Review of the Financial Plan of the City of New York

Report 16-2024

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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New York City continues its uneven recovery from the residual effects of the pandemic and the many unanticipated consequences on its finances, operations and economy. The City has weathered several fiscal challenges and must continue to show fiscal discipline in the coming years. Proactive management of the City's budget will require enhanced transparency to mitigate concerns over the day-to-day impact on the lives of New Yorkers.

New York City's finances continue to benefit from better-than-projected revenues and savings generated through initiatives launched in response to its financial challenges. Budgetary flexibility, including reserves and contingencies, remains at near-record levels as a share of spending. Over the last year, substantial steps forward were taken regarding known fiscal questions, including collective bargaining costs.

While many of the fiscal challenges facing the City are not in its direct control — including the continued influx of asylum seekers, elevated demand for City programs due to an uneven recovery and the potential for federal and State actions that could further pressure City finances — preparation and transparency remain paramount to navigating this uncertainty. It is also necessary for the federal government to take concrete steps to alleviate spending pressure from the influx of asylum seekers, including a matching share of funding and a comprehensive policy strategy to manage the population.

Operationally, the City has had to contend with a significant staffing decline during the pandemic that will take time to remedy. As a result, while many City services have responded admirably as demand returns to pre-pandemic levels, some have faced challenges, particularly where demand has exceeded expectations, such as social services. Recent budget actions have also raised concerns over the impact of service reductions on the City's overall economic recovery.

Greater communication to the public of the City's efforts to manage performance and adjust its programming and staffing needs is welcome and will serve it well if the economic outlook weakens or if new spending challenges emerge. The City must balance fiscal management with its operational needs to ensure its recovery remains on track.

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

The release of the fiscal year (FY) 2024 November Budget Modification and Financial Plan (the "November Plan") includes substantial changes to budget projections made in June. While the FY 2024 budget remains balanced, the city-stated budget gap in FY 2025 is $7.1 billion, the highest level on record and the highest share of city-funded revenue since FY 2011, suggesting significant budgetary pressure to manage. Gaps are slightly lower in FY 2026 ($6.5 billion) and FY 2027 ($6.4 billion) due to City savings actions (see Figure 1). There are two main adjustments in the update: higher cost projections to manage the asylum seeker influx and savings from the first of three rounds of the FY 2024 Program to Eliminate the Gap (PEG).

Most significantly, the November Plan incorporates nearly $10 billion in additional spending for asylum seekers beginning in FY 2024. This increase was expected, reflecting costs outlined by the City in August outside of the budget process. City spending is now projected to reach a total of $15.3 billion, peaking at $6.1 billion in FY 2025, and adding $2 billion in FY 2026 and $1 billion in FY 2027.

Citing these updated cost projections, the City announced its FY 2024 PEG in September 2023, which if executed, would become the largest annual gap-closing program since at least FY 2008, both in absolute terms and as a share of city-funded spending. The November Plan round of the PEG would generate nearly $3.7 billion through FY 2025 and more than $1.9 billion annually in each subsequent year. It would also reduce planned staffing by 2,873 positions by the end of FY 2025.

The substantial budget gaps faced by the City require difficult decisions be made to balance the budget. However, the magnitude of these budgetary changes has led to some concern by advocates, local officials and the public that the most recent actions, some of which can be classified as service reductions, should have been avoided. These concerns, amid the financial and operational challenges the City faces, suggest the City has the opportunity to enhance public confidence by providing greater transparency over revenue and expense projections, decision making and monitoring efforts to manage operational concerns.

One area where transparency has improved, but could benefit from further detail, is the cost of managing the asylum seeker influx. While it is difficult to budget for this cost, which is particularly susceptible to wide variation, spending has fluctuated significantly, rising from $3.9 billion in its June plan to $13.7 billion within two months of the plan's release. For comparison, Office of the New York State Comptroller (OSC) anticipated cost risks of an additional $9 billion in its review of the June Plan.

Providing greater detail on the cost drivers, including the asylum seeker population served, which services are provided, and the specific cost of these services could limit the public's surprise from decisions meant to balance the budget. This information may also help provide reassurance for its government partners on the City's spending choices, an issue raised in State and federal responses to the City recent requests for funding and policy changes.

Taking this approach would also highlight the extent to which the federal government has let the City bear this burden, contributing less than 7 percent of funds already spent and less than 1 percent of the amount budgeted. Greater detail on the City's policy choices to manage the influx may also lead to more cohesive and sustainable policy solutions, which require federal action.

A second area where the public may benefit from more information is the PEGs. A majority of the PEG savings, over 60 percent, are from reestimates of revenues and expenses or taking savings for more current headcount levels, which should not have an impact on services. Recent concerns focus on 14 percent of planned savings that come from service reductions. These cuts were focused on high-visibility services, including public safety, education and waste management, where the City has made progress in recent years. The City should communicate to the public how it intends to mitigate the effect of these reductions and lower staffing levels on service delivery and how they may be restored, if needed.

Future PEGs will require the same clarity. The City has targeted a 20 percent reduction in asylum seeker costs to be included as part of the second round of the FY 2024 PEG in January, separate from the second 5 percent PEG for agencies. The targeted savings for asylum seeker costs, if identified, could potentially ease pressure on agency savings in the future, which are more likely to impact residents as less disruptive savings have already been identified.

Further transparency is also welcome regarding how the City is monitoring revenue trends to ensure that projections are updated and relevant to inform budgetary choices so that they are not counterproductive to economic growth. For example, if revenues were to remain flat from FY 2023, it would generate $2.26 billion more than currently anticipated. These funds could allow the City to temper savings that rely on service cuts and give itself more time to identify and implement operational and procurement efficiency savings. Stronger revenue also allows the City to be deliberate in reviewing its tax structure for potential revenue raisers, if needed, rather than hurriedly enter into tax increases which could further add to cost of living and hinder the City's economic growth.

Similarly, expense monitoring should inform whether costs are exceeding agency budgets, which can effectively offset the savings from the PEGs, by understating future budget gaps. For instance, savings at the Department of Education (DOE) of $547 million in FY 2024, achieved by adjusting the 3-K programs and headcount initially funded by federal money, were offset by $606 million in spending to appropriately fund pupil transport and Carter cases, two items that are consistently underbudgeted. A similar offset exists at the Police Department for the new classes cut, where savings will likely be offset by underbudgeted overtime. OSC projects underbudgeting for these items, funding for the Metropolitan Transportation Authority (MTA) and a variety of social service supports, which are likely to require over $1.5 billion in recurring spending that is not yet budgeted (see Figure 2).

Finally, the City can provide greater guidance on how it intends to navigate new legislative requirements, including class size maximums for schools and the expansion of the City's Fighting Homelessness Eviction and Prevention Supplement (FHEPS) program. OSC projects these costs, which are not included in the budget at all, could exceed over $4 billion by FY 2027 and there is still little detail on if and how the City intends to implement these policies or their cost components. Similar transparency, when possible, would be helpful to assess potential fiscal impacts of other legal challenges, including for health care savings, right to shelter and management of the Department of Correction.

OSC-projected budget gaps attempt to fold in these fiscal risks and offsets where known. Considering the size of the budgetary risks that remain, the City's fiscal position remains tenuous. While revenue may exceed the City's projections by an average of nearly $1.3 billion annually through the end of the financial period, spending risks identified could average more than $5.7 billion, resulting in OSC-projected budget gaps of $8.8 billion in FY 2025, nearly $13.7 billion in FY 2026 and $15.4 billion in FY 2027 (see Figure 3). These budget gaps, which are only partially driven by asylum seeker costs, will continue to require a commensurate response by the City. A transparent explanation of what informs those difficult choices and how they will be monitored to minimize the effects on residents, businesses and the City's economic and fiscal outlook will benefit all stakeholders.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2024	FY 2025	FY 2026	FY 2027
Revenues				
Taxes				
General Property Tax	$ 32,577	$ 32,660	$ 32,936	$ 33,592
Other Taxes	38,407	39,881	41,250	43,092
Tax Audit Revenue	747	773	773	773
Subtotal: Taxes	$ 71,731	$ 73,314	$ 74,959	$ 77,457
Miscellaneous Revenues	8,177	7,656	7,573	7,518
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,175)	(1,927)	(1,931)	(1,928)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 77,718	$ 79,028	$ 80,586	$ 83,032
Other Categorical Grants	1,228	1,087	1,082	1,082
Inter-Fund Revenues	723	728	735	736
Federal Categorical Grants	11,859	7,675	7,142	7,100
State Categorical Grants	18,987	18,093	17,589	17,651
Total Revenues	**$ 110,515**	**$ 106,611**	**$ 107,134**	**$ 109,601**
Expenditures				
Personal Service				
Salaries and Wages	$ 32,509	$ 32,725	$ 34,130	$ 35,261
Pensions	9,629	10,374	10,774	10,899
Fringe Benefits	13,277	13,951	14,725	15,363
Subtotal: Personal Service	$ 55,415	$ 57,050	$ 56,629	$ 61,523
Other Than Personal Service				
Medical Assistance	6,760	6,599	6,728	6,878
Public Assistance	1,646	1,642	1,642	1,992
All Other	44,554	41,326	37,155	36,492
Subtotal: Other Than Personal Service	$ 52,960	$ 49,567	$ 45,525	$ 45,362
Debt Service	7,701	8,224	8,924	9,579
FY 2023 Budget Stabilization & Discretionary Transfers	(5,479)	- - -	- - -	- - -
FY 2024 Budget Stabilization	643	(643)	- - -	- - -
Capital Stabilization Reserve	250	250	250	250
General Reserve	1,200	1,200	1,200	1,200
Less: Intra-City Expenses	(2,175)	(1,927)	(1,931)	(1,928)
Total Expenditures	**$ 110,515**	**$ 113,721**	**$ 113,597**	**$ 115,986**
Gap to be Closed	**$ - - -**	**$ (7,110)**	**$ (6,463)**	**$ (6,385)**

Source: NYC Office of Management and Budget

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

	Better/(Worse)			
	FY 2024	FY 2025	FY 2026	FY 2027
Gaps Per NYC Financial Plan	**$ - - -**	**$ (7,110)**	**$ (6,463)**	**$ (6,385)**
Revenues				
Tax Revenue	1,140	1,330	1,370	1,130
Subtotal Revenue	**1,140**	**1,330**	**1,370**	**1,130**
Expenditures				
Reserve for Potential Changes in Pension Contributions	279	- - -	- - -	- - -
Variable Rate Debt Service	75	- - -	- - -	- - -
Debt Refunding	43	43	43	43
Operating Subsidies to the MTA	(152)	(139)	(246)	(417)
Social Services	(785)	(1,275)	(1,273)	(1,124)
Uniformed Agency Overtime	(773)	(500)	(500)	(500)
Department of Education	- - -	(848)	(1,467)	(2,118)
Early Intervention	(55)	(65)	(76)	(76)
School Health (Article 6) Programs	(39)	(39)	(39)	(39)
Public Health Corps	- - -	(13)	(49)	(49)
CityFHEPS Expansion[1]	(98)	(1,244)	(2,648)	(4,021)
Residual Services for Asylum Seekers	425	1,090	(2,302)	(1,885)
Subtotal Expenditures[2]	**(1,080)**	**(2,990)**	**(8,557)**	**(10,186)**
OSC Risk Assessment	**60**	**(1,660)**	**(7,187)**	**(9,056)**
Potential Gaps Per OSC[3,4,5]	**$ 60**	**$ (8,770)**	**$ (13,650)**	**$ (15,441)**

1 OSC's estimate of the cost of the CityFHEPS Expansion extends through FY 2028, which does not appear in the table above. The total estimated cost from FY 2024 through FY 2028 is $13.4 billion.

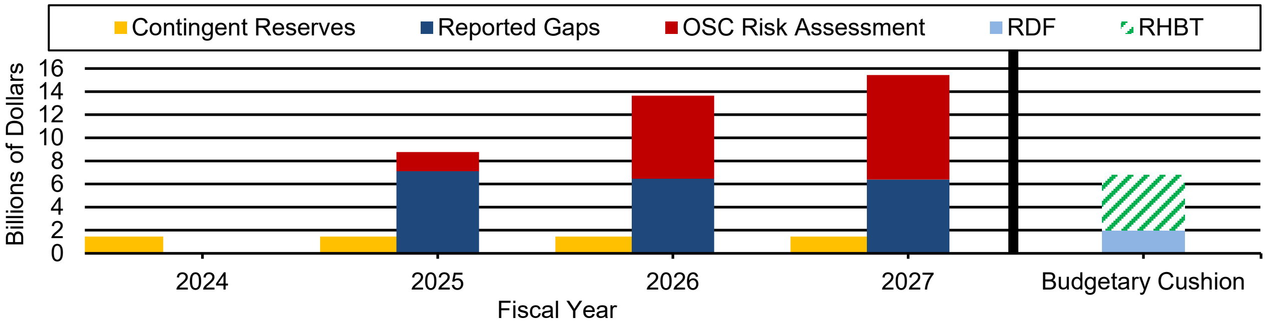
2 See Expenditure Trends: Social Services section and Semi-Autonomous Entities: Department of Education section for more details on the financial plan risks at those agencies.

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

4 State law requires surplus resources accumulated by the City to be deposited into its Revenue Stabilization Fund (RSF). As of FY 2023, the balance held in the rainy-day fund is nearly $2 billion. These resources would be available to help balance the budget if there were a compelling fiscal need.

5 See Asylum Seeker Cost Implications for more details on OSC's assessment of potential costs and anticipated offsets from federal and State assistance.

FIGURE 3
OSC Adjusted Budget Gaps



Note: The RDF is the Rainy-Day Fund and the RHBT is the Retiree Health Benefits Trust. In addition to the contingency reserves funded in each year of the plan period, the City maintains an additional budgetary cushion through balance sheet reserves recorded as of June 30, 2023, which may be used to help close future budget gaps.
Sources: NYC Office of Management and Budget; OSC analysis

II. Asylum Seeker Cost Implications

The Mayor first declared a state of emergency more than a year ago in response to the influx of asylum seekers to New York City. As of December 3, 2023, the City estimates that over 150,100 asylum seekers have come through its intake system, and more than 67,200 of these individuals remain in the City's care.

In June, the City budgeted $1.45 billion in FY 2023, $2.9 billion in FY 2024, and $1 billion in FY 2025 for these services. The City's annual financial statement identified actual expenditures of [$1.47 billion in FY 2023] (see Figure 4). At the time, OSC anticipated spending on the influx could create a budget risk to the City of more than $5 billion during the financial plan period. (See the Rising Shelter Cost Implications section of the [2023 June Plan] report.)

In August 2023, less than two months after the release of the June Plan, the City significantly revised its spending estimates again in response to a request from a judge in a conference over the right to shelter consent decree. The revised estimates incorporated higher per diem costs and an accelerated growth in the asylum seeker population. The City reported that the asylum census had risen to an average of 98 new households per day in July, as compared to the June Plan forecast of 40 new households per day. The August estimate assumed a daily net increase of 55 households, representing a midpoint trajectory for new arrivals adjusted for planned policy changes designed to expedite the exit of some asylum seeker adults from the City's care. The City also increased its projected nightly cost per household from $320 (its April 2023 assumption for FY 2024 expenses) to $383, incorporating preliminary FY 2023 expenditures recorded through August. Final spending for FY 2023 was higher still, averaging $394 per household per day.

The November Plan incorporates the August 2023 projection, which was done outside of the budget process. Total planned spending for asylum seekers increases to $4.7 billion in FY 2024 and $6.1 billion in FY 2025. In FY 2024, OSC estimates approximately $1 billion of the increase (57 percent) is due to the change in census alone.

The Plan also adds out-year amounts of $2 billion in FY 2026 and $1 billion in FY 2027,

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

Agency	FY 2023*	FY 2024	FY 2025	FY 2026	FY 2027
Health + Hospitals	$468.8	$2,174.1	$2,821.8	- - -	- - -
Homeless & Social Svcs.	779.5	1,451.1	1,895.7	$2,000.0	$1,000.0
Housing Preservation	33.4	432.5	670.6	- - -	- - -
Citywide Admin. Svcs.	38.4	380.0	403.0	- - -	- - -
Emergency Management	89.5	160.0	186.9	- - -	- - -
Info Technology	31.1	80.8	90.0	- - -	- - -
All Other	32.7	41.5	34.4	- - -	- - -
Total Spending	**$1,473.4**	**$4,720.2**	**$6,102.4**	**$2,000.0**	**$1,000.0**
City Funds	1,032.8	3,566.0	5,540.3	$2,000.0	$1,000.0
State Funds	440.6	1,009.4	562.1	- - -	- - -
Federal Funds	- - -	144.7	- - -	- - -	- - -
Total Funding	**$1,473.4**	**$4,720.2**	**$6,102.4**	**$2,000.0**	**$1,000.0**

*Actual spending. Totals may not add due to rounding.
Source: NYC Office of Management and Budget. FY 2024 excludes intra-city cost of $17.9 million.

bringing total estimated spending to $15.3 billion from FY 2023 through FY 2027. The City assumes it will absorb 86 percent of these costs over five years, and that federal funding will total just $144.7 million over five years, less than 1 percent of costs. (See the State Budget section of this report for more details.)

While spending is still distributed among multiple agencies, the November Plan shifts the distribution of funding by agency. In FY 2023, more than half of the spending was at the Department of Social Services (DSS) and the Department of Homeless Services (DHS) for emergency shelter costs, followed by payments to NYC Health + Hospitals (H+H) to manage a number of Humanitarian Emergency Response and Relief Centers (HERRCs). In both FY 2024 and FY 2025, the largest allocation is to H+H (46 percent), followed by DSS and DHS. The shift reflects the increased reliance on HERRCs to house the growing population. The City reports that through December 3, it had opened 214 sites to service asylum seekers, including 18 HERRCs. H+H currently manages 16 of the HERRCs, and Housing Preservation & Development (HPD) manages two.

Citing the significant asylum seeker costs, the City announced in September 2023 that it would implement three rounds of a new PEG; (see the Program to Eliminate the Gap section of this report for more details). The second round of the PEG, initiated November 20, 2023, after the release of the November Plan, specifically targets a 20 percent reduction to asylum seeker expenses for FY 2024 and FY 2025, for total savings of $2.1 billion over two years. The reduction would be achieved through a combination of lowering the per-diem cost and reducing the length of shelter stays through policy changes, and is expected to be included in the January Plan.

Policy Changes

The City has already implemented a series of policy changes in an effort to reduce asylum seeker expenses, beginning with an announcement on July 19 that a 60-day limit would be imposed on single adult asylum seekers in the City's care. If, at the end of that 60-day period, alternative housing had not yet been secured, adult asylum seekers could reapply for a new placement at the City's intake center. The City then shortened this limit to 30 days on September 22. Initially, the policy only applied to adult asylum seekers residing at sites managed by agencies other than DHS — such as HERRCs (overseen by H+H and HPD) and respite centers (managed by NYC Emergency Management) — as such a change to DHS facilities would require oversight approval from the State's Office of Temporary and Disability Assistance (OTDA). Notices about the new limits on shelter stays were distributed to the applicable population. On October 16, the City announced that 60-day limits would also be imposed on families with children seeking asylum. As of October 9, 13,500 60-day notices and 4,026 30-day notices have been distributed.

On November 13, it was reported that OTDA had granted DHS's request and that DHS would also begin distributing 30-day notices across 14 emergency sites "in the coming weeks." The City recently asserted that the combination of 30- and 60-day policies had resulted in 80 percent of asylum seekers who received notices exiting the shelter system — roughly 8,480 people as of October 29. However, as the arriving population is not solely in the City's control, it is difficult to predict the sustained impact of the policy changes.

In late October the City also opened two new sites to complement the policy changes — a “reticketing” office in Manhattan and a “waiting room” in the Bronx. Asylum seekers whose allotted time has expired are now directed to the reticketing office, where they are offered plane fares to destinations outside of New York City. Those who decline the offer are sent to the waiting room, without sleeping arrangements, to await a new placement — something that is not guaranteed since newly arrived asylum seekers receive priority over those who are returning to the shelter system.

In addition to the policies that target census reduction, the City has stated its intention to reduce per-diem costs for asylum seekers, which may be achieved in part as the City reduces its reliance on emergency contracts to provide services. The City Comptroller has recently revoked blanket approval for emergency procurements for asylum seeker services, although the City is still able to seek approval for emergency procurements on an individual contract basis.

Cost Estimates

While there are many unknown variables for asylum seeker costs, including federal, State and local policy and the feasibility of reducing the City’s reliance on emergency contracts, the most significant variable driving the cost is the number of people that remain in the City’s care.

The November Plan calculation assumes that a net of 55 new households will enter the City’s care each day. However, the census growth was lower in November and December 2023, averaging about 27 new households daily from November 5 through December 3. The number of individuals in care remained relatively flat for four weeks, averaging 65,560 from October 15 through November 12, and then rose again, reaching 67,200 by December 3.

OSC has calculated a range of scenarios for asylum seeker costs. If the census continues to grow at 27 new households daily through June 30, 2024 and stays flat in FY 2025, OSC estimates that costs could total $4.3 billion in FY 2024 and $5 billion in FY 2025, resulting in savings of $1.5 billion for the two-year period. OSC used the actual FY 2023 per diem rate of $394 in this calculation, which assumes the City will not be successful in significantly lowering costs in the short term.

In all scenarios, the City’s planned spending of $2 billion in FY 2026 and $1 billion in FY 2027 will be difficult to achieve without a substantial change to federal immigration policy. Using FY 2023 actual per diem rates, the number of households remaining in the City’s care would have to average 13,900 in FY 2026 and 6,950 in FY 2027 to stay within these targets. As of December 3, there were approximately 29,188 households in the City’s care.

While there are still many unknowns, OSC assumes that costs will total $4.3 billion in FY 2024, $5 billion in FY 2025, $4.3 billion in FY 2026, and $2.9 billion in FY 2027. As compared to the November Plan, this would mean savings of $425 million in FY 2024 and $1.1 billion in FY 2025, but higher costs of $2.3 billion in FY 2026, and $1.9 billion in FY 2027.

III. Economic Trends

The national economy has generally grown at a stronger-than-expected pace so far this year, buoyed by continued consumer spending on tourism-related activities and entertainment events. However, employment growth has begun to slow as high inflation impacts businesses and consumers. In December 2023, the Federal Reserve kept the federal funds rate unchanged at 5.25 to 5.5 percent in an effort to continue to reduce inflation meaningfully without adversely affecting employment. The resilience of the national economy amid the pandemic's negative consequences suggests it is possible to achieve these desired outcomes. As inflation approaches the target growth rate of 2 percent, the Federal Reserve, according to its latest economic projections, expects to begin cutting rates in 2024, while still allowing for the possibility of a rate hike. As the national economy enters 2024, the Federal Reserve will continue to follow key economic indicators to inform its course of action.

The nation's gross domestic product (GDP) grew by 5.2 percent on an annualized basis in the third quarter of 2023, stronger than consensus expectations following approximately 2 percent growth in each of the first two quarters. S&P Global, an economic forecasting company, expects a 1.1 percent increase in GDP in the fourth quarter of 2023 for a full-year growth of 2.4 percent.

In alignment with S&P Global's forecast, the City raised its internal forecast for GDP growth for 2023 to 2.5 percent. The City also recognizes that while employment growth nationally has slowed recently, it is still relatively strong. In November 2023, the national economy added 199,000 jobs (seasonally adjusted) as the unemployment rate fell to 3.7 percent. Wage growth slowed to 4.0 percent but still outpaced inflation. As of November 2023, the consumer price index rose by 3.1 percent.

The City's economy continues to recover from the pandemic and catch up to the nation, though the recovery has been uneven. As of October 2023, the City has recovered 98.3 percent of jobs lost between February and April 2020, down from 99.5 percent in September and due, in part, to a slowdown in seasonal hiring in retail trade, an industry sector that has yet to recover fully.

The effects of the pandemic also linger on other economic indicators. Wall Street profitability and industry bonuses declined significantly in 2022 and have continued to normalize in 2023.[6] Securities industry profits for the third quarter of 2023 increased by 22.4 percent year-over-year to almost $7.1 billion due to securities trading and interest-related income. Given the relative strength of the last three quarters, the City now expects profits to reach approximately $24 billion this year, in alignment with OSC's expectations based on recent trends.

Tourism-related industries continue to rebound as evidenced by hotel occupancy and room rates (although due, in part, to the City using hotel rooms to temporarily house asylum seekers and making them unavailable to the general public) and Broadway attendance levels, even as commuter levels have settled at just above 50 percent as of November 2023.[7]

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[6] OSC, New York City Securities Industry Bonus Pool, March 2023, https://www.osc.state.ny.us/files/press/pdf/2022-wall-street-bonus-pool.pdf and OSC, *The Securities Industry in New York City,* Report 10-2024, October 2023, https://www.osc.ny.gov/files/reports/osdc/pdf/report-10-2024.pdf.

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

IV. Changes Since the June 2023 Plan

In June 2023, the City projected a balanced budget for FY 2024 and budget gaps of $5.1 billion in FY 2025, $6.8 billion in FY 2026 and $7.9 billion in FY 2027. The November 2023 Plan increased the gap in FY 2025 to $7.1 billion and reduced the gaps in FY 2026 and FY 2027 to $6.5 billion and $6.4 billion, respectively (see Figure 5). Increases to the budget gaps from the inclusion of higher-than-anticipated asylum seeker costs were offset in part by better-than-projected revenue and the new PEG program.

Revenue adjustments in the November Plan were minor, and mostly focused on tax collection estimates in the current fiscal year, reflecting a net increase of $558 million (see the Revenue Trends section). The changes also included increased projections of property tax collections in the out-years by more than $400 million annually, mostly based on expected continued growth in property values over the financial plan period. Including miscellaneous revenue, overall City fund revenue increased by $670 million in FY 2024 and by an average of about $460 million annually in the out-years of the plan.

The November Plan also included the first round of the FY 2024 PEG, yielding net savings of $1.7 billion in FY 2024 and an average of $1.95 billion annually thereafter (see the Program to Eliminate the Gap section for more details). These savings consist of the first of three installments of citywide cost-cutting initiatives, implemented amid growing asylum seeker-related costs. Additional budgetary relief was generated by shifting federal stimulus funds from FY 2025 to FY 2024 ($240 million) and from the recognition of prior-year revenue for the City's public assistance program ($250 million).

These positive developments in the November Plan more than offset new costs in FY 2024, generating $643 million that will be used to prepay FY 2025 expenses. However, the plan increases the FY 2025 gap by more than $2 billion after accounting for the prepayment, due in large part to increased asylum seeker costs. Asylum seeker costs make up nearly 90 percent of added costs, with an additional $1.4 billion in FY 2024, $4.8 billion in FY 2025, $2 billion in FY 2026 and $1 billion in FY 2027. Total city-funded asylum seeker costs since April 2022 now total $3.6 billion in FY 2024, $5.5 billion in FY 2025, $2 billion in FY 2026 and $1 billion in FY 2027.

New agency needs not related to asylum seekers total $831 million in FY 2024, dropping to an average of $85 million annually thereafter. More than $600 million in FY 2024 is concentrated at the DOE for student transportation ($116 million) and reimbursement for private school tuition costs for children whose special needs could not be met at district schools ($490 million). Other new needs are largely from uniformed overtime adjustments at the Fire Department of $90 million in FY 2024, $65 million in FY 2025, $61 million in FY 2026, and $55 million in FY 2027. Lastly, the City added $15 million annually starting in FY 2025 for assistant district attorney and paralegal salary parity.

Although FY 2024 remains balanced, the November Plan includes historically high budget gaps starting in FY 2025, due largely to additional asylum seeker costs. While federal and State aid to offset some costs may still materialize, it is uncertain when and how much will be provided. Until then, the out-year gaps as reflected in the financial plan are collectively the highest nominal amount on record, at $20 billion over three years.

As a share of City fund revenues, the remaining out-year gaps average 8.2 percent — the highest level at this point in the budget cycle since FY 2011 (9.1 percent). Existing contingencies (totaling $1.45 billion in each fiscal year) could be used to narrow the gaps to an average of 6.4 percent of revenues.

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

	Better/(Worse)			
	FY 2024	FY 2025	FY 2026	FY 2027
Projected Gaps Per June 2023 Plan	**$ - - -**	**$ (5,079)**	**$ (6,836)**	**$ (7,900)**
Updated Tax Estimates				
Business Taxes	183	- - -	- - -	- - -
Sales Taxes	68	- - -	- - -	- - -
Personal Income Taxes	403	- - -	- - -	- - -
General Property Taxes	- - -	420	427	476
Hotel Taxes	(2)	- - -	- - -	- - -
Real Estate Transaction Taxes	(113)	- - -	- - -	- - -
Other Taxes	19	- - -	- - -	- - -
Subtotal	**558**	**420**	**427**	**476**
Other Revenue Reestimates	**112**	**40**	**21**	**14**
Total Revenue Reestimates	**670**	**460**	**448**	**489**
Program to Eliminate the Gap (PEG)				
Agency Savings	1,689	1,957	1,833	1,835
Debt Service	24	15	84	119
Subtotal	**1,713**	**1,972**	**1,917**	**1,955**
New Agency Needs	**(831)**	**(90)**	**(86)**	**(80)**
Asylum Seeker Costs				
Total Costs	(1,809)	(5,100)	(2,000)	(1,000)
State Aid	447	272	- - -	- - -
Federal Aid	8	- - -	- - -	- - -
Subtotal	**(1,354)**	**(4,828)**	**(2,000)**	**(1,000)**
Updated Estimates				
Pension Contributions	- - -	49	111	168
Federal Stimulus Swaps	240	(228)	- - -	- - -
Other Federal Funding Shift	250	- - -	- - -	- - -
All Other	(45)	(9)	(15)	(17)
Subtotal	**445**	**(188)**	**95**	**152**
Total Expense Reestimates	**(27)**	**(3,134)**	**(74)**	**1,026**
Net Change	**643**	**(2,674)**	**373**	**1,516**
Gaps to Be Closed Before Prepayment	**$ 643**	**$ (7,753)**	**$ (6,463)**	**$ (6,384)**
FY 2024 Prepayment of FY 2025 Expenses	(643)	643	- - -	- - -
Gaps to Be Closed Per November 2023 Plan	**$ - - -**	**$ (7,110)**	**$ (6,463)**	**$ (6,384)**

Note: Columns may not add due to rounding. Other revenue reestimates exclude savings initiatives, which are reflected in the “Agency Savings” category.
Sources: NYC Office of Management and Budget; OSC analysis

V. State and Federal Actions

State Budget

In early May 2023, the Enacted State Budget for State fiscal year (SFY) 2022-23 was adopted. For a detailed list of components for the Enacted Budget that affected and were incorporated into the City's June Plan, see prior OSC analysis here.

The City realized $441 million in FY 2023 as reimbursement for expenditures associated with asylum seeker shelter. The City expects to receive $1 billion in FY 2024 and $562 million in FY 2025 for additional asylum seeker expenses including the cost of the HERRC at Floyd Bennett Field. It is important to note that this funding was made available in the State budget, when the City had budgeted approximately $5.3 billion in planned spending through FY 2025 on asylum seekers.

The City's FY 2025 budget includes $290 million of State funds that is intended to reflect 29 percent of the State's initial allocation for the asylum seekers but this funding has not yet been distributed by the State. The State has committed to provide support estimated at $372 million annually for the operations of HERRCs at Creedmoor Psychiatric Center and at Randall's Island but this funding has not yet been included in the State Budget. The City is seeking additional financial support from the State to help mitigate the local share of the cost of providing services to asylum seekers, in the case that federal emergency aid is not forthcoming. However, the State has signaled its intention to limit its future assistance to targeted interventions such as case management as opposed to providing further funding for shelter.

The State has enacted a bill that would lower class sizes throughout the City's public school system within five years, which, once fully implemented, could increase operating costs by approximately $1 billion annually to meet the mandates, according to the City (see Semi-Autonomous Agencies: Department of Education section for more details).

Federal Actions

The November Plan assumes that total federal receipts for the operating budget continue to wind down after peaking in FY 2022 (at $15.2 billion), from an average of $11 billion in fiscal years 2023 and 2024 to nearly $7.7 billion in FY 2025, settling closer to $7.1 billion starting in FY 2026 as the City draws down the balance of pandemic relief aid.

Pandemic Relief and Claiming Progress

Over a four-year period ending in FY 2023, the City realized a total of $22 billion in federal aid (including unrestricted aid) to respond to the impacts of COVID-19.

Since the beginning of FY 2024, the City has made relatively small adjustments to its forecast of residual pandemic aid, mainly to accelerate a planned use of $228 million in local fiscal relief funds from FY 2025 to FY 2024. The City also raised its forecast of public health grants in the current year (by $302 million), rolling over unbudgeted funds from FY 2023.

The November Plan assumes pandemic aid will total $3.6 billion in FY 2024 (mostly for education and general fiscal relief; see Figure 6) and will continue to decline sharply in subsequent years as the stimulus program reaches its conclusion.

Through October 2023, the City has collected or claimed 86 percent of its long-term pandemic receivables for revenue realized during fiscal years 2020 through 2022, a significant acceleration in claiming from one year ago.

FIGURE 6
Federal Pandemic Relief by Major Category
(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Education Aid	$ - - -	$944.9	$2,874.6	$2,019.9	$2,104.9	$ - - -	$ - - -	$ - - -
Fiscal Relief Funds	730.1	1,505.0	3,067.9	495.6	1,060.0	475.4	- - -	- - -
FEMA Reimbursement	1,147.0	3,064.3	2,161.3	249.7	5.6	1.0	1.0	- - -
Public Health Grants	41.5	880.5	422.6	159.2	334.7	0.1	- - -	- - -
Other	105.0	468.5	964.7	126.5	130.8	53.4	20.1	10.2
Subtotal	**$2,023.6**	**$6,863.2**	**$9,491.2**	**$3,050.9**	**$3,636.0**	**$529.9**	**$21.1**	**$10.2**
Unrestricted Aid	- - -	- - -	$498.4	$106.0	- - -	- - -	- - -	- - -
Total	**$2,023.6**	**$6,863.2**	**$9,989.6**	**$3,156.8**	**$3,636.0**	**$529.8**	**$21.1**	**$10.2**

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

Nearly all the unclaimed long-term pandemic receivables are reimbursements from the Federal Emergency Management Agency (FEMA) but the City continues to make substantial progress toward claiming this revenue. The City has claimed or collected $4.1 billion to date, leaving a balance of $2.5 billion.

Federal Budget

On June 3, 2023, the President signed into law the Fiscal Responsibility Act of 2023 (FRA), which suspends the nation's debt ceiling until January 1, 2025 and imposes a cap on discretionary spending in each of federal fiscal years (FFY) 2024 and 2025. State and local government programs may be adversely impacted by the proposed spending restrictions, although the impact may not be fully quantified until Congress has completed action on a new budget for the current FFY, which began on October 1, 2023.

In past years, Congress has rarely approved the federal budget by the start of the new fiscal year and has instead utilized stop-gap measures to extend funding for government operations at current levels until a new budget is passed. Currently, the federal government is operating under a two-tiered continuing resolution to extend funding for its operations through early 2024 (through January 19, 2023 or February 2, 2023, depending on the agency).

As noted earlier, the City is experiencing a large-scale humanitarian crisis due to an influx of asylum seekers. The Governor and the Mayor have each issued executive orders declaring a state of emergency. The federal government, however, has not made any commitment to provide a matching contribution toward the ongoing costs of services for asylum seekers, as it has done in past emergencies (such as the recent pandemic, when FEMA reimbursed 100 percent of eligible costs during much of the public health emergency, and 75 percent of eligible costs in most other emergencies pursuant to the Stafford Act). To date, $800 million nationally in ad hoc funding has been appropriated for such costs, but the City expects to receive just $145 million of this funding for FY 2024. The recent stop-gap measures passed by Congress to extend funding for government operations do not include any additional targeted fiscal relief to State and local governments for asylum services.

Absent alternatives, the State and the City will continue to incur virtually the entire cost of the asylum services.

VI. Program to Eliminate the Gap

In September 2023, the City announced a new PEG which, absent alternatives, has the potential to become the largest annual gap-closing program since at least FY 2008 (both in absolute terms and as a share of city-funded spending).

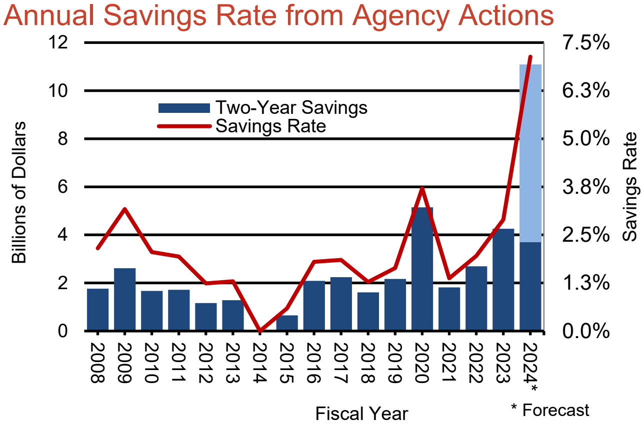
As shown in Figure 7, OSC has calculated an annual "savings rate" generated from each prior savings program. The rate is calculated by comparing the City's estimated savings from agency actions in the first two years of each program (reported as of the end of the last forecast of the fiscal year) as a share of city-funded spending in the first two years of the financial plan period (reported as of each budget adoption). OSC excluded debt service, drawdowns of budgetary reserves, and other gap-closing actions which are not generated from the agencies.

While it was elevated in the period following a recession and in the beginning of the pandemic, the City's annual savings rate was less than 3 percent of city-funded spending in most years (during which other unanticipated resources, such as higher-than-planned tax revenues and unneeded budgetary reserves helped to close the City's budget gaps).

The City has set a target to reduce agency spending by as much as 5 percent in each of three "rounds" of financial plan savings, in November, January, and April, over each year of the financial plan period (cumulatively, nearly 15 percent of city-funded spending annually starting in FY 2024). The City imposed a general hiring freeze, a limit on certain contractual spending, and a freeze on city-funded new agency spending. The City also announced it will seek to reduce uniform agency overtime spending.

FIGURE 7

Annual Savings Rate from Agency Actions



Note:The City did not implement a savings program in FY 2014.
Sources: NYC Office of Management and Budget; OSC analysis

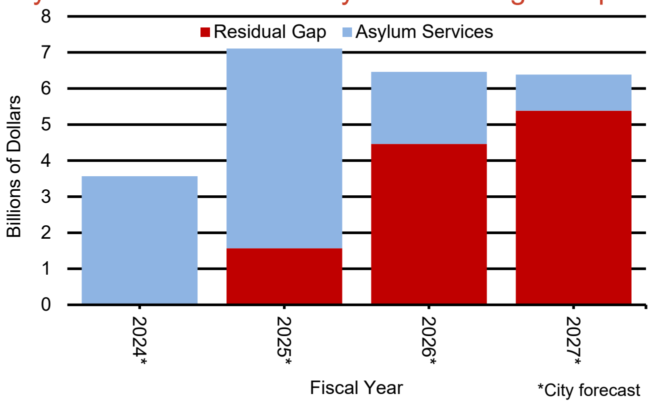
The November Plan incorporates initiatives from the first of three rounds of the PEG, generating nearly $3.7 billion during fiscal years 2024 and 2025 (already among the largest amounts on record), and more than $1.9 billion annually in each subsequent year. It would also reduce planned staffing by 2,873 positions by the end of FY 2025. If similar amounts were to be identified in each of the next two rounds of the PEG, OSC estimates the cumulative two-year savings would total $10.9 billion, or 7 percent of city-funded spending.

As of the November Plan, the City still faces an unprecedented budget gap of $7.1 billion in FY 2025. The City attributes the gap largely to the fiscal impact of responding to the ongoing humanitarian crisis (see Figure 8), during which the City has provided shelter and care to more than 150,100 asylum seekers since the crisis began in the spring of 2022.

If the City's budget gaps are adjusted to exclude the estimated city-funded cost of asylum services, the City would have faced a gap of $1.6 billion in FY 2025 (which might have been further reduced by a surplus transfer of a portion of the resources currently allocated to asylum costs in FY 2024, if not needed for any other purpose). However, the City would still face sizable gaps in the out-years (averaging $4.9 billion).

So far, most of the initiatives in the first round of the FY 2024 PEG are within the City's control to implement. However, some require operational changes which may be difficult to achieve given

FIGURE 8
Asylum Costs Share of City-Stated Budget Gaps



Note: Excludes asylum costs reimbursed with State or federal aid.
Sources: NYC Office of Management and Budget; OSC analysis

current trends and the City's projections (such as reductions to overtime at the uniformed agencies, which currently exceed last year's level). Absent alternatives, the City could face more difficult choices in the second and third round of the PEG as other cost-cutting options are exhausted.

Nearly all the savings will come from agency actions (see Figure 9). Only a small portion will come from debt service, $242 million over four years, or 3.2 percent of the cumulative savings, as rates have risen over time and the City has chosen to delay debt issuance. For comparison, debt service contributed, on average, 27 percent of the cumulative five-year value of the savings programs implemented in each year during fiscal years 2019 through 2022. Debt service accounted for 12 percent of the cumulative five-year savings identified in FY 2023.

While the City assumes a relatively conservative rate of interest to calculate debt service costs for new issues (e.g., 6 percent for general obligation bonds, 5.8 percent for debt issued by the Transitional Finance Authority; TFA), the difference between the assumed rates and actual borrowing rates has narrowed recently. For example, the average interest rate on 30 year "AAA" rated bonds had been substantially lower before calendar year 2022 (2.48 percent in 2019, 1.78 percent in 2021, and 1.61 percent in 2022), but has increased sharply since then (to more than 3 percent in each year). The rising average interest rates in the municipal debt market could diminish potential savings to the City.

The mayoralty agencies will contribute $1.7 billion in FY 2024, nearly $2 billion in FY 2025, and more $1.8 billion annually in subsequent years. These savings include service reductions the City expects will generate savings of $73 million in FY 2024, rising to $371 million in FY 2025 with slightly smaller amounts in subsequent years (14 percent of the cumulative value of the four-year program).

Almost three-quarters of the cumulative four-year savings generated from these

FIGURE 9
FY 2024 Program to Eliminate the Gap
(in millions)

	Positions	FY 2024	FY 2025	FY 2026	FY 2027	Total
Agency Actions						
Efficiencies	(2,629)	562	808	789	793	2,952
Expense Reestimates	(57)	510	608	566	582	2,266
Service Reductions	(189)	73	371	311	311	1,065
Revenue Reestimates	2	544	171	167	149	1,031
Agency Subtotal	**(2,873)**	**1,689**	**1,957**	**1,833**	**1,835**	**7,314**
Debt Service	**- - -**	**24**	**15**	**84**	**119**	**242**
Total Savings	**(2,873)**	**$ 1,713**	**$ 1,972**	**$ 1,917**	**$ 1,955**	**$ 7,557**

Note: Totals may not add due to rounding. Changes in headcount are as of June 30, 2025.
Sources: NYC Office of Management and Budget; OSC analysis

reductions (74 percent) will come from the cancellation of five police officer academy classes through June 30, 2025 (see Figure 10), which will reduce the patrol force levels through attrition. These savings appear temporary, however, as the November Plan still assumes the authorized uniformed headcount at the Police Department would total about 35,000 employees by June 30, 2024 (which is unchanged from the June Plan assumption and is consistent with pre-pandemic levels) and would maintain that amount over the balance of the plan period.

Other actions include the reduction of Summer Rising middle school Fridays and program hours, and a reduction in certain sanitation and parks services for cleaning public spaces, including a cut in funding for associated job training programs.

The City indicates that two-fifths (39.1 percent) of the savings over the plan period would come from efficiencies ($562 million in FY 2024, and by an average of $797 million annually starting in FY 2025). These resources would come mostly from personal services savings by eliminating vacant positions, pausing new hires and from making operational changes to reduce overtime at the uniformed agencies and administrative costs at the DOE. The City also plans to scale back its early childhood programs at the DOE (reflecting current enrollment trends) and reduce its operating subsidy to the libraries.

The City considers initiatives to be efficiencies if the City's finances can be improved (i.e., lowering spending, optimizing grant claiming, or increasing revenue collection) without reducing service levels. In response to the PEG, the public libraries have announced planned service reductions (most public libraries will close on Sundays). While many of the City's covered organizations, such as the public libraries, have been asked to contribute to the gap-closing efforts, the City maintains it did not direct these organizations on how to identify savings.

Nearly one-third (30 percent) of the cumulative four-year savings will come from expense reestimates ($510 million in FY 2024, and an average of $585 million annually in subsequent years). Most of the savings from expense re-estimates will come from lower personal services attributable in part to the City's still relatively high vacancy rate as well as a slower-than-expected growth in fringe benefits at the DOE. The City also benefited from a prior-year prepayment of an operating subsidy to the MTA to cover the cost of providing reduced fares for students and from delaying the scheduled replacement of vehicles at the Police Department.

A small portion (13.6 percent) of the savings will come from revenue reestimates. The City anticipates $544 million from this source in FY 2024, although most of that amount will come from prior-year revenue, which is not assumed to recur. The recurring portion will come mainly

FIGURE 10
Service Reductions by Agency
(in millions)

	Positions	FY 2024	FY 2025	FY 2026	FY 2027	Total
Police Department	- - -	42	289	229	229	789
Dept. of Social Services	- - -	14	29	30	30	102
Dept. Youth & Comty. Dev	- - -	- - -	25	25	25	75
Department of Sanitation	(189)	7	20	19	19	65
Department of Education	- - -	10	8	8	8	34
Total Savings	**(189)**	**$ 73**	**$ 371**	**$ 311**	**$ 311**	**$ 1,065**

Note: Totals may not add due to rounding. Changes in headcount are as of June 30, 2025.
Sources: NYC Office of Management and Budget; OSC analysis

from shifting financial responsibility from the City to the State or federal governments for certain services (e.g., school food program, day care, and foster care). The City also anticipates the receipt of additional fines from redeploying cameras to enforce the local speeding limits.

Just a few days after the release of the November Plan, the Budget Director notified agency heads that the second round of the PEG will be instituted as was originally planned, to reduce agency spending by another 5 percent in each year of the plan period. Agencies that have already submitted plans to achieve cumulative savings of 15 percent are exempt from any further cost-reduction actions. The Police Department, Fire Department, and Department of Sanitation are also exempt from the January expansion of the PEG out of concern that additional cuts could adversely impact public safety, health and cleanliness.

To help combat the rising costs of the asylum program, the Budget Director also announced a target to reduce asylum spending by 20 percent of the current forecast for fiscal years 2024 and 2025 (more than $2.1 billion over two years), to be achieved through cutting per-diem costs and reducing the length of shelter stays. The PEG proposals from the unexempted agencies, including migrant savings, were submitted to the Budget Director for review. The savings from these proposals will be included as part of the January 2024 Financial Plan submission.

In the past, the City had routinely prepared updates on its progress towards implementing its PEG initiatives (i.e., the “Milestone Reports”), which were reviewed by external monitors including the State Comptroller. Given that the PEG is expected to generate resources equal to as much as 15 percent of agency spending, a potentially historic rate of reduction in one year, and that there may be implementation challenges with current and future initiatives, a reactivation of a PEG monitoring process is encouraged. The process would provide more timely information to the public about initiatives at risk of implementation failure as well as the corrective actions to be taken to ensure implementation can be achieved.

VII. Revenue Trends

The November Plan increased the City's FY 2024 total revenue forecast, which includes locally generated revenues (i.e., City funds) and federal and State categorical aid, from the June Plan by $3.4 billion. The City now expects total revenues to increase by 1.4 percent from the prior year to reach a record high of $110.5 billion in FY 2024. While some of the upward adjustment reflects higher-than-expected collections from locally generated revenues, especially from personal income tax (PIT) and business taxes, most of the increase is due to federal and State grants.

The forecast for federal and State grants in FY 2024 increased mainly as the City rolled over unused grant funding from FY 2023. As a result, the City received $2.9 billion less in grant funding than expected in FY 2023 but now expects $2.5 billion more in FY 2024.

The November Plan increased the forecast for City funds by $776 million in FY 2024 to $77.7 billion, accounting for 70 percent of total revenues (see Figure 11). Tax collections account for 92 percent of City fund revenues while miscellaneous revenues account for 8 percent.

The November Plan increased the forecast for total tax collections by $592 million for FY 2024 due to stronger-than-expected nonproperty tax collections. Through the first four months of FY 2024, nonproperty tax collections (including audits) were $365 million higher than the June Plan's forecast. As a result, the November Plan increased the forecast for nonproperty tax collections by $584 million.

Even with the increase in the forecast, the City still expects total tax collections to decline by 2.3 percent from the prior year to $71.7 billion in FY 2024 (see Figure 12). If realized, this would be the first decline since 2009 (when collections fell by 6.7 percent). In FY 2024, total collections are forecast to be dragged down by a decline in non-property tax collections, particularly PIT and business tax, reflecting the expectation of an economic downturn. This decline is expected to more than offset the increase in property taxes.

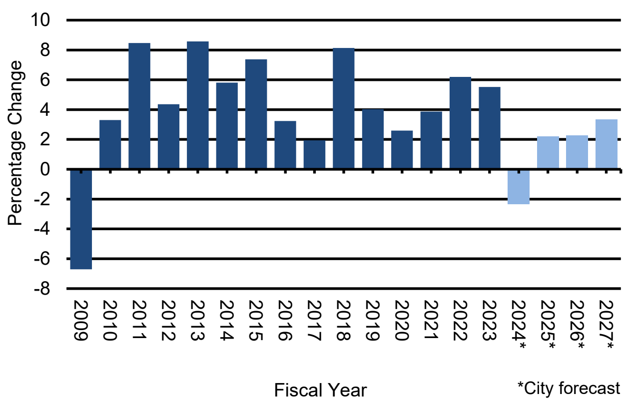
The November Plan increased the total revenue forecasts for fiscal years 2025 through 2027 by a total of $2.4 billion. However, because of a large drop in federal and State grants from FY 2024 due mainly to the continued wind down of temporary pandemic aid, total revenues are still

FIGURE 11
Trends in City Fund Revenues
(in millions)

	FY 2024	Annual Growth	FY 2025	FY 2026	FY 2027	Average Three-Year Growth Rate
General Property Tax	$ 32,577	3.4%	$ 32,660	$ 32,936	$ 33,592	1.0%
Personal Income Tax	15,346	-10.7%	16,125	16,722	17,756	5.0%
Sales Tax	9,840	3.1%	10,320	10,905	11,352	4.9%
Business Taxes	7,903	-7.2%	7,745	7,726	7,826	-0.3%
Real Estate Transaction Taxes	2,083	-4.2%	2,375	2,496	2,667	8.6%
Other Taxes	3,235	1.9%	3,316	3,401	3,491	2.6%
Tax Audits	747	-44.1%	773	773	773	1.1%
Subtotal: Taxes	**71,731**	**-2.3%**	**73,314**	**74,959**	**77,457**	**2.6%**
Miscellaneous Revenues	6,002	-5.7%	5,729	5,642	5,590	-2.3%
Unrestricted Intergov. Aid	0	N/A	0	0	0	N/A
Grant Disallowances	(15)	15.4%	(15)	(15)	(15)	0.0%
Total	**$ 77,718**	**-2.8%**	**$ 79,028**	**$ 80,586**	**$ 83,032**	**2.2%**

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

FIGURE 12
Annual Percent Change in Tax Revenues



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

expected to decrease by 3.5 percent in FY 2025, which would be the largest decline on record (since FY 1980). As a result, the average annual change in total revenues including the out-years is a decline of 0.3 percent.

City funds are expected to average positive growth of 2.2 percent during fiscal years 2025 through 2027, though this is much slower than the annual average growth of 4.7 percent from fiscal years 2015 through 2019.

Tax collections are expected to average 2.6 percent annual growth during fiscal years 2025 to 2027, with growth in nonproperty tax collections (3.9 percent) outpacing that of property tax (1 percent). The relatively slow rate of growth in property tax collections reflects continued uncertainty in the real estate markets.

OSC projects that absent a severe recession, with its expectation of a smaller decline in City funds, the City is likely underestimating tax collections by about $1.1 billion in FY 2024, and a combined $3.8 billion in fiscal years FY 2025 through FY 2027.

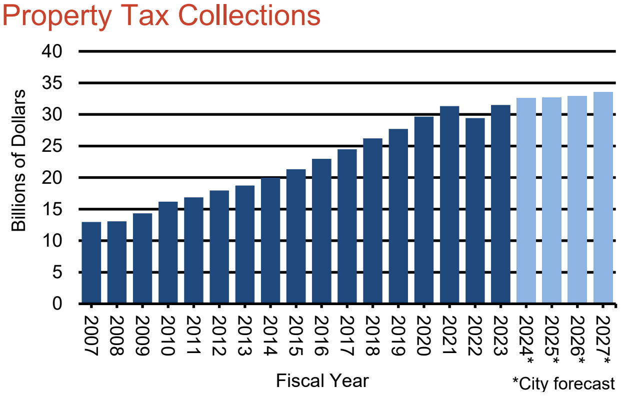
General Property Tax

The November Plan made a small increase of $7.5 million in expected property tax collections in FY 2024. Collections are now expected to reach $32.6 billion, an increase of 3.4 percent from the prior fiscal year and the highest level on record (see Figure 13).

The City had already made a significant increase to expected collections for FY 2024 in the June Plan on the strength of the final property tax assessment roll released in May. However, at that time no changes were made to the collections forecast for fiscal years 2025 to 2027 (see OSC's June Plan report for more details). The November Plan now reflects this new baseline in the out-years, raising expected collections by $427 million in FY 2025, $434 million in FY 2026, and $483 million in FY 2027 compared to the June Plan.

Despite these increases, the forecast expects slower annual growth in collections than was seen in the years prior to the pandemic. From fiscal years 2017 to 2021, property tax revenues grew at an average compound rate of 6.4 percent annually. The November Plan shows compound annual growth of 1 percent for fiscal years 2025 to 2027.

FIGURE 13
Property Tax Collections



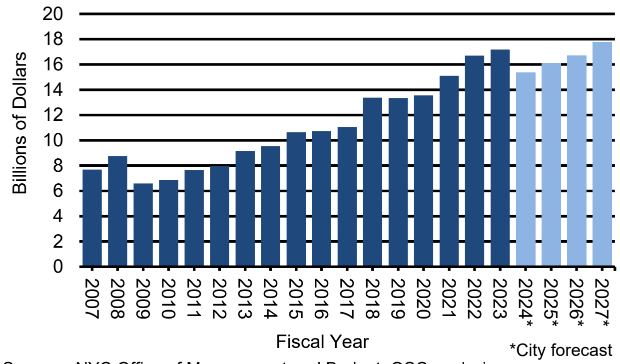
Sources: NYC Office of Management and Budget; OSC analysis

Though residential property sales have slowed due to high mortgage interest rates, prices remain at record highs. Zillow sales price data show that the median home sale price for the metro area was $591,095 in September, the highest level on record.[8] Home values are expected to continue to grow over the plan horizon, and OSC expects property tax collections may exceed the City's forecast by $600 million for fiscal years 2025 to 2027. Commercial real estate values, however, remain a concern in the wake of the pandemic. Though office vacancy rates declined slightly from record highs in the third quarter (from 22.4 to 22.1 percent), they are still more than double the pre-pandemic level. Data from real estate intelligence firm Trepp shows that the national delinquency rate for office real estate loans has more than tripled in the past year, rising above 6 percent in November 2023.[9] Taxable commercial property values were just below pre-pandemic highs on the FY 2024 final assessment roll, but with vacancy rates expected to remain elevated for several years, property valuations are likely to show continuing softness, presenting a risk to property tax collections.

Personal Income Tax

The November Plan increased the forecast from the June Plan for total PIT, including the Pass Through Entity Tax (PTET), by $403 million for FY 2024. The adjustment reflects better-than-expected collections in the first four months of FY 2024 (see Figure 14; for information on the PTET, see OSC's June 2023 Plan [report for more details](#)).[10] As a result, total PIT collections are now expected to decrease by 10.7 percent in FY 2024 to reach $15.3 billion, better than the June Plan's forecast of a 13.1 percent decline.

FIGURE 14
Total Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

Year-to-date total PIT collections through October were $259 million higher than what the June Plan expected. However, collections are 5.7 percent lower than the same period last year, dragged down by large declines in non-withholding components reflecting depressed Wall Street activity.

The November Plan adjustments to the FY 2024 forecast affected almost all components of PIT. Withholding (i.e., the amount of tax taken from employee paychecks) was increased by $118 million to reach $11.8 billion. The City now expects withholding to increase by 3 percent in FY 2024, reflecting continuing gains in employment and wages. However, this rate of growth would be slower than last year's 4.9 percent, as the City forecasts slowing job and wage growth along with a decline in bonuses.

The Plan also increased the FY 2024 forecast for the non-withholding components by a combined $285 million to $3.5 billion. These components are now expected to decrease by 38.1 percent in

8 Using Zillow's Median Sale Price (Smooth & Seasonally Adjusted, All Homes, Monthly) measure for the New York City MSA, https://www.zillow.com/research/data/.

9 Trepp, *Trepp Delinquency Report November 2023,* December 1, 2023, https://www.trepp.com/instantly-access-delinquency-report-november-2023.

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 OSC's June 2023 Plan report.

FY 2024, reflecting the City's assumption of stock and real estate markets negatively impacting capital gains and business income.

Some of the decline in the nonwage components of PIT was also due to the implementation of the PTET. Some taxpayers who opted into the PTET in FY 2023 had not claimed the credit to lower their liability before the end of the fiscal year, resulting in higher-than-expected FY 2023 collections. These taxpayers could instead claim the credit in FY 2024, which would result in lower collections.

The November Plan did not change the forecast for fiscal years 2025 through 2027 and expects total PIT collections to increase by an annual average of 5 percent. This rate would still be slower than the average annual growth of 6.9 percent in fiscal years 2015 through 2019, reflecting the City's assumption of a return to moderate economic growth in the out-years. During this period, withholding average annual growth is projected at 4.4 percent, while that of nonwage component growth is 6.7 percent.

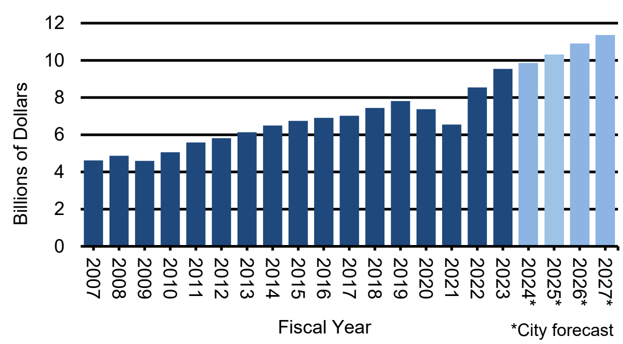
The uncertainties associated with the PTET have made it more difficult to forecast collections. OSC expects collections to exceed the City's forecast by $700 million in FY 2024 and a combined $3.1 billion in the outyears, as OSC does not expect the economic slowdown to have as big an effect on collections as the City forecasts. OSC also expects collections to be higher in the rest of the plan period as collections exceed OMB's forecast of moderate growth in the out-years.

Sales Tax

The November Plan increased the sales tax FY 2024 forecast from the June Plan by $68 million and now anticipates sales tax collections in FY 2024 to slow down to 3.1 percent growth, from 11.7 percent growth in FY 2023, to $9.8 billion (see Figure 15). In the previous plan the City expected 2.6 percent growth in FY 2024.The City did not adjust the out-years in the November Plan from the previous plan. In the first four months of FY 2024, sales tax collections grew 4.8 percent compared to the same period in FY 2023 which is higher than what the City expects in FY 2024.

According to the Siena College Consumer Sentiment Index for New York, in the third quarter of 2023, optimism is down from the second quarter but still up compared to the nation.[11] According to the Federal Reserve's latest Beige Book, consumer spending has continued to slow from a strong summer.[12] Metro New York City retail sales in FY 2024 are expected to grow 1.5 percent from FY 2023. The relatively slow growth in retail sales is reflected in the City taxable sales numbers. In the first two quarters (March-August) of Sales Tax Year (STY) 2023-2024, City total taxable sales grew 2.3 percent year-over-year. Retail taxable sales declined 3.5 percent whereas leisure and hospitality taxable sales increased 8.9 percent for the same period. Tourism, which affects

FIGURE 15
Sales Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[11] Siena College Research Institute (SCRI), "NY Consumer Sentiment Down; Remains 2 Points Above U.S.," October 9, 2023, https://scri.siena.edu/2023/10/09/ny-consumer-sentiment-down-remains-2-points-above-u-s/.

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

leisure and hospitality, is still expected to return to pre-pandemic levels by 2024.[13]

Despite positive tourism activity, there is some concern for consumption trends from growing national credit card debt which reached a record $1.08 trillion in the third quarter of 2023. The delinquency rate status (30, 90, and 120+ days late) per capita is higher in New York State than the nation. While the consumer remains resilient for now there could be a continued pullback on discretionary spending in the out-years.

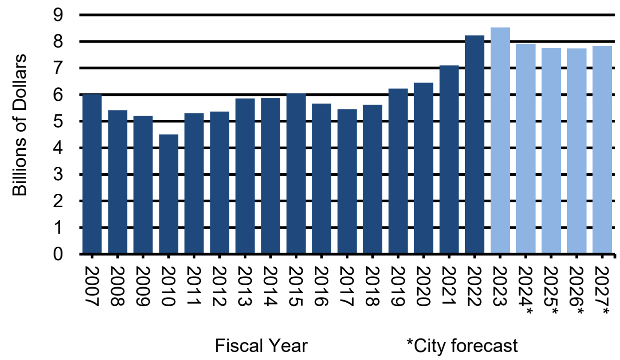
OSC estimates that collections will continue to see moderate growth in FY 2024, 4.7 percent growth up $150 million from the November Plan, as the consumer remains resilient during the current fiscal year and tourism continues to recover. In the out-years, a further slowdown is possible and OSC expects collections to grow 2.3 percent, down $100 million, from the November Plan in FY 2025.

Business Taxes

The November Plan's FY 2024 business tax forecast is $183 million higher than the June Plan, as collections continue to see growth through October FY 2024, growing 9.1 percent year-to-date compared to the same period last year. However, business taxes are still projected to decline by 7.2 percent in FY 2024. FY 2023 collections reached a record high of $8.5 billion (see Figure 16), as a result, the decline from FY 2023 is more pronounced than anticipated in the June Plan.

The November Plan's upward adjustment in FY 2024 is driven by business corporation taxes, which constitute more than two-thirds of total business tax collections and are primarily driven

FIGURE 16
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

by the profits of New York Stock Exchange member firms. During the first three quarters of the year, Wall Street profits grew 3.7 percent from the same period last year to $20 billion. The November Plan forecast profits to reach $23.7 billion for 2023, which may be too conservative as the financial markets are showing strong performance in the current quarter. If this trend continues for the fourth quarter, full-year profits may exceed the City's forecast by $2 billion.

Business corporation tax collections have grown 8.4 percent year-to-date through October, compared to the same period last year. The growth can be attributed to strength in both the finance (up 27.9 percent) and services (16.5 percent) sectors.

Unincorporated business taxes (UBT), which make up the remainder of total business tax collections, saw a year-over-year increase of 11 percent through October 2023. The growth can be attributed to the services sector. Collections from the services sector, which makes up 49.5 percent of UBT net payments, saw a 20.7 percent increase through October compared to last year.

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

OSC estimates tax collections will exceed the City's forecast by $350 million in FY 2024 and reach $8.2 billion. In FY 2025, OSC estimates collections will see a decline of 1.6 percent, smaller than assumed by the City. OSC projects business taxes will be 0.5 percent higher, on average, than the November Plan projections for each of the out-years.

Real Estate Transaction Taxes

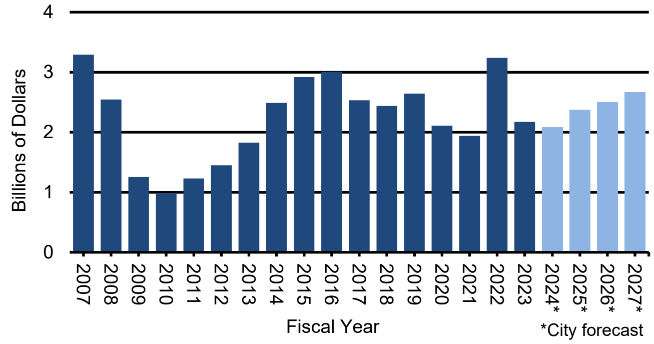
The November Plan reduced expected real estate transaction taxes in FY 2024 by $113 million to $2.1 billion (see Figure 17). This represents a drop of 4.2 percent from the prior fiscal year and the second consecutive year of decline.

Home sales have slowed considerably in the past year, resulting in transaction tax collections that have been lower than the City expected in the June Plan. Rising interest rates have brought home mortgage rates to their highest levels in 20 years, reaching 7.5 percent in early November, which has caused hesitancy among buyers. As a result, total residential sales in New York City for the fiscal year-to-date declined by 25.3 percent compared to the prior fiscal year.[14]

While many economists had previously expected the rapid rate increases to result in a recession, those expectations have declined considerably as inflation has moderated without a significant impact to employment. The Federal Reserve's "higher for longer" expectation means that a significant drop in mortgage rates is unlikely to materialize in FY 2024. As such, OSC expects transaction tax collections may be $150 million below the level in the November Plan.

The November Plan makes no changes to expected collections in fiscal years 2025 to 2027.

FIGURE 17
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

The current forecast expects collections to increase by 14 percent in FY 2025, and average 6 percent growth in fiscal years 2026 and 2027. While the Federal Reserve is expected to begin lowering the target interest rate sometime in 2024, current expectations are that it will do so gradually, and is therefore unlikely to spur a sudden increase in home purchases that will cause transaction taxes to reach the levels expected in the plan. OSC estimates that collections may be $600 million below the plan forecast in the out-years.

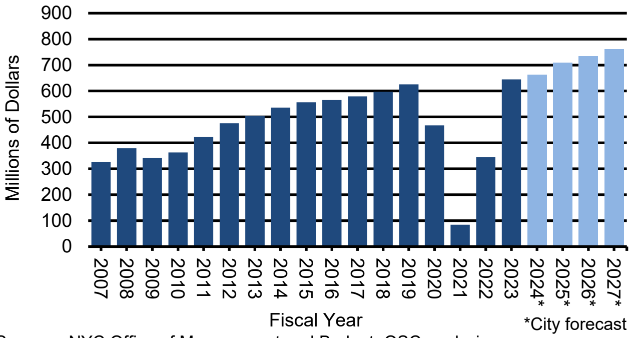
Hotel Tax

The November Plan expects collections to increase 3 percent in FY 2024 to reach $664 million with little change from the June Plan (see Figure 18). However, collections have been stronger than expected in FY 2024. In the first four months of FY 2024, hotel tax collections grew 8.8 percent from FY 2023.

Higher room rates and a strong recovery in tourism should continue to support the growth in collections. According to the Federal Reserve's latest Beige Book in October 2023, when the City hosted the U.S. Open tennis tournament and

[14] For July through October; NYC Department of Finance Automated City Register Information System (ACRIS) preliminary data.

FIGURE 18
Hotel Tax Revenues



Sources: NYC Office of Management and Budget; OSC analysis

New York Fashion Week in September 2023, those two events helped boost hotel demand and pushed average daily room (ADR) and hotel occupancy rates to near historic levels.[15]

In October 2023, New York City hotel occupancy reached 86.8 percent (up 3 percentage points from October 2022) the highest among the top 25 hotel markets in the U.S.[16] The City hosted the New York City Marathon on November 5, 2023 which benefited November 4, 2023 results as revenue per available room (RevPAR) increased 11.6 percent and ADR increased 9.3 percent year over year.[17] New York City tourism is still expected to return to pre-pandemic levels in 2024.[18]

While demand remains high there is concern for the supply of hotel rooms. As of October 2023, more than 16,000 hotel rooms (of 140 hotels) in the New York City market area have been temporarily or permanently closed to travelers and are accommodating unsheltered individuals and asylum seekers. The hotels that are temporarily or permanently closed are mostly lower cost hotels so high-end hotels may continue to benefit from the increased demand. There is uncertainty if many of these hotels that are not accommodating travelers will remain open once their long-term contracts expire. There are currently over 8,000 rooms in the New York City hotel pipeline but with uncertainty on available rooms, short-term rentals, and adequate construction, hotel tax revenue could be negatively impacted in the out-years.[19]

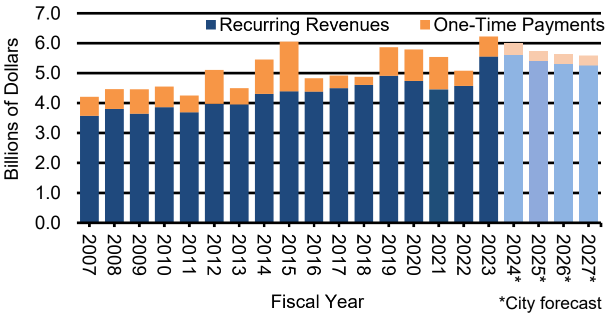
Future events contributing to periods of elevated demand and increases in average daily room rates with limited supply could offset some of the negative impact caused by supply taken offline. OSC expects collections to be $50 million higher than the City’s forecast in FY 2024 as tourism continues to fully recover and demand remains high for hotels. In the out-years there remains some uncertainty as collections could slow based on supply issues.

Miscellaneous Revenues

The November Plan expects miscellaneous revenues, consisting of recurring revenues and one-time payments, to decline from the prior fiscal year by 3.6 percent to $6 billion in FY 2024 followed by similar declines in the out-years (see Figure 19).[20]

[15] New York Federal Reserve, *Beige Book*, October 2023.
[16] CoStar, “Average Daily Rate Carried US Hotel Performance in October,” November 20, 2023, https://www.costar.com/article/1756291735/average-daily-rate-carried-us-hotel-performance-in-october.
[17] Issac Collazo, Chris Klauda and William Anns, “Halloween Week Hotel Performance Not So Scary in US,” Smith Travel Research, November 10, 2023. https://www.costar.com/article/1419968864/halloween-week-hotel-performance-not-so-scary-in-us.
[18] OSC, *New York City Industry Sector Dashboards*, October 2022, https://www.osc.ny.gov/osdc/reports/nyc-sectors/tourism.
[19] Jan Freitag and Nicole Shih, “More Than 16,000 NYC Hotel Rooms Used To Accommodate Unhoused, Migrants,” CoStar, November 15, 2023. https://www.costar.com/article/1900939477/more-than-16000-nyc-hotel-rooms-used-to-accommodate-unhoused-migrants.
[20] Miscellaneous revenues consist of recurring revenues (including fines, fees, forfeitures, charges for services,

FIGURE 19
Total Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

Recurring revenues are projected to be $5.6 billion in FY 2024, a growth of 1.2 percent year-over-year before averaging an annual 2.1 percent decline in fiscal years 2025 through 2027.

The November Plan adjusted FY 2024 up $184 million from the June Plan. In the out-years, there was an average upward adjustment of $72 million. In the first four months of FY 2024, miscellaneous revenues declined 2.8 percent when compared to the same period last year. Fines and forfeitures were adjusted up by an average of $44 million annually as speed camera installations will raise fine revenue. Interest income was adjusted up by $75 million in FY 2024 with smaller adjustments averaging $14 million in the out-years as Federal interest rates remain elevated.

Charges for services was adjusted up by $18 million with $15 million of the adjustment for affordable New York City housing in FY 2024. Water and sewer payments were adjusted up by $25 million with $16 million of the adjustment for water board payments.

One-time payments was adjusted up by $17 million with $14 million being asset sales, affirmative litigation, and property interest sales. The City expects recurring miscellaneous revenues in fiscal years 2025 to 2027 to reach $5.3 billion annually, an appropriate forecast given economic uncertainty.

licenses and permits), and one-time payments (including settlements, litigation, asset sales and payments from agencies).

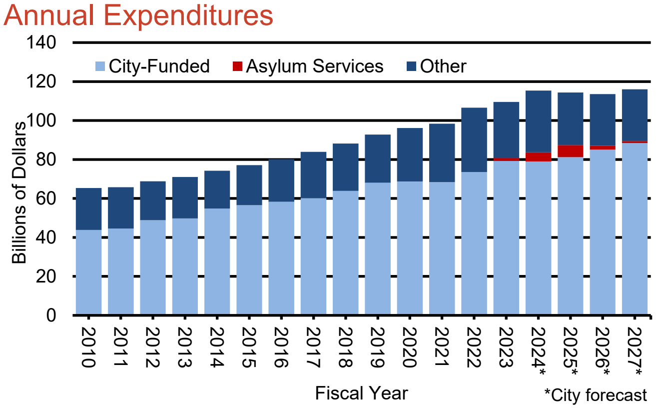
VIII. Expenditure Trends

Total citywide expenditures are projected to reach nearly $115.4 billion in FY 2024, after adjusting for surplus transfers, which obscure total expenditures (see Figure 20). The portion of citywide spending funded with locally generated revenue (i.e., City funds) is estimated at nearly $82.6 billion. The portion funded with other sources, mostly federal and State grants, is $32.8 billion (28 percent of total spending).

City-funded spending rose by an average of 8.7 percent annually over a two-year period through FY 2023, adjusted for savings from overestimating prior-year's expenses. The November Plan anticipates spending, after making the same adjustment and excluding the general and capital stabilization (contingent) reserves, would rise slowly in FY 2024 (by 0.7 percent), even after accounting for spending on asylum seekers.

Excluding services for asylum seekers, the November Plan anticipates that a large portion of other-than-personal-services (OTPS) spending will not recur beyond FY 2023 (mainly for social services) or will be temporarily offset in FY 2024 with federal pandemic aid before rebounding in FY 2025 (mostly for school custodial services and waste export contracts). This includes the City's share of public assistance costs, with spending declining from $1 billion to $505 million.

FIGURE 20
Annual Expenditures



Note: Adjusted for surplus transfers and debt defeasances. City forecast includes budgeted reserves beginning in FY 2024.
Sources: NYC Office of Management and Budget; OSC analysis

The FY 2024 decline to OTPS would be substantial, although portions of the FY 2023 spending is nondiscretionary, and therefore, legally or contractually required. Offsetting this decline, the plan assumes that city-funded spending on services for asylum seekers will rise sharply in fiscal years 2024 and 2025 from $1 billion in FY 2023, to nearly $3.6 billion in FY 2024, and more than $5.5 billion in FY 2025.

In total (inclusive of asylum services), the November Plan assumes the growth in city-funded spending will temporarily accelerate to 5.2 percent in FY 2025 (excluding contingent reserves), driven in large part by the continued growth in spending on asylum services. The growth in the out-years would slow to an average of 1.5 percent annually thereafter beginning in FY 2026, assuming there would be a substantial wind down of the asylum program. By comparison, spending rose, on average, by more than 4 percent annually over the past decade. Projected wage increases, debt service, and health insurance costs are expected to be the largest cost drivers through the balance of the financial plan period.

Financial Plan Risks and Offsets

The November Plan includes sizable risks and fiscal uncertainties. OSC estimates that the asylum census will continue to grow through the end of FY 2024 and remain flat in the out-years. Based on this trend, the City could achieve savings totaling $1.5 billion in fiscal years 2024 and 2025, but could incur substantially higher-than-planned costs in each subsequent year (see Asylum Seeker Cost Implications section for more details).

The City Council also adopted in July 2023, over a veto by the Mayor, a planned expansion in rental assistance. The expansion could have significant spending ramifications for the City but faces a number of implementation questions.

As in past years, OSC has identified other relatively large but manageable risks including higher-than-planned mandated operating subsidies for public transit, spending on certain education services, social services, and potentially higher overtime costs. For example, absent any alternatives, it appears unlikely that the City's public assistance spending will decline in FY 2024, given the recent growth in enrollment. The decline in other OTPS spending includes the expectation of a wind down of certain legal or contractual obligations such as rental assistance and some contracted services at the DOE, which also appear unlikely based on recent trends (see Figure 21).

Alternatively, the City projects its annual debt service based on conservative assumptions. As in prior years, actual spending could be lower than planned. The expenditure risks identified by OSC, net of offsets, are estimated to total $1.1 billion in FY 2024, rising to $10.2 billion by FY 2027.

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

The City has some lead time to address its larger out-year risks and fiscal uncertainties and has implemented a gap-closing program expected to generate savings averaging $1.9 billion annually over fiscal years 2024 through 2027 (see Program to Eliminate the Gap for more details). November Plan expenditure trends are shown in Figure 21 and discussed below.

Full-Time Staffing Levels

The City's full-time workforce declined for the third consecutive year through FY 2023, to

FIGURE 21
Trends in City-Funded Spending in November 2023 Financial Plan
(in millions)

	FY 2023	FY 2024	Annual Growth	FY 2025	FY 2026	FY 2027	Average Three-Year Growth Rate
Salaries and Wages	$22,523	$21,320	**-5.3%**	$22,706	$24,221	$25,366	**6.0%**
Pension Contributions	8,956	9,485	**5.9%**	10,229	10,630	10,755	**4.3%**
Debt Service	7,273	7,564	**4.0%**	8,076	8,783	9,445	**7.7%**
Medicaid	5,911	6,662	**12.7%**	6,500	6,629	6,779	**0.6%**
Health Insurance	7,160	7,115	**-0.6%**	7,315	7,866	8,300	**5.3%**
Other Fringe Benefits	3,571	3,920	**9.8%**	3,964	4,188	4,392	**3.9%**
Energy	972	1,068	**9.8%**	1,076	1,169	1,210	**4.3%**
Judgments and Claims	1,150	1,025	**-10.9%**	737	683	700	**-11.9%**
Public Assistance	1,068	505	**-52.7%**	870	870	1,220	**34.2%**
Services for Asylum Seekers	1,033	3,566	**245.3%**	5,540	2,000	1,000	**-34.5%**
Residual OTPS	20,949	18,875	**-9.9%**	18,318	18,561	18,801	**-0.1%**
Subtotal	**$80,567**	**$81,104**	**0.7%**	**$85,331**	**$85,599**	**$87,967**	**2.7%**
General Reserve	- - -	1,200	**NA**	1,200	1,200	1,200	**0.0%**
Capital Stabilization Reserve	- - -	250	**NA**	250	250	250	**0.0%**
Prior-Year's Expenses	(344)	- - -	**NA**	- - -	- - -	- - -	**0.0%**
Total	**$80,223**	**$82,554**	**2.9%**	**$86,781**	**$87,049**	**$89,417**	**2.7%**

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

281,917 employees. While it has increased slightly since then, to 284,104 employees as of September 2023, the City's full-time staffing remains among the lowest levels since January 2016.

OSC estimates that the vacancy rate for full-time positions is now 4.9 percent, much lower than one year ago, but that the decline is fueled by the implementation of several rounds of vacancy reductions as part of its previous gap-closing program, rather than substantial new hiring. Despite the reduction in target headcount, the vacancy rate remains relatively high when compared to the historical average during fiscal years 2015 through 2020 (2 percent).

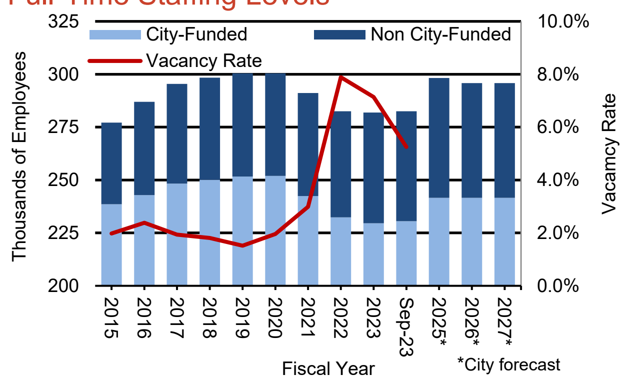
The City has also implemented a general hiring freeze, effective on October 1, 2023, which is likely to result in further reductions to the City's full-time workforce in the short run through attrition.

While it had remained elevated compared to pre-pandemic levels during much of FY 2023, attrition slowed in recent months and was close to the historical average through the first three months of FY 2024. The full-time workforce has declined to levels not seen since FY 2016, but the City believes it can meet current and anticipated demands for many municipal services with fewer employees than were budgeted as of June 2020, when year-end staffing had reached a historical peak.

As a result, the City's FY 2024 PEG has reduced planned headcount by 2,873 city-funded full-time positions in FY 2025, mostly from eliminating a portion of its vacancies (see Program to Eliminate the Gap for more details). After reflecting the elimination of vacant positions, the November Plan assumes staffing will increase by 5 percent to 298,235 by June 30, 2025 (see Figure 22 and Appendix A for more details).

The City has realized substantial savings attributed to lower-than-planned headcount in recent years. Since the beginning of FY 2024, the City lowered its forecast of personal service spending in that year by $822 million, savings included in the FY 2024 PEG, with recurring savings averaging $1.2 billion annually thereafter. The savings will come mostly from the new round of vacancy reductions and the suspension of new hires (including the cancelation of five police officer academy classes), and the impact of other changes in operations to reduce overtime and certain administrative costs.

FIGURE 22
Full-Time Staffing Levels



Note: FY 2024 is shown as year-to-date actuals for September 2023.
Sources: NYC Office of Management and Budget; OSC analysis

The latest Mayor's Management Report, released in September 2023, identified a number of program areas facing staffing challenges coupled with rising service demands, which have negatively impacted performance (e.g., reduction in SNAP application timeliness rates, share of families in shelter receiving services from a licensed social worker; and reduced inspections). The City is likely to face continued public pressure, including legal challenges, to address the performance concerns with changes to budgeted spending and staffing, despite having limited resources to do so. In addition, overtime spending at the uniformed agencies reached a new record in FY 2023 and has continued to exceed the City's forecast in FY 2024 (see Expenditure Trends: Overtime section for more details).

Collective Bargaining

As of November 2023, nearly the entire municipal workforce (90 percent) had reached new labor agreements with the City for the 2021-2026 round of bargaining.

The City, which has a long history of pattern bargaining, assumes that the terms of the collective bargaining agreement ratified by the members of District Council 37 (DC 37) in March 2023 and the Police Benevolent Association (PBA) in April 2023 will apply to all other relevant civilian and uniformed unions[21].

The November Plan includes reserves in each year of the financial plan period to fund anticipated labor costs for all the settled contracts based on the DC 37 and PBA framework and assumes pattern-conforming agreements will be reached with the remainder of the City's workforce.

While the City's labor reserves are adequate to fund the cost of the new labor agreements, the City and the municipal unions face uncertainty over the long-term cost of the City's health benefits program, stemming from a mutual agreement reached in a prior round of bargaining (see next section for more details).

Health Insurance

In 2021, the City and the Municipal Labor Committee (MLC) agreed to implement a Medicare Advantage (MA) plan. The parties further agreed that the savings generated from the plan (estimated at $600 million annually) would be earmarked for the Health Insurance Stabilization Fund (HISF), a trust and agency account jointly administered by the City and the MLC since 1986, the balance of which has been declining in recent years (from $1 billion as of June 30, 2019, to $158 million as of the end of FY 2023).[22]

On August 11, 2023, the New York State Supreme Court permanently prohibited the City from requiring any City retirees, and their dependents, from being removed from their current health insurance plans, and from being required to either enroll in a planned MA plan or seek their own coverage.

The City reports in a recent bond disclosure that an arbitrator mandated with the enforcement of MLC health savings agreements has acknowledged since the decision was issued that without the savings from the MA plan, the HISF will be fully drawn. As of November 2023, the HISF's short-term account held $69 million, which is insufficient to meet all the HISF's current-year contractual obligations.

The arbitrator also acknowledged that savings will need to be obtained through alternative means, which could include the imposition of co-premiums on active City employees and pre-Medicare retirees. The City Actuary estimates that if the City had implemented a new MA plan as scheduled, the unfunded liability reported as of June 30, 2023, would decrease by approximately $18 billion (equal to almost one-fifth of the unfunded liability of $95 billion).

The City has appealed the lower-court decision. In the meantime, however, the City is incurring excess premium costs paid from its operating budget for many active employees, without any cost offset from a reimbursement from the HISF. The HISF was created to moderate the volatility in the cost to the City of pre-Medicare health coverage expenses, driven by the difference in

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

[22] The HISF also held $785 million as of June 30, 2023, to meet reserve requirements established by the City's health insurance carriers. These funds must remain intact, and therefore, are not available to meet short-term contractual obligations.

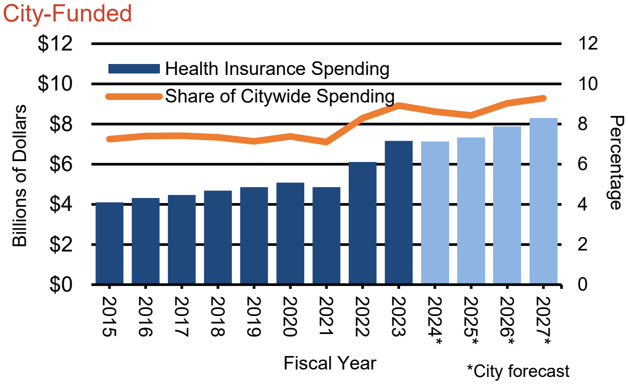
premium cost between the City's two most popular insurance plans: the GHI Comprehensive Benefits Plan (GHI-CBP) and the HIP-HMO Plan). These two plans provide health insurance coverage to almost all City employees and their dependents.

As the cost of the GHI-CBP currently exceeds the City's benchmark HIP-HMO plan, the HISF is intended to reimburse the City for the excess premium cost with resources accumulated in previous years when the HIP-HMO rate had exceeded the GHI-CBP. As the HISF short-term assets have been depleted, however, the City is effectively unable to collect reimbursement for this excess cost. As a result, city-funded health insurance costs rose sharply in FY 2023, to nearly $7.2 billion (see Figure 23).

City-funded health insurance costs are projected to reach $8.3 billion by FY 2027, 16 percent more than in FY 2023. Comparatively, city-funded spending would rise by 11.5 percent during the same five-year period through FY 2027.

Spending could be higher, however, in the event that the City is unable to find additional resources to refortify the HISF, or identify other alternatives to mitigate the excess costs of the GHI-CBP. Health insurance costs, as a share of

FIGURE 23
Health Insurance Costs
City-Funded



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

city-funded spending, would rise to an estimated 9.3 percent by FY 2027, which would be the highest share since at least FY 2010.

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

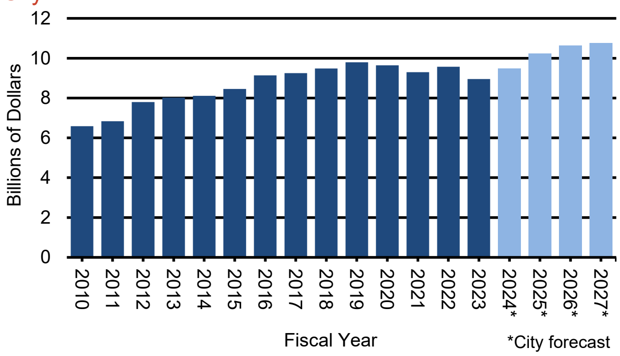
Pension Contributions

The City's pension contributions reflect actuarial estimates of the City's five major retirement systems prepared by the Office of the Actuary. They also include adjustments prepared by the NYC Office of Management and Budget to reflect new or anticipated changes (e.g., revisions to planned headcount), including an annual reserve beginning in FY 2024 to fund potential changes from any future actuarial audit recommendations. The November Plan assumes pension contributions will total $9.5 billion in FY 2024, and then rise each year to reach nearly $10.8 billion by FY 2027 (see Figure 24).

While the financial markets were volatile throughout FY 2023, the City's pension systems gained, on average, 7.98 percent on their investments through June 30, 2023, compared to the expected gain of 7 percent (an unexpected gain of 98 basis points).[23] As a result, the City reduced its planned pension contributions by $49 million in FY 2025, $109 million in FY 2026, and by $166 million in FY 2027. During the first four months of FY 2024, the City's pension systems lost, on average, about 4 percent on their

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

FIGURE 24
Pension Contributions
City-Funded



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

investments. The decline is attributed to market volatility fueled by a rise in interest rates driven by a hike in the federal funds target rate, to combat inflation and their impact on company valuations and the fixed income market.

Potential changes may follow recommendations issued by an independent actuarial consultant, who recently completed the first of two charter-mandated, biennial audits of the pension systems and is expected to issue final recommendations in Spring 2024. The first audit concluded that the assumptions used to calculate employer contributions to the pension systems are reasonable.

Any changes recommended in the final audit will be reviewed by the City's Chief Actuary, who will determine whether any of the changes should be implemented. The November Plan sets aside $279 million annually beginning in FY 2024 to fund potential changes to planned pension contributions from actuarial audit recommendations. The City Comptroller reports it is unlikely recommendations for changes will be released and put into effect in FY 2024, freeing up the reserves in that year.

Medicaid

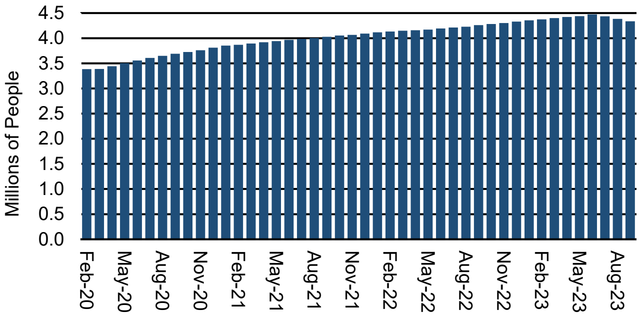
In June 2023, a historic high of 4.5 million New York City residents, more than half of the City's population, were enrolled in Medicaid, which provides health insurance to low-income children and adults (see Figure 25). This estimate included approximately 1.1 million people who enrolled in Medicaid from February 2020 through June 2023, coinciding with the COVID-19 public health emergency (PHE). Enrollment growth rates in Staten Island (42 percent) and Queens (39 percent) exceeded citywide (32 percent) and statewide growth (31 percent) during the same period.

A provision under the Families First Coronavirus Response Act (FFCRA) that required states to provide continuous coverage for Medicaid enrollees to receive enhanced federal funding and other flexibilities granted during the PHE contributed to the rise in enrollment.[24] Subsequently, the Consolidated Appropriations Act, 2023, required the State and City to begin the process of redetermining enrollees in April 2023, which was expected to lead to a decline in Medicaid enrollment.

The State and the City completed its first round of Medicaid renewals for beneficiaries with coverage end dates in June 2023 and will continue for 12 months until all enrollees have had their eligibility redetermined. Since June, NYC Medicaid enrollment has declined by an average of 45,000 people per month through September when enrollment reached 4.3 million. Medicaid beneficiaries that did not renew transitioned to other forms of insurance such as the Children's Health Insurance Program and

[24] The continuous enrollment provision under the FFCRA also applied to Children's Health Insurance Program and Essential Plan enrollees.

FIGURE 25
NYC Medicaid Enrollments



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

Essential Plan, gained coverage through an employer sponsored health plan or became uninsured.[25]

The November Plan assumes that the city-funded cost of Medicaid will total nearly $6.7 billion in FY 2024, $6.5 billion in FY 2025, $6.6 billion in FY 2026 and $6.8 billion in FY 2027. In FY 2024, the State made a supplemental Medicaid payment on behalf of the City resulting in City Medicaid savings of $20 million that was transferred to the Health and Hospitals budget to offset costs related to providing case management services to asylum seekers.

Social Services

The November Plan allocates $11.5 billion to the Department of Social Services' (DSS) budget in FY 2024, $268 million less than FY 2023. The November Plan does not include funding for several foster care initiatives in FY 2024 and beyond, which totaled $238 million in FY 2023 and which OSC anticipates will recur (Figure 26). Excluding asylum seeker expenses, minimal changes were made to the homeless services budget (for more detail, see OSC's April Plan report).

Public Assistance

Although the November Plan expects the public assistance budget to remain level at $1.6 billion from FY 2024 until FY 2026, actual spending in FY 2023 was just under $2 billion – 27 percent higher than it was the prior year (see Figure 27). Furthermore, spending on public assistance in FY 2024, through November, was 18 percent greater than it was this time last year - another indication that FY 2024 expenditures will likely exceed what was budgeted, and may also exceed FY 2023 amounts.

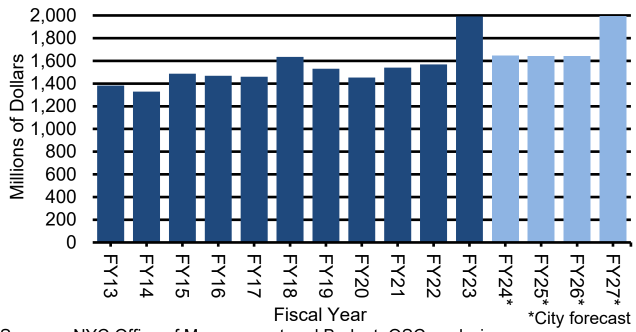
FIGURE 26
Social Services Risk Assessment
(in millions)

	Better/(Worse)			
	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
DHS Prevailing Wage Security Guards	($66)	($66)	($66)	($66)
Foster Care – State budget rate increase	(118)	(118)	(118)	(118)
Expiration of Foster Care (Title IV-E) Waiver	(120)	(120)	(120)	(120)
Emergency Assistance to Families	(134)	(134)	(134)	(134)
Public Assistance	(126)	(363)	(363)	(212)
Rental Assistance	(221)	(351)	(349)	(351)
CityFHEPS – 90-day rule	- - -	(123)	(123)	(123)
Total	**($785)**	**($1,275)**	**($1,273)**	**($1,124)**

Sources: NYC Office of Management and Budget; OSC analysis

[25] Nationally, Medicaid enrollment increased by 35.4 percent from February 2020 through March 2023 and declined in subsequent months as Medicaid redetermination plans and start dates vary among states.

FIGURE 27
Public Assistance Spending

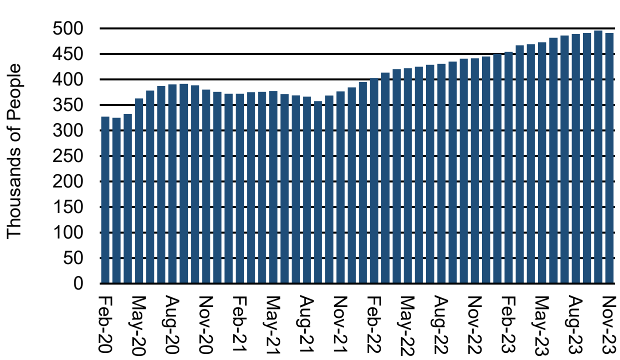


Sources: NYC Office of Management and Budget; OSC analysis

After growing continuously for more than two years, public assistance caseloads decreased in November 2023, by 4,658 recipients (less than one percent) from the month before, reaching 490,936 (see Figure 28). Prior to this modest dip, October 2023 caseloads had been at the highest level since June 2001 - 495,594 recipients.

Over the last year, the City has struggled to process public assistance applications within the required 30-day time frame (see OSC's June Plan report and Agency Services Monitoring Tool), which may be attributable to lower-than-targeted staffing and elevated demand, leading to a class-action suit in Manhattan federal court. DSS has since increased hiring, for a net change of 401 people in this unit since May.

FIGURE 28
Public Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

Public assistance enrollment is likely to remain higher than pre-pandemic levels in the near future as a result of current economic conditions, and policies implemented during the pandemic which made it easier to apply for and maintain benefits remotely. OSC estimates a City-funded risk of $126 million in FY 2024, that grows to $363 million annually in FY 2025 and FY 2026, before dropping to $212 million in FY 2027 (see Social Services Risk Assessment, Figure 26).

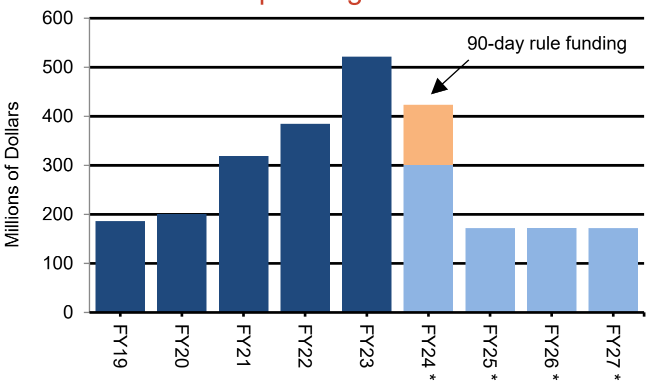
Rental Assistance

The City expects to spend $424 million on rental assistance in FY 2024, a decline of $98 million from the previous year. However, the FY 2024 budget includes $123 million in funding for the expansion of a waiver of the 90-day rule to qualify for CityFHEPS housing vouchers.

Excluding the $123 million, base funding for rental assistance programs is projected to decline by $221 from FY 2023 to FY 2024, and by an additional $130 million after FY 2024, which is unlikely. If base rental assistance is maintained at FY 2023 levels, OSC estimates that spending could be higher by $221 in FY 2024 and by an average of $350 million annually beginning in FY 2025 (see Figure 26). Additionally, funding for the elimination of the 90-day rule was included in FY 2024 only, and creates an additional $123 million risk starting in FY 2025 (see Figure 29).

The 90-day rule was one of four pieces of legislation meant to ease the shelter population, and the only component incorporated into the budget. If the City acts on the other pieces of the legislation, OSC estimates that costs could be as low as $3.4 billion or as high as nearly $37 billion from FY 2024 through FY 2028. For further discussion of the legislation package, see OSC's April Plan report. For a more in-depth discussion of OSC's cost estimates, see OSC's June Plan report.

FIGURE 29
Rental Assistance Spending



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

Overtime

Citywide overtime in FY 2024 through November totaled $965 million, $101 million more than costs through the same period in FY 2023. The growth is almost entirely due to increases in overtime at the uniformed and social services agencies of $84 million (growth of 12 percent year-to-date) and $18 million (32 percent), respectively. The uniformed agencies contribute the largest share of citywide overtime (80 percent; $772 million), followed by the social services agencies (8 percent; $73 million) and the Department of Transportation (3 percent; $33 million).

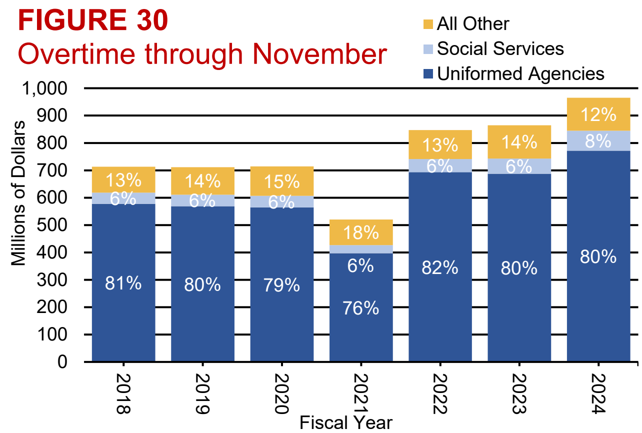
In recent years, the distribution of overtime by agency type has remained constant, however, the growth in social services overtime is notable (see Figure 30). The Department of Social Services, the Department of Homeless Services, and the Administration for Children's Services saw increases of $12 million, $3 million, and $3 million, respectively, due in part to the City's response to the asylum seeker influx.

Collectively, FY 2024 overtime increased year-over-year at the uniformed agencies to the highest on record through November. The Police Department accounts for virtually all the overtime growth with an increase of $92 million (for a total of $409 million), due in part to retroactive wage increases exceeding 20 percent as part of the City's contract agreement for rank-and-file police officers who had worked without raises since August 2017. Overtime at the Fire Department grew slightly by $6 million (3 percent) to $200 million, but both the Department of Correction and Department of Sanitation recorded modest declines of $6 million each, for a total of $101 million and $62 million, respectively, in FY 2024.

Uniformed agency overtime is projected to exceed $2 billion, with Police Department overtime to account for half of that amount ($1.05 billion). However, the combined budgeted amount for FY 2024 was only increased by $161 million to a total of $1.2 billion in the November Plan, with most new funding allocated to the Fire Department. The budgeted amount, which is nearly $700 million less than total overtime in FY 2023, is likely to be insufficient as it stands.

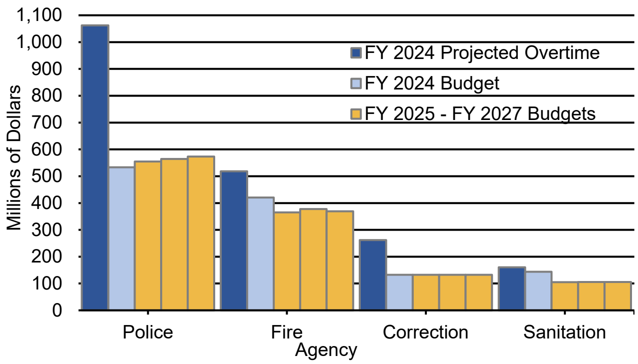
The City first issued guidance to the uniformed agencies in September 2023 directing them to submit a plan to reduce year-over-year overtime. However, considering the current pace in overtime and the insufficient planned amounts allocated to cover these costs, uniformed agency overtime is still expected to significantly exceed its budget. The City may need to generate nearly $800 million in additional resources in FY 2024

FIGURE 30
Overtime through November



Sources: NYC Financial Management System; OSC analysis and about $500 million annually thereafter to offset these unplanned costs (see Figure 31).

FIGURE 31
Uniformed Agency Overtime



Sources: NYC Financial Management System; OSC analysis

IX. Debt Service and Capital Spending

The November Plan assumes that city-funded debt service will grow by a compound annual growth rate (CAGR) of 7.7 percent from $7.6 billion in FY 2024 to $9.4 billion in FY 2027 (see Figure 32). This incorporates $242 million in debt savings over four years, largely from a reduction in the planned issuance of $1.2 billion of debt over the financial plan period.

Over the past several months, the financial markets have experienced heavy volatility. However, with a slowdown in inflation growth, borrowing rates are moderating, and may continue to decline in calendar year 2024. A recent bond refunding by the TFA has provided the City with additional debt service savings of approximately $43 million in each of FYs 2024 – 2027, totaling $172 million. Given the City's conservative interest rate assumptions, OSC estimates the City could achieve variable interest rate savings of $75 million in FY 2024.

Although the CAGR for city-funded debt service is expected to grow faster over the FY 2024 through FY 2027 period than either city-funded expenditures (4.8 percent) or revenues (2.6 percent), the City's debt burden (debt service as a percentage of tax revenue) is expected to be 10.7 percent for FY 2024 and increase to 12.4 percent in FY 2027, which is under the City's self-imposed cap of 15 percent. Assuming the City issues its planned level of debt, OSC estimates that the debt burden could rise to 14.2 percent by FY 2033, based on City data and OSC-projected revenue increases of 3.5 percent annually, thus remaining under the self-imposed cap. However, with the City's conservative interest rate assumptions and a higher level of planned capital commitments than the City historically is able to achieve, the debt burden could be lower.

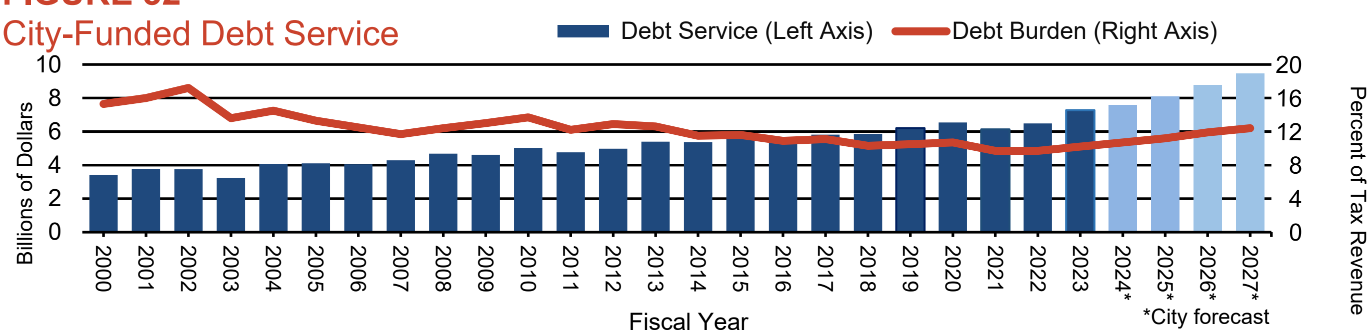
The City's Adopted Capital Commitment Plan, released in October 2023, increased the expected level of commitments during FY 2024 to FY 2033 by $3.6 billion when compared to the April 2023 Capital Commitment Plan (see Figure 33). For the period 2028 to 2033, capital

FIGURE 33
Capital Commitment Plan Change Since April 2023
(in millions)

City Agency	Deferred From 2023	New Commitments	Total Change
Education	$300.3	$255.3	$555.6
Parks & Recreation	164.7	259.5	424.2
Small Business Services	350.0	39.9	389.9
Energy & Citywide Equip.	230.0	95.1	325.1
Housing Authority	325.1	(0.5)	324.6
Health & Hospitals	172.8	140.2	313.0
Cultural Affairs	64.7	237.4	302.1
Housing Pres. & Dev.	148.7	33.8	182.5
Correction	176.9	-	176.9
Health & Mental Hygiene	144.2	18.5	162.7
Public Libraries	47.5	100.6	148.1
All Other	124.3	204.6	328.9
Total	**$2,249.2**	**$1,384.4**	**$3,633.6**

Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 32
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

commitments are higher by $4.9 billion compared to the April projection, while commitments for the period 2024 to 2027 have been reduced by $1.3 billion. OSC estimates that $2.2 billion in unachieved commitments from FY 2023 is being deferred to fiscal years 2024 through 2033 resulting in a net increase in the capital plan of $1.4 billion. The City agencies with large net increases are the Department of Parks & Recreation, with a $259 million increase; DOE, with a $255 million increase; and the Department of Cultural Affairs, with a $237 million increase.

X. Semi-Autonomous Entities

Department of Education

The November Plan allocates $39.3 billion to the DOE in FY 2024, including centrally administered costs for pensions and other post-employment benefits. This would amount to 35.5 percent of the City's total budget and be $1.3 billion more than actual spending in FY 2023. The City expects to fund $20.5 billion (52.3 percent) of the DOE's FY 2024 budget, with the remainder funded by the State (35.5 percent) and by the federal government and other sources.

The department's operating budget for FY 2024 has increased by $789 million since June (excluding intra-city transfers). New collective bargaining agreements account for $620 million in FY 2024 but are expected to cost $2 billion in FY 2027 (when the department's total budget is expected to be more than $41 billion). Other new needs of $606 million were added in FY 2024 for federally mandated special education services known as Carter cases ($490 million) and student transportation ($116 million), two areas where the City has historically incurred risks due to systematic underbudgeting.

These newly budgeted increases were partially offset by the first round of the City's savings program. The plan anticipates savings of $547 million in FY 2024, concentrated in personal service cost reductions ($103 million), lower per session costs ($86 million), vacancy reductions ($80 million), a hiring freeze ($78 million), and school food savings — which are offset by additional anticipated federal funding ($60 million). The savings total is expected to rise to $626 million by FY 2027, mostly concentrated in a reduction of fringe benefit costs ($190 million in FY 2025 rising to $219 million by FY 2027) and efficiencies among early childhood programs — primarily the elimination of unused seats ($120 million), as well as the aforementioned per session reductions ($96 million), vacancy reductions ($69 million), and school food savings ($60 million). Given the uncertainty around the City's reallocation of unused early childhood seats and the potential for changes in demand in future years, it is unclear to what extent that efficiency can be achieved without impacting service.

In addition, a number of long-standing systemic risks remain in the out-years despite the added FY 2024 funding. These risks, which OSC has identified in more detail in previous reports, could amount to more than $2.1 billion in FY 2027 (see Figure 34). Several of them, including Carter cases (where spending through October is already $140 million higher than the same period last year), class size reduction (which the City has not yet published a plan to address), and charter school tuition, are legally mandated.

FIGURE 34
Risks to the Department of Education Budget in the November Plan
(in millions)

	FY 2024	FY 2025	FY 2026	FY 2027
Carter Cases	- - -	$640	$640	$640
Class Size Reduction Compliance	- - -	- - -	433	867
Charter School Per-Pupil Tuition	- - -	46	232	449
3-K	- - -	92	92	92
Pupil Transportation	- - -	70	70	70
Total	- - -	**$848**	**$1,467**	**$2,118**

Sources: NYC Office of Management and Budget; NYC Department of Education; OSC analysis

Metropolitan Transportation Authority

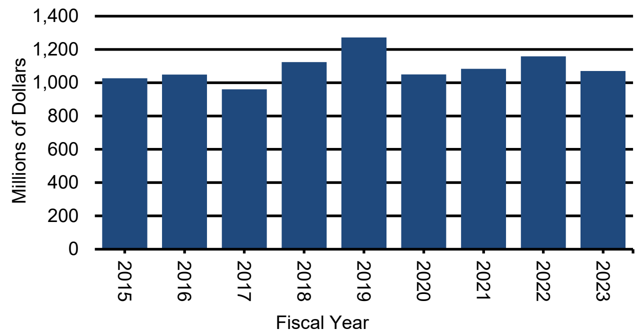
The MTA updated its financial plan in November which maintains its forecast of balanced budgets through 2027. The MTA continues to benefit from the approval of increases to existing revenue streams and new funding from the enacted State budget, a distinct improvement from the large budget gaps forecast a year ago. OSC released the annual financial outlook report on the MTA in October, which provides details on the new State aid and remaining budget risks.

The MTA's July financial plan assumed $100 million in savings would be identified in 2023, $400 million annually starting in 2024 and $500 million annually starting in 2025. The savings targets through 2024 have been met in the MTA's November Plan mostly through operational and maintenance efficiencies and improving employee availability. Starting in 2025, about $70 million annually of unidentified savings remain in the MTA's November Plan.

Since 2015, the City has averaged $1.1 billion in direct aid to the MTA (see Figure 35). The City's November Plan includes several risks that involve MTA funding. The November Plan does not include additional funds for the MTA's bus and paratransit services that the City is required to pay, representing potential spending risks to the City of $152 million in FY 2024, rising to $418 million in FY 2027.

The City's November Plan does not account for all of the changes in the enacted State budget which requires the City to pay 50 percent (up from 33 percent) of the net operating cost of MTA's paratransit service plus an additional 30 percent (capped at $165 million) for two years. The MTA assumes in its plan that the $165 million additional subsidy will continue after the two years specified in State law. The City's November Plan has incorporated the additional $165 million as required for FY 2024 and FY 2025 but does not fund the 50 percent requirement.

FIGURE 35
New York City Direct Aid to the MTA



Sources: NYC Office of Management and Budget; OSC analysis

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

NYC Health + Hospitals

On May 9, 2023, the City released the H+H FY 2024 executive cash financial plan. H+H adjusted its plan to account for its continued role in helping manage the influx of asylum seekers, implementing the City's April Plan PEG and ending its Test & Treat program. For more details on changes to H+H's financial projections prior to the release of the November Plan, including City support for collective bargaining agreements and difficulty in recruiting and maintaining nursing and mental health staff, see OSC's report on the April 2023 Plan; and for major financial and other issues confronting H+H, see OSC's issue brief.

The November Plan added $1.4 billion in FY 2024 and $2.6 billion in FY 2025 (half of total funds added for migrant-related expenses in FY 2025) to cover costs for H+H's participation in the City's multi-agency response to the rising number of asylum seekers (see Asylum Seeker Cost Implications for more details). In addition, the State made a supplemental Medicaid payment on behalf of the City in the current fiscal year, resulting in City Medicaid savings of $20 million. The City transferred these funds to the H+H budget to offset costs related to providing case management services to asylum seekers.

The City is also providing funding to H+H of $111 million in FY 2024, rising to $218 million in FY 2027 to cover the cost of the recently ratified New York State Nurses Association (NYSNA) contract, up to the DC 37 pattern set aside by the City in its labor reserve ($77 million in FY 2024, rising to $166 million in FY 2027), as well as the cost of ratified contracts for three other unions. The contract agreement with NYSNA awards private sector pay parity for nurses at a higher rate than is assumed by the City. The City has not committed to take on the additional costs at this time as it has done with previous rounds of collective bargaining.

The City's PEG program led to a reduction in city-funded support to H+H by $26 million in FY 2024 and an average of $28 million annually in FY 2025 through FY 2027. It is unclear how future rounds of the City's PEG program will impact the various H+H health programs supported with City funds and the future of the Public Health Corps, which is not funded beyond FY 2025 (see Figure 2, OSC Risk Assessment of the New York City Financial Plan).

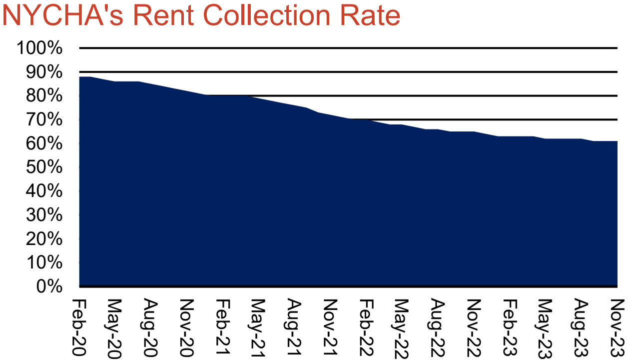
In January 2023, the City indicated that H+H will produce only cash-based plans going forward. The New York State Financial Emergency Act requires H+H to prepare its financial plan on an accrual basis. The last accrual-based financial plan was published on January 25, 2022. OSC, as part of its ongoing efforts to improve the financial reporting of public authorities and corporations, and to properly assess the financial relationship between the City and its covered agencies, recommended that H+H prepare its budget and financial plan on both an accrual and cash basis.[26] Since then, the City has notified OSC that it is working with H+H to develop an accrual plan with a tentative release date by the end of December 2023.

New York City Housing Authority

The New York City Housing Authority (NYCHA) continues to experience a decline in its rent collection rate, which dropped from 88 percent in February 2020 (before the onset of the pandemic) to 61 percent in November 2023 (see Figure 36). This has resulted in a cumulative rent arrears balance of roughly $484 million across more than 70,000 households through the end of November 2023, as compared to $125 million on December 31, 2019.

In recognition of the financial impact to the Authority, the SFY 2023-2024 Enacted Budget included $163 million for the rental arrears of NYCHA tenants (see OSC's [April Plan report](#) for

FIGURE 36
NYCHA's Rent Collection Rate



Sources: New York City Housing Authority; OSC analysis

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

more details). Of this amount, NYCHA has received $94.8 million on behalf of 14,683 households through November 21, 2023. NYCHA reports that it has since applied $63.1 million of these funds across 8,122 tenant accounts, and the November 2023 arrears balance has been updated.

NYCHA has stated the loss of revenue will adversely impact its operations and finances. For further discussion of the Authority's declining rent collections, the recent update to its physical needs assessment, and plans to finance the rehabilitation and rebuilding of its units, see OSC's Issue Brief: New York City Housing Authority.

The City's November Plan includes a $303 million subsidy to NYCHA for FY 2024, an increase of $37.2 million from the June Plan. However, the increase results primarily from a rollover of unused grant funding from FY 2023. Of the $303 million, the City-funded portion is expected to total $232.9 million, or 77 percent, with the balance funded from Community Development Block Grant funds (23 percent) and a small amount of Other Categorical funding (less than 1 percent).

XI. Other Issues

Budgetary Flexibility

In the event of a recession, rising debt service, an emergency, or other unplanned costs, the City may draw from several sources of budgetary flexibility to help maintain fiscal balance. These sources include the City's Rainy-Day Fund (RDF, formally known as the "Revenue Stabilization Fund"), as well as contingencies budgeted in the financial plan (the General Reserve and the Capital Stabilization Reserve). In past years, the City has also drawn down assets held in the Retiree Health Benefits Trust (RHBT) to help close its budget gaps. Such drawdowns provided short-term fiscal relief, but also reduced in those years the amount set aside to pay the projected future costs of post-employment retirement benefits other than pensions (OPEBs), deferring costs to future taxpayers for past employee service.

Below are highlights of the City's budgetary cushion of $8.2 billion (10.1 percent of city-funded spending in FY 2024, excluding reserves), which may be utilized to help close the future budget gaps.

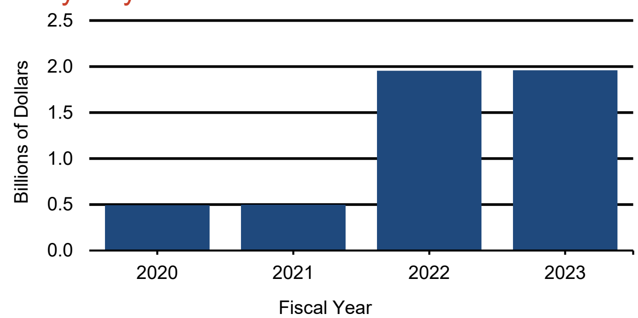
Annual Budgeted Reserves

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

Rainy-Day Fund

As of June 30, 2023, the balance held in the RDF stood at $1.96 billion, virtually unchanged from one year ago. State law requires surplus resources accumulated by the City to be deposited into the RDF at year-end. The City recorded a post-June surplus of $5 million in the FY 2023 close, which was deposited to the RDF (see Figure 37).

FIGURE 37
Rainy-Day Fund Year-End Balance



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

The City is not required to deposit into the RDF any scheduled prepayments made before June 30th (i.e., budget stabilization and discretionary transfers) that it uses to help balance the budget. In each of the three most recent fiscal years through FY 2023, for example, the City transferred, on average, $5.9 billion to the next fiscal year by prepaying certain expenses.

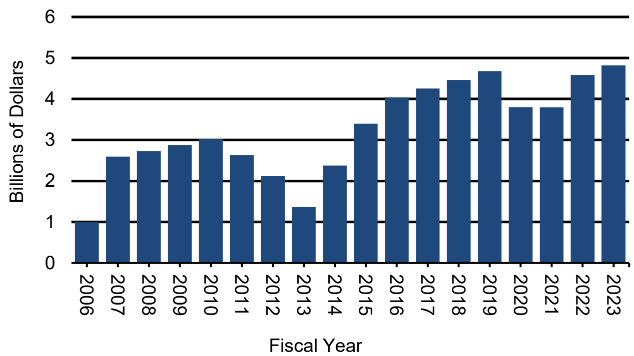
The City does not have a published policy defining the purpose of the fund, the target level of reserves, or a formula for deposits or replenishment after a drawdown. In November 2021, OSC's report, *Strengthening New York City's Rainy-Day Fund*, recommended that the City consider certain best practices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

Retiree Health Benefits Trust

The balance held in the RHBT, which is used to fund the cost of OPEBs, stood at $4.8 billion at the end of FY 2023 (excluding prepayments; see Figure 38), the highest level on record. The growth in FY 2023 reflects a sharp increase in investment earnings. The November Plan does not assume any discretionary transfers to the RHBT over the financial plan period.

FIGURE 38

Retiree Health Benefits Trust Year-End Balance



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

Post-Employment Benefits

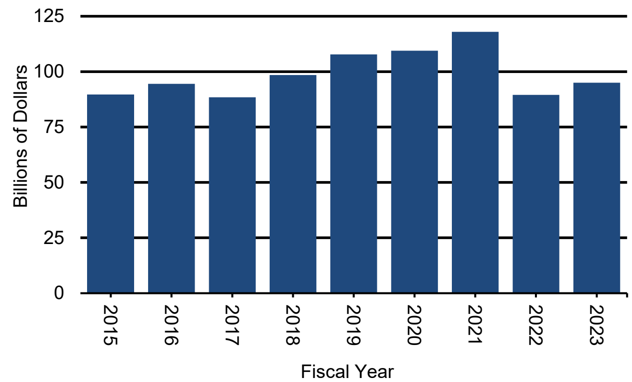
The City's unfunded liability for OPEBs, such as retiree health care, rose by $5.5 billion to $95 billion in FY 2023 (see Figure 39). The increase is driven mainly by the cost attributed to employee services provided in that year and interest expense on the unfunded liability.

However, in the Fall of 2023, the City Actuary reported that if the City had implemented a new MA plan as scheduled (see the Expenditure Trends: Health Insurance section for more details) the unfunded liability reported as of June 30, 2023, would decrease by approximately $18 billion (equal to almost one-fifth of the unfunded liability of $95 billion).

As of FY 2023, the City had set aside enough resources in the RHBT to fund 5.3 percent of its total OPEB liability. The City, like many

FIGURE 39

Unfunded OPEB Liability



Sources: NYC Actuary; OSC analysis

employers, does not fund its OPEB liability on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from nearly $3.2 billion in FY 2023 to $4.1 billion in FY 2028, an increase of 27.4 percent in five years.

Prior Years' Expenses

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

Between fiscal years 2013 through 2023, the City realized an average benefit of $288 million annually from overestimating prior years' payables and from underestimating prior years' receivables. The City realized a net benefit of $344 million in FY 2023, mostly from an overestimation of prior-year expenses for contractual services, offset in part by a write-down of federal and State aid concentrated at the social services agencies (e.g., federal aid from the Temporary Assistance for Needy Families program and State grants for child welfare services).

Appendix A: Full-Time Staffing Levels

(Number of full-time employees)

	Actual	Actual	Forecast	Nov. Plan	Variance – Better/(Worse) September 2023 Actual to June 2025 Forecast		
	June 2020	Sep. 2023	June 2024	June 2025	City Funds	Non-City Funds	Total Funds
Public Safety	**85,806**	**78,173**	**80,719**	**80,554**	**2,469**	**(88)**	**2,381**
Police Uniformed	35,910	33,613	35,051	35,001	1,388	0	1,388
Civilian	15,519	13,580	13,944	13,843	444	(181)	263
Fire Uniformed	11,047	10,564	10,762	10,762	194	4	198
Civilian	6,366	6,462	6,164	6,032	(414)	(16)	(430)
Correction Uniformed	9,237	6,279	7,060	7,060	781	0	781
Civilian	1,741	1,528	1,728	1,727	194	5	199
District Attys. & Prosec.	4,843	5,153	4,851	5,003	(175)	25	(150)
Probation	1,116	968	1,126	1,096	53	75	128
Board of Correction	27	26	33	30	4	0	4
Health & Welfare	**27,878**	**24,978**	**27,969**	**27,472**	**1,284**	**1,210**	**2,494**
Social Services	12,330	10,848	12,138	12,009	221	940	1,161
Children's Services	7,039	6,292	7,080	7,045	631	122	753
Health & Mental Hygiene	5,530	5,283	5,935	5,631	262	86	348
Homeless Services	2,119	1,777	1,920	1,905	142	(14)	128
Other	860	778	896	882	28	76	104
Environment & Infra.	**26,365**	**26,321**	**27,456**	**27,176**	**(541)**	**1,396**	**855**
Sanitation Uniformed	7,755	8,361	7,978	7,752	(609)	0	(609)
Civilian	2,107	1,819	1,743	1,627	(206)	14	(192)
Transportation	5,120	5,090	5,762	5,838	231	517	748
Parks & Recreation	4,236	4,370	4,492	4,476	18	88	106
Environmental Protection	5,891	5,616	6,298	6,300	12	672	684
Other	1,256	1,065	1,183	1,183	13	105	118
General Government	**12,634**	**11,412**	**12,519**	**11,921**	**508**	**1**	**509**
Finance	1,996	1,636	1,932	1,932	284	12	296
Law	1,713	1,456	1,523	1,404	(67)	15	(52)
Citywide Admin. Svcs.	2,403	2,046	2,371	2,366	242	78	320
Taxi & Limo. Comm'n.	584	422	505	501	79	0	79
Investigations	361	277	315	293	16	0	16
Board of Elections	682	706	517	517	(189)	0	(189)
Info. Tech. & Telecomm.	1,673	1,513	1,559	1,495	(9)	(9)	(18)
Other	3,222	3,356	3,797	3,413	152	(95)	57
Housing	**4,088**	**4,057**	**4,448**	**4,375**	**146**	**172**	**318**
Buildings	1,676	1,574	1,784	1,717	142	1	143
Housing Preservation	2,412	2,483	2,664	2,658	4	171	175
Dept. of Education	**134,684**	**130,918**	**138,570**	**137,922**	**5,586**	**1,418**	**7,004**
Pedagogues	121,077	118,129	126,075	125,186	5,722	1,335	7,057
Non-Pedagogues	13,607	12,789	12,495	12,736	(136)	83	(53)
City University of NY	**6,288**	**5,745**	**6,024**	**6,024**	**279**	**0**	**279**
Pedagogues	4,545	4,236	4,289	4,289	53	0	53
Non-Pedagogues	1,743	1,509	1,735	1,735	226	0	226
Elected Officials	**2,703**	**2,500**	**2,811**	**2,791**	**218**	**73**	**291**
Total	**300,446**	**284,104**	**300,516**	**298,235**	**9,949**	**4,182**	**14,131**

Sources: NYC Office of Management and Budget; OSC analysis

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