Review of the Financial Plan of the City of New York

Report 5-2022

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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For over a year, New York City has grappled with a catastrophic public health crisis and multiple economic and social disruptions arising from the COVID-19 pandemic. The pandemic remains a threat to our health and our economy, but a drastic decline in case and hospitalization numbers and the administration of more than 8.3 million vaccine doses in the City signify valuable progress in our fight for a return to normality.

A year after the initial devastation in New York City, hope is building. As vaccination rates climb, capacity limitations are rolled back, and federal relief and stimulus funds make their way through the region, the City's economy continues to regain jobs and attract visitors and commuters, jump-starting economic activity. The road back will take time, however, and will likely include challenges along the way.

In 2020, I joined in the calls for federal relief to provide a "fiscal bridge" to ensure the City could manage the short-term costs of the pandemic and spur a recovery to revive revenues. More than $15 billion in federal relief has been added to the City's four-year financial plan since the City released its preliminary plan in January, representing a massive and necessary boost to City finances.

The City must now manage this significant relief to aid its recovery and make investments that will allow economic growth and a return to structural balance. City budget gaps, while manageable, have declined only slightly since January even with federal relief, and long-term risks could worsen gaps. The City must continue to provide high-quality services to keep the City attractive to residents and create economic opportunity for all while also setting aside resources to address unexpected challenges in the future.

New York City faces an important moment in its history. The decisions made today will have long-lasting implications for the City's finances and the City economy. Elected officials, policy experts, community leaders and advocates must work together to ensure a robust and inclusive recovery and a return to structural budget balance over the long-term.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

One year after COVID-19 caused the sharpest economic contraction on record and exposed New York City's finances to substantial risks, the City's economy and finances are on the mend, thanks largely to unprecedented federal economic stimulus for businesses and individuals, and direct federal relief to New York State, New York City and the Metropolitan Transportation Authority. On April 26, 2021, the City of New York released its $98.6 billion executive budget for fiscal year (FY) 2022 (beginning July 1, 2021), dubbed the "recovery budget." The recovery budget represents a $6 billion increase in spending from the preliminary financial plan released in January 2021 ("the January Plan"), mostly funded by federal relief. The short-term outlook for the City's finances has brightened, but decisions made today will dictate how long-term fiscal balance will be achieved.

The City now faces the dual challenge of boosting its recovery to fuel revenue growth while also managing new spending growth and maintaining budgetary flexibility to address obstacles that may emerge. Upon review of the executive budget for FY 2022 and the associated financial plan for FY 2023 through FY 2025 ("the April Plan"), the Office of the State Comptroller (OSC) encourages the City to make further efforts to tackle these challenges and bring the plan into long-term structural alignment.

Despite receiving $15.2 billion in new federal aid since the January Plan, the City's cumulative budget gaps for the out-years have barely declined, to $11.6 billion from $12.8 billion (see Figure 1). In all, federal aid will make up 16 percent of FY 2021 revenues, twice the level of aid in FY 2019. Concerningly, the proposed FY 2022 budget would also rely on nonrecurring federal aid to pay for planned increases in spending and workforce, creating new "funding cliffs" when federal relief expires. By FY 2025, the City would incur more than $1 billion in recurring costs for proposed new services (including funding for 4,365 positions) that are supported with nonrecurring federal resources. As this relief is drawn down, the City will be left to manage the recurring expenses that will begin accumulating in FY 2021. Thus the gaps remain substantial despite record-breaking fiscal aid.

The April Plan also leaves few resources uncommitted and set aside to respond to unexpected developments that may emerge from a choppy economic recovery. While vaccinations and reopenings continue to fuel the return of economic activity, the uncertain pace of the resumption of tourism and commuting along with recent concerns over potential inflation highlight just some of the risks to economic projections. The City's Office of Management and Budget (OMB) recently reduced its expectation for employment growth in 2021 from the January Plan, shifting the bulk of the anticipated rebound to 2022. Recent increases to State income and corporate tax rates may also hinder growth.

The April Plan assumes that more than two-thirds of federal relief will be used for spending that will not recur after the financial plan period, including COVID-19-related expenses and short-term measures to boost recovery. The April Plan also uses some aid to restore spending for services, which may be manageable given the City's projected revenue growth trajectory.

Other spending choices may create additional uncertainty. The City plans to use federal resources to avoid the need to achieve $1.27 billion in labor savings through FY 2022, but has yet to reach agreement with the municipal unions to achieve the $1 billion in annual savings anticipated in subsequent years. Uncertainty over the timing and sources of these savings, along with other potential unplanned costs (e.g., higher overtime) create risks that grow to nearly $1.4 billion by FY 2025, in addition to existing gaps (see Figure 2).

The April Plan also assumes that wage increases in the first two years of the next round of collective bargaining will be funded through productivity improvements. But any plan to fund wage increases through efficiencies will also require the cooperation of the city's municipal unions. All current labor agreements will have expired by the end of FY 2023.

Given current economic projections, the City expects its tax collections to grow at an average annual rate of 2.7 percent during fiscal years 2022 to 2025, after declining in 2021 for the first time in 25 years. In comparison, annual spending growth is expected to average 4.8 percent through 2023 before slowing to 2.7 percent in 2024, driving a wedge between City revenues and City-funded expenses, which will reopen gaps that were partially closed with federal relief.

In addition, the City's non-discretionary spending (i.e., pension contributions, other fringe benefits, debt service and Medicaid) continues to be a key driver of expenditure growth. Cumulatively, non-discretionary spending will reach 49 percent of City-funded spending by FY 2025, up from 43 percent in FY 2021, further hindering the City's ability to reallocate funds nimbly.

Education, a critical public service, is receiving a massive infusion of earmarked funds from federal relief and additional State aid. Nearly half of the $6 billion in additional federal relief allocated to FY 2022 will go to expanded or new education programs, requiring the hiring of new employees (3,800 phased in over four years). At the same time, the City is facing other mounting concerns over services related to quality of life, such as public safety, health care, sanitation, open spaces, homelessness and housing, as well as inequities in their delivery, which may require additional resources to manage.

The addition of new recurring spending comes as the City's current planned savings relies on a reduced workforce, to be achieved through the attrition of two employees for every one replacement in certain unidentified agencies. It will take careful management to add, reduce and maintain services while achieving savings, and to avoid counterproductive decisions that may increase costs over time.

The resumption of tourism and commuting are critical to a long-term recovery, and population retention is also vital for future growth. These drivers of economic activity are unlikely to rebound strongly unless the City's basic services are functioning at a high level. The City would benefit from maintaining agility in its use of relief funds to be able to address any challenges in the delivery of these services that arise over time.

Uncertainties over potential budget gaps and even future funding priorities also underline the importance of maintaining budgetary flexibility through reserves and other set-aside funds. The City would provide a general reserve of $300 million in FY 2022; however, the general reserve for that year will be about 0.4 percent of City-funded spending, the second-lowest of any year since 1982, providing less cushion for unanticipated spending. Contingency reserves (general and capital) are set to return to $1.25 billion annually beginning in FY 2023, which, if they are not needed for any other purpose, could reduce gaps to less than 4 percent of City-fund revenues, excluding any OSC-identified budget risks.

The City has rescinded a planned drawdown of $1.6 billion from the City's Retiree Health Benefits Trust, effectively providing additional set-aside funds for managing post-employment benefits. These funds provide an important budgetary cushion for managing future risks.

Ultimately, setting priorities for recurring spending now will leave the repercussions of funding decisions to the incoming mayoral administration. Enhancing reserves and identifying options for cost efficiencies would provide the next administration with flexibility to manage the recovery in its ensuing stages. Fixing the damage from COVID-19 will take time, and efforts to boost the short-term economic outlook in a fiscally responsible manner will leave the City in a better position to achieve budgetary balance over the long term.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues					
Taxes					
General Property Tax	$ 30,954	$ 29,370	$ 30,042	$ 30,471	$ 30,881
Other Taxes	30,307	32,065	34,674	36,372	37,833
Tax Audit Revenue	1,171	921	721	721	721
Subtotal: Taxes	$ 62,432	$ 62,356	$ 65,437	$ 67,564	$ 69,435
Miscellaneous Revenues	7,239	6,873	6,887	6,878	6,891
Unrestricted Intergovernmental Aid	1	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,091)	(1,891)	(1,858)	(1,858)	(1,853)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 67,566	$ 67,323	$ 70,451	$ 72,569	$ 74,458
Other Categorical Grants	1,121	1,025	993	991	990
Inter-Fund Revenues	658	725	725	725	725
Federal Categorical Grants	16,305	13,566	9,157	8,598	7,904
State Categorical Grants	15,011	15,921	16,305	16,624	16,874
Total Revenues	**$ 100,661**	**$ 98,560**	**$ 97,631**	**$ 99,507**	**$ 100,951**
Expenditures					
Personal Service					
Salaries and Wages	$ 29,294	$ 31,086	$ 30,740	$ 30,875	$ 31,158
Pensions	9,503	10,263	10,468	10,660	10,597
Fringe Benefits	11,295	12,382	11,846	12,940	13,897
Retiree Health Benefits Trust	- - -	- - -	- - -	- - -	- - -
Subtotal: Personal Service	$ 50,092	$ 53,731	$ 53,054	$ 54,475	$ 55,652
Other Than Personal Service					
Medical Assistance	6,140	6,418	6,494	6,494	6,494
Public Assistance	1,604	1,651	1,650	1,650	1,650
All Other	38,706	34,891	32,555	32,408	32,342
Subtotal: Other Than Personal Service	$ 46,450	$ 42,960	$ 40,699	$ 40,552	$ 40,486
Debt Service	6,351	7,088	8,391	8,788	9,352
FY 2020 Budget Stabilization	(3,819)	- - -	- - -	- - -	- - -
FY 2021 Budget Stabilization	3,628	(3,628)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	- - -	250	250	250
General Reserve	50	300	1,000	1,000	1,000
Less: Intra-City Expenses	(2,091)	(1,891)	(1,858)	(1,858)	(1,853)
Total Expenditures	**$ 100,661**	**$ 98,560**	**$ 101,536**	**$ 103,207**	**$ 104,887**
Gap to Be Closed	**$ - - -**	**$ - - -**	**$ (3,905)**	**$ (3,700)**	**$ (3,936)**

Source: NYC Office of Management and Budget

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

	Better/(Worse)				
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (3,905)**	**$ (3,700)**	**$ (3,936)**
Differences in Estimation					
Tax Revenues[1]	1,175	432	275	104	103
Uniformed Agency Overtime	(150)	(330)	(280)	(290)	(290)
Debt Service	- - -	50	150	- - -	- - -
MTA Paratransit Funding	- - -	(79)	(110)	(129)	(150)
DHS Single-Adult Shelters	- - -	(147)	(147)	(147)	(147)
Fair Fares NYC	- - -	- - -	(49)	(59)	(66)
Labor Savings[2]	- - -	- - -	(1,000)	(1,000)	(1,000)
OSC Risk Assessment	**1,025**	**24**	**(1,060)**	**(1,419)**	**(1,446)**
Potential Gaps Per OSC[3,4]	**$ 1,025**	**$ 24**	**$ (4,965)**	**$ (5,119)**	**$ (5,382)**

1 Tax revenue estimates are net numbers comprising an upward adjustment to personal income tax offset by downward adjustments to sales, business and property-related taxes. Estimates reflect more moderate expectations for economic growth compared to projections from the City's Office of Management and Budget, and incorporate the final property tax roll that was released subsequent to the April Plan. Personal income tax estimates reflect OSDC's expectation of stronger-than-projected personal income tax collections in fiscal 2021 year-to-date, which will increase the size of the income tax base for calculating growth starting in FY 2022.

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

3 The April Plan includes a general reserve of $50 million in FY 2021, $300 million in FY 2022 and $1 billion in each of fiscal years 2023 through 2025. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2023 through 2025. The April Plan also includes reserves of $200 million in FY 2022 and $275 million beginning in FY 2023 to fund potential changes to planned pension contributions from future actuarial audit recommendations. The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, had a balance of $3.8 billion as of the end of FY 2020.

4 State law requires surplus resources accumulated by the City to be deposited into a rainy-day fund (i.e., the Revenue Stabilization Fund). Since the late 1980s, the City has reported an annual surplus of $5 million, and at the end of FY 2020 the general fund balance totaled $493 million. These resources would be available to help balance the budget if there were a compelling fiscal need.

II. The COVID-19 Pandemic in New York City

More than one year after COVID-19 was declared a pandemic, New York City is reopening as the number of new cases falls and vaccines are made widely available.

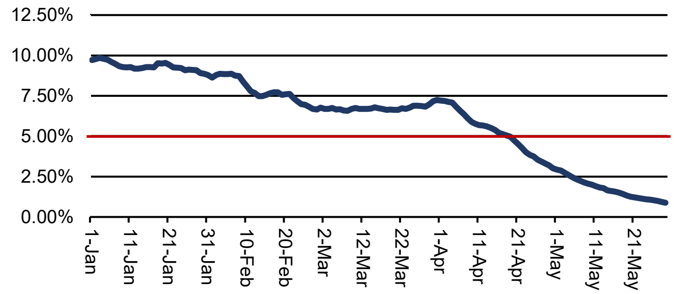
The first vaccine was administered in New York City on December 14, 2020. The State developed a plan, based on guidelines from the U.S. Centers for Disease Control and Prevention (CDC), that prioritized groups to be vaccinated. As of May 12, 2021, all New York residents aged 12 and older were eligible to be vaccinated.

By May 31, 2021, almost 8.3 million doses had been administered in New York City and more than 3.6 million City residents (43 percent) had been fully vaccinated. Vaccination rates do vary by race and ethnic group, however. Rates for Black or African American (24 percent), Latino or Hispanic (30 percent), and White (40 percent) residents remain behind the overall citywide vaccination rate.

New York City has the capacity to vaccinate 500,000 people per day, and efforts have been made to target communities most impacted by COVID-19. After some initial limitations in available vaccine supply and reported difficulties in scheduling appointments, most vaccination sites in the City are now accepting walk-in appointments.

The positivity rate in the City has also declined. According to City data, the 7-day average of people who tested positive for COVID-19 each day was 0.9 percent on May 29, 2021. The average has remained below the City's target 7-day positivity rate of 5 percent since April 19, 2021 (see Figure 3). In addition, levels in the City have stayed below target numbers for COVID-19 hospitalization rates and new cases of people who test positive for COVID-19.

FIGURE 3
NYC 7-day Average COVID-19 Positivity Rate



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

With the progress of vaccinations and improving case rates, most capacity restrictions were lifted on May 19, 2021, but businesses are still required to ensure social distances of six feet. Capacity limits remain in place for large-scale indoor and outdoor venues.

Also on May 19, 2021, mask mandates were lifted for fully vaccinated people except in certain settings such as schools, public transportation and health care settings. Businesses can expand to 100 percent capacity without social distancing for fully vaccinated attendees. All indoor and outdoor dining curfews were eliminated by May 31, 2021.

The Mayor has set a goal of fully opening all economic activity in the City by July 1, 2021, which is dependent on continued improvement in positivity rates and vaccination progress. Normal pre-pandemic activity is unlikely to resume entirely until a large share of the population is vaccinated. To this end, the Governor recently announced that most State restrictions for many businesses, including capacity restrictions, social distancing, health information and contact information for tracing, will be lifted when 70 percent of the population age 18 and over have received their first dose of the vaccine.

III. Economic Trends

The national economy is poised for accelerated growth stemming from unprecedented fiscal and monetary stimulus initiatives. Direct payments have helped fortify household balance sheets, reflected in record-high saving rates. Increasing vaccinations, coupled with the anticipated reversal of social and business restrictions, have helped lift consumer sentiment to the highest levels since March 2020.

In the first quarter of 2021, U.S. gross domestic product (GDP) grew at a rate of 6.4 percent. For the full year, the Federal Reserve projects GDP to grow by 6.5 percent, the strongest growth since 1984 and exceeding the City's forecast of 5.7 percent. New York State's gross state product is projected by IHS Markit to grow 5.8 percent in 2021, the highest since the data series began in 1990. The April Plan forecasts that New York City's gross city product will grow by 5.1 percent in 2021, which would be the eighth-strongest growth rate over the past 30 years.

Employment

Job growth has begun to pick up at the national level as more than 1.5 million jobs were added in the first quarter, compared to 638,000 jobs in the prior quarter. However, April added only 266,000 jobs, significantly below forecasts, and employment remains 8.2 million jobs below the pre-pandemic peak in February 2020.

New York State added 129,700 jobs in the first quarter after losing jobs in the last quarter of 2020, and employment is still 952,900 jobs below the level in February 2020. New York City added 53,800 jobs in the first quarter after losing 8,200 jobs in the prior quarter, and employment is 582,000 jobs below pre-pandemic levels. Compared to the State and the nation, the City has the widest employment gap compared to pre-pandemic levels (i.e., the difference in employment levels between April 2021 and February 2020; see Figure 4).

FIGURE 4
Pandemic Employment Gap

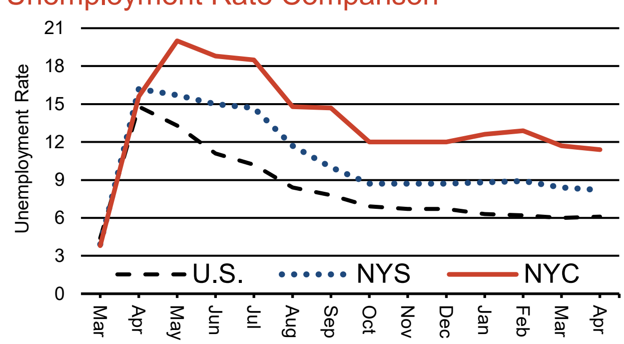
	Employment Levels in April 2021 Compared to February 2020
U.S.	(5.4%)
New York State	(9.7%)
New York City	(12.4%)

Sources: U.S. Bureau of Labor Statistics; NYS Department of Labor; OSC analysis

The City's unemployment rate reached its post-pandemic low in April at 11.4 percent (down from the peak of 20.0 percent in May 2020), still significantly above the rates for the State (8.2 percent) and nation (6.1 percent; see Figure 5).

The April Plan forecasts that the City will add 151,300 jobs in 2021, a decline of almost 40,000 jobs from projections in the January Plan. The City has already added 67,300 jobs in the first four months of the year, suggesting that annual growth will surpass the City's forecast. However, the April Plan bolstered out-year estimates, and the City now expects employment to reach pre-pandemic levels by the first quarter of 2023. This appears optimistic given that tourism is not expected to return to pre-pandemic levels prior to

FIGURE 5
Unemployment Rate Comparison



Sources: Bureau of Labor Statistics; NYS Department of Labor; OSC analysis

2025, and commuting may stay subdued as businesses will likely allow for some form of remote work going forward.

The sectors that are projected to drive the City's growth through 2022 were among the hardest hit in 2020. These sectors include leisure and hospitality (i.e., bars, restaurants and hotels), administrative and support services, transportation, retail, and other services.

Tourism

The largest economic impact of the pandemic stemmed from the sharp decline in tourism in 2020, which severely affected primarily low-wage sectors. OSC's recent report on the tourism industry details that impact and the risks facing this crucial sector of the City's economy.[5] The return of all tourism, which includes domestic and international visitors for leisure and business purposes, is unlikely to occur prior to 2025, which the City now also forecasts.

Securities Industry

One of the sectors that has fared well during the pandemic is the securities industry. Profits in the industry grew by more than 81 percent in 2020 to $50.9 billion, the second-highest level on record (after $61.4 billion in 2009).[6] The main driver for stronger earnings has been lower interest expenses, and expectations of higher rates may slow down growth in the industry. The April Plan expects profits to decline by almost 46 percent in 2021 (to $27.5 billion) and by nearly 17 percent in 2022 (to $22.9 billion), levels comparable to pre-pandemic highs (prior to extraordinary monetary and fiscal stimulus). However, in the first quarter, earnings released by the largest six banks indicate continued strength (at nearly 2.6 times the prior year's earnings).

The City forecasts that securities industry bonuses will increase by 6.5 percent in 2021 and 6.1 percent in 2022. In the first quarter of 2021, compensation expenses for the largest six banks indicate strong year-over-year growth.

Real Estate

The return of office workers is expected to be a longer-term process. While the City expects the office-using sector (i.e., professional and business services, financial activities, and information) to return to pre-pandemic levels of employment by the fourth quarter of 2021, it projects that office demand will remain modest because of a slower return to in-office work as telecommuting arrangements are continued.

Commercial real estate is expected to require a prolonged period for full recovery. In the office sector, many companies are still considering their options regarding continued remote-work arrangements for their employees, and may elect to reduce the amount of space they lease. According to City forecasts, vacancy rates are expected to remain high until 2022 while asking rents remain lower. Retail-space leasing increased in the first quarter of 2021, though new retail space coming onto the market has caused vacancy rates to continue to rise. Asking rents for retail space have fallen steadily since the pandemic began, and this is expected to persist for the rest of the calendar year.

The residential real estate market has shown recent signs of recovery. While inventory increased through most of 2020, the number of available units fell significantly in December and in the first quarter of 2021. At the same time, the

[5] OSC, *The Tourism Industry in New York City: Reigniting the Return*, Report 2-2022, April 2021, https://www.osc.state.ny.us/reports/osdc/tourism-industry-new-york-city.

[6] OSC, *The Securities Industry in New York City*, Report 6-2021, October 2020, https://www.osc.state.ny.us/files/reports/osdc/2020/pdf/report-6-2021.pdf.

number of pending home sales increased, indicating that demand is returning. The number of luxury sales (i.e., properties sold for $4 million or more) doubled from December to March.[7] Prices have risen only slightly overall, but are expected to increase in late spring and into summer as buyers who have been waiting for the market to reach bottom move to make purchases.

Reopening and Outlook

The focus for the upcoming fiscal year will be the City's reopening. The Mayor has announced that as of July 1, 2021, the City will be fully reopened, with no restrictions on bars, restaurants, retail, entertainment, and other meeting and gathering venues. Broadway theaters will reopen by mid-September since venues need time to ramp up productions as well as institute enhanced safety protocols. Financial and tech firms are accelerating their efforts to bring workers back over the summer months. According to a survey by the Partnership for New York City, 45 percent of office workers are expected to return by September 2021.

With vaccine sites now open to the general public without appointments and capacity restrictions to be lifted in July, the main risks to recovery involve how many residents, commuters and tourists return to the City, and what level of activity will be sustained. Quality of life and affordability remain critical to recruiting and retaining the City's population and work force, key drivers of the economic recovery. At the same time, concerns about public safety, homelessness and street cleanliness have risen while increased State personal income and business taxes have added to the cumulative tax burden in New York City.

While many quality-of-life indicators remain at or near levels that are much improved from earlier this century, some indicators worsened during the pandemic, and public perception of these issues as problems has also risen. Although reported major index crime in 2020 was the lowest in at least 20 years, the number of shootings nearly doubled from 2019, reaching levels not seen in about a decade. Street cleanliness and the cleaning of vacant lots also declined in FY 2021. The cost of living continues to be a concern across the income spectrum for New Yorkers. Recent polling suggests that homelessness, public transportation and housing remain priority issues for residents. It is difficult to discern actual versus perceived service declines, and whether any declines are due to the pandemic, service cuts, other operational issues, or a combination of factors. However, the City's economic recovery will be dependent upon both the quality and public perception of services delivered, and the value derived from taxes paid.

The expectation is that pent-up demand for reestablishing pre-pandemic norms is likely to boost economic activity. As service providers and suppliers try to meet the heightened demand, prices are expected to rise. Other factors contributing to higher prices, which the Federal Reserve has acknowledged to be transitory, include supply-chain disruptions and comparisons to a weaker 2020. The threat of persistent inflation, however, has increased stock market volatility. While inflationary pressures may benefit tax revenues, they may also dampen spending activity.

[7] Olshan Realty Inc., Luxury Market Report 2021:*Report on Contracts Signed*, Retrieved on May 26, 2021, https://olshan.com/marketreport_archive.php

IV. Changes Since the June 2020 Plan

In June 2020, the City projected a balanced budget for FY 2021 and budget gaps of $4.2 billion in FY 2022, $3 billion in FY 2023 and $3.2 billion in FY 2024. Since then, the City's short-term financial outlook has greatly improved driven by unanticipated resources (see Figure 6; next page), mostly from the receipt of more than $15 billion in additional federal pandemic relief over five years, an increase in the nonproperty tax revenue forecast, and resources from a citywide savings program.

Since the beginning of the fiscal year, the City has identified unanticipated resources totaling $10.3 billion in FY 2021, $11.6 billion in FY 2022, and more than $5 billion annually in subsequent years. As a result of these favorable developments, the City now projects a surplus of $3.6 billion in FY 2021, which will be used to help balance the FY 2022 budget by prepaying a portion of next year's debt service.

The unanticipated resources will also be used to fund substantial new agency needs ($4.6 billion in FY 2021, $5.6 billion in FY 2022 and significantly smaller amounts in subsequent years), mostly from unplanned but short-term costs associated with the COVID-19 public health emergency, as well as post-pandemic recovery efforts and targeted investments in service expansions. The resources also offset potential revenue shortfalls driven by a slower-than-expected recovery of domestic tourism and weakness in the commercial real estate market.

The unanticipated resources also permitted the City to rescind a planned drawdown from the Retiree Health Benefits Trust of $1.6 billion in FY 2021, and to avert the need for anticipated labor savings in fiscal years 2021 and 2022.

Federal relief bills passed in December 2020 and March 2021 and a number of recent administrative actions implemented during FY 2021 are expected to provide the City with $14.2 billion in additional federal funding over a four-year period beginning in FY 2021. The City anticipates another $1 billion in FY 2025, for a total of $15.2 billion over five years (see "State and Federal Actions" section for more detail). Two-thirds ($10.4 billion) of the funding is allocated to fiscal years 2021 and 2022, and will offset a number of new needs associated with the pandemic while also provide operating relief.

The City also funded a number of other new agency needs ($1.8 billion in FY 2021, and much smaller amounts in subsequent years). Most of the costs in FY 2021 are associated with COVID-19, which were recognized prior to the receipt of additional federal aid, including unplanned special education and transportation costs at the Department of Education.

Since July 1, 2020, the City has raised its nonproperty tax revenue forecast by $3.2 billion in FY 2021 and by an average of $1.8 billion annually in subsequent years. The City attributes the improvement to several rounds of federal fiscal and monetary stimulus (e.g., an expansion in unemployment insurance and financial assistance for small businesses), along with accelerated vaccinations, which have helped to stabilize the national economy and provided significant direct relief to City residents.

However, the City lowered its forecast for sales and hotel collections (by $473 million in FY 2021, nearly $1.1 billion in FY 2022 and smaller amounts in subsequent years) as tourism has barely improved since its sudden and sharp decline in the wake of the pandemic one year ago, resulting in a drop in visitor spending of 73 percent in 2020. The City assumes the pace of recovery for tourism will accelerate sometime in the summer but that the industry will not reach pre-pandemic levels until 2025.

The City has also reduced its forecast of property tax collections by more than $2.5 billion annually for fiscal years 2022 through 2024. The lower forecast is based on the decrease in total taxable

FIGURE 6
Financial Plan Reconciliation—City Funds
April 2021 Plan vs. June 2020 Plan
(in millions)

	Better/(Worse)			
	FY 2021	**FY 2022**	**FY 2023**	**FY 2024**
Projected Gaps Per June 2020 Plan	**$ - - -**	**$ (4,180)**	**$ (3,043)**	**$ (3,182)**
Unanticipated Revenues				
Additional Federal Aid (CRRSAA & ARPA)	3,899	6,486	2,199	1,657
Business and Income Tax Collections	3,199	1,632	1,754	1,952
Other Taxes (net, excluding Sales & Hotel Tax)	801	549	309	333
Subtotal	**7,899**	**8,667**	**4,262**	**3,942**
Citywide Savings Program				
Debt Service	987	891	294	330
Agency Actions	717	1,086	718	740
Health + Hospitals Reimbursement	212	- - -	- - -	- - -
Subtotal	**1,916**	**1,977**	**1,012**	**1,070**
Reserves and Prior Years' Expenses				
General Reserve	50	700	- - -	- - -
Capital Stabilization Reserve	- - -	250	- - -	- - -
Prior Years' Expenses	421	- - -	- - -	- - -
Subtotal	**471**	**950**	**- - -**	**- - -**
Total Unanticipated Resources	**10,287**	**11,594**	**5,273**	**5,013**
Revenue Shortfalls				
Sales and Hotel Tax	(473)	(1,011)	(625)	(63)
General Property Tax	263	(2,599)	(2,716)	(2,652)
Non-Tax Revenues (e.g., fines and fees)	(201)	(32)	26	16
Subtotal	**(411)**	**(3,643)**	**(3,315)**	**(2,699)**
New Agency Needs				
COVID-19 Costs Offset by Federal Aid	(2,733)	(4,286)	(2,033)	(1,522)
City-Funded New Needs	(1,833)	(1,235)	(549)	(594)
Subtotal	**(4,606)**	**(5,552)**	**(2,582)**	**(2,116)**
Retiree Health Benefits Trust	(1,600)	- - -	- - -	- - -
Rescind Planned Labor Savings	(270)	(1,000)	- - -	- - -
Pension Contributions	430	220	(95)	(590)
All Other Expenses	(241)	(390)	(139)	(126)
Labor Savings Adjustment	- - -	(706)	(4)	- - -
Total Uses	**(6,659)**	**(11,041)**	**(6,136)**	**(5,531)**
Net Change	**3,628**	**553**	**(862)**	**(518)**
Gaps to Be Closed Before Prepayment	**$ 3,628**	**$ (3,628)**	**$ (3,905)**	**$ (3,700)**
FY 2021 Prepayment of FY 2022 Expenses	(3,628)	3,628	- - -	- - -
Gaps to Be Closed Per April 2021 Plan	**$ - - -**	**$ - - -**	**$ (3,905)**	**$ (3,700)**

Note: Columns may not add due to rounding. Agency Actions include revenue-generating actions. A portion of the federal aid will be used to offset unplanned City-funded expenses, mostly for fringe benefits and operating costs at the Correction and Sanitation departments.
Sources: NYC Office of Management and Budget; OSC analysis

values in the final 2022 property tax roll, the first decline since FY 1998, reflecting lower market values citywide. The largest declines are in hotels, retail properties and offices.

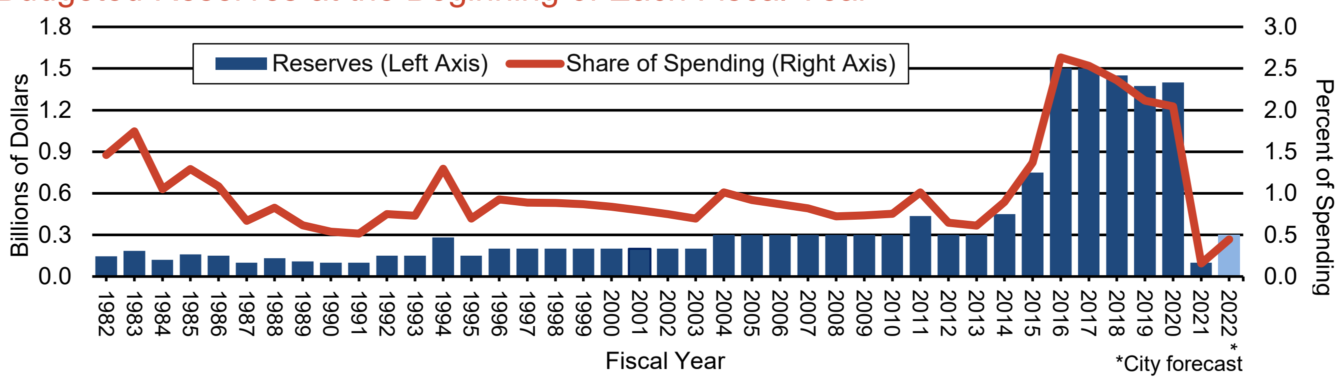
The citywide savings program is expected to generate nearly $1.9 billion in FY 2021, $2 billion in FY 2022 and about half that amount in subsequent years. Most of the savings will come from lower debt service, staffing reductions and lower overtime spending (see the "Citywide Savings Program" section for more detail). The City also anticipates $421 million from overestimating its prior year's expenses.

The City drew down the general reserve for FY 2022 by $700 million and eliminated the $250 million capital stabilization reserve in that year.[8] The balance of the FY 2022 general reserve of $300 million is higher than the statutory minimum for the beginning of the fiscal year, but would still be among the lowest levels since FY 1982 when measured as a share of City-funded spending (0.4 percent; see Figure 7). In the past, the City has periodically increased its budgetary reserves to about 1 percent of City-funded spending when the budget is adopted, and over a five-year period ending in FY 2020, the City's initial reserves exceeded 2 percent of City-funded spending.

The City's budget gaps for fiscal years 2023 and 2024 have increased since June 2020, to $3.9 billion and $3.7 billion, respectively (the budget gap in FY 2025 is $3.9 billion). The gaps assume the receipt of $1 billion annually in unspecified annual labor savings beginning in FY 2023 and that wage increases in the first two years of the next round of collective bargaining will be funded through productivity improvements. These assumptions require the cooperation of the City's municipal unions to be realized. In addition, a portion of the new agency needs are funded with nonrecurring resources that are projected to expire in FY 2025, but the City has not yet identified alternative resources.

However, the out-year gaps, as a share of City fund revenues, now average 5.3 percent, less than in other post-recession years and less than one year ago. The City has managed gaps of this magnitude before, and the budgets for these years include a general reserve and capital stabilization reserve totaling $1.25 billion. If the reserves are not needed for other purposes, they could be used to narrow the projected gaps to an annual average of 3.6 percent.

FIGURE 7
Budgeted Reserves at the Beginning of Each Fiscal Year



Note: Budgeted reserves consist of the general reserve and capital stabilization reserve. The New York State Financial Emergency Act for the City of New York requires the City to provide a general reserve of not less than $100 million at the beginning of any fiscal year.
Sources: NYC Office of Management and Budget; OSC analysis

[8] In January 2021, the City planned to draw down $900 million from the FY 2022 general reserve to $100 million, the statutory minimum for the start of the fiscal year, but restored $200 million since then.

V. State and Federal Actions

Impact of the State Budget

One year ago, New York State experienced an abrupt, steep decline in economic activity in the wake of the COVID-19 pandemic. As a result, the State Division of the Budget (DOB) sharply lowered its forecast for tax receipts beginning in State fiscal year (SFY) 2021, and anticipated mostly recurring cuts to local aid of $8 billion statewide starting in that year.

However, the State's short-term financial outlook has greatly improved since the beginning of SFY 2021 (April 1, 2020). In January 2021, the Governor released his executive budget for SFY 2021, which included an increase to the State's revenue forecast to reflect stronger-than-expected general fund tax receipts, additional federal funding from relief legislation enacted in December 2020, and a benefit from the extension of a higher federal matching rate on Medicaid expenditures through June 30, 2021.

These favorable developments reduced the need for recurring local assistance reductions, and the additional federal relief more than offset proposed reductions in SFY 2022. Still, the executive budget included a number of actions that would have had an adverse impact on the City's financial plan by as much as $1.8 billion in FY 2022 (excluding federal aid), and more than $330 million annually thereafter.[9]

Over the final quarter of SFY 2021, the State's financial outlook continued to improve. In March 2021, the President signed the American Rescue Plan Act (ARPA), which when allocated is expected to provide budgetary relief to the New York State government (including $12.7 billion in unrestricted aid) along with $9 billion in school aid. The State has completed action on the enacted budget for SFY 2022, which began on April 1, 2021.

In May 2021, the DOB released an updated financial plan that includes the additional federal aid and reflects continued strength in tax collections over the balance of the fiscal year (total tax collections in SFY 2021 exceeded the State's initial forecast by $6.8 billion, although they were $513 million lower than the previous year, according to OSC's March 2021 State cash report). The State's enacted budget also includes a number of revenue-generating actions, such as an increase in tax rates for high-earners. OSC estimates that 59 percent of the tax liability will accrue to tax filers who live in the City.

The additional federal and State revenues will be used to increase funding for local assistance (such as school aid and Medicaid) and to provide direct relief to individuals and businesses adversely impacted by COVID-19.

As a result, the State's enacted budget includes a significantly smaller adverse impact of $300 million on the City in FY 2022, which is more than offset by the additional federal aid for schools (see Figure 8).

The enacted budget provides $11.9 billion in State-funded school aid to the City in FY 2022, which is $300 million less than the City had anticipated in the January Plan but $46 million more than assumed in the April Plan. The State has also allocated to the City its share of federal relief for schools received since December 2020, which the April Plan assumes will total nearly

[9] The proposed budget for SFY 2022 would have provided $10.7 billion in State-funded school aid to the City in FY 2022, which is $1.4 billion less than the City anticipated in its January Plan. However, the State also included a distribution to the City of additional federal supplemental funding of $2.15 billion that year, for a total of $12.9 billion in proposed support for the City's schools. For more detail on the executive budget proposal, see OSC Report 11-2021, *Review of the Financial Plan of the City of New York*, February 2021, https://www.osc.state.ny.us/files/reports/osdc/pdf/report-11-2021.pdf.

FIGURE 8
OSC Assessment of Enacted Budget Compared to the January Plan
(City funds in millions)

	Better/(Worse)				
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State-Funded School Aid	$ - - -	$ (300)	$ - - -	$ - - -	$ - - -
Distribution of Federal Aid (CRRSAA and ARPA)	146	3,137	1,772	1,384	530
Net Budgetary Impact to NYC	**146**	**2,837**	**1,772**	**1,384**	**530**

Notes: CRRSAA is the Coronavirus Response and Relief Supplemental Appropriations Act; ARPA is the American Rescue Plan Act.
Sources: NYC Office of Management and Budget; OSC analysis

$7 billion through FY 2025.[10] In addition, the enacted budget includes a plan to fully phase in its foundation aid formula by FY 2024, which, if realized under current law, would be consistent with school aid funding assumed in the April Plan and thus reduce the risk of a potential shortfall through FY 2024.

The enacted budget did not include a number of initiatives proposed by the Governor, which would have increased the City's costs by an estimated $94 million in FY 2021 and $333 million beginning in FY 2022. For example, as part of school aid, the Governor proposed implementing the local district funding adjustment to be levied against the School Tax Relief (STAR) program, which would have effectively reduced the City's revenues by at least $144 million annually starting in FY 2022. The Governor also proposed eliminating funding for charter school facilities and fiscal stabilization grants exclusively for New York City, which together would have cost the City $64 million in FY 2021 and $73 million beginning in FY 2022.

In addition, the Governor also proposed to eliminate State-funded indigent-care pool payments to public hospitals, which would have reduced these funds to NYC Health + Hospitals by $15 million in FY 2021 and $61 million in FY 2022.

The enacted budget does, however, include a proposal from the Governor that all or some of the local assistance funding be withheld from any local government with a police force that does not implement a police reform plan and transmit the certification required under Executive Order 203 ("New York State Police Reform and Reinvention Collaboration") by April 1, 2021. Since the City completed action on a police reform plan in March 2021 and transmitted the required certification to the State, the risk of such withholding has been eliminated.

The enacted budget includes a temporary personal income tax surcharge on high-earners that raised the State tax rates in the highest income bracket (single filers earning more than $1.1 million and joint filers earning more than $2.2 million) and created two additional brackets for those earning more than $5 million and $25 million. The State also temporarily raised the top corporate franchise tax rate to 7.25 percent for taxpayers with business income greater than $5 million. The enacted budget also expands the New York City hotel unit fee of $1.50 to apply to all vacation-rental-market providers.

In addition, the budget also authorizes online sports betting facilitated through online platform providers, which will generate new revenue for the State through a one-time licensing fee, as well as recurring tax collections on gross gaming

[10] In May 2021, the State Education Department released its final allocation of the Elementary and Secondary School Emergency Relief funds provided under the CRRSAA and ARPA. In total, the City will receive $6.9 billion, which is slightly less ($38 million) than is assumed in the April Plan.

revenue. A portion of the new revenue will be dedicated to school aid, which could benefit the City by an estimated $42 million annually beginning in FY 2023.

In March 2021, the State also enacted a proposal from the Governor to legalize adult use of cannabis. The legislation includes the imposition of excise taxes and fees at different levels of the distribution chain, including an additional 4 percent tax on the amount of retail sales that will be dedicated to local governments including the City. While the DOB assumes this legislation will benefit the City by only $1.5 million annually beginning in FY 2022, actual receipts may be substantially higher.

While the DOB reduced most local aid payments by 5 percent in SFY 2021, the amounts withheld in excess of 5 percent in the first nine months of SFY 2021 have been reconciled, and were repaid to local governments in the final quarter of that fiscal year.

Other Assistance

The State's enacted budget for SFY 2022 directs federal relief funding toward a number of initiatives that do not directly impact the City's budget but will benefit New York City residents and businesses. These initiatives include housing and rental assistance for low-income households with a demonstrated risk of homelessness or housing instability; increased funding for child care, including financial support to providers currently operating or closed because of the public health emergency; and relief for small businesses, including low-interest loans and grants.

The enacted budget also includes tax credits to support restaurant hiring and theatrical and musical productions in the City, as well as additional funding for relief to nonprofit cultural institutions, many of which are based in the City.

The enacted budget provides $2.1 billion in State funding for cash payments to excluded (i.e., undocumented) workers who have suffered a loss of work-related income due to the pandemic and are not eligible for unemployment insurance benefits or federal assistance payments because of their immigration status or other factors. The Fiscal Policy Institute estimates that 213,000 undocumented workers in New York City could benefit from this fund.

In addition, the State has mandated that Internet service providers offer plans with minimum download speeds of 25 megabits per second to qualified low-income households at a cost not to exceed $15 per month. Based on 2019 census data, OSC estimates that 1.2 million City households (39 percent) would be eligible for these low-cost Internet plans based on participation in the Supplemental Nutrition Assistance Program or Medicaid program. The highest concentrations were seen in the Bronx, where 57 percent of households are eligible, and in Brooklyn (43 percent). The State has also set aside $100 million in capital funding to finance the conversion of vacant commercial and hotel properties in New York City to permanent affordable housing units.

Federal Assistance

In March and April 2020, four COVID-19 relief bills were enacted to address the pandemic's impact on the public health system and the nation's economy. Together, these relief bills are estimated to provide the City with a total of $6.4 billion over three years through FY 2022. Most of those resources will come from the Federal Emergency Management Agency (FEMA) to reimburse the City for incremental costs related to the pandemic, and from the Coronavirus Relief Fund for unforeseen financial needs associated with the emergency through December 30, 2021.

Since April 2020, Congress has passed two additional relief bills, described below. In addition, the President issued an executive order that increased FEMA reimbursement to 100 percent through September 2021, relieving states and localities of the local match requirement of 25 percent through this period.

These two most recent bills, combined with recent administrative actions including the executive order for FEMA reimbursement, will provide the City with an additional $15.2 billion in federal aid, which the City has allocated over a five-year period through FY 2025 (see Figure 9). Together, the six rounds of federal relief and administrative actions are estimated to benefit the City by a total of $22 billion over six years, a historic level of federal support in response to extraordinary events.

In December 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) was signed into law. The bill includes additional direct relief to individuals and businesses, and targeted funding for certain state and local government operations (mostly supplemental funding for a broad variety of uses to help reopen and safely operate schools and for public health services). The State's enacted budget for SFY 2022 allocates $2.15 billion in CRRSAA education funding to the City, and the City has received notification that it has been allocated an additional $555 million for testing, contract tracing and mitigation efforts.

FIGURE 9

Additional Federal Relief for COVID-19 Since the January Plan

(in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Sources of Funding						
Education Aid	$ 146	$ 3,137	$ 1,772	$ 1,384	$ 530	$ 6,968
Fiscal Relief Funds	1,949	3,034	268	212	439	5,902
FEMA Reimbursement	1,377	- - -	- - -	- - -	- - -	1,377
Public Health Grants	366	314	159	61	- - -	900
Other	$61	1	- - -	- - -	- - -	62
Total Sources	**$ 3,899**	**$ 6,486**	**$ 2,199**	**$ 1,657**	**$ 968**	**$15,210**
COVID-19 Recovery Efforts						
Educational Supports and Expansion	265	2,800	1,650	1,293	718	6,726
Other Recovery Efforts and Investments	284	862	215	167	200	1,729
Savings Programs Restorations	1	390	165	135	45	737
Subtotal	**550**	**4,052**	**2,030**	**1,596**	**964**	**9,192**
COVID-19 Costs and Operating Relief						
Test and Trace, and Vaccinations	1,023	316	159	61	- - -	1,559
Fringe Benefits (Mayoralty)	774	1,020	- - -	- - -	- - -	1,794
Uniformed Agencies	- - -	780	- - -	- - -	- - -	780
Other	1,553	149	10	- - -	5	1,209
Subtotal	**3,350**	**2,434**	**168**	**61**	**5**	**6,018**
Total Uses	**$ 3,899**	**$ 6,486**	**$ 2,199**	**$ 1,657**	**$ 968**	**$15,210**

Notes: Totals may not add due to rounding. Excludes transfers of coronavirus relief funds from FY 2020 to FY 2021.

Sources: NYC Office of Management and Budget; NYS Division of Budget; OSC analysis

In March 2021, the President signed the American Rescue Plan Act (ARPA), the first of his three-part Building Back Better agenda and a nearly $2 trillion emergency legislative package to fund vaccinations and provide additional relief to households and businesses adversely impacted by the pandemic, including a new round of direct relief checks and the extension and expansion of unemployment insurance through September 2021. The ARPA also includes increased funding for low-interest loans and grants targeted to small businesses.

In addition, the ARPA included direct relief for state and local governments, which has helped the State, the City and public authorities to offset the financial and economic impact of the pandemic, greatly improving their short-term financial outlook. The ARPA includes $350 billion in emergency funding for state and local governments. New York State will receive an estimated $12.7 billion and the City will receive an estimated $5.9 billion. The law permits these funds to be used to address a number of financial needs associated with the COVID-19 emergency, including revenue losses and other negative economic impacts.

Further, the ARPA includes additional emergency funding for colleges and schools ($170 billion), rental assistance ($30 billion) and public transit ($30 billion). New York State received $9 billion in supplemental elementary and secondary school education funding, of which $4.8 billion was allocated to the City in the State's enacted budget (a total of $7 billion when including CRRSAA funding). The Metropolitan Transportation Authority (MTA) will receive $6.5 billion in additional public transit funding.

The ARPA also provides additional funding ($345 million) to the City for vaccines and for testing, contact tracing and mitigation (for a total of $900 million including CRRSAA funding).

The April Plan anticipates that the President's executive order increasing FEMA reimbursement to 100 percent through September 2021 will increase federal support by $1.4 billion in FY 2021.

Two-thirds ($10.4 billion) of the additional federal relief will be used in fiscal years 2021 and 2022, mostly for transitional costs and operating relief associated with the pandemic, and for targeted investments in a number of post-pandemic recovery efforts and service expansions. The April Plan assumes that almost all of the transitional costs and operating relief will not recur beyond FY 2022, when the public health emergency is likely to have ended. Additional federal aid used for transitional costs and operational relief since the January Plan is highlighted below.

- $1.8 billion over two years in operating support for fringe benefits, mostly to avert the need for $1.3 billion in unspecified labor savings, and in reimbursements to the City for hospital and medical costs in FY 2021 that were related to the pandemic and are estimated to have been imposed on the City's health insurance program.
- $1.6 billion over four years for public health services for testing, contact tracing, mitigation and vaccinations.
- $780 million in FY 2022 for revenue shortfalls, which will be used to temporarily offset a portion of operating expenses at the Correction and Sanitation departments.
- $1.2 billion for various other costs and operating relief (virtually all of which will be incurred over two years), mostly for emergency shelter and rental assistance and the reimbursement of expenses incurred by the City's public hospitals.

Most of the funding for the City's post-pandemic recovery efforts and proposed expansions to City services ($6.7 billion over five years) is devoted to operational and programmatic supports at the Department of Education as well as an expansion of prekindergarten services for three-year-olds); financial support for human services providers, cultural institutions and private businesses; and various quality-of-life improvements (e.g., City Cleanup Corps). In addition, the City has also used a portion of the federal aid ($737 million) to rescind a number of service reductions implemented in prior savings programs and proposed in the FY 2021 savings program (mostly for education and the partial restoration of an attrition management initiative).

The April Plan assumes that funding for these recovery efforts and restorations will decline sharply in FY 2023 and continue to wind down for the balance of the financial plan period. However, a sizable portion of these costs (mostly for education) will recur beyond FY 2025 (estimated to exceed $1 billion annually), when the additional federal aid is projected to be exhausted. The City has not yet identified any alternative recurring resources to fund the cost of these initiatives beyond the financial plan period, a potential long-term risk to future budgets.

In addition, the President's proposed budget for federal fiscal year (FFY) 2022, which begins on October 1, 2021, calls for $1.5 trillion in discretionary spending, an increase of $121 billion (8.6 percent) since FFY 2021. Much of the increase is concentrated in nondefense spending for education, health and social services, and housing. The proposed budget also includes the remaining two proposals under the President's Building Back Better agenda, which are highlighted below.

- The American Jobs Plan, a $2.6 trillion proposal over 10 years (including $368 billion in tax credits called for in a companion proposal, the Made in America Tax Plan) to support the repair and modernization of transportation infrastructure (e.g., bridges and roads, public transit systems, and ports), utilities infrastructure (e.g., water systems, electricity and Internet service), and buildings (e.g., affordable housing, and school and child care facilities) across the nation. The plan also calls for additional investment in human capital and innovation to increase U.S. competitiveness in the global markets.
- The American Families Plan calls for another $1.7 trillion over 10 years, mostly for increased assistance to families with children through investments in early education (e.g., universal pre-K for three- and four-year-olds) and child care, as well as increased tax credits, and additional financial assistance for post-secondary education.

The two plans would have a total budgetary impact of $4.3 trillion over the next decade (including tax credits). While not enough detail is currently available to quantify the impact on states and localities, the State, the City and public authorities (such as the MTA and the New York City Housing Authority) could benefit substantially from such increased funding, and may realize additional and recurring resources for early childhood education to fund its planned local expansion after relief funds are exhausted.

The President has indicated that the American Jobs Plan and the American Families Plan would both be fully paid for over a 15-year period through the enactment of a separate legislative proposal (the Made in America Tax Plan, which includes a proposed increase to the federal corporate tax rate, to 28 percent) and other proposals (e.g., reversing the 2017 income tax cuts for high-earners and implementing changes to increase tax compliance). Not enough detail is available yet to quantify the potential impact of these proposals on City residents and businesses.

VI. Citywide Savings Program

In November 2020, the Mayor announced a citywide savings program that would total $2.3 billion during fiscal years 2021 through 2025. The program was expanded in January 2021 (by more than $4 billion) and again in April (by $759 million). The program is now expected to generate savings of $3.9 billion over fiscal years 2021 and 2022, and an average of more than $1 billion annually in each subsequent year (see Figure 10).

In April 2021, the City recognized more than $15.2 billion in additional federal relief funding during the financial plan period beginning in FY 2021. These resources permitted the City to restore funding for some savings initiatives introduced in the current program. Of the $389 million in total restorations occurring between fiscal years 2022 and 2025, $370 million will be federally funded, and almost entirely devoted to the Department of Education in FY 2022 ($215 million) and to partially restoring baseline reductions proposed in January ($149 million).

The mayoral agencies will contribute savings of $717 million in FY 2021, $1.1 billion in FY 2022 and an average of $730 million in each subsequent year. The savings program includes a reduction of 5,658 positions (net of additions and restorations), nearly all civilian, through attrition and elimination of planned hires between fiscal years 2021 and 2022. These reductions, along with federal funding shifts, will bring the City-funded portion of the full-time work force to 243,635 positions by the end of FY 2022, the lowest level since FY 2016.

Efficiencies will generate an average of $480 million annually beginning in FY 2022, mostly from baseline reductions through attrition (i.e., requiring two civilian position departures from an agency for each hire, or a “two-for-one” initiative). This was originally introduced in January as a “three-for-one” initiative, designed

FIGURE 10
Citywide Savings Program (in millions)

	Positions	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
November & January Plans	**(6,222)**	**$ 1,655**	**$ 1,904**	**$ 839**	**$ 941**	**$ 1,002**	**$ 6,341**
April Plan Restorations							
Federally Funded	485	- - -	(259)	(36)	(37)	(38)	(371)
City-Funded		(2)	(7)	(4)	(4)	(4)	(21)
Total Restorations	**485**	**(2)**	**(266)**	**(40)**	**(41)**	**(42)**	**(391)**
New April Plan Savings	**79**	**264**	**339**	**212**	**170**	**166**	**1,151**
Total Savings	**(5,658)**	**1,916**	**1,977**	**1,011**	**1,070**	**1,126**	**7,100**
Citywide Savings Program							
Efficiencies	(5,103)	143	526	459	465	471	2,064
Expense Reestimates	(24)	413	375	255	272	257	1,572
Revenue Reestimates	(7)	136	80	1	1	1	219
Service Reductions	(524)	25	106	2	2	2	137
Agencies Subtotal	**(5,658)**	**717**	**1,086**	**717**	**740**	**732**	**3,992**
Debt Service	**- - -**	**987**	**891**	**294**	**330**	**394**	**2,896**
Health + Hospitals	**- - -**	**212**	**- - -**	**- - -**	**- - -**	**- - -**	**212**
Total Savings	**(5,658)**	**$ 1,916**	**$ 1,977**	**$ 1,011**	**$ 1,070**	**$ 1,126**	**$ 7,100**

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

to eliminate 5,112 civilian positions and save an average of $346 million annually beginning in FY 2022, but the City restored 485 of these positions with federal funding. The City still has not identified the majority of the remaining planned reductions (4,452 positions), but has indicated that certain personnel would be exempt (educational, uniformed, health care and revenue-generating positions).

Projected savings from revenue and expense reestimates average a little more than $500 million in each of fiscal years 2021 and 2022, but decline to about half that amount in subsequent years. The largest adjustments include uniformed overtime savings at the Police Department and the Department of Correction, a reestimate of citywide energy costs, the elimination of a reserve to offset the impact of inflation on certain administrative costs, and the receipt of nonrecurring revenues in fiscal years 2021 and 2022.

Savings from lower debt service since the beginning of the fiscal year now total $2.9 billion over the financial plan period, and remain the largest component of the program (41 percent of total savings). These savings mostly arise from refinancing bonds at lower interest rates and from lower costs associated with variable-rate debt. In addition, an improved short-term financial outlook at NYC Health + Hospitals (H+H) will allow it to reimburse the City for debt service costs paid on H+H's behalf during FY 2021 ($212 million).

The State Comptroller recommends that the City continue the process of identifying additional agency efficiencies to help offset the costs of planned service expansions before temporary federal aid is exhausted. Additionally, as the City approaches budget adoption, increased clarity on the general initiative to reduce the size of its work force is critical to mitigate any significant service impacts from hiring restrictions.

VII. Revenue Trends

The April Plan adjusts revenue forecasts upward based on better-than-expected nonproperty tax collections and increased State and federal assistance. Total revenues, including federal and State categorical aid, are now expected to total $98.6 billion in FY 2022, down 2.1 percent from a record $100.7 billion in FY 2021, which was boosted by the early rounds of federal stimulus funds. For fiscal years 2022 through 2024, total revenue projections are lower by $3.9 billion compared to pre-pandemic expectations (see Figure 11). However, compared to the City's June 2020 financial plan, total revenues are expected to be higher by $6.8 billion.

FIGURE 11
Projected Shortfall from January 2020 Levels

Financial Plan	Total Revenue Shortfall in FYs 2022-2024 (in billions)	City Funds Shortfall in FYs 2022-2024 (billions)
April 2020	($9.0)	($8.8)
June 2020	($10.7)	($10.9)
January 2021	($15.1)	($15.6)
April 2021	($3.9)	($13.9)

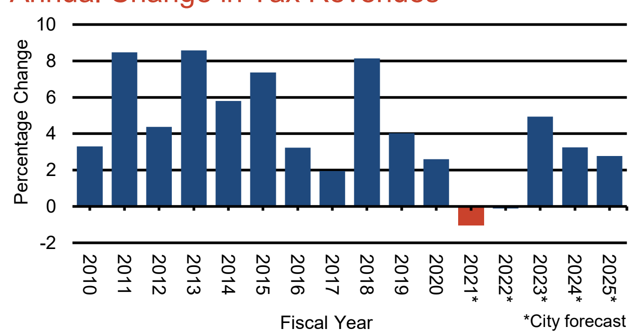
Sources: NYC Office of Management and Budget; OSC analysis

Locally generated revenues (i.e., City funds) account for more than 68 percent of total revenues, or $67.3 billion for FY 2022. City funds revenues are projected to be lower by a total of $13.9 billion over the three-year period from fiscal years 2022 through 2024 compared to pre-pandemic expectations. However, compared to the June 2020 financial plan, City funds are lower by $3 billion, with lower property-tax collections offsetting higher income and business taxes.

Tax collections account for most of City funds revenues (93 percent). The April Plan, compared to the June 2020 plan, reduces projected property tax collections by $7.7 billion for fiscal years 2022 through 2024, while increasing nonproperty collections by $4.6 billion. The net effect is a reduction in tax collections of $3.1 billion for the three-year period. The improved outlook is based on stronger collections in personal income and business taxes.

After a projected decline of 1.0 percent in FY 2021, tax collections are expected to grow at an average annual rate of 2.7 percent during fiscal years 2022 to 2025. However, this growth rate is slower than what was projected in the June 2020 plan and slower than the average growth in prior years (see Figure 12).

FIGURE 12
Annual Change in Tax Revenues

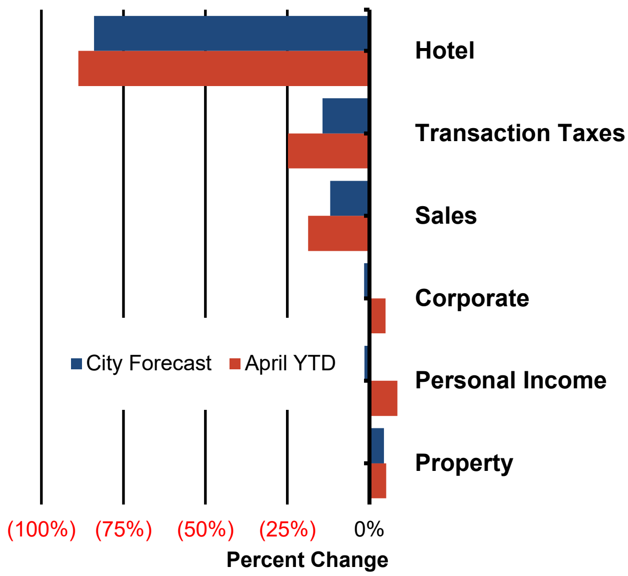


Note: Includes revenue from tax audits.
Sources: NYC Office of Management and Budget; OSC analysis

Through the first 10 months of FY 2021, total tax collections were up 1.6 percent compared to the same period in the prior year. The primary drivers for the upside are personal income and corporate taxes (see Figure 13, next page).

Although the City does not expect property taxes to recover to pre-pandemic levels during the financial plan period, it expects nonproperty taxes to recover by FY 2023. Personal income and business tax revenues are likely to offset the decline in sales, hotels and transaction tax revenues in the near term, with the greatest risk being higher inflation leading to a tightening monetary policy, which would impact the stock market and Wall Street profitability.

FIGURE 13
Change in Tax Revenues July-April FY 2021



Sources: NYC Office of Management and Budget; OSC analysis

The unprecedented levels of fiscal and monetary stimuli supporting the economy have given more clarity to the near-term outlook, but there is less clarity in the longer term about the likely levels of business and social activity in a reopened economy.

The April Plan is based on the trends shown in Figure 14 and discussed below.

General Property Tax

The general property tax is levied on the assessed values of real estate properties. Historically, it is the City's largest and most stable source of tax revenue, accounting for 40 percent of all tax collections.

For FY 2022, the City reduced its forecast for property tax revenue to $29.4 billion, a decrease of $1.6 billion (5.1 percent) from FY 2021 (see Figure 15), fueled by a decline in commercial property (Class 4) valuations. This would be the first annual decline in property tax revenues

FIGURE 14
Trends in City Fund Revenues
(in millions)

	FY 2021	FY 2022	Annual Growth	FY 2023	FY 2024	FY 2025	Average Three-Year Growth Rate
General Property Tax	$ 30,954	$ 29,370	-5.1%	$ 30,042	$ 30,471	$ 30,881	1.7%
Personal Income Tax	13,344	13,827	3.6%	14,728	15,280	15,849	4.7%
Sales Tax	6,484	7,423	14.5%	8,339	8,992	9,501	8.6%
Business Taxes	6,344	6,383	0.6%	6,713	6,882	6,996	3.1%
Real Estate Transaction Taxes	1,808	2,049	13.3%	2,254	2,380	2,508	7.0%
Other Taxes	2,327	2,473	6.3%	2,640	2,838	2,979	6.4%
Tax Audits	1,171	921	-21.3%	721	721	721	-7.8%
City Tax Program	0	(90)	N/A	0	0	0	N/A
Subtotal: Taxes	**62,432**	**62,356**	**-0.1%**	**65,437**	**67,564**	**69,435**	**3.6%**
Miscellaneous Revenues	5,148	4,982	-3.2%	5,029	5,020	5,038	0.4%
Unrestricted Intergov. Aid	1	0	N/A	0	0	0	0.0%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**67,566**	**67,323**	**-0.4%**	**70,451**	**72,569**	**74,458**	**3.4%**

Sources: NYC Office of Management and Budget; OSC analysis

since 1998, and the sharpest decline ever in Class 4 billable assessed values.

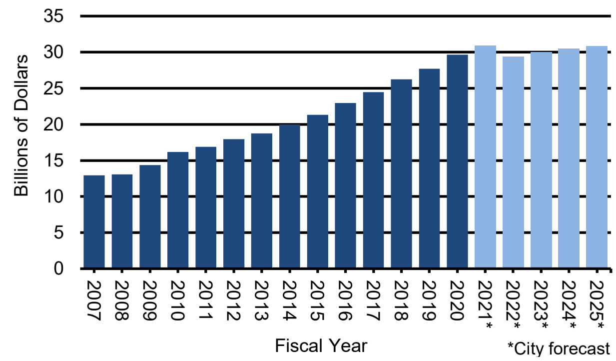
Commercial properties are assessed at higher rates than residential properties. Thus Class 4 properties account for the largest share of collections (47.7 percent of the taxable assessed value on the FY 2021 final roll; see Figure 16). As a result of falling prices during the pandemic, commercial real estate valuations have contributed to a reduced tax levy in FY 2022.

Collections are expected to be $2.5 billion lower in FY 2022 than projected in the June 2020 plan. For FY 2023 and FY 2024, collections were lowered by $2.7 billion and $2.6 billion, respectively, as the recovery in the commercial real estate market is expected to be prolonged. The City's forecast shows average annual growth in property tax collections of 1.7 percent for fiscal years 2023 through 2025, down from a 6.1 percent average rate of growth in the prior five-year period (FY 2017 to FY 2021).

Despite the recent improvement in economic conditions, there are other risks to property tax collections. The City has estimated collections in the upcoming fiscal year based on property values in the FY 2022 tentative assessment rolls released in January. Because property owners have the option to challenge the assessed values used to calculate the tax, the City anticipated that taxable values would decrease by an additional $2.8 billion on the final rolls. The final rolls released in late May show a decrease of $3.6 billion in total taxable assessed value, a larger drop than the City had expected, which suggests collections in FY 2022 will be slightly lower than in the forecast.

In response to litigation challenging the fairness and constitutionality of the City's property tax system, the Mayor and the City Council Speaker established an advisory commission in 2018 to develop recommendations to make the City's property tax system simpler, clearer and fairer. The commission also has a mandate to achieve revenue neutrality, ensuring that there is no reduction in the revenue used to fund essential City services.

FIGURE 15
Property Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 16
Property Tax Assessment Rolls
(in millions)

Tax Class	Description	FY 2021	FY 2021 Share	FY 2022	FY 2022 Share	Change in Value
Class 1	Residential up to 3 Units	$22,018	8.1%	$22,801	8.9%	3.6%
Class 2	Multifamily, Co-ops & Condos	102,510	37.9%	101,239	39.4%	-1.2%
Class 3	Utility Properties	17,065	6.3%	18,485	7.2%	8.3%
Class 4	Commercial and Industrial	129,201	47.7%	114,154	44.5%	-11.6%
Total		**$270,794**	**100.0%**	**$256,679**	**100.0%**	**-5.2%**

Sources: NYC Department of Finance, FY 2022 Final Assessment Roll; OSC analysis

The commission released its preliminary report in January 2020 and had planned additional hearings before issuing its final report. The hearings were canceled when the pandemic began, and resumed in May 2021. Recommendations in the preliminary report include shifting cooperative and condominium apartments and small rental buildings into the same class as one- to three-family homes; using a sales-based methodology to value residential properties; eliminating caps on the growth in taxes for residential properties and phasing in growth over a five-year period; and creating exemptions and credits for low-income home owners. Any changes would require approval by the Mayor, the City Council and the State, and would likely be phased in over several years.

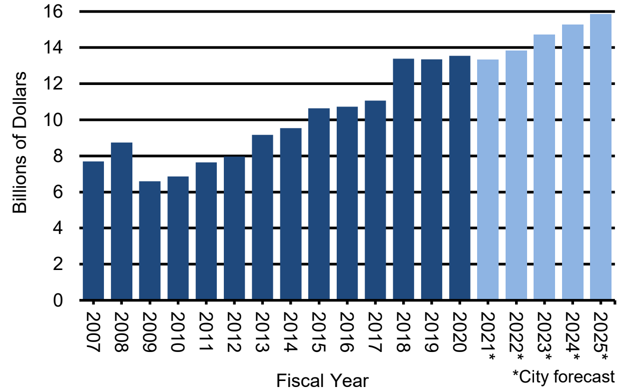
Personal Income Tax

The April Plan projects that personal income tax collections, the City's second-largest source of tax revenue, will increase by 3.6 percent in FY 2022, reaching a record high of $13.8 billion (see Figure 17). The increase reflects the City's assumption of a return to economic growth after large declines in employment, wages and capital gains last year.

As the economic downturn brought on by the pandemic was not as severe as initially anticipated, tax collections have also been better than expected thus far in FY 2021. The April Plan now expects collections to decline by 1.5 percent for the fiscal year, much better than the 11.9 percent decline the City expected at the beginning of the fiscal year.

The April Plan's forecast for personal income tax in FY 2021 is $13.3 billion, $1.7 billion higher than the projection in the June 2020 financial plan. The improvement reflects better-than-

FIGURE 17
Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

expected capital gains and bonuses due to record levels of profitability in the stock market.[11] In addition, the decline in wages was smaller than expected because job losses have been concentrated in low-paying industries. Moreover, the expansion of unemployment benefits (which are taxable) helped boost income tax revenues.

Each component of the tax is affected differently by the City's economy. Withholding, or the amount of tax withheld from employees' paychecks, makes up nearly three-quarters of total collections. Estimated payments, or the component of the tax based on nonwage income, account for one-fifth of collections.

The April Plan's forecast for withholding in FY 2021 is $1.0 billion higher compared to the forecast last June, as strong Wall Street bonuses and the federal Paycheck Protection Program have mitigated declines in wages. Nevertheless, the City expects the large decline in employment will lower withholding by 2.2 percent in FY 2021. The City does assume employment will increase by more than 100,000 jobs in each of the last three quarters of calendar year 2021, which, along with higher Wall Street bonuses, would

[11] See OSC, *New York City Securities Industry Bonus Pool*, March 2021, https://www.osc.state.ny.us/files/press/pdf/2020-wall-street-bonus-pool-1.pdf.

contribute to a 5.5 percent increase in withholding in FY 2022.

While the April Plan expects estimated payments to decline by 5.6 percent in FY 2021, the forecast is higher than the June 2020 forecast by $483 million as a result of better-than-expected capital gains receipts. The City projects estimated payments to increase by 5.4 percent in FY 2022 as capital gains and other nonwage income resume growth. As collections continue to be stronger than expected, OSC expects payments to be higher by $900 million in FY 2021 and by $750 million in each of the out-years. As a result, estimated payments are the main driver in OSC's adjustment for personal income tax overall.

Total personal income tax collections are projected to grow at an average annual rate of 4.7 percent for fiscal years 2023 through 2025. This reflects the City's forecast of a growing economy during the out-years of the financial plan, with growth at a slightly slower pace than in the last five fiscal years (2016-2020).

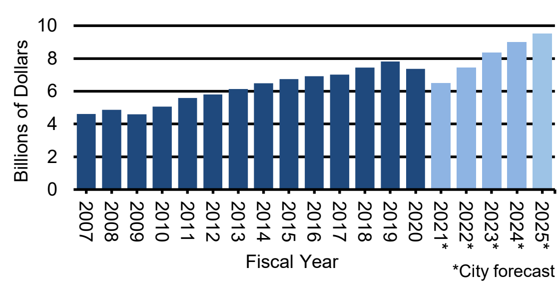
The State's enacted budget for State FY 2022 raised the State tax rates in the highest income bracket (single filers earning more than $1.1 million and joint filers earning more than $2.2 million) and created two additional brackets for those earning more than $5 million and $25 million. When combined with the City's income tax rates, the tax rates in the three highest income brackets will be 13.5 percent, 14.2 percent, and 14.8 percent. These will be the highest rates in the nation, which could motivate some people to relocate outside the City, though the April Plan has not accounted for this possibility in its forecast. Based on 2019 data, less than half a percent of New York City residents were in these income brackets, but they accounted for almost a third of the City's income tax revenue.

Sales Tax

Sales tax (applied to retail sales of tangible property and services) is the third-largest source of tax revenue in the City, and is driven by consumer spending. Collections in FY 2021 were weaker than in the beginning of FY 2020 as limited consumer and tourism-related spending have held down collections. Sales tax collections declined 22.4 percent in the first nine months of FY 2021 compared to the same period last year. The City expects fourth-quarter collections to pick up as federal stimulus and increased vaccine access help boost consumer spending.

The April Plan anticipates collections will grow by 14.5 percent to $7.4 billion in FY 2022 (see Figure 18) as pent-up demand and employment and wage growth help boost economic activity. Initially sales tax collections were projected higher in prior plans, but they were adjusted downward (by $666 million from the June 2020 financial plan), with restrictions on businesses and dismal tourism numbers holding down collections.

FIGURE 18
Sales Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

Although economic activity in the City is starting to recover, sales tax collections still face some risks and uncertainty. Consumer sentiment in the City continues to rise and retail sales are expected to increase, but City tourism and visitor spending are not expected to return to pre-pandemic levels until 2025.[12] The City expects tourism will pick up steadily starting in FY 2022, but not reach pre-pandemic levels until 2025.

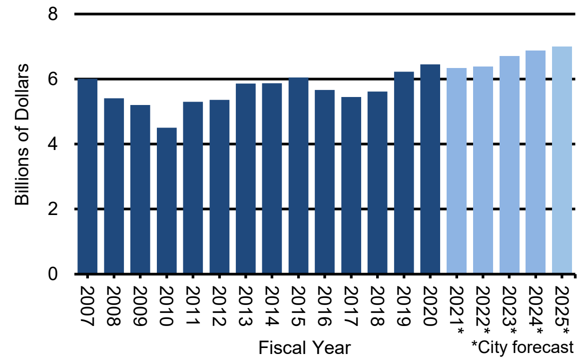
Retail taxable sales in New York City from March 1, 2020, to February 28, 2021, declined by 12.4 percent compared to the same period prior to the pandemic. During that period, e-commerce grew significantly (55 percent) as online shopping expanded and boosted retail taxable sales amid the overall decline. The rest of the State's retail taxable sales fared better during the period, growing 2.9 percent, also propelled by strong e-commerce sales (84.9 percent).

Hospitality taxable sales in New York City declined 67.8 percent, with traveler accommodation declining the most (89.2 percent) as hotels continued to suffer from lack of visitors and demand. New variants of COVID-19 that are spreading in other parts of the world could affect travel by international visitors (who spend more than domestic visitors) and the return of tourism to the City. As vaccine availability increases, municipalities and businesses will continue to ease restrictions. However, until commuters and tourists return to the City in pre-pandemic numbers, sales tax collections will continue to be affected in FY 2022 and subsequent years.

Business Taxes

Business taxes include the business corporation tax and the unincorporated business tax. Business taxes were stronger than anticipated in FY 2021, and the City now expects collections for the fiscal year to total $6.3 billion (see Figure 19), $1.5 billion more than projected ($4.82 billion, a 19.7 percent decline) at the beginning of FY 2021. The higher projection is a

FIGURE 19
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

result of stronger corporate profits, particularly on Wall Street.

During the first nine months of FY 2021, business tax collections were flat compared to the previous year. The April Plan expects business taxes to remain flat at $6.4 billion in FY 2022 and then grow 5.2 percent to $6.7 billion in FY 2023.

Business corporation taxes, which constitute more than two-thirds of total business tax collections, are primarily affected by the profits of securities industry member firms. While the April Plan raises forecasts for FY 2022, the City expects collections to stay flat in FY 2022 (at $4.38 billion), and projects growth of 5.3 percent in FY 2023 (to $4.6 billion). Through the first nine months of FY 2021, collections have declined by 3.3 percent compared to one year ago.

Unincorporated business taxes are mostly driven by small businesses, which include professional services, small finance and insurance firms, and restaurants. The April Plan raises the expected revenue from these taxes by $252 million to $2 billion in FY 2022, and by $216 million to $2.1 billion in FY 2023. Businesses are starting

[12] OSC Report 2-2022, *The Tourism Industry in New York City: Reigniting the Return*, April 2021, https://www.osc.state.ny.us/files/reports/osdc/pdf/report-2-2022.pdf.

to ease restrictions as vaccines have become more available.

The enacted State budget for SFY 2022 raised the State corporate tax rate from 6.5 percent to 7.25 percent for businesses that earn revenues of $5 million or more. Businesses in New York City will pay this tax on top of the City rate, which can reach 9 percent. As businesses struggle to recover and remote work continues, it is uncertain if the new State tax rate will push businesses to move out of the City.

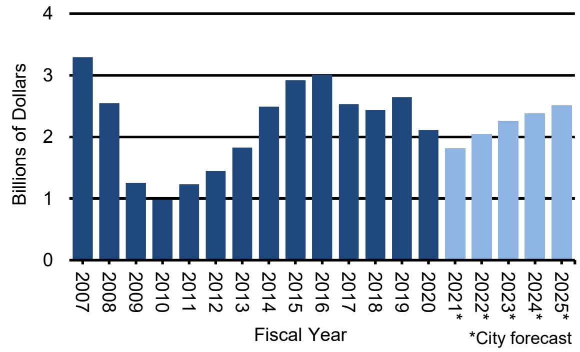
Real Estate Transaction Taxes

Real estate transaction taxes include the real property transfer tax and the mortgage recording tax. The April Plan expects real estate transaction tax collections to rise 13.3 percent in FY 2022 to $2.0 billion (see Figure 20), an improvement of $359 million over the forecast in the June 2020 financial plan. Collections are expected to grow at an average rate of 8.5 percent over fiscal years 2022 through 2025, one-third of the growth rate of the period after the Great Recession (26.2 percent for fiscal years 2011 through 2014).

Real estate sales steeply declined in 2020 as a result of the pandemic. The residential real estate market had been slowing over several years before 2020, but prices and transaction volumes for commercial properties have dropped sharply during the pandemic. Activity has accelerated in recent months, however, and is expected to strengthen further over the summer. This positive trend explains the City's increased forecast for real estate transaction tax collections.

Real estate firm Jones Lang LaSalle reports that the average asking rent for office space fell 5 percent in the first quarter of 2021 compared to the same period a year earlier. CBRE, another real estate firm, reports that the average asking

FIGURE 20
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

rent in Manhattan's retail corridors was down 20.3 percent in 2020 compared to 2019. While prices are expected to remain depressed in the short term, the City anticipates a rebound in sales volumes as the recovery accelerates. It is not yet clear whether pricing and migration trends will provide more favorable long-term impacts.

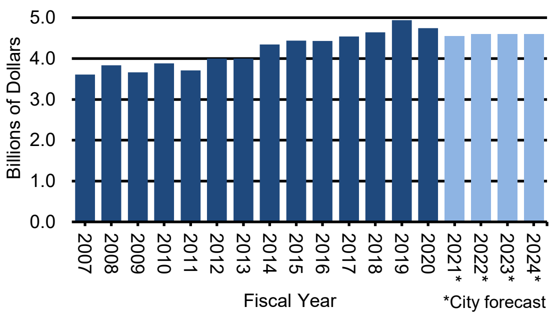
Miscellaneous Revenues

Miscellaneous revenues consist of recurring revenues (including fines, fees, forfeitures, charges for services, licenses and permits) and one-time payments (including settlements, litigation, asset sales and payments from agencies). These revenues for FY 2021 are expected to be up $30 million from projections at the beginning of the fiscal year as one-time payments help boost declining recurring revenues. The April Plan assumes that miscellaneous revenues, including one-time payments, will total $5 billion in FY 2022 and then remain flat in the out-years.

In the first nine months of FY 2021, revenues declined by 9.4 percent from the same period last year. Overall, recurring miscellaneous revenues are not forecast to return to pre-pandemic levels through FY 2025.

Recurring revenues for FY 2022 are forecast to total $4.6 billion and average $4.7 billion in the out-years (see Figure 21). The City expects most recurring revenues to pick up in FY 2022 as activity begins to normalize. Licenses, permits and franchises are expected to increase $51 million in FY 2022 as permits increase from FY 2021 levels. Construction and building permits are dependent on economic activity and demand, and outcomes in the near term are uncertain. Park concessions (which are under franchises) depend on tourism and demand for City parks, and while these are expected to improve in FY 2022, they remain a risk to this revenue source.

FIGURE 21
Recurring Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

Fines, fees and forfeitures are expected to increase $81 million in FY 2022 with higher revenues from speeding cameras, red-light cameras and parking violations. One risk to fines, fees and forfeitures is enforcement, as many went uncollected during the height of the pandemic as agencies were closed or diverted to other priorities. According to a recent OSC audit of collections of parking violations in New York City, outstanding violations totaled more than $100 million as of February 1, 2019, and the City does not have the capacity or intended effort to recover fines for all of them (particularly out-of-state vehicles).[13]

Charges for services are expected to increase $127 million in FY 2022, primarily due to the partial recovery of enrollment at the City University of New York (CUNY) and other fee collections from FY 2021 levels. CUNY enrollment and tuition is the biggest driver for this category, and is dependent on students returning or applying to CUNY schools.

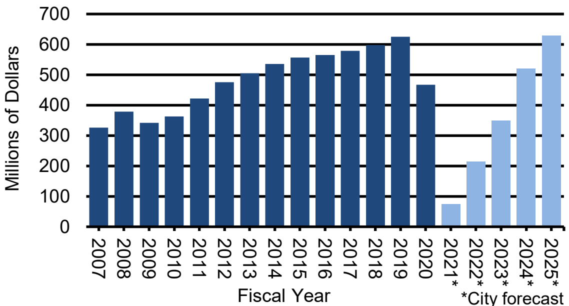
One-time payments in FY 2022 are expected to stay the same as in the June 2020 financial plan at $343 million. These payments are down $323 million in FY 2022 from FY 2021 levels, as several settlements and payments were realized during FY 2021 that boosted one-time payments. Historically, as the fiscal year continues there is potential for more one-time payments to be recognized.

Hotel Tax

Similar to the sales tax, the hotel tax is one of the few tax revenue sources that is now expected to yield less than the forecast made at the beginning of the fiscal year. The April Plan's forecast is $193 million lower than the June 2020 forecast, as collections are expected to fall to $75 million in FY 2021 (see Figure 22). The forecast was lowered as collections in the first three quarters of FY 2021 were 89 percent lower compared to the same period last year. The City now expects an 84 percent decline in FY 2021, reflecting the near halt in tourism over the past year following restrictions on travel, dining and

[13] OSC Report 2019-N-2, *New York City Department of Finance: Selected Aspects of Collecting Outstanding Amounts Due for Parking Violations*, March 2021, https://www.osc.state.ny.us/files/state-agencies/audits/pdf/sga-2021-19n2.pdf.

FIGURE 22
Hotel Tax Revenues



Sources: NYC Office of Management and Budget; OSC analysis

other attractions during the pandemic. In calendar year 2020, the occupancy rate, when excluding government contracts (which are not taxed), was estimated to be as low as 10 percent.[14]

While the City expects hotel tax collections to almost triple to $215 million in FY 2022, that amount will still be only about a third of the pre-pandemic peak reached in FY 2019, reflecting the City's forecast of a slow recovery in tourism as vaccines are more widely administered. As international and business travel (upon which hotels rely heavily) will recover more slowly than domestic travel, the City does not expect collections to return to pre-pandemic levels until FY 2025.

[14] For further discussion of the hotel industry, see OSC Report 2-2022, *The Tourism Industry in New York City: Reigniting the Return*, April 2021, https://www.osc.state.ny.us/reports/osdc/tourism-industry-new-york-city.

VIII. Expenditure Trends

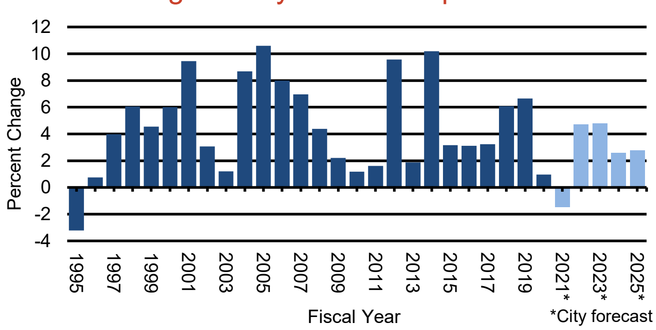
After reflecting the impact of additional federal aid for COVID-19, expenditures are projected to total $98.6 billion in FY 2022, including programs funded with federal and State categorical grants. The portion funded with locally generated revenue (i.e., City funds) would total $71 billion after adjusting for surplus transfers that can mask expenditure trends.

To mitigate the adverse impact of the pandemic on City fund revenues, the City implemented a number of gap-closing actions over the past year, including reducing its budgeted reserves and implementing additional savings initiatives. It also received historic levels of federal budget relief, which will be used to help offset a portion of the City's spending. As a result, the growth in City-funded spending slowed sharply to 1 percent in FY 2020, and is projected to decline for the first time in more than 25 years, by 1.5 percent in FY 2021 (see Figure 23).

City-funded spending will rebound sharply over the next two years, with an increase averaging 4.8 percent annually during fiscal years 2022 and 2023. The growth is driven mostly by projected increases in health insurance, debt service costs and the wind-down of the federal relief funds that were used to offset a portion of City spending. The April Plan assumes the growth will slow over the remainder of the financial plan period (to 2.7 percent annually over the next two years), driven mainly by cost-containment actions under the citywide savings program and the assumption that wage increases in the first two years of the next round of collective bargaining will be funded through productivity improvements. However, the financial plan also includes sizable risks, including the receipt of $1 billion in recurring labor savings beginning in FY 2023, and potential new needs for certain education services. The savings from the City's proposal for future wage increases over a two-year period will require the cooperation of the City's municipal unions to be realized.

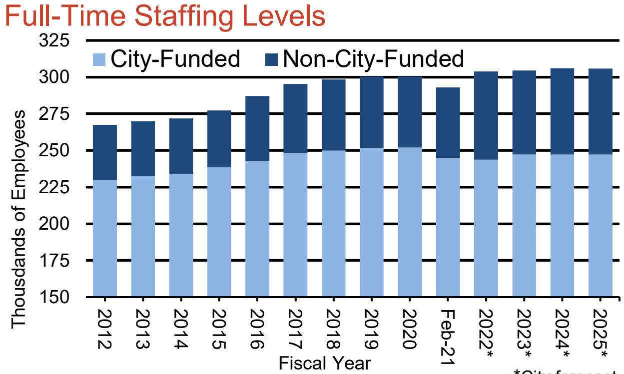
Between June 2012 and June 2020, the City's full-time work force (including positions funded by federal and State categorical grants) grew by 33,023 employees, reaching a year-end record of 300,446. The City-funded portion of the work force rose by 22,074 employees during the same period, also reaching a year-end record of 251,985 (see Figure 24). Since then, the work force has declined by 7,139 to 244,846 employees through February 2021, the lowest levels since November 2016. The decrease mainly reflects the impact of cost-containment actions, including a general hiring freeze, despite a decline in monthly attrition at most agencies.

FIGURE 23
Annual Change in City-Funded Expenditures



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

FIGURE 24
Full-Time Staffing Levels



Sources: NYC Office of Management and Budget; OSC analysis

The April Plan assumes the City-funded work force will total 243,635 full-time employees by June 30, 2022, or 1,211 fewer than current levels (see Appendix A), reflecting mostly the benefit of using federal aid to offset City-funded spending in that year as well as planned reductions under an attrition and hiring management program. These reductions would be mostly offset by planned increases at the Department of Education and the health and welfare agencies.

The City is using additional federal aid for COVID-19 relief to offset a portion of City-funded personal service costs in FY 2022 (funding a total of 3,600 positions at the Department of Correction). The City also intends to reduce the citywide work force by another 4,452 positions through attrition by June 30, 2022. With less than one month remaining before the start of the fiscal year, however, the City has yet to identify the source of these planned reductions.

In addition, the City will use a portion of the additional federal aid to staff program expansions (e.g., pre-K for three-year-olds) and partially restore savings initiatives (funding a total of 4,365 positions by FY 2025). However, the funding for these positions is nonrecurring and is projected to be exhausted over the balance of the financial plan period. The City has not yet identified any alternative recurring resources to fund these 4,365 positions beyond FY 2025.

The April Plan is based on the trends shown in Figure 25 and discussed below.

FIGURE 25
Trends in City-Funded Spending in April 2021 Financial Plan
(in millions)

	FY 2021	FY 2022	Annual Growth	FY 2023	FY 2024	FY 2025	Average Three-Year Growth Rate
Salaries and Wages	20,570	19,891	-3.3%	20,202	20,483	20,923	1.7%
Pension Contributions	9,358	10,119	8.1%	10,324	10,516	10,452	1.1%
Debt Service	6,166	6,901	11.9%	8,209	8,620	9,191	10.0%
Medicaid	5,938	6,316	6.4%	6,392	6,392	6,392	0.4%
Health Insurance	5,024	5,659	12.6%	6,888	7,593	8,238	13.3%
Other Fringe Benefits	2,832	3,379	19.3%	3,782	3,872	3,991	5.7%
Energy	696	817	17.3%	817	835	855	1.5%
Judgments and Claims	442	747	69.0%	618	635	651	-4.5%
Public Assistance	810	891	10.0%	891	891	891	0.0%
Other	16,292	15,931	-2.2%	15,983	16,182	16,560	1.3%
Subtotal	**68,128**	**70,651**	**3.7%**	**74,106**	**76,019**	**78,144**	**3.4%**
General Reserve	50	300	NA	1,000	1,000	1,000	NA
Capital Stabilization Reserve	- - -	- - -	NA	250	250	250	NA
Labor Savings	- - -	- - -	NA	(1,000)	(1,000)	(1,000)	NA
Prior Years' Expenses	(421)	- - -	NA	- - -	- - -	- - -	NA
Total	**67,757**	**70,951**	**4.7%**	**74,356**	**76,269**	**78,394**	**3.8%**

Notes: Totals may not add due to rounding.

Sources: NYC Office of Management and Budget; NYS Division of Budget; OSC analysis

Collective Bargaining

In its June 2020 financial plan, the City reflected $1 billion in unspecified recurring labor savings beginning in FY 2021 to help balance the budget in that year and narrow the out-year budget gaps. Since then, the City has reached agreements with a number of municipal unions to defer a portion of labor costs from FY 2021 to fiscal years 2022 and 2023 and to commit the City to avert layoffs of any of the employees represented in the agreements through FY 2021. These actions are expected to reduce labor costs by $710 million in FY 2021. Because almost all of the labor savings for FY 2021 were achieved through deferrals, however, labor costs will be higher by $706 million in FY 2022 and by $4 million in FY 2023.[15]

The City has also allocated federal relief funds to offset a portion of personal service expenses in fiscal years 2021 and 2022. The additional funding averted the need for the remaining unspecified labor savings of $270 million in FY 2021 and $1 billion in FY 2022. The City is still seeking unspecified annual labor savings of $1 billion beginning in FY 2023.

In FY 2020, the City also reduced its reserve for the next round of collective bargaining, which began for many civilian employees in May 2021 (see Figure 26). Contracts for the remainder of the municipal work force are scheduled to expire by the end of FY 2023. The April Plan assumes that wage increases in the first two years of the next round will be funded through productivity improvements, which allowed the City to free up $1.6 billion over five years through FY 2024.

The unspecified labor savings and the proposed savings through productivity improvements will require the cooperation of the City's municipal unions to be realized. The City could incur labor costs beyond the amounts assumed in the April Plan pending the outcome of the upcoming negotiations (which may not be known for some time), resulting in budgetary uncertainty.[16]

FIGURE 26
Selected Unions' Contract Expiration Dates

Union	Contract Expiration Date	Number of Full-Time Employees	Fiscal Year of Impact
PBA	7/31/2017	23,313	Expired
UFA	7/31/2017	7,644	Expired
DC 37	5/25/2021	60,085	FY 2021
UFT	9/13/2022	116,628	FY 2023

Note: Full-time workforce as of April 2021.
Sources: NYC Office of Management and Budget; OSC analysis

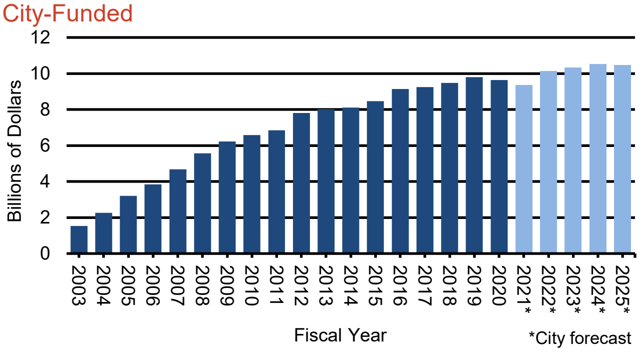
Pension Contributions

After growing rapidly for many years, pension contributions have stabilized (see Figure 27), reflecting mainly higher-than-anticipated investment returns and savings from lower-cost pension plans enacted for employees hired after March 31, 2012. Still, contributions are projected to total $10.1 billion in FY 2022, representing 15 percent of City fund revenues. These estimates assume implementation of the City Actuary's recommended changes in the assumptions and methodologies used to calculate the City's pension contributions (for details on the changes, see OSC's report on the City's January 2021 financial plan[17]).

Some of the changes, such as reducing the actuarial interest rate (AIR) to 6.8 percent, require State approval before they can be implemented. With less than a month remaining in FY 2021, the State Legislature has not introduced a bill to authorize the proposed

[15] As of June 2021, the deferrals totaled $796 million, including costs accrued to FY 2014 for lump-sum payments to retirees.
[16] Each 1 percent increase to base wages could increase labor costs by an estimated $460 million when fully annualized.
[17] OSC Report 11-2021, *Review of the Financial Plan of the City of New York*, February 2021, https://www.osc.state.ny.us/files/reports/osdc/pdf/report-11-2021.pdf.

FIGURE 27
Pension Contributions
City-Funded



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

reduction to the AIR. Recently, however, the State Legislature passed a bill to extend the City's current AIR of 7 percent through FY 2023, which does not conform to the City Actuary's recommendations. If the bill is approved, the City Actuary's recommended changes may be revised, which could increase (or decrease) the City's planned pension contributions. The City's current actuarial interest rate target of 7 percent is below the national average (7.3 percent), according to a recent study by the National Conference on Public Retirement Systems.[18]

In FY 2020, the financial markets were volatile, and the pension funds earned 4.4 percent on their investments, less than the actuarial target. As of May 31, 2021, the City's pension systems had earned an estimated 24 percent on their investments in the current fiscal year. OSC estimates that each percentage point in excess of the 7 percent target in FY 2021 could reduce the City's planned pension contributions by $28 million in FY 2023, $56 million in FY 2024 and $85 million in FY 2025.

In April 2021, the State enacted legislation to enable the City to offer a temporary retirement incentive program to their employees, including teachers and other employees of the Department of Education (DOE). If the City elects to participate in the program, it must demonstrate savings either by eliminating the vacated positions or by showing that any new hires would earn not more than half the salaries of the retiring employees over a two-year period. The program may also be used to avoid layoffs, but such action appears very unlikely given the City's improved short-term financial outlook.

The City Actuary estimates that 75,610 employees would meet the eligibility requirements, but that fewer than half would elect to retire under the program if all such employees are offered the incentive. As the DOE did not elect to participate in the program by the May 31,2021 deadline, however, no incentive will be offered to DOE employees (representing more than half of the eligible employees). The deadline for the City to opt in to offer the incentive to other employees is June 30, 2021.

Post-Employment Benefits

The City's unfunded liability for post-employment benefits other than pensions (OPEBs), such as retiree health care, reached $109.4 billion in FY 2020, an increase of $21 billion (23.8 percent) in three years. 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 $2.7 billion in FY 2020 to $3.6 billion in FY 2025, an increase of 33 percent in five years.

In FY 2006, the City established the Retiree Health Benefits Trust (RHBT) to help fund the future costs of OPEBs. However, the RHBT has been used as a rainy-day fund twice since its inception. The City drew down more than half the resources during fiscal years 2011 through 2013. While the City replenished these resources and increased the balance over the next five years through FY 2019, it drew down resources from

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

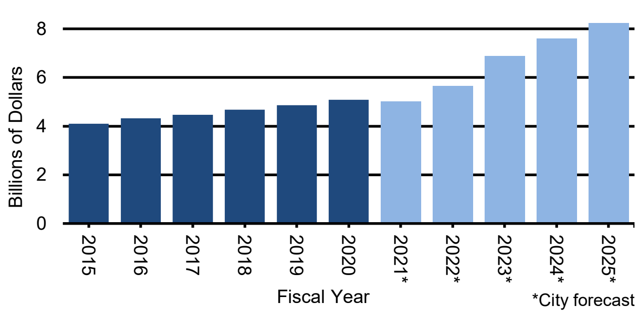
the RHBT a second time in FY 2020 (by $1 billion) to help offset a revenue shortfall in that year attributed to social and economic impacts of COVID-19.

However, the improved financial outlook since the beginning of the fiscal year has permitted the City to rescind a planned drawdown of $1.6 billion in FY 2021. The RHBT had a balance of $3.8 billion as of the close of FY 2020.

Health Insurance

Together, two agreements reached between the City and the Municipal Labor Committee in 2014 and 2018 are expected to produce cumulative savings on health insurance costs of $10.3 billion through FY 2022 and recurring savings of $1.9 billion beginning in FY 2022. These savings were used to help fund wage increases for the municipal work force. Despite the agreements, insurance costs are projected to reach $8.2 billion by FY 2025 (see Figure 28), 62.2 percent more than in FY 2020.

FIGURE 28
Health Insurance Costs
City-Funded



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

Over the past year, the City has incurred significant hospital and medical costs related to the pandemic, which have been imposed on the City's health insurance program ($404 million in FY 2021). The City expects to be reimbursed for such costs with federal COVID-19 relief funds. The City has also utilized federal relief funds to avert the need for the balance of unspecified labor savings in fiscal years 2021 and 2022, which has been allocated to offset a portion of fringe benefits costs in those fiscal years.

As a result, the growth in City-funded health insurance costs is projected to decline by 1.1 percent in FY 2021, but the growth would resume in FY 2022 and accelerate in FY 2023 as the federal relief funds wind down. The pace of growth would slow in subsequent years.

The City is also seeking unspecified recurring labor savings of $1 billion annually beginning in FY 2023, which are currently earmarked for fringe benefits. As in past rounds of collective bargaining, a portion of these savings may come from actions to help hold down the growth in health insurance costs. Changes to the City's health insurance benefits would require agreement between the City and the municipal labor unions before they can be implemented.

Fair Fares

In January 2019, the City launched the Fair Fares NYC program, which provides half-fares on MTA subways, some bus systems and the Access-A-Ride program to New Yorkers who have incomes at or below the federal poverty line and do not already participate in a transportation discount program. Fair Fares enrollment reached 58,946 in FY 2019, 193,864 in FY 2020 and 227,349 by May 2021.

Last year, the City reduced funding for the program to $41 million in FY 2021 (from $106 million), reflecting the sharp decline in subway and bus ridership because of the pandemic. Although ridership has begun to return, it is still well below pre-pandemic levels (see the "Semi-Autonomous Entities" section for more information on MTA ridership). The April Plan includes $53 million in FY 2022 for Fair Fares, but does not fund the program beyond that year. If the program is continued after FY 2022, funding will need to be added.

Debt Service

City-funded debt service is expected to grow from $6.5 billion in FY 2020 to $9.2 billion in FY 2025 (see Figure 29), which represents an average annual increase of 7 percent. Debt service as a share of tax revenue (i.e., the debt burden) reached a recessionary peak of 13.7 percent in FY 2010, but gradually declined to 10.5 percent in FY 2019.

Despite historically low interest rates, the debt burden is now projected to grow to 11.4 percent in FY 2022 as tax collections decline in response to reduced economic activity brought on by the pandemic. The debt burden is projected to reach 13.5 percent by FY 2025, with the expected growth in debt service still below the City's self-imposed ceiling of 15 percent.[19]

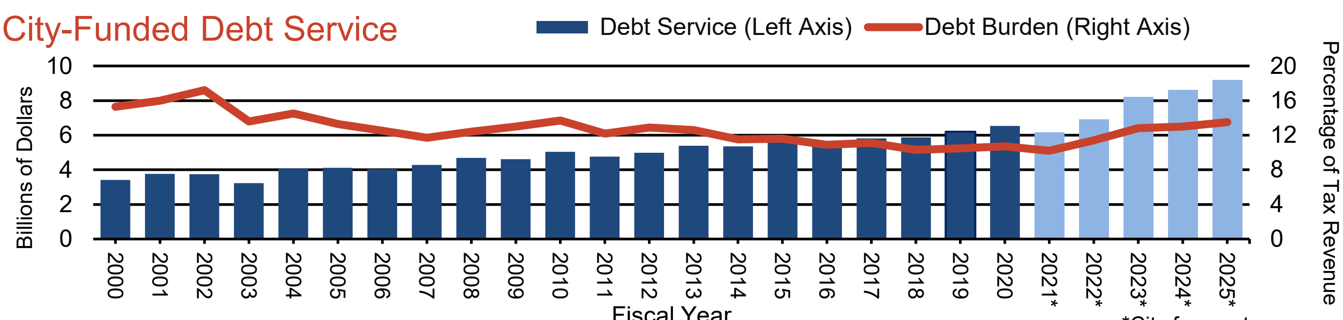
Since the start of the current fiscal year, the City has achieved a net total of $2.9 billion in savings during the financial plan period. Of this amount, $1 billion comes from bond refundings in which the City has structured the receipt of most of the savings in fiscal years 2021 and 2022, instead of spreading the savings over the financial plan period as it does when not under fiscal stress. OSC views these as emergency actions and anticipates a return to the spread of savings evenly over the plan period given the recent improvement in the City's fiscal outlook.

The interest rates assumed by the City for the issuance of long-term debt are conservative given the current interest-rate environment. There is potential for additional savings to accrue should interest rates remain low.

Historically, the City's capital expenditures are lower than what is forecasted in the financial plan, which generally limits new debt issuance and associated debt service over the financial plan period. There is the potential for further savings as anticipated City-funded capital expenditures in the April Plan (excluding those funded by the Water Authority) average $9.8 billion annually during fiscal years 2021 through 2025, but actual capital expenditures during the previous five years averaged only $6.6 billion.

The City and its related entities have $7.6 billion in outstanding variable-rate debt, which typically provides attractive financing costs relative to long-term fixed-rate debt. For FY 2021 and FY 2022, the City achieved $474 million in savings from lower-than-expected rates on

FIGURE 29
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

[19] The April Plan assumes that the City will increase its bonding by more than $12 billion during fiscal years 2023 through 2031 when compared to the January 2021 financial plan. As a result, the debt burden is expected to reach 14.5 percent by 2028 before dropping to 13.9 percent in 2031.

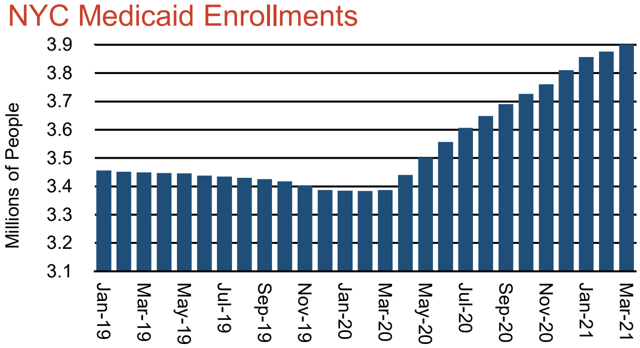
variable-rate debt. The City may realize additional variable-rate savings of $50 million in FY 2022 and $150 million in FY 2023.

As a result of the pandemic and its effects on the City's finances, Moody's Investors Service and Fitch Ratings downgraded the City's general obligation (GO) bonds (to Aa2 and AA-, respectively) last year. Moody's currently has a stable outlook (recently changed from negative) on GO bonds while Fitch maintains a negative outlook. S&P Global had placed a negative outlook on the City's GO bonds in December 2020 but changed it to stable on May 18, 2021. Moody's changed its outlook on the City's Future Tax Secured Transitional Finance Authority credits to stable from negative on May 13, 2021 while Fitch and S&P Global have maintained a stable outlook for those credits. Despite the changes from the rating agencies, demand by investors for all City debt remains strong.

Medicaid

In March 2021, more than 3.9 million City residents were enrolled in Medicaid, which provides health insurance to low-income children and adults. Enrollees include 527,000 people who have enrolled in Medicaid since February 2020, a sharp increase that coincides with the COVID-19 public health emergency (see Figure 30). Enrollment growth rates in Queens (19 percent) and Staten Island (18 percent) exceeded citywide growth of 16 percent during the same time period. Enrollment in the rest of the State grew by 14 percent.[20]

FIGURE 30
NYC Medicaid Enrollments



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

Policies implemented during the public health emergency have also facilitated enrollment, and more people have become eligible for benefits.

The April Plan assumes that the City-funded cost of Medicaid will total $5.9 billion in FY 2021, $6.3 billion in FY 2022 and $6.4 billion in FY 2023 through FY 2025. Medicaid costs are higher than in the June 2020 financial plan by $802 million in FY 2021, $504 million in FY 2022 and $581 million annually in FY 2023 through FY 2025. The higher costs are largely from the City's transfer of $501 million in FY 2021 and $580 million annually through FY 2025, used to reimburse H+H for costs associated with collective bargaining agreements and an unrestricted subsidy to the Medicaid budget to account for additional supplemental Medicaid payments to H+H.

The Families First Coronavirus Response Act passed in March 2020 began providing retroactive additional federal Medicaid aid as of January 1, 2020, and continuing through the COVID-19 public health emergency. The City estimates $381 million in total savings in FY 2020 and FY 2021. However, the public health emergency will likely persist through December 31, 2021, and OSC estimates the City's total savings to be $878 million.[21]

[20] Nationally, Medicaid enrollment increased by 13 percent from February 2020 through November 2020.

[21] The City could benefit from additional savings as the enhanced rate also applies to the City share of supplemental Medicaid payments made on behalf of H+H, of which the City has already benefited from savings of $78 million.

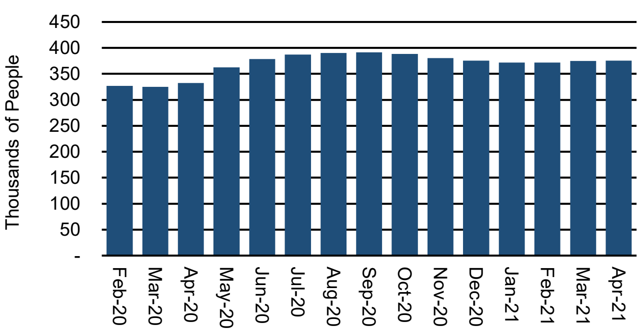
Medicaid enrollment may start to decline with the expected return of jobs. These estimates assume the State will not require the City to cover a larger share of Medicaid program costs.

Cash Assistance

The Human Resources Administration (HRA) provides public assistance benefits for all eligible children and adults. The April Plan assumes that the total funds costs for cash assistance will total $1.6 billion in FY 2021 ($810 million in City funds), increasing to $1.65 billion in each of fiscal years 2022 through 2025 ($891 million in City funds). Future-year estimates do not account for further increases given the current economic downturn and high rate of unemployment.

In March 2020, enrollment reached record-low levels at 325,000 people. However, during April 2020 at the height of the COVID-19 pandemic in the City, the caseload started to increase, and by September 2020 more than 66,000 people (20 percent) had been added (see Figure 31). While enrollment has declined slightly since then, it remains well above the pre-COVID-19 level (by 13 percent through April 2021).

FIGURE 31
Cash Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

Enrollment grew faster in the City than in the rest of the State. In March 2020, the City's cash assistance enrollment was 69 percent of the total statewide enrollment, which grew to 77 percent by February 2021, the latest available State data.

Policies implemented during the pandemic, such as automatic recertifications of benefits and enabling remote applications for benefits, have contributed to the growth. Additionally, work and education activities required for certain enrollees were suspended. Between April 2020 and February 2021, the HRA placed less than half as many people with job opportunities than it did during the same period one year earlier.

The HRA also provides cash assistance in the form of one-time payments, largely for outstanding rent and utility costs. The number of people who received these benefits between April 2020 and April 2021 was about 40 percent smaller than it was during the same period a year earlier, helped significantly by the federal moratorium on evictions, which began in March 2020. New York State recently extended the moratorium until August 31, 2021

Homeless Services

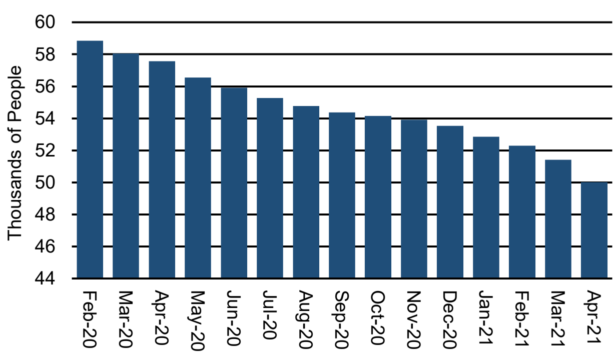
Costs at the Department of Homeless Services (DHS) have more than tripled since FY 2011, reaching $2.4 billion in FY 2020 ($1.6 billion in City funds). The growth in expenditures since FY 2011 reflects the combination of an increase in the shelter census and higher costs per day for shelter.

Between FY 2011 and FY 2017, the average number of people in shelter increased by 63 percent, and then leveled off through FY 2019. The average cost per day for shelter increased sharply beginning in FY 2016 as a result of a revamping of contract rates for nonprofit service providers (in an attempt to improve the quality of services for shelter residents), and repairs and security provided at shelters. The cost per day for single adults in shelter increased by 78 percent, and nearly doubled for families in shelter from FY 2011 to FY 2020.

The April Plan assumes that total costs will amount to $2.8 billion in FY 2021, but that the City-funded portion will decrease by $400 million to $1.2 billion, reflecting the receipt of nonrecurring COVID-19 relief funds ($886 million), largely for sheltering single adults in hotels. Total funds costs are expected to decline to $2.2 billion ($1.3 billion in City funds) in FY 2022 and remain at that level through the remainder of the financial plan.

The homeless population in shelters operated by the DHS declined by 15 percent or roughly 8,800 people since February 2020 and the start of the pandemic. During April 2021, an average of 50,000 people lived in DHS shelters (see Figure 32). The majority of the decline occurred among families with children (23 percent), while the number of single adults continued to increase (5 percent).

FIGURE 32
People in Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

Starting in March 2020, the DHS started isolating individuals who tested positive for or exhibited symptoms of COVID-19, those at high risk of developing the virus, and those located in congregate shelters, by placing them in hotel rooms. Whereas in February 2020 more than 3,500 single adults were sheltered in commercial hotels, by the end of March 2021 roughly 13,000 single adults resided in such housing. The number of single adults living in DHS congregate shelters declined by more than 8,300 during the same time period.

The April Plan does not assume a continuation of COVID-19 relief funds beyond the current year. The City has announced its intention to relocate these individuals back to congregate care settings, but has yet to publish a plan for doing so. If the efforts to relocate these individuals extend well beyond FY 2021 and the census remains at current levels, in the absence of additional federal funding the City may incur as much as $147 million in additional costs beginning in FY 2022.

Additionally, the New York State moratorium on residential evictions is set to expire on August 31, 2021, which could result in strains on the shelter system and increases in associated City-funded costs. A federal judge has also struck down the ruling on the national moratorium, stating that the CDC has no power to interfere in the private rental market. As of August 12, 2020, approximately 200,000 eviction proceedings from before March 17, 2020, were pending in New York City.

Uniformed Agency Overtime

Uniformed agencies contributed more than three-fourths of the City's total overtime expenditures ($1.2 billion) in FY 2021. The City's four uniformed agencies spent $965 million in overtime through April 2021, or $174 million more than planned.[22] Most of the remaining overtime is concentrated at the health and welfare agencies ($111 million), the Department of Transportation ($50 million) and the Department of Environmental Protection ($33 million).

Last June, the City cut the Police Department's FY 2021 overtime budget by more than half to

[22] Including civilian and uniformed position overtime.

$268 million, $569 million less than overtime costs at the department in FY 2020 ($837 million), but it has made minor adjustments to the forecast since then. The City now projects total overtime of $272 million, even though costs through the first 10 months of the fiscal year had already reached $346 million. OSC anticipates overtime costs at the Police Department will total $435 million, $163 million more than planned. After accounting for projected savings in other personnel costs, overtime spending could end the fiscal year exceeding the City's plan by $75 million.

While higher than planned, overtime spending at the Police Department is still nearly $250 million (42 percent) lower than during the same period in FY 2020, and is on pace to decline to the lowest level in more than a decade. The continued cancellation of major planned events and other deployment shifts in response to COVID-19 contributed to this reduction.

Furthermore, the City cut overtime by a total of $172 million (to $434 million) in each year beginning in FY 2022. While these estimates would be reasonable in the current COVID-19 environment, the City announced that it would fully reopen on July 1, accelerating a return to pre-pandemic levels of activity, which could result in higher overtime spending based on past trends. As such, OSC assumes a risk of $150 million annually beginning in FY 2022.

The Police Department is expected to undergo changes, which may include changes to overtime practices, as the City begins to implement reforms published in the City's Police Reform and Reinvention Collaborative Plan. One reform includes transferring school safety to the Department of Education by June 2022, which would also shift costs to that department. Prior to the pandemic, spending on overtime for school safety totaled $59 million in FY 2019.

Overtime at the Department of Correction has increased significantly since the beginning of the fiscal year, totaling $109 million through the first 10 months, $29 million more than planned. While it had planned to shutter two facilities as part of an initiative to close Rikers Island, the department kept the facilities open this year to maintain social distancing measures during the pandemic. In addition, the department has experienced substantially higher rates of employee unavailability in recent months. Both unfavorable developments have led to an increased use of overtime. As such, OSC anticipates that Correction's overtime costs could exceed the City's plan by $50 million.

The Department of Sanitation has experienced a reduction in employee availability since the beginning of the pandemic, and has also increased facility and vehicle cleanings to reduce the risk of COVID-19 transmission. These factors, exacerbated by a heavy snow season, contributed to higher overtime spending. Overtime through the first 10 months of the fiscal year totaled $235 million, $8 million more than planned and more than double the costs incurred during the same period last fiscal year ($115 million). An estimated $75 million was due to snow removal.

The April Plan added $127 million (including $87 million in federal funds) to reimburse the Department of Sanitation for unplanned overtime spending in FY 2021, increasing the total overtime budget to $268 million and substantially reducing the short-term budgetary risk.

Based on historical trends and recurring funding, OSC expects that overtime at the Fire Department will be higher than planned but consistent with trends from previous years. Overtime costs at the Fire Department have remained relatively flat for nearly a decade, and OSC projects a continuation of the trend in FY 2021. During the first 10 months of FY 2021, costs totaled $276 million, $20 million more than planned but in line with the annual cost in prior years.

IX. 10-Year Capital Strategy

In response to COVID-19, the Governor signed the New York State on PAUSE executive order on March 20, 2020, effectively halting most capital projects in New York City. The City discontinued work on capital projects unless they were related to COVID-19 recovery, health, life, safety or legal mandates. Restrictions on ongoing projects were lifted on June 13, 2020, with all project restrictions lifted by the City on January 25, 2021.

The 10-year capital strategy released by the City on April 26, 2021, totals $133.7 billion. This represents a $15 billion increase from the preliminary capital strategy released by the City in January 2021. Of the increased amount, $10.2 billion is expected to occur in the first four years of the 10-year capital strategy, with commitments in FY 2022 increasing by $4.8 billion. The main source of funding in the current 10-year capital strategy is City-related. Of the $133.7 billion planned, funding from federal sources accounts for only $3.59 billion.

FIGURE 33
10-Year Capital Strategy, FY 2022-FY 2031
(in millions)

Category	April Plan	January Plan	Variance
Transportation	$22,846	$18,497	$4,349
Housing	$15,125	$12,874	$2,251
Environment	$22,669	$20,835	$1,834
Transit Authority	$1,700	$400	$1,300
Education	$22,200	$21,013	$1,187
Resiliency, Tech. & Equipment	$9,367	$8,299	$1,068
Parks & Recreation	$5,613	$5,026	$587
All Other	$34,225	$31,847	$2,378
Total	**$133,745**	**$118,790**	**$14,955**

Sources: NYC 10-Year Capital Strategies; OSC analysis

As shown in Figure 33 and discussed below, $12.6 billion of the increase will be dedicated to projects related to transportation, housing, environment, transit, technology and equipment, and parks and recreation.

The largest increase, $4.3 billion, occurs in the Department of Transportation. The April Plan calls for a $1.4 billion increase in street resurfacing, which would repair an additional 4,420 lane miles of primary streets and arterial highways. An additional $1.6 billion is designated for sidewalk and ramp reconstruction and street reconstruction. Increases in bridge life extension, bridge reconstruction and bridge protective coatings added another $1.1 billion.

Housing projects have been increased by $2.3 billion, including $1.1 billion for new construction, $500 million for preservation, $300 million for special needs housing, and $300 million for the New York City Housing Authority Rental Assistance Demonstration project. Spending on Department of Environmental Protection projects increased by $1.8 billion, including $650 million for water pollution control projects; $350 million for the replacement, rehabilitation and construction of new sewers; and $770 million for water mains, sources and treatment.

The City will increase spending on transit projects by $1.3 billion. State legislation requires the City to contribute $3 billion to the MTA's 2020-2024 capital program (the State is also contributing $3 billion). The capital strategy includes $1.5 billion of the City's commitment.

Of the $1.2 billion increase for the Department of Education, $800 million is allocated for build-outs of leased space, building additions, new athletic fields and playgrounds. The City is planning to increase spending on energy efficiency and citywide equipment projects by $1.1 billion. The largest portion of this increase is for resiliency measures ($700 million). The Department of Parks and Recreation is receiving another $590 million, mostly for park reconstruction.

X. Semi-Autonomous Entities

Department of Education

New York City has the largest public school system in the nation, serving roughly 1.1 million students in more than 1,800 schools. Since March 2020, City schools have used remote and blended instruction to continue serving students during the pandemic, and the City was among the first in the nation to offer a return to in-person classes. However, City data indicates that public school enrollment declined by more than 53,000 students (4.6 percent) in the 2020-2021 school year, and the City expects only about half of those students to return to the public school system in the coming year.

Nevertheless, the City plans to increase education spending by more than $2.6 billion over FY 2021 levels. The April Plan allocates $37.7 billion to the Department of Education for FY 2022, which amounts to 38 percent of the City's total budget. The City is expected to fund $19.4 billion (51.4 percent) of the total, with the remainder funded by the State (34 percent) and the federal government and other sources (14.6 percent). Federal aid and other sources have provided an annual average of 7.9 percent of the department's budget over the previous 10 years, while City funds have accounted for an average of 56.3 percent. The plan expects funding source distribution to normalize again as emergency federal relief funding expires.

The April Plan includes an extraordinary $7 billion of federal emergency COVID-19 relief funds for the department through FY 2025, authorized in two rounds. The first provides almost $2.2 billion available through FY 2024, while the second provides $4.8 billion available through FY 2025. The Mayor has also elected to distribute an additional $366 million in unrestricted federal aid to the department over the financial plan period.

The City plans to use $3.3 billion of this total to support its programming over the financial plan period. Another $2 billion will be used through FY 2025 to expand the City's 3-K program to provide universal free child care to the City's three-year-olds. Additionally, $1.2 billion over the financial plan period will fund a number of new initiatives, including additional special education services ($532 million), the expansion of mental health services for students ($300 million) and an expansion of the Community Schools program ($138 million). The City also intends to use $552 million over the life of the plan to restore a number of programs that had been cut to achieve savings in earlier financial plans.

Many of these new expenses are likely to continue beyond the plan period, amounting to more than $1 billion in new recurring annual costs by FY 2025. The largest new expense is the expansion of the 3-K program, which the City estimates will cost $752 million annually once it is fully phased in. However, the extraordinary federal aid with which the plan funds these recurring expenses will not be available past FY 2025. Unless the City can secure additional recurring funding sources, it is likely to be faced with either cutting many of these programs or funding them with new City resources as federal support is exhausted. Furthermore, the City will add more than 3,800 positions to the department by FY 2025 to implement its new initiatives, all of which are supported by nonrecurring federal emergency funds during the plan period.

Along with the extraordinary level of federal aid, the City will receive more than $1.3 billion in additional State education aid compared to FY 2021. More than half ($721 million) is due to the elimination of the State's pandemic adjustment, which used the first round of federal coronavirus relief funds provided in FY 2021 to supplant State aid. The remainder is primarily due to an increase in foundation aid provided by the State. The State has committed to fully phase in its foundation aid formula by FY 2024, by which time the City should receive at least $1.1 billion annually in new funds. The April Plan uses this increase to fully fund the City's Fair Student Funding formula, which allocates funds to schools based on student population and need. The City anticipates that fully funding the formula will cost $600 million annually.

These unprecedented levels of one-time federal relief and significant recurring increases in State education aid have allowed the City to weather the pandemic and even enabled new programmatic spending, but the City has not addressed a number of additional expenses that are likely to increase in future years.

Under federal law, school districts must provide necessary services to students with disabilities. If the district is unable to do so itself, it must fund such services in what are known as Carter cases. City spending on Carter cases reached $626 million in FY 2020, more than double the amount five years earlier. The April Plan assumes spending will remain flat in FY 2021 and increase by $40 million in FY 2022 before decreasing by $220 million in FY 2023. Planned spending would remain at the FY 2023 level throughout the balance of the financial plan period. Until the City can demonstrate that spending for Carter cases has begun to decline, these costs are likely to exceed the estimates in the April Plan beginning in FY 2023. Such expenses may be even higher because parents have challenged the City's ability to provide adequate services during the pandemic.

Similarly, the cost of student transportation has grown faster than anticipated, requiring the City to add funding in each of the past five fiscal years (averaging almost $108 million annually). The City added $200 million for this purpose over the course of FY 2021 alone, but has not yet included any additional funding in later years.

Finally, the financial plan does not reflect future increases to charter school per-pupil tuition rates that are mandated in State law. The City's preliminary estimates show that its costs could increase by $282 million in FY 2023, $433 million in FY 2024, and $625 million in FY 2025 if they are not offset by additional State aid.

Metropolitan Transportation Authority

The Metropolitan Transportation Authority (MTA) is facing challenges in balancing its budget, relying heavily on federal aid and funds from deficit borrowing. As a result of the COVID-19 pandemic, utilization of the MTA's services dropped precipitously starting in March 2020. OSC has launched an interactive online tool for subway ridership that details where straphangers are, and are not, returning to the subway system by neighborhood.

Although ridership has begun to return, in April 2021, subway ridership was still down an average of 63 percent from 2019, bus ridership was down 46 percent and MTA commuter railroad ridership was down around 70 percent. MTA bridge and tunnel crossings, however, were just 11 percent lower than pre-pandemic levels in April 2021.

Dedicated tax revenue collections have also declined because of the recession. As a result of these overall revenue shortfalls, the MTA's transportation revenue bonds have been downgraded seven times by four rating agencies since the beginning of the pandemic.

As shown in OSC's report on the City's January Plan, the MTA is expected to balance its budgets in 2020 and 2021 mostly through the receipt of $8 billion in federal aid. The MTA's February 2021 financial plan projected budget gaps of

$3.1 billion in 2022 and $2.4 billion in each of 2023 and 2024.

Subsequently, in March 2021, Congress passed and the President signed the American Rescue Plan, which is expected to provide, among other things, $6.5 billion to the MTA's operating budget. As a result, in April 2021, two rating agencies changed the MTA bonds' outlook from negative to stable without changing the underlying rating, citing the MTA's expected receipt of federal funding and improving liquidity.

The MTA's February 2021 financial plan assumes that ridership will only return to 79 percent of the pre-pandemic level by the end of 2024, as forecast in the worst-case scenario developed by the MTA's consultant, McKinsey. Since ridership is returning faster than planned, the MTA is receiving higher-than-expected fare and toll revenues this year with $589 million more than planned through April 2021. Dedicated taxes and fees are also $323 million higher than planned through May 2021.

These positive developments combined with the additional federal aid are likely to close the MTA's budget gaps through 2024. It is not yet clear how the MTA will balance its budgets beyond that time after federal operating assistance is used and if ridership does not return to pre-pandemic levels as a result of increased telecommuting and lower economic activity in the City.

State law requires the City to fund half of the net cost (i.e., the cost after fare collections and subsidies) of the MTA's paratransit program, up to a capped amount ($277 million in 2021 rising to $310 million in 2023) until June 30, 2024 (although the requirement is likely to be extended beyond that date). While the April Plan includes $63 million in FY 2021 to fund these costs, it makes no provision to fund the increase in subsequent years. Further, the MTA expects pre-pandemic paratransit ridership to return in 2022, which could increase the cost to the City by $79 million in FY 2022, rising to $150 million in FY 2025.

Before the pandemic, the MTA had begun its most ambitious capital program in an effort to address the existing repair backlog and to make substantial capital investments to advance system improvements. To help preserve cash, most new capital commitments had been halted during the pandemic.[23]

A recent report released by OSC found that the MTA's outstanding debt has more than tripled in 20 years, to $38 billion in 2020, and debt service has grown at a similar rate, increasing to $2.7 billion.[24] Most of the projected funding sources for the 2020-2024 capital program also carried some degree of risk.

State legislation also commits the State and the City to each provide $3 billion for the 2020-2024 program. The State has appropriated the full amount, but the City has appropriated only $1.5 billion of its $3 billion commitment.

The City's recovery is dependent on the MTA's financial stability. The City, the State and the MTA all face uncertainties about how to balance their budgets on a recurring basis without federal aid. The three are closely intertwined, and financial problems for one could adversely affect the others.

[23] Due to the pause to the capital program in 2020, the MTA only committed $5.4 billion of its originally planned goal of $13.5 billion of capital commitments.

[24] OSC Report 1-2022, *Annual Update: Metropolitan Transportation Authority's Debt Profile*, April 2021, https://www.osc.state.ny.us/files/reports/osdc/pdf/mta-debt-rpt-1-2022.pdf.

NYC Health + Hospitals

NYC Health + Hospitals (H+H) is the largest public health system in the country and provides health and mental health services to about 1.2 million City residents. While federal funds have helped H+H in the short term, it still faces significant challenges including the declining use of services, a large share of patients who lack health insurance, and the unknown long-term impacts of the COVID-19 pandemic.

On May 11, 2021, the City released the executive cash financial plan for H+H for FY 2022 (the "May Plan"). H+H has benefited financially from federal legislation that has delayed planned cuts in federal supplemental Medicaid payments through federal fiscal year 2023. These delays benefit H+H by $580 million in FY 2021, and $622 million in each of FY 2022 and FY 2023.

The May Plan projects nearly $2 billion in total costs related to COVID-19 in FY 2020 through FY 2022, and anticipates the receipt of $1.86 billion in revenue from the federal CARES Act and FEMA. H+H expects that any additional costs related to the pandemic will be covered by the receipt of additional federal relief funding.

The May Plan incorporates $747 million annually from efforts in prior years to achieve savings, and anticipates new savings of $1.2 billion in FY 2021, rising to $1.8 billion in FY 2025.

Most of the savings will be achieved with initiatives that increase revenue, mostly from the receipt of new supplemental Medicaid payments of $611 million in FY 2021, $913 million in FY 2022 and $835 million annually through FY 2025.

Additionally, the May Plan assumes additional revenue from H+H efforts to negotiate better rates with insurance providers, improve billing and coding, expand services throughout its system, and attract and retain patients.

The additional resources have permitted H+H to defer planned restructuring and staffing reductions through FY 2023, and H+H will reimburse the City for $212 million in debt service incurred on H+H's behalf in FY 2021. The City has not required H+H to make this payment since FY 2015.

The H+H anticipates ending FY 2021 with $734 million in cash, but there are potential risks that are not considered in this number. Expected FEMA reimbursement for COVID-19 costs may be delayed past June 30. An unintentional consequence of the Families First Coronavirus Response Act that had reduced supplemental Medicaid funding by $383 million in FY 2021 has been restored, but the federal funds have yet to be distributed to H+H. Additionally, the new federal supplemental Medicaid payments have not yet been approved.

The operational and financial impact of COVID-19 on H+H will be dependent on the pandemic's duration, as well as the continued receipt of federal revenue and the timing of when inpatient and outpatient utilization return to pre-pandemic levels.

New York City Housing Authority

The New York City Housing Authority (NYCHA) manages about 172,000 apartments that house more than 365,000 residents. This represents 8 percent of the City's rental apartments. Tenant rents accounted for 27 percent of NYCHA's $3.8 billion operating budget in 2020 (City funding accounted for $262 million, or 7 percent).

The pandemic has significantly impacted rent collections, which have declined as a result of reductions in rent due to lower incomes, a new policy to delay rent increases, and a rise in rent delinquencies. Between February 2020 and April 2021, the rent collection rate declined from 88 percent to 80 percent. NYCHA reports the total rent loss for 2020 at $70 million. NYCHA was able to offset the losses with $129 million in federal aid. The State recently extended the residential eviction moratorium until August 31, which could further impact collections.

NYCHA had been facing a $25 million deficit in 2021, but now expects to close it through the receipt of more federal operating funding than initially anticipated. In December, the NYCHA board met to discuss the agency's $300 million deficit (8 percent of operations) in 2022, its largest operating deficit since 2016.

The April Plan includes $275 million for NYCHA in FY 2022, of which $182 million will be City funds. The balance is federal, including $76 million in Community Development Block Grant funding and $16.7 million that NYCHA is expected to receive as a partner agency in the Mayor's recently announced City Cleanup Corps. NYCHA may also receive a portion of the President's $2 trillion infrastructure proposal, if Congress passes it.

NYCHA's projected deficits for 2023 through 2025 average $310 million annually, nearly four times higher than the out-year deficits projected in the 2020 financial plan.

Since January 2019, NYCHA has been under the purview of a federal monitor pursuant to an agreement between the City, NYCHA, the secretary of the U.S. Department of Housing and Urban Development (HUD), and the U.S. District Court for the Southern District of New York (SDNY). The agreement is designed to remedy lead paint conditions as well as resolve deficiencies related to heat, mold, elevators and pests, and requires the City to provide nearly $1 billion in operating assistance to NYCHA through FY 2027 as well as $4.2 billion in capital funding through FY 2028.

Some of the work mandated by the agreement has been impacted by the pandemic, but NYCHA is working with the monitor to extend deadlines as needed and to ensure that it remains in compliance with the HUD agreement.

In July 2020, NYCHA unveiled Blueprint for Change, its plan to rehabilitate 110,000 apartments, which would require the formation of a new legal entity, a public housing trust that would also leverage federal vouchers to issue bonds. The proceeds from these bonds would then be used to fund repairs.

In addition, NYCHA is working with the monitor on an organizational plan called the Transformation Plan, as required under the HUD agreement. This plan is focused on improving NYCHA's service delivery to residents, streamlining operations, and cultivating a culture of service throughout the organization. In March 2021, NYCHA received approval from the SDNY and HUD for the Transformation Plan, and will work to develop an Implementation Plan with input from residents and stakeholders that will be submitted to HUD for approval in September 2021.

Appendix A: Full-Time Staffing Levels

		Actual	Actual	Forecast	Plan	Variance	Variance
		June 2020	Feb 2021	June 2021	June 2022	June 2020 to Feb 2021	Feb 2021 to June 2022
Public Safety		**85,173**	**82,465**	**81,329**	**78,765**	**(2,708)**	**(3,700)**
Police	Uniformed	35,910	34,952	35,007	35,030	(958)	78
	Civilian	15,434	14,565	15,081	15,626	(869)	1,061
Fire	Uniformed	11,043	10,757	10,935	10,935	(286)	178
	Civilian	6,261	6,191	6,285	6,329	(70)	138
Correction	Uniformed	9,237	8,731	7,219	3,860	(506)	(4,871)
	Civilian	1,734	1,648	1,662	1,830	(86)	182
District Attys. & Prosecutors		4,705	4,833	4,278	4,278	128	(555)
Probation		822	765	836	845	(57)	80
Board of Correction		27	23	26	32	(4)	9
Health & Welfare		**23,396**	**22,725**	**22,989**	**24,771**	**(671)**	**2,046**
Social Services		9,472	9,212	9,378	10,202	(260)	990
Children's Services		6,974	6,805	6,792	7,124	(169)	319
Health & Mental Hygiene		4,165	4,037	4,105	4,690	(128)	653
Homeless Services		2,084	2,016	2,044	2,102	(68)	86
Other		701	655	670	653	(46)	(2)
Environment & Infrastructure		**16,207**	**16,190**	**15,719**	**16,105**	**(17)**	**(85)**
Sanitation	Uniformed	7,755	7,357	7,425	7,424	(398)	67
	Civilian	2,054	1,985	2,015	2,113	(69)	128
Transportation		2,418	2,980	2,415	2,597	562	(383)
Parks & Recreation		3,650	3,529	3,533	3,620	(121)	91
Other		330	339	331	351	9	12
General Government		**11,476**	**11,164**	**11,401**	**12,024**	**(312)**	**860**
Finance		1,996	1,940	2,031	2,097	(56)	157
Law		1,670	1,637	1,703	1,742	(33)	105
Citywide Admin. Services		1,793	1,697	1,756	1,871	(96)	174
Taxi & Limo. Commission		584	549	557	586	(35)	37
Investigations		359	343	365	363	(16)	20
Board of Elections		682	728	517	517	46	(211)
Info. Tech. & Telecomm.		1,613	1,557	1,672	1,803	(56)	246
Other		2,779	2,713	2,800	3,045	(66)	332
Housing		**2,461**	**2,431**	**2,490**	**2,668**	**(30)**	**237**
Buildings		1,676	1,665	1,724	1,882	(11)	217
Housing Preservation		785	766	766	786	(19)	20
Department of Education		**104,644**	**101,490**	**104,864**	**105,061**	**(3,154)**	**3,571**
	Pedagogues	93,022	90,286	94,086	94,245	(2,736)	3,959
	Non-Pedagogues	11,622	11,204	10,778	10,816	(418)	(388)
City University of New York		**6,288**	**6,133**	**6,388**	**6,212**	**(155)**	**79**
	Pedagogues	4,545	4,435	4,441	4,441	(110)	6
	Non-Pedagogues	1,743	1,698	1,947	1,771	(45)	73
Elected Officials		**2,340**	**2,248**	**2,464**	**2,481**	**(92)**	**233**
Hiring & Attrition Mgmt.		**- - -**	**- - -**	**- - -**	**(4,452)**	**- - -**	**(4,452)**
City-Funded Total		**251,985**	**244,846**	**247,644**	**243,635**	**(7,139)**	**(1,211)**
Non-City-Funded Total		**48,461**	**48,118**	**52,429**	**60,220**	**(343)**	**12,102**
All Funds Total		**300,446**	**292,964**	**300,073**	**303,855**	**(7,482)**	**10,891**

Sources: NYC Office of Management and Budget; OSC analysis

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