Review of the Financial Plan of the City of New York

Report 6-2022

OFFICE OF THE NEW YORK STATE COMPTROLLER

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August 2021

Message from the Comptroller

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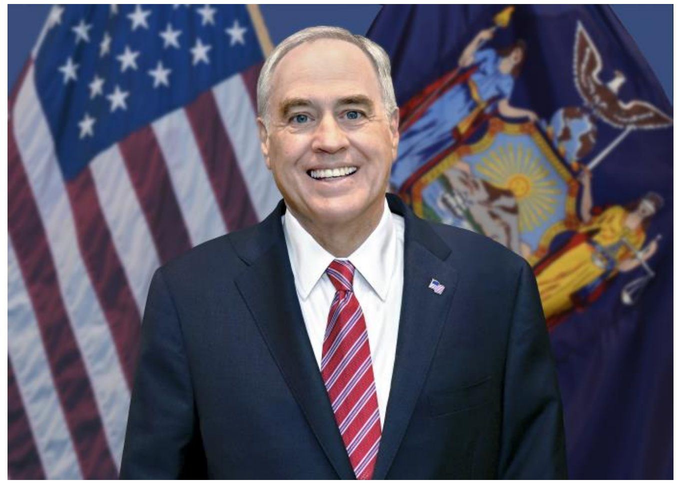

Since March 2020, New York City has grappled with a catastrophic public health crisis along with multiple economic and social disruptions arising from the COVID-19 pandemic. The pandemic remains a threat to our health and our economy, but a drastic decline in case and hospitalization numbers from the highs experienced in January, and the administration of more than 10 million vaccine doses in the City, signify valuable progress toward a return to normality.

More than a year after the initial devastation in New York City, hope is building. The economy is recovering as capacity limitations are rolled back, federal relief and stimulus funds make their way to families, business and governments, and the City continues to regain jobs and attract visitors and commuters. The road back will take time, however, and will include challenges along the way.

In 2020, I joined in the calls for federal relief to provide a "fiscal bridge" to ensure that New York City could manage the short-term costs of the pandemic and to spur renewed economic activity to revive revenues. More than $20 billion in federal relief has made its way to City coffers since March 2020, representing a massive and necessary boost to City finances. The prudent use of these funds, in addition to management of better-than-projected City revenues, will dictate the shape of its fiscal recovery.

The City's adopted budget for fiscal year 2022 suggests that the City will focus on the maintenance and expansion of services, particularly for education, to aid recovery while making investments to encourage economic growth, with the hope that revenues will continue to increase and allow the City to return to structural balance.

City budget gaps have narrowed only slightly since January, even with federal relief and better-than-projected City revenues, and long-term risks could widen those gaps. The City must be careful to balance the benefits of expanding services now with the need to continue providing high-quality services in the future. Setting aside resources to address unexpected challenges, including new spending obligations, will help keep the City attractive to residents and create economic opportunity for all.

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

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

On June 30, 2021, New York City adopted its $98.7 billion budget for fiscal year (FY) 2022 ("the June Plan"; see Figure 1). Excluding federal aid, the City will fund about $2 billion more in spending than was planned in its proposed executive budget in April ("the April Plan"), after adjusting for surplus transfers and money set aside for reserves. This is significantly higher than traditional spending increases at this point in the fiscal year. The budgetary choices made since April highlight the delicate balance between using short-term good fortune to enhance services now, while managing the risks posed by long-term economic and fiscal uncertainties.

The April Plan had already proposed increasing FY 2022 planned spending by $6.3 billion from levels anticipated in the January 2021 preliminary budget, funded mostly through an allocation of $15.2 billion in one-time federal relief. In response to the proposal, the Office of the State Comptroller (OSC) encouraged the use of federal relief for one-time recovery initiatives, avoiding new recurring spending without identifying commensurate resources, and leveraging positive operating results to build reserves in order to remain flexible in a time of continuing economic uncertainty for the City.

The adopted June Plan, however, continues and cements the trend outlined in the proposed April Plan. Stronger-than-projected year-end operating results, most of which have been fueled by extraordinary one-time relief for governments and taxpayers (both businesses and individuals) alike, will mostly be used to fund new spending, with a smaller portion set aside for reserves. While the City has deposited $500 million into its Revenue Stabilization Fund, agency expenditures have increased by nearly $1.5 billion, more than half of which is spending for new needs ($466 million) and the temporary restoration of planned cuts to expenditures in various savings initiatives ($315 million). The City has also set aside $450 million for judgments and claims costs, a precautionary step that underscores the risks to City spending from unanticipated effects of the pandemic.

In sum, City-funded spending will grow by 7.9 percent (excluding reserves) to reach $72.6 billion. The growth rate is projected to slow to 2.5 percent in the out-years, but City-funded spending will still grow to $78.3 billion by FY 2025 (excluding reserves and labor savings) and does not include out-year funding for new recovery programs that may be difficult to let expire. The choice of continuing or ending these programs will fall to the next administration and the City Council, as they consider their own initiatives to boost an equitable recovery and manage shifting demands for services.

The fact that new spending in FY 2022 outstrips additions to reserves since April is a concern. Even as revenues have outperformed all expectations over the past six months, budgetary gaps remain stubborn at about $4 billion per year beginning in FY 2023 (see Figure 2). Moreover, budget gaps may also be subject to more volatility in the years following the pandemic.

The City's economic recovery remains fragile. Although recent tourism figures exceed expectations and more than 60 percent of office workers are expected to return to workplaces by September, new COVID-19 variants threaten further disruption, and commercial real estate markets remain sluggish. Better-than-projected personal income tax revenues and lower pension expenses, which have been fueled by strong market returns in FY 2021 and which OSC anticipates will offset future budget risks, are also not guaranteed going forward; any changes in those trends could be a source of volatility.

Further spending volatility is also possible.

The City currently assumes productivity gains will fully offset negotiated labor salary increases in the first two years of the next round of collective bargaining. Coupled with a target of $1 billion in labor savings beginning in FY 2023, the City faces significant risks to its budget that require the agreement of organized labor at a time when workers have had to adapt to a changing environment during the pandemic, including a recent increase in prices that could linger.

Despite receiving $8 billion in federal aid for education, education related risks still exceed $600 million in FY 2023, and near $1 billion in FY 2025. Other perennial risks, including overtime and funding for MTA, also remain in the outyears.

In order to achieve long-term structural balance, the City should renew efforts to add to reserves, identify cost efficiencies and improve revenue collections. Taking these actions now, in anticipation of the November budget modification, should help mitigate future uncertainties and enable the City to avoid more difficult decisions down the road.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2022	FY 2023	FY 2024	FY 2025
Revenues				
Taxes				
General Property Tax	$ 29,284	$ 30,042	$ 30,471	$ 30,881
Other Taxes	32,151	34,674	36,372	37,833
Tax Audit Revenue	921	721	721	721
Subtotal: Taxes	$ 62,356	$ 65,437	$ 67,564	$ 69,435
Miscellaneous Revenues	6,873	6,472	6,461	6,474
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,891)	(1,440)	(1,439)	(1,434)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 67,323	$ 70,454	$ 72,571	$ 74,460
Other Categorical Grants	1,025	993	991	990
Inter-Fund Revenues	725	725	725	725
Federal Categorical Grants	13,697	9,244	8,603	7,908
State Categorical Grants	15,953	16,308	16,626	16,877
Total Revenues	**$ 98,723**	**$ 97,724**	**$ 99,516**	**$ 100,960**
Expenditures				
Personal Service				
Salaries and Wages	$ 31,423	$ 30,811	$ 30,946	$ 31,228
Pensions	10,037	10,469	10,660	10,597
Fringe Benefits	12,377	11,839	12,933	13,890
Subtotal: Personal Service	$ 53,837	$ 53,119	$ 54,539	$ 55,715
Other Than Personal Service				
Medical Assistance	6,546	6,494	6,494	6,494
Public Assistance	1,651	1,650	1,650	1,650
All Other	36,858	32,311	32,070	32,001
Subtotal: Other Than Personal Service	$ 45,055	$ 40,455	$ 40,214	$ 40,145
Debt Service	7,029	8,391	8,789	9,353
FY 2020 Budget Stabilization	- - -	- - -	- - -	- - -
FY 2021 Budget Stabilization & Discretionary Transfers	(6,107)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	250	250	250
General Reserve	300	1,000	1,000	1,000
Deposit to the Revenue Stabilization (Rainy-Day) Fund	500	- - -	- - -	- - -
Less: Intra-City Expenses	(1,891)	(1,440)	(1,439)	(1,434)
Total Expenditures	**$ 98,723**	**$ 101,775**	**$ 103,353**	**$ 105,029**
Gap to be Closed	**$ - - -**	**$ (4,051)**	**$ (3,837)**	**$ (4,069)**

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	**$ - - -**	**$ - - -**	**$ (4,051)**	**$ (3,837)**	**$ (4,069)**
Tax Revenues[1]	53	395	276	106	107
Pension Contributions	- - -	- - -	711	1,423	2,134
Charter Tuition	- - -		(282)	(433)	(625)
Carter Cases	- - -	- - -	(220)	(220)	(220)
Student Transportation	- - -	(108)	(108)	(108)	(108)
Uniformed Agency Overtime	- - -	(340)	(310)	(310)	(310)
Debt Service	- - -	50	150	- - -	- - -
TFA Building Aid Revenue Bond Refunding	---	13	74	74	74
MTA Paratransit Funding	- - -	(79)	(110)	(129)	(150)
Subsidy to MTA Bus		193	(72)	(106)	(131)
DHS Single-Adult Shelters	- - -	(147)	(147)	(147)	(147)
Rental Assistance			(200)	(200)	(200)
Fair Fares NYC	- - -	- - -	(49)	(59)	(66)
DHS Prevailing Wage Security Guards	- - -	- - -	(41)	(41)	(41)
Labor Savings[2]	- - -	- - -	(1,000)	(1,000)	(1,000)
OSC Risk Assessment	**53**	**(23)**	**(1,328)**	**(1,150)**	**(683)**
Potential Gaps Per OSC[3,4]	**$ 53**	**$ (23)**	**$ (5,379)**	**$ (4,987)**	**$ (4,752)**

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

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

3 The June Plan includes a general reserve of $20 million in FY 2021, $300 million in FY 2022 and $1 billion in each of fiscal years 2023 through 2025. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2023 through 2025. The June Plan also includes reserves of $200 million in FY 2022 and $275 million beginning in FY 2023 to fund potential changes to planned pension contributions from future actuarial audit recommendations. The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, had a balance of $3.8 billion as of the end of FY 2020.

4 State law requires surplus resources accumulated by the City to be deposited into a rainy-day fund (i.e., the Revenue Stabilization Fund). The June Plan assumes the City will deposit $500 million into the fund in FY 2022, increasing the balance to $993 million. These resources would be available to help balance the budget if there were a compelling fiscal need.

II. The COVID-19 Pandemic in New York City

More than one year after COVID-19 was declared a pandemic, the Governor ended the New York State disaster emergency on June 24, 2021, and New York City has reopened as the number of new cases falls and vaccines are made widely available.

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

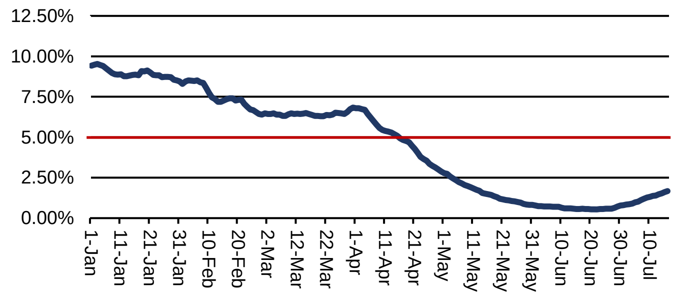
By August 2, 2021, over 10 million doses had been administered in New York City and nearly 4.6 million City residents (55 percent) had been fully vaccinated, according to City data. Vaccination rates vary by race and ethnicity, however. Rates for Black or African American residents (31 percent), Latino or Hispanic residents (42 percent), and White residents (46 percent) remain behind the overall citywide vaccination rate.

The number of COVID-19 cases and the positivity rate in the City had been declining as more people in the City became vaccinated, but cases and positivity rates have started to slowly increase in recent weeks. According to City data, the 7-day average of people who tested positive for COVID-19 each day was 0.54 percent on June 22, 2021 and increased to 1.7 percent on July 16, 2021. The average has remained below the City's target 7-day positivity rate of 5 percent since April 16, 2021 (see Figure 3). In addition, hospitalization rates for people with COVID-19 have stayed below target numbers in the City.

The State closed a large vaccine hub at the Jacob Javits center on July 9, 2021, as positivity rates slowed. The State and the City are now focusing vaccination efforts to reach communities with low vaccination rates, and the City offers in-home vaccinations to all eligible

FIGURE 3

New York City 7-day Average COVID-19 Positivity Rate



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

residents. The three ZIP codes with the lowest rates of vaccinations are located in neighborhoods in Edgemere and Far Rockaway in Queens, and Bedford-Stuyvesant and Ocean Hill-Brownsville, Flatlands and Midwood in Brooklyn.

On June 15, 2021, when 70 percent of adult New York State residents had received at least one dose of a COVID-19 vaccine (based on CDC data), the Governor lifted most COVID-19 restrictions. Mask requirements are lifted for everyone except in certain settings such as public transportation, health care facilities, schools, homeless shelters and correctional facilities.

Capacity limits remain in place for large-scale indoor and outdoor venues. All indoor and outdoor dining curfews were eliminated, and in July the Governor signed legislation extending outdoor dining in public spaces for another year.

Public schools plan to return to in-person learning in the fall, and Broadway shows are scheduled to return in September. Normal pre-pandemic activity has started to increase as businesses have opened, and tourists are returning to the City. While these are all encouraging signs, the City must remain vigilant to manage any further outbreaks of the virus.

III. Economic Trends

The U.S. economic outlook continues to strengthen, and the Federal Reserve revised its U.S. gross domestic product (GDP) forecast for all of 2021 to 7 percent in June, up from 6.5 percent in March. However, the out-year forecasts remain mostly unchanged (3.3 percent for 2022 and 2.4 percent for 2023). After an extraordinary level of monetary and fiscal stimuli, full reopenings in states, and with most major corporations requiring some level of in-office presence by September, economic prospects have continued to improve. The potential of further fiscal stimulus (i.e., the federal infrastructure bill) would provide an additional boost. The advance estimate for GDP growth in the second quarter was 6.5 percent, below most economic forecasts.

The City does not update economic forecasts for its June financial plans. However, IHS Markit's latest growth forecast (in June) for New York State's 2021 gross state product was revised higher to 6.3 percent (up from 5.8 percent in May), and is the highest on record since the data series began in 1991. Similarly, IHS also raised the New York City metropolitan area's gross metro product (GMP) growth rate to 7 percent from 6.6 percent in May, also projected to be the highest since 1991. However, for 2022, IHS maintained its prior GMP forecast of 5.5 percent growth and adjusted its out-year (2023-2025) forecasts slightly lower, to an annual average of 2 percent.

Job growth has begun to pick up at the national level as nearly 3.3 million jobs were added in the first half of 2021, with 850,000 jobs added in June, the strongest monthly job gain since August 2020. However, employment remains 6.8 million jobs below the pre-pandemic peak in February 2020.

New York State added 172,900 jobs in the first half of 2021, and employment remains 938,900 jobs below the level in February 2020. New York City added 114,700 jobs in the first half of this year, and employment is 534,600 jobs below pre-pandemic levels. Compared to the State and the nation, the City has the widest gap in employment between June 2021 and February 2020 (see Figure 4).

FIGURE 4

Pandemic Employment Gap

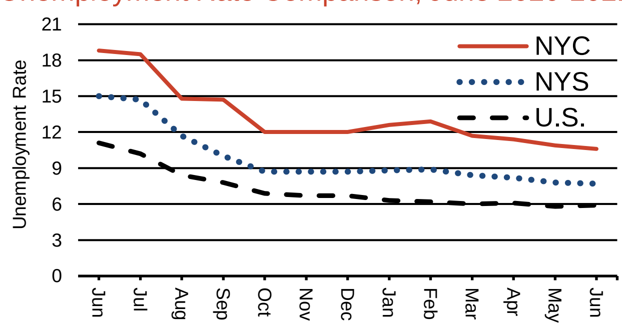
	Employment Levels in June 2021 Compared to February 2020
U.S.	(4.4%)
New York State	(9.5%)
New York City	(11.4%)

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

The City's unemployment rate reached its post-pandemic low in June at 10.6 percent (down from the peak of 20.0 percent in May 2020), still significantly above the rates for the State (7.7 percent) and nation (5.9 percent; see Figure 5).

FIGURE 5

Unemployment Rate Comparison, June 2020-2021



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

Further sustained economic progress is contingent upon the return of office workers and tourists, particularly international and business tourists. According to a June survey by the Partnership for New York City, 62 percent of office employees are expected to return by September (most for three days a week), up from an estimate of 45 percent in March.

The reduction of in-office staff during the pandemic has severely impacted the commercial real estate market. Office vacancy rates have risen for five consecutive quarters, and at the end of the second quarter of 2021 reached 18.7 percent, the highest since the 1970s. Furthermore, according to CBRE Group (a real estate service), a third of leases at large Manhattan buildings will be expiring over the next three years and companies will be reevaluating their office space needs. Additionally, with a significant amount of office space under construction, the commercial real estate market recovery is likely to be protracted.

A recent OSC report highlighted the importance of international and business tourists to the City's economy.[5] Latest forecasts from Tourism Economics continue to indicate that international visitor spending will reach pre-pandemic levels in 2025. Leading indicators for business travel (based on Google search trends) also remain significantly below 2019 levels. The reduction in travel and tourism has severely impacted the City's hotel industry, which, according to the American Hotel & Lodging Association, is in a depression, with revenue per available rooms down 67 percent (as of May) compared to pre-pandemic levels.

One of the sectors that has fared well during the pandemic is the securities industry. After posting the second-highest quarterly results on record, preliminary second-quarter results from the largest six financial institutions indicate continued strength. However, market volatility has increased in response to fears of persistent (nontransitory) inflation and declining future economic growth. While near-term economic growth remains strong, the outlook is for slower growth in coming years with increasing uncertainty.

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

IV. Changes Since the April 2021 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. As noted in OSC's previous report on the City's April Plan, the City's short-term financial outlook greatly improved in the 10 months since July 1, 2020, driven by substantial unanticipated resources, mostly from the receipt of more than $15 billion in additional federal pandemic relief over the next five years, an increase in the nonproperty tax revenue forecast and resources from a citywide savings program

Since the release of the April Plan, the City's short-term financial condition has continued to improve from higher revenues, reflecting continued strength in personal income and business tax collections in FY 2021 ($2.1 billion; see Figure 6). The City ended FY 2021 with an estimated surplus of $6.1 billion, nearly $2.5 billion more than was anticipated in the April Plan and the highest surplus transfer on record.

These resources permitted the City to deposit $500 million in its newly established rainy-day fund, doubling the balance to $1 billion. The City also maintained a general reserve of $300 million in FY 2022. In total, the City's reserves now stand at $5.1 billion when including the balance of 3.8 billion held in the Retiree Health Benefits Trust, higher than those recorded at the beginning of FY 2021 but still lower than prior to the pandemic.

The City funded a number of City Council initiatives in FY 2022 ($516 million), which the June Plan assumes will not recur. The City has also raised its forecast for other spending by nearly $1.5 billion in FY 2022, which is substantially larger than when compared to prior years at this point in the budget cycle (excluding one-time adjustments for collective bargaining). The June Plan assumes that nearly all this increase to planned spending in FY 2022 will be nonrecurring. More than three-quarters of the increase would be used to fund a number of new agency needs ($466 million); make anticipated payouts for judgments and claims against the City ($450 million); and restore a number of savings initiatives ($315 million, nearly all of which would come from a one-time restoration of the "two for one" hiring-and-attrition initiative).

The City also reduced its forecast of planned pension contributions in fiscal years 2021 and 2022 (by $37 million and $226 million, respectively), reflecting the City Actuary's latest valuation update and revised assumptions. The City deferred $452 million in supplemental Medicaid payments to NYC Health + Hospitals from FY 2021 to FY 2022. These payments await federal approval, but the cost in FY 2022 was mostly offset by savings in that year attributed to a temporary increase in federal funding for Medicaid during the public health emergency as well as other savings and adjustments, for a net increase of $128 million in that year.

Since July 1, 2021, the City has maintained budget balance in FY 2021 and balanced the budget for FY 2022. Despite higher-than-planned City fund revenues and the receipt of additional federal aid to offset significant costs and recovery efforts associated with the public health emergency, however, the City's out-year budget gaps have grown since the beginning of FY 2021 (by $1 billion in FY 2023 and $655 million in FY 2024, to $4.1 billion and $3.8 billion, respectively; for more detail, see Appendix A).

The City has managed gaps of this magnitude before, but the gaps assume the receipt of $1 billion annually in unspecified annual labor savings beginning in FY 2023 and that wage increases in the first two years of the next round of collective bargaining will be funded through productivity improvements. These assumptions require the cooperation of the City's municipal unions to be realized.

Additionally, the City funded nearly $2.3 billion in new agency needs and savings program restorations in FY 2022 since July 1, 2020, and much smaller amounts in subsequent years, creating a potential fiscal cliff in the out-years until alternative sources of funding are identified. While the June Plan assumes these costs are largely nonrecurring or will wind down sharply over the financial plan period after FY 2022, some or all of the temporary service enhancements may be appealing to the public. As a result, the costs of these services may exceed the City's current expectations.

The out-year gaps, as a share of City fund revenues, now average 5.5 percent, less than in other post-recession years but the highest level since FY 2014. Nevertheless, the budgets for these years include a general reserve and capital stabilization reserve totaling $1.25 billion. If the reserves are not needed for other purposes, they could be used to narrow the projected gaps to an annual average of 3.8 percent.

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

	Better/(Worse)			
	FY 2021	**FY 2022**	**FY 2023**	**FY 2024**
Projected Gaps Per April 2021 Plan	**$ - - -**	**$ - - -**	**$ (3,905)**	**$ (3,700)**
Updated Tax Estimates				
Personal Income	1,634	- - -	- - -	- - -
Business Taxes	439			
Subtotal	**2,073**	**- - -**	**- - -**	**- - -**
Other Revenue Reestimates	**(6)**	**- - -**	**2**	**2**
Total Revenue Reestimates	**2,067**	**- - -**	**2**	**2**
Reserves				
General Reserve	30	- - -	- - -	- - -
Deposit into Rainy-Day Fund	- - -	(500)	- - -	- - -
Subtotal	**30**	**(500)**	**- - -**	**- - -**
City Council Initiatives	**- - -**	**(516)**	**- - -**	**- - -**
New Spending and Updated Estimates				
New Agency Needs	(467)	(466)	(95)	(90)
Judgments and Claims	- - -	(450)	- - -	- - -
Restoration of Savings Program Initiatives	- - -	(315)	(38)	(39)
Medicaid	475	(128)	- - -	- - -
Rollover of FY 2021 Expenditures	114	(104)	(7)	(1)
Pension Contributions	37	226	- - -	- - -
All Other	223	(228)	(9)	(9)
Subtotal	**382**	**(1,464)**	**(149)**	**(139)**
Net Change	**2,480**	**(2,480)**	**(147)**	**(137)**
Gaps to Be Closed Before Prepayment	**$ 2,480**	**$ (2,480)**	**$ (4,052)**	**$ (3,837)**
FY 2021 Prepayment of FY 2022 Expenses	(2,480)	2,480	- - -	- - -
Gaps to Be Closed Per June 2021 Plan	**$ - - -**	**$ - - -**	**$ (4,052)**	**$ (3,837)**

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

V. State and Federal Actions

Impact of the State Budget

New York State completed action on the enacted budget for State fiscal year (SFY) 2022, which began on April 1, 2021. The State's enacted budget has an adverse impact of $300 million on the City in FY 2022, which is more than offset by additional federal aid for schools, for a net financial plan benefit of $2.7 billion that year (see Figure 7). For more detail on the changes between the State's executive and enacted budgets, see OSC's report on the City's April Plan.

The enacted budget provides $11.9 billion in State-funded school aid to the City in FY 2022, which is $300 million less than the City had anticipated in the January 2021 financial plan but $46 million more than assumed in the June Plan.

The State has also allocated to the City its share of federal relief for schools received since December 2020, which the June Plan assumes will total nearly $7 billion through FY 2025.

In addition, the enacted budget includes a plan to fully phase in its foundation aid formula by FY 2024, which, if realized under current law, would be consistent with school aid funding assumed in the June Plan and thus eliminate the risk of a potential shortfall through FY 2024.

Federal Assistance

OSC's report on the April Plan noted that the City reflected the anticipated receipt of an additional $15.2 billion in federal pandemic aid since the January Plan. The additional funding incorporated estimated relief provided under the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA) signed into law in December 2020, the American Rescue Plan Act of 2021 (ARP) signed into law in March 2021, as well as the benefit of administrative actions (such as the President issuing an executive order that increased FEMA reimbursement to 100 percent through September 2021, relieving states and localities of the local match requirement of 25 percent through this period).

The June Plan incorporates a relatively small number of technical adjustments since then. In total, when combined with federal pandemic relief reflected in the City's financial plan prior to the April Plan, the City anticipates the receipt of $19.8 billion over the five years (see Figure 8, next page), a historic level of federal support in response to extraordinary events.

The June Plan assumes that three-quarters of the five-year cumulative value of federal pandemic aid (75 percent, or $14.9 billion) will be used by the end of FY 2022, mostly to address short-term preparedness and response to the pandemic (including testing, tracing and vaccinations, housing assistance, and nutrition assistance), and targeted investments in recovery efforts (such as various operational and educational supports to address learning loss in schools). The City also used a portion of the funding to rescind the need for labor savings

FIGURE 7

OSC Assessment of Enacted Budget Compared to the January Plan

(City funds in millions)

Better/(Worse)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State-Funded School Aid	**$ - - -**	**$ (300)**	**$ - - -**	**$ - - -**	**$ - - -**
Distribution of Federal Aid (CRRSA and ARP)	265	3,018	1,772	1,384	530
Net Budgetary Impact to NYC	**265**	**2,718**	**1,772**	**1,384**	**530**

Note: CRRSA is the Coronavirus Response and Relief Supplemental Appropriations Act; ARP is the American Rescue Plan Act.

Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 8
Federal Relief for COVID-19, Fiscal Years 2021 through 2025
(in millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Sources of Funding						
Education Aid	$ 1,071	$ 3,183	$ 1,849	$ 1,384	$ 530	$ 8,017
Fiscal Relief Funds	2,521	3,114	288	226	452	6,600
FEMA Reimbursement	3,275	2	- - -	- - -	- - -	3,277
Public Health Grants	1,086	332	160	61	- - -	1,639
Other	310	1	- - -	- - -	- - -	311
Total Sources	**$ 8,263**	**$ 6,633**	**$ 2,296**	**$ 1,671**	**$ 982**	**$19,845**
Uses of Funding by Program Area						
Department of Education	1,021	3,152	1,777	1,389	726	8,065
Public Health	2,464	556	220	125	57	3,422
Social Services	1,331	482	144	90	140	2,187
Uniformed, Public Safety & Judicial	1,273	779	9	9	5	2,074
Centrally Administered Costs	840	1,133	7	7	7	1,992
General Government & Other	1,335	531	140	52	48	2,124
Total Uses	**$ 8,263**	**$ 6,633**	**$ 2,296**	**$ 1,671**	**$ 982**	**$19,845**

Note: Totals may not add due to rounding. Centrally administered costs include fringe benefits, legal and contractual obligations.

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

over two years through FY 2022 and to reimburse the City for higher-than-planned personnel expenses attributed to the pandemic.

Over the five-year financial plan period, more than two-thirds of the cumulative funding (69 percent, or $13.7 billion) will be devoted to education, public health and social services.

While almost all of the spending on preparedness and response efforts is not expected to recur beyond FY 2022, and spending on recovery efforts will wind down quickly after that fiscal year ends, the City has also incorporated a number of planned service expansions, including of prekindergarten services for three-year-olds, mental health services, and supports for low-income households. Funding for these programs (which are estimated to exceed $1 billion annually once fully phased in) are expected to recur beyond FY 2025, when the federal aid is projected to be exhausted.

The City has not yet identified any alternative recurring resources to fund the cost of these service expansions beyond the financial plan period, creating some budgetary uncertainty.

In addition, the investments in other recovery efforts (such as supports for learning loss) are assumed to be temporary, but may become popular among the public. Spending on these programs could exceed the City's current expectations.

Congress is considering a package of spending bills to complete action on the federal fiscal year 2022 budget, which begins on October 1, 2021. Congress is also considering legislation to implement the President's remaining two proposals under his three-part Build Back Better agenda, the American Jobs Plan and the American Families Plan. Recently, the Senate reached a bipartisan agreement on legislation to provide $1 trillion for rebuilding the nation's infrastructure, including transportation (highways, bridges, rail and ports) and utilities (power, water and broadband Internet). This legislation includes $550 billion in new spending over five years beyond the base funding called for under a reauthorization of the Fixing America's Surface Transportation Act.

The State, the City and public authorities could benefit substantially from such increased funding, including at least $10.7 billion in transit funding to the Metropolitan Transportation Authority. The legislation would also provide significant funding for various megaprojects in the region, such as the planned expansion and renovation of the northeast corridor rail line between Newark and the City (i.e., the Gateway Program), and for airport improvements. OSC is reviewing the legislation to fully quantify its impact on New Yorkers.

VI. Citywide Savings Program

In a review of the April Plan, OSC reported on a citywide savings program that would total $3.9 billion over fiscal years 2021 and 2022. After expansions of the program earlier in the year, savings decreased by $235 million in the June Plan. The program is now expected to generate savings of $3.8 billion over fiscal years 2021 and 2022, with more than half that amount to come from debt service in those years ($2 billion; see Figure 9).

In the June Plan, the City identified $195 million in additional savings across fiscal years 2021 and 2022, with 40 percent coming from debt service ($79 million) and another $60 million in Medicaid savings at the Department of Social Services. However, restorations more than offset the new savings, with $315 million in FY 2022, largely from a planned one-year delay in implementing a hiring-and-attrition management savings initiative.

The City introduced the hiring-and-attrition management initiative in January, which would require three civilian position separations from service for each hire, or a three-for-one hiring restriction. The general citywide initiative was designed to eliminate 4,937 civilian positions and save $262 million in FY 2022, growing to an average of $357 million annually in FY 2023. The April Plan partially restored the initiative with federal funds, modifying it to a two-for-one ratio.

In the June Plan, the City rescinded the partial restoration and instead restored the entirety of the citywide savings initiative in FY 2022 ($292 million), and an average of $38 million annually in FY 2023 with City tax levy funds. The City partially offset the restoration with $30 million in savings allocated to the agencies (for a net budgetary cost of $262 million in that year). In addition, the June Plan makes a number of much

FIGURE 9
Citywide Savings Program
(in millions)

	Positions	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
April Plan Savings	**(5,658)**	**$ 1,916**	**$ 1,977**	**$ 1,011**	**$ 1,070**	**$ 1,126**	**$ 7,100**
Agency Actions							
Agency Actions	**(536)**	26	90	- - -	- - -	- - -	117
Restorations	4,452	- - -	(315)	(37)	(38)	(38)	(428)
Agencies Subtotal	**3,916**	**26**	**(225)**	**(37)**	**(38)**	**(38)**	**(312)**
Debt Service	**- - -**	**20**	**59**	**- - -**	**(1)**	**(1)**	**77**
June Plan Savings	**3,916**	**46**	**(166)**	**(37)**	**(39)**	**(39)**	**(235)**
Savings Total	**(1,742)**	**1,962**	**1,811**	**974**	**1,031**	**1,086**	**6,865**
Citywide Savings Program							
Efficiencies	(1,187)	143	264	422	427	433	1,689
Expense Reestimates	(24)	439	424	255	272	257	1,647
Revenue Reestimates	(7)	136	80	1	1	1	220
Service Reductions	(524)	25	94	2	2	2	125
Agencies Subtotal	**(1,742)**	**743**	**861**	**680**	**702**	**694**	**3,680**
Debt Service	**- - -**	**1,007**	**950**	**294**	**329**	**393**	**2,972**
Health + Hospitals	**- - -**	**212**	**- - -**	**- - -**	**- - -**	**- - -**	**212**
Savings Total	**(1,742)**	**$ 1,962**	**$ 1,811**	**$ 974**	**$ 1,031**	**$ 1,086**	**$ 6,865**

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

smaller restorations totaling $23 million in FY 2022, with virtually nothing in subsequent years.

The mayoral agencies will now contribute savings of $743 million in FY 2021, $861 million in FY 2022 and an average of $692 million in each subsequent year. Efficiencies will only generate $407 million over fiscal years 2021 and 2022, but will increase to an average of $428 million annually beginning in FY 2023, mostly from the hiring-and-attrition management initiative.

Savings from revenue and expense reestimates average more than $500 million in each of fiscal years 2021 and 2022, but decline to about half that amount in subsequent years. The largest adjustments include uniformed overtime savings at the Police Department and the Department of Correction, a reestimate of citywide energy costs, and the elimination of a reserve to offset the impact of inflation on certain administrative costs. OSC projects that the overtime savings may not be realized (for more detail, see the discussion of Uniformed Agency Overtime in Section VIII, “Expenditure Trends”).

Savings from debt service since the beginning of the fiscal year now total $3 billion over the financial plan period, and remain the largest component of the program (43 percent of total savings). These savings mostly arise from refinancing bonds at lower interest rates and from lower costs associated with variable-rate debt. The City is also recognizing an additional $212 million in savings in FY 2021 from a debt service reimbursement from NYC Health + Hospitals, although the City has not yet received this payment.

While savings from debt service have been useful in closing budget gaps, they are reliant on favorable conditions in debt markets. The State Comptroller urges that the City find additional recurring efficiency savings and continue to adjust programmatic spending based on need. In addition, the City has still not identified the source of $1 billion in recurring but unspecified fringe benefit savings beginning in FY 2023, which will require the cooperation of the municipal unions to achieve. Although not part of the savings plan, the State Comptroller considers this a significant risk to the City’s financial plan.

VII. Revenue Trends

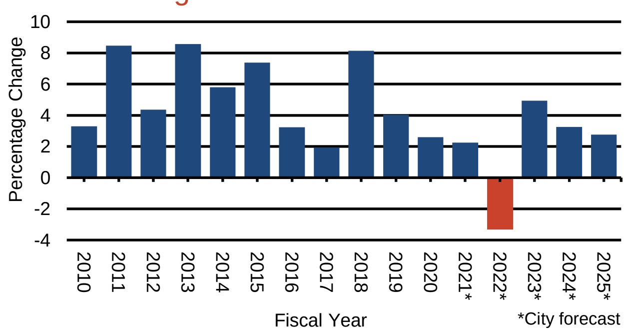
The June Plan makes minor revenue adjustments from the April Plan for FY 2022 through FY 2025. For FY 2021, however, the City adjusts revenue forecasts upward by $2.1 billion based on better-than-expected personal income tax ($1.6 billion) and general corporate tax collections ($439 million).

Total revenues, including federal and State categorical aid, are expected to total $98.7 billion in FY 2022, down 4.2 percent from a record $103.1 billion in FY 2021 (which was boosted by federal stimulus funds), but slightly higher than the April Plan forecast.

Locally generated revenues (i.e., City funds) account for more than 68 percent of total revenues, or $67.3 billion for FY 2022. Tax collections account for most City-funded revenues (93 percent), totaling $62.4 million.

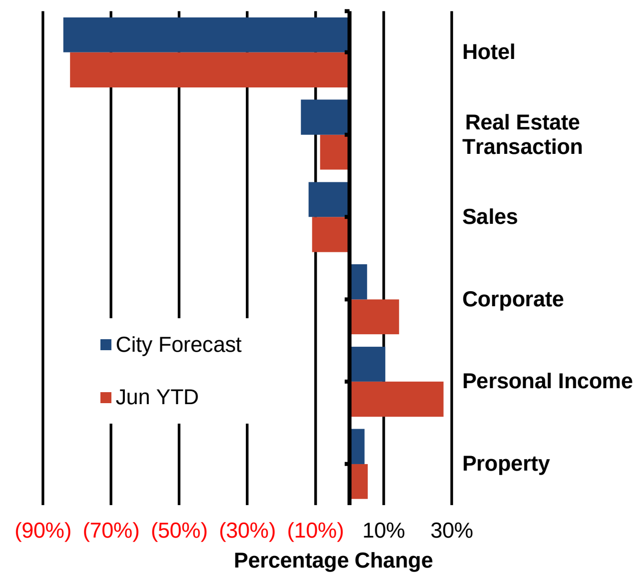
Tax collections are expected to grow at an average annual rate of 3.6 percent during fiscal years 2022 to 2025 (see Figure 10), slower than the average annual growth rate of 5.7 percent over the past 40 years).

FIGURE 10
Annual Change in Tax Revenues



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

FIGURE 11
Change in Tax Revenues, July-May FY 2021



Sources: NYC Office of Management and Budget; OSC analysis

Through the first 12 months of FY 2021, total tax collections were up 7.1 percent compared to the same period in the prior year and higher than the full fiscal year City estimate of 2.2 percent. The primary driver for the upside is personal income tax revenue (see Figure 11).

Although the City does not expect property taxes to recover to pre-pandemic levels during the financial plan period, it expects nonproperty taxes to recover by FY 2023.

The June Plan is based on the trends shown in Figure 12 and discussed below.

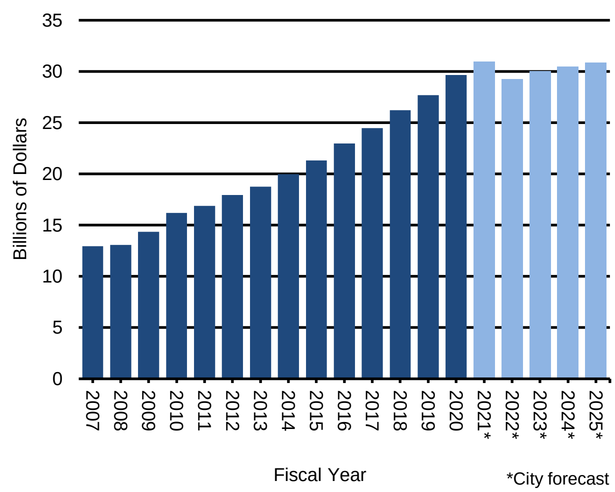
General Property Tax

The June Plan makes minor changes to the forecast for property tax collections, the City's largest and most stable source of tax revenue. Collections in FY 2022 will fall to $29.3 billion, a decrease of 5.4 percent from FY 2021 (see Figure 13). This is a reduction of $87 million compared to the [April Plan forecast](). The final FY 2022 assessment roll released in May showed a larger-than-anticipated decrease of 5.2 percent from FY 2021 in the total taxable value of property, fueled by changes in commercial property (Class 4) valuations. No adjustments were made to the out-year forecasts in the April Plan.

Property tax revenues are expected to return to growth in FY 2023, albeit at a slower pace than in the years before the pandemic. The City expects collections to grow at an annual average rate of 1.8 percent for fiscal years 2023 through 2025, down from a rate of 6.1 percent for fiscal years 2017 through 2021.

Recognizing the inequality of the City's property tax system, the Mayor and the City Council Speaker continue to support the Advisory Commission on Property Tax Reform created in 2018. Designed to create a clearer and fairer system, the commission is mandated to ensure that there will be no impact to the revenue used to fund essential City services. The commission resumed its public hearings in May 2021.

FIGURE 13
Property Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 12
Trends in City Fund Revenues
(in millions)

	FY 2021	FY 2022	Annual Growth	FY 2023	FY 2024	FY 2025	Average Three-Year Growth Rate
General Property Tax	$ 30,954	$ 29,284	-5.4%	$ 30,042	$ 30,471	$ 30,881	1.8%
Personal Income Tax	14,978	13,827	-7.7%	14,728	15,280	15,849	4.7%
Sales Tax	6,484	7,423	14.5%	8,339	8,992	9,501	8.6%
Business Taxes	6,783	6,383	-5.9%	6,713	6,882	6,996	3.1%
Real Estate Transaction Taxes	1,808	2,049	13.3%	2,254	2,380	2,508	7.0%
Other Taxes	2,327	2,469	6.1%	2,640	2,838	2,979	6.5%
Tax Audits	1,171	921	-21.3%	721	721	721	-7.8%
Subtotal: Taxes	**64,505**	**62,356**	**-3.3%**	**65,437**	**67,564**	**69,435**	**3.6%**
Miscellaneous Revenues	5,142	4,982	-3.1%	5,032	5,022	5,040	0.4%
Unrestricted Intergov. Aid	1	- - -	N/A	- - -	- - -	- - -	0.0%
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**69,633**	**67,323**	**-3.3%**	**70,454**	**72,571**	**74,460**	**3.4%**

Sources: NYC Office of Management and Budget; OSC analysis

Personal Income Tax

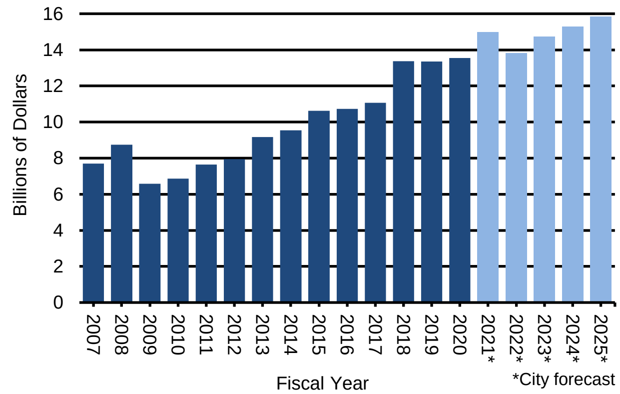
The June Plan estimates that personal income tax collections, the City's second-largest source of tax revenue, will total a record high of $15 billion in FY 2021, 10.5 percent higher than in FY 2020 (see Figure 14). Continuing a yearlong trend, collections have been stronger than expected. Collections were $1.6 billion more than the April Plan's forecast as the impact on income from the pandemic-induced recession was not as severe as anticipated.

Most of the growth in FY 2021 was due to a 36.1 percent increase in estimated payments, the component of the tax based on nonwage income. Payments totaled a record high of $4.2 billion, $1.3 billion more than the April Plan expected. This increase is most likely due to the record highs in the stock markets. The City projects estimated payments to decrease by 26.9 percent to $3 billion in FY 2022 as collections are unlikely to match the highs of the previous year. However, OSC does not expect as large a decline in payments, so collections could be higher by $750 million annually starting in FY 2022.

In FY 2021, withholding totaled $9.8 billion, $71 million more than the April Plan's forecast. After declining by 1.5 percent in FY 2021, withholding is expected to increase by 4.7 percent in FY 2022 with continued strength in Wall Street bonuses and overall economic recovery.

The June Plan left the forecast for fiscal years 2022 through 2025 unchanged from the April Plan. Therefore, collections are projected to decrease by 7.7 percent to $13.8 billion in FY 2022, the largest decline since FY 2009. This decline reflects that while the City assumes a return to economic growth with increases in employment and wages, Wall Street is unlikely to

FIGURE 14
Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

match its record levels of profitability that occurred last year.

Total personal income tax collections are projected to grow at an average annual rate of 4.7 percent for fiscal years 2023 through 2025, which is less robust than the period immediately preceding the pandemic. The possible out-migration of high-income earners due to recent State income tax rate hikes presents a risk to the City's forecast.

Sales Tax

The June Plan makes no changes to forecasts for sales tax collections, the City's third-largest source of tax revenue, and still anticipates that collections will grow 14.5 percent to $7.4 billion in FY 2022 as pent-up demand and employment and wage growth are expected to help boost economic activity. Increased vaccinations have helped lift restrictions statewide and citywide, and sales tax collections have benefited, with the last quarter of FY 2021 increasing 42.3 percent compared to the same period last year. The expectation that tourism will not return to pre-pandemic levels until 2024 continues to present a risk to the City's forecast.

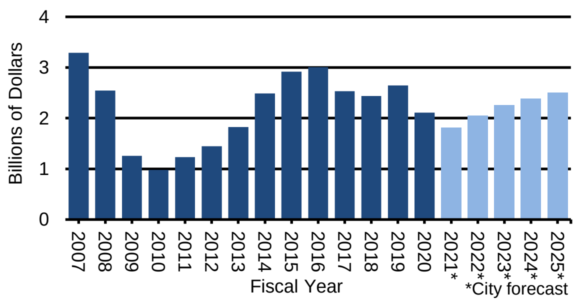
Business Taxes

The June Plan makes no changes to forecasts for business taxes in FY 2022 and the out-years, but adjusts FY 2021 business tax collections higher ($439 million) as June collections for business corporation taxes were stronger than expected. Because of this upward adjustment, year-over-year collections are now expected to decline more significantly in the out-years compared to the April Plan's forecast.

Real Estate Transaction Taxes

The June Plan makes no changes to the forecasts of the real property transfer and mortgage recording taxes from the April Plan (see Figure 15).

FIGURE 15
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

The residential real estate market had been slowing over several years before 2020, but prices and transaction volumes for commercial properties dropped sharply during the pandemic. The pace of residential sales activity has improved, with year-to-date sales volumes up 44.3 percent compared to the prior year, according to ACRIS transaction data from the Department of Finance. The commercial sales market remains depressed (down 9.3 percent for the first half of the year), and is expected to experience a more protracted recovery.

Real estate firm Cushman & Wakefield reports that the average asking rent for office space had declined 4.2 percent in the second quarter of 2021 compared to the same period a year earlier. The vacancy rate rose to 18.3 percent in the second quarter, surpassing the peak of the previous recession (12.5 percent in the first quarter of 2010). While prices are expected to remain depressed for some time, the City expects a slow rebound in sales volume as the recovery accelerates. It is not clear whether pricing and migration trends will provide more favorable long-term impacts.

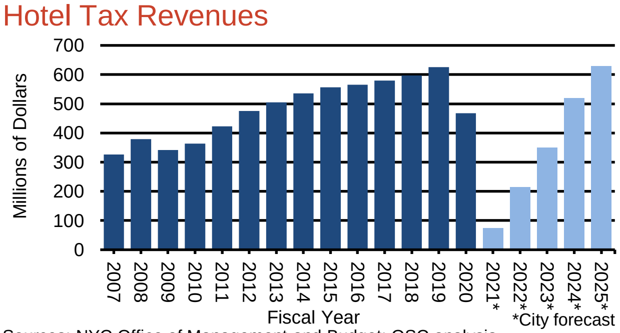
Miscellaneous Revenues

The June Plan leaves miscellaneous revenues unchanged from the April Plan, with only water and sewer adjusted higher by an annual average of $2 million in the out-years. Miscellaneous revenues (including recurring revenues and one-time payments) are expected to total $5 billion in FY 2022 and then remain flat in the out-years. For the end of FY 2021, these revenues declined by 6.4 percent from the same period last year.

Hotel Tax

The June Plan's forecast for the hotel tax is the same as the April Plan's. Hotel tax collections declined 84 percent in FY 2021 to $75 million, but are expected to almost triple to $215 million in FY 2022 (see Figure 16). Compared to the pre-pandemic peak of $625 million in FY 2019, this conservative estimate reflects expectations of a slow recovery for hotels following the near halt in tourism over the past year.

FIGURE 16
Hotel Tax Revenues



Sources: NYC Office of Management and Budget; OSC analysis

VIII. Expenditure Trends

Citywide expenditures are projected to total $98.7 billion in FY 2022, including programs funded with federal and State categorical grants. After adjusting for surplus transfers that can mask expenditure trends, spending would total $104.8 billion (see Figure 17). The portion funded with locally generated revenue (i.e., City funds) would total $73.4 billion.

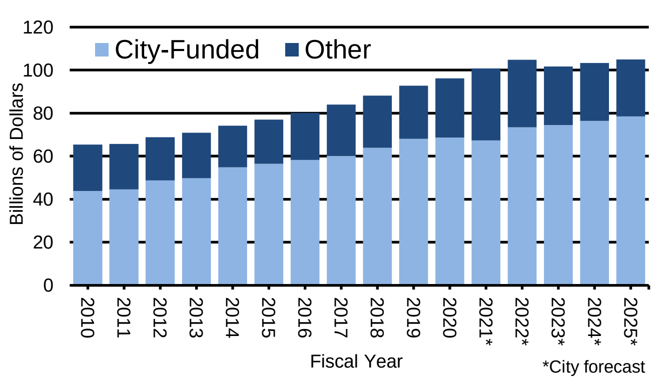
The growth in City-funded spending slowed sharply to 1 percent in FY 2020, and is projected to have declined for the first time in more than 25 years in FY 2021, by 2.1 percent. The slowdown and decline reflect the benefit of significant gap-closing actions implemented since January 2020 (including citywide savings initiatives and a drawdown of reserves). The City has also benefited from historic levels of federal pandemic relief. As a result, total funds spending increased by an estimated average of 4 percent annually over two years through FY 2021. This will more than offset the decline in City-funded spending through the same period, which mainly comes from costs associated with the pandemic.

City-funded spending would also rebound sharply in FY 2022, with an increase of 9 percent (7.9 percent excluding reserves). The growth is driven mostly by a number of nonrecurring expenses in that year (including higher potential payouts for judgments and claims against the City, funding for City Council initiatives, new agency needs and a temporary restoration of a citywide savings initiative), and because a portion of FY 2021 City-funded costs were offset by temporary federal funds or shifted to FY 2022 (e.g., labor costs and Medicaid, respectively). The June Plan assumes the growth will be much slower over the remainder of the financial plan period (averaging 2.5 percent annually over the next three years, excluding reserves and labor savings), driven mainly by projected increases in health insurance costs and debt service.

However, the financial plan also includes sizable risks, including the receipt of $1 billion in recurring labor savings beginning in FY 2023 (see “Collective Bargaining” in this section for more detail), unaddressed out-year expenses for education, higher-than-planned mandated operating subsidies for public transit and potential higher overtime costs.

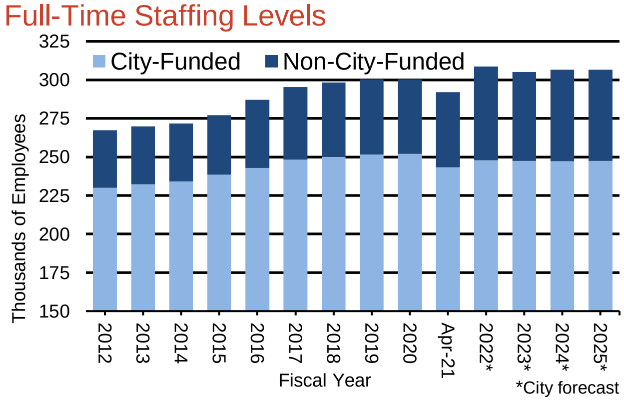
The June Plan assumes the City-funded work force will total 247,818 full-time employees by June 30, 2022 (see Figure 18), which is 4,449 more than current levels (see Appendix B), reflecting mostly the benefit of using federal aid to offset City-funded spending in that year as well as planned reductions under the hiring-and-attrition management program.

FIGURE 17
Annual Expenditures



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

FIGURE 18
Full-Time Staffing Levels



Sources: NYC Office of Management and Budget; OSC analysis

These reductions would be mostly offset by planned increases at the Department of Education and the health and welfare agencies.

The City is using additional federal aid for COVID-19 relief to offset a portion of City-funded personal service costs in FY 2022, and to staff program expansions (please see our report on the April 2021 financial plan). However, the funding for these positions (a total of 4,830 by FY 2025) is nonrecurring and is projected to be exhausted over the balance of the financial plan period. The City has not yet identified any alternative recurring resources to fund these 4,830 positions beyond the financial plan period.

The June Plan is based on the trends shown in Figure 19 and discussed below.

Collective Bargaining

As of July 2021, the City had reached settlements with approximately 85 percent of the represented work force for the 2017-2021 round of collective bargaining. The portion of the work force that has not yet reached new settlements consists mainly of those representing police officers (currently in arbitration) and firefighters. The City has set aside funding for the applicable unsettled unions based on the wage patterns established for civilian and uniformed employees for this round of bargaining.

FIGURE 19
Trends in City-Funded Spending in June 2021 Financial Plan
(in millions)

	FY 2021	FY 2022	Annual Growth	FY 2023	FY 2024	FY 2025	Average Three-Year Growth Rate
Salaries and Wages	20,749	20,255	-2.4%	20,580	20,857	21,287	1.7%
Pension Contributions	9,321	9,892	6.1%	10,325	10,516	10,452	1.9%
Debt Service	6,147	6,841	11.3%	8,209	8,622	9,192	10.3%
Medicaid	5,463	6,444	18.0%	6,392	6,392	6,392	-0.3%
Health Insurance	4,962	5,639	13.6%	6,946	7,655	8,308	13.8%
Other Fringe Benefits	2,816	3,372	19.7%	3,817	3,907	4,028	6.1%
Energy	696	817	17.3%	817	835	855	1.5%
Judgments and Claims	442	1,197	170.8%	618	635	651	-18.4%
Public Assistance	810	891	10.0%	891	891	891	0.0%
Other	16,340	17,282	5.8%	15,660	15,849	16,222	-2.1%
Subtotal	**67,746**	**72,630**	**7.2%**	**74,255**	**76,158**	**78,279**	**2.5%**
General Reserve	20	300	NA	1,000	1,000	1,000	NA
Capital Stabilization Reserve	- - -	- - -	NA	250	250	250	NA
Rainy-Day Fund	- - -	500	NA	- - -	- - -	- - -	NA
Labor Savings	- - -	- - -	NA	(1,000)	(1,000)	(1,000)	NA
Prior Years' Expenses	(421)	- - -	NA	- - -	- - -	- - -	NA
Total	**67,345**	**73,430**	**9.0%**	**74,505**	**76,408**	**78,529**	**2.3%**

Note: Totals may not add due to rounding. Spending is adjusted for surplus transfers.

Sources: NYC Office of Management and Budget; OSC analysis

The next round of collective bargaining began for many civilian employees in May 2021 (see Figure 20). Contracts for the remainder of the municipal work force are scheduled to expire by the end of FY 2023.

FIGURE 20
Selected Unions' Contract Expiration Dates

Union	Contract Expiration Date	Number of Full-Time Employees	Fiscal Year of Impact
PBA	7/31/2017	23,426	Expired
UFA	7/31/2017	8,171	Expired
DC 37	5/25/2021	59,656	FY 2021
UFT	9/13/2022	116,769	FY 2023

Note: Full-time work force as of June 2021.
Sources: NYC Office of Management and Budget; OSC analysis

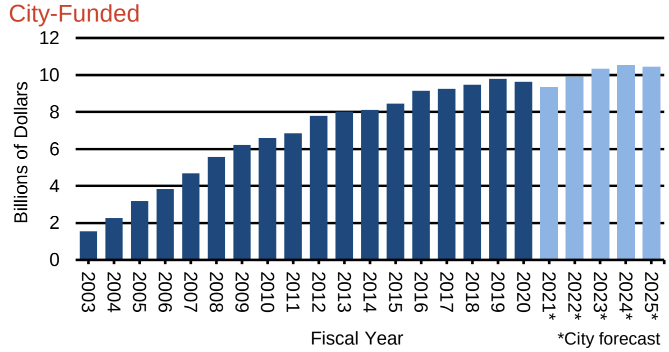
The June Plan assumes that wage increases in the first two years of the next round will be funded through productivity improvements, which allowed the City to free up $1.6 billion over five years through FY 2024. The June Plan assumes that for the next round of bargaining the City will also realize unspecified annual labor savings of $1 billion beginning in FY 2023.

The proposed savings through productivity improvements and unspecified labor savings will require the cooperation of the City's municipal unions to be realized. The City could incur labor costs beyond the amounts assumed in the June Plan pending the outcome of the upcoming negotiations (which may not be known for some time), resulting in budgetary uncertainty.[6]

Pension Contributions

After growing rapidly for many years, pension contributions have stabilized (see Figure 21), mainly reflecting higher-than-anticipated investment returns and savings from lower-cost pension plans enacted for employees hired after

FIGURE 21
Pension Contributions
City-Funded



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

March 31, 2012. Since April 2021, the City has reflected the impact of the City Actuary's latest valuation update used to determine annual employer contributions to the City's pension systems, as well as other technical adjustments, which reduced contributions by $37 million in FY 2021 and $226 million in FY 2022. Still, contributions are projected to total $9.9 billion in FY 2022, representing 14.7 percent of City fund revenues.

In FY 2020, the financial markets were volatile, and the pension funds earned 4.4 percent on their investments, less than the actuarial target. In the fiscal year since then, OSC estimates that the City's pension systems earned an estimated 25 percent on their investments, greatly exceeding the assumed gain of 7 percent. As a result, pension contributions could be lower than planned by $711 million in FY 2023, $1.4 billion in FY 2024 and by $2.1 billion in FY 2025.

In April 2021, the State enacted legislation to enable the City to offer a temporary retirement incentive program to their employees, including teachers and other employees of the Department of Education. However, the City did not opt into the program.

[6] Each 1 percent increase to base wages could increase labor costs by an estimated $460 million when fully annualized. The City's labor reserve includes funding for wage increases of 1 percent annually beginning in the third year beyond the current (2017-2021) round of bargaining.

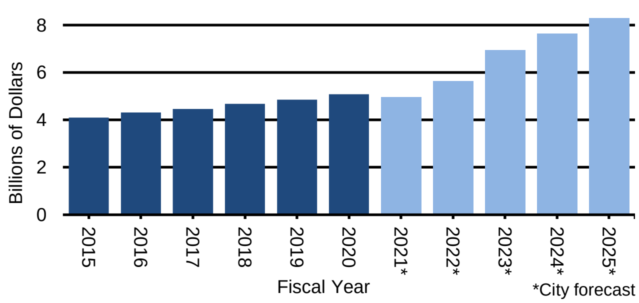
Health Insurance

Together, two agreements reached between the City and the Municipal Labor Committee (MLC) in 2014 and 2018 are expected to produce cumulative savings of $10.3 billion on health insurance costs through FY 2022 and recurring savings of $1.9 billion beginning in FY 2022. These savings were used to help fund wage increases for the municipal work force. In July 2021, the City announced it had reached agreement with the MLC to implement the NYC Medicare Advantage Plus Program for its roughly 250,000 City retirees beginning January 1, 2022. While the agreement, which stems from the 2018 MLC savings agreement, could reduce health care costs by about $600 million annually, the savings will be credited to the health stabilization fund. As a result, the City will not realize any financial plan savings from this latest accord.

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

Despite the 2014 and 2018 agreements, insurance costs are projected to reach $8.3 billion by FY 2025 (see Figure 22), 63.6 percent more than in FY 2020.

FIGURE 22
Health Insurance Costs
City-Funded



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

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

As a result, the growth in City-funded health insurance costs is projected to decline by 2.3 percent in FY 2021, but the growth would resume in FY 2022 and accelerate in FY 2023 as the federal relief funds wind down. The pace of growth would slow in subsequent years.

Fair Fares

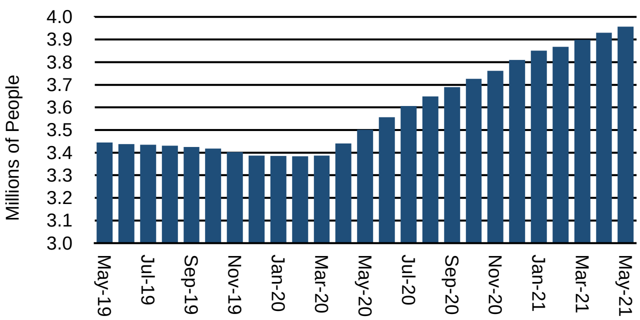
In January 2019, the City launched the Fair Fares NYC program, which provides half-fares on MTA subways, some bus systems and the Access-A-Ride program to New Yorkers who have incomes at or below the federal poverty line and do not already participate in a transportation discount program. Fair Fares enrollment reached 58,946 in FY 2019, 193,864 in FY 2020, and 234,156 as of the end of FY 2021.

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

Medicaid

In May 2021, 3.96 million City residents (47 percent of the City's population) were enrolled in Medicaid (see Figure 23), which provides health insurance to low-income children and adults. Enrollees include 573,000 people who have enrolled in Medicaid since February 2020, a sharp increase that coincides with the COVID-19 public health emergency. Enrollment growth rates in Queens and Staten Island (each 20 percent) exceeded citywide growth (17 percent) during the same time period. Enrollment in the rest of the State grew by 15 percent.[7]

FIGURE 23
Medicaid Enrollments



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

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

The June Plan assumes that the City-funded cost of Medicaid will total $5.5 billion in FY 2021, lower than what was assumed in April, and about $6.4 billion annually in FY 2022 through FY 2025. As of the April Plan, the City transferred $501 million in FY 2021 and $580 million annually through FY 2025, used to reimburse NYC Health + Hospitals (H+H) for costs associated with collective bargaining agreements and an unrestricted subsidy to the Medicaid budget to account for additional supplemental Medicaid payments to H+H. The supplemental Medicaid initiative has yet to receive federal approval, and the June Plan reflects shifting Medicaid costs of $452 million from FY 2021 to FY 2022 as the City expects the initiative to be approved during FY 2022 and apply retroactively to April 2020 (see Figure 24).

FIGURE 24
June Plan Medicaid Changes
(in millions)

	FY 2021	FY 2022
Supplemental Medicaid Roll	($451.8)	$451.8
Supplemental Medicaid Adjustment	(23.0)	(54.0)
Medicaid Reestimate	-	(60.0)
COVID-19 Medicaid Aid	-	(210.0)
Total	($474.8)	$127.8

Source: NYC Office of Management and Budget; OSC analysis

The Families First Coronavirus Response Act, passed in March 2020, began providing retroactive additional federal Medicaid aid as of January 1, 2020, and continuing through the COVID-19 public health emergency. The City estimates $591 million ($210 million more than what was anticipated in the April Plan) in total savings through September 2021. The public health emergency will likely persist through the end of 2021. OSC estimates the total savings to be $765 million based on 100 percent reimbursement through December 31, 2021.[8]

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

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7 Nationally, Medicaid enrollment increased by 15 percent from February 2020 through January 2021.

8 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 not included in the above estimates, of which the City has already benefited from savings of $107 million.

Social Services

Cash Assistance

The June Plan makes no changes to City spending on cash assistance that is included in the April Plan. Enrollment is likely to remain higher than trend for the foreseeable future as a result of economic conditions and policies implemented during the pandemic. Further increases in enrollment are not projected and therefore do not have additional cost implications. A detailed discussion of enrollment trends, policy implementation and one-time payments for rent and utilities is included in our analysis of the April Plan.

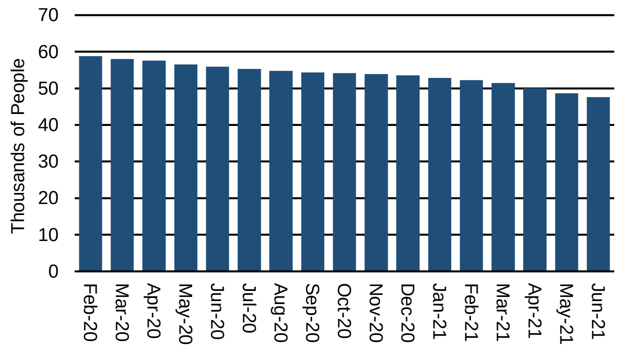
Homeless Services

The June Plan incorporates modest changes to the budget for homeless services in the April Plan. It allocates $40.5 million in FY 2022 only to provide a prevailing wage for shelter security guards, but does not acknowledge this cost in the out-years.

The homeless population in shelters operated by the Department of Housing Services (DHS) declined by 19 percent or roughly 11,200 people since February 2020 and the start of the pandemic. During June 2021, an average of 47,700 people lived in DHS shelters (see Figure 25), more than half of them (56 percent) belonging to families with children. This group also experienced the majority of the decline (of about 9,800 people, or 27 percent), while the number of single adults continued to increase (by roughly 138 people, or 1 percent).

Starting in March 2020, the DHS started isolating individuals who tested positive for or exhibited symptoms of COVID-19, those at high risk of developing the virus, and those located in congregate shelters, by placing them in hotel rooms. Whereas in February 2020 more than 3,500 single adults were sheltered in commercial hotels, by the end of June 2021 roughly 12,500 single adults resided in such housing. The number of single adults living in DHS congregate shelters declined by more than 8,500 during the same time period.

FIGURE 25
People in Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

In June 2021, the City began relocating people in commercial hotels (about 8,000 in total) back to congregate care settings, with the goal of completing the transfer by the end of July. Recently, however, this initiative was put on hold after a legal motion was filed alleging that it violated the rights of people who have medical, physical or mental health needs that would put them at higher risk if they were to return to congregate shelter. If the matter is not resolved promptly, the City may incur higher costs in the form of additional hotel fees.

Additionally, the New York State moratorium on residential evictions is set to expire on August 31, 2021, which could result in strains on the shelter system and also could increase costs associated with the DHS (see the April Plan report for pre-pandemic costs and population growth analysis). This risk may be mitigated by the addition of $34 million in FY 2022 to increase the rate of the City's rental assistance program, known as CityFHEPS, and align it more closely with Section 8 vouchers and fair market rents, However, we note that the total voucher program spending in the Human Resources Administration's budget decreases by $202 million in the out-years, creating a risk from FY 2023 and beyond.

Uniformed Agency Overtime

The City's four uniformed agencies spent $1.2 billion in overtime in FY 2021, more than three-fourths of overtime citywide ($1.6 billion).[9] Although overtime costs at the uniformed agencies exceeded the June Plan by an estimated $68 million, they were $232 million lower than costs in FY 2020, due entirely to the reduction in Police Department overtime.

In June 2020, the City cut the Police Department's FY 2021 overtime budget by more than half to $268 million, $569 million less than the department's overtime costs in FY 2020 ($837 million). In the June 2021 financial plan, the City adjusted the budget by $170 million to $442 million, and the department exceeded this amount for total overtime expenditures of $470 million. The Police Department has other personnel cost savings of nearly $100 million to offset the additional overtime costs.

While higher than planned, the Police Department still managed to spend $366 million less than costs in FY 2020 (a reduction of 44 percent). This significant reduction was largely the result of canceled planned events and other deployment shifts in response to the pandemic. However, the department will cease to see most of this benefit going forward, as the City announced a full reopening on July 1.

Since last June, the City reduced planned police overtime by $172 million in FY 2022, and by $213 million annually in FY 2023, reflecting $40 million in school safety overtime that will be transferred to the Department of Education in FY 2023. The City now anticipates police overtime will total $434 million in FY 2022, dropping to $394 million in each year thereafter, which represents a decline of over $300 million from pre-pandemic spending in FY 2019 ($736 million). As the City moves toward normal levels of activity, OSC projects that police overtime will exceed the budget by $170 million annually beginning in FY 2022.

Likewise, the City raised the Department of Correction's overtime budget in the June Plan by $56 million to $150 million in FY 2021 to more accurately reflect spending of $149 million. The department faced challenges related to COVID-19 and additional employee unavailability, as mentioned in our previous report. As a result, overtime in FY 2021 was virtually unchanged from last fiscal year after four consecutive years of decline.

Since last June, the City reduced the department's overtime by $70 million in FY 2022, and by $25 million annually in FY 2023. Unless the Department of Correction can restrict its elevated use of overtime, OSC projects that overtime costs could remain at current levels and exceed planned spending by $61 million in FY 2022, but by only $16 million annually beginning in FY 2023.

The Department of Sanitation also experienced difficulties related to the COVID-19 pandemic that we discussed in our previous report. Overtime costs in FY 2021 totaled $279 million, $123 million (79 percent) more than costs in FY 2020. The City made an adjustment to the overtime budget in the April Plan, which eliminated the gap in FY 2021. Based on historical spending, OSC projects that overtime costs will exceed the City's plan by $17 million in

[9] Includes civilian and uniformed position overtime.

FY 2022, growing to $37 million annually starting in FY 2023.

Overtime at the Fire Department totaled $344 million in FY 2021, $38 million more than planned and slightly higher than costs last year ($332 million). Though it increased slightly, overtime continues to be relatively level and in line with previous years' costs. The department has savings in other personnel costs to eliminate the remaining overtime gap in FY 2021. The City historically rightsizes the department's overtime budget in the current year only, and does not fully adjust the out-years. As such, OSC anticipates that overtime costs will exceed planned levels by about $90 million annually beginning in FY 2022.

IX. Debt Service and Capital Spending

City-funded debt service is expected to grow by 40.5 percent from $6.5 billion in FY 2020 to $9.2 billion in FY 2025 (see Figure 26). However, the City may experience plan savings based on actual capital expenditures and its conservative interest rate assumptions.

Anticipated City-funded capital expenditures in the June Plan (excluding those funded by the Water Authority) average $9.8 billion annually during fiscal years 2021 through 2025, with actual capital expenditures during the previous five years averaging only $6.6 billion. If spending remains lower than projected, debt and servicing costs may come in lower than planned.

The City also uses conservative metrics when forecasting debt service costs. Fixed-rate and variable-rate issuances could yield additional savings. Variable-rate refinancings alone may produce savings of $50 million in FY 2022 and $150 million in FY 2023.

In FY 2021, as a result of debt service savings (mostly refundings), debt service was $396 million lower than the year before, dropping the debt burden to 9.8 percent. The debt burden is expected to reach 13.5 percent by FY 2025, below the City's self-imposed ceiling of 15 percent but still the highest level since 2010.

The June Plan includes a $58 million defeasance of Transitional Finance Authority (TFA) bonds in FY 2022, made possible through a payment from the State associated with the refinancing of Sales Tax Receivable Corporation debt by the Dormitory Authority of the State of New York to be applied to the City's debt service. A July refunding of TFA Building Aid Revenue Bonds is expected to save $13 million in FY 2022 and $74 million annually through FY 2025.

In the June Plan, the City Council added $675 million in capital spending in FY 2022 and $87 million in FY 2023 (see Figure 27), targeted toward education, parks and recreation, and cultural affairs. Debt service is expected to be included in the City's next budget modification. For a more detailed discussion of planned capital spending, see OSC's report on the April Plan.

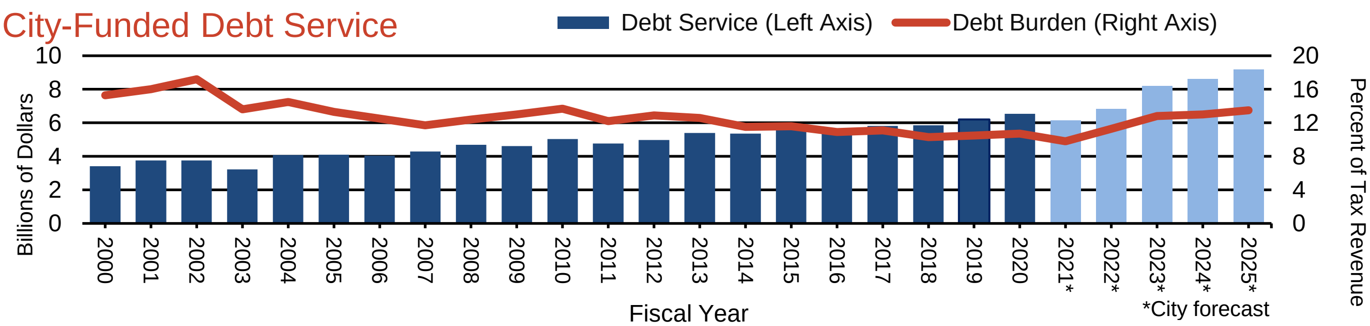
FIGURE 27

Capital Project Additions – Adopted Budget for FY 2022 (in millions)

Department	FY 2022	FY 2023
Education	190	9
Parks & Recreation	166	42
Cultural Affairs	105	21
Housing Preservation & Dev.	57	2
Libraries	54	9
Health	27	- - -
Public Buildings	25	- - -
Housing Authority	20	1
All Other	60	4
Total Change	**704**	**87**
Rescindments	(29)	- - -
Net Change	**675**	**87**

FIGURE 26

City-Funded Debt Service



Note: Debt service has been adjusted for prepayments and defeasances.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

X. Semi-Autonomous Entities

Department of Education

New York City has the largest public school system in the nation, serving roughly 1.1 million students in more than 1,800 schools. Since March 2020, City schools have used remote and blended instruction to continue serving students during the pandemic, and the City was among the first in the nation to offer a return to in-person classes. The Mayor has announced that the City plans to return to in-person learning for all students, teachers and buildings when the new school year begins in September 2021. City data indicates that public school enrollment declined by more than 53,000 students (4.6 percent) in the 2020-21 school year. However, the City expects only about half of those students to return to the school system in the coming year.

Nevertheless, the City plans to increase education spending by more than $2.7 billion over FY 2021 levels. The June Plan allocates more than $37.7 billion to the Department of Education for FY 2022, which amounts to 38 percent of the City's total budget. The City is expected to fund $19.4 billion (51.5 percent) of the total, with the remainder funded by the State (34 percent) and the federal government and other sources (14.6 percent). Federal aid and other sources have provided an annual average of 7.9 percent of the department's budget over the previous 10 years, while City funds have accounted for an average of 56.3 percent.

The June Plan adds $140 million beyond what was included in the April Plan for FY 2022. This includes $41 million for various City Council initiatives, $26 million to create a citywide literacy curriculum, $18 million for a class-size-reduction pilot program, and $15 million to establish college savings accounts for all kindergartners. Almost all of these new initiatives are City-funded and are budgeted in FY 2022 alone, but it may prove difficult for subsequent budgets to let several of these initiatives lapse in the out-years.

Like the April Plan, the June Plan includes $6.96 billion of federal emergency COVID-19 relief funds for the department through FY 2025. While the City plans to use $2 billion of these funds through FY 2025 to fund universal 3-K and another $1.2 billion to fund several new initiatives (including an expansion of special education services, mental health services and the Community Schools program), $635 million will be allocated to a new academic recovery program. This includes $251 million for after-school and Sunday programs, $202 million to develop a standardized English language arts and math curriculum, $122 million to purchase 175,000 new laptops to ensure all students have access to a digital device, $49 million for an early literacy program, and $10 million to provide after-school college counseling to all high-school juniors.

While some of these new programs are likely to continue past the financial plan period, the extraordinary federal aid that the City will use to fund them will not be available past FY 2025. Unless the City can secure additional recurring funding sources, it is likely to be faced with either cutting many of these programs or funding them with new City resources as federal support is exhausted. Indeed, the City plans to fund half ($376 million) of its new 3-K program in FY 2025, which is expected to cost $752 million annually beginning in FY 2024. Furthermore, the City will add more than 3,800 positions to the department by FY 2025 to implement its new initiatives, all of which are supported by nonrecurring federal emergency funds during the plan period.

Additionally, the June Plan does not address a number of existing expenses that are likely to increase in future years. While some of the extraordinary federal aid may be used to cover these costs in the short run, the costs are systemic and will continue to recur after federal aid is exhausted.

Under federal law, school districts must provide necessary services to students with disabilities. If the district is unable to do so itself, it must fund such services in what are known as Carter cases. City spending on Carter cases reached $626 million in FY 2020, more than double the amount five years earlier. The June Plan estimates that spending remained flat in FY 2021, but anticipates that spending on Carter cases will increase by $40 million in FY 2022 before dropping to $446 million in FY 2023 and remaining flat thereafter. Until the City can demonstrate that spending for Carter cases has actually begun to decline, these costs are likely to exceed estimates beginning in FY 2023. Such expenses may be even higher because parents have challenged the City's ability to provide adequate services during the pandemic.

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

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

Metropolitan Transportation Authority

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

Although ridership has begun to return, in June 2021 subway ridership was still down an average of 54 percent compared to 2019, bus ridership was down 42 percent and MTA commuter railroad ridership was down around 50 percent. In June 2021, however, MTA bridge and tunnel crossings were just 5 percent lower than pre-pandemic levels.

On July 21, 2021, the MTA released a preliminary operating budget for 2022 and a financial plan covering 2021 through 2025. The MTA forecasts balanced budgets through 2025 mostly through the receipt of $10.5 billion in unprecedented federal funding, higher-than-expected fare and toll revenue ($4.5 billion over the financial plan period), and the use of $1.3 billion of borrowing for operating purposes in 2025.

The MTA's financial plan also assumes the implementation of a 4 percent fare yield increase in November 2021 and 4 percent increases in fare and toll yields in March 2023 and March 2025. These are expected to bring in $1.9 billion over the financial plan period.[10] The MTA's financial plan also assumes that its contract with the Transport Workers Union (TWU) and other settled contracts will be honored. The plan assumes that other unions that follow the TWU pattern have agreed to or will agree to conform to the pattern in the first two years of the contract, followed by two years of a wage freeze. Nonrepresented employees will also be subject to the wage freeze. The wage freeze is expected

[10] The MTA board raised tolls by 6 percent in April 2021 but deferred its decision on raising fares until later in the year. Right before the MTA released its July financial plan, the MTA board expressed its preference not to raise fares in 2021.

to save $734 million over four years through 2025.

The MTA's financial plan assumes that ridership will only recover to 91 percent of pre-pandemic levels by 2025, and thus assumes that service will have to be reduced to align with the lowered demand, which is expected to save around $200 million annually starting in 2023. The MTA also assumes that it will achieve the remaining savings needed from its transformation plan (around $150 million annually starting in 2022).

It is not yet clear how the MTA will balance its budgets after federal operating assistance is used and if ridership does not return to pre-pandemic levels because of increased telecommuting and lower economic activity.

The City is responsible for paying the operating deficits of the formerly private MTA Bus services after fares and other operating revenues are applied. The City has budgeted $456 million in every year of its plan for these subsidies, but the MTA expects the cost to the City to average $693 million annually starting in 2022. Since the federal funding the MTA will receive lowers the City's obligation toward MTA Bus, the City could see savings of $193 million in FY 2022 but increased costs in the out-years, rising to $131 million in FY 2025.

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

A recent report released by OSC found that the MTA's outstanding debt has more than tripled in 20 years, to $38 billion in 2020, and that debt service has grown at a similar rate, increasing to $2.7 billion.[11] Most of the projected funding sources for the 2020-2024 capital program also carried some degree of risk.

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

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

NYC Health + Hospitals

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

On May 11, 2021, the City released the executive cash financial plan for H+H for FY 2022 (the "May Plan"), as mentioned in our previous report. H+H has benefited financially from federal legislation that has delayed planned cuts in federal supplemental Medicaid payments through federal fiscal year 2023. These delays

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

benefit H+H by $580 million in FY 2021 and $622 million in each of FY 2022 and FY 2023.

The May Plan projects just over $2 billion in total costs related to COVID-19 in FY 2020 through FY 2022, and anticipates the receipt of over $2 billion in revenue from the federal CARES Act and FEMA. However, H+H has only received $266 million in FEMA reimbursement, as the remainder of the funding ($587 million) is still waiting on FEMA authorization (see Figure 28).

FIGURE 28
Federal COVID-19 Aid

(in millions)	FY 2020	FY 2021	FY 2022	FY 2023-2024	Total
CARES Act	$1,031	$ 171	$ -	$ -	**$1,201**
FEMA	-	363	300	190	**853**
Total COVID 19 Aid	**1,031**	**534**	**300**	**190**	**2,054**
FEMA Received		266			**266**
FEMA Risk	**$ - - -**	**$ 97**	**$ 300**	**$ 190**	**$ 587**

Sources: NYC Office of Management and Budget; OSC analysis

The May Plan assumes savings will be achieved with initiatives that increase revenue, mostly from the receipt of new supplemental Medicaid payments of $611 million in FY 2021, $913 million in FY 2022 and $835 million annually through FY 2025. However, these payments have not yet been approved.

H+H ended FY 2021 with $737 million in cash, but the cash balance was impacted by the delays in federal payments. Additionally, although an unintentional consequence of the Families First Coronavirus Response Act that had reduced supplemental Medicaid funding by $383 million in FY 2021 has been restored, the federal funds have yet to be distributed to H+H. In total, about $1.4 billion in funding related to federal programs anticipated in FY 2021 has not been received.

In order to provide cash flow assistance, the City has delayed the receipt of over $700 million in payments for costs incurred by the City on H+H's behalf such as debt service, medical malpractice and retiree health benefits. H+H's future financial position will be largely contingent on the receipt of supplemental Medicaid and federal reimbursement for the H+H's COVID-19 response otherwise the City will likely step in to provide further financial assistance.

New York City Housing Authority

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

The pandemic has significantly impacted rent collections, which have declined as a result of reductions in rent (due to lower incomes), a new policy to delay rent increases, and a rise in rent delinquencies. Between February 2020 and May 2021, the rent collection rate declined from 88 percent to 79 percent. NYCHA reports the total rent loss for 2020 at $71 million. NYCHA was able to offset the losses with $129 million in federal aid. The State recently extended the residential eviction moratorium until August 31, which could further impact collections. The New York State Emergency Rental Assistance Program is also available to NYCHA tenants, which may provide relief for escalating rent arrears.

The June Plan includes $337 million for NYCHA in FY 2022, of which $226 million will be City funds. The balance is federal, including $79 million in Community Development Block Grant funding and $27.7 million that NYCHA is expected to receive as a partner agency in the Mayor's recently announced City Cleanup Corps. NYCHA may also receive a portion of the President's $2 trillion infrastructure proposal, if Congress passes it.

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

XI. Other Issues

Credit Rating

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

With the uncertainties surrounding the City's finances in FY 2021 as a result of the COVID-19 pandemic, the City's ratings and outlook have experienced a state of flux.

On December 8, 2020, Standard and Poor's Ratings Direct (S&P) issued a negative outlook, while affirming its rating of "AA" on the City's GO credits. At the time, S&P cited an uptick in the COVID-19 transmission rate, uncertainty around additional stimulus payments, and weakness in the commercial real estate markets as reasons for the downgrade. S&P kept its "AAA" rating and stable outlook on the City's FTS TFA credits. On May 18, 2021, S&P changed its outlook on the City's GO credits back to stable, noting successful vaccination efforts, the prospect of a recovery in tourism and the receipt of more than $15 billion in federal stimulus funding.

On October 1, 2020, Moody's Investor Services downgraded the City's GO credits from "Aa1" to "Aa2" and maintained a negative outlook. Moody's noted at the time that the "downgrade reflects the substantial financial challenges New York City faces caused by the economic response." On May 13, 2021, Moody's affirmed its rating, but revised the outlook from negative to stable, noting that the upgrade "reflects improvement in the City's overall financial position." Moody's also revised the outlook on the City's FTS TFA credits to stable.

On December 8, 2020, Fitch Ratings took its rating on the City's GO bonds down one notch to "AA-," while maintaining a negative outlook. At the time, Fitch based the downgrade on the "expectation that the impact of the coronavirus and related containment measures will have a longer-lasting impact on New York's economic growth than other parts of the country." Fitch currently has an "AAA" rating on the City's FTS TFA credits, with a stable outlook.

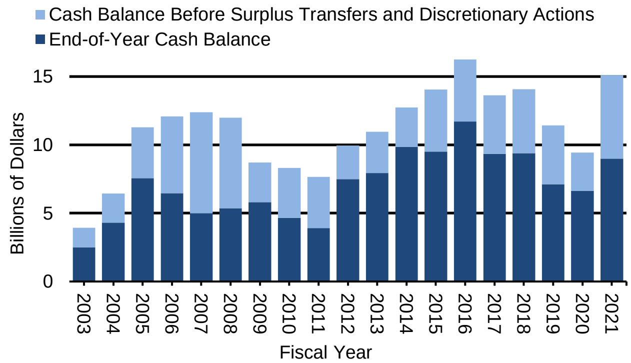
On July 12, 2021, Kroll Bond Rating Agency (KBRA) initiated coverage of the City's GO credits. They assigned a long-term rating of "AA+" with a stable outlook. KBRA's press release stated, "The rating recognizes the City's preeminent role as a domestic and international center of business and culture, the broad and diverse economic base which has demonstrated historic resiliency, elevated yet manageable debt obligations, and institutionalized procedures and plans for confronting near-term financial challenges, which have assisted in navigating through pandemic-driven challenges." Potential credit challenges noted by KBRA are the City's reliance on the financial services sector, closing out-year budget gaps, and climate-change-related issues such as rising sea levels and intensifying storms.

The City's credit ratings generated by these four rating agencies are high and generally optimistic in tone. This has enabled the City to access the credit markets to meet its financing needs and to keep its cost of borrowing low.

Cash Flow

The City has not needed to borrow to meet its short-term cash needs since FY 2004. In FY 2020, lost revenue and unexpected costs associated with the pandemic put pressure on the City's cash position. But after implementing a number of actions to preserve cash, the City ended FY 2020 with a cash balance of $9.4 billion before surplus transfers and discretionary actions (see Figure 29, next page).

FIGURE 29
Year-End Cash Balance



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

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

As a result, the New York City Office of Management and Budget estimates that the year-end cash balance will rise sharply to $15.1 billion in FY 2021 ($9 billion after discretionary actions), among the highest year-end cash balances on record. Given the amount of cash on hand, the City does not anticipate borrowing to meet its cash flow needs during the financial plan period.

Prior Years' Expenses

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

Over the past 10 years, the City has realized an average benefit of $342 million annually from overestimating prior years' expenses and from underestimating prior years' receivables. The City realized a net benefit of $207 million in FY 2020, largely from an overestimation of prior-year contractual services expenses and payments to the State for youth services. The June Plan anticipated savings of $421 million in FY 2020 but none in subsequent years.

As of FY 2020, the balance held for prior years' expenses not yet paid totaled $16 billion, which is the largest in at least 10 years. Similarly, the balance held for prior years' revenues not yet collected totaled $15.7 billion, also the highest in at least 10 years. Given the size of these year-end balances, the City's cash reserves could experience heightened volatility depending on the timing of when the expenses are paid and revenues are received.

Revenue Stabilization Fund

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

The City announced in June 2021 that, only a few months after the fund's establishment, it would make a discretionary deposit (for the first time) of $500 million into the fund in FY 2022, raising the balance to $993 million.

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

The City may withdraw up to 50 percent of the resources in the rainy-day fund without cause. A larger share can be withdrawn if the Mayor certifies a compelling fiscal need, such as a national or regional recession, a reduction in the City's revenues from the preceding fiscal year, a natural or other disaster, or a declared state of emergency in the City or in the State.

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 (see Figure 30), 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.

Retiree Health Benefits Trust

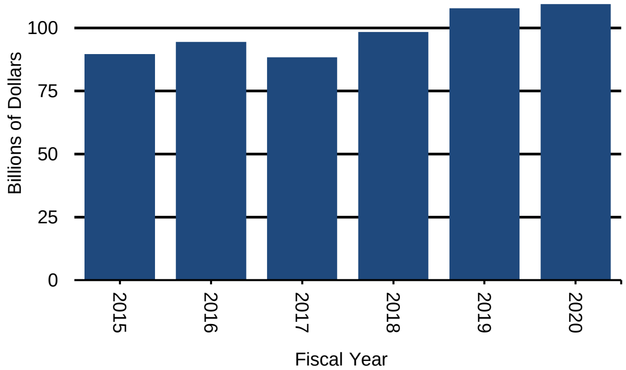
In FY 2006, the City established the Retiree Health Benefits Trust (RHBT) to help fund the future cost of OPEBs. During fiscal years 2006 and 2007, the City deposited $2.5 billion of surplus resources into the RHBT. These resources were invested and earned interest, with the balance exceeding $3 billion by FY 2010 (see Figure 31).

While the RHBT was intended to help fund future OPEB liabilities, it has been used as a rainy-day fund in the past. The City drew down more than half of the resources in the RHBT during fiscal years 2011 through 2013 as it managed through the Great Recession.

Over the next six years, the City replenished and added to the trust. By the end of FY 2019, the RHBT had a balance of $4.7 billion, significantly higher than before the Great Recession. However, the City drew down $1 billion in FY 2020 to help balance the budgets in that year, leaving a balance of $3.8 billion. While the City had intended to draw down another $1.6 billion in FY 2021, the improved financial outlook since the beginning of the fiscal year permitted the City to rescind the planned drawdown and to prepay a portion of FY 2022's OPEB expenses ($425 million).

FIGURE 30

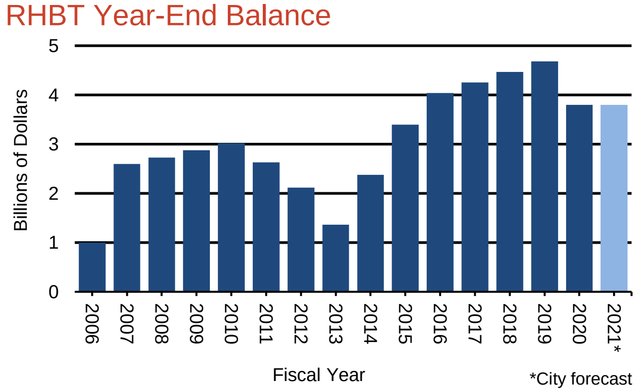
Unfunded OPEB Liability



Sources: NYC Actuary; OSC analysis

FIGURE 31

RHBT Year-End Balance



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

Appendix A: Changes Since the June 2020 Plan

Financial Plan Reconciliation—City Funds
June 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)**
Updated Tax Estimates				
Personal Income	3,307	852	999	1,010
Business Taxes	1,965	780	755	942
Real Estate Transactions	450	359	313	352
General Property Tax	263	(2,596)	(2,716)	(2,652)
Sales Taxes	(280)	(666)	(328)	76
Hotel Taxes	(193)	(345)	(297)	(139)
Other Taxes	101	(14)	(4)	(19)
Audits	250	200	- - -	- - -
Subtotal	**5,863**	**(1,429)**	**(1,278)**	**(430)**
Other Revenue Reestimates	**(206)**	**(32)**	**28**	**18**
Total Revenue Reestimates	**5,657**	**(1,462)**	**(1,250)**	**(412)**
Citywide Savings Program				
Agency Actions (excl. Medicaid Savings)	745	1,382	757	781
Reimbursement from Health + Hospitals	212	- - -	- - -	- - -
Debt Service	1,007	950	294	329
Restorations	(2)	(581)	(78)	(79)
Subtotal	**1,962**	**1,751**	**974**	**1,031**
Reserves				
General Reserve	80	700	- - -	- - -
Capital Stabilization Reserve	- - -	250	- - -	- - -
Deposit into Rainy-Day Fund	- - -	(500)	- - -	- - -
Retiree Health Benefits Trust	(1,600)	- - -	- - -	- - -
Subtotal	**(1,520)**	**450**	**- - -**	**- - -**
Funding Shifts	1,421	2,200	165	135
Labor Savings (Deferrals & Restorations)	(289)	(1,706)	(5)	- - -
City Council Initiatives	- - -	(516)	- - -	- - -
New Spending and Updated Estimates				
New Agency Needs (excluding restorations)	(2,300)	(1,701)	(644)	(684)
Judgments and Claims	145	(595)	- - -	- - -
Medicaid	475	(128)	- - -	- - -
Pension Contributions	467	446	(95)	(590)
Prior Years' Expenses	421	- - -	- - -	- - -
All Other	(332)	(666)	(154)	(136)
Net Change	**6,107**	**(1,927)**	**(1,009)**	**(655)**
Gaps to Be Closed Before Prepayment	**$ 6,107**	**$ (6,107)**	**$ (4,052)**	**$ (3,837)**
FY 2021 Prepayment of FY 2022 Expenses	(6,107)	6,107	- - -	- - -
Gaps to Be Closed Per June 2021 Plan	**$ - - -**	**$ - - -**	**$ (4,052)**	**$ (3,837)**

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

Appendix B: Full-Time Staffing Levels

(Number of full-time employees)

		Actual June 2020	Actual Apr 2021	Forecast June 2021	Plan June 2022	Variance June 2020 to Apr 2021	Variance Apr 2021 to June 2022
Public Safety		**85,173**	**82,047**	**81,461**	**78,794**	**(3,126)**	**(3,253)**
Police	Uniformed	35,910	34,960	35,007	35,030	(950)	70
	Civilian	15,434	14,430	15,204	15,626	(1,004)	1,196
Fire	Uniformed	11,043	10,676	10,935	10,935	(367)	259
	Civilian	6,261	6,174	6,294	6,325	(87)	151
Correction	Uniformed	9,237	8,612	7,219	3,860	(625)	(4,752)
	Civilian	1,734	1,624	1,662	1,795	(110)	171
District Attys. & Prosecutors		4,705	4,800	4,278	4,355	95	(445)
Probation		822	749	836	836	(73)	87
Board of Correction		27	22	26	32	(5)	10
Health & Welfare		**23,396**	**22,525**	**22,998**	**24,539**	**(871)**	**2,014**
Social Services		9,472	9,141	9,378	10,101	(331)	960
Children's Services		6,974	6,717	6,792	7,039	(257)	322
Health & Mental Hygiene		4,165	4,030	4,114	4,642	(135)	612
Homeless Services		2,084	1,986	2,044	2,095	(98)	109
Other		701	651	670	662	(50)	11
Environment & Infrastructure		**16,207**	**15,505**	**15,719**	**16,118**	**(702)**	**613**
Sanitation	Uniformed	7,755	7,298	7,425	7,424	(457)	126
	Civilian	2,054	1,965	2,015	2,114	(89)	149
Transportation		2,418	2,419	2,415	2,580	1	161
Parks & Recreation		3,650	3,486	3,533	3,653	(164)	167
Other		330	337	331	347	7	10
General Government		**11,476**	**11,074**	**11,406**	**11,890**	**(402)**	**816**
Finance		1,996	1,921	2,031	2,097	(75)	176
Law		1,670	1,618	1,703	1,697	(52)	79
Citywide Admin. Services		1,793	1,677	1,756	1,860	(116)	183
Taxi & Limo. Commission		584	542	557	586	(42)	44
Investigations		359	336	370	354	(23)	18
Board of Elections		682	724	517	517	42	(207)
Info. Tech. & Telecomm.		1,613	1,555	1,672	1,803	(58)	248
Other		2,779	2,701	2,800	2,976	(78)	275
Housing		**2,461**	**2,402**	**2,515**	**2,732**	**(59)**	**330**
Buildings		1,676	1,662	1,724	1,924	(14)	262
Housing Preservation		785	740	791	808	(45)	68
Department of Education		**104,644**	**101,501**	**104,865**	**105,061**	**(3,143)**	**3,560**
	Pedagogues	93,022	90,351	94,086	94,245	(2,671)	3,894
	Non-Pedagogues	11,622	11,150	10,779	10,816	(472)	(334)
City University of New York		**6,288**	**6,091**	**6,388**	**6,212**	**(197)**	**121**
	Pedagogues	4,545	4,413	4,441	4,441	(132)	28
	Non-Pedagogues	1,743	1,678	1,947	1,771	(65)	93
Elected Officials		**2,340**	**2,224**	**2,474**	**2,472**	**(116)**	**248**
Hiring & Attrition Mgmt.		**- - -**	**- - -**	**- - -**	**- - -**	**- - -**	**- - -**
City-Funded Total		**251,985**	**243,369**	**247,826**	**247,818**	**(8,616)**	**4,449**
Non-City-Funded Total		**48,461**	**48,698**	**52,482**	**60,801**	**237**	**12,103**
All Funds Total		**300,446**	**292,067**	**300,308**	**308,619**	**(8,379)**	**16,552**

Sources: NYC Office of Management and Budget; OSC analysis

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Prepared by the Office of the State Deputy
Comptroller for the City of New York

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