Staff Report

REVIEW OF FYs 2022-2026
FINANCIAL PLAN

August 30, 2022

NEW YORK STATE
FINANCIAL CONTROL BOARD

STAFF OF THE
NEW YORK STATE FINANCIAL CONTROL BOARD

SENIOR STAFF

Barbara Marin
Administration

Steven A. Bollon
Expenditure and Covered Organization Analysis

Michelle McManus
Finance and Capital Analysis

Steven A. Bollon/
Michelle McManus
Economic and Revenue Analysis

ANALYTIC STAFF

Sabrina Carione
Mariko Matsuyoshi
Iwona Matusiak
Nina Orm
Orlando Vasquez

ADMINISTRATIVE AND SUPPORT STAFF

Soncire Abadia
Taina M. Sanchez

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I. Overview

While the national economy has recovered substantially from the depth of the pandemic, economic growth is expected to slow in 2022. Growth in real gross domestic product slowed to an annualized negative 0.6 percent in the second quarter of 2022 after dropping 1.6 percent in the first quarter of 2022. The economy faces several headwinds, mainly inflation. To combat inflation, the Federal Reserve embarked on an aggressive monetary tightening policy increasing the target federal fund rate by a total 2.25 percentage points since March with further increases expected by the end of 2022. The Fed's ability to tame inflation, and at the same time avoid a recession, is uncertain. There is concern the Fed may have been late in its rate increases and that aggressive actions to catch up could tip the economy into a recession.

Similarly, the city's economic growth appears poised for a slowdown in 2022. Economic indicators in the city are mixed. On the one hand, the local unemployment rate is falling, total payroll employment is rising, tourism continues to improve, and building permits are rising. On the other hand, the metro area inflation rate is at record level and the Manhattan office vacancy rate is the highest on record.

Since the June 2021 modification, city-funded revenues in FY 2022 are higher than projected by more than $7 billion, fueled predominantly by a record level of Wall Street activity in 2021. Securities industry profits totaled $58 billion in 2021, the second highest year on record, surpassing profits in 2020 of $51 billion. This level of activity in the securities sector propelled personal income and general corporation tax collections upward helping the city to add surplus funds in FY 2022 and increase reserves. However, Wall Street profitability is expected to wane substantially in 2022 contributing to an estimated drop of more than $2.31 billion in the combined personal income and business tax revenues in FY 2023. In the first half of 2022, Wall Street profits were lower by 56.3 percent compared to last year. Facing an environment of tightening monetary policy by the Fed, real estate transaction tax revenues are projected to drop in FY 2023, and while they are forecasted to rebound beginning in FY 2024, they are not expected to recover to the FY 2022 level by the end of the plan period. Commercial rent tax revenues are expected to remain relatively flat over the plan period, a reflection of the commercial rental market. Although the average office occupancy in the city has improved, demand in the office space market remains low and vacancy rates stay high. Many private sector office workers continue to telework, slowing the need for firms to lease office space, particularly for less desirable properties. Overall, city-funded revenues are projected to drop by $1 billion to about $73 billion in FY 2023 before rebounding to almost $77 billion in FY 2026.

Total-funded revenues in the current plan are projected to decline by more than $10 billion from FY 2022 to FY 2023 driven by the $1 billion reduction in city funds and an almost $10 billion drop in federal categorical grants, due to the winding down of federal COVID-19 relief funds. In FYs 2023-26, total-funded revenues are projected to grow from $101 billion to nearly $103 billion, an increase of approximately $1.6 billion, or 1.6 percent, due entirely to the growth in tax revenues. Nontax city-funds revenues and categorical grants are projected to decline by $235 million and $1.9 billion, respectively.

The June modification assumes total-funded expenditures of almost $112 billion in FY 2022, up by $2.6 billion from the April modification partially due to deposits of $750 million to each of the rainy day fund and Retiree Health Benefits Trust. We urge the city to maintain a budget practice of making annual contributions to the RHBT. The city uses more than $6.1 billion of surplus funds built up in FY 2022 to prepay FY 2023 debt service and retiree healthcare expenses, lowering FY 2023 total-funded expenditures to $101 billion from $107 billion. In FYs 2024-26, projected total-funded expenditures are $105 billion, $106 billion, and $107 billion, respectively, with budget gaps of $4.2 billion, $3.7 billion, and $4 billion, respectively. Based on our risk analysis, the budget gaps could be higher at $5.4 billion, $6 billion, and $7.2 billion over FYs 2024-26, driven mainly by higher pension contributions in the outyears. As a result of considerable declining market conditions, we estimate an aggregate negative return of nine percent, equating to a shortfall of 16 percent against the actuarial interest rate assumption of seven percent. For 2022 we estimate a loss of about $36 billion, which we project would increase pension costs by $890 million in FY 2024, $2 billion in FY 2025, and $3.1 billion in FY 2026.

Prudently, the city has added $3 billion over FYs 2022-26 to the labor reserve to fund assumed wage increases in the next round of collective bargaining. The city had previously assumed 0.5 percent increases in each of the first two years of the next round of collective bargaining and one percent annually thereafter. The plan now assumes wage increases of 1.25 percent annually. The city has also increased the general reserve by $500 million in FY 2023 and by $200 million in each of FYs 2024-26. It also provides a one-time property tax rebate to city homeowners totaling $90 million in FY 2022. Nevertheless, the city has yet to allocate funding to pay for recurring programs and initiatives financed with federal pandemic aid beyond FY 2025. Additionally, we urge the city to continue to generate substantial Programs to Eliminate the Gap, similar to the savings program released in the February modification.

The city's five-year capital plan for FYs 2022-26 amounts to $95 billion in total-funded authorized commitments, representing a $5 billion decrease from the level of commitments projected in the February modification. The city projects 81 percent of the capital plan to be funded with tax-supported debt, with the assumed debt service expense as a percentage of tax revenues expected to remain below the affordability threshold of 15 percent throughout FYs 2022-26 based on current tax revenue projections and assumptions of the local economy. Even though commitments in the five-year capital plan have been reduced, we are doubtful that the current amount of commitments will be attainable based on the city's past achievement levels. Consequently, we urge the city to undertake a critical review of its capital program and give more consideration to establishing a realistic capital plan that can be practically undertaken and managed.

JUNE MODIFICATION:
THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2022-2026

TABLE 1 ($ in millions)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Revenues					
Taxes:					
General Property	$29,497	$31,277	$31,871	$32,006	$32,018
Other Taxes	38,199	35,751	35,795	37,346	38,778
Tax Audit Revenue	871	721	721	721	721
Miscellaneous Revenues	7,351	7,311	7,255	7,262	7,283
Unrestricted Intergovernmental Aid	792	252	--	--	--
Less: Intracity Revenues	(2,295)	(1,974)	(1,939)	(1,929)	(1,929)
Disallowances	(75)	(15)	(15)	(15)	(15)
Total City Funds	$74,340	$73,323	$73,688	$75,391	$76,856
Other Categorical Grants	942	1,029	1,016	1,015	1,012
Interfund Revenues	655	736	732	731	731
Federal Categorical Grants	19,140	9,284	8,676	7,958	6,974
State Categorical Grants	16,483	16,752	16,890	17,134	17,188
Total Revenues	**$111,560**	**$101,124**	**$101,002**	**$102,229**	**$102,761**
Expenditures					
Personal Service	$54,022	$53,722	$54,431	$54,987	$55,420
Other Than Personal Service	51,699	45,932	43,184	42,838	42,426
General Obligation, Lease & TFA Debt Service	6,657	7,753	8,086	8,597	9,374
Budget Stabilization & Prepayments	7	(6,114)	--	--	--
Capital Stabilization Reserve	--	250	250	250	250
General Reserve	20	1,555	1,200	1,200	1,200
Deposit to the Rainy Day Fund	1,450	--	--	--	--
Subtotal	$113,855	$103,098	$107,151	$107,872	$108,670
Less: Intracity Expenditures	(2,295)	(1,974)	(1,939)	(1,929)	(1,929)
Total Expenditures	**$111,560**	**$101,124**	**$105,212**	**$105,943**	**$106,741**
Gap To Be Closed	**$0**	**$0**	**($4,210)**	**($3,714)**	**($3,980)**

CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR FISCAL YEARS 2022-2026
JUNE MODIFICATION COMPARED TO APRIL MODIFICATION

TABLE 2 ($ in millions)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Revenues					
Taxes:					
General Property	$70	$77	$179	$180	$182
Other Taxes	2,855	1,408	272	232	245
Tax Audit Revenue	--	(1)	(1)	(1)	--
Miscellaneous Revenues	(3)	65	(3)	(3)	(2)
Unrestricted Intergovernmental Aid	--	--	--	--	--
Less: Intracity Revenues	(42)	(2)	--	--	(1)
Disallowances	(60)	--	--	--	--
Total City Funds	$2,820	$1,547	$447	$408	$424
Other Categorical Grants	(231)	--	--	--	--
Interfund Revenues	(31)	1	1	1	1
Federal Categorical Grants	12	(72)	(1)	--	(1)
State Categorical Grants	21	(5)	(1)	(2)	(1)
Total Revenues	**$2,591**	**$1,471**	**$446**	**$407**	**$423**
Expenditures					
Personal Service	$1,002	$129	$282	$460	$380
Other Than Personal Service	97	1,749	270	108	108
General Obligation, Lease & TFA Debt Service	(28)	(63)	(33)	(33)	(33)
Budget Stabilization & Prepayments	842	(842)	--	--	--
Capital Stabilization Reserve	--	--	--	--	--
General Reserve	(30)	500	200	200	200
Deposit to the Rainy Day Fund	750	--	--	--	--
Subtotal	$2,633	$1,473	$719	$735	$655
Less: Intracity Expenditures	(42)	(2)	--	--	(1)
Total Expenditures	**$2,591**	**$1,471**	**$719**	**$735**	**$654**
Gap To Be Closed	**$0**	**$0**	**($273)**	**($328)**	**($231)**

RISKS TO THE FINANCIAL PLAN

TABLE 3 ($ in millions, positive numbers are offsets to risks)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Stated Financial Plan Gap	**$0**	**$0**	**($4,210)**	**($3,714)**	**($3,980)**
Estimation					
Property Tax Revenue	0	0	100	150	200
Nonproperty Tax Revenue	0	200	250	250	300
Uniformed Services Overtime	(38)	(593)	(643)	(644)	(644)
Pension Contributions	0	0	(887)	(2,023)	(3,096)
Risk Total	**($38)**	**($393)**	**($1,180)**	**($2,267)**	**($3,240)**
Total FCB Estimated Surplus/(Gap)	**($38)**	**($393)**	**($5,390)**	**($5,981)**	**($7,220)**

II. Review of June Financial Plan FYs 2022-26

Compared to the April modification, the revenue forecast in the June modification projects sizeable increases in each of FYs 2022 and 2023 but growth tapers off in FYs 2024-26. Total-funded revenues rise by $2.6 billion in FY 2022 and by $1.5 billion in FY 2023. The increases are led by higher nonproperty tax collections specifically the personal income, general corporation, and sales taxes. In FYs 2024-26, total-funded revenue growth is much smaller at $446 million, $407 million, and $423 million, respectively, with that growth driven by higher property and sales taxes.

Since the June 2021 modification, city-funded revenues in FY 2022 have surged by more than $7 billion fueled by a record level of Wall Street activity that has propelled personal income and general corporation tax collections. The strength in sales tax revenue is the result of vigorous consumer spending and the continued but slow return of tourism. Some help to tourism is a recent decision by the Center for Disease Control to lift the restriction requiring international travelers entering the U.S. to test for COVID-19.

The city projects continued expansion in employment levels through 2024 but warns wage earnings will fall in the last quarter of 2022 along with lower Wall Street profits. In fact, Wall Street profitability has already begun to decline, dropping to $13.5 billion in the first half of 2022 from $31.0 billion in the same period in 2021, a 56.3 percent fall. It is also expected residential real estate will moderate in both of 2022 and 2023 as housing prices remain elevated and mortgage rates rise. In 2023, commercial real estate office vacancy rates are expected to peak and asking rents are projected to decline through the year. COVID-19 continues to be a primary risk as is the war in Ukraine, high inflation, supply chain problems, and rising interest rates.

The June modification assumes total-funded expenditures of almost $112 billion in FY 2022 up by $2.6 billion from the April modification, partially due to deposits of $750 million to each of the rainy day fund and Retiree Health Benefits Trust (RHBT). The city uses more than $6.1 billion of surplus funds built up in FY 2022 to prepay FY 2023 debt service and retiree healthcare expenses, lowering FY 2023 total-funded expenditures to $101 billion from $107 billion. In FYs 2024-26, projected total-funded expenditures are $105 billion, $106 billion, and $107 billion, respectively, with budget gaps of $4.2 billion, $3.7 billion, and $4 billion, respectively. Based on our risk analysis, the budget gaps could be higher at $5.4 billion, $6 billion, and $7.2 billion over FYs 2024-26, driven mainly by higher pension contributions in the outyears, as discussed in "Pensions," beginning on page 23.

Prudently, the city allocates supplemental funds to the labor reserve totaling $3 billion over FYs 2022-26 to cover assumed wage increases in the next round of collective bargaining and increases the general reserve by $500 million in FY 2023 and by $200 million in each of FYs 2024-26. It also provides a one-time property tax rebate to city homeowners totaling $90 million in FY 2022. Still, the city has yet to allocate funding to pay for programs and initiatives financed with federal pandemic aid beyond FY 2025 or generate a substantial Program to Eliminate the Gap since the February modification.

The city's five-year capital plan for FYs 2022-26 amounts to $86 billion in total-funded targeted commitments, representing a $3.9 billion decrease from the level of commitments projected in the February modification. The city projects 81 percent of the capital plan to be funded with tax-supported debt, with the assumed debt service expense as a percentage of tax revenues expected to remain below the affordability threshold of 15 percent throughout FYs 2022-26 based on current tax revenue projections and assumptions of the local economy. Even though commitments in the five-year capital plan have been reduced, we are doubtful that the current amount of commitments will be attainable based on the city's past achievement levels. Consequently, we urge the city to undertake a critical review of its capital program and give more consideration to establishing a realistic capital plan that can be practically undertaken and managed.

ECONOMIC AND REVENUE OUTLOOK

The U.S. Economy

On August 25, 2022, the Bureau of Economic Analysis (BEA) released a second estimate of economic activity showing the real gross domestic product (RGDP) contracted by annual rate of 0.6 percent in the second quarter of 2022, following a larger contraction of 1.6 percent in the first quarter. Still, employment gains continue. On August 5, 2022, the employment report released by the Bureau of Labor Statistics (BLS) shows that employment increased by 528,000 jobs in July. In fact, total payroll employment surpassed the February 2020 prepandemic employment level of 152,504,000 by 32,000 for the first time in July. Private employment is up by 629,000 relative to February 2020 prepandemic level.

The most significant headwind the U.S. economy faces is the continued climb in inflation that has unnerved households, businesses, and securities markets, and has caused consumer sentiment to fall precipitously.[1] The latest report released by the BLS shows the Consumer Price Index (CPI) increased 8.5 percent in July 2022, over the last 12 months, compared to 9.1 percent in June 2022, which could be an early indication that the Fed's tightening policy might be working. Even though inflation dropped from 9.1 percent in June to 8.5 percent in July, it remains high by historical standard. The nation's inflationary pressures are the result of high energy, food, and shelter costs. Over the last seven months, the energy index climbed by 32.2 percent, the largest growth in a seven-month period since 1980 and the food index climbed by 9.2 percent, the largest growth in such a period since 1981. Overall, U.S. inflation is due to pent-up demand, protracted supply-chain slowdowns, lockdowns in China, a continued shortage of computer chips,

[1] Consumer views on the future of economic conditions are measured by the Consumer Sentiment Index. In June 2022, the year-over-year measurements of this index is down by 41.5. Consumers surveyed attribute their negative views of the economy to the rapid rise of inflation.

the war in Ukraine and an unprecedented level of liquidity injected in the economy to mitigate the devastating macroeconomic effects of the pandemic. [2]

Continuing with its aggressive tightening monetary policy, the Federal Reserve (Fed) raised its benchmark interest rate, the target range for the Federal Funds Rate, by another three-quarters of a percentage point on July 27, 2022, to a target of 2.25 to 2.50 percent to tame the inflation rate. The latest increase follows three consecutive increases of 25, 50, 75 basis points. The higher rate impacts the cost of borrowing money to finance, among other things, the purchase of a home or car, and how much businesses are willing to increase investment. In the Fed's view, the rate increases are expected to slow down the economy enough to reduce price pressure. Such aggressive actions by the Fed to tighten monetary policy could have consequences, such as further driving down stock and bond prices significantly eroding investment portfolios. This outcome would be most acute for those households dependent on future retirements that are funded by investment portfolios and public pension funds seeking strong returns to finance future benefit payments.

The City Economy

Economic indicators in the city are mixed. On the one hand, the local unemployment rate is falling, total payroll employment is rising, tourism continues to improve, and building permits are rising. On the other hand, the metro area inflation rate is at record level, the Manhattan office vacancy rate is the highest on record, and the New York City Transit's total revenue passenger ridership remains a fraction of its pre-pandemic level during the first five months of 2022.

The city's unemployment rate fell by 1.8 percent to 6.6 percent in the first half of 2022 compared to 8.4 percent in the second half of 2021, though it remains higher than the national rate of 3.7 percent, and greater than the state's at 4.7 percent, partly due to an overall slower recovery in the leisure and hospitality, construction, manufacturing, and trade, transportation & utility sectors. While the unemployment rate remains higher than the national rate, job growth in the city has climbed significantly from its May 2020 level when the unemployment rate was at 21 percent. The city projects continued expansion in the local employment level in 2022 reaching prepandemic levels by the third quarter of 2024 but warns wage earnings will fall in the last quarter of 2022 along with lower Wall Street profits.[3]

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[2] To curb inflation, the President signed into law the Inflation Reduction Act of 2022 on August 16, 2022. The Act will make a historic down payment on deficit reduction to fight inflation, invest in domestic energy production and manufacturing, and reduce carbon emissions by roughly 40 percent by 2030. The bill will also finally allow Medicare to negotiate for prescription drug prices and extend the expanded Affordable Care Act program for three years, through 2025.

[3] On a full-year basis, wage earnings are expected to grow by 6.3 percent in 2022. Since Wall Street bonuses are paid in the fourth quarter and first quarter of the following year, the downshift in bonuses anticipated in 2022 will hit in those quarters creating the fourth quarter drop noted. Full-year wage growth

Tourism is making a recovery albeit slower than expected. NYC & Company projects an estimated 56.7 million visitors for 2022, which is a 72 percent increase over 2021.[4] For 2023, the expectation is even higher with about 63.7 million visitors, approaching the 2019 peak of 66.6 million visitors. Providing some help to tourism is a recent decision by the Center for Disease Control to lift the restriction requiring international travelers entering the U.S. to test for COVID-19.

One of the harder hit economic areas in the local economy is the market for commercial real estate. Although improved, demand in the commercial office space market remains low and vacancy rates stay high. The average office occupancy in the city is reported to be at 41 percent.[5] However, many private sector office workers continue to telework slowing the need for firms to lease office space, particularly for less desirable properties as increased new leasing activity has been predominantly for higher quality properties.

It is also expected that residential real estate will moderate in both of 2022 and 2023 as housing prices remain elevated due to short supply and mortgage rates rise as the Fed tightens monetary policy to combat inflation. The salient risks to the economic outlook continue to be the COVID-19 pandemic, the war in Ukraine, and the Fed's ability to achieve a so called "soft-landing," that is, to reduce inflation without pushing the economy into recession.

Revenue Forecast for FY 2022

Since the April modification, total-funded revenue increases by a net $2.591 billion in FY 2022 to $111.56 billion from $108.969 billion augmented chiefly by higher-than-estimated nonproperty taxes of $2.945 billion, as shown in the figure to the right. Nontax revenues are a net $336 million less than in the April modification. Other categorical grants are $231 million below the April modification because of a $229 million shortfall in Emergency Medical Services revenue. Miscellaneous revenues are reduced by $45 million, reflecting a roll of $46 million of bus shelter revenues that were previously anticipated in FY 2022 to FY 2023. The reduction in interfund revenues is due to a $20 million downward adjustment for personal services (PS) surplus and an $11 million fringe benefits adjustment associated with the PS

April to June Modification Revenue Changes FY 2022 ($ in millions)

Nonproperty Taxes	$2,945
Property Tax	70
Property Tax Rebate	(90)
Subtotal Taxes	**$2,925**
Miscellaneous	(45)
Disallowance	(60)
Total City	**$2,820**
Federal	12
State	21
Other	(262)
Total Revenue	**$2,591**

Other includes interfund agreements.

is still projected to grow 1.7 percent and employment is forecast to grow by 4.7 percent, which leads to the continued growth in wage earnings.

[4]"NYC Travel and Tourism Outlook" June 2022 published by NYC & Company, the official destination marketing organization and convention and visitor's bureau for the city's five boroughs.

[5] According to the office turnstile data provided on July 25, 2022, by the Kastle Back to Work Barometer from Kastle Systems, a property management company in the city.

adjustment. A modest increase of $12 million and $21 million in federal and state categorical grants offset some of the reduction in nontax revenues.

Nonproperty Taxes

Nonproperty taxes, comprising numerous tax categories, are higher in the June modification by $2.855 billion compared to the April modification, increasing from $36.069 billion to $38.924 billion, as shown in the figure to the right.[6] All these tax categories have increased from the April plan estimates apart from commercial rent tax, cigarette taxes, and tax audit revenues that are projected to remain unchanged. A reduction of $89 million in the category for all other taxes and a one-time property tax rebate with an estimated revenue loss of $90 million offset some of the nonproperty tax revenue increase.

April to June Modification Nonproperty Changes FY 2022 ($ in millions)	
Personal Income	$1,836
General Corporation	527
Unincorporated Business	134
Sales and Use	220
Commercial Rent	0
Real Property Transfer	176
Mortgage Recording	96
Utility	7
Cigarette	0
Hotel Occupancy	38
All Other	(89)
Tax Audit	0
Property Tax Rebate	(90)
STAR Aid	0
Total Nonproperty	**$2,855**

The increase in nonproperty tax reflects stronger-than-previously-anticipated tax collections. Through May, nonproperty tax collections were $2.073 billion more than estimated in the April modification. As noted in the figure above, the largest increase in nonproperty tax revenue is personal income tax (PIT), which is higher by $1.836 billion improving to $16.552 billion from $14.716 billion. Through May, PIT collection totaled $15.341 billion, $1.665 billion more than estimated in the April modification.

Miscellaneous Revenues

The nontax portion of city-funded revenues, excluding unrestricted intergovernmental aid, is referred to as miscellaneous, which includes several classes, as shown in the figure to the right. Taken together, miscellaneous revenue falls by a net $45 million to $5.056 billion compared to the April modification in FY 2022. The city anticipates lower revenue of $33 million collected from license issuance for various sources such as taxi, pistol, marriage, and business. Service fees are anticipated to decline by $33 million, which include fees for parking, towing, copies of certificates, processing applications, searches, and performing fire and building inspections. Water and Sewer charges are expected to decrease by $22 million. These charges are collected by the New York City Water Board, which are in part reimbursed to the city for the operation and maintenance of the water delivery and wastewater disposal systems.

April to June Modification Miscellaneous Changes FY 2022 ($ in millions)	
Licenses, Franchise, etc.	($33)
Interest Income	0
Charges for Services	(33)
Water and Sewer	(22)
Rental Income	0
Fines and Forfeitures	39
Other Miscellaneous	4
Total Miscellaneous	**($45)**

[6] Excludes School Tax Assessment Relief (STAR) aid.

Partially offsetting these decreases is fine revenue increasing by $39 million. These revenues are collected through courts and administrative tribunals related to violations issued under the Administrative Code, State Vehicle and Traffic Law, and other laws. Additionally, other miscellaneous revenue increases slightly by $4 million, which is composed of a variety of revenues not otherwise classified in the city's accounts. The primary items are the sale of city assets, cash recoveries from litigation and audits, E-911 telephone surcharges, revenue from Police Department Property Clerk auctions, refunds of prior year expenditures, the sale of the City Record and other publications, and subpoena fees.

Revenue Growth over the Financial Plan FYs 2023-26

The June modification projects total-funded revenue between FYs 2023-26 to grow from $101.124 billion to $102.761 billion, an increase of $1.637 billion, or 1.6 percent, as shown in Table 4. Over the four years, average annual growth is 0.5 percent. Between FYs 2023 and 2026, the primary source of growth is nonproperty taxes at 8.5 percent in contrast to the lower growth of property tax collections at 2.3 percent. The modification shows tax audit revenue remains unchanged and miscellaneous revenue decreases by 0.3 percent. Federal aid is projected to decline by 24.9 percent reflecting an end to federal stimulus but is partially offset by an increase in state aid of 2.6 percent.

PROJECTED TOTAL-FUNDED REVENUE GROWTH FYs 2023-26

TABLE 4 Total Funds (yr./yr. percent change, $ in millions)

	FYs 2023-24	FYs 2024-25	FYs 2025-26	FYs 2023-26	Level in FY 2023	Level in FY 2026	Avg Yr. Growth
General Property Tax	1.9%	0.4%	0.0%	2.3%	$31,421	$32,156	0.8%
Nonproperty Tax	0.1%	4.4%	3.9%	8.5%	35,607	38,640	2.8%
Tax Audit Revenue	0.0%	0.0%	0.0%	0.0%	721	721	0.0%
Subtotal Taxes	**0.9%**	**2.5%**	**2.1%**	**5.6%**	**$67,749**	**$71,517**	**1.8%**
Miscellaneous	(0.4%)	0.3%	0.4%	(0.3%)	5,322	5,339	0.1%
Restricted Int Gov Aid	--	--	--	--	252	--	--
Total City Funds	**0.5%**	**2.3%**	**1.9%**	**4.8%**	**$73,323**	**$76,856**	**1.6%**
Federal	(6.5%)	(8.3%)	(12.4%)	(24.9%)	9,284	6,974	(9.1%)
State	0.8%	1.4%	0.3%	2.6%	16,752	17,188	0.9%
Other Categorical	(1.3%)	(0.1%)	(0.3%)	(1.7%)	1,029	1,012	(0.6%)
Interfund Agreements	(0.5%)	(0.1%)	0.0%	(0.7%)	736	731	(0.2%)
Total Revenue	**(0.1%)**	**1.2%**	**0.5%**	**1.6%**	**$101,124**	**$102,761**	**0.5%**

Property Taxes

In the June modification, property tax projections rise by $77 million, $179 million, $180 million, and $182 million in FYs 2023-26, respectively. As presented in Table 4, property tax revenue is expected to grow from $31.421 billion in FY 2023 to $32.156 billion in FY 2026, an increase of $735 million, or 2.3 percent.[7] Average annual growth is just 0.8 percent over the financial plan period. Annual property tax growth drops to 1.9 percent

[7] Unless otherwise indicated, property tax includes STAR aid.

between FYs 2023 and 2024, slows to 0.4 percent over FYs 2024-25, and is projected to remain essentially flat between FYs 2025-26.

Although overall market and billable assessed values increased in all property classes in the final FY 2022/23 assessment roll compared to last year, property tax revenue growth is ebbing in the financial plan in part reflecting the city's projection of a prolonged recovery for both Class 2 and Class 4 properties.[8] Commercial real estate properties categorized as Class 4 still have not returned to levels beyond those in FY 2021. Office buildings, stores and hotels, which makeup approximately two-thirds of the Class 4 properties, account for 78 percent of the market value loss when compared to values in FY 2021. However, the final roll does not appear to fully reflect the current economic trends.

Hotel valuations may start to rise as tourism increases in the city since COVID-19 testing is no longer required for international travelers to the U.S. However, office buildings and retail stores may have a slower rebound as workers are settling into a hybrid or remote working schedules resulting in fewer commuters into the city. In addition, most of the increase in commercial leasing has favored premium over less-desired properties. Based on current collections and historical trends, the city's property tax forecast may be exceeded by $100 million in FY 2024, $150 million in FY 2025, and $200 million in FY 2026, as shown in Table 3 on page 5.

Nonproperty Taxes

Nonproperty taxes lead all other revenue categories in growth at 8.5 percent between FYs 2023 and 2026, for average annual growth of 2.8 percent, as displayed in Table 4 on page 11. After projected declines in FY 2023, real property transfer and mortgage recording taxes are expected to grow the fastest with projected growth of 21 percent and 16.3 percent, respectively, over the financial plan period. Much of that higher revenue is due to hearty residential housing activity.

Personal income taxes (PIT) are projected to grow from $15.284 billion in FY 2023 to $15.869 billion in FY 2026, an increase of $585 billion, or 3.8 percent, with average annual growth of 1.3 percent. The June modification projects that PIT will decrease between FYs 2023 and 2024 by 2.9 percent but will rebound in FYs 2024-26 growing by 4.2 percent between FYs 2024 and 2025, and by 2.6 percent between FYs 2025 and 2026. The city includes in its PIT forecast the impact of the Pass-Through Entity Tax (PTET), which is expected to alter some taxpayer behavior. The state authorized this optional tax that partnerships and S-Corporations in the city may elect to pay. The PTET is expected to help taxpayers save on federal taxes considering the federal cap on state and local tax

[8] State law requires that the Department of Finance assign every property to one of four tax classes. Class 1 consists of one-, two- and three-family residential properties and small condominiums. Class 2 comprises all other residential properties, including cooperatives, condominiums, and multi-family rentals. Class 3 represents utility real properties. Class 4 consists of all other real properties, such as office buildings, factories, stores, and vacant lands.

(SALT) deductions.[9] While this new tax is expected to be revenue neutral for the city, as taxpayers opt into the PTET, it is anticipated that they will reduce their quarterly PIT installment payments by an equivalent amount. The PTET implementation is projected to trigger a downward shift in the overall level of estimated payments as long as the SALT remains in effect.

Beyond PIT, the city expects sales and use tax revenue to increase by 15.7 percent between FYs 2023 and 2026, an average annual growth of five percent. The upbeat forecast over the plan period reflects overall healthy consumer spending and a return of tourism to prepandemic levels. Also forecasted to expand over FYs 2023-26 are the unincorporated business and general corporation taxes at 13.1 percent and 4.1 percent, respectively. However, the city anticipates these business tax collections will fall off between FYs 2022-23 mostly due to a drop in Wall Street profits. The growth in the outyears of the financial plan for FYs 2023-26 reflects a quick recovery in these tax revenues. The June modification projects that the general corporation tax will decrease between FYs 2023 and 2024 by 5.4 percent but will rebound in FYs 2024-26 growing by 3.5 percent between FYs 2024 and 2025, and by 6.3 percent between FYs 2025 and 2026. Based on current collections and economic trends, the city's nonproperty tax forecast could be exceeded by $200 million in FY 2023, $250 million in each of FYs 2024 and 2025, and $300 million in FY 2026, as presented in Table 3 on page 5.

Miscellaneous Revenues

The June modification assumes miscellaneous revenue remains relatively flat over the plan period with a modest decline of $17 million from $5.322 billion in FY 2023 to $5.339 billion in FY 2026, or 0.3 percent. As shown in Table 4 on page 11, the decline in miscellaneous revenue over FYs 2023-26 is driven by a 0.4 percent drop between FYs 2023 and 2024. In addition, the plan reflects $252 million of unrestricted aid in FY 2023 from Federal Emergency Management Agency (FEMA) reimbursements for FYs 2020 and 2021 FEMA eligible expenditures that were paid with city funds.[10]

Federal, state, and other categorical aid

The June modification presumes a precipitous fall in federal funding over FYs 2023-26 of $2.31 billion, or 24.9 percent. The change reflects the decrease in pandemic relief funds expected to be received. In contrast, state aid is expected to increase by $436 million, or 2.6 percent, over the same period.

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[9] The state and local tax (SALT) deduction permits taxpayers who itemize when filing federal taxes to deduct certain taxes paid to state and local governments, such as property taxes plus state income or sales taxes, but not both.

[10] In total, $750 million of FEMA eligible expenditures in FYs 2020 and 2021 were paid for with city funds. The city is recognizing $498 million of FEMA reimbursement as unrestricted aid in FY 2022 and the remaining $252 million in FY 2023.

EXPENDITURE FORECAST

Between the April and June modifications, total-funded expenditures in FY 2022 are expected to grow from $108.969 billion to $111.56 billion, a net increase of $2.591 billion, as shown in the figure to the right. The net growth encompasses a $2.82 billion rise in city spending partially reduced by a total of $229 million of lower federal, state, and other-funded expenses.

April to June Modification Expenditure Changes FY 2022 Total Funds ($ in millions)	
April Modification	**$108,969**
City Funds	$2,820
Federal, State & Other Funds	(229)
Net Total-Funded Increase	$2,591
June Modification	**$111,560**

City-Funded Expenditure Changes April to June Modification for FY 2022

The June modification assumes a net increase in city-funded expenses of $2.82 billion in FY 2022, bringing costs to $74.34 billion compared to $71.52 billion in the April modification, as shown in the figure to the right. The growth in city-funded outlays includes $842 million of additional surplus funds, $750 million deposits to each of the rainy day fund and Retiree Health Benefits Trust (RHBT), $290 million of agency new needs, a $200 million adjustment to the prior-year payables, and $181 million of supplemental funding to the labor reserve. Reducing higher spending are $135 million of agency savings, a $30 million takedown of the general reserve, and $28 million of debt service savings.

April to June Modification Expenditure Changes FY 2022 City Funds ($ in millions)	
April Modification	**$71,520**
Surplus Funds	$842
Rainy Day Fund	750
RHBT	750
Agencies	290
Prior-Year Payables Adjustment	200
Labor Reserve	181
Savings	(135)
General Reserve	(30)
Debt Service	(28)
Net City-Funded Increase	**$2,820**
June Modification	**$74,340**

The June modification assumes additional surplus funds of $842 million in FY 2022, which boosts the surplus to $6.114 billion. The modification also allots $750 million to each of the rainy day fund and the RHBT. The rainy day fund, known as the Revenue Stabilization Fund, was authorized by changes in state law and the city charter making available about $500 million in resources that could not be used to balance the city's budget previously. Following the authorization, the city budgeted a $500 million deposit to the fund in FY 2022, raising it to $1 billion. In the April modification, the city budgeted another $200 million deposit to the fund. With the additional allocation of $750 million in the June modification, the fund is now estimated to have a balance of $1.95 billion at the end of FY 2022.

The city also adds $750 million to the RHBT to partially replace funds withdrawn in FY 2020. Due to the economic impact of the COVID-19 pandemic on the city's finances, the city had drawn $1 billion of funds from the RHBT in FY 2020 and scheduled an additional $1.6 billion drawdown in FY 2021. The receipt of federal pandemic aid allowed the city to reverse the scheduled $1.6 billion withdrawal in FY 2021. The $750 million funding in the June modification replaces three-quarters of the remaining $1 billion drawn in FY 2020. As of June 30, 2021, the RHBT balance was $4.2 billion, of which $425 million is earmarked for FY 2022 pay-as-you-go retiree health benefits. Net of the RHBT, the Other Postemployment Benefits (OPEB) liability stood at almost $118 billion and is expected to grow further keeping it severely underfunded. It has been our view, since the OPEB liability was recognized and subsequently the RHBT created, the city should maintain the budget practice of making annual contributions to the trust to reduce the growing OPEB liability and refrain from using the trust as a rainy day fund. We urge the city to fully replenish the RHBT to its prepandemic funding level and to make regular annual contributions to help offset the growing OPEB liability.

Elevated spending is also attributable to agency new needs, adjustment to prior-year payables, and supplementary labor reserves. Increased spending in agencies adds $290 million to FY 2022 city-funded expenses to support, among other items, higher overtime expenditures in the four uniformed service departments that are projected to increase by $151 million over the April modification for uniformed personnel (excluding civilian) in FY 2022.

The city had assumed a reduction in prior-year payables of $400 million in the February modification. This adjustment is recognized as a savings of $400 million in FY 2022. The June modification revises the reduction in prior-year payables to $200 million, reducing the previously assumed $400 million savings to $200 million.

Also, to partially restore funding to the labor reserve removed at the height of the pandemic, in the April modification, the city allocated the cost of 0.5 percent wage increases for the first and second years in the next round of collective bargaining totaling $1.662 billion over FYs 2022-26. In the June modification, the city increases funding further by $2.959 billion over the financial plan earmarking $181 million in FY 2022, $371 million in FY 2023, $602 million in FY 2024, $809 million in FY 2025, and $996 million in FY 2026 to fund the additional cost of an assumed annual wage increase to 1.25 percent in the new round of collective bargaining. Funding in the labor reserve in April assumed a 0.5 percent increase in each of the first two years of the new round of collective bargaining and one percent each year thereafter. In total, the city has funded the labor reserve by $4.621 billion, which is now higher than the prepandemic funding level.

Reductions that partly offset higher city-funded spending in FY 2022 total $193 million consisting of $135 million of agency savings, a $30 million drawdown of the general reserve, and $28 million of lower debt service costs.

Surplus Funds in FY 2022

Since the June 2021 financial plan, the city has built a $6.114 billion surplus that is $7 million higher than FY 2021 and used to prepay debt service and retiree healthcare expenses in FY 2023. As shown in the figure to the right, the city's ability to build a substantial surplus in FY 2022 is the result of higher-than-expected city-funded revenue of $7.016 billion that comes primarily from tax collections. The main contributor to the improved tax projection is personal income tax (PIT) that is $2.725 billion higher than anticipated in FY 2022. In addition to PIT, general corporation taxes are larger by $1.022 billion since budget adoption and an upside in sales, real property, and mortgage recording taxes combined account for $1.948 billion of added revenues.

Changes Since June 2021 City Funds ($ in millions)	
Revenues	
Tax	$6,301
Nontax	54
Other	661
Total Increase	**$7,016**
Expenditures Inc/(Dec)	
Agencies	$1,539
Rainy Day Fund	950
RHBT	750
Labor Reserve	300
Savings/PEG	(1,434)
Debt Service	(355)
Pensions	(309)
General Reserve	(280)
Prior-Year Payables	(200)
Federal Funding Swap	(60)
Total Net Increase	**$901**
FY 2022 Surplus	**$6,114**
Numbers may not add due to rounding.	

On the expenditure side, the net increase in city-funded spending of $901 million reduces higher revenue collection in FY 2022, as shown in the figure to the right. Expenses are augmented by higher agencies spending of $1.539 billion and funding to the rainy day fund, RHBT, and labor reserve summing to $2 billion. Partially offsetting the increased spending are agency, debt service, and pension savings totaling $2.098 billion and the drawdown of the general reserve and prior-year payables amount to $480 million. In addition, a swap of city-funded expenditures to federal funds saves $60 million.

Federal, State and Other-Funded Expenditure Changes April to June Modification for FY 2022

The June modification contains a net decrease in federal, state, and other-funded expenses of $229 million. The modification assumes that federal and state funds increase by $12 million and $21 million, respectively, compared to the April modification. These increases are fully offset by a decrease in other-funded expenses of $262 million.

The FYs 2023-26 Financial Plan April to June Modification

In its April modification, the city projected total-funded expenditures would grow from $99.653 billion in FY 2023 to $106.087 billion in FY 2026, or by $6.434 billion. The June modification assumes expenditures over the same period grow from $101.124 billion to $106.741 billion, or by $5.617 billion, net of a cumulative decrease in federal, state, and other-funded expenses, as shown in Table 5 on page 17.

TABLE 5

APRIL TO JUNE MODIFICATION EXPENDITURE CHANGES FYs 2023-26

Total Funds ($ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026
April Modification	**$99,653**	**$104,493**	**$105,208**	**$106,087**
City Funds	$1,547	$720	$736	$655
Federal, State, & Other Funds	(76)	(1)	(1)	(1)
Total Expense Increase	**$1,471**	**$719**	**$735**	**$654**
June Modification	**$101,124**	**$105,212**	**$105,943**	**$106,741**

City-Funded Expenditure Changes April to June Modification FYs 2023-26

City-funded expenditures, as shown in Table 6, are projected to increase between the April and June modifications by $1.547 billion in FY 2023, $720 million in FY 2024, $736 million in FY 2025, and $655 million in FY 2026.

TABLE 6

APRIL TO JUNE MODIFICATION CHANGES FYs 2023-26

City Funds ($ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026
April Modification	**$71,776**	**$77,178**	**$78,370**	**$80,181**
Agencies	$1,369	$305	$131	$129
Council Initiatives	536	--	--	--
Labor Reserve	371	602	809	996
General Reserve	500	200	200	200
Pensions	(251)	(345)	(362)	(628)
Savings	(74)	(9)	(9)	(9)
Debt Service	(63)	(33)	(33)	(33)
FY 2022 Prepayment	(842)	--	--	--
Net City-Funded Increase	**$1,547**	**$720**	**$736**	**$655**
June Modification	**$73,323**	**$77,898**	**$79,106**	**$80,836**

Numbers may not add due to rounding.

As shown in Table 6, agency expenses are expected to grow in FY 2023 by $1.369 billion but by much smaller amounts in each of FYs 2024-26 at $305 million, $131 million, and $129 million, respectively. The higher outlays, mainly in FY 2023, support various programs, initiatives, and outreach services, and cover elevated citywide departmental costs. Included are supplementary costs for the August primary and poll workers, and funding for multiple programs in the Department of Education (DOE) and services in the Administration for Children's Services and the Departments of Social and Homeless Services, Aging, Youth and Community Development, and Health and Mental Hygiene.

Added to agency expenses in FY 2023 are City Council initiatives totaling $536 million, and in FYs 2023-26 additional monies ranging from $371 million to $996 million are allocated to the labor reserve. The city increases the general reserve by $500 million in FY 2023 and by $200 million in each of FYs 2024-26. The higher spending is partially offset by pension, agency, and debt service savings ranging from $387 million in FY 2023 to $670 million in FY 2026, in addition to the prepayment of debt service and retiree healthcare expenses of $842 million in FY 2023.

City Council Initiatives

The June modification includes funding for City Council initiatives totaling $536 million. The discretionary funding targets new initiatives and increases support for programs in key areas such as community safety and victim services, substance abuse prevention, affordable housing and foreclosure prevention, criminal justice, senior services, and community development. Each year, City Council members allocate discretionary funds to not-for-profit organizations and designate funding directly to city agencies to meet local needs and fill gaps in city services.

City Council Initiatives for FY 2023 ($ in millions)	
Community and Development	$209
Citywide Services	147
Education	67
Cultural Organizations	50
Health Services	50
Youth and Aging	13
Total Initiatives	**$536**

As shown in the figure to the right, about two-fifths, or $209 million, of funding is allocated to Community and Development, which includes small business development, food, environmental and young women's initiatives, public safety, antipoverty, and local programs. Citywide Services, totaling $147 million, target funding for senior, criminal justice, immigrant youth, domestic violence, legal, parks and recreation, veteran, and homeless services.

Education, at $67 million, combines DOE and the City University of New York (CUNY) providing support for students' social and emotional needs, educational programs, crisis management, community schools, and college and career readiness in the DOE. In CUNY, the bulk of City Council funding, $16.4 million, is to support the Peter F. Vallone Academic Scholarship.[11] Lastly, Cultural Organizations and Health Services are allotted about $50 million each, and Youth and Aging agencies receive $13 million in total.

[11] The Peter F. Vallone Academic Scholarship (formally known as the New York City Council Merit Scholarship) rewards city high school graduates who have proven their ability to succeed academically while they were in high school.

City and Total-Funded Expenditure Changes Between FYs 2022 and 2023

The June modification projects city-funded expenditures, net of prepayments, to decrease by $1.018 billion between FYs 2022 and 2023, as shown in the figure to the right. City-funded expenses increase by a net $5.104 billion before $6.122 billion in net prepayments are applied. The modification assumes spending increases in all Service Agencies. The modification projects higher year-to-year spending in miscellaneous and debt service expenses and a decrease in pension expense.[12] Reserves drop by $215 million net of deposits of $1.45 billion to the rainy day fund and $750 million to the RHBT.

Expenditure Changes between FYs 2022 and 2023
City, Federal, State, & Other Funds ($ in millions)

	FY 2022	FY 2023	Change
Service Agencies	**$45,342**	**$48,994**	**$3,652**
Uniformed	9,442	10,225	782
Health and Welfare	12,364	12,914	550
Mayoral	7,436	8,418	981
Covered Organizations	15,285	16,547	1,262
Elected Officials	813	891	77
Other Expenditures	**$26,972**	**$28,638**	**$1,666**
Miscellaneous	10,902	11,797	895
Debt Service	6,487	7,572	1,085
Pensions	9,583	9,269	(313)
Reserves and Savings	**$2,020**	**$1,805**	**($215)**
Prior-Year Payables	(200)	--	200
General Reserve	20	1,555	1,535
Capital Stabilization	--	250	250
Rainy Day Fund	1,450	--	(1,450)
RHBT	750	--	(750)
Subtotal	**$74,333**	**$79,437**	**$5,104**
Prepayment Adjustment	7	(6,114)	(6,122)
Total City Funds	**$74,340**	**$73,323**	**($1,018)**
Federal Funds	$19,140	$9,285	($9,856)
State Funds	16,482	16,752	270
Other Funds	1,597	1,765	168
Total Fed, State & Other	**$37,219**	**$27,801**	**($9,418)**
Total Expenditures	**$111,560**	**$101,124**	**($10,436)**

Debt service and Miscellaneous are net of prepayments.
Miscellaneous is adjusted for payments to the Rainy Day Fund and RHBT.
Numbers may not add due to rounding.

Total-funded expenditures in FY 2023 are projected at $101.124 billion, which is $10.436 billion lower than FY 2022 expenditures of $111.56 billion. As shown in the figure, expenditures are driven down by lower federal aid, which falls by $9.856 billion but is partially offset by higher state aid and other funds of $270 million and $168 million, respectively.

Projected Growth in Total-Funded Expenditures for FYs 2023-26

Total-funded expenditures, net of $6.114 billion in prepaid debt service and retiree healthcare expenses in FY 2023, are expected to increase from $101.124 billion in FY 2023 to $106.741 billion in FY 2026, representing growth of $5.617 billion, or 5.6 percent, as shown in Table 7 on page 20. Average annual growth over the four-year period is 1.8 percent. Before adjusting for prepayments, FY 2023 total-funded expenditures are $107.238 billion, resulting in negative growth of 0.5 percent between FYs 2023 and 2026.

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[12] Between FYs 2022 and 2023, the $1.1 billion growth in debt service is a manifestation of the high amount of debt that has been and is expected to be issued to support the city's capital program, as well as the application of conservative assumptions in projecting the costs of both fixed and variable rate financing. In FY 2023, the city and NYCTFA are projected to issue a combined total of $9.1 billion in tax-supported bonds to fund capital projects.

PROJECTED TOTAL-FUNDED EXPENDITURE GROWTH FYs 2023-26

TABLE 7 Total Funds (yr./yr. percent change, $ in millions)

	FYs 2023-24	FYs 2024-25	FYs 2025-26	FYs 2023-26	Level in FY 2023	Level in FY 2026	Avg Yr. Growth
Personal Service	**1.3%**	**1.0%**	**0.8%**	**3.2%**	**$53,722**	**$55,420**	**1.0%**
Salaries and Wages	1.0%	1.5%	1.8%	4.4%	31,668	33,050	1.4%
Pensions	(7.6%)	(10.2%)	(11.3%)	(26.4%)	9,414	6,933	(9.7%)
Fringe Benefits	8.8%	7.0%	4.9%	22.1%	12,640	15,437	6.9%
Other Than Personal	**(6.0%)**	**(0.8%)**	**(1.0%)**	**(7.6%)**	**$45,932**	**$42,427**	**(2.6%)**
Medical Assistance	(2.7%)	0.0%	0.0%	(2.7%)	6,564	6,385	(0.9%)
Public Assistance	0.0%	0.0%	0.0%	0.0%	1,650	1,650	0.0%
Other OTPS	(6.8%)	(1.0%)	(1.2%)	(8.8%)	37,718	34,392	(3.0%)
Debt Service	**4.3%**	**6.3%**	**9.0%**	**20.9%**	**$7,753**	**$9,374**	**6.5%**
Reserves	**--**	**--**	**--**	**--**	**$1,805**	**$1,450**	--
General	--	--	--	--	1,555	1,200	--
Capital Stabilization	--	--	--	--	250	250	--
Other							
Intracity Expenses	--	--	--	--	(1,974)	(1,929)	--
Subtotal	**(1.9%)**	**0.7%**	**0.8%**	**(0.5%)**	**$107,238**	**$106,741**	**(0.2%)**
Prepayment Adjustment	--	--	--	--	(6,114)	--	--
Total Net of Prepayment	**4.0%**	**0.7%**	**0.8%**	**5.6%**	**$101,124**	**$106,741**	**1.8%**

Debt service in FY 2023 is net of prepayments.
Prepayment Adjustment is the prepayment of FY 2023 debt service and retiree healthcare expenses using FY 2022 surplus funds.
Numbers may not add due to rounding.

The growth in total-funded expenditures, net of prepayments, is a result of higher spending for Salaries and Wages, Fringe Benefits, and Debt Service. Partially offsetting the higher spending are lower Pensions, Medical Assistance, and Other Than Personal Service costs. Fringe Benefits, net of $792 million in prepaid retiree healthcare costs, are expected to rise by 22.1 percent over FYs 2023-26, increasing by $2.797 billion from $12.64 billion to $15.437 billion, as shown in Table 7. The average annual growth rate for this budget item is 6.9 percent over the plan period. Included in Fringe Benefits expenses are Social Security taxes (also known as FICA), unemployment insurance, supplemental welfare benefits, workers' compensation, and health insurance. The higher Fringe Benefits costs reflect the projected increase in healthcare premiums.

The other major area of growth is Debt Service, which is expected to increase by 20.9 percent over FYs 2023-26, as shown in Table 7. The June modification indicates the cost will grow by $1.621 billion, rising from $7.753 billion to $9.374 billion, excluding prepaid Debt Service expenses of $5.322 billion in FY 2023. For a more detailed discussion of debt service costs, see "The Capital Plan and Associated Debt Financing" beginning on page 25.

Projected Growth in City-Funded Expenditures for FYs 2023-26

The June modification projects total city-funded expenditures, net of prepaid expenses, to grow by 10.2 percent, or $7.513 billion, between FYs 2023 and 2026, increasing from $73.323 billion to $80.836 billion, as shown in Table 8 on page 21. The expected average annual growth rate over the plan period is 3.3 percent. Before adjusting for prepaid debt service and retiree healthcare expenses of $5.322 billion and $792 million, respectively, FY 2023 city-funded expenditures are $79.437 billion, or $1.399 billion lower than FY 2026.

PROJECTED CITY-FUNDED EXPENDITURE GROWTH FYs 2023-26

TABLE 8 City Funds (yr./yr. percent change, $ in millions)

	FYs 2023-24	FYs 2024-25	FYs 2025-26	FYs 2023-26	Level in FY 2023	Level in FY 2026	Avg Yr. Growth
Service Agencies	**(3.9%)**	**1.6%**	**1.2%**	**(1.2%)**	**$48,994**	**$48,399**	**(0.4%)**
Uniformed	(0.9%)	0.0%	(0.1%)	(0.9%)	10,225	10,129	(0.3%)
Health and Welfare	(7.8%)	(0.2%)	0.2%	(7.7%)	12,914	11,914	(2.7%)
Mayoral	(9.7%)	(0.2%)	(0.6%)	(10.4%)	8,418	7,540	(3.6%)
Covered Organizations	0.5%	4.7%	3.4%	8.7%	16,547	17,991	2.8%
Elected Officials	(7.3%)	0.0%	0.0%	(7.4%)	891	825	(2.5%)
Other Expenditures	**2.5%**	**1.6%**	**3.9%**	**8.2%**	**$28,638**	**$30,987**	**2.7%**
Miscellaneous	9.1%	6.6%	9.2%	27.0%	11,797	14,978	8.3%
Debt Service	4.6%	6.5%	9.3%	21.8%	7,572	9,221	6.8%
Pensions	(7.7%)	(10.4%)	(11.5%)	(26.8%)	9,269	6,789	(9.9%)
Reserves	--	--	--	--	**$1,805**	**$1,450**	--
General Reserve	--	--	--	--	1,555	1,200	--
Capital Stabilization	--	--	--	--	250	250	--
Subtotal	**(1.9%)**	**1.6%**	**2.2%**	**1.8%**	**$79,437**	**$80,836**	**0.6%**
Prepayment Adjustment	--	--	--	--	(6,114)	--	--
Total Net of Prepayment	**6.2%**	**1.6%**	**2.2%**	**10.2%**	**$73,323**	**$80,836**	**3.3%**

Miscellaneous is adjusted for capital stabilization, energy, leases, inflation estimates, and savings initiatives.
Debt service is net of prepayments. Prepayment Adjustment is net surplus roll between FYs 2022 and 2023.
Numbers may not add due to rounding.

As shown in Table 8, Service Agencies decline by 1.2 percent over FYs 2023-26. Of the five budget categories in Service Agencies, all are decreasing apart from Covered Organizations, which is projecting growth of 8.7 percent. Covered Organizations encompass the DOE, CUNY, and Health + Hospitals. Total city-fund growth in Covered Organizations is expected to be $1.444 billion rising from $16.547 billion in FY 2023 to $17.991 billion in FY 2026. While expenditures in CUNY and Health + Hospitals fall over the plan period by $23 million and $207 million, respectively, spending in the DOE is projected to rise by $1.674 billion.

In the Other Expenditures budget area, which includes Miscellaneous, Debt Service and Pension costs, projected growth is 8.2 percent over FYs 2023-26. The increase is driven by higher Miscellaneous and Debt Service costs of 27 percent and 21.8 percent, respectively, partially offset by pension savings. The higher miscellaneous spending is due to the year-to-year increase in health insurance premiums and additional funding of the labor reserve, rainy day fund, and judgment and claims.

Education

The June modification shows city-funded spending for the DOE will rise by $1.674 billion between FYs 2023 and 2026, from $14.52 billion to $16.194 billion, representing growth of approximately 11.53 percent. In total funds, DOE expenditures are expected to rise by $267 million from $31.032 billion to $31.299 billion, or just 0.86 percent. Much of the increase in city-funded expenditures is due to higher fringe benefits driven by rising healthcare costs.

The financial plan assumes federal aid will fall by $1.815 billion, declining from $3.851 billion in FY 2023 to $2.036 billion in FY 2026, a drop of 47 percent. Much of the decrease occurs in FY 2026 reflecting the cessation of federal COVID-19 stimulus. The waning of federal monies presents risks to the city that it has yet to address in respect to funding of several core instructional programs, chief among which is the underfunding of the 3K expansion. State aid increases from $12.488 billion in FY 2023 to $12.895 billion in FY 2026, a rise of a net $408 million. Much of the growth in state aid is augmented by foundation aid that expands from $8.894 billion to $9.337 billion, an increase of $443 million over FYs 2023-26.[13]

The end of federal pandemic relief also affects school budgets. The aid has helped to support schools that would have otherwise experienced budget cuts due to falling enrollment. School budgets are partly based on student registration, which has declined in recent years. Many families have either moved out of the city to suburban areas or out of state, while others enrolled children into charter and private schools, or turned to home schooling. The financial plan includes $375 million in annual budget savings, beginning in FY 2023, to compensate for lower student registration. The city has allocated federal stimulus funds to partially offset the impact of these budget cuts in school years 2023 and 2024 mitigating the planned reductions by $160 million and $80 million, respectively, with full savings implemented by 2025. The City Council released a letter on July 12, 2022, addressing the monetary impact to school budgets, urging the Mayor to use federal relief funds to fully offset the planned budget cuts.

On July 27, 2022, parents and teachers filed a lawsuit with the Supreme Court of the State of New York against the city, DOE and Schools Chancellor claiming the city violated state law when it approved the FY 2023 education budget, which implemented the planned spending reductions. The lawsuit claimed the emergency declaration for the immediate adoption of the education budget put forth by the Schools Chancellor on May 31, 2022 was not a valid exercise of the Chancellor's powers. On August 5, 2022, the Supreme Court granted an injunction finding that the city council's vote on the FY 2023 budget should have occurred after the Panel for Education Policy held its own vote on the budget.[14] The court ordered the DOE's spending levels to revert to the levels in the FY 2022 budget until the City Council and Mayor amend the FY 2023 budget to comply with this order to restore the spending cuts. In the appellate court, the city appealed the ruling claiming the decision would cause chaos for principals and other administrators who are currently planning for the coming school year. On August 9, 2022, the appeal temporarily blocked the lower court's ruling that invalidated the budget process, allowing the city to move forward with its current budget. Under an expedited briefing schedule approved

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[13] Foundation aid is the largest portion of unrestricted state aid that public school districts receive, which considers school district wealth and student needs to create an equitable distribution of funding to schools.

[14] The Panel for Educational Policy is the governing body of the DOE responsible for decisions affecting the education system, voting on the Chancellor's proposed education policies, including school co-locations and closings, DOE contracts over $1 million, Gifted and Talented programs, and the citywide school budget.

by the court, there will be a hearing on August 29, 2022. At this time, the exact impact to the budget is uncertain.

Uniformed Services Overtime

Uniformed Services (Police, Fire, Correction and Sanitation Departments) expenditures are expected to collectively decrease by 0.9 percent over FYs 2023-26, as shown in Table 8 on page 21. The four agencies are budgeted to spend a combined $10.225 billion in FY 2023 dropping to $10.129 billion in FY 2026, a modest decline of $96 million. The June modification assumes overtime spending for uniformed personnel, excluding civilians, of $898 million in FY 2023 decreasing slightly to $848 million in FY 2024 and to $846 million in each of FYs 2025 and 2026.

In FY 2022, the city anticipates much higher overtime spending of $1.453 billion, an increase of $684 million, or 89 percent since the June 2021 adopted budget. Of the FY 2022 increase, the Police and Fire Departments together account for two-thirds of the higher spending. Both Departments have experienced higher-than-average absenteeism due to the pandemic, which has pushed up overtime costs to cover longer work hours. In addition, the Police Department has stepped up its response to a surge in violent crimes that has required longer hours among police officers.

Through May 2022, actual overtime expenditures for uniformed personnel totaled $1.366 billion, which is $428 million more compared to May 2021. Based on these actuals, we believe that the four agencies combined will log overtime of $1.49 billion by the end of FY 2022. Our risk assessment over the life of the plan, as shown in Table 3 on page 5, reflects $38 million in FY 2022, $593 million in FY 2023, $643 million in FY 2024, and $644 million in each of FYs 2025 and 2026.

Pensions

As shown in Table 8 on page 21, pension costs are expected to fall from $9.269 billion in FY 2023 to $6.789 billion in FY 2026, a decrease of $2.481 billion, or 26.8 percent. The average annual decline over FYs 2023-26 is almost 10 percent. The decrease is due to the strong returns the five actuarial pension funds earned in FY 2021 phased in over the life of the financial plan. For FY 2021, the system realized an aggregate return of 25.8 percent, which raised combined assets to $266.084 billion, an increase of $52.507 billion. As a result of current market returns, we estimate an aggregate negative return of approximately nine percent, equating to an unexpected actuarial loss of approximately 16 percent based on the seven percent required rate of return, or Actuarial Interest Rate (AIR).[15]

The pension systems' projected loss stems from one of the most punishing markets sell-offs in years with global stock indexes sliding to new lows for 2022. The market

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[15] The AIR is the required return on assets needed to fund future benefit payments earned by employees in the present.

stumble hit most economic sectors in the U.S. with technology stocks hit particularly hard. Markets have been shaken this year by many worries such as inflation that is threatening robust consumer spending and slowing economic growth. After growing at its fastest rate in decades, the national economy contracted in the first quarter of 2022. The Federal Reserve has begun to aggressively tighten monetary policy in response, which has increased the odds of a recession if rates are pushed up too quickly. Exacerbating these economic worries are persistent supply chain problems, spread of COVID-19, lockdown in China, and war in Ukraine.

If the systems' combined asset return falls short of the AIR, the city will need to fund the shortfall, which increases pension costs. An unexpected actuarial loss or gain is phased in over a five-year period at 20 percent, 40 percent, 60 percent, 80 percent, and 100 percent. For 2022 we estimate a loss of about $36 billion, which we project would increase pension costs by $887 million in FY 2024, $2.023 billion in FY 2025, and $3.096 billion in FY 2026.

State Legislation

The city will benefit from recently enacted legislation that aims to improve the safety and quality of life for many residents living in the five boroughs. Speed cameras are now authorized to operate 24 hours a day, seven days a week in citywide school zones as opposed to the previous permitted 6 am to 10 pm running time. The state has also authorized the creation of a trust in the New York City Housing Authority (NYCHA). The NYCHA Public Housing Preservation Trust will be able to tap into federal funds to address repairs and maintain affordable homes for city dwellers. The trust would reduce costs, speed up construction timelines and allow faster responses to resident requests. The governor has also signed a bill that allows the city to quickly approve underutilized hotels throughout the city to be converted into affordable housing. This legislation unlocks $200 million in state funding to support the conversion effort.

In education, the state extended mayoral control of city schools by two years and introduced legislation that would require the city to cap class sizes to no larger than 25 students by 2027.[16] The city presumes the reduction in class sizes is likely to be costly to meet the state requirement. Elsewhere, the 421-a tax abatement program was allowed to expire nixing a property tax break for developers who designate a portion of their new properties as affordable housing. This program was initially created to promote new construction during a period when the city was struggling back in 1971. Also, to provide some relief to high gas prices, the state suspended the gas and diesel fuel tax from June 2022 until December 2022 providing a reduction of at least $0.16 per gallon statewide.

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[16] Class sizes are currently capped at 25 students for kindergarten classes, 32 students for other elementary school classes, between 30 and 33 for middle school classes, and 34 students for high school classes. The average class size was around 24 students during the 2021-2022 school year. Since the release of the June modification, the Governor has signed into law the two-year extension of mayoral control of city schools.

THE CAPITAL PLAN AND ASSOCIATED DEBT FINANCING

The city's capital program funds projects for traditional infrastructure areas such as streets, highways, bridges, mass transit, and the water and sewer system; as well as facilities, equipment, vehicles and technology for the areas of education, housing, parks, corrections, hospitals, courts, police, fire, libraries, and economic development. In review of the funding sources for the capital plan, we analyze the targeted commitment levels, which are used to project the long-term borrowing amounts and debt service included in the financial plan.[17] Since the city does not release a revised capital plan at the time of the adopted budget in June, we look at the commitment levels released in the April executive budget. In the current five-year capital plan, the city has reduced the projected level of commitments compared to the preliminary plan. However, the portion of total commitments planned to be funded with tax-supported bonds in FYs 2022-26 has increased relative to the total undertaken in the last five years.

The city's operating budget reflects the impact of the capital program through the allocation for debt service costs related to tax-supported bonds sold by the city and New York City Transitional Finance Authority (NYCTFA). In our review, we analyze the decline in debt service expenses and tax revenue burden over the course of FY 2022. In addition, to evaluate the growing portion of tax-supported financing of the city's capital program, we did a comprehensive analysis of the debt profile in FYs 2023-26 using the framework of the annual Statement of Debt Affordability.

Five-Year Capital Plan

Based on the five-year capital plan released with the April modification, the city projects entering into $86 billion of targeted total-funded commitments over FYs 2022-26, of which $81.5 billion is city funded and $4.6 billion is funded with noncity resources, as displayed in Table 9 on page 26. The city-funded commitments include $69.5 billion of contracts to be supported with the proceeds from the sale of city general obligation (g.o.) bonds and future tax secured (FTS) bonds issued by the NYCTFA. Commitments totaling $12 billion will be funded by the Water Finance Authority (NYW) revenue bonds backed by water and sewer user fees to support Department of Environmental Protection (DEP) projects. The debt service on the NYW bonds is not a component of the city's operating budget.

As presented in Table 9 on page 26, the historically high targeted total-funded commitments are slated to grow from $12.8 billion in FY 2022 to peak at $19 billion in FY 2024 and then decrease to $17 billion in FY 2026. When compared to the sum of actual commitments undertaken in FYs 2017-21, at $54 billion, the five-year total in the current capital plan is higher by almost $33 billion, which is a substantial escalation. After

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[17] The level of targeted commitments, which is a subset of the larger authorized commitment levels, is the amount the city projects it can realistically accomplish. For a detailed discussion of individual agencies based on authorized levels, see "The Capital Program and Debt Service Costs" in FCB Staff Report April Modification FYs 2022-2026 released on May 27, 2022.

creating an equitable analysis by making an adjustment to the level of commitments in FYs 2020-21, which were limited by the impact of the pandemic, the increase in FYs 2022-26 would still be sizeable at approximately $23 billion.[18] While the average total-funded commitment amount for the prior five years is $10.7 billion, or $12.6 billion with levels adjusted due to the pandemic, the average level for the current plan years is much steeper at $17.2 billion.

TABLE 9

THE PERCENTAGE OF TAX-SECURED TARGETED COMMITMENTS INCREASES IN FYs 2022-26 CAPITAL PLAN

($ in billions)

Fiscal Year	Tax-Secured	NYW-Supported	Total City Funds	Noncity Funds	Total Funds
2022	$9.365	$2.290	$11.655	$1.150	$12.805
2023	15.071	2.390	17.461	1.265	18.726
2024	15.991	2.113	18.104	0.845	18.949
2025	15.429	2.424	17.853	0.724	18.577
2026	13.670	2.744	16.414	0.571	16.985
Total	**$69.526**	**$11.961**	**$81.487**	**$4.555**	**$86.042**
Percent Of Total	**81%**	**14%**	**95%**	**5%**	**100%**

Numbers may not add due to rounding.

In comparing the targeted commitment levels for the current capital plan with the prior five years of actual commitments, we can observe a shift of proportions in financing sources between city funds and noncity funds, with city-funded financing growing as a percentage of total commitments, while noncity-funding sources declined. In FYs 2017-21, the portions of actual commitments supported by city funds and noncity funds were 92 percent and eight percent, respectively. As depicted in Table 9, the current five-year capital plan is more heavily city funded as it projects 95 percent of commitments to be city funded while five percent of the total plan will be supported with noncity funds. Driving the proportional shift is the growth in tax-supported commitments secured by city and NYCTFA bonds. While in the past five fiscal years, the tax-supported portion was 75 percent of the total, the current plan projects that ratio to grow to 81 percent. The proportion of NYW-supported commitments projected in the current five-year capital plan is slated to decrease to 14 percent from 17 percent in FYs 2017-21. The noncity-

[18] To make the five-year comparison more impartial, we adjusted the actual amounts of commitments undertaken in FYs 2020-21 to account for the PAUSE restrictions through June 2020 and the city's choice to limit capital projects to ensure there were enough resources to deal with the immediate health emergency that continued through January 2021. We applied the growth rates the city achieved between FYs 2018-19 to estimate more realistic growth in capital commitments supported by each funding source in FYs 2020 and 2021 for a more balanced comparative analysis. For a detailed discussion based on the preliminary budget, see "Management of the Capital Program and Associated Debt" in FCB Staff Report February Modification FYs 2022-26 released on March 31, 2022.

funded commitments in FYs 2022-26 are projected to fall to only five percent of the total commitments, a decrease from eight percent in the prior five years.

Compared to the five-year plan released in February, the city made a $3.9 billion downward adjustment in targeted total-funded capital commitments in the April modification for FYs 2022-26 to a total of $86 billion, as shown in the figure to the right. The decline was almost entirely in city funds, while there was only a $34 million decrease to noncity funds. Of the city-funded portion, the decline was primarily in commitments supported by tax-secured city and NYCTFA financings, on which the debt service costs in the financial plan are based, by $3.1 billion. Commitments were also lowered for DEP projects funded with NYW revenue bonds by $746 million.

FYs 2022-26 Capital Plan Change from Feb. 2022 by Funding Source
($ in millions)

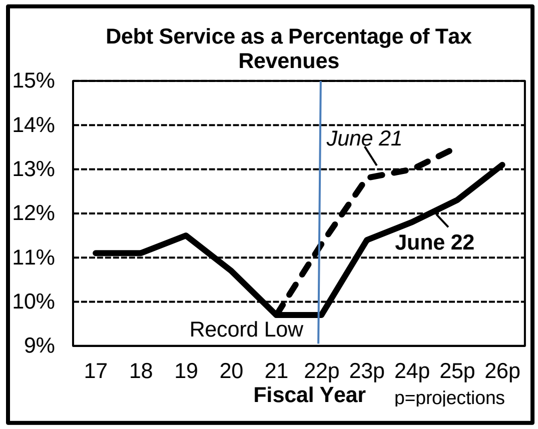
	Targeted Commitments	Change
Tax-Supported	$69,526	($3,124)
NYW-Supported	11,961	(746)
City-Funded	**$81,487**	**($3,870)**
Noncity-Supported	4,555	(34)
Total-Funded	**$86,042**	**($3,904)**

When compared to the February modification, total-funded commitments decrease in all fiscal years, apart from FY 2023. The largest decreases are in FYs 2022 and 2026, at $1.3 billion and $2.2 billion, respectively. In FYs 2022-26, the city and NYCTFA tax-secured commitments decline by a range of $280 million to $2 billion, with a $500 million jump in FY 2023. Even though tax-supported commitments in the five-year capital plan have been reduced, we are doubtful that the current amount of commitments will be attainable based on past achievement levels. We urge the city to undertake a critical review of its capital program and give more consideration to establishing a realistic capital plan that the city can practically undertake and manage.

Debt Service

Debt service cost in the operating budget is driven by the portion of the city's capital program that is financed with tax-supported debt. Of the $86 billion targeted capital commitments for FYs 2022-26, $69.5 billion are scheduled to be financed by g.o. bonds to be issued by the city and FTS bonds to be sold by the NYCTFA. In the June financial plan, total-funded debt service costs, net of prepayments, are forecasted to climb from $6.7 billion in FY 2022 to $9.4 billion in FY 2026, which translates to an average annual growth rate of 8.9 percent.

Although substantial, the debt service growth rate is projected to increase at a slower pace compared to the financial plan released a year ago in June 2021 when the average annual growth rate was slated to be 9.5 percent for the same period. In the current financial plan, debt service as a percentage of tax revenues, which is one of the major measures of debt affordability, is projected to be at a historic low level of 9.7 percent for FY 2022, then expected to show a steady increase to reach 13.1 percent in FY 2026, as illustrated in the figure to the right. At these levels, the debt service burden is projected to remain below the affordability threshold of 15 percent throughout FYs 2022-26 in the June 2022 financial plan.



The lower forecast of debt service expense as a percentage of tax revenues, compared to one year ago, is achieved by debt service savings as well as considerably higher tax revenues than assumed in the beginning of FY 2022.[19] It is the city's usual practice to use conservative assumptions to make debt service projections, which are then revised in subsequent modifications to identify savings from actual transactions. As shown in Table 10 on page 29, the reductions in G.O., Lease & NYCTFA Actual & Projected Debt Service represent the largest portion of savings over the plan years except for FY 2022. Since the June 2021 financial plan, the city reduced its projected financing schedule for tax-supported issuances for g.o. and NYCTFA FTS bonds by a total of $5.6 billion over FYs 2022-26, with most of the reduction planned in FYs 2022 and 2023 at $3.6 billion and $1.2 billion, respectively. The reduction in debt service costs, including projected debt service on new bond issuances as well as the actual terms of bond sales undertaken, is expected to be $155 million in FY 2022, $332 million in FY 2023, $453 million in FY 2024, $505 million in FY 2025, and $513 million in FY 2026.

The largest portion of savings in FY 2022 was recognized through Variable Rate Debt. In comparison to the June 2021 financial plan, the variable interest rate projection was reduced by 1.93 percentage points over the course of FY 2022, allowing the city to realize $179 million of variable rate savings in FY 2022. The smaller reductions of $47 million in FY 2023 and $13 million in each of FYs 2024-26 primarily reflect refinancing transactions.

[19] Compared to the June 2021 financial plan, tax revenue forecast in the current plan is higher by $6.2 billion in FY 2022, $2.3 billion in FY 2023, $823 million in FY 2024 and $638 million in FY 2025. There were no revenue estimates for FY 2026 provided in the June 2021 financial plan. For a further discussion of tax revenues, please refer to the "Economic and Revenue Outlook" section of this report, starting on page 7.

TOTAL-FUNDED DEBT SERVICE SAVINGS SINCE JUNE 2021

TABLE 10 ($ in millions)

	FY2022	FY2023	FY2024	FY2025	FY2026	Average Annual Growth
June 2021 Debt Service	***$7,029***	***$8,391***	***$8,789***	***$9,353***	***$10,109***	***9.5%***
G.O., Lease & NYCTFA Actual & Projected Debt Service	($155)	($332)	($453)	($505)	($513)	
Variable Rate Debt	(179)	(47)	(13)	(13)	(13)	
G.O. & NYCTFA Refundings	(38)	(239)	(238)	(238)	(72)	
Building Aid Excess Retention Offset	(1)	(19)	0	0	(63)	
Short Term Interest	0	0	0	0	(75)	
Debt Service Savings	**($372)**	**($638)**	**($704)**	**($756)**	**($735)**	
June 2022 Debt Service	**$6,657**	**$7,753**	**$8,086**	**$8,597**	**$9,374**	**8.9%**
Tax Revenues	$68,567	$67,749	$68,387	$70,073	$71,517	1.1%
Debt Service as a Percent of Tax Revenues	**9.7%**	**11.4%**	**11.8%**	**12.3%**	**13.1%**	

Numbers may not add due to rounding.

As presented in Table 10, the savings included in G.O. & NYCTFA Refundings were achieved from four refunding bond sales undertaken by the city and NYCTFA. In FY 2022, the city had one g.o. bond refunding sale totaling $955 million and NYCTFA held a total of three refunding bond sales that included $2.1 billion of FTS bonds and $813 million of Building Aid Revenue Bonds (BARBs). These refunding bond sales generated savings of $38 million in FY 2022, approximately $238 million in each of FYs 2023-25, and $72 million in FY 2026. The adjustments to the Building Aid Excess Retention Offset include reductions of $1 million and $19 million in FYs 2022 and 2023, respectively, and $63 million in FY 2026.[20] Furthermore, there was a technical adjustment in Short-Term Interest costs resulting in a $75 million reduction for FY 2026. The financial plan included a short-term note expense at the beginning of the fiscal year but this projection was removed in the November 2021 modification.

Debt Profile

For a comprehensive debt profile, we provide additional measures of the tax-supported debt resulting from the city's capital program. Specifically, we use the framework of the Statement of Debt Affordability covering the financial plan years for FYs 2023-26, which the city produces annually at the time of the executive budget.[21] The Statement of Debt Affordability presents the aggregate debt and debt service levels for all

[20] Adjustments to building aid excess retention offset are made to reflect NYCTFA sales of Building Aid Revenue Bonds for refunding and new money purposes, as well as the annual amount of building aid provided by the state for eligible city school construction projects. In our analysis presented in Table 10, we included the savings from the BARBs refunding sale in the G.O. and NYCTFA Refunding amounts, rather than in the Building Aid Excess Retention Offset.

[21] A Statement of Debt Affordability is required to be produced by the city and is released annually during the time of the city's April modification. The statement includes the city's capital and financing needs in relation to a number of affordability measurements for a financial plan period.

bonds backed by tax revenues sold to support the city's capital program, including city and NYCTFA, as well as city lease agreements. Table 11 displays measures used in the Statement of Debt Affordability with numbers from the June 2022 financial plan.

TABLE 11

DEBT AFFORDABILITY MEASURES

($ in millions, except per capita)

	FY 2023	FY 2024	FY 2025	FY 2026	Average Annual Growth
City & NYCTFA Debt Service	$7,753	$8,086	$8,597	$9,374	6.5%
Debt Service Per Capita	916	955	1,015	1,107	
Debt Service as Percentage of:					
Tax Revenues	11.4%	11.8%	12.3%	13.1%	
Total Revenues	7.7%	8.0%	8.4%	9.1%	
Local Personal Income	1.0%	1.0%	1.0%	1.1%	
City, NYCTFA & Conduit Outstanding Debt	$88,574	$94,444	$101,718	$109,089	7.2%
Outstanding Debt Per Capita	10,460	11,154	12,013	12,883	
Outstanding Debt as Percentage of:					
Local Personal Income	11.8%	12.0%	12.2%	12.5%	
Tax Revenues	$67,749	$68,387	$70,073	$71,517	1.8%
Total Revenue	101,124	101,002	102,229	102,761	0.5%
Local Personal Income	751,800	789,600	830,400	870,400	5.0%

Based on the June 2022 financial plan, the city projects that debt service will climb from $7.8 billion in FY 2023 to $9.4 billion in FY 2026. This reflects an average annual growth rate of 6.5 percent. Meanwhile, the city forecasts tax revenues, from which debt service is paid, will increase from $67.7 billion in FY 2023 to $71.5 billion in FY 2026, reflecting a significantly slower average annual growth rate of 1.8 percent, relative to debt service. Consequently, the share of tax revenues that debt service consumes is expected to climb from 11.4 percent in FY 2023 to 13.1 percent in FY 2026. As for a proportion of total revenue, debt service is projected to rise at thirteen times the average annual rate of 0.5 percent for total revenues growth over the plan years, and the share is estimated to grow from 7.7 percent in FY 2023 to 9.1 percent in FY 2026. Debt service is forecasted to consume a steady share of local personal income at around one percent through the plan years. Based on the assumption that the city's population size will hold steady at 8,467,513, per capita debt service is anticipated to increase from $916 in FY 2023 to $1,107 in FY 2026.

Resulting from financing the city's sizable tax-supported capital program, the combined city and NYCTFA outstanding debt is expected to climb from historically high point of $88.6 billion at the end of FY 2023 to $109.1 billion at the end of FY 2026, for an average annual growth rate of 7.2 percent, as shown in Table 11. Outstanding debt is growing from the compounding effects of new bond issuances exceeding annual principal redemption. The city and the NYCTFA are projected to issue a combined $42.8 billion of bonds during FYs 2023-26. Moreover, the amount of outstanding debt allotted to each city resident is expected to rise from $10,460 in FY 2023 to $12,883 in FY 2026. The debt-to-income ratio is forecasted to edge up slightly from 11.8 percent in FY 2023 to 12.5 percent in FY 2026, as the growth rate for outstanding debt is anticipated to surpass that for local personal income.

Although growing considerably, g.o. and NYCTFA outstanding debt that is subject to the legal debt limit remains within the city's debt-incurring power through the plan years. The New York State Constitution limits the general debt-incurring power of the city to 10 percent of the five-year average of full valuations of taxable real estate. Based on the city's projections in the Statement of Debt Affordability released in April 2022, taxable real estate values that underlie the legal debt margin were assumed to grow steadily, and the remaining debt-incurring capacity was estimated to range from $12 billion to $27 billion over FYs 2023- 26.[22] Additionally, the assumed debt service expense as a percentage of tax revenues is projected to remain below the affordability threshold of 15 percent throughout FYs 2022-26 in the June 2022 financial plan. The capital program and associated debt are growing substantially; however, the city's capital and financing plans remain affordable, based on current budget projections and assumptions of the local economy.

[22] Included within the general debt limit is the indebtedness contracted by the city as well as NYCTFA debt above the amount authorized in the last amended legislative act at $13.5 billion, excluding Building Aid Revenue Bonds.

III. Glossary of Acronyms

AIR	Actuarial Interest Rate
BARBs	Building Aid Revenue Bonds
BEA	Bureau of Economic Analysis
BLS	Bureau of Labor Statistics
CPI	Consumer Price Index
CUNY	City University of New York
DEP	Department of Environmental Protection
DOE	Department of Education
FCB	Financial Control Board
FEMA	Federal Emergency Management Agency
FICA	Federal Insurance Contributions Act
FTS	Future Tax Secured
FY	Fiscal Year
GDP	Gross Domestic Product
G.O. Bonds	General Obligation Bonds
NYCHA	New York City Housing Authority
NYCTFA	New York City Transitional Finance Authority
OPEB	Other Postemployment Benefits
OTPS	Other Than Personal Service
PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PS	Personal Service
PTET	Pass-Through Entity Tax
RGDP	Real Gross Domestic Product
RHBT	Retiree Health Benefits Trust
SALT	State and local tax
STAR	School Tax Assessment Relief

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