Review of the Financial Plan of the City of New York

Report 6-2023

OFFICE OF THE NEW YORK STATE COMPTROLLER
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Message from the Comptroller

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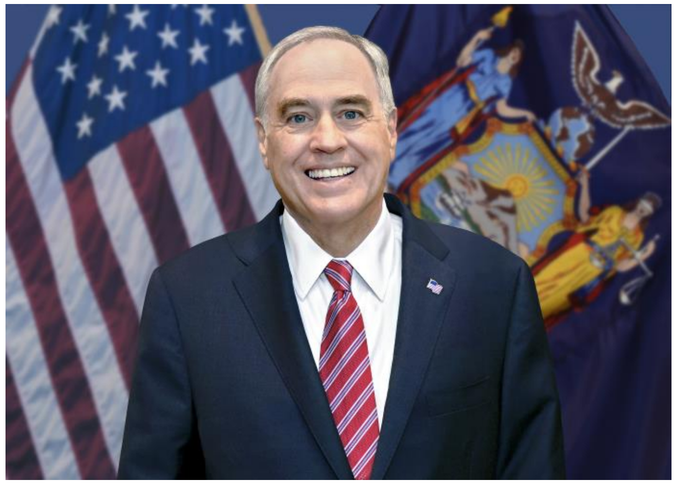

New Yorkers have experienced multiple economic and social disruptions arising from the COVID-19 pandemic and its many unanticipated effects on parts of the global economy. Amid a number of setbacks, the City's economy continues to show resilience, enabling a slow but gradual recovery. Unfortunately, recent improvement comes just as the national economy is slowing again, which stands to impact the City's finances directly and indirectly.

The City's adopted budget for Fiscal Year (FY) 2023 reflects the countervailing forces of extraordinary efforts by the federal government to boost the economy over the last two years and an economic slowdown due to unanticipated factors, including supply chain issues. City revenues exceeded all expectations in FY 2022, allowing the City to set aside a substantial portion in reserves and other budgetary cushions. The City has also taken steps to mitigate fiscal uncertainty that could stem from negotiations with its labor partners, including removing $1 billion in unidentified labor savings and increasing salary and wage assumptions over the plan period. The City's own changes in staffing levels also led to a substantial savings associated with the reduction in vacant headcount.

Improvements since April in the City's FY 2023 revenue projections, in contrast, were used to both increase the contingency general reserve and add substantial new one-time spending, particularly on enhancements to services that lagged during the pandemic or are in higher demand as the pandemic's effects linger. The balance between saving for a rainy day, maintaining the City's desirabilty and aiding those in need while managing its uncertain fiscal position remains a key challenge for the City in the coming years.

Many of the questions plaguing the City's economy also remain out of the City's direct control, including the long-term makeup of its industry and property market composition, geopolitical tensions and their effect on supply chain issues, and inflation and the related response of central banks, all of which could worsen budgetary volatility. The potential magnitude of the effects from these risks on the City's revenue, spending and future obligations suggests preparation, both in terms of planning and continuing to set aside resources, is necessary in order for the City to avoid being caught off-guard. Further identification of efficiencies, tracking the performance of services delivered amid changing staffing trends, and continuing to build reserve levels to satisfy their stated purposes should also inform the overall budget management strategy.

These steps will enable the City to better insulate itself from these pressures, which may also be felt by New York State and the Metropolitan Transportation Authority and could create additional fiscal stress on the City's tax base. These actions will also allow the City to address unexpected challenges, including new spending obligations, and to strengthen its fiscal foundation to keep New York City attractive for residents and visitors in order to continue creating economic opportunity for all.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

The release of New York City's Fiscal Year 2023 adopted budget and accompanying Financial Plan (the "June Plan," see Figure 1) cemented significant improvement in the City's fiscal position since June 2021. The City's estimated FY 2022 operating budget results enabled the City to prepay $6.1 billion in FY 2023 expenses (nearly the same as in FY 2022), eliminate $1 billion in recurring unidentified labor savings, add funding for wage increases of 1.25 percent for its municipal workforce and also to put away $1.45 billion (an increase of $950 million) into its Rainy Day Fund and $750 million into its Retiree Health Benefits Trust.

This improvement to the City's fiscal position occurring in FY 2022 was for the most part due to four factors in tandem: tax revenue collections which exceeded June 2021 projections by over $6.2 billion, additional extraordinary federal aid, a record year for pension returns in FY 2021 creating savings beginning in FY 2023 and savings from lower-than-planned staffing levels including the elimination of vacant positions. The unanticipated resources generated from the combination of these factors is not likely to occur at the same level again, however, and some factors have already begun to reverse as the City enters FY 2023.

While the City's published gaps are manageable by historical standards, averaging 5.3 percent from fiscal years 2024 through 2026 (3.3 percent excluding contingency line items), these factors may create risks that worsen the City's budgetary volatility substantially and could put the City on a path to structural budgetary imbalance if left unaddressed.

Total revenues are expected to decline by 9.4 percent from the record high of $111.6 billion in FY 2022 to $101.1 billion in FY 2023 due to lower tax revenues and federal aid for COVID-19 relief. City funds are projected to account for 73 percent of total revenues, or $73.3 billion in FY 2023. The City projects tax revenues, which make up 92 percent of all City funds, to decrease by 1.2 percent in FY 2023. This figure, while reasonable, does not take into account a recession. City fund revenues declined by 4.2 percent in FY 2002 and 5.9 percent in FY 2009, the first two full fiscal years of the last two recessions, which would be equivalent to between $3.1 billion and $4.4 billion if similar drops occurred in FY 2023, based on current revenue estimates.

In addition, the Federal Reserve, whose monetary easing policy during the pandemic fueled record and near-record levels of transaction activity and profitability on Wall Street, supporting strong personal and business income tax collections for the City, has shifted course. The focus on monetary tightening to tame inflation has already begun to create pressure on asset prices and firm profitability, which fuels tax revenues from real estate and the aforementioned income-based taxes.

It is unlikely that the City would receive any additional budgetary relief from the federal government to help offset any future declines in City Fund revenues, as it did during the peak of the public health emergency. While the President's proposed federal fiscal year (FFY) 2023 budget could provide some fiscal benefit to the City, both chambers of Congress have not yet reached agreement on the discretionary spending levels lawmakers will adhere to when completing action on the budget. The Build Back Better bill, which could also provide some budgetary relief, particularly for childcare and early childhood education initiatives, is unlikely to be taken up in its current form.

Overall, federal categorical grants will make up nine percent of the FY 2023 budget, down from 17 percent in FY 2022. The City expects federal revenue to decline to under $7 billion by FY 2026, which while likely conservative, would leave the City heavily reliant on other sources of revenue outpacing current projections to catch up to total spending growth.

While it realized substantial savings from much stronger-than-expected pension investment gains in FY 2021, the City will also face the adverse effects of recent pressure on asset prices in FY 2022. OSC analysis suggests the City's pension contributions will need to rise again to make up a shortfall of nearly 16 percent in FY 2022. The effects would not be felt until FY 2024, when the City may have to contribute an additional $870 million, but could rise quickly, to $3 billion by FY 2026.

The City was also able to generate substantial savings through its Program to Eliminate the Gap (PEG) and its prior savings initiative, the Citywide Savings Program (CSP). PEG savings of nearly $1.3 billion in FY 2022 were mostly generated through the elimination of vacant positions, which have now been baselined into the plan. The City also added new headcount in its most recent budget to provide new or expanded services. Debt service savings, which was a consistent contributor to City budget savings in recent years, may also be more difficult to generate in a rising interest rate environment.

While it has added substantial labor reserves since one year ago (more than $4.6 billion over the five-year financial plan period), the City could also incur collective bargaining costs beyond the amounts assumed in the June Plan pending the outcome of ongoing negotiations. If wages were to rise at the projected inflation rate without offsetting savings, costs would increase by an estimated $1.5 billion in FY 2023 (including retroactive pay) growing to $3.6 billion in FY 2026, with recurring costs of nearly $4 billion annually thereafter.

In addition to the reversal of these factors that contributed to positive operating results in FY 2022, the City also created additional spending pressures in the form of new programs funded only in FY 2023, representing new fiscal cliffs. These cliffs are in addition to a number of budgetary risks OSC has noted in recent years, including for the MTA, educational services, and additional housing supports, among others.

Excluding a portion of non-mandated fiscal cliffs, the potential cost of labor contracts beyond the amount budgeted and the risk of recession, all of which are fluid in the magnitude of the risk presented, OSC has calculated risks to the City's budget that could exceed $2 billion annually by FY 2024 and grow to $5.9 billion in FY 2026, raising the budget gap in that year to nearly $9.9 billion (see Figure 2).

The magnitude of the potential gaps, and specter of other, more fluid risks, means the City will have to continue to see an improvement in its economic recovery, and associated revenues, even as the rest of the country's growth slows, to avoid a series of difficult decisions on revenue enhancements, service adjustments and how to close its budget. In preparation for another local economic slowdown, the City will need to actively manage its budget and should put a renewed focus on performance to both identify areas of efficiency and ensure scarcer funds are being spent in a manner consistent with their stated purpose. Unexpected revenue upside of $900 million in FY 2022 after budget adoption also offers an opportunity to build reserves further.

This approach to budgetary management will also require discipline and patience, in order to avoid simply spending down reserves and other fungible resources to bridge budget gaps that are slower to close than expected. The City's fiscal governance remains as a critical component of its response and preparation for managing future budget gaps. Now is the time for further formalization of budgetary policies, such as the City's reserve policy, to help support wise budget policy making, which remains essential for encouraging prudent decision making.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2023	FY 2024	FY 2025	FY 2026
Revenues				
Taxes				
General Property Tax	$ 31,277	$ 31,871	$ 32,006	$ 32,018
Other Taxes	35,751	35,795	37,346	38,778
Tax Audit Revenue	721	721	721	721
Subtotal: Taxes	$ 67,749	$ 68,387	$ 70,073	$ 71,517
Miscellaneous Revenues	7,311	7,255	7,262	7,283
Unrestricted Intergovernmental Aid	252	- - -	- - -	- - -
Less: Intra-City Revenue	(1,974)	(1,939)	(1,929)	(1,929)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 73,323	$ 73,688	$ 75,391	$ 76,856
Other Categorical Grants	1,029	1,016	1,015	1,012
Inter-Fund Revenues	736	732	731	731
Federal Categorical Grants	9,284	8,676	7,958	6,974
State Categorical Grants	16,752	16,890	17,134	17,188
Total Revenues	**$ 101,124**	**$ 101,002**	**$ 102,229**	**$ 102,761**
Expenditures				
Personal Service				
Salaries and Wages	$ 31,668	$ 31,973	$ 32,453	$ 33,050
Pensions	9,414	8,702	7,814	6,933
Fringe Benefits	12,640	13,756	14,720	15,437
Subtotal: Personal Service	$ 53,722	$ 54,431	$ 54,987	$ 55,420
Other Than Personal Service				
Medical Assistance	6,564	6,385	6,385	6,385
Public Assistance	1,650	1,650	1,650	1,650
All Other	37,718	35,149	34,803	34,391
Subtotal: Other Than Personal Service	$ 45,932	$ 43,184	$ 42,838	$ 42,426
Debt Service	7,753	8,086	8,597	9,374
FY 2022 Budget Stabilization & Discretionary Transfers	(6,114)	- - -	- - -	- - -
Capital Stabilization Reserve	250	250	250	250
General Reserve	1,555	1,200	1,200	1,200
Less: Intra-City Expenses	(1,974)	(1,939)	(1,929)	(1,929)
Total Expenditures	**$ 101,124**	**$ 105,212**	**$ 105,943**	**$ 106,741**
Gap to be Closed	**$ - - -**	**$ (4,210)**	**$ (3,714)**	**$ (3,980)**

Source: NYC Office of Management and Budget

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

	Better/(Worse)				
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (4,210)**	**$ (3,714)**	**$ (3,980)**
Property Tax Revenues	- - -	- - -	75	150	225
Nonproperty Tax Revenues	900	250	750	500	400
Debt Service	- - -	125	- - -	- - -	- - -
Impact of State Budget	- - -	(66)	(124)	(124)	(124)
Subsidy to MTA Bus	37	(21)	(56)	(152)	(285)
MTA Paratransit Funding	(21)	(54)	(76)	(90)	(104)
DHS Prevailing Wage Security Guards	- - -	- - -	(66)	(66)	(66)
Expiration of Foster Care Waiver	- - -	- - -	(120)	(120)	(120)
Emergency Assistance to Families	- - -	- - -	(134)	(134)	(134)
Early Intervention	- - -	- - -	(45)	(45)	(45)
School Health (Article 6) Programs	- - -	- - -	(39)	(39)	(39)
Universal Access to Counsel in Housing Court	- - -	- - -	- - -	- - -	(16)
Rental Assistance	- - -	- - -	(227)	(227)	(227)
Public Health Corps	- - -	- - -	(13)	(25)	(61)
Carter Cases	(142)	(362)	(362)	(362)	(362)
Charter Tuition	- - -	- - -	(278)	(430)	(723)
Universal 3-K	- - -	- - -	- - -	- - -	(376)
Other Education Initiatives	- - -	- - -	- - -	(210)	(352)
Uniformed Agency Overtime	- - -	(461)	(459)	(460)	(463)
Pension Investment Shortfall[1]	- - -	- - -	(870)	(1,983)	(3,035)
OSC Risk Assessment	**774**	**(589)**	**(2,044)**	**(3,817)**	**(5,907)**
Potential Gaps Per OSC[2,3]	**$ 774**	**$ (589)**	**$ (6,254)**	**$ (7,531)**	**$ (9,887)**
Wage Increases at Projected Inflation[4]	- - -	**(1,516)**	**(2,182)**	**(3,046)**	**(3,595)**

[1] Based on a preliminary review, the City Comptroller states that the City's pension systems lost, on average, 8.65 percent on its investments as of June 30, 2022, compared to the expected annual gain of 7 percent (a shortfall of 15.65 percent).

[2] The June Plan includes a general reserve of $20 million in FY 2022, $1.555 billion in FY 2023 and $1.2 billion in each of fiscal years 2024 through 2026. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2023 through 2026. The June Plan also includes reserves of $275 million beginning in FY 2023 to fund potential changes to planned pension contributions from future actuarial audit recommendations. The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has an estimated balance of $4.6 billion as of the end of FY 2022 (adjusted to exclude prepayments of expenses for other post-employment benefits).

[3] State law requires surplus resources accumulated by the City to be deposited into a rainy-day fund (i.e., the Revenue Stabilization Fund). The June Plan assumes the City will deposit $1.45 billion into the fund in FY 2022, which will increase the balance to nearly $2 billion. These resources would be available to help balance the budget if there were a compelling fiscal need.

[4] The June Plan includes reserves sufficient to fund wage increases of 1.25 percent annually beginning after the expiration of the previous labor contract, which for many civilian employees would begin in 2021. If instead wages were to rise at the projected inflation rate during a four-year contract period without offsetting savings, costs would increase by an estimated $1.5 billion in FY 2023 (including retroactive pay), $2.2 billion in FY 2024, nearly $3.1 billion in FY 2025 and $3.6 billion in FY 2026. The recurring cost beyond the financial plan period (including higher pension contributions) would total nearly $4 billion.

II. Economic Trends

As inflation continues to rise, the national economic outlook appears weaker now than earlier in the year, with analysts cutting growth projections for 2022. Amid global economic disruptions and the anticipated Federal Reserve response to raise the policy rate to ease price increases, the probability of an economic recession in the next 12 months has grown. As a result, the economic climate for 2022 and beyond remains highly uncertain.

The final first quarter GDP estimate for 2022 showed a decline of 1.6 percent (on an annualized basis), worse than the preliminary estimates. The decline reflects weaker consumer spending than initially estimated. Second quarter GDP also declined, by 0.9 percent, based on the first preliminary estimate. S&P Global estimates growth will rebound in the final two quarters for a 1.4 percent growth for 2022.

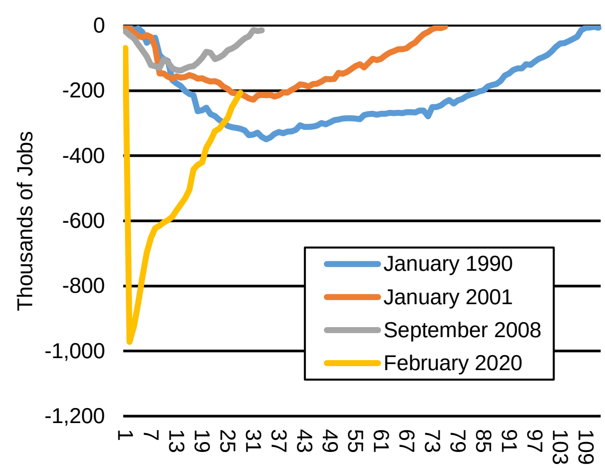
Locally, S&P Global expects a 3.3 percent growth for 2022 for the City, down from 4.7 percent in its prior forecast. The weaker local forecast is concerning given the City's already slow employment recovery. While the City added 22,500 jobs (seasonally adjusted) in June 2022, it has recovered less than 79 percent of the jobs lost in March and April of 2020 (the nation has recovered 98 percent).

Furthermore, the possibility of a recession threatens a full employment recovery, which, according to the latest projection from the City in April, is expected to occur by the third quarter of 2024. The City generally does not update its economic forecasts for the adopted financial plans (see Figure 3 for a recap of historical employment recovery timelines).

Low-wage economic sectors are furthest from a full employment recovery, namely, retail trade and leisure and hospitality. The possibility of a recession means workers in these sectors may be worst off. Nationally, personal savings dwindled to the lowest level since August 2009 in June 2022 as households spent more amid high inflation that has impacted the prices of necessities like food, fuel and shelter.[5] In the City, the Rent Guidelines Board recently voted to approve higher-than-normal rent increases of 3.25 to 5 percent for rent-stabilized apartments.

The expectation of an economic downturn has also begun to affect business decision-making. The City's unemployment rate rose slightly to 6.2 percent in June 2022 from 6.1 percent in May 2022. This increase reflects a rise in the number of unemployed people who are looking for a job and those on layoff.[6] The number of City residents who reported being laid off from their job in the last week is significantly higher compared to 2019. Between the first half of 2019 and the same period in 2022, the City experienced an 86 percent increase compared to only 45 percent in the rest of the State.

FIGURE 3
Post-Recession NYC Employment Recovery Timelines (in months)



Sources: NYS Department of Labor; OSC analysis

5 Bureau of Economic Analysis, *Personal Income and Outlays*, June 2022.

6 U.S. Bureau of Labor Statistics, Current Population Survey, January 2019 to June 2022.

Growing economic uncertainty has begun to impact the stock market more consistently. The S&P 500 fell into a bear market in the middle of June 2022, declining 20 percent from its peak, although it has experienced some improvement since. The near-term outlook remains dim, prompting analysts to lower their forecasts. S&P Global reduced its S&P 500 stock index forecast for the third quarter of 2022 from a decline of 4.9 percent in its June release to a decline of 13 percent in July.

Pretax profits for NYSE member firms in the first quarter of 2022 totaled $7.8 billion, about 57 percent lower than one year ago. In the April Plan, the City reduced its profitability forecast by 38 percent based on the expectation of a rising interest rate environment. While the City increased its monthly interest rate forecast for FY 2023 from the February Plan to the April Plan, it did not do so for the June Plan. While initially, the Federal Reserve did not anticipate raising the federal funds rate by more than 50 basis points, in June and July, it raised it by 75 basis points each month in response to rising inflation. These increases are larger than those assumed by the City. As office employers and employees are still considering remote work arrangements, coupled with economic uncertainty, the Federal Reserve's response has implications for the trajectory of the real estate market.

The commercial real estate market, in particular, has been experiencing record vacancy rates that the City expects will peak in 2023. Vacancy rates ticked up from 21.0 percent in the first quarter of 2022 to 21.5 percent in the second quarter of 2022, according to Cushman & Wakefield. The City expects the return of office workers, as well as business and leisure travelers, to be driven by the continued return of dining, nightlife and events to pre-pandemic levels (see OSDC's April Plan report).[7]

While recreational events are returning, quality of life, in particular personal safety, remains a concern for many residents and workers. This hesitancy comes at a time when employers are eager for their employees to return to a shared workspace. As inflationary pressures mount, leading to interest rate hikes and thereby increasing the probability of an economic recession, the outlook for New York City's economy remains uncertain.

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

III. Changes Since the April 2022 Plan

In June 2021, the City projected a balanced budget for FY 2022 and budget gaps of $4.1 billion in FY 2023, $3.8 billion in FY 2024, and $4.1 billion in FY 2025. As noted in OSC's previous report on the April Plan, the City made a number of revisions through April 2022 which eliminated the FY 2023 gap, increased the FY 2024 gap by $100 million and reduced the FY 2025 gap by $700 million. Favorable updates included an improved revenue forecast fueled by better-than-projected tax collections, savings identified in the Citywide Savings Program (CSP) and Program to Eliminate the Gap (PEG), and lower-than-planned pension contributions. These resources offset the new agency needs and allowed for modest increases in mandated costs and the labor reserve for the potential cost of wage increases in the next round of collective bargaining. For fiscal years 2022 through 2025 combined, higher revenue projections provided more than half of the additional resources that the City identified through April.

The June Plan further revised revenue projections from the April Plan, upward by $2.858 billion in FY 2022, $1.546 billion in FY 2023, $447 million in FY 2024, and $408 million in FY 2025 (see Figure 4). This was fueled predominantly by higher-than-anticipated personal income and business taxes in FY 2022 and FY 2023, and sales and real property taxes in FY 2024 and FY 2025. The FY 2022 collections are net of a $90 million property tax rebate to working and middle-class homeowners that was added as part of the budget adoption process.

Despite the higher revenue, the City's out-year gaps still widened from April, totaling $4.2 billion in FY 2024, $3.7 billion in FY 2025, and nearly $4 billion in FY 2026. Widening gaps resulted primarily from increasing the labor reserve by approximately $3 billion over the plan period, a prudent decision amid an environment of mostly expired contracts and stubbornly high inflation. Cumulatively, the City added nearly $2 billion to the labor reserve from FY 2022 through FY 2025, allowing for wage increases of 1.25 percent each year during the plan period.

The City used more than half of the better-than-anticipated revenue from FY 2022 to increase reserves ($1.5 billion). This includes additional deposits of $750 million each to the rainy-day fund and Retirement Health Benefits Trust by the end of FY 2022, bringing the balances of these funds to $1.95 billion and $4.6 billion, respectively. The City also increased the general reserve in the out-years by $200 million annually. Including contingency line items, the City is expected to reach a record level of $8.3 billion in reserves and other fungible resources as of the beginning of FY 2023. In addition to reserves, the City added $241 million in FY 2022 to allow for federal aid disallowances and to provide additional resources to fund the potential cost of collective bargaining (including retroactive payments through FY 2022).

The City also used $842 million of the additional FY 2022 revenue to increase its surplus transfer by prepaying Other Post-Employment Benefit (OPEB) expenses in FY 2022 for FY 2023. This provided additional FY 2023 spending flexibility, which was used to add $500 million to the general reserve and $371 million for anticipated collective bargaining.

In FY 2023, the upward revision to revenue in the June Plan was used to fund net expenses of a similar amount, including $536 million of City Council discretionary spending, $520 million of agency new needs, $91 million in Citywide Savings Program (CSP) restorations, and higher costs related to judgments and claims. The additional funding for agency new needs drops sharply to $57 million in FY 2024 and a net savings of $12 million in FY 2025 (after accounting for the rescindment of a planned increase in staffing at the Correction Department), indicating that many needs were funded for one year only, even though some may be for recurring spending initiatives. These funding drops, or "fiscal cliffs," mean that the current level of service is not supported, either partially or in full, going forward. Since the April Plan, total OSC-identified cliffs declined by a net of $292.2 million in FY 2023, but increased by a net of $166.6 million in FY 2024, $225 million in FY 2025, and $227.5 million in FY 2026.

The remaining budget gaps in subsequent years, as a share of City fund revenues, average 5.3 percent, slightly lower than at FY 2022 Adopted (5.5 percent). These gaps, as reported, are manageable in the context of historical levels. It is also notable that while the gaps increased from April by $273 million in FY 2024 and $328 million in FY 2025, the City also increased the general reserve by $200 million each of these years. Excluding contingencies, out-year gaps average 3.3 percent of City fund revenues, compared to 3.8 percent at FY 2022 Adopted. (See Appendix A for a full reconciliation of changes from FY 2022 Adopted.)

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

New Initiatives

The June Plan adds a net of $520 million for new agency needs in FY 2023. More than 60 percent of the additions ($329.8 million) are for the social service agencies, primarily addressing fiscal cliffs that OSC had previously identified, including spending for rental assistance ($118.5 million), housing for people with HIV/AIDS ($24 million), higher wages for shelter security guards ($20.3 million), and adding City funds to restore anticipated federal shortfalls ($127.2 million total). The plan also adds $11 million for Summer Youth Employment Program (SYEP) MetroCards, a priority that is shared by the City Council. However, despite the recurring nature of these initiatives, all of the new needs for social services are not funded past FY 2023, leaving fiscal cliffs unaddressed in the out-years.

The June Plan also increases planned spending for criminal justice programs, including $54 million in fiscal years 2023 and 2024 to expand and extend the Precision Employment initiative, and $42 million in FY 2023 only to provide transitional housing for justice-involved individuals following incarceration.

The City also removed baseline funding of $59 million that had been added in April to support additional staff at the Department of Correction. The June Plan redistributes these funds to baseline new initiatives, including $15 million for library programs; $12.8 million to address a higher volume of indigent defense provider appeals cases; $6.7 million for the district attorneys (primarily for gun violence prevention, hate crimes, and crime victim assistance); $6 million for the enforcement of 24/7 speed cameras; $4.9 million for the Department of Correction to expand programming for people in custody and dyslexia screening; and additional funding for parks. Many of the baselined initiatives align with City Council priorities.

Although not categorized as new needs, the June Plan also adds other adjustments of more than $180 million in FY 2023 and $60 million in the out-years for priorities shared by the City Council. The largest items include $60 million for cost-of-living increases for non-profit service providers (baselined), and one-time funding that includes $40 million in grants to cultural institutions and $40.6 million to the Department of Sanitation for restored and expanded services.

FIGURE 4
Financial Plan Reconciliation—City Funds
June 2022 Plan vs. April 2022 Plan
(in millions)

	Better/(Worse)			
	FY 2022	FY 2023	FY 2024	FY 2025
Projected Gaps Per April 2022 Plan	**$ - - -**	**$ - - -**	**$ (3,937)**	**$ (3,387)**
Updated Tax Estimates				
General Property Taxes	70	77	179	180
Real Estate Transactions	272	- - -	- - -	- - -
Business Taxes	661	250	- - -	- - -
Personal Income	1,836	793	- - -	- - -
Sales Taxes	258	226	237	248
Hotel Taxes	38	38	34	(17)
Other Taxes	(81)	100	- - -	- - -
Planned Tax Expenditures	(90)	- - -	- - -	- - -
Audits	- - -	- - -	- - -	- - -
Subtotal	**2,963**	**1,484**	**450**	**411**
Other Revenue Reestimates	**(105)**	**62**	**(3)**	**(3)**
Total Revenue Reestimates	**2,858**	**1,546**	**447**	**408**
State Budget Impact	**(38)**	**- - -**	**- - -**	**- - -**
Reserves				
General Reserve	30	(500)	(200)	(200)
Rainy-Day Fund Deposit	(750)	- - -	- - -	- - -
Retiree Health Benefits Trust	(750)	- - -	- - -	- - -
Subtotal	**(1,470)**	**(500)**	**(200)**	**(200)**
Savings Initiatives				
Program to Eliminate the Gap (PEG)	163	136	42	42
Restoration to Prior Savings Initiatives	- - -	(91)	(93)	(94)
Subtotal	**163**	**45**	**(51)**	**(53)**
New Agency Needs	**(697)**	**(520)**	**(57)**	**12**
Updated Estimates				
Collective Bargaining	(181)	(371)	(602)	(809)
Judgments and Claims	- - -	(141)	(90)	- - -
City Council Initiatives	- - -	(536)	- - -	- - -
Prior Year Payables	(200)	- - -	- - -	- - -
Pension Contributions	- - -	251	345	362
All Other	406	(617)	(65)	(48)
Subtotal	**25**	**(1,414)**	**(412)**	**(495)**
Total Expense Reestimates	**(2,016)**	**(2,388)**	**(720)**	**(736)**
Net Change	**842**	**(842)**	**(273)**	**(328)**
Gaps to Be Closed Before Prepayment	**$ 842**	**$ (842)**	**$ (4,210)**	**$ (3,714)**
FY 2022 Prepayment of FY 2023 Expenses	(842)	842	- - -	- - -
Gaps to Be Closed Per June 2022 Plan	**$ - - -**	**$ - - -**	**$ (4,210)**	**$ (3,714)**

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

IV. State and Federal Actions

State Budget

On April 7, 2022, the Enacted State Budget for State fiscal year (SFY) 2022-23 was agreed to by the Governor and the State Legislature. For a detailed list of components of the Enacted Budget that affected, and were incorporated into, the City's April Plan, please see the OSC analysis here.

In addition to the impact of the Enacted State Budget included in the April Plan, the June Plan adds the cost of an enhancement of pension benefits. The June Plan does not include the impact of higher foster care rates as well as other smaller items that total $7 million such as for school bus service after 4 p.m. As a result, costs stemming from the State budget not included in the June Plan could be $66 million higher in FY 2023 and at least $124 million higher annually thereafter than the City has budgeted.

Although proposed in the Executive Budget, the Enacted Budget did not include a replacement for the expiring 421-a program with a new property tax break program for developers who offer affordable, newly constructed apartments in the City. The current 421-a program costs the City $1.8 billion in tax expenditures (foregone revenue) annually for over 64,000 units of subsidized housing.

Subsequent to the Enacted Budget, the Legislature passed a two-year extension of mayoral control along with changes to the City's Panel for Educational Policy which are intended to give parents increased involvement in the running of the school system. The Legislature also passed a bill that, if signed by the Governor, would mandate smaller class sizes by 2027 which the City estimates will cost it $1 billion when fully implemented, excluding any needed capital costs.

The Governor signed a bill in June to authorize the City to provide a property tax rebate to homeowners in FY 2022, which will reduce revenue by $90 million. The June Plan assumes the impact of the rebate.

Federal Assistance

After incorporating a number of small changes into its forecast since the release of the April Plan, the City currently anticipates $16.2 billion in federal pandemic relief over the financial plan period. When combined with $9.8 billion in prior-year revenue (including $1 billion recognized as unrestricted aid during fiscal years 2022 and 2023) and estimated savings passed on to the City from enhanced federal funding for Medicaid ($1.2 billion), the federal pandemic support for the City government could total $27.3 billion over seven years, a historic level of assistance.

As of June 30, 2022, the City had collected or billed an estimated total of $6.5 billion in federal pandemic revenue earned to date for eligible services provided since March 2020. However, a significant portion of claiming activity performed during the fiscal year may not be reported until the audited financial statements for FY 2022 are published, by not later than October 31, 2022. As noted in our past two reports on the City's financial plan, the process of claiming, billing and collecting Federal Emergency Management Funds has taken longer than in previous emergencies.[8]

The June Plan assumes that total federal receipts for the operating budget will wind down sharply after FY 2022, from $19.1 billion to $9.3 billion, and will continue to decline over the

[8] In our recent report on the City's April 2022 Financial Plan, OSC included a more detailed discussion of the City's claiming progress through April 2022. OSC will provide an update on this progress after the City releases its financial statements for FY 2022.

balance of the financial plan period as the City draws down the remainder of the pandemic assistance. OSC has noted in several past reports that a portion of the temporary pandemic relief is being utilized for new service expansions, mainly the expansion of the City's pre-kindergarten program to include services for all three-year-olds (Universal 3-K), creating budgetary and programmatic uncertainty starting in FY 2025 when the temporary assistance is expected to be virtually exhausted.

In June 2022, the House of Representatives approved a "deeming" resolution to set the discretionary spending targets for Federal Fiscal Year (FFY) 2023, at $1.6 trillion (an increase of 9 percent over current levels), which is consistent with the level sought by the President in his budget proposal issued in March 2022. In recent years, Congress has rarely approved the federal budget by the start of the new fiscal year, which begins October 1, and has instead utilized stop-gap measures (i.e., a continuing resolution) to extend funding for government operations at current levels until a new budget is passed.

V. Program to Eliminate the Gap

In November 2021, the previous administration released a Citywide Savings Program totaling $2.5 billion over the five-year financial plan period, consisting mostly of debt service savings. In February 2022, the City announced a Program to Eliminate the Gap (PEG) which included additional financial plan period savings of more than $5.3 billion and eliminated over 7,000 positions in FY 2023. The PEG was expanded in the April Plan by $965 million over the financial plan period. The City added another $425 million in PEG savings in the June Plan, although most is concentrated in fiscal years 2022 and 2023. Combined, these initiatives provide budgetary relief of nearly $3.7 billion in fiscal years 2022 and 2023 and a total of $9.2 billion over the financial plan period (see Figure 5).

June Plan savings were relatively small, accounting for only 5 percent of total financial plan savings identified during FY 2022. Agency savings included in the June plan, totaling $234 million over the financial plan period, were largely generated by reestimates of planned expenses in FY 2022 and 2023 ($200 million). The City only identified one efficiency initiative in the June Plan, a reduction in the municipal fleet, generating just $9 million annually beginning in FY 2023 ($35 million total). This initiative is an extension of fleet reduction savings included in the April Plan PEG. Debt savings made up the remainder of the June Plan PEG, with a combined $91 million in fiscal years 2022 and 2023 and $33 million annually thereafter (totaling $190 million; 45 percent of total savings). Virtually all PEG savings in the June Plan can be achieved without operational changes.

In its February Plan presentation, the City introduced its PEG with over $1.7 billion in efficiency savings over the financial plan period, but has since identified only $93 million. The City should continue to prioritize finding additional efficiency savings in generating new PEGs where possible. The City also funded 810 positions in FY 2023 in the June Plan in addition to the 3,375 funded in the April Plan. While some of these positions are for new programmatic initiatives, the City should ensure that additions to headcount don't effectively reduce past vacancy reduction savings.

FIGURE 5

FY 2022 Savings Programs

(Dollars in Millions)

	Positions	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Total
Citywide Savings Program	**(234)**	**$ 508**	**$ 475**	**$ 513**	**$ 493**	**$ 462**	**$ 2,451**
PEG Savings (Prior Plans)	**(7,026)**	**$ 1,136**	**$ 1,268**	**$ 1,274**	**$ 1,313**	**$ 1,334**	**$ 6,325**
Agency Actions							
Efficiencies	- - -	- - -	9	9	9	9	35
Expense Reestimates	- - -	135	65	- - -	- - -	- - -	200
Revenue Reestimates	- - -	- - -	- - -	- - -	- - -	- - -	- - -
Agency Subtotal	**- - -**	**135**	**74**	**9**	**9**	**9**	**234**
Debt Service	**- - -**	**28**	**63**	**33**	**33**	**33**	**190**
PEG Savings (June)	**- - -**	**$ 163**	**$ 136**	**$ 42**	**$ 42**	**$ 42**	**$ 425**
FY 2022 Total Savings	**(7,260)**	**$ 1,808**	**$ 1,879**	**$ 1,829**	**$ 1,848**	**$ 1,838**	**$ 9,201**

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

VI. Revenue Trends

The June Plan increased its total revenue forecast (which includes locally generated revenues and federal and State categorical aid) from the April Plan by $2.6 billion in FY 2022 and by $1.5 billion in FY 2023, reflecting better-than-expected tax revenues. However, the City now expects a 9.4 percent decline from the record high of $111.6 billion in FY 2022 to $101.1 billion in FY 2023 due to lower tax revenues and federal aid for COVID-19 relief.

The upward adjustment in total revenues is due to locally generated revenues or City funds. City funds are projected to account for 73 percent of total revenues, or $73.3 billion in FY 2023. Tax collections account for 92 percent of City fund revenues while miscellaneous revenues account for 8 percent. The June Plan increased its tax collections forecast for FY 2022 from the April Plan by $2.9 billion, as collections from most major tax sources have been stronger than expected. As a result, the City now expects 4.6 percent growth in FY 2022 (see Figure 6). However, since the release of the June Plan, collections have continued to be strong as year-to-date collections through June were 6.3 percent higher than the same period last year. Therefore, collections in FY 2022 will likely be higher than the City's forecast by at least $900 million.

In addition, the City approved a one-time property tax rebate of up to $150 for each eligible household receiving the basic and enhanced School Tax Relief (STAR) tax breaks and earning less than $250,000 per year. This rebate will cost the City $90 million in FY 2022.

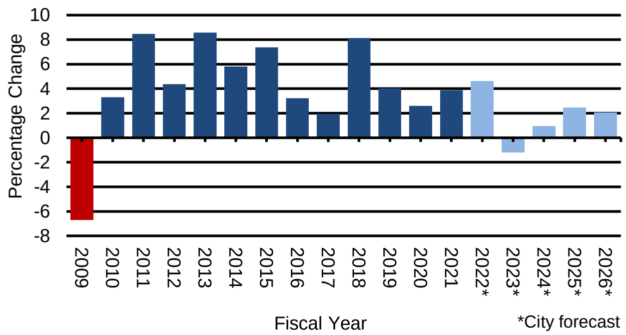
While the June Plan adjusted the FY 2023 forecast by a smaller amount ($1.5 billion) than the FY 2022 forecast, the City projects tax revenues to decrease by 1.2 percent in FY 2023 to reach $67.7 billion (see Figure 7). This decline

FIGURE 6
Comparison of Tax Revenue Growth Rates
June Plan, June Year-to-Date, and OSC Forecast Fiscal Years 2022-2026

		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
General Property	June Plan	-5.8%	6.0%	1.9%	0.4%	0.0%
	June YTD	-5.7%	N/A	N/A	N/A	N/A
	OSC	-5.8%	6.0%	2.1%	0.7%	0.3%
Personal Income	June Plan	9.6%	-7.7%	-2.9%	4.2%	2.6%
	June YTD	10.4%	N/A	N/A	N/A	N/A
	OSC	9.6%	-7.7%	0.4%	4.0%	2.5%
Sales	June Plan	27.4%	3.0%	4.3%	5.0%	5.6%
	June YTD	30.4%	N/A	N/A	N/A	N/A
	OSC	27.4%	4.8%	5.4%	4.4%	4.0%
Business	June Plan	9.5%	-13.6%	-2.1%	3.6%	5.5%
	June YTD	16.0%	N/A	N/A	N/A	N/A
	OSC	9.5%	-13.6%	-2.1%	0.5%	6.5%
Real Estate Transaction	June Plan	58.2%	-23.3%	8.0%	7.0%	3.0%
	June YTD	67.8%	N/A	N/A	N/A	N/A
	OSC	58.2%	-20.0%	3.6%	7.0%	3.0%
Hotel	June Plan	281.5%	44.9%	32.5%	9.5%	2.9%
	June YTD	307.5%	N/A	N/A	N/A	N/A
	OSC	281.5%	44.9%	32.5%	9.5%	2.9%
Total Taxes	**June Plan**	**4.6%**	**-1.2%**	**0.9%**	**2.5%**	**2.1%**
	June YTD	**6.3%**	**N/A**	**N/A**	**N/A**	**N/A**
	OSC	**4.6%**	**-0.8%**	**1.8%**	**2.2%**	**2.0%**

Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 7
Annual Percent Change in Tax Revenues



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

would be the first since FY 2009. The expected decline in tax revenues in FY 2023 is due to a 6.6 percent decline in nonproperty tax, which accounts for 54 percent of total tax collections. This decline reflects the City's assumption of slower economic growth due to economic uncertainty, which is likely to slow down the improvement in property markets and lower Wall Street profits (for more information see OSC's April Plan report). The decline in nonproperty tax revenue is offset somewhat by a 6.0 percent increase in property tax collections, reflecting the growth in property values in the final property tax assessment roll (released May 25).

Several City tax programs will also lower tax revenues. As discussed in the April Plan, tax revenues will be lower by $250 million in FY 2023 and then $300 million annually due to the expansion of the City's Earned Income Tax Credit and tax incentives to create child care seats.

The June Plan made much smaller adjustments (increase of approximately $400 million annually) to the total revenues forecast for fiscal years 2024 through 2026. As a result, total revenues are projected to decrease by another 0.1 percent in FY 2024. This would be the first time total revenues would decline for two consecutive years since data going back to FY 1980.

City funds are expected to increase in fiscal years 2024 through 2026, with average annual growth of 1.6 percent. This growth is driven by tax collections, which are expected to increase at an annual average rate of 1.8 percent. While the City expects nonproperty tax collections to grow at an annual average rate of 2.7 percent, property tax revenues are expected to be nearly flat in the out-years, with growth averaging only 0.8 percent annually due to uncertainty in the commercial real estate market. Geopolitical conflict and inflationary pressures present

FIGURE 8
Trends in City Fund Revenues
(in millions)

	FY 2022	FY 2023	Annual Growth	FY 2024	FY 2025	FY 2026	Average Three-Year Growth Rate
General Property Tax	$ 29,497	$ 31,277	6.0%	$ 31,871	$ 32,006	$ 32,018	0.8%
Personal Income Tax	16,552	15,284	-7.7%	14,844	15,462	15,869	1.3%
Sales Tax	8,349	8,601	3.0%	8,971	9,423	9,954	5.0%
Business Taxes	7,768	6,715	-13.6%	6,575	6,810	7,187	2.3%
Real Estate Transaction Taxes	3,071	2,356	-23.3%	2,544	2,723	2,806	6.0%
Other Taxes	2,549	2,795	9.7%	2,861	2,928	2,962	2.0%
Tax Audits	871	721	-17.1%	721	721	721	0.0%
Tax Program	-90	0	N/A	0	0	0	0.0%
Subtotal: Taxes	**68,567**	**67,749**	**-1.2%**	**68,387**	**70,073**	**71,517**	**1.8%**
Miscellaneous Revenues	5,056	5,337	5.6%	5,316	5,333	5,354	0.1%
Unrestricted Intergov. Aid	792	252	-68.2%	0	0	0	N/A
Grant Disallowances	(75)	(15)	-80.0%	(15)	(15)	(15)	0.0%
Total	**74,340**	**73,323**	**-1.4%**	**73,688**	**75,391**	**76,856**	**1.6%**

Sources: NYC Office of Management and Budget; OSC analysis

additional uncertainty to the City's tax revenue forecast. The June Plan is based on the trends shown in Figure 8 and discussed below.

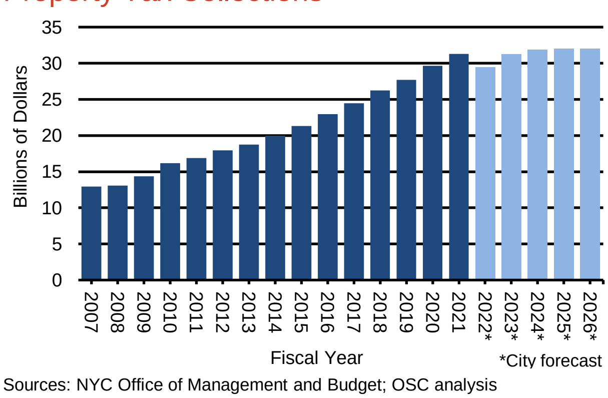
General Property Tax

In the June Plan, the City increased its forecast for property tax collections in FY 2023 to $31.3 billion, an upward adjustment of $77 million compared to the April Plan forecast. The FY 2023 forecast reflects an increase of $1.8 billion (6 percent) over collections in FY 2022 (see Figure 9). Though significantly improved over the prior fiscal year, collections in FY 2023 would still be below the pre-pandemic peak in FY 2021 by $34 million.

The June Plan includes a provision for a one-time property tax rebate for approximately 600,000 homeowners in the City. This rebate would reduce collections in FY 2022 by $90 million and is included in the revenue projections.

After the pandemic caused a significant decline in both market and taxable values on the FY 2022 property tax assessment roll, the preliminary FY 2023 roll released in January showed that values had rebounded and surpassed the record highs seen in FY 2021, the last year unaffected by the pandemic. Though the City had anticipated that the assessment challenge process would result in significant

FIGURE 9
Property Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

declines in taxable values, the final assessment roll released in May showed a tentative-to-final decline of 1 percent, slightly smaller than had been seen in previous years (an annual average of 1.2 percent for fiscal years 2017 to 2022). (For a more detailed analysis of the FY 2023 final assessment roll, see OSC's report on the April Financial Plan.)

The June Plan also increases expected collections in fiscal years 2024 to 2026 by a total of $542 million. The City expects growth to slow significantly in the out-years, averaging 0.8 percent annually from fiscal years 2024 to 2026, well below the pre-pandemic average annual rate of 6.4 percent (for fiscal years 2017 to 2021). While the City expects residential property values to continue their strong growth, the commercial market downturn brought on by the pandemic is expected to continue through 2023 as companies reevaluate their office space needs in light of hybrid work arrangements. Total taxable values for commercial space are expected to remain essentially flat for the next several years.

OSC estimates that the City's forecast for fiscal years 2024 through 2026 is conservative, given the continuing strength seen in the residential market, and expects collections to be higher by a total of $450 million in those fiscal years.

The FY 2023 property tax reserve, which accounts for reductions to the tax levy such as uncollectible taxes, abatements and refunds, was little changed in the June Plan (7.8 percent of the levy compared to 7.9 percent in the April Plan). The reserve share of the levy is expected to decline in FY 2024 to 7.3 percent. However, the City has increased anticipated reserves in fiscal years 2025 and 2026 as a precaution due to economic uncertainty.

The 421-a property tax exemption, which was created in the 1970s to spur housing development, was not renewed by the State Legislature in its most recent session, and expired on June 15, 2022. According to the Department of Finance, the exemption will cost $1.8 billion in reduced property tax revenues for 63,900 units in FY 2022.[9] A replacement program known as 485-w has been proposed, and the Mayor's Commission on Property Tax Reform has also issued recommendations that would address some of these issues. It is unclear as yet how the current administration plans to proceed with changes to the current system.

Personal Income Tax

Collections from the personal income tax (PIT), the City's second-largest source of tax revenue, combined with those from the new pass-through entity tax (PTET)[10], are projected to reach $15.3 billion in FY 2023 (see Figure 10).

Even though the June Plan increased the forecast from the April Plan by $793 million and expects growth in wages and jobs to continue, the City expects the combined PIT and PTET revenues to decrease by 7.7 percent in FY 2023, the largest decline since FY 2009. This decline is because the June Plan increased the FY 2022 estimate for collections by $1.8 billion to a record high of $16.6 billion, reflecting the strength of the real estate and stock markets in calendar year 2021. As the Federal Reserve continues its aggressive effort to combat high inflation, the markets will most likely be weakened considerably.

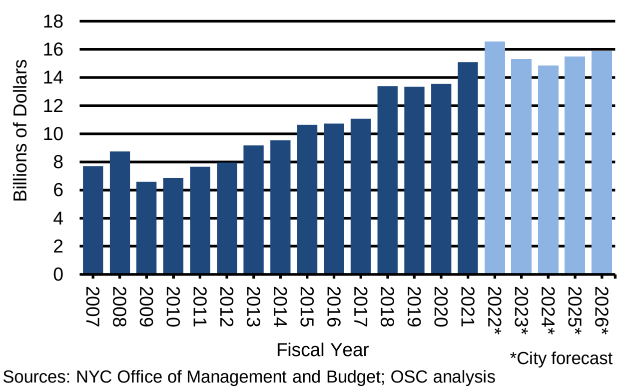
As a result of the markets weakening, most of the decline in FY 2023 will be due to a 17.4 percent decline in the combined estimated payments and PTET (the components that are based on nonwage income) after increasing by 12.6 percent the previous year and reaching a record high.

The June Plan expects withholding (i.e., the amount of tax taken from employee paychecks) to increase by 2.6 percent in FY 2023, much slower than the 10.4 percent growth the previous year. This estimate is attributable to the City's assumption of slower wage growth, with weaker bonuses expected as financial markets continue to suffer amid global economic uncertainty.

In addition, a small portion of the decline in FY 2023 total PIT collections ($250 million) is attributable to the expansion of the New York City Earned Income Tax Credit (EITC) and to additional tax relief for small businesses ($20 million) passed in the State budget. In 2020, over 650,000 New York City filers benefited from the EITC.

As the June Plan made no adjustments to the forecast for fiscal years 2024 through 2026, total PIT and PTET collections are forecast to further decline by 2.9 percent in FY 2024. The City expects growth to resume in fiscal years 2025 and 2026, averaging 3.4 percent annual growth,

FIGURE 10
Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[9] The City of New York Department of Finance, *Annual Report of the New York City Real Property Tax*, May 2022, at https://www1.nyc.gov/site/finance/taxes/property-reports/property-reports-annual-property-tax.page.

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

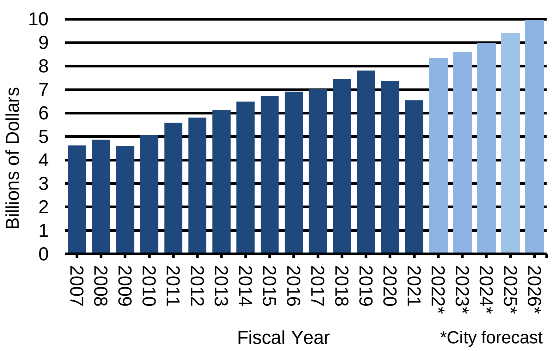
less than half of the annual average rate (7.2 percent) for FY 2010 through FY 2021. Total collections are not expected to exceed the FY 2022 peak during the plan period.

OSC estimates tax collections in FY 2022 will likely be an additional $100 million higher as year-to-date collections through June were 10.4 percent higher than the same period last year, higher than the June Plan forecast of 9.6 percent. For fiscal years 2024 through 2026, OSC estimates that tax collections may be higher by $500 million annually, anticipating growth in wage and nonwage collections to be higher than the City's forecast.

Sales Tax

The City expects sales tax collections to total $8.3 billion in FY 2022, an increase of 27.4 percent from the prior year (see Figure 11).[11] In the April Plan, the City expected collections in the fourth quarter of FY 2022 to be subdued. While stronger-than-expected collections led the City to revise its projections in the June Plan, year-to-date collections through June were even stronger, showing a 30.4 percent growth over last year. OSC estimates tax collections in FY 2022 will be at least $150 million higher than the City's forecast.

FIGURE 11
Sales Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

For FY 2023, the June Plan assumes collections will increase by 3 percent to $8.6 billion (up $226 million from the City's April projections). Inflation has been partially supporting the growth. In the last eight years, the consumer price index (CPI) share of City taxable sales has been a quarter of sales. The CPI for the New York metropolitan area increased 6.7 percent in June 2022, year-over-year, the highest increase in decades. The University of Michigan Consumer Sentiment Index is at its lowest level on record as inflation continues to affect consumer concerns. According to the Federal Reserve Beige Book released July 13, 2022, prices continue to rise, labor shortages persist, and although tourism activity has strengthened, consumption is flat. Visitors to the City are expected to recover to pre-pandemic levels in 2024.[12]

Collections are expected to rise, driven in part by price inflation amid continued consumer spending. However, initial signs of slowing consumption amid economic uncertainty pose a risk. As discussed in prior plan reports, nationally, e-commerce sales rose amid the pandemic environment. As of June 2022, the e-commerce share of total retail sales stands at 14.3 percent, compared to 11.1 percent before the pandemic. The share rose to 16.4 percent during the height of the pandemic in the second quarter of 2020 and has since normalized as brick and mortar sales have strengthened.

OSC expects collections to be $150 million higher than the City's forecast in FY 2023, rising to $8.8 billion, as collections continue to experience strong growth with tourism returning

[11] Sales tax is the third-largest source of tax revenue and is driven by consumer spending.

[12] Office of the State Comptroller Review of the Financial Plan of the City of New York Report 4-2023 https://www.osc.state.ny.us/files/reports/osdc/pdf/report-4-2023.pdf.

and rising inflation. In FY 2024, OSC expects collections to be $250 million higher than the City's forecast, rising to $9.2 billion, as tourism makes a full recovery in the City. Following FY 2024, OSC expects collections to revert to historical levels, less than projected by the City.

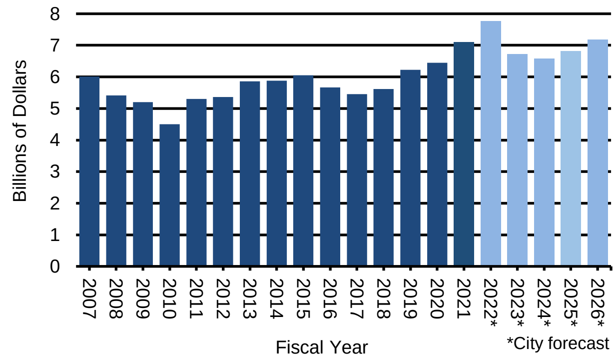
Business Taxes

The City expects business tax collections to finish 9.5 percent higher in FY 2022 from the prior year, rising to $7.8 billion.[13] While stronger-than-expected collections led the City to revise its projections upward in the June Plan, year-to-date collections through June were even stronger, showing a 16.0 percent growth over last year. OSC estimates tax collections in FY 2022 will be $450 million higher than the City's forecast.

While collections were strong in FY 2022, the current and future economic uncertainty could affect collections in FY 2023. The June Plan adjusts the City's forecast for business taxes to $6.7 billion for FY 2023. This level reflects an upward adjustment of $250 million (driven completely by business corporation tax, as the unincorporated business tax remains unchanged) from the April Plan. Despite this adjustment, business tax revenue is still projected to drop from the record FY 2022 and decrease for the first time in six years (see Figure 12).

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. The City expects business corporation tax collections to decline 16 percent to $4.5 billion in FY 2023 from the prior year driven by expectations of weaker Wall Street profitability. In FY 2024, the City expects an additional 5.4 percent decline from FY 2023 to $4.3 billion due to continued economic uncertainty.

FIGURE 12
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

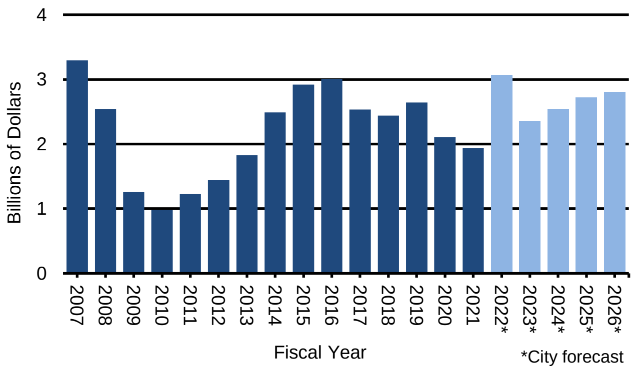
OSC estimates collections may be lower by $200 million in FY 2025, as in the Great Recession, business tax collections declined for three consecutive years. Barring further economic setbacks, OSC expects collections to revert to historical levels in FY 2026.

Real Estate Transaction Taxes

Due to the strength of fiscal year-to-date collections, the City increased its forecast for real estate transaction taxes in FY 2022 to $3.1 billion, an increase of $272 million (9.7 percent) over the April Plan forecast. With this adjustment, the City would realize the highest level of transaction tax collections since FY 2007. Despite the City's upward adjustment, year-to-date collections through June were even stronger, showing a 67.8 percent growth over last year. OSC estimates tax collections in FY 2022 will be $150 million higher than the City's forecast.

[13] Business taxes include the business corporation tax and the unincorporated business tax.

FIGURE 13
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

As no changes were made to the FY 2023 collections forecast of $2.4 billion, the increase in FY 2022 would result in a 23.3 percent decline in collections in FY 2023, the largest decline in both dollar value and percentage since FY 2009 (see Figure 13).

The increase in real estate transactions in FY 2022 was driven by a combination of several factors including pent-up demand from the pandemic, record low interest rates, and a temporary reduction in prices driven by a glut of properties on the market. The number of residential properties on the market was down significantly at the beginning of 2022 compared to the prior year. The recent federal funds rate increase by the Federal Reserve, and the expectation of more to come, may continue to slow the pace of new sales.

While a decrease in real estate transaction activity in FY 2023 is very likely, the decline seen in the City's forecast may be too steep given recent activity. OSC estimates that transaction tax collections may be higher by $100 million in FY 2023. After a significant decline in FY 2023, the City expects collections to resume growth in fiscal years 2024 to 2026, at a pace of 6 percent per year.

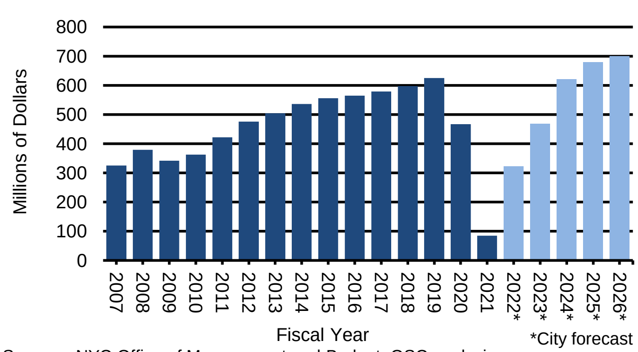
Hotel Tax

The June Plan increased the FY 2023 forecast for hotel tax collections by $38 million from the April Plan and now expects collections to reach $468 million in FY 2023, an increase of 44.9 percent over the previous year (see Figure 14). This increase reflects the City's assumption of a continuing recovery in tourism. However, this level would still be a quarter less than the pre-pandemic level in FY 2019. In the week ending June 25, 2022, hotel occupancy in New York City was 87 percent and is expected to remain strong, suggesting the City is being cautious in its projections.

In the first 10 months of FY 2022, hotel tax collections were better than expected, as collections more than quadrupled (an increase of $153 million) compared to the same period last year. As a result, the June Plan increased the forecast by $38 million and now expects collections in FY 2022 to reach $323 million, 282 percent higher than FY 2021.

The City does not expect hotel tax collections to exceed the peak in FY 2019 until FY 2025, in keeping with the City's assumption of a slow recovery for tourism. The June Plan lowered the forecast by $17 million for each of fiscal years 2025 and 2026 as the City expects growth to slow after surpassing the pre-pandemic peak to ultimately reach $699 million.

FIGURE 14
Hotel Tax Revenues



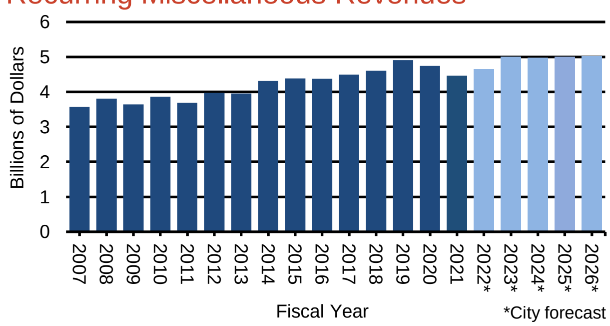
Sources: NYC Office of Management and Budget; OSC analysis

Miscellaneous Revenues

The City expects that total miscellaneous revenues, including one-time payments, will total $5.1 billion in FY 2022.[14] The June Plan assumes miscellaneous revenues will total $5.3 billion in FY 2023 and then remain flat in the out-years. Recurring miscellaneous revenues are projected to be $5 billion in FY 2023, $62 million higher than in the April Plan (see Figure 15). Licenses, permits, and franchises were increased $46 million for mostly bus stop franchises (installation and maintenance of bus stop furniture and fixtures). Water and sewer charges were increased $16 million as payments from flood barriers and granular activated carbon are expected in FY 2023.

Interest income remains unchanged from the April Plan which shows it increasing from $13 million in FY 2022 to $107 million in FY 2023 as interest rates are expected to continue to rise during this period. The Federal Reserve increased interest rates in July and June 2022 by 75 basis points, the highest monthly increases since 1994. This larger rate hike was not reflected in the City's forecast and could increase interest income by more than what the City expects in FY 2023.

FIGURE 15
Recurring Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

[14] 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).

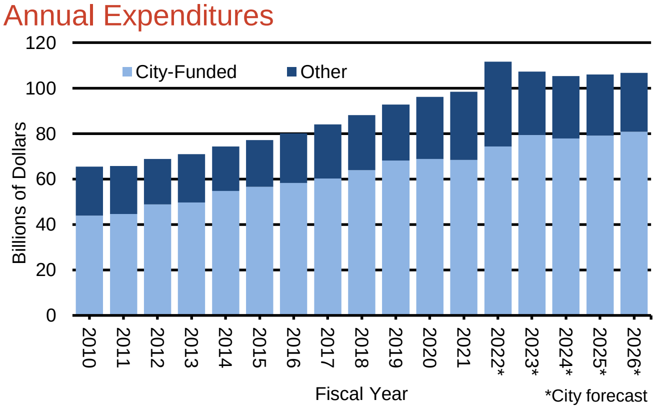
VII. Expenditure Trends

Citywide expenditures are projected to total $107.2 billion in FY 2023, after adjusting for $6.1 billion in surplus transfers, which obscure total expenditures (see Figure 16). The portion funded with locally generated revenue (i.e., City funds) is estimated at $79.4 billion. The portion funded with other sources, mostly federal and State categorical grants, is $27.9 billion (26 percent of total spending).

City-funded spending rose by an annual average of just 0.2 percent during fiscal years 2020 and 2021. While such spending remained essentially flat during these years because the surge in temporary federal pandemic aid reduced the need for City funds, the pace of growth is projected to rise sharply in fiscal years 2022 and 2023 to pre-pandemic rates, averaging 7.8 percent annually (6.5 percent excluding reserves). The tapering of federal pandemic fiscal relief after FY 2022 is a main contributor to the rebound of growth in City-funded spending through FY 2023. This trend will continue as the relief funds are exhausted.

Spending growth in these years is driven mainly by debt service and fringe benefits costs (other than pension contributions), such as health insurance. The growth is also attributed to nonrecurring other than personal service spending concentrated in social services and public health (e.g., contractual services) to fund a number of City Council and Mayoral priorities through FY 2023.

FIGURE 16
Annual Expenditures



Note: Adjusted for surplus transfers and debt defeasances. City forecast includes budgeted reserves and a planned rainy-day fund deposit of $1.45 billion in FY 2022.
Sources: NYC Office of Management and Budget; OSC analysis

The June Plan assumes City-funded spending will slow over the remainder of the plan period, growing by an annual average of just 0.7 percent over the next three years, excluding reserves. Health insurance costs will continue to be the largest cost driver followed by debt service through the balance of the financial plan period. The City projects its annual debt service based on conservative assumptions and actual spending could be lower than planned.

The anticipated decline in pension contributions would offset much of the spending growth, based on the expectation that investment results will meet the assumed annual gain of 7 percent over the financial plan period. But the June Plan does not reflect the impact of a pension investment shortfall in FY 2022, which could increase employer contributions beginning in FY 2024.

Other relatively large but manageable risks include higher-than-planned mandated operating subsidies for public transit, spending on certain education services and potentially higher overtime costs. The expenditure risks identified by OSC are estimated to total $834 million in FY 2023, rising to $5.4 billion by FY 2026.

The June Plan also assumes wage increases of 1.25 percent annually during the financial plan period. The assumed wage growth rates, which are subject to collective bargaining between the City and its municipal unions, are higher than assumed one year ago, but are still lower than the projected growth in local inflation during the plan period. The City may also incur higher-than-planned discretionary costs for local initiatives funded in FY 2023 but that are assumed to end in subsequent years (see OSC's "Fiscal Cliffs" Tool for more detail).

The June Plan is based on the trends shown in Figure 17 (next page) and discussed below.

FIGURE 17
Trends in City-Funded Spending in June 2022 Financial Plan
(Dollars in Millions)

	FY 2022	FY 2023	Annual Growth	FY 2024	FY 2025	FY 2026	Average Three-Year Growth Rate
Salaries and Wages	$19,239	$21,184	10.1%	$21,567	$22,307	$23,261	3.2%
Pension Contributions	9,583	9,269	-3.3%	8,558	7,670	6,789	-9.9%
Debt Service	6,487	7,571	16.7%	7,919	8,436	9,221	6.8%
Medicaid	6,382	6,462	1.2%	6,283	6,283	6,283	-0.9%
Health Insurance	6,113	6,743	10.3%	7,463	8,112	8,705	8.9%
Other Fringe Benefits	3,685	3,699	0.4%	3,813	3,946	4,112	3.6%
Energy	937	971	3.6%	980	977	1,058	2.9%
Judgments and Claims	1,154	1,059	-8.2%	1,025	737	683	-13.6%
Public Assistance	913	891	-2.4%	891	891	891	0.0%
Other	17,820	19,782	11.0%	17,950	18,297	18,383	-2.4%
Subtotal	**$72,313**	**$77,632**	**7.4%**	**$76,448**	**$77,655**	**$79,386**	**0.7%**
General Reserve	20	1,555	NA	1,200	1,200	1,200	NA
Capital Stabilization Reserve	- - -	250	NA	250	250	250	NA
Rainy- Day Fund	1,450	- - -	NA	- - -	- - -	- - -	NA
Retiree Health Benefits Trust	750	- - -	NA	- - -	- - -	- - -	NA
Prior Years' Expenses	(200)	- - -	NA	- - -	- - -	- - -	NA
Total	**$74,333**	**$79,437**	**6.9%**	**$77,898**	**$79,105**	**$80,836**	**0.6%**

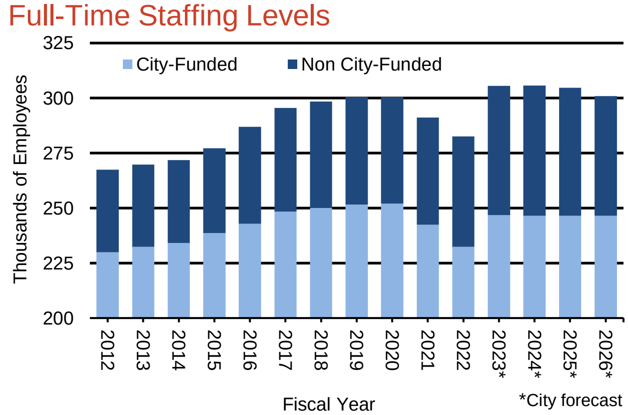
Note: Totals may not add due to rounding. Spending is adjusted for surplus transfers.
Sources: NYC Office of Management and Budget; OSC analysis

Full-Time Staffing Levels

The June Plan assumes full-time staffing will total 306,302 by the end of FY 2023, 23,804 positions (8.4 percent) greater than the current level of 282,498 employees (see Figure 18). This target is ambitious given current attrition levels, which OSC has detailed in a few recent reports issued since February 2022. The City added 22,590 employees in FY 2004 (net of attrition), the largest annual full-time staffing increase on record, but the additions came mostly from the conversion of pedagogues from part-time to full-time positions, not from new hires.

Also, additions to the workforce (e.g., new hires) during FY 2022 totaled 40,261 employees, 35 percent more employees than were added, on average, in each of the past 10 years. However, separations from service rose even more quickly (by 77 percent when compared to the historical average). As a result, most agencies have continued to experience a decline in full-time staffing in FY 2022 despite targeted efforts to increase hiring, and the City fell short of its year-end staffing target for June 30, 2022 based on the current level (see Appendix B for more detail).

FIGURE 18
Full-Time Staffing Levels



Sources: NYC Office of Management and Budget; OSC analysis

Overtime spending at the uniformed agencies is estimated to have reached a new record in FY 2022 (see section on Uniformed Agency Overtime for more detail). Any savings from vacancies could be utilized to help mitigate unplanned overtime spending throughout FY 2023.

However, the unfilled vacancies (which also reflect a relatively large number of people placed on leave without pay) may have an impact on the City's ability to meet its service demands, including new and existing programs. A number of recent media reports suggest the City has already faced challenges staffing some municipal services (e.g., public school administrators, teachers, school safety agents, lifeguards for public parks and beaches, and certain staff tasked with developing affordable housing).

Collective Bargaining

As of July 2022, the City had reached settlements with approximately 93 percent of the represented work force for the 2017-21 round of collective bargaining. The portion of the work force that has not yet reached new settlements consists mainly of those in unions representing police officers, which are currently in arbitration. The City has set aside funding for the applicable unsettled contracts based on the wage patterns established for civilian and uniformed employees for this round of bargaining.

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

As noted earlier, the June Plan assumes wage increases of 1.25 percent in each year during the financial plan period. While it has added substantial reserves since one year ago (more than $4.6 billion over the five-year financial plan period), the City could incur labor costs beyond the amounts assumed in the June Plan pending the outcome of the ongoing negotiations (which may not be known for some time), resulting in budgetary uncertainty.[15]

If instead wages were to rise at the projected inflation rate during a four-year period without offsetting savings, costs would increase by an estimated $1.5 billion in FY 2023 (including retroactive pay), $2.2 billion in FY 2024, $3.1 billion in FY 2025, and $3.6 billion in FY 2026 (with recurring costs of nearly $4 billion annually beyond the financial plan period).[16]

Health Insurance

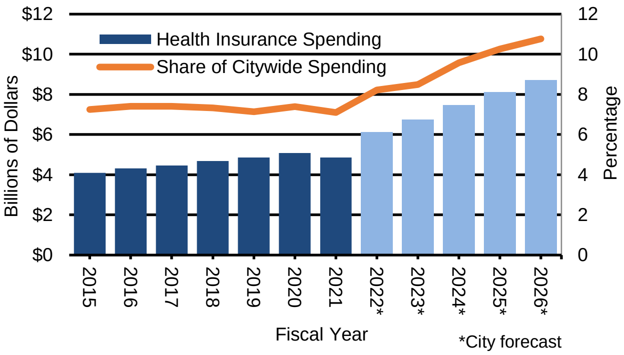
Despite the achievement of $1.9 billion in recurring savings under the 2014 and 2018 agreements between the City and the Municipal Labor Committee (MLC), health insurance costs will reach $8.7 billion by FY 2026, 42 percent more than in FY 2022 (see Figure 19). Comparatively, City-funded spending would rise by 9 percent during the same period. The health insurance costs, as a share of City-funded spending, would rise to an estimated 10.8 percent by FY 2026, which would be the highest share since at least FY 2010.

As noted in our recent report on the City's April 2022 Financial Plan, the City has indicated that, without the intended retiree health benefits

[15] Each 1 percent increase to base wages could increase labor costs by an estimated $497.5 million when fully annualized.

[16] As of the latest economic forecast prepared in April 2022, the City reports that local inflation rose by 2.1 percent in FY 2021 and projects it will rise by 4.8 percent in FY 2022, 3.5 percent in FY 2023, and 2.1 percent in FY 2024, compared to the City's current labor assumption of 1.25 percent annually. OSC assumes that the wage increases take effect every 12 months in each of the four years beginning the day after the expiration of the previous labor contract, the date of which varies by union and by local units within each union.

FIGURE 19
Health Insurance Costs
City-Funded



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

savings from the implementation of a Medicare Advantage Plan for the City's 250,000 retirees, the balance of the Health Stabilization Fund (HSF), which totaled $967 million as of June 30, 2021, could be exhausted as soon as the end of 2022. The City and the MLC are currently in negotiations to find alternative sources of funding through additional health reforms. In the meantime, the City has issued a Request for Information from insurers to understand their capabilities to provide a comprehensive, cost-effective employee health benefit program, with a goal to cut benefits costs by at least 10 percent without reductions in quality or increasing out-of-pocket costs for City employees.

The City reports that if the resources held in the HSF are exhausted, there could be a significant shift in costs to City employees, or the assumption of significant costs by the City. The shift in cost to employees could be in the form of additional health coverage fees or a reduction in benefits, subject to collective bargaining between the City and the unions.

Pension Contributions

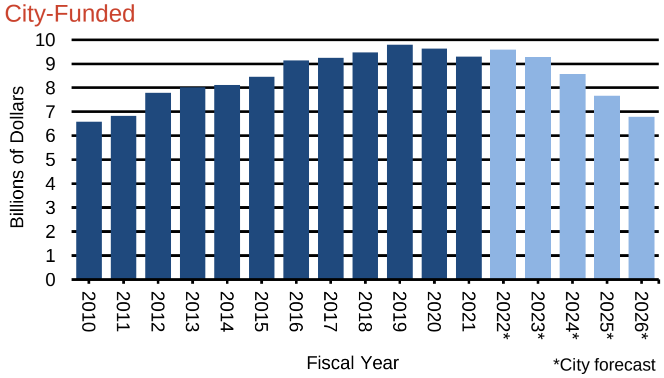
The June Plan incorporates the latest valuation update from the City Actuary and includes a reserve of $275 million annually beginning in FY 2023 to fund potential changes from future actuarial audit recommendations, as well as other adjustments from changes including planned headcount, wage growth assumptions, legislation and administrative expenses.

Pension contributions, which have been stable in recent years, are projected to total $9.6 billion in FY 2022, and then to decline sharply over the next four years to $6.8 billion (8.8 percent of City fund revenues), which would be the lowest level in more than a decade (see Figure 20). The decline mostly reflects the benefit of higher-than-anticipated investment returns in FY 2021 (25.8 percent compared to the assumed gain of 7 percent).

However, the financial markets have declined since late 2021 in response to high inflation and the corresponding federal reserve interest rates, the effects of the recent Omicron wave on economic activity, as well as geopolitical tensions, and their ongoing impact on the equity and commodity markets. All these factors have adversely impacted investment performance in the near term.

Based on a preliminary review, the City Comptroller reports that the City's pension systems lost, on average, 8.65 percent on their investments during FY 2022, compared to the expected annual gain of 7 percent (a shortfall of 15.65 percent). As a result, the City could be

FIGURE 20
Pension Contributions
City-Funded



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

required to increase its pension contributions by an estimated $870 million in FY 2024, $2 billion in FY 2025, and by $3 billion in FY 2026.[17]

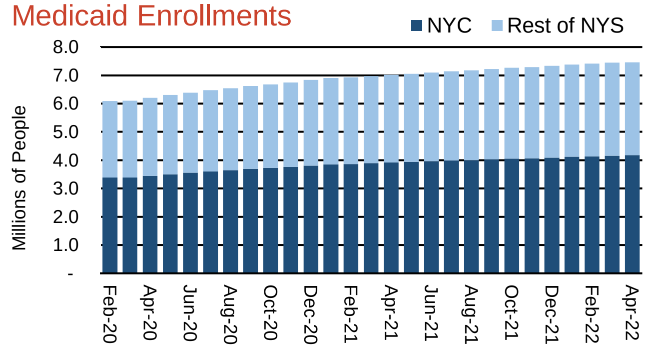
Medicaid

In April 2022, a historic high of 4.2 million New York City residents (49 percent of the City's population) were enrolled in Medicaid, which provides health insurance to low-income children and adults (see Figure 21). This estimate includes approximately 790,000 people who have enrolled in Medicaid since February 2020. This sharp increase coincides with the COVID-19 public health emergency. Enrollment growth rates in Queens (28 percent) and Staten Island (29 percent) exceeded citywide growth (23 percent) from February 2020 through April 2022. Medicaid enrollment in the rest of the State grew by 22 percent.[18]

As noted in OSC's previous report on the April Plan, the rise in enrollment has continued even as employment levels have generally improved in the City since the onset of the pandemic. Policies implemented during the public health emergency (PHE) helped facilitate enrollment.

The June Plan assumes that the City-funded cost of Medicaid will total nearly $6.4 billion in FY 2022, $6.5 billion in FY 2023, and $6.3 billion annually in fiscal years 2024 through 2026, largely unchanged from the City's April Plan. However, FY 2023 is the exception as it reflects the roll of $179 million in new supplemental Medicaid payments to NYC Health + Hospitals (H+H) from FY 2022 to FY 2023. The new supplemental payments still require federal and state approvals yet to be reflected in the H+H financial plan. The reduction in FY 2022 is offset by an increase of $190 million for higher-than-planned supplemental Medicaid payments to H+H.

FIGURE 21
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

Due to the passage of the Families First Coronavirus Response Act, the City's financial plan reflects $591 million in total Medicaid savings through September 2021. However, OSC estimates the continued extension of the PHE, which has been extended through mid-October 2022, will enable the City to benefit from $1.2 billion in total savings. The City will utilize additional savings beyond what is reflected in the City's financial plan to fund supplemental Medicaid payments to H+H.

The growth in Medicaid enrollment may start to reverse with the continued decline in unemployment levels and as policies implemented during the PHE that facilitated the surge in enrollment expire and as the State returns to routine operations to determine eligibility.

Projections of City-funded costs assume that the State will not require the City to cover a larger share of Medicaid program costs. However, escalating Medicaid costs continue to be an area of concern for the State, which may take further measures to reduce the increasing financial burden.

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

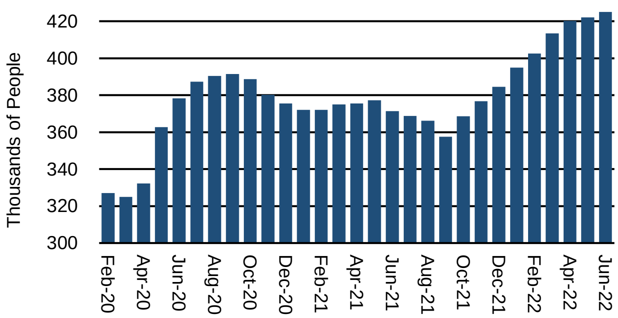
[18] Nationally, Medicaid enrollment increased by 26.5 percent from February 2020 through March 2022.

Social Services

Cash Assistance

The June Plan increases spending on cash assistance by $9 million in FY 2022 compared to the April Plan, but makes no adjustments to the out-years, even though enrollment is up from its previous pandemic-era peak, at 425,040 recipients in June 2022 as compared to 391,432 in September 2020.

FIGURE 22
Cash Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

Caseloads have grown each month since September 2021, by a total of 67,563 people, or about 18.9 percent (see Figure 22). As of June 2022, caseloads are at the highest level since January 2005. This increase coincides with the expiration of several federal unemployment and pandemic benefit programs. The City assumes funding in the plan supports a monthly average caseload of 377,458, which is the average monthly caseload for July 2021 through February 2022, indicating that additional funds may be necessary next year. The City-funded portion of the public assistance budget remains $891 million annually beginning in FY 2023, unchanged from the April Plan (for a more detailed discussion, please see OSC's review of the April Plan).

Enrollment is likely to remain higher than pre-pandemic levels for the foreseeable future as a result of economic conditions, and policies implemented during the pandemic which made it easier to apply for and maintain benefits remotely. Nearly all, 21 out of 23, of these administrative changes, are still in effect, including a suspension of work-related requirements and the use of telephone (instead of in-person) interviews. Some of these policies have been made permanent while others expired at the end of June 2022.

Homeless Services

The June Plan increases the Department of Homeless Services (DHS) budget for FY 2023 by roughly $47 million compared to the April Plan, but still leaves DHS's total agency budget in FY 2023 $415 million smaller than in FY 2022, as federal funds drop off by $554 million.

The Department's PEG program is expected to produce $45.8 million in savings in FY 2022 and $62.7 million annually in the out-years, which will come predominantly from the City's efforts to reduce its reliance on commercial hotels to house families with children (distinct from the City's de-density relocation program).

The total homeless population in shelters operated by the DHS was 46,675 in June 2022, which represents a 21 percent decline (of about 12,170 people) since February 2020, just before the start of the pandemic. In this period, more than half of the people in shelter (58 percent) belonged to families with children. Families with children also contributed most to the decline in shelter population (8,976 people, or 74 percent). However, after averaging 18,000 in FY 2021, the portion of the population comprised of single adults in FY 2022 averaged close to FY 2020 levels, nearly 17,000 people. Planned spending in FY 2023 on adult shelters would amount to roughly what was spent in FY 2020, when the single adult population hovered at similar levels.

After adding $119 million to the FY 2023 budget of the Human Resources Administration (HRA) for housing voucher programs in the April Plan, the City added a second $119 million in FY 2023 in the June Plan, leaving HRA's budget $11 million greater than what the City expects to spend in FY 2022. If demand for these programs remains level beyond FY 2023, this may create an ongoing risk to the City's budget beginning in FY 2024. The City also doubled the amount of funding it added in the April Plan to provide a prevailing wage increase for shelter security guards, but again, no funding was added for the out-years.

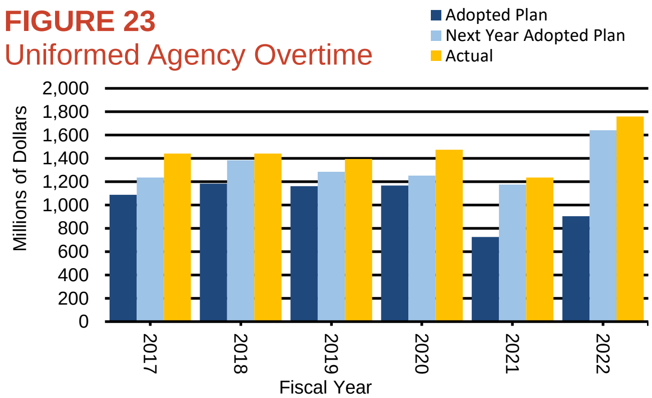
Furthermore, the New York State moratorium on residential evictions expired on January 15, 2022, resulting in strains on the housing court system and the City's Right to Counsel mandate, which requires it to provide unrepresented litigants in housing court with free legal services if they meet certain household income requirements.

In the April Plan, the City added a number of new initiatives to address the homeless crisis, as part of the Subway Safety Plan. Since then, Mayor Adams also announced an affordable housing plan, which aims to address more solutions for permanent affordable housing. However, there are notably few details.

Uniformed Agency Overtime

Citywide overtime in FY 2022 totaled nearly $2.2 billion, $592 million greater than costs in FY 2021. Overtime spending at most agencies increased, but the overall growth was concentrated at the uniformed agencies (i.e., police, fire, correction and sanitation). Overtime costs at these four agencies totaled $1.8 billion in FY 2022 (80 percent of the citywide total, consistent with historical trends), the highest amount on record and $526 million greater than costs through the same period in FY 2021 (see Figure 23). Although the City added a combined $173 million in FY 2022 overtime funds for these agencies in the June Plan (total additions of $736 million since June 2021), actual overtime costs still exceeded the City's plan by a net of $118 million.

FIGURE 23
Uniformed Agency Overtime



Sources: NYC Office of Management and Budget; OSC analysis

Police Department (NYPD)

Overtime costs at the Police Department totaled $762 million in FY 2022, $281 million greater than costs incurred in FY 2021 ($480 million) and the second highest level on record (FY 2020 overtime totaled $837 million). The June Plan included an additional $52 million for FY 2022 overtime (a total of $225 million added since June 2021), but actual costs still exceeded the plan by $103 million. This unplanned expense was partially offset by payroll savings generated from vacant positions at the Department.

Higher overtime was primarily due to large event detail and other activity-driven enforcement as the City continues its return to pre-pandemic conditions, as well as increased crime reduction deployments. Police overtime costs in FY 2022 are slightly higher than the average cost in the most recent five-year pre-pandemic period ($715 million).

The June Plan made no changes to overtime budget assumptions beginning in FY 2023, which stand at $452 million annually. The Mayor has commented on reducing the use of overtime, including through possible strategic redeployments, but in the absence of a concrete plan, OSC projects that overtime will remain near current levels, which could result in unplanned costs of $270 million annually each year beginning in FY 2023.

Department of Correction (DOC)

Overtime costs at the Department of Correction totaled $259 million in FY 2022, more than $100 million greater than costs incurred in FY 2021 ($152 million) and the highest amount in five years. The June Plan included an additional $36 million for FY 2022 overtime (a total of $140 million added since June 2021), but actual costs still exceeded the plan by $31 million. The Department generated vacancy savings that offset the unplanned overtime.

The Department of Correction continues to deal with staffing challenges, specifically employee unavailability driven by unusually high rates of sick leave and staff absent without leave (AWOL). Although the Department reports that absence rates are improving since their peak in August 2021, overtime remains at historically high levels.

On June 10, 2022, the City and Department released an Action Plan committing to various reforms, including staffing practices, as a result of negotiations in the *Nunez v. City of New York* case. The federal Judge assigned to the case approved the plan, but until the Department can demonstrate a systematic reduction in overtime, annual costs beginning in FY 2023 are expected to remain elevated. OSC estimates that the City will need to fund $90 million annually for unplanned overtime beginning in FY 2023.

Department of Sanitation (DSNY)

Overtime costs at the Department of Sanitation in FY 2022 totaled $281 million, slightly exceeding costs in FY 2021 ($279 million) and the highest amount on record. The June Plan included an additional $44 million for FY 2022 overtime (a total of $152 million added since June 2021), enough to cover unplanned costs that occurred throughout the year. The higher overtime was due to a combination of a FY 2021 hiring freeze that caused a lag in reaching planned headcount levels and unusually high rates of sick leave.

The uniformed staffing level at the Department has since caught up to City projections, even exceeding the FY 2022 end of year target. Recent costs have also indicated a return to regular pre-pandemic levels, reflecting the increased work force. Based on these trends, OSC estimates that overtime at the Department will total $145 million annually beginning in FY 2023. The June Plan includes an additional $41 million in FY 2023 overtime for additional services such as increased litter basket collection (for a total of $158 million), fully funding the year, but makes no changes to the out-year budgets. The City may need to fund about $30 million annually to cover unplanned overtime costs beginning in FY 2024.

Fire Department (FDNY)

Overtime costs at the Fire Department totaled $458 million in 2022, more than $100 million greater than costs incurred in FY 2021 ($322 million) and the highest amount on record. The June Plan included an additional $41 million for FY 2022 overtime (a total of $219 million added since June 2021), enough to cover unplanned costs that occurred throughout the year. The increase in overtime is due to lower-than-planned staffing levels, driven by smaller class sizes needed to maintain social distancing, exacerbated by unusually high absence rates.

The Department is still facing staffing challenges, keeping overtime at record high levels. Until the Department can restrict its use of overtime, OSC projects that costs will remain elevated in FY 2023. The City made no adjustments to the out-year budgets in the June Plan, assuming costs will average less than $270 million annually, a level not seen in a decade. The City would need additional resources of about $115 million in FY 2023 and about $70 million annually thereafter to offset unplanned overtime costs.

VIII. Debt Service and Capital Spending

City-funded debt service is expected to grow by 42.1 percent over four years, from $6.5 billion in FY 2022 to $9.2 billion in FY 2026 (see Figure 24). However, debt service may be lower than planned, based on actual capital commitments and the City's ability to remain within its interest rate assumptions.

The City also uses relatively conservative metrics when forecasting debt service costs. Even though rates have begun to rise, current market conditions may allow the City to achieve additional variable rate savings of $125 million in FY 2023.

The City's debt burden, which reflects debt service as a percentage of tax revenue, is expected to be 11.4 percent for FY 2023 and remain in the 12 to 13 percent range for FY 2024 through FY 2027. OSC estimates that the debt burden will rise to 14.1 percent in FY 2028, just below the City's self-imposed cap of 15 percent.

In the June Plan, the City Council increased capital spending in FY 2023 by $880 million while rescinding $180 million for a net increase of $700 million (see Figure 25). For FY 2024 and FY 2025, the City Council made capital spending additions of $30 million and $11 million respectively. The additions were mostly targeted toward parks and recreation, education and cultural affairs. Some of the larger projects that were added include $17.7 million for Wingate Park in Brooklyn ($8.5 million in FY 2023 and $4.6 million in both FY 2024 and FY 2025); $10.6 million for the New York Public Library – Edenwald Branch; $10 million for CUNY; $10 million for Jacobi Hospital Hyperbaric upgrade; $9.3 million for Queens Village Library Renovation; $9.1 million for Dr. Charles Drew Park in Queens; and $8 million for NYCHA-Marlboro Housing in Brooklyn. For a more detailed discussion of planned capital spending, see OSC's report on the April Plan.

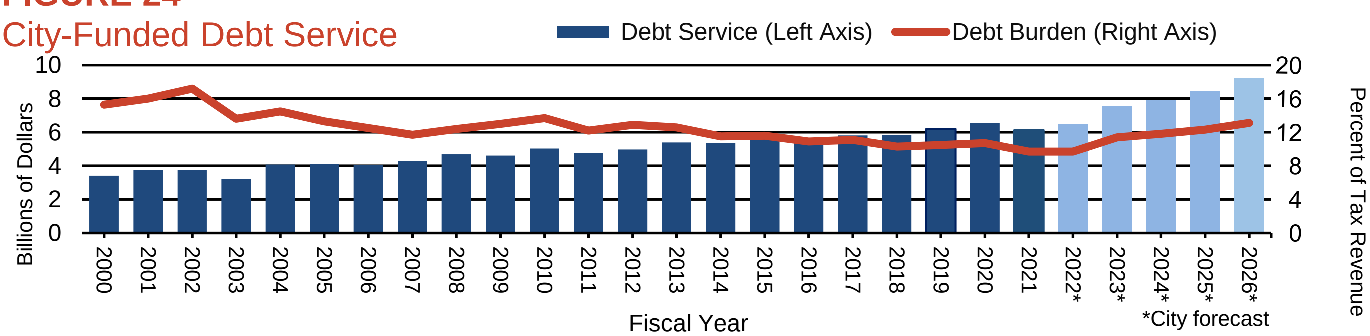
FIGURE 25

Capital Project Additions – Adopted Budget for FY 2023 (in millions)

Department	FY 2023	Rescinded	Net
Parks & Recreation	248	(61)	187
Education	224	(1)	223
Cultural Affairs	76	(7)	69
Libraries	63	(2)	61
Housing Preservation & Dev	50	(7)	43
NYC Health + Hospitals	42	(1)	41
City University	40	(3)	37
Health	32	(12)	20
All Other	105	(86)	19
Totals	**880**	**(180)**	**700**

FIGURE 24

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

IX. Semi-Autonomous Entities

Department of Education

The City's adopted budget allocates more than $37.6 billion to the Department of Education (DOE) in FY 2023. This amounts to 37.2 percent of the City's total budget and is $294 million less than the department's budget in the prior fiscal year. The City is expected to fund almost $20.2 billion (53.6 percent) of the DOE's FY 2023 budget, with the remainder funded by the State (35.7 percent), the federal government and other sources.

The June Plan does not address several substantial pre-existing risks to the Department's budget for Carter Cases (federally-mandated special education costs), student transportation, and mandated per-pupil charter school tuition rates (a risk that has grown based on City disclosures released since the approval of the June Plan). Certain restorations of academic programs, currently funded with one-time emergency federal aid, will also need to be cut if other revenue sources are not identified to support them. More detail about these long-standing risks can be found in OSC's report on the City's April Plan.

The DOE is also using the federal emergency funds for service expansions (mostly 3-K services). But the June Plan assumes only a portion of the costs of these services will be funded beyond FY 2025, when federal pandemic aid will be exhausted, creating some budgetary and programmatic uncertainty. The service expansions and their fiscal implications are also detailed in OSC's report on the City's April Plan.

The June Plan maintains a budget adjustment introduced in February that ends a pandemic-era policy of using one-time federal aid to prevent individual schools from losing Fair Student Funding (which is calculated on a per-pupil basis). The pandemic had a significant impact on student enrollment, which City records show fell by 3.3 percent in the 2020-21 school year and a further 3.2 percent in the 2021-22 school year. Preliminary projections indicate that the City expects enrollment to continue falling in the 2022-23 school year. During the pandemic, the City used federal funds to prevent school-level budgets from dropping based on enrollment loss, but the February Plan moved to align school budgets with enrollment numbers.

However, despite the prospect of continuing negotiations between the Mayor and City Council to continue holding schools harmless in FY 2023, the City faces a lawsuit over the realignment. On August 5, 2022, the State Supreme Court, New York County, found that the City had violated the required procedures for budgetary approval and ruled that the Department's budget must return to FY 2022 levels until it is re-approved in accordance with such procedures. On August 9, however, that ruling was stayed, allowing the Department's approved FY 2023 budget to remain in place pending the outcome of the City's appeal.

These moves raise questions over whether the Citywide FY 2023 budget is technically balanced, since the DOE's FY 2022 budget was significantly higher than that approved for FY 2023 (due to the inclusion of one-time federal relief funds); however, we note that the City has a sizeable general reserve in FY 2023 ($1.55 billion) for contingency purposes, which is larger than OSC estimates of the ruling's potential impact. The ultimate impact of the lawsuit on the budget remains unclear, and negotiations between the Mayor and City Council could still influence the result. Students are scheduled to return to schools on September 8.

In June, the State Legislature passed a bill which would require the DOE to lower class sizes throughout the system within five years. The DOE estimates that, if signed into law, the bill would increase operating costs by approximately $500 million annually to meet the mandates for K-5 classrooms alone. All told, K-12 costs would likely rise by as much as $1 billion annually for the City, not counting capital and other space conversion costs. The City's ability to meet the targets within the bill's timeline is in doubt, given the time required to construct or expand instructional space and [recent difficulties the DOE has had (and continues to have) in meeting its staffing targets]. Nevertheless, the City would be required to show progress in reducing class sizes in each of the five ensuing years. Should the City fail to meet one of these annual reduction targets, $354 million in State aid could be withheld that year, rising to $531 million each following year in which the targets still have not been achieved. The June Plan does not address the potential fiscal implications on the City's budget.

The State Legislature also extended mayoral control over New York City schools for two years, rather than the four years requested by the Mayor and proposed by the Governor. At the same time, the Legislature also altered the composition of the DOE's controlling body in ways that it hopes will make the Department more responsive to community engagement.

Metropolitan Transportation Authority

The Metropolitan Transportation Authority (MTA) updated its financial plan in July which showed that fare revenue is expected to return slower than forecasted in the MTA's February Plan. As a result, the MTA expects federal funding to be able to close projected budget gaps only until 2024 and budget gaps are expected to be $2.5 billion in both 2025 and 2026. To the MTA's credit, it no longer expects to use deficit financing to close its projected budget gaps but does still project fare and toll increases in both 2023 and 2025 and it relies on achieving $100 million of unspecified savings starting in 2023.

In the MTA's July Plan, fare revenues from 2022 through 2026 are expected to be $3.9 billion lower than planned. The MTA's February financial plan, using assumptions that were developed by McKinsey, the MTA's consultant, assumed continued gains that would bring ridership to 77 percent of the pre-pandemic level by the end of 2022. McKinsey has updated its estimates and the MTA's July Plan now does not expect that level of ridership until 2025 as workers are now expected to go into the office just 2 to 3 days a week for the foreseeable future.

Real estate transaction tax collections are expected to be $172 million higher than planned in 2022 but expenses are expected to be $336 million higher during the plan period driven by energy costs. Debt service is expected to be $253 million higher from 2022 through 2026 mostly due to higher interest rates.

The City's June Plan suggests the City may be required to allocate additional funds for the MTA's bus and paratransit services that are not currently included in the plan and represent potential spending risks. These risks are higher than were in the April Plan due to federal funding used to offset the City's obligation for MTA bus service running out in 2024 instead of 2025. The risks total $75 million in FY 2023, rising to $389 million in FY 2026.

The City also funds the Fair Fares program which provides discounted MetroCards to low-income riders. The City allocated $75 million annually on a recurring basis in the February Plan. If use of the program were to exceed the allotted amount, the City could have to increase funding for this program.

The MTA has asked for additional assistance as early as next year to help it with its structural financial imbalance once federal funding runs out as is now expected in 2024. Even though both governments face uncertainties regarding balancing their own budgets on a recurring basis without federal aid, the City and the State should start discussions with the MTA as soon as possible and not wait until the 2025 budget is first proposed to come to a solution on which to close the MTA's deficits. The pace of the City's recovery relies, in part, on how well the MTA emerges from this financial crisis.

OSC released its annual update to the MTA's debt profile in April which showed that the MTA's uncertain finances combined with rising debt payments could force it to close future budget gaps through service cuts, greater-than-planned fare hikes or delays to critical capital projects.

NYC Health + Hospitals

For a detailed summary on changes to NYC Health + Hospitals (H+H) prior to the release of the June Plan, including the status of Federal COVID-19 relief aid, the agency's strategic plan, and adjustments in the City's federal supplemental Medicaid payments, please see OSC's previous report on the April Plan. For additional information on the importance of government subsidies to H+H operations, please see OSC's report from Fall 2021, "NYC Health + Hospitals Check-Up: The Impact of COVID-19."

The City approved and released the H+H executive cash financial plan for FY 2023 (the "May Plan") on May 10, 2022, which is the agency's latest update. The City's June Plan, released after the most recent H+H's May Plan, makes few changes to assumptions in the April Plan.

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

During the pandemic, H+H implemented new programs such as providing mobile services to unsheltered homeless people, establishing the Public Health Corps and the Behavioral Health Emergency Assistance Response Division teams, and the expansion of lifestyle medicine services with funding provided by the City. A discussion of these new programs, including the wind down of H+H's Test and Trace program, and the financial impact and potential risks to the City's financial plan are included in OSC's previous report on the City's April Plan.

H+H is still assessing the impact of the City-imposed vaccine mandate for H+H employees, which increased overtime costs and reduced the number of full-time nursing staff at its facilities. Between February 2020 and March 2022, H+H experienced a 6 percent decline in registered nurses and a 27 percent decline in licensed practical nurse full-time equivalents employed by H+H. An initial estimate brings the total cost in 2022 close to $77 million. H+H is further challenged with staff recruitment and retention as it competes for a shrinking healthcare workforce.

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

H+H's future financial position will be largely contingent on the receipt of supplemental Medicaid and continued federal reimbursement for its COVID-19 response. Without such federal aid, the City will likely be forced to step in to provide further financial assistance and to explore other avenues to financially support the healthcare system. Potential uncertainties related to the City's future financial condition could make such assistance difficult to sustain or predict.

New York City Housing Authority

The June Plan includes $279 million for the New York City Housing Authority (NYCHA) in FY 2023, of which $246 million will be City funds; the balance comes from federal funding, including $32 million in Community Development Block Grants (CDBG). This represents a reduction of $105 million from the previous fiscal year, nearly all from a decline in anticipated federal funding, offset by a $40 million rollover of City funds from FY 2022 into FY 2023.

The April Plan had increased the City's capital commitment to the Authority by roughly $1.4 billion, $1.2 billion of which went to support NYCHA's Permanent Affordability Commitment Together (PACT) program. Through PACT, NYCHA utilizes the Rental Assistance Demonstration (RAD) program, which transfers management of public housing properties to private management companies in order to access private capital for repairs (please see OSC's review of the April Plan for more about NYCHA's approved budget for calendar year 2022, and analysis of the pandemic's financial impact). Under the program, NYCHA developments stop receiving federal Section 9 funding, and the private entities managing the properties start receiving federal Section 8 funding, which they then leverage to raise money for repairs at the developments.

In June, NYCHA took an important step forward in its Blueprint for Change plan when a bill authorizing the creation of a new legal entity was passed by the State Legislature and signed by the Governor. Under the plan, NYCHA will transfer management of 25,000 apartments (or 14 percent of its 175,000-unit portfolio) to this entity ─ the Public Housing Preservation Trust ─ which, as with PACT, will enable the new managing agent to raise capital for repairs, by using federal Section 8 funding to secure debt. Unlike PACT, which transfers management of public housing to private companies, the Trust (the first in the country) will function as a fully public entity, headed by a nine-member board comprised of four NYCHA residents, two NYCHA executives, a deputy mayor and two members appointed by the Mayor and NYCHA's CEO, respectively.

In its current form, the Blueprint is considerably smaller in scale than when the plan was first released in April 2020, with a stated goal of rehabilitating 110,000 apartments (63 percent of its portfolio). The passage of the final bill was partially motivated by the inclusion of an opt-in clause that gives NYCHA residents the ability to choose whether or not they will participate in the conversion process.

Once implemented, NYCHA would still be left with approximately 88,000 units (50 percent of NYCHA's total units) without a funding source for comprehensive repairs, although the State will have the option to increase the number of participating units during annual reviews.

Besides federal funding, NYCHA will also receive an additional $18 million from the City for its capital budget in the June Plan, as well as $350 million in capital from the State as part of the State fiscal year (SFY) 2022-23 Enacted Budget.

X: Other Issues

Credit Rating

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

Over the past fiscal year, Fitch Ratings (Fitch) has upgraded its outlook on the City's GO credits from "negative" to "stable" on August 13, 2021, and to "positive" on May 12, 2022, while maintaining its rating at "AA-." In its latest outlook change, Fitch noted that "The outlook revision to positive from stable for New York City's "AA-" IDR and GO bond rating reflects improved revenue performances as the city experiences a recovery from the pandemic, as well as budgeted improvement in reserve levels to help mitigate against some existing uncertainties." On March 25, 2022, Fitch reiterated their "AAA" rating on the City's TFA – FTS senior and subordinate credits with a stable outlook.

Over the last fiscal year, Fitch and S&P did not make any changes to either the City's rating on GO or TFA – FTS senior and subordinate credits or outlook. S&P Global Ratings maintained their "AA" rating on GO credits and an "AAA" rating on TFA – FTS senior and subordinate credits; Moody's Investor Service maintained their "Aa2" rating on GO credits with an "Aaa" rating on senior TFA – FTS credits and an "Aa1" rating on subordinate TFA – FTS credits; and Kroll Bond Rating Agency maintained an "AA+" rating on GO credits.

The City's credit ratings generated by these four rating agencies are relatively strong and analyses have been generally optimistic on the City's growth trajectory. This has enabled the City to access the credit markets to meet its financing needs and to keep its cost of borrowing relatively low.

Generally speaking, the various agencies noted that its ratings on the City's credits could be downgraded should the City experience slower revenue growth, widening budget gaps, a sustained decline in equity prices, or the erosion of reserves.

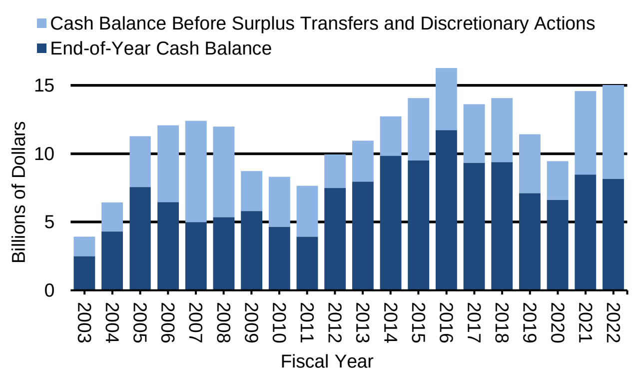
Cash Flow

The City has not needed to borrow to meet its short-term cash needs since FY 2004. In FY 2020, lost revenue and unexpected costs associated with the pandemic put pressure on the City's cash position. But after implementing a number of actions to preserve cash, the City ended FY 2020 with a cash balance of $9.4 billion before surplus transfers and discretionary actions (see Figure 26).

Since then, the City's short-term financial condition has greatly improved, reflecting mostly unanticipated higher tax collections and the receipt of additional federal pandemic relief.

As a result, the year-end cash balance rose sharply to $15 billion in FY 2022 (nearly $8.2 billion after discretionary actions), among the highest year-end cash balances on record. Of this amount, the City intends to deposit $1.45

FIGURE 26
Year-End Cash Balance



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

billion into its rainy-day fund (i.e., the Revenue Stabilization Fund) sometime in early FY 2023 before the publication of its FY 2022 financial statements in October 2022. Given the amount of cash on hand, the City does not anticipate borrowing to meet its cash flow needs during the financial plan period.

Prior Years' Expenses

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

Between fiscal years 2011 through 2020, the City realized an average benefit of $342 million annually from overestimating prior years' payables and from underestimating prior years' receivables. However, in FY 2021, the City realized a net cost of $143 million in FY 2021, the first time since at least the early 1990s. The unfavorable development is attributed mainly to a one-time write down of federal pandemic relief recognized in FY 2020 ($460 million). The City had initially intended to utilize coronavirus relief funds to cover the local share of the Federal Emergency Management Agency (FEMA) reimbursements, but these funds were repurposed as revenue in FY 2021 after the President waived the local share requirement. As a result, the write down is fiscally neutral over two fiscal years. The June Plan anticipated savings of $200 million in FY 2022 but none in subsequent years.

As of FY 2021 (the latest year audited financial statements are available), the balance held for prior years' general fund expenses not yet paid totaled $19 billion, which is the largest in at least 11 years. Similarly, the balance held for prior years' revenues not yet collected totaled nearly $19.2 billion, also the highest in at least 11 years.

As noted in the federal assistance section of our previous report on the City's financial plan, the elevated share of receivables is attributed in part to federal pandemic revenue, such as reimbursements from FEMA, which is taking longer to collect when compared to previous extraordinary events. Given the size of these year-end balances (representing one-fifth of current-year operating revenues), the City's cash reserves could experience heightened volatility depending on the timing of when the expenses are paid and revenues are received.

Revenue Stabilization Fund

In June 2020, the State amended the New York State Financial Emergency Act for the City of New York to authorize the City to establish a Revenue Stabilization Fund (i.e., the City's rainy-day fund), and to exempt its deposits and withdrawals from deficit determinations. On February 11, 2021, the Mayor established the fund by executive order and deposited $493 million into it, using City surpluses accumulated in past fiscal years (through FY 2020).

The City announced in June 2021 that, only a few months after the fund's establishment, it would make a discretionary deposit (for the first time) of $500 million into the fund in FY 2022. Since then, stronger-than-projected operating budget results permitted the City to expand the planned deposit by $950 million (a total of $1.45 billion), raising the balance of the rainy-day fund to nearly $2 billion. The deposit will be made sometime during the fiscal year 2022 close process, not later than October 31, 2022.

State law requires surplus resources accumulated by the City to be deposited into the rainy-day fund, though the City is not required to deposit into the rainy-day fund the "surplus" resources that it uses to help balance the budget. In FY 2022, for example, the City transferred $6.1 billion in surplus resources to FY 2023 by prepaying certain expenses.

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

The City's plan to build up the rainy-day fund so soon after its creation is prudent. However, the City does not currently have a published policy defining the purpose of the fund, the target level of reserves, or how resources would be replenished after a drawdown. In November 2021, the State Comptroller issued a report, *Strengthening New York City's Rainy-Day Fund*, recommending that the City consider certain best practices adopted by other large U.S. cities to help strengthen its reserve policy.

In May 2022, the New York City Comptroller published a report with recommended rule-based guidelines for the rainy-day fund that includes a proposed formula for annual deposits into the City's rainy-day fund based on excess revenues to achieve a target of 16 percent of tax revenues, and conditions for withdrawal of funds.[19]

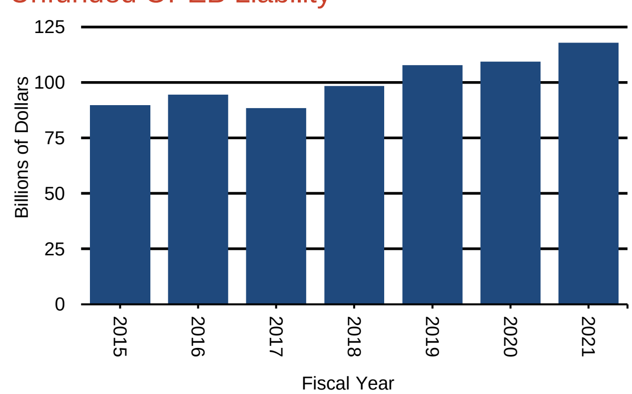
In May 2022, a bill was introduced in the New York State Assembly to amend the general municipal law in relation to monies withdrawn from the City's rainy-day fund, which includes language that would address a number of the recommendations in OSC's November 2021 report. The bill would require the City to publish a written reserve policy on its website and would impose additional requirements relating to depositing, withdrawing and replenishing monies in the fund. The bill was passed by the Assembly and has been delivered to the Senate.

Post-Employment Benefits

The City's unfunded liability for post-employment benefits other than pensions (OPEBs), such as retiree health care, reached $117.9 billion in FY 2021 (see Figure 27), an increase of $29.6 billion (33.4 percent) in four years. As of FY 2021, the City had set aside enough resources to fund 3.5 percent of its total OPEB liability. The City, like many employers, does not fund its OPEB liability on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from $2.8 billion in FY 2021 to nearly $3.8 billion in FY 2026, an increase of 34.3 percent in five years.

FIGURE 27

Unfunded OPEB Liability



Sources: NYC Actuary; OSC analysis

[19] For more detail on the City Comptroller's recommendations, see "Preparing for the Next Fiscal Storm: Setting Guidelines for NYC's Rainy Day Fund," May 2022 at: https://comptroller.nyc.gov/reports/preparing-for-the-next-fiscal-storm/

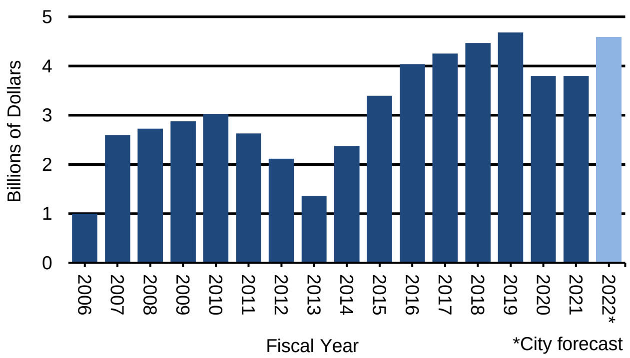
Retiree Health Benefits Trust

In FY 2006, the City established the Retiree Health Benefits Trust (RHBT) to help fund the future cost of OPEBs. Contributions to the trust are irrevocable and can only be utilized for the purpose defined under local law, namely: to fund retiree health insurance or supplemental welfare fund benefits. However, the RHBT has been used as a source of budgetary relief twice since its inception, most recently in FY 2020 to help the city weather a revenue shortfall stemming from the public health emergency.[20]

As the City's short-term financial outlook improved in FY 2022, the City elected to prepay a portion of FY 2023 expenses ($792 million) and to make a deposit of $750 million, which will be invested and utilized to help pay future OPEB costs. The balance held in the RHBT now stands at $4.6 billion (excluding prepayments; see Figure 28), among the highest levels on record.

FIGURE 28

RHBT Year-End Balance



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

Budget Structure

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

The U/As will allow for a distinct accounting of personal service and other-than-personal service expenses related to patrol, communications, intelligence and counterterrorism at the NYPD; jail operations, health, and mental health programming for the Department of Correction; Fair Fares and domestic violence services at the Department of Social Services; student transportation in the Department of Education; enforcement and inspection at the Department of Buildings; Runaway and Homeless Youth at the Department of Youth and Community Development; and the Committee on Special Education placements at the Administration for Children's Services. The new U/As will provide additional transparency into the budget and spending for these areas.

[20] The City achieved the budgetary relief in past years by reducing its annual contribution to the RHBT, since a withdrawal of funds from the trust for purposes not authorized under local law is prohibited.

Appendix A: Changes Since the June 2021 Plan

Financial Plan Reconciliation—City Funds
June 2022 Plan vs. June 2021 Plan
(in millions)

	Better/(Worse)			
	FY 2022	FY 2023	FY 2024	FY 2025
Projected Gaps Per June 2021 Plan	**$ - - -**	**$ (4,051)**	**$ (3,837)**	**$ (4,069)**
Unrestricted Federal Aid	**792**	**252**	**- - -**	**- - -**
Updated Tax Estimates				
General Property Taxes	213	1,226	1,416	1,141
Real Estate Transactions	1,022	102	164	215
Business Taxes	1,385	2	(282)	(161)
Personal Income	2,735	826	(166)	(117)
Sales Taxes	964	412	129	72
Hotel Taxes	108	118	100	49
Other Taxes	(28)	36	(78)	(101)
Planned Tax Expenditures	(90)	(250)	(300)	(300)
Audits	(50)	- - -	- - -	- - -
Subtotal	**6,259**	**2,472**	**983**	**798**
Other Revenue Reestimates	**(5)**	**301**	**295**	**294**
Total Revenue Reestimates	**7,046**	**3,025**	**1,278**	**1,092**
State Budget Impact	**(48)**	**(170)**	**(170)**	**(170)**
Reserves				
General Reserve	280	(555)	(200)	(200)
Rainy-Day Fund Deposit	(950)	- - -	- - -	- - -
Retiree Health Benefits Trust	(750)	- - -	- - -	- - -
Subtotal	**(1,420)**	**(555)**	**(200)**	**(200)**
Savings Initiatives				
Program to Eliminate the Gap (PEG)	1,299	1,404	1,316	1,355
November Citywide Savings Program (CSP)	508	475	513	493
Restoration to Prior Savings Initiatives	(8)	(331)	(337)	(343)
Subtotal	**1,800**	**1,548**	**1,491**	**1,505**
New Agency Needs	**(2,143)**	**(3,506)**	**(2,125)**	**(2,106)**
Updated Estimates				
Anticipated Labor Savings	- - -	(1,000)	(1,000)	(1,000)
Collective Bargaining	(300)	(609)	(967)	(1,254)
Judgments and Claims	43	(441)	(390)	(86)
City Council Initiatives	- - -	(536)	- - -	- - -
Pension Contributions	310	1,055	1,958	2,783
All Other	826	(875)	(248)	(209)
Subtotal	**879**	**(2,405)**	**(648)**	**233**
Total Expense Reestimates	**(932)**	**(5,088)**	**(1,651)**	**(738)**
Net Change	**6,114**	**(2,063)**	**(373)**	**355**
Gaps to Be Closed Before Prepayment	**$ 6,114**	**$ (6,114)**	**$ (4,210)**	**$ (3,714)**
FY 2022 Prepayment of FY 2023 Expenses	(6,114)	6,114	- - -	- - -
Gaps to Be Closed Per June 2022 Plan	**$ - - -**	**$ - - -**	**$ (4,210)**	**$ (3,714)**

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

Appendix B: Full-Time Staffing Levels

(Number of full-time employees)

	Actual	Actual	Forecast	June Plan	Variance – Better/(Worse) June 2022 Actual to June 2022 Forecast		
	June 2020	June 2022	June 2022	June 2023	City Funds	Non-City Funds	Total Funds
Public Safety	**85,806**	**80,029**	**82,716**	**82,440**	**(3,654)**	**6,341**	**2,687**
Police Uniformed	35,910	34,825	35,030	35,030	205	0	205
Civilian	15,519	13,954	15,197	15,042	1,277	(34)	1,243
Fire Uniformed	11,047	10,615	10,945	10,952	323	7	330
Civilian	6,366	6,290	6,320	6,537	24	6	30
Correction Uniformed	9,237	7,068	7,460	7,060	(5,779)	6,171	392
Civilian	1,741	1,496	1,966	1,974	429	41	470
District Attys. & Prosec.	4,843	4,787	4,609	4,709	(274)	96	(178)
Probation	1,116	971	1,157	1,104	132	54	186
Board of Correction	27	23	32	32	9	0	9
Health & Welfare	**27,878**	**24,689**	**29,282**	**29,037**	**3,489**	**1,104**	**4,593**
Social Services	12,330	10,781	13,037	13,023	1,738	518	2,256
Children's Services	7,039	6,328	7,073	7,073	535	210	745
Health & Mental Hygiene	5,530	5,032	6,221	6,050	926	263	1,189
Homeless Services	2,119	1,807	2,064	2,012	198	59	257
Other	860	741	887	879	92	54	146
Environment & Infra.	**26,365**	**24,656**	**26,959**	**27,705**	**434**	**1,869**	**2,303**
Sanitation Uniformed	7,755	7,614	7,482	7,449	(191)	59	(132)
Civilian	2,107	1,917	1,992	1,995	64	11	75
Transportation	5,120	4,903	5,556	5,708	192	461	653
Parks & Recreation	4,236	3,750	4,228	4,830	338	140	478
Environmental Protection	5,891	5,360	6,358	6,413	15	983	998
Other	1,256	1,112	1,343	1,310	16	215	231
General Government	**12,634**	**11,268**	**12,918**	**12,873**	**1,216**	**434**	**1,650**
Finance	1,996	1,685	1,992	1,992	295	12	307
Law	1,713	1,438	1,702	1,704	209	55	264
Citywide Admin. Svcs.	2,403	2,026	2,423	2,428	237	160	397
Taxi & Limo. Comm'n.	584	481	561	561	80	0	80
Investigations	361	287	353	348	57	9	66
Board of Elections	682	710	517	517	(193)	0	(193)
Info. Tech. & Telecomm.	1,673	1,539	1,755	1,755	216	0	216
Other	3,222	3,102	3,615	3,568	315	198	513
Housing	**4,088**	**3,775**	**4,664**	**4,664**	**514**	**375**	**889**
Buildings	1,676	1,535	2,024	1,966	436	53	489
Housing Preservation	2,412	2,240	2,640	2,698	78	322	400
Dept. of Education	**134,684**	**129,721**	**141,218**	**140,364**	**8,515**	**2,982**	**11,497**
Pedagogues	121,077	117,004	127,815	126,892	7,961	2,850	10,811
Non-Pedagogues	13,607	12,717	13,403	13,472	554	132	686
City University of NY	**6,288**	**5,903**	**6,084**	**6,259**	**181**	**0**	**181**
Pedagogues	4,545	4,267	4,313	4,313	46	0	46
Non-Pedagogues	1,743	1,636	1,771	1,946	135	0	135
Elected Officials	**2,703**	**2,457**	**2,913**	**2,960**	**335**	**121**	**456**
Total	**300,446**	**282,498**	**306,754**	**306,302**	**11,030**	**13,226**	**24,256**

Sources: NYC Office of Management and Budget; OSC analysis

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