Review of the Financial Plan of the City of New York

Report 19-2024

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Rahul Jain, Deputy Comptroller

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Message from the Comptroller

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

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

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

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

Thomas P. DiNapoli
State Comptroller

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I. Executive Summary

About two months after the release of the City's November budget modification, the City has improved its economic and fiscal outlook markedly. The City's Preliminary fiscal year (FY) 2025 budget and January Financial Plan (the "January Plan") enabled the City to increase current year (FY 2024) spending to $115.8 billion, including expense prepayments, and close its $7.1 billion FY 2025 budget gap (see Figure 1).

As the federal pandemic stimulus program approaches its conclusion, total expenditures are projected to decline next year to $113.2 billion in FY 2025. Despite the decline in total spending, city-funded spending, which is rising in part to make up for programs funded with one-time federal aid, will reach $84.8 billion in FY 2025, an increase of $3.7 billion, or 4.6 percent.

At budget adoption in June 2023, the City projected a balanced budget for FY 2024 and budget gaps of $5.1 billion in FY 2025, $6.8 billion in FY 2026 and $7.9 billion in FY 2027. The November Plan, reflecting significantly higher asylum seeker costs, increased the gap in FY 2025 to $7.1 billion, a record high level. As a response to this challenge, the City initiated the first of three rounds of the FY 2024 Program to Eliminate the Gap (PEG), which helped to reduce the gaps in FY 2026 and FY 2027 to nearly $6.5 billion and $6.4 billion, respectively (see the November Plan report for details).

The sheer size of the FY 2024 PEG, planned for three rounds of 5 percent savings for City agencies, suggested the City would need to take drastic steps in January to balance FY 2025. Instead, the City was able to propose a smaller agency PEG and restore some service cuts planned for FY 2024 that were announced in November. This favorable development was mostly attributable to three sources: an upward adjustment to its revenue forecast, asylum seeker cost reimbursement and savings as well as certain conservative features of the City's budgetary management practices.

Most notably, the January Plan made substantial upward adjustments to total revenues from the November Plan, adding $3.6 billion in FY 2024 and $2.8 billion in FY 2025. The most substantial increases were for City revenue, including about $1.7 billion in FY 2024 and an average of $2.1 billion annually in subsequent years, well exceeding projections in November. Some additional revenue, however, such as over $400 million from the Water Board for rental payments, suggests the City is using options it has not needed in the near past. The City also assumes as-yet-unapproved increases in State aid to reimburse asylum seeker spending, amounting to more than $2 billion through FY 2025. The inclusion of these projected sources of revenue suggests additional revenue upside may be harder to come by going forward.

A historically large PEG generated savings that began in November and have reduced the size of budget gaps. Agency savings in the January Plan, which did not reach the planned target of 5 percent for all agencies, still remain substantial, especially when combined with savings generated in November. Despite restorations of some service cuts announced in November, the City expects to generate $2.9 billion in net savings in FY 2024, $3.8 billion in FY 2025 and more than $2.4 billion on a recurring basis beginning in FY 2026.

Savings in FY 2024 and FY 2025 were bolstered by a targeted 20 percent reduction of asylum seeker spending, which will generate $1.7 billion in savings through FY 2025. These savings amount to the largest PEG program since at least FY 2008. Like revenue adjustments however, the City's decision to roll back service cuts and reduce the target for the agency PEG for January, and now April, suggests future savings will be more difficult to generate. The City must also still execute on its plan on reducing the asylum seeker census population and per diem costs while pressure to maintain City service levels grows.

The City also benefited from substantial in-year (contingency) reserves ($1.4 billion) and conservative accounting for payables ($400 million), which will allow it to prepay an additional amount of expenses in the following year. The City continues to see fiscal benefits from its conservative budgeting practices, which provide a buffer in periods of fiscal stress.

While the path to long-term balance appears more achievable now than just months ago, the path forward will be difficult. The City's budget gaps remain subject to substantial volatility associated with large and difficult-to-predict spending risks, such as asylum seeker costs, rental assistance expansion and the class size mandate. There is also less margin for disappointing revenue results. Overall, OSC assumes that even with some potential revenue upside, budget gaps would be $11.3 billion in FY 2026, $13.4 billion in FY 2027 and $15.9 billion in FY 2028 (see Figure 2); these are formidable amounts and well beyond the City's reserve levels (Figure 3).

The same factors that led to recent improvement hold lessons for how to manage continued fiscal uncertainty. The City needs to sustain its economic recovery to boost revenue growth further beyond projections. Regular reporting on the trajectory of revenue collections is necessary to inform transparent conversations about the affordability of future spending. Trends in revenue must also inform any discussions of revenue options, which can alter both the perception and reality of the City's desirability as a place to live and work in, and whether those steps could be counterproductive.

City revenue growth has well exceeded inflation over the past 10 years, suggesting the City's budgetary balance issues are driven more by spending choices than revenue weakness. To this end, the City should go beyond simply linking spending to fluctuations in revenue and keenly focus on understanding how spending is aligned with the provision of services. Reporting on where it has been successful, or not, in delivering services more efficiently should inform new measures to generate savings. Doing so would also inform where reductions to spending and staffing may need to be reviewed in order to bring services back to target levels.

Further, spending on non- (or quasi-) discretionary costs that are not fully in the City's control, such as health insurance, pensions, other post-employment benefits and debt service, are expected to fuel future cost growth, crowding out discretionary spending. The City's financial plan anticipates city-funded spending will decline from FY 2024 levels for a number of agencies when excluding costs associated with asylum seekers, including Police, Fire, Correction, Transportation, Health and Mental Hygiene, Aging, Environmental Protection, Parks, Children's Services and Youth and Community Development (see Appendix A). Funding for these agencies will be significantly impacted by whether these non-discretionary costs rise in line with projections or come in under expectations.

Finally, the use of formal policies and conservative budgeting techniques that instill fiscal discipline remain key to weathering future fiscal stress. The adoption of a formal reserve policy, transparency over receivables and payables and regular reporting on key cost drivers and their relationship with operational performance can build upon existing longstanding practices to insulate the City from fiscal shocks. They may also provide stakeholders with an understanding of the City's commitment to fiscal restraint and sound budget management.

FIGURE 1
New York City Financial Plan
(in millions)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenues					
Taxes					
General Property Tax	$ 32,691	$ 33,202	$ 33,854	$ 34,818	$ 35,452
Other Taxes	39,590	40,970	42,241	44,030	45,478
Tax Audit Revenue	747	773	773	773	773
Subtotal: Taxes	$ 73,028	$ 74,945	$ 76,868	$ 79,621	$ 81,703
Miscellaneous Revenues	8,621	8,100	7,707	7,646	7,637
Unrestricted Intergovernmental Aid	17	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(2,270)	(1,997)	(2,001)	(1,998)	(1,997)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 79,381	$ 81,033	$ 82,559	$ 85,254	$ 87,328
Other Categorical Grants	1,271	1,086	1,081	1,080	1,080
Inter-Fund Revenues	728	729	737	738	738
Federal Categorical Grants	12,485	7,741	7,215	7,165	7,249
State Categorical Grants	20,239	18,852	17,596	17,658	17,809
Total Revenues	**$ 114,104**	**$ 109,441**	**$ 109,188**	**$ 111,895**	**$ 114,204**
Expenditures					
Personal Service					
Salaries and Wages	$ 32,966	$ 32,738	$ 33,948	$ 35,069	$ 36,039
Pensions	9,355	10,379	10,801	10,926	11,867
Fringe Benefits	13,302	13,956	14,707	15,279	15,885
Subtotal: Personal Service	$ 55,623	$ 57,073	$ 59,456	$ 61,274	$ 63,791
Other Than Personal Service					
Medical Assistance	6,615	6,454	6,583	6,733	6,883
Public Assistance	2,467	1,650	1,650	2,000	2,463
All Other	45,666	40,413	38,339	38,065	37,392
Subtotal: Other Than Personal Service	$ 54,748	$ 48,517	$ 46,572	$ 46,798	$ 46,738
Debt Service	7,653	8,177	8,861	9,488	10,265
FY 2023 Budget Stabilization & Discretionary Transfers	(5,479)	- - -	- - -	- - -	- - -
FY 2024 Budget Stabilization	3,779	(3,779)	- - -	- - -	- - -
Capital Stabilization Reserve	- - -	250	250	250	250
General Reserve	50	1,200	1,200	1,200	1,200
Less: Intra-City Expenses	(2,270)	(1,997)	(2,001)	(1,998)	(1,997)
Total Expenditures	**$ 114,104**	**$ 109,441**	**$ 114,338**	**$ 117,012**	**$ 120,247**
Gap to be Closed	**$ - - -**	**$ - - -**	**$ (5,150)**	**$ (5,117)**	**$ (6,043)**

Source: NYC Office of Management and Budget

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

	Better/(Worse)				
	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Gaps Per NYC Financial Plan	**$ - - -**	**$ - - -**	**$ (5,150)**	**$ (5,117)**	**$ (6,043)**
Revenues					
Tax Revenue	$201	$710	$1,120	$830	$1,340
Subtotal Revenue	**$201**	**$710**	**$1,120**	**$830**	**$1,340**
Expenditures					
Variable Rate Debt Service	75	- - -	- - -	- - -	- - -
Operating Subsidies to the MTA	- - -	(143)	(268)	(450)	(450)
Social Services	(254)	(1,519)	(1,518)	(1,368)	(1,116)
Uniformed Agency Overtime	(323)	(620)	(586)	(577)	(582)
Department of Education	- - -	(719)	(1,102)	(1,466)	(1,899)
Early Intervention	- - -	(65)	(76)	(76)	(76)
School Health (Article 6) Programs	- - -	(36)	(36)	(36)	(36)
DOHMH School Nurses	- - -	(28)	(28)	(28)	(28)
Supportive Housing	- - -	(20)	(20)	(20)	(20)
Public Health Corps	- - -	(13)	(45)	(45)	(45)
Meal Program for Youth Rate Increase	- - -	(4)	(4)	(4)	(4)
CityFHEPS Expansion	- - -	(763)	(2,178)	(3,561)	(4,917)
Residual Services for Asylum Seekers	166	457	(1,431)	(1,465)	(2,000)
Subtotal Expenditures [1]	**(336)**	**(3,473)**	**(7,292)**	**(9,096)**	**(11,173)**
OSC Risk Assessment	**(135)**	**(2,763)**	**(6,172)**	**(8,266)**	**(9,833)**
Potential Gaps Per OSC [2,3,4]	**$ (135)**	**$ (2,763)**	**$(11,322)**	**$(13,383)**	**$ (15,876)**

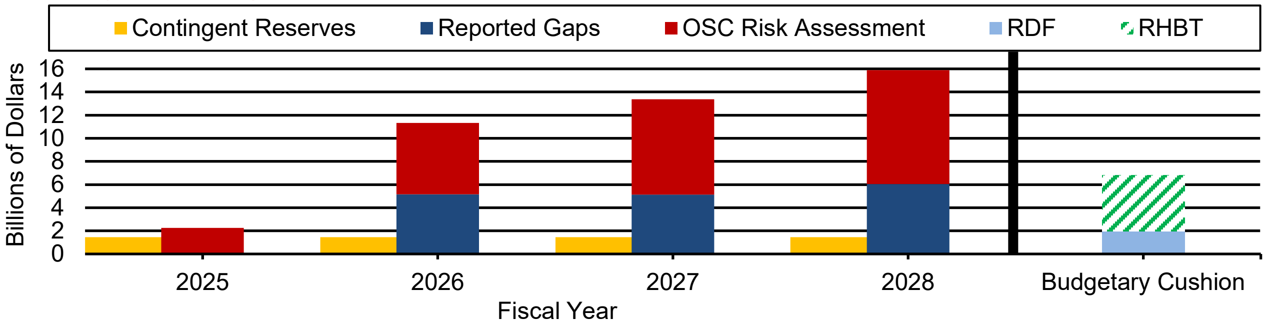
[1] See the Expenditure Trends: Social Services section and the Semi-Autonomous Entities: Department of Education section for details on the financial plan risks at those agencies.

[2] January Plan gaps are inclusive of a general reserve of $20 million in FY 2024 and $1.2 billion in each of fiscal years 2025 through 2028. In addition, the Capital Stabilization Reserve has a balance of $250 million in each of fiscal years 2025 through 2028. The January Plan also includes reserves of about $279 million beginning in FY 2025 to fund potential changes to planned pension contributions from future actuarial audit recommendations.

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

[4] See the Asylum Seeker Cost Implications section for details on OSC's assessment of potential costs and anticipated offsets from federal and State assistance.

FIGURE 3
OSC Adjusted Budget Gaps



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

II. Asylum Seeker Cost Implications

Through February 4, the City reports that over 175,300 asylum seekers have come through its intake system since Spring 2022, and that more than 66,200 of these individuals remain in the City's care. Citing significant costs associated with managing the influx of asylum seekers, fueled by shelter-related spending, the City announced in September 2023 that it would implement three rounds of a new PEG which would cumulatively reduce city-funded agency spending by as much as 15 percent annually starting in FY 2024. In November 2023, the City stated that the second (January) round of the PEG would specifically target a 20 percent reduction to asylum seeker expenses for FY 2024 and FY 2025, in addition to planned agency spending reductions; on February 21, 2024, the Mayor announced a further reduction of 10 percent for this cost (see the Program to Eliminate the Gap section for details).

The January PEG reduces city-funded asylum seeker spending by $1.7 billion over two years, primarily at NYC Health + Hospitals (H+H). The City also anticipates additional State funds, distinct from the PEG, which would reimburse the City for $1.5 billion through FY 2025. Combined, these actions would reduce city-funded spending on asylum seekers by $1.26 billion in FY 2024 and $1.98 billion FY 2025 (see Figure 4).

The Plan also adds $500 million in new spending for both FY 2025 and FY 2026 to partly address out-year funding risks. These combined changes would bring total asylum seeker spending to $4.2 billion in FY 2024, $4.9 billion in FY 2025, $2.5 billion in FY 2026, and $1.5 billion in FY 2027, declining to zero in FY 2028. The City assumes it will absorb 65 percent of these costs through FY 2025, with the State funding an estimated third of the costs. The federal government would contribute about 1 percent.

The State executive budget for State fiscal year (SFY) 2025 added $530 million in FY 2024 and FY 2025 each for direct aid to the City, as well as another $637 million in funds intended to cover 100 percent of the operations of Humanitarian Emergency Response and Relief Centers (HERRCs) at Creedmoor Psychiatric Center, Randall's Island, and Floyd Bennett Field. These additions would bring total direct State funding to nearly $3.4 billion through the City's FY 2025, but include safety net assistance funding that the City does not include in its projection. With the safety net assistance, State funding would rise by $1.9 billion from the SFY 2024 Financial Plan.

FIGURE 4
Changes in Citywide Asylum Seeker Spending
FY 2024 and FY 2025
(in millions)

Agency	FY 2024 November	FY 2024 January	Variance (Less)/ More	FY 2025 November	FY 2025 January	Variance (Less)/ More
Health + Hospitals.	$2,174.1	$1,729.4	($444.7)	$2,821.8	$1,816.1	($1,005.7)
Homeless & Social Svcs	1,451.1	1,390.6	(60.5)	1,895.7	1,816.8	(78.9)
Housing Preservation	432.5	431.9	(0.6)	670.6	571.7	(98.9)
Citywide Admin. Svcs.	380.0	380.0	- - -	403.0	403.0	- - -
Emergency Management	160.0	160.0	- - -	186.9	141.2	(45.6)
Office of Info. Tech.	80.8	80.8	- - -	90.0	90.0	- - -
All Other	41.5	46.1	4.6	34.4	34.4	- - -
Total Spending	**$4,720.2**	**$4,218.8**	**($501.3)**	**$6,102.4**	**$4,873.2**	**($1,229.2)**
City Funds	$3,566.1	$2,302.3	($1,263.8)	$5,540.3	$3,561.1	($1,979.2)
State Funds	1,009.4	1,761.4	751.9	562.1	1,312.1	750.0
Federal Funds	144.7	155.2	10.5	- - -	- - -	- - -
Total Funding	**$4,720.2**	**$4,218.8**	**($501.3)**	**$6,102.4**	**$4,873.2**	**($1,229.2)**

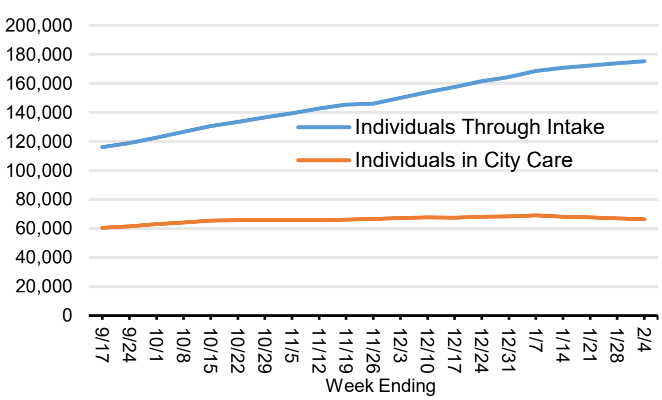
Note: Totals may not add due to rounding.
Source: NYC Office of Management and Budget

State funding excluding safety net assistance is around $300 million less than the City's January Plan assumptions (see the State and Federal Actions section for details).

The PEG for asylum seeker spending assumes the City will be able to slow, and ultimately flatten, census growth and reduce per diem costs. The City's November Plan assumed that the asylum census would grow by a net of 55 households daily until June 2024, with daily costs averaging $383 per household through FY 2025. The January Plan lowers the average daily census growth to 29 households and assumes the census will stabilize in October 2024. It also revises the expected per diem rates to $386 in FY 2024 and $352 in FY 2025, a 2 percent and 10 percent reduction, respectively, from the FY 2023 actual per diem rate ($394). Of the $1.7 billion in proposed savings, over $650 million would be from per diem reductions, with the majority driven by census decline.

To this end, beginning in September 2023, the City operationalized policy changes designed to expedite the exit of asylum seekers from the City's care. While the total number of people entering the City's intake continues to rise, the number remaining in the City's care has slowed (see Figure 5). The census of individuals in care

FIGURE 5
NYC Asylum Seeker Census



Source: NYC Office of Asylum Seekers Operations

actually declined in January, which if sustained, could lead to further savings compared to anticipated spending. However, this number is subject to many complex factors that make it difficult to predict, including those outside of the City's direct control.

One policy action, the 60-day rule, requires asylum seekers to leave their assigned shelter after 60 days and, if needed, reapply for a new placement at the City's intake center (see OSC's [November Plan report](#) for details). Initially, the 60-day rule applied solely to single adults (it is now 30 days for single adults). In November, the City applied the 60-day rule to families with children.

The City expects to achieve lower per diem rates through renegotiating existing contracts and transitioning services from the HERRC shelter model to non-profit service providers. However, these savings are contingent upon successful negotiations, some of which are still pending.

Acknowledging that there are still many unknown variables for asylum seeker costs, including federal, State and local policy and the feasibility of lowering the average household per diem cost, OSC finds the City's total cost estimates reasonable for FY 2024 and FY 2025 based on recent asylum seeker census numbers. While the census has declined recently, on average it has grown by roughly 18 households per day from September 2023 through February 4, 2024. If the census continues to grow at this slower rate and stabilizes in FY 2025, OSC estimates that costs could be lower by $166 million in FY 2024 and $457 million in FY 2025, even if the per diem is not reduced from the actual FY 2023 level. Assuming a gradual decline in census beginning FY 2026, OSC projects that costs could be higher by roughly $1.43 billion in FY 2026, $1.46 billion in FY 2027, and $2 billion in FY 2028. However, these numbers are highly dependent on census trends.

III. Economic Trends

National Economy

The national economy entered 2024 on better footing than during the City's last economic forecast update in April. Economic growth, as measured by gross domestic product (GDP), beat expectations in 2023, growing 2.5 percent over the prior year. Various indicators, from employment to consumer spending to financial market returns, remained resilient through most of the year and even strengthened in the second half of 2023. Consensus Blue Chip economic forecasts now assume the nation will not experience a recession in the next two years.

Part of the reason for the improving economic outlook is that inflation has slowed considerably, a stated intention of the Federal Reserve's decision to raise interest rates by 525 basis points beginning in March 2022. The decision has resulted in the consumer price index falling materially from a high of 9.0 percent in June 2022. As a result of slowing price growth, the Federal Reserve has paused interest rate increases since September 2023, and its latest economic forecast suggests rates may be cut beginning in June 2024. Markets have reacted optimistically, with some participants anticipating cuts sooner than the Federal Reserve's forecast. The Federal Reserve continues to rely on key economic data to inform its monetary policy path. The pace and size of cuts will have considerable impacts on the national and local economies.

In January 2024, the national economy added 353,000 jobs (seasonally adjusted) as the unemployment rate held at 3.7 percent. While job growth generally slowed over the second half of the year compared to the first half, it picked up significantly in December 2023 and January 2024. Wage growth also picked up in January, reaching 4.5 percent after remaining at 4.3 percent over the prior three months. Wage growth continued to outpace consumer price growth at 3.1 percent as of January.

City Economy

The City's economy continues to recover from the pandemic at a slower pace than the nation. As of December 2023, the City has recovered 99.4 percent of jobs lost in the pandemic. However, the recovery has been uneven, and some sectors have seen their employment gains reverse (see Figure 6).

FIGURE 6
Percent of Pandemic Jobs Losses Recovered in New York City by Industry Sector

Industry Sector	Jobs Lost	December 2021	December 2022	December 2023
Information	(24,800)	121.4%	152.4%	46.4%
Transportation, Warehousing, and Utilities	(36,800)	116.0%	119.6%	97.3%
Education and Health Services	(140,700)	100.4%	146.1%	211.3%
Professional and Business Services	(89,200)	83.2%	129.4%	122.8%
Mining, Logging and Construction	(70,600)	78.0%	83.4%	94.1%
Retail Trade	(114,500)	76.5%	79.3%	73.0%
Leisure and Hospitality	(299,900)	73.6%	92.1%	97.2%
Manufacturing	(27,700)	71.5%	75.5%	69.3%
Other Services	(65,700)	71.1%	84.0%	77.3%
Wholesale Trade	(31,400)	66.9%	79.6%	69.1%
Financial Activities	(20,300)	50.2%	170.9%	156.7%
Government	(4,800)	-283.3%	-206.3%	-233.3%

Note: Though some sectors such as information and government continued to lose jobs through July 2020, this analysis defines pandemic job losses as jobs lost in March and April 2020.
Sources: New York State Department of Labor, Current Employment Statistics; OSC analysis

Sectors such as information and transportation, warehousing and utilities recovered pandemic job losses through 2022 but lost jobs the following year. The shifts were due, in part, to consumer demand for goods slowing from pandemic highs and shifting to services, as well as high interest rates influencing investment and consumption patterns. Sectors such as financial activities and health care and social assistance faced fewer pandemic job losses to begin with, and health care, in particular, has added home health aides and licensed practical nurses.[5] The retail trade sector has yet to fully recover pandemic job losses.

While the City is very close to recovering its pandemic job losses, the industry composition has shifted compared to before the pandemic, with the share of jobs in the retail trade sector down to 6.5 percent from 7.5 percent and the share of jobs in the education and health services sector up to 25.5 percent from 22.7 percent.

Wall Street also saw profitability and industry bonuses in 2022 return to pre-pandemic levels after near-record profits.[6] However, 2023 saw stronger-than-expected growth, with profits for the first three quarters reaching over $20 billion, a 3.7 percent increase over the prior year. The growth was fueled by securities trading and interest-related income. Given the relative strength of the last three quarters, the City expects securities industry profits to reach $25.1 billion this year. If profits for the fourth quarter of 2023 remain flat over the fourth quarter of the prior year, full-year profits would reach $26.2 billion. Profits for the six largest banks may provide an early signal that the securities industry fared better than expected in 2023, as they were 7.8 percent higher than the prior year.

Tourism-related industries continue to rebound as evidenced by hotel occupancy, room rates and Broadway attendance levels, supported by visitor and commuter numbers.[7] The City's official tourism agency, New York City Tourism + Conventions, estimates that 61.8 million people visited the City in 2023 and 64.5 million people will visit in 2024, suggesting the number of visitors will reach pre-pandemic levels in 2025.

Other economic indicators continue to struggle, however. With still-high vacancy rates, commercial real estate continues to pose a challenge to tax revenues. While commercial property (i.e., Class 4) values declined significantly during the height of the pandemic, they have since risen, with the latest fiscal year 2025 tentative roll surpassing pre-pandemic levels for the first time. Continuing vacancies and potential residential conversions may lead to fluctuation in valuations in the coming years.

The national and local economies currently appear strong. However, geopolitical conflict continues to threaten global supply, and thereby, price stability and productivity. Additionally, Federal Reserve actions to reduce inflation and manage interest rates to support full employment will continue to affect the City's economic outlook.

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[5] OSC, *NYC Health + Hospitals: Nurse Staffing Trends*, Report 2-2024, May 2023, https://www.osc.ny.gov/files/reports/osdc/pdf/report-2-2024.pdf.

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

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

IV. Changes Since the June 2023 Plan

At budget adoption (June 2023), the City projected a balanced budget for FY 2024 and budget gaps of $5.1 billion in FY 2025, $6.8 billion in FY 2026 and $7.9 billion in FY 2027. The November Plan increased the gap in FY 2025 to $7.1 billion and reduced the gaps in FY 2026 and FY 2027 to $6.5 billion and $6.4 billion, respectively (see OSC's November Plan report for details). The January Plan eliminates the budget gap in FY 2025 and reduces the gaps in each of the out-years, primarily through increased revenue projections in all years, additional costs savings from a two-part second installment of the PEG and by drawing down in-year (contingency) reserves in FY 2024. These combined actions more than offset newly identified costs and generated $3.1 billion in additional surplus funds in FY 2024, bringing the total to $3.8 billion since June. These excess funds will be used to prepay expenses in FY 2025 (see Figure 7; next page).

Since November, overall City fund revenue increased by $1.6 billion in FY 2024 and by an average of $2 billion annually in subsequent years. The January Plan reflected a net increase in tax revenue projections of $1.3 billion in FY 2024, growing to $2.2 billion by FY 2027, fueled by increases in business, personal income and property taxes (see the Revenue Trends section for details). The overall revenue projection improved despite a decrease of about $500 million annually in real estate transaction taxes. Non-tax revenue adjustments reflected another $279 million in FY 2024 and $354 million in FY 2025, largely from the re-introduction of the water rental payment.

The second round of the FY 2024 PEG added savings of $1.2 billion in FY 2024, $1.7 billion in FY 2025 and an average of $525 million annually thereafter, net of restorations (see the Program to Eliminate the Gap section for details). Agency actions contribute net savings of $640 million in FY 2024 and an average of $437 million in each of the following years. The restorations, starting at $66 million in FY 2024 and growing to $135 million by FY 2027, included the reinstatement of the April 2024 police academy class, funding for 270 uniformed personnel at the Fire Department and Department of Sanitation that were slated to be eliminated, and job training programs at the Department of Parks and Recreation and the Department of Sanitation.

Also included in the January Plan PEG are asylum seeker reestimate savings of $515 million in FY 2024 and $1.2 billion in FY 2025, initially announced in a PEG directive to agencies following the release of the November Plan. These savings were generated by updating census projections to reflect recent policy changes and an expected reduction in per diem costs (see the Asylum Seeker Cost Implications section for details).

The January Plan also included $750 million in additional anticipated State aid for asylum seeker costs in each of fiscal years 2024 and 2025 (see the State and Federal Actions section for details). The City also reflected higher projected asylum seeker costs of $500 million in each of fiscal years 2026 and 2027. As of the financial plan update, the comprehensive total of asylum seeker costs is now $4.2 billion in FY 2024, $4.9 billion in FY 2025, $2.5 billion in FY 2026 and $1.5 billion in FY 2027. As presented in the City's January Plan, State funding would account for one-third of the combined cost in fiscal years 2024 and 2025.

Other notable adjustments included the draw down of $1.4 billion in budget reserves in FY 2024, a routine adjustment at this point in the budget cycle, leaving a balance of $50 million. Additionally, the January Plan reflected $400 million in FY 2024 from prior-year payables

FIGURE 7
Financial Plan Reconciliation — City Funds
January 2024 Plan vs. June 2023 Plan
(in millions)

	Better/(Worse)			
	FY 2024	FY 2025	FY 2026	FY 2027
Projected Gaps Per June 2023 Plan	**$ - - -**	**$ (5,079)**	**$ (6,836)**	**$ (7,900)**
Updated Tax Estimates				
Business Taxes	1,136	663	688	694
Personal Income Taxes	1,058	903	677	645
Sales Taxes	154	88	67	36
General Property Taxes	114	962	1,345	1,702
Hotel Taxes	31	18	21	10
Real Estate Transaction Taxes	(628)	(567)	(457)	(435)
Other Taxes	(10)	(16)	(5)	(12)
Subtotal	**1,855**	**2,051**	**2,336**	**2,640**
Non-Tax Revenue Reestimates	**408**	**395**	**64**	**51**
Total Revenue Reestimates	**2,264**	**2,446**	**2,401**	**2,691**
Contingent Reserves	**1,400**	**- - -**	**- - -**	**- - -**
Program to Eliminate the Gap (PEG)				
Agency Savings	2,394	2,500	2,412	2,422
Restorations	(66)	(129)	(133)	(135)
Debt Service	72	63	146	210
Subtotal	**2,401**	**2,434**	**2,424**	**2,497**
New Agency Needs	**(3,335)**	**(518)**	**(683)**	**(1,004)**
Asylum Seeker Costs				
Total Costs	(1,829)	(5,100)	(2,500)	(1,500)
Asylum Seeker Cost Savings (PEG)	515	1,229		
State Aid	1,199	1,022	- - -	- - -
Federal Aid	20	- - -	- - -	- - -
Subtotal	**(95)**	**(2,849)**	**(2,500)**	**(1,500)**
Updated Estimates				
Pension Contributions	274	43	84	141
Federal Stimulus Swaps	240	(228)	- - -	- - -
Other Federal Funding Shift	250	- - -	- - -	- - -
Prior Years' Expenses	400	- - -	- - -	- - -
All Other	(18)	(30)	(40)	(42)
Subtotal	**1,146**	**(214)**	**44**	**99**
Total Expense Reestimates	**1,516**	**(1,147)**	**(715)**	**92**
Net Change	**3,779**	**1,300**	**1,686**	**2,783**
Gaps to Be Closed Before Prepayment	**$ 3,779**	**$ (3,779)**	**$ (5,150)**	**$ (5,117)**
FY 2024 Prepayment of FY 2025 Expenses	(3,779)	3,779	- - -	- - -
Gaps to Be Closed Per January 2024 Plan	**$ - - -**	**$ - - -**	**$ (5,150)**	**$ (5,117)**

Notes: Columns may not add due to rounding.
Other revenue reestimates exclude savings initiatives, which are reflected in the "Program to Eliminate the Gap (PEG)" category.
PEG agency savings exclude asylum seeker cost savings, which are reflected in the "Asylum Seeker Costs" category.
Sources: NYC Office of Management and Budget; OSC analysis

as well as $274 million from lower-than-planned pension contributions.

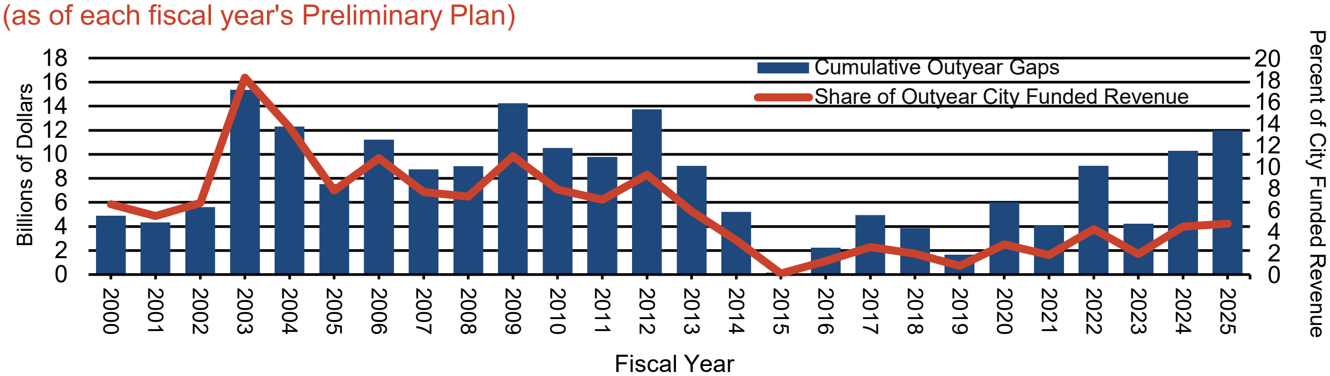
These developments more than offset new agency costs of $2.5 billion in FY 2024 and an average of $650 million annually in the out-years of the plan. The bulk of the added expenses in FY 2024 include non-recurring funds for rental assistance and cash assistance for the Department of Social Services ($910 million), personal services adjustments at the uniformed agencies mostly for overtime ($522 million), foster care and child care at the Administration of Children's Services ($199 million), and a reestimate of the MTA subsidy ($143 million). Virtually all of the recurring funding added in the out-years is for programming at the Department of Education (DOE), primarily for student transportation costs and charter school funding, both programs that have been consistently underfunded in recent years.

Cumulatively, the January Plan changes generate a net positive budget impact in each year of the financial plan period. In addition to balancing FY 2025, fiscal year 2026 and 2027 gaps were reduced by $1.3 billion in each year, to a total of $5.2 billion and $5.1 billion, respectively. The FY 2028 budget gap totals $6 billion.

While the overall financial outlook for the City has improved since the November Plan, the remaining out-year budget gaps total the highest nominal amount on record through this point in the budget cycle, at $16.3 billion over three years. As a point of reference, the last time the out-year gaps were nearly as high was in FY 2008, at the onset of the Great Recession ($15.1 billion).

Measured as a share of City fund revenues, the remaining out-year gaps average 6.4 percent — the highest level at this point in the budget cycle since FY 2012 (6.5 percent), but lower than the share experienced during the Great Recession. Existing contingencies (totaling $1.45 billion in each fiscal year) could be used to narrow the gaps to an average of 4.7 percent of revenues (see Figure 8).

FIGURE 8
Cumulative Outyear Gaps as a Share of Outyear City Fund Revenue
(as of each fiscal year's Preliminary Plan)



Note: Gaps have been adjusted to exclude reserves and contingencies.
Sources: NYC Office of Management and Budget; OSC analysis

V. State and Federal Actions

State Budget

The January Plan assumed the City would receive $18.9 billion in State categorical aid in FY 2025. On January 16, 2024, the same day that the City released its January Plan, the State executive budget for SFY 2025, which begins on April 1, 2024, was released. On a net basis, the State Division of the Budget estimates that the proposal would have a positive impact to the City, as compared to the SFY 2024 enacted budget, of $821 million in FY 2024 and $1.4 billion in FY 2025, most of which will be for asylum seeker costs in the City (see Figure 9).

FIGURE 9
NYS Executive Budget Impact on NYC
(in millions) Better/(Worse)

	FY 2024	FY 2025
Asylum Seeker Costs	818	940
Safety Net Assistance		134
School Aid	- - -	342
Revenue Actions	1	39
Sales Tax Intercept	- - -	(38)
Early Intervention	- - -	7
Domestic Violence	1	6
Other Changes	1	(4)
Net Impact	**$ 821**	**$ 1,426**

Sources: NYS Division of the Budget; OSC analysis

The largest source of better-than-anticipated funding for the City in the proposal is for asylum seeker costs, including $530 million in each of fiscal years 2024 and 2025 for direct aid. An additional $288 million in FY 2024 and $350 million in FY 2025 would be provided for 100 percent reimbursement of the operations of HERRCs at Creedmoor Psychiatric Center, Randall's Island and Floyd Bennett Field. The State will provide an estimated $134 million for Safety Net Assistance, $40 million for vaccinations and medical testing for asylum seekers and $20 million for case management and legal services.

Outside of funds directed to the City's budget, the State has budgeted another $509 million of spending for asylum seekers for services such as the deployment of the National Guard, Medicaid and case management for a total of $2.4 billion in the executive budget, which may have indirect implications for City spending. The State had provided $1.9 billion for asylum seekers in previous budgets for a total of $4.3 billion, $3.4 billion of which would go to the City. The City's January Plan expects $1.8 billion in FY 2024 and $1.3 billion in FY 2025 in State aid for asylum seekers, 34 percent of the total City projection for those years and has not budgeted for any future State aid for such costs after FY 2025.

The second largest positive impact from the proposal would be for school aid. The City did not budget any increase in State education aid from the prior year. However, the State would provide the City with $222 million more in school Foundation Aid than the prior year and proposes to increase expense-based and categorical school aid to the City by $120 million more than last year. Together, this funding is $342 million more than expected in the City's January Plan in FY 2025. The executive budget also proposes that mayoral control of City schools be extended by four years to June 30, 2028.

In addition, the executive budget proposes changes to the formula used to calculate Foundation Aid. The City estimates that the impact of this new formula would cost the City $130 million in FY 2025 compared to the funding it would have received under the current formula. There is no direct budget impact as the City did not budget for a State education aid increase.

The State would increase revenues to the City by around $1 million in FY 2024 and by $39 million in FY 2025 by permanently extending the itemized deduction limit for high income filers ($20 million), modernizing the tax law to include the vacation rental industry ($10 million), allowing for amended sales tax returns ($2 million), and repealing and replacing the cannabis potency tax ($500,000 in FY 2024 and $7 million in FY 2025).

The State executive budget proposes changes to Early Intervention that is expected to save the City $7 million in FY 2025 and would also provide $1.4 million in FY 2024 and $5.7 million in FY 2025 to the City's district attorney's office for domestic violence programs. The State would increase the threshold for the use of federal funds in the Temporary Assistance for Needy Families Flexible Fund for Family Services program which is expected to cost the City $5 million in FY 2025.

The largest negative budget impact on the City is the proposal that would extend a City sales tax intercept that is dedicated to helping distressed hospitals for three years, to March 2028, which would reduce City sales tax revenues by $38 million in FY 2025, $150 million in each of FY 2026 and FY 2027 and $112 million in FY 2028.

The proposed executive budget contains other actions that may impact the City or its residents, but do not have a direct quantifiable impact on its budget. The executive budget replaces the expired 421-a real estate tax abatement program with a new program called 485-x and extends by five years to 2031 the deadline when projects receiving 421-a benefits must be completed. The budget would also authorize the City to legalize existing basement and cellar dwellings; allow the floor area ratio in the City to be higher than 12; and proposes a property tax exemption in the City to encourage the conversion of commercial properties to residential properties that provide affordable housing.

The State would allow the City to reduce the speed limit on its streets to as low as 20 miles per hour and as low as 10 miles per hour in school zones and other traffic calming zones.

The State executive budget proposes to increase the bond limit at the Transitional Finance Authority from $13.5 billion to $19.5 billion on July 1, 2024, and to $25.5 billion on July 1, 2025, which would provide $12 billion more in debt-incurring power when fully phased in. As an alternative to this proposal, the City is asking for an $18.5 billion increase in the bond limit to $32 billion with additional annual percentage increases equal to the annual percentage increase, if any, in Personal Income Tax (PIT) revenues.

Federal Actions

The January Plan assumes that total federal receipts for the operating budget continue to wind down after peaking in FY 2022 (at $15.2 billion), from an average of $11.3 billion in fiscal years 2023 and 2024 to nearly $7.7 billion in FY 2025. Receipts decline to about $7.2 billion starting in FY 2026 as the City draws down the balance of pandemic relief aid.

Pandemic Relief

Through FY 2023, the City realized a total of $22 billion in federal aid (including unrestricted aid) to respond to the impacts of COVID-19. Of this amount, more than $19 billion has been claimed or collected to date. The January Plan assumes pandemic aid will total $3.6 billion in FY 2024 (mostly for education and general fiscal relief; see Figure 10) and will decline sharply in subsequent years as the stimulus program reaches its conclusion.

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

FIGURE 10

Federal Pandemic Relief to NYC by Major Category

(in millions)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Education Aid	$ - - -	$944.9	$2,874.6	$2,019.9	$2,104.9	$ - - -	$ - - -	$ - - -	$ - - -
Fiscal Relief Funds	730.1	1,505.0	3,067.9	495.6	1,060.0	475.4	- - -	- - -	- - -
FEMA Reimbursement	1,147.0	3,064.3	2,161.3	249.7	9.1	1.0	1.0	- - -	- - -
Public Health Grants	41.5	880.5	422.6	159.2	335.2	0.2	- - -	- - -	- - -
Other	105.0	468.5	964.7	126.5	136.9	74.6	41.3	31.3	31.3
Subtotal	**$2,023.6**	**$6,863.2**	**$9,491.2**	**$3,050.9**	**$3,646.8**	**$551.1**	**$42.3**	**$31.3**	**$31.3**
Unrestricted Aid	- - -	- - -	$498.4	$106.0	- - -	- - -	- - -	- - -	- - -
Total	**$2,023.6**	**$6,863.2**	**$9,989.6**	**$3,156.8**	**$3,646.8**	**$551.1**	**$42.3**	**$31.3**	**$31.3**

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

Federal Budget

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

In past years, Congress has rarely approved the federal budget by the start of the new fiscal year and has instead utilized stop-gap measures to extend funding for government operations at current levels until a new budget is passed. Currently, the federal government is operating under a continuing resolution to extend funding for its operations through early March.

As noted earlier in this report, the City is experiencing a large-scale humanitarian crisis due to an influx of asylum seekers. The Governor and the Mayor have each issued executive orders declaring a state of emergency. The federal government, however, has not made any commitment to provide a matching contribution toward the ongoing costs of services for asylum seekers, as it has done in past emergencies (such as the recent pandemic, when FEMA reimbursed 100 percent of eligible costs during much of the public health emergency (PHE), and 75 percent of eligible costs in most other emergencies pursuant to the Stafford Act). To date, $800 million nationally in ad hoc funding has been appropriated for such costs, but the City expects to receive just $153.5 million of this funding for FY 2024. The City is also allocating a small amount of pandemic aid to fund a portion of the public health costs for asylum seekers ($1.7 million). In total, federal aid for asylum services is estimated at $155.2 million (compared to $3.4 billion in proposed State budgetary relief through FY 2025, see previous section for details).

The recent stop-gap measures passed by Congress to extend funding for government operations do not include any additional targeted fiscal relief to State and local governments for asylum services. Recently, however, a $118 billion bipartisan border security and foreign aid package was introduced in the Senate which includes an additional $1.4 billion for FEMA's Shelter and Services Program (SSP). If the legislation is approved, a portion of the new SSP funding could be allocated to the City. Absent alternatives, the State and the City will continue to incur virtually the entire cost of the asylum services.

VI. Program to Eliminate the Gap

In September 2023, the City announced a PEG which called for steep reductions in agency spending of 5 percent in each of three financial plan "rounds" in November, January, and April. The savings were intended to recur over each year of the financial plan period, cumulatively reaching nearly 15 percent of city-funded spending annually starting in FY 2024. In November 2023, the City unveiled the first round, which included $3.7 billion in savings during fiscal years 2024 and 2025, and an average of more than $1.9 billion annually in subsequent years (see OSC's November Plan report for details).

The City initiated the second round of the PEG in January 2024 (see Figure 11 for the savings generated from both rounds), which included a 20 percent targeted reduction of asylum seeker spending, in addition to the agency spending reductions. However, the City also revised its revenue projections upward, creating additional resources not anticipated in the November Plan (see the Changes Since the June 2023 Plan section for details).

These resources allowed the to make the second round of the agency-based PEG smaller than anticipated by exempting or reducing the January 2024 PEG target at some agencies to minimize further service disruptions (for example, excluding the libraries from further cuts to planned spending). The City also restored some cuts to planned spending announced in November 2023.

While the PEG is smaller than was originally planned, the City was still able to close a record $7 billion gap in FY 2025. In addition, the Mayor recently announced that, citing strong fiscal management and additional cuts to asylum seekers spending, the third round of cost-reduction initiatives scheduled for April 2024 will be cancelled, and the City will ease restrictions on hiring and on other agency spending.

FIGURE 11
FY 2024 Program to Eliminate the Gap
(in millions)

	Positions	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total
Agency Actions							
Efficiencies	(3,146)	689	1,032	1,027	1,035	1,036	4,819
Expense Reestimates	(78)	739	842	822	842	691	3,936
Revenue Reestimates	2	882	242	240	221	202	1,786
Service Reduction	(189)	84	384	324	324	357	1,473
Agency Subtotal	**(3,411)**	**2,394**	**2,500**	**2,412**	**2,422**	**2,286**	**12,014**
Asylum Services	- - -	515	1,229	- - -	- - -	- - -	1,744
Restorations							
Service Reduction	80	(41)	(91)	(94)	(95)	(100)	(421)
Efficiencies	190	(25)	(37)	(39)	(39)	(39)	(179)
Expense Reestimates	- - -	- - -	(1)	(1)	(1)	(1)	(4)
Restorations Subtotal	**270**	**(66)**	**(129)**	**(133)**	**(135)**	**(140)**	**(604)**
Debt Service	**- - -**	**72**	**63**	**146**	**210**	**291**	**782**
Total Savings	**(3,411)**	**$ 2,982**	**$ 3,792**	**$ 2,558**	**$ 2,632**	**$ 2,577**	**$ 14,540**
Net Savings	**(3,141)**	**$ 2,916**	**$ 3,663**	**$ 2,424**	**$ 2,497**	**$ 2,436**	**$ 13,937**

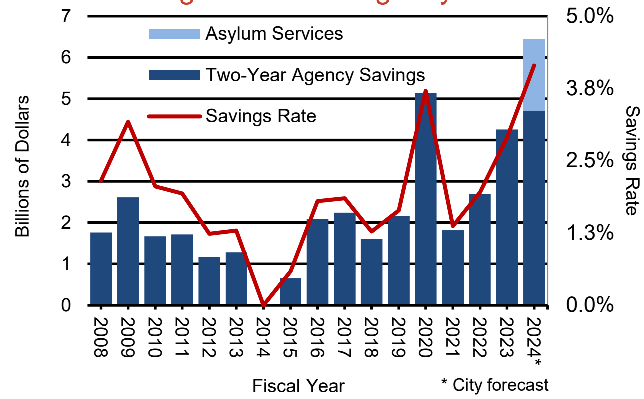
Note: Totals may not add due to rounding. Changes in headcount are as of June 30, 2025.
Sources: NYC Office of Management and Budget; OSC analysis

The January Plan assumes the City will realize $6.6 billion in savings during fiscal years 2024 and 2025 (including $1.7 billion over two years from lower-than-planned costs for asylum services), and an average of more than $2.4 billion annually in subsequent years. It would also reduce planned staffing by 3,141 positions by the end of FY 2025.

As shown in Figure 12, the portion of the PEG contributed by the agencies is already the largest amount since at least FY 2008 (including asylum savings), both in absolute terms and as a share of city-funded spending anticipated at each budget adoption. OSC excluded debt service, drawdowns of budgetary reserves, and other gap-closing actions which are not generated from the agencies.

So far, most of the initiatives in the first two rounds of the FY 2024 PEG are within the City's control to implement. However, some require operational changes which may be difficult to achieve given current trends and the City's assumptions (such as reductions to overtime at the uniformed agencies, which currently exceed last year's level). In addition, some of the actions announced in the first two rounds have been unpopular and have faced strong public opposition. The City has already restored some actions to prioritize public safety, health, and

FIGURE 12
Annual Savings Rate from Agency Actions



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

cleanliness programs. Additional restorations could follow depending on the availability of resources and budgetary priorities.

Despite the short-term improvement to the City's fiscal outlook and efforts to minimize service impact, the City anticipates that some planned service reductions will still be necessary. The savings from service reductions are expected to total $44 million in FY 2024, rising to $293 million in FY 2025 with slightly smaller amounts in subsequent years (7.5 percent of the cumulative value of the five-year program; see Figure 13).

Of the amount expected to be generated from service reductions, more than three-quarters (77 percent) will come from the cancellation of four

FIGURE 13
Service Reductions by Agency
(in millions)

	Positions	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total
Police Department	- - -	26	236	175	173	197	808
Dept. Youth & Comty. Dev	- - -	- - -	25	25	25	25	100
Dept. of Sanitation	(109)	5	10	9	9	14	48
Dept. of Cultural Affairs	- - -	12	8	8	8	8	42
Dept. of Education	- - -	- - -	8	8	8	8	32
Dept. of Homeless Svcs.	- - -	- - -	4	4	4	4	14
All Other Agencies	- - -	- - -	2	2	2	2	7
Total Savings	**(109)**	**$ 44**	**$ 293**	**$ 230**	**$ 228**	**$ 257**	**$ 1,052**

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

police officer academy classes through June 30, 2025, which would reduce the patrol force levels through attrition. (While the original target was the cancellation of five police academy classes, the January Plan includes the restoration of the April 2024 class.) However, the City did not reduce its staffing plan by the corresponding headcount and the authorized uniformed headcount at the Police Department is unchanged from the June 2023 Plan.

The City indicates that one-third (33.3 percent) of the savings over the plan period would come from efficiencies ($664 million in FY 2024, and by an average of $994 million annually starting in FY 2025). The City considers initiatives to be efficiencies if the City's finances can be improved (i.e., lowering spending, optimizing grant claiming, or increasing revenue collection) without reducing service levels. These resources would come mostly from personal services savings by eliminating vacant positions, pausing new hires and from making operational changes to reduce overtime at the uniformed agencies and administrative costs at the DOE.

The City also plans to scale back its early childhood programs at the DOE (reflecting current enrollment trends) and reduce its operating subsidy to the libraries. Included in the efficiencies is a reduction to the City's operating subsidy to the public libraries, which have implemented the cut by eliminating Sunday service at most branches.

More than one-quarter (28.2 percent) of the cumulative four-year savings, excluding the asylum program, will come from expense reestimates ($739 million in FY 2024, and an average of $799 million annually in subsequent years). Most of the savings from expense re-estimates will come from lower personal services attributable in part to the City's still relatively high vacancy rate as well as a slower-than-expected growth in fringe benefits at the DOE. The City also eliminated the inflation adjustment for procurement in FY 2025.

In January 2024, the City announced a plan to reduce asylum spending by one-fifth of the current forecast for fiscal years 2024 and 2025, by cutting per-diem costs and slowing the census growth. This action is expected to save more than $1.7 billion over two years (see the Asylum Seeker Cost Implications section for details). On February 21, 2024, the Mayor announced that the City will generate additional savings equal to 10 percent in budgeted city-funded asylum costs.

A small portion (12.8 percent) of the savings will come from revenue reestimates. The City anticipates $882 million from this source in FY 2024, although most of that amount will come from prior-year revenue, which is not assumed to recur. The recurring portion will come mainly from shifting financial responsibility from the City to the State or federal governments for certain services (e.g., school food program, day care, foster care, and public housing assistance). The City also anticipates the receipt of additional fines from redeploying cameras to enforce the local speeding limits. Debt service is expected to generate $782 million over five years, or 5.6 percent of the cumulative savings, as the City has chosen to delay debt issuance or has generated savings from interest costs that lag its projections.

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

VII. Revenue Trends

Total revenues, which includes locally generated revenues (i.e., City funds) and federal and State categorical aid, were forecast to rise for all fiscal years by a sum of $10.8 billion, compared to the November Plan. The largest increases were in fiscal years 2024 and 2025, whose forecasts were increased by $3.6 billion and $2.8 billion, respectively, reflecting better-than-expected City funds and State-funded grants. Total revenue is now expected to reach $109.4 billion in FY 2025.

Despite the increase in City fund revenue, the January Plan expects total revenues to decline by 4.1 percent in FY 2025 due to a large $6.1 billion decline in federal and State grants. The decline is the result of smaller increases in State and federal aid anticipated in FY 2025 than in FY 2024. In FY 2024, the City increased its forecast of State aid for asylum seeker services and federal aid for child care and cash assistance by $1.9 billion. In FY 2025, the City increased its forecast by only $825 million.

The January Plan increased the forecast for City funds by $2 billion in FY 2025 to a record high of $81 billion, accounting for 74 percent of total revenues (see Figure 14). Tax collections account for 92 percent of City fund revenues; miscellaneous revenues account for 8 percent.

With better-than-expected collections in the first half of FY 2024, the January Plan increased the forecast for tax collections by $1.3 billion from the November Plan, mostly for business taxes and PIT. In the first half of FY 2024, year-to-date collections were $1.1 billion (including audits) higher than what the November Plan had expected, as all major tax collections were higher than anticipated except for real estate transactions taxes.

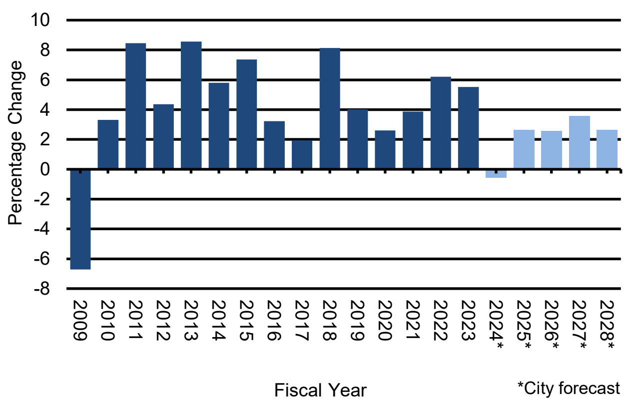
Even though year-to-date collections were higher than expected, they were still 2 percent lower ($881 million) than the same period last year as collections from certain taxes had large declines, particularly PIT and real estate transactions taxes. However, total tax collections are expected to improve in the second half of the fiscal year, reflecting anticipated economic growth. As a result, the City expects collections to decline from FY 2023 by just 0.6 percent. This would still represent the first decrease since FY 2009, but better than the November Plan forecast of a 2.3 percent drop (see Figure 15).

FIGURE 14
Trends in City Fund Revenues
(in millions)

	FY 2024	FY 2025	Annual Growth	FY 2026	FY 2027	FY 2028	Average Three-Year Growth Rate
General Property Tax	$ 32,691	$ 33,202	1.6%	$ 33,854	$ 34,818	$ 35,452	2.2%
Personal Income Tax	16,001	17,028	6.4%	17,399	18,401	19,137	4.0%
Sales Tax	9,926	10,408	4.9%	10,972	11,388	11,838	4.4%
Business Taxes	8,856	8,408	-5.1%	8,414	8,520	8,695	1.1%
Real Estate Transaction Taxes	1,568	1,808	15.3%	2,039	2,232	2,274	7.9%
Other Taxes	3,239	3,318	2.4%	3,417	3,489	3,534	2.1%
Tax Audits	747	773	3.5%	773	773	773	0.0%
Subtotal: Taxes	**73,028**	**74,945**	**2.6%**	**76,868**	**79,621**	**81,703**	**2.9%**
Miscellaneous Revenues	6,351	6,103	-3.9%	5,706	5,648	5,640	-2.6%
Unrestricted Intergov. Aid	17	0	0%	0	0	0	N/A
Grant Disallowances	(15)	(15)	0.0%	(15)	(15)	(15)	0.0%
Total	**79,381**	**81,033**	**2.1%**	**82,559**	**85,254**	**87,328**	**2.5%**

Note: Personal Income Tax includes the Pass-Through Entity Tax.
Sources: NYC Office of Management and Budget; OSC analysis.

FIGURE 15
Annual Percent Change in Tax Revenues



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

After the January Plan's adjustment, the City now expects tax collections to increase by 2.6 percent, higher than the November Plan's forecast of 2.2 percent, to a record high of $74.9 billion in FY 2025, reflecting the City's updated assumption of improved economic growth. Growth in non-property tax collections is expected to outpace that of property tax collections. However, the tentative property tax assessment roll, released after the January Plan, showed a larger increase in FY 2025 property values than the City had expected, which will likely lead to higher property tax collections than forecast.

The January Plan increased the forecast for miscellaneous revenues by a combined $723 million in fiscal years 2024 and 2025. The increase is driven mostly by rental payments the City intends to collect from the Water Board, projected at $440 million in those years.

In fiscal years 2026 through 2028, even as federal and State grants are expected to decline, total revenues are forecast to increase by an annual average of 1.4 percent. During the same period, City funds are expected to average growth of 2.5 percent, much slower than the annual average growth of 4.7 percent in the five years before the pandemic.

The January Plan increased the tax collections forecast from the November Plan by $4.1 billion in fiscal years 2026 and 2027. As a result, over fiscal years 2026 through 2028, tax collections are expected to average 2.9 percent annual growth. Even though the January Plan increased the forecast for property taxes for fiscal years 2026 and 2027 more than the forecast for non-property taxes ($2.1 billion and $2 billion, respectively), compounded average annual growth in non-property tax collections (3.5 percent) is expected to outpace that of property tax (2.2 percent) in the last three fiscal years of the January Plan. The relatively slow rate of growth in property tax collections reflects continued uncertainty in the real estate markets.

While OSC believes the City's cautious approach to its tax revenue forecast is appropriate as the economic outlook remains unclear, it estimates tax collections will likely be higher than the City's forecast by $201 million in FY 2024 and by an average of $1 billion in each of the other fiscal years.

General Property Tax

In the January Plan, the City increased its forecast for FY 2024 property tax collections by $114 million compared to November due to lower-than-expected cancellations (reductions in the tax bill based on the appeals process) in the current fiscal year. Collections are now expected to reach $32.7 billion, an increase of 3.8 percent from the prior fiscal year and the highest level on record (see Figure 16).

The City increased expected collections in FY 2025 by $543 million to $33.2 billion, up 1.6 percent from the current fiscal year, on the strength of the tentative property tax assessment roll released in January. Taxable assessed values, on which the levy is based, increased by

4.1 percent on the tentative roll, above the City's expectation of 1 percent from the prior plan. Taxable value increases tend to moderate on the final roll, scheduled for release in May. Even with a typical reduction based on historical trends, OSC believes that the City may be underestimating expected collections by $400 million in FY 2025.

The City also made upward revisions to expected collections of $2.1 billion for fiscal years 2026 and 2027 combined. However, the forecast still expects slower annual growth in collections than was seen in the years prior to the pandemic. From fiscal years 2017 to 2021, property tax revenues grew at an average compound rate of 6.4 percent annually. The January Plan forecast shows compound annual growth of 2.2 percent from fiscal years 2026 to 2028. As in FY 2025, OSC estimates that the City may be underestimating property tax revenues by a combined $1.2 billion for fiscal years 2026 to 2028.

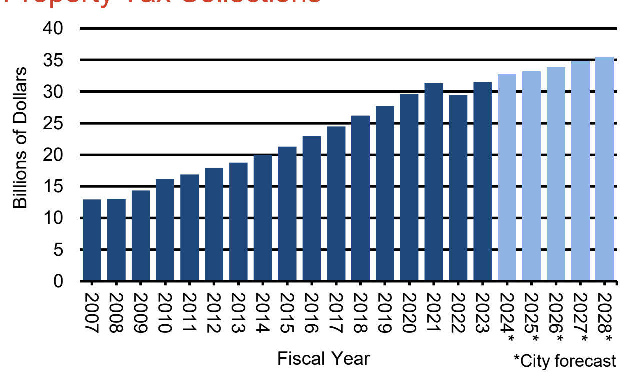
Residential property prices remain near record highs, and home values are expected to continue to grow over the plan horizon. However, commercial real estate values continue to struggle in the wake of the pandemic. After a small decline, office vacancy rates increased to a new record high of 22.8 percent in the fourth quarter, more than double the pre-pandemic level.[8] Despite these challenges, taxable Class 4 commercial property values increased by 3.5 percent on the tentative roll and have now risen above the pre-pandemic high seen in FY 2021. Continuing vacancies and potential residential conversions may result in a valuation decrease in the coming years, presenting a risk to property tax collections. The City also includes $87 million revenue annually from property tax lien sales in its forecast, but the reinstatement of the lien process has not yet been approved.

Personal Income Tax

The January Plan increased the forecast for total PIT, including the Pass Through Entity Tax (PTET), from the November Plan by $655 million in FY 2024 and $903 million in FY 2025 (see OSC's June 2023 Plan [report for details](#)).[9] The adjustment reflects the financial markets and the overall economy surpassing the City's previous expectations.

Total PIT is now projected to decline by 6.9 percent in FY 2024 to $16 billion (see Figure 17). The decrease in FY 2024 is due to a large decline in non-wage income in liability year 2022. Also, FY 2024 collections were lowered in order to resolve taxpayer overpayments associated with PTET. As a result, year-to-date total PIT collections through December were 21.8 percent lower than the same period last year. Collections are expected to rebound for the remainder of the year as economic conditions improve, but still decline by 6.9 percent from FY 2023.

FIGURE 16
Property Tax Collections

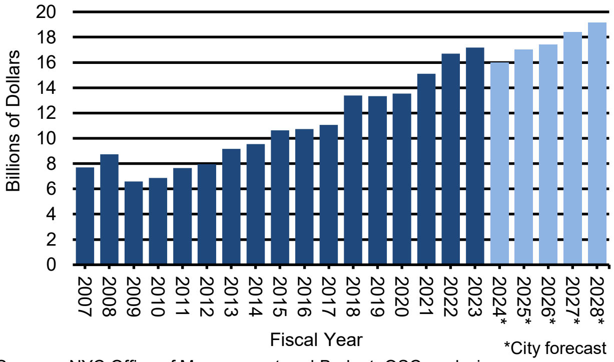


Sources: NYC Office of Management and Budget; OSC analysis

[8] Cushman & Wakefield, "MarketBeat Manhattan Office Q4 2023," https://www.cushmanwakefield.com/en/united-states/insights/us-marketbeats/new-york-city-area-marketbeats.

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

FIGURE 17
Total Personal Income Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

The January Plan made adjustments to the forecasts of almost all components of PIT. The forecast for withholding (i.e., the amount of tax taken from employee paychecks) was increased by $134 million in FY 2024, reflecting stronger-than-expected wage and job growth resulting in better-than-expected collections in the first half of FY 2024. Year-to-date withholding is 4.8 percent higher than the same period last year. However, with expected job and wage growth slowing and a projected decline in bonuses, the City expects a more modest increase of 4.1 percent in withholding in FY 2024.

The January Plan increased the forecast for the combined non-withholding components by $521 million in FY 2024. These components are now expected to decrease by 29 percent in FY 2024, reflecting the City's assumption of stock and real estate markets negatively impacting capital gains (the largest non-wage component), which are estimated to have declined by 55 percent in liability year 2022.

In FY 2025, the January Plan expects total PIT to increase by 6.4 percent to reach $17 billion, reflecting the City's updated assumptions for economic growth.

After increasing the FY 2025 withholding forecast from the November Plan by $215 million, the January Plan expects withholding collections to increase by 4.7 percent in FY 2025 to reach $12.5 billion, reflecting the City's assumption of increases in job and wage growth along with an increase in bonuses.

The January Plan increased the forecast for non-withholding components by a combined $688 million in FY 2025. The City expects capital gains to rebound, resulting in a 11.4 percent increase in non-withholding components in FY 2025.

For fiscal years 2026 through 2028 the City projects total PIT collections to increase by an annual average of 4 percent. This rate would still be slower than the average annual growth of 6.9 percent in fiscal years 2015 through 2019, reflecting the City's assumption of a return to moderate economic growth in the out-years. Growth will be almost entirely led by withholding, as its average annual growth is projected at 5.2 percent during this period, while that of non-withholding components growth is just 0.5 percent.

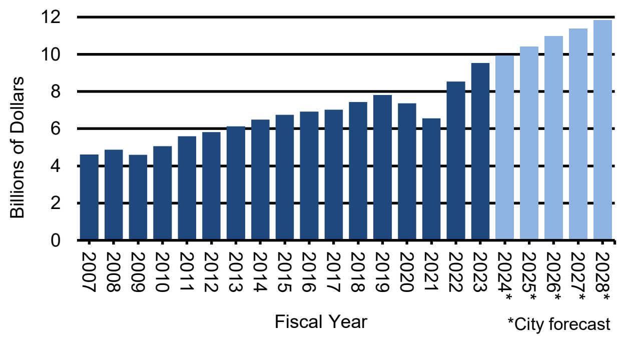
The uncertainties associated with the PTET have made it more difficult to forecast collections. OSC expects collections to exceed the City's forecast by $100 million each in fiscal years 2024 and 2025 and a combined $1.8 billion in the out-years, as OSC does not expect the economic slowdown in calendar year 2024 to have as big an effect on collections as the City forecasts.

Sales Tax

In the first half of FY 2024, sales tax collections grew 5 percent ($235 million) compared to the same period in FY 2023. However, the January Plan only increased the FY 2024 forecast by $86 million from the November Plan. The City's FY 2024 adjustment reflects wage growth easing, inflation abating and tourism recovery slowing. The City also pointed to growing consumer debt with higher interest rates as a concern for sales tax growth in the remainder of the fiscal year.

The January Plan also increased the forecast for sales tax collections by $88 million in FY 2025, driven by wages and tourism, and now expects collections to increase by 4.9 percent to reach $10.4 billion (see Figure 18), faster than the 4 percent growth in the prior fiscal year.

FIGURE 18
Sales Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

According to Siena College's Quarterly New York State Index on Consumer Sentiment, in the fourth quarter of 2023, sentiment in New York State continued to improve from previous quarters and was still above the nation as inflation cooled. According to the latest Beige Book, consumer spending in the New York district (which includes parts of New Jersey and Connecticut and all of New York State) saw moderate growth driven by strong holiday sales with consumers purchasing toys, sporting goods and clothes.[10] Tourism is now expected to recover to pre-pandemic levels in 2025 instead of 2024 as China and business travel visitors continue to lag pre-pandemic levels.

For fiscal years 2026 to 2028, collections are expected to increase by an average of 4.4 percent annually. While the January Plan adjusted the forecast for the out-years, it did not factor in a recent proposal included in the State fiscal year 2024-2025 proposed budget to extend the Distressed Provider Assistance Account intercept for an additional three years, which would reduce collections by $38 million in FY 2025, $150 million in each of fiscal year 2026 and 2027 and $112 million in FY 2028.[11]

OSC estimates that collections in FY 2024 will continue to see slightly higher growth than what the City expects in FY 2024. In FY 2025, OSC believes collections could be $150 million lower, however, as the City's January Plan forecast does not include the likelihood of an extension of State intercepts, which would impact sales tax collections.

Business Taxes

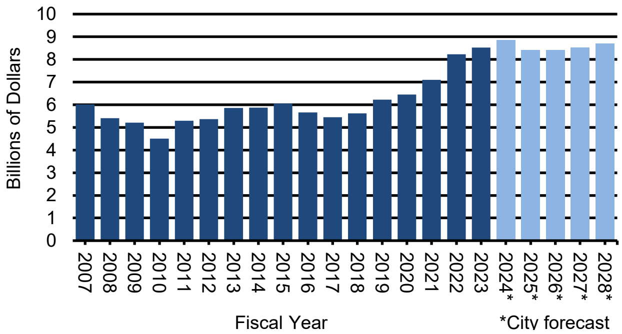
The January Plan's FY 2024 business tax forecast is $953 million higher than the November Plan. The City raised its forecast for FY 2024 as collections in the first six months of the fiscal year have grown by 10.3 percent compared to the same period the prior year. Business taxes are projected to increase by 4 percent to reach a record high of $8.9 billion in FY 2024 (see Figure 19).

The upward adjustment in FY 2024 is driven by business corporation taxes, which constitute more than two-thirds of total business tax collections and are primarily driven by the profits of New York Stock Exchange member firms. Wall Street profits grew to $20 billion during the first three quarters of the year, 3.7 percent higher than 2022. The January Plan forecasts profits to reach $25.1 billion for calendar year 2023, as the financial markets have shown stronger-than-expected performance. Business corporation tax collections have grown 9.2 percent year to date through December compared to the same period last year. The growth can be attributed to strength in both the finance and service (which include leisure and hospitality, health care and

[10] New York Federal Reserve *Beige Book*, January 2024.

[11] NYS Division of Budget, "Article VII Bills Health and Mental Health Bill Part D," January 16, 2024.

FIGURE 19
Business Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

social assistance and professional and business services) sectors, which grew 17.5 percent and 13.4 percent, respectively.

Unincorporated business taxes (UBT), which make up the remainder of total business tax collections, saw a year-over-year increase of 13.7 percent through December 2023. The growth can be attributed to the non-finance service sectors. The service sectors, which in aggregate make up 54 percent of UBT net payments, saw a 29.2 percent increase through December compared to last fiscal year. During the same period, finance sector firms, such as hedge funds, which constitute 34 percent of UBT net payments, saw a 5.5 percent increase from FY 2023.

The January Plan also adjusted the business tax collections forecast upward from the previous plan for fiscal years 2025 through 2027 by at least $663 million annually. Despite the adjustment, the City still expects a 5.1 percent decline in FY 2025, driven by business corporation taxes.

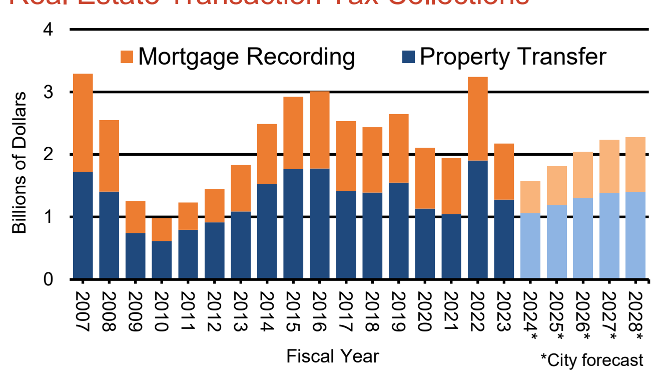
OSC estimates business tax collections will exceed the City's forecast by $70 million in FY 2024 and reach $8.9 billion. In FY 2025, OSC estimates collections will see a decline of 2.1 percent, smaller than assumed by the City. OSC projects business taxes will grow by 0.9 percent, on average, from fiscal years 2026 to 2028.

Real Estate Transaction Taxes

The January Plan reduces expected real estate transaction taxes in FY 2024 by $515 million compared to the November Plan, now totalling $1.6 billion (see Figure 20). This represents a drop of 27.9 percent from the prior fiscal year and the second consecutive year of decline following strong collections in FY 2022. This would be the lowest total level of collections since FY 2012.

The slow pace of home sales has led to lower transaction tax collections than the City had expected at the start of the fiscal year. In 2023, mortgage rates rose to their highest levels in 20 years, reaching 7.5 percent in early November. Though they have since fallen somewhat, they remain at their highest levels since 2008 (6.6 percent in mid-January). New buyers are less willing to enter the market under these conditions, while many current homeowners have fixed interest rates below 4 percent on their existing mortgages and are less likely to give up the lower rates. As a result, total residential sales in New York City for the first half of the fiscal year declined by 22.3 percent compared to the prior fiscal year,

FIGURE 20
Real Estate Transaction Tax Collections



Sources: NYC Office of Management and Budget; OSC analysis

and by 40.4 percent compared to the same period in FY 2022.[12]

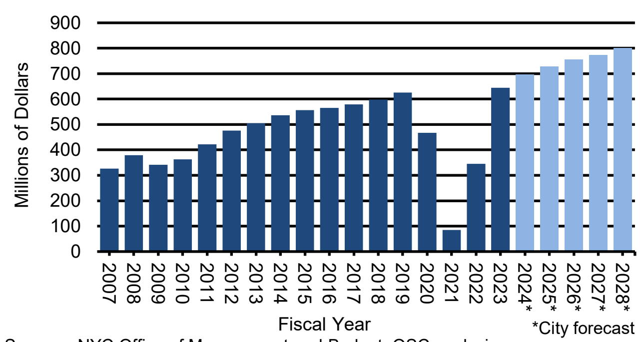
For most of last year, economists expected rapid rate increases to result in a recession, pushing the Federal Reserve to reduce the target rate.[13] In turn, this would have pushed mortgage rates lower and spurred more home purchases. However, expectations for a recession have declined considerably as inflation has moderated without a significant negative impact to employment. While inflation has fallen significantly from its peak, January's year-over-year inflation rate of 3.1 percent remains above the Federal Reserve's stated target of 2 percent, and the Federal Reserve has indicated it does not expect rapid rate decreases. This "higher for longer" expectation means that a significant drop in mortgage rates is unlikely to materialize in fiscal year 2024. OSC estimates that total collections in FY 2024 may be $100 million lower than in the City's forecast.

Given interest rate expectations, the City has also reduced its collections forecast for fiscal years 2025 through 2027 by a total of $1.5 billion. Growth in FY 2025 is expected to be 15.3 percent as both the home sales market and commercial transactions begin to recover. Growth tapers off in the subsequent years, averaging 7.9 percent growth for fiscal years 2026 to 2028.

Hotel Tax

The January Plan increased the FY 2024 forecast by $31 million to $697 million (see Figure 21). The adjustment reflects stronger-than-expected collections in the first half of FY 2024, which reached $371 million, 10 percent higher than the same period in FY 2023. Hotel tax collections are expected to increase by 4.3 percent in FY 2025 to reach $727 million. Higher room and occupancy rates as well as a full recovery in tourism will be contributing factors in FY 2025 collections.[14] In December 2023, NYC hotel occupancy reached 86.6 percent (4.3 percentage points higher year over year), the highest occupancy rate among the top 25 U.S. hotel markets.[15]

FIGURE 21
Hotel Tax Revenues



Sources: NYC Office of Management and Budget; OSC analysis

According to New York City Tourism + Conventions, the City is expected to welcome 64.5 million visitors (52.1 million domestic and 12.4 million international) in 2024, close to the record 66.6 million in 2019. New York City will continue to host national and international sporting and entertainment events which will boost hotel tax collections further in the out-years. In fiscal years 2026 through 2028, the City expects to see an average annual growth rate of

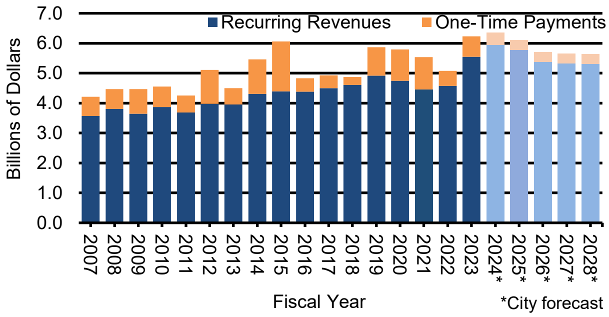
[12] For July through December; NYC Department of Finance Automated City Register Information System (ACRIS) preliminary data.

[13] Harriet Torry and Anthony DeBarros, "It Won't Be a Recession – It Will Just Feel Like One," The Wall Street Journal, January 14, 2024, https://www.wsj.com/economy/it-wont-be-a-recession-it-will-just-feel-like-one-1919267a.

[14] City economy hotels (around 140 hotels) have been taken out of inventory and are being used to house asylum seeker causing a lower supply of hotel rooms which drives up room rates and luxury hotels are benefiting from the high demand; https://www.costar.com/article/1900939477/more-than-16000-nyc-hotel-rooms-used-to-accommodate-unhoused-migrants.

[15] CoStar, "US Hotel Market Performance Mixed in December," January 18, 2024, https://www.costar.com/article/681254273/us-hotel-performance-mixed-in-december.

FIGURE 22
Total Miscellaneous Revenues



Sources: NYC Office of Management and Budget; OSC analysis

3.3 percent. OSC expects collections to grow 10.5 percent in FY 2024, an increase of $15 million from the City's forecast, to reach $712 million. In FY 2025, OSC expects collections to be $30 milion higher than the City's forecast, growing 6.3 percent to reach $757 million as tourism continues to recover and hotel demand remains high. In the out-years, OSC expects collections to be higher by an average $46.7 million as collections are boosted by future sporting events such as the World Cup in 2026.

Miscellaneous Revenues

The January Plan expects miscellaneous revenues, consisting of recurring revenues and one-time payments, will total $6.4 billion in FY 2024 before declining by 3.9 percent to $6.1 billion in FY 2025 (see Figure 22). The City expects to see further declines in the out-years.[16]

In the first half of FY 2024, total miscellaneous revenues increased 6.8 percent ($249 million) from the same period in FY 2023, driven by higher interest income and charges for services. Subsequently, the City increased the FY 2024 forecast by $349 million and the FY 2025 forecast by $374 million. The increases are driven mostly by water and sewer rental payments the City intends to collect from the Water Board ($145 million in FY 2024 which represents a partial payment and a full payment of $295 million in FY 2025).

The maximum rental payment amount is 15 percent of New York City Municipal Water Finance Authority debt service in that year. Funding the payment is essentially passed to ratepayers through higher water bills. In 2016, the City suggested it would no longer charge the Water Board for rental payments as the costs are passed on to ratepayers. In recent years, the City has included the payment in years where it has anticipated fiscal hardship; the City last budgeted and collected for partial rental payments in FY 2020 ($128 million) and FY 2021 ($137 million).

Forecasts for fines and fees were increased from the November Plan for fiscal years 2024 and 2025 but overall collections are expected to decline each year, as speed cameras effectively curb speeding violations, leading to lower collections. Also, some motorists have been illegally obstructing license plates which has resulted in lost revenue.[17]

The expected decline in miscellaneous revenues in FY 2025 is mostly driven by lower interest income (an expected decline of 40.1 percent) and one-time payments (a decline of 20.2 percent) as lower interest rates are expected in FY 2025. The City expects recurring miscellaneous revenues in fiscal years 2026 to 2028 to reach $5.3 billion annually, a reasonable forecast.

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

[17] NYC Comptroller, *Audit Report on the New York City Department of Transportation's Speed Camera Program*, January 22, 2024, https://comptroller.nyc.gov/reports/audit-report-on-the-new-york-city-department-of-transportations-speed-camera-program/.

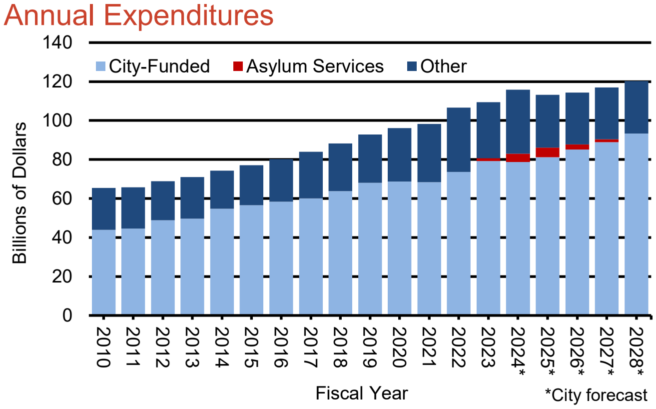
VIII. Expenditure Trends

As the federal pandemic stimulus program approaches its conclusion, citywide expenditures are projected to decline to $113.2 billion in FY 2025, after adjusting for surplus transfers, which obscure total expenditures (see Figure 23). The portion of citywide spending funded with locally generated revenue (i.e., City funds) is estimated at nearly $84.8 billion. About 25 percent, $28.4 billion, of total spending is funded with other sources, mostly federal and State grants.

The January Plan anticipates city-funded spending, adjusted for savings from overestimating prior-year's expenses, would rise slowly in FY 2024 (by 1.1 percent) and would accelerate slightly in FY 2025 to 2.4 percent. The growth is driven by labor costs and asylum services, offset in large part by the City's expectation that other-than-personal-services (OTPS) spending (mostly for social services) would decline sharply (by 7.5 percent). While the January Plan assumes a portion of OTPS spending at the social service agencies, including day care and rental assistance, will not recur beyond FY 2024, such spending is subject to State and local mandates which limit local discretion to avoid these costs in future years.

The growth in the out-years would pick up slightly to an average of 3.3 percent through

FIGURE 23
Annual Expenditures



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

FY 2028, assuming there would be a substantial wind down of asylum seeker spending, but a resumption of growth in other OTPS spending (3.4 percent annually). By comparison, spending rose, on average, by more than 4 percent annually over the past decade. The impact of projected wage increases consistent with the pattern established for the 2021-2026 round of bargaining on labor costs, debt service, and health insurance costs are expected to be the largest cost drivers through the balance of the financial plan period.

As many of these fixed costs rise, the City's financial plan anticipates a decline, or flat, discretionary spending at a number of agencies, including Police, Fire, Correction, Transportation, Environmental Protection, Social Services, Homeless Servies and Health and Mental Hygiene. The City's ability to fund increases at these agencies for discretionary programs will be impacted by the trajectory of spending on fixed costs (See Appendix A for details).

Expenditure Risks and Offsets

While the January Plan included funding to address a significant portion of budgetary risks identified by OSC in previous reports, some sizable risks and fiscal uncertainties remain. While the total number of people entering the City's intake for asylum services continues to rise, the number remaining in the City's care has slowed compared to the pace in 2023. Based on this trend, the City could achieve savings totaling $623 million in fiscal years 2024 and 2025, but could incur substantially higher-than-planned costs in each subsequent year (see Asylum Seeker Cost Implications section for details).

The City Council also adopted a planned expansion in rental assistance in July 2023, over a veto by the Mayor. The administration did not meet the statutory deadline to implement the rental assistance expansion by January 9, 2024. The administrative delay will avert some unplanned costs in the short run. The administration is expected to face legal challenges and the expansion could have significant spending ramifications for the City in the long run. OSC projects the costs at $763 million in FY 2025, rising to $4.9 billion by FY 2028, assuming a start date of July 1, 2024).

The City could also incur additional operating costs at the DOE, rising from $433 million in FY 2026 to $1.3 billion annually by FY 2028, to meet the state-imposed mandate to reduce classroom sizes. OSC has identified other relatively large but historically manageable risks fueled by underbudgeting for mandated operating subsidies for public transit, social services, and overtime costs. For example, absent any alternatives, it appears unlikely that the City's public assistance spending will decline in FY 2025, given the recent growth in enrollment.

The decline in other OTPS spending in FY 2025 includes the expectation of a wind down of certain legal or contractual obligations such as rental assistance, which also appear unlikely based on recent trends.

Alternatively, the City projects its annual debt service based on conservative assumptions. As in prior years, OSC anticipates that actual spending will be lower than planned. However, the amount of savings will depend upon the City's borrowing needs and the prevailing interest rates in the municipal debt market, which can be difficult to predict. In total, the expenditure risks identified by OSC, net of offsets, are estimated to total $336 million in FY 2024, rising to $11.2 billion by FY 2028.

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

FIGURE 24

Trends in City-Funded Spending in January 2024 Financial Plan

(in millions)

	FY 2024	FY 2025	Annual Growth	FY 2026	FY 2027	FY 2028	Average Three-Year Growth Rate
Salaries and Wages	$21,691	$22,646	**4.4%**	$23,962	$25,098	$26,069	**4.8%**
Pension Contributions	9,211	10,235	**11.1%**	10,657	10,782	11,723	**4.6%**
Debt Service	7,516	8,029	**6.8%**	8,720	9,354	10,153	**8.1%**
Medicaid	6,513	6,352	**-2.5%**	6,481	6,631	6,781	**2.2%**
Health Insurance	7,107	7,303	**2.8%**	7,836	8,222	8,636	**5.7%**
Other Fringe Benefits	3,935	3,961	**0.7%**	4,179	4,365	4,557	**4.8%**
Energy	1,069	1,076	**0.6%**	1,169	1,210	1,237	**4.8%**
Judgments and Claims	1,025	737	**-28.1%**	683	700	722	**-0.7%**
Public Assistance	974	875	**-10.2%**	875	1,225	1,485	**19.3%**
Services for Asylum Seekers	2,302	3,561	**54.7%**	2,500	1,500	- - -	**-100.0%**
Residual OTPS	20,089	18,588	**-7.5%**	19,197	19,835	20,559	**3.4%**
Subtotal	**$81,431**	**$83,362**	**2.4%**	**$86,259**	**$88,921**	**$91,921**	**3.3%**
General Reserve	50	1,200	**NA**	1,200	1,200	1,200	**0.0%**
Capital Stabilization Reserve	- - -	250	**NA**	250	250	250	**0.0%**
Prior-Year's Expenses	(400)	- - -	**NA**	- - -	- - -	- - -	**0.0%**
Total	**$81,081**	**$84,812**	**4.6%**	**$87,709**	**$90,371**	**$93,371**	**3.3%**

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

The City has some lead time to address its larger out-year risks and has implemented the first two rounds of a gap-closing program expected to generate savings averaging more than $2.4 billion annually over fiscal years 2026 through 2028 (see the Program to Eliminate the Gap section for details). January Plan expenditure trends are shown in Figure 24 and discussed below.

Full-Time Staffing Levels

The City's full-time workforce declined for the third consecutive year through FY 2023, to 281,917 employees (see Figure 25). While it has increased slightly since then, to 284,409 employees as of December 2023, the City's full-time staffing remains among the lowest levels since January 2016.

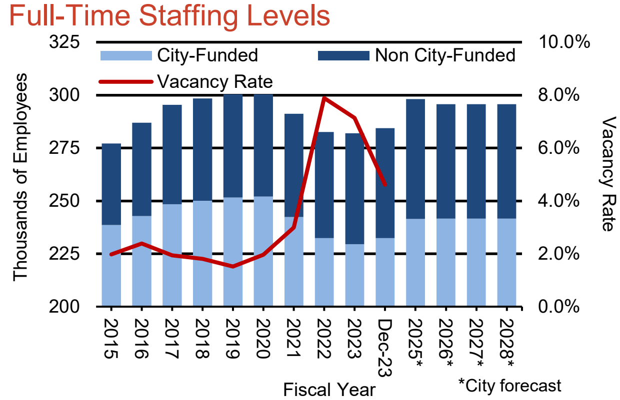
OSC estimates that the vacancy rate for full-time positions is now 4.7 percent, much lower than one year ago, but that the decline is fueled by the implementation of several rounds of vacancy reductions as part of recent gap-closing programs, thereby reducing the City's planned staffing target, rather than substantial new hiring. Despite the reduction in target headcount, the vacancy rate remains relatively high when compared to the historical average during fiscal years 2015 through 2020 (2 percent).

The City has also implemented a general hiring freeze (excluding critical positions that support public health, safety and revenue generation), effective on October 1, 2023, which is likely to result in further reductions to the City's full-time workforce in the short run through attrition.

While it had remained elevated compared to pre-pandemic levels during much of FY 2023, attrition slowed in recent months and was close to the historical average through the first half of FY 2024. The full-time workforce has declined to levels not seen since FY 2016, but the City believes it can meet current and anticipated demands for many municipal services with fewer employees than had been planned at the time the FY 2024 budget was adopted last June.

As a result, the City's FY 2024 PEG has reduced planned headcount by 3,141 city-funded, full-time positions in FY 2025, mostly from eliminating a portion of its vacancies (see the Program to Eliminate the Gap section for details). The reduction to planned staffing includes a restoration of 270 positions at the Fire Department and Sanitation Department to support public safety and cleanliness efforts. After reflecting the elimination of vacant positions, the January Plan assumes staffing will increase from current levels by 4.8 percent to 298,113 by June 30, 2025, a small reduction since June 2020 (see Appendix B for details).

FIGURE 25
Full-Time Staffing Levels



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

The City has realized substantial savings attributed to lower-than-planned personal services in recent years. Since the beginning of FY 2024, the City lowered its forecast of personal service spending in that year by $1 billion. Savings included in the FY 2024 PEG from changes to headcount average more than $1.2 billion annually thereafter. The savings will come mostly from the new round of vacancy reductions and the suspension of new hires (including the cancellation of four police officer academy classes), and the impact of other changes in operations to reduce overtime and certain administrative costs.

While many City services are experiencing demand at or near pre-pandemic levels, staffing at agencies varies, requiring close monitoring of the impact on agency performance. The Preliminary Mayor's Management Report (PMMR), released in January 2024, identified a number of program areas still facing staffing challenges coupled with rising service demands, which have negatively impacted performance (e.g., reduction in SNAP application timeliness rates, share of families in shelter receiving services from a licensed social worker; and reduced inspections).

The City is likely to face continued public pressure, including legal challenges, to address the performance concerns, despite having limited resources to increase spending and staffing. In addition, overtime spending, which is used to bolster staffing needs, reached a new record in FY 2023 and has continued to exceed the City's forecast in FY 2024, driven in part by understaffing in the face of increased service demands (see the Expenditure Trends: Overtime section for details).

In recognition of the intersection of fiscal and operational challenges associated with staffing levels, OSC has expanded on the Mayor's Management Report (MMR) presentation with the launch of our Agency Services Monitoring Tool in January 2024.

Collective Bargaining

As of February 2023, nearly the entire municipal workforce (more than 94 percent) had reached new labor agreements with the City for the 2021-2026 round of bargaining. The City, which has a long history of pattern bargaining, assumes that the terms of the collective bargaining agreement ratified by the members of District Council 37 (DC 37) in March 2023 and the Police Benevolent Association (PBA) in April 2023 will apply to all other relevant civilian and uniformed unions.

The January Plan includes reserves in each year of the financial plan period to fund anticipated labor costs for all the settled contracts based on the DC 37 and PBA framework and assumes pattern-conforming agreements will be reached with the remainder of the City's workforce.[18]

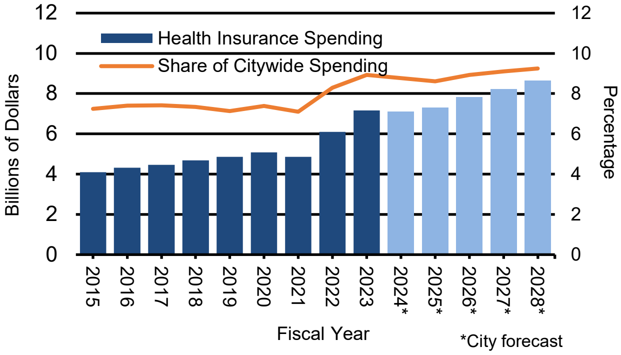
Health Insurance

As detailed in OSC's November Plan report, the City and the municipal unions still face uncertainty over the long-term cost of the City's health benefits program, stemming from a mutual agreement reached in a prior round of bargaining.

The Health Insurance Stabilization Fund (HISF), a trust and agency account jointly administered by the City and the Municipal Labor Committee (MLC) for the purpose of moderating volatility in the cost to the City of pre-Medicare health insurance expenses, has been unable to meet all its current-year contractual obligations since FY 2022. In the interim, the City has been absorbing excess premium costs associated with its most popular health plan for active employees (the GHI Comprehensive Benefits Plan, or GHI-CPB) without alternatives to refortify the HISF and reimburse the City for the excess costs.

[18] The civilian pattern established under the DC 37 agreement provides for base wage increases totaling 16.21 percent compounded over five years beginning the day after the expiration of the previous civilian contract. The uniformed pattern established under the PBA agreement provides for base wage increases totaling 18.98 percent compounded over five years (including 0.21 percent in funding for entry and early tenure pay).

FIGURE 26
Health Insurance Costs
City-Funded



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

The January Plan assumes that city-funded health insurance costs are projected to reach $8.6 billion by FY 2028 (see Figure 26), 20.6 percent more than in FY 2023. Comparatively, city-funded spending would rise by 16.4 percent during the same five-year period through FY 2028. The January Plan assumes that health insurance costs, as a share of city-funded spending, would rise to an estimated 9.2 percent by FY 2028, which would be the highest share since at least FY 2010.

Spending could be higher, however, in the event that the City is unable to find additional resources to refortify the HISF, or identify other alternatives to mitigate the excess costs of the GHI-CBP. The City and the MLC are currently negotiating further savings to help offset the financial obligations of the HISF through health plan reforms, including a new preferred provider organization for active employees and pre-Medicare retirees. Although the outcome of these negotiations may not be known for some time, the City and the MLC have achieved significant health insurance savings over the past decade, including a total of $1.9 billion in recurring savings under the 2014 and 2018 MLC agreements.

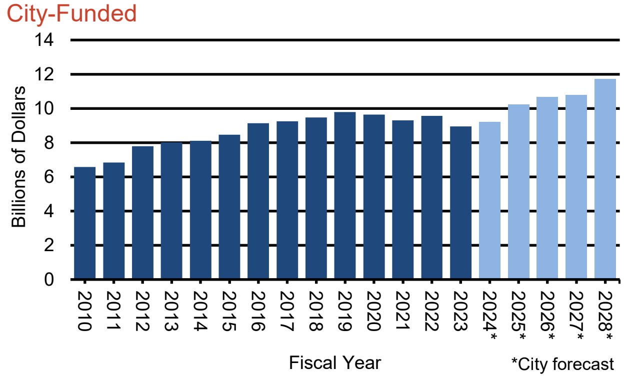
Pension Contributions

The City's pension contributions reflect actuarial estimates of the City's five major retirement systems prepared by the Office of the Actuary. They also include adjustments prepared by the NYC Office of Management and Budget to reflect new or anticipated changes (e.g., revisions to planned headcount), including an annual reserve beginning in FY 2025 to fund potential changes from any future actuarial audit recommendations. The January Plan assumes pension contributions will total $9.2 billion in FY 2024, and then rise each year to reach nearly $11.7 billion by FY 2028 (see Figure 27).

The City's pension systems gained, on average, 7.98 percent on their investments through June 30, 2023, compared to the expected gain of 7 percent (an unexpected gain of 98 basis points).[19] During the first half of FY 2024, the City's pension systems gained, on average, about 5 percent on their investments.

Potential changes may follow recommendations issued by an independent actuarial consultant, who recently completed the first of two charter-mandated, biennial audits of the pension systems and is expected to issue final

FIGURE 27
Pension Contributions
City-Funded



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

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

recommendations in Spring 2024. The first audit concluded that the assumptions used to calculate employer contributions to the pension systems are reasonable.

Any changes recommended in the final audit will be reviewed by the City's Chief Actuary, who will determine whether any of the changes should be implemented. The January Plan sets aside $279 million annually beginning in FY 2025 to fund potential changes to planned pension contributions from actuarial audit recommendations.

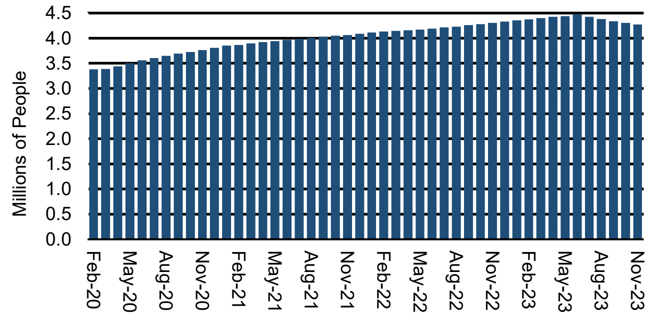
Medicaid

In November 2023, 4.3 million New York City residents were enrolled in Medicaid, which provides health insurance to low-income children and adults (see Figure 28). Enrollment had declined by almost 200,000 from June 2023, when it had reached a historic high of 4.5 million (more than half of the City's population).

From February 2020 through June 2023 approximately 1.1 million people enrolled in Medicaid. The sharp increase coincided with the COVID-19 PHE. For further discussion of Medicaid enrollment trends before and after the PHE and the associated federal legislation, see OSC's November Plan report for details.

Medicaid determinations were suspended during the PHE and resumed in June 2023. Since then, enrollment has declined by an average of 40,000 people per month through November. Medicaid beneficiaries that did not renew transitioned to other forms of insurance such as the Children's Health Insurance Program and Essential Plan, gained coverage through an employer-sponsored health plan or became uninsured.[20]

FIGURE 28
NYC Medicaid Enrollments



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

The January Plan assumes that the city-funded cost of Medicaid will decline by $145 million annually to total nearly $6.5 billion in FY 2024, $6.4 billion in FY 2025, $6.5 billion in FY 2026 and $6.6 billion in FY 2027 and $6.8 billion in FY 2028. The funds were earmarked for the non-federal share of H+H supplemental Medicaid payments. The City and H+H have reestimated the amount of supplemental Medicaid payments that H+H anticipates receiving from one of its revenue-generating strategic initiatives and shifted the funds to the H+H general subsidy.

As of 2015, the State assumed all of the growth in the City's share of Medicaid costs which is projected to provide $3.4 billion in savings to the City during SFY 2024, excluding the City share of supplemental payments on behalf of H+H.

Projections of city-funded costs assume that the State will not require the City to cover a larger share of Medicaid program costs. However, starting in FY 2021, the State implemented and subsequently extended an intercept of City sales tax for deposit into the State's Distressed Provider Assistance Account. The SFY 2025 executive budget proposes to extend the initiative another three years through March 31, 2028. Escalating Medicaid costs continue to

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

be an area of focus for the State, which may take further measures to reduce the increasing financial burden by passing costs along to local governments.

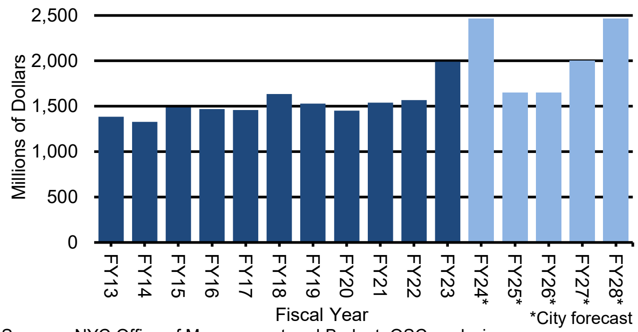
Social Services

The January Plan allocates $12.9 billion in total funds to the Department of Social Services' (DSS) budget in FY 2024, $1.4 billion more than what was allocated in the November Plan. It adds funding for several initiatives in FY 2024 that are not expected to recur, including $820.6 million for public assistance, $442 million for rental assistance, $118 million for foster care and $63.5 million for a prevailing wage for shelter security guards (see Figure 29). At the same time, the plan also revised asylum seeker spending at the Department of Homeless Services each year through FY 2027. (See the Asylum Seeker Cost Implications section for details.)

Public Assistance

The January Plan assumes total spending of $2.5 billion for public assistance in FY 2024, $820.6 million higher than the November Plan and $475.2 million more than what was spent in in FY 2023 (nearly 25 percent; see Figure 30). Afterward, annual funding drops to $1.7 billion in FY 2025 and FY 2026, before rising to $2 billion in FY 2027 and $2.5 billion in FY 2028.

FIGURE 30
Public Assistance Spending



Sources: NYC Office of Management and Budget; OSC analysis

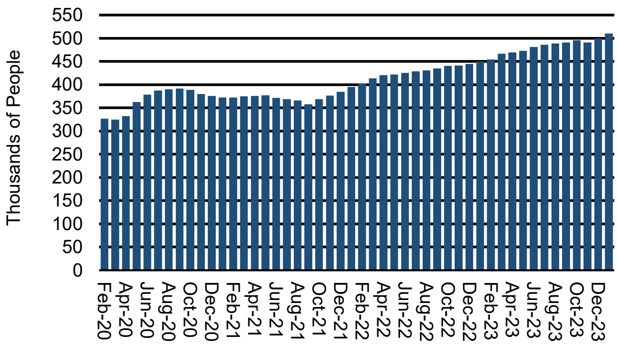
Public assistance caseloads totaled 510,007 in January (see Figure 31) — the highest level since April 2001. The City is seeing these elevated caseloads as it has struggled over the past year to process cash assistance applications within the required 30-day time frame (see OSC's Agency Services Monitoring Tool and June Plan report for details). In the first four months of FY 2024, just 14.3 percent of applications were processed on time, compared to 55 percent in the same period a year earlier. Overall, in FY 2023, 28.8 percent of applications were processed on time, compared to 95.4 percent in FY 2021.

FIGURE 29
Social Services Risk Assessment
(in millions)

	Better/(Worse)				
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
DHS Prevailing Wage Security Guards	- - -	($64)	($64)	($64)	($64)
Foster Care – State budget rate	- - -	(118)	(118)	(118)	(118)
Expiration of Foster Care (Title IV-E)	(120)	(120)	(120)	(120)	(120)
Emergency Assistance to Families	(134)	(134)	(134)	(134)	(134)
Public Assistance	- - -	(405)	(405)	(254)	- - -
Rental Assistance	- - -	(678)	(677)	(678)	(680)
Total	**($254)**	**($1,519)**	**($1,518)**	**($1,368)**	**($1,116)**

Sources: NYC Office of Management and Budget; OSC analysis

FIGURE 31
Public Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

Public assistance enrollment is likely to remain higher than pre-pandemic levels in the near future as a result of current economic conditions, and policies implemented during the pandemic which made it easier to apply for and maintain benefits electronically. OSC estimates a city-funded risk of $405 million annually in FY 2025 and FY 2026, before dropping to $254 million in FY 2027. In FY 2028, the public assistance budget increases to $2.5 billion once again.

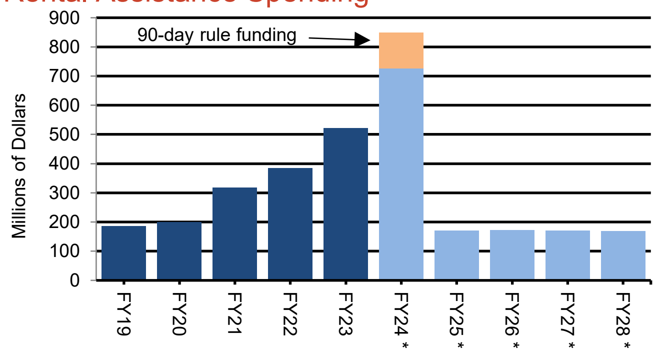
Rental Assistance

The City expects to spend $849 million on rental assistance in FY 2024, an increase of $327 million from FY 2023 (63 percent). However, the FY 2024 budget includes one year of funding ($123 million) for the expansion of a waiver of the 90-day rule to qualify for CityFHEPS housing vouchers.

Assuming the continued funding of the 90-day rule, spending on rental assistance programs is projected to decline by just over $700 million annually from FY 2025 and on, which is unlikely. OSC estimates this creates a commensurate budget risk annually starting FY 2025. (See Figure 32).

The 90-day rule was one of four pieces of legislation meant to ease the shelter population, and the only component incorporated into the budget. If the City acts on the other pieces of the

FIGURE 32
Rental Assistance Spending



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

legislation by July 1, 2024, OSC estimates that costs could reach $762 million in FY 2025, growing to $4.9 billion in FY 2028. See OSC's June Plan report for details.

Overtime

Citywide overtime in FY 2024 through January totaled $1.4 billion, $145 million more than the same period in FY 2023. Growth has primarily been driven by increases in overtime costs at the Police Department ($122 million), the Department of Social Services ($18 million) and the Fire Department ($16 million). Higher wages from collective bargaining agreements, increased demand for services and staffing challenges have all contributed to rising overtime costs.

Consistent with the historical trend, uniformed agencies account for the largest share of citywide overtime (80 percent; $1.15 billion), followed by the social services agencies (8 percent; $112 million). The remaining share is split up across several civilian agencies, primarily the Departments of Transportation ($47 million) and Environmental Protection ($32 million).

FY 2024 uniformed overtime was at the highest level on record through January, fueled by the Police and Fire Departments. The January Plan added a net $440 million at the uniformed agencies in FY 2024 ($601 million total since budget adoption), bringing the City's estimate to $1.67 billion. This amount would still be a decline of $250 million in spending compared to FY 2023, suggesting additional funds will be needed before year end.

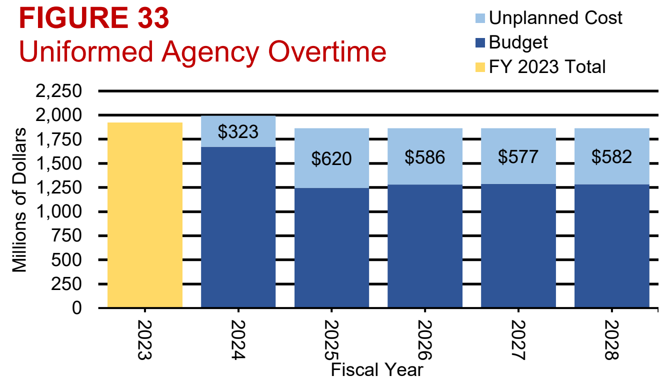
Overtime at the Police Department totaled $600 million through January, $122 million more than January FY 2023. In addition to noted drivers of higher costs, recent protests requiring unplanned deployments have increased spending. The January Plan added $255 million in FY 2024, but OSC projects overtime will total $1 billion, exceeding the current budget by $250 million. Out-year budgets average $580 million annually after FY 2024, which may lag needs by at least $300 million annually.

Overtime at the Fire Department totaled $304 million, $16 million more than costs through the same period in FY 2023. The January Plan added $74 million in FY 2024 and an average of $62 million annually thereafter, mostly for collective bargaining. Overtime is still likely to exceed the FY 2024 budget by about $30 million and by an average of $69 million thereafter.

Despite a decline in overtime spending at the Departments of Correction ($10 million) and Sanitation ($7 million) through January, year-over-year, both are on track to exceed their annual budgets. The City added $161 million to the Department of Correction's FY 2024 overtime budget, fully negating a $58 million overtime reduction PEG introduced in the January Plan, with small amounts added thereafter. Overtime was increased at the Department of Sanitation by $7 million in FY 2024. OSC projects overtime at the Departments of Correction and Sanitation will total about $260 million and $160 million in FY 2024, respectively, exceeding the annual planned amounts by a combined $40 million.

OSC estimates that uniformed agency overtime will total $2 billion in FY 2024, with new highs at the Police ($1 billion) and Fire Departments ($527 million). Unless agencies can achieve spending reductions or budgets are adjusted, the City faces spending risks of about $320 million in FY 2024 and an average of $600 million annually thereafter (see Figure 33).

FIGURE 33
Uniformed Agency Overtime



Sources: NYC Financial Management System; OSC analysis

IX. Debt Service and Capital Spending

The January Plan assumes that city-funded debt service will grow by a compound annual growth rate (CAGR) of 7.8 percent from $7.5 billion in FY 2024 to $10.2 billion in FY 2028 (see Figure 34). Compared to the 2024 adopted budget, this represents a decrease of $782 million, largely due to a reduction in the planned issuance of $3.4 billion in debt over the financial plan period, with $404 million of the decrease since the November Plan.

As noted in OSC's November Plan review, interest rates continue to fluctuate. However, inflation has slowed, supporting a moderation in municipal market interest rates, which may provide additional savings for the City. Given the City's conservative interest rate assumptions, OSC is estimating that the City could achieve an additional $75 million in variable interest savings in FY 2024.

The City's CAGR for city-funded debt service is expected to grow faster from fiscal years 2024 through FY 2028 than either city-funded expenditures (4.1 percent) or revenues (2.9 percent). As a result, the City's debt burden (debt service as a percentage of tax revenue) is expected to increase from 10.3 percent in FY 2024 to 12.4 percent in FY 2028.

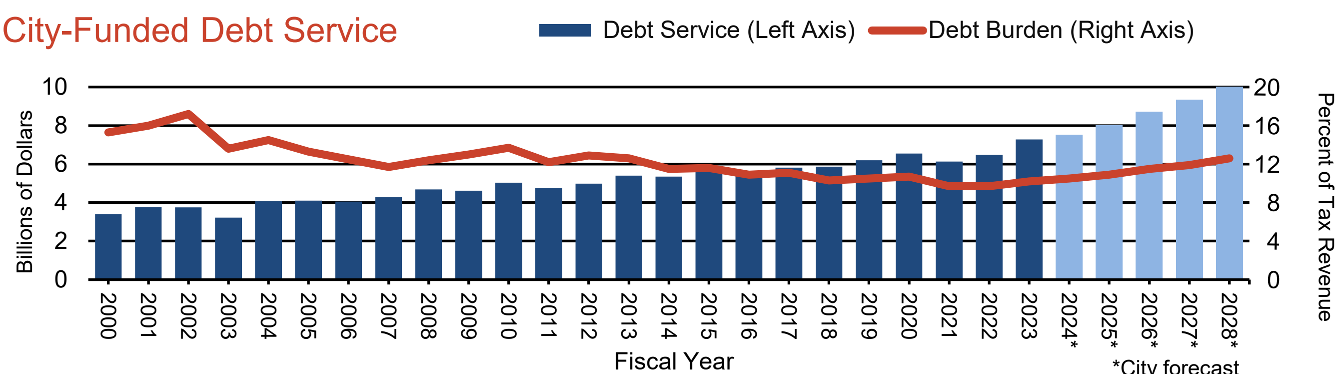
Debt service is a function of debt issuance to fund capital spending by the City. The January Preliminary Capital Commitment Plan reduced total planned commitments to $156.8 billion (for the period FY 2024 through FY 2033, an $11.6 billion decline compared to the adopted Capital Commitment Plan released in September 2023 (see Figure 35).

FIGURE 35
Capital Commitment Plan Change Since September 2023 (in millions)

City Agency	Change 2024-2028	Change 2029-2033	Total
Transportation	($1,901.4)	($3,562.3)	($5,463.7)
Energy & Citywide Equip.	(612.4)	(676.4)	(1,288.8)
Parks & Recreation	(649.6)	(302.1)	(951.8)
Small Business Services	(460.5)	(404.4)	(864.9)
Health + Hospitals	(312.6)	(219.6)	(532.1)
Courts	(187.7)	(300.0)	(487.7)
Sanitation	(318.3)	(140.6)	(459.0)
Citywide Admin Services	(326.1)	(37.8)	(363.9)
Fire	(187.5)	(72.1)	(259.6)
Police	(121.0)	(100.5)	(221.5)
Cultural Affairs	(270.2)	117.9	(152.2)
City University	(227.9)	79.4	(148.5)
Public Libraries	(181.9)	57.1	(124.8)
All Other	(127.0)	(173.6)	(300.6)
Total	**($5,884.1)**	**($5,735.0)**	**($11,619.1)**

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

FIGURE 34
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

The Department of Transportation saw the largest decrease, at nearly $5.5 billion, fueled by a reduction in Bridge Life Extension and Miscellaneous Work. The second largest reduction was for Energy and Citywide Equipment, largely comprised of $786 million for the OneNYC – Energy Efficiency program and $155 million for citywide resiliency measures. Parks and Recreation is showing a reduction of $952 million, with Neighborhood Parks and Playgrounds accounting for $873 million of the decrease. Other agencies with significant reductions in planned capital commitments are Small Business Services with a reduction of $865 million and H+H with a decrease of $532 million.

According to the City Comptroller, the City's remaining debt-incurring power is expected to decrease from $30.5 billion on June 30, 2023 to $15.9 billion on June 30, 2027. In response, the City has suggested it needs an increase in the amount of debt it can incur. The State executive budget proposes to increase the bond limit at the Transitional Finance Authority to fund future commitments. (See State and Federal Actions: State Budget section for details.)

X. Semi-Autonomous Entities

Department of Education

The January Plan allocates $39 billion to the Department of Education in FY 2025, including centrally administered costs for pensions and other benefits. This would amount to 35.6 percent of the City's total budget and is a $333 million decrease from actual spending in FY 2024, due to the expiration of emergency federal pandemic aid. The City expects to fund $22.5 billion (57.7 percent) of the FY 2025 budget, with the remainder funded by the State (36.2 percent), the federal government and other sources.

Federal support for the department is expected to drop by more than $2.1 billion (49.4 percent) from FY 2024 to FY 2025 as emergency pandemic funding expires. Nearly $1.9 billion will be replaced with City funding, but some programs supported by expiring federal funds are not fully addressed in the plan. The plan also expects State education aid to remain essentially flat, but the Governor's proposed executive budget would increase education aid to the City by approximately $342 million. Almost all of that increase would be concentrated in Foundation Aid ($222 million) and Building Aid ($119 million).

While the department's operating budget is expected to decrease, the January Plan does add $410 million in new City funds in FY 2025 (rising to nearly $1.3 billion in new spending by FY 2028). The bulk of these new funds address two longstanding risks to the department's plan: $265 million in FY 2025 (rising to $536 million in FY 2028) for pupil transportation, and $33 million in FY 2025 (rising to $729 million in FY 2028) for state-mandated charter school costs. The City also added $80 million for its Summer Rising program in FY 2025, but did not add any additional funding in the out-years.

In addition, the City realigned existing funding toward Carter Cases (federally-mandated special education services) in each year of the Plan, adding $100 million in FY 2025, $200 million in FY 2026, $330 million in FY 2027, and $400 million in FY 2028. Despite the substantial increases, this funding realignment is unlikely to fully fund Carter Case spending (see Figure 36), which has more than doubled in the past five years, and which is expected to continue to grow. The Plan also adds $87 million in FY 2024 for contracted nurses in schools, but no funds in the out-years.

The January Plan does not address a $92 million portion of the City's 3-K program which was supported by expiring federal funds. It also does not include funding for the State's Class Size Reduction mandate, which the City expects to cost $1.3 billion annually once fully phased in.

FIGURE 36

Risks to the Department of Education Budget in the January Plan

(in millions)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Class Size Reduction Compliance	- - -	- - -	$433	$867	$1,300
Carter Cases	- - -	540	410	340	340
3-K	- - -	92	92	92	92
Contract Nursing	- - -	87	87	87	87
Summer Rising	- - -	- - -	80	80	80
Total	**- - -**	**$719**	**$1,102**	**$1,466**	**$1,899**

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

OSC anticipates unfunded educational risks will rise to nearly $1.9 billion by FY 2028.

Metropolitan Transportation Authority

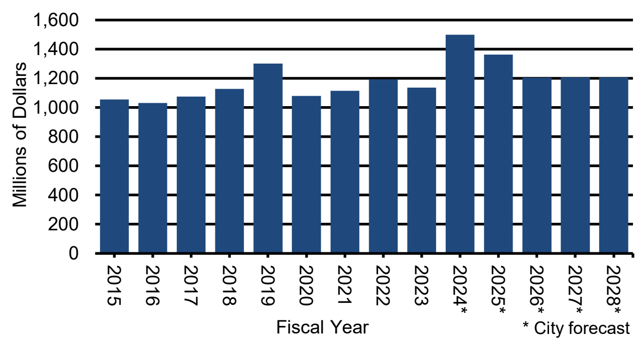
The MTA's financial plan updated in November maintains its forecast of balanced budgets through 2027. The 2024 budget was then adopted in December by the MTA Board. The MTA continues to benefit from the approval of increases to existing revenue streams and new funding from the enacted State budget, a distinct improvement from the large budget gaps forecast a year ago. OSC released the annual financial outlook report on the MTA in October, which provides details on the new State aid and remaining budget risks.

The MTA's Adopted Budget assumes $100 million in savings would be identified in 2023, $400 million annually starting in 2024 and $500 million annually starting in 2025. The savings targets through 2024 have been identified in the MTA's Adopted Budget mostly through operational and maintenance efficiencies and improving employee availability. Starting in 2025, about $70 million annually of unidentified savings remain as of the MTA's Adopted Budget.

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

Potential spending risks to the City of $143 million in FY 2025 rising to at least $450 million in FY 2028 remain as a result of these unbudgeted items. In FY 2024, the January Plan added additional funds for the MTA's buses and Staten Island Railway (SIR) and the 50 percent share for paratransit services that the City is required to pay, but the City did not increase its projections in future years. The City is not required to fund SIR's operating deficit under an agreement with the MTA, but has elected to do so since 2011, suggesting the City is likely under budgeting for the SIR subsidy, which could be $22 million higher in FY 2026 and $33 million higher in FY 2027. As shown in Figure 37, aid to the MTA is budgeted to drop from $1.5 billion in FY 2024 to $1.2 billion starting in FY 2026.

FIGURE 37
New York City Direct Aid to the MTA



Sources: NYC Office of Management and Budget; OSC analysis

The City also has elected to fund the Fair Fares program, which provides discounted MetroCards to low-income riders. The City currently budgets $95 million annually for the program for riders with income no higher than 120 percent of the federal poverty level. The City Council and the MTA have proposed expanding the eligibility of the program to up to 200 percent of the federal poverty level. The City Council estimates expanding eligibility to 200 percent would cost an additional $42 million.

The MTA released its capital 20-year Needs Assessment (TYNA) in October 2023 which is expected to inform the development of the proposed 2025-2029 capital program in September 2024. OSC recently released a report that examined the TYNA, reviews the depth of work needed to upgrade New York's regional transit systems and highlights the urgent need for the MTA to state its priorities and funding plans. The City provided $3 billion for the MTA's 2020-2024 capital program and $2.7 billion for the 2015-2019 program and will likely be required to make contributions to the 2025-2029 capital program.

NYC Health + Hospitals

On February 6, 2024, the City released the H+H FY 2025 preliminary cash financial plan. H+H adjusted its plan to account for its reestimate of the receipt of COVID-19 FEMA reimbursement, the impact of the State's Enacted FY 2024 budget and updates to supplemental Medicaid initiatives. For details on changes to H+H's financial projections prior to the release of the January Plan, including funds added for asylum seeker expenses and City support for collective bargaining agreements, see OSC's report on the November 2023 Plan; and for major financial and other issues confronting H+H, see OSC's issue brief.

The H+H FY 2025 preliminary cash plan reflects the reestimate of anticipated FEMA revenue for costs incurred at H+H during the COVID-19 pandemic. H+H reduced the amount of FEMA revenue it anticipated receiving in FY 2024 through FY 2027 by $795 million. See OSC's issue brief on Federal/State/City Funding for details.

Additionally, the plan reflects the impact of initiatives in the State's FY 2024 enacted budget which is net positive of $105 million annually due to Medicaid and Essential Plan rate increases. The benefit of the increased revenue is offset by a change in how the State manages a federal prescription drug program, a reduction of $123 million annually.

H+H also updated revenue projections for its supplemental Medicaid initiatives. The H+H-led initiatives are expected to result in an increase of $140 million in FY 2024 and $205 million annually in FY 2025 though FY 2027. This includes the receipt of additional federal funding of about $205 million annually for a new supplemental Medicaid initiative, which will require federal approval. If and when it is approved, H+H and the City will negotiate the transfer of City funds from the H+H subsidy to the City's Medicaid budget for the Medicaid matching funds. The City also reduced $145 million annually of its own funding from the Medicaid budget to adjust for a reestimate of an existing supplemental Medicaid initiative which the City is expected to transfer to the H+H City subsidy (see Medicaid section).

As part of the City's asylum seeker PEG, the January Plan reduces City funds by $456 million in FY 2024 and $1 billion in FY 2025 for costs associated with H+H's participation in managing the influx. In FY 2024, the city-fund savings is partially due to the receipt of $10.5 million in federal funds. Ultimately, the impact on H+H of these changes is zero, as the City has a memorandum of understanding to reimburse H+H for all associated costs. (see Asylum Seeker Cost Implications for details).

The January Plan PEG also relied on agency savings, building on initiatives included in the November Plan, which further reduce city-funded support to H+H. Reductions in January, at $30 million in FY 2024 rising to $40 million in FY 2028, occur across health and mental health programs that were initiated during the COVID- 19 pandemic such as B-Heard, Street Health Outreach & Wellness and the Public Health Corps, in addition to a reduction to its City subsidy. The savings applied to the B-Heard program are attributed to the City delaying a planned expansion to the program. It is unclear how future rounds of the City's PEG program will further impact the various H+H health programs supported with City funds including the Public Health Corps, which is not funded beyond FY 2025 (see Figure 2, OSC Risk Assessment of the New York City Financial Plan).

The City also provided funding to H+H for full costs associated with a recent New York State Nurses Association (NYSNA) collective bargaining contract for registered nurses working in Correctional Health Services (CHS) of $1.8 million in FY 2024 increasing to $5 million in FY 2028. Pursuant to an agreement made when the City transferred the operations of CHS to H+H, the City reimburses H+H for full costs associated with the program.

As noted in OSC's report on the November 2023 Plan, the City provided funding to H+H to cover the cost of the NYSNA contract following the DC 37 pattern set aside by the City in its labor reserve for NYSNA represented nurses that work in its other facilities. However, NYSNA awards private sector pay parity for nurses at a higher rate than assumed by the City and the City estimates that the excess cost would total $744 million through FY 2028. The City has not committed to take on the additional costs at this time as it has done with previous rounds of collective bargaining.

The SFY 2025 executive budget, which includes Medicaid savings initiatives, may also have fiscal implications for H+H. The proposal expects the State to exceed its statutory Medicaid spending cap, which limits the growth of costs to a subset of State share-funded Medicaid spending, in SFY 2026. The State's Commissioner of Health is authorized to impose cost reduction initiatives to ensure spending adheres to the cap. H+H relies on significant revenue from the Medicaid program (nearly 70 percent of patient care revenue) and any future programmatic or reimbursement changes imposed could have adverse impacts on its financial condition.

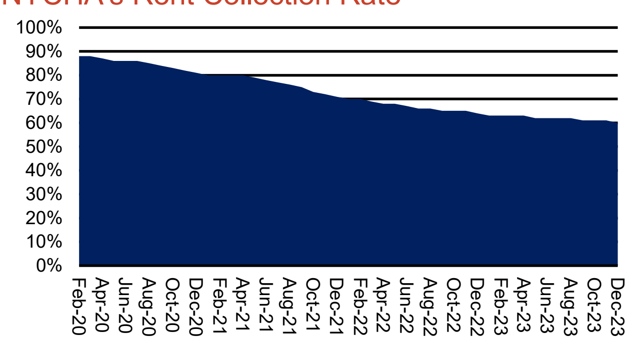
Last year, the City indicated that H+H will produce only cash-based plans going forward. OSC, as part of its ongoing efforts to improve the financial reporting of public authorities and corporations, and to properly assess the financial relationship between the City and its covered agencies, recommended that H+H prepare its budget and financial plan on both an accrual and cash basis. In December 2024, the City and H+H resumed publication of accrual-based plans with the release of the FY 2024 adopted accrual plan, a notable step toward financial transparency.

New York City Housing Authority

The New York City Housing Authority (NYCHA) continues to experience a sustained decline in its rent collection rate, which dropped from 88 percent in February 2020, before the onset of the pandemic, to 60 percent in December 2023 (see Figure 38). This has resulted in a cumulative rent arrears balance of roughly $492 million across 71,381 households through January 1, 2024, as compared to $125 million on December 31, 2019.

At the start of 2023 (NYCHA's fiscal year begins January 1), the Authority had anticipated a $35 million deficit at the end of the year, but now expects to end 2023 balanced. In December, NYCHA released their 2024-2028 Proposed

FIGURE 38
NYCHA's Rent Collection Rate



Sources: New York City Housing Authority; OSC analysis

Financial Plan, which projects another $35 million deficit at the end of 2024 and average annual out-year deficits of $32 million from 2025 through 2028, resembling last year's plan. Unlike previous budget presentations, no mention was made of reserve withdrawals to achieve balance — which NYCHA primarily attributes to the receipt of $127 million in State funding for the rental arrears of their tenants (as of January 14, 2024).

Despite the rent collection rate hovering at 60 percent, NYCHA still expects tenant rental revenue to increase by an annual average of $168 million from 2024 to 2027 compared to last year's budget. See OSC's Issue Brief: New York City Housing Authority for details.

The City's January Plan includes a $304 million subsidy to NYCHA for FY 2024, an increase of $1.5 million from the November Plan. Of the $304 million, the city-funded portion is expected to total $234.2 million, or 77 percent, with the balance funded from Community Development Block Grant funds (21 percent), Community Development Block Grant – Disaster Recovery funds (2 percent) and a small amount of Other Categorical funding (less than 1 percent). The January Plan also includes a PEG initiative that swaps operating funds with capital budget funds for eligible uses in the Vacant Unit Readiness program – the third such funding swap implemented since April 2023. In total, these swaps average $27 million annually from FY 2024 through FY 2028.

January 31, 2024, marked the five-year anniversary of the consent decree agreement between NYCHA and the U.S. Department of Housing and Urban Development, that placed the Authority under the oversight of a federal monitor. Per the agreement, NYCHA had the option to request that the monitorship be terminated at the five-year mark but did not pursue. Instead, HUD and federal prosecutors extended the monitorship for another five years and replaced the previous consulting firm hired to serve as monitor with a new law firm, who will begin working at the end of February 2024.

Although NYCHA has achieved a number of improvements in carrying out the repairs listed in the agreement, such as lead abatements, which it is completing at the rate of 4,800 units per year — nearly seven times the number completed in 2019 — some officials have expressed concerns that the terms of the agreement are too vague and lack enforcement tools.

Appendix A: City-Funded Agency Spending Trends

(Agency totals exclude asylum seeker funds)
(Dollars in millions)

	Final June Plan		FY 2025 Jan Plan					FY19-FY 23 CAGR	FY24-FY 28 CAGR
	FY 2019	FY 2023 (adj.)	FY 2024 (adj.)	FY 2025 (adj.)	FY 2026 (adj.)	FY 2027 (adj.)	FY 2028		
Agency Expense									
Uniformed Forces									
Police	5,321	5,771	5,856	5,486	5,725	5,828	5,831	2.1%	-0.1%
Fire	1,855	2,255	2,160	2,099	2,134	2,131	2,126	5%	-0.4%
Correction	1,368	1,347	1,207	1,043	1,056	1,062	1,202	-0.4%	-0.1%
Sanitation	1,746	1,891	1,581	1,666	1,894	1,942	1,951	2%	5.4%
Subtotal	**10,290**	**11,264**	**10,805**	**10,294**	**10,809**	**10,963**	**11,110**	**2.3%**	**0.7%**
Health and Welfare									
Social Services	7,729	8,880	9,300	8,379	8,579	9,070	9,480	3.5%	0.5%
Homeless Services	1,339	1,905	1,598	1,380	1,366	1,376	1,385	9.2%	-3.5%
Health and Mental Hygiene	860	1,213	1,114	1,029	1,092	1,094	1,094	9.0%	-0.5%
Children's Services	1,069	1,056	854	827	822	821	821	-0.3%	-1%
All Other	1,810	2,212	2,544	2,371	2,376	2,430	2,470	5.2%	-0.7%
Subtotal	**12,806**	**15,267**	**15,411**	**13,986**	**14,234**	**14,791**	**15,248**	**4.5%**	**-0.3%**
Education [21]									
Education	13,590	14,487	14,821	16,064	17,387	18,422	19,158	1.6%	6.6%
City University	858	875	979	936	937	954	971	0.5%	-0.2%
Subtotal	**14,448**	**15,363**	**15,800**	**17,000**	**18,324**	**19,377**	**20,130**	**1.5%**	**6.2%**
Other Agencies									
Environmental Protection	1,222	1,535	1,618	1,543	1,541	1,536	1,537	5.9%	-1.3%
Transportation	616	874	856	864	874	872	863	9.2%	0.2%
Parks and Recreation	432	500	474	460	465	466	466	3.7%	-0.4%
Citywide Admin Services	331	455	452	398	400	393	391	8.3%	-3.5%
Housing Pres. and Dev.	242	359	398	368	395	407	409	10.3%	0.7%
All Other	3,179	4,221	3,980	3,414	3,360	3,358	3,360	7.3%	-4.1%
Subtotal	**6,022**	**7,945**	**7,778**	**7,047**	**7,036**	**7,033**	**7,026**	**7.2%**	**-2.5%**
Elected Officials	**709**	**891**	**894**	**880**	**887**	**887**	**888**	**5.9%**	**-0.2%**
General Reserve	**20**	**20**	**50**	**1,200**	**1,200**	**1,200**	**1,200**	**0%**	**121%**
Agency Total	**44,295**	**50,751**	**50,737**	**50,408**	**52,492**	**54,251**	**55,602**	**3.5%**	**2.3%**
Other Expense									
Pension Contributions	9,801	8,964	9,211	10,235	10,657	10,782	11,723	-2.2%	6.2%
Miscellaneous [22]	7,661	12,013	11,215	12,524	13,076	14,068	15,340	11.9%	8.1%
Debt Service	6,155	6,972	6,316	4,250	8,720	9,354	10,153	3.2%	12.6%
All Other	(400)	(400)	(400)	56	265	416	554		
Subtotal	**23,217**	**27,549**	**26,342**	**27,065**	**32,718**	**34,620**	**37,769**	**4.4%**	**9.4%**
Total Expenditures	**67,512**	**78,300**	**77,079**	**77,472**	**85,209**	**88,871**	**93,371**	**3.8%**	**4.9%**
Asylum Seekers City Funds	**- - -**	**1,012**	**2,302**	**3,561**	**2,500**	**1,500**	**- - -**		
Total City Funds	**67,512**	**79,312**	**79,381**	**81,033**	**87,709**	**90,371**	**93,371**	**4.1%**	**4.1%**

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

[21] The Department of Education and City University plan numbers include fringe benefits.
[22] Adjusted to exclude Criminal Justice and Indigent Defense contracts that were previously budgeted in Miscellaneous (FY 2019 – FY 2024). Criminal Justice and Indigent Defense contracts are included under "All Other" agency expense.

Appendix B: Full-Time Staffing Levels

(Number of full-time employees)

	Actual	Actual	Forecast	Jan Plan	Variance – Better/(Worse) Dec. 2023 Actual to June 2025 Forecast		
	June 2020	Dec. 2023	June 2024	June 2025	City Funds	Non-City Funds	Total Funds
Public Safety	**85,806**	**78,029**	**80,966**	**80,731**	**2,800**	**(98)**	**2,702**
Police Uniformed	35,910	33,643	35,051	35,001	1,358	0	1,358
Civilian	15,519	13,488	13,947	13,843	534	(179)	355
Fire Uniformed	11,047	10,680	10,952	10,952	268	4	272
Civilian	6,366	6,386	6,230	6,032	(334)	(20)	(354)
Correction Uniformed	9,237	6,218	7,060	7,060	842	0	842
Civilian	1,741	1,522	1,728	1,727	200	5	205
District Attys. & Prosec.	4,843	5,133	4,850	5,002	(148)	17	(131)
Probation	1,116	935	1,115	1,085	75	75	150
Board of Correction	27	24	33	29	5	0	5
Health & Welfare	**27,878**	**25,305**	**27,969**	**27,427**	**929**	**1,193**	**2,122**
Social Services	12,330	10,981	12,127	11,998	73	944	1,017
Children's Services	7,039	6,377	7,080	7,025	523	125	648
Health & Mental Hygiene	5,530	5,344	5,931	5,617	202	71	273
Homeless Services	2,119	1,792	1,920	1,905	129	(16)	113
Other	860	811	911	882	2	69	71
Environment & Infra.	**26,365**	**26,411**	**27,503**	**26,857**	**(1,541)**	**1,987**	**446**
Sanitation Uniformed	7,755	8,389	7,978	7,832	(557)	0	(557)
Civilian	2,107	1,809	1,743	1,627	(194)	12	(182)
Transportation	5,120	5,125	5,762	5,814	(457)	1,146	689
Parks & Recreation	4,236	4,394	4,510	4,101	(365)	72	(293)
Environmental Protection	5,891	5,614	6,327	6,300	25	661	686
Other	1,256	1,080	1,183	1,183	7	96	103
General Government	**12,634**	**11,514**	**12,583**	**11,984**	**465**	**5**	**470**
Finance	1,996	1,653	1,932	1,932	267	12	279
Law	1,713	1,468	1,523	1,404	(81)	17	(64)
Citywide Admin. Svcs.	2,403	2,018	2,372	2,367	266	83	349
Taxi & Limo. Comm'n.	584	421	559	555	134	0	134
Investigations	361	278	315	293	15	0	15
Board of Elections	682	697	517	517	(180)	0	(180)
Info. Tech. & Telecomm.	1,673	1,513	1,568	1,504	1	(10)	(9)
Other	3,222	3,466	3,797	3,412	43	(97)	(54)
Housing	**4,088**	**4,013**	**4,313**	**4,287**	**76**	**198**	**274**
Buildings	1,676	1,557	1,647	1,627	69	1	70
Housing Preservation	2,412	2,456	2,666	2,660	7	197	204
Dept. of Education	**134,684**	**130,825**	**138,664**	**138,016**	**5,887**	**1,304**	**7,191**
Pedagogues	121,077	117,858	126,077	125,188	5,919	1,411	7,330
Non-Pedagogues	13,607	12,967	12,587	12,828	(32)	(107)	(139)
City University of NY	**6,288**	**5,735**	**6,024**	**6,024**	**289**	**0**	**289**
Pedagogues	4,545	4,233	4,289	4,289	56	0	56
Non-Pedagogues	1,743	1,502	1,735	1,735	233	0	233
Elected Officials	**2,703**	**2,577**	**2,817**	**2,787**	**157**	**53**	**210**
Total	**300,446**	**284,409**	**300,839**	**298,113**	**9,062**	**4,642**	**13,704**

Sources: NYC Office of Management and Budget; OSC analysis

Contact

Office of the New York State Comptroller
110 State Street
Albany, New York 12236

(518) 474-4015

www.osc.state.ny.us

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