Review of the Financial Plan of the City of New York

Report 6-2024

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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While May marked the end of the public health emergency in the United States, New York City continues to face the residual effects of the pandemic and the many unanticipated consequences on its finances, operations and economy. While the City has weathered several fiscal challenges it has faced already, continuing to do so will require it to commit to sustained fiscal discipline in the coming years.

New York City's finances continue to benefit from better-than-projected revenues and savings generated through initiatives launched in response to its financial challenges. Budgetary flexibility, including reserves and contingencies, remains at near-record levels as a share of spending. Over the last year, substantial steps forward were taken regarding known fiscal questions, including collective bargaining costs. While many of the fiscal challenges facing the City are not in its direct control – including the continued influx of asylum seekers, elevated demand for City programs due to an uneven recovery and the potential for federal and State actions that could further pressure City finances – preparation remains paramount to navigating this uncertainty. It is also necessary for the federal government to take concrete steps to alleviate pressure from the costs of asylum seekers, including a matching share of funding and a comprehensive policy strategy to manage the influx.

Operationally, the City has had to contend with a significant staffing decline during the pandemic that will take time to remedy. As a result, while many City services have responded admirably as demand returns to pre-pandemic levels, some have faced challenges, particularly where demand has exceeded expectations, such as social services. Greater communication to the public of the City's efforts to manage performance and adjust programming and staffing needs is welcome and will serve it well if the economic outlook weakens. The City has to balance fiscal management with its operational needs to ensure its recovery remains on track.

The risk of recession, which has ebbed and flowed in recent years, remains, but has not yet led to a decline in tax revenues. The City's economic recovery is closely tied to its ability to provide necessary services, including aiding those who remain in need, which ultimately will require funding. New York City can further protect itself from revenue volatility by establishing a reserve policy that allows it to prepare for a rainy day while still continuing to provide services. The balance between saving for a rainy day, maintaining the City's desirability and aiding those in need, while managing its uncertain fiscal position, will remain a key challenge for the City in the coming years.

Thomas P. DiNapoli
State Comptroller

Contents

I. Executive Summary

New York City's $112.6 billion Fiscal Year (FY) 2024 budget is balanced using the FY 2023 surplus to prepay expenses of $5.5 billion in FY 2024. The FY 2023 surplus was generated by a variety of factors, including: tax revenues that were over $5 billion more than adopted budget projections; payroll savings that exceeded $1 billion for the third year in a row; and a $1.7 billion net reduction in expenses through its Program to Eliminate the Gap (PEG) in FY 2023, fueled by a reduction in vacant positions.

Notably, the City was able to generate these strong positive results despite about $1.45 billion in unanticipated costs for managing an influx of asylum seekers and the settlement of collective bargaining agreements that exceeded the 1.25 percent set aside for raises. As a result of these unanticipated expenses, the City's stated budgetary gaps, beginning in FY 2025, have risen since last year.

Budget gaps are expected to rise from $5.1 billion in FY 2025 to $7.9 billion in FY 2027, or $19.8 billion cumulatively, an average of 8.2 percent of anticipated City fund revenues in fiscal years 2025 to 2027, the highest level since FY 2011 (see Figure 1). The City has overcome gaps of this size in the past, including during recessions. However, it is likely to face continued spending pressure from unfunded programs in future years and substantial uncertainty over volatile expenditures with the potential to have significant fiscal impact.

The most significant risk for the City remains a recession, which would have a negative impact on both revenues and expenses. However, the local, State and national economies have remained remarkably resilient in the face of interest rate hikes and an exhaustion of federal fiscal aid. Despite this strength, the City's financial plan leaves room for weakness in the local economy in FY 2024, projecting a 3 percent decline in City fund revenue in FY 2024. Pressures on commercial real estate, a return to pre-pandemic levels of securities industry profitability and employment levels, particularly among certain demographic groups and industries, have informed this conservative approach.

Over the plan period, the City projects an average annual City fund revenue growth rate of 2.3 percent, beginning after the decline in FY 2024. In order to close its projected budget gaps, the City would need to achieve 2 percent average growth beginning in FY 2024, below the 10-year average of 4.7 percent prior to the pandemic. A stronger-than-expected economic recovery remains a key budget gap closer and highlights the importance of promoting the City's desirability and prioritizing essential services that underlie its economic competitiveness.

Absent a recession, the Office of the New York State Comptroller (OSC) projects revenues are likely to beat City projections by over $1 billion in each year beginning in FY 2024, which would help close these gaps. A recession would make this unlikely, however, as year-over-year drops during the two previous recessions were 6.1 percent (FY 2002) and 7.1 percent (FY 2009).

This revenue volatility would only worsen the City's budgetary challenges associated with growing spending risks that are not fully acknowledged in its financial plan. The June Plan anticipates city-funded spending growth of 0.8 percent in FY 2024, excluding contingencies, followed by annual average growth of 3.2 percent beginning in FY 2025. The 10-year pre-pandemic spending growth averaged 5 percent, suggesting the planned spending may be underbudgeted.

Spending pressure is likely to come from recurring risks as well as those that are harder to predict. OSC has consistently identified a number of spending items that remain unfunded in the June Plan, including overtime, charter schools, Carter cases, Metropolitan

Transportation Authority (MTA) subsidies and various spending on social services. A class size mandate for the City's schools will also further expand budget gaps in the coming years. Most significantly, OSC analysis suggests costs for asylum seekers and an expansion of the CityFHEPS rental assistance program, could, in combination, reach a cost of $5.4 billion by FY 2027, and have the potential to be substantially higher. The lack of federal policy adjustments and a substantial matching share of funding for managing the asylum seeker influx has created an unsustainable fiscal issue for the City.

OSC has identified spending risks equaling $4.8 billion in FY 2025, $6.6 billion in FY 2026 and $8.3 billion in FY 2027, leading to OSC-projected budget gaps of $9.9 billion in FY 2025, $13.4 billion in FY 2026 and $16.2 billion in FY 2027 (see Figure 2), or a cumulative gap of $39.5 billion over those three years (see Figure 3). The tax revenue growth rate would have to rise to 4.75 percent per year to manage the cost growth. Growing spending pressure may also compromise some discretionary services, as it could be forced to choose between funding new and existing initiatives, its staffing targets and less flexible mandated spending.

These challenges suggest preparing for uncertainty and mitigating the impact of various downside scenarios, including a recession, continued unanticipated spending on volatile items and future pressure from a dimming State financial outlook. Doing so will require enhanced transparency and monitoring of revenue and expenditures, careful deliberation over new spending proposals and how they will be funded, robust performance management to prioritize funding for services, and the set-aside of reserves to mitigate budgetary volatility and its impact on operations.

Improvements to transparency should include realistic spending projections, clarity on savings generated from PEGs and explanations for revenue changes that are linked to economic projections. Recent confusion over the ultimate cost of the CityFHEPs program expansion, which could cost billions annually, suggests this lack of transparency is making candid deliberation over new programs and potential savings difficult, when they should instead be subject to robust public presentation and discussion of assumptions. Similar deliberation is necessary for any future revenue proposals, if needed, including considering their impact on recruiting and retaining residents and businesses.

Future strains on resources also make it more important to use qualitative and quantitative information to understand and communicate which programs are having their desired effect and whether other programs can be consolidated or reconsidered for cost efficiencies. While efficiency savings rose as a share of the PEG in FY 2023 compared to the prior year, they made up about one-fifth of all savings in the FY 2023.

Finally, OSC has consistently called for the development of a formal reserve policy to ensure funds are set aside in years where operating results are stronger than anticipated and to have a rationale for the potential drawdown of funds, if needed. New York City, which until 2021 was unable to use its revenue stabilization fund, is alone among the 10 largest American cities in not having a purpose or target levels for reserves, an issue that has become more evident at the end of the last two fiscal years.

The budgetary gaps that face the City are the largest at this point in the budget process, by its own measure, since the adoption of the FY 2012 budget, and they do not reflect many potential risks. The City will have to remain vigilant in tracking the economy and its effect on revenues while taking care to fund required spending and align discretionary expenses with its available resources. An inability to do so could otherwise lead to the development of a structural budget imbalance over the plan period, which would ultimately lead to a drag on City services and impede the ongoing recovery.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenues					
Taxes					
General Property Tax	$ 31,482	$ 32,569	$ 32,232	$ 32,501	$ 33,108
Other Taxes	40,196	37,849	39,881	41,250	43,092
Tax Audit Revenue	1,300	721	721	721	721
Subtotal: Taxes	$ 72,978	$ 71,139	$ 72,834	$ 74,472	$ 76,921
Miscellaneous Revenues	8,459	7,808	7,618	7,557	7,513
Unrestricted Intergovernmental Aid	297	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,407)	(1,990)	(1,980)	(1,983)	(1,980)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 79,312	$ 76,942	$ 78,457	$ 80,031	$ 82,439
Other Categorical Grants	902	1,082	1,075	1,071	1,070
Inter-Fund Revenues	695	720	725	732	732
Federal Categorical Grants	11,923	10,320	7,816	7,054	7,027
State Categorical Grants	17,997	18,051	17,714	17,477	17,540
Total Revenues	**$ 110,829**	**$ 107,115**	**$ 105,787**	**$ 106,365**	**$ 108,808**
Expenditures					
Personal Service					
Salaries and Wages	$ 33,307	$ 32,998	$ 33,746	$ 35,144	$ 36,364
Pensions	9,109	9,642	10,423	10,885	11,067
Fringe Benefits	12,273	13,327	14,173	14,947	15,563
Subtotal: Personal Service	$ 54,689	$ 55,967	$ 58,342	$ 60,976	$ 62,994
Other Than Personal Service					
Medical Assistance	6,261	6,780	6,599	6,728	6,878
Public Assistance	1,963	1,650	1,650	1,650	2,000
All Other	43,455	40,997	36,566	35,373	35,668
Subtotal: Other Than Personal Service	$ 51,679	$ 49,427	$ 44,815	$ 43,751	$ 44,546
Debt Service	7,483	7,740	8,239	9,007	9,698
FY 2022 Budget Stabilization & Discretionary Transfers	(6,114)	- - -	- - -	- - -	- - -
FY 2023 Budget Stabilization	5,479	(5,479)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	250	250	250	250
General Reserve	20	1,200	1,200	1,200	1,200
Less: Intra-City Expenses	(2,407)	(1,990)	(1,980)	(1,983)	(1,980)
Total Expenditures	**$ 110,829**	**$ 107,115**	**$ 110,866**	**$ 113,201**	**$ 116,708**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (5,079)**	**$ (6,836)**	**$ (7,900)**

Source: NYC Office of Management and Budget

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

	Better/(Worse)				
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (5,079)**	**$ (6,836)**	**$ (7,900)**
Revenues					
Anticipated Categorical Aid for Asylum Seekers	- - -	- - -	(290)	- - -	- - -
Tax Revenue	147	1,160	1,150	1,450	1,050
Subtotal Revenue	**147**	**1,160**	**860**	**1,450**	**1,050**
Expenditures					
Payroll Savings	600	275	- - -	- - -	- - -
Variable Rate Debt Service	- - -	75	- - -	- - -	- - -
Pension Contributions	- - -	- - -	54	123	188
Operating Subsidies to the MTA	- - -	(140)	(150)	(238)	(394)
Social Services	- - -	(808)	(1,071)	(1,071)	(977)
Uniformed Agency Overtime	(84)	(531)	(512)	(517)	(516)
Department of Education	(245)	(400)	(702)	(1,324)	(1,967)
Early Intervention	- - -	(55)	(65)	(76)	(76)
School Health (Article 6) Programs	- - -	(39)	(39)	(39)	(39)
Public Health Corps	- - -	- - -	(13)	(49)	(49)
CityFHEPS Expansion[1]	- - -	(98)	(1,244)	(2,648)	(4,021)
Residual Services for Asylum Seekers	- - -	- - -	(1,900)	(2,175)	(1,450)
Subtotal Expenditures[2]	**271**	**(1,721)**	**(5,642)**	**(8,014)**	**(9,301)**
OSC Risk Assessment	**418**	**(561)**	**(4,782)**	**(6,564)**	**(8,251)**
Potential Gaps Per OSC[3,4,5]	**$ 418**	**$ (561)**	**$ (9,861)**	**$(13,400)**	**$ (16,151)**

[1] OSC's estimate of the cost of the CityFHEPS Expansion extends through FY 2028, which does not appear in the table above. The total estimated cost from FY 2023 through FY 2028 is $13.4 billion.

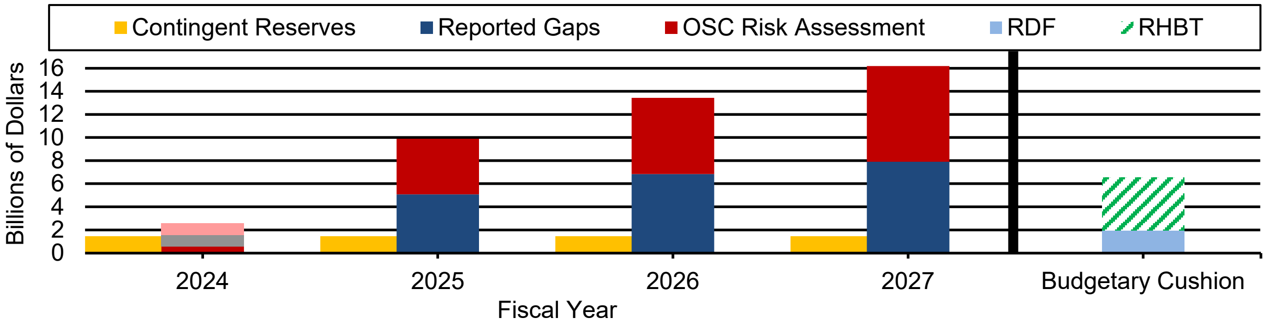
[2] See sections on Social Services and Department of Education for more details on the financial plan risks at those agencies.

[3] June Plan gaps are inclusive of a general reserve of $20 million in FY 2023 and $1.2 billion in each of fiscal years 2024 through 2026. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2024 through 2027. The June Plan also includes reserves of about $279 million beginning in FY 2024 to fund potential changes to planned pension contributions from future actuarial audit recommendations.

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

[5] See chapter on Rising Shelter Cost Implications for more details on OSC's assessment of potential costs and anticipated offsets from federal and State assistance.

FIGURE 3
OSC Adjusted Budget Gaps



Note: The RDF is the Rainy-Day Fund and the RHBT is the Retiree Health Benefits Trust. In addition to the contingency reserves funded in each year of the plan period, the City maintains an additional budgetary cushion through balance sheet reserves recorded as of June 30, 2022, which may be used to help close future budget gaps.
Sources: NYC Office of Management and Budget; OSC analysis

II. Rising Shelter Cost Implications

In April 2022, a number of other U.S. jurisdictions began transporting asylum seekers to New York City, leading to strains on the City's shelters and its budget. In response, the Mayor declared a state of emergency on October 7, 2022. As of August 1, 2023, the City estimates that over 95,600 asylum seekers have come through its intake system and that they make up more than half of the over 107,900 people in its care.

Substantial planned spending for asylum seekers was added over the course of FY 2023, but the June Plan made minor changes to the City's projections, adding $50 million in FY 2023 and small amounts in FY 2024 and FY 2025 for the Department of Investigation for contract monitoring (see Figure 4). The June Plan assumes that the City will bear a higher share of these costs than prior plans, lowering federal reimbursement from $600 million to $135 million in FY 2024. The Plan includes $1 billion in State funding through FY 2024 and $290 million in not-yet-approved funding in FY 2025. Additionally, the State also agreed to provide state-owned land to the City in order to set up an emergency shelter site for up to 1,000 adults, stating that it will reimburse the City for incurred costs beyond the $1 billion appropriation for City expenses. The State's financial plan suggests it will use $500 million of $1 billion in emergency appropriations, some of which may ultimately reduce city-funded costs.

Revisions to federal aid reflect confirmed award amounts for FY 2024 from the Federal Emergency Management Agency's (FEMA) Emergency Food and Shelter Program and Shelter and Services Program. While the City filed a FEMA claim for $650 million in March 2023, it was awarded a combined $135.2 million from these programs through June 30, 2023 (22.5 percent of distributed awards). As of July 11, the Shelter and Services Program still had $72.76 million remaining, although it is unclear as to when and where funds would be distributed.

FIGURE 4
Citywide Asylum Seeker Spending
June 2023 Financial Plan
(in millions)

Agency	FY 2023	FY 2024	FY 2025
Homeless & Social Svcs.	$753.9	$1,815.0	$626.0
Health + Hospitals	500.0	748.0	258.0
Emergency Management	92.7	160.0	55.0
Citywide Admin. Svcs.	38.3	- - -	- - -
Housing Preservation	32.0	147.0	51.0
Office of Info. Tech.	31.1	30.0	10.0
Health & Mental Hygiene	1.7	- - -	- - -
Design & Construction	0.3	- - -	- - -
Environmental Protection	0.1	- - -	- - -
Investigations	- - -	4.6	2.3
Total	**$1,450.1**	**$2,904.6**	**$1,002.3**

Source: NYC Office of Management and Budget

The City's spending on asylum seeker services is spread among multiple agencies, reflecting its response to the influx. The largest allocation is to the Department of Homeless Services (DHS) and the Department of Social Services (DSS) for emergency shelter costs, followed by payments to NYC Health + Hospitals (H+H) to manage a number of Humanitarian Emergency Response and Relief Centers (HERRCs). The City reimburses H+H for associated costs (see OSC's previous report on the April Plan). Housing Preservation and Development (HPD) also manages one HERRC and a contract that provides housing for asylum seekers at 25 hotels, including 12 outside the City.

The City reports that through July 16, it had opened 188 sites, including HERRCs, and is also set to open an additional HERRC (for up to 1,000 adults) in the parking lot adjacent to the state-owned Creedmoor Psychiatric Center, a portion of which may be funded by additional State aid. The City has utilized shelters, hotels, college dorms, and facilities outside of New York City to accommodate the growing population (for additional details, see OSC's April Plan report).

Additionally on July 19, citing capacity issues, the Mayor announced a policy change which imposed a 60-day limit on adult asylum seekers in the City's care if alternative housing has not been secured after the 60 days. Adult asylum seekers can reapply for a new placement and the policy would not apply to families with children, which comprised more than 70 percent of the asylum seekers.

The June Plan reflects asylum seeker costs of $2.9 billion in FY 2024, $1 billion in FY 2025, and nothing thereafter. The lack of funding in FY 2026 is particularly concerning as the City has already entered into agreements for shelter space that is currently being used to manage the asylum seeker influx that go beyond FY 2025. Acknowledging that there are many unknown variables, including federal, State and local policy and funding choices and the cost of providing services, OSC assumes the average asylum seeker population will remain flat from FY 2024 levels in FY 2025 and gradually decline in subsequent years. Significant matching federal support does not appear to be forthcoming, and change to existing immigration policies does not seem imminent. OSC anticipates city-funded asylum seeker costs may rise by $2.19 billion in FY 2025, $2.175 billion for FY 2026, and $1.45 billion in FY 2027. However, in the four weeks since Wednesday, June 28 the total number of asylum seekers that have come through the system rose by 12,000. Given recent trends, the City has stated that costs may rise to $4.7 billion in FY 2024 and $6.1 billion in FY 2025, which could ultimately lead to higher city-funded costs than projected by OSC in those years.

CityFHEPS Expansion

Strains on the City's shelter system have renewed calls for managing evictions and preventing homelessness. On May 25, the City Council approved a package of bills that would expand eligibility for CityFHEPS, a rental assistance program. One stated goal of the expansion is to alleviate pressure on shelters by expediting the placement of people in shelter into permanent housing. After the bills' passage, the Mayor announced he would unilaterally enact one of the proposals, eliminating a requirement that households must first reside in the City's shelter system for 90 days in order to qualify for the program (or 'the 90-day rule'), The June Plan includes funding for the waiver, $123 million, in FY 2024 and none thereafter.

The Mayor vetoed the remainder of the Council's package in June just prior to budget adoption, citing cost concerns. The administration estimates that the proposed changes would increase spending by $17 billion over five years, while the Council's own cost estimates range from $7.5 billion to $10.6 billion over five years. No funding was included in the June Plan for the additional program expansions.

The other major provisions of the legislation include: raising the income limit for qualifying households from 200 percent of the federal poverty level (roughly $49,720 for a family of three) to 50 percent of the Area Median Income (AMI), about $63,550 for a family of three, and broadening eligibility to include tenants who have received a written demand for rent from their landlord (a potential precursor to the initiation of a housing court case) or have active cases in housing court.

The City Council voted to override the veto on July 13 and passed the expanded eligibility requirements after budget adoption and the release of the June Plan. The Mayor, in response to the Council's vote, has suggested that legal action may be taken to delay or void the expansion of the program. In addition, the administration has noted that the expansion will require the approval of the State's Office of Temporary and Disability Assistance. It is unclear the extent to which the expansion will be reflected in future budget modifications and the timing and cost of such changes.

Because there is limited data on how the changes in eligibility will impact resident behavior and the demand for rental assistance, current estimates prepared by the City and advocates for increased rental assistance have relied on either projected eviction filings (the number of households that are at risk of eviction but would be diverted to the voucher program), or similarly, the number of evictions to be served each year including estimates of self-evicted households.

These assumptions of the demand for vouchers are not unreasonable given the current data available, but OSC cautions that the actual demand may be substantially higher than predicted by prior-year housing court data. The number of vouchers used may also be lower than projected based on implementation or housing supply challenges. The ultimate cost of the program is highly dependent on difficult to project assumptions, including the total eligible population, the value of the rent vouchers, actual enrollment, and the timing of the use of vouchers. There is also a lack of consensus over the extent to which shelter costs could be reduced from the increased placements in permanent housing.

OSC estimates that if the program is implemented as passed, the total five-year cost could be as low as $3.4 billion or as high as $36 billion, with the largest fluctuations stemming from average voucher cost, how many households ultimately enroll, and when. OSC selected a mid-range scenario to assess the risk, which accepts many of the City's assumptions, including average voucher cost and the estimate that roughly 47,000 new households would enroll in the program each year. However, OSC assumes a later start date, which would result in a total cost of $13.4 billion over five years, through FY 2028.

Costs could be considerably higher in the long run (closer to OSC's high-range scenario) if program eligibility were to more closely resemble the total number of households that earn under 50 percent of AMI and are severely rent burdened, which OSC estimated at nearly 600,000 in 2021. Under this scenario, a greater share of the total eligible population could access the program if there were a substantial rise in the number of rent demand letters in the City. OSC notes that the ultimate costs will likely shift substantially based on changes to assumptions.

There are also critical cost implications related to the timing of implementation by the Human Resources Administration (HRA). HRA has faced substantial challenges in managing demand for its public assistance and Supplemental Nutrition Assistance Program (SNAP) programs amid relatively lower staffing levels, and significant demand for the expanded CityFHEPS program may create similar operational difficulties. See the Social Services section for an additional risk associated with current voucher usage, prior to the implementation of any program expansions.

Data on the current use of CityFHEPs vouchers, including their growth, levels and current placement rates and new microdata from the 2021 Housing and Vacancy Survey would provide greater transparency on the cost considerations of the program, particularly eligible households and voucher rates.

See the Expenditure Trends: Social Services section for additional risks associated with the existing CityFHEPS voucher program, prior to the implementation of recently passed program expansions.

III. Economic Trends

While the national economic outlook has improved over the last couple months, led by persistently strong employment growth and consumer spending, it continues to fluctuate based on Federal Reserve actions to reduce still-high inflation. In July 2023, the Federal Reserve raised the federal funds rate by 25 basis points after the first pause in June following 15 months of increases. It also signaled it may need to raise rates further this year.

The nation's gross domestic product (GDP) grew by 2.4 percent on an annualized basis in the second quarter of 2023, stronger than the first quarter estimate of 2.0 percent, fueled by continued consumer spending. While an economic downturn has been the consensus forecast for over a year, this has begun to shift. S&P Global, an economic forecasting company, in its July forecast predicted a 1.3 percent increase in GDP in the third quarter of 2023, in contrast with prior estimates of a decline.

In July 2023, the national economy added 187,000 jobs (seasonally adjusted), with unemployment at 3.5 percent, and wage growth at 4.4 percent year-over-year. As of June 2023, the consumer price index rose by 3.1 percent.

The City's economy continues to catch up to the nation in terms of pandemic recovery, though the recovery has been uneven (see OSC's April Plan report and labor force reports).[6] As of June 2023, the City has recovered 97.8 percent of total nonfarm pandemic job losses. Nonfarm employment currently stands above May 2019.

The City does not generally revise its economic forecast for the adopted plan, but its April forecast remains reasonable given recent Federal Reserve policy actions and the growth trend among economic indicators including employment and GDP.

The effects of the pandemic on other economic indicators linger. Wall Street profitability and industry bonuses declined significantly in 2022 from the record 2020 and 2021 levels amid rate increases and reduced activity.[7] Securities industry profits for the first quarter of 2023 decreased by 5.8 percent year-over-year to $7.3 billion. However, this decline is much smaller than the 56.8 percent decline in the first quarter of 2022; it also suggests a stronger outlook than the City expected in its April Plan.

Office space, pressured by a stalled return to the office and higher vacancy rates, continues to be a concern. The latest data shows an office occupancy rate of 62 percent on peak days such as Tuesdays as vacancy rates stood at 22.4 percent in the second quarter of 2023. As the supply of affordable housing continues to lag behind demand, City and State officials continue to discuss policy actions to convert existing commercial space and/or create new residential space.

Service industries, particularly related to tourism, continue to rebound, supported by increased visitor spending. Broadway continues to draw crowds, with attendance down only 16.8 percent from the pre-pandemic level.[8]

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[6] OSC, *New York City's Uneven Recovery: Youth Labor Force Struggling*, December 2022, https://www.osc.state.ny.us/reports/osdc/new-york-citys-uneven-recovery-youth-labor-force-struggling and OSC, *New York City's Uneven Recovery: Mothers in the Workforce*, May 2023, https://www.osc.state.ny.us/files/reports/pdf/nyc-mothers-in-the-workforce.pdf.

[7] OSC, New York City Securities Industry Bonus Pool, March 2023, https://www.osc.state.ny.us/files/press/pdf/2022-wall-street-bonus-pool.pdf.

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

IV. Changes Since the June 2022 Plan

In June 2022, the City projected a balanced budget for FY 2023 and budget gaps of $4.2 billion in FY 2024, $3.7 billion in FY 2025 and nearly $4 billion in FY 2026. The combined effect of the subsequent plan updates through April balanced the budget in FY 2024 but resulted in larger gaps of $4.2 billion in FY 2025 and $6 billion in FY 2026. The June 2023 Plan, which was primarily focused on changes to fiscal years 2023 and 2024, further increased the existing gaps in fiscal years 2025 and 2026 (see Figure 5).

The June Plan reflected a $1.9 billion estimated increase in tax collections for FY 2023, fueled by unanticipated personal income tax receipts of $1.3 billion, but made no change to forecasts (see the "Revenue Trends" section). Including miscellaneous revenue, overall City fund revenue increased by $2 billion in FY 2023, $21 million in FY 2024, and $1 million afterward.

The June Plan also included the last round of the FY 2023 PEG, yielding net savings of $178 million across fiscal years 2023 and 2024 and totaling $259 million over the financial plan period (see the Program to Eliminate the Gap section). Additional budgetary relief in FY 2023 was generated by drawing down the general reserve by $30 million and realizing lower-than-expected pension contributions of $305 million.

The combined unanticipated resources identified in the June Plan more than offset new costs in FY 2023, which allowed the City to increase prepayments of FY 2024 expenses by $2.4 billion and maintain balance in FY 2024. New agency needs total $1 billion across fiscal years 2023 and 2024, decreasing to about $300 million annually thereafter. The Plan also recognized higher costs to more fully reflect actions in the enacted State budget ($435 million in FY 2024, growing to $600 million by FY 2027), and added $528 million in FY 2024 for City Council discretionary funding, which has been historically agreed upon as part of the adopted budget each fiscal year. The Plan added $50 million in City funds for asylum seeker costs in FY 2023. In addition, $465 million in City funds was budgeted to fund a reduction in anticipated federal aid for asylum seekers in FY 2024.

Although FY 2024 remains balanced, the June Plan increased projected gaps in fiscal years 2025 and 2026 by about $880 million each year (to $5.1 billion and $6.8 billion, respectively), largely reflecting State budget actions. As a share of City fund revenues, the remaining out-year gaps average 8.2 percent — the highest level at this point in the budget cycle since FY 2011. Existing contingencies (totaling $1.45 billion in each fiscal year) could be used to narrow the gaps to an average of 6.4 percent of revenues.

New Initiatives

New agency needs in the June Plan totaled $250 million in FY 2023, which included an additional $92 million in funding for police overtime, $43 million to recognize a continued delay in anticipated federal funding at the Fire Department's Bureau of Emergency Medical Services, and $38 million for CityFHEPS rental assistance vouchers. New agency needs for FY 2024 grew to $752 million, largely for $262 million in non-recurring funding for CityFHEPS rental assistance and $150 million for Carter case settlements at the Department of Education (DOE). Baselined funding was also added for a citywide nonprofit workforce development initiative ($20 million in FY 2024, growing to $90 million annually by FY 2025), supervised release ($37 million in FY 2024, $58 million in FY 2024 and $48 million annually thereafter), the Work, Learn, Grow employment program ($22.5 million annually), and additional funds for the Right to Counsel initiative ($21 million) in FY 2024, growing to $31 million annually thereafter.

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

	Better/(Worse)			
	FY 2023	FY 2024	FY 2025	FY 2026
Projected Gaps Per June 2022 Plan	**$ - - -**	**$ (4,210)**	**$ (3,715)**	**$ (3,980)**
Updated Tax Estimates				
Business Taxes	1,564	1,145	935	539
Sales Taxes	921	801	897	951
Personal Income Taxes	1,917	99	663	853
General Property Taxes	205	691	219	476
Hotel Taxes	174	46	30	35
Real Estate Transaction Taxes	(192)	(348)	(348)	(310)
Other Taxes	62	305	352	397
Audits	579	- - -	- - -	- - -
Subtotal	**5,230**	**2,739**	**2,748**	**2,941**
Other Revenue Reestimates	**685**	**354**	**180**	**96**
Total Revenue Reestimates	**5,915**	**3,093**	**2,928**	**3,037**
Contingent Reserves	**1,785**	**- - -**	**- - -**	**- - -**
Program to Eliminate the Gap (PEG)				
Agency Savings	1,545	2,746	2,680	2,656
Agency Cost Avoidance Initiatives	(57)	(110)	(394)	(424)
Restorations	(4)	(30)	- - -	- - -
Debt Service	256	330	344	354
Subtotal	**1,740**	**2,936**	**2,630**	**2,587**
New Agency Needs	**(2,069)**	**(1,289)**	**(687)**	**(620)**
Asylum Seeker Costs				
Total Costs	(1,450)	(2,900)	(1,000)	- - -
State Funding Shift	438	562	290	- - -
Federal Funding Shift	- - -	135	- - -	- - -
Subtotal	**(1,012)**	**(2,203)**	**(710)**	**- - -**
Updated Estimates				
Collective Bargaining (Including Pension)	(2,288)	(1,684)	(3,103)	(4,020)
Pension Contributions (Other)	305	(861)	(1,969)	(3,018)
State Budget Impact	- - -	(435)	(557)	(572)
City Council Initiatives	- - -	(528)	- - -	- - -
Medicaid	266	(266)	- - -	- - -
Prior-Year Payables	400	- - -	- - -	- - -
Federal Funding Shifts	75	520	294	- - -
All Other	363	(552)	(189)	(250)
Subtotal	**(879)**	**(3,806)**	**(5,525)**	**(7,860)**
Total Expense Reestimates	**(436)**	**(4,362)**	**(4,292)**	**(5,893)**
Net Change	**5,479**	**(1,269)**	**(1,364)**	**(2,856)**
Gaps to Be Closed Before Prepayment	**$ 5,479**	**$ (5,479)**	**$ (5,079)**	**$ (6,836)**
FY 2023 Prepayment of FY 2024 Expenses	(5,479)	5,479	- - -	- - -
Gaps to Be Closed Per June 2023 Plan	**$ - - -**	**$ - - -**	**$ (5,079)**	**$ (6,836)**

Note: Columns may not add due to rounding. Other revenue reestimates exclude PEG initiatives, which are included as "Agency Savings."
Sources: NYC Office of Management and Budget; OSC analysis

V. State and Federal Actions

State Budget

On May 3, 2023, more than a month after the beginning of the fiscal year, the State enacted a budget for State fiscal year (SFY) 2024. The State Budget was enacted after the release of the April Plan so the City did not incorporate any State actions into its budget with the exception of State funding for asylum seekers. The June Plan incorporated most of the remaining State budget impact and anticipates $18.1 billion from State categorical aid in FY 2024.

The State will provide $438 million in FY 2023 and $562 million in FY 2024 to the City as reimbursement for expenditures incurred for asylum seeker shelter and the cost of HERRCs between April 1, 2022 and April 1, 2024. The City has budgeted another $290 million in FY 2025 from the State for 29 percent of the expected migrant costs that year but this funding has not yet been allocated by the State.

On a net basis, the June Plan estimates, when compared to the April Plan, that the proposal would have negative impacts of $91 million in FY 2024 and $406 million in FY 2025 (see Figure 6). By FY 2027, the City projects the net impact will grow to $458 million.

FIGURE 6
NYC Estimate of NYS Enacted Budget Impact
(in millions) Better/(Worse)

	FY 2024	FY 2025
ACA eFMAP	(129)	(214)
MTA Paratransit	(165)	(165)
Payroll Mobility Tax	(62)	(66)
Legal Counsel	(48)	(48)
Minimum Wage	(15)	(22)
Charter Schools	- - -	(24)
Child Welfare	(8)	(11)
Pensions	(7)	(7)
Subtotal	**(435)**	**(557)**
School Aid	344	151
Net Impact	**$ (91)**	**$ (406)**

Sources: NYC Office of Management and Budget; OSC analysis

On the positive side, the State has completed its phase-in of full funding of the Foundation Aid school funding formula which the City expects will bring it $285 million more than the April Plan in FY 2024 and $93 million more annually thereafter. The Enacted State Budget also includes an increase to expense-based and categorical school aid which the City expects will bring it a net of $59 million more annually when compared to the April Plan.

The Enacted State Budget includes other proposals with a negative financial impact which the City estimates could increase its costs by $435 million in FY 2024, $557 million in FY 2025, $572 million in FY 2026 and $609 million in FY 2027.

As described in OSC's report on the April Plan, the City is required to increase funding for the MTA's paratransit operations, a higher payroll tax rate, assigned legal counsel, charter schools and for a minimum wage indexed to inflation.

The State would retain the City's share of Affordable Care Act (ACA) enhanced Federal Medical Assistance Percentage (eFMAP) payments to offset the State's higher health care expenditures, which the City expects to cost $129 million in FY 2024, $214 million in FY 2025 and $343 million annually thereafter, which have been reflected in the June Plan. The State, however, estimates that this impact on the City will be higher – costing $217 million in FY 2024, $261 million in FY 2025 and $434 million annually thereafter. If the State diverts this higher amount, the City would have a funding risk of $88 million in FY 2024, $47 million in FY 2025 and $91 million annually thereafter.

The State would also retain the City's share of the COVID-19 eFMAP payments which the State estimates will cost the City $193 million in FY 2023 and $131 million in FY 2024. However, the City had not budgeted to reflect these savings since FY 2022 so the State retaining these payments will not have an impact on the June Plan.

Federal Actions

The June Plan assumes that total federal receipts for the operating budget will wind down after peaking in FY 2022, from $11.9 billion in FY 2023 to $10.3 billion in FY 2024, settling closer to $7 billion starting in FY 2026 as the City draws down the balance of pandemic relief aid.

Pandemic Relief and Claiming Progress

Over a four-year period ending in FY 2023, the City is projected to have realized a total of $22.9 billion in federal aid (including unrestricted aid) to respond to the impacts of COVID-19.

Since the beginning of FY 2023, the City raised its forecast of pandemic aid anticipated in the financial plan period, including more than $1 billion in a previously unbudgeted portion of its federal award from the local government and school fiscal relief funds. The City also accelerated the use of $530 million in such school fiscal relief funds from FY 2025 to FY 2024, more than three-quarters of which came from the planned expansion of the 3-K program (see Semi-Autonomous Agencies: Department of Education section for more details).

The June Plan assumes pandemic aid will total $3 billion in FY 2024 (mostly for education and general fiscal relief; see Figure 7) and will continue to decline sharply in subsequent years as the stimulus program reaches its conclusion.

As noted in OSC's June 2023 report on the City's financial plan, the City is making continued progress to accelerate its claiming of prior-year pandemic revenue. While the City has not yet claimed $3.2 billion in prior-year pandemic revenues earned-to-date, most of which is for reimbursements from FEMA, this unclaimed amount is substantially lower than was reported in the December 2022 report at $8.4 billion.

Federal Budget

On June 3, 2023, the President signed into law the Fiscal Responsibility Act of 2023 (FRA), which suspends the nation's debt ceiling until January 1, 2025, and imposes a cap on discretionary spending in each of federal fiscal years (FFY) 2024 and 2025.

State and local government programs may be adversely impacted by the proposed spending restrictions, although the impact may not be fully quantified until Congress has completed action on a new budget for the upcoming federal fiscal year, which begins on October 1, 2023.

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

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Education Aid	$ - - -	$944.9	$2,874.6	$2,085.1	$2,104.9	$ - - -	$ - - -	$ - - -
Fiscal Relief Funds	730.1	1,505.0	3,067.9	498.2	819.9	703.1	- - -	- - -
FEMA Reimbursement	1,147.0	3,064.3	2,161.3	570.1	2.0	1.0	1.0	- - -
Public Health Grants	41.5	880.6	422.6	423.9	33.1	0.1	- - -	- - -
Other	105.0	468.5	962.2	164.5	63.4	52.9	19.8	9.9
Subtotal	**$2,023.6**	**$6,863.4**	**$9,488.7**	**$3,741.9**	**$3,023.2**	**$757.1**	**$20.8**	**$9.9**
Unrestricted Aid	- - -	- - -	$498.4	$251.6	- - -	- - -	- - -	- - -
Total	**$2,023.6**	**$6,863.4**	**$9,987.1**	**$3,993.5**	**$3,023.2**	**$757.1**	**$20.8**	**$9.9**

Note: Totals may not add due to rounding. Actuals include adjustments to receivables. The City may also realize an estimated $928 million in savings passed on to the City from enhanced federal funding for Medicaid.
Sources: NYC Office of Management and Budget; OSC analysis

In past years, Congress has rarely approved the federal budget by the start of the new fiscal year and has instead utilized stop-gap measures to extend funding for government operations at current levels until a new budget is passed.

The FRA includes a provision that would impose temporary spending caps if Congress does not adopt a full-year budget in time to meet deadlines for FFY 2024 and FFY 2025. These alternative caps would allow spending amounts to exceed those initially imposed by the law until full-year appropriations are enacted, but spending would still be less than in FFY 2023. All spending caps in the law are enforceable through annual sequestration. If full-year appropriations are not enacted by April 30 of each year, sequestration will be enforced based on the alternative spending caps.

On May 9, 2023, with the City and State experiencing a large-scale humanitarian crisis due to the influx of asylum seekers, the Governor declared a disaster emergency. The federal government has not made any commitment to provide a matching contribution toward the ongoing costs of services for asylum seekers, as it has done in past emergencies (such as the recent pandemic, when FEMA reimbursed 100 percent of eligible costs during much of the public health emergency, and 75 percent of eligible costs in most other emergencies pursuant to the Stafford Act). To date, $875 million nationally in ad hoc funding has been appropriated for such costs, but the City is expecting to receive just $135 million of this funding for FY 2024.

In July 2023, the U.S. Senate Appropriations Committee advanced a budget bill which includes a $752 million transfer to FEMA to support sheltering and related activities provided by non-federal entities, but it is not yet clear how these funds would be distributed. The proposed funding is subject to approval by both chambers of Congress.

In recent months, many elected officials from New York have joined the Mayor's call on the federal government to provide additional regulatory and fiscal relief as the number of people receiving asylum services have continued to rise, and local resources to provide those services are now greatly strained.

In May 2023, the Governor issued a letter to the President to request federal construction and operation of temporary shelters on federal lands and property to house asylum seekers. As discussed further in the State Budget section, the State has already committed substantially greater resources than the federal government to provide fiscal relief to the City.

Under federal regulations, asylum seekers are currently required to wait at least six months to receive legal authorization to work. In June 2023, the full Senate and House New York City Democratic Delegation issued a letter to the President and the Secretary of the U.S. Department of Homeland Security (DHS) to request that the administration consider providing, on a case-by-case basis, humanitarian parole for asylum seekers who entered the United States between March 2020 and May 2023, which would expedite the work authorizations for the asylum seekers. The Biden Administration has not yet issued a public response to the Delegation's request. Recently, the Mayor met with the Secretary, and has indicated that the Secretary will designate a liaison with DHS to serve as a point-person on the City's asylum seeker needs.

Most recently in late July 2023, 54 elected State and local officials representing New York City residents issued a separate letter to the President to call for additional relief, including expediting work authorizations for migrants, but also requested additional federal funding for New York City and the creation of a national strategy to coordinate the distribution of new asylum seekers entering the U.S. to other State and local governments.

VI. Program to Eliminate the Gap

The June Plan included a modest third expansion of the FY 2023 PEG, adding $259 million in net savings over the plan period, 2 percent of the program's five-year value. June Plan savings were predominantly from debt service (84 percent). Together with previous updates of the FY 2023 PEG, anticipated savings total $1.8 billion in FY 2023, and an average of $3 billion annually thereafter. After adjusting for cost avoidance savings included in the November and April Plans, which do not reduce budget gaps, net savings total $1.7 billion in FY 2023, $2.9 billion in FY 2024, and an average of $2.6 billion annually thereafter (see Figure 8).

Agency savings added in the June Plan were limited to minor expense reestimates in FY 2023 from less-than-anticipated spending at various agencies and are not recurring, totaling $72 million. These savings were partially offset by restorations to initiatives from prior plan updates, totaling $30 million in FY 2024. Of this amount, $26 million was funding restored to the public libraries and the City University of New York. Almost $1 million and 23 positions were also restored for FY 2024 at the Civilian Complaint Review Board and the Board of Correction.

The PEG savings identified in the June Plan were achieved in FY 2023. However, there are savings initiatives included in prior plans that could be jeopardized by operational challenges or inadvertently cause adverse impacts to services through implementation.

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

	Positions	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Total
Agency Actions							
Efficiencies	(4,382)	294	673	679	719	728	3,092
Expense Reestimates	(135)	811	1,868	1,796	1,747	1,700	7,920
Revenue Reestimates	21	441	205	205	191	184	1,226
Agency Subtotal	**(4,496)**	**1,545**	**2,746**	**2,680**	**2,656**	**2,612**	**12,239**
Restorations							
Efficiencies	23	(4)	(27)	- - -	- - -	- - -	(32)
Expense Reestimates	- - -	- - -	(3)	- - -	- - -	- - -	(3)
Restorations Subtotal	**23**	**(4)**	**(30)**	**- - -**	**- - -**	**- - -**	**(34)**
Debt Service	**- - -**	**256**	**330**	**344**	**354**	**424**	**1,709**
Total Savings	**(4,473)**	**$ 1,797**	**$ 3,046**	**$ 3,024**	**$ 3,011**	**$ 3,036**	**$ 13,914**
Cost Avoidance Initiatives							
Efficiencies	- - -	(57)	(106)	(105)	(135)	(135)	(539)
Expense Reestimates	- - -	- - -	- - -	(284)	(284)	(284)	(852)
Revenue Reestimates	- - -	- - -	(4)	(4)	(4)	(4)	(18)
Cost Avoidance Total	**- - -**	**(57)**	**(110)**	**(394)**	**(424)**	**(424)**	**(1,409)**
Net Savings	**(4,473)**	**$ 1,740**	**$ 2,936**	**$ 2,630**	**$ 2,587**	**$ 2,612**	**$ 12,504**

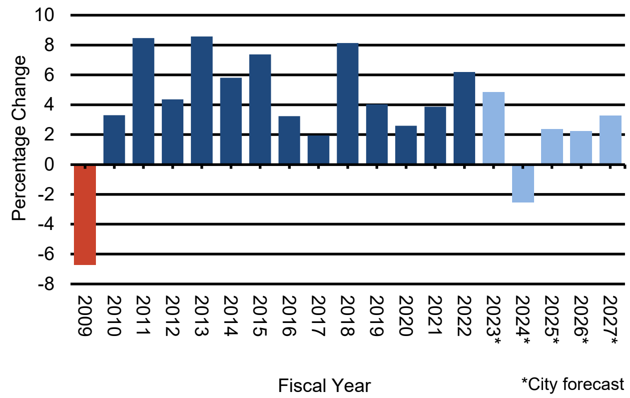
Note: Totals may not add due to rounding. Changes in headcount are as of June 30, 2024.
Sources: NYC Office of Management and Budget; OSC analysis

VII. Revenue Trends

The June Plan increased the City's FY 2023 total revenues forecast (which includes locally generated revenues and federal and State categorical aid) from the April Plan by $1.9 billion and represents growth of $9.7 billion from adoption. The City expects total revenues to reach $110.8 billion in FY 2023, resulting in a year-over-year increase of 2.7 percent, better than the April Plan forecast of a 1 percent increase. The upward adjustment mostly reflects higher-than-expected collections from locally generated revenues (i.e., City funds), especially from personal income tax (PIT) and business taxes.

Better-than-expected tax collections in the first 11 months of FY 2023 fueled the June Plan increase to the tax collections forecast for FY 2023. In the first 11 months of FY 2023, year-to-date collections were 5.2 percent higher ($3.4 billion) than the same period last year. However, as the City assumes the economy could further weaken, tax growth is expected to slow to 4.9 percent in FY 2023 before declining by 2.5 percent to $71.1 billion in FY 2024 (see Figure 9 and Figure 10).

FIGURE 10
Annual Percent Change in Tax Revenues



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

In FY 2024, total collections are forecast to be dragged down by a decline in non-property tax collections, particularly PIT and business tax, reflecting the expectation of an economic downturn. This decline is expected to more than offset the increase in property taxes.

In FY 2024, City funds account for 72 percent of total revenues, or $76.9 billion. Tax collections account for 92 percent of City fund revenues

FIGURE 9
Trends in City Fund Revenues
(in millions)

	FY 2023	FY 2024	Annual Growth	FY 2025	FY 2026	FY 2027	Average Three-Year Growth Rate
General Property Tax	$ 31,482	$ 32,569	3.5%	$ 32,232	$ 32,501	$ 33,108	0.5%
Personal Income Tax	17,201	14,943	-13.1%	16,125	16,722	17,756	5.9%
Sales Tax	9,522	9,772	2.6%	10,320	10,905	11,352	5.1%
Business Taxes	8,279	7,720	-6.8%	7,745	7,726	7,826	0.5%
Real Estate Transaction Taxes	2,164	2,196	1.5%	2,375	2,496	2,667	6.7%
Other Taxes	3,030	3,218	6.2%	3,316	3,401	3,491	2.8%
Tax Audits	1,300	721	-44.5%	721	721	721	0.0%
Subtotal: Taxes	**72,978**	**71,139**	**-2.5%**	**72,834**	**74,472**	**76,921**	**2.6%**
Miscellaneous Revenues	6,052	5,818	-3.9%	5,638	5,574	5,533	-1.7%
Unrestricted Intergov. Aid	297	0	NA	0	0	0	N/A
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**$ 79,312**	**$ 76,942**	**-3.0%**	**$ 78,457**	**$ 80,031**	**$ 82,439**	**2.3%**

Note: Personal Income Tax includes the pass-through entity tax (PTET).
Sources: NYC Office of Management and Budget; OSC analysis

while miscellaneous revenues account for 8 percent.

The City increased the FY 2024 total revenues forecast by $426 million to $107.1 billion from the April Plan, fueled by an increase in State grants offsetting a decrease in federal grants. Because of the adjustment upward in the FY 2023 forecast, the expected decline in FY 2024 is also larger, a decrease of 3.4 percent, which would be the largest decline on record (since FY 1980).

Tax collections are expected to average 2.6 percent annual growth during fiscal years 2025 to 2027, with growth in non-property tax collections (4.3 percent) outpacing that of property tax (0.5 percent). The relatively slow rate of growth in property tax collections reflects continued uncertainty in the real estate markets as workers have been slow to return to the office, as well as a slowdown in transaction activity due to higher-than-normal interest rates.

Following 5.9 percent growth in FY 2023, City funds are forecast to increase by an annual average of just 1 percent in fiscal years 2024 through 2027, much slower than the annual average growth of 4.7 percent from fiscal years 2015 through 2019. Assuming revenues reach the City's forecast in FY 2023, City funds would need to grow by an annual average of 3.5 percent in the following years to close the City's stated out-year budget gaps through FY 2027.

OSC projects that absent a severe recession, with its expectation of a smaller decline in City funds, the City is likely underestimating collections in FY 2024 by about $1.2 billion.

General Property Tax

The June Plan revised expected property tax collections upward by $50 million in FY 2023 on the strength of year-to-date revenues. The City now expects total collections of $31.5 billion, an increase of 7 percent from the prior fiscal year (see Figure 11). However, OSC expects FY 2023 collections to be higher by $150 million based on year-to-date collections.

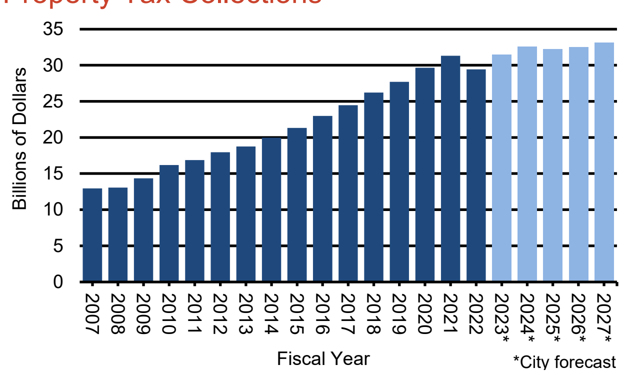
The plan also increased expected property tax revenues in FY 2024 by $300 million compared to the April Plan. Collections are now expected to reach a record high of $32.6 billion in FY 2024, representing growth of 3.5 percent from the prior fiscal year.

The growth in expected collections in FY 2024 is due to an increase in the final FY 2024 property assessment roll released in May (for further details on the final roll, see OSC's April 2023 Plan report). Despite the strength of the FY 2024 final roll, the June Plan makes no revenue adjustments to the out-years. Due to the higher level of collections expected in FY 2024, FY 2025 now shows an expected annual decline of 1 percent ($337 million).

Despite lower sales volume, housing prices remain strong and residential property valuations are expected to continue to grow in the coming years. The commercial property market, however, faces ongoing challenges. Demand for office and retail space remains depressed, and weaknesses in property valuations are expected to continue over the course of the plan horizon.

While growth in collections is expected to resume in FY 2026 (0.8 percent) and FY 2027

FIGURE 11
Property Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

(1.9 percent), the rates remain well below the pace of increases seen before the pandemic, which averaged 6.4 percent annually between fiscal years 2017 and 2021. OSC estimates that collections for fiscal years 2025 to 2027 may be a total of $1.1 billion higher than expected in the June Plan.

Personal Income Tax

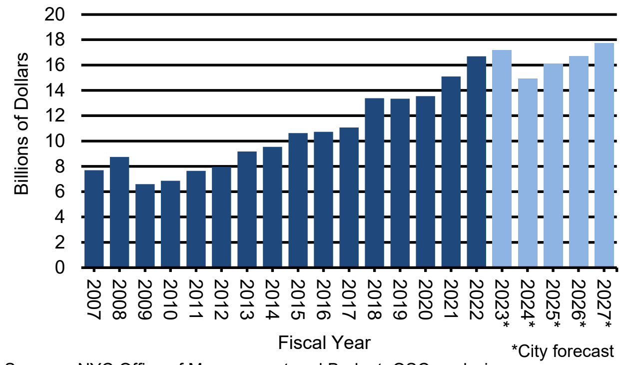
The June Plan increased the forecast from the April Plan for total PIT, including the Pass Through Entity Tax (PTET), by $1.3 billion for FY 2023. The adjustment reflects better-than-expected collections in the first 11 months of FY 2023 (see Figure 12; for more information on PTET, see OSC's April 2023 Plan report).[9] As a result, total PIT collections are now expected to increase by 3 percent in FY 2023 to reach a record high of $17.2 billion.

Year-to-date total PIT collections through May were 1.7 percent higher than the same period last year. This increase was driven by withholding and offset payments distributed by the State as well as the shifting of revenues from a later fiscal year due to the implementation of the PTET. These gains more than offset the effects of large declines in nonwage income and bonuses, related to depressed Wall Street activity and slower wage and job growth compared to last year.

The June Plan adjustments to the FY 2023 forecast affected almost all components of PIT. The June Plan increased the forecast for withholding (i.e., the amount of tax taken from employee paychecks) by $110 million and now expects an increase of 4.9 percent in FY 2023. This growth reflects continuing employment and wage growth even as Wall Street bonuses were estimated to be significantly less than in 2021.

The June Plan increased the forecast for the nonwage income tax components (i.e., all

FIGURE 12
Total Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

components excluding withholding) by a combined $1.2 billion and these components are now expected to decrease by just 0.6 percent in FY 2023 even as the City assumed a large decline in nonwage income.

Based on year-to-date collections data, collections avoided a greater decline largely because of the implementation of the PTET, the effects of which will not be revenue neutral within each fiscal year. Some taxpayers who opted into the PTET in FY 2023 had not claimed the credit to lower their liability before the end of the fiscal year, resulting in higher-than-expected FY 2023 collections. Assuming these taxpayers will instead claim the credit in FY 2024, the City decreased the FY 2024 nonwage components forecast by $311 million.

Since collections were higher than expected in FY 2023, the June Plan now expects a larger decline in total PIT, 13.1 percent, in FY 2024 to $14.9 billion. Nonwage income tax collections are expected to decline by 43.2 percent to $3.3 billion, reflecting the City's assumption of stock and real estate markets negatively impacting capital gains and business income.

As the City expects another year of declines in bonuses and slow growth in jobs and wages,

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

withholding growth is expected to slow to 1.9 percent, reaching $11.7 billion in FY 2024.

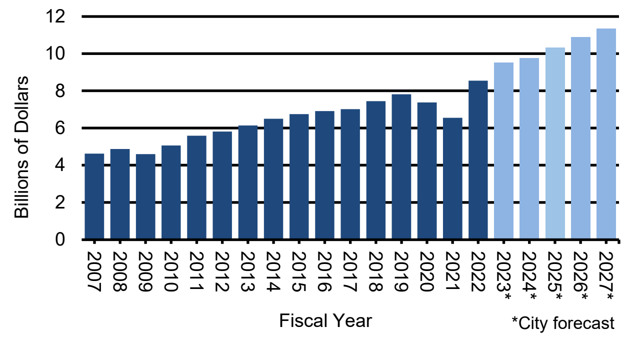
The City expects total PIT collections to bounce back with moderate growth in fiscal years 2025 through 2027, increasing by an annual average of 5.9 percent. However, this is still slower than the average annual growth of 6.9 percent in fiscal years 2015 through 2019, reflecting the City's assumption of a return to moderate economic growth in the out-years. During this period, withholding average annual growth is projected at 4.8 percent, while that of nonwage components is 9.7 percent.

The uncertainties associated with the PTET have made it more difficult to estimate a precise forecast. OSC estimates that tax collections may fall short of the forecast by $50 million in FY 2023 due mostly to the overestimation of PTET collections. OSC expects collections to exceed the City's forecast by $500 million in FY 2024 as OSC does not expect the economic slowdown to have as big an effect on collections as the City. OSC expects collections to be higher in the rest of the plan period as collections exceed OMB's forecast of moderate growth in the out-years.

Sales Tax

The June Plan increased the FY 2023 forecast for sales tax collections by $60 million from the April Plan and made no adjustments to the out-year forecasts. After increasing by 11.5 percent in FY 2023, collections are now expected to slow to 2.6 percent growth and reach $9.8 billion in FY 2024 (see Figure 13). OSC expects collections in FY 2024 to be stronger than the City's projections due to the continued return of commuters and tourists, and positive consumer spending trends.[10]

FIGURE 13
Sales Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

Consumer sentiment in the second quarter of 2023 in the State remains higher than the nation, led by optimism in the New York City metropolitan area.[11] According to the Federal Reserve's latest Beige Book, consumer spending continues to be strong in the district with consumers shifting from purchasing goods to experiences related to travel, restaurants, and entertainment.[12] Tourism is still on pace to reach pre-pandemic levels in 2024.[13]

OSC estimates that collections, boosted by strength in existing consumption indicators, will continue to see moderate growth. As a result, OSC expects collections to be $200 million higher than the City's June projection in FY 2024 and reach $10 billion. Uncertainty remains in the out-years and OSC believes that collections will be $183 million less annually than the City's forecast.

[10] OSC, *Review of the Financial Plan of the City of New York*, Report 4-2024, June 2023, https://www.osc.state.ny.us/files/reports/osdc/pdf/report-4-2024.pdf.

[11] Siena College Research Institute (SCRI), "NY Consumer Sentiment Down Slightly; Remains 9 Points Above U.S.," July 6, 2023, https://scri.siena.edu/2023/07/06/ny-consumer-sentiment-down-slightly-remains-9-points-above-u-s/.

[12] New York Federal Reserve, *Beige Book*, July 2023.

[13] OSC, *New York City Industry Sector Dashboards*, March 2022, https://www.osc.state.ny.us/osdc/reports/nyc-sectors/tourism.

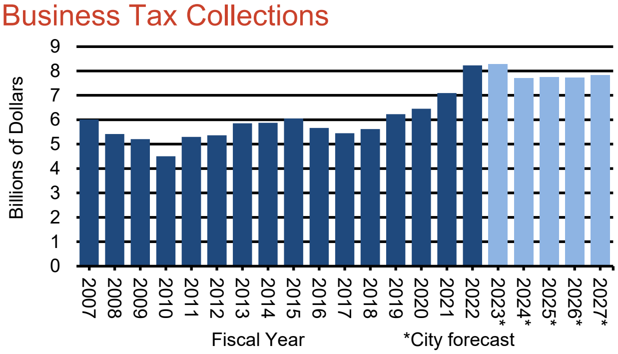
Business Taxes

The June Plan's FY 2023 business tax forecast is $439 million higher than the April Plan as collections continue to see stronger-than-expected growth. As a result, business taxes are now projected to grow by 0.6 percent to $8.3 billion in FY 2023, surpassing the FY 2022 record high by $50 million (see Figure 14).

The upward adjustment in FY 2023 is attributable to business corporation taxes, which constitute more than two-thirds of total business tax collections and are driven primarily by the profits of New York Stock Exchange member firms. As business corporation tax collections in the first 11 months have grown by 1.6 percent, compared to 20.9 percent in the same period in FY 2022, the City expects collections to weaken in June to $1.1 billion.

Unincorporated business taxes (UBT), which make up the remainder of total business tax collections, saw a year-over-year decline of 1.0 percent through May 2023. The service sector, which makes up 46 percent of UBT net payments, saw a 2.7 percent decline during the same period. Payments in the service sector have continuously declined in FY 2023, suggesting that the City's projection of a 2.3 percent overall decline is reasonable.

FIGURE 14
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

The June plan made no adjustments to the FY 2024 forecast and now the City expects a year-over-year decline in business tax collections by 6.8 percent.

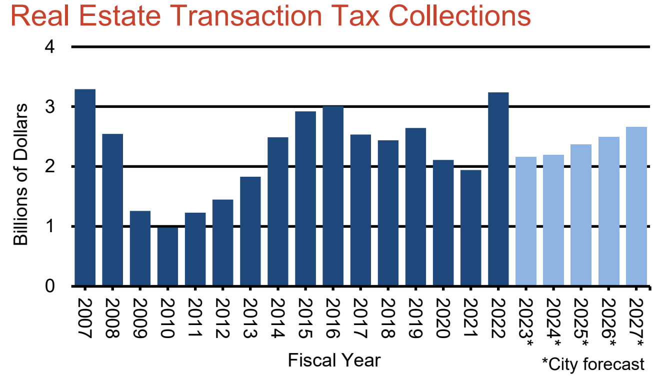
OSC estimates tax collections will exceed the City's forecast by $22 million in FY 2023 and reach $8.3 billion. In FY 2024, OSC estimates collections will see a decline of 2.6 percent, smaller than the decline assumed by the City. OSC projects business taxes will be 1 percent higher, on average, than the June Plan projections for each of the out-years.

Real Estate Transaction Taxes

The June Plan projects real estate transaction taxes, which include real property transfer taxes and mortgage recording taxes, will reach $2.2 billion in FY 2023 (see Figure 15). This level is $16 million less than expected in the April Plan and reflects continued weakness in mortgage recording tax collections as higher interest rates have slowed originations of new mortgages for both purchases and refinancing.

Though home prices remain strong, residential real estate sales volume has slowed considerably in FY 2023. Total residential sales in New York City for FY 2023 declined by 31.6 percent compared to the prior fiscal year.[14]

FIGURE 15
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[14] NYC Department of Finance Automated City Register Information System (ACRIS) preliminary data.

Luxury residences (defined as properties valued at over $4 million) have seen a rebound from depressed activity in the latter half of 2022, but are still down 12.9 percent for the first six months of 2023.[15]

Total commercial sales in FY 2023 were down 41.2 percent from FY 2022. Commercial property sales are expected to remain depressed as firms are reluctant to make commitments during a period of elevated interest rates and economic uncertainty.

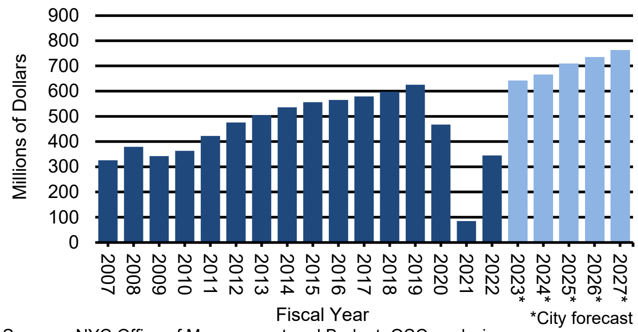
The City made no changes to expected collections in the subsequent fiscal years. Transaction tax revenues are expected to grow at an average annual rate of 5.4 percent for fiscal years 2024 to 2027, which OSC considers reasonable given market uncertainty (for further details on expected collections, see OSC's April 2023 Plan report).

Hotel Tax

The June Plan anticipates hotel tax collections in FY 2023 will be $5 million higher than the April Plan forecast. Collections are expected to continue to grow in FY 2024, increasing by 3.7 percent to reach $666 million, as travel indicators continue to improve (see Figure 16).

Higher room rates and a recovery in tourism will continue to support the strong growth in collections. During the week ending July 8, 2023, New York City hotel occupancy remained relatively strong (77.3 percent) and had the largest year-over-year increase (11 percentage points) in occupancy among the top 25 markets in the U.S.[16]

FIGURE 16
Hotel Tax Revenues



Sources: NYC Office of Management and Budget; OSC analysis

Future sporting and entertainment events, such as the World Cup in 2026, should further boost hotel tax collections in the out-years. OSC believes that collections for FY 2025 to 2027, on average, will be $100 million higher annually than the City's forecast.

Miscellaneous Revenues

Miscellaneous revenues, consisting of recurring revenues and one-time payments, reached pre-pandemic levels in FY 2023. The June Plan expects miscellaneous revenues to total $5.8 billion in FY 2024 (down 4 percent from FY 2023), then see small declines in each of the out-years (see Figure 17).[17] While the June Plan made little to no adjustments in the out-years, recurring revenues could be higher in FY 2024 as interest income, boosted by federal funds rate increases, may rise. OSC has not yet adjusted for this likelihood given uncertainty over rates in the coming year.[18]

[15] Olshan Realty Inc., *Olshan Luxury Market Report*, July 10, 2023, https://www.olshan.com/marketreport.php.

[16] Smith Travel Research, "STR: July Fourth Constricts US Hotel Performance During First Full Week of Month," July 13, 2023, https://www.costar.com/article/1746540650/str-july-fourth-constricts-us-hotel-performance-during-first-full-week-of-month.

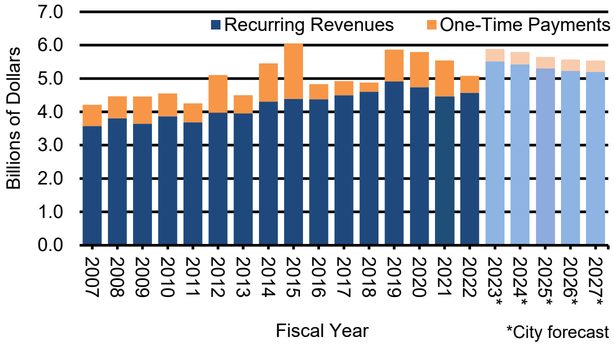
[17] Miscellaneous revenues consist of recurring revenues (including fines, fees, forfeitures, charges for services, licenses and permits), and one-time payments (including settlements, litigation, asset sales and payments from agencies).

[18] OSC, *Review of the Financial Plan of the City of New York*, Report 4-2024, June 2023, https://www.osc.state.ny.us/files/reports/osdc/pdf/report-4-2024.pdf.

The City expects recurring miscellaneous revenues in fiscal years 2025 to 2027 to reach $5.2 billion annually, a reasonable forecast given economic uncertainty.

FIGURE 17

Total Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

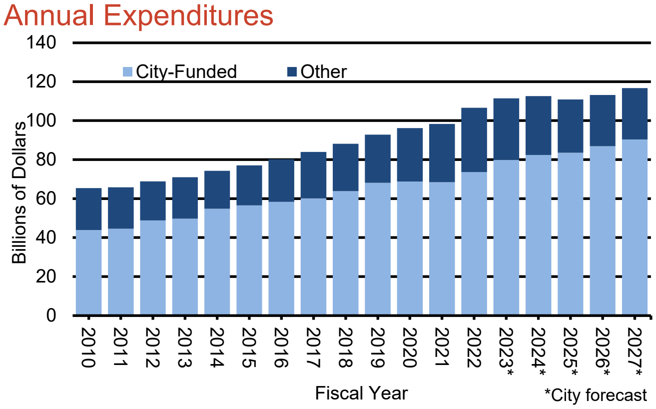
VIII. Expenditure Trends

Total citywide expenditures are projected to reach $112.6 billion in FY 2024, after adjusting for $5.5 billion in surplus transfers, which obscure total expenditures (see Figure 18). The portion of citywide spending funded with locally generated revenue (i.e., City funds) is estimated at $82.4 billion. The portion funded with other sources, mostly federal and State grants, is $30.2 billion (27 percent of total spending).

City-funded spending is projected to have risen by an average of 8.5 percent annually over a two-year period through FY 2023, adjusted for contingent reserves and savings from overestimating prior-year's expenses. The June Plan anticipates spending, after making the same adjustments, would rise slowly in FY 2024 (by 0.8 percent).

The slow growth in FY 2024 reflects the expectation that a large portion of other-than-personal-services (OTPS) spending will not recur beyond FY 2023 (mainly for social services) or will be temporarily offset in FY 2024 with federal pandemic aid before rebounding in FY 2025 (mostly for school custodial services and waste export contracts). This includes the City's share of public assistance costs, with spending declining from $1 billion to $891 million. The FY 2024 decline to such OTPS would be the largest in at least 10 years, offset in part by the expectation that city-funded spending on services for asylum seekers will rise sharply from $1 billion in FY 2023 to $2.2 billion in FY 2024.

FIGURE 18
Annual Expenditures



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

The June Plan assumes city-funded spending will accelerate slightly from 1.4 percent in FY 2025 to an average of 4.1 percent annually thereafter beginning in FY 2026 (excluding reserves). Projected wage increases, debt service, and health insurance costs would be the largest cost drivers through the balance of the financial plan period.

Financial Plan Risks and Offsets

The June Plan includes sizable risks and fiscal uncertainties. The current plan does not make any provision for the cost of services for asylum seekers to recur beyond FY 2025, which is unlikely based on the continued influx of asylum seekers receiving support from the City. OSC estimates that the City could still incur higher-than-planned costs in FY 2025 and in each year thereafter.

The City Council has also adopted, over a veto by the Mayor, a planned expansion in rental assistance. The expansion could have significant spending ramifications for the City but faces a number of implementation questions (see Rising Shelter Cost Implications section for more details).

As in past years, OSC has identified other relatively large but manageable risks including higher-than-planned mandated operating subsidies for public transit, spending on certain education services, social services, and potentially higher overtime costs. For example, absent any alternatives, it appears unlikely that the City's public assistance spending will decline in FY 2024, given the continued growth in enrollment. The decline in other OTPS spending includes the expectation of a wind down of certain legal or contractual obligations such as rental assistance and certain contracted services at the DOE, which also appear unlikely based on recent trends.

Alternatively, the City projects its annual debt service based on conservative assumptions. As in prior years, actual spending could be lower than planned. The City is also likely to realize savings from lower-than-planned staffing and from better-than-expected pension investment results. The expenditure risks identified by OSC, net of offsets, are estimated to total $1.7 billion in FY 2024, rising to $9.3 billion by FY 2027.

The City may also incur higher-than-planned discretionary costs for local initiatives funded in FY 2023 but assumed to not recur (see OSC's "Fiscal Cliffs" Tool for more details). The City also funded a number of City Council member items in FY 2024 ($528 million) but the June Plan does not yet include funding for any member items in subsequent years, as such costs are subject to annual negotiation between the Mayor and the City Council.

The City has some lead time to address its larger out-year risks and fiscal uncertainties and has implemented a gap-closing program expected to generate savings averaging $3 billion annually over fiscal years 2024 through 2027 (see PEG section). June Plan expenditure trends are shown in Figure 19 and discussed below.

Full-Time Staffing Levels

Based on current levels, the City's full-time workforce is projected to have declined for the third consecutive year. As of April 2023, staffing totaled 280,502, a decline of 6.6 percent since June 2020 (see Figure 20). The City, like other public employers, is continuing to face some difficulties in recruiting and retaining employees. Attrition in FY 2023 remained elevated compared to pre-pandemic levels but has slowed in recent months. While the full-time workforce has declined, the City believes it can meet current and anticipated demands for municipal services with fewer employees than were budgeted as of June 2020.

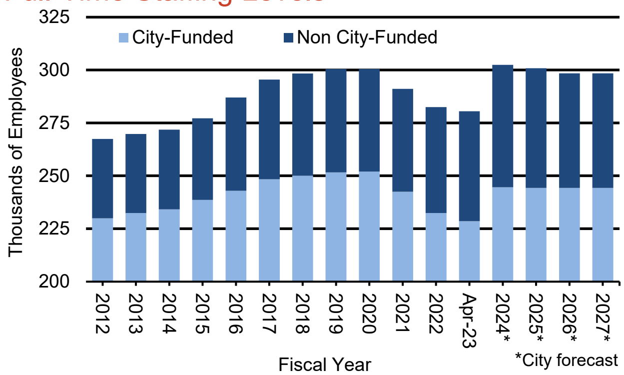
As a result, the City's FY 2023 PEG has reduced planned headcount by 6,523 full-time positions in FY 2024 (of which 4,473 are city-funded), mostly from eliminating a portion of its vacancies (see

FIGURE 19
Trends in City-Funded Spending in June 2023 Financial Plan
(in millions)

	FY 2023	FY 2024	Annual Growth	FY 2025	FY 2026	FY 2027	Average Three-Year Growth Rate
Salaries and Wages	$22,857	$22,175	-3.0%	$23,494	$25,285	$26,520	6.1%
Pension Contributions	8,964	9,497	5.9%	10,278	10,741	10,923	4.8%
Debt Service	7,315	7,588	3.7%	8,092	8,866	9,564	8.0%
Medicaid	6,159	6,678	8.4%	6,497	6,626	6,776	0.5%
Health Insurance	6,403	7,182	12.2%	7,541	8,120	8,558	6.0%
Other Fringe Benefits	3,817	3,939	3.2%	3,990	4,186	4,363	3.5%
Energy	980	1,068	9.0%	1,076	1,169	1,210	4.3%
Judgments and Claims	1,059	1,025	-3.3%	737	683	700	-11.9%
Public Assistance	1,025	891	-13.1%	891	891	1,241	11.7%
Services for Asylum Seekers	1,017	2,208	117.1%	712	- - -	- - -	NA
Residual OTPS	20,755	18,722	-9.8%	18,781	18,853	19,037	0.6%
Subtotal	**$80,327**	**$80,971**	**0.8%**	**$82,086**	**$85,417**	**$88,889**	**3.2%**
General Reserve	20	1,200	NA	1,200	1,200	1,200	0.0%
Capital Stabilization Reserve	- - -	250	NA	250	250	250	0.0%
Prior-Year's Expenses	(400)	- - -	NA	- - -	- - -	- - -	0.0%
Total	**$79,947**	**$82,421**	**3.1%**	**$83,536**	**$86,867**	**$90,339**	**3.1%**

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

FIGURE 20
Full-Time Staffing Levels



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

PEG section). However, the City also added 1,716 positions for a number of new agency needs, concentrated in expanding organic waste collection and park maintenance.

The June Plan assumes full-time staffing will reach 302,402 by the end of FY 2024, 21,900 (7.8 percent) more than current levels (see Appendix A). If achieved, the assumed annual growth in full-time staffing through June 30, 2024, would be the second largest on record, behind FY 2004 at 9.4 percent, which included a conversion of more than 15,000 full-time-equivalent positions at the DOE to full-time status.

The City has realized substantial savings attributed to lower-than-planned headcount. Based on a review of preliminary annual payroll data for the close of FY 2023, OSC estimates the city-funded portion of payroll savings generated in FY 2023 will total more than $1.3 billion, $600 million higher than assumed in the June Plan. OSC estimates that the City will continue to have substantial vacancies in FY 2024, generating savings of at least $275 million in that year.

However, OSC's previous report on the City's financial plan noted that recent media reports and City agency reports have found that the delivery of some municipal services have been impaired due to short-term staffing shortages. In addition, overtime spending at the uniformed agencies reached a new record in FY 2023 (see Overtime section).

Collective Bargaining

One year ago, the new round of collective bargaining was a source of significant fiscal uncertainty facing the City's financial plan. As of August 2023, however, more than three-quarters of the municipal workforce (78 percent) have reached new labor agreements with the City for the 2021-2026 round of bargaining.

The City, which has a long history of pattern bargaining, assumes that the terms of the collective bargaining agreement ratified by the members of District Council 37 (DC 37) in March 2023 and the Police Benevolent Association (PBA) in April 2023 will apply to all other relevant civilian and uniformed unions[19]. For more details, see OSC's prior report on the City's Financial Plan.

In recent months, the City has reached similar labor agreements with several other unions, including the United Federation of Teachers, which represent more than one-third of the municipal workforce, and a coalition of 11 uniformed unions representing more than 32,000 employees.

The June Plan includes reserves in each year of the financial plan period to fund anticipated labor costs for all the settled contracts based on the DC 37 and PBA framework and assumes

[19] The civilian pattern established under the DC 37 agreement provides for base wage increases totaling 16.21 percent compounded over five years beginning the day after the expiration of the previous civilian contract. The uniformed pattern established under the PBA agreement provides for base wage increases totaling 18.8 percent compounded over five years.

pattern-conforming agreements will be reached with the remainder of the City's workforce.[20]

Accordingly, the fiscal uncertainty over the outcome of collective bargaining has greatly lessened. If pattern-conforming agreements are achieved with those remaining unions, the current funding set aside in the labor reserve over the financial plan period is reasonable.

Health Insurance

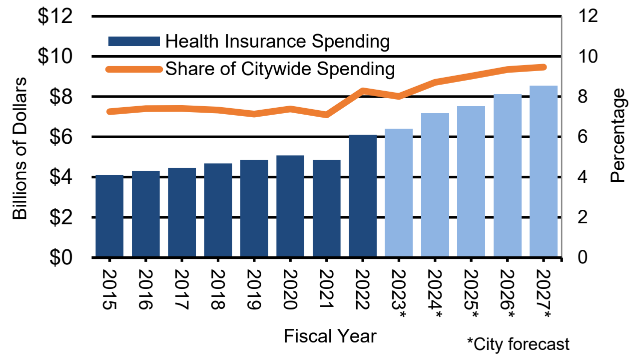
City-funded health insurance costs are projected to reach $8.6 billion by FY 2027, 40.2 percent more than in FY 2022 (see Figure 21). Comparatively, city-funded spending would rise by 22.7 percent during the same five-year period through FY 2027. Health insurance costs, as a share of city-funded spending, would rise to an estimated 9.5 percent by FY 2027, which would be the highest share since at least FY 2010.

As noted in OSC's June 2023 report on the City's Financial Plan, the City had been proceeding with implementation of a Medicare Advantage Plan (MAP) by September 1, 2023. In July 2023, the implementation was halted by court order under a new round of litigation.

The MAP is expected to generate an estimated $600 million in annual savings in retiree health benefits costs, and the savings will be credited to the Health Stabilization Fund (HSF), which is unable to meet all of its short-term contractual obligations unless, or until, it is refortified with the anticipated MAP savings, or other alternative resources.

The City and the Municipal Labor Committee (MLC) are currently negotiating further savings to help offset the financial obligations of the HSF through health plan reforms, including a new preferred provider organization for active employees and pre-Medicare retirees. Although the outcome of these negotiations may not be known for some time, the City and the MLC have achieved significant health insurance savings over the past decade, including a total of $1.9 billion in recurring savings under the 2014 and 2018 MLC agreements.

FIGURE 21
Health Insurance Costs
City-Funded



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

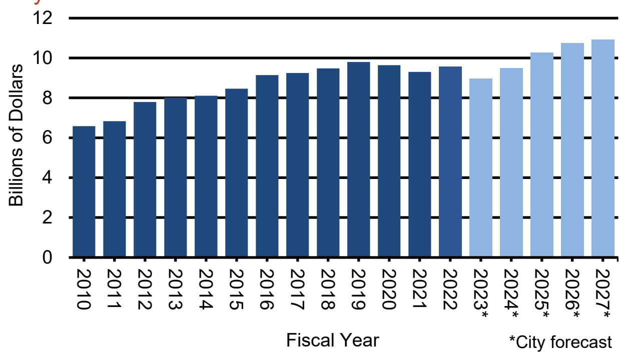
In its latest bond disclosure, the City indicates that if the HSF were fully drawn there could be a significant shift in costs to retirees in the form of additional health coverage fees and reductions in benefits, or the assumption of significant costs by the City.

Pension Contributions

The City's pension contributions reflect actuarial estimates of the City's five major retirement systems prepared by the Office of the Actuary. They also include adjustments prepared by the NYC Office of Management and Budget to reflect new or anticipated changes (e.g., revisions to planned headcount), including an annual reserve beginning in FY 2024 to fund potential changes from any future actuarial audit recommendations. The June Plan assumes pension contributions will total $9 billion in FY 2023, and then rise each year to reach $10.9 billion by FY 2027 (see Figure 22).

[20] As of January 2023, the City had previously budgeted for annual wage increases of 1.25 percent in its reserve for collective bargaining. In April 2023, the City added $16 billion over five years to the reserve to fund the incremental increase in costs of the wage framework established under the DC 37 and PBA agreements.

FIGURE 22
Pension Contributions
City-Funded



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

While the financial markets were volatile throughout FY 2023, the City's pension systems are estimated to have exceeded their annual investment target. Based on a preliminary review, the City Comptroller reports that the pension systems gained, on average, 8 percent on their investments through June 30, 2023, compared to the expected gain of 7 percent (a gain of 1 percent).[21] As a result, the City could reduce its planned pension contributions by $54 million in FY 2025, $123 million in FY 2026, and by $188 million in FY 2027.

Medicaid

In May 2023, a historic high of 4.5 million New York City residents (more than half of the City's population) were enrolled in Medicaid, which provides health insurance to low-income children and adults. This estimate includes approximately 1.1 million people who have enrolled in Medicaid since February 2020. The sharp increase coincided with the COVID-19 public health emergency. Enrollment growth rates in Staten Island (41 percent) and Queens (38 percent) exceeded citywide growth (32 percent) from February 2020 through May 2023. Medicaid enrollment in the rest of the State grew by 29 percent.[22]

The growth in Medicaid enrollment may start to reverse with the continued decline in unemployment levels, in addition to the State and City returning to routine operations to determine eligibility as a result of the Consolidated Appropriations Act, 2023. Many Medicaid beneficiaries will become eligible for other forms of health insurance, as discussed in the June 2023 report on the City's financial plan.

The June Plan assumes that the city-funded cost of Medicaid will total nearly $6.2 billion in FY 2023, $6.7 billion in FY 2024, $6.5 billion in FY 2025, $6.6 billion in FY 2026 and $6.8 billion in FY 2027. Projections of city-funded costs assume the State would retain the City's share of ACA eFMAP payments, increasing the Medicaid budget by $129 million in FY 2024, $214 million in FY 2025 and $343 million annually thereafter. The State, however, estimates that this impact on the City will be higher and could result in higher costs than the City has planned (see the State and Federal Actions section). Escalating Medicaid costs continue to be an area of concern for the State, which may take further measures to reduce the State's financial burden.

Social Services

The June Plan allocates $11.5 billion to the DSS budget in FY 2024, $247 million less than FY 2023. While funds were added for additional CityFHEPS spending ($262.1 million), Right to Counsel ($20 million), Fair Fares ($20 million), and recognizing the negative impact of the State budget ($129 million), the City anticipates total spending for Cash Assistance and Rental Assistance decreases from FY 2023 to FY 2024, by $313 million and $153 million, respectively.

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

[22] Nationally, Medicaid enrollment increased by 35.3 percent from February 2020 through March 2023.

The June Plan also does not include funding for several foster care initiatives in FY 2024 and beyond, which totaled $238 million in FY 2023 and which OSC anticipates will recur (see Figure **23**). Minimal changes were made to the homeless services budget (for more details, see OSC's April Plan report).

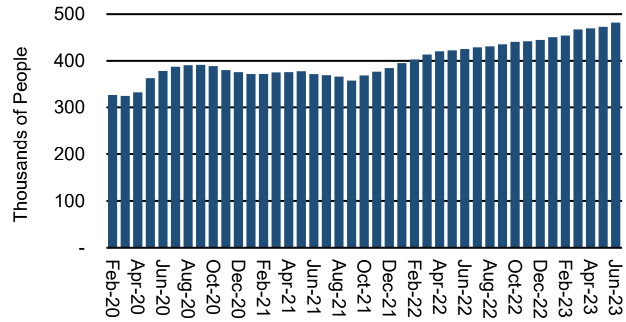
Cash Assistance

Although the City expects to spend nearly $2 billion in FY 2023, the June Plan expects the cash assistance budget to decline and remain level at $1.7 billion from FY 2024 until FY 2026, which is unlikely given current trends. The City assumes it rises to $2 billion in FY 2027.

Cash assistance caseloads have grown each month since September 2021 (see Figure 2**4**), by a total of 124,000 people, or about 34.7 percent, and are now at the highest level since July 2001. The City's assumed funding in the plan supports a monthly average caseload of 440,701 — the current fiscal year-to-date average through February 2023. However, the caseload has been above 440,000 since October 2022. The June 2023 caseload was 481,477.

In recent months, the City has struggled to process cash assistance applications within the required 30-day time frame, which may be attributable to lower-than-targeted staffing and elevated demand, leading to a class-action suit in Manhattan federal court. In July, the court ruled that the City had violated State and federal laws by delaying benefits processing, and ordered DSS to eliminate its backlog of overdue applications by March 31, 2024.

FIGURE 24
Cash Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

Cash assistance enrollment is likely to remain higher than pre-pandemic levels in the near future as a result of current economic conditions, and policies implemented during the pandemic which made it easier to apply for and maintain benefits remotely. OSC estimates a city-funded risk of $94 million in the out-years.

Rental Assistance

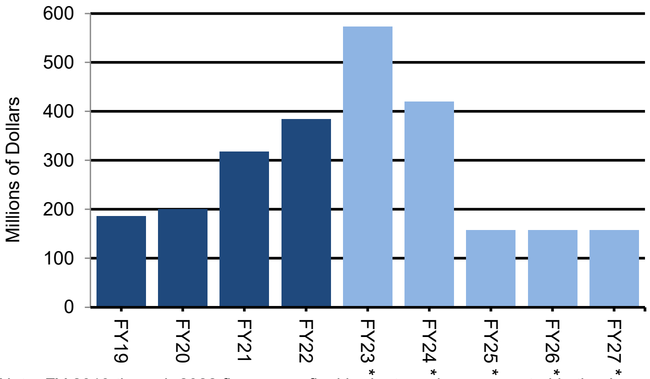
The City expects to spend $574 million on rental assistance in FY 2023. The rental assistance program was funded by a combination of City (77 percent), State (4 percent) and federal funding (19 percent) and funds programs including CityFHEPS and Special One-Time Assistance.

FIGURE 23
Social Services Risk Assessment
(in millions)

	Better/(Worse)				
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
DHS Prevailing Wage Security Guards	- - -	($66)	($66)	($66)	($66)
Foster Care – State budget rate increase	- - -	(118)	(118)	(118)	(118)
Expiration of Foster Care (Title IV-E) Waiver	- - -	(120)	(120)	(120)	(120)
Emergency Assistance to Families	- - -	(134)	(134)	(134)	(134)
Public Assistance	- - -	(94)	(94)	(94)	- - -
Rental Assistance	- - -	(276)	(416)	(416)	(416)
CityFHEPS – 90-day rule	- - -	- - -	(123)	(123)	(123)
Total	- - -	**($808)**	**($1,071)**	**($1,071)**	**($977)**

Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 25
Rental Assistance



Note: FY 2019 through 2022 figures are final budget numbers presented in the June Plan; FY 2023 through FY 2027 are as of the FY 2024 Adopted Budget. The City passed legislation in May 2021 to raise the value of CityFHEPS rental vouchers to Section 8 levels.
Sources: NYC Office of Management and Budget; OSC analysis *Projected

The City's share is expected to rise to 86 percent in FY 2024, as federal funding drops to 9 percent. Housing advocates have recently called on the City to reduce the shelter census by moving residents into permanent housing using CityFHEPS rental vouchers. However, this is contingent upon prospective landlords accepting the voucher.

Despite adding $139.1 million in FY 2024 for the existing CityFHEPS program, excluding any recently proposed expansions, the FY 2024 rental assistance budget still remains smaller than FY 2023 (see Figure 25). The June Plan also funded a waiver of the '90-day rule' for just FY 2024 and did not take into account other program expansions authorized through recent actions taken by City Council after the adoption of the budget (please see Rising Shelter Cost Implications section for more details on associated budget risks).

Overtime

Citywide overtime in FY 2023 is projected to total $2.4 billion, $202 million more than total costs in FY 2022 and the highest amount on record, exceeding pre-pandemic spending in FY 2019 by more than $640 million (a 36 percent increase).

Most civilian agencies that used overtime in FY 2023 exceeded spending levels prior to the pandemic and in FY 2022, led by DSS, where overtime spending more than doubled from $39 million in FY 2019 to $97 million in FY 2023 (146 percent).

About 80 percent of all overtime spending is concentrated at the uniformed agencies (i.e., police, fire, correction, and sanitation). However, overtime at the uniformed agencies grew by 7 percent year-over-year compared to an increase of 17 percent at all other City agencies.

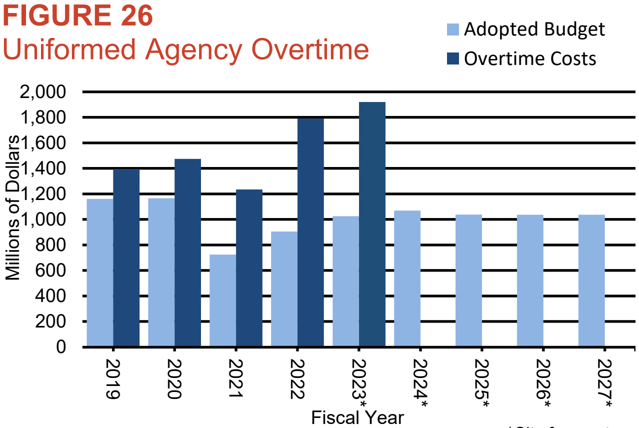
Historically, the City has underbudgeted uniformed agency overtime and added funding in the current year budget based on actual spending. Since the FY 2023 budget adoption in June 2022, the City funded an additional $419 million for overtime at the Police Department, $222 million at the Fire Department, $164 million at the Department of Correction, and $8 million at the Department of Sanitation.

Overtime at each uniformed agency in FY 2023 was higher than last year, except for the Department of Sanitation (a $105 million decline). Growth at the Fire Department (10 percent or $46 million) was driven by staff unavailability (primarily medical leave and training). The City fully funded the unanticipated increase in FY 2023 and does not believe it will be sustained in FY 2024.

The Police Department and Department of Correction increased spending on overtime compared to last year (by $186 million and $35 million, respectively) largely a result of continued trends mentioned in previous reports. Although the added funding at the Department of Correction was sufficient to cover unanticipated overtime, the total funding for Police Department overtime ($871 million) fell short of projected final costs ($948 million).

Given historical overtime and current staffing levels, OSC estimates that there may be unfunded overtime needs of $531 million in FY 2024 and more than $500 million in subsequent years. Recent spending trends suggest this number could be even higher (see Figure 26).

FIGURE 26
Uniformed Agency Overtime



Sources: NYC Office of Management and Budget; OSC analysis *City forecast

IX. Debt Service and Capital Spending

City-funded debt service is expected to grow by 30.7 percent over four years, from $7.3 billion in FY 2023 to $9.6 billion in FY 2027 (see Figure 27). However, debt service is likely to be lower than planned based on the City's historical capital commitments compared to target commitments and the City's conservative interest rate assumptions. Even though rates have risen over the last 18 months, current market conditions may allow the City to achieve an additional $75 million in savings on its variable rate debt in FY 2024.

The City's debt burden, debt service as a percentage of tax revenue, is expected to be 10.3 percent for FY 2024 and increase to 12.6 percent in FY 2027. If the City were to issue the needed level of debt to meet its target commitments, OSC estimates that the debt burden will rise to 14.4 percent by FY 2033, just below the City's self-imposed cap of 15 percent.

In the June Plan, the City increased capital spending in FY 2024 by $1.1 billion including $840 million added by the City Council, while rescinding $190 million from prior capital projects for a net increase of $857 million (see Figure 28). The additions for FY 2024 were largely targeted to Parks & Recreation, Education and Cultural Affairs. For FY 2025, the City made a capital spending addition of $187 million mostly from accelerating $175 million from FY 2026 for affordable housing programs.

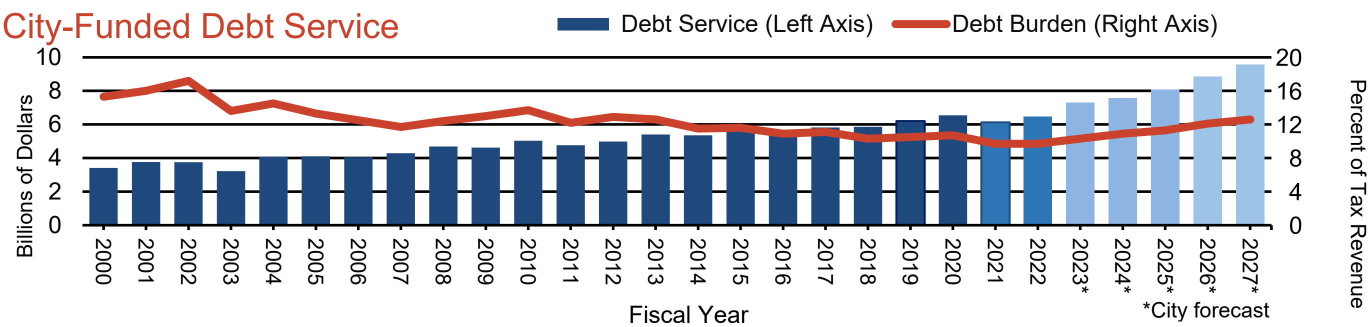
Some of the larger projects that were added for FY 2024 include $15 million for the New York Historical Society, $14.5 million for the Seventh Regiment Armory Conservancy, Inc. in Manhattan, $12 million for the Joyce Theater Foundation in Manhattan, $11.5 million for the American Museum of Natural History in Manhattan and $11.4 million for the Harding Park Playground in the Bronx.

FIGURE 28
Capital Project Additions — Adopted Budget
(in millions of dollars)

Department	FY 2024	Rescinded	Net
Parks & Recreation	285	(75)	210
Education	241	(10)	231
Cultural Affairs	196	(2)	194
Libraries	95	(6)	89
NYC Health + Hospitals	62	(2)	60
Housing Preservation & Dev	38	(14)	23
Economic Development	32	(22)	10
City University	28	(10)	18
All Other	70	(49)	22
Totals	**1,047**	**(190)**	**857**

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

FIGURE 27
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

X. Semi-Autonomous Entities

Department of Education

The June Plan allocates $38.4 billion to the Department of Education (DOE) in FY 2024, including centrally-administered costs for pensions and other post-employment benefits. This would amount to 36 percent of the City's total budget and be $744 million more than the DOE's latest estimate for FY 2023. The City expects to fund $20.1 billion (52.2 percent) of DOE's FY 2024 budget, with the remainder funded by the State (36.8 percent) and by the federal government and other sources.

The June Plan accounts for increases in State education aid that were included in the State budget ($344 million in FY 2024 and $151 million annually thereafter) as well as City funding to accommodate the reissuance of certain school charters as authorized in the State budget ($24 million beginning in FY 2025, rising to $92 million in FY 2027 and $175 million annually once fully phased in). It also includes an additional $150 million for Carter cases (federally mandated special education services) in FY 2024, though the City has not addressed the structural deficiencies in its projection of Carter case costs in that or subsequent years. Other additions include $20 million to hold schools harmless for enrollment losses in FY 2024 (on top of the $160 million allocated for this purpose in previous budgets), $20 million annually for school nurses, and $15 million annually for extended day early childhood education options.

During the pandemic, the City received $7 billion in nonrecurring federal education aid, which it must obligate before FY 2026. The DOE has used these funds to support a portion of the costs of several new programs expected to recur after the stimulus program has concluded. These programs include 3-K services, student mental health initiatives, preschool special education, programming restorations, community schools, restorative justice initiatives, and the Summer Rising program, which cost the City $176 million in FY 2023.

In sum, these programs would require the City to identify $386 million in new funds in FY 2025, rising to $620 million annually in FY 2026. Additionally, nonrecurring federal education aid was used to expand a number of existing programs, including bilingual education and dyslexia screening, which will require a further $112 million annually beginning in FY 2025. Together, these costs, which OSC does not include as risks to the financial plan due to their discretionary nature but which could lead to cuts in service, would reach $498 million in FY 2025 and $732 million annually beginning in FY 2026.

Due to this massive influx of nonrecurring aid, federal funds made up 14.6 percent of spending in FY 2022, the highest share in at least 30 years. This share falls to 11 percent in FY 2023, 10.6 percent in FY 2024, and then 5.8 percent in FY 2025 as federal aid is exhausted, below the 10-year annual average of 6.8 percent preceding the pandemic. The City anticipates increasing its funding share from 50.4 percent in FY 2022 to 58.4 percent in FY 2026. By FY 2026, City funds will account for a larger share of the DOE's budget than before the pandemic.

The June Plan also accelerates the use of the remaining federal fiscal relief for schools ($246 million) to FY 2024 from FY 2025, fully exhausting this form of aid. These funds, originally intended to support the 3-K program and a number of other programmatic expansions, will instead support the New York City School Support Services, Inc. (custodial services), nurse contracts, and a portion of the costs of the Summer Rising program ($80 million). No replacement funds have been allocated to FY 2025 in the June Plan and the City has yet to provide an explanation for the reduction in planned federal spending.

FIGURE 29
Risks to the Department of Education Budget in the April Plan
(in millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Carter Cases	$207	$322	$472	$472	$472
Class Size Reduction Compliance	- - -	- - -	- - -	433	866
Charter School Per-Pupil Tuition	- - -	- - -	60	249	459
Pupil Transportation	38	78	78	78	78
3-K	- - -	- - -	92	92	92
Total	**$245**	**$400**	**$702**	**$1,324**	**$1,967**

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

OSC's June report on the City's financial plan also identified a number of longstanding, ongoing risks that the City has not yet fully addressed over the financial plan period, including underbudgeting on Carter cases, state-mandated charter school per-pupil tuition, and pupil transportation. In the June Plan, the City lowered the risk associated with charter school per-pupil tuition by adding funds to baseline FY 2024 growth and to cover the anticipated costs of reissuing certain charters pursuant to the Enacted State Budget. However, significant portions of the risk still remain based on tuition growth in existing charter schools during the out-years of the Plan. The City must also fund efforts to meet state-mandated targets for class sizes. The City estimates meeting the class size mandates will cost approximately $1.3 billion annually, not counting capital and other space conversion costs, once fully phased in. In total, the City could incur unplanned costs totaling $245 million in FY 2023 and $400 million in FY 2024, rising to approximately $2 billion by FY 2027 from these items and 3-K (see Figure 29).

Further complicating matters, the DOE has historically had difficulties meeting deadlines and fulfilling its obligations amid a sharp rise in the number of Carter cases. As a result, the City has been subject to lawsuits on behalf of children with special needs, and on July 19, 2023, a federal judge ordered the City to implement a 40-point plan for improving services. Carter cases and related costs may rise even further as the City implements the agreement in the near future.

In recent years, the DOE has realized savings, largely from lower-than-budgeted payroll spending (resulting from lower-than-budgeted headcounts) to largely offset these risks by year-end. However, such offsets may be harder to find in coming years, as they are now included in the plan through prior savings programs and as the City must hire staff to meet its own targets and the class size mandate.

Metropolitan Transportation Authority

The MTA released its latest financial plan in July, which forecasted balanced budgets through 2027, mostly due to the approval of increases to existing revenue streams and new funding streams from the recently enacted State budget. This marks a distinct improvement from the MTA's financial situation earlier this year as described in its February financial plan. The MTA's July Plan forecasts the receipt of $6.5 billion in new State support from 2023 through 2027. A portion of these receipts will be used for rider enhancements. For a discussion of the details of the new State funding sources and their uses, see OSC's report on the City's April Plan.

The MTA also expects its real estate tax-related collections to be $1.2 billion lower than forecast in February but assumes its other dedicated taxes and subsidies to be $1.5 billion higher during the financial plan period. Fare and toll revenue is expected to be $1.2 billion higher over five years, mostly from higher projected traffic and higher average fares paid by riders. Ridership is expected to track the midpoint of the MTA's consultants' ridership forecast reaching 80.4 percent of pre-pandemic ridership at the end of 2026. MTA-wide ridership was 68.4 percent of pre-pandemic levels for the month of June. The MTA's July Plan assumes 4 percent increases in fares and tolls in both 2025 and 2027.

On May 30, 2023, the MTA reached a three-year labor agreement with Local 100 of the Transport Workers Union which provides wage increases of 3 percent in the first and second year and 3.5 percent in the final year. The MTA budget had assumed wage increases of 2 percent annually for this round of collective bargaining, with the settlement setting a pattern for most of the rest of its unions. The MTA's July Plan incorporates the higher expenses from the new labor pattern ($1.2 billion over the financial plan period).

The MTA's February financial plan assumed $100 million in savings would be identified in 2023 and at least $400 million annually thereafter starting in 2024. The MTA has identified a portion of these savings (all of the 2023 target and about half of the out-years), mostly through operational and maintenance efficiencies. The MTA's July Plan increased the savings target by $100 million starting in 2025.

The City's June Plan includes several risks that involve MTA funding. The June Plan does not include additional funds for the MTA's bus and paratransit services that the City is required to pay, representing potential spending risks to the City of $140 million in FY 2024, rising to $394 million in FY 2027.

The City's April Plan had budgeted that the City would pay 33 percent of the net operating cost of paratransit, but the Enacted State Budget requires the City to pay 50 percent of the cost plus an additional 30 percent (capped at $165 million) for two years. The MTA assumes in its plan that the $165 million additional subsidy will continue after the two years specified in State law. The June Plan incorporates the additional $165 million as required for FY 2024 and FY 2025 but does not fund the 50 percent requirement.

The City funds the Fair Fares program which provides discounted MetroCards to low-income riders. The June Plan increased its allocation from $75 million to $95 million annually for the program while increasing eligibility for the program from 100 percent of the federal poverty level to 120 percent. The City Council and the MTA have proposed expanding the eligibility of the program to up to 200 percent of the federal poverty level.

NYC Health + Hospitals

On May 9, 2023, the City released the H+H FY 2024 executive cash financial plan. H+H adjusted its plan to account for its continued role helping manage the influx of asylum seekers, implementing the City's April Plan PEG and ending its Test & Treat program. For more details on changes to H+H's financial projections prior to the release of the June Plan, including City support for collective bargaining agreements, see OSC's previous report on the April Plan. For additional information on H+H participation in the City's multi-agency response to the rising number of asylum seekers arriving in New York City, see the Rising Shelter Cost Implications section.

In July 2023, H+H reported difficulties with hiring nursing staff and its continued reliance on the use of temporary staff, which is necessary to provide care but is also costly. H+H reports it spent $326 million more than budgeted in FY 2023 for temporary nurses and continued reliance on temporary staff also has contributed to projected losses of $180 million in FY 2024. Recruiting and maintaining staff remains an issue across all City agencies, including at H+H for nurses and other roles. On August 7, the New York State Nurses Association approved a contract agreement that would award pay parity and improved staffing ratios to about 8,000 nurses at H+H. The arrangement should ease some of the difficulties H+H has had with recruiting and retaining nurses and decrease its reliance on temporary staffing. For a further discussion on H+H's difficulty in recruiting mental health professionals see OSC's report on the April Plan.

The City continues to monitor H+H's cash position and will likely step in to provide further financial assistance and explore other avenues to financially support the health care system if needed. In January 2023, the City has indicated that H+H will produce only cash-based plans going forward. The New York State Financial Emergency Act requires H+H to prepare its financial plan on an accrual basis. The last accrual-based financial plan was published on January 25, 2022. OSC, as part of its ongoing efforts to improve the financial reporting of public authorities and corporations, and to properly assess the financial relationship between the City and its covered agencies, recommended that H+H prepare its budget and financial plan on both an accrual and cash basis.[23] Since then, the City has notified OSC that it is working with H+H to develop an accrual plan with a tentative release date by December 2023.

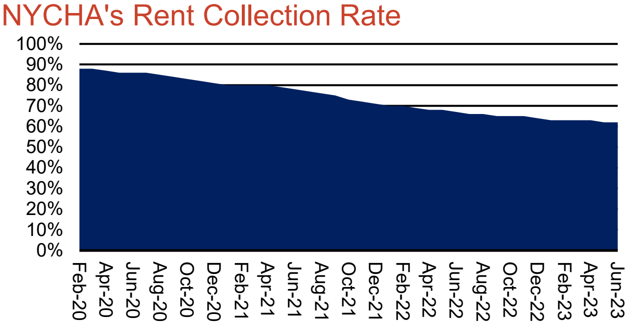
[23] Prior to May 2005, H+H prepared its budget and four-year financial plan on a cash basis.

New York City Housing Authority

The New York City Housing Authority (NYCHA) has continued to experience a decline in its rent collection rate, which dropped from 88 percent in February 2020 (before the onset of the pandemic) to 62 percent in June 2023 (see Figure 30). This has resulted in a cumulative rent arrears balance of roughly $509 million across more than 73,000 households through the end of June 2023 (as compared to $125 million on December 31, 2019). The Authority has stated that this loss in collections may prevent it from meeting the deadlines listed in its 2019 agreement with the U.S. Department of Housing and Urban Development (see OSC's April Plan report for more details).

To recoup some of the reduction in rent collections, NYCHA submitted $128 million worth of Emergency Rental Assistance Program (ERAP) applications for 33,000 households who owe back rent. The SFY 2023-2024 Enacted Budget included $356 million specifically for those who had applied to ERAP on or before January 20, 2023, including tenants of federal- or state-funded subsidized public housing authorities across the State. NYCHA is eligible to receive a maximum of $128 million of these funds as well as an additional $35 million specifically allocated to the agency for rental arrears costs not tied to the ERAP program.

FIGURE 30
NYCHA's Rent Collection Rate



Sources: New York City Housing Authority; OSC analysis

The June Plan includes a $349.2 million subsidy to NYCHA from the City in FY 2023, a decrease of $37.5 million from the April Plan. The decrease reflects a rollover of unspent City funds from FY 2023 to FY 2024, including $30.7 million for the Vacant Unit Readiness program. In FY 2023, $214.1 million of the subsidy will be City funds; the balance comes from federal funding, including $106.4 million in Community Development Block Grants (CDBG). The City has budgeted $265.8 million in FY 2024 for NYCHA, reflecting a drop of $81.2 million in CDBG funding, but more grant funds may be added during the year. There were minimal updates to the City's planned capital spending for NYCHA in FY 2024.

In June 2023, NYCHA announced that residents at four developments in Manhattan (Chelsea Houses, Chelsea Addition, Elliott Houses and Fulton Houses) voted to approve a Permanent Affordability Commitment Together (PACT) proposal to demolish buildings and have developers replace them with newly constructed apartments and amenities. In return, the developers will be able to build additional affordable and market rate housing. The plan would have substantial implications for NYCHA's response to its physical needs if implemented.

In July 2023, NYCHA published an updated physical needs assessment, which reported that the Authority now needs $78.3 billion over the next 20 years in order to repair its aging and deteriorating physical infrastructure. This represents a 73 percent increase from the previous estimate of $45.3 billion, released in 2017. A portion of these needs will be funded through two large-scale rehabilitation projects – PACT (62,000 apartments) and the Public Housing Preservation Trust (25,000 apartments) – initiated prior to the publication of the new physical needs assessment.

XI. Other Issues

Credit Rating

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

On February 22, 2023, Fitch Ratings (Fitch) upgraded its rating on the City's GO credits from "AA minus" to "AA," while maintaining its outlook as "stable" and adjusting all appropriate linked ratings. Fitch noted that its upgrade "reflects the improved financial foundation coming out of the pandemic, which places the City in a much stronger position to manage through future economic downturns, including near-term challenges due to an expected deceleration of revenue growth."

Over the past fiscal year, none of the other major credit rating agencies made changes to ratings or outlooks on debt issued by the City. All three ratings agencies also maintained their rating and outlook on debt issued by the New York City Municipal Water Finance Authority.

The rating level in the AA and AAA categories suggest the City's creditworthiness remains strong enabling continued access to the credit markets to meet its financing needs at relatively low interest rates. Generally speaking, the various agencies noted that its ratings on the City's credits could be downgraded should the City experience slower revenue growth, widening budget gaps, or the erosion of reserves.

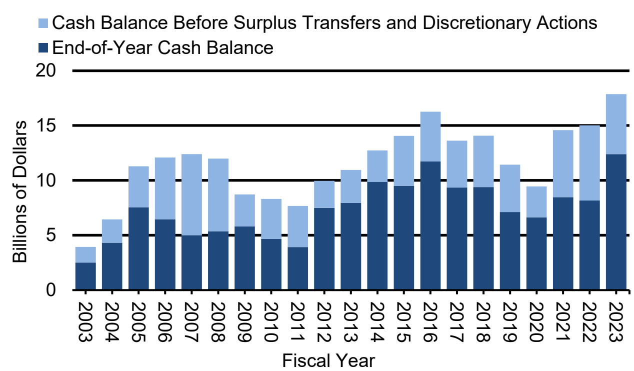
Cash Flow

The City has not needed to borrow to meet its short-term cash needs since FY 2004. Lost revenue and unexpected costs put pressure on the City's cash position early in the pandemic, but City actions to preserve cash, better-than-projected tax collections and fiscal relief supported substantial improvement (see Figure 31).

As a result, the year-end cash balance reached the highest level on record in FY 2023, at $17.9 billion ($12.4 billion excluding discretionary actions). The City's cash balance includes the nearly $2 billion rainy-day fund (i.e., the RSF). Given the amount of cash on hand, the City does not anticipate borrowing to meet its cash flow needs during the financial plan period.

The City's year-end cash levels could moderate over the plan period as the City closes its payables for prior-year services, which have grown in recent years. The City estimates its adjustments for future cash outflows (inclusive of accrued expenses for the current fiscal year) will total $25.3 billion, compared to future projected cash inflows of $19.5 billion.

FIGURE 31
Year-End Cash Balance



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

Budgetary Flexibility

In the event of a recession, rising debt service, or an emergency, the City may draw from a number of sources of budgetary flexibility to help maintain fiscal balance. These sources include the City's Rainy-Day Fund (RDF, formally known as the "Revenue Stabilization Fund"), as well as contingencies budgeted in the financial plan (the

General Reserve and the Capital Stabilization Reserve). In past years, the City has also drawn down assets held in the Retiree Health Benefits Trust (RHBT) to help close its budget gaps. Such drawdowns provided short-term fiscal relief but also reduced in those years the amount set aside to pay the projected future costs of post-employment retirement benefits other than pensions (OPEBs), deferring costs to future taxpayers for past employee service.

Despite raising its tax revenue projection for FY 2023 by $5.2 billion since the beginning of the fiscal year, the City did not make a discretionary transfer to the RDF in that year. However, the City also did not draw down on the RDF or RHBT, despite substantial unanticipated spending risks. As discussed previously in this report (see chapter on Changes Since the June 2022 Plan for more details), unanticipated resources generated since July 1, 2022, from higher-than-planned tax collections, PEG savings, as well as the drawdown of FY 2023 contingencies, helped the City to absorb substantial costs not anticipated at the time of budget adoption one year ago. The costs also included services to asylum seekers, as well as the projected adverse impact beginning in FY 2024 of cost shifts and mandates imposed on the City by the State in the enacted budget for SFY 2024. The City also set aside additional resources to fund new collective bargaining agreements with the municipal workforce.

With these measures, the City was able to maintain budget balance in FY 2023 and balance the FY 2024 budget (closing a $4.2 billion gap), but the out-year budget gaps have widened and a number of other risks remain. Below are highlights on the City's budgetary cushion of $8 billion, which may be utilized to help close the future budget gaps.

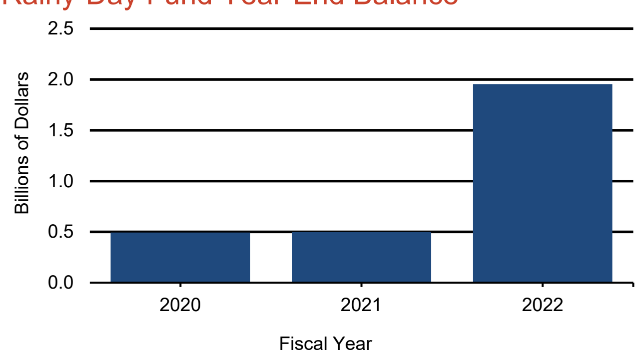
Annual Budgeted Reserves

The June Plan includes a general reserve of $20 million in FY 2023, and $1.2 billion in each subsequent year. The City also includes a Capital Stabilization Reserve of $250 million annually beginning in FY 2024. When combined, the FY 2024 reserves represent 1.9 percent of planned city-funded spending. While lower than the share of spending set aside for the Adopted FY 2023 budget one year ago (2.5 percent), the City's contingent reserves for FY 2024 is still among the highest rates on record for this point in the budget cycle. If not needed for other purposes, these reserves may be used to help maintain budget balance and narrow the City's out-year budget gaps.

Revenue Stabilization Fund

One year ago, the City deposited $1.45 billion into the RDF as was projected in the June 2022 Plan, raising the balance to $1.95 billion (see Figure 32). State law requires final surplus resources accumulated by the City to be deposited into the RDF at year-end, though the City is not required to deposit into the RDF any scheduled prepayments (i.e., budget stabilization and discretionary transfers) that it uses to help balance the budget. In each of the three most recent fiscal years through FY 2023, for example, the City transferred, on average, $5.9 billion in surplus resources to the next fiscal year

FIGURE 32
Rainy-Day Fund Year-End Balance



Note: The City's General Fund balance was classified as nonspendable prior to FY 2020, as there was no legal mechanism to draw down the resources then.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis.

by prepaying certain expenses. At this time, OSC does not anticipate the City will make a substantial deposit into the RDF as it balances its accounts to close FY 2023.

The City does not have a published policy defining the purpose of the fund, the target level of reserves, or a formula for deposits or replenishment after a drawdown. In November 2021, OSC's report, *Strengthening New York City's Rainy-Day Fund*, recommended that the City consider certain best practices adopted by other large U.S. cities to help strengthen its reserve policy.

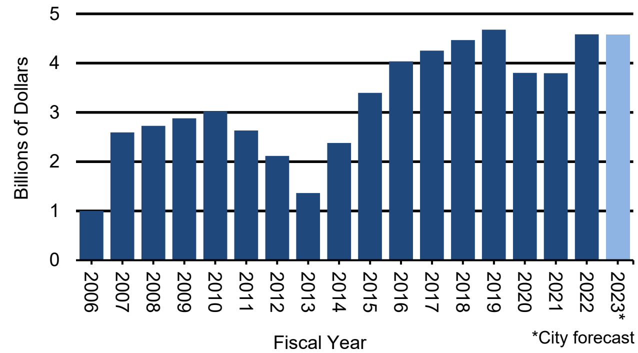
Currently, the City may withdraw up to 50 percent of the resources in the RDF without justification. A larger share can be withdrawn if the Mayor certifies a compelling fiscal need, which is based on circumstances that the City has the discretion to define. The State law only enumerates examples of such circumstances, which include, but are not limited to: a national or regional recession, a reduction in the City's revenues from the preceding fiscal year, a natural or other disaster, or a declared state of emergency in the City or in the State.

Retiree Health Benefits Trust

The balance held in the RHBT, which is used to fund the cost of OPEBs, now stands at $4.6 billion (excluding prepayments; see Figure 33), the second highest level on record. The June Plan does not assume any discretionary transfers to the RHBT. The City did use a deposit into the RHBT in FY 2023 to prepay a portion of expenses in FY 2024 ($500 million).

FIGURE 33

Retiree Health Benefits Trust Year-End Balance



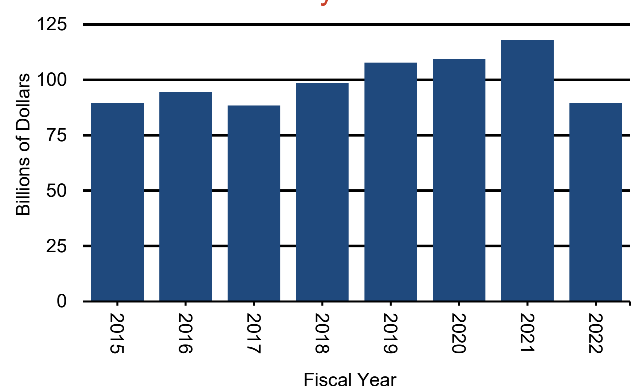
Note: Adjusted for prepayments.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

Post-Employment Benefits

The City's unfunded liability for OPEBs, such as retiree health care, declined by $28.4 billion to $89.5 billion in FY 2022 (see Figure 34). The decline is driven overwhelmingly by an increase in the blended discount rate used to measure the present value of projected OPEB benefits, from 2.2 percent to 4.1 percent.[24]

FIGURE 34

Unfunded OPEB Liability



Sources: NYC Actuary; OSC analysis

[24] Under Generally Accepted Accounting Principles, the discount rate for OPEBs is linked to high-quality municipal bond rates, which have increased sharply in response to recent federal reserve policy on the demand for public debt, and therefore rises (or falls) in response to macroeconomic conditions outside the City's direct control. The City Actuary estimates that for each one percent increase (or decrease) to the discount rate, the City's liability will decrease by $14 billion (or increase by $11.4 billion).

As of FY 2022, the City had set aside enough resources in the Retiree Health Benefits Trust to fund 5.7 percent of its total OPEB liability. The City, like many employers, does not fund its OPEB liability on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from nearly $3.2 billion in FY 2022 to $3.9 billion in FY 2027, an increase of 24 percent in five years.

Prior Years' Expenses

At the end of each fiscal year, the City estimates the amount of expenses that have been incurred but not yet paid (payables), and the amount of revenues earned but not yet received (receivables). The City generally makes conservative estimates because an unfunded liability has a budgetary impact in the current fiscal year.

Between fiscal years 2013 through 2022, the City realized an average benefit of $271 million annually from overestimating prior years' payables and from underestimating prior years' receivables. The City realized a small net benefit of $38 million in FY 2022, mostly from an overestimation of prior-year expenses for contractual services, offset in large part by a write-down of federal aid for the Temporary Assistance for Needy Families program as well as nongovernmental aid to reimburse the Fire Department for emergency management services. The June Plan anticipates savings of $400 million in FY 2023, but none in subsequent years.

Budget Structure

As part of the annual budget adoption process, the City Council negotiated the creation of 11 new Units of Appropriations (U/As), which are used to capture expenses by program within an agency.

The U/As will allow for a distinct accounting of personal service and other-than-personal service expenses, including transportation of persons in the custody of the Department of Correction, criminal justice initiatives at the Department of Youth and Community Services, and administrative policy and enforcement activities at the Department of Buildings.

In FY 2023, the City also established three new agencies: the Commission on Racial Equity, Office of Racial Equity, and the Criminal Justice Coordinator. The Criminal Justice Coordinator will oversee a portfolio of initiatives currently managed by the Mayor's Office of Criminal Justice.

Appendix A: Full-Time Staffing Levels

(Number of full-time employees)

	Actual	Actual	Forecast	June Plan	Variance – Better/(Worse) April 2023 Actual to June 2024 Forecast		
	June 2020	April 2023	June 2023	June 2024	City Funds	Non-City Funds	Total Funds
Public Safety	**85,806**	**78,209**	**81,931**	**81,538**	**3,239**	**90**	**3,329**
Police Uniformed	35,910	33,752	35,030	35,001	1,249	0	1,249
Civilian	15,519	13,771	14,853	14,502	892	(161)	731
Fire Uniformed	11,047	10,482	10,952	10,954	466	6	472
Civilian	6,366	6,252	6,405	6,375	77	46	123
Correction Uniformed	9,237	6,447	7,060	7,060	613	0	613
Civilian	1,741	1,490	1,731	1,730	236	4	240
District Attys. & Prosec.	4,843	4,949	4,721	4,785	(272)	108	(164)
Probation	1,116	1,038	1,148	1,096	(29)	87	58
Board of Correction	27	28	31	35	7	0	7
Health & Welfare	**27,878**	**24,144**	**28,395**	**27,821**	**2,380**	**1,297**	**3,677**
Social Services	12,330	10,342	12,512	12,134	893	899	1,792
Children's Services	7,039	6,105	7,079	7,079	856	118	974
Health & Mental Hygiene	5,530	5,148	5,992	5,813	420	245	665
Homeless Services	2,119	1,797	1,952	1,920	142	(19)	123
Other	860	752	860	875	69	54	123
Environment & Infra.	**26,365**	**25,623**	**27,446**	**27,940**	**598**	**1,719**	**2,317**
Sanitation Uniformed	7,755	7,980	7,639	7,978	(61)	59	(2)
Civilian	2,107	1,811	1,907	1,948	124	13	137
Transportation	5,120	4,999	5,689	5,768	202	567	769
Parks & Recreation	4,236	4,404	4,663	4,755	278	73	351
Environmental Protection	5,891	5,382	6,341	6,303	38	883	921
Other	1,256	1,047	1,207	1,188	17	124	141
General Government	**12,634**	**11,094**	**12,361**	**12,534**	**1,223**	**217**	**1,440**
Finance	1,996	1,636	1,897	1,885	237	12	249
Law	1,713	1,377	1,527	1,523	131	15	146
Citywide Admin. Svcs.	2,403	2,006	2,344	2,372	243	123	366
Taxi & Limo. Comm'n.	584	436	505	505	69	0	69
Investigations	361	267	324	293	26	0	26
Board of Elections	682	704	517	517	(187)	0	(187)
Info. Tech. & Telecomm.	1,673	1,462	1,655	1,666	194	10	204
Other	3,222	3,206	3,592	3,773	510	57	567
Housing	**4,088**	**3,871**	**4,572**	**4,497**	**320**	**306**	**626**
Buildings	1,676	1,548	1,884	1,833	299	(14)	285
Housing Preservation	2,412	2,323	2,688	2,664	21	320	341
Dept. of Education	**134,684**	**129,238**	**140,004**	**139,250**	**7,801**	**2,211**	**10,012**
Pedagogues	121,077	116,549	126,895	126,075	7,399	2,127	9,526
Non-Pedagogues	13,607	12,689	13,109	13,175	402	84	486
City University of NY	**6,288**	**5,802**	**6,039**	**6,024**	**222**	**0**	**222**
Pedagogues	4,545	4,255	4,293	4,289	34	0	34
Non-Pedagogues	1,743	1,547	1,746	1,735	188	0	188
Elected Officials	**2,703**	**2,521**	**2,865**	**2,798**	**241**	**36**	**277**
Total	**300,446**	**280,502**	**303,613**	**302,402**	**16,024**	**5,876**	**21,900**

Sources: NYC Office of Management and Budget; OSC analysis

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