Review of the Financial Plan of the City of New York

Report 11-2021

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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The economic, social and budgetary fallout from the COVID-19 pandemic in New York City has been unprecedented, while the loss of life has been unimaginable. The pandemic remains a threat to our health and our economy, but a decline in case and hospitalization figures and the administration of more than 1.5 million vaccine doses in New York City signify valuable progress in our fight for a return to normal.

Hurdles remain, notably vaccine supply and its distribution. Continued federal approval for new vaccines, production ramp-ups of approved doses, and the expansion of vaccination sites targeting underserved populations are important steps to make the vaccine available to all New Yorkers this year. Even then, the road back from the personal and economic damage wrought by the pandemic will take time.

In New York City, job losses in March and April were the largest since the Great Depression. The City lost one-fifth of its jobs, erasing nearly all of the gains of the past decade. By the end of 2020, more than half of those jobs had not returned.

Like the economic recovery itself, the effects on the City's budget have been bumpy. Strength in the securities industry and other sectors that have adjusted to telework have buoyed personal income and business tax revenues, but a steep decline in property values is among several troubling trends that could take years to recover from. Unanticipated spending, directly and indirectly related to the pandemic, also presents risks that are likely to increase the size of the City's budget gaps if left unchecked.

Meaningful federal action is promised by a new administration and congressional proposals, including relief for state and local governments. This aid will help the region and the country as a whole get back on track. New York City, New York State and the Metropolitan Transportation Authority all need additional federal aid to mitigate the impact of the COVID-19 pandemic on their budgets. The three are closely intertwined, and failure to aid one could adversely affect the others.

Federal relief has also provided critical aid to those most in need, including people who are unemployed, hungry, and in need of medical care or shelter. This relief must continue to alleviate the unique burden the COVID-19 pandemic has placed on our most vulnerable populations and the people and organizations that serve them.

The City must also prepare for federal relief to subside, and bring its battered revenue profile into alignment with spending over the course of the financial plan. Difficult decisions will have to be made to ensure budget balance, and the City and State must avoid further damage to the nascent economic recovery.

Thomas P. DiNapoli
State Comptroller

Contents

I. Executive Summary

The COVID-19 pandemic ended a period of economic expansion in New York City during which new records for population, tourism, employment, and property values were achieved. As a result, City revenues grew rapidly from FY 2010 to FY 2019, enabling City spending to grow by 55 percent, nearly four times the rate of inflation, and provide a budget cushion of more than 10 percent of City-funded revenues at the start of FY 2020.The pandemic's evolving effect on the City's economic base poses new challenges for City revenues just as more residents need services, creating new urgency to contain costs. Making matters more difficult, the City has to manage these opposing pressures while avoiding a reliance on onerous tax increases, so as not to threaten a delicate recovery.

In June 2020, the City adopted its budget for FY 2021 (from July 1, 2020, to June 30, 2021). Budgetary balance in FY 2021 was enabled by one-shot actions, such as the use of retiree health reserves, and spending cuts. The City also included a then-unidentified $1 billion in labor savings. Federal relief to alleviate the immediate needs created by the pandemic also played an important role in shoring up finances, with the expectation that a sharp recovery would take hold by the fourth quarter of 2020.

Since then, the reality has turned out to be different and more complex. The shape of the recession has led to less severe impacts among higher-income workers employed in industries that have adopted to telework with remarkable speed, led by the securities industry. While the gross city product is expected to decline by only 0.6 percent in 2020 as a result, the employment recovery tells a more troubled story.

The City still suffers from a double-digit unemployment rate, well behind the national rate of 6.3 percent. Demand for leisure and accommodations services remains depressed. At the same time, demand for social safety net services has shot up, with significant increases in unemployment compensation, Medicaid and cash assistance rolls. A return to the record employment levels reached just prior to the pandemic is likely to take years.

The cumulative effects of these diverging threads on the City's fiscal picture have become clearer in the recently released preliminary budget for FY 2022 and four-year financial plan for FY 2022 through 2025 ("the January Plan"), which also provides a midyear view into the current FY 2021 budget. Better-than-projected revenues from income and corporate taxes ($2.1 billion), front-loaded debt service savings from refinancings ($819 million), and deferred labor costs ($691 million) should enable the City to generate a surplus of nearly $3.4 billion for FY 2021.

The outlook for future years has worsened, however, as the FY 2022 budget identifies new challenges that the City will have to overcome. Most importantly, the City expects that property tax collections, its most significant revenue source at 46 percent of City-funded revenue, will decline by $2.5 billion in FY 2022 and not return to pre-pandemic levels until FY 2025.

In order to attain balance, the $92.3 billion budget for FY 2022 includes another $1 billion in unidentified labor savings that will have to be agreed upon with the municipal unions, a budget risk. The City has also drawn down its contingent reserves by $1.15 billion to attain balance in FY 2022, a historical source for surplus generation in the following budget year.

The effect on property tax collections will last for years, and highlights the shift in budget risks from FY 2021 and FY 2022 into later years. The three-year City-funded revenue shortfall for FY 2022 to FY 2024 is now $15.6 billion, an increase of $6.9 billion from April 2020 projections. The City anticipates that even with its currently planned savings program, budget gaps will rise to more than $4 billion per year for the remainder of the financial plan, or just about $3 billion each year when budgetary reserves are taken into account, averaging 4.2 percent of City-funded revenues (see Figure 1).

There are also recurring risks to out-year revenue and expense projections. The Office of the State Comptroller (OSC) finds there may be $400 million to $820 million in revenue risks through FY 2024, mostly driven by a slower-than-expected recovery of property and sales taxes. In addition to the risks associated with recurring labor savings, State education aid proposals could increase City expenses by $1 billion to $1.9 billion per year if left unattended. In total, OSC has quantified budget risks of $2 billion in FY 2022, nearly $4.3 billion in FY 2023 and smaller amounts in subsequent years, which could increase the out-year budget gaps to an average of $7.7 billion annually, or 10.8 percent of City funds revenue (see Figure 2).

The City will need to close these gaps and has few good options for doing so. Raising taxes significantly and cutting services could have a disastrous effect on the City's recovery. The best short-term option is savvy management of federal relief to enable recovery. To date, the City expects $7 billion in relief funds from passed COVID-19 bills, about $5.1 billion of which will go toward pandemic-related costs. This would leave approximately $1.9 billion for budget relief.

More federal relief may be on the way. Proposed bills in Congress could net the City $5.6 billion in direct budget relief. A waiver of matching funds from the Federal Emergency Management Agency could bring in another $1 billion. If unanticipated spending can be avoided, these funds would represent a meaningful cushion to manage risks through FY 2022 and substantially reduce the FY 2023 gap and OSC-identified risks. It would also provide the City with time and resources to create a plan for long-term balance.

Federal support is also critical for relieving fiscal pressures to the State, which has resorted to pushing costs down to local governments, including New York City, to achieve balance. Federal relief could also reduce risks to the City budget that are associated with State education aid and stave off deep cuts to the Metropolitan Transportation Authority, a service that is crucial to the City's recovery.

The State is also reviewing revenue-generating actions that would fall disproportionately on the City's tax base. Proposals including taxes on income, financial transactions and high-end real estate are heavily reliant on economic activity in New York City. The impact of any proposed tax increases on business and individual migration remains uncertain, but care is needed to avoid reducing the City's taxable base further. It is also unclear whether State-proposed revenue-generating actions would provide a significant funding source for the City.

Any potential spending cuts must be carefully addressed. High-quality services and cultural amenities are fundamental to maintaining an environment that attracts workers, visitors and entrepreneurs. Savings through efficiencies, or those targeted at programs with high costs but reduced value, are ideal. Cuts that could hurt local employment should be avoided so the economic recovery is not stunted further.

The City is also facing mounting concerns over services related to quality of life, such as public safety, education, health care and housing, as well as inequities in their delivery. Any plans to tackle these issues, including proposals for new agency spending, should identify how funds will be reallocated or raised to manage their fiscal implications.

Ultimately, many of the decisions with longer-term impacts will fall on a new mayoral administration. The current administration has a critical role to play in working with the State to manage virus transmission, expand vaccinations, and continue to enable safe reopenings so the economy can grow and fiscal strength can return. Fixing the damage from COVID-19 will take time, and efforts to boost the short-term economic outlook in a fiscally responsible manner will leave the City in a better position to achieve budgetary balance over the long run.

FIGURE 1

New York City Financial Plan

(in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues					
Taxes					
General Property Tax	$ 30,691	$ 29,370	$ 30,042	$ 30,471	$ 30,881
Other Taxes	29,197	31,901	34,041	35,552	36,976
Tax Audit Revenue	1,171	921	721	721	721
Subtotal: Taxes	$ 61,059	$ 62,192	$ 64,804	$ 66,744	$ 68,578
Miscellaneous Revenues	7,265	6,790	6,777	6,777	6,775
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,061)	(1,811)	(1,807)	(1,806)	(1,806)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 66,248	$ 67,156	$ 69,759	$ 71,700	$ 73,532
Other Categorical Grants	1,133	1,020	988	986	985
Inter-Fund Revenues	695	706	656	656	656
Federal Categorical Grants	11,866	7,076	6,946	6,929	6,924
State Categorical Grants	15,111	16,327	16,765	16,814	16,814
Total Revenues	**$ 95,053**	**$ 92,285**	**$ 95,114**	**$ 97,085**	**$ 98,911**
Expenditures					
Personal Service					
Salaries and Wages	$ 29,179	$ 29,684	$ 30,017	$ 30,288	$ 30,751
Pensions	9,503	10,263	10,468	10,660	10,597
Fringe Benefits	11,130	11,579	12,242	13,045	13,819
Retiree Health Benefits Trust	(1,600)	- - -	- - -	- - -	- - -
Subtotal: Personal Service	$ 48,212	$ 51,526	$ 52,727	$ 53,993	$ 55,167
Other Than Personal Service					
Medical Assistance	5,553	5,915	5,915	5,915	5,915
Public Assistance	1,611	1,651	1,650	1,650	1,650
All Other	35,692	30,904	31,207	31,454	31,634
Subtotal: Other Than Personal Service	$ 42,856	$ 38,470	$ 38,772	$ 39,019	$ 39,199
Debt Service	6,457	7,358	8,483	8,822	9,379
FY 2020 Budget Stabilization	(3,819)	- - -	- - -	- - -	- - -
FY 2021 Budget Stabilization	3,358	(3,358)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	- - -	250	250	250
General Reserve	50	100	1,000	1,000	1,000
Less: Intra-City Expenses	(2,061)	(1,811)	(1,807)	(1,806)	(1,806)
Total Expenditures	**$ 95,053**	**$ 92,285**	**$ 99,425**	**$ 101,278**	**$ 103,189**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (4,311)**	**$ (4,193)**	**$ (4,278)**

Source: NYC Office of Management and Budget

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

	Better/(Worse)				
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (4,311)**	**$ (4,193)**	**$ (4,278)**
Differences in Estimation					
Tax Revenues[1]	100	(816)	(726)	(436)	61
Labor Savings[2]	(290)	(1,000)	(1,000)	(1,000)	(1,000)
Education Funding	- - -	(380)	(1,882)	(1,469)	(980)
Uniformed Agency Overtime	(100)	(200)	(200)	(200)	(200)
MTA Paratransit Funding	- - -	(81)	(110)	(129)	(129)
Debt Service	- - -	100	- - -	- - -	- - -
Subtotal	**(290)**	**(2,377)**	**(3,918)**	**(3,234)**	**(2,248)**
State Actions – Executive Budget Proposals[3]	**(94)**	**378**	**(333)**	**(333)**	**(333)**
OSC Risk Assessment	**(384)**	**(1,999)**	**(4,251)**	**(3,567)**	**(2,581)**
Potential Gaps Per OSC[4,5,6]	**$ (384)**	**$ (1,999)**	**$ (8,562)**	**$ (7,760)**	**(6,859)**

1 Tax revenue estimates are net numbers comprising an upward adjustment to personal income tax offset by downward adjustments to sales, business, and property-related taxes. The property-related adjustment assumes there may be weaker recovery and higher delinquencies and cancellations than are already assumed in the financial plan. Personal income, sales and business taxes are estimated by comparing July to December FY 2021 actual results to the previous year and the City's financial plan assumptions.

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

3 As proposed in the Governor's executive budget, the State budget director would implement across-the-board reductions to planned local assistance appropriations and cash disbursements if the State receives less than $3 billion in new unrestricted federal aid by August 31, 2021. Most local assistance payments to New York City (i.e., school aid and public assistance) would be exempt from such reductions. Alternatively, the State could rescind or reduce certain proposed spending reductions and tax increases if it receives between $6 billion and $15 billion in unrestricted federal aid, which could benefit the City by at least $144 million in FY 2022 for additional school aid.

4 The January Plan includes a general reserve of $50 million in FY 2021, $100 million in FY 2022, and $1 billion in each of fiscal years 2023 through 2025. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2023 through 2025. The January Plan also includes reserves of $200 million in FY 2022 and $275 million beginning in FY 2023 to fund potential changes in the actuarial assumptions and methodologies used to calculate employer pension contributions. The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, had a balance of $3.8 billion as of the end of FY 2020. The City plans to draw down $1.6 billion in FY 2021 to help balance the budget in that year, leaving a balance of $2.2 billion, the lowest level since FY 2013.

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

II. The COVID-19 Pandemic in New York City

According to the U.S. Centers for Disease Control and Prevention (CDC), coronavirus disease 2019 (COVID-19) is a respiratory illness that easily spreads from one person to another. To date, the U.S. Food and Drug Administration (FDA) has issued emergency use authorization to two COVID-19 vaccines that each have effectiveness of about 95 percent in preventing COVID-19 disease in adults. The manufacturer of a third vaccine has applied for FDA emergency authorization.

According to Johns Hopkins University, as of February 18, 2021, there were over 110 million confirmed COVID-19 cases globally and more than 2.4 million reported deaths. The United States had more confirmed cases (28 million) and more deaths (491,000) than any other country.

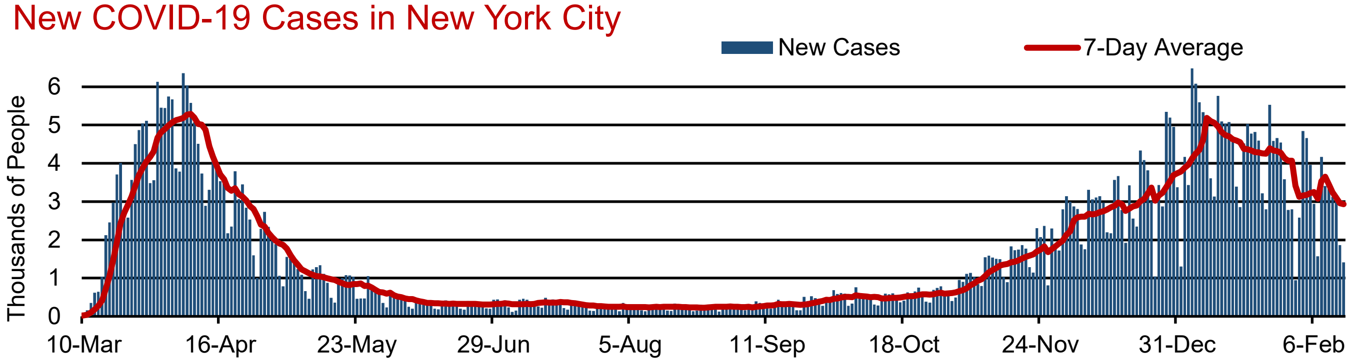
As the pandemic began to spread in the United States, New York City reported the majority of COVID positive cases in the State. As of February 17, 2021, New York State had nearly 1.56 million confirmed cases of COVID-19, and the City accounted for 43 percent of all cases statewide (672,000). In New York City, the highest numbers of confirmed cases have been in Queens and Brooklyn, but the highest rates per capita have been in Staten Island and the Bronx.

The spread of COVID-19 declined in the summer months, but the number of new cases in the City started to slowly increase again in September 2020, followed by sharper increases over the holiday season, which reached levels last seen in April (see Figure 3).

The State implemented a number of new and expanded measures during the fall to help mitigate the recent spread of COVID-19, including enhanced public health regulations that target areas with the highest concentrations of cases and industries with elevated risk of spread. This second wave has recently started to decline since peaking in early January. According to State data, the 7-day average COVID-19 positivity rate in the City was 4.4 percent on February 16, 2021, which is lower than the winter peak but still above levels seen over the summer. The statewide positivity rate was 3.7 percent.

Improving case rates have led the State to lift some restrictions set in the fall, including allowing the resumption of indoor dining in the City in mid-February at 25 percent capacity. Starting on February 23, large arenas can open for sports and entertainment events at 10 percent capacity with testing protocols approved by the State. The further opening of economic activity will be dependent on continued improvement in positivity rates and progress toward vaccinating people.

FIGURE 3
New COVID-19 Cases in New York City



Note: As of February 18, 2021. As a result of reporting delays, most recent data may be incomplete. New cases confirmed by positive molecular tests for COVID-19.

The first vaccine was administered in New York City on December 14, 2020, and by February 17, 2021, over 1.4 million doses had been administered, including more than 409,000 second doses. Of all City residents who received at least one dose, 16 percent were Hispanic/Latino and 11 percent were Black/African American, although these populations account for 29 percent and 24 percent, respectively, of the City's total population. Of the total vaccines administered, 23 percent went to people who live outside of the City. Most locations in New York City allow people who work in the City but are not residents to receive the vaccine.

The State has developed a plan, based on CDC guidelines, that prioritizes groups to be vaccinated. Current eligibility includes people who are at least 65 years old, people of all ages with comorbidities, most health care workers, residents of nursing homes and other congregate care settings, restaurant workers and taxi cab drivers, and others categorized as essential workers, for a total of more than 10 million State residents.

New York City has the capacity to vaccinate 500,000 people per day, and the Mayor has a goal of vaccinating 5 million City residents by June 2021. To date, limitations in available vaccine supply have resulted in delays, hub closures and canceled appointments. Nevertheless, as many as 60,000 vaccines were administered during one day in February, and more City residents have been vaccinated than have tested positive for the virus. The federal government has begun to increase weekly vaccine shipments, and the President has indicated there will be enough vaccine for 300 million Americans by the end of July 2021. Normal pre-pandemic activity, however, is unlikely to resume until a large share of the population is vaccinated.

III. Economic Trends

On January 30, 2020, the World Health Organization declared a public health emergency, and the U.S. Department of Health and Human Services did the same the following day. The longest labor and business cycle expansion in U.S. history since 1930 ended abruptly in February 2020 with the onset of the COVID-19 pandemic. On March 7, 2020, New York State's Governor declared a state of emergency due to COVID-19, placing restrictions on mobility and the operations of nonessential businesses.

The S&P 500 peaked in early February of 2020 and fell 34 percent by late March (subsequently rebounding by 68 percent by the end of the year). The Federal Reserve initiated a set of aggressive easing measures, including lowering the federal funds rate to effectively zero (on March 15). Subsequent federal and fiscal policy measures helped support the economy and provided guidelines for the operations of essential businesses.

U.S. GDP declined by 5 percent in the first quarter of 2020 and then plummeted by 31.4 percent in the second quarter. With the federal CARES Act and other emergency relief measures, the recovery began to take shape by the third quarter, and GDP increased by a record 33.4 percent. In the fourth quarter, however, economic growth slowed to 4 percent. Over the full year, U.S. GDP fell by 3.5 percent, the steepest decline in 74 years (since 1946). Blue Chip Economic Indicators found that most economists are estimating growth of 4.2 percent for all of 2021.

The U.S. lost 22.4 million jobs in March and April, but regained 56 percent (12.4 million) of the jobs lost by year's end. For all of 2020, total U.S. employment fell by 9.3 million jobs (6.1 percent), including 3.7 million jobs in the leisure and hospitality sector. This is more than the 8.6 million jobs lost in 2008 and 2009 combined, and the losses erased more than two-fifths of the job gains since 2010.

New York State, and particularly New York City, has been more severely impacted than the nation (see Figure 4). New York State lost slightly more than 1 million jobs in 2020 (10.4 percent), with half of those in the leisure and hospitality, retail, and other services sectors. The State lost three and a half times the combined number of jobs lost in 2008 and 2009, wiping out 77 percent of its job gains since 2010.

FIGURE 4
Impact of Pandemic on Employment

Area	Jobs Lost in 2020 (millions)	Decline in Employment	Compared to Great Recession
U.S.	9.3	(6.1%)	1.1x
NYS	1.0	(10.4%)	3.5x
NYC	0.6	(12.2%)	5.8x

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

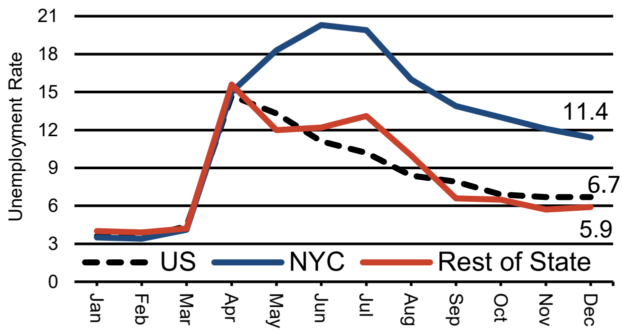
New York State's gross state product is projected to decline by 5.7 percent in 2020 and then rebound by 3.7 percent in 2021, according to estimates by IHS Markit, a leading economic data and forecasting company.

New York City lost 570,100 jobs in 2020, bringing to an end the strongest and longest labor expansion since World War II. The 12.2 percent decline in employment in 2020 is the steepest in the City's history, and erased almost 60 percent of the job gains since 2010. In 2020, the City lost nearly six times the number of jobs it lost in the Great Recession.

New York City's recovery from the March and April losses has also been less robust than in other places. Through 2020, the City only regained 38 percent of the jobs lost in March and April, compared to 46 percent in the State and 56 percent in the nation.

The City's unemployment rate in December was 11.4 percent, down from a peak of 20.3 percent in June (see Figure 5). However, the rate remains at the highest level (pre-pandemic) since December 1992. The City's unemployment rate is also higher than the State's overall (8.2 percent) and the nation's (6.7 percent). Across the rest of the State (excluding the City), the unemployment rate has dropped to 5.9 percent, a much steeper decline, bringing the rate close to pre-pandemic levels. Among the City's five boroughs, the highest unemployment rate is in Bronx County, which totaled 24.7 percent in June, and averaged a record high of 15.9 percent in 2020.

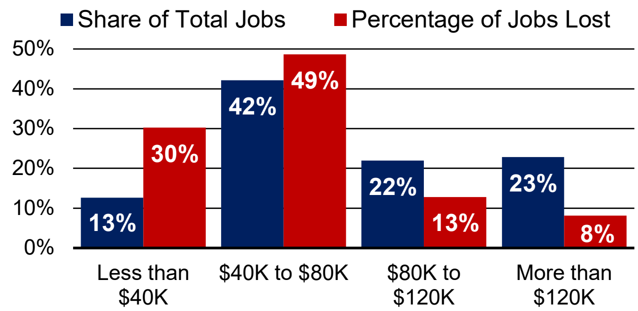
FIGURE 5
Unemployment Rate Comparison



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

The COVID-19 pandemic has accelerated pockets of economic inequity, highlighted by the fact that low-wage-earning sectors have been disproportionately impacted. The four hardest-hit sectors (leisure and hospitality, administrative and support services, retail, and other services) accounted for more than 61 percent of the job losses, and all have average salaries below the City average (excluding the securities sector) of $82,900. These sectors also lost 89 percent of their job gains from the prior decade (2009 to 2019). Figure 6 highlights the imbalanced impact on sectors with lower average salaries.

FIGURE 6
New York City Job Losses by Average Salary



Source: NYS Department of Labor; OSC analysis

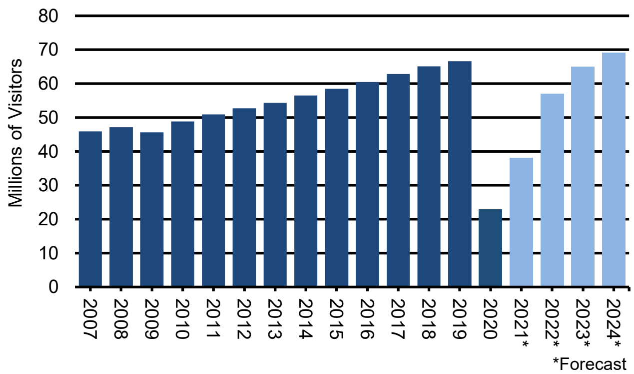
The sharp reductions in commuters and tourists have been the primary drivers of job losses, and these trends have not improved significantly as of yet. The Kastle Back to Work Barometer, which monitors office occupancy in major U.S. cities, found New York City to have the second lowest occupancy rates after San Francisco. According to the Dallas Fed Mobility and Engagement Index, a measure of population movements based on mobile-device usage, citywide mobility remains two-thirds below pre-pandemic levels.[7] The MTA is forecasting a return to normal usage, equivalent to 90 percent of pre-pandemic levels, by 2024 at the earliest.

Airport passenger screenings remain 60 percent below pre-pandemic levels, after plummeting by more than 95 percent in April of 2020. City tourism dropped by two-thirds in 2020, according to NYC & Company, the City's tourism agency (see Figure 7). In 2019, the City's 66.6 million visitors, (a tenth-consecutive annual record) spent $47.4 billion on food, lodging and

[7] Federal Reserve Bank of Dallas, https://www.dallasfed.org/research/economics/2020/0521.

entertainment, generating $4.9 billion in local taxes. The City forecasts that tourism will return to pre-pandemic levels by 2024.

FIGURE 7
Total Annual Visitors to New York City



Sources: NYC & Company; OSC analysis

The confluence of the decreases in commuters and tourists has severely impacted rents and property values, particularly for hotels, retail businesses and office buildings. According to Colliers International, a commercial real estate services company, leasing activity dropped by 50 percent in the first quarter of 2020,[8] which is significantly higher than at any time during the prior two recessions. Hotel occupancy has dropped to below 40 percent, although the City expects that rate will return to pre-pandemic levels within the financial plan period.

Aside from fewer commuters and tourists, there is evidence that some residents have also left. According to the U.S. Census, New York State's population declined by more than 126,000 in 2020 (more than any other state), which is less than half the number of City residents who filed for a change of address request with the U.S. Postal Service (compared to the prior year).[9]

This has affected residential prices in the City, which had a 4 percent annual drop in prices as of the third quarter of 2020.[10]

One of the sectors that has fared well is the securities industry. Industry profits in the first nine months of 2020 grew by more than 66 percent compared to the prior year, reaching $37.6 billion. This is the second-highest level on record (after 2009), surpassing full-year 2019 profits by nearly 34 percent.[11]

The City forecasts that securities industry bonuses will increase by 6.9 percent in 2020 and 5.5 percent in 2021. Through the first three quarters of 2020, member firms' compensation expenses increased by 5.5 percent.

The City expects its gross city product to drop by only 0.6 percent in 2020 (from strong securities industry profits), and then rebound strongly in 2021 and 2022 (over 5 percent annually) before slowing to 2.5 percent in 2024 and 2025.

Given the unique structural factors affecting the City's economy during this downturn (e.g., less social activity, more telecommuting and easy relocation), plus the potential for higher taxes, the recovery is likely to be uneven and protracted. While the City expects employment to recover by the end of 2023, not all sectors of the economy are likely to benefit at the same pace, and tourism-reliant employment may lag.

[8] Colliers International, in a webcast focused on the New York City market, https://commercialobserver.com/2021/01/video-qa-with-colliers-internationals-michael-cohen/.

[9] Melissa Klein, "New Stats Reveal Massive NYC Exodus Amid Coronavirus, Crime," *New York Post*, November 14, 2020, https://nypost.com/2020/11/14/new-stats-reveal-massive-nyc-exodus-amid-coronavirus-crime/.

[10] Real Estate Board of New York, *Residential Sales Report: Q3 2020*, https://www.rebny.com/content/rebny/en/research/residentialsales/Q3_2020_Residential_Sales_Report.html.

[11] See OSC Report 6-2021, *The Securities Industry in New York City*, October 2020.

IV. Changes Since the June 2020 Plan

In June 2020, the City projected a balanced budget for FY 2021 and budget gaps of $4.2 billion in FY 2022, $3 billion in FY 2023 and $3.2 billion in FY 2024. The January Plan shows an improved outlook for FY 2021 since then, based on $2.4 billion in higher-than-planned nonproperty tax collections and $900 million in debt service savings, and now projects ending the year with a surplus of nearly $3.4 billion.

This surplus, along with a drawdown of the City's budgetary reserves in FY 2022 and agency savings, is expected to more than offset a projected decline in property tax revenues, and to help bring the FY 2022 budget into balance. However, the decline in property taxes would more than offset any planned cost savings in FY 2023 and FY 2024, raising the budget gaps to $4.3 billion and $4.2 billion, respectively, or just about $3 billion each year after adjusting for budgetary reserves.

Since July 1, 2020, the City has raised its tax revenue forecast by $2.4 billion for FY 2021, driven mostly by stronger-than-expected personal income and business tax collections. The citywide savings program is expected to generate nearly $1.7 billion in FY 2021, including a one-time reimbursement of $212 million from NYC Health + Hospitals. The City was also able to lower pension contributions in FY 2021, and anticipates $421 million from overestimating its prior year's expenses.

These positive budget actions are partially offset by more than $1.4 billion in agency needs in FY 2021, most of which is for costs associated with COVID-19 and for unplanned special education and transportation costs at the Department of Education. The January Plan assumes these will not recur.

The City is relying on the anticipated FY 2021 surplus, its reserve funds, and the successful achievement of agency savings to balance the FY 2022 budget (see Figure 8). It is notable that the January Plan does not include significant revenue-raisers to close the FY 2022 gap.

The positive revisions to personal income and business tax forecasts would be more than offset by a reduction in property tax collections of more than $2.5 billion annually from fiscal years 2022 through 2024. The lower forecast is based on the expectation that the final 2022 property tax roll will decline for the first time since FY 1998, reflecting lower market values citywide with the largest declines in hotels, retail and offices.

The City also lowered its sales and hotel tax forecast by $776 million in FY 2022, reflecting constrained consumer spending and tourism as COVID-19 persists. The City assumes tourism will begin to recover sometime in the spring but will not reach pre-pandemic levels until 2024.

The citywide savings program totals $1.9 billion in FY 2022, with a third to come from lower debt service. The mayoral agencies are expected to contribute $1.3 billion in FY 2022, primarily from staffing reductions and lower overtime spending.

The January Plan reduces the general reserve by $900 million in FY 2022 to $100 million (the statutory minimum for the start of a fiscal year) and eliminates the $250 million capital stabilization reserve. These actions will reduce the City's budgetary flexibility in FY 2022.

The budget gaps for FY 2023 and FY 2024 have grown by more than $1 billion in each year since the June 2020 financial plan, following equivalent declines in revenue estimates due to property tax weakness. The value of the savings program has also declined, to $839 million in FY 2023 and $942 million in FY 2024.

The out-year gaps, as a share of City fund revenues, now average 6 percent, less than in other post-recession years. The City has managed gaps of this magnitude before, and the budgets for these years include a general reserve and capital stabilization reserve totaling $1.25 billion. If the reserves are not needed for other purposes, they could be used to narrow the projected gaps to an annual average of 4.2 percent.

FIGURE 8
Financial Plan Reconciliation—City Funds
January 2021 Plan vs. June 2020 Plan
(in millions)

	Better/(Worse)			
	FY 2021	**FY 2022**	**FY 2023**	**FY 2024**
Projected Gaps Per June 2020 Plan	**$ - - -**	**$ (4,180)**	**$ (3,043)**	**$ (3,182)**
Tax Reestimates				
Personal Income	1,073	531	528	506
Business Taxes	1,044	637	529	613
Real Estate Transactions	348	336	308	372
General Property Taxes	- - -	(2,500)	(2,704)	(2,640)
Sales Taxes	(213)	(441)	(253)	76
Hotel Taxes	(193)	(335)	(297)	(139)
Other Taxes	108	(12)	(10)	(26)
Tax Audits	250	200	- - -	- - -
Subtotal	**2,417**	**(1,584)**	**(1,899)**	**(1,238)**
Non-tax Changes				
Fines and Forfeitures	(74)	- - -	- - -	- - -
All Other	(70)	(36)	(34)	(33)
Subtotal	**(145)**	**(36)**	**(34)**	**(33)**
Total Revenue Changes	**2,272**	**(1,620)**	**(1,933)**	**(1,271)**
Reserves				
General Reserve	50	900	- - -	- - -
Capital Stabilization Reserve	- - -	250	- - -	- - -
Subtotal	**50**	**1,150**	**- - -**	**- - -**
Citywide Savings Program				
Debt Service	900	625	206	301
Agency Actions	543	1,278	633	640
H+H Reimbursement	212	- - -	- - -	- - -
Subtotal	**1,655**	**1,904**	**839**	**942**
Labor Savings Adjustment	**- - -**	**(691)**	**- - -**	**- - -**
Expense Reestimates				
New Agency Needs	(1,431)	(138)	(79)	(90)
Pension Contributions	430	220	(95)	(590)
Prior Years' Expenses	421	- - -	- - -	- - -
All Other	(39)	(2)	(1)	(2)
Subtotal	**(619)**	**79**	**(175)**	**(682)**
Total Expense Changes	**1,085**	**2,442**	**664**	**260**
Net Change	**3,358**	**823**	**(1,269)**	**(1,011)**
Gaps to Be Closed Before Prepayment	**$ 3,358**	**$ (3,358)**	**$ (4,311)**	**$ (4,193)**
FY 2021 Prepayment of FY 2022 Expenses	(3,358)	3,358	- - -	- - -
Gaps to Be Closed Per January 2021 Plan	**$ - - -**	**$ - - -**	**$ (4,311)**	**$ (4,193)**

Note: Columns may not add due to rounding. Agency Actions include revenue-generating actions.
Sources: NYC Office of Management and Budget; OSC analysis

V. State and Federal Actions

Impact of the State Budget

On January 19, 2021, the Governor released his executive budget for State fiscal year (SFY) 2022, which begins on April 1, 2021. The proposed budget includes a number of actions to help close a two-year State budget gap of $15 billion, including reductions in planned local aid spending (e.g., school aid and Medicaid) when compared to the levels anticipated as of the midyear update for SFY 2021.

However, the State has also received additional federal aid for schools through the Coronavirus Response and Relief Supplemental Appropriations Act, which the Governor proposes to allocate to the school districts in FY 2022. As a result, the proposed budget would benefit the City by an estimated $378 million in FY 2022 (see Figure 9), but would have an adverse impact over the balance of the financial plan period that could exceed $330 million annually.

FIGURE 9
Assessment of Governor's Executive Budget
(City funds in millions) Better/(Worse)

	FY 2021	FY 2022
School Aid (adj. for STAR)	- - -	567
Other Changes	(79)	(128)
Subtotal	**(79)**	**439**
H+H Medicaid Payments	(15)	(61)
Net Impact	**(94)**	**378**

Sources: NYC Office of Management and Budget

The proposed budget would provide $10.7 billion in State-funded school aid to the City in FY 2022, which is $1.4 billion less than the City anticipates in the January Plan. The proposed funding total includes reimbursement payments from the School Tax Relief (STAR) program, and the proposed reduction to these STAR payments effectively reduces the City's revenues by at least $144 million annually starting in FY 2022. However, the State will also distribute to the City additional federal supplemental funding of $2.15 billion that year, for a total of $12.9 billion in support for the City's schools (a net financial plan benefit of $567 million in FY 2022).

The State's executive budget assumes that State funding for school aid beyond SFY 2022 will increase at rates limited to the 10-year average annual growth in State personal income (about 4 percent annually), and that federal supplemental funding will not recur beyond SFY 2022. By comparison, the City's January Plan assumes that State funding for school aid will total nearly $12.7 billion in FY 2023, an increase of $2 billion from the State's share of school aid proposed in FY 2022 ($10.7 billion). Unless alternative sources of funding are identified (e.g., additional federal supplemental funding), this increase appears unlikely given the financial challenges facing the State.

The Governor's executive budget includes a number of actions, which the State estimates could increase the City's costs by a net of $79 million in FY 2021 and $128 million in FY 2022. The largest initiatives are discussed below.

- Eliminating funding for charter school facilities and fiscal stabilization grants exclusively for New York City would cost the City $64 million in FY 2021 and $73 million beginning in FY 2022.
- Reducing State reimbursements for certain public health programs from 20 percent to 10 percent would increase the City's costs by $5 million in FY 2021, rising to $25 million annually beginning in FY 2022.
- Reducing State funding for a number of local assistance programs by 5 percent, mostly for social services, would increase the City's costs by $9 million in FY 2021 and by $38 million in FY 2022.

The Governor also proposes to eliminate State-funded indigent care pool payments to public hospitals, which would reduce these funds to NYC Health and Hospitals (H+H) by $15 million in FY 2021 and by $61 million in FY 2022. If enacted, the City will pick up the cost of the State share, permitting H+H to continue to draw down matching Medicaid federal funds (for a total value of $122 million).

The proposed budget includes tax credits to support restaurant hiring and theatrical and musical productions in New York City, a proposal to allow the State's Liquor Authority to provide restaurants and bars with temporary permits in New York City, and an expansion of the New York City $1.50 hotel unit fee to apply to all vacation rental market providers. In addition, the Governor's proposal to increase rates on high-earners would likely fall disproportionately on New York City residents, who make up roughly two-thirds of all State resident tax filers whose taxable incomes are greater than $5 million.

In June 2020, the State began temporarily withholding 20 percent of most local aid payments, which was authorized by the enacted budget for SFY 2021 and initiated to ensure that up to $8.2 billion in local aid payments could be withheld permanently, if needed, by the end of SFY 2021. Through December 31, 2020, the State withheld an estimated $2.9 billion statewide (of that amount, an estimate of at least $800 million was withheld from the City).

Since then, however, the State has raised its revenue forecast to reflect stronger-than-expected general fund tax receipts; received additional federal funding for COVID-19 relief, including $4 billion in supplemental aid for schools; and benefited from the extension of a higher federal matching rate on Medicaid expenditures through June 30, 2021. These favorable developments have reduced the need for local assistance reductions.

The State's Division of the Budget (DOB) now expects to reduce most local aid payments by 5 percent in SFY 2021. The DOB expects that amounts withheld in excess of 5 percent will be reconciled and repaid to local governments in the final quarter of the current State fiscal year.

According to the DOB, the timing and amount of federal aid, if any, will determine the level of spending cuts and tax increases that must be enacted in SFY 2022 to close the remaining two-year budget gaps of $15 billion. The Governor has asked Congress for $15 billion in COVID-19 relief aid, which may be used to mitigate reductions in planned spending. The State's current five-year financial plan assumes the receipt of $3 billion in additional unrestricted federal aid annually in State fiscal years 2022 and 2023 to help close the budget gaps in those years (a total of $6 billion).

The executive budget for SFY 2022 includes a provision that will trigger automatic across-the-board reductions to planned local assistance appropriations and cash disbursements in SFY 2022 if unrestricted federal aid is not received by August 31, 2021, or if the amount received is less than $3 billion. The reductions would be calculated to generate savings equal to the difference between the $3 billion and the actual amount received. Most of the aid to the City, including school aid and public assistance payments, would be exempt from withholding.

If the State receives the requested $15 billion in unrestricted federal aid, it may reverse or modify portions of the proposed spending reductions and tax increases. The Governor has included in the executive budget a special federal emergency appropriation to authorize nearly $5.3 billion in additional payments for State operations and local assistance in SFY 2022, which is contingent upon the State receiving no less than $15 billion in unrestricted federal aid on or before August 31, 2021. These payments include more than $1.6 billion in additional school aid, which could benefit New York City by the full restoration of its $144 million STAR payment and also the partial restoration of its $620 million Services Aid reduction in FY 2022 (see "Semi-Autonomous Entities" section for more detail).

The Governor has also proposed that all or some of the local assistance funding be withheld from any local governments with a police force that do not implement a police reform plan and transmit the certification required under the Governor's Executive Order 203 ("New York State Police Reform and Reinvention Collaboration") by April 1, 2021. While there are no apparent exclusions to the withholdings, it is unclear if a cut of this breadth and magnitude would be feasible or constitutional. In addition, a monitor may be installed to oversee operations of the police department at the expense of the department or the responsible local government until the certification is submitted. The City has not yet completed action on its police reform plan, but intends to do so before the deadline.

Federal Assistance

In March and April 2020, four COVID-19 relief bills were enacted to address the pandemic's impact on the public health system and the economy. Eight months later, a fifth relief bill was enacted into law that includes additional direct relief to individuals and businesses, and targeted funding for certain state and local government operations. The Congressional Budget Office estimates these five bills will have a budgetary impact of $3.5 trillion over a decade.

To date, the City has spent nearly $6 billion on COVID-19 expenses, of which $1.3 billion is funded by the City. The January Plan anticipates the receipt of $7 billion in federal assistance from previously approved COVID-19 relief bills through FY 2023, including $646 million from a temporary 6.2 percentage point increase in the federal Medicaid reimbursement rate for claims covering most Medicaid recipients. Of the total amount of federal assistance, $5.1 billion will be used to cover costs associated with the pandemic and $1.9 billion will be used to balance the budget.

In January 2021, President Biden announced the American Rescue Plan, a nearly $2 trillion emergency legislative package to fund vaccinations and to provide additional relief to households and businesses adversely impacted by the pandemic, including a new round of direct relief checks, and the extension and expansion of unemployment insurance benefits through September 2021. The plan also proposes increasing funding for low-interest loans and grants targeted to small businesses. Congress is currently considering legislation to fund the plan.

The plan also calls for $350 billion in emergency funding for state and local governments. A bill has been introduced in the House of Representatives that would distribute 60 percent of such funds to the states and 40 percent to localities. The House Committee on Oversight and Reform estimates that, if approved, New York would receive $23 billion, of which the State government would receive $12.6 billion. This amount would exceed the funding assumed in the State's current financial plan but would fall short of the Governor's request of $15 billion. The City could receive an estimated $5.6 billion. As proposed, these funds could be used to address a number of financial needs associated with the COVID-19 emergency, including revenue losses and other negative economic impacts.

In addition, the President's plan calls for additional emergency funding for schools ($130 billion), rental assistance ($30 billion) and public transit ($30 billion). A portion of the school aid would benefit the City and could mitigate a short-term risk that funding for the City's schools falls short of the levels assumed in the January Plan beginning in FY 2023 (for more detail, see previous section on the "Impact of the State Budget"). The Metropolitan Transportation Authority would receive a significant share of the public transit funding. The plan also calls for additional funding ($30 billion) for the Disaster Relief Fund to waive the Federal Emergency Management Agency's local share requirement, which the City estimates would increase reimbursements by $1 billion. As these resources are not yet assumed in the City's financial plan, any additional reimbursements would free up resources for other purposes.

VI. Citywide Savings Program

In November 2020, the Mayor announced a citywide savings program that would total $2.3 billion during fiscal years 2021 through 2025, with 80 percent to come from debt service savings. In the January Plan, the program was expanded to generate an expected $3.6 billion in savings over fiscal years 2021 and 2022, and an average of more than $900 million annually in each subsequent year (see Figure 10).

The mayoral agencies will contribute savings of $543 million in FY 2021, $1.3 billion in FY 2022, and much smaller amounts in subsequent years (averaging $634 million annually). The program is now expected to eliminate 6,222 positions, nearly all of them civilian, through attrition and eliminating planned hires between fiscal years 2021 and 2022. This will bring the total City-funded work force to 245,066 positions by the end of FY 2022, the lowest since FY 2016.

Efficiencies will generate an average of $461 million annually beginning in FY 2022, mostly from baseline reductions through attrition (e.g., allowing only one hire for every three employees who separate from service). This initiative will save an average of $346 million annually beginning in FY 2022. The City has not yet distributed most of the planned reductions (4,937) by agency, but has stated that certain positions would be exempt (uniformed, health care, and revenue-generating positions).

Savings from revenue and expense reestimates total almost $400 million in FY 2021 and $500 million in FY 2022, but are smaller in subsequent years. The largest adjustments include uniformed overtime savings at the Police Department and the Department of Correction, the elimination of a reserve to offset the impact of inflation on certain administrative costs, and the receipt of nonrecurring revenues in fiscal years 2021 and 2022.

Savings from debt service since the beginning of the fiscal year now total $2.4 billion over the financial plan period, and remain the largest component (38 percent of total savings). These savings mostly arise from delaying capital expenditures, refinancing bonds at lower interest rates, and from lower costs associated with variable-rate debt. In addition, an improved short-term financial outlook at H+H will allow it to reimburse the City for debt service costs it paid on H+H's behalf during FY 2021 ($212 million).

All of the initiatives in the savings program appear to be within the City's control to implement. Given the uncertainty of additional federal aid and other risks, the State Comptroller urges the City to begin preparations to expand the citywide savings program. The City must also provide greater clarity on the general initiative to reduce the size of its work force in order to mitigate any significant service impacts from hiring restrictions.

FIGURE 10
Citywide Savings Program (dollars in millions)

	Positions	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Mayoral Agencies							
Efficiencies	(5,667)	$ 124	$ 525	$ 433	$ 440	$ 447	$ 1,969
Expense Reestimates	(24)	259	412	197	197	180	1,245
Revenue Reestimates	(7)	136	80	1	1	1	219
Service Reductions	(524)	25	261	2	2	2	292
Subtotal	**(6,222)**	**$ 543**	**$ 1,278**	**$ 633**	**$ 640**	**$ 630**	**$ 3,725**
Health + Hospitals	- - -	212	- - -	- - -	- - -	- - -	212
Debt Service	- - -	900	625	206	301	372	2,404
Total	**(6,222)**	**$ 1,655**	**$ 1,904**	**$ 839**	**$ 941**	**$ 1,002**	**$ 6,341**

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

VII. Revenue Trends

The January Plan makes substantive adjustments to revenue projections to better address the impact of the pandemic. Total revenues, including federal and State categorical aid, are now expected to total $92.3 billion in FY 2022, down 2.9 percent from $95.1 billion in FY 2021, although the City has not budgeted for any additional federal aid in FY 2022.

The January Plan, compared to the June 2020 financial plan ("the June Plan"), also reduces projected property tax collections by $7.7 billion for fiscal years 2022 through 2024, while increasing nonproperty collections by $3.1 billion. The net effect is a reduction in tax collections of $4.6 billion for the three-year period. For fiscal years 2022 through 2024, total revenue projections are lower by $15.1 billion compared to pre-pandemic (January 2020) expectations, inclusive of state and federal actions.

Locally generated revenues (i.e., City funds) account for nearly 73 percent of total revenues, or $67.2 billion (see Appendix A). Most of these revenues (93 percent) come from tax collections. These are projected to be lower by $15.6 billion during fiscal years 2022 through 2024 compared to expectations in January 2020 (see Figure 11).

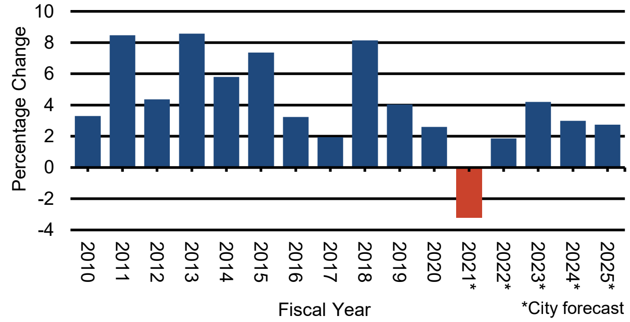
FIGURE 11
Projected City-Funded Revenue Shortfall from Pre-Pandemic (January 2020) Levels

Financial Plan	Shortfall in FYs 2020-2021 (in billions)	Shortfall in FYs 2022-2024 (in billions)
April 2020	($7.9)	($8.7)
June 2020	($9.1)	($10.8)
January 2021	($5.4)	($15.6)

Sources: NYC Office of Management and Budget; OSC analysis

The City lowered its forecast for property tax collections by $2.5 billion in FY 2022, $2.7 billion in FY 2023 and $2.6 billion in FY 2024, based on

FIGURE 12
Annual Change in Tax Revenues



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

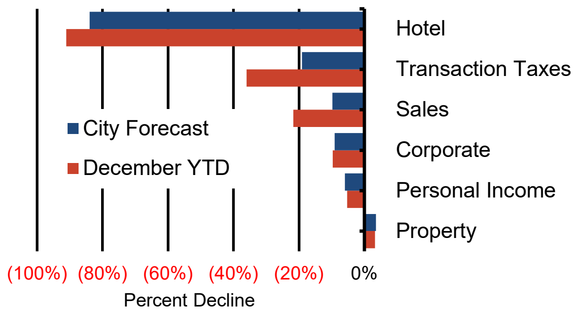
lower assessed valuations for commercial properties, which include hotels and retail and office buildings. Given the strength in nonproperty collections, particularly the personal income and business taxes and audits, the full impact of the property tax decline is mitigated; the City anticipates that tax collections will be lower by $1.6 billion in FY 2022, $1.9 billion in FY 2023 and $1.2 billion in FY 2024.

After a projected decline of 3.2 percent in FY 2021, tax collections are forecast to grow at an average annual rate of 3 percent during fiscal years 2022 to 2024 (see Figure 12). However, this growth rate is considerably slower than what was projected in the June Plan (5 percent from 2022 to 2024).

Through the first six months of FY 2021, total tax collections were down 3.5 percent. The January Plan now projects a decline of 3.2 percent through the end of the fiscal year. The biggest declines are concentrated in the hotel, real property transaction and sales taxes (see Figure 13).

The decline in property tax collections in the out-years is significant because those taxes have accounted for 43 percent of the City's total tax collections for the past 10 fiscal years on average. From 2010 to 2020, total tax collections

FIGURE 13
Change in Tax Revenues
July-December FY 2021



Sources: NYC Office of Management and Budget; OSC analysis

increased by 70 percent ($26 billion), and more than half of that increase came from property taxes. (For more information, see "General Property Tax" following this section.)

Another property-related tax is the commercial rent tax, which represents about 1.5 percent of tax collections ($831 million for FY 2021).[12] It is projected to decline by 3.8 percent in FY 2021 and then increase at an average rate of 3.3 percent for fiscal years 2022 through 2025.

While the full severity of the drop in property taxes is cushioned by stronger-than-expected personal income and business tax collections, the longer-term implications are difficult to definitively determine because a protracted downturn in property valuations could imply a deeper structural change to the economy.

The City projects property taxes to recover to pre-pandemic levels by FY 2025, but expects nonproperty taxes to recover much earlier (FY 2023). Given the uncertainties surrounding business adjustments, population migration, and social activity levels post-vaccine, nonproperty tax collections may take longer to recover.

The relative strength in nonproperty tax collections is likely to be sustained in the short term, but the long-term implications are unclear, making it challenging for OSC to endorse any forecasts with a high degree of confidence.

[12] The commercial rent tax is imposed on large commercial tenants in Manhattan south of 96th Street on the gross rent paid, at an effective rate of 3.9 percent.

General Property Tax

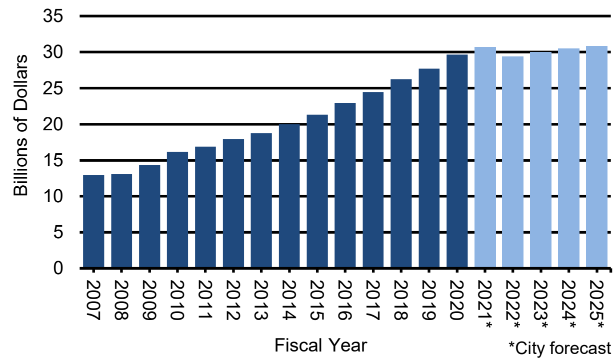
The general property tax is levied on the assessed values of real estate properties. Historically, it is the City's largest and most stable source of tax revenue, accounting for 43 percent of all tax collections.

For FY 2022, the City reduced its forecast for property tax revenue to $29.4 billion, a decrease of $1.3 billion (4.3 percent) from FY 2021 (see Figure 14), fueled by a decline in commercial property (Class 4) valuations. This will be the first annual decline in property tax revenues since 1998, and the sharpest decline ever in Class 4 billable assessed values (see Figure 15).[13]

Collections are $2.5 billion lower in FY 2022 than projected in the June Plan. For FY 2023 and FY 2024, collections were lowered by $2.7 billion and $2.6 billion, respectively. The City's forecast shows average annual growth in property tax collections of 1.7 percent for fiscal years 2023 through 2025, down from a 6 percent average rate of growth in the prior five-year period (FY 2017 to FY 2021).

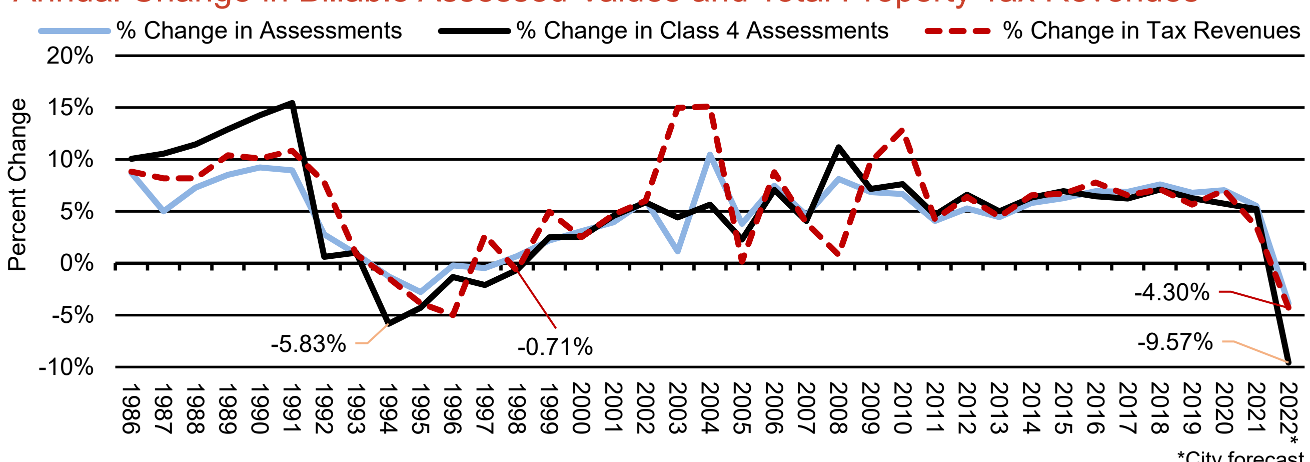
Commercial properties are assessed at higher rates than residential properties. Thus Class 4 properties account for the largest share of collections (47.7 percent of the taxable assessed value on the FY 2021 final roll; see Figure 16, next page).

FIGURE 14
Property Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 15
Annual Change in Billable Assessed Values and Total Property Tax Revenues



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

[13] Billable assessed values are the assessed values on which tax liabilities are based. For properties in Class 2 (i.e., rental apartment, condominium or co-operative buildings) or Class 4 (i.e., commercial properties), the billable assessed value is the lower of the actual or transitional assessed value.

FIGURE 16
Property Tax Assessment Rolls
(dollars in millions)

Tax Class	Description	FY 2021 (Final)	FY 2021 Share	FY 2022 (Tentative)	FY 2022 Share	Change in Value
Class 1	Residential up to 3 Units	22,018	8.1%	23,175	8.9%	5.3%
Class 2	Multifamily, Co-ops & Condos	102,510	37.9%	102,085	39.2%	-0.4%
Class 3	Utility Properties	17,065	6.3%	18,227	7.0%	6.8%
Class 4	Commercial and Industrial	129,201	47.7%	116,835	44.9%	-9.6%
Total		**270,794**	**100.0%**	**260,322**	**100.0%**	**-3.9%**

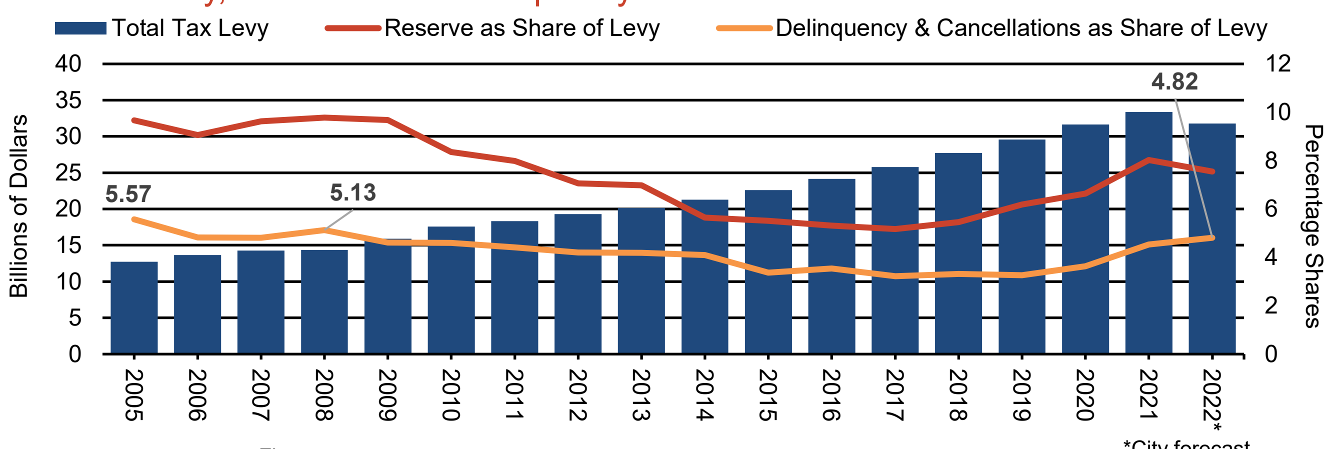
Sources: NYC Department of Finance, FY 2022 Tentative Assessment Roll; OSC analysis

The property tax reserve is calculated as a share of the total tax levy to account for items such as abatements, delinquencies, and cancellations.

The allocated reserve in FY 2022 is $2.4 billion, 7.5 percent of the expected tax levy (see Figure 17). Despite the increase in property tax reserves, the City does not expect to reach the levels seen during the Great Recession, when the reserve peaked at 9.8 percent of the tax levy. Given the severity of the drop in property valuations, there is a risk that reserves would need to be adjusted higher.

There are additional risks to consider in the out-years. A recent survey by the Community Housing Improvement Program found that about 200,000 of the City's rent-regulated tenants are behind on their rents, a fourfold increase since before the pandemic. These tenants owe a total of $1.1 billion in back rent. While the State received $1.3 billion in rental assistance from the relief package passed in December, it is unclear what share will be allocated to the City. If landlords are unable to close the gap between their incomes and costs, it could put further downward pressure on net property tax collections.

FIGURE 17
Total Tax Levy, Reserve and Delinquency Shares

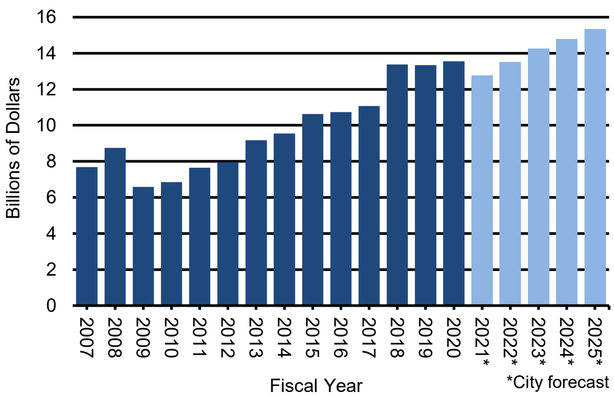


Sources: NYC Department of Finance; NYC Office of Management and Budget; OSC analysis

Personal Income Tax

Personal income tax collections, the City's second-largest source of tax revenue, are projected to increase by 6 percent in FY 2022, reaching $13.5 billion (see Figure 18), just shy of the pre-pandemic peak. The increase reflects the City's assumption of a return to economic growth. The large drops in employment, wages and capital gains caused an expected decline of 6 percent in FY 2021 compared to a 24.7 percent decline in FY 2009.

FIGURE 18
Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

The January Plan's forecast for personal income tax in FY 2021 is $12.7 billion, $1.1 billion higher than the City's projection at the start of the fiscal year. The forecast was raised as collections in the first seven months of FY 2021 were much better than the decline projected in the June Plan. This reflects better-than-expected capital gains and bonuses due to record levels in the stock market.

The decline in wages was smaller than expected because job losses have been concentrated in low-paying industries. In addition, the $600 payments from the CARES Act, added to weekly unemployment insurance checks (which are taxable), helped boost income tax revenues.

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

The January Plan's forecast for withholding in FY 2021 is $749 million higher compared to the June Plan, as strong Wall Street bonuses and the Paycheck Protection Program (PPP) have mitigated the decline in wages. The City now expects withholding to decrease by 5 percent in FY 2021, reflecting the large decline in employment. The City assumes employment will rebound by adding 191,200 jobs in 2021, which would contribute to an 8 percent increase in withholding in FY 2022.

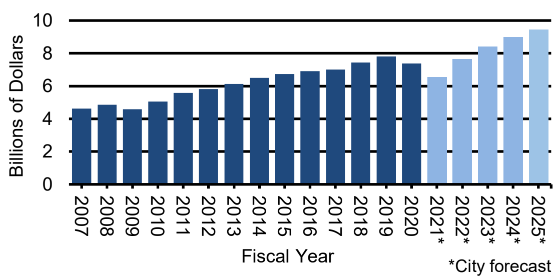
The forecast for estimated payments was increased from the June Plan by $188 million as a result of better-than-expected capital gains receipts. The City projects estimated payments to increase by 6.7 percent in FY 2022. OSC believes that as Wall Street continues to perform well, capital gains may be even higher than expected, with collections possibly higher by as much as $300 million.

Total personal income tax collections are projected to grow at an average annual rate of 4.3 percent for fiscal years 2023 through 2025, a slightly slower pace than in the prior five fiscal years (2016-2020). The Governor's SFY 2022 budget includes revenue-generating proposals, including a State surcharge on taxable income over $5 million, which could motivate taxpayers to relocate.

Sales Tax

Sales tax (applied to retail sales of tangible property and services) is the third-largest source of tax revenue in the City, and is driven by consumer spending. The City expects sales tax collections to total $7.65 billion in FY 2022, an increase of 16.7 percent (see Figure 19). This projection represents a reduction of $441 million from the June Plan and $1.3 billion from the January 2020 financial plan.

FIGURE 19
Sales Tax Collections

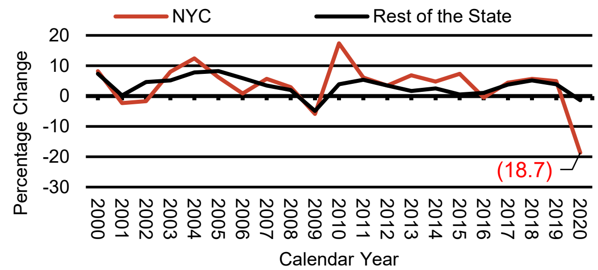


Sources: NYC Office of Management and Budget; OSC analysis

For the current fiscal year, the January Plan assumes collections will decline 11 percent to $6.6 billion (down $213 million from projections in June).[14] However, for the first six months of FY 2021, collections were down twice as much (21.7 percent) compared to the same period in the prior year.

Given the reduction in commuter traffic combined with a sharp drop in tourism, in-person sales activity has experienced a severe decline. This has had a much sharper effect on the City than the rest of the State. In calendar year 2020, the City's sales tax collections declined 18.7 percent, representing a loss of $1.5 billion, the largest decline on record.[15] The surrounding counties and the rest of the State were minimally affected (see Figure 20).

FIGURE 20
New York State Sales Tax Collections Growth

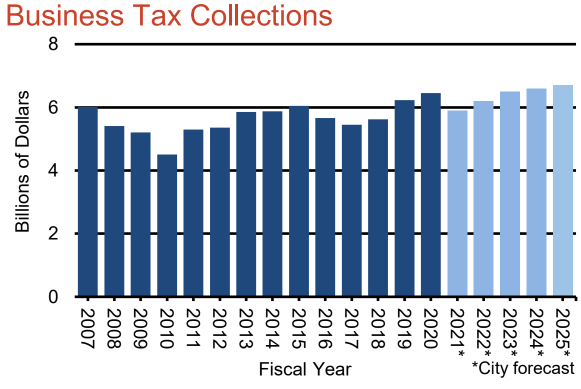


Note: Represents gross sales tax collections, which include intercepts.
Sources: New York City Office of Management and Budget; OSC analysis

Business Taxes

Business taxes include the business corporation tax and the unincorporated business tax. While the January Plan adjusts the City's forecast for business taxes to $5.9 billion for FY 2021 and $6.2 billion for FY 2022, up $1 billion and $348 million, respectively (see Figure 21), revenue is still projected to drop from FY 2020.

FIGURE 21
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

[14] The State will intercept a total of $400 million in quarterly payments from City sales tax collections starting January 15, 2021, for the Distressed Provider Assistance Account to help health care facilities fighting COVID-19. The first payment to be intercepted was $200 million on January 15, 2021. The City will be liable for $250 million in FY 2021 and $150 million in FY 2022. This sales tax intercept is in addition to the $170 million annual State intercept for MTA capital projects.

[15] Sales tax collections are not adjusted for calendar years and represent gross sales tax collections, which include intercepts.

Since June, collections have been adjusted higher in response to stronger corporate profits, particularly on Wall Street. This is the only major tax revenue category forecast to be higher (by $457 million) in fiscal years 2022 through 2024 than it was before the pandemic. Nevertheless, collections are still projected to decline by 9.1 percent in FY 2021, before increasing by 3.8 percent in fiscal years 2022 through 2024, which is stronger than the growth rate during the previous five fiscal years (2016-2020).

Business corporation taxes, which constitute more than two-thirds of total business tax collections, are primarily affected by the profits of securities industry member firms. While the January Plan raised forecasts for FY 2021 and FY 2022, the City still forecasts a decline of 12.8 percent in FY 2021 (to $3.9 billion), but projects growth of 7.8 percent in FY 2022 (to $4.2 billion). Through the first six months of FY 2021, collections have declined 14.3 percent compared to one year ago.

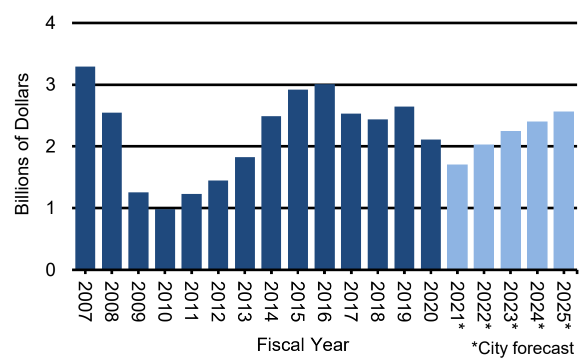
Unincorporated business taxes are mostly driven by small businesses, which include professional services, small finance and insurance firms, and restaurants. The January Plan raises the expected revenue from these taxes by $275 million to $1.93 billion in FY 2021 and by $252 million to $2 billion in FY 2022 above the June Plan's projections.

Real Estate Transaction Taxes

Real estate transaction taxes include the real property transfer tax and the mortgage recording tax. The January Plan expects real estate transaction tax collections to rise 18.8 percent in FY 2022 to $2.0 billion (see Figure 22), an improvement of $336 million over the forecast in the June Plan. Collections are expected to grow at an average rate of 12.2 percent over fiscal years 2022 through 2024, half the growth rate of the period after the Great Recession (24.6 percent).

Real estate sales have seen a steep drop in activity since the onset of the pandemic. The residential real estate market had been slowing over several years before 2020, but commercial properties have dropped steeply since the pandemic began, as vacancy rates climbed above 15 percent, a rate last seen in the 1990s. The City anticipates a rebound in sales as the recovery gains steam from the widespread availability of vaccines, along with continued strength in mortgage refinancing transactions. However, it remains to be seen if pricing and migration trends will provide a more favorable long-term impact.

FIGURE 22
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

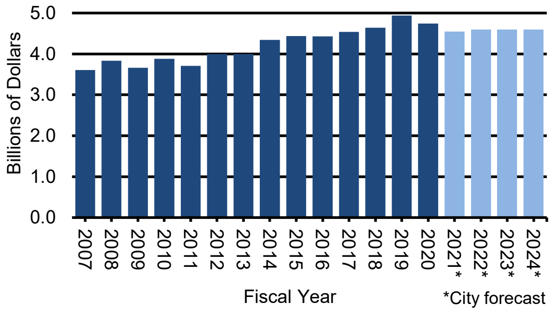
Miscellaneous Revenues

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

The January Plan assumes miscellaneous revenues, including one-time payments, will total $5.2 billion in FY 2021 and then average $5.0 billion in the out-years. These revenues for the first six months of FY 2021 declined by 5.6 percent from the same period last year.

Recurring revenues for FY 2021 are forecast to total $4.5 billion, which is $169 million lower than in the June Plan, and to average $4.6 billion in the out-years (see Figure 23).

FIGURE 23
Recurring Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

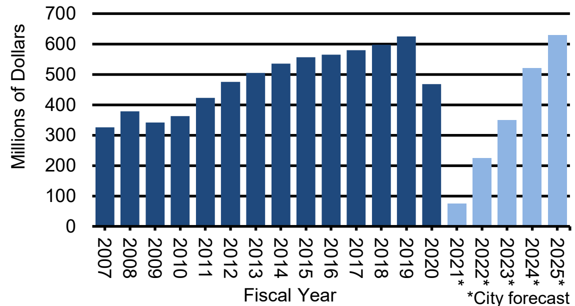
The downward adjustments are the result of lower revenue from licenses and permits ($45 million), including fewer construction permits ($27.6 million) as construction activity in the City is at its lowest level in almost a decade; lower fines and fees ($75 million); and fewer charges for services ($45 million). Recurring miscellaneous revenues are not forecast to return to pre-pandemic levels through FY 2025.

One-time payments in FY 2021 increased by $255 million compared to the June Plan, recognizing a payment from H+H ($212 million) and an additional $42 million in affirmative litigation (the City Law Department's one-time settlement with UPS).

Hotel Tax

Hotel tax collections are expected to decline by 84 percent in FY 2021 to $75 million (see Figure 24), the lowest level in more than 30 years. The January Plan lowered its forecast by $193 million from the June Plan, as collections in the first half of FY 2021 decreased by 91 percent compared to the same period last year. This reflects the near halt in tourism as restrictions remain in place for travel, dining and other attractions while the pandemic continues.

FIGURE 24
Hotel Tax Revenues



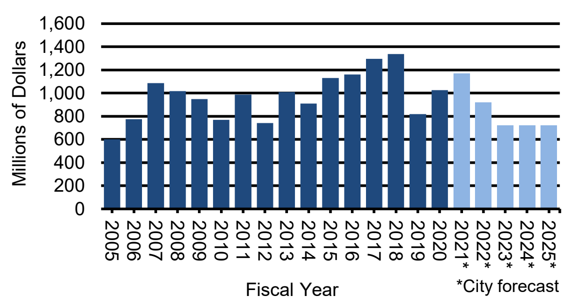
Sources: NYC Office of Management and Budget; OSC analysis

While the City expects collections to triple to $255 million in FY 2022, that amount will still be only about a third of the pre-pandemic peak in FY 2019, reflecting the City's forecast of a slow recovery in tourism as vaccines are more widely administered. The City does not expect collections to return to pre-pandemic levels until FY 2025.

Audits

Each year, the Department of Finance conducts audits of individuals and businesses to ensure compliance with the tax code. The City adjusted its forecasts for FY 2021 and FY 2022 from the June Plan, increasing collections by $250 million and $200 million, respectively (see Figure 25). Although the near-term forecasts have been raised, there remains potential for out-year collections to exceed forecasts, as audits have averaged slightly more than $1 billion over the 10-year period ending in FY 2020.

FIGURE 25
Audit Collections



Sources: NYC Office of Management and Budget; OSC analysis

VIII. Expenditure Trends

Expenditures are projected to total $92.3 billion in FY 2022, including programs funded with federal and State categorical grants. The portion funded with locally generated revenue (i.e., City funds) would total $70.5 billion after adjusting for surplus transfers that can mask expenditure trends (see Appendix B).

To mitigate the adverse impact of the pandemic on City fund revenues, the City implemented a number of gap-closing actions over the past nine months, including reducing its budgeted reserves, implementing additional savings initiatives, and drawing on resources from the Retiree Health Benefits Trust. It also received federal budget relief. As a result, the growth in City-funded spending slowed sharply to 1 percent in FY 2020 and is projected to decline for the first time in more than 25 years, by 3 percent in FY 2021 (see Figure 26).

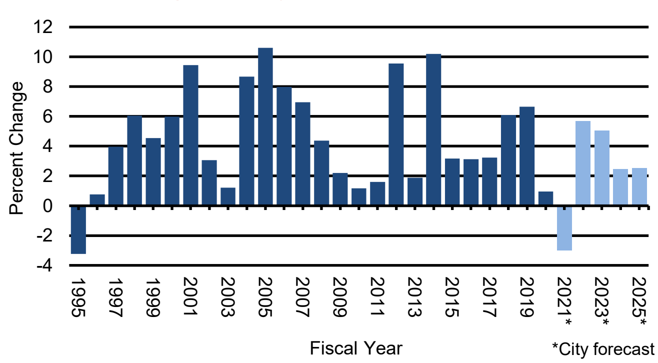
The impact of the City's gap-closing actions is much lower in subsequent years since most of these actions are nonrecurring with the exception of work force reductions. As a result, spending will rebound sharply in FY 2022, with the increase of 5.7 percent driven mostly by projected increases in health insurance and debt service costs. The January Plan assumes the growth will slow over the remainder of the financial plan period (to 5 percent in FY 2023 and to 2.5 percent annually over the next two years), driven mainly by cost-containment actions under the citywide savings program and the assumption that wage increases in the first two years of the next round will be funded through productivity improvements. However, the financial plan also includes sizable risks, including the receipt of $1 billion in recurring labor savings, and potential new needs for certain education services. The savings from the City's proposal for future wage increases over a two-year period will require the cooperation of the City's municipal unions to be realized.

Between June 2012 and June 2020, the full-time City-funded work force grew by 22,074 employees, reaching a year-end record of 251,985 (see Figure 27). Since then, the work force has declined by 5,939 to 246,046 employees through November 2020, among the lowest levels since January 2017. The decrease mainly reflects the impact of cost-containment actions, including a general hiring freeze, despite a decline in monthly attrition at most agencies.

The January Plan assumes the City-funded work force will total 245,066 full-time employees by June 30, 2022, 980 fewer than current levels (see Appendix C). The planned reduction from current levels would come mostly from a citywide reduction of 4,937 unspecified civilian positions through attrition under a new savings initiative, mostly offset by planned hiring of teachers and staff at the health and welfare agencies.

FIGURE 26

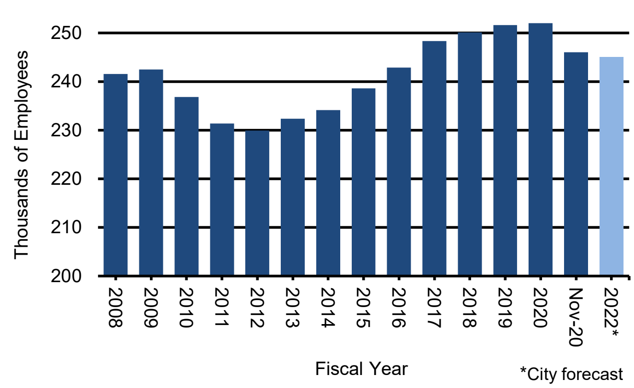
Annual Change in City-Funded Expenditures



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

FIGURE 27

Full-Time Staffing Levels (City-Funded)



Sources: NYC Office of Management and Budget; OSC analysis

Collective Bargaining

The June Plan reflected $1 billion in recurring labor savings beginning in FY 2021 to help balance the budget in that year and narrow the out-year budget gaps. Since June 2020, the City has reached agreements with a number of municipal unions to defer a portion of labor costs from FY 2021 to FY 2022 and to commit the City to avert layoffs of any of the employees represented in the agreements through FY 2021. The City also implemented a five-day furlough for nonrepresented employees for FY 2021.

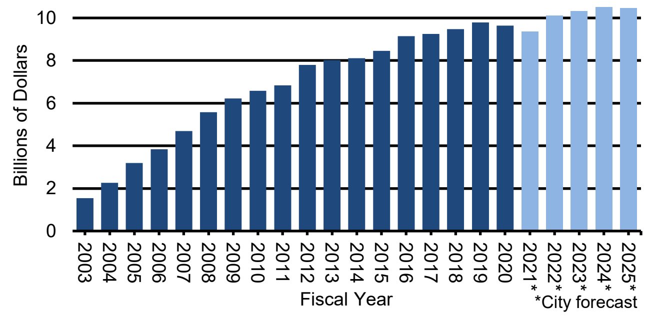
These actions are expected to reduce labor costs by $710 million in FY 2021, leaving unspecified savings of $290 million in FY 2021 and $1 billion annually each year thereafter to be identified at a later date. Because almost all of the labor savings for FY 2021 were achieved through deferrals, however, labor costs are expected to be higher by $691 million in FY 2022.[16]

In addition, as part of its gap-closing efforts in FY 2021, the City reduced its reserve for the next round of collective bargaining, which begins for many civilian employees in May 2021. The January Plan assumes that wage increases in the first two years of the next round will be funded through productivity improvements, which allowed the City to free up $1.6 billion over five years through FY 2024, but these will require the cooperation of the City's municipal unions to be realized.

Pension Contributions

After growing rapidly for many years, pension contributions have stabilized (see Figure 28), reflecting mainly higher-than-anticipated investment returns and savings from lower-cost pension plans enacted for employees hired after March 31, 2012. Still, contributions are projected to total $10.1 billion in FY 2022, representing 15 percent of City fund revenues.

FIGURE 28
Pension Contributions
City-Funded



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

These estimates assume implementation of the City Actuary's recommended changes in the assumptions and methodologies used to calculate the City's pension contributions.

The changes recommended by the Actuary include: a reduction in the annual consumer price index assumption from 2.5 percent to 2.3 percent phased in evenly over a four-year period beginning in FY 2021 (which will also result in a corresponding reduction to the actuarial interest rate); a reset of the actuarial value of assets to the market value of the pension funds as of June 30, 2019 (i.e., a "market value restart"); and a different method for recognizing unanticipated investment performance in future years by recognizing unanticipated gains (or losses) over a five-year period instead of six. The City Actuary also proposes to utilize updated mortality tables.

Some of the changes (such as reducing the actuarial interest rate) require State approval before they can be implemented. Other changes require adoption by the boards of trustees of the five pension systems. The City Actuary estimates that the changes would lower the City's planned

[16] As of February 2021, the deferrals totaled $776 million, including labor costs accrued to FY 2014 for lump-sum payments to retirees.

pension contributions by $430 million in FY 2021, $303.5 million in FY 2022 and $65.1 million in FY 2023 (a cumulative total of $798.5 million). But the initial financial benefit in these years would be fully offset by higher planned contributions over the remainder of the financial plan period (by $357.5 million in FY 2024 and by $443.5 million in FY 2025).

The January Plan also includes $200 million in FY 2022 and $275 million annually thereafter to fund changes in assumptions and methods that may result from the next Charter-mandated biennial independent review of the pension systems. The review is expected to be completed in 2021.

In FY 2020, the financial markets were volatile, and the pension funds earned 4.4 percent on their investments, less than the actuarial target of 7 percent. As of the first seven months of FY 2021, the City's pension systems had earned an estimated 18 percent on their investments.[17]

The financial condition of the City's five actuarial pensions has improved since FY 2014, when the City adopted new, more transparent financial reporting standards. However, the systems experienced a setback in FY 2020, largely because of the investment shortfall in that year.

In the aggregate, the pension systems had enough assets on hand to fund (on a market-value basis) 78 percent of their accrued liabilities at the end of FY 2020, a decline of one percentage point since FY 2019. The unfunded net liability for all five systems increased by $3.1 billion to $46.4 billion.

Post-Employment Benefits

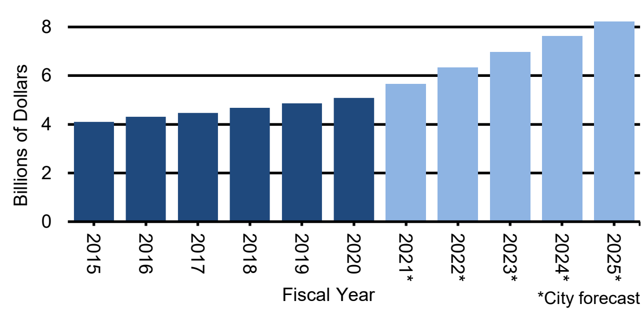
The City's unfunded liability for post-employment benefits other than pensions (OPEBs), such as retiree health care, reached $109.4 billion in FY 2020, an increase of $21 billion (23.8 percent) in three years. The City, like many employers, does not fund its OPEB liability on an actuarial basis but rather pays the annual cost of benefits to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from $2.7 billion in FY 2020 to $3.6 billion in FY 2025, an increase of 33 percent in five years.

Health Insurance

Together, two agreements reached between the City and the Municipal Labor Committee in 2014 and 2018 are expected to produce cumulative savings of $10.3 billion through FY 2022 and recurring savings of $1.9 billion beginning in FY 2022. The savings were used to help fund wage increases for the municipal work force. Despite the agreements, health insurance costs are projected to reach $8.2 billion by FY 2025 (see Figure 29), 62 percent more than FY 2020.

In the fall of 2020, the State Department of Financial Services approved an application from the City's primary insurer to increase health insurance premiums for active employees by 6.4 percent in FY 2022. The increase is slightly less than assumed in the January Plan (6.5 percent), which could generate some savings.

FIGURE 29
Health Insurance Costs
City-Funded



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

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

Debt Service

City-funded debt service is projected to grow from $6.5 billion in FY 2020 to $9.2 billion by FY 2025 (see Figure 30), an average annual increase of 7 percent. Debt service as a share of tax revenue (i.e., the debt burden) reached a recessionary peak of 13.7 percent in FY 2010, but gradually declined to 10.5 percent in FY 2019 as the economy improved.

Despite historically low interest rates, the debt burden is now projected to grow to 11.8 percent in FY 2022, as tax collections decline as a result of reduced economic activity brought on by the pandemic. The debt burden is projected to reach the FY 2010 level by FY 2025, with the expected growth still below the City's self-imposed ceiling of 15 percent.[18]

Since the start of the current fiscal year, the City has achieved a net total of $2.4 billion in savings during the financial plan period. Of this amount, $816 million comes from bond refundings in which the City has structured the deals to receive most of the savings in fiscal years 2021 and 2022, instead of spreading the savings over the financial plan period as it does when not under financial stress.

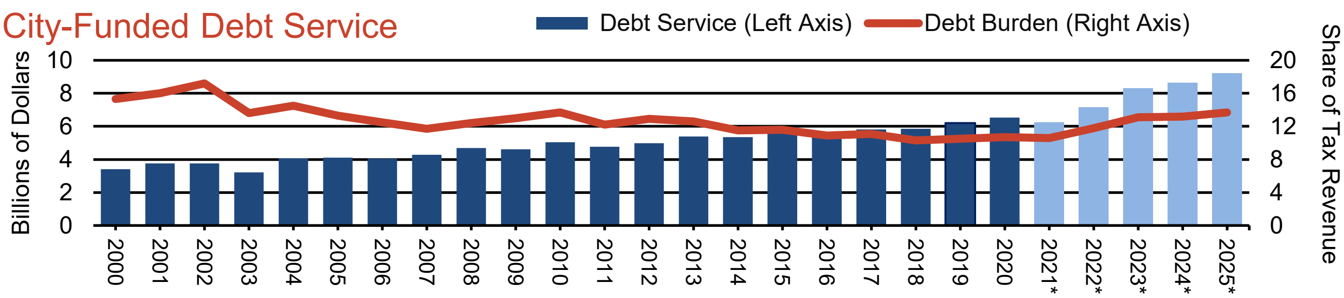
Historically, the City's capital expenditures are lower than what it forecasts in its financial plan, which generally limits new debt issuance and associated debt service over the financial plan. The pandemic has exacerbated this trend. The City has already reduced anticipated debt issuance through FY 2025 by $5.8 billion, which should lead to lower debt service during the same period.

There is the potential for further savings as City-funded capital expenditures in the January Plan average $11 billion annually during fiscal years 2021 through 2025, but actual capital expenditures during the previous five years averaged only $8.3 billion.

The City has also achieved $456 million in savings in fiscal years 2021 and 2022 from lower-than-expected rates on variable-rate debt. The City may realize additional variable-rate savings of $100 million in FY 2022. Although Moody's and Fitch Ratings have downgraded the City's general obligation bonds (to Aa2 and AA-, respectively), demand for the City's debt remains strong as recent bond sales have had investor indications that were more than three times the value of the bonds being offered for sale.[19]

FIGURE 30

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

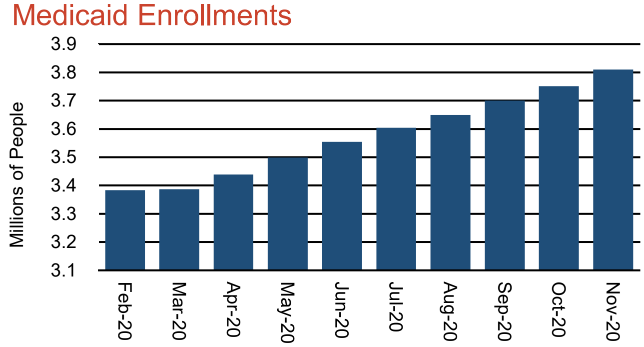
[18] The City's debt outstanding is expected to increase from $83 billion in FY 2021 to $104 billion in FY 2025. Debt per capita is expected to total nearly $10,000 per resident in FY 2021, increasing to more than $12,000 in FY 2025, but this projection does not take into account any potential population changes.

[19] S&P Global Ratings has changed its outlook on the City's general obligation bonds to negative from stable, but still maintains its AA rating on those bonds.

Medicaid

In November 2020, more than 3.8 million City residents were enrolled in Medicaid, which provides health insurance to low-income children and adults. Enrollees include 426,000 people who have enrolled in Medicaid since February, reversing previous trends (see Figure 31). Enrollment growth rates in Queens (15 percent) and Staten Island (14 percent) exceeded citywide growth of 13 percent during the same time period. Enrollment in the rest of the State grew by 11 percent. Policies implemented during the public health emergency have also facilitated enrollment, and more people have become eligible for benefits.

FIGURE 31
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

The January Plan assumes that the City-funded cost of Medicaid will total $5.4 billion in FY 2021, which is $215 million higher than in the June Plan. The higher cost is effectively budget-neutral because it comes from the City's transfer of $315 million used to reimburse H+H for costs associated with collective bargaining agreements to the Medicaid budget in order to account for an additional supplemental Medicaid payment to H+H. This is partially offset by the receipt of $100 million in FY 2021 for reimbursement of prior-year Medicaid costs.

The Families First Coronavirus Response Act provides additional federal Medicaid aid beginning January 1, 2020, and continuing through the COVID-19 public health emergency. The City estimates $646 million in savings through the end of calendar year 2020. However, the public health emergency will likely continue through December 31, 2021, and OSC estimates the City's savings to be $867 million.[20]

Medicaid enrollment is expected to further increase as a result of income and job losses and as more people become eligible for benefits. The City-funded cost of Medicaid is expected to rise to $5.8 billion annually beginning in FY 2022, and will remain at that level because the State has assumed financial responsibility for the growth in the local share. These estimates assume the State will not require the City to cover a larger share of the costs of the Medicaid program.

Cash Assistance

The Human Resources Administration (HRA) provides public assistance benefits for all eligible children and adults. The January Plan assumes that the total funds costs for cash assistance will total $1.61 billion in FY 2021 ($814 million in City funds), increasing to $1.65 billion for fiscal years 2022 through 2025 ($891 million in City funds), not accounting for further increases due to the current economic downturn and high rate of unemployment.

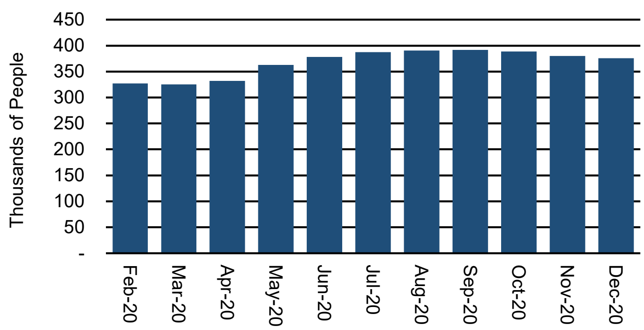
In March 2020, enrollment reached record-low levels at 325,000 people. However, during April 2020 at the height of the COVID-19 pandemic in the City, the caseload started to increase, and by September 2020 more than 66,000 people

[20] The City could benefit from additional savings as the enhanced rate also applies to the City share of supplemental Medicaid payments made on behalf of H+H, of which the City has already benefited from savings of $67 million.

(20 percent) had been added (see Figure 32). The growth has since started to slowly decline.

Enrollment grew faster in the City than in the rest of the State. In March 2020, the City's cash assistance enrollment was 69 percent of the total statewide enrollment, which grew to 76 percent by October 2020, the latest available State data.

FIGURE 32
Cash Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

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

The HRA also provides cash assistance in the form of one-time payments, largely for outstanding rent and utility costs. The number of people who utilized these benefits between March and December 2020 is about half compared to the same time period in 2019, helped significantly by the federal moratorium on evictions, which began in March 2020. New York State recently extended the moratorium until May 1, 2021. However, the moratorium's eventual expiration is likely to increase utilization of these benefits.

Homeless Services

Costs at the Department of Homeless Services (DHS) have more than tripled since FY 2011, reaching $2.4 billion in FY 2020 ($1.6 billion in City funds). The growth in expenditures since FY 2011 is a combination of an increase in shelter census and costs per day for shelter. Between FY 2011 and FY 2017, the average number of people in shelter increased by 63 percent, and then leveled off through FY 2019.

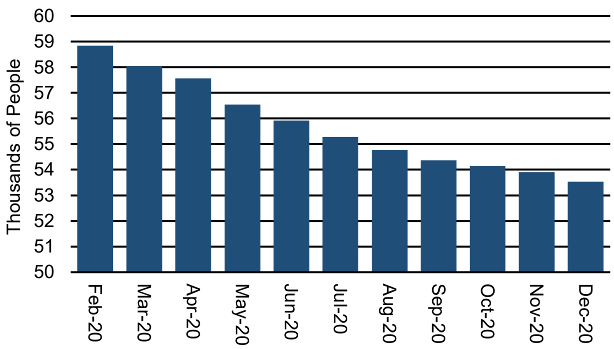
The average cost per day for shelter also increased sharply beginning in FY 2016 as a result of a larger investment in social services, and repairs and security provided at shelters. The cost per day for single adults in shelter increased by 78 percent, and nearly doubled for families in shelter from FY 2011 to FY 2020.

The January Plan assumes the total costs will amount to $2.4 billion again in FY 2021, but the City-funded portion will decrease to $1.1 billion, reflecting the receipt of nonrecurring COVID-19 relief funds ($457 million), largely for sheltering single adults in hotels. Total funds costs are expected to decline to $2.1 billion ($1.2 billion in City funds) in FY 2022 and remain at that level through the remainder of the financial plan.

The homeless population in shelters operated by the DHS declined by 9 percent or nearly 5,300 people since February 2020 and the start of the COVID-19 pandemic. During December 2020, an average of 53,540 people lived in DHS shelters (see Figure 33). The majority of the decline occurred among families with children (15 percent), while single adults continued to increase (7 percent).

Starting in March, the DHS started isolating individuals who tested positive for or exhibited symptoms of COVID-19, those at high risk of developing the virus, and those located in congregate shelters, by placing them in hotel

FIGURE 33
People in Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

rooms. Whereas in February almost 3,500 single adults were sheltered in commercial hotels, by the end of October almost 12,800 single adults resided in such housing. The number of single adults living in DHS congregate shelters declined by over 8,300 during the same time period.

The January Plan does not assume a continuation of COVID-19 relief funds beyond the current year. The City has yet to publish a plan for relocating these individuals back to congregate care settings. If the timing extends beyond FY 2021 and additional federal funding is not identified, the City may incur higher costs.

Additionally, the moratorium on residential evictions is set to expire on May 21, 2021, which could put a strain on the shelter system and increase associated City-funded costs. As of August 12, 2020, there were approximately 200,000 eviction proceedings pending in New York City from before March 17, 2020.

Uniformed Agency Overtime

Overtime spending at the uniformed agencies totaled $620 million through the first seven months of FY 2021, $177 million more than planned. Uniformed agencies contributed to more than three-fourths of the City's total overtime expenditures ($799 million). The remaining overtime is concentrated at the health and welfare agencies ($66 million), the Department of Transportation ($33 million), and the Department of Environmental Protection ($22 million).

In June, the City announced it would reduce overtime at the Police Department by more than 50 percent ($336 million) to $268 million in FY 2021. The January Plan includes a further reduction to $254 million, $582 million less than overtime costs at the Police Department in FY 2020. During the first seven months of FY 2021, overtime totaled $237 million. This represents a $186 million reduction (44 percent) from costs incurred during the same period last year. The cancellation of major planned events and other deployment shifts in response to COVID-19 contributed to this reduction. However, spending still exceeded City estimates by $86 million (60 percent) for July through January.

Overtime is on pace to drop to levels not seen since the early 2000s, but OSC estimates that it could still exceed the City's plan by $50 million in FY 2021. Furthermore, OSC assumes a $150 million risk annually beginning in FY 2022 as the City returns to pre-pandemic activity levels, although reforms proposed by the City Council to transfer certain police responsibilities could eliminate some need for overtime at the department.

Overtime at the Fire Department has remained relatively flat for nearly a decade. During the first seven months of FY 2021, it totaled $188 million, $31 million more than planned but still flat when compared to the same period one year ago.

Overtime at the Department of Correction totaled $63 million to date in FY 2021, $8 million more than planned but $26 million less than costs through the same period last fiscal year. It is on pace to decline for the fifth consecutive year. Although the January Plan includes overtime reductions in each year beginning in FY 2022, OSC anticipates that the department will reach these targets as long as the jail population remains at record-low levels.

The January Plan includes $141 million in overtime at the Department of Sanitation in FY 2021, $15 million less than the total cost last year, and about $100 million annually thereafter. However, overtime at the department is on pace for one of the highest years on record, already totaling $132 million through January 2021. This cost exceeds financial plan estimates by $50 million (61 percent) and is higher than the amount incurred during the same period last year by $55 million.

The department has experienced a reduction in employee availability since the beginning of the pandemic and has also increased facility and vehicle cleanings to reduce the risk of COVID-19 transmission, both of which have contributed to higher overtime spending. The department is seeking additional federal reimbursement for COVID-19 related overtime and is weighing options to reduce the need for overtime, but currently OSC estimates that it could exceed the City’s plan by $50 million annually.

IX. 10-Year Capital Strategy

On January 14, 2021, the City released its preliminary 10-year capital strategy for fiscal years 2022 through 2031, which totals $118.8 billion, $14.7 billion more than the preliminary strategy released in January 2019. The City is expected to release a final capital strategy in the spring that may include additional revisions to the program.

FIGURE 34
Capital Strategy (in millions)

Category	FY 2022 Prelim FY 2022-2031	% of Total	FY 2020 Prelim FY 2020-2029
Education	$21,013	17.7%	$23,024
Environment	$20,835	17.5%	$19,667
Housing	$12,874	10.8%	$12,953
Transportation	$18,497	15.6%	$15,162
Tech & Equip	$8,299	7.0%	$7,169
Correction	$9,359	7.9%	$1,808
All Other	$27,914	23.5%	$24,310
Total	**$118,790**	**100.0%**	**$104,095**

Sources: NYC Preliminary Ten-Year Capital Strategies; OSC analysis

As shown in Figure 34 and discussed below, more than 75 percent of capital resources would be invested in projects involving education, environmental protection, housing, transportation, technology and equipment, and correction.

The City says in its strategy that in light of the pandemic, it had to make tough investment choices, including shifting funds to ensure that enough resources were available to address the immediate health emergency. The City says it will continue to prioritize projects that support its long-term recovery agenda.

As a result, the January Plan reduced planned capital commitments for fiscal years 2021 through 2024 by a net of $1.5 billion when compared to the City's adopted capital commitment plan, mostly in bridges and highways and in parks. The level of commitments grew by a net of $3 billion for fiscal years 2025 through 2029 in a broad range of categories as commitments were pushed out of the financial plan period.

The highest share (17.7 percent) of the strategy for FY 2022 through FY 2031 is for education projects, which have been allocated $21 billion, mostly to support the rehabilitation and expansion of existing schools and the construction of new schools.

Environmental protection projects would be allocated $20.8 billion, focusing on maintaining and protecting the City's water supply. The strategy would allocate $7.9 billion for wastewater treatment programs and $2.3 billion for the construction and rehabilitation of various water tunnels. These projects are funded by the New York City Municipal Water Authority and are not counted in the City's debt service estimates.

Of the $18.5 billion allocated to transportation projects, $10 billion would support the reconstruction and rehabilitation of bridges, including $1.5 billion for bridges on the Brooklyn-Queens Expressway.

The capital strategy would provide the MTA with $400 million over the next 10 years. The City has not yet reflected its $3 billion contribution to the MTA's 2020-2024 capital program in the strategy as it waits for the State to make its matching contribution.

Correction-related projects would receive $9.4 billion, of which $8.1 billion is for the design and construction of new jail facilities to replace the ones that are on Rikers Island.

Housing projects would receive $12.9 billion, including $3 billion to finance new construction for residents in a range of income levels. The New York City Housing Authority would receive $2.9 billion to be used for roof repairs, pest mitigation, lead abatement and elevator rehabilitation.

X. Semi-Autonomous Entities

Department of Education

New York City has the largest public school system in the nation, serving over 1.1 million students in more than 1,800 schools. Since March 2020, students have engaged in a combination of remote and in-person learning.

The City was among the first school districts in the nation to offer part-time in-person classes, but individual schools will likely continue to close and reopen during the school year in response to the COVID-19 pandemic. Preliminary data indicates that the City's traditional public school enrollment has declined by approximately 4 percent since last year in response to the pandemic. While this loss may be temporary and based on short-term outmigration, it would represent the largest single-year decline in more than 40 years.

The January Plan allocates $35.1 billion to the Department of Education for FY 2022, which is approximately 38 percent of the City's total budget. Of this, the City is expected to fund $19.7 billion (56 percent), with the remainder funded by the State (37 percent) and the federal government and other sources (7 percent). Notably, the January Plan does not incorporate federal relief funds authorized in late December.

Since the November Plan, the City has reduced the department's FY 2022 allocation by $564 million. New savings from the citywide savings program make up $254 million of the reduction, but the Mayor has committed to restoring $193 million of these savings, contingent upon receipt of additional unrestricted federal aid promised by the new presidential administration. The rest of the decrease is due to lower City-funded pension costs ($244 million) and debt service ($100 million), offset by minor new needs. However, the January Plan does not include several expenses likely to increase in future years.

The City's June Plan backfilled a $360 million shortfall in State education aid with City funds in FY 2021, but made no provision for the shortfall in subsequent years. Additionally, the City recategorized more than $720 million in education funding (a one-time infusion of federal dollars under the CARES Act in FY 2021) as federal rather than State funding. As a result, the January Plan assumes an increase of nearly $1.6 billion in State aid from FY 2021 to FY 2022, more than four times the average over the past nine years.

Indeed, the Governor's executive budget for SFY 2022 proposes to increase State aid to the City by just $53 million in FY 2022. This leaves a $1.44 billion gap between City assumptions of State aid and the proposed State budget, though this would be more than offset by $2.15 billion in emergency federal funding also distributed under the proposal. While this prevents the City from being forced to make up the difference in the near term, federal funds are not expected to recur, and this leaves large potential gaps in the out-years if the State does not dramatically increase education aid beginning in FY 2023.

Part of the shortfall results from the Governor's proposed plan to consolidate and reduce a number of expense-based aid streams into a single "Services Aid" grant. The proposal would reduce the City's allotment of aid under these streams by $620 million. Meanwhile, the rest of the State would see a modest increase in these aids.

The Governor argues that the Services Aid changes will allow for larger increases to Foundation Aid, which has a more progressive distribution formula. However, the Governor's proposal does not include a Foundation Aid increase, and State aid increases vary and are determined each year by the budget process.

The proposed State budget would also effectively increase the number of charter schools permitted in New York City by allowing the reissuance of charters which have been surrendered, revoked, or terminated since July 1, 2015. The City has indicated that once all such charters are reissued, the City's charter school expenses could increase by up to $160 million annually.

Under federal law, school districts must provide necessary services to students with disabilities. If the district is unable to do so itself, it must fund such services in what are known as "Carter" cases. City spending on Carter cases reached $710 million in FY 2020, more than triple the FY 2015 amount.

While the January Plan adds $220 million for Carter cases in FY 2021, it still assumes these costs will decline by $180 million in FY 2022. Until the City can demonstrate that the cost of Carter cases has actually begun to decline, costs are likely to exceed estimates in the January Plan beginning in FY 2021. Such expenses may be even higher as parents have challenged the City's ability to provide adequate services during the pandemic.

Likewise, the cost of student transportation has grown faster than anticipated, requiring the City to add funding in each of the past four fiscal years (averaging almost $85 million annually). The City added $200 million for this purpose over the course of FY 2021, but did not include any additional funding in later years.

Metropolitan Transportation Authority

The Metropolitan Transportation Authority is facing severe challenges in balancing its budget, relying heavily on federal aid and funds from deficit borrowing. As a result of the COVID-19 pandemic, utilization of the MTA's services has dropped precipitously. Weekday subway and bus ridership in April 2020 were lower, respectively, by 92 percent and 76 percent compared to the same month in 2019. The commuter railroads also lost more than 90 percent of their ridership.

Although ridership has begun to return, in January 2021 subway ridership was still down an average of 69 percent from 2020, bus ridership was down more than 53 percent and MTA commuter railroad ridership was down more than 75 percent.

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

In July 2020, the MTA released a financial plan ("the MTA's July Plan") that incorporated the receipt of $4 billion under the federal CARES Act (which helped the MTA get through the early months of the pandemic), and also assumed that the federal government would provide another $3.9 billion of similar assistance later in 2020.

In November 2020, the MTA updated its financial plan ("the MTA's November Plan"). Since the MTA did not receive any additional federal COVID-19 relief funding in 2020 as the MTA's July Plan had expected, it needed to take additional actions to balance its budget. The MTA borrowed $2.9 billion from the Federal Reserve's Municipal Liquidity Facility (MLF) in December. The notes issued to the MLF are expected to be paid off with the proceeds of long-term bonds starting in 2023 at an estimated cost of $143 million annually.

The MTA also took actions that will negatively impact its capital program and its long-term liabilities. As allowed by State legislation, the MTA is using in its operating budget $900 million of capital lockbox funds in 2020 and 2021 that were earmarked for the 2020-2024 capital program. Another $600 million that was also planned to be allocated to the capital budget (on a PAYGO basis) will now be held for operating budget uses. The MTA also used all of the $337 million that was in its trust for OPEBs to help pay its current OPEB obligations in 2020. The MTA also plans to implement $2.3 billion of cost-saving actions over five years, mostly from reducing overtime and nonpersonnel expenses.

The July Plan expected ridership to return to pre-pandemic levels by the first quarter of 2023, but the MTA's consultant, McKinsey, updated its worst-case scenario in November. The revision shows ridership returning more slowly over a longer period, to 79 percent of the pre-pandemic level by the end of 2024, with the slower return in the near term the result of restrictions associated with another anticipated wave of the virus. The MTA incorporated the worst-case scenario into its November Plan, lowering the projection of farebox revenue when compared to the MTA's July Plan by an average of $1.8 billion annually from 2021 through 2024.

The MTA's November Plan proposed service reductions to help close these projected gaps in lieu of additional federal assistance. The proposed cuts would reduce service on subways and buses by 40 percent and on the commuter railroads by 50 percent, saving $1.3 billion in 2022 and reducing headcount by 8,085. These service reductions would gradually be restored as ridership returns, with reductions saving $696 million in 2023 and $559 million in 2024.

In December, the MTA Board adopted a balanced budget for 2021 that assumed $4.5 billion of federal aid to close the entire gap in that year, and that also does not contain the service reductions in 2021 that were proposed in the MTA's November Plan. The MTA is expected to receive $4 billion from a new COVID-19 relief bill that was approved by Congress later in December, which will cover most of what was assumed in the budget.[21] The MTA has also asked for an additional $8 billion from the federal government to help stem out-year revenue losses, though none is assumed in the MTA's financial plan.

In February 2021, the MTA announced that fare and toll revenues in 2020 were $432 million higher than expected when compared to the MTA's November Plan, and taxes and subsidies were $553 million higher than expected in the MTA's November Plan. Expenses were $947 million lower than planned in 2020. All of these improvements will cover the shortfall in projected federal aid in 2021 and allow the MTA to delay the service reductions through 2022.

The MTA's financial plan currently assumes that the service cuts will begin in 2023. Even after implementing these service cuts and proposing a wage freeze on all employees, which must be agreed to with its unions, the MTA still expects to have remaining budget gaps of $3.1 billion in 2022 and $2.4 billion in each of 2023 and 2024.

To close these gaps without federal assistance, the MTA would be forced to consider higher increases than the currently budgeted 4 percent fare and toll yields, which is likely to weaken the recovery. Continued deficit financing could also make it more difficult for the MTA to make the capital investments necessary for long-term stability and growth.[22]

President Biden has proposed another relief funding bill that would, among other things, provide mass transit agencies with another $30 billion of funding. While the MTA is expected

[21] The federal COVID-19 relief legislation includes a stipulation that the MTA must certify that it will not lay off or furlough any employees if the federal funds are used for any purpose other than payroll or operating expenses.

[22] In January 2021, the MTA announced that it would be delaying the implementation of its planned 2021 fare increases. Toll increases are still scheduled to take effect in April 2021.

to receive additional relief funding, it is uncertain how it would close any remaining gaps after 2021 if such aid is insufficient.

State law requires the City to fund half of the net cost (i.e., after fare collections and subsidies) of the MTA's paratransit program. While the January Plan includes $63 million in FY 2021 to fund these costs, it makes no provision to fund the increase in subsequent years. Further, the MTA expects pre-pandemic paratransit ridership to return in 2022, which would increase the cost to the City, although the City's contribution is capped through 2023.

Before the pandemic, the MTA had begun its most ambitious capital program to reverse the deterioration that resulted from years of insufficient capital investment. To help preserve cash, most new capital commitments have been halted.[23] As a result, capital projects could be started later than planned, which could further delay needed capital improvements.

The State has a commitment to fund $7.3 billion of the MTA 's 2015-2019 capital plan and had committed $3 billion to the MTA's 2020-2024 capital program, but the State budget now assumes that the State will fund both of these contributions with its own bonding instead of reimbursing the MTA for the debt service on its bonds.[24] The City has not yet included its $3 billion share of the funding for the 2020-2024 program in its capital commitment plan.

The City's recovery is dependent on the MTA's financial stability, and any service cuts that are implemented could slow the City's recovery even further. The MTA recently announced subway service will remain shut from 2 a.m to 4 a.m, (it was previously shut from 1 a.m. and 5 a.m), which puts an added burden on essential workers who need to travel at that time. The City, the State and the MTA all need additional federal aid beyond 2021 to mitigate the impact of the COVID-19 pandemic on their budgets. The three are closely intertwined, and failure to aid one could adversely affect the others.

NYC Health + Hospitals

NYC Health and Hospitals (H+H) is the largest public health system in the country, and provides health and mental health services to about 1.2 million City residents. While H+H has temporarily experienced an improvement in its financial profile, it still faces significant challenges including declining use of services, the large share of its patients who lack health insurance, and the unknown long-term impact of the COVID-19 pandemic.

On December 30, 2020, the City released the adopted accrual-based financial plan for H+H for FY 2021. H+H ended FY 2020 with a surplus of $690 million, largely from a combination of higher inpatient revenue from the receipt of enhanced reimbursement rates for COVID-19 patients and the delay of federal cuts to supplemental Medicaid payments. In total, H+H has been compensated by the federal government for costs related to the COVID-19 pandemic ($1.3 billion in fiscal years 2020 and 2021).

A second wave of COVID-19 cases and hospitalizations began in late September 2020, but hospitalizations have not reached peak levels seen in mid-April 2020. This has allowed H+H to manage adding necessary beds and staff without having to suspend nonemergency procedures. H+H expects further federal compensation for any costs and related revenue losses that are not included in the financial plan.

Federal legislation has delayed planned cuts in federal supplemental Medicaid payments

[23] In 2020, the MTA only committed $5.4 billion of its originally planned $13.5 billion of capital commitments.

[24] The State has already provided $3.1 billion of the funding commitment, leaving $4.2 billion yet to be provided.

through federal fiscal year 2023. These delays benefited H+H by $343 million in FY 2020, $580 million in FY 2021, and $622 million in each of FY 2022 and FY 2023. The additional resources relieve H+H from further planned restructuring and staffing reductions through FY 2024. H+H has reduced staffing by about 2,600 since November 2015 as part of its transformation plan, which is intended to stabilize its finances.

The State's enacted budget for FY 2021 reduced State Medicaid costs, in part by cutting payments to hospitals, and resulted in a net reduction to H+H of about $64 million in FY 2020 through FY 2022, and about $47 million in FY 2023 and FY 2024.

However, the financial impact of these initiatives will be offset by a state budget initiative that will provide a net benefit to H+H of about $300 million annually in supplemental Medicaid payments beginning in FY 2021. The benefit of this initiative is not reflected in the H+H financial plan.

H+H is still assessing the potential impact of the Governor's executive budget for SFY 2022, which proposes to reduce Medicaid costs statewide by a total of $1.8 billion in SFY 2021 and SFY 2022, largely by reducing rates to providers. It includes a proposal to eliminate State-funded supplemental Medicaid payments to H+H by $15 million in FY 2021 and by $61 million annually beginning in FY 2022. The City will pick up the cost of the State share, allowing H+H to continue to leverage federal matching funds of similar amounts. Additional Medicaid cuts could be expected if the State doesn't receive an additional $3 billion in federal funding by August 31, 2021.

The City's January Plan anticipates that H+H will reimburse the City for $215 million in debt service incurred on H+H's behalf in FY 2021. The City has not required H+H to make this payment since FY 2015.

H+H appears to be financially sound in the short-term, largely due to the receipt of federal funding. The operational and financial impact of the COVID-19 pandemic on H+H will be dependent on the pandemic's duration and whenever inpatient and outpatient utilization return to pre-pandemic levels.

New York City Housing Authority

The New York City Housing Authority (NYCHA) manages about 170,000 apartments that house more than 365,000 residents. This represents 8 percent of the City's rental apartments.

Tenant rents accounted for 27 percent of NYCHA's $3.8 billion 2020 operating budget (City funding accounted for $262 million or 7 percent). The pandemic, however, has significantly impacted rent collections. The drop in collections is the result of a decrease in rental revenue from reductions in rent due to lower incomes, a new policy to delay rent increases, and an increase in rent delinquencies. Between February 2020 and November 2020, the rent collection rate declined from 88 percent to 82 percent. Compared to November 2019, NYCHA's cumulative rent collection (over the prior 12 months) was down 6.4 percent, or $78 million. NYCHA was able to offset this loss with $129 million in federal aid.

NYCHA expects to reduce its $258 million deficit in 2021 to $25 million, mostly by using federal capital funds in the operating budget (as it is allowed by the federal government). While this funding gap represents less than 1 percent of its operating budget, the authority now faces its largest deficit for the upcoming year in the last five years. Its projected $300 million operating deficit in 2022 is roughly 8 percent of its operating budget. NYCHA's projected deficits for

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

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

Some of the work mandated by the agreement, however, has been impacted by the pandemic. As a result, the monitor is working with NYCHA to extend the deadlines for needed work on a case-by-case basis, provided that NYCHA can demonstrate that it has used, as determined by the monitor, “best efforts” to comply with the terms of the agreement, and that any extensions are necessary solely to address the impact of the public health emergency. The monitor will make recommendations to HUD and the SDNY as to whether NYCHA has used “best efforts.”

In July 2020, NYCHA unveiled Blueprint for Change, its transformation plan to rehabilitate 110,000 apartments. When combined with the current program to renovate 62,000 apartments, (NYCHA 2.0), these plans would provide for capital improvements to a total of 172,000 apartments, virtually all of NYCHA’s housing stock.[25] The transformation plan would require the formation of a new legal entity, a public housing trust that would also leverage federal vouchers to issue bonds. The proceeds from these bonds would then be used to fund repairs.

The transformation plan is in its early stages and faces a number of potential hurdles, including the need for new State legislation in order to create the housing trust, and federal approval to pool vouchers for this purpose. The State bill has been introduced in the Assembly but has not yet been acted upon. At the end of January 2021, NYCHA will present a final draft of the transformation plan to the monitor, the SDNY and HUD that, if approved, will allow it to commence with an analysis and implementation phase in March.

[25] Starting in 2018, NYCHA 2.0 has rehabilitated 9,517 units, and another 11,860 units are currently undergoing the process of being converted to private management.

Appendix A: City-Fund Revenue Trends

(in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
General Property Tax	$ 30,691	$ 29,370	$ 30,042	$ 30,471	$ 30,881
Personal Income Tax	12,744	13,506	14,257	14,776	15,333
Sales Tax	6,551	7,648	8,414	8,992	9,451
Business Taxes	5,862	6,240	6,487	6,553	6,663
Real Estate Transaction Taxes	1,706	2,026	2,249	2,400	2,561
Other Taxes	2,334	2,481	2,634	2,831	2,968
Tax Audits	1,171	921	721	721	721
Subtotal: Taxes	**61,059**	**62,192**	**64,804**	**66,744**	**68,578**
Miscellaneous Revenues	5,204	4,979	4,970	4,971	4,969
Unrestricted Intergovernmental Aid	0	0	0	0	0
Grant Disallowances	(15)	(15)	(15)	(15)	(15)
Total	**$ 66,248**	**$ 67,156**	**$ 69,759**	**$ 71,700**	**$ 73,532**

Annual Rate of Growth	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
General Property Tax	3.5%	-4.3%	2.3%	1.4%	1.3%
Personal Income Tax	-6.0%	6.0%	5.6%	3.6%	3.8%
Sales Tax	-11.1%	16.7%	10.0%	6.9%	5.1%
Business Taxes	-9.1%	6.4%	4.0%	1.0%	1.7%
Real Estate Transaction Taxes	-19.1%	18.8%	11.0%	6.7%	6.7%
Other Taxes	-20.4%	6.3%	6.2%	7.5%	4.8%
Tax Audits	14.1%	-21.3%	-21.7%	0%	0%
Subtotal: Taxes	**-3.2%**	**1.9%**	**4.2%**	**3.0%**	**2.7%**
Miscellaneous Revenues	-12.4%	-4.3%	-0.2%	0%	0%
Unrestricted Intergovernmental Aid	N/A	N/A	N/A	N/A	N/A
Grant Disallowances	N/A	N/A	N/A	N/A	N/A
Total	**-4.0%**	**1.4%**	**3.9%**	**2.8%**	**2.6%**

Sources: NYC Office of Management and Budget; OSC analysis

Appendix B: City-Fund Expenditure Trends

(in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Salaries and Wages	$ 20,968	$ 20,079	$ 20,162	$ 20,435	$ 20,716
Pension Contributions	9,358	10,119	10,324	10,516	10,452
Debt Service	6,253	7,167	8,297	8,649	9,213
Medicaid	5,351	5,813	5,813	5,813	5,813
Health Insurance	5,662	6,332	6,977	7,614	8,227
Other Fringe Benefits	3,128	3,628	3,659	3,825	4,171
Energy	764	814	857	889	912
Judgments and Claims	587	602	618	635	651
Public Assistance	814	891	891	891	891
Other	16,085	15,970	16,223	16,376	16,514
Subtotal	**68,970**	**71,414**	**73,820**	**75,643**	**77,560**
General Reserve	50	100	1,000	1,000	1,000
Capital Stabilization Reserve	- - -	- - -	250	250	250
Labor Savings	(290)	(1,000)	(1,000)	(1,000)	(1,000)
Retiree Health Benefits Trust	(1,600)	- - -	- - -	- - -	- - -
Prior Years' Expenses	(421)	- - -	- - -	- - -	- - -
Total	**$ 66,709**	**$ 70,514**	**$ 74,070**	**$ 75,893**	**$ 77,810**

Annual Rate of Growth	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Salaries and Wages	3.1%	-4.2%	0.4%	1.4%	1.4%
Pension Contributions	-2.9%	8.1%	2.0%	1.9%	-0.6%
Debt Service	-4.4%	14.6%	15.8%	4.2%	6.5%
Medicaid	-17.4%	13.2%	- - -	- - -	- - -
Health Insurance	11.5%	11.8%	10.2%	9.1%	8.0%
Other Fringe Benefits	1.5%	16.0%	0.9%	4.5%	9.0%
Energy	12.4%	6.6%	5.2%	3.8%	2.6%
Judgments and Claims	-4.2%	2.6%	2.6%	2.7%	2.6%
Public Assistance	26.5%	0.1%	- - -	- - -	- - -
Other	-5.8%	-0.7%	1.6%	0.9%	0.8%
Subtotal	**-1.4%**	**3.5%**	**3.4%**	**2.5%**	**2.5%**
General Reserve	N/A	N/A	N/A	- - -	- - -
Capital Stabilization Reserve	N/A	N/A	N/A	- - -	- - -
Labor Savings	N/A	N/A	- - -	- - -	- - -
Retiree Health Benefits Trust	N/A	N/A	N/A	- - -	- - -
Prior Years' Expenses	N/A	N/A	- - -	- - -	- - -
Total	**-3.0%**	**5.7%**	**5.0%**	**2.5%**	**2.5%**

Note: Debt service and totals have been adjusted for surplus transfers. Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSC analysis

Appendix C: Full-Time Staffing Levels

		Actual	Actual	Forecast	Plan	Variance	Variance
		June 2020	Nov 2020	June 2021	June 2022	June 2020 to Nov 2020	Nov 2020 to June 2022
Public Safety		**85,173**	**83,218**	**81,224**	**81,640**	**(1,955)**	**(1,578)**
Police	Uniformed	35,910	34,938	35,007	35,030	(972)	92
	Civilian	15,434	14,839	15,065	15,410	(595)	571
Fire	Uniformed	11,043	10,875	10,935	10,935	(168)	60
	Civilian	6,261	6,322	6,229	6,231	61	(91)
Correction	Uniformed	9,237	8,925	7,219	7,060	(312)	(1,865)
	Civilian	1,734	1,685	1,659	1,819	(49)	134
District Attys. & Prosecutors		4,705	4,833	4,278	4,278	128	(555)
Probation		822	777	806	845	(45)	68
Board of Correction		27	24	26	32	(3)	8
Health & Welfare		**23,396**	**22,984**	**22,965**	**24,412**	**(412)**	**1,428**
Social Services		9,472	9,325	9,378	10,189	(147)	864
Children's Services		6,974	6,862	6,776	7,084	(112)	222
Health & Mental Hygiene		4,165	4,083	4,097	4,395	(82)	312
Homeless Services		2,084	2,037	2,044	2,101	(47)	64
Other		701	677	670	643	(24)	(34)
Environment & Infrastructure		**16,207**	**15,810**	**15,664**	**15,843**	**(397)**	**33**
Sanitation	Uniformed	7,755	7,480	7,425	7,381	(275)	(99)
	Civilian	2,054	2,024	2,013	2,064	(30)	40
Transportation		2,418	2,386	2,372	2,468	(32)	82
Parks & Recreation		3,650	3,575	3,523	3,584	(75)	9
Other		330	345	331	346	15	1
General Government		**11,476**	**11,241**	**11,387**	**11,871**	**(235)**	**630**
Finance		1,996	1,956	2,031	2,090	(40)	134
Law		1,670	1,630	1,696	1,735	(40)	105
Citywide Admin. Services		1,793	1,736	1,756	1,871	(57)	135
Taxi & Limo. Commission		584	567	557	578	(17)	11
Investigations		359	349	365	363	(10)	14
Board of Elections		682	700	517	517	18	(183)
Info. Tech. & Telecomm.		1,613	1,574	1,666	1,790	(39)	216
Other		2,779	2,729	2,799	2,927	(50)	198
Housing		**2,461**	**2,435**	**2,482**	**2,580**	**(26)**	**145**
Buildings		1,676	1,660	1,716	1,794	(16)	134
Housing Preservation		785	775	766	786	(10)	11
Department of Education		**104,644**	**101,889**	**104,861**	**105,061**	**(2,745)**	**3,162**
	Pedagogues	93,022	90,604	94,083	94,245	(2,418)	3,641
	Non-Pedagogues	11,622	11,295	10,778	10,816	(327)	(479)
City University of New York		**6,288**	**6,175**	**6,388**	**6,212**	**(113)**	**37**
	Pedagogues	4,545	4,460	4,441	4,441	(85)	(19)
	Non-Pedagogues	1,743	1,715	1,947	1,771	(28)	56
Elected Officials		**2,340**	**2,284**	**2,458**	**2,384**	**(56)**	**100**
Hiring & Attrition Mgmt.		**- - -**	**- - -**	**- - -**	**(4,937)**	**- - -**	**(4,937)**
Total		**251,985**	**246,046**	**247,429**	**245,066**	**(5,939)**	**(980)**

Note: City-funded staffing only. Excludes positions funded entirely with federal and State categorical grants.

Sources: NYC Office of Management and Budget; OSC analysis

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