) as rates remain near zero and income from investments has declined as a result. The June Plan also anticipates that parking violations will decline by $68 million, reflecting fewer issuances of parking violations as a result of the pandemic. These declines will be partly offset by increases in water and sewer payments, as well as increases in charges for services.

FIGURE 24
Recurring Miscellaneous Revenues

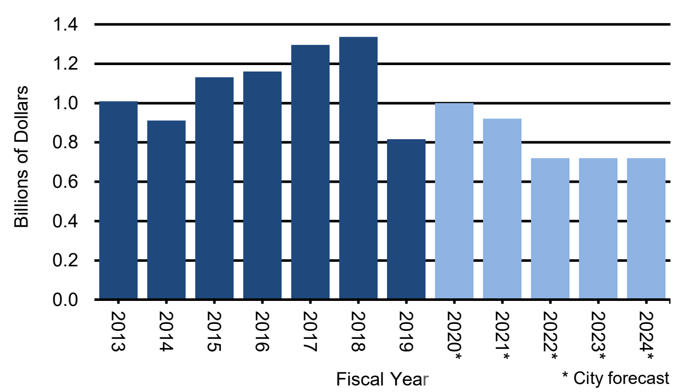


Note: Recurring revenues include fines, fees, forfeitures and licenses.
Source: NYC Office of Management and Budget

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

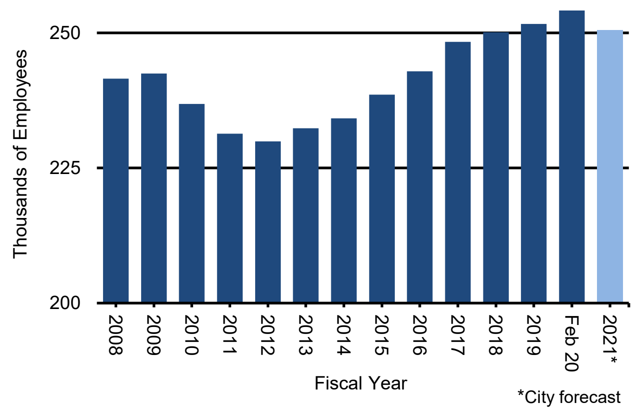
The adopted budget is projected to total $88.2 billion in FY 2021, including programs funded with federal and State categorical grants. The portion funded with locally generated revenue (i.e., City funds) would total $67.6 billion after adjusting for surplus transfers that can mask expenditure trends (see Appendix B).

To mitigate the adverse impact of the pandemic on City fund revenues, the City took a number of actions, including reducing its budgeted reserves, implementing additional savings initiatives and drawing on resources from the RBHT. It also received federal budget relief.

In total, these initiatives reduced planned spending by $3.3 billion in FY 2020 and $6 billion in FY 2021 (see Figure 26). The impact is much lower in subsequent years since most of these actions are nonrecurring. As a result, while City-funded spending is projected to decline by 0.7 percent in FY 2021, spending will increase by 7.9 percent in FY 2022 (6.2 percent excluding reserves).

Further, the June Plan includes sizable risks, including the receipt of $1 billion in recurring labor savings and $350 million in police overtime savings. It also does not fully reflect the impact of the enacted State budget or a shortfall in pension investment earnings in FY 2020, all of which could increase the City's costs.

FIGURE 27
Full-Time Staffing Levels (City-Funded)

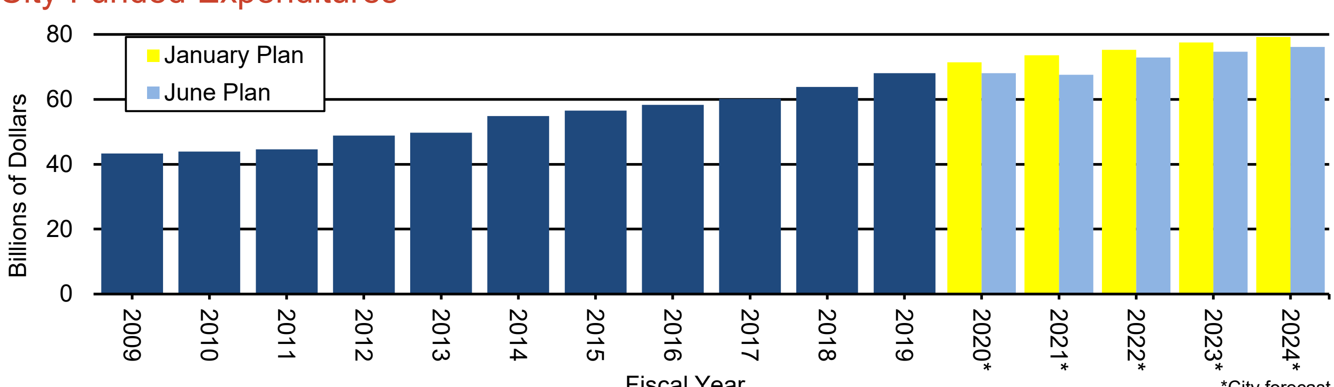


Sources: NYC Office of Management and Budget; OSC analysis

The June Plan anticipates a modest reduction in the municipal work force. Since June 2012, the full-time City-funded work force has grown by 24,252 employees, reaching a record level in February 2020 (see Figure 27). The June Plan assumes the City-funded work force will contract by 3,656 employees between February and the end of the current fiscal year, declining to 250,507 full-time employees.

Most of the reduction would come from closing jails on Rikers Island because of the declining inmate population and canceling the July 2020 police academy class of 1,163 cadets (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 July 2020, 84 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.[6]

The June 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.

As part of its gap-closing efforts, the City reduced its reserve for the next round of collective bargaining. The June Plan assumes that wage increases in the first two years of the next round will be funded through productivity improvements, allowing the City to free up $1.6 billion during the financial plan period.

The June Plan also anticipates $1 billion in recurring labor savings beginning in FY 2021, but the City has yet to reach an agreement with the municipal unions. If unsuccessful and in the absence of additional federal aid or other alternatives, the Mayor plans to lay off 22,000 employees, effective October 1, 2020. Layoffs would be determined by employee seniority, a complicated and time-consuming process.

Pension Contributions

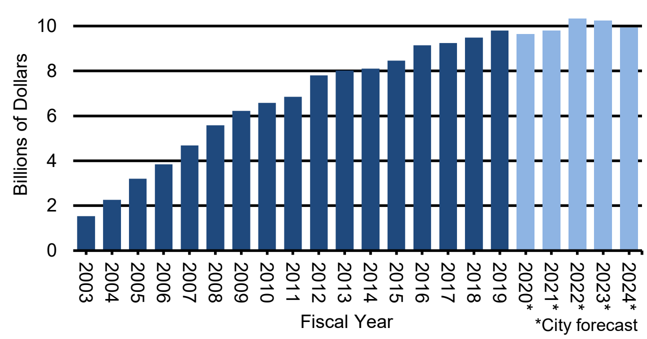
After growing rapidly for many years, pension contributions have stabilized (see Figure 28). Still, contributions are projected to total $9.8 billion in FY 2021, representing 15 percent of City fund revenues.

The June Plan includes $200 million in FY 2022 and $275 million annually thereafter to fund changes in assumptions and methods that may result from the next Charter-mandated biennial independent review of the pension systems. The review is expected to be completed in 2021.

The financial markets experienced a sharp loss in March 2020, but mostly recovered by the end of FY 2020. The City Comptroller estimates that the pension funds earned 4.4 percent on their investments, less than the actuarial target of 7 percent. As a result, pension contributions could be higher than planned by $66 million in FY 2022, $133 million in FY 2023 and $200 million in FY 2024.

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

FIGURE 28
Pension Contributions
City-Funded



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

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

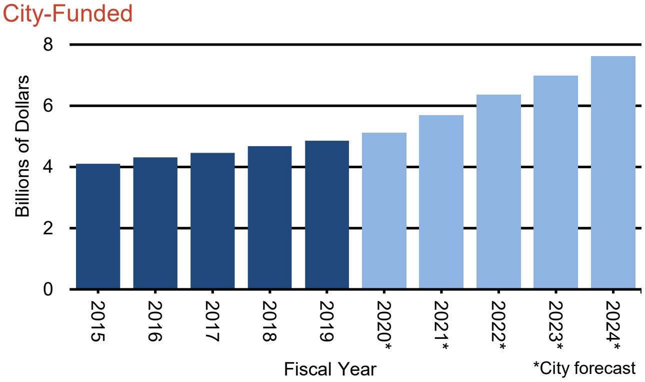
Health Insurance

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 June 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 $1.5 billion as of June 2020, has been used in the past to help fund labor agreements and to help balance the budget.

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 $7.6 billion by FY 2024 (see Figure 29), 57 percent more than in FY 2019.

FIGURE 29
Health Insurance Costs
City-Funded



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

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 but was as low as 3.4 million in November 2019 (the latest data available).

The caseload, however, has begun to grow as a result of the loss of income due to the COVID-19 pandemic. According to State data, enrollment in mainstream Medicaid Managed Care plans (which represents about three-quarters of total Medicaid enrollment) increased by 7 percent between February and June 2020.

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 City expects the emergency declaration will remain in effect for 12 months and that it will receive $742 million. The actual amount, however, will depend on the length of the emergency period.

The June Plan assumes that the City-funded cost of Medicaid will temporarily decline from $6.1 billion in FY 2019 to $5.1 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 the costs of the Medicaid program.

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 44 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 $150 million from variable-rate debt.

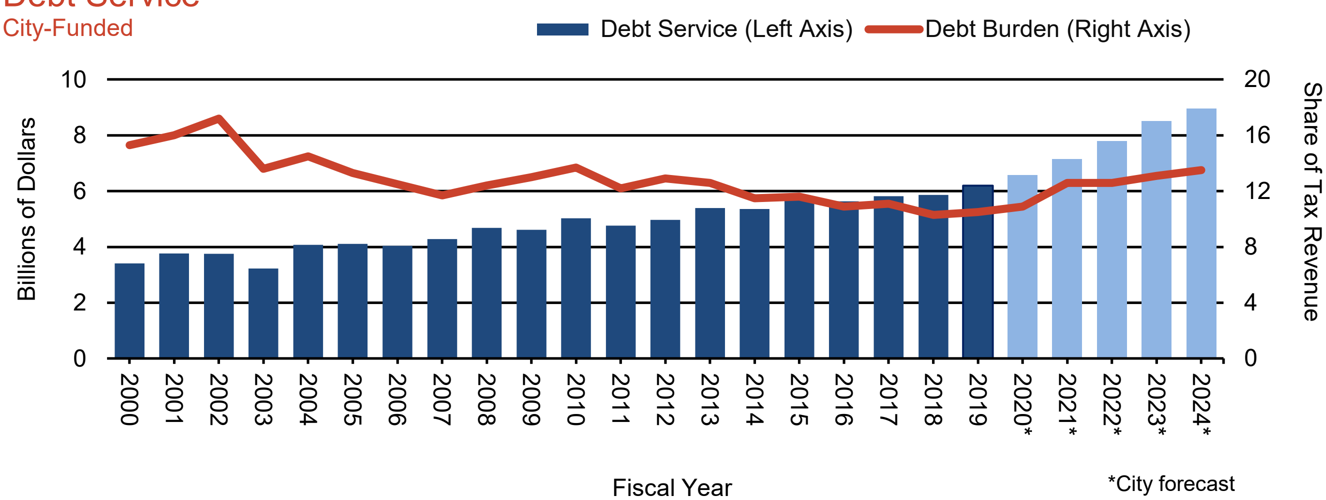
The City and its related entities have $9.5 billion in outstanding variable-rate debt, which typically provides attractive financing costs relative to long-term fixed-rate debt. While variable-rate debt continues to provide significant savings relative to fixed-rate debt, certain events can cause unexpected 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 in FY 2019 as the economy improved.

Despite historically low interest rates, the debt burden is now projected to grow to 12.6 percent in FY 2021 as tax collections fall from the pandemic. The debt burden is projected to reach 13.5 percent by FY 2024 with the projected growth in debt service, below the City's self-imposed ceiling of 15 percent but close to the peak during the Great Recession.

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

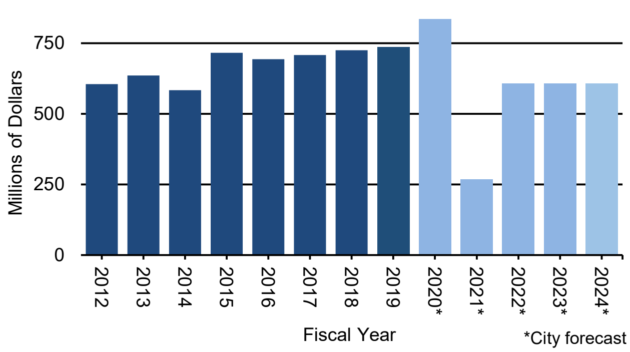
Police Overtime

In response to calls for police reform, the June Plan reflects $1 billion in cuts and cost shifts affecting the New York City Police Department. The actions include reducing the overtime budget (by more than $350 million, including fringe benefits), canceling the July 2020 recruit class of 1,163 cadets ($55 million), and transferring responsibility for school safety agents to the Department of Education.

The City reinvested $430 million of the savings in programs that serve the community, including summer youth and education programs. It also shifted $537 million in capital funds from the Police Department to youth community centers and public housing developments.

Overtime totaled $834 million in FY 2020, including $111 million for costs associated with the pandemic that were reimbursed by the federal government. The June Plan assumes overtime will decline to $268 million in FY 2021, which is at least $450 million less than the average for the three prior years excluding costs associated with the pandemic (Figure 31). The City, however, has not yet produced a plan to realize the savings and maintain public safety. A reported increase in retirements could also drive

FIGURE 31
NYPD Overtime



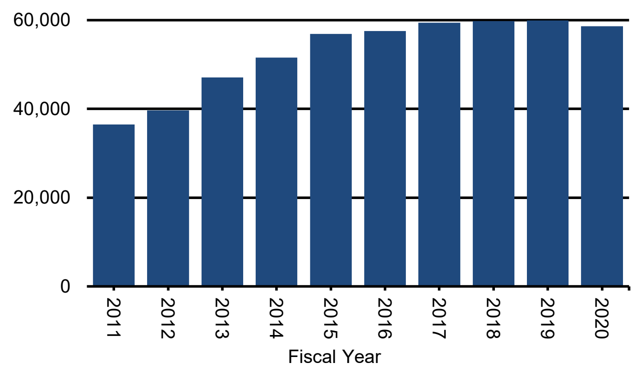
Sources: NYC Financial Management System; NYC Office of Management and Budget; Checkbooknyc.com; OSC analysis

up overtime. While the June Plan allocates more than $600 million annually in subsequent years for police overtime, costs are likely to exceed planned levels in those years as well.

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 a record in 2019 (see Figure 32).

FIGURE 32
Homeless Shelter Population



Sources: NYC Department of Homeless Services; OSC analysis

The number of single adults living in shelters increased by 5 percent in FY 2020, but the total shelter population still declined by 2 percent because the number of people in families with children fell by 5 percent. Families with children make up nearly two-thirds of the total shelter population.

The COVID-19 pandemic has impacted the City's shelter system, particularly the congregate shelters that house single adults, largely in dormitory-type settings. The City reports that about 1,200 homeless people living in the City's shelters have tested positive for the virus. More than 100 homeless people have died, including those who were not in City shelters.

Prior to the pandemic, the City housed about 11,000 people in hotels because of insufficient space in traditional shelters. Since the pandemic, the City relocated another 9,500 single-adult shelter residents to hotels. These include individuals who have symptoms or have tested positive for COVID-19, or are at high risk of developing the virus, such as those over age 70. Costs at the DHS have almost tripled since 2011, reaching $2.2 billion in FY 2019 ($1.4 billion in City funds). The June Plan assumes these costs will total $2.1 billion in FY 2021 ($1.1 billion in City funds), reflecting an anticipated continued decline in caseload and the receipt of federal aid.

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 City reduced funding for the program to less than $41 million in each of fiscal years 2020 and 2021 (from $106 million annually), reflecting a sharp decline in subway and bus ridership because of the COVID-19 pandemic. Ridership is expected to recover slowly in FY 2021, consistent with the current trend, but 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 of Education employs nearly 135,000 full-time employees (including 122,000 pedagogical employees) and another 14,000 full-time equivalent employees.

New York City schools closed on March 16 because of the COVID-19 pandemic, with students engaging in remote learning. The department has continued to provide three daily, free, grab-and-go meals at 435 meal distribution centers scattered throughout the City, using the existing school feeding programs.

The Mayor has indicated that public schools will not fully reopen in the fall. Instead, a blended school schedule will be in effect, which combines classroom and remote learning. The City is working with the State to develop detailed plans to reopen schools.

The June Plan allocates $34.2 billion to the Department of Education for FY 2021, which is 39 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 $499 million less than the amount allocated in the previous fiscal year, reflecting a shortfall in anticipated State education aid and City budget cuts.

Although the State budget included $11.3 billion in education aid for the City (including $717 million in federal aid under the CARES Act), the allocation is $18 million less than the amount allocated in FY 2020 and $360 million less than anticipated by the City for FY 2021.

The City backfilled the State education aid shortfall with City funds in FY 2021, but made no provision for the shortfall in subsequent years. Consequently, the June 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 City expanded its savings program in April and again in June to include new initiatives that will reduce City funding to the department by $536 million in FY 2021. Nearly half of that amount will be achieved through hiring freezes, a reduction in professional development services, and a one-year delay in 3-K expansion.

While more than half of the service reductions proposed in April have been restored, the June Plan still assumes $102 million in reductions, concentrated in the Mayor's Equity and Excellence for All initiatives and in schools' discretionary spending.

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 June 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 almost $85 million annually). The City added $108 million for this purpose in FY 2020, 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.

As a result of the COVID-19 pandemic, utilization of the MTA's services dropped precipitously. Compared to one year earlier, ridership on the subways and commuter railroads fell by more than 90 percent. Bridge and tunnel crossings were down by 65 percent.

Although utilization has begun to rise as the economy begins to reopen, fare and toll collections during March through June were $1.9 billion less than forecast by the MTA before the pandemic. Dedicated tax collections were $709 million less than planned through June.

On July 22, 2020, the MTA released a financial plan covering calendar years 2020 through 2024. The MTA projects a combined budget gap of $9 billion for 2020 and 2021 even after the receipt of $4 billion under the federal CARES Act for costs related to the pandemic and to operate its services. The July Plan also projects budget gaps of $3.5 billion in 2022, $1.8 billion in 2023 and nearly $2 billion in 2024.

The MTA is seeking additional federal assistance to help it balance its budget. However, there is no guarantee that the federal government will provide additional assistance, and the State has indicated that it may cut funding to the MTA if it does not receive additional federal aid.

In lieu of further federal assistance, the MTA has indicated that it will consider a range of options to balance its budget, including a wage freeze, delaying pension contributions, staff reductions, higher-than-planned fare and toll increases, capital program cuts and service reductions.

If necessary, the enacted State budget authorizes the MTA to borrow up to $10 billion during calendar years 2020 through 2022 to help balance the operating budget to offset revenue losses or 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 impacts of the pandemic. These revenues were previously earmarked exclusively for the MTA's 2020-2024 capital program.

The MTA would be 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.

Before the pandemic, the MTA had begun its most ambitious capital program to reverse the deterioration that resulted from years of insufficient capital investment. The MTA's 2020-2024 capital program is valued at $54.8 billion, 62 percent larger than the prior program.

The enacted State budget 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.

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

The State intends to issue $1.1 billion of long-term bonds to cover a portion of its $7.3 billion commitment. The MTA plans to issue bond anticipation notes (BANs) to cover the rest of the State's obligation. The MTA's financial plan assumes that the State will provide ongoing annual appropriations equal to the debt service on the long-term bonds that are issued to replace the BANs.

State law requires the City to contribute $2.7 billion to the MTA's 2015-2019 capital program. The City has allocated $2.1 billion in its capital program, and the remainder is expected to come from future development of the MTA's former headquarters on Madison Avenue.

The MTA is taking steps to navigate through the crisis so it can continue to meet its obligations. For example, new capital commitments have been halted. As a result, capital projects are expected to be completed later than planned, which could adversely affect reliability and safety. According to the MTA, as of July 17, 2020, it has $4.7 billion on hand, including $2.9 billion from the CARES Act and $1.3 billion in available lines of credit.

The MTA's transportation revenue bonds have been downgraded by the three major rating agencies. On July 7, Standard & Poor's downgraded these bonds for the second time in recent months from A- to BBB+, with a continued negative outlook.

The financial crisis facing the MTA is unprecedented and balancing the budget will be difficult even with additional federal aid. Over the longer term, needed capital improvements could be delayed, ridership may not return to pre-pandemic levels and the economic fallout may last for years, presenting long-term challenges for 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. Even before the COVID-19 pandemic, the Corporation faced significant financial challenges, including the declining use of services, reduced federal funding and a large share of patients who lack health insurance.

The Corporation has made progress in recent years in improving its financial condition, but it faces new financial and operational pressures because of the COVID-19 pandemic. Although COVID-19 admissions have declined sharply since the peak in mid-April, inpatient and outpatient services have not yet returned to their pre-pandemic levels.

The Corporation estimates that revenue losses related to COVID-19 will total $350 million through the end of 2020, and that it will incur unplanned costs of $1.1 billion. According to the Corporation, it has received $1.2 billion in federal aid and is seeking additional funding from the Federal Emergency Management Agency.

The Corporation estimates that it ended FY 2020 with a cash balance of $688 million, which was bolstered by the receipt of federal aid. The Corporation, however, has not yet approved a budget for FY 2021, and has not released an accrual-based financial plan since December 2019 or a cash-based financial plan since February 2020. In the absence of a budget or financial plan, it is difficult to assess the impact of the pandemic on the Corporation's finances.

In addition to the impact of the pandemic, the Corporation is still assessing the budgetary impact of initiatives included in the State budget that are intended to reduce the State's Medicaid costs, in part, by cutting payments to hospitals. The Corporation, however, will benefit in

FY 2021 by $237 million from a further delay in planned cuts in federal supplemental Medicaid payments.

Given the uncertainties, there is a risk that the City could be called upon to provide additional financial assistance to the Corporation. Much will depend on the receipt of federal aid, how quickly patients return for nonemergency procedures and other services, and whether there is an uptick in hospitalizations as the economy reopens and mobility increases.

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. Some of the work mandated by the agreement, however, may be impacted by the pandemic. As a result, the monitor is working with NYCHA to establish new deadlines for needed work.

The federal CARES Act included $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 account for 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 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).[7]

The ratings by the three major credit rating agencies are the highest in nearly 60 years. This has enabled the City to access the credit markets to meet its financing needs, and to keep borrowing costs at reasonable rates.

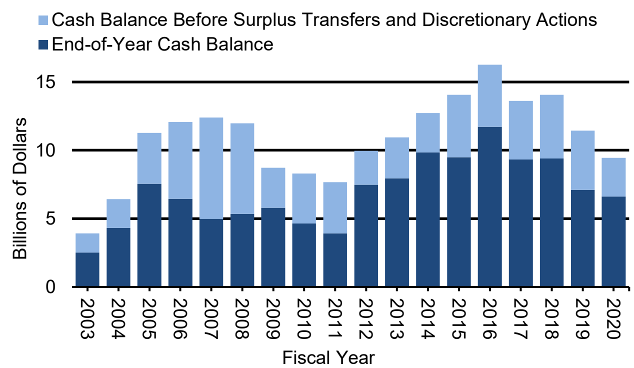
Moody's and Fitch have revised their outlooks for both credits from stable to negative. Moody's cites "a sudden and severe decline in the City's sales and income taxes as the negative economic effects of efforts to stem Coronavirus take hold, and the significant actions the City will need to take to 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 ended FY 2020 with a cash balance of $9.4 billion before discretionary actions (see Figure 33).

FIGURE 33
Year-End Cash Balance



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

The June 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.

[7] 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.

Revenue Stabilization Fund

In June 2020, the State amended the New York State Financial Emergency Act for the City of New York to authorize the City to establish a rainy-day fund and to exempt its deposits and withdrawals from deficit determinations.

As amended, State law now requires surplus resources accumulated by the City to be deposited into a rainy-day fund. Since the late 1980s, the City has reported an annual surplus of $5 million, and at the end of FY 2019 the general fund balance totaled $488 million. These resources would not have otherwise been available to the City to help balance its budget.

The City will not be required to deposit into the rainy-day fund the "surplus" resources that it uses to help balance the budget. In FY 2020, for example, the City transferred $3.8 billion in surplus resources to FY 2021 by prepaying certain expenses.

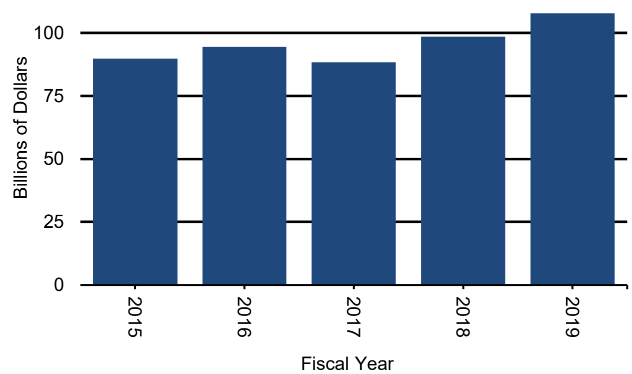
The City may withdraw up to 50 percent of the resources in the rainy-day fund without cause. A larger share can be withdrawn if the Mayor certifies a compelling fiscal need, such as a national or regional recession; a reduction in the City's revenues from the preceding fiscal year; a natural or other disaster; or a declared state of emergency in the City or in the State.

Post-Employment Benefits

The City's unfunded liability for post-employment benefits other than pensions (OPEBs) reached $108 billion in FY 2019 (see Figure 34), an increase of $18 billion (20 percent) in four years.[8]

The City, like many local and state 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 $3.4 billion in FY 2024, an increase of 36.4 percent.

FIGURE 34
Unfunded OPEB Liability



Sources: NYC Actuary; OSC analysis

[8] 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.

Retiree Health Benefits Trust

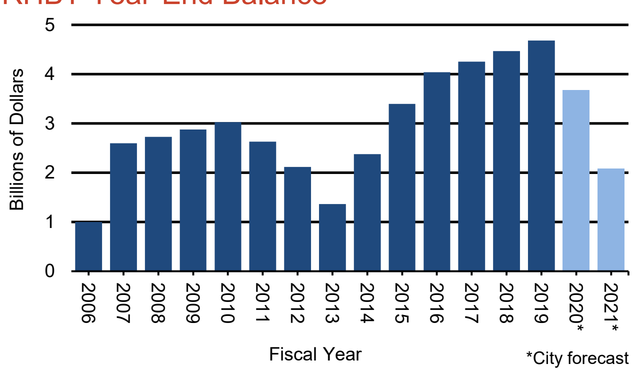
In FY 2006, the City established the Retiree Health Benefits Trust (RHBT) to help fund the future cost of OPEBs. During fiscal years 2006 and 2007, the City deposited $2.5 billion of surplus resources into the RHBT. These resources were invested and earned interest, with the balance exceeding $3 billion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

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 35).

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.

FIGURE 35

RHBT Year-End Balance



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

Appendix A: City-Fund Revenue Trends

(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Property Tax	$ 29,530	$ 30,691	$ 31,842	$ 32,706	$ 33,071
Personal Income Tax	13,253	11,671	12,975	13,729	14,270
Sales Tax	7,348	6,764	8,089	8,667	8,916
Business Taxes	5,998	4,818	5,603	5,958	5,940
Real Estate Transaction Taxes	2,073	1,358	1,690	1,941	2,028
Other Taxes	2,869	2,419	2,828	2,941	2,996
Tax Audits	999	921	721	721	721
Subtotal: Taxes	**62,070**	**58,642**	**63,748**	**66,663**	**67,942**
Miscellaneous Revenues	5,335	5,118	5,007	4,995	4,995
Unrestricted Intergovernmental Aid	253	- - -	- - -	- - -	- - -
Grant Disallowances	(15)	(15)	(15)	(15)	(15)
Total	**$ 67,643**	**$ 63,745**	**$ 68,740**	**$ 71,643**	**$ 72,922**

Annual Rate of Growth	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
General Property Tax	6.6%	3.9%	3.8%	2.7%	1.1%
Personal Income Tax	-0.7%	-11.9%	11.2%	5.8%	3.9%
Sales Tax	-5.9%	-7.9%	19.6%	7.1%	2.9%
Business Taxes	-3.7%	-19.7%	16.3%	6.3%	-0.3%
Real Estate Transaction Taxes	-21.6%	-34.5%	24.4%	14.9%	4.5%
Other Taxes	-2.6%	-15.7%	16.9%	4.0%	1.9%
Tax Audits	22.2%	-7.8%	-21.7%	0%	0%
Subtotal: Taxes	**0.9%**	**-5.5%**	**8.7%**	**4.6%**	**1.9%**
Miscellaneous Revenues	-11.1%	-4.1%	-2.2%	-0.2%	- - -
Unrestricted Intergovernmental Aid	N/A	N/A	- - -	- - -	- - -
Grant Disallowances	- - -	- - -	- - -	- - -	- - -
Total	**-0.2%**	**-5.8%**	**7.8%**	**4.2%**	**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	$ 20,190	$ 21,088	$ 20,469	$ 20,685	$ 20,964
Pension Contributions	9,642	9,788	10,338	10,230	9,926
Debt Service	6,568	7,153	7,792	8,503	8,950
Medicaid	6,084	5,136	5,813	5,813	5,813
Health Insurance	5,119	5,692	6,361	6,985	7,624
Other Fringe Benefits	3,149	3,273	3,506	3,659	3,826
Energy	732	764	814	857	889
Judgments and Claims	593	587	602	618	635
Public Assistance	779	890	890	890	890
Other	16,570	15,693	16,085	16,196	16,338
Subtotal	**69,425**	**70,064**	**72,670**	**74,436**	**75,854**
General Reserve	20	100	1,000	1,000	1,000
Capital Stabilization Reserve	- - -	- - -	250	250	250
Labor Savings	- - -	(1,000)	(1,000)	(1,000)	(1,000)
Retiree Health Benefits Trust	(1,000)	(1,600)	- - -	- - -	- - -
Prior Years' Expenses	(400)	- - -	- - -	- - -	- - -
Total	**$ 68,045**	**$ 67,564**	**$ 72,920**	**$ 74,686**	**$ 76,104**

Annual Rate of Growth	FY 2020	FY 2021	FY 2022	FY 2023	2024
Salaries and Wages	-0.1%	4.5%	-2.9%	1.1%	1.3%
Pension Contributions	-1.6%	1.5%	5.6%	-1.0%	-3.0%
Debt Service	5.9%	8.9%	8.9%	9.1%	5.3%
Medicaid	0.4%	-15.6%	13.2%	- - -	- - -
Health Insurance	5.4%	11.2%	11.8%	9.8%	9.1%
Other Fringe Benefits	3.0%	3.9%	7.1%	4.4%	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	4.0%	-5.3%	2.5%	0.7%	0.9%
Subtotal	**1.9%**	**0.9%**	**3.7%**	**2.4%**	**1.9%**
General Reserve	N/A	N/A	N/A	- - -	- - -
Capital Stabilization Reserve	N/A	N/A	N/A	- - -	- - -
Labor Savings	N/A	N/A	- - -	- - -	- - -
Retiree Health Benefits Trust	N/A	N/A	N/A	- - -	- - -
Prior Years' Expenses	N/A	N/A	- - -	- - -	- - -
Total	**-0.1%**	**-0.7%**	**7.9%**	**2.4%**	**1.9%**

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 Feb 2020	Forecast FY 2021	Variance Feb 2020 to June 2021
Public Safety		**86,275**	**81,609**	**(4,666)**
Police	Uniformed	36,634	35,007	(1,627)
	Civilian	15,398	15,251	(147)
Fire	Uniformed	11,198	10,935	(263)
	Civilian	6,159	6,267	108
Correction	Uniformed	9,566	7,219	(2,347)
	Civilian	1,750	1,761	11
District Attys. & Prosecutors		4,698	4,278	(420)
Probation		845	859	14
Board of Correction		27	32	5
Health & Welfare		**23,774**	**24,762**	**988**
Social Services		9,562	10,254	692
Children's Services		7,222	7,159	(63)
Health & Mental Hygiene		4,166	4,409	243
Homeless Services		2,144	2,233	89
Other		680	707	27
Environment & Infrastructure		**16,948**	**15,928**	**(1,020)**
Sanitation	Uniformed	7,910	7,425	(485)
	Civilian	2,079	2,067	(12)
Transportation		2,972	2,471	(501)
Parks & Recreation		3,662	3,623	(39)
Other		325	342	17
General Government		**11,556**	**11,918**	**362**
Finance		2,035	2,090	55
Law		1,682	1,749	67
Citywide Admin. Services		1,821	1,880	59
Taxi & Limo. Commission		591	589	(2)
Investigations		364	370	6
Board of Elections		684	517	(167)
Info. Tech. & Telecomm.		1,577	1,756	179
Other		2,802	2,967	165
Housing		**2,441**	**2,542**	**101**
Buildings		1,661	1,731	70
Housing Preservation		780	811	31
Department of Education		**104,494**	**104,861**	**367**
	Pedagogues	92,886	94,083	1,197
	Non-Pedagogues	11,608	10,778	(830)
City University of New York		**6,332**	**6,387**	**55**
	Pedagogues	4,573	4,441	(132)
	Non-Pedagogues	1,759	1,946	187
Elected Officials		**2,343**	**2,500**	**157**
Total		**254,163**	**250,507**	**(3,656)**

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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