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# A Budget Baker's Dozen

## 13 Questions to Ask About NYC's Preliminary Budget for Fiscal Year 2023

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Mayor Adams' first Preliminary Budget, due by February 16, will provide an important opportunity to see how he intends, in his words, to "get stuff done," root out "waste, fraud, and abuse," and promote a "People's Plan." To understand truly his priorities and plans to manage New York City, we have identified 13 critical questions and why they matter to the future of the City's fiscal health.

### 1. How much will the Program to Eliminate the Gap (PEG) save, how much are recurring efficiency savings, and how many positions are eliminated?

Nearly all agencies were instructed to propose PEGs equal to 3 percent of their City-funded budget for fiscal years 2022 and 2023 and beyond by streamlining operations while not cutting direct services, raising fees, or resorting to layoffs. Additionally, agencies were asked to eliminate vacant positions, which exceeded 20,000 as of November 2021. Savings of City-funded agency spending, excluding debt service and agencies the Mayor exempted from the PEG, should total $1.7 billion annually with $1.0 billion from their operating budgets and the remainder from central costs for fringe benefits.[1] These savings should come primarily from efficiencies and provide equal or growing value in recurring savings.

This is the right approach, but agencies have rarely done a PEG in the past eight years; much muscle memory is gone. Agencies should leverage technology to improve service delivery. The pandemic already pushed agencies to find new ways to deliver services virtually, and more should be possible. Agencies also should reduce spending on low impact programs, work with labor to change work rules to increase efficiency, streamline work processes, and consolidate like functions across agencies, such as the Administration's recent consolidation of information technology services under the Office of Technology and Innovation.

## 2. How optimistic is the Administration about the recovery of tourists, commuters, and jobs?

The city's economic recovery is so sluggish that just over half of the jobs lost have been regained so far, with another 421,000 jobs left to go. Getting these jobs back, especially those in leisure and hospitality, depends in large part on commuters and tourists returning to the city. Occupancy at office buildings was around 26 percent in the week ending February 2, 2022 and ridership on the City's subways was 53 percent of pre-pandemic levels in the seven days ending February 7, 2022.[2] While forecasters expect tourism spending to grow over the next couple of years, the NYC Independent Budget Office (IBO) raises concern about a rebound in business travel.[3]

While the City's November 2021 forecast expected that employment will recover to pre-pandemic levels by the third quarter of 2024, the IBO forecast puts this milestone in the fourth quarter of 2025, and the State Comptroller cautions that, based on previous expansions, the city may not recover employment until the first quarter of 2027.[4]

## 3. How will the City's economic recovery projections affect tax revenue?

The current non-property tax revenue forecast of $35.4 billion for fiscal year 2023 will be adjusted based on the revised economic forecast. Faster or slower expected recovery in some or all sectors will affect revenues accordingly.

While high Wall Street profits and intergovernmental transfers propped up personal income taxes and business taxes in fiscal year 2021, market volatility and an end to federal transfers, such as expanded unemployment insurance and the Paycheck Protection program, may slow tax revenue growth in the next few years. Sales tax revenue has been rebounding, possibly in part due to inflation, but remains below pre-pandemic levels due to weakness in accommodation and food services. Similarly, the hotel tax is expected to begin a slow recovery in fiscal year 2023, with the City expecting revenue to reach pre-pandemic levels in fiscal year 2025. Lastly, the City's real estate transfer taxes were stronger than expected last year due to residential sales and refinancing activity; higher interest rates and uncertainty in the commercial real estate sector may put downward pressure on these revenues in fiscal year 2023.

## 4. How much are real estate values and property taxes expected to increase next year?

The City will update its forecast for its largest tax revenue stream, the property tax, which currently is projected to generate $30.0 billion for fiscal year 2023. The Department of Finance's Tentative Property Tax Roll projected that the value of the City's taxable real estate would increase 8.2 percent next year, to $1.4 trillion. The final roll, due in late May, usually has lower values than the tentative roll. Residential property values are at or above pre-pandemic levels, while commercial property has not yet recovered. Still, after plummeting during the recession, the market value of offices and retail stores increased 12 percent, while hotels increased 5 percent. The updated forecast will also indicate the City's expectation for the longer-term recovery of the city's residential and commercial real estate markets.

## 5. Were the unspecified labor and attrition savings removed from the financial plan?

The November 2021 Financial Plan included $500 million in unspecified labor savings and $200 million in attrition savings annually beginning in fiscal year 2023. With no plan to achieve the savings, they simply served to reduce falsely out-year budget gaps. CBC's research identified 18 actions that could reduce labor costs, including premium sharing for health insurance or work rule changes. The fiscally responsible action would be to either remove these labor savings or identify specific actions to achieve them.

## 6. Were additional funds set aside for the next round of collective bargaining?

Municipal labor contracts have started to expire for the City's 100-plus collective bargaining units. The contract with the second largest unit—District Council 37—expired in May 2021 and most contracts with the represented workforce will expire by December 2022. The budget usually sets aside some funds for modest collective bargaining increases; prior to the pandemic, the City's labor reserve held funds for 1 percent raises per year. In June 2020, to balance the budget and narrow future gaps, the City eliminated the reserve for the first two years; therefore, any future collective bargaining increases would need to be fully funded with new resources or by implementing efficiencies that offset the costs. Annual raises of two percent over three years would cost $1 billion in fiscal year 2023, growing to $2.5 billion in fiscal year 2025.

## 7. Were plans for COVID-related federal aid modified and actions taken to mitigate the future federal fiscal cliff?

The May 2021 Executive Budget for Fiscal Year 2022 allocated $5.9 billion in State and Local Recovery Funds from the American Rescue Plan and $7.0 billion in federal COVID-related education aid. The spending plan was not strategically designed to maximize impact and created a $1.3 billion to $4.1 billion future fiscal cliff by using some of this non-recurring aid for recurring costs, such as the expansion of 3K or increased non-profit social service provider funding. Spending to date has been below planned levels and the Adams Administration may choose to reprogram some of these funds, both to improve impact and to ensure they fund only non-recurring programs.

## 8. What new initiatives and programs are added, are they sustainably funded, and were de Blasio initiatives altered?

New Administrations put their mark on the City by supporting their priorities and modifying the priorities of previous ones. During the campaign, Mayor Adams spoke about expanding childcare, developing a central portal for applying for City services, and expanded tax credits for low-income New Yorkers; in testimony before the Joint Legislative Hearing on Local Government, the Mayor asked the State to support expanded childcare and an increase in the Earned Income Tax Credit on both City and State personal income taxes.

Changing prior policy, Mayor Adams has announced the reinstatement of the plain-clothes anti-violence unit (with different operating procedures) that Mayor de Blasio disbanded, the intention to keep school safety officers under the oversight of the Police Department, rather than shifting them to the Department of Education, and reimagining the Thrive initiative as the Office of Community Mental Health, among others.

Also critical will be the Administration's approach to supporting the New York City Housing Authority and Health + Hospitals, which have both seen an increase in City subsidies under the de Blasio Administration. Continual increases in subsidies are not fiscally sustainable for New York City, and NYCHA and H+H should implement reforms to achieve fiscal stability.

## 9. How is the City-funded fiscal cliff addressed?

Of significant fiscal concern is how the Preliminary Budget will address a City-funded fiscal cliff of $653 million starting in fiscal year 2023.[5] Certain programs—such as $41 million for prevailing wages for homeless shelter security workers, $34 million for higher rent levels for housing vouchers, and $48 million for mental health teams—were funded only for fiscal year 2022 by the de Blasio Administration. The Adams Administration will need to identify recurring revenues for these programs or eliminate them.

## 10. How will Mayor Adams' Blueprint to End Gun Violence affect the NYPD and other agency budgets?

The Blueprint includes initiatives at the Police Department and programs at other City agencies, such as expanding the Gun Violence Suppression Division, Fair Futures for children aging out of foster care, and the Summer Youth Employment Program. While Mayor Adams indicated that there were resources in the City budget to pay for the costs of implementing the Blueprint, the City did not identify those resources or provide an estimate of how much the programs would cost the NYPD or other City agencies.

## 11. Were reserves and Rainy Day Fund contributions increased?

The Preliminary Budget will reveal the priority the Administration places on increasing the City's reserves to mitigate against future recessions or emergencies. Even as the City continues to recover from the COVID pandemic and recession, it should prepare for the next downturn. Since the 1970s, New York has experienced a recession on average every six years, and the City should be building reserves to be prepared. Mayor de Blasio committed to deposit $500 million this year into the Rainy Day Fund, but annual deposits are not scheduled in fiscal year 2023 or later.

## 12. How large are the out-year budget gaps?

The November 2021 financial plan reported budget gaps for fiscal years 2023 to 2025 of $2.9 billion, $2.7 billion, and $2.1 billion, respectively. The Mayor's Preliminary Budget is required to be balanced for fiscal years 2022 and 2023, but gaps in the subsequent years are likely and the norm. New proposed spending and eliminating the illusory labor savings would increase the gaps, while savings programs, lower debt service, and higher revenue estimates would decrease them.

## 13. What is Mayor Adams' approach to the City's capital investments?

The City's Adopted Capital Commitment Plan for fiscal years 2022 through 2025 totaled $80.4 billion, while the ten-year strategy through fiscal year 2031 was $147 billion. The Preliminary Capital Plan, due with the Preliminary Budget, will show whether the Adams Administration plans to increase or decrease spending in total, change the timing of spending, or allocate resources across different programmatic areas, such as schools, environment, infrastructure, and across different categories of work, such as program expansion or state of good repair.

By Ana Champeny

## ENDNOTES

[1] Excludes elected officials, the Department of Correction, the Department of Health and Mental Hygiene, and Health + Hospitals, and the local Medicaid share.

[2] Office of the New York City Comptroller, *New York by the Numbers: Monthly Economic and Fiscal Outlook* (February 7, 2022), https://comptroller.nyc.gov/newsroom/new-york-by-the-numbers-monthly-economic-and-fiscal-outlook-no-62-february-7th-2022/; and Metropolitan Transportation Authority, *Day-by-Day Ridership Numbers* (accessed February 9, 2022), https://new.mta.info/coronavirus/ridership.

[3] New York City Independent Budget Office, *A Forecast in Uncertain Times: Modest Budget Shortfalls Projected, But Risks To Outlook Increase as Infections Surge* (January 2022), https://ibo.nyc.ny.us/iboreports/a-forecast-in-uncertain-times-modest-budget-shortfalls-projected-but-risks-to-outlook-increase-as-infections-surge-jamuary-2022.pdf.

[4] New York City Independent Budget Office, *A Forecast in Uncertain Times: Modest Budget Shortfalls Projected, But Risks To Outlook Increase as Infections Surge* (January 2022), https://ibo.nyc.ny.us/iboreports/a-forecast-in-uncertain-times-modest-budget-shortfalls-projected-but-risks-to-outlook-increase-as-infections-surge-jamuary-2022.pdf; and Office of the New York State Comptroller, *Review of the Financial Plan of the City of New York Report 16-2022* (December 2021),https://www.osc.state.ny.us/files/reports/osdc/pdf/report-16-2022.pdf.

[5] Office of the New York State Comptroller, "Identifying Fiscal Cliffs in New York City's Financial Plan" (accessed February 9, 2022, https://www.osc.state.ny.us/reports/osdc/identifying-fiscal-cliffs-new-york-citys-financial-plan.