

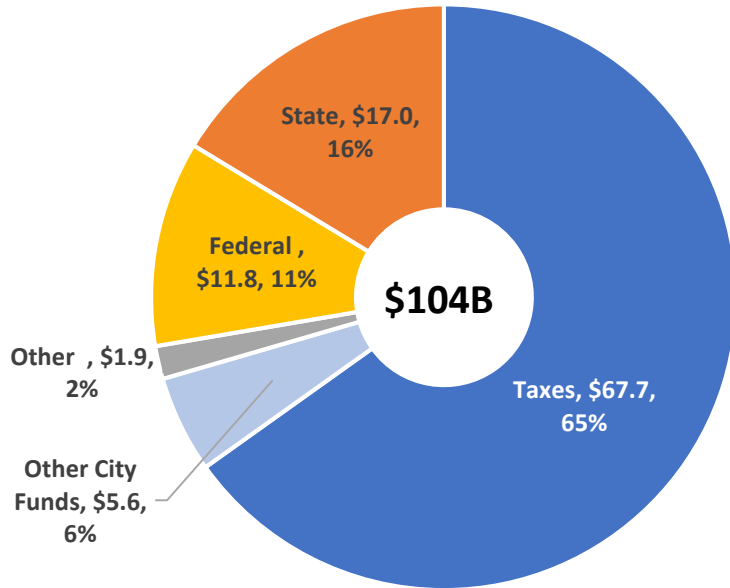


NYC November 2022 Financial Plan for Fiscal Years 2023 to 2026

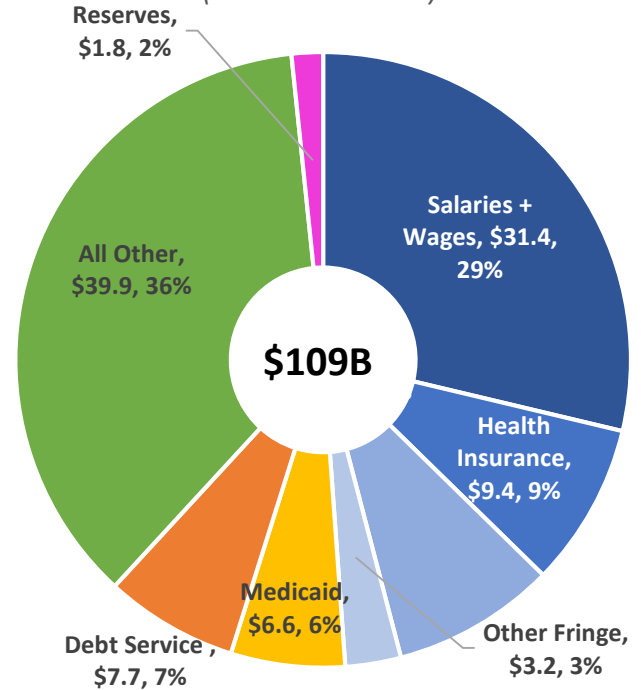
December 13, 2022

FY 2023 Budget Balanced Due to Prior Year Prepayment

NYC Revenues, FY 2023
dollars in billions



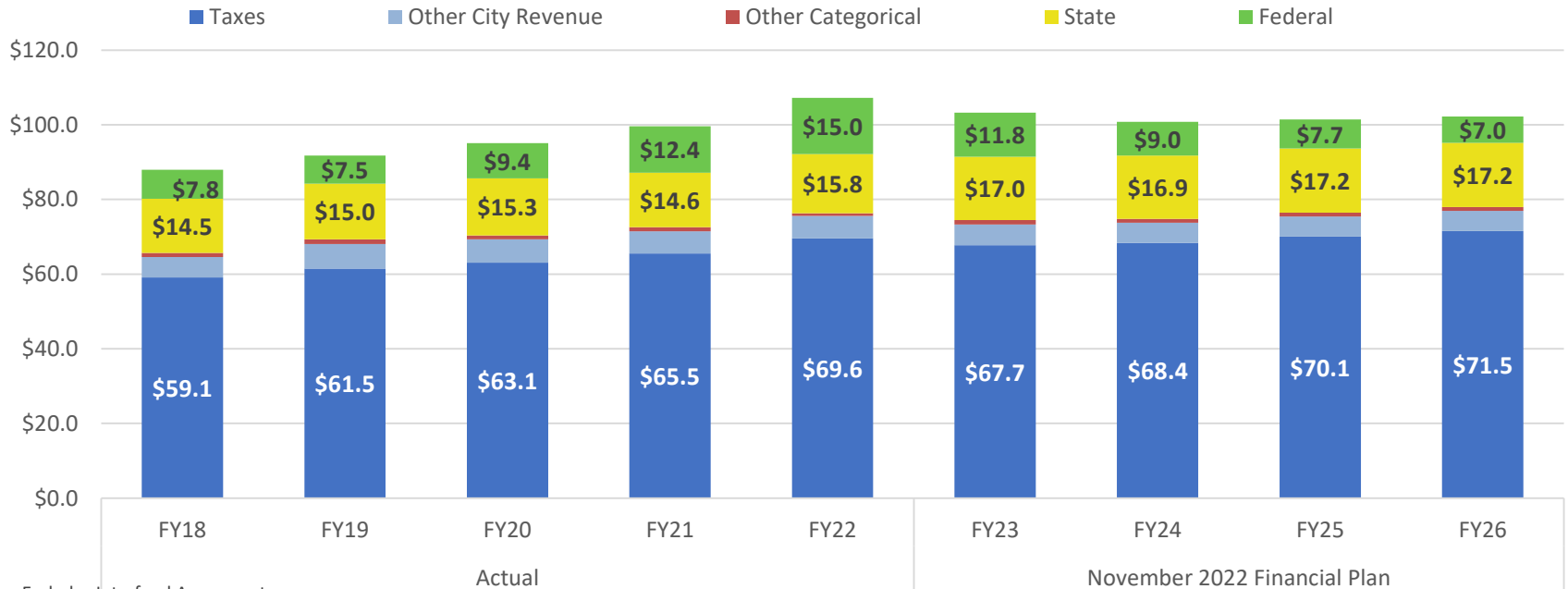
NYC Expenditures, By Object, FY 2023
(dollars in billions)



Source: City of New York, Office of Management and Budget, *November 2022 Financial Plan: Expense* (June 14, 2022).
Note: Includes Inter-fund agreements.

Extraordinary Tax Revenue in FY 2022; Federal COVID-Aid Starting to Dwindle

NYC Revenues, FY 2018 to FY 2026
dollars in billions



Note: Excludes Interfund Agreements

Source: City of New York, Office of Management and Budget, *November 2022 Financial Plan: Fiscal Years 2023 to 2026: Revenue* (November 15, 2022); Office of the New York City Comptroller, *Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022* (October 28, 2022), and fiscal year 2018 to 2021 editions.

More than Half of COVID-Related Stimulus Funds Spent; Cliffs Loom

Selected COVID-Related Federal Aid

(dollars in millions)

	Actual		November 2022 Plan				TOTAL: FY 2021 - FY 2026
	FY2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	
ARP State and Local Fiscal Recovery Funds (SLFRF)	\$964.9	\$2,884.5	\$345.4	\$184.1	\$409.4		\$4,788.1
Elementary and Secondary Education Relief (ESSER)	\$913.8	\$2,763.2	\$1,788.0	\$1,667.9	\$245.8		\$7,378.7
TOTAL	\$1,878.6	\$5,647.7	\$2,133.4	\$1,852.0	\$655.2	\$0.0	\$12,166.9

Source: City of New York, Office of Management and Budget, *November 2022 Financial Plan: Fiscal Years 2023 to 2026: Revenue* (November 15, 2022); Office of the New York City Comptroller, *Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022* (October 28, 2022), and fiscal year 2021 edition.

Additional Pension Cost Swamps PEG Savings, Widening Out-Year Gaps

Actions in the November 2022 Financial Plan and the Effect on Gaps

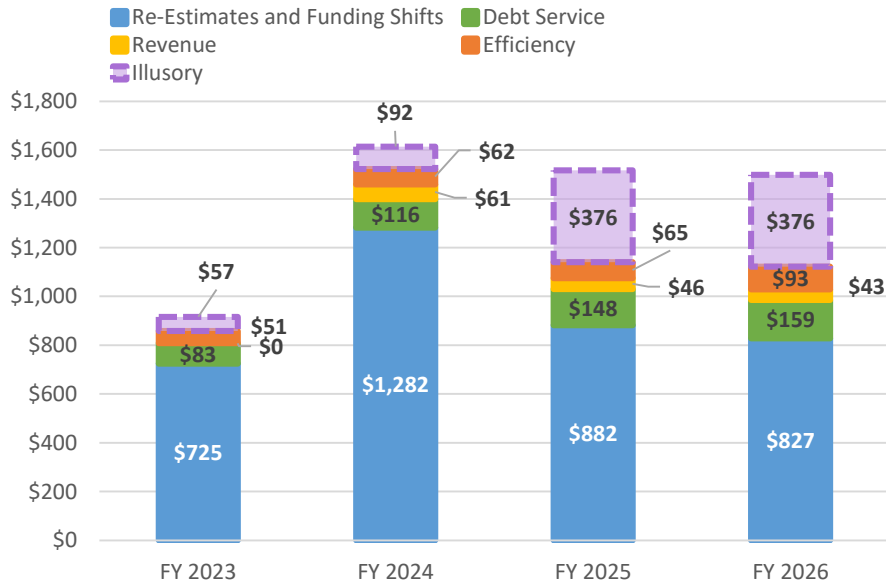
City Funds, dollars in millions

	FY 2023	FY 2024	FY 2025	FY 2026
Gaps (June 2022)	\$0	(\$4,210)	(\$3,714)	(\$3,980)
<u>Actions</u>				
Program to Eliminate the Gap (PEG)	(\$916)	(\$1,614)	(\$1,517)	(\$1,499)
Pensions		\$861	\$1,969	\$3,018
Agency Spending	\$211	\$138	\$414	\$416
Prepayment	\$705	(\$705)		
<i>Net Effect of Actions</i>	\$0	(\$1,320)	\$866	\$1,935
Gaps (Nov 2022)	\$0	(\$2,890)	(\$4,580)	(\$5,915)

Source: City of New York, Office of Management and Budget, *November 2022 Financial Plan: Fiscal Years 2023 to 2026*.

November 2022 PEG Savings Primarily From Re-Estimates, Not Restructuring

NYC November 2022 Financial Plan Program to Eliminate the Gap (PEG) Savings by CBC Category, FY 2023 - FY 2026, dollars in millions



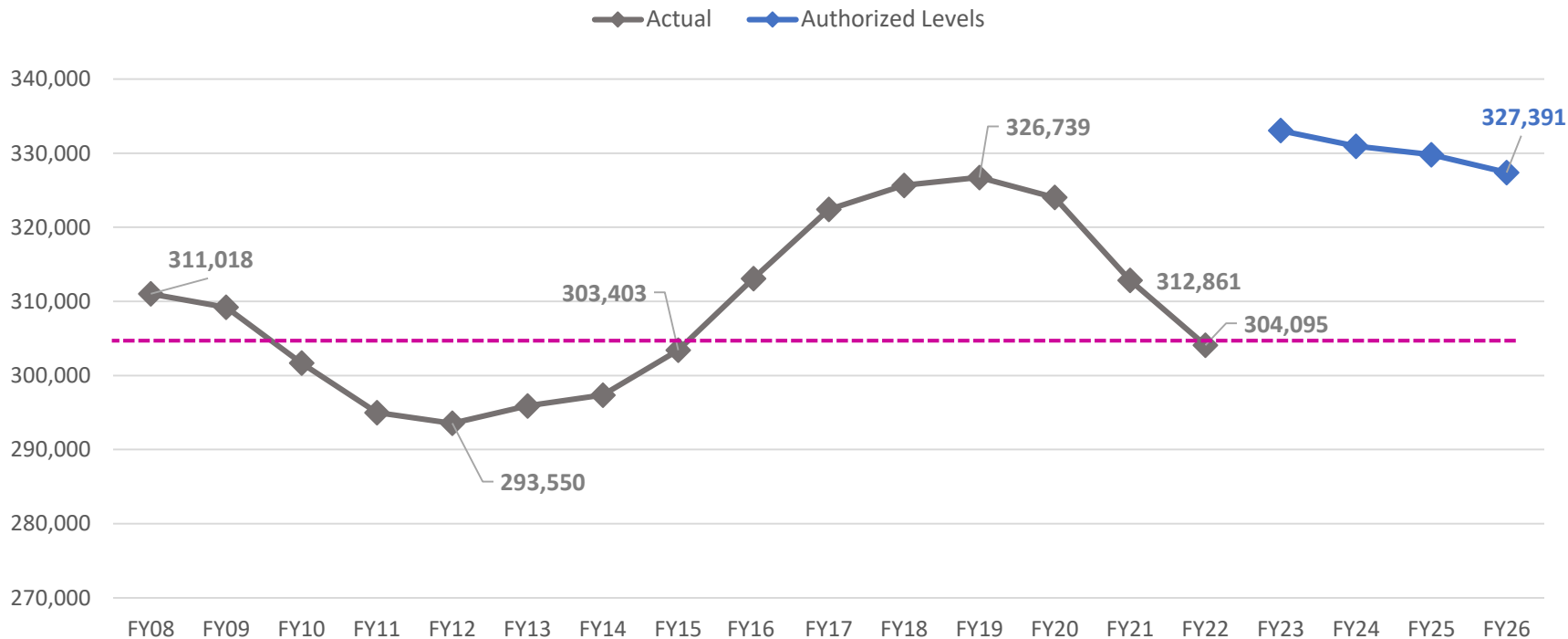
- Illusory savings that were net zero actions that did not reduce the budget gap (called “cost avoidance” by the City)
 - Added new expenditures that were not in the Adopted budget
 - Took credit for savings against those new expenditures

Note: Initiatives coded by CBC.

Source: City of New York, Office of Management and Budget, *November 2022 Financial Plan: Fiscal Years 2023 to 2026: Program to Eliminate the Gap* (November 15, 2022), and *November 2022 Financial Plan: Fiscal Years 2023 to 2026: Financial Plan Reconciliation* (November 15, 2022).

City Has Roughly 25,000 Vacancies: Headcount Down 22,000 from Peak

NYC Full-Time and FTE Headcount



Source: City of New York, Office of Management and Budget, *November 2022 Financial Plan: Full-Time and Full-Time Equivalent Headcount* (November 15, 2022).

Preliminary Budget Needs to Balance FY 2024; Administration Seeking Vacancy Savings

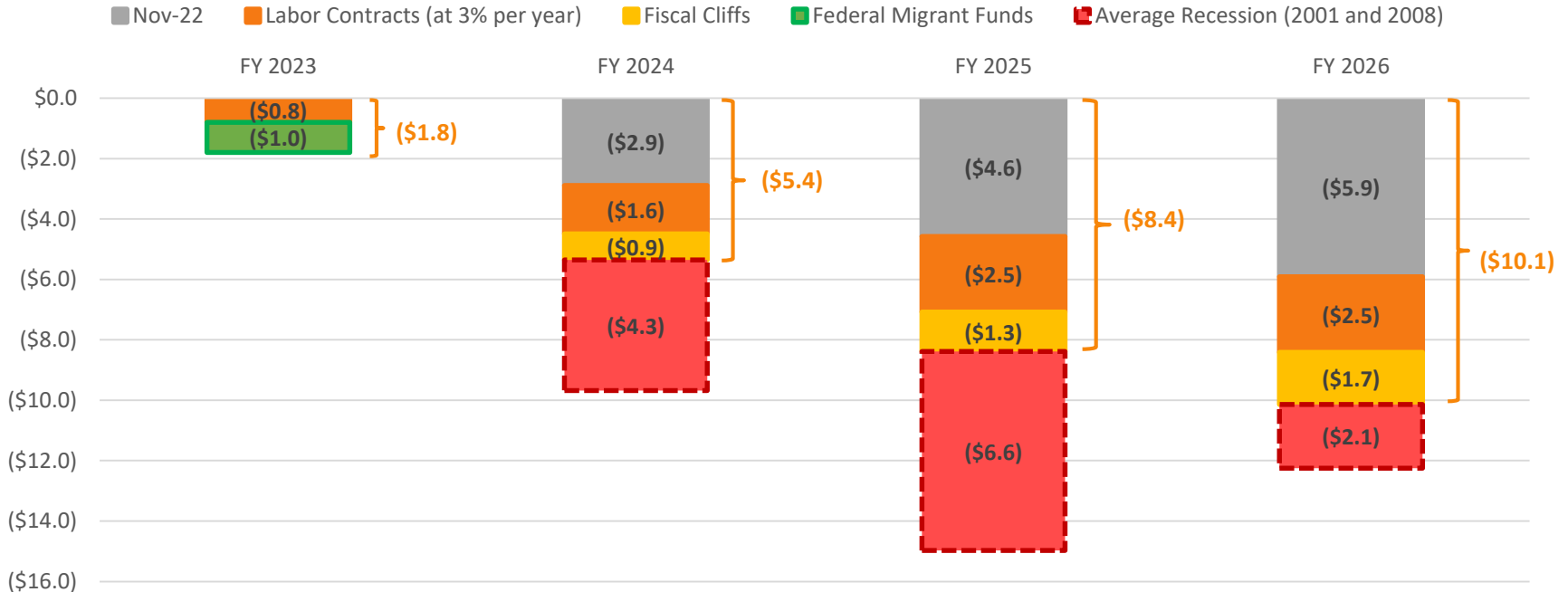
- Budget Director directive to eliminate roughly 5,000 of 25,000 vacancies
 - Significant exclusions: revenue-generating, health and safety, and Mayoral priority positions
 - \$350 million in savings
 - Sufficient remaining vacancies to hire some critical positions, and still save much more
- Agencies will be allowed to hire to their PS budget levels
- Agencies will need to self-fund new needs
 - Identify offsetting savings equal to new need expense
 - Encourages prioritization and discipline

Fiscal Risks May Widen Gaps

- Collective Bargaining: \$2.5 Billion
 - City has set aside funds for 1.25% raises
 - 3% annual raises would cost \$0.8B more in the first year, \$2.5B more in the third year
- City and Federal Fiscal Cliffs: \$865 Million in FY 2024, \$1.7 Billion in FY 2026
 - Recurring programs that lack recurring funding
 - City-funded cliff of \$865M in FY24, increasing to \$965M in FY25 and beyond
 - Federal-funded cliff of \$340M in FY25 and \$760M annually starting in FY26
- Migrant Funding: \$1 Billion in FY 2023
 - Assumes \$1B in federal funding in FY 2023 for costs associated to housing and providing services to migrants
 - Funds not secured; if federal or State government does not deliver would open current year gap
- Recession: \$10 Billion to \$16 Billion over 3 Years
 - City has not updated economic or revenue forecasts since April 2022
 - Typical recession shortfall would be about \$4B revenue in the first year
 - Cumulative shortfall would be between \$10B and \$16B over three years

Budget Gaps Could Balloon Quickly

Potential NYC Budget Gaps Accounting For Fiscal and Economic Risks
dollars in billions



Source: CBC staff analysis; City of New York, Office of Management and Budget, *November 2022 Financial Plan: Fiscal Years 2023 to 2026* (November 15, 2022).

What to Look for in January

- How will the City balance FY 2024?
 - Vacancy reduction will be about \$350 million annually
 - Likely to roll 2023 General and Capital Stabilization Reserves for close to \$1.5B in resources
 - Other technical and accounting changes to provide about \$400 million
 - Leaves manageable gap of around \$300 million, excluding new programs
 - Mental health services, police surge,
- Updated economic and revenue forecasts
 - Will these widen gaps further?
- Adams Administration first ten-year capital strategy
 - What are the Administration's capital priorities?
 - How do they respond to higher construction costs and higher borrowing costs?

CBC City Agenda

- Rainy Day Fund Guardrails
- Collective Bargaining
- Agency Reports:
 - Department of Sanitation
 - Department of Buildings
 - CUNY Community Colleges
- DOE Spending Analysis



MTA Budget Update

December 13, 2022

MTA Structural Budget Gap Exceeds \$2.6 Billion; July Plan Used Federal Aid to Balance 2022 to 2024

Original Proposal to Balance the Budget: MTA July Financial Plan, 2022-2026

dollars in millions

	2022	2023	2024	2025	2026	2022-2026
July 2022 CBC Adjusted Baseline Gaps	(\$1,439)	(\$2,382)	(\$2,286)	(\$2,560)	(\$2,640)	(\$11,307)
ARPA Federal Aid	\$1,498	\$2,642	\$2,526	\$126	\$201	\$6,993
City Subsidy Revision due to ARPA	(\$59)	(\$260)	(\$240)	(\$23)	(\$19)	(\$601)
July 2022 Updated Gaps	\$0	\$0	\$0	(\$2,458)	(\$2,460)	(\$4,915)

Source: The Metropolitan Transportation Authority, *MTA 2023 Preliminary Budget: July Financial Plan 2023-2026*, (July 2022), pp. II-3, II-4, <https://new.mta.info/document/91776>.

November 2022 Plan: Use Federal Aid to Repay Debt and Reduce Deficit; Shrinks but Accelerates Gaps

Revised Proposal to Balance the Budget: MTA November Financial Plan, 2022-2026

dollars in millions

	2022	2023	2024	2025	2026	2022-2026
November 2022 CBC Adjusted Baseline Gaps	(\$776)	(\$2,646)	(\$2,770)	(\$2,965)	(\$2,978)	(\$12,135)
Federal COVID Funds for Operating and Debt Costs	\$776	\$1,785	\$902	\$1,028	\$650	\$5,141
Additional Operating Savings		\$100	\$400	\$408	\$416	\$1,324
Additional Fare/Toll Revenue Above Base Assumptions		\$50	\$100	\$100	\$100	\$350
Savings from Deficit Note Repayment		\$111	\$178	\$190	\$190	\$669
November 2022 Gaps After MTA Actions	\$0	(\$600)	(\$1,190)	(\$1,239)	(\$1,622)	(\$4,651)
New Government Funding or Additional MTA Actions		\$600				\$600
November 2022 Updated Gaps	\$0	\$0	(\$1,190)	(\$1,239)	(\$1,622)	(\$4,051)

Source: The Metropolitan Transportation Authority, *MTA 2023 Preliminary Budget: November Financial Plan 2023-2026*, (November 2022), pp. I-4, II-3-4, II-6, <https://new.mta.info/document/101141>.

MTA Proposal Takes Some Right Steps; Efficiencies Should be Larger Part of Plan

- Seeks additional State, perhaps federal and City, resources to close the gap
 - No magic money tree
 - Tradeoffs should be considered—other programs, competitiveness and high taxes
- Efficiency plan is greater, but more can and should be done
 - Annualizes to ~\$450 million
 - Important efforts to identify and rectify inefficiencies
 - CBC identified up to \$2.9 billion in operating savings—though not easy
 - Much relies on collective bargaining
 - Labor should be part of the solution and work with MTA leadership
- Fare plan is appropriate
 - Partially accounts for missed 2021 transit fare increase
 - City should continue to market and fund Fair Fares
- ***Risks abound: collective bargaining, inflation, recession***



NYS Fiscal Year 2023 Midyear Update to the Financial Plan

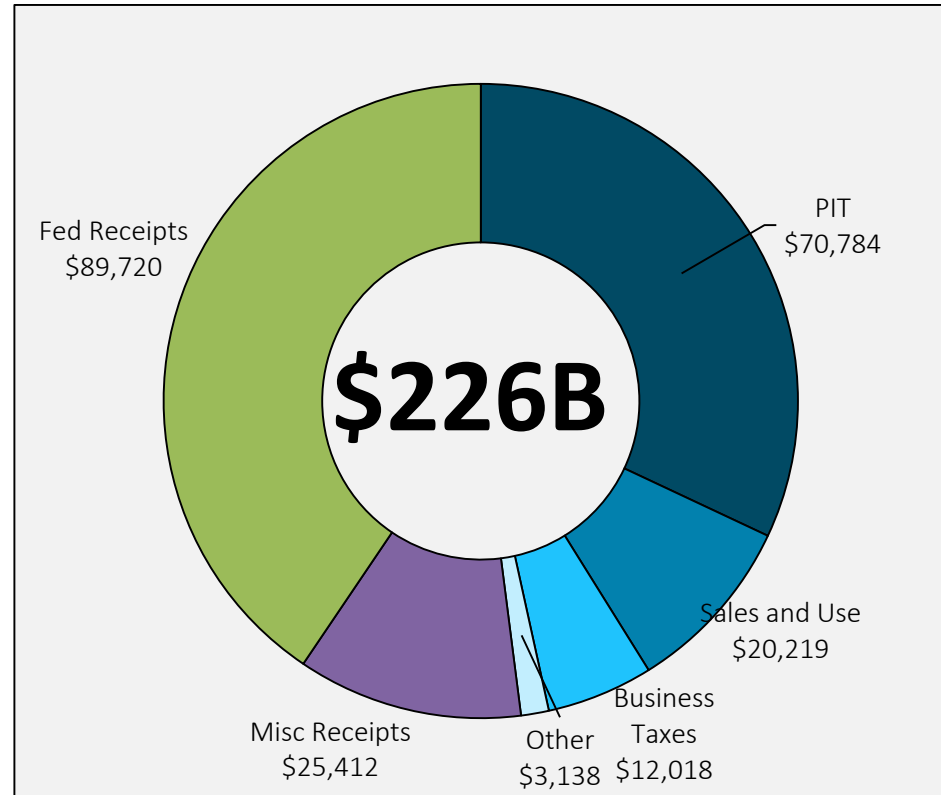
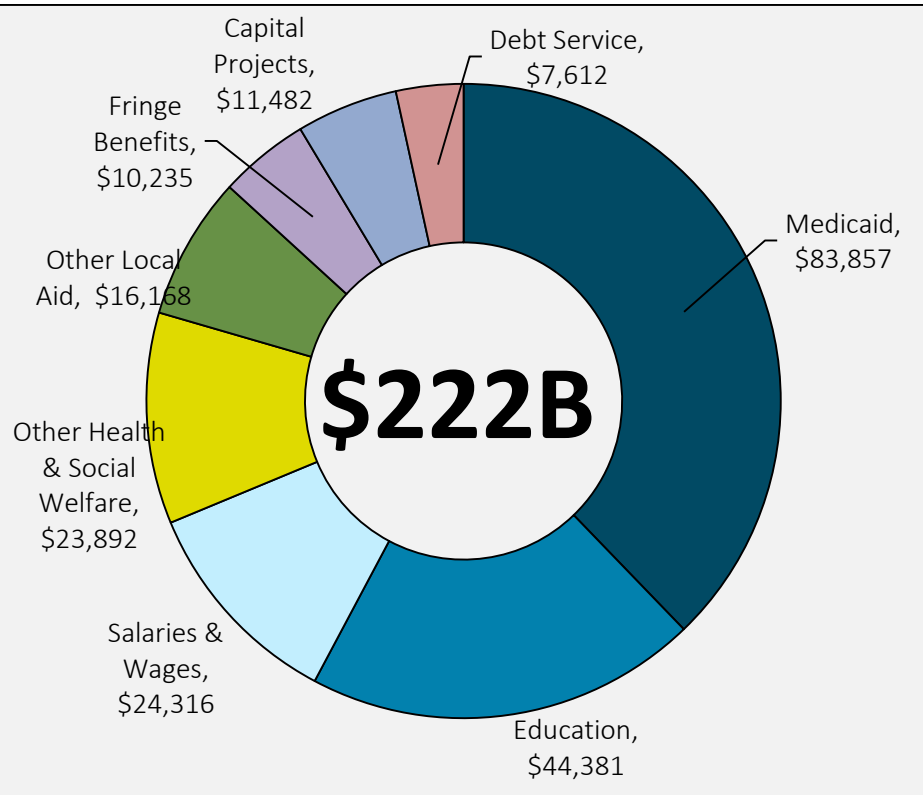
December 13, 2022

FY 2023 Enacted Budget

(updated for Midyear Financial Plan; dollars in millions)

Disbursements

Receipts

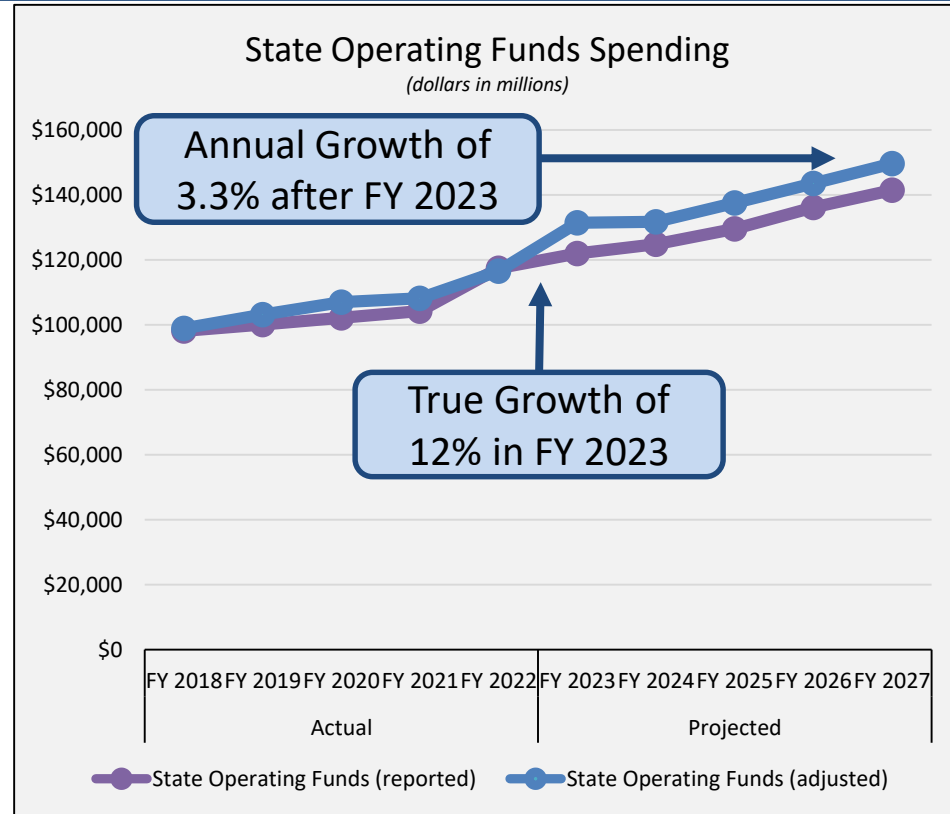


Notes: Figures above do not reflect use of prior year federal and State resources to balance the General Fund. FY 2023 receipts are adjusted for timing of pass-through entity taxes.

Source: New York State Division of the Budget, *Midyear Update to the FY 2023 Enacted Budget Financial Plan* (November 2022).

FY 2023 Enacted Budget Use Cash Boon to Add Significant One-time and Recurring Spending

- State Operating Funds Spending Grew 12%
 - Reported growth of 4%
- Billions added to reserves
- Prepaid expenses and carried surpluses to help balance multiple years
- Balanced every year of plan



Source: CBC staff analysis of New York State Division of the Budget, *Midyear Update to the FY 2023 Enacted Budget Financial Plan* (November 2022).

Strong Near-Term Receipts Help Balance through 2024; Weakened Receipt Outlook Opens Gaps After

FY 2023 Enacted Budget Gaps and Quarterly Revisions

(dollars in millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
<u>Surplus/(Gap) for Enacted Budget</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
July Update - Receipts Re-estimates	\$2,065	(\$1,901)	(\$3,432)	(\$3,395)	(\$6,067)
July Update - Surplus Rollover	(\$2,171)	\$2,281	\$0	\$0	\$0
July Update - Other Re-estimates	\$106	(\$690)	(\$155)	(\$151)	(\$152)
<u>Surplus/(Gap) for July Update</u>	<u>\$0</u>	<u>(\$310)</u>	<u>(\$3,587)</u>	<u>(\$3,546)</u>	<u>(\$6,219)</u>
Midyear Update - Receipts Re-estimates	\$1,337	\$150	\$150	\$150	\$150
Midyear Update - Surplus Set Aside	(\$2,076)	\$0	\$0	\$0	\$0
Midyear Update - Other Re-estimates	\$739	\$12	(\$62)	\$85	\$81
<u>Surplus/(Gap) for Midyear Update</u>	<u>\$0</u>	<u>(\$148)</u>	<u>(\$3,499)</u>	<u>(\$3,311)</u>	<u>(\$5,988)</u>

\$2 billion rolled to next year

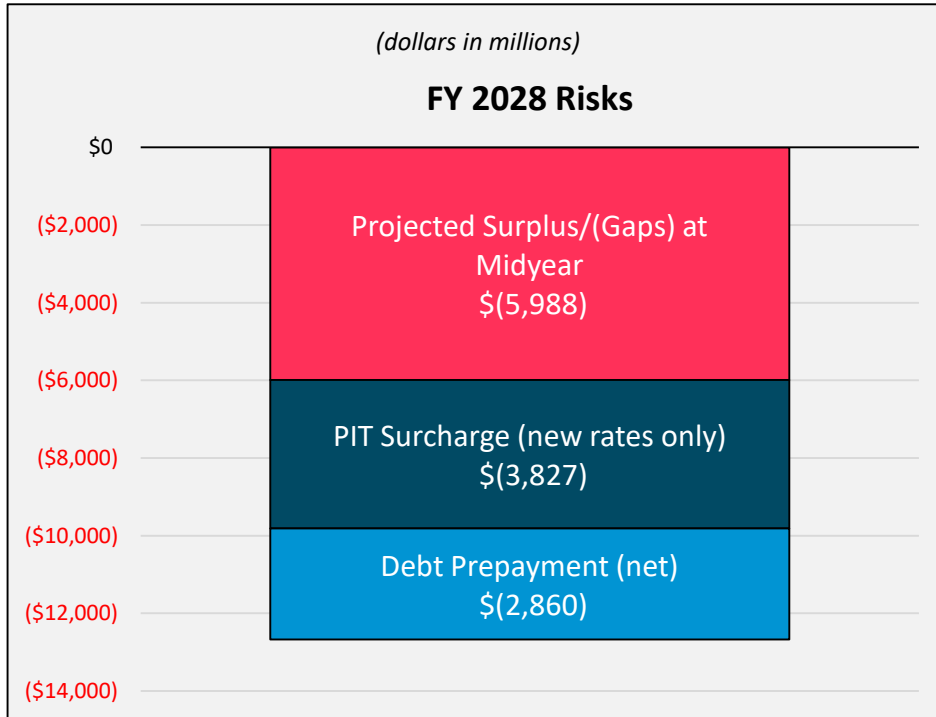
\$2 billion set aside

Multi-billion dollar gaps in out-years

Significant Fiscal and Economic Risks Abound; Spending Restraint and Savings Required

1. Risk of fiscal overreach with cash surge
2. \$6.7 billion fiscal cliff looms
3. Medicaid and School Aid spending exceeds revenue growth
4. Economic outlook is uncertain
5. Reserves are improving, but inadequate for a recession

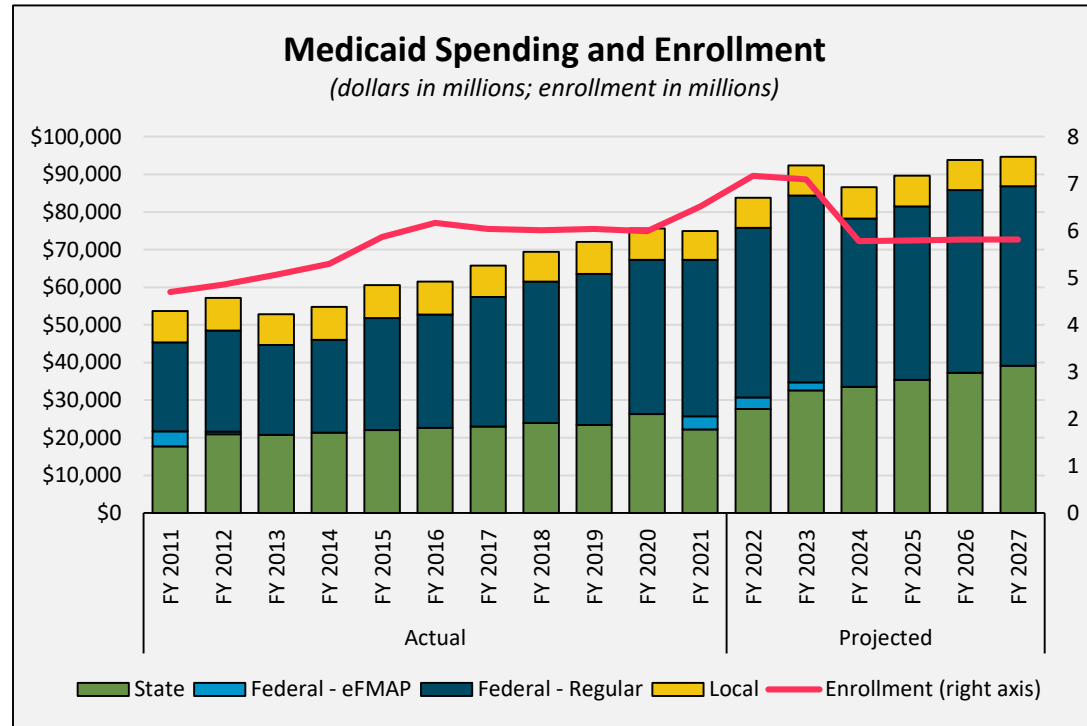
\$13 Billion Fiscal Risk in Five Years



- Gap of \$6 billion for FY 2027 projected
- Fiscal year 2027 relies on \$6.7 billion in non-recurring resources
- Beginning in fiscal year 2028, cliffs plus gap create **\$13 billion** risk

Medicaid Cost Projections are Optimistic, Outpace Revenue Growth

- FY 2023 Budget increased ‘Global Cap’ growth metric
 - Increases from 3% to 5%
- Optimistic projections of enrollment decrease
 - Expect enrollment to drop about 1 million in fiscal year 2024
 - Assuming average costs, 1 million enrollees cost roughly \$12 billion total (\$6 billion State share)

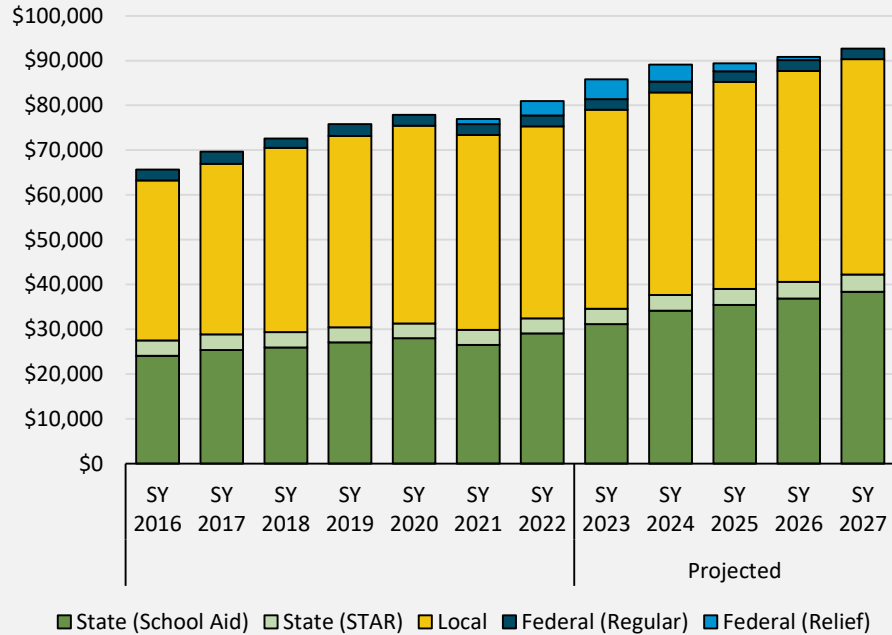


Notes: Enrollment is based on actual enrollment through May 2022 with out-year projections based on beneficiary projections from the July Update Financial Plan.

Source: New York State Division of the Budget, *FY 2023 Enacted Budget Financial Plan* (May 2022), pp. 14 and 110.

Rapidly Growing School Aid Unsustainable and Lacks System to Drive Improved Outcomes

School Aid by Source
(dollars in millions)

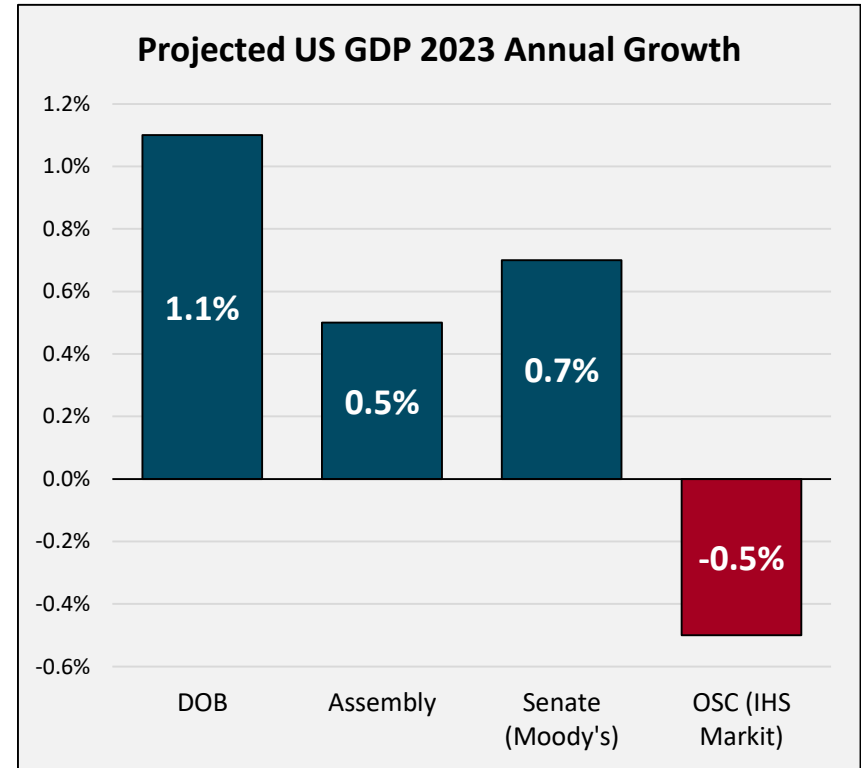


- State School aid increases \$2 billion next year (7.1%), and 5.1% annually through fiscal year 2027
 - Fiscal year 2024 will complete phase-in of Sound Basic Education (SBE) aid
- \$3.1 billion annually provided to districts that self-fund SBE (as of SY 2023)
 - To improve fiscal sustainability, State should target spending to highest need districts and students
- Over \$40 billion added to school aid over 5 years
 - Cumulative \$30 billion State aid increase from fiscal year 2022 to fiscal year 2027
 - Over \$11 billion in federal aid

Sources: New York State Division of the Budget, *FY 2023 Enacted Budget Financial Plan* (May 2022), pp. 14 and 110; New York State Education Department, Masterfile for 2019-20; "FY 2023 Enacted School Aid Files, and prior editions.

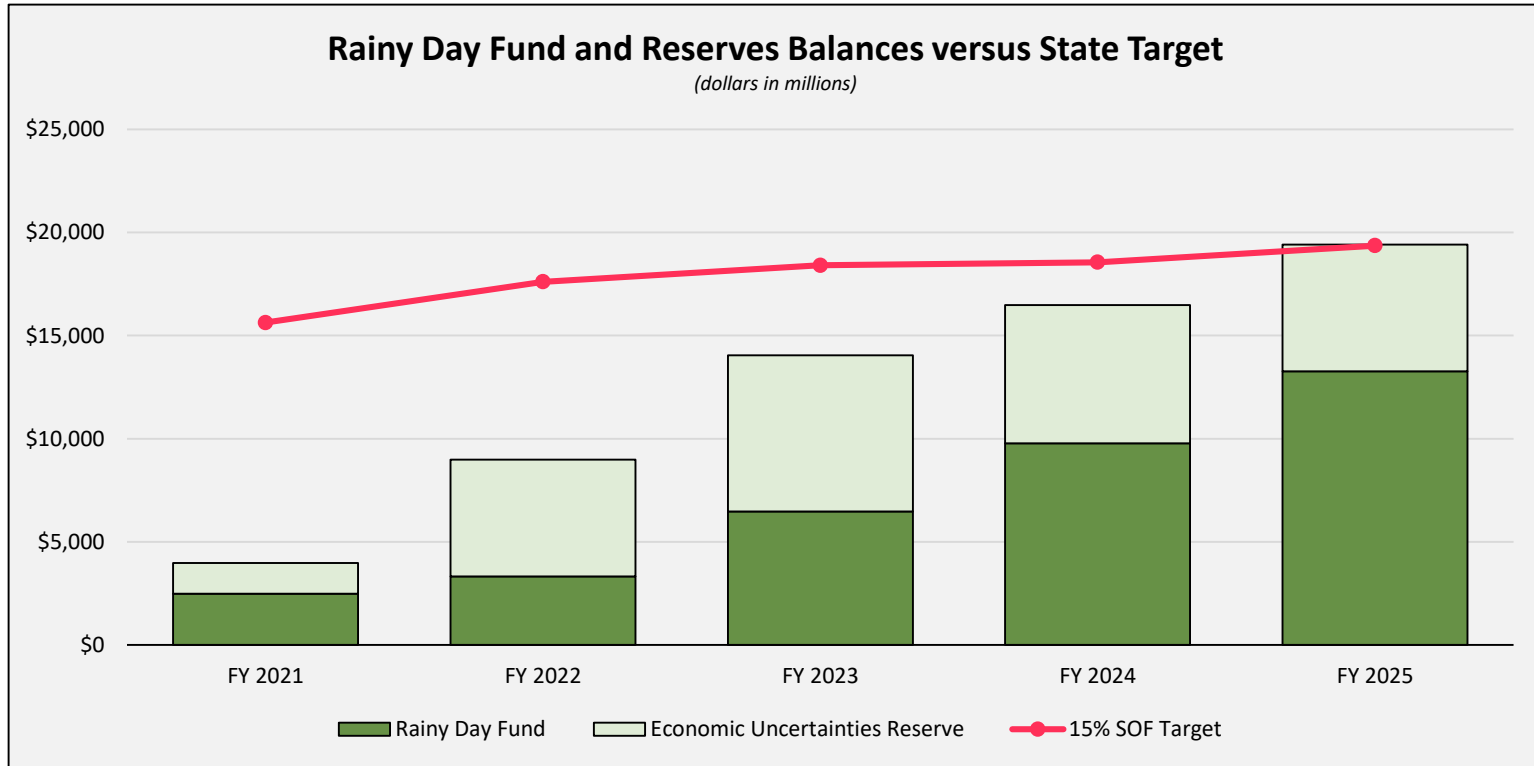
Recession Risk Appears to be Increasing

- Expectations and projections vary
- November 15 “Quick Start” process showed variation in expectations by State budget experts
 - Ranging for \$4 billion in excess receipts to a mild recession



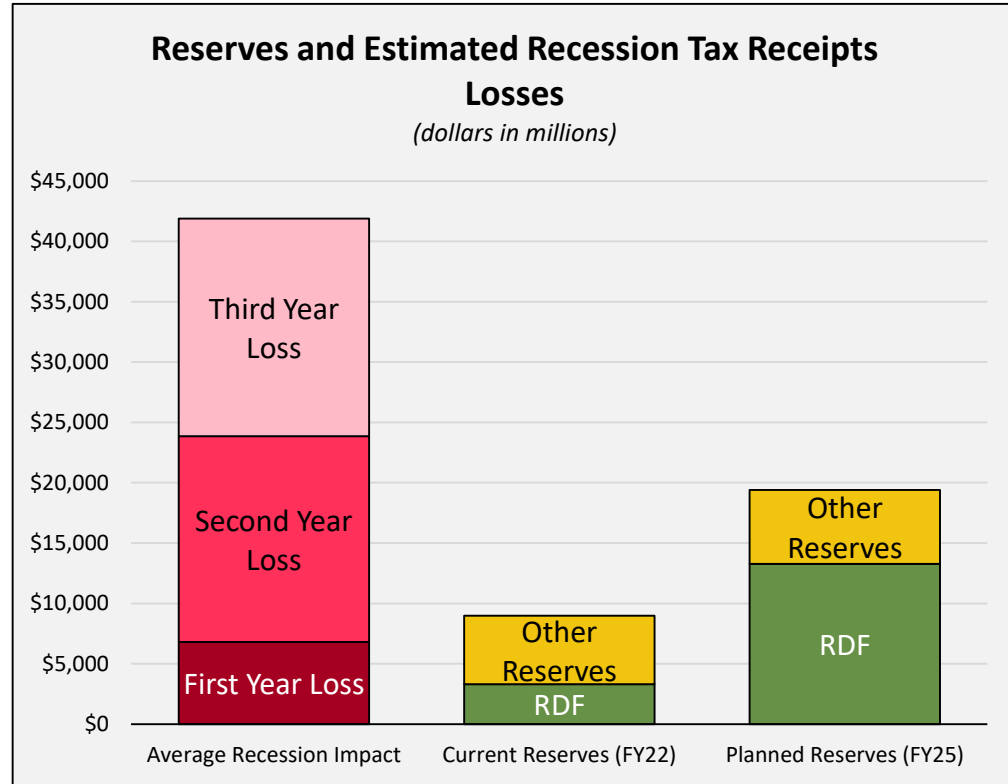
Sources: 2022 Quick Start Budgeting Reports.

Reserves Increase Planned to \$19 billion



Reserves Pale in Comparison to Potential Receipts Loss During a Recession

- Recession could reduce receipts \$42 billion over 3 years
- Planned reserves only a fraction of possible tax receipts losses
 - 81% of 2-year impact
 - 46% of 3-year impact
- Rising tax volatility increases exposure to recession or disruption
 - Financial Plan relies on continued growth
 - Reliance on top earners, capital gains compound revenue risks



Notes: Recession impacts are based on CBC analysis of average annual impacts of 2001 and 2009 recessions.²⁷
Source: New York State Division of the Budget, *FY 2023 Enacted Budget Financial Plan* (May 2022), pp. 14.

FY 2024 Budget Should Plan for Long-term

1. Stay the course on reserves
2. Restrain spending growth
3. Maximize benefits of big investments
4. Implement performance management
5. Improve tax competitiveness

What to Look For

- Fiscal – Multi-year program to close the gap
- Fiscal – Impulse to add recurring spending with temporary cash
- Housing – Boosting production (policy, taxes, and regulatory)
- Health care – Sustained Medicaid enrollment increase
- Education – Plan for performance and better targeting of aid
- MTA – Fiscal relief for structural budget gap and productivity
- Environment – Aligning CLCPA plan, Bond Act, and IRA

Questions and Answers

Thank You!

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