NEW YORK CITY COMPTROLLER
BRAD LANDER

Comments on New York City's Fiscal Year 2023 Adopted Budget

BUREAU OF BUDGET

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I. Executive Summary

Fiscal Year 2023 begins in a period of significant economic uncertainty. There are meaningful signs of continued recovery from the pandemic, with jobs at 96% of pre-pandemic levels, tourism and Broadway rebounding, record numbers of new business applications, and tax revenues coming in well above what was forecasted at this time last year.

At the same time, however, high inflation is eroding real wages and decreasing families' purchasing power and consumer confidence. The Federal Reserve's efforts to aggressively tamp down on inflation by raising interest rates risk increasing the likelihood of an economic downturn rather than resulting in a mere slowdown. And the worst stock market performance in decades is a concern for the city's economic activity, tax revenues, and pension portfolios.

Meanwhile, neither the benefits of NYC's recovery, nor the burdens of high inflation or potential job losses, are shared equally. Unemployment, particularly for Black New Yorkers, remains far above the national average, even before the painful impacts of a slowing economy. Inflation disproportionately impacts the ability of low-income New Yorkers to meet basic needs of housing, food, health care, child care, and transportation.

It is against this backdrop of mixed signals that we review the City's June 2022 Financial Plan and FY 2023 Adopted Budget. The City's June 2022 Financial Plan, as the Comptroller's Office projected at the time of the Executive Plan, recognized significantly higher tax revenues in FY 2022. These revenues provide FY 2023 some fiscal relief in the form of higher pre-payments, dedicated reserves, and a stronger revenue base.

The FY 2023 Adopted Budget of $101 billion is $10.44 billion less than the FY 2022 budget. The largest difference is an expected $9.86 billion reduction in categorical grants stemming from an $8.82 billion drop in federal COVID-related revenue, including support for COVID-19 response as well as stimulus funding. The Mayor increased the FY 2023 projection of City revenues by $1.5 billion from the Executive Budget, driven primarily by increases in non-property tax revenues. This increase brings the City's forecast in line with the Comptroller's. Though higher than anticipated in the Executive Plan, overall tax revenues in FY 2023 are $1 billion less than in FY 2022, reflecting the expectation of slower economic growth.

The FY 2023 Adopted Budget reflects a number of changes from the Executive Budget that the Comptroller's Office supported.

The June 2022 Plan allocated an additional $1.5 billion to long-term reserves, split equally between the Revenue Stabilization Fund (RSF), and the Retiree Health Benefit Fund (RHBF). With this year's deposits, RSF and RHBF reached a combined total of $6.55 billion, or 9.4% of the City's tax revenues revised to incorporate June collections.

While we praise the Mayor and the Council for this significant deposit, the Comptroller's Office recommends that the percentage of funds set aside for long-term reserves rise to 16% in order to be able to weather the full length of an economic recession. An additional $800 million in year-end excess revenues should be deposited into the RSF. In addition to setting a target that will enable the City to weather a full downturn, the Comptroller's Office recommends the explicit adoption of policies setting targets and regulating deposits and withdrawals.

The City increased its labor reserve by $371 million to support annual wage increases of 1.25%. While likely insufficient given the current high inflation rates, this is an improvement from the 0.5% increase in each of the first two years of the new round of collective bargaining and 1 percent thereafter funded in the Executive Plan.

In recognition of continued under-budgeting for the City's rental assistance program, an additional $118 million was added, bringing the total spend up to $255 million, in line with the Comptroller's Office's original projection, though only in FY 2023.

Budget negotiations removed a plan for 578 heads from the Department of Corrections budget, requiring the Department to utilize existing staffing resources first and address persisting issues with high absence rates.

$10 million was added for child care for undocumented children. While a small amount comparatively, it will have a huge impact on families who need care and are ineligible for Federal or State programs.

Although the total budget for the Department of Education increased by $292 million from the Preliminary Budget, both the Preliminary Budget and the Adopted Budget included a net reduction of $132 million to the DOE's budgets for schools based on enrollment decline (after register relief and allocation to fringes). When DOE announced individual school budgets in June, however, the actual cut was nearly triple that amount, a net reduction of $372 million. Meanwhile, the DOE continues to have over $4 billion in unused federal stimulus dollars that was allocated by Congress to provide relief and support schools through the pandemic, including over $600 million that was budgeted to be spent in FY 2022 but has not yet been spent. A recent lawsuit filed against the Department by parents and teachers creates further uncertainties surrounding these cuts. In early August, a court order was issued vacating the DOE's FY 2023 budget and reinstating spending levels in place in FY 2022. The court order is stayed pending further hearings.

The FY 2023 Adopted Budget continues to under-budget in several key areas, leaving significant fiscal cliffs in the outyears. Risks to the City's expenditures in FY 2023 stemming from under-budgeting include overtime, Carter Cases, homeless shelters, foster care reimbursement, paratransit, court appointed counsel, and public assistance. These risks continue in the outyears. Other programs are fully funded in FY 2023, in some cases with non-recurring Stimulus funding, but have no ongoing or insufficient support in the outyears. These shortfalls include funding for rental assistance (as noted above), prevailing wages for shelter security guards, Behavioral Health Emergency Assistance Response Division (B-HEARD) in the Fire Department, and several core education initiatives, including the 3K expansion, Summer Rising, and register relief, that are unsupported once stimulus funds expire. Further, expected growth in charter school tuition will likely require significant additional funding for the Department of Education budget beginning in FY 2024.

The impact of stock market declines on NYC's pension investment returns in FY 2022 will impose additional costs on the City's budget beginning in FY 2024. In the first half of 2022, public equity markets had the worst performance in 50 years, and all major public asset classes except commodities incurred significant losses. As a consequence, the combined return in FY 2022 was -8.65%. Despite last year's losses, the pension funds remain well-funded and the retirement security for the City's current and future retirees is extremely solid. As part of the formula that phases in both gains and losses over time, the Comptroller's Office estimates that the FY 2022 losses will translate into higher pension contributions from the City's budget totaling $5.92 billion from FY 2024 through FY 2026.

The Comptroller's Office projects that City revenue will be higher than the Mayor's by $37 million in FY 2023, $171 million in FY 2024, $725 million in FY 2025 and $462 million in FY 2026. However, these offsets are nowhere near the amount of expense risks and known funding shortfalls. Net additional spending is projected to be $869 million in FY 2023, $2.22 billion in FY 2024, $3.35 billion in FY 2025, and $5.57 billion in FY 2026. The restated budget gaps are $869 million in FY 2023, $6.43 billion in FY 2024, $7.07 billion in FY 2025, and $9.55 billion in FY 2026. Notably, these risks do not include the impact of higher collective bargaining patterns which could be sizable but is not quantifiable at this time. In addition, the State Legislature approved legislation to reduce class sizes, which if signed by the Governor, would create further pressures on the Financial Plan in the outyears.

These risks are significant and will need to be addressed proactively by long-term planning for the City's budget and its economic development programs, further contributions to reserves, and a thoughtful PEG program. Ensuring the City can meet its obligations – to our creditors, our workforce, our vendors, and to the services expected and needed by our residents, including our young people and our most vulnerable communities – is essential to our shared long-term thriving.

Table 1. FY 2023 – FY 2026 Financial Plan

($ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	Change FYs 2023 –2026 Dollar	Change FYs 2023 –2026 Percent
Revenues						
Taxes:						
General Property Tax	$31,421	$32,013	$32,146	$32,156	$735	2.3%
Other Taxes	35,607	35,653	37,206	38,640	3,033	8.5%
Tax Audit Revenues	721	721	721	721	0	0.0%
Subtotal: Taxes	**$67,749**	**$68,387**	**$70,073**	**$71,517**	**$3,768**	**5.6%**
Miscellaneous Revenues	7,311	7,255	7,262	7,283	(28)	(0.4%)
Unrestricted Intergovernmental Aid	252	0	0	0	(252)	(100.0%)
Less: Intra-City Revenues	(1,974)	(1,939)	(1,929)	(1,929)	45	(2.3%)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	0	0.0%
Subtotal: City-Funds	**$73,323**	**$73,688**	**$75,391**	**$76,856**	**$3,533**	**4.8%**
Other Categorical Grants	1,029	1,016	1,015	1,012	(17)	(1.7%)
Inter-Fund Revenues	736	732	731	731	(5)	(0.7%)
Federal Categorical Grants	9,284	8,676	7,958	6,974	(2,310)	(24.9%)
State Categorical Grants	16,752	16,890	17,134	17,188	436	2.6%
Total Revenues	**$101,124**	**$101,002**	**$102,229**	**$102,761**	**$1,637**	**1.6%**
Expenditures						
Personal Service						
Salaries and Wages	$31,668	$31,973	$32,453	$33,050	$1,382	4.4%
Pensions	9,414	8,702	7,814	6,933	(2,481)	(26.4%)
Fringe Benefits	12,640	13,756	14,720	15,437	2,797	22.1%
Subtotal-PS	**$53,722**	**$54,431**	**$54,987**	**$55,420**	**$1,698**	**3.2%**
Other Than Personal Service						
Medical Assistance	$6,564	$6,385	$6,385	$6,385	($179)	(2.7%)
Public Assistance	1,650	1,650	1,650	1,650	0	0.0%
All Other	37,718	35,149	34,803	34,391	(3,327)	(8.8%)
Subtotal-OTPS	**$45,932**	**$43,184**	**$42,838**	**$42,426**	**($3,506)**	**(7.6%)**
Debt Service						
Principal	$3,994	$4,221	$4,091	$4,155	$161	4.0%
Interest & Offsets	3,759	3,865	4,506	5,219	1,460	38.8%
Subtotal Debt Service	**$7,753**	**$8,086**	**$8,597**	**$9,374**	**$1,621**	**20.9%**
FY 2022 BSA and Discretionary Transfers	($6,114)	$0	$0	$0	$6,114	(100.0%)
Capital Stabilization Reserve	$250	$250	$250	$250	$0	0.0%
General Reserve	$1,555	$1,200	$1,200	$1,200	($355)	(22.8%)
Less: Intra-City Expenses	($1,974)	($1,939)	($1,929)	($1,929)	$45	(2.3%)
Total Expenditures	**$101,124**	**$105,212**	**$105,943**	**$106,741**	**$5,617**	**5.6%**
Gap to be Closed	**$0**	**($4,210)**	**($3,714)**	**($3,980)**	**($3,980)**	**NA**

NOTE: Numbers may not add to totals due to rounding.

Table 2. Plan-to-Plan Changes
June 2022 Plan vs. April 2022 Plan

($ in millions)	FY 2023	FY 2024	FY 2025	FY 2026
Revenues				
Taxes:				
General Property Tax	$77	$179	$180	$182
Other Taxes	1,408	272	232	245
Tax Audit Revenues	(1)	(1)	(1)	0
Subtotal: Taxes	**$1,484**	**$450**	**$411**	**$427**
Miscellaneous Revenues	65	(3)	(3)	(2)
Unrestricted Intergovernmental Aid	0	0	0	0
Less: Intra-City Revenues	(2)	0	0	(1)
Disallowances Against Categorical Grants	0	0	0	0
Subtotal: City-Funds	**$1,547**	**$447**	**$408**	**$424**
Other Categorical Grants	0	0	0	0
Inter-Fund Revenues	1	1	1	1
Federal Categorical Grants	(72)	(1)	0	(1)
State Categorical Grants	(5)	(1)	(2)	(1)
Total Revenues	**$1,471**	**$446**	**$407**	**$423**
Expenditures				
Personal Service				
Salaries and Wages	$392	$634	$830	$1,017
Pensions	(251)	(346)	(362)	(628)
Fringe Benefits	(12)	(6)	(8)	(9)
Subtotal-PS	**$129**	**$282**	**$460**	**$380**
Other Than Personal Service				
Medical Assistance	$179	$0	$0	$0
Public Assistance	0	0	0	0
All Other	1,570	270	108	108
Subtotal-OTPS	**$1,749**	**$270**	**$108**	**$108**
Debt Service				
Principal	$0	$19	$21	$21
Interest & Offsets	(63)	(52)	(54)	(54)
Subtotal Debt Service	**($63)**	**($33)**	**($33)**	**($33)**
FY 2022 BSA and Discretionary Transfers	($842)	$0	$0	$0
Capital Stabilization Reserve	$0	$0	$0	$0
General Reserve	$500	$200	$200	$200
Less: Intra-City Expenses	($2)	$0	$0	($1)
Total Expenditures	**$1,471**	**$719**	**$735**	**$654**
Gap to be Closed	**$0**	**($273)**	**($328)**	**($231)**

NOTE Numbers may not add to totals due to rounding.

Table 3. Plan-to-Plan Changes
June 2022 Plan vs. February 2022 Plan

($ in millions)	FY 2023	FY 2024	FY 2025	FY 2026
Revenues				
Taxes:				
General Property Tax	$387	$722	$680	$630
Other Taxes	1,490	(109)	(249)	152
Tax Audit Revenues	0	0	0	0
Subtotal: Taxes	**$1,877**	**$613**	**$431**	**$782**
Miscellaneous Revenues	331	219	197	191
Unrestricted Intergovernmental Aid	252	0	0	0
Less: Intra-City Revenues	(124)	(91)	(91)	(91)
Disallowances Against Categorical Grants	0	0	0	0
Subtotal: City-Funds	**$2,336**	**$741**	**$537**	**$882**
Other Categorical Grants	16	10	10	11
Inter-Fund Revenues	2	0	0	0
Federal Categorical Grants	(101)	32	30	72
State Categorical Grants	335	248	246	245
Total Revenues	**$2,588**	**$1,031**	**$823**	**$1,210**
Expenditures				
Personal Service				
Salaries and Wages	$1,069	$1,297	$1,573	$1,853
Pensions	(251)	(346)	(362)	(628)
Fringe Benefits	(3)	27	37	39
Subtotal-PS	**$815**	**$978**	**$1,248**	**$1,264**
Other Than Personal Service				
Medical Assistance	$70	($109)	($109)	($109)
Public Assistance	0	0	0	0
All Other	3,898	1,721	1,261	1,140
Subtotal-OTPS	**$3,968**	**$1,612**	**$1,152**	**$1,031**
Debt Service				
Principal	($57)	$33	($29)	($47)
Interest & Offsets	(132)	(212)	(177)	(176)
Subtotal Debt Service	**($189)**	**($179)**	**($206)**	**($223)**
FY 2022 BSA and Discretionary Transfers	($2,382)	$0	$0	$0
Capital Stabilization Reserve	$0	$0	$0	$0
General Reserve	$500	$200	$200	$200
Less: Intra-City Expenses	($124)	($91)	($91)	($91)
Total Expenditures	**$2,588**	**$2,520**	**$2,303**	**$2,181**
Gap To Be Closed	**$0**	**($1,489)**	**($1,480)**	**($971)**

NOTE Numbers may not add to totals due to rounding.

Table 4. Plan-to-Plan Changes
June 2022 Plan vs. June 2021 Plan

($ in millions)	FY 2023	FY 2024	FY 2025
Revenues			
Taxes:			
General Property Tax	$1,229	$1,394	$1,119
Other Taxes	1,083	(571)	(481)
Tax Audit Revenues	0	0	0
Subtotal: Taxes	**$2,312**	**$823**	**$638**
Miscellaneous Revenues	839	794	788
Unrestricted Intergovernmental Aid	252	0	0
Less: Intra-City Revenues	(534)	(500)	(495)
Disallowances Against Categorical Grants	0	0	0
Subtotal: City-Funds	**$2,869**	**$1,117**	**$931**
Other Categorical Grants	36	25	25
Inter-Fund Revenues	11	7	6
Federal Categorical Grants	40	73	50
State Categorical Grants	444	264	257
Total Revenues	**$3,400**	**$1,486**	**$1,269**
Expenditures			
Personal Service			
Salaries and Wages	$857	$1,027	$1,225
Pensions	(1,055)	(1,958)	(2,783)
Fringe Benefits	801	823	830
Subtotal-PS	**$603**	**($108)**	**($728)**
Other Than Personal Service			
Medical Assistance	$70	($109)	($109)
Public Assistance	0	0	0
All Other	5,407	3,079	2,802
Subtotal-OTPS	**$5,477**	**$2,970**	**$2,693**
Debt Service			
Principal	$156	($80)	$11
Interest & Offsets	(794)	(623)	(767)
Subtotal Debt Service	**($638)**	**($703)**	**($756)**
FY 2022 BSA and Discretionary Transfers	($6,114)	$0	$0
Capital Stabilization Reserve	$0	$0	$0
General Reserve	$555	$200	$200
Less: Intra-City Expenses	($534)	($500)	($495)
Total Expenditures	**($651)**	**$1,859**	**$914**
Gap To Be Closed	**$4,051**	**($373)**	**$355**

NOTE: Numbers may not add to totals due to rounding

Table 5. Risks and Offsets to the June 2022 Financial Plan

($ in millions, positive numbers decrease the gap and negative numbers increase the gap)

	FY 2023	FY 2024	FY 2025	FY 2026
City Stated Gap	**$0**	**($4,210)**	**($3,714)**	**($3,980)**
Tax Revenues				
Property Tax	$306	$245	$629	$943
Personal Income Tax	(584)	(357)	278	208
Business Taxes	(194)	(2)	(119)	(301)
Sales Tax	50	58	(74)	(229)
Real Estate Transaction Taxes	146	(92)	(312)	(480)
All Other	(39)	(35)	16	17
Audit	251	251	251	250
Subtotal Tax Revenues	($64)	$68	$669	$408
Non-Tax Revenues	101	103	56	54
Total Revenues	**$37**	**$171**	**$725**	**$462**
Expenditures				
Overtime	($458)	($150)	($150)	($150)
Charter School Tuition	0	(278)	(430)	(723)
Carter Cases	(300)	(300)	(300)	(300)
Pupil Transportation	0	(75)	(125)	(175)
3K Expansion	0	0	0	(376)
Special Ed Pre-K Expansion	0	0	(47)	(95)
DOE Mental Health Services	0	0	(37)	(86)
Community Schools Expansion and Sustainability	0	0	(27)	(54)
Summer Rising	0	0	(176)	(176)
DOE Contracted Nursing	0	0	(49)	(49)
Public Health Corps	0	0	(13)	(49)
FDNY Mental Health Response Program	0	(37)	(37)	(37)
Public Assistance	(50)	(50)	(50)	(50)
Homeless Shelters	(109)	(120)	(120)	(120)
Rental Assistance	0	(227)	(227)	(227)
Paratransit Funding	(55)	(77)	(91)	(105)
Prevailing Wage for Shelter Security Guards	0	(64)	(64)	(64)
FY 2022 Pension Investment Return	0	(874)	(1,993)	(3,050)
Foster Care Reimbursement Rate	(59)	(117)	(117)	(117)
Court Appointed Counsel	(100)	(100)	(100)	(100)
VRDB Interest Savings	75	75	75	75
eFMAP Savings	150	0	0	0
Total Expenditures	**($906)**	**($2,394)**	**($4,078)**	**($6,028)**
Total (Risks)/Offsets	**($869)**	**($2,223)**	**($3,353)**	**($5,566)**
Restated (Gap)/Surplus	**($869)**	**($6,433)**	**($7,067)**	**($9,546)**

NOTE: Numbers may not add to totals due to rounding.

II. The City's Economic Outlook

The National Economy

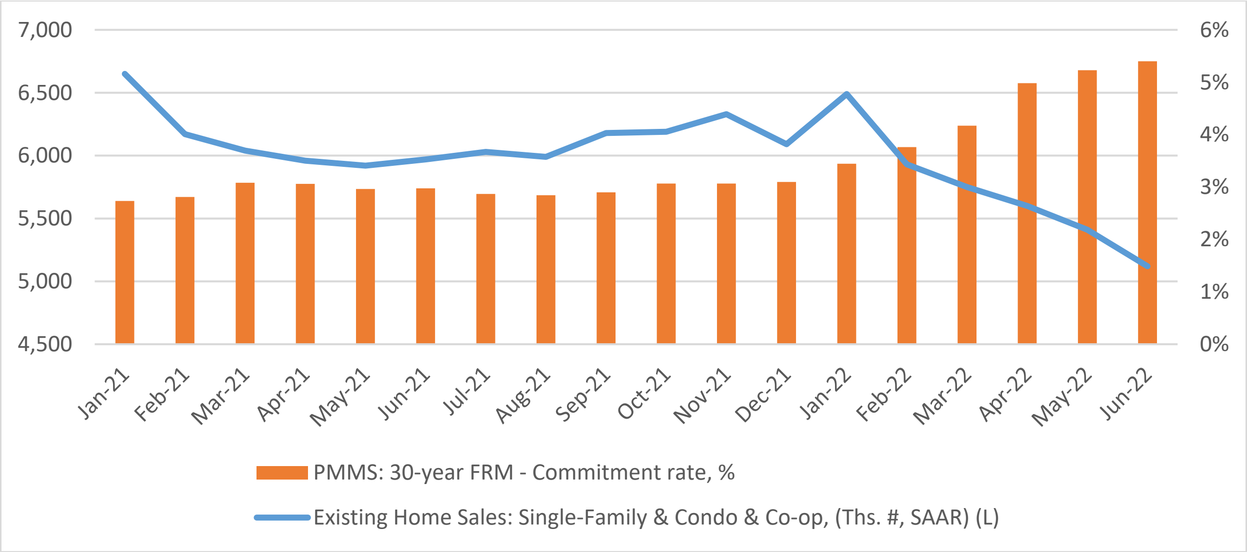
The outlook for the U.S. economy has deteriorated since the Executive Budget. Growth has slowed more than anticipated, and with inflation persistently high there are increasing concerns that the Federal Reserve may be behind the curve in its attempt to cool inflation and will have to increase rates more aggressively resulting in an economic downturn. While the risks of a more severe downturn have increased, the Comptroller's Office's forecast at this time is consistent with the Blue Chip consensus view, which continues to show overall growth on an annual basis for the Plan period despite a contraction in the most recent two quarters.[1]

The recent slowdown in the U.S. economy is evidenced by several economic indicators. U.S. GDP contracted at an annualized rate of 0.9 percent in the second quarter following a decline of 1.6 percent in the first. The drop in second quarter GDP was mainly attributable to private inventories and residential investment which contributed -2.0 and -0.7 percent to the overall change in GDP. This was only partly offset by expansion in the consumption of services and growth in exports.

The housing market, which contributed 11 percent to GDP growth in 2021, has reacted swiftly to higher interest and mortgage rates. Sales of existing home sales have fallen in the past four months from a monthly pace of over 6 million units in 2021 to 5.1 million units most recently in June. The National Association of Home Builders/Wells Fargo Housing Market Index, a survey of market conditions in the single-family housing market, plummeted to 55 in July, a 12-point monthly drop second only to that of April 2020 in the survey's 37-year history.

[1] The July Blue Chip Economic Forecast shows real GDP growing 2.0 percent in 2022 (down from 2.5 percent in June) and 1.1 percent in 2023.

Chart 1. U.S. Housing Sales Have Fallen as Mortgage Rates Have Increased



SOURCE: National Association of Realtors, Moody's Analytics

The decline in private inventories reflected a contraction in manufacturing activity as reported by several local Fed branches in the July Beige Book.[2] This decline was mainly due to businesses trimming back production from levels that had been previously ramped up to meet supply shortages that occurred during the pandemic. Businesses are finding themselves with too much inventory on hand and expect to reduce production in the coming months. The current drag on GDP is expected to diminish once the excess inventory is drawn down.

Consumer spending which accounts for approximately two-thirds of all economic activity has also slowed. Real personal consumption expenditures grew at an annual rate of only 1.0 percent in Q2, down from 1.8 in Q1. The GDP report highlighted the shift that has occurred in expenditures away from goods (down 4.4 percent SAAR) to services (up 4.1 percent SAAR) as the effects of the pandemic and lockdowns have waned.[3]

Even as growth has slowed, inflationary pressures persist, due to labor market conditions which remain tight and accelerating shelter inflation. In addition to high core inflation, the increase in energy and food prices brought the Consumer Price Index (CPI) to increase 9.1 percent over the year in June, following an 8.6% increase in May, with both readings the highest since 1981 and exceeding consensus expectations.

The Fed continued its policy of aggressive rate hikes by raising the fed funds rate by 75 basis points again in July. The Fed essentially reiterated the position it stated in June saying that

[2] Beige Book - July 13, 2022 (federalreserve.gov)

[3] Bureau of Economic Analysis, https://www.bea.gov/news/2022/gross-domestic-product-second-quarter-2022-advance-estimate

"ongoing increases in the target range will be appropriate" and that it is "strongly committed" to bring inflation back in line with its 2 percent goal. The Fed did not provide an update to the Summary of Economic Projections (SEP) that the central bank uses to signal its outlook for the path of interest rates (see Table 6).

Long-term inflation expectations appear to have eased. The University of Michigan's preliminary survey of consumers for July showed consumers expecting inflation to fall to 2.8% over a five-year horizon, the lowest in a year and down from 3.1% in June. The NY Fed's survey of inflationary expectations at the medium (3-year) and long (5-year) terms also showed declines in June.

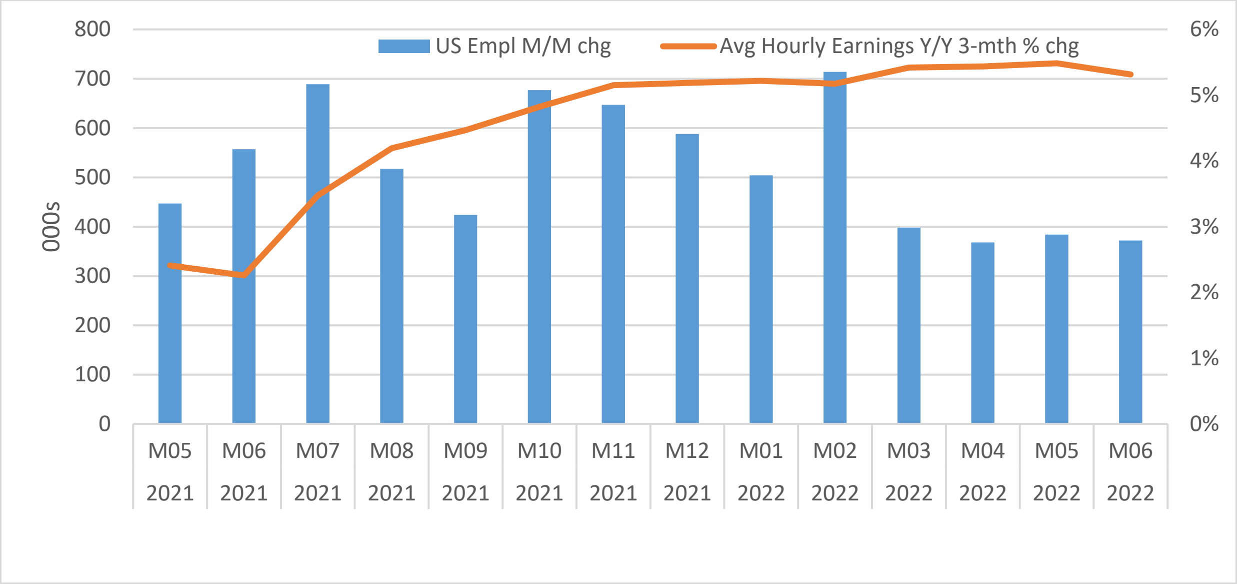
Table 6. The Fed Has Adopted a Much More Aggressive Policy on Interest Rates

Year-end Federal Funds Rate projection by FOMC participants (%)	2022	2023	2024
June	3.4	3.8	3.4
March	1.9	2.8	2.8

The federal funds rate is the value of the median projections of FOMC participants for the target range at the end of the specified calendar year.

Source: Federal Reserve Board of Governors

Chart 2. Job Gains Have Slowed, and Wage Gains Have Plateaued, but Current Labor Market Conditions Are Generally Strong

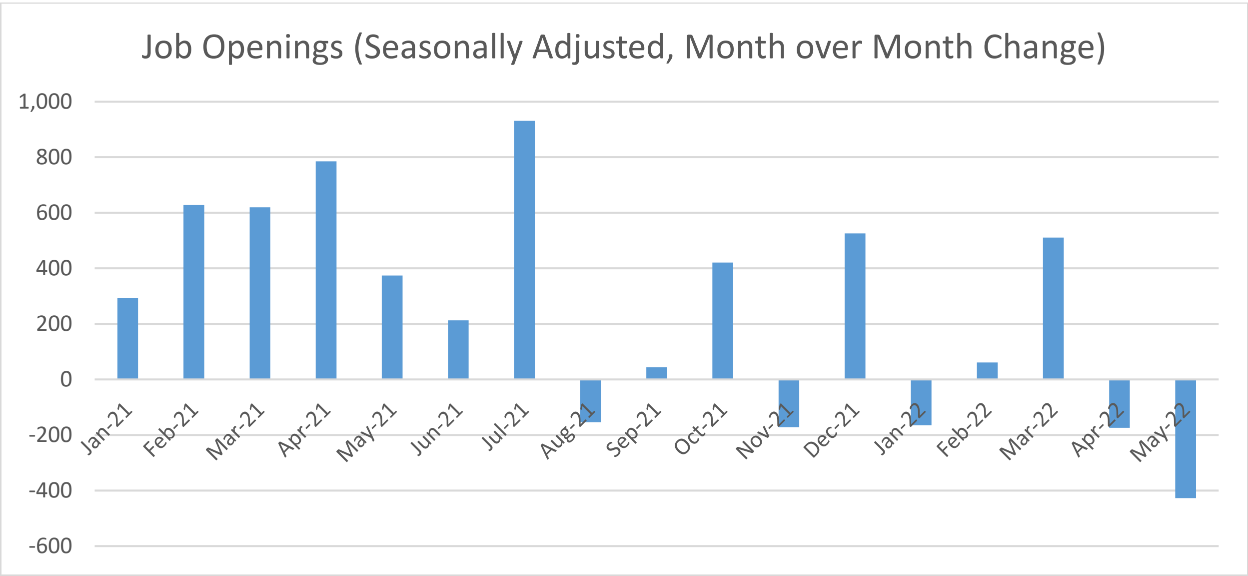


SOURCE: Bureau of Labor Statistics

The June jobs report did not do much to allay short term inflationary concerns. As shown in Chart 2, the U.S. labor market remains resilient. Job growth slowed to 374,000 per month in the second quarter of 2022, compared to 538,000 in the first, but gains are still robust. The growth rate in average hourly earnings leveled off around 5 percent, still well above the 3.5 percent threshold that some economists[4] view as being consistent with slowing inflation. The unemployment rate, at 3.6 percent in June, is below the rate consistent with slower wage growth.

Nonetheless, there are signs that the job market is beginning to cool down. Job growth in the technology sector appears to be slowing as bellwether technology firms have announced plans to freeze or cutback on hiring.[5] Broader indicators of the labor market also point to softening. The number of job openings, while still elevated, declined for the second consecutive month in May, and initial claims for unemployment rose to 251,000 for the week ended July 16, the highest weekly level since mid-November. However, the gap between job openings and workers still stood near the highest level in postwar U.S. history at 3.2% of the labor force.

Chart 3. More Forward-Looking Measures of the Job Market Suggest That Job Growth Will Slow in the Coming Months



Source: Bureau of Labor Statistics

There is also some good news on the inflation front, beyond the decline in its long-term expectations. Commodity prices have begun to fall driven by the recent decline in crude oil which is below $100 per barrel for the first time since May. The CPI fixings market suggests that inflation will probably peak in September, and that October may be the turning point where inflation begins to slow. In addition to falling commodity prices, the Federal Reserve Bank of NY Global

[4] US Economic Analyst, Reassessing Recession Risk, Goldman Sachs Economic Research, June 20, 2022

[5] Tech companies are slowing hiring or announcing layoffs. Is this the beginning of a cooler job market? – Fortune

Supply Chain Pressure Index (GSCPI) was off its peak in December 2021 and below the levels seen in the Spring of 2020, showing that supply bottlenecks declined in June.[6]

While the baseline forecast is that the Fed can achieve a soft-landing, the main risk to the forecast is that a too-aggressive Fed may push the economy into a recession. In a downside scenario, employment gains turn to losses and the unemployment rate begins to increase. The stock market reacts negatively to higher than anticipated Fed rates and financial conditions continue to tighten. There are other risks to the forecasts outside of the Fed's control. European economies, which have been more directly impacted by Russia's continued invasion of Ukraine and its impact on their supplies of gas, could weaken further causing exports and corporate earnings from European subsidiaries to deteriorate. The unpredictability of COVID variants is also a lingering concern and downside risk.

New York City's Economy

The Comptroller's Office's forecast of the City's economy continues to show growth throughout the Financial Plan's horizon. The few local economic indicators that have been released since the Executive Budget generally point to expansion.

The June local jobs report showed 22,100 private sector job gains that month bringing private employment to 96 percent of its pre-pandemic peak. The two largest sectors of the City's economy, Professional and Business Services and Health Care, have added almost 30,000 jobs combined in the past two months. The 22,100 private job gains represented a slight deceleration from the 24,000 gains averaged last year, but this is consistent with Comptroller's Office's view at the Executive Budget that jobs gains would begin to cool off but remain positive.[7]

[6] https://www.newyorkfed.org/research/policy/gscpi#/interactive

[7] There have also been anecdotal reports of local tech firms beginning to slower hiring or announcing layoffs. https://www.reuters.com/markets/us/tesla-peloton-companies-slow-hiring-economy-sputters-2022-06-03/ https://observer.com/2022/07/meta-and-amazon-are-putting-their-nyc-office-plans-on-hold-as-workers-continue-to-stay-home/

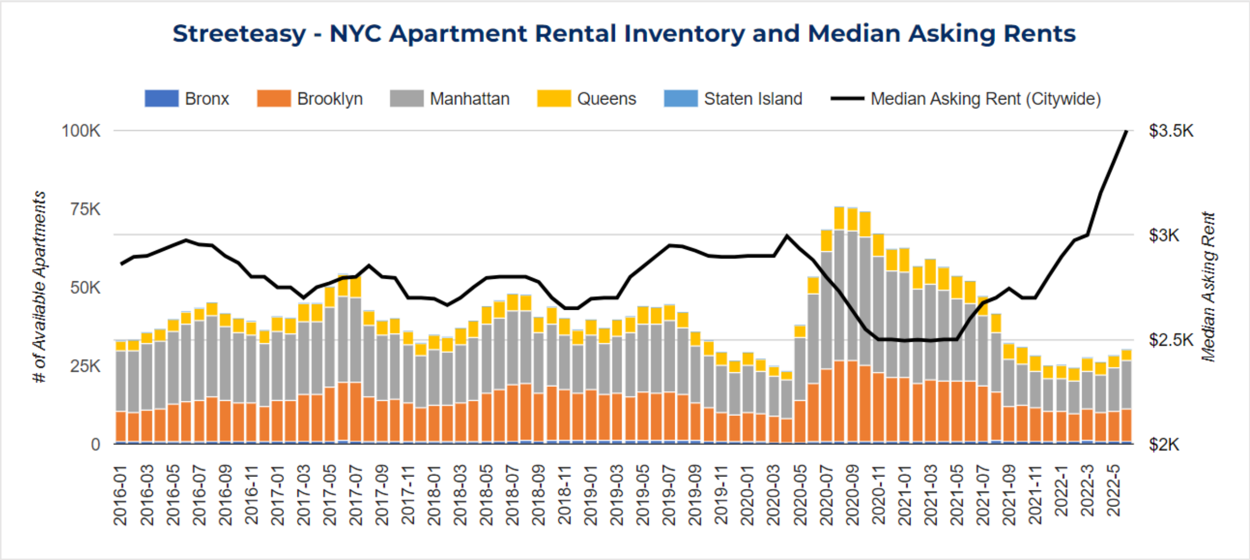
Table 7. Payroll jobs as of June 2022

('000s)	Seasonally Adjusted NYC Employment				Jun'22 Change from		
Industry	Feb 20	Apr 20	May 22	Jun 22	Feb 20	Apr 20	May 22
Total Private	4,108.4	3,161.4	3,901.6	3,923.7	(184.7)	762.3	22.1
Financial Activities	487.2	469.2	470.7	470.3	(16.9)	1.1	(0.4)
Information	229.2	204.1	237.3	239.8	10.6	35.7	2.5
Prof. and Bus. Serv.	781.3	688.0	774.8	780.9	(0.4)	92.9	6.0
Educational Services	256.4	229.4	238.4	243.9	(12.5)	14.5	5.5
Health Care and Soc. Assist.	823.5	707.5	841.9	847.5	24.0	140.0	5.5
Arts, Entertainment, and Recreation	95.7	50.7	74.8	76.7	(19.0)	26.0	1.8
Accommodation and Food Services	374.4	105.8	308.4	309.6	(64.8)	203.8	1.2
Other Services	196.1	129.2	178.9	180.8	(15.3)	51.6	1.9
Retail Trade	346.1	230.2	305.5	304.8	(41.3)	74.6	(0.7)
Wholesale Trade	139.8	108.2	129.1	128.9	(10.9)	20.7	(0.2)
Trans. and Warehousing	135.0	98.8	130.2	130.6	(4.4)	31.8	0.4
Construction	162.6	87.7	139.0	138.1	(24.5)	50.4	(0.9)
Manufacturing	65.9	37.8	57.8	57.3	(8.6)	19.5	(0.5)

SOURCE : NYS DOL and NYC OMB

Unlike the U.S.'s, the City's housing market has yet to show signs of slowing. The median citywide rent reached a new high in June (Chart 4), surpassing the pre-pandemic peak. June data from transaction tax revenues indicates that the sales market for 1-3 family housing, coops and condos also remains strong, though the effects of higher interest rates are expected to take a toll in the coming months. While there is no data for retail sales at the local level, sales tax collections point to a healthy local consumer and tourist demand. Overall, the city's economic indicators remain positive and consistent with the Comptroller's Office's view of slower but still positive growth in the local economy.

Chart 4. The City's Rental Market Set a New Record for Rents



SOURCE Streeteasy.com

There are however two main areas of the local economy that the Comptroller's Office had already identified in the Executive Budget as causes for concern.

Financial markets, which have reacted negatively to the environment of high inflation and high interest rates, are a primary concern. At the time of the Executive Budget, the Comptroller's Office had already incorporated significant weakness in the stock market and declining profitability on Wall Street in its economic and revenue projections. The Comptroller's Office anticipated that the Personal Income and Business taxes would decline significantly by 11 and 19 percent respectively in FY 2023. While Personal Income Tax (PIT) collections increased in June, estimated payments declined 31 percent year-over-year, showing the first repercussions of financial markets' turmoil on tax revenues. Pre-tax profits of Wall Street firms fell to $7.8 billion in the first quarter of 2022, down from $18.0 billion in the first quarter of 2021. Second quarter earnings reports released by the major banks in July also pointed to a significant drop in profitability.

The other area of concern is the city's commercial office market. Office vacancy rates continue to hover around 20 percent, even in an environment of sustained job gains as discussed in the Comptroller's August Economic Newsletter.[8] If the US and local economy were to slow beyond expectation or fall into recession, the impact of higher vacancy rates on commercial property tax revenues could be immediate, as explained in the Comptroller's June Economic Newsletter.[9]

8 https://comptroller.nyc.gov/newsroom/new-york-by-the-numbers-monthly-economic-and-fiscal-outlook-no-68-august-8th-2022/.

9 https://comptroller.nyc.gov/newsroom/new-york-by-the-numbers-monthly-economic-and-fiscal-outlook-no-66-june-6th-2022/

The Comptroller’s Office’s forecast for the local economy and tax revenues remains unchanged since the Executive Budget. However, downside risks have increased in line with those affecting the outlook for the US economy.

III. The FY 2023 Adopted Budget

Overview

The FY 2023 Adopted Budget totals $101.12 billion, an increase of $1.47 billion from the Executive Budget. City-funds revenues are $1.55 billion above the Executive Budget estimate, offset by a net decrease of $76 million in non-City-funds revenues, primarily from revisions to Federal categorical grants. The increase in City-funds revenues is driven by a $1.48 billion increase in tax revenues, primarily in non-property tax revenues which account for $1.41 billion of the increase, as shown in Table 8. This increase brings the City's forecast more in line with the Comptroller's Office's projection. The Comptroller's Office's FY 2023 tax revenue forecast in May was $1.22 billion above the Executive Budget forecast. The difference between the Comptroller's Office's forecast and the City's has narrowed significantly since, with the Comptroller's Office's current forecast being $64 million below the City's, as discussed in "Risks and Offsets" beginning on page 26.

This increase in City-funds revenues and a $842 million increase in the prepayments of a portion of FY 2023 debt service and retiree health benefits allowed the City to fund a net expenditure increase from the Executive Budget of almost $2.4 billion, as shown in Table 8. Revisions to agency spending account for $1.06 billion of the increase. Increases in four agencies — $166 million in the Department of Social Services (DSS), $99 million in the Department of Homeless Services (DHS), $88 million in the Administration for Children's Services (ACS) and $69 million in the Department Health and Mental Hygiene (DOHMH) — and $244 million in the Miscellaneous Budget account for almost two-thirds of the increase. Significant spending increases in these areas include:

- $118 million for the City Family Homelessness and Eviction Prevention Supplement (City FHEPS) (adding to the $119 million increase in the Executive Plan bringing FY 2023 funding to $255 million in line with the Comptroller's Office's projection at that time).
- The use of $67 million of City-funds to fund emergency assistance to families previously budgeted as federally funded, and $20 million prevailing wage for shelter security guards in DHS.
- The use of $60 million of City-funds for foster care expenditures previously budgeted as federally funded and $10 million for child care for undocumented families in ACS.
- $20 million for early intervention and $21 million for school health services that are ineligible for State reimbursement ($17 million of the $21 million were previously budgeted as State funded expenditures) in DOHMH.
- $141 million increase in judgments and claims (J&C) spending, on the heels of increases of $150 million and $107 million in the November 2021 Plan and April 2022 Plan, respectively, reflecting the City's re-estimate of timing and expected payout in relation to judgments against the City in the case of Gulino v. the Board of Education.

- and $54 million to expand the Precision Employment initiative to connect up to 3,000 people who are at risk of participating in gun violence with green jobs.[10]

Other increases to City-funded expenditures include Council initiatives of $536 million, $371 million for the cost of raising the salary increase assumption in the labor reserve, $313 million from the rollover of FY 2022 into FY 2023, and an increase of $500 million in the General Reserve.[11] A downward revision of $251 million to pension contribution estimates due to an update of the City's Actuary's preliminary calculation of pension contributions and a modest savings program of $137 million primarily from debt service savings and re-estimates, partially offset some of the expenditure increase.

Table 8. Changes to FY 2023 City-Funds Estimates from the Executive Budget

REVENUES		EXPENDITURES	
Property Tax	$77	Agency Expense Changes	$1,056
PIT	793	Council Initiatives	536
Business Tax	250	Labor Reserves	371
Sales Tax	226	Rollovers from FY 2022	313
All Other	138	Pensions	(251)
Subtotal Tax	**$1,484**	Debt Service	(63)
		Savings	(74)
Non-Tax Revenues	$62	General Reserve	500
		Subtotal	**$2,388**
Total	**$1,546**		
		Prepayments of FY 2023 Debt Service and Retiree Health	($842)
		Total	**$1,546**

Spending and Funding in FY 2023

A little more than three-quarters of the FY 2023 budget is allocated for education, social services, fringe benefits, public safety and judicial, and pensions, which together consume $76.40 billion of the budget. Spending on general government, including the Mayor's Office, the Office of the Comptroller, the City Council, Department of Finance and Department of Citywide Administrative Services, accounts for about seven percent of the budget. The Adopted Budget includes a General Reserve of $1.56 billion and a Capital Stabilization Reserve of $250 million. Together, these reserves account for 1.8 percent of the budget. In addition, the City has access to about $4.60

[10] The City launched the Precision Employment initiative in September 2021 with a $37 million funding to connect 1,500 individuals at risk of involvement in gun violence with good-paying green jobs in partnership with BlocPower, a Brooklyn-based climate technology startup.

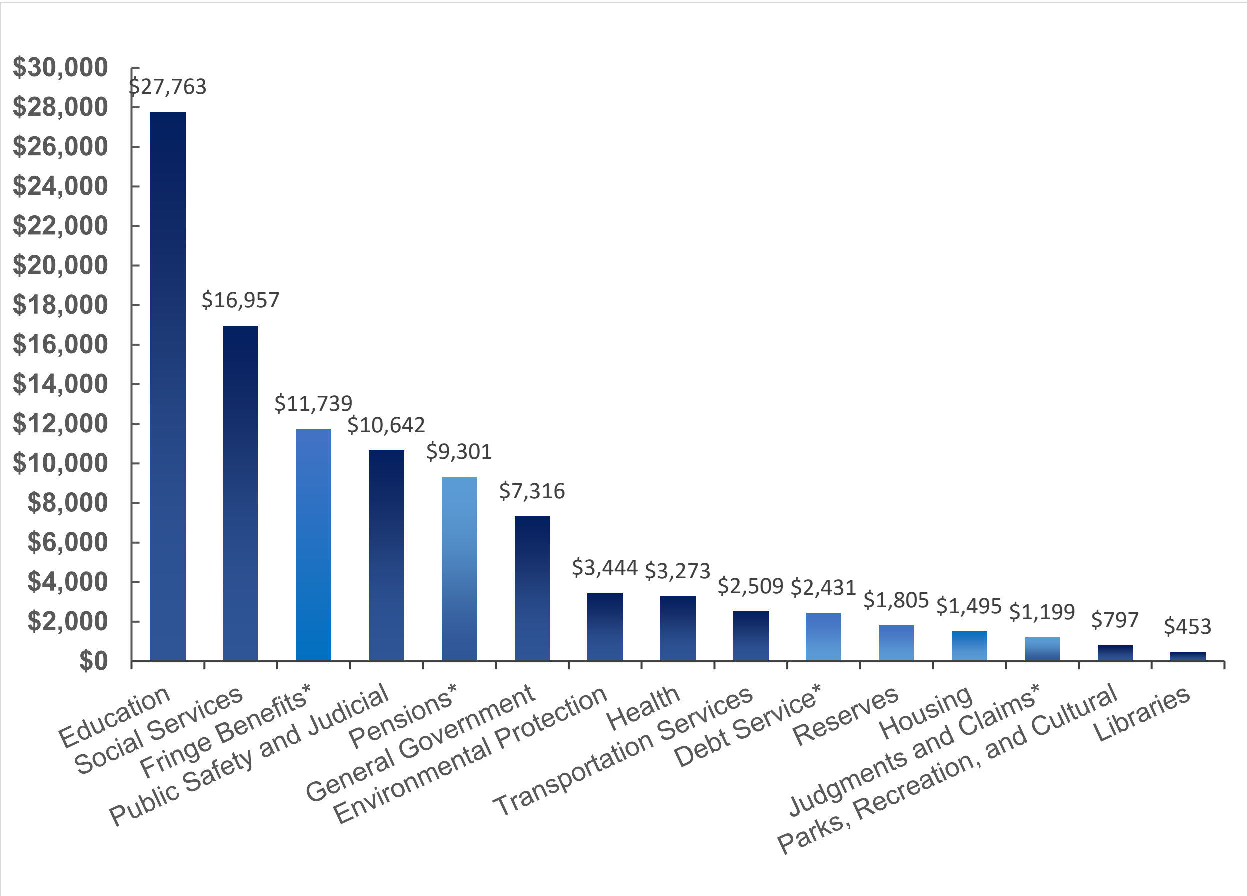
[11] The City had previously assumed salary increases of 0.5 percent in each of the first two years of the new round of collective bargaining, and 1 percent annually thereafter. The current Plan assumes annual salary increases of 1.25 percent.

billion in the Retiree Benefits Trust and a projected $1.95 billion in the Revenue Stabilization Fund for a total of $6.55 billion in long-term reserves available for budget relief.[12]

Chart 5 shows the allocation of the FY 2023 budget by service areas and centrally budgeted expenditures such as fringe benefits, debt service and pension contributions.[13]

Chart 5. FY 2023 Budget by Service Areas and Centrally Budgeted Expenditures

($ in millions)



* Centrally Budgeted Expenditures

Approximately 73 percent of the budget is supported by City-funds revenues of $73.32 billion. Tax revenues, which are projected to total $67.75 billion, account for the bulk of City-generated revenues, as shown in Chart 6. Real property tax and PIT revenues account for approximately

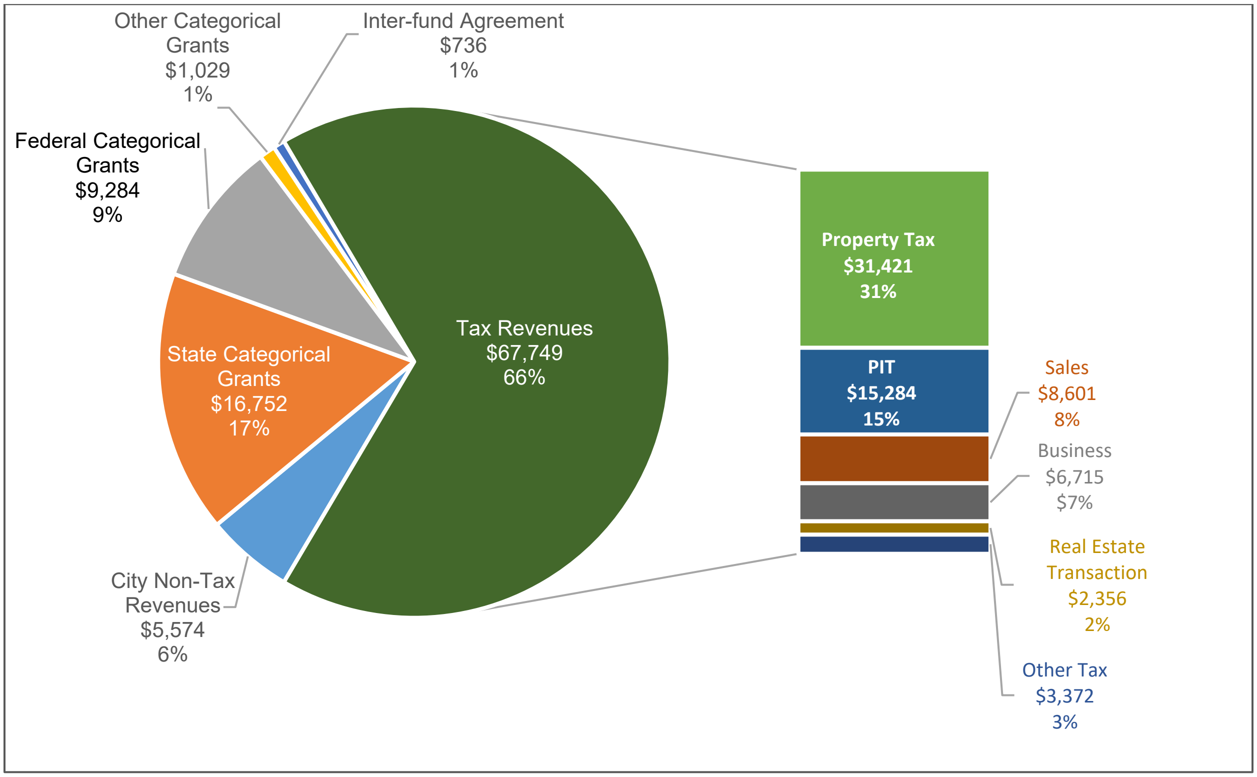
[12] The City can only use excess RHBT balance for budget relief up to the pay-as-you-go retiree health benefits in any year. The June Plan assumes pay-as-go retiree health benefits of $2.43 billion in FY 2023 and $3.43 billion in FY 2024.

[13] Unless otherwise indicated, education expenditures in this report Includes DOE and CUNY expenditures net of fringe benefits. Spending on DOE and CUNY fringe benefits has been included in the fringe benefits category.

69 percent of total tax revenues, with property tax revenues making up 46 percent of total tax revenues and PIT revenues contributing another 23 percent. Non-tax City-funds revenues include revenues from licenses, permits and franchises; interest income; charges for services; water and sewer payments from the New York City Water Board; fines and forfeitures; and miscellaneous other non-tax revenues as well as unrestricted intergovernmental aid. Revenues from charges for services ($1.03 billion), fines and forfeitures ($1.08 billion), and New York City Water Board payments ($1.80 billion) account for about 70 percent of City-funds non-tax revenues.[14]

Chart 6. Funding Sources, FY 2023 Budget

($ in millions)



State categorical grants, which support many mandated programs, are estimated at $16.75 billion, accounting for a little more than 60 percent of non-City-funds revenues. Approximately three-quarters of State categorical grants are in support of DOE and CUNY spending, including fringes.

Federal categorical grants account for another $9.28 billion of non-City revenues, of which $2.40 billion are COVID related grants. Almost three quarters of the FY 2023 Federal categorical grants, including the COVID related funding, are for education and social services with 39 percent going towards education and 34 percent towards social services. A significant portion of the budgets of

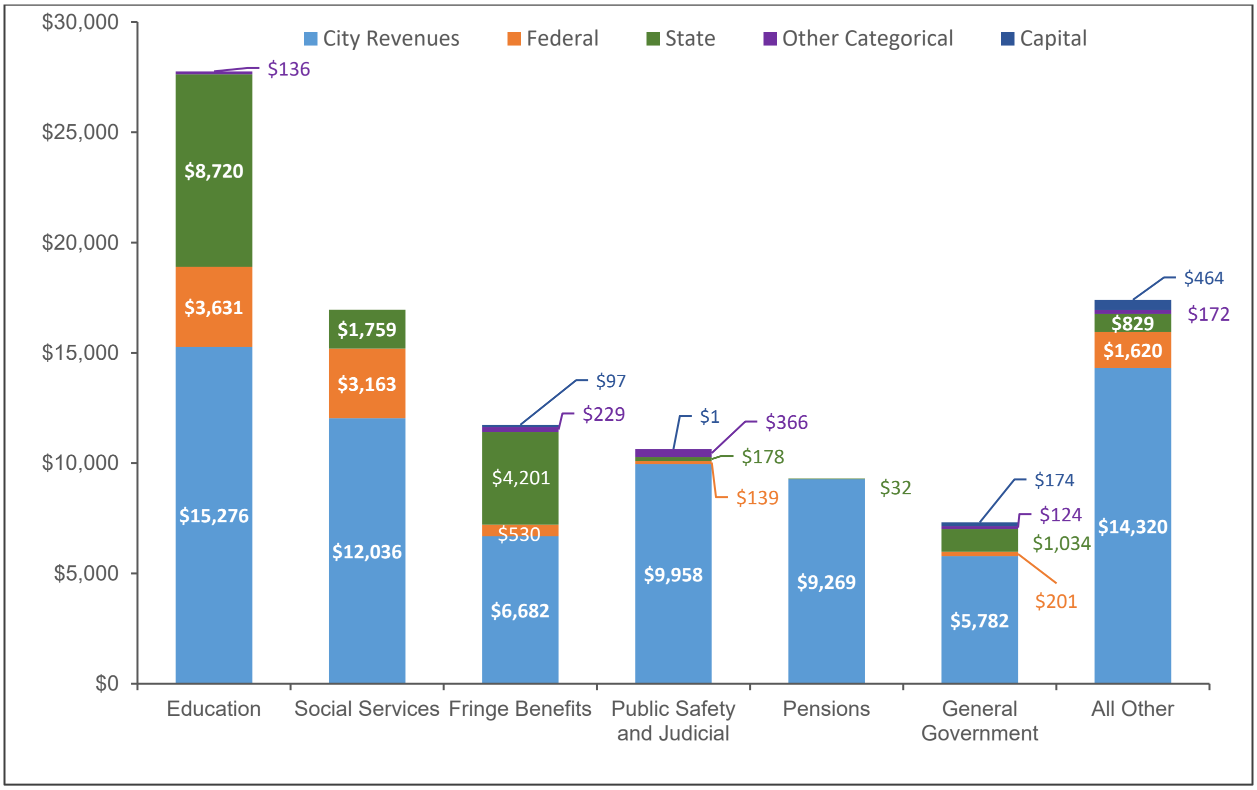
[14] Payments from the New York City Water Board are used for operation and maintenance of the water and sewer system.

the City's social services agencies rely on Federal funding, including 35 percent of the budget for the Administration for Children's Services (ACS), 22 percent of the budget for the Department of Homeless Services (DHS), 27 percent of the budget for the Department for the Aging (DFTA), and 14 percent of the budget for the Department of Social Services/Human Resources Administration (HRA).

Other categorical grants and inter-fund agreement (IFA) revenues round out the remaining non-City generated revenues. Other categorical grants consist primarily of reimbursements to the Fire Department for emergency medical services; reimbursements for health benefits from the Health Stabilization Fund; reimbursements to the City from NYC Health + Hospitals (H + H) for fringe benefits, judgments and claims, and energy costs; interest exchange agreements; and private grants from foundations and other sources. IFA revenues are reimbursements from the Capital Fund for expense budget costs related to capital projects such as planning, design and construction supervision. Chart 7 shows the funding allocation among the different service areas of the budget.

Chart 7. Funding Allocation by Service Areas and Centrally Budgeted Expenditures for FY 2023

($ in millions)



Changes from FY 2022

The FY 2022 budget in the June 2022 Financial Plan totals $111.56 billion, an increase of $2.59 billion from the April Plan. The increase is due primarily to an increase of $2.93 billion in tax revenues. The higher tax revenues reflect higher than previously anticipated collections. Through May, tax collections were $2.14 billion above the April Plan forecast. Non-tax revenues, including categorical grants are revised downward by a net $334 million. As noted earlier, the higher revenue estimate enabled the City to increase its prepayment of a portion of FY 2023 debt service and retiree health by $842 million to $6.11 billion; deposit $750 million into the Retiree Health Benefits Trust above what is needed for retiree pay-as-you-go health benefits; and increased its planned rainy day fund deposit into the Revenue Stabilization Fund by $750 million to $1.45 billion.

As shown in Table 9, the FY 2023 Adopted Budget is $10.44 billion less than the modified FY 2022 budget, a drop of 9.4 percent. The decline in revenues is due to a projected $9.42 billion drop in non-City-funds revenues and $1.02 billion in City-funds revenues. The drop in non-City-funds revenues is driven by a reduction of $9.86 billion in Federal categorical grants, stemming from a drop in COVID assistance from the Coronavirus Aid, Relief, and Economic Security Act (CARES), Federal Emergency Management Agency (FEMA) support, American Rescue Plan Act (ARPA), and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) as the City recovers from the pandemic. Overall, Federal COVID assistance is projected to drop by $8.82 billion to $2.40 billion in FY 2023.

The decline in City-funds revenues is driven by a net $818 million drop in tax revenues, stemming from a net decline of $2.60 billion in non-property tax revenues. The drop in non-property tax revenues reflects the current turmoil in the stock market as well as uncertainty surrounding the economy in the face of global inflation, rising oil prices and the ongoing Russian invasion of Ukraine. As a result, the income related tax revenues — PIT and business tax revenues — are projected to decline by $1.27 billion and $1.05 billion, respectively from FY 2022. In addition, real estate transaction tax revenues are projected to decline by $715 million in an environment of rising interest rates. Offsetting some of the decline in non-property tax is a projected increase of $1.78 billion in property tax revenues reflecting a rebound in property values.

Table 9. Change FY 2022 – FY 2023

($ in millions)	FY 2022	FY 2023	$ Change	% Change
Revenues				
Taxes				
General Property Tax	$29,643	$31,421	$1,778	6.0%
Other Taxes	38,053	35,607	(2,446)	(6.4%)
Tax Audit Revenues	871	721	(150)	(17.2%)
Subtotal Taxes	**$68,567**	**$67,749**	**($818)**	**(1.2%)**
Miscellaneous Revenues	7,351	7,311	(40)	(0.5%)
Unrestricted Intergovernmental Aid	792	252	(540)	(68.2%)
Less: Intra-City Revenues	(2,295)	(1,974)	321	(14.0%)
Disallowances Against Categorical Grants	(75)	(15)	60	(80.0%)
Subtotal City-Funds	**$74,340**	**$73,323**	**($1,017)**	**(1.4%)**
Other Categorical Grants	942	1,029	87	9.2%
Inter-Fund Revenues	655	736	81	12.4%
Federal Categorical Grants	19,140	9,284	(9,856)	(51.5%)
State Categorical Grants	16,483	16,752	269	1.6%
Total Revenues	**$111,560**	**$101,124**	**($10,436)**	**(9.4%)**
Expenditures				
Personal Services				
Salaries and Wages	$31,328	$31,668	$340	1.1%
Pensions	9,727	9,414	(313)	(3.2%)
Fringe Benefits	12,217	12,640	423	3.5%
Retiree Health Benefits Trust	750	0	(750)	(100.0%)
Subtotal PS	**$54,022**	**$53,722**	**($300)**	**(0.6%)**
Other Than Personal Service				
Medical Assistance	$6,484	$6,564	$80	1.2%
Public Assistance	1,660	1,650	(10)	(0.6%)
All Other	43,555	37,718	(5,837)	(13.4%)
Subtotal OTPS	**$51,699**	**$45,932**	**($5,767)**	**(11.2%)**
Debt Service				
Principal	$3,318	$3,994	$676	20.4%
Interest & Offsets	3,339	3,759	420	12.6%
Subtotal Debt Service	**$6,657**	**$7,753**	**$1,096**	**16.5%**
FY 2021 BSA & Discretionary Transfer	($6,107)	$0	NA	NA
FY 2022 BSA & Discretionary Transfer	$6,114	($6,114)	NA	NA
Capital Stabilization Reserve	$0	$250	$250	NA
General Reserve	$20	$1,555	$1,535	7,675.0%
Deposit to the Rainy Fund	$1,450	$0	($1,450)	(100.0%)
Less: Intra-City Expenses	($2,295)	($1,974)	$321	(14.0%)
Total Expenditures	**$111,560**	**$101,124**	**($10,436)**	**(9.4%)**

NOTE: Totals may not add due to rounding.

Expenditures as presented in the FY 2023 Adopted Budget are reduced by FY 2022 prepayments. In contrast, the FY 2022 Modified Budget is increased by the net impact of FY 2021 and FY 2022 prepayments. After netting out the impact of prepayments, expenditures before reserves and prior-year adjustments total $105.43 billion, a decrease of $4.10 billion driven by a combined decline of $5.61 billion in contractual services and other non-personnel spending, as shown in Table 10. The spending decline in contractual services and other non-personnel expenditures reflects the drop-off in COVID related spending in FY 2023. COVID related spending on contractual services is projected to drop from $3.69 billion in FY 2022 to $284 million in FY 2023, while other non-personnel COVID related spending is projected to drop from $3.52 billion to $773 million. Net of COVID related spending, contractual services and other non-personnel expenditures are projected to grow a modest 1.3 percent, from $38.04 billion to $38.52 billion. Including personnel services, non-COVID related spending is projected to grow by 4.0 percent from $100.06 billion to $104.09 billion.

Table 10. FY 2023 Expenditures vs. FY 2022 Expenditures Adjusted for Prepayments

($ in millions)	FY 2022	FY 2023	$ Change	% Change
Salaries and Wages	$30,944	$31,272	$328	1.1%
Medicaid	6,484	6,564	$80	1.2%
Debt Service	6,657	7,753	1,096	16.5%
J & C	1,294	1,199	(95)	(7.3%)
Health Insurance	7,498	8,065	568	7.6%
Other Fringe Benefits	4,601	4,466	(135)	(2.9%)
Pensions	9,615	9,301	(313)	(3.3%)
Public Assistance	1,660	1,650	(9)	(0.6%)
Contractual Services	23,889	20,614	(3,275)	(13.7%)
Other OTPS	16,891	14,549	(2,342)	(13.9%)
Expenditures Before Reserves	**$109,533**	**$105,433**	**($4,100)**	**(3.7%)**
Less COVID Related Expenditures	(9,473)	(1,347)	$8,126	(85.8%)
Expenditures Net COVID Related Expenditures	**$100,060**	**$104,086**	**$4,026**	**4.0%**
Prior Year Adjustment	($200)	$0	$200	(100.0%)
Retiree Health Benefits Trust Deposit	$750	0	($750)	(100.0%)
Rainy Day Fund Deposit	$1,450	$0	($1,450)	(100.0%)
General Reserve	$20	$1,555	$1,535	7,675.0%
Capital Stabilization Reserve	$0	$250	$250	NA
Total Expenditures	**$102,080**	**$105,891**	**$3,811**	**3.7%**

*Excludes contractual services for debt service and Medicaid

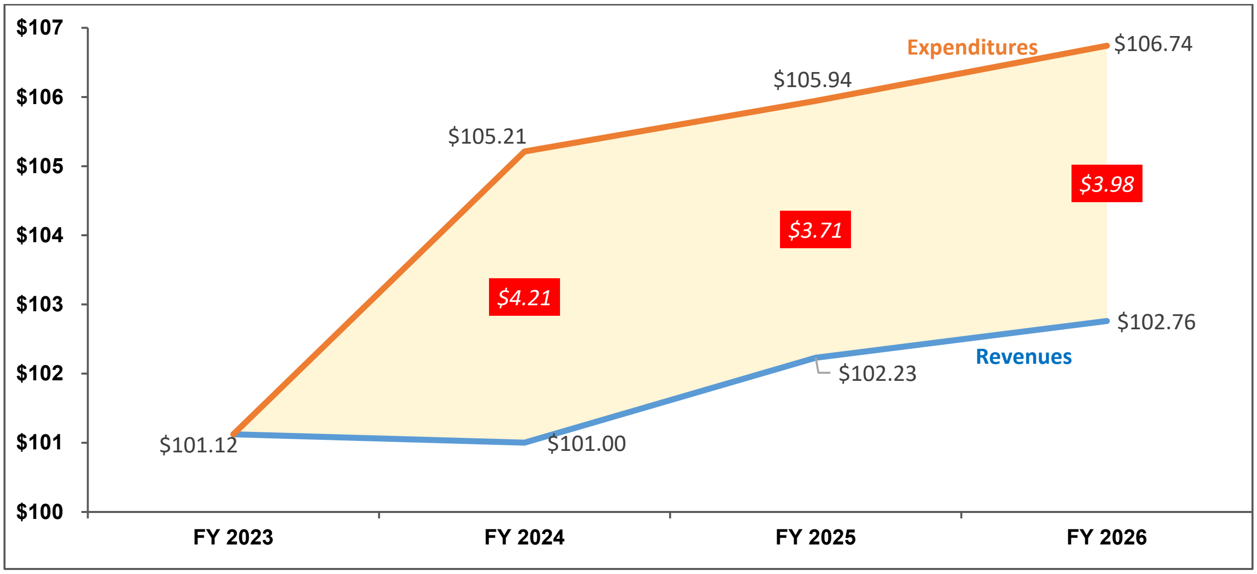
NOTE: Totals may not add due to rounding.

The Outyears

While the FY 2023 budget is balanced as required, the June 2022 Financial Plan projects budget gaps of $4.21 billion in FY 2024, $3.71 billion in FY 2025, and $3.98 billion in FY 2026, as shown in Chart 8. Over this period, revenues are projected to grow by 1.6 percent from $101.12 billion in FY 2023 to 102.76 billion in FY 2026 while expenditures are projected to grow by 5.6 percent to $106.74 billion.

Chart 8. June 2022 Financial Plan Revenues, Expenditures and Budget Gaps

(in billions)



As shown in Table 11, revenues are projected to grow at an average annual rate of 0.5 percent in the outyears of the Plan. The growth is driven by tax revenues which account for about two-thirds of overall FY 2023 revenues. Tax revenues are projected to grow by 5.6 percent from FY 2023 to FY 2026. Overall revenue growth is reduced by the 24.9 percent decline in Federal categorical grants, due in large part to the tapering of Federal COVID assistance which is expected to drop from $2.40 billion in FY 2023 to $7 million in the last year of the Financial Plan.

Table 11. FY 2023 – FY 2026 Revenue Growth

(in millions)	FY 2023	FY 2024	FY 2025	FY 2026	Growth FYs 23-26	Annual Growth
General Property Tax	$31,425	$32,021	$32,154	$32,164	2.4%	0.8%
Non-Property Tax	36,324	36,366	37,919	39,353	8.3%	2.7%
Subtotal Tax Revenues	**$67,749**	**$68,387**	**$70,073**	**$71,517**	**5.6%**	**1.8%**
Non-Tax Revenues	5,574	5,301	5,318	5,339	(4.2%)	(1.4%)
Subtotal City-Funds	**$73,323**	**$73,688**	**$75,391**	**$76,856**	**4.8%**	**1.6%**
Federal Categorical Grants	9,284	8,676	7,958	6,974	(24.9%)	(9.1%)
State Categorical Grants	16,752	16,890	17,134	17,188	2.6%	0.9%
Other Categorical Grants	1,029	1,016	1,015	1,012	(1.7%)	(0.6%)
IFA Revenues	736	732	731	731	(0.7%)	(0.2%)
Subtotal Non-City-Funds	**$27,801**	**$27,314**	**$26,838**	**$25,905**	**(6.8%)**	**(2.3%)**
Total	**$101,124**	**$101,002**	**$102,229**	**$102,761**	**1.6%**	**0.5%**

As discussed above, FY 2023 expenditures are reduced by the FY 2022 prepayments of FY 2023 expenses. Adjusted for prepayments, expenditures before reserves in the Financial Plan are projected to remain relatively flat, with a marginal decline of 0.1 percent over the Plan period, as shown in Table 12. The low growth can be attributed to the winding down of COVID related spending. Net of COVID related spending, expenditures before reserves in the Plan are projected to grow by 1.15 percent from $104.09 billion in FY 2023 to $105.28 billion in FY 2026.

Table 12. FY 2023 – FY 2026 Expenditure Growth Adjusted for Prepayments

(in millions)	FY 2023	FY 2024	FY 2025	FY 2026	Growth FYs 23-26	Annual Growth
Debt Service	$7,753	$8,086	$8,597	$9,374	20.9%	6.5%
Health Insurance	8,065	9,040	9,872	10,465	29.8%	9.1%
Other Fringe Benefits	4,466	4,607	4,740	4,865	8.9%	2.9%
Subtotal	$20,283	$21,732	$23,209	$24,703	21.8%	6.8%
Salaries and Wages	$31,272	$31,578	$32,063	$32,660	4.4%	1.5%
Pensions	9,301	8,590	7,702	6,821	(26.7%)	(9.8%)
Medicaid	6,564	6,385	6,385	6,385	(2.7%)	(0.9%)
Public Assistance	1,650	1,650	1,650	1,650	0.0%	0.0%
J & C	1,199	1,165	877	823	(31.4%)	(11.8%)
Contractual Services	20,614	19,376	19,281	18,849	(8.6%)	(2.9%)
Other OTPS	14,549	13,287	13,327	13,400	(7.9%)	(2.7%)
Subtotal	**$85,149**	**$82,030**	**$81,285**	**$80,588**	**(5.4%)**	**(1.8%)**
Expenditures Before Reserves	**$105,433**	**$103,762**	**$104,493**	**$105,291**	**(0.1%)**	**(0.0%)**
COVID Related Expenditures	(1,347)	(370)	(456)	(12)	(99.1%)	(79.3%)
Expenditures Net COVID Related Expenditures	**$104,086**	**$103,392**	**$104,037**	**$105,279**	**1.1%**	**0.4%**
General Reserve	$1,555	$1,200	$1,200	$1,200		
Capital Stabilization Reserve	$250	$250	$250	$250		
Total	**$105,891**	**$104,842**	**$105,487**	**$106,729**	**0.8%**	**0.3%**

*Excludes contractual services for debt service and Medicaid.

Risks and Offsets

The Comptroller's Office's analysis of the FY 2023 Adopted Budget and Financial Plan shows a budget deficit risk of $869 million in FY 2023 and gaps of $6.43 billion, $7.07 billion, and $9.55 billion in FY 2024 through FY 2026, respectively, larger than those projected by the City. The FY 2023 budget deficit and larger outyear gaps projected by the Comptroller's Office stem from risks to the City's expenditure assumptions. The Comptroller's Office estimates that overall, spending could be higher than projected in the Plan by $906 million in FY 2023, $2.39 billion in FY 2024, $4.08 billion in FY 2025 and $6.03 billion in FY 2026, as shown in Table 13. The expenditure risks are partially offset by the Comptroller's Office's higher revenue forecast in the outyears, resulting in net risks to the Financial Plan of $869 million in FY 2023, $2.22 billion in FY 2024, $3.35 billion in FY 2025, and $5.57 billion in FY 2026.

As of June 2022, tax collections in FY 2022 are exceeding the Mayor's Adopted Budget by approximately $900 million, and while some tax collections in July and August accrue to FY 2022, the overall picture should change little and allows for an additional deposit into the Revenue Stabilization Fund of $800 million.[15]

Tax revenues in the FY 2023 Adopted Budget are $1.48 billion higher than in the Executive Budget. The revision to FY 2023 brings the City's projections for overall tax revenues essentially in line with Comptroller's office estimates, although there is some variation in the individual taxes as shown in Table 13. Overall, the City's FY 2023 tax revenue projection is $64 million above the Comptroller's Office's projection.

In the outyears, the Comptroller's Office tax revenue projections are above the City's Plan by $68 million in FY 2024, $669 million in FY 2025 and $408 million in FY 2026, due mainly to the Comptroller's Office's higher forecast for property tax and audit revenues. The difference between the Plan property tax forecast and the Comptroller's Office's stems primarily from differences in the estimate of uncollectible taxes. In addition to the forecast of the levy, the forecast of overall property taxes also considers reductions from abatement programs and reductions related to cancellations and delinquencies. Collectively, these are referred to as reserves. OMB is projecting a much higher reserve rate as a percent of the levy compared with the Comptroller's Office. While the Comptroller's Office assumes a reserve rate that is similar to the rate experienced in the past five years, the City is assuming a significantly higher rate.

[15] The year-end fund balance surplus is a deposit into the Revenue Stabilization Fund.

Table 13. Risks and Offsets to the June 2022 Financial Plan

(In millions, positive numbers decrease the gap and negative numbers increase the gap)

	FY 2023	FY 2024	FY 2025	FY 2026
City Stated Gap	**$0**	**($4,210)**	**($3,714)**	**($3,980)**
Tax Revenues				
Property Tax	$306	$245	$629	$943
Personal Income Tax	(584)	(357)	278	208
Business Taxes	(194)	(2)	(119)	(301)
Sales Tax	50	58	(74)	(229)
Real Estate Transaction Taxes	146	(92)	(312)	(480)
All Other	(39)	(35)	16	17
Audit	251	251	251	250
Subtotal Tax Revenues	($64)	$68	$669	$408
Non-Tax Revenues	101	103	56	54
Total Revenues	**$37**	**$171**	**$725**	**$462**
Expenditures				
Overtime	($458)	($150)	($150)	($150)
Charter School Tuition	0	(278)	(430)	(723)
Carter Cases	(300)	(300)	(300)	(300)
Pupil Transportation	0	(75)	(125)	(175)
3K Expansion	0	0	0	(376)
Special Ed Pre-K Expansion	0	0	(47)	(95)
DOE Mental Health Services	0	0	(37)	(86)
Community Schools Expansion and Sustainability	0	0	(27)	(54)
Summer Rising	0	0	(176)	(176)
DOE Contracted Nursing	0	0	(49)	(49)
Public Health Corps	0	0	(13)	(49)
FDNY Mental Health Response Program	0	(37)	(37)	(37)
Public Assistance	(50)	(50)	(50)	(50)
Homeless Shelters	(109)	(120)	(120)	(120)
Rental Assistance	0	(227)	(227)	(227)
Paratransit Funding	(55)	(77)	(91)	(105)
Prevailing Wage for Shelter Security Guards	0	(64)	(64)	(64)
FY 2022 Pension Investment Return	0	(874)	(1,993)	(3,050)
Foster Care Reimbursement Rate	(59)	(117)	(117)	(117)
Court Appointed Counsel	(100)	(100)	(100)	(100)
VRDB Interest Savings	75	75	75	75
eFMAP Savings	150	0	0	0
Total Expenditures	**($906)**	**($2,394)**	**($4,078)**	**($6,028)**
Total (Risks)/Offsets	**($869)**	**($2,223)**	**($3,353)**	**($5,566)**
Restated (Gap)/Surplus	**($869)**	**($6,433)**	**($7,067)**	**($9,546)**

Expenditures

The Comptroller's Office sees additional risks to City's expenditure estimates. Perennial under-budgeting, insufficient outyear support of ongoing programs (otherwise known as fiscal cliffs), and FY 2022 pension investment shortfall against the actuarial interest rate assumption are major contributors. Several other unquantified uncertainties could further increase outyear spending beyond the quantified risks in the above table.

Risks to the City's expenditure estimates in FY 2023 stemming from under-budgeting include overtime, Carter cases, homeless shelters, foster care reimbursement, paratransit, and public assistance. As shown in Table 13, the largest risk in FY 2023 is attributable to overtime spending, which the City estimates will be below pandemic spending levels. However, with the resumption of public events from the lifting of COVID restrictions, the Comptroller's Office estimates that overtime spending will be close to the average spending of the five years before the pandemic. Similarly, "Carter Cases" spending for students with special needs are under-budgeted, compared to recent spending patterns. In the case of adult shelter operations, FY 2023 expenditures are budgeted below FY 2022 level. In the absence of any forthcoming policies to assertively reduce the single adult shelter census, the Comptroller's Office estimates a shortfall of $109 million in adult shelter operation funding for FY 2023. At the same time, the City continues to under-budget the funding for paratransit. While the State requires the City to increase its funding of the Metropolitan Transportation Authority's (MTA) net paratransit deficit from 33 percent to 50 percent, funding for paratransit in the Financial Plan does not reflect the increase in funding requirement. The Comptroller's Office estimates that raising the City's funding to 50 percent would require $55 million in FY 2023, growing to $105 million by FY 2026. Similarly, the Adopted Budget does not include the additional cost of an increase in foster care reimbursement enacted in the State budget. The City's plan also does not reflect higher pay rates for court appointed counsel that could increase expenditures by $100 million in each year of the plan. Finally, spending on public assistance could be $50 million above budget, as State administrative actions during FY 2023 could push caseload and spending even higher by easing certain program restrictions for receiving benefits.

Risks to the City's expenditures in the outyears also reflect insufficient budgeting for recurring expenditures, known as fiscal cliffs, because the current budgeted levels are not sustained. These shortfalls include funding for rental assistance, prevailing wages for shelter security guards, Behavioral Health Emergency Assistance Response Division (B-HEARD) in the Fire Department, and several core education initiatives supported by stimulus funds for which the City has not provided funding beyond the expiration of these funds. Altogether, fiscal cliffs pose risks of $328 million in FY 2024, $677 million in FY 2025, and $1.21 billion in FY 2026. The City also cites significant risks from the potential growth of charter school tuition that could lead to additional spending of $278 million in FY 2024, $430 million in FY 2025 and $723 million in FY 2026, unless the State increases support for education.

In addition, pension investment return below the Actuarial Interest Rate Assumption (AIRA) will require the City to increase contributions beginning in FY 2024. The combined FY 2022 pension investment returns of the City's actuarial pension system was -8.65 percent. As a result, the City will need to increase pension contributions by $874 million in FY 2024, $1.99 billion in FY 2025 and $3.05 billion in FY 2026 to phase in the shortfall in pension investment.

The City's conservative estimates of interest rates on variable rate debt bonds (VRDB) provide some offset to expenditure risks. The Comptroller's Office estimates that debt service on VRDB could be less than the Plan projections by $75 million annually in FY 2023 through FY 2026.

Looming on the horizon is the upcoming round of collective bargaining which could pose a significant additional risk to the budget. The City set aside resources in the Labor Reserve assuming 1.25 percent annual wage increases. Each percentage point wage increase would cost approximately $450 million per year. Given the uncertainty of the outcome of collective bargaining, the Comptroller's Office has not quantified the magnitude of this risk.

Lastly, also pending is unsigned State legislation that would require smaller class sizes in NYC. The DOE has indicated that the full cost of the bill would be $1 billion, excluding capital, which appears reasonable pending implementation details, as the fate of the bill remains uncertain.

IV. Appendix

Table A1. June 2022 Financial Plan Revenue Detail

(in millions)	FY 2023	FY 2024	FY 2025	FY 2026	Change FYs 2023– 2026 Dollars	Change FYs 2023– 2026 Percent	Annual Percent Change
Taxes:							
Real Property	$31,421	$32,013	$32,146	$32,156	$735	2.3%	0.8%
Personal Income Tax	15,284	14,844	15,462	15,869	585	3.8%	1.3%
General Corporation Tax	4,537	4,294	4,444	4,724	187	4.1%	1.4%
Unincorporated Business Tax	2,178	2,281	2,366	2,463	285	13.1%	4.2%
Sale and Use Tax	8,601	8,971	9,423	9,954	1,353	15.7%	5.0%
Real Property Transfer Tax	1,395	1,529	1,636	1,688	293	21.0%	6.6%
Mortgage Recording Tax	961	1,015	1,087	1,118	157	16.3%	5.2%
Commercial Rent	862	863	866	868	6	0.7%	0.2%
Utility	379	395	403	418	39	10.3%	3.3%
Hotel	468	620	679	699	231	49.4%	14.3%
Cigarette	18	17	16	16	(2)	(11.1%)	(3.9%)
All Other	924	824	824	823	(101)	(10.9%)	(3.8%)
Tax Audit Revenue	721	721	721	721	0	0.0%	0.0%
Total Taxes	**$67,749**	**$68,387**	**$70,073**	**$71,517**	**$3,768**	**5.6%**	**1.8%**
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	$737	$694	$691	$696	($41)	(5.6%)	(1.9%)
Interest Income	107	161	195	217	110	102.8%	26.6%
Charges for Services	1,029	1,033	1,033	1,033	4	0.4%	0.1%
Water and Sewer Charges	1,801	1,752	1,739	1,733	(68)	(3.8%)	(1.3%)
Rental Income	250	250	250	250	0	0.0%	0.0%
Fines and Forfeitures	1,076	1,090	1,090	1,090	14	1.3%	0.4%
Miscellaneous	337	336	335	335	(2)	(0.6%)	(0.2%)
Intra-City Revenue	1,974	1,939	1,929	1,929	(45)	(2.3%)	(0.8%)
Total Miscellaneous Revenue	**$7,311**	**$7,255**	**$7,262**	**$7,283**	**($28)**	**(0.4%)**	**(0.1%)**
Unrestricted Intergovernmental Aid:	**$252**	**$0**	**$0**	**$0**	**($252)**	**(100.0%)**	**(100.0%)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**$0**	**0.0%**	**0.0%**
Less: Intra-City Revenue	**($1,974)**	**($1,939)**	**($1,929)**	**($1,929)**	**$45**	**(2.3%)**	**(3.8%)**
TOTAL CITY-FUNDS	**$73,323**	**$73,688**	**$75,391**	**$76,856**	**$3,533**	**4.8%**	**1.6%**

(in millions)	FY 2023	FY 2024	FY 2025	FY 2026	Change FYs 2023– 2026 Dollars	Change FYs 2023– 2026 Percent	Annual Percent Change
Other Categorical Grants	**$1,029**	**$1,016**	**$1,015**	**$1,012**	**($17)**	**(1.7%)**	**(0.6%)**
Inter-Fund Agreements	**$736**	**$732**	**$731**	**$731**	**($5)**	**(0.7%)**	**(0.2%)**
Federal Categorical Grants:							
Community Development	$256	$252	$239	$239	($17)	(6.6%)	(2.3%)
Social Services	3,216	3,449	3,447	3,444	228	7.1%	2.3%
Education	3,710	3,323	2,431	1,901	(1,809)	(48.8%)	(20.0%)
Other	2,102	1,652	1,841	1,390	(712)	(33.9%)	(12.9%)
Total Federal Grants	**$9,284**	**$8,676**	**$7,958**	**$6,974**	**($2,310)**	**(24.9%)**	**(9.1%)**
State Categorical Grants							
Social Services	$1,883	$1,858	$1,854	$1,848	($35)	(1.9%)	(0.6%)
Education	12,480	12,695	12,887	12,887	407	3.3%	1.1%
Higher Education	276	276	276	276	0	0.0%	0.0%
Department of Health and Mental Hygiene	540	576	576	576	36	6.7%	2.2%
Other	1,573	1,485	1,541	1,601	28	1.8%	0.6%
Total State Grants	**$16,752**	**$16,890**	**$17,134**	**$17,188**	**$436**	**2.6%**	**0.9%**
TOTAL REVENUES	**$101,124**	**$101,002**	**$102,229**	**$102,761**	**$1,637**	**1.6%**	**0.5%**

Note: Numbers may not add due to rounding.

Table A2. June 2022 Financial Plan Expenditure Detail

(in millions)	FY 2023	FY 2024	FY 2025	FY 2026	Change FYs 2023 – 2026 Dollars	Change FYs 2023 – 2026 Percent	Annual Percent Change
Mayoralty	$200	$171	$171	$171	(29)	(14.7%)	(5.2%)
Board of Elections	174	137	137	137	(37)	(21.3%)	(7.7%)
Campaign Finance Board	80	15	15	15	(65)	(81.4%)	(43.0%)
Office of the Actuary	7	7	7	7	0	3.1%	1.0%
President, Borough of Manhattan	5	5	5	5	(0)	(8.1%)	(2.8%)
President, Borough of Bronx	6	6	6	6	(1)	(8.9%)	(3.1%)
President, Borough of Brooklyn	7	6	6	6	(1)	(12.1%)	(4.2%)
President, Borough of Queens	6	5	5	5	(1)	(14.0%)	(4.9%)
President, Borough of Staten Island	5	4	4	4	(0)	(6.4%)	(2.2%)
Office of the Comptroller	115	114	114	114	(1)	(0.7%)	(0.2%)
Dept. of Emergency Management	60	34	33	33	(27)	(45.2%)	(18.2%)
Office of Administrative Tax Appeals	6	6	6	6	0	0.0%	0.0%
Law Dept.	276	236	236	236	(40)	(14.7%)	(5.1%)
Dept. of City Planning	49	43	43	43	(6)	(11.8%)	(4.1%)
Dept. of Investigation	48	44	44	44	(4)	(8.2%)	(2.8%)
NY Public Library — Research	32	31	31	31	(1)	(3.6%)	(1.2%)
New York Public Library	166	158	158	158	(8)	(4.8%)	(1.6%)
Brooklyn Public Library	125	120	120	120	(6)	(4.6%)	(1.6%)
Queens Borough Public Library	130	124	124	124	(6)	(4.9%)	(1.7%)
Dept. of Education	31,022	31,141	31,391	31,289	267	0.9%	0.3%
City University	1,398	1,282	1,297	1,298	(100)	(7.2%)	(2.4%)
Civilian Complaint Review Board	24	24	24	24	0	0.0%	0.0%
Police Dept.	5,247	5,287	5,287	5,285	38	0.7%	0.2%
Fire Dept.	2,292	2,226	2,219	2,217	(75)	(3.3%)	(1.1%)
Dept. of Veterans' Services	6	6	6	6	0	0.0%	0.0%
Admin. for Children Services	2,761	2,739	2,733	2,712	(48)	(1.7%)	(0.6%)
Dept. of Social Services	11,261	10,694	10,663	10,638	(623)	(5.5%)	(1.9%)
Dept. of Homeless Services	2,397	2,325	2,325	2,306	(90)	(3.8%)	(1.3%)
Dept. of Correction	1,275	1,248	1,238	1,238	(38)	(2.9%)	(1.0%)
Board of Correction	3	3	3	3	0	0.0%	0.0%
Citywide Pension Contribution	9,301	8,590	7,702	6,821	(2,481)	(26.7%)	(9.8%)
Miscellaneous	14,162	15,042	15,848	16,971	2,809	19.8%	6.2%
Debt Service	4,373	4,660	4,875	5,135	762	17.4%	5.5%
T.F.A. Debt Service	3,381	3,426	3,721	4,239	858	25.4%	7.8%
FY 2022 BSA and Discretionary Transfers	(6,114)	0	0	0	6,114	(100.0%)	(100.0%)
Public Advocate	5	5	5	5	0	0.0%	0.0%
City Council	100	64	64	64	(36)	(35.8%)	(13.7%)
City Clerk	6	6	6	6	(0)	(4.7%)	(1.6%)
Dept. for the Aging	540	481	484	420	(120)	(22.2%)	(8.0%)
Dept. of Cultural Affairs	238	150	150	150	(88)	(37.0%)	(14.3%)
Financial Info. Serv. Agency	113	113	113	113	(0)	(0.1%)	(0.0%)
Office of Payroll Admin.	15	15	15	15	0	0.0%	0.0%
Independent Budget Office	7	6	6	6	(0)	(3.6%)	(1.2%)
Equal Employment Practices	1	1	1	1	0	0.0%	0.0%
Civil Service Commission	1	1	1	1	0	0.0%	0.0%
Landmarks Preservation Commission	7	7	7	7	0	0.0%	0.0%
Districting Commission	1	0	0	0	(1)	(100.0%)	(100.0%)

(in millions)	FY 2023	FY 2024	FY 2025	FY 2026	Change FYs 2023 – 2026 Dollars	Change FYs 2023 – 2026 Percent	Annual Percent Change
Taxi & Limousine Commission	156	55	54	54	(101)	(65.1%)	(29.6%)
Commission on Human Rights	15	15	15	15	0	0.0%	0.0%
Youth & Community Development	991	833	832	813	(178)	(17.9%)	(6.4%)
Conflicts of Interest Board	3	3	3	3	(0)	(1.3%)	(0.4%)
Office of Collective Bargaining	2	2	2	2	0	0.0%	0.0%
Community Boards (All)	20	20	20	20	(0)	(1.3%)	(0.4%)
Dept. of Probation	119	114	114	113	(6)	(4.9%)	(1.7%)
Dept. Small Business Services	303	170	212	151	(152)	(50.3%)	(20.8%)
Housing Preservation & Development	1,255	1,192	1,191	1,198	(57)	(4.5%)	(1.5%)
Dept. of Buildings	239	205	203	203	(36)	(14.9%)	(5.2%)
Dept. of Health & Mental Hygiene	2,275	2,018	1,998	1,965	(310)	(13.6%)	(4.8%)
NYC Health + Hospitals	999	829	829	792	(207)	(20.7%)	(7.5%)
Office of Administrative Trials & Hearings	68	68	68	68	0	0.4%	0.1%
Dept. of Environmental Protection	1,622	1,552	1,533	1,526	(96)	(5.9%)	(2.0%)
Dept. of Sanitation	1,867	1,809	1,817	1,810	(57)	(3.0%)	(1.0%)
Business Integrity Commission	9	9	9	9	0	0.7%	0.2%
Dept. of Finance	339	333	329	329	(9)	(2.8%)	(0.9%)
Dept. of Transportation	1,436	1,415	1,405	1,381	(55)	(3.8%)	(1.3%)
Dept. of Parks and Recreation	562	541	538	539	(23)	(4.2%)	(1.4%)
Dept. of Design & Construction	184	158	159	159	(25)	(13.8%)	(4.8%)
Dept. of Citywide Admin. Services	611	575	575	576	(36)	(5.8%)	(2.0%)
D.O.I.T.T.	575	580	585	585	11	1.9%	0.6%
Dept. of Record & Info. Services	17	18	18	18	1	6.8%	2.2%
Dept. of Consumer & Worker Protection	66	64	64	64	(2)	(3.4%)	(1.1%)
District Attorney - N.Y.	147	147	147	147	0	0.0%	0.0%
District Attorney – Bronx	99	99	99	99	(1)	(0.6%)	(0.2%)
District Attorney – Kings	130	130	130	130	0	0.0%	0.0%
District Attorney –Queens	86	86	86	86	0	0.0%	0.0%
District Attorney - Richmond	22	21	21	21	(1)	(2.9%)	(1.0%)
Office of Prosec. & Special Narc.	26	26	26	26	0	0.0%	0.0%
Public Administrator - N.Y.	1	1	1	1	0	0.0%	0.0%
Public Administrator - Bronx	1	1	1	1	0	0.0%	0.0%
Public Administrator - Brooklyn	1	1	1	1	0	0.0%	0.0%
Public Administrator - Queens	1	1	1	1	0	0.0%	0.0%
Public Administrator - Richmond	1	1	1	1	(0)	(5.0%)	(1.7%)
General Reserve	1,555	1,200	1,200	1,200	(355)	(22.8%)	(8.3%)
Citywide Savings Initiatives	0	0	0	0	0	NA	NA
Energy Adjustment	0	10	7	99	99	NA	NA
Lease Adjustment	0	43	87	133	133	NA	NA
OTPS Inflation Adjustment	0	56	111	167	167	NA	NA
TOTAL EXPENDITURES	**$101,124**	**$105,212**	**$105,943**	**$106,741**	**$5,617**	**5.6%**	**1.8%**

Note: Numbers may not add due to rounding.

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