Review of the Financial Plan of the City of New York

Report 4-2023

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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New Yorkers have experienced multiple economic and social disruptions arising from the COVID-19 pandemic and its many indirect effects here and around the world. Amid a number of setbacks, the City's economy continues to show resilience, enabling a slow but sustained recovery. Recent trends show improvement locally as the City's employment recovery catches up to the rest of the nation. Unfortunately, this comes just as new concerns are emerging regarding the global economy which could impact the City's finances.

The City's budget for Fiscal Year 2023 reflects the City's current economic momentum and continued fiscal improvement, which are in large part driven by City revenue growth that has far outpaced FY 2022 projections and by various savings programs that are expected to create debt service and staffing savings over the next few years. While much needed, more still can be done to bolster the City's fiscal position and expand options to manage its budget while continuing to provide high-quality services. Uncertainty continues to cloud the City's economic recovery and budget and preparation for potential problems is a necessity, not a luxury, in the current climate.

Questions over the composition of the City's economy, geopolitical tensions, and inflation and supply chain issues are just a few of the factors that could create budgetary volatility. The potential for unexpected effects on the City's revenue, spending, and future obligations requires thoughtful preparation in order for the City to avoid being caught off-guard. Further identification of efficiencies, tracking the performance of services delivered amid changing staffing trends, and building up reserve levels should inform the overall budget management strategy.

The latest analysis by my office suggests that the City is likely to generate at least an additional $2 billion in operating surplus in FY 2022 over the figures estimated in the Executive Budget, but this performance may be short-lived. Setting aside a significant portion of the surplus funds could help the City withstand future budget volatility, enabling it to continue efforts to improve the local economy by aiding those in need and prioritizing quality-of-life measures even amid some fiscal strain.

Prudent use of these funds would also provide assurance that the City continues to take the necessary steps to manage its finances and maintain financial flexibility in the face of economic and fiscal uncertainties, a process that may benefit from more systematic approaches in the future. These actions will allow the City to address unexpected challenges, including new spending obligations, and to strengthen its fiscal foundation to keep New York City attractive for residents and visitors in order to continue creating economic opportunity for all.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

The release of New York City's $99.7 billion Fiscal Year (FY) 2023 Budget - $104.9 billion when adjusted for surplus transfers - and Financial Plan (the "April Plan") signifies a remarkable fiscal turnaround since the adoption of the FY 2022 budget in June 2021. Since then, in spite of an economic recovery that has lagged the nation's, the City has benefited from strong unanticipated tax collections, savings in pension contributions from extraordinary asset gains in FY 2021, and announced additional savings programs, including significant vacancy reductions in February.

The unanticipated resources have enabled the City to: generate a $5.3 billion surplus transfer and an additional $200 million planned deposit into its Rainy Day Fund (RDF); fund targeted investments in services to address quality of life, public safety and related concerns; set aside modest additional funds to cover likely wage increases in the next round of bargaining; and address the adverse impacts stemming from litigation and an extension of a sales tax intercept implemented in the enacted State budget. The City also eliminated unspecified labor savings of $1 billion annually and funded some programs likely to recur, which increased budget gaps but reduced fiscal uncertainty. The City's out-year gaps are manageable given historical comparisons, despite the new spending.

This positive fiscal news comes as the City's economic recovery has quickened in pace, with employment accelerating in April 2022 and property values rebounding to exceed its most recent peak. In isolation, these trends would point towards a sustained economic and fiscal recovery, where the City could focus on preparing a budget that meets its many needs and improves services without increasing the costs of living and doing business. However, the decisions facing the City will be more difficult and require preparation.

New York City's finances reflect its role as a world financial and cultural center and are deeply tied to the global and national economies, which face significant uncertainty. New sources of economic disruption could weaken the City's revenues at a time when it needs anticipated growth to offset the exhaustion of federal relief. The likelihood of such disruption has increased in recent months and this remains the most significant risk facing the City at this time.

Inflation remains stubbornly high and difficult to predict, given various geopolitical factors affecting prices. The Federal Reserve recently raised rates by a half point and scaled back asset purchases to manage the economy in response to inflation. Major U.S. equity indices have responded by reaching or nearing bear market territory since January 1. The consensus among economists is that the probability of a national recession has increased steadily this year, which threatens the City's recent economic improvements at a time when it can ill-afford a slowdown in its recovery. In addition, new variants of the COVID-19 virus remain a wild card.

This uncertainty, influenced by factors the City cannot control, requires it to focus on what it can control: recognizing the implications of new initiatives on recurring revenue and spending; committing to spending obligations for which it has identified revenues; improving the quality of public services while continuing to seek efficiencies; and setting aside resources to manage future periods of volatility and limit the impact on services.

In terms of size, the FY 2023 budget would be the City's second largest ever, as federal relief remains outsized and property tax revenue returns to near pre-pandemic levels. City fund revenue is projected to average 2.1 percent growth in the out-years, well below the ten-year pre-pandemic trend (5.2 percent). Even with this relatively modest growth, the City would be able to generate its own revenue to replace pandemic federal relief to the City once it is exhausted. While the City's revenue projections are generally reasonable, they do not build in the likelihood of a recession, which could lead to significantly worse revenue collections.

Potential revenue volatility requires the City keep a wary eye on spending. City-funded spending is projected to increase by $3.7 billion, or 5.2 percent, in FY 2023, before slowing considerably to an average of 1.4 percent in the out-years (excluding reserves). Planned City-funded spending in FY 2023 has risen by $2.3 billion since February. In addition to funding some recurring items that were left unfunded in earlier plans, the City also funded new initiatives to combat a variety of quality-of-life issues, including crime, homelessness, mental health and park maintenance. In some instances, these initiatives required additional staffing, suggesting that the City continues to recalibrate the size of its planned total workforce after its recent steps to generate savings through vacancy reductions.

Importantly, the City also took a step to recognize that wage increases for collective bargaining units were unlikely to be funded solely through efficiencies, adding funding for a half-percent base wage increase in each of the first two years of the new bargaining round. The City has budgeted $495 million by FY 2026 for the additional anticipated labor costs.

Despite these additions, and aided by revenue improvement, budget gaps in FY 2024 and FY 2025 have actually decreased slightly from an average of nearly $4 billion in June 2021 to an average of $3.7 billion in the April Plan. (See Figure 1.) However, simply comparing budget gaps does not capture the full scope of risks facing the City's budget at this time.

The largest quantified risks that could increase the gap include higher-than-projected overtime, optimistic assumptions for spending on education and MTA subsidies, and unbudgeted housing supports, among others. In sum, OSC projects these risks collectively could exceed $1.8 billion annually by FY 2026, in addition to City-identified budget gaps. The City has also funded some recurring non-mandatory spending with federal aid, creating additional "fiscal cliffs" that are not yet funded in the plan out-years, and represent over $550 million in additional spending pressure.

In addition to these risks, the City also faces difficult-to-quantify risks to the budget related to the effect of a potential recession on revenues, the outcome of labor negotiations in the next round of bargaining, the effect of unanticipated market returns on the City's pension contributions, and the impact of escalating cost pressures from inflation on much of agency spending including contractual services, procurements and municipal labor costs.

In recent previous recessions, City fund revenues declined by 4.2 percent in FY 2002 and 5.9 percent in FY 2009, which would be equivalent to between $3 billion and $4.2 billion if similar drops occurred in FY 2023, based on current revenue estimates. OSC also estimates that each one percent increase to base wages for City employees could increase annual labor costs by about half a billion when fully realized, if not offset by productivity efficiencies. Pension returns, which provided significant relief to the plan due to outsized returns in FY 2021, are emerging as a risk as market returns decline. The City estimates its pension systems lost an average of eight percent as of May 23, 2022. If these results hold through June 30, 2022, OMB estimates the City could be required to increase its pension contributions by $675 million in FY 2024, $1.3 billion in FY 2025, and by $2 billion in FY 2026.

These fiscal uncertainties have the potential to increase gaps substantially, threatening both existing programs and new plans to aid the recovery and potentially requiring revenue increases at a time when the cost of living remains a major concern of individuals and businesses. Gaps that appear manageable now and that the City has taken steps to recognize and address may quickly become unwieldy.

Prudent management now can pay dividends later. The Office of the State Comptroller projects that the City's FY 2022 operating results will improve before the end of the fiscal year, due in part to historic personal income tax revenue collections in April 2022, generating an additional $2.4 billion in surplus and creating an important opportunity for the City to prepare for what is ahead.

Decisions about whether to set aside surplus funds and by what amount, along with the general questions of fiscal prudence facing the City at this time, have rarely been so urgent, given the City's economic trajectory and the long-term questions raised about the City's desirability in the wake of the pandemic. Recent advancement of a bill in the State legislature regarding the City's RDF exhibits foresight that recognizes the value in preparing for an uncertain future. The bill includes a number of safeguards in using the RDF, including setting the purpose of fund use, and criteria for deposit and withdrawals. OSC has noted that the City's reserve policy lags national peers in these areas.

A bill is being considered by the State Legislature, at the behest of the City, to create a debt service fund to make permanent an existing fund created by the Financial Emergency Act of 1975 (FEA). The bill demonstrates the City's own foresight in anticipating the end of the FEA and a new period of autonomy for the City's finances and financial oversight. This same foresight should be applied to systematizing the City's fiscal response and avoiding the pitfalls – including borrowing for operations, creating opacity in the budget, and relying on federal and State aid to expand services it would later have to shoulder – that nearly led to the City's fiscal ruin nearly a half-century ago.

New York City's recovery relies on its ability to provide fundamental public services of high quality, while adapting its response to manage the economic recovery. Setting aside an unanticipated revenue windfall now and formalizing an approach for depositing funds during periods of fiscal strength would give the City valuable budgetary flexibility to work towards its recovery objectives. In addition, these steps would provide powerful evidence that the City has learned from its fiscal missteps in the past and is preparing carefully for an uncertain future.

FIGURE 1
New York City Financial Plan

(in millions)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Revenues					
Taxes					
General Property Tax	$ 29,427	$ 31,200	$ 31,692	$ 31,826	$ 31,836
Other Taxes	35,344	34,343	35,523	37,114	38,533
Tax Audit Revenue	871	722	722	722	721
Subtotal: Taxes	$ 65,642	$ 66,265	$ 67,937	$ 69,662	$ 71,090
Miscellaneous Revenues	7,354	7,246	7,258	7,265	7,285
Unrestricted Intergovernmental Aid	792	252	- - -	- - -	- - -
Less: Intra-City Revenue	(2,253)	(1,972)	(1,939)	(1,929)	(1,928)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 71,520	$ 71,776	$ 73,241	$ 74,983	$ 76,432
Other Categorical Grants	1,173	1,029	1,016	1,015	1,012
Inter-Fund Revenues	686	735	731	730	730
Federal Categorical Grants	19,128	9,356	8,677	7,958	6,975
State Categorical Grants	16,462	16,757	16,891	17,136	17,189
Total Revenues	**$ 108,969**	**$ 99,653**	**$ 100,556**	**$ 101,822**	**$ 102,338**
Expenditures					
Personal Service					
Salaries and Wages	$ 31,055	$ 31,276	$ 31,339	$ 31,623	$ 32,033
Pensions	9,727	9,665	9,048	8,176	7,561
Fringe Benefits	12,238	12,652	13,762	14,728	15,446
Subtotal: Personal Service	$ 53,020	$ 53,593	$ 54,149	$ 54,527	$ 55,040
Other Than Personal Service					
Medical Assistance	6,473	6,385	6,385	6,385	6,385
Public Assistance	1,651	1,650	1,650	1,650	1,650
All Other	43,478	36,148	34,879	34,695	34,283
Subtotal: Other Than Personal Service	$ 51,602	$ 44,183	$ 42,914	$ 42,730	$ 42,318
Debt Service	6,685	7,816	8,119	8,630	9,407
FY 2021 Budget Stabilization & Discretionary Transfers	(6,107)	- - -	- - -	- - -	- - -
FY 2022 Budget Stabilization & Discretionary Transfers	5,272	(5,272)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	250	250	250	250
General Reserve	50	1,055	1,000	1,000	1,000
Deposit to the Rainy Day Fund	700	- - -	- - -	- - -	- - -
Less: Intra-City Expenses	(2,253)	(1,972)	(1,939)	(1,929)	(1,928)
Total Expenditures	**$ 108,969**	**$ 99,653**	**$ 104,493**	**$ 105,208**	**$ 106,087**
Gap to Be Closed	**$ - - -**	**$ - - -**	**$ (3,937)**	**$ (3,386)**	**$ (3,749)**

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 2022	FY 2023	FY 2024	FY 2025	FY 2026
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (3,937)**	**$ (3,386)**	**$ (3,749)**
Property Tax Revenues	- - -	200	250	300	300
Nonproperty Tax Revenues	2,405	925	925	875	775
Savings from Staffing Vacancies	200	- - -	- - -	- - -	- - -
Enhanced Federal Medical Assistance	223	148	- - -	- - -	- - -
Debt Service	- - -	115	- - -	- - -	- - -
Judgments and Claims	- - -	(141)	(90)	- - -	- - -
Impact of State Budget	- - -	(90)	(150)	(150)	(150)
Subsidy to MTA Bus	37	(15)	(61)	(91)	(112)
MTA Paratransit Funding	(28)	(55)	(77)	(91)	(98)
DHS Prevailing Wage Security Guards	- - -	- - -	(33)	(33)	(33)
Expiration of Foster Care Waiver	- - -	- - -	(60)	(60)	(60)
Emergency Assistance to Families	- - -	- - -	(67)	(67)	(67)
Early Intervention	- - -	(25)	(45)	(45)	(45)
School Health (Article 6) Programs	- - -	(20)	(39)	(39)	(39)
Universal Access to Counsel in Housing Court	- - -	- - -	- - -	- - -	(16)
Rental Assistance	- - -	(108)	(227)	(227)	(227)
Public Health Corps	- - -	- - -	(13)	(25)	(61)
Carter Cases	(142)	(362)	(362)	(362)	(362)
Charter Tuition	- - -	- - -	(196)	(266)	(467)
Universal 3-K	- - -	- - -	- - -	- - -	(376)
Other Education Initiatives	- - -	- - -	- - -	(210)	(352)
Uniformed Agency Overtime	(251)	(441)	(459)	(461)	(464)
OSC Risk Assessment	**2,444**	**132**	**(704)**	**(952)**	**(1,854)**
Potential Gaps Per OSC[1,2,3,4]	**$ 2,444**	**$ 132**	**$ (4,641)**	**$ (4,338)**	**$ (5,603)**

[1] The April Plan includes a general reserve of $50 million in FY 2022, $1.055 billion in FY 2023 and $1 billion in each of fiscal years 2024 through 2026. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2023 through 2026. The April Plan also includes reserves of $275 million beginning in FY 2023 to fund potential changes to planned pension contributions from future actuarial audit recommendations. The Retiree Health Benefits Trust, which the City has used in the past as a rainy day fund, had a balance of $3.8 billion as of the end of FY 2021 (adjusted to exclude a $425 million prepayment of a portion of FY 2022 expenses for other post-employment benefits).

[2] State law requires surplus resources accumulated by the City to be deposited into a rainy day fund (i.e., the Revenue Stabilization Fund). The April Plan assumes the City will deposit $700 million into the fund in FY 2022, which will increase the balance to $1.2 billion. These resources would be available to help balance the budget if there were a compelling fiscal need.

[3] The April Plan assumes that wage increases in each of the first two years of the next round of collective bargaining will increase by 0.5 percent, and by 1.0 percent annually in each subsequent year.

[4] The Office of Management and Budget estimates that the City's pension systems lost, on average, 8 percent on their investments as of May 23, 2022, compared to the expected annual gain of 7 percent (a shortfall of 15 percent). If the shortfall of 15 percent is maintained through June 30, 2022, the City could be required to increase its pension contributions by $675 million in FY 2024, $1.3 billion in FY 2025, and by $2 billion in FY 2026.

II. Economic Trends

While analysts had been projecting slower growth in national productivity for 2022, the latest real gross domestic product (GDP) estimate for the first quarter of 2022, along with other economic factors, have now led to estimates of even slower growth for the year. Though GDP rose in 2021, driven by a fourth quarter increase of 6.9 percent, it fell by 1.4 percent in the first quarter of 2022, its first quarterly decline since the second quarter of 2020. This decline was due, in part, to economic disruptions from the Omicron variant of the coronavirus. The projected overall slowdown in GDP growth for 2022 has been attributed to the anticipated Federal Reserve response to ease high inflation, which has been worsened by further supply chain uncertainties associated with the Russian invasion of Ukraine and COVID-19 management policies in China.

Amid these challenges, in the April Plan, the City expects 3.3 percent growth in GDP in 2022, down from its projection of 4.1 percent in the February Plan. One bright note continues to be consumer spending for services, especially travel, hotels and restaurants. Spending grew 2.7 percent in the first quarter of 2022, the opposite direction of the headline GDP figure. However, as the pandemic continues to make its presence felt, both directly and indirectly, the economic climate for 2022 and beyond remains very uncertain.

The City also revised its gross city product (GCP) growth rate for 2022 downward to 5.3 percent in the April Plan from 6.7 percent in the February Plan. While the City's April projection is more cautious, it is still significantly higher than S&P Global's 3.3 percent growth projection for the New York metropolitan area. The City attributes this optimism to wage earnings, which, while expected to show weaker growth than in 2021, are still expected to beat the growth in 2019. The City expects the growth in wage earnings to be driven more by employment, as average wages are expected to contract on an annual basis in the fourth quarter of 2022.

For calendar years 2023 to 2026, the City expects an annual average 3.1 percent growth in GCP, while some economists are predicting at least a moderate recession towards the end of 2023. (As of the middle of May, Bloomberg put the probability of a recession in the next 12 months at 30 percent.) The City also expects growth in productivity to continue to outpace that of the nation. In 2020, the pandemic-induced recession resulted in a 3.4 percent drop in GDP for the nation, whereas for the City, it resulted in a 5.7 percent drop.

With respect to employment, the City recognizes that while growth has persevered over time, its recovery of pandemic job losses lags behind the nation and remains uneven across economic sectors, with high-wage sectors generally faring better than low-wage sectors. As of April 2022, the City has recovered 73 percent of the jobs lost in March and April of 2020 (on a seasonally adjusted basis) while the nation has recovered 95 percent of pandemic job losses.[5] The City has not fully regained its pandemic job losses in any economic sector except for information and healthcare.

The April Plan forecasts a quicker employment recovery than the February Plan, as the City expects total employment to exceed pre-pandemic levels by the third quarter of 2024, two quarters earlier than forecast in the February Plan. The City's expectation of a quicker recovery is driven by a strong data benchmark revision this year by the New York State Department of Labor, which showed the City had

[5] Office of the State Comptroller (OSC), *New York City Industry Sector Dashboards*, March 2022, at https://www.osc.state.ny.us/osdc/reports/nyc-sectors/arts-entertainment-and-recreation.

recovered more jobs in 2020 and 2021 than preliminary data indicated.

As the recovery of pandemic job losses has improved, the unemployment rate has declined. However, as of April 2022, the City's unemployment rate lags behind the rest of the State and the nation (see Figure 3). Labor force participation, in combination with unemployment, tells a more complete story of the City's employment situation.[6] A higher percentage of people in the City are seeking work but are unable to find it than in the rest of the State and the nation. Even two years into the pandemic, over 36 percent of laid-off job seekers in the City have been looking for work for at least 27 weeks, compared to only 24 percent in the nation.

The State's Office of Temporary and Disability Assistance provides temporary assistance for those unable to find work. Since the onset of the pandemic, the caseload in the City has risen each year, on average, with the most significant monthly spike in May 2020 (9.2 percent) followed by a relatively large spike in June 2020 (4.3 percent).[7] The caseload remained elevated through September 2020 before declining. However, numbers have begun to rise in recent months. In March 2022, there were nearly 413,400 recipients, 21 percent more than in March 2019. This increase was driven by single adults and childless couples. As this group tends to be younger in age, a portion of this group was likely employed in hard-hit sectors that were vulnerable to COVID-19 disruptions such as leisure and hospitality and retail trade, which employ relatively large shares of young workers.[8] The City expects these sectors will likely take up to two years longer to fully recover than the private sector overall.

In contrast, the City expects the finance sector to recover sooner than the total private sector. While the City had forecast in the February Plan that finance jobs would not return during the plan period, it now expects these jobs to return to 2019 levels by 2024. At the same time, the City expects securities industry profits to decline drastically to $19.3 billion, much less than the $31.3 billion forecast in the February Plan. The lowered forecast follows earnings announcements from the five largest banks that signal a sharp reduction in activity so far this year. Securities industry bonus pool figures are

FIGURE 3
Unemployment and Labor Force Participation Rates: City, Rest of State and Nation

	Unemployment			Labor Force Participation		
	New York City	Rest of New York State	United States	New York City	Rest of New York State	United States
February 2020	3.7%	4.0%	3.5%	60.6%	61.3%	63.4%
April 2022	6.4%	3.1%	3.6%	59.4%	59.4%	62.2%
Difference	2.7	-0.9	0.1	-1.1	-1.9	-1.2

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

6 OSC, *New York City's Uneven Recovery: An Analysis of Labor Force Trends*, at https://www.osc.state.ny.us/reports/osdc/new-york-citys-uneven-recovery-analysis-labor-force-trends.

7 In the City, the Human Resources Administration determines eligibility and administers public assistance according to regulations set by the State's Office of Temporary and Disability Assistance.

8 U.S. Census Bureau, 2019 American Community Survey 1-year estimates.

also expected to decline by 22 percent to $34.8 billion. The securities industry accounted for 22 percent of total private sector wages in New York City in 2021.

The stringent COVID-19 lockdown in China and ensuing economic disruptions are expected to further affect bank earnings in the second quarter of 2022. The City's lowered profitability forecast is also based on the expectation of a rising interest rate environment. The Federal Reserve raised the federal funds rate by 25 basis points in March 2022 and by 50 basis points in May. Rate increases may have implications for real estate markets as financing costs rise.

At the same time, the commercial real estate market remained weak, due to delays in and revisions to employers' return-to-work plans, and office vacancy rates have remained very high. The April Plan expects vacancy rates to continue to rise through 2023 before declining, the same as in the February Plan, though the rates are significantly higher (rates are expected to peak at 23.1 percent in 2023 in the April Plan compared to 19.5 percent in the February Plan).

Visitor-driven components of the economy have improved significantly since the onset of the pandemic. As of the middle of April 2022, total seated diners at all restaurants have almost surpassed November 2021 levels. Similarly, Broadway attendance is at 86 percent of the same week in 2019.[9]

Domestic and international visitors are expected to return to pre-pandemic levels by 2024, according to NYC & Company, the City's official tourism agency.[10]

While recreational events have begun to return, quality of life remains a concern for many residents and workers who have been slow to return to the office. According to a recent employee survey by the Partnership for New York City, personal safety, homelessness, and mental illness rank as top issues for the City's private sector commuter employees.[11]

Earlier this year, the Mayor released the Subway Safety Plan to deploy response teams and provide mental health services to unhoused people in subway stations.[12] The Enacted Budget for State Fiscal Year (SFY) 2022-23 also makes substantial investments in mental health crisis infrastructure, including a crisis hotline system, inpatient psychiatric beds, and homeless outreach teams.[13] The Brooklyn subway shooting incident in April 2022 has renewed calls for more effective mental health and crime mitigation policies. A full and equitable economic recovery will depend on the City's ability to continue prioritizing such public health and safety services to achieve a safe, prosperous New York City.

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

[10] NYC & Company, "Annual Report 2022", April 2022, at https://indd.adobe.com/view/fd577ee4-8f77-4a72-a358-88688e9b3d71?cid=NYCEM_MEM_AnnualReport_20220330.

[11] Partnership for New York City, "Employee Survey Results," March 24, 2022, at https://pfnyc.org/wp-content/uploads/2022/03/Morning-Consult_PFNYC_03.24.2022.pdf.

[12] New York City, "The Subway Safety Plan," February 18, 2022, at https://www1.nyc.gov/assets/home/downloads/pdf/press-releases/2022/the-subway-safety-plan.pdf.

[13] New York State, "Governor Hochul Announces Major Investments to Improve Psychiatric Support for Those in Crisis," February 18, 2022, at https://www.governor.ny.gov/news/governor-hochul-announces-major-investments-improve-psychiatric-support-those-crisis.

III. Changes Since the June 2021 Plan

In June 2021, the City projected a balanced budget for FY 2022 and budget gaps of $4.1 billion in FY 2023, $3.8 billion in FY 2024, and $4.1 billion in FY 2025 (see Figure 4). Since then, the City has made a number of revisions to its financial plan in subsequent budget updates. The FY 2023 gap has been eliminated and the FY 2025 gap was reduced by $700 million. However, the City expects a $100 million increase in its FY 2024 gap.

Favorable updates to the plan include an improved revenue forecast fueled by better-than-projected tax collections, savings identified in the Citywide Savings Program (CSP) and the Program to Eliminate the Gap (PEG), and lower planned pension contributions. These resources more than offset the new needs of agencies and allow for modest increases in the labor reserve in anticipation of upcoming negotiations and mandated costs.

Since June 2021, the City has raised its FY 2022 tax revenue forecast by $3.3 billion as tax collections from all major sources have been stronger than expected. However, increases to the tax forecast are smaller in subsequent years, reflecting the expectation of lower nonproperty tax collections and the impact of proposed tax programs that had been partially offset by a significantly improved property tax outlook.

Savings identified in the CSP and PEG (see section V, "Program to Eliminate the Gap") are expected to generate a combined $3.1 billion in FYs 2022 and 2023 and an average of $1.6 billion annually thereafter, net of restorations to prior savings programs. In addition, a higher-than-expected return on pension fund investments in FY 2021 and elimination of the FY 2022 reserve for potential changes from an ongoing actuarial audit enabled the City to reduce planned contributions by $310 million in FY 2022, $804 million in FY 2023, $1.6 billion in FY 2024, and $2.4 billion in FY 2025.

Other resources identified since June include an anticipated $792 million and $252 million in unrestricted federal aid in FYs 2022 and 2023, respectively. This aid is derived from reimbursements for pandemic-related expenses paid with City fund revenues in FY 2021. The City also anticipates savings from overestimating prior-year expenses by $400 million in FY 2022.

These positive developments more than offset cost increases since June, the largest of which is new agency spending totaling $1.4 billion in FY 2022, $3 billion in FY 2023 and $2.1 billion in each of the following two fiscal years. The City also increased planned labor costs by $119 million in FY 2022, $1.2 billion in FY 2023, and slightly more each year thereafter. This includes some additional funding for annual wage increases in anticipation of the next round of collective bargaining. Other new expenses include an increased projection of the City's settlement costs by $300 million in FYs 2023 and 2024, dropping to $86 million in FY 2025, and State-mandated impacts that decrease City-funded revenue by $170 million annually beginning in FY 2023.

As a result of these changes, the City now forecasts a surplus of $5.3 billion in FY 2022 that will be used to prepay a portion of debt service and retiree health expenses and to close the budget gap in FY 2023. The remaining budget gaps in subsequent years, as a share of City fund revenues, average 4.9 percent – the lowest level at this point in the budget cycle since FY 2019. These gaps, as reported, are manageable based on historical levels. The budgets in these years include a general reserve and a capital stabilization reserve totaling $1.25 billion that could be used to narrow the projected budget gaps to an annual average of 3.3 percent, if these reserves are not needed for other purposes. The City also increased a planned deposit to the Rainy Day Fund (RDF) by $200 million in FY 2022 (for a total of $700 million), which will increase the RDF balance to $1.2 billion.

However, budgetary risks such as increased education costs, unplanned overtime, and funding for various health and social services programs are not accounted for in the financial plan. Additionally, while the City set aside funds for potential wage increases, it is unclear what terms will be agreed to during the next round of collective bargaining.

The City also faces risks to its revenue forecasts, including: slowing economic growth against a backdrop of potentially higher interest rates; the protraction of employment recovery into the third quarter of 2024 at least; tourism spending not returning to pre-pandemic levels until 2026; and uncertainty regarding the future of in-person office work.

New Initiatives

Since the beginning of the fiscal year, the City has identified new agency needs totaling $1.4 billion in FY 2022, $3 billion in FY 2023, and more than $2 billion annually thereafter. This funding is concentrated in multi-agency mayoral initiatives aimed at addressing a number of quality-of-life and public safety concerns across the City. It will also provide further increases to baseline expenditure projections over the balance of the financial plan period (e.g., charter schools and school transportation funding as well as shelter costs), and offset or mitigate out-year budgetary risks from previously unplanned costs that are likely to recur based on recent trends. Funding for the major quality-of-life and public safety initiatives are highlighted below.

The April Plan includes funding for priorities in the Mayor’s Subway Safety Plan, such as: programs for the homeless through the Department of Homeless Services ($171 million annually starting in FY 2023); an expansion of the joint Fire Department and Health + Hospitals “B-HEARD” mental health response teams ($55 million in FY 2023 and $18 million annually thereafter); and an expansion of the Street Health Outreach and Wellness (SHOW) program at Health + Hospitals ($8 million in FY 2022, $19 million in FY 2023 and $14 million annually thereafter). Smaller components of the Safety Plan include $3 million in FY 2022 and $6 million annually starting in FY 2023 for supportive housing at the Department of Social Services and $3 million annually starting in FY 2023 for new Neighborhood Response Unit (NRU) teams at the Department of Health and Mental Hygiene. These resources will support the three-part care delivery system described in the Subway Safety Plan (i.e., outreach, initial housing and mental health care, and permanent housing and community).

Other large new needs include an estimate of the productivity costs associated with the new Juneteenth holiday ($74 million in FY 2022 and $148 million in each subsequent year) and an expansion of the Summer Rising academic and enrichment program at the Department of Youth and Community Development ($101 million annually beginning in FY 2023). In addition, the City estimated the cost associated with the implementation of the Department of Correction’s new Risk Management and Accountability System (RMAS), an alternative disciplinary system to solitary confinement, at $59 million annually starting in FY 2023.

The City also added $53 million in FY 2023, growing to nearly $70 million annually thereafter, for the NYC Streets Plan, which is the Department of Transportation’s first five-year master plan to improve the safety, accessibility, and quality of City streets, as mandated by Local Law 195 enacted in December 2019. Similarly, the City added $41 million annually beginning in FY 2023 for a plan to improve City parks at the Department of Parks and Recreation.

FIGURE 4
Financial Plan Reconciliation—City Funds
April 2022 Plan vs. June 2021 Plan
(In Millions)

	Better/(Worse)			
	FY 2022	FY 2023	FY 2024	FY 2025
Projected Gaps Per June 2021 Plan	**$ - - -**	**$ (4,051)**	**$ (3,837)**	**$ (4,069)**
Unrestricted Federal Aid	**792**	**252**	**- - -**	**- - -**
Updated Tax Estimates				
General Property Taxes	143	1,149	1,237	961
Real Estate Transactions	750	102	164	215
Business Taxes	724	(248)	(282)	(161)
Personal Income	899	33	(166)	(117)
Sales Taxes	706	186	(108)	(176)
Hotel Taxes	70	80	66	66
Other Taxes	53	(64)	(78)	(101)
Planned Tax Expenditures	- - -	(250)	(300)	(300)
Audits	(50)	- - -	- - -	- - -
Subtotal	**3,295**	**988**	**533**	**387**
Other Revenue Reestimates	**100**	**239**	**298**	**297**
Total Revenue Reestimates	**4,188**	**1,479**	**831**	**684**
State Budget Impact	**(10)**	**(170)**	**(170)**	**(170)**
Reserves				
General Reserve	250	(55)	- - -	- - -
Rainy Day Fund Deposit	(200)	- - -	- - -	- - -
Subtotal	**50**	**(55)**	**- - -**	**- - -**
Savings Initiatives				
Program to Eliminate the Gap (PEG)	1,136	1,268	1,274	1,313
November Citywide Savings Program (CSP)	508	475	513	493
Restoration to Prior Savings Initiatives	(8)	(240)	(244)	(249)
Subtotal	**1,637**	**1,503**	**1,542**	**1,557**
New Agency Needs	**(1,446)**	**(2,986)**	**(2,068)**	**(2,118)**
Updated Estimates				
Anticipated Labor Savings	- - -	(1,000)	(1,000)	(1,000)
Collective Bargaining	(119)	(238)	(365)	(445)
Judgments and Claims	43	(300)	(300)	(86)
Pension Contributions	310	804	1,612	2,420
Prior Year Expenses	400	- - -	- - -	- - -
All Other	220	(258)	(183)	(161)
Subtotal	**853**	**(991)**	**(236)**	**728**
Total Expense Reestimates	**1,084**	**(2,699)**	**(931)**	**(2)**
Net Change	**5,272**	**(1,221)**	**(100)**	**682**
Gaps to Be Closed Before Prepayment	**$ 5,272**	**$ (5,272)**	**$ (3,937)**	**$ (3,386)**
FY 2022 Prepayment of FY 2023 Expenses	(5,272)	5,272	- - -	- - -
Gaps to Be Closed Per April 2022 Plan	**$ - - -**	**$ - - -**	**$ (3,937)**	**$ (3,386)**

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

IV. State and Federal Actions

State Budget

On April 7, 2022, the Enacted State Budget for State Fiscal Year (SFY) 2022-23 was agreed to by the Governor and the State Legislature. On a net basis, the City estimates that the State budget would have a negative impact of $328 million in FY 2022 and FY 2023 when compared to the February Plan, the vast majority of which comes from a $250 million expansion of the Earned Income Tax Credit, which the City requested from the State (see Figure 5).

The State is continuing its phase-in of full funding for the education Foundation Aid formula, which will bring the City $309 million more than the prior year and will increase other formula aids to the City by $166 million in SFY 2022. Compared to the City's February Plan, this combined funding is $55 million more than expected in FY 2022 and $125 million more than expected in FY 2023. The Enacted Budget also provides an increase in State funding for the Staten Island Ferry and support for the City's subsidy to MTA Bus of $10 million in FY 2022 and $41 million in FY 2023. Both increases to funding are included in the April Plan.

FIGURE 5
Comparison of NYS Enacted Budget to NYC February Plan Budget Assumptions
(City Funds in Millions) Better/(Worse)

	FY 2022	FY 2023
School Aid	55	125
Public Transit Aid	10	41
Foster Care Rates	- - -	(59)
Pension Changes	- - -	(25)
Sales Tax Intercept	(38)	(150)
Small Business Tax Relief	(10)	(20)
Other	- - -	(7)
Subtotal	**17**	**(95)**
City Requested Item		
Earned Income Tax Credit	- - -	(250)
Total Net Impact	**17**	**(345)**

Sources: NYC Office of Management and Budget; OSC analysis

The Enacted Budget also included actions which the City forecasts will have a negative impact of $48 million in FY 2022 and $261 million in FY 2023 compared to the City's February Plan assumptions. These proposed actions include:

- A requirement that local social service districts pay 100 percent of the rates to reimburse the cost of foster care, with the State increasing the rates to be paid. This could increase costs by $59 million in FY 2023 and $117 million annually thereafter.
- A diversion of $37.5 million in FY 2022 and $150 million annually through FY 2025 from City sales tax revenue to help distressed healthcare providers.
- As noted in "Pension Contributions," the State budget has approved changes to pension benefits which will cost the City $25 million in FY 2023 and increase in subsequent years.
- Providing small business tax relief will cost the City $10 million in FY 2022 and $20 million in FY 2023.
- The expansion of the Earned Income Tax Credit in the City from 5 percent to as high as 30 percent for very low-income residents, undertaken at the City's request, will cost the City an expected $250 million annually starting in FY 2023.
- A remaining negative impact of $7 million in other State budget reductions in FY 2023 includes $3 million in higher costs for school bus service after 4 P.M., $2 million in reductions to City University of New York community colleges, and $2 million in reductions to public school-based health centers.

Only the increase to the Earned Income Tax Credit and the impact of the small business tax relief initiative are included in the City's April Plan. As a result, costs stemming from the State budget could be $90 million higher in FY 2023 and at least $150 million higher annually thereafter than the City has budgeted.

At the City's request, the State has authorized a property tax abatement for property owners who construct or convert a space for childcare in the City, and a business income tax credit for employers who provide new childcare seats to their employees. Together, these actions are expected to cost the City $50 million annually starting in FY 2024.

The Enacted Budget extends authorization to the City to use design-build contracts for certain projects until 2027 and adds the Department of Citywide Administrative Services to the list of City agencies able to utilize design-build contracts. It also extends the initial application deadline for the NYC Musical and Theatrical Tax Credit from December 31, 2022, to June 30, 2023 and increases the cap for the credit from $100 million to $200 million to provide one-time aid to eligible productions to help revitalize tourism in New York City.

The budget would authorize $2.4 billion of State funding to Amtrak's Gateway project. These funds would allow for the construction of an additional rail tunnel between New York and New Jersey and for the rehabilitation of the existing rail tunnel.

Lastly, the budget would increase the market rate directly paid to childcare providers to the 80th percentile of providers' rates. The change is expected to broaden childcare options throughout the State. In FY 2023, providers in the City are expected to receive $220 million of the $369 million allocated in the Enacted Budget for this purpose.

Although proposed in the Executive Budget, the Enacted Budget did not include extending mayoral control of the New York City school system or creating a replacement for the expiring "421-a" program with a new property tax break program for developers who offer affordable, newly constructed apartments in the City. The current "421-a" program costs the City more than $1.7 billion in tax expenditures (foregone revenue) annually.

Federal Assistance

OSC's March 2022 report on the City's Financial Plan highlighted the sources and uses of the $15.2 billion in federal pandemic aid the City anticipates it will receive over the five-year financial plan period starting in FY 2022. Since February 2022, the City has raised its projections by another $1 billion in FY 2022 (with relatively small adjustments over the next three years) to support additional resources and sustain its ongoing response and recovery operations from the COVID-19 pandemic.

As of April 2022, the City anticipates $16.2 billion in federal pandemic relief over the financial plan period. When combined with $9.8 billion in prior-year revenue (including $1 billion recognized as unrestricted aid during fiscal years 2022 and 2023) and estimated savings passed on to the City from enhanced federal funding for Medicaid ($1.1 billion), the federal pandemic support for the City government could total $27.1 billion over seven years, a historic level of assistance.

Progress Claiming Pandemic Aid

Since March 2020, the City has incurred costs associated with the pandemic totaling an estimated $16.2 billion, including $6.8 billion in FY 2022 commitments through April 2022.

The City typically includes estimates for significant receivables during the close of each fiscal year for revenues it earned from services provided which have not yet been collected. As a general rule, the City does not maintain balances for uncollected receivables in excess of three years, except for instances where statutory requirements serve to delay the write-off of bad debts. In past years, the City has maintained small amounts of long-term grants receivable for up to 10 years.

The City earned ("realized") federal pandemic aid totaling $2 billion in FY 2020 and $6.7 billion in FY 2021, for a total of $8.7 billion (after adjusting for write-downs of receivables deemed uncollectible). The City reports it earned an additional $669 million through April 2022, for a total of $9.4 billion in realized revenues to date. However, a significant portion of claiming activity performed during the fiscal year may not be reported until fiscal year-end.

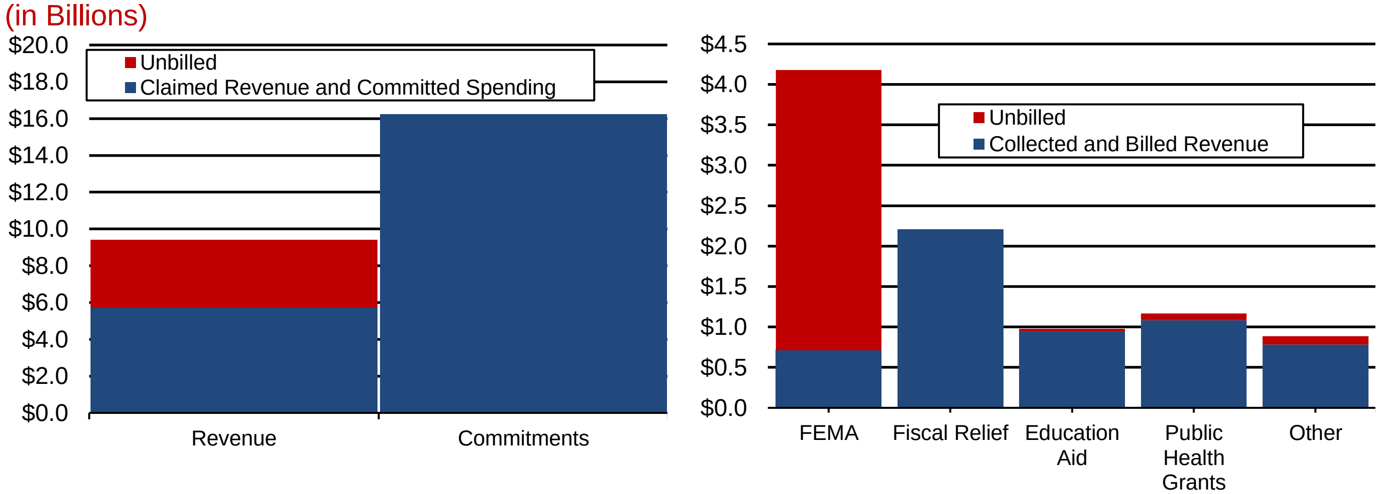
As of April 2022, the City had collected or billed a total of $5.7 billion in earned revenues. The City did not claim nearly $3.7 billion in prior-year revenues earned during fiscal years 2020 and 2021. However, nearly $3.5 billion of this amount is for reimbursements from the Federal Emergency Management Agency (FEMA).

As noted in our March 2022 report on the City's financial plan, the process of claiming, billing and collecting FEMA funds has taken longer than in previous emergencies. To help accelerate the billing and collection of its FEMA receivables, the City is working with its federal and State funding partners to implement various process improvements and to enhance communications, including the development of cloud-based document sharing. These efforts have resulted in FEMA approving a claim for surge staffing after more than one year under review, and providing significant short-term cash relief to the City's public hospitals (see "Health + Hospitals" section for more detail).

Since February 2022, the City has reported some progress towards claiming these reimbursements. Of the $9.4 billion in earned pandemic revenue, $4.2 billion would come in the form of reimbursements from FEMA for prior year costs (see FEMA bar in Figure 6). Of this amount, the City has collected or claimed $713 million. The City anticipates the receipt of $3 billion in such reimbursements in FY 2022, and has collected only $88 million to date.

Additional funding for incurred COVID-19 costs will be added to future financial plans as the City's response continues. Under the President's executive order signed in March 2022, FEMA will reimburse 100 percent of eligible costs through July 1, 2022. For activities conducted after July 1, 2022, FEMA will reduce reimbursement of eligible costs to 90 percent.

FIGURE 6
Unbilled City Revenues from Federal Government Since March 2020
(in Billions)



Note: Amounts shown above are for FY 2020 through FY 2022. FY 2022 is year-to-date as of April 2022. Commitments refer to pre-encumbered, encumbered, accrued and cash expenses allocated to an expense budget code exclusively for pandemic-related activity, containing the characters "CV" or "CR" in the first two digits of the code, as well as certain budget codes exclusive to the Department of Education.
Sources: New York City Comptroller; New York City Office of Management and Budget; OSC analysis

Other Federal Actions

In March 2022, Congress approved a package of spending bills to complete action on the budget for federal fiscal year (FFY) 2022, which began on October 1, 2021. This $1.5 trillion omnibus legislation includes $730 billion in nondefense funding, a $46 billion (6.7 percent) increase since FFY 2021. Among the programs of interest to New York City, most were level-funded or contained modest changes. However, the City's estimated share of the Community Development Block Grant (CDBG) is expected to decrease by $8 million.

The President has released his proposed budget for FFY 2023, which calls for $1.7 trillion in discretionary appropriations, an increase of more than 10 percent over the current year. Nondefense spending would rise by 14 percent to $829 billion, which would include increased funding for a number of State and locally supported services including childcare, public housing, early care, education programs, law enforcement and crime prevention resources. Congress has not yet approved a budget resolution to set the spending targets for FFY 2023.

The City reports that it is actively pursuing competitive grant opportunities and advocating for the distribution of additional formula funding received by the State under the Bipartisan Infrastructure Law (BIL). Overall, the BIL entails $1.2 trillion for rebuilding the nation's infrastructure, including transportation (highways, bridges, rail and ports), utilities (power, water and broadband internet) and other purposes. The BIL includes $550 billion in new spending over five years beyond the base funding called for under a reauthorization of the Fixing America's Surface Transportation Act.

V. Program to Eliminate the Gap

In November 2021, the previous administration released a Citywide Savings Program (CSP) totaling $2.5 billion over the financial plan period, consisting mostly of debt service savings. In February 2022, the City announced a Program to Eliminate the Gap (PEG) which included additional savings of more than $5.3 billion over the financial plan period and eliminated over 7,000 vacant positions. The April Plan PEG, the smallest installment of savings identified this fiscal year, added $965 million in total savings (nearly $700 million of which is debt service savings). Combined, the CSP and PEG provide budgetary relief of nearly $3.4 billion in fiscal years 2022 and 2023 and a total of $8.8 billion over the financial plan period (see Figure 7).

While the February Plan PEG was primarily focused on reducing City-funded agency spending ($5 billion or 94 percent of savings over the financial plan period), the April Plan added only $267 million in agency savings, mostly through lower-than-planned payroll costs in FY 2022 ($149 million). 72 percent of the April Plan PEG total is generated through debt service savings, reflecting lower-than-planned capital expenditures that reduced the City's need to issue debt as well as savings from bond refinancings.

The April Plan PEG consists of two efficiency initiatives that contribute $15 million annually beginning in FY 2023 ($59 million or 6 percent of total April Plan savings), mostly from a reduction in the size of the municipal fleet of vehicles ($14 million annually). In contrast, the February Plan PEG program included over $1.7 billion in efficiency savings over the financial plan period.

Also of note, the April Plan added 3,375 new City-funded positions, including some at agencies that had identified vacancy reduction savings in the February Plan PEG. While these positions are distinct from the more than 7,000 that were eliminated in the PEG, they still partially offset planned savings. After accounting for new costs and offsets, the April Plan actually increases out-year gaps by an average of $1.2 billion each year. Given the risks and uncertainties on the horizon, the new administration should be cautious to avoid effectively rolling back recently planned savings, and should instead continue to identify additional efficiency savings wherever possible.

FIGURE 7
FY 2022 Savings Programs
(Dollars in Millions)

	Positions	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Total
Citywide Savings Program	**(234)**	**$ 508**	**$ 475**	**$ 513**	**$ 493**	**$ 462**	**$ 2,451**
PEG Savings (February)	**(7,026)**	**$ 866**	**$ 1,126**	**$ 1,113**	**$ 1,125**	**$ 1,129**	**$ 5,360**
Agency Actions							
Efficiencies	- - -	- - -	15	15	15	15	59
Expense Re-estimates	- - -	208	- - -	- - -	- - -	- - -	208
Revenue Re-estimates	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Agency Subtotal	**- - -**	**208**	**15**	**15**	**15**	**15**	**267**
Debt Service	**- - -**	**62**	**126**	**147**	**173**	**190**	**698**
PEG Savings (April)	**- - -**	**$ 270**	**$ 141**	**$ 161**	**$ 188**	**$ 205**	**$ 965**
FY 2022 Total Savings	**(7,260)**	**$ 1,644**	**$ 1,743**	**$ 1,787**	**$ 1,806**	**$ 1,796**	**$ 8,776**

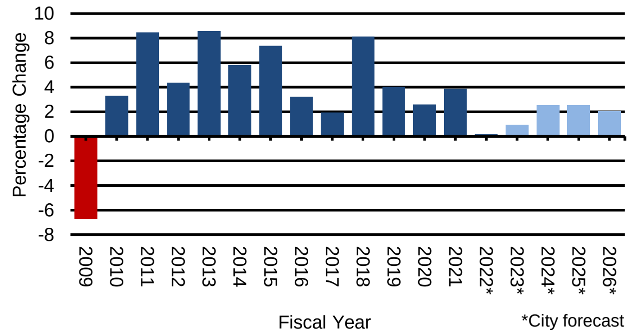
Note: Totals may not add due to rounding. Changes in headcount are as of June 30, 2023.
Sources: NYC Office of Management and Budget; OSC analysis

VI. Revenue Trends

The April Plan increased its total revenue forecast (which includes locally generated revenues and federal and State categorical aid) from the February Plan by $2.4 billion in FY 2022, reflecting better-than-expected tax revenues and additional federal aid. Total revenues are now expected to reach a record high of $109.0 billion, up 8.7 percent from FY 2021.

Most of the upward adjustment in total revenues is due to locally generated revenues or City funds. Tax collections account for 92 percent of City fund revenues while miscellaneous revenues account for 8 percent. About two-thirds of the upward adjustment in total revenues from the February Plan comprises a $1.6 billion increase to the FY 2022 tax revenue forecast, as collections from all major tax sources have been stronger than expected. The February Plan had expected tax revenues to decline by 2.3 percent in FY 2022. However, through the first nine months of FY 2022, total tax collections were up 6.0 percent compared to the same period in the prior year (see Figure 8). As a result, the April Plan now expects tax revenues to increase by a modest 0.2 percent in FY 2022 (see Figure 9).

FIGURE 9
Annual Percent Change in Tax Revenues



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

FIGURE 8
Comparison of Tax Revenue Growth Rates
April Plan, March Year-to-Date, and OSC Forecast Fiscal Years 2022-2026

		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
General Property	April Plan	-6.0%	6.0%	1.6%	0.4%	0.0%
	March YTD	-5.7%	N/A	N/A	N/A	N/A
	OSC	-6.0%	6.7%	1.7%	0.6%	0.0%
Personal Income	April Plan	-2.5%	-1.5%	2.4%	4.2%	2.6%
	March YTD	10.4%	N/A	N/A	N/A	N/A
	OSC	8.5%	-6.7%	2.6%	3.9%	2.5%
Sales	April Plan	24.1%	3.0%	4.3%	5.0%	5.6%
	March YTD	31.8%	N/A	N/A	N/A	N/A
	OSC	24.1%	4.9%	4.8%	4.4%	4.5%
Business	April Plan	0.1%	-9.0%	1.7%	3.6%	5.5%
	March YTD	21.1%	N/A	N/A	N/A	N/A
	OSC	5.8%	-13.9%	1.7%	3.6%	5.5%
Real Estate Transaction	April Plan	44.2%	-15.8%	8.0%	7.0%	3.0%
	March YTD	89.6%	N/A	N/A	N/A	N/A
	OSC	59.6%	-20.7%	3.6%	7.0%	3.0%
Hotel	April Plan	236.6%	50.9%	36.3%	18.8%	2.9%
	March YTD	312.7%	N/A	N/A	N/A	N/A
	OSC	272.1%	60.3%	30.9%	16.6%	2.6%
Total Taxes	**April Plan**	**0.2%**	**0.9%**	**2.5%**	**2.5%**	**2.1%**
	March YTD	**6.0%**	**N/A**	**N/A**	**N/A**	**N/A**
	OSC	**1.4%**	**1.1%**	**2.9%**	**2.7%**	**1.4%**

Sources: NYC Office of Management and Budget; OSC analysis

Despite relative improvement, the tax revenue growth projected by the City for FY 2022 would still be the slowest growth since FY 2009, when collections declined due to the Great Recession. However, because of higher-than-projected personal income tax (PIT), business tax and real estate transaction tax collections year to date, OSC expects the growth rate to be much higher at 1.4 percent. This rate would equate to an additional $2.4 billion in FY 2022 revenues.

In FY 2023, the City expects tax revenues to be 0.9 percent higher than in FY 2022, positively affecting total revenues. However, while the April Plan increased the FY 2023 total revenue forecast by $1.1 billion, federal grant revenue decreases substantially, resulting in an 8.5 percent decline year over year. The smaller increase reflects the dropoff in COVID-19-related federal aid. In FY 2022, federal categorical grants were $19.1 billion, boosted by COVID-19-related federal aid. Federal grant revenue is projected to be about $9.4 billion in FY 2023.

City funds are projected to account for 72 percent of total revenues, or $71.8 billion in FY 2023, up from 66 percent in FY 2022, when federal and State categorical aid was elevated. The April Plan increased the forecast for FY 2023 tax collections by $393 million from the February Plan to a record high of $66.3 billion (see Figure 10; next page).

The growth in FY 2023 is largely attributable to the property tax, which accounts for 47 percent of total tax collections. The April Plan expects property tax collections to increase by 6.0 percent, reflecting the tentative property tax assessment roll which showed large increases to valuations for all classes, and in particular, for Class 2 (multifamily) and Class 4 (commercial, including hotels, retail and office buildings) properties. After declining by 6.0 percent in FY 2022, the first decline in 24 years, OSC anticipates property tax collections will reach at least $31.4 billion in FY 2023, exceeding the peak of $31.3 billion from FY 2021. The final property tax assessment roll was released on May 25 and is likely to increase the final property tax revenue projection at budget adoption.

The growth from property tax collections is expected to be mostly offset by a 3.2 percent decline in nonproperty tax collections, which would be the largest decline since FY 2009. This decline reflects the City's assumption of slower economic growth due to aforementioned economic risks, which are likely to slow down the improvement in property markets and lower Wall Street profits, which boosted personal income tax and business tax collections. Starting in FY 2023, tax revenue will also be lowered by $250 million annually because of the expansion of the City's Earned Income Tax Credit.

The SFY 2022-23 Enacted Budget also created the pass-through entity tax (PTET) for the City which will go into effect in FY 2023. Partnerships and S-Corporations can elect to pay the PTET in exchange for a credit worth an equivalent amount on their PIT returns starting in FY 2023. The purpose of the tax is for taxpayers to save on federal taxes by getting around the federal cap on state and local tax (SALT) deductions. Any payment to the PTET will reduce their quarterly estimated payments (the component of PIT that is based on nonwage income) by an

FIGURE 10
Trends in City Fund Revenues
(in Millions)

	FY 2022	FY 2023	Annual Growth	FY 2024	FY 2025	FY 2026	Average Three-Year Growth Rate
General Property Tax	$ 29,427	$ 31,200	6.0%	$ 31,692	$ 31,826	$ 31,836	0.7%
Personal Income Tax	14,716	14,491	-1.5%	14,844	15,462	15,869	3.1%
Sales Tax	8,129	8,375	3.0%	8,734	9,175	9,692	5.0%
Business Taxes	7,107	6,465	-9.0%	6,575	6,810	7,187	3.6%
Real Estate Transaction	2,799	2,356	-15.8%	2,544	2,723	2,806	6.0%
Other Taxes	2,593	2,656	2.4%	2,826	2,944	2,979	3.9%
Tax Audits	871	722	-17.1%	722	722	721	0.0%
Subtotal: Taxes	**65,642**	**66,265**	**0.9%**	**67,937**	**69,662**	**71,090**	**2.4%**
Miscellaneous Revenues	5,101	5,274	3.4%	5,319	5,336	5,357	0.5%
Unrestricted Intergov. Aid	792	252	-	0	0	0	0.0%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**71,520**	**71,776**	**0.4%**	**73,241**	**74,983**	**76,432**	**2.1%**

Sources: NYC Office of Management and Budget; OSC analysis

equivalent amount. Thus, when combined with PIT, the PTET is expected to be revenue neutral for the City.

Starting in FY 2024, tax revenue will be lowered by $50 million because of two City tax program authorized by the State that provides tax incentives to City businesses and property owners for the creation of childcare seats.

In fiscal years 2024 through 2026, total revenues are projected to increase by an annual average of 0.9 percent, as City funds are expected to average annual growth of 2.1 percent. This growth is driven by tax collections, which are expected to increase at an annual average rate of 2.4 percent. While the City expects nonproperty tax collections to grow at an annual average rate of 3.8 percent, property tax revenues are expected to be nearly flat in the out-years, with growth averaging only 0.7 percent annually due to uncertainty in the commercial real estate market driven by office employers' return-to-work policies. This trend is very different from the pre-pandemic years. During fiscal years 2011 through 2021, property tax collections grew at a faster pace than nonproperty tax collections (annual averages of 6.2 percent and 4.5 percent, respectively).

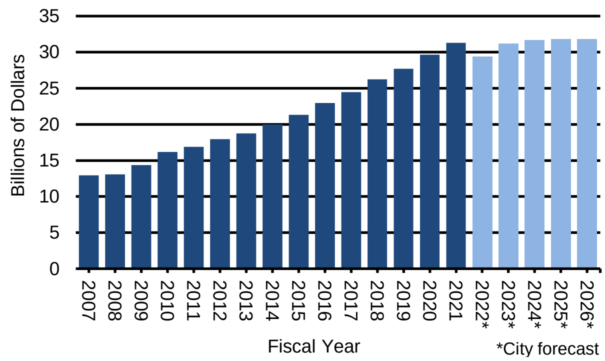
While the City expects tax revenues to grow throughout the plan period, there is still uncertainty in its forecasts. Risks such as the ongoing pandemic, tightening of monetary policy to control high inflation, and geopolitical conflict may all have a larger-than-expected negative impact on the City's economy.

The April Plan is based on the trends shown in Figure 10 and discussed below.

General Property Tax

In the April Plan, the City increased its forecast for property tax collections in FY 2023 to $31.2 billion, an increase of $310 million compared to the February Plan forecast and an increase of $1.8 billion (6.0 percent) over collections in FY 2022 (see Figure 11). Though significantly improved from the prior fiscal year, collections in FY 2023 would still be below the pre-pandemic peak of $31.3 billion in FY 2021. However, OSC believes property tax collections

FIGURE 11
Property Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

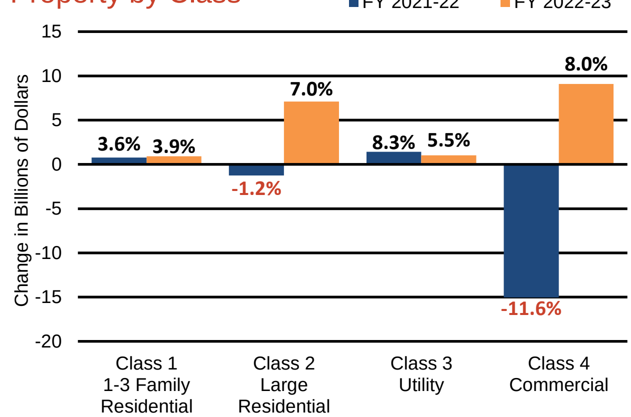
in FY 2023 may be $200 million higher than in the City's forecast, which would bring collections to the highest level on record.

The FY 2023 final assessment roll was released in May. Total taxable values on the final roll rose 7.1 percent from the prior year (compared to 8.1 percent on the tentative roll), surpassing the previous high set in FY 2021. Residential and utility property classes are well above the record taxable values reached in FY 2021.

Commercial property valuations have begun to recover as well, though they remain below pre-pandemic highs (see Figure 12). Key commercial categories such as retail and hotel properties are 5.8 percent and 17.3 percent below the FY 2021 peak, respectively. Reduced tourism and fewer daily commuters in the City present a continuing challenge for retail and hotel property values.

Office property taxable values remain 4.2 percent below the peak. While office property taxable values have recovered faster than certain property types, the office market is expected to remain depressed for several years as companies continue to adjust to long-term remote-work arrangements. As a result, office vacancy rates remain at record highs while asking rents are down significantly from pre-

FIGURE 12
Annual Change in Taxable Value of Real Property by Class



Sources: NYC Department of Finance; OSC analysis

pandemic levels, a trend that is expected to continue through 2023.[14]

Adjustments to the final assessment roll are not the only risk to tax collections in FY 2023. The allocated reserve in FY 2023 is $2.7 billion, 7.9 percent of the expected tax levy. This is an increase from the 7.2 percent level in FY 2022, suggesting the City expects that delinquencies may increase in the short term. Additionally, the City's tax lien sale program, which in the past had been used to encourage payment of delinquent tax bills, was allowed to expire at the end of February 2022. The City has not yet made clear if the lien sale will be renewed or replaced by another program.

The City has also proposed a property tax abatement intended to incentivize property owners to retrofit space for childcare centers with the goal of addressing childcare deserts. The State Legislature has approved the proposed abatement and it is now awaiting a vote by the City Council. The City estimates this abatement will cost $25 million per fiscal year beginning in FY 2024, which is reflected in its collections forecast.

[14] For more detail on the City's office market, see OSC, *New York City Industry Sector Dashboards, Office Sector*, at https://www.osc.state.ny.us/osdc/reports/nyc-sectors/office.

The City expects property tax collections to grow relatively slowly in the out-years. The April Plan has increased the forecast for fiscal years 2024 through 2026 by a total of $1.5 billion compared to the February Plan. Forecast collections through FY 2026 represent an average annual growth rate of 2.0 percent. This figure falls to 0.7 percent when excluding the large rebound in FY 2023, and growth in FY 2026 is projected to be virtually zero, with expected collections only $10 million higher than in FY 2025. In comparison, average annual growth in property tax collections for fiscal years 2017 to 2021 was 6.4 percent. The current forecast assumes property tax collections will surpass pre-pandemic levels in FY 2024, one year earlier than projected in the February Plan.

Personal Income Tax

Collections from the personal income tax (PIT), the City's second-largest source of tax revenue, combined with those from the new pass-through entity tax (PTET), are projected to reach $14.5 billion in FY 2023 (see Figure 13).

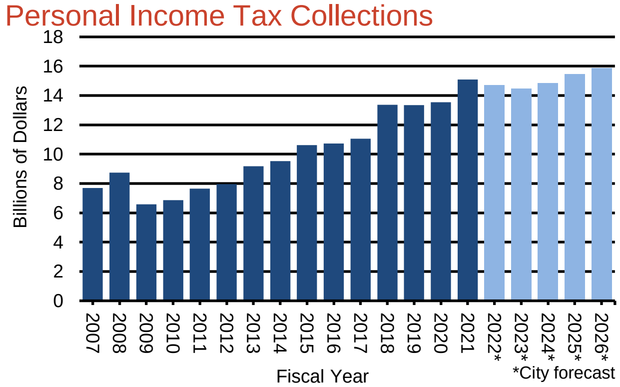
The April Plan expects combined PIT and PTET revenues to decrease by 1.5 percent in FY 2023 even though the City expects wages and jobs to increase. The decline in collections is entirely due to the expansion of the New York City Earned Income Tax Credit (EITC) and to additional tax relief for small businesses. In 2020, over 650,000 New York City filers benefited from the EITC. The expansion of the EITC will reduce PIT collections by $250 million annually starting in FY 2023, while the small business tax relief will reduce collections by $10 million in FY 2022 and $20 million annually afterwards.

The April Plan increases its FY 2022 PIT forecast by $534 million from the February Plan, as collections have been better than expected so far in FY 2022. This adjustment reflects the City's increases to its forecasts for wages, capital gains and Wall Street bonuses.

However, even with the upward adjustment, the April Plan still expects collections to decline by 2.5 percent to $14.7 billion in FY 2022, which would be the largest decline since FY 2009. This forecast reflects the City's assumption that estimated payments will fall after reaching record highs the previous year. The decline also reflects a 49.4 percent ($641 million) drop in distribution payments from the State.[15] The reduction in payments is due to the increase to the State's top income tax rate, which affected the distribution formula. These payments are expected to stay at this lowered level for the rest of the plan period.

The April Plan expects withholding (i.e., the amount of tax taken from employee paychecks) to increase by 10.4 percent in FY 2022, reflecting employment recovery and large Wall Street bonuses, which the City estimated to have increased by 21 percent, similar to OSC's

FIGURE 13
Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[15] Each month the State administers the personal income tax and remits to the City an estimate of its share. As taxpayers file their final tax returns, the State makes offset payments (or deductions) to the City to adjust for inaccurate distributions earlier in the filing season.

estimate.[16] However, withholding growth is expected to drop to 2.6 percent in FY 2023 and to average 4.0 percent annually for fiscal years 2024 through 2026. This estimate is attributable to the City lowering its projections for wage growth, with weaker bonuses expected as financial markets suffer due to geopolitical conflict and the Fed's tightening of monetary policy to combat high inflation.

The April Plan projects that estimated payments will decline by 12.8 percent in FY 2022 from the record high reached in FY 2021. The City expects estimated payments combined with PTET to decrease by 7.0 percent in FY 2023 and to average a 0.7 percent annual decline on a compounded basis in the rest of the plan period, as both the stock and real estate markets weaken due to rising interest rates.

Total PIT and PTET collections are forecast to grow at an average annual rate of 3.1 percent for fiscal years 2024 through 2026, less than half of the annual average rate (7.2 percent) for FY 2010 through FY 2021. This estimate reflects an assumption of slower growth in employment as the City gets closer to fully recovering its pandemic job losses, total wages and capital gains.

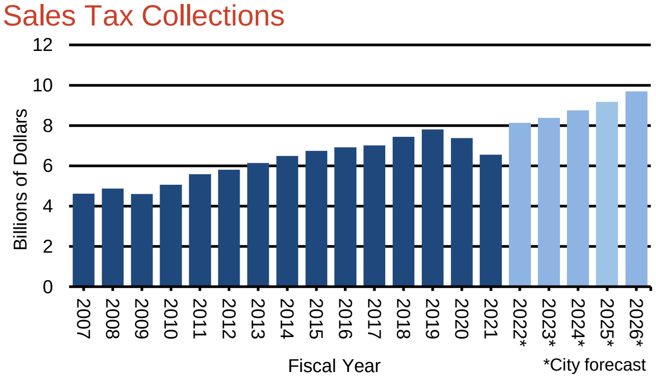
OSC estimates that tax collections may be about $1.7 billion higher in FY 2022 than projected in the April Plan, as collections through April from extensions, offsets and final payments have together already exceeded the City's full-year forecast by a total of $1.7 billion. OSC also expects collections to be higher by at least $600 million annually starting in FY 2023, anticipating growth in wage and nonwage collections to be higher than the City's forecast.

Sales Tax

Sales tax (applied to retail sales of tangible property and services) is the third-largest source of tax revenue in the City, and is driven by consumer spending. Collections in FY 2022 have been strong as consumer spending, higher prices, and returning tourism activity drove up collections. Sales tax collections increased 31.8 percent in the first nine months of FY 2022 compared to the same period last year. The City expects fourth-quarter collections to be subdued, however, as consumers remain concerned about higher inflation amid the uncertain geopolitical climate.

The April Plan anticipates sales tax collections will grow by 3 percent to $8.4 billion in FY 2023 (see Figure 14), an upward adjustment of $232 million from the prior plan as employment and tourism recovery are expected to strengthen. The City does not expect the growth rate in FY 2023 to top the record growth in FY 2022.[17]

FIGURE 14
Sales Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[16] For more detail on OSC's estimate of Wall Street bonuses, go to https://www.osc.state.ny.us/press/releases/2022/03/nys-comptroller-dinapoli-wall-streets-2021-bonuses-set-new-record.

[17] The State recently extended the Distressed Provider Assistance Account intercept for City sales tax collections another three years. The City will now be liable for $150 million (instead of $200 million under the original legislation) each year. The payments will continue to be quarterly, with the first payment of the new extension starting April 15, 2022 for $37.5 million.

Although economic activity in the City continues to recover, sales tax collections still face some risks and uncertainties. According to Siena College's Quarterly New York State Index on Consumer Sentiment, in the first quarter of 2022, sentiment was at its lowest in metro New York City since the second quarter of 2020 as food and gas prices rose. The Consumer Price Index for the New York City metropolitan area increased 6.3 percent, the highest in 31 years, in April 2022 year over year.

According to the Federal Reserve's latest Beige Book, the New York district (which includes parts of New Jersey and Connecticut and all of New York) continues to see higher prices.[18] Retail taxable sales in New York City (or the portion of retail sales that are taxable) from March 1, 2021 to February 28, 2022 increased by 27.2 percent compared to the same period in the prior year.[19] During that same period, e-commerce taxable sales, in particular, grew steadily (14.9 percent year over year). The e-commerce share of taxable sales has grown from 12 percent in State sales tax year 2019-2020 to 21 percent in 2020-2021 to 19 percent in 2021-2022. While e-commerce still comprises a significant share of retail taxable sales, the slight decline in its current share compared to the last State sales tax year is attributable to other retail categories regaining their pre-pandemic shares of taxable sales. For example, the jewelry, luggage and leather goods category grew nearly 17 percent in State sales tax year 2021 (March to February) compared to State sales tax year 2019, as more people returned to in-person shopping.

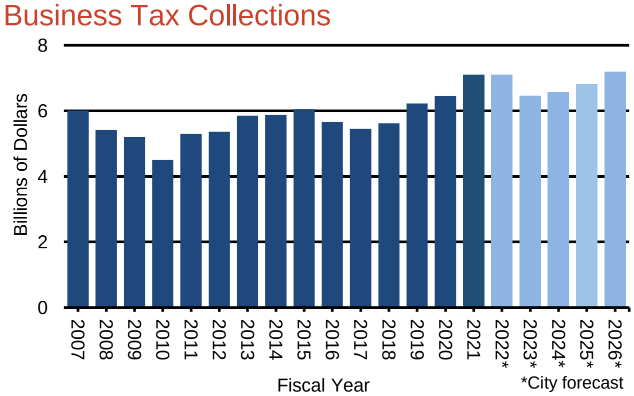
As people resume their pre-pandemic spending habits, tourism has picked up substantially with 90 percent of domestic tourism having recovered to pre-pandemic levels in New York City. NYC & Company (the City's official tourism agency) expects 56.4 million total visitors to the City in 2022. Total visitors in 2022 are expected to grow by 71 percent compared to 2021, as the number of domestic visitors rebounds to pre-pandemic levels sooner than the number of international visitors. Total visitor levels are not expected to recover to pre-pandemic levels until 2024.

OSC expects sales tax collections to be higher than the City's forecast by $150 million in FY 2023 based on expected growth in tourism and higher prices. In the out-years from fiscal years 2024 through 2026, OSC expects collections to increase by an annual average of $130 million, reflecting a return to normal growth and the expected return of tourism to pre-pandemic levels within the out-year period. However, the possibility of an economic recession in the next year presents a risk to the forecast. Amid the Great Recession, sales tax collections declined by 5.6 percent in 2009.

Business Taxes

Business taxes include the business corporation tax and the unincorporated business tax. The City expects collections for FY 2022 to total $7.1 billion (see Figure 15). This is $324 million more

FIGURE 15
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[18] New York Federal Reserve Beige Book, April 20, 2022.
[19] This period is what the State uses to report taxable sales.

than projected in the February Plan. While the February Plan projected a decline in FY 2022, reflecting the assumption that Wall Street profits would decline from their record levels, the April Plan now projects a small increase, based on business tax collections through the first nine months of FY 2022. During this period, total collections grew 21.1 percent compared to the previous year, reflecting strong collections from both finance and non-finance industries.

In the remaining months of the fiscal year, however, the City expects economic disruptions from the Russian invasion of Ukraine and the COVID-19 lockdown in China, as well as monetary policy measures to control current inflation, to slow total business tax collections and reduce business corporation tax collections. Business corporation tax collections constitute more than two-thirds of total business tax collections and are affected primarily by the profits of securities industry member firms.[20] The City expects a significant downturn in Wall Street profits for 2022, as evidenced by a 36 percent decline in the profits of the five largest Wall Street banks in the first quarter of 2022 compared to the same period last year.

The April Plan expects total business tax collections to decline 9 percent to $6.5 billion in FY 2023, driven by falling business corporation collections. The City expects business corporation tax collections to decline 12 percent to $4.3 billion in FY 2023. The City also expects unincorporated business tax collections to decline in this period, but less drastically (2.5 percent to $2.2 billion). Unincorporated business taxes are driven mostly by partnerships (which account for over 90 percent of tax payments).

OSC expects collections to be higher than the City's forecast by $400 million in FY 2022 as current collections remain strong.

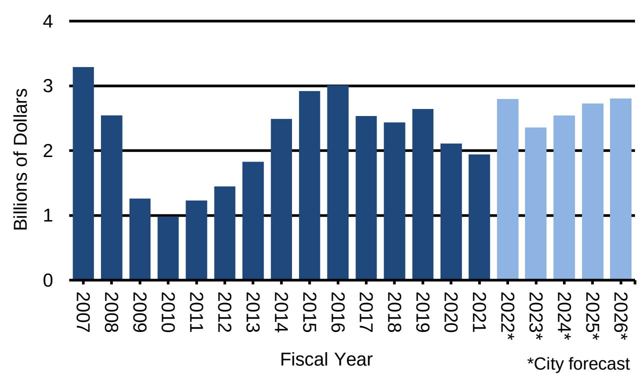
The SFY 2022-23 Enacted Budget includes a provision that allows the City to offer a refundable tax credit to businesses that provide childcare seats for their employees. The credit will begin in FY 2024 and cost $25 million annually.

Real Estate Transaction Taxes

Real estate transaction taxes include the real property transfer tax and the mortgage recording tax. The April Plan expects transaction tax collections in FY 2022 to reach $2.8 billion, an increase of $311 million compared to the February Plan, representing an annual growth rate of 44.2 percent (see Figure 16). This increase reflects the strength in fiscal year-to-date transaction tax collections through March 2022, which have outpaced the February Plan forecast by 30.0 percent.

ACRIS data from the Department of Finance show that real estate sales dollar volumes for the first three quarters of the fiscal year (July 2021 to

FIGURE 16
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[20] OSC, *The Securities Industry in New York City*, Report 12-2022, October 2021, at https://www.osc.state.ny.us/files/reports/osdc/2021/pdf/report-12-2022.pdf.

March 2022) totaled $87.1 billion, the highest level on record. Total sales are up 88.9 percent compared to the prior fiscal year and are 31.0 percent higher than the pre-pandemic baseline in FY 2019. Residential property sales comprise nearly two-thirds of the market and are up 46.9 percent from pre-pandemic levels, while commercial property sales are up 11.1 percent. Given this level of activity in the real estate market, transaction tax collections are likely to outperform even the City's revised April Plan forecast. OSC estimates that transaction tax collections may be $300 million higher than the City's forecast in FY 2022, based on the strength of the fiscal year-to-date collections.

The current surge in purchasing is being driven by a combination of demand that had been pent up during the pandemic and the anticipation of additional interest rate increases later this year. As rates rise and available inventory continues to decrease, the City expects that transaction volumes will fall as demand returns to more typical levels. Therefore the City anticipates a decline in transaction tax collections of 15.8 percent in FY 2023.

Though the City's anticipation of a decline in collections in FY 2023 is reasonable, the magnitude may be too large given the strength in collections for the current fiscal year. OSC estimates that transaction tax collections may be $100 million higher than the City's forecast in FY 2023.

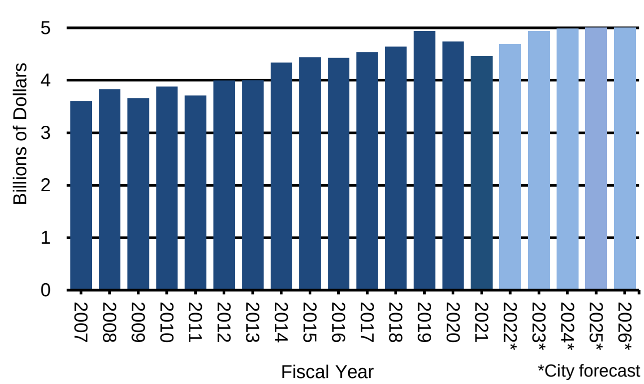
The April Plan projects that transaction tax collections will increase by a total of $706 million in fiscal years 2023 to 2026. The City forecasts average annual growth in transaction tax collections of 6.0 percent for fiscal years 2024 through 2026, based on the expectation that the market will stabilize.

Miscellaneous Revenues

Miscellaneous revenues consist of recurring revenues (including fines, fees, forfeitures, charges for services, licenses and permits) and one-time payments (including settlements, litigation, asset sales and payments from agencies). The City increased its projection for FY 2022 by $4 million from the February Plan, due to a boost from one-time payments including tobacco settlement revenues. The April Plan projects that miscellaneous revenues, including one-time payments, will total $5.1 billion in FY 2022. In the first nine months of FY 2022, revenues increased by 4.6 percent over the same period last year.

Recurring revenues for FY 2022 are forecast to total $4.7 billion and average $5.0 billion in the out-years (see Figure 17). The City expects recurring revenues to recover to pre-pandemic levels in FY 2023 as economic activity continues to increase in the City. Licenses, permits and franchises are expected to increase $18 million in FY 2023, driven by an increase in permit revenues. Construction and building permits are dependent on economic activity and demand, and the City expects pre-pandemic construction activity to resume in FY 2023.

FIGURE 17
Recurring Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

Fines, fees and forfeitures are expected to decline $90 million in FY 2023, as the City expects lower revenue from speed camera, red light camera, and bus lane camera violations, as well as reduced City Finance late penalties. The City is expecting to install 220 additional speed cameras, but these plans have stalled as supply chain issues have disrupted the shipping of parts needed to properly install the equipment.

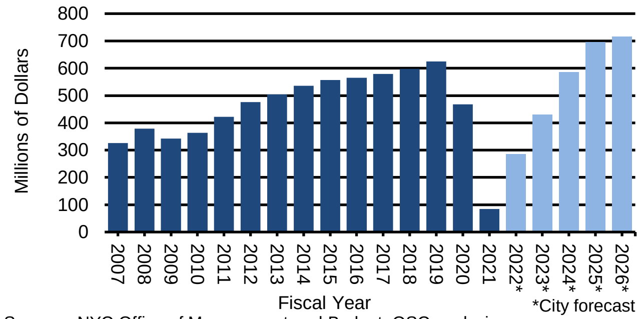
Charges for services are expected to increase $125 million in FY 2023, primarily due to the resumption of enforcement for booting and judgment, as well as increases in parking meters and garage usage, and recreation centers re-opening. Interest income is one of the bigger increases in FY 2023, rising $95 million from FY 2022 levels as Federal Reserve rate changes will affect interest income in FY 2023. While the City increased its monthly interest rate forecast for FY 2023 from the February Plan to the April Plan, the forecast does not account for interest rate increases of at least 50 basis points in alignment with recent Federal Reserve policy.

The City expects recurring miscellaneous revenues in FY 2024-2026 to reach $5 billion annually, staying flat during those years as activity returns to normal pre-pandemic levels.

Hotel Tax

The City expects hotel tax collections to increase by 50.9 percent in FY 2023 to reach $430 million, reflecting its assumption of a continuing recovery in tourism (see Figure 18). While the April Plan increased the FY 2022 forecast by $80 million from the February Plan, this level would still be only 69 percent of the pre-pandemic level in FY 2019. The City does not expect hotel tax collections to exceed FY 2019 levels until FY 2025, in keeping with the City's assumption of a slow recovery for tourism. NYC & Company does not expect the number of total visitors to exceed its 2019 peak until calendar year 2024,

FIGURE 18
Hotel Tax Revenues



Sources: NYC Office of Management and Budget; OSC analysis

suggesting the City is being cautious in its projections.

In the first nine months of FY 2022, hotel tax collections were better than expected, as collections more than quadrupled (an increase of $151 million) compared to the same period last year. NYC & Company expects the number of visitors to grow by 71 percent in calendar year 2022, which follows a 48 percent increase from the previous year. As a result, the April Plan increased its FY 2022 forecast from the February Plan by $30 million to $285 million, 237 percent higher than FY 2021. Collections would have been even higher if not for the executive order signed in May 2021 which eliminated the hotel room occupancy tax from June 1, 2021 to August 31, 2021, lowering revenues by an estimated $60 million.

The April Plan expects collections to grow at an average annual rate of 18.5 percent on a compounded basis in fiscal years 2024 through 2026, ultimately reaching $716 million. OSC expects hotel tax revenues to be $75 million higher annually than the April Plan forecast starting in FY 2023, due to a faster recovery for the hotel industry than anticipated by the plan. After adjusting FY 2022 collections for the lost revenues from the Mayor's executive order, the City expects only a 24.6 percent growth in FY 2023

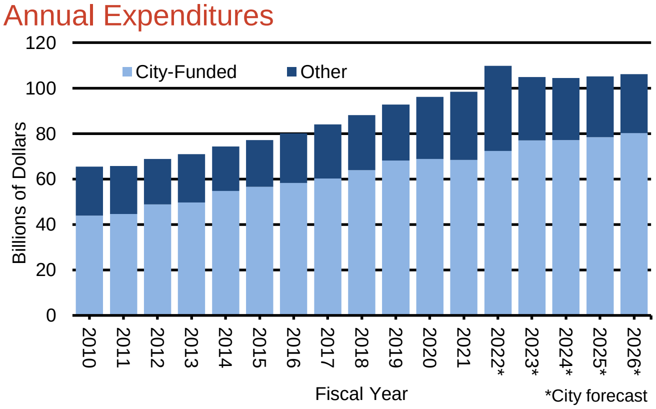
VII. Expenditure Trends

Citywide expenditures are projected to total $104.9 billion in FY 2023, after adjusting for $5.2 billion in surplus transfers, which obscure total expenditures (see Figure 19). The portion funded with locally generated revenue (i.e., City funds) is estimated at $77 billion. The portion funded with other sources, mostly federal and State categorical grants, is $27.9 billion (27 percent of total spending).

City-funded spending rose by an annual average of just 0.2 percent during fiscal years 2020 and 2021. While such spending remained essentially flat during these years because the surge in temporary federal pandemic aid reduced the need for City funds, the pace of growth is projected to rise sharply in fiscal years 2022 and 2023 to pre-pandemic rates, averaging 6.1 percent annually (5.2 percent excluding reserves). The tapering of federal pandemic fiscal relief after FY 2022 is a main contributor to the rebound of growth in City-funded spending through FY 2023.

Spending growth in these years is driven mainly by debt service and fringe benefits costs (other than pension contributions), such as health insurance, as well as by nonrecurring costs attributed to the fiscal and economic impacts of the pandemic (including the expectation of relatively high payouts for judgments and claims against the City following a reopening of the courts, as well as rising energy costs).

FIGURE 19
Annual Expenditures



Note: Adjusted for surplus transfers and debt defeasances. City forecast includes budgeted reserves and a planned rainy day fund deposit of $700 million in FY 2022.
Sources: NYC Office of Management and Budget; OSC analysis

The April Plan assumes City-funded spending will slow over the remainder of the plan period, growing by an annual average of just 1.4 percent over the next three years, excluding reserves. Health insurance costs will continue to be the largest cost driver followed by debt service through the balance of the financial plan period. The City projects its annual debt service based on conservative assumptions and actual spending could be lower than planned. The anticipated decline in pension contributions would offset much of the spending growth, based on the expectation that investment results will meet the assumed annual gain of 7 percent over the financial plan period.

The April Plan still includes some relatively large, but manageable risks, including higher-than-planned mandated operating subsidies for public transit and spending on certain education services, as well as potentially higher overtime costs.

The plan also assumes wage increases of 0.5 percent in the first two years of the next labor settlement, followed by annual 1 percent wage increases. The assumed wage growth rates, which are subject to collective bargaining between the City and its municipal unions, are significantly lower than projected growth in local inflation during the plan period. In addition, planned pension contributions could be higher than first assumed in the April Plan, in the event that an estimated shortfall in investment returns as of April 30, 2022 is maintained over the remaining two months of the fiscal year.

The April Plan is based on the trends shown in Figure 20 (next page) and discussed below.

FIGURE 20
Trends in City-Funded Spending in April 2022 Financial Plan
(Dollars in Millions)

	FY 2022	FY 2023	Annual Growth	FY 2024	FY 2025	FY 2026	Average Three-Year Growth Rate
Salaries and Wages	$18,699	$20,626	10.3%	$20,935	$21,478	$22,246	2.6%
Pension Contributions	9,583	9,520	-0.6%	8,904	8,032	7,417	-8.0%
Debt Service	6,515	7,634	17.2%	7,952	8,469	9,254	6.6%
Medicaid	6,371	6,283	-1.4%	6,283	6,283	6,283	0.0%
Health Insurance	6,147	6,754	9.9%	7,469	8,119	8,713	8.9%
Other Fringe Benefits	3,690	3,699	0.2%	3,814	3,946	4,113	3.6%
Energy	926	971	4.8%	980	977	1,058	2.9%
Judgments and Claims	1,154	918	-20.5%	935	737	683	-9.4%
Public Assistance	891	891	0.0%	891	891	891	0.0%
Other	18,030	18,447	2.3%	17,767	18,187	18,274	-0.3%
Subtotal	**$72,005**	**$75,743**	**5.2%**	**$75,928**	**$77,119**	**$78,931**	**1.4%**
General Reserve	50	1,055	NA	1,000	1,000	1,000	NA
Capital Stabilization Reserve	- - -	250	NA	250	250	250	NA
Rainy Day Fund	700	- - -	NA	- - -	- - -	- - -	NA
Prior Years' Expenses	(400)	- - -	NA	- - -	- - -	- - -	NA
Total	**$72,355**	**$77,048**	**6.5%**	**$77,178**	**$78,369**	**$80,181**	**1.3%**

Note: Totals may not add due to rounding. Spending is adjusted for surplus transfers.

Sources: NYC Office of Management and Budget; OSC analysis

Full-Time Staffing Levels

Between June 2020 and February 2022, the City's full-time work force (including positions funded by federal and State categorical grants) decreased by 16,997 employees, to a total of 283,449,the lowest level since December 2015. In this time, the City-funded portion of the work force decreased by 18,718 employees, to 233,267 employees.

As discussed in OSC's February 2022 report on the *Impact of the Pandemic on New York City's Municipal Workforce*, some agencies (e.g., Taxi and Limousine Commission) and occupations (e.g., paraprofessionals at the Department of Education and Traffic Enforcement Agents) experienced a staffing decline far exceeding the citywide average since June 2020.

The April Plan assumes the City's full-time work force will reach 306,695 positions by the end of FY 2022 (for more detail, see Appendix A), but this year-end target is unlikely to be reached based on current trends. Additions to the workforce (e.g., new hires) during the first eight months of FY 2022 totaled 28,872 employees, nearly 30 percent more employees than were added during the same period in each of the past 10 years. However, separations from service rose even more quickly (by 81 percent when compared to the historical average). As a result, most agencies have continued to experience a decline in full-time staffing in FY 2022 despite targeted efforts to increase hiring.

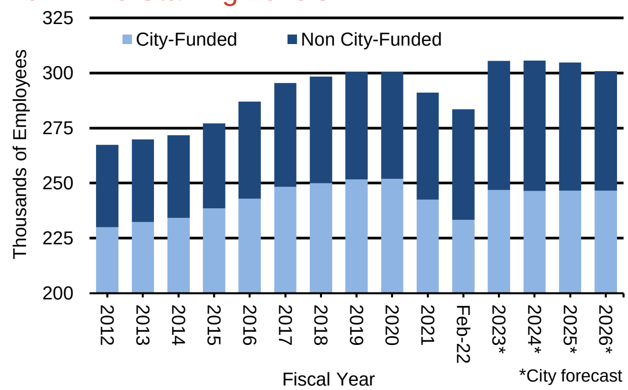
While the City has revised its forecast of full-time payroll downward since the beginning of the fiscal year, OSC estimates that payroll costs could be slightly lower than planned, generating an additional $200 million of savings in FY 2022.

The unfilled vacancies (which reflect a relatively large number of people placed on leave without pay) may also have an impact on the City's ability to meet its service demands, including new and existing programs. As overtime spending at the uniformed agencies is approaching a new record in FY 2022 (see section on Uniformed Agency Overtime for more detail), any additional savings from vacancies could be utilized to help mitigate unplanned overtime spending throughout FY 2022.

As noted in our [March 2022 report on the February Plan](), the City included a Program to Eliminate the Gap that reduced the authorized full-time workforce by 3,205 positions in FY 2022 and by 7,026 positions in FY 2023, mainly at the Department of Education. Since February 2022, the City has added 3,375 positions to the authorized workforce in FY 2023 (and plans to add more than 3,000 positions annually thereafter), targeted mostly for quality of life and public safety investments, such as the Mayor's parks improvement plan and initiative to improve safety and security at the Department of Correction.

After reflecting these changes, the April Plan assumes full-time staffing will total 305,492 by the end of FY 2023. While slightly lower than the year end target in FY 2022, the staffing target for June 30, 2023 is still 22,043 positions (7.8 percent) greater than the current level of 283,449 employees (see Figure 21), an ambitious target given current attrition levels. The City added 22,590 full-time employees in FY 2004, the largest hiring increase on record, but the additions came mostly from the conversion of pedagogues from part-time to full-time positions, not from new hires.

FIGURE 21
Full-Time Staffing Levels



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

Collective Bargaining

As of May 2022, the City had reached settlements with approximately 93 percent of the represented work force for the 2017-2021 round of collective bargaining. The portion of the work force that has not yet reached new settlements consists mainly of those in unions representing police officers (currently in arbitration). The City has set aside funding for the applicable unsettled contracts based on the wage patterns established for civilian and uniformed employees for this round of bargaining.

The next round of collective bargaining began for many civilian employees in May 2021 (see Figure 22). Including the unsettled contracts, half the full-time workforce is working under expired contracts. Contracts for the remainder of the municipal work force are scheduled to expire by the end of FY 2023.

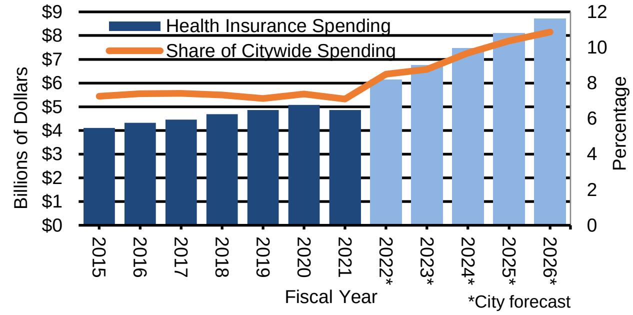
As noted, the April Plan assumes wage increases of 0.5 percent in each of the first two years of the next labor settlement, followed by annual 1 percent wage increases. The City could incur labor costs beyond the amounts assumed

FIGURE 22
Selected Unions' Contract Expiration Dates

Union	Contract Expiration Date	Number of Full-Time Employees	Status
PBA	7/31/2017	22,308	Expired
UFA	7/31/2020	8,261	Expired
DC 37	5/25/2021	60,350	Expired
UFT	9/13/2022	110,257	Current

Note: Full-time work force as of April 2022. The latest PBA contract is expired prior to the 2017-2021 round of bargaining.
Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 23
Health Insurance Costs
City-Funded



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

in the April Plan pending the outcome of the ongoing negotiations (which may not be known for some time), resulting in budgetary uncertainty.[21] As of April 2022, the City projects that local inflation will rise by 4.8 percent in FY 2022, and will average 2.5 percent annually over the balance of the financial plan period. The cost of labor settlements, if wage increases are provided at the projected local inflation rate without offsetting savings, would significantly exceed the City's labor reserves set aside during the same period.

Health Insurance

Despite the achievement of $1.9 billion in recurring savings under the 2014 and 2018 agreements between the City and the Municipal Labor Committee (MLC), health insurance costs will reach nearly $8.7 billion by FY 2026 (see Figure 23), 42 percent more than in FY 2022. These costs as a share of City-funded spending would rise to an estimated 10.9 percent by FY 2026, which would be the highest share since at least FY 2010. Comparatively, City-funded spending would rise by 11 percent during fiscal years 2022 through 2026.

A recent State court decision may prevent up to $600 million of projected annual savings from accruing to the City's Health Stabilization Fund (HSF) due to the implementation of a new Medicare gap plan for roughly 250,000 City retirees.[22] Currently, City retirees over the age of 65 receive a premium-free Medicare supplemental plan that covers health services that basic Medicare does not cover. The current Medicare gap plan is titled GHI Senior Care (GHI Gap Plan). The City had planned to offer an alternative, less expensive Medicare gap plan to retirees (the Medicare Advantage Plus Plan, hereafter the Advantage Gap Plan) and to require a monthly payment from retirees who elected to keep the existing GHI Gap Plan.

A class action lawsuit on behalf of City retirees filed in 2021 argued that local law requires the City to pay the entire cost of health insurance for City employees and retirees up to the H.I.P.-H.M.O. plan for single and family coverage.[23] The retirees sought to eliminate the new premium and to keep the existing GHI Gap Plan.

The State trial court ruled that the City could offer the new Advantage Gap Plan but could not charge a monthly premium to those who chose to continue in the existing GHI Gap Plan. The City has appealed the decision, and the outcome of litigation may be unknown for some time. Based on the legal and budgetary uncertainties

[21] Each one percent increase to base wages could increase labor costs by an estimated $460 million when fully annualized.

[22] *Flanzraich, et al., v. Campion et. al.*, Index No. 158815/2021 (N.Y.S. Supreme Court Mar. 3, 2022).
[23] New York City Admin. Code 12-126.

that remain while litigation continues, the Office of the City Comptroller has indicated that it does not have sufficient information to register the new Advantage Gap Plan contract at this time.

Under an agreement between the City and the MLC, any savings from the Advantage Gap Plan would have been credited to the HSF. The HSF currently funds some health benefits, including certain categories of prescription drugs (and has helped fund labor costs in the past), and is utilized to moderate volatility in the cost to the City of pre-Medicare health coverage expenses.

At the end of FY 2021, the HSF held $967 million. The City has indicated that, without the intended savings from the Advantage Gap Plan, the balance of the HSF could be exhausted as soon as the end of the 2022. The City and the MLC are currently in negotiations to find alternative sources of funding through additional health reforms.

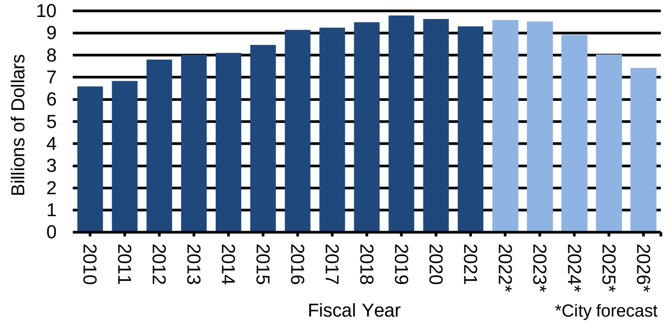
The City reports that if the resources held in the HSF are exhausted, there could be a significant shift in costs to City employees. This could be in the form of additional health coverage fees or a reduction in benefits.

Pension Contributions

Pension contributions, which have been stable in recent years, are projected to total $9.6 billion in FY 2022, and then to decline sharply over the next four years to $7.4 billion (9.7 percent of City fund revenues), which would be the lowest level since FY 2011 (see Figure 24). The decline mostly reflects the benefit of higher-than-anticipated investment returns in FY 2021 (25.8 percent compared to the assumed gain of 7 percent).

The April Plan includes a reserve of $275 million annually beginning in FY 2023 to fund potential

FIGURE 24
Pension Contributions
City-Funded



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

changes from future actuarial audit recommendations, as well as other adjustments from changes including planned headcount, wage growth assumptions, legislation and administrative expenses.

The April Plan, however, does not reflect the impact of State legislation enacted shortly before the release of the Mayor's Executive Budget proposal in April 2022. This legislation plans to reduce the vesting requirements for certain employees in half (to 5 years of credited service) and to exclude certain earnings from the determination of member contribution rates. According to the City Actuary, these changes could increase the City's pension contributions by $26 million annually beginning in FY 2023.

As noted in OSC's previous report on the February Plan, the financial condition of the City's five actuarial pension systems has greatly improved since FY 2014, when the City adopted new, more transparent financial reporting standards.[24] Since FY 2013, the unfunded net liability for all five systems has declined by $50.3 billion to $9.6 billion (84 percent).

However, the financial markets have declined since late 2021 in response to anticipated federal

[24] In accordance with Governmental Accounting Standards Board, Statement No. 68.

reserve interest rate hikes and the effects of the recent Omicron wave on economic activity, as well as geopolitical tensions and their ongoing impact on the equity and commodity markets. All these factors have adversely impacted investment performance in the near term.

The Office of Management and Budget (OMB) estimates that the City's pension systems lost, on average, 8 percent on their investments as of May 23, 2022, compared to the expected annual gain of 7 percent (a shortfall of 15 percent). If the shortfall of 15 percent is maintained through June 30, 2022, OMB estimates the City could be required to increase its pension contributions by $675 million in FY 2024, $1.3 billion in FY 2025, and by $2 billion in FY 2026.[25]

Debt Considerations

City-funded debt service is expected to grow by 9.2 percent annually from $6.5 billion in FY 2022 to $9.3 billion in FY 2026 (42 percent) (see Figure 25). The City has maintained generally conservative rate assumptions over the last decade and maintains some flexibility over the size and timing of new debt issuances, which may affect debt service projections.

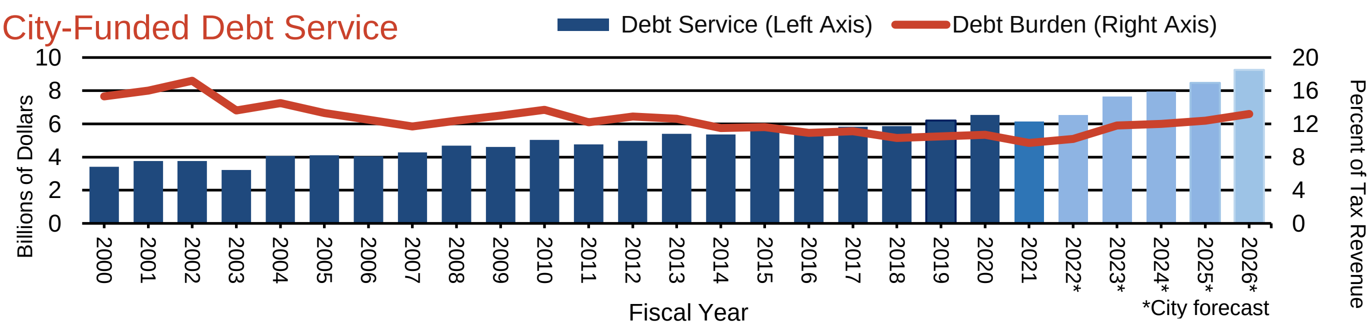
During a period of historically low rates and improving credit ratings, the City has generated significant debt service savings over the last decade. This trend continued in FY 2022. Since the start of the fiscal year, the City has identified close to $3 billion in debt service savings for FY 2022 through FY 2026.

The April Plan includes $284 million of savings in fiscal years 2023 through 2026 from a refunding of Transitional Finance Authority (TFA) bonds, as well as a General Obligation (GO) bond refunding.

The April Plan is forecasting a reduction in City-funded capital expenditures by $1.25 billion compared to the February Plan, resulting in a projected $1.7 billion reduction in bond issuances in the plan period, and $315 million in further debt service savings.

Variable rate debt service costs have been lower than the City anticipated as well, saving $119 million since the beginning of FY 2022. Even though rates have begun to rise, current market conditions may allow the City to achieve an additional $115 million in variable rate savings for FY 2023 that have not been included in the City's PEG program since the City forecasts rates conservatively.

FIGURE 25
City-Funded Debt Service



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

25 Since FY 2012, the pension funds have earned, on average, 9.2 percent on their investments.

The City's debt burden, which reflects debt service as a percentage of tax revenue, is expected to be 10.2 percent for FY 2022 and to remain in the 12 percent range for FY 2023 through FY 2025. However, OSC estimates that the debt burden will rise to 14.2 percent by FY 2028, just below the City's self-imposed cap of 15 percent.

For FY 2022 through FY 2026, GO debt outstanding is projected to increase by $12.1 billion and TFA debt outstanding is expected to increase by $13.8 billion. This represents cumulative growth of 31 percent and 32 percent, respectively, from the end of FY 2022 to the end of FY 2026. Combined, GO debt and TFA debt are expected to grow by an annual average of 7 percent during the same period.

Introduced on the City's behalf, a bill is being considered by State lawmakers which would make permanent a debt service fund, administered and maintained by the Office of the State Comptroller and created as part of the Financial Emergency Act of 1975 (FEA), which provides additional security on funds pledged towards debt service for a portion of the City's outstanding bonds. Under current law, the reserve fund would cease to exist once the FEA expires.

The City's power to incur debt relies on the full market value of real property in the City rising at the same rate or faster than the City's capital spending in order to allow for additional borrowing. According to the City's April 2022 debt affordability statement, the full value of taxable real estate is expected to grow at an annual rate of 4.7 percent per year for the period FY 2023 to 2026, while total indebtedness subject to the City's debt limit is expected to rise by an annual rate of 10.3 percent. As a result, the City's debt-incurring power through GO and TFA bonds combined is expected to be $27 billion at the end of FY 2023, declining to $12 billion at the end of FY 2026.

However, the City's combined debt-incurring power has increased significantly since the City's Office of Management and Budget (OMB) issued its April 2021 analysis. The full value of taxable real estate is projected to increase by $3.4 billion in FY 2023, $25.9 billion in FY 2024 and $46 billion in FY 2025. Total City indebtedness is expected to decrease by $8 billion in FY 2023, $6.6 billion in FY 2024 and $6.5 billion in FY 2025. As expected, capital spending is anticipated to be lower during this period. Consequently, debt capacity is expected to increase by $9.1 billion in FY 2025, up from the $4.7 billion expected in 2021 for that fiscal year.

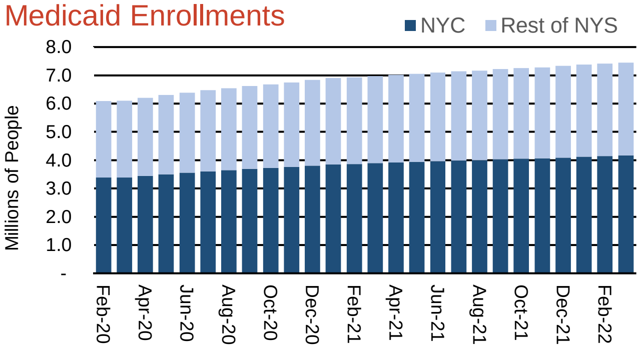
With the City's ability to incur debt improving, based on fundamental economic improvements, and in light of significant discretionary federal infrastructure funding, the City's efforts to seek State legislative approval to increase its debt capacity through TFA may be premature.

Medicaid

In March 2022, a historic high of 4.2 million New York City residents (49 percent of the City's population) were enrolled in Medicaid (see Figure 26), which provides health insurance to low-income children and adults. This estimate includes approximately 780,000 people who have enrolled in Medicaid since February 2020. This sharp increase coincides with the COVID-19 public health emergency. Enrollment growth rates in Queens (28 percent) and Staten Island (29 percent) exceeded citywide growth (23 percent) from February 2020 through March 2022. Medicaid enrollment in the rest of the State grew by 22 percent.[26] The rise in enrollment has continued even as employment levels have

[26] Nationally, Medicaid enrollment increased by 24.9 percent from February 2020 through January 2022.

FIGURE 26
Medicaid Enrollments



Note: Enrollment totals for a month may be updated in subsequent months to reflect retroactive enrollments and/or disenrollments.
Sources: NYS Department of Health; OSC analysis

generally improved in the City since the initial onset of the pandemic.

Policies implemented during the public health emergency (PHE) have helped facilitate enrollment, expanding the number of people eligible for benefits. The policies are expected to remain in place during the entirety of the PHE, which is expected to be extended through mid-October 2022.

The April Plan assumes that the City-funded cost of Medicaid will total nearly $6.4 billion in FY 2022 and $6.3 billion annually in fiscal years 2023 through FY 2026, of which about $2.2 billion in FY 2022 and $1.4 billion annually in fiscal years is budgeted for the nonfederal share of the New York City Health and Hospitals (H+H) supplemental Medicaid. However, the City and H+H have re-estimated the amount of supplemental Medicaid payments that H+H anticipates receiving from a new revenue-generating strategic initiative. The City has reduced its Medicaid budget by $73 million in FY 2022 and by $110 million annually in FY 2023 through FY 2026, and shifted the funds to H+H as a City subsidy (see Health + Hospitals section for more detail).

Passed in March 2020, the Families First Coronavirus Response Act (FFCRA) provided additional retroactive federal Medicaid aid as of January 1, 2020, which will continue through the COVID-19 PHE. The City estimates $591 million in total savings through September 2021 ($210 million in FY 2022). The continued extension of the health emergency period, now expected to be extended to mid-October 2022, will enable the City to benefit from additional federal Medicaid support through December 2022. OSC estimates the City's total Medicaid savings to be $1.1 billion (an additional $223 million in FY 2022 and $148 million in FY 2023) based on 100 percent reimbursement through December 31, 2022.[27]

The growth in Medicaid enrollment may start to reverse with the continued decline in unemployment levels, as policies implemented during the PHE that facilitated the surge in enrollment expire and as the State returns to routine operations to determine eligibility. However, it is likely enrollment will remain elevated as compared to pre-pandemic enrollment levels. The federal Centers for Medicare and Medicaid Services will permit states up to 14 months after the end of the PHE to complete all Medicaid renewals.

Estimates of City-funded costs assume that the State will not require the City to cover a larger share of Medicaid program costs, which it has attempted to do in the past. As of 2015, the State pays for all of the growth in the City's share of Medicaid costs, which is projected to provide $2.6 billion in savings to the City during SFY 2023, excluding the City share of supplemental payments on behalf of H+H.

The State Executive Budget proposal for SFY 2021 included provisions that would have significantly increased the City's Medicaid costs.

[27] The City could benefit from additional savings, as the enhanced rate also applies to the City share of supplemental Medicaid payments made on behalf of H+H not included in the above estimates, of which the City has already benefited from savings of about $200 million.

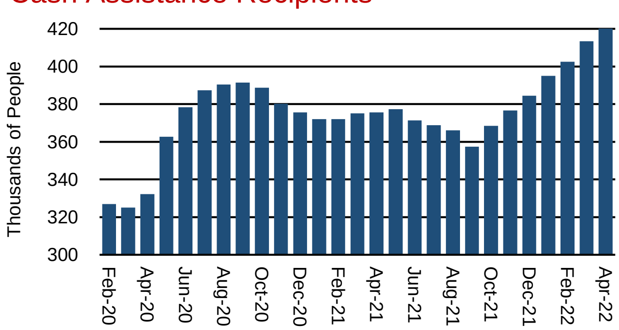
The Enacted Budget for SFY 2021 excluded those provisions, but included a new initiative to divert $250 million in FY 2021 and $150 million in FY 2022 in sales tax revenue for deposit into the Distressed Provider Assistance Account to help distressed hospitals and nursing homes throughout the State. The Executive Budget for SFY 2023 proposed to make the local tax intercept permanent. However, the SFY 2022-23 Enacted Budget extended the provision for only three years and lowered the intercept to $150 million. Escalating Medicaid costs continue to be an area of concern for the State, which may take further measures to reduce the increasing financial burden.

Social Services

Cash Assistance

The April Plan makes no changes to City spending on cash assistance from the Adopted Budget, even though enrollment is up from its previous peak during the pandemic, at 420,192 recipients in April 2022 as compared to 391,432 in September 2020. Caseloads have grown each month since September 2021 (see Figure 27), by a total of 62,715 people, or about 17.5 percent, and are now at the highest level since February 2005. This increase coincides with the expiration of several federal unemployment and pandemic benefit programs (see Figure 28). The Mayor's Message mentions that funding in the plan

FIGURE 27
Cash Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

supports a monthly average caseload of 377,458, which is the average monthly caseload for July 2021 through February 2022.

Enrollment, which on average has grown faster in the City than in the rest of the State since the beginning of the pandemic, is likely to remain higher than pre-pandemic levels for the foreseeable future as a result of economic conditions and policies implemented during the pandemic which made it easier to apply for and maintain benefits remotely. The City-funded portion of public assistance is budgeted at $891 million annually beginning in FY 2023.

FIGURE 28
Federal Pandemic Unemployment Support

	Start Date	End Date
Pandemic Unemployment Assistance (PUA)	4/5/2020	9/5/2021
Pandemic Emergency Unemployment Compensation (PEUC)	4/5/2020	9/5/2021
Federal Pandemic Unemployment Compensation (FPUC)	4/5/2020	9/5/2021
Mixed Earner Unemployment Compensation (MEUC)	4/5/2020	9/5/2021
Extended Benefits (EB)	7/5/2020	9/5/2021

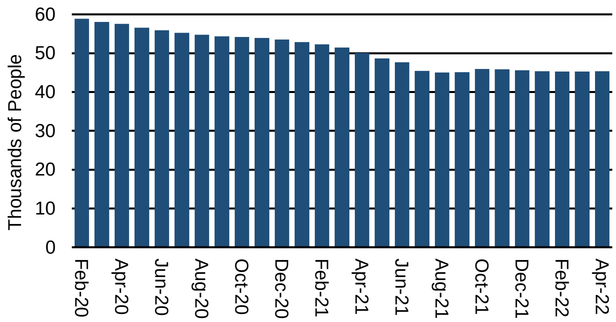
Sources: NYS Department of Labor

Homeless Services

The April Plan increases the Department of Homeless Services (DHS) budget for FY 2022 by roughly $607 million compared to the Adopted Budget, mostly by relying on federal funding, but then decreases it by $461 million in FY 2023 as the federal funds drop off.

The Department's PEG program is expected to produce $45.8 million in savings in FY 2022 and $62.7 million annually in the out-years, which will come predominantly from the City's efforts to reduce its reliance on commercial hotels to

FIGURE 29
People in Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

house families with children (distinct from the City's de-density relocation program).

The total homeless population in shelters operated by the DHS was 45,374 in April 2022 (see Figure 29), which represents a 23 percent decline (of 13,471 people) since February 2020, just before the start of the pandemic. In this period, more than half of the people in shelter (58 percent) belonged to families with children. Families with children also contributed most to the decline in shelter population (10,499 people, or 78 percent). However, after averaging 18,000 in FY 2021, the portion of the population comprised of single adults in FY 2022 is averaging close to FY 2020 levels – less than 17,000 people. Planned spending in FY 2023 on adult shelters would amount to roughly what was spent in FY 2020, when the single adult population hovered at similar levels.

The City also added $25 million to the FY 2022 budget of the Human Resources Administration (HRA) for housing voucher programs, as well as an additional $119 million in FY 2023, leaving HRA's budget $108 million smaller than what the City expects to spend by the end of FY 2022. If demand for these programs remains level beyond FY 2022, this net reduction may create an ongoing risk to the City's budget beginning in FY 2023. In addition, $33 million in funding has been added to the budget in FY 2023 to provide a prevailing wage increase for shelter security guards, but a $33 million gap still remains in the out-years.

Furthermore, the New York State moratorium on residential evictions expired January 15, 2022, resulting in strains on the housing court system and the City's Right to Counsel mandate, which requires it to provide unrepresented litigants in housing court with free legal services if they meet certain household income requirements. In recent weeks, two legal service providers, the Legal Aid Society and Legal Services NYC, have reported that their staffs are already at capacity and cannot take on any new clients in certain boroughs, as the court system's pending case backlog continues to grow.

Stabilization Beds

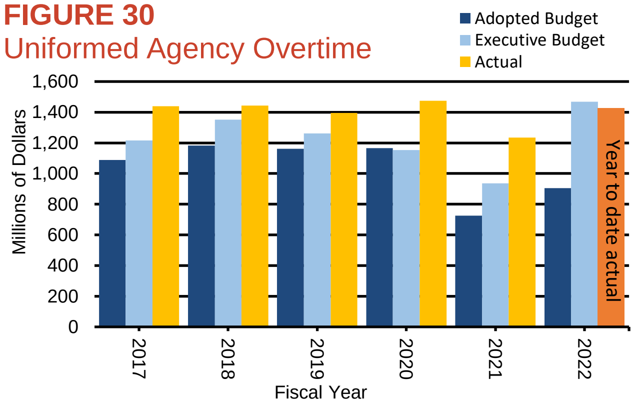
The City recently announced a plan to add low barrier beds for the chronic street homeless population. The program provides additional services and support not found in traditional congregate shelter settings. There are currently 2,700 stabilization, or Safe Haven, beds, available citywide, with the City planning to add 1,400 additional beds by the end of FY 2023. The City added $171 million in baseline funding in the April Plan for this initiative. However, $77 million in federal funding that was used for similar homeless programming in FY 2022 was taken out of the FY 2023 budget.

Pushback against the announcement of these facilities arriving in specific neighborhoods has resulted in the City canceling plans for two sites in Manhattan's Chinatown. If the City is unable to locate alternative sites for these facilities, the implementation of its plans may be delayed and have potential budget impacts.

Uniformed Agency Overtime

Citywide overtime through the first ten months of FY 2022 totaled nearly $1.8 billion, $520 million greater than costs through the same period in FY 2021. Overtime increased at multiple agencies, but the bulk of the growth was concentrated at the uniformed agencies (i.e., police, fire, correction and sanitation; see Figure 30). Overtime costs at these four agencies totaled $1.4 billion (81 percent of the citywide total), $462 million greater than costs through the same period in FY 2021. Three of these agencies have already exceeded their annual budget (by a combined $37 million) and are currently operating with additional overtime not included in the City's financial plan.

FIGURE 30
Uniformed Agency Overtime



Sources: NYC Office of Management and Budget; OSC analysis

Police Department (NYPD)

Overtime costs at the Police Department totaled $617 million through the first ten months of FY 2022, exceeding the amount spent for the entire year in FY 2021 by nearly $140 million. In the April Plan, the City added $94 million (for a total increase of $173 million since June) to the Department's total FY 2022 overtime budget (now $607 million), but the amount still falls short of actual costs by $9 million with two months remaining in the fiscal year.

Although costs increased in most major overtime categories, the largest increases were due to large event detail and other activity-driven enforcement as the City returned to pre-pandemic conditions, as well as increased crime reduction deployments. Police overtime costs to date in FY 2022 are only two percent higher than costs through the same period in FY 2019 ($602 million).

Based on current spending levels and pre-pandemic trends, OSC projects that FY 2022 overtime at the NYPD will total $750 million, exceeding the planned amount by about $150 million. The April Plan increases out-year overtime projections by $18 million in each year to a total of about $452 million annually. Barring a significant change to current police operations, OSC projects that overtime will remain near current levels, which could result in higher costs of $270 million annually each year beginning in FY 2023.

Department of Correction (DOC)

Overtime at the Department of Correction remains elevated, totaling $205 million through the first ten months of FY 2022, nearly $100 million more than costs incurred through the same period in FY 2021 ($109 million). The City added $52 million to the FY 2022 overtime budget in the February Plan and another $52 million in the April Plan, bringing the total to $192 million, but the budgeted amount still falls short of actual costs by $14 million with two months remaining in the fiscal year.

Employee unavailability, specifically high rates of sick leave and staff absent without leave (AWOL), has been the primary cause of the growth in overtime since 2020. Staff unavailability peaked at the end of December 2021, with 33 percent of staff on sick leave and a total of 45 percent of staff unavailable for duty.[28] Rates and overtime costs appear to have begun leveling off, but are still at historically high levels.

On May 17, 2022, the City and DOC submitted a proposed plan to address various issues at the Department, including staffing practices. However, until DOC can systematically reduce its elevated use of overtime, OSC estimates that costs will continue at current levels and total more than $250 million in FY 2022, the highest level since FY 2017 and $61 million more than the planned. The Department is generating savings in other personnel costs that could partially offset some of the unplanned overtime.

Although costs are notably higher in the current year, the City has made no adjustments to the out-year overtime budgets, which total $133 million annually. OSC estimates that the City will need $90 million annually in additional resources for unplanned DOC overtime starting in FY 2023.

Department of Sanitation (DSNY)

Overtime at the Department of Sanitation is approaching the FY 2021 record ($280 million), totaling $258 million through the first ten months of FY 2022, $23 million more than costs incurred through the same period last fiscal year. In the April Plan, the City added $65 million to the Department's FY 2022 overtime budget, which remains $14 million lower than actual costs only ten months into the fiscal year.

Overtime has been elevated at DSNY since FY 2021, primarily due to a hiring freeze at the beginning of the year which reduced staffing levels, exacerbated by unusually high rates of sick leave that constrained the available workforce. The Department accelerated hiring during the first half of FY 2022, and the uniformed staffing level (which accounts for more than 90 percent overtime) now exceeds the City's June 2022 target.

Recently, overtime spending appears to reflect these hiring efforts, as costs have returned to pre-pandemic levels. However, year-to-date spending ensures DSNY overtime will exceed budget. OSC estimates that overtime in 2022 will be the same as last year, leaving the City with unfunded costs of about $35 million in FY 2022. Additionally, in the absence of any unexpected factors that could impact employee availability, OSC anticipates that DSNY overtime will return to pre-pandemic levels beginning in FY 2023. The City assumes that overtime in these years will total just under $120 million annually, the lowest level since FY 2016. OSC projects costs will exceed the planned amount in these years by about $30 million annually, based on pre-pandemic trends.

Fire Department (FDNY)

Overtime at the Fire Department totaled $348 million through the first ten months of FY 2022, exceeding costs incurred through the same period last year by $72 million and already representing the highest year on record with two months remaining. In light of higher overtime spending, the City added $120 million in the April Plan ($178 million since June). The FY 2022 overtime budget now totals $425 million, a reasonable estimate given trends in the current year. Planned FY 2022 overtime costs would be $100 million more than costs in FY 2021, and mark a new record.

The City attributes the increase in overtime throughout the year to lower-than-planned staffing levels, driven by smaller class sizes for

[28] Special Report of the *Nunez* Independent Monitor, dated March 16, 2022.

new FDNY members which are needed to maintain social distancing, exacerbated by unusually high rates of sick leave and light duty (which reduced firefighter availability). The Department is still slightly below planned uniformed staffing levels, which is keeping overtime elevated.

The April Plan also reflects increases in planned FDNY overtime by $40 million in FY 2023 (to a total of $282 million) and by about $30 million annually thereafter (to just over $260 million in the out-years). Assuming there are no staffing challenges at the FDNY going into FY 2023, OSC projects overtime will total about $330 million annually based on historical spending. The City would need additional resources of about $50 million in FY 2023 and about $70 million annually thereafter to offset these unplanned costs.

VIII. Capital Program

The update to the 10-year capital strategy released by the City in the April Plan outlines commitments totaling $156.6 billion. This represents a $9.5 billion increase from the amount anticipated in October 2021, the most recent previous ten-year strategy (see Figure 31). The increase is driven by commitments in the last five years of the ten-year strategy. Compared to the financial plan released in October 2021, the City is reducing its capital commitments for FY 2022 through FY 2026 by $5.5 billion. However, for the second half of the capital program from FY 2027 through FY 2031, the City is increasing commitments by $15 billion compared to October 2021.

The main source of funding for this capital plan is bonds issued by or on behalf of the City. Of the $156.6 billion in capital investments planned in the ten-year strategy, funding from federal sources accounts for only $4.4 billion. A portion of the federal Bipartisan Infrastructure Law (BIL), which was enacted on November 15, 2021, will go to New York State as formula grants. The City expects to reflect any BIL formula grants distributed to it by the State in its financial plan when they are received, and is actively pursuing competitive grant opportunities as well.

The largest changes made to the ten-year strategy in the April Plan are as follows:

- The City is allocating an additional $5 billion to housing, including $1.4 billion for the New York City Housing Authority (NYCHA). The funds for NYCHA are expected to support its Rental Assistance Demonstration (RAD) program ($1.2 billion) and to pay for major in-unit repairs at the Gowanus and the Wyckoff Houses. See Section IX on NYCHA for more information on the RAD program.

- An additional $2 billion is being provided to transportation, including $1.2 billion for bridges and $577 million for the New York

FIGURE 31
10-Year Capital Plan
April 2022 vs October 2021
(in millions)

Category	April Plan	October Plan	Variance
Housing	$22,375	$17,372	$5,002
Transportation	$25,761	$23,750	$2,011
Parks & Recreation	$7,745	$7,166	$578
Environmental Protection	$25,956	$25,402	$555
Energy Efficiency & Citywide Equipment	$10,317	$9,898	$420
Small Business	$6,086	$5,870	$216
Fire Department	$2,065	$1,856	$209
Department of Education	$23,287	$23,090	$197
All Other	$32,993	$32,666	$327
Total	**$156,585**	**$147,071**	**$9,515**

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

City Streets Plan, which is a five-year transportation master plan to improve the safety, accessibility and quality of the City's streets that was enacted in December 2019 under Local Law 195. The City plans to reduce capital spending for transportation by $1.5 billion in the FY 2022 through FY 2026 period, but then increase it by $3.5 billion total in FYs 2027 through 2031.

- Parks and Recreation is expected to receive an increase of $578 million in overall capital commitments over the ten-year period, including funding to plant 20,000 trees per year.

- The Department of Environmental Protection is expected to receive a total increase of $555 million, mostly for pollution control, the replacement of existing sewer systems and an initiative to enhance and develop natural drainage systems called the Bluebelt Program.

- Energy efficiency and citywide equipment projects are expected to receive an additional $420 million, mostly for building construction, reconstruction and retrofits of City-owned and City-leased spaces.

- Small Business Services is expected to receive an additional $216 million, including $140 million for the redevelopment of the Hunts Point Produce Market.
- The Fire Department is expected to receive another $209 million, mostly for new facilities and renovations.
- Capital commitments at the Department of Education are expected to increase by a net of $197 million.

IX. Semi-Autonomous Entities

Department of Education

As the City's pandemic recovery continues, the country's largest school system continues to feel budgetary and operational effects that are likely to linger for years. A key trend with implications for the budget of the Department of Education (DOE) is a significant drop in student enrollment over the past two years, exacerbating a slower decline that existed prior to the pandemic. Total pre-kindergarten through twelfth-grade enrollment fell by 3.3 percent in the 2020-21 school year, and preliminary projections included in the April Plan indicate that the City expects the drop to have been similarly large in the 2021-22 school year, and for enrollment to continue falling in the 2022-23 school year. Of further significance is the fact that the enrollment decline is concentrated in younger grade levels, indicating that the pattern for these age cohorts may persist in the future. Enrollment is a primary driver of many education aid formulas nationwide, including New York State's Foundation Aid formula, which drives the bulk of the State education aid New York City receives.

The stewardship of the influx of one-time federal pandemic relief aid remains an important lever for flexibly managing the DOE's budget. The April Plan proposes that the share of the Department's budget supported by federal funds will fall from 15.3 percent in FY 2022 to 10.2 percent in FY 2023, but it is expected to remain significantly higher than the ten-year pre-pandemic average (6.8 percent) thanks to the continued inclusion of federal pandemic relief aid (of which the City will receive $6.7 billion through FY 2025).[29] However, the City has indicated its ability to spend federal funding at the rate currently allocated is hindered by the persistent impact of the pandemic on supply chains and on staffing shortages. If unable to spend the federal aid at the rate it anticipates in FY 2022, the City would still be able to access the excess relief funds later in the financial plan. A recent report from OSC provides detail on how the City has begun planning to spend these funds, and the associated out-year risks.

The April Plan allocates almost $37.6 billion to the DOE for FY 2023, amounting to 37.8 percent of the City's total budget. The City is expected to fund almost $20.2 billion (53.6 percent) of the total, with the remainder funded by the State (35.7 percent), the federal government and other sources.

The April Plan continues to assume that the DOE will employ almost 155,000 full-time and full-time equivalent employees by June 30, 2022. Based on the most recent data available, the City would need to fill 14,581 new positions (including 10,672 City-funded positions) to meet that target, which OSC considers unlikely. In fact, the City is likely to realize future savings related to these unfilled vacancies. The City has also temporarily funded a number of positions with federal relief funds, but has made no provisions to backfill the attendant headcount loss when the federal funding expires in FY 2025.

Despite already increasing its projections for the cost of student transportation in the February Plan, the City further increased projections in the April Plan by $159 million in FY 2022 and $104 million annually thereafter, partially addressing a long-standing risk to the City's financial plans. A portion, approximately $84 million of the FY 2022 increase, and the entirety of the out-year increases are covered by increases to the amount of transportation aid the City was allocated in the State budget, and by assuming

[29] This calculation includes all federal Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) and American Rescue Plan (ARP) funding allocated to the DOE between FYs 2022-25. It excludes $335 million in federal relief funds used for education which are held in other agencies.

that amount will remain stable in future years. However, the remaining $76 million added to FY 2022 was self-funded through transfers from other DOE budget codes. The City now expects the cost of pupil transportation to decrease by $46 million in FY 2023 and by a further $65 million in FY 2024 before remaining flat thereafter. However, the cost of student transportation has consistently increased faster than anticipated, leading the City to add an average of $138 million annually in each of the past five fiscal years. It is likely the City will need to add some additional transportation funding in FY 2023 and thereafter.

Furthermore, the financial plan does not fully reflect future increases to charter school per-pupil tuition rates that are mandated in State law. The City's preliminary estimates show that such costs to the City could increase by another $196 million in FY 2024, $266 million in FY 2025, and $467 million in FY 2026 if not offset by additional State aid.

The City also did not update planned spending on Carter cases (federally-mandated special education services), which remains the largest risk to the Department's budget in the financial plan. Spending on Carter cases reached $807 million in FY 2021, more than two-and-a-half times the amount budgeted five years earlier, and has increased by an average of $99 million annually over the past five years. However, the April Plan anticipates that spending on Carter cases will decrease by $142 million in FY 2022 before falling another $220 million in FY 2023 and remaining flat thereafter. Until the City can demonstrate that spending for Carter cases has actually begun to decline, these costs are likely to exceed estimates by at least those amounts beginning in FY 2022.

Concerningly, the City plans to use a portion of the one-time, emergency federal aid to implement several permanent, recurring DOE initiatives. Once the federal funds are exhausted in FY 2025, the City will need to devote additional resources to continue providing these programs. The expansion of the City's 3-K program alone will cost $752 million annually, according to the City's estimates, and the City has currently identified funding to support half of that cost beginning in FY 2026. Other recurring costs, including student mental health initiatives, preschool special education, programming restorations, and community schools and restorative justice expansions, amount to an additional $210 million in FY 2025 and $352 million annually thereafter.

Likewise, the City will likely need to identify outyear resources amounting to $112 million to fund a number of programs expanded in the April Plan which are currently supported by federal emergency funds. These include an expansion of the Pathways to Graduation program (designed to help students stay engaged in school and to prepare them for future jobs), as well as the digital learning program, bilingual education expansion, and a number of smaller DOE initiatives that are currently only funded through FY 2024.

Finally, the State has indicated that it will provide a cost-of-living adjustment for special education preschool provider rates. The City is responsible for 40.5 percent of the cost of paying such providers, meaning the adjustment would cost the City nearly $41 million annually once implemented.

Metropolitan Transportation Authority

The Metropolitan Transportation Authority (MTA) anticipates updating its financial plan, which was last updated in February, in July, as is common practice. An in-depth analysis of the status of MTA finances is available in our last assessment of the New York City financial plan, released in March. OSC also released its annual update to the MTA's debt profile in April.

Through April 2022, largely as a result of the Omicron COVID-19 variant surge, fare revenues are $237 million lower than planned in the MTA's February financial plan. Subway ridership was only at 55 percent of pre-pandemic levels in the first quarter of 2022 while the financial plan, using assumptions that were developed by McKinsey, the MTA's consultant, assumed continued ridership gains that would bring ridership to 67 percent of the pre-pandemic level in the quarter.[30]

The plan assumes that ridership will continue to increase to 75 percent of pre-pandemic levels in the second quarter of 2022, rising to 86 percent by the end of the year. The MTA is currently assessing its ridership forecasts and will likely revise its assumptions, and related revenue, downward in its July financial plan. Dedicated tax collections, however, are $227 million higher than planned through May 2022, driven by higher-than-expected real estate transaction tax collections.

The City's April Plan suggests the City may be required to allocate additional funds for the MTA that are not currently included in the plan and represent potential spending risks. Firstly, the City is responsible for paying the operating deficits of the formerly private MTA Bus services after fares and other operating revenues are applied. The City has budgeted $487 million in FY 2023 and $478 million for FY 2024 through FY 2026 for these subsidies, but the MTA expects the cost to the City to average $565 million annually from 2023 through 2026. Even though federal funding through the American Rescue Plan lowers the City's obligation toward MTA Bus, the City could still experience higher costs of $15 million in FY 2023, rising to $112 million in FY 2026.

State law also requires the City to fund half of the net cost (i.e., the cost after fare collections and subsidies) of the MTA's paratransit program, up to a capped amount ($277 million in 2021, rising to $310 million in 2023) until June 30, 2024. (The requirement is likely to be extended beyond that date.) While the City included $63 million in FY 2021 to fund its increased obligation, it made no provisions to fund the increase in subsequent years. Furthermore, the MTA expects pre-pandemic paratransit ridership to return in 2023 and subsequently grow, which could increase the cost to the City by $28 million in FY 2022, rising to $98 million in FY 2026. The City also funds the Fair Fares program which provides discounted MetroCards to low-income riders. The City allocated $75 million annually on a recurring basis in the February Plan. If use of the program were to exceed the allotted amount, the City could have to increase funding for this program.

The MTA has asked for additional State assistance to help it with its structural financial imbalance once federal funding runs out. The City and the State should start discussions as soon as possible about how the MTA will be financed, even as both governments face uncertainties regarding balancing their own budgets on a recurring basis without federal aid. The pace of the City's recovery relies, in part, on how well the MTA emerges from this financial crisis.

[30] Ridership on MTA's buses in the first quarter of 2022 was at 60 percent of the ridership in the first quarter of 2019, while Long Island Rail Road and Metro-North ridership in the first quarter of 2022 was less than 50 percent of 2019.

FIGURE 32
H+H Federal COVID-19 Aid
(Cash Basis, Dollars in Millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
COVID-19 Costs	**$ 788**	**$ 1,342**	**$ 950**	**$ 125**	**- - -**	**- - -**	**$ 3,205**
CARES Act	1,031	171	15	- - -	- - -	- - -	**1,216**
FEMA	- - -	266	515	448	532	216	**1,976**
Received	- - -	*266*	*354*	- - -	- - -	- - -	*620*
Anticipated	- - -	- - -	*162*	*448*	*532*	*216*	*1,356*
Total COVID-19 Aid	**$ 1,031**	**$ 437**	**$ 530**	**$ 448**	**$ 532**	**$ 216**	**$ 3,192**

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

NYC Health + Hospitals

As discussed in an OSC report, H+H was able to manage its financial challenges early in the pandemic, largely because of the receipt of federal funding, actions by the City to provide cash flow support as needed, and the elimination of planned State cuts to Medicaid. The City released the H+H executive cash financial plan for FY 2023 (the "May Plan") on May 10, 2022.

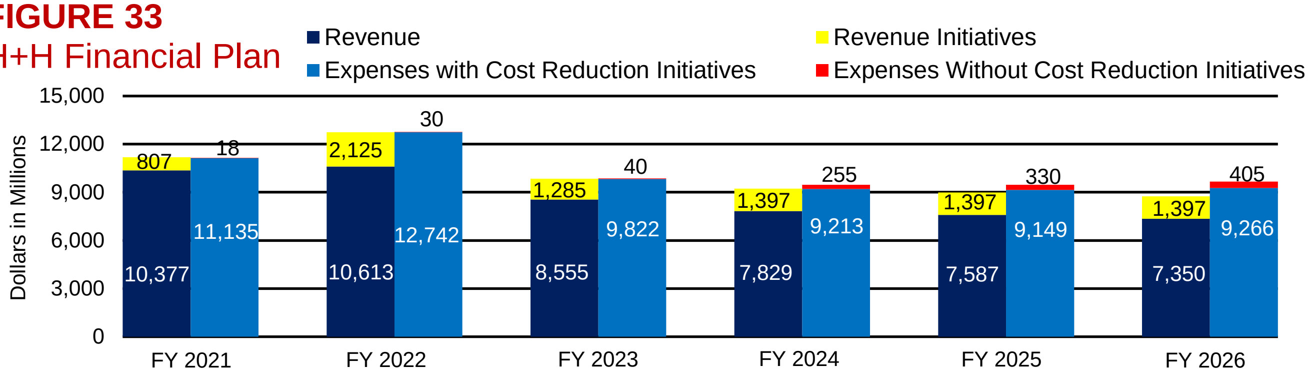
Federal funding for COVID-19 remains critical for H+H to manage its finances throughout the pandemic. The plan assumes that the current unfunded costs and any future costs related to the pandemic will be offset with federal funds. H+H has paid out $2.7 billion in COVID-19 related expenses through March 2022, but assumes these costs could reach $3.2 billion. H+H also assumes it will receive a commensurate amount of support of almost $3.2 billion in revenue from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act and FEMA (see Figure 32). H+H has applied for additional federal COVID-19 reimbursement and anticipates receiving $1.4 billion in FEMA aid.

H+H has also benefited financially from federal legislation that has delayed planned cuts in federal supplemental Medicaid payments through federal fiscal year 2023. The April Plan assumes the federal share of these cuts will resume in FY 2024, with the City maintaining its share of the payments as a subsidy of about $600 million annually in FY 2024 through FY 2026.

During FY 2021, H+H introduced strategic initiatives to increase revenue and reduce costs in order to generate almost $1.2 billion for the year, with three-quarters of the amount from additional supplemental Medicaid payments. In FY 2021, H+H achieved almost three-quarters of its expected savings, as it had not received most of the expected supplemental Medicaid payments ($715 million) because it had yet to receive the necessary State and federal approvals. The approvals were granted during FY 2022. However, H+H did exceed its expected targets in the majority of its remaining revenue-generating initiatives, most notably in the areas of more efficient billing and coding and negotiating better rates with insurance providers (see Figure 33).

In FY 2022, H+H expects to generate $2.2 billion from its strategic plan initiatives, including the receipt of supplemental Medicaid payments from the prior year. H+H reports it has started to receive some of the payments, but some of the initiatives have been delayed. The City's April

FIGURE 33
H+H Financial Plan



Note: FY 2021 Actual, FY 2023 Executive Cash Plan for forecast.
Source: NYC Office of Managment and Budget; OSC analysis

Plan reflects lower-than-expected supplemental Medicaid revenue of $73 million in FY 2022 and continued revenue shortfalls of $110 million annually in FY 2023 through FY 2026. The City transferred these funds to H+H as a City subsidy, but H+H will not benefit from the matching Medicaid federal share. The H+H's May plan anticipates a reduction of $185 million annually in totals funds starting in FY 2023 from supplemental Medicaid revenue compared to the H+H Preliminary FY 2023 plan. As the receipt of these payments were delayed, the OSC believes that H+H is unlikely to reach its FY 2022 strategic plan target.

The plan also relies on achieving new savings when Medicaid cuts are scheduled to resume. Additional savings of $50 million in FY 2023 and of $100 million annually in FY 2024 through FY 2026 are required but have yet to be identified. Even with its strategic efforts, the H+H's financial plan anticipates a $500 million budget gap in FY 2026.

During the pandemic, H+H implemented new programs such as providing mobile services to unsheltered homeless people, establishing the Public Health Corps (PHC) and the Behavioral Health Emergency Assistance Response Division (B-Heard) teams with funding provided by the City.

H+H's Street Health Outreach and Wellness mobile units brought vaccines, COVID-19 testing and basic healthcare to unsheltered homeless people. Initially, the City provided funding for the program in FY 2021 and FY 2022; OSC identified funding the program as a risk to the financial plan in FY 2023 and the out-years. The April Plan adds additional City funds and budgets the program at $2.3 million in FY 2021, $20 million in FY 2022, $19 million in FY 2023 and $14 million annually in FY 2024 through FY 2026.

The PHC is a network of public health workers, in a collaboration between H+H and the Department of Health and Mental Hygiene (DOHMH). In FY 2022, the PHC is funded with $66 million in City funds, with $25 million in City funds budgeted for DOHMH and $41 million budgeted for H+H. The PHC is budgeted with City funds at $48.8 million in FY 2023 and FY 2024 ($36.3 million for H+H) and $36.3 million in FY 2025, which is solely budgeted for H+H. The DOHMH has budgeted $41 million in grants from other sources in FY 2023 but these grants are non-recurring. The City is assessing the effectiveness of the program which could affect future funding for the program.

The April Plan supports the expansion of the City's B-Heard teams that respond to nonviolent 911 mental health calls to areas in northern

Manhattan and the South Bronx. In collaboration with the FDNY, H+H staffs the team's mental health professionals, with the City providing H+H with funding of $2 million in FY 2022 and $18 million annually in FY 2023 through FY 2026.

Additionally, the City is funding an expansion of lifestyle medicine services to six H+H locations in all five boroughs, allocating $4 million in FY 2023, $5.6 million in FY 2024 and $4.7 million in both FY 2025 and FY 2026. The program provides patients living with chronic diseases access to physicians, dieticians, health coaches and plant-based diet resources.

In addition to identified and quantified items in the May Plan and the Executive Budget, H+H faces a number of budgetary questions where the fiscal impact remains unclear or incomplete. H+H is in discussions with the City and DOHMH on the implementation of a law passed by the City Council that requires the City to develop a citywide primary care and navigation program by October 2022. It could require the City to extend NYC Care, the H+H health access and financial assistance program, to other federally qualified health centers in the City. It is unclear how this would financially impact H+H and the City as a whole.

H+H's Test and Trace program ended its COVID-19 hotel isolation protocol, and at the end of April 2022, universal tracing ended with DOHMH taking over case investigations and contact tracing in high-risk congregate settings.[31] Nearly 100 contact tracers were hired as community health workers into the PHC, while 860 tracers were let go from the program. The projected cost of the program declines from $1.4 billion in FY 2022 to $197 million in FY 2023 as the program further winds down.

H+H is still assessing the impact of the City-imposed vaccine mandate, which increased overtime costs and reduced the number of full-time nursing staff at its facilities. An initial estimate brings the total cost in 2022 close to $77 million. H+H is further challenged with staff recruitment and retention of staff as it competes for a shrinking healthcare workforce.

In order to maintain a cash balance sufficient to continue operations without interruption, H+H is still working closely with the City on the remaining FY 2021 liabilities of about $126 million. An additional $417 million is due to the City for costs incurred on H+H's behalf in FY 2022, and the City continues to monitor H+H's cash position in relation to the ongoing uncertainties surrounding COVID-19.

H+H is still assessing the full impact of the SFY 2022-23 Enacted Budget. The May Plan assumes increased Medicaid revenue of $7 million in FY 2022 and $27 million annually thereafter from a 1 percent increase to the Medicaid rate. Additionally, the plan reflects increased Medicaid revenue at an initial estimate of $25 million annually starting in FY 2023 from a series of Medicaid initiatives, such as maternal health investments and reimbursing telehealth visits to a rate compatible to in-person rates for two years. However, H+H requires further guidance from the State's Department of Health. H+H could further benefit from workforce bonuses to recruit, retain and reward health and mental healthcare workers and from grants to support distressed hospitals and healthcare facility transformations.

H+H's future financial position will be largely contingent on the receipt of supplemental Medicaid and federal reimbursement for its COVID-19 response. Costs will likely grow as the

[31] As of February 28, 2022, the U.S. Centers for Disease Control and Prevention no longer recommends universal contact tracing due to reasons that included the high level of infection- or vaccine-induced immunity, the availability of vaccines, decreased participation in tracing activities and the increased use of self-tests.

pandemic persists. Without such federal aid, the City will likely be forced to step in to provide further financial assistance and to explore other avenues to financially support the healthcare system. Potential uncertainties related to the City's future financial condition could make such assistance difficult to sustain or predict.

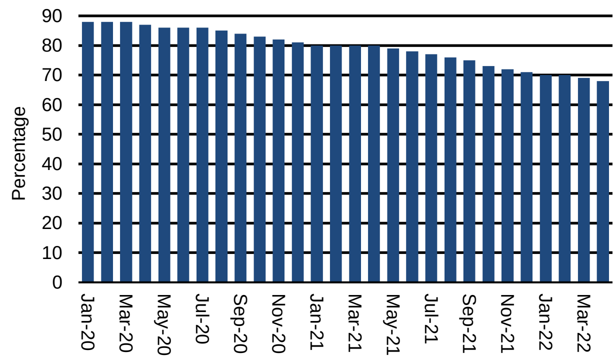
New York City Housing Authority

NYCHA began 2021 anticipating a $300 million budgetary gap in calendar 2022. In December 2021, NYCHA adopted its operating plan with a planned deficit of $35 million by 2022 year-end. While more than half of the gap-closing actions were from higher operating subsidy revenues, NYCHA cited $18 million in potential new revenue risks during a March 2022 board meeting. NYCHA also plans to draw down $100 million from reserves to close the gap, leaving the authority with a balance of $330 million, or just over a month's worth of expenses.

NYCHA's projected deficits for 2023 through 2025 average $175 million annually, down from the $310 million average in last year's budget. These updated figures are due to higher net revenues in 2023 (reflecting improved expectations for rent collections and other revenue sources) and lower Housing Assistance Payments in all years.

The pandemic has significantly impacted rent collections, which have declined as a result of more people becoming eligible for lower rent payments (particularly due to employment and wages lost as a result of the pandemic), a new policy to delay rent increases and a rise in rent delinquencies. NYCHA has reported a total reduction in rent collection of $70 million in 2020. The 2022 adopted budget assumes rent collections of $867 million, compared to $1 billion in 2019, and anticipates that annual collections will not reach $1 billion throughout the remainder of the financial plan. Between March 2020 and June 2021, the twelve-month cumulative rent collection rate declined from 88 percent to 78 percent. The rate then declined further to 68 percent in April 2022 (see Figure 34).

FIGURE 34
NYCHA Rent Collection Rate



Sources: New York City Housing Authority; OSC analysis

In February 2022, NYCHA announced it would be discontinuing 90 percent of the 34,000 rental non-payment cases that had been pending in housing court as of March 2021, choosing instead to prioritize cases for accounts with significant amounts of arrears extending beyond two years - 2,300 or so accounts, comprising an estimated $44 million in past-due rent.

The State's residential eviction moratorium expired on January 15, 2022, which further impacted collections. The SFY 2022-23 Enacted Budget increases funding for the New York State Emergency Rental Assistance Program by $800 million. Although this funding is technically available to NYCHA tenants, State law deprioritizes residents living in federally subsidized housing last, making it unlikely that they will benefit from this program. As of May 2022, NYCHA reported that it had not received any funding as a landlord from the 37,000 applications that had been submitted on behalf of its residents (the State's ERAP program requires that tenants apply, and landlords "complete" applications for tenants who owe back rent). Currently, NYCHA is seeking roughly $117 million in rent and utility arrears.

The April Plan includes $423 million for NYCHA in FY 2022, of which $212 million will be City funds; the balance comes from federal and State funding, including $174 million in Community Development Block Grants (CDBG). This is virtually unchanged from the February Plan, with the exception of an additional $2.0 to 2.8 million directed annually toward the Urban Farms program for FY 2023 to FY 2025.

The April Plan increases the authority's capital budget by roughly $1.4 billion, primarily to support the Rental Assistance Demonstration (RAD) program, which transfers management of public housing properties to private management companies in order to access private capital for repairs. Under the program, federal funding that would have gone to NYCHA is instead directed to the private entities managing the property, which then leverage this source of funding to raise money for repairs at the developments.

The RAD initiative is a central component of NYCHA's larger plan to perform needed repairs at properties, and is expected to bring comprehensive repairs to more than a third of its housing portfolio (62,000 apartments). Ocean Bay (Bayside) Houses, located in Far Rockaway, Queens, is one of the first developments in the country to participate in the federal program. To date, more than 15,000 NYCHA apartments throughout 58 developments have initiated or completed RAD projects, representing $3.4 billion in capital repairs.

NYCHA continues to pursue its Blueprint for Change plan to rehabilitate almost two-thirds of its housing portfolio (110,000 apartments), which would require the formation of a new legal entity -- a public housing trust -- to which the responsibility of managing and repairing these properties would be transferred (similar to RAD). A bill authorizing the proposed creation of this trust is being considered by the State Legislature, and NYCHA continues to meet with State lawmakers to further advance these efforts.

Appendix A: Full-Time Staffing Levels

(Number of full-time employees)

	Actual	Actual	Forecast	April Plan	Variance – Better/(Worse) February 2022 to June 2022		
	June 2020	Feb 2022	June 2022	June 2023	City Funds	Non-City Funds	Total Funds
Public Safety	**85,806**	**80,645**	**82,716**	**82,906**	**(4,238)**	**6,309**	**2,071**
Police Uniformed	35,910	35,061	35,030	35,030	(31)	0	(31)
Civilian	15,519	13,813	15,197	15,042	1,419	(35)	1,384
Fire Uniformed	11,047	10,619	10,945	10,952	320	6	326
Civilian	6,366	6,304	6,320	6,537	15	1	16
Correction Uniformed	9,237	7,406	7,460	7,638	(6,117)	6,171	54
Civilian	1,741	1,524	1,966	1,962	403	39	442
District Attys. & Prosec.	4,843	4,887	4,609	4,609	(369)	91	(278)
Probation	1,116	1,013	1,157	1,104	108	36	144
Board of Correction	27	18	32	32	14	0	14
Health & Welfare	**27,878**	**25,265**	**29,277**	**28,930**	**3,027**	**985**	**4,012**
Social Services	12,330	11,094	13,037	12,945	1,507	436	1,943
Children's Services	7,039	6,481	7,073	7,073	388	204	592
Health & Mental Hygiene	5,530	5,081	6,216	6,023	902	233	1,135
Homeless Services	2,119	1,870	2,064	2,012	136	58	194
Other	860	739	887	877	94	54	148
Environment & Infra.	**26,365**	**25,058**	**26,933**	**27,574**	**102**	**1,773**	**1,875**
Sanitation Uniformed	7,755	7,774	7,482	7,449	(351)	59	(292)
Civilian	2,107	1,903	1,992	1,995	80	9	89
Transportation	5,120	4,942	5,556	5,602	116	498	614
Parks & Recreation	4,236	3,830	4,227	4,813	257	140	397
Environmental Protection	5,891	5,463	6,333	6,405	(19)	889	870
Other	1,256	1,146	1,343	1,310	19	178	197
General Government	**12,634**	**11,429**	**12,895**	**12,848**	**1,082**	**384**	**1,466**
Finance	1,996	1,760	1,992	1,992	220	12	232
Law	1,713	1,504	1,702	1,704	147	51	198
Citywide Admin. Svcs.	2,403	2,067	2,423	2,428	210	146	356
Taxi & Limo. Comm'n.	584	472	561	561	89	0	89
Investigations	361	300	353	330	44	9	53
Board of Elections	682	716	517	517	(199)	0	(199)
Info. Tech. & Telecomm.	1,673	1,581	1,755	1,755	175	(1)	174
Other	3,222	3,029	3,592	3,561	396	167	563
Housing	**4,088**	**3,799**	**4,664**	**4,663**	**475**	**390**	**865**
Buildings	1,676	1,554	2,024	1,965	411	59	470
Housing Preservation	2,412	2,245	2,640	2,698	64	331	395
Dept. of Education	**134,684**	**128,877**	**141,218**	**140,357**	**9,136**	**3,205**	**12,341**
Pedagogues	121,077	116,163	127,815	126,892	8,580	3,072	11,652
Non-Pedagogues	13,607	12,714	13,403	13,465	556	133	689
City University of NY	**6,288**	**5,911**	**6,084**	**6,259**	**173**	**0**	**173**
Pedagogues	4,545	4,291	4,313	4,313	22	0	22
Non-Pedagogues	1,743	1,620	1,771	1,946	151	0	151
Elected Officials	**2,703**	**2,465**	**2,908**	**2,959**	**338**	**105**	**443**
Hiring & Attrition Mgmt.	**- - -**	**- - -**	**- - -**	**(1,004)**	**- - -**	**- - -**	**- - -**
Total	**300,446**	**283,449**	**306,695**	**305,492**	**10,095**	**13,151**	**23,246**

Sources: NYC Office of Management and Budget; OSC analysis

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