



BLOG | CITY BUDGET

# What to Look for in the NYC Fiscal Year 2024 Preliminary Budget

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New York City's short-term fiscal challenges are reasonably manageable; however, the mid-to-long-term outlook is precarious and acting now is key to long-term stability. The path to balancing the fiscal year 2024 budget is fairly straightforward, although a recession coming soon could upend this. Balancing the out-years, however, will be challenging, given relatively large gaps and underbudgeted costs for both labor contracts and ongoing programs now funded with non-recurring federal COVID aid and City resources.

## A Straightforward Path to Balance the Fiscal Year 2024 Budget

This month, Mayor Eric Adams will release his Preliminary Budget, which by law will have to close the \$2.9 billion fiscal year 2024 budget gap reported in the November 2022 financial plan. The path to balance will likely include non-recurring City resources that can close the gap and support spending that will be higher than previously projected, with sufficient monies also to make a deposit to the Rainy Day Fund.

Specifically, in fiscal year 2023, there is likely to be \$4.2 billion in available resources, including \$1.4 billion in tax and other revenue, \$1.5 billion in annual unneeded reserves, and \$875 million in underspending due to currently vacant positions. These funds would be sufficient to cover \$800 million in higher fiscal year 2023 spending and \$2.4 billion needed to help close the fiscal year 2024 gap, while depositing \$1 billion into the Rainy Day Fund. The balance of the fiscal year 2024 gap will likely be closed with higher tax revenue and on-going savings from vacant positions. (See Table 1.)

In particular, the Preliminary Budget will likely include:

- **Higher Tax Revenue Forecast.** Fiscal year 2023 tax collections as of October 2022 were already \$1.4 billion higher than financial plan projections.<sup>1</sup> Given ongoing economic risks, it is likely the City will increase the forecast by around \$1.2 billion, in line with estimates from the City and State Comptrollers.<sup>2</sup> Recent revenue forecasts from the City’s fiscal monitors suggest potential for upward revisions to tax forecasts in fiscal year 2024 and beyond.<sup>3</sup> However, many monitors’ upward revisions were for the property tax, which the City may not update until it releases the tentative property tax roll for fiscal year 2024, expected after the release of the Preliminary Budget. Given the economic uncertainty, the City is likely to raise out-year revenue forecasts only modestly.
- **Higher City Non-Tax Revenue Forecast.** Most of the monitors project a fairly small increase in City non-tax revenue; an increase of \$200 million in fiscal year 2023 and \$100 million in fiscal year 2024 is reasonable to expect.<sup>4</sup>
- **Savings from Elimination of Some Vacant Positions.** Budget Director Jiha announced the City will eliminate half of the vacant civilian positions, with significant exclusions for health

**Table 1: CBC Illustration of Path to Balance FY 2023 and FY 2024**  
(dollars in millions)

	<u>FY 2023</u>	<u>FY 2024</u>
<b>Gaps, as reported November 2022</b>	<b>\$0</b>	<b>(\$2,890)</b>
<b>Revenues</b>		
Tax Revenue Forecast	\$1,200	\$300
Other City Revenue	\$200	\$100
<i>Subtotal, Revenues</i>	\$1,400	\$400
<b>Expenditures</b>		
Vacancy Savings	(\$875)	(\$350)
General Reserve	(\$1,255)	
Capital Stabilization Reserve	(\$250)	
Prior Year Payables	(\$400)	
Debt Service	(\$50)	
Agency Expenditures	\$800	\$290
Rainy Day Fund Deposit	\$1,000	
<i>Subtotal, Expenditures</i>	(\$1,030)	(\$60)
<b>Gap before Prepayment</b>	<b>\$2,430</b>	<b>(\$2,430)</b>
<b>Prepayment</b>	<b>(\$2,430)</b>	<b>\$2,430</b>
<b>GAP AFTER PREPAYMENT</b>	<b>\$0</b>	<b>\$0</b>

**Sources:** City of New York, Office of Management and Budget, *November 2022 Financial Plan* (November 15, 2022); Office of the State Comptroller, *Review of the Financial Plan of the City of New York* (Report 14-2023, December 2022); Office of the New York City Comptroller, *Annual State of the City's Economy and Finances* (December 15, 2022); and New York City Independent Budget Office, *Current Year Surplus Projected Despite Slowing Economy, Future Year Challenges Remain* (December 2022).

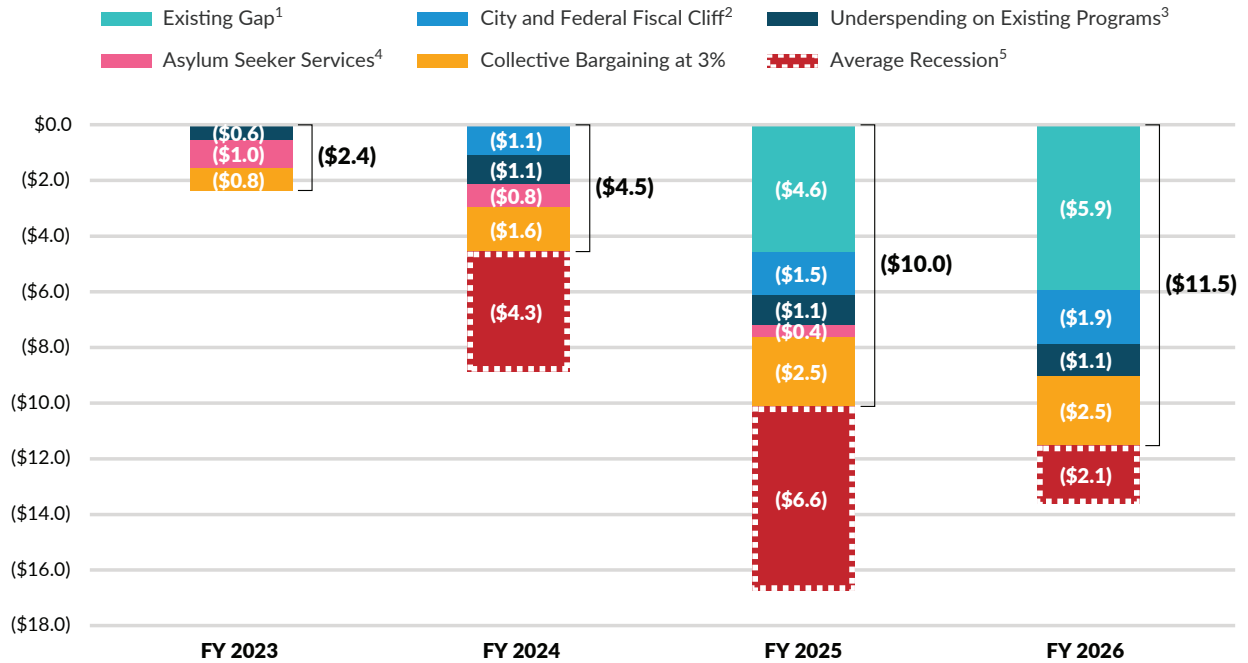
and public safety, revenue generation, and Mayoral priorities.<sup>5</sup> This action is expected to reduce authorized headcount by about 5,000 positions and save \$350 million annually. Since there currently are more than 20,000 vacant positions, even greater vacancy savings in fiscal year 2023 are likely.<sup>6</sup> The Office of the State Comptroller estimates fiscal year 2023 vacancy savings of \$875 million.<sup>7</sup>

- **Drawdown of the Fiscal Year 2023 General and Capital Stabilization Reserves.** Fiscal year 2023 currently has \$1,555 million in the General Reserve and \$250 million in the Capital Stabilization Reserve.<sup>8</sup> These budget lines without corresponding spending are reduced to \$0 over the course of the year as funds are reallocated to specific purposes. Based on prior budget practice, the City is expected to reduce the General Reserve to \$300 million and the Capital Stabilization Reserve to \$0, freeing up \$1.5 billion to close the fiscal year 2024 gap.
- **Typical Technical Adjustments in Fiscal Year 2023.** The City typically recognizes around \$400 million in savings from prior year payables in each Preliminary Budget, and such an action is probable.
- **Debt Service Savings.** While the City has not refunded outstanding long-term debt since November 2022, there are still likely to be modest debt service savings in fiscal year 2023 from variable rate debt and lower than planned issuance.
- **Higher Spending, Primarily for Special Education and Pupil Transportation.** Fiscal monitors identified billions of dollars in potential expenditure risks in fiscal year 2023 and 2024.<sup>9</sup> The City is likely only to add funds for near-term costs in the Preliminary Budget. CBC's review indicated the City may increase fiscal year 2023 spending by \$800 million, mainly for Carter Cases and pupil transportation.<sup>10</sup> There may also be some agency spending added for fiscal year 2024.
- **Rainy Day Fund Deposit.** The aforementioned resources will be more than needed to balance fiscal years 2023 and 2024. Given the rocky economic outlook, a voluntary deposit to the Rainy Day Fund (the Revenue Stabilization Fund) is warranted. Based on CBC's analysis, the City should deposit at least \$1 billion this year.

## Looming Risks May Widen Budget Gaps, Perhaps as Soon as Fiscal Year 2024

While a path to balance the budget in fiscal years 2023 and 2024 is manageable on paper, reality may be more uncertain. Myriad risks—even without a recession—could result in wider gaps reaching \$11.5 billion in fiscal year 2026. (See Figure 1.)

**Figure 1: Risks to NYC Budget, FY 2023 - FY 2026**  
(dollars in billions)



**Notes:** (1) Assumes balanced budgets for FY 2023 and FY 2024 and November 2022 gaps for FY 2025 and FY 2026; (2) based on Office of the State Comptroller analysis; (3) based on CBC review of fiscal monitor reports; (4) could be lower if federal funds are secured or asylum seeker costs are lower; (5) based on average of the 2001 and 2008 recession.

**Sources:** City of New York, Office of Management and Budget, *November 2022 Financial Plan* (November 15, 2022); Office of the State Comptroller, "Identifying Fiscal Cliffs in New York City's Financial Plan (Updated December 20, 2022)," and *Review of the Financial Plan of the City of New York* (Report 14-2023, December 2022); Office of the New York City Comptroller, *Annual State of the City's Economy and Finances* (December 15, 2022); New York City Independent Budget Office, *Current Year Surplus Projected Despite Slowing Economy, Future Year Challenges Remain* (December 2022); Citizens Budget Commission, *Briefing on the NYC & NYS FY 23 Budget Update* (December 13, 2022).

- Fiscal Cliffs Loom.** Recurring programs funded with City and federal funds in fiscal year 2023 are unfunded in future years, meaning the actual budget gaps are bigger than reported if these programs continue. These cliffs, which total approximately \$1.1 billion next year and \$1.9 billion in fiscal year 2026, include funding for rental vouchers, shelter security wages, expansion of 3K and special education pre-K, and higher indirect funding for nonprofit social service providers.<sup>11</sup>
- Recurring Expenditures Are Underfunded.** Other programs are typically underfunded in the out-years, including Carter Cases, pupil transportation, uniformed overtime. Together these could increase spending by \$550 million this year (uniformed overtime) and \$1.1 billion annually in the outyears.
- The Assumed \$1 Billion in Federal Aid for Asylum Seekers Has Not Been Secured Yet.** If federal funds for these services are not secured, the City will need to cover the costs itself, creating a shortfall in the current year. While this year's total cost may well be less than \$1 billion, some costs are expected to extend into fiscal years 2024 and 2025.<sup>12</sup>

■ **The Cost of the Next Round of Labor Contracts Will Likely Exceed the Funds Set Aside.**

Currently budgeted funds would cover 1.25 percent annual wage increases. Annual raises of 3 percent would cost \$800 million in the first year and \$2.5 billion annually starting in the third year.

The foregoing analysis assumes the City weathers the economic uncertainty without entering into a recession. If that is not the case, based on the 2001 and 2008 recessions, City tax revenue shortfalls could be \$13 billion over three years: \$4.3 billion in the first year, \$6.6 billion in the second year, and \$2.1 billion in the third year.<sup>13</sup> However, the depth of the recession and the timing of the impact on tax revenues is very uncertain; a short and shallow recession could have a smaller tax revenue shortfall than shown.

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## ENDNOTES

- [1] City of New York, Office of Management and Budget, *Financial Plan Statements for New York City – October 2022* (December 19, 2022), <https://www.nyc.gov/assets/omb/downloads/pdf/fps-oct-2022.pdf>.
- [2] Office of the State Comptroller, *Review of the Financial Plan of the City of New York* (Report 14-2023, December 2022), <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-14-2023.pdf>; and Office of the New York City Comptroller, *Annual State of the City's Economy and Finances* (December 15, 2022), <https://comptroller.nyc.gov/wp-content/uploads/documents/The-State-of-the-Citys-Economy-and-Finances-2022.pdf>.
- [3] Office of the New York City Comptroller, *Annual State of the City's Economy and Finances* (December 15, 2022), <https://comptroller.nyc.gov/wp-content/uploads/documents/The-State-of-the-Citys-Economy-and-Finances-2022.pdf>; and New York City Independent Budget Office, *Current Year Surplus Projected Despite Slowing Economy, Future Year Challenges Remain* (December 2022), <https://www.ibo.nyc.ny.us/iboreports/current-year-surplus-projected-despite-slowing-economy-future-year-challenges-remain-fiscal-outlook-december-2022.pdf>.
- [4] Office of the State Comptroller, *Review of the Financial Plan of the City of New York* (Report 14-2023, December 2022), <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-14-2023.pdf>; Office of the New York City Comptroller, *Annual State of the City's Economy and Finances* (December 15, 2022), <https://comptroller.nyc.gov/wp-content/uploads/documents/The-State-of-the-Citys-Economy-and-Finances-2022.pdf>; and State of New York, *Financial Control Board, November Modification: FYs 2023-2026* (December 22, 2022), <https://fcb.ny.gov/system/files/documents/2022/12/staff-report-november-modification-fys-2023-2026-12-22-22.pdf>.
- [5] Joe Anuta, “Adams announces another round of budget cuts,” (*PoliticoPro*, 11/21/2022), <https://subscriber.politicopro.com/article/2022/11/adams-announces-another-round-of-budget-cuts-00070253>; and Annie McDonough, “New York City will cut some of its 21,000 vacant government positions,” (*City & State New York*, November 22, 2022), <https://www.cityandstateny.com/policy/2022/11/new-york-city-will-cut-some-its-21000-vacant-government-positions/380107/>.
- [6] In August 2022, the Office of the State Comptroller estimated there were over 21,000 vacant positions. See: Office of the State Comptroller, *Update on New York City Staffing Trends* (Report 13-2023, November 2022), <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-13-2023.pdf>.
- [7] Office of the State Comptroller, *Review of the Financial Plan of the City of New York* (Report 14-2023, December 2022), <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-14-2023.pdf>.

- [8] City of New York, Office of Management and Budget, *November 2022 Financial Plan* (November 15, 2022), <https://www.nyc.gov/assets/omb/downloads/pdf/fp11-22.pdf>.
- [9] Office of the State Comptroller, *Review of the Financial Plan of the City of New York* (Report 14-2023, December 2022), <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-14-2023.pdf>; Office of the New York City Comptroller, *Annual State of the City's Economy and Finances* (December 15, 2022), <https://comptroller.nyc.gov/wp-content/uploads/documents/The-State-of-the-Citys-Economy-and-Finances-2022.pdf>; New York City Independent Budget Office, *Current Year Surplus Projected Despite Slowing Economy, Future Year Challenges Remain* (December 2022), <https://www.ibo.nyc.ny.us/iboreports/current-year-surplus-projected-despite-slowing-economy-future-year-challenges-remain-fiscal-outlook-december-2022.pdf>; and State of New York, *Financial Control Board, November Modification: FYs 2023-2026* (December 22, 2022), <https://fcb.ny.gov/system/files/documents/2022/12/staff-report-november-modification-fys-2023-2026-12-22-22.pdf>.
- [10] Spending on Carter Cases is reimbursement for private school tuition costs for special education students whose families have undertaken legal action to demonstrate that the City is unable to meet their child's needs through public schools.
- [11] Office of the State Comptroller, "Identifying Fiscal Cliffs in New York City's Financial Plan (Updated December 20, 2022)," <https://www.osc.state.ny.us/reports/osdc/identifying-fiscal-cliffs-new-york-citys-financial-plan>.
- [12] New York City Independent Budget Office, *Current Year Surplus Projected Despite Slowing Economy, Future Year Challenges Remain* (December 2022), <https://www.ibo.nyc.ny.us/iboreports/current-year-surplus-projected-despite-slowing-economy-future-year-challenges-remain-fiscal-outlook-december-2022.pdf>.
- [13] Citizens Budget Commission, *Briefing on the NYC & NYS FY 23 Budget Update* (December 13, 2022), <https://cbcny.org/newsroom/briefing-latest-nyc-nys-fy-2023-budget-updates>.