

Mind the Gap

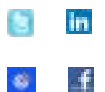
New York City's Economy Shows Resilience While Inflation Cools, But Expenses Yield Budget Uncertainty



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Executive Summary

In accordance with the New York City City Charter mandate to enhance official and public understanding of the budgetary process and budget documents, in this report, the Independent Budget Office (IBO) presents highlights of its independent economic forecast and re-estimates of City revenues and expenses across the financial plan years. IBO projects that the City will end 2024 with an additional \$3.6 billion in surplus above Mayor's Office of Management and Budget (OMB) estimates. (All references are to City fiscal years unless otherwise noted.) If the surplus prepays 2025 expenses, IBO projects a \$1.8 billion shortfall next year. Alternatively, any surplus may be used to cover increased spending in the current year. The Mayor's Office of Management and Budget (OMB) projects a larger shortfall (\$7.1 billion) for 2025. IBO's gap projections for 2026 and 2027 (\$7.3 billion and \$6.7 billion, respectively), are higher than OMB's (\$6.5 billion and \$6.4 billion, respectively).

While New York City continues to face major budget challenges, the local economy continues to rebound from the Covid-19 pandemic, with an expected return to pre-pandemic levels of employment in the very near future, and a strong outlook for personal income. While not dramatically different than IBO's projections in May, the national economic outlook has strengthened somewhat since then, sustained consumer spending has driven GDP growth, even amidst high interest rates, which are contributing to falling inflation. However, risks to both the national and local economy remain.

In the November plan, OMB raised its 2024 revenue forecast by \$592 million to reflect stronger recent tax receipts. Consistent with past practice, OMB did not adjust its revenue forecasts for 2025 through 2027. IBO has re-forecast all major tax revenues to reflect the present economic outlook, which drives differences in revenue projections between IBO and OMB. IBO's revenue forecasts exceed OMB's for almost all taxes, particularly for the property and personal income taxes. Barring an unexpected change to the economy, IBO expects that as OMB revises its revenue projections for the January plan, the IBO and OMB revenue totals will more closely align.

Overall, IBO estimates that the City will spend \$3.5 billion less than OMB forecasts in 2024, but \$366 million more than OMB's estimate for 2025. Highlights include:

- **Cost of Services for Asylum Seekers:** IBO has [modeled three cost](#) scenarios based on assumptions for the projected population, as well as daily costs, which may decline from higher rates paid under emergency contracts to lower rates likely to emerge from competitive procurements. These scenarios all result in lower expenditures than OMB projects for 2024 and 2025, and incorporate trends seen through November, whereas OMB's estimates reflect trends observed earlier and presented in August. IBO did not re-estimate costs associated with asylum seekers in 2026 or 2027 due to uncertainty in future trends.
- **Rental Housing Vouchers:** IBO estimates \$200 million in additional annual expenditures for future years to match current levels for the City's primary housing voucher program, known as the City Family Homelessness and Eviction Prevention Supplement (CityFHEPS) program, relative to OMB's projections for 2025 through 2027.
- **End of Federal Pandemic-Relief Funding for Out-Years:** Among impacted agencies, IBO estimates that the City will need to add over \$700 million in expenditures in each year from 2025 through 2027 to replace expiring federal Covid-era funding in the Department of Education and Department of Youth and Community Development.

- **Additional Education Spending:** IBO projects additional annual expenditures of over \$600 million from 2025 through 2027 for Carter Case settlements and implementation of the State class size law.
- **City Personnel Costs:** During the first quarter of this calendar year, active City headcount dropped to its lowest level since 2015. As a result of the reduced headcount, IBO estimates that uniformed personnel overtime will continue to create upward pressure on the budget, requiring additional funds totaling \$575 million in 2024, growing to \$840 million in 2025. Existing vacancies and hiring attrition produced by the hiring freeze on non-uniformed staff will produce \$2.4 billion savings.

Although the City faces longer-term fiscal challenges that are harder to quantify, recent economic indicators and tax receipts, combined with re-estimates of City spending, provide a clearer picture of the City's fiscal health in the near-term. IBO estimates a budget surplus this year and the budget deficit for 2025 to be notably smaller than OMB's estimate. There is more uncertainty, however, around both revenues and expenditures in the later years of the financial plan. The City maintains several reserve funds, which may be a cushion for unexpected expenses or to make up for lower-than-anticipated tax revenues, although the City has not established clear standards for when and where the use of some reserve funds would be appropriate.

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Introduction

New York City continues to face major challenges to its expense budget as time-limited federal Covid-19 aid winds down and a continuing influx of asylum seekers to the City increases demand for shelter and related services. On the revenue side of the budget, the City's economy continues to add jobs, having basically reached pre-pandemic employment levels, and tax revenues continue to roll in as aligned with IBO's models. Against this backdrop, IBO projects that the City will end 2024 with an additional \$3.6 billion surplus beyond what has already been identified by OMB, as shown in Figure 1. (All years refer to City fiscal years unless otherwise noted.) To keep the 2024 budget balanced, IBO anticipates that the surplus will be applied as a prepayment against 2025 expenses. Factoring in prepayments, IBO forecasts a \$1.8 billion shortfall in 2025. IBO's projected gaps widen to \$7.3 billion in 2026 and \$6.7 billion in 2027. While the budget deficits in 2026 and 2027 are substantial, the gap in 2025 is not dissimilar to gaps the City has addressed in recent years.

IBO's forecasted budget shortfalls contrast with the budget gaps the Adams administration projects. OMB released a balanced budget of \$110.5 billion for 2024 and gaps of \$7.1 billion in 2025, \$6.4 billion in 2026, and \$6.5 billion in 2027. Figure 2 shows the difference between IBO and OMB's estimates of gaps and surpluses before prepayments. Citing these large deficits, Mayor Adams called for all city agencies to make 15 percent reductions, with the first 5 percent of reductions taking effect by January 1, 2024, through a savings plan referred to as Programs to Eliminate the Gap, or PEGs, which total \$7.6 billion from 2024 through 2027. IBO will be issuing a report on the November plan PEGs initiative later this month.

Several factors account for the differences between IBO's budget projections and OMB's. First, IBO projects more robust tax revenues starting in 2025 than OMB, reflecting IBO's economic outlook of

Figure 1

IBO Total Revenue and Expenditure Projections Fiscal Years 2023-2027

Dollars in millions

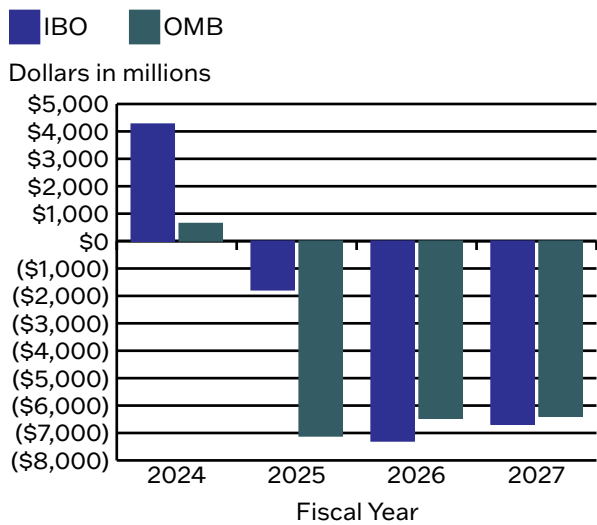
	Prior Year Actuals 2023	Projections				Annual Average Change 2023-2027
		2024	2025	2026	2027	
Total Revenue	\$108,478	\$110,698	\$108,658	\$109,915	\$113,074	1.0%
Total City Taxes	73,299	72,798	75,342	77,453	80,648	2.4%
Total Expenditures	\$106,527	107,072	114,063	117,209	119,754	3.0%
IBO Additional Operating Surplus/(Deficit)		\$3,626	(\$5,406)	(\$7,294)	(\$6,680)	
IBO Prepayment Adjustment 2024/2025		(\$3,626)	\$3,626	-	-	
IBO Surplus/(Gap) Projections		\$0	(\$1,780)	(\$7,294)	(\$6,680)	
Adjustments for Prepayments and Non-Recurring Expenses						
Net Prepayments	\$636	\$4,836	\$643	\$0	\$0	
General Fund Reserves	-	1,450	1,450	1,450	1,450	
Other Adjustments	-	-	111	320	472	
Total Expenditures Incurred in Fiscal Year	\$107,163	\$110,458	\$113,145	\$115,438	\$117,832	2.4%
City-Funded Expenditures Incurred in Fiscal Year	\$82,835	87,348	85,347	86,939	90,228	2.2%

SOURCES: IBO; OMB

NOTES: Figures may not add due to rounding. Net prepayments include payments of debt service. Total Expenditures Incurred in Fiscal Year is the sum of Total Expenditures and Net Prepayments, less General Fund Reserves and Other Adjustments. Total Expenditures Incurred in Fiscal Year removes the effect of prepayments and other adjustments to present the total expenditures incurred in a given fiscal year, rather than the cash paid for expenditures.

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Figure 2:
**Forecasted Deficits and Surpluses:
IBO Compared With OMB**



SOURCES: IBO; OMB

NOTES: OMB’s budget must be balanced in 2024. This chart presents OMB’s operating surplus/gap numbers to show the difference between IBO and OMB projections. In the November plan, OMB’s projected surplus in 2024 is applied to 2025 as a pre-payment of debt. IBO projects a greater surplus in 2024 resulting in a smaller gap in 2025 than OMB.

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continued but modest growth. Additionally, on the expense side, differences in estimates on asylum seeker costs, an end of federal education support, and uniformed overtime personnel costs reflect differences—both up and down—between IBO’s spending estimates and OMB’s November plan projections. This report presents highlights of IBO’s independent economic forecast and re-estimates of City revenues and expenses across the financial plan years. IBO also presents further details on the economic, revenue, and expense forecasts through a series of supplemental tables in the Appendix.

Economic Forecast

U.S. Economy: Consumers Fuel Economic Growth While Inflation Falls.

The national economy has shown strength in recent months. The federal Bureau of Economic Analysis’s latest estimate of annualized real (inflation-adjusted) GDP growth in the third quarter of 2023 was 5.2 percent, driven mainly by increases in personal consumption expenditures and the build-up of business inventory.¹ (Years refer to calendar years in this section.) Consumer spending on goods and services has remained strong, accounting for almost half of the GDP

growth in the third quarter this year, even as the Federal Reserve continued to increase interest rates to tamp down inflation. IBO’s estimates of GDP growth are not that divergent from OMB’s estimates. Consumers’ expenditures have been bolstered by a strong national labor market that has added almost 2.4 million jobs in 2023 (through October), reaching an employment level that is 3 percent higher than the pre-pandemic peak.

Alongside continued growth in the national economy, the rate of inflation, as measured by the Consumer Price Index (CPI), has fallen from its peak of 9.1 percent in June 2022 to 3.2 percent in October 2023. This indicates that the Federal Reserve is more likely to succeed in cooling inflation without triggering an economic recession—a so-called “soft landing”—than it was a few months ago. The threat of a recession—generated by external shocks to the economy such as political unrest abroad, rising energy prices, and the strength of the U.S. dollar—remains, however, lending another layer of uncertainty to the national economy.

That said, the Federal Reserve is likely to keep interest rates at an elevated level at least through 2024, and consumer activity is expected to slow in the future. IBO forecasts GDP growth of 2.4 and 1.7 percent in 2023 and 2024, respectively, and an average of 2.1 percent in the out-years. OMB’s forecast calls for GDP growth of 2.5 percent in the current year, 1.6 percent in 2024, and an average of 1.6 percent in the out-years.

New York City’s Local Economy: General Recovery from Pandemic but Shifts in Work Patterns. The trends are similar for New York City. Preliminary October figures show City employment at 4.7 million jobs, which represents 99.6 percent of the January 2020 peak. IBO projects that the City’s economy will cross this threshold very soon, with a total of 77,400 jobs added by the end of 2023 and a projected 88,100 jobs to be added in 2024.² Much of this growth, both recently and as projected, is attributed to the education and healthcare sectors. IBO anticipates employment growth to slow to an average of 61,500 jobs per year in 2025 through 2027. OMB projects that 65,100 jobs will be gained during 2023, and that 126,400 jobs will

be added in 2024. Although the timing of when jobs are added varies between IBO and OMB, on net, the forecasts of employment growth follow similar patterns.

Employment stability in high-paying sectors such as finance and professional services has sustained aggregate personal income in the City, which IBO projects will grow by 5.6 percent (\$40.4 billion) this year. However, many lower-wage industries remain well below their pre-pandemic peaks, including retail trade, arts and entertainment, food services, and accommodations. The persistence of these trends, more than three years after the worst of the Covid-19 crisis, suggests that there may be a permanent shift in the City's economy. Widespread adoption of remote work in many industries has reduced demand for physical office space and industries that support a large in-person workforce in central business districts. This is echoed by a relatively weak market for commercial real estate. While the City's overall tax base weathered the pandemic relatively well, IBO will monitor these changes to the economic landscape going forward.

As discussed above, IBO's economic forecast anticipates continued, albeit slowing, economic growth. Further details can be found in the Appendix table Figure 6. Since last April, OMB has revised its economic forecast upwards—quite notably in some instances—now that there is more clarity on the Federal Reserve's ability to control inflation without triggering a recession. OMB's November economic forecast more closely resembles what IBO has been projecting since April.

Revenue Forecast

In the November plan, OMB adjusted 2024 revenue forecasts up by \$592 million to reflect stronger tax receipts in line with its improved economic forecast. (Years hereafter refer to City fiscal years.) OMB did not, however, adjust its revenue forecast for 2025 through 2027 in the November plan to reflect the changes to its economic forecast, which is not unusual for the Mayoral administration at this point in the budget cycle. IBO expects these changes to be reflected in the January plan. But by leaving it baselined, OMB's November plan revenue projections for 2025 going forward tie to its more pessimistic forecast from last April. This results in lower revenue projections from 2025 through 2027, which adds pressure to the budget. In contrast, IBO used its present economic forecast to inform tax revenue forecasts across the plan.

IBO's forecast of revenue totals \$110.7 billion in 2024, around \$200 million more than the \$110.5 billion that OMB estimated in the November plan. IBO's total includes \$72.8 billion in revenue from taxes, the largest source of revenue in the budget. (Further details regarding IBO revenue estimates can be found in Figure 7, in the Appendix.) IBO expects revenue to total \$108.7 billion in 2025, \$75.3 billion of which is from City taxes (in contrast to OMB's estimates of \$106.6 billion, with \$73.2 billion from City taxes). For the latter half of the plan, IBO forecasts revenues at \$109.9 billion in 2026 and \$113.1 billion in 2027, with tax revenues of \$77.5 billion and \$80.6 billion, respectively. A comparison of tax revenue estimates between OMB and IBO can be found in Figure 3. The largest City revenue sources are real property, personal income, and general sales taxes. Other taxes, although smaller in revenues, may be seen as indicators for business profits, real estate transactions, and the tourism sector. Although presently a small source of tax revenue, cannabis taxes are a new source of revenue for the City.

Real Property Tax. Real property taxes are paid by owners of real estate based on assessed property values and a series of tax-calculation formulas. Based on the Department of Finance's final 2024 assessment roll released in May 2023, IBO's forecast of real property tax revenue for 2024 is \$32.6 billion, a 3.5 percent increase relative to 2023. IBO's 2024 forecast is slightly higher relative to OMB's, primarily due to lower forecasted uncollectible taxes. The much slower growth rate in 2024 relative to 2023, which experienced 6.5 percent growth, is due to a fading of the "bounce-back" in tax collections from large residential buildings containing rentals, coops, and condos (Class 2) and commercial (Class 4) assessed values following their pandemic-related underassessment in 2022. IBO forecasts a similar growth rate for each of the remaining

Figure 3

City Tax Projections-IBO versus Fiscal Year 2024 November Plan*Dollars in millions*

	2024	2025	2026	2027
Property				
IBO	\$32,633	\$33,717	\$34,540	\$35,898
OMB	32,577	32,660	32,936	33,592
Personal Income				
IBO	16,102	16,924	17,516	18,620
OMB	15,346	16,125	16,722	17,756
General Sales				
IBO	9,854	10,047	10,313	10,581
OMB	9,840	10,320	10,905	11,352
Corporate Taxes				
IBO	5,436	5,447	5,426	5,566
OMB	5,301	5,132	5,023	5,028
Unincorporated Business Taxes				
IBO	2,613	2,688	2,757	2,830
OMB	2,602	2,613	2,703	2,798
Mortgage Recording and Real Property Transfer				
IBO	2,210	2,489	2,767	2,922
OMB	2,083	2,375	2,496	2,667
Hotel Occupancy				
IBO	682	720	764	791
OMB	664	709	734	762
Cannabis				
IBO	3	9	17	34
OMB	11	20	30	38
Other Taxes & Audit				
IBO	3,264	3,301	3,353	3,407
OMB	3,175	3,226	3,278	3,334
Total Tax Revenue				
IBO	\$72,798	\$75,342	\$77,453	\$80,648
OMB	\$71,599	\$73,180	\$74,827	\$77,327

SOURCES: IBO; OMB

NOTES: Figures may not add due to rounding. Property Tax estimates and totals exclude STaR.

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three years of the forecast, with property tax revenues of \$33.7 billion in 2025, and revenues reaching \$35.9 billion in 2027.³ A tentative assessment roll for 2025 is scheduled to be released in January 2024, which will provide additional insight for forecasting 2025 revenues. IBO's forecast diverges from OMB's in the out-years due to differences over the gross levy, the total taxes taxpayers owe prior to deducting abatements and adjusting to recognize that not all billed taxes are collected. These differences are likely due to IBO having a more optimistic forecast for aggregate real property values. IBO's estimate of commercial (Class 4) revenue growth incorporates an outlook that Manhattan office assessed values will grow at 2 percent annually from 2024 through 2027, far below the pre-pandemic trend of 5.8 percent annual growth.

Real Estate-Related Taxes. IBO forecasts that the City will collect \$1.4 billion in total real property transfer tax collections in 2024. Real property transfer taxes are based on the sale price and are paid by the seller for both cash and financed property sales. In the following fiscal years, IBO forecasts collections will grow at about 9 percent annually, reaching \$1.8 billion in total collections in 2027. After a peak in real property transfer tax collections of \$1.9 billion in 2022, both the commercial and residential real estate markets have slowed, and collections fell to \$1.3 billion in 2023. Quarterly real property transfer tax collections have increased 20 percent in the first quarter of 2024, providing some evidence that the lull in activity has ended and growth in this revenue source will resume.

Recent mortgage recording tax collections have been close to levels experienced during the pandemic. Mortgage recording taxes are paid by a mortgage holder and based on the size of the mortgage on real property. IBO forecasts continued lower collections through the remainder of 2024, with total collections of \$796 million for the year. IBO considers it unlikely that these low levels of collections will continue and forecasts an upward trend in mortgage recording tax collections, with collections rising to \$863 million in 2025. IBO forecasts slower growth in the remaining two years of the plan, with total collections rising to \$1.1 billion by 2027, comparable to amounts collected prior to the pandemic.

For the commercial rent tax, IBO forecasts \$906 million in revenue in 2024, \$4 million lower than 2023 revenues. Commercial rent tax is a tax imposed on rent payments made by large commercial tenants in Manhattan properties south of 96th Street. This modest decline in commercial rent tax receipts is partly driven by lower-than-expected collections in the first quarter of 2024. Projected annual revenue growth in the following three years averages 2.3 percent, yielding \$971 million by 2027. IBO projects slow but positive growth in this revenue source, reflecting continued weakening in demand for commercial space in Manhattan.

Personal Income Tax and PTET. IBO's forecast of steady employment and personal income gains in the coming years underlies the projected growth in combined revenue from the personal income tax and Pass-Through Entity Tax (PTET)—from \$16.1 billion in 2024 to \$18.6 billion in 2027. Personal income taxes are withheld from employees based on their current earnings. Created by New York State, PTET is a workaround to the federal cap on the amount of state and local taxes that are eligible for federal income tax deduction, shifting income tax liability of some taxpayers from personal income tax to PTET.

Withholding collections, which account for the large majority of personal income tax revenue and most directly reflect income from employment, are projected to increase annually by between \$700 and \$800 million in 2024 through 2027. The forecast of 2024 revenue is \$1.1 billion lower than collections in 2023, largely reflecting a lower estimate of PTET collections and offset payments rather than indicating weaker economic growth in the current year. Compared with OMB's projections, IBO's forecast of combined personal income tax and PTET revenue is \$757 million greater in the current year, growing to \$864 million in 2027—with higher amounts of personal income in IBO's economic forecast underlying the difference.

General Sales Tax and Hotel Tax. IBO predicts that annual general sales tax revenue will total \$9.9 billion in 2024, with average annual growth between 2 and 3 percent from 2024 through 2027. The general sales tax is paid by consumers for many services and most goods, based on the amount purchased. IBO forecasts slower annual sales tax revenue growth in 2026 and 2027, in line with its forecast of slower overall economic growth in the City in later years of the financial plan. IBO also revised its forecast of hotel tax collections from its April 2023 estimate, projecting an additional \$21 million, for a total of \$682 million in collections for 2024. IBO projects average annual growth of about 6 percent a year in fiscal years 2024 through 2026. The hotel occupancy tax is paid by individuals who stay in hotel rooms, based on the amount of money the occupant pays the hotel operator, including service fees. IBO's sales and hotel tax estimates are driven by the continuing rebound of tourism to New York City, projected to reach and then exceed pre-pandemic

levels. Rising prices for hotel rooms has bolstered hotel tax collections. Hotel tax revenue growth will slow to 4 percent a year in 2027, according to IBO's forecast.

Business Taxes. Business income taxes are levied on the profits of businesses operating within the City. Corporations are taxed under a series of corporate taxes, primarily the business corporation tax. Other businesses, including sole-proprietorships, partnerships, and limited-liability corporations, are taxed under the unincorporated business tax. Corporate taxes continue to come in strong on the heels of another record-breaking year, and collections this year have not shown any signs of softening, although they are expected to contract to somewhat more typical levels later in the year. IBO revised its corporate tax forecast upwards by 2.2 percent to estimate \$5.4 billion in 2024, \$135 million higher than OMB's estimate; IBO predicts continued stability in unincorporated business tax revenue. IBO expects both corporate and unincorporated business tax receipts to remain strong from 2025 through 2027, with an average annual growth of 1.6 percent. While the difference between IBO and OMB forecasts for corporate taxes in 2024 is modest at 2.5 percent, it grows to 6.1 percent in 2025 and 10.7 percent by 2027.

Cannabis Tax. Cannabis taxes are paid by consumers upon the sale of cannabis products from licensed retail dispensaries. Cannabis retail products are not subject to general sales tax. Cannabis tax revenue growth will depend largely on the rate at which additional licensed cannabis dispensaries open across the City. IBO forecasts rapid openings of licensed dispensaries during fiscal years 2024 and 2025, following a recent legal settlement that will allow more shops to open and operate legally. Openings are expected to continue at a slower pace in 2026 and 2027. IBO estimates \$3 million in cannabis tax revenues for 2024, increasing to \$34 million in 2027.

Expense Forecast

IBO forecasts that expenditures from all funding sources in 2024 will total \$107.1 billion, \$87.3 billion of which is City-funded. IBO's spending re-estimates differ from OMB's, with some areas of spending coming in higher and others lower. Overall, IBO estimates that the City will spend \$2.6 billion less than OMB is forecasting in 2024, but \$366 million more in 2025. The largest differences between IBO and OMB on spending are in cost estimates discussed below. Details on differences of both revenue and expense forecasts can be found in Figure 4. Overall expense projections are presented in Appendix Figure 8.

Cost of Services for Asylum Seekers Projected to Be Lower. A major divergence between estimates by the Adams administration and those by IBO occurs with respect to projected costs for services associated with asylum seekers. In all three of IBO's updated scenarios of cost projections, each of which uses a variety of assumptions regarding population and daily rates per household, IBO estimates lower costs. The mid-range scenario, used for this re-estimate, yields \$6.7 billion from 2024 through 2025, in contrast to OMB's \$10.8 billion estimate. IBO will continue to monitor how the City's shelter exit policies may affect the population, how and which services are provided across sites, changes to the daily household rates, and other costs. As the fiscal year progresses, IBO will continue to analyze costs in this area.

Additional Funding Needed for Rental Housing Vouchers. The November plan budget for the City's primary housing voucher program, known as the City Family Homelessness and Eviction Prevention Supplement (CityFHEPS) program, is \$280 million in 2024—\$99 million in City funds and \$181 million in federal pandemic relief funds. The 2025 budget includes a total of \$66 million (all federal funds) for the program, and the annual budget for 2026 and 2027 decreases to \$26 million (all City funds).

IBO re-estimated CityFHEPS spending across all plan years, assuming that the City will continue to pay for existing leases that it is currently covering. IBO does not yet know the potential growth in the voucher program based on recent City Council legislation broadening eligibility for CityFHEPS, and therefore does not include this in present projections. In 2025, IBO estimates an additional \$214 million will be needed for CityFHEPS, and an additional \$254 million in 2026 and 2027 (all City funds) to baseline the program at current levels.

Figure 4

Pricing Differences Between IBO and the Fiscal Year 2024 November Plan**Items that Affect the Gap***Dollars in millions*

	2024	2025	2026	2027
Gaps as Estimated in the November Plan	-	(\$7,110)	(\$6,463)	(\$6,385)
Revenue				
Total City Taxes	\$1,199	\$2,162	\$2,627	\$3,321
Miscellaneous Revenue	2	2	2	2
TOTAL REVENUE-CITY	\$1,201	\$2,164	\$2,628	\$3,322
Expenditures-City-Funded				
Asylum Seekers	\$890	\$2,688	-	-
City-wide Personal Services	2,405	-	-	-
Debt Service	-	-	-	-
Youth and Aging	(20)	(227)	(233)	(214)
General Government	-	(231)	(282)	(276)
Public Safety and Judicial	(554)	(802)	(535)	(449)
Education	(3)	(1,304)	(1,752)	(2,003)
City University	-	-	-	-
Social Services, Homeless Services, Aging	(278)	(438)	(486)	(483)
Environmental Protection and Sanitation	(37)	(105)	(130)	(151)
Transportation Services	-	-	-	-
Parks, Recreation, and Cultural Activities	(12)	(12)	(12)	(12)
Housing and Buildings	35	(30)	(30)	(30)
Libraries	-	-	-	-
Health	-	-	-	-
TOTAL EXPENDITURES-CITY	\$2,425	(\$460)	(\$3,459)	(\$3,618)
TOTAL IBO PRICING DIFFERENCES	\$3,626	\$1,704	\$(831)	\$(296)
IBO Prepayment Adjustment 2023/2024	(\$3,626)	\$3,626	\$-	\$-
IBO SURPLUS/(GAP) PROJECTIONS	-	(\$1,780)	(\$7,294)	(\$6,681)

SOURCES: IBO; OMB

NOTES: Figures may not add due to rounding. Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. The categorization of agencies in IBO's chart generally mirrors the presentation of agencies in the Comptroller's Annual Comprehensive Financial Report.

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End of Federal Pandemic-Relief Funding Requires City Funds to Continue Programs. New York City received \$13.5 billion in federal funding through the American Rescue Plan (ARPA) and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) to cover costs associated with the Covid-19 pandemic and make up for lost tax revenues. The City has used this federal funding to support programs that are expected to continue after federal funding expires, although OMB has not included City funding to do so in the November plan. This has created "fiscal cliffs," where a program is budgeted for a period of years and then funding markedly decreases, indicating either that program services will decrease dramatically or that additional City funds will be added later to support the program.

Specifically, IBO estimates additional City spending of \$570 million in 2025 and \$665 million in both 2026 and 2027 to support Department of Education programs that have received federal Covid-19 funds including Summer Rising, Preschool Special Education, Mental Health for All, and contracted nursing. In the November plan, OMB decreased the total budget for early childhood by \$120 million annually for 2025, 2026,

and 2027 stating that this adjustment realigns the budget to actual enrollment. The cut was split between \$38 million for EarlyLearn and Head Start programs that enroll children from birth to two years old, and \$82 million for 3-K and Pre-K. Adjusting for the decline of \$82 million annually for the 3-K and Pre-K portion, IBO estimates that an additional \$10 million of City funds will be needed annually in both 2026 and 2027 to maintain this level of 3-K and Pre-K slots. If the number of enrollment slots were to increase, additional funding would be needed.

IBO’s re-estimates also include additions to Department of Youth and Community Development for youth programs, including the Beacons program in NYCHA developments, as well as in-school and after school programming. The City has not indicated any intentions to cut back these programs, but because funding for these programs has been historically added to the current year’s budget as the year progresses, future years do not reflect expected spending levels. IBO estimates that the City will continue to maintain these programs at recent levels, requiring an additional \$187 million in 2025, \$193 million in 2026, and \$175 million in 2027 (all City funds).

Reserve Funds the City Could Tap—None Without Risks

The City maintains two types of reserve funds that together total \$8.0 billion, as shown in Figure 5. The first type of reserve funds, including the Revenue Stabilization Fund (colloquially known as the Rainy Day Fund) and the Retiree Health Benefits Trust (RHBT), are outside the City’s general fund. They are funded through deposits from surpluses in City revenue and their balances are rolled over each year. Since its establishment in 2021, the City has deposited \$2.0 billion into the Rainy Day Fund. The City is allowed to draw down 50 percent of the balance in the fund at a time, or more if the mayor declares a “state of emergency” certifying a compelling fiscal need to tap the reserve fund. There are no constraints on how the funds may be used.

However, the City has not yet set any rules regarding what constitutes a “state of emergency” or what would be a justifiable circumstance in which to draw down funds.

The RHBT currently has a balance of \$4.6 billion. This fund is used to pay retirees’ health benefits and to help the City pay for future retiree health benefits. The City is required to keep a balance to cover, at minimum, the cost of retiree health benefits for one year. When the fund’s balance exceeds the required minimum, the City can generate budget relief by appropriating less.

The second type of reserve funds, the general fund reserves, are intended to deal with unexpected expenses or make up for lower than anticipated tax revenues in the current fiscal year.⁴ For 2024 through 2027, the plan includes \$1.5 billion of budgeted reserves in each year. For now, these funds are appropriated in the budget but remain unallocated. These funds can be tapped to cover City costs in the present year; the unused portions of these funds otherwise become part of the surplus used to prepay expenses for the next year.

Figure 5 Reserves Balance as of 2024 November Financial Plan Release <i>Dollars in millions</i>	
Reserve Fund Balances	
Revenue Stabilization Fund (Rainy Day Fund)	\$1,950
Retiree Health Benefit Trust	4,600
Subtotal-Reserve Fund Balances	\$6,550
General Fund Reserves Fiscal Years 2024-2027	
General Reserve	\$1,200
Capital Stabilization Reserve	250
Subtotal-General Reserve Funds	\$1,450
Total Reserves Available	\$8,000
SOURCE: OMB	
<i>New York City Independent Budget Office</i>	

Carter Cases and State Class Size Law Implementation Expected to Push Upwards Education Spending.

Settlements related to Carter Cases—in which families seek payment of private school tuition from the City after demonstrating the public schools cannot meet a child’s special education needs—remain costly. In the November plan, OMB added \$490 million for Carter Case expenses this year, which now totals nearly \$1.1 billion. With this addition, IBO believes 2024 to be sufficiently funded. OMB made no corresponding adjustments in subsequent years, however. IBO re-estimated the cost of Carter Cases in 2025, 2026, and 2027 based on actual spending from 2023, projecting that \$625 million in additional City funds will be needed each year.

IBO also estimated the City funds needed to comply with New York State’s class size law, based on its analysis set forth in a recent IBO report. IBO estimated additional costs of \$214 million in 2026 and \$427 million in 2027, respectively, to cover salaries for additional teachers over the first two years of the three-year phase-in period. An IBO report detailing education-related changes in the November plan will be forthcoming in January.

City Personnel Costs—Savings from Vacancies but Spending on Overtime. During the first quarter of the current calendar year, active City headcount dropped to its lowest levels since 2015. To address vacancies, the Adams administration launched widely publicized hiring initiatives at the start of 2023, but then announced a hiring freeze in September. The hiring freeze applies to all agencies, although for “critical positions” that support public health, public safety, and revenue generation, hiring is still permitted, with one new hire allowed for each recent separation. A large number of vacant positions in roles that are deemed “non-critical” across many city agencies, however, is affecting the City’s ability to deliver services, a concern IBO highlighted in recent City Council testimony.

Staffing affects City spending directly and indirectly. IBO estimates that uniformed personnel overtime will create upward pressure on the budget, requiring additional funds totaling \$575 million in 2024, growing to \$840 million next year (all City funds), while existing vacancies and the hiring freeze on non-uniformed staff will produce \$2.4 billion in City-funded savings. IBO’s savings estimates include both salaries and fringe.

Conclusion

While IBO’s economic and revenue forecasts project stability, the City’s growth in spending outstrips the gains in overall revenue. As federal stimulus funds taper off past 2025, the City will have to assess its ability to deliver the current level of services with City funding. IBO’s forecasted annualized 8 percent decline in federal funding coming into the City dampens otherwise promising revenue growth projected in City taxes, keeping net revenue gains to just over 1 percent annually. On expenditures, services for asylum seekers will continue to require a large outlay of City funding, although IBO estimates costs will ultimately fall notably below the current OMB projections. The potential for state or federal support to help cover these costs remains unknown. Educational spending poses a budgetary challenge as well, between programs that were funded with pandemic-related stimulus dollars over the last several years that will require City funds in 2026 and 2027, and the continued expense of Carter Case settlements. Although these challenges will require fiscal prudence, IBO’s forecasted gap for 2025 of \$1.8 billion is notably below OMB’s proposed \$7.1 billion, and more in line with past years’ November plan estimated budget deficits for the upcoming fiscal year.

Appendix

Figure 6

IBO versus Mayor's Office of Management and Budget Economic Forecasts

	2022	2023	2024	2025	2026	2027
National Economy						
Real GDP Growth						
IBO	2.1	2.4	1.7	1.7	2.3	2.4
OMB	2.1	2.5	1.6	1.2	1.6	1.8
Inflation Rate						
IBO	8.0	4.2	2.8	2.2	2.2	2.2
OMB	8.0	4.1	2.4	2.2	2.2	2.2
Personal Income Growth						
IBO	2.4	4.9	4.1	4.5	4.8	4.6
OMB	2.4	5.3	5.0	4.8	4.4	4.5
Unemployment Rate						
IBO	3.6	3.7	4.0	4.1	4.0	3.9
OMB	3.6	3.6	3.8	4.4	4.7	4.6
10-Year Treasury Bond Rate						
IBO	3.0	4.0	4.2	4.0	4.0	4.0
OMB	3.0	4.0	4.1	3.5	3.3	3.2
Federal Funds Rate						
IBO	1.7	5.0	5.1	4.2	3.2	2.9
OMB	1.7	5.0	5.4	4.1	2.9	2.6
New York City Economy						
Nonfarm New Jobs (thousands)						
IBO (Q4 to Q4)	248.7	77.4	88.1	78.4	59.9	46.3
OMB (Q4 to Q4)	235.7	65.1	126.4	72.3	89.1	70.5
Nonfarm Employment Growth						
IBO (Q4 to Q4)	5.7	1.7	1.9	1.7	1.2	0.9
OMB (Q4 to Q4)	5.5	1.4	2.7	1.5	1.8	1.4
Inflation Rate (CPI-U-NY)						
IBO	6.1	3.8	2.5	2.3	2.3	2.3
OMB	6.1	3.8	1.8	1.7	2.0	2.2
Personal Income (\$ billions)						
IBO	725.9	766.3	802.8	838.7	882.0	922.2
OMB	703.7	729.8	762.2	799.0	835.2	872.9
Personal Income Growth						
IBO	0.5	5.6	4.8	4.5	5.2	4.6
OMB	(0.5)	3.6	4.4	4.8	4.5	4.5
Manhattan Office Rents (\$/sq.ft)						
IBO	79.1	79.0	78.6	78.2	78.0	77.9
OMB	79.1	78.8	80.1	80.9	82.0	83.2

SOURCES: IBO; OMB

NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal.

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Figure 7

IBO Revenue Projections Fiscal Years 2023-2027

Dollars in millions

	Prior Year Actuals 2023	Projection				Annual Average Change 2023-2027
		2024	2025	2026	2027	
City Tax Revenue						
Property	\$31,507	\$32,633	\$33,717	\$34,540	\$35,898	3.3%
Personal Income	17,183	16,102	16,924	17,516	18,620	2.0%
General Sales	9,540	9,854	10,047	10,313	10,581	2.6%
Corporate Taxes	5,974	5,436	5,447	5,426	5,566	(1.8%)
Unincorporated Business	2,545	2,613	2,688	2,757	2,830	2.7%
Real Property Transfer	1,277	1,414	1,627	1,761	1,821	9.3%
Mortgage Recording	898	796	863	1,007	1,101	5.2%
Commercial Rent	910	906	940	958	971	1.6%
Utility	420	448	452	461	477	3.2%
Hotel Occupancy	645	682	720	764	791	5.2%
Cannabis	1	3	9	17	34	157.9%
Other Taxes and Audits	2,400	1,910	1,909	1,934	1,959	(4.9%)
Audit Revenue	1,337	820	820	820	820	(11.5%)
OMB Audit Revenue		747	773	773	773	
IBO Adjustment		73	47	47	47	
Other Taxes	1,063	1,090	1,089	1,114	1,139	
Total City Taxes	\$73,299	\$72,798	\$75,342	\$77,453	\$80,648	2.4%
Other Revenue						
STaR Reimbursement	\$138	\$132	\$134	\$132	\$130	(1%)
Miscellaneous Revenue	8,589	8,146	7,682	7,598	7,544	(3%)
Unrestricted Intergovernmental Aid	186	-	-	-	-	(100%)
Disallowances	(13)	(15)	(15)	(15)	(15)	3%
Total Other Revenue	\$8,900	\$8,263	\$7,801	\$7,715	\$7,659	(4%)
TOTAL CITY-FUNDED REVENUE	\$82,199	\$81,062	\$83,143	\$85,169	\$88,306	2%
State Categorical Grants	\$17,070	\$18,334	\$17,873	\$17,641	\$17,703	1%
Federal Categorical Grants	9,974	\$11,552	\$7,746	\$7,211	\$7,167	(8%)
Other Categorical Aid	885	\$1,201	\$1,118	\$1,114	\$1,113	6%
SUB-TOTAL REVENUE	\$110,128	\$112,149	\$109,881	\$111,135	\$114,290	1%
Interfund Revenue	699	691	728	735	736	1%
Intra-City Revenue	\$2,348	\$2,143	\$1,951	\$1,955	\$1,952	(5%)
TOTAL REVENUE, Less Intra-City	\$108,478	\$110,698	\$108,658	\$109,915	\$113,074	1%

SOURCES: IBO; OMB

NOTES: Figures may not add due to rounding. Corporate taxes comprise three separate taxes: the business corporation tax for C corporations, the general corporation tax, and the banking corporation tax for S corporations. Personal Income Tax is inclusive of revenue generated from the Pass-Through Entity Tax enacted in 2022.

New York City Independent Budget Office

Figure 8

IBO Expenditure Projections Fiscal Years 2023-2027

Dollars in millions

	Prior Year Actuals 2023	Projections				Annual Average Change 2023-2027
		2024	2025	2026	2027	
Operational Expenditures						
Agency Spending	\$108,876	109,214	116,015	119,163	121,706	
Agency Expenditures	\$81,222	79,189	79,049	79,363	79,809	(0.4%)
Labor Reserve	2,568	1,605	2,334	2,729	3,311	n/a
Total Operational Expenditures	\$83,790	\$80,794	\$81,383	\$82,093	\$83,120	(0.2%)
Other Expenditures						
Fringe Benefits	7,774	12,992	14,690	15,084	15,384	18.6%
Debt Service	7,115	3,365	7,581	8,924	9,579	7.7%
Pensions	8,988	9,414	9,634	10,415	10,878	4.9%
Judgments and Claims	1,209	1,199	1,165	877	823	(9.2%)
Subtotal Recurring Expenses	\$108,876	\$107,764	\$114,453	\$117,393	\$119,784	2.4%
General Reserve	-	1,200	1,200	1,200	1,200	n/a
Capital Stabilization Reserve	-	250	250	250	250	n/a
Retiree Health Benefit Trust	-	-	-	-	-	n/a
Rainy Day Fund Deposit	-	-	-	-	-	n/a
Other Adjustments	-	-	111	320	472	n/a
Subtotal Non-Recurring Expenses	-	\$1,450	\$1,561	\$1,770	\$1,922	n/a
Intra-City Expenditures	\$2,348	\$2,143	\$1,951	\$1,955	\$1,952	n/a
TOTAL EXPENDITURES, Less Intra-City	\$106,527	\$107,072	\$114,063	\$117,209	\$119,754	3.0%

SOURCE: IBO; OMB

NOTES: Figures may not add due to rounding. Other non-recurring adjustments include reserve funds, energy, lease, and non-labor inflation adjustments. Debt service growth is unadjusted for prepayments of current year expenses with resources from the prior year. Fringe benefits include the cost of health benefits covered by the Retiree Health Benefit Trust.

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Endnotes

¹GDP refers to growth domestic product, an overall measure of the size country's economy.

²Jobs gains are measured on a Q4-to-Q4 basis. A total of 65,700 jobs have been added as of Q3 in 2023.

² While Class 2 revenues have largely recovered their reduction during the pandemic and have nearly returned to pre-pandemic predicted level and trend, Class 4 revenues have not and appear unlikely to fully recover to trend. IBO forecasts that between about a quarter of the growth in property tax revenues through 2027 will come from one to three family homes (Class 1) and utility property (Class 3), about 40 percent of the growth will come from Class 2, and about 35 percent of the growth will come from Class 4. While the growth from Class 1 and Class 3 appears likely, the revenue growth from Class 4 is uncertain due to the unclear outlook of the commercial office and downtown retail real estate markets.

⁴ The general reserves include the general reserve and the capital stabilization reserve, which are discretionary ways the City can set aside funds in the budget for unanticipated expenses as a fiscal year progresses. There is no limit for their size. Funding is supposed to be spent within the current fiscal year but may be rolled into an operating surplus used for prepayments in the next fiscal year.