NEW YORK'S 2024 ECONOMIC AND BUDGET OUTLOOK:

Post-Pandemic Reckoning for the City and the State

By James Parrott and George Sweeting

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Center for New York City Affairs

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I. Introduction

The past four years not only brought unprecedented economic upheaval to New York City and state related to the pandemic and its aftermath, but also a resumption of stark polarization in the well-being of New York's population. The pandemic economic dislocations were extremely lop-sided, hitting hardest at hourly-paid workers in industries that require "face-to-face" interaction or on-site work. While New York City has returned to its pre-pandemic employment level, many hard-hit industries haven't recovered and many of the jobs added in other industries in the city and the state, such as health care and social assistance, are among the lowest paying of all industries. There is a stark racial divide in unemployment rates, and poverty and economic hardships are much greater than in 2019. These economic disparities have accompanied sharp disparities in Covid mortality by race and ethnicity in New York City.

Pandemic dislocations and hardships have not been felt evenly across the population. Relatively few workers in highly-paid office-based industries, including financial, professional, tech, and media services, lost their jobs. Iin fact, many of these workers gained added flexibility in being able to work at least part of the week from home. Generally, the pay of these normally office-based workers has risen more since 2019 than for "face-to-face" workers. Moreover, households with significant business ownership and financial assets have also prospered from the rise in business profits and financial markets since 2019. Although some of the large 2021 stock market gains were reversed in 2022, by the end of 2023 much of that decline had been made up.

With workers and companies in high-paying industries generally having prospered in recent years, New York State's Gross Domestic Product per worker still tops that of all other states, and the State tax base has increased by over 10 percent a year since 2019. Most income gains have gone to those at the top of the income distribution; income polarization is once again increasing after remaining relatively stable in the half-dozen years before the pandemic.

New York's employment recovery may be incomplete. Job growth slowed in 2023 and is likely to remain moderate in 2024. On the other hand, however, the economic outlook for the year ahead has brightened considerably in recent weeks, as inflation has continued to cool and projections for a recession in 2024 have faded. For the state and city government, the improved economic outlook bodes well for revenue collections. The migrant influx and the winding down of federal pandemic fiscal relief pose significant, but not insurmountable, fiscal challenges – provided the State steps up and assumes greater responsibility for assisting New York City.

Surging migrant flows are clearly a federal responsibility. The political stalemate in Washington on immigration, however, means that responsibility for addressing its effects falls mainly to the State, not local, government.

New York City has indeed responded to the influx of migrants. It has sought to feed and care for them, and provide shelter, health care, and education for school-age children. Nevertheless, the City of New York is a political creature of the State, and just as New Yorkers look to the State for aid in the event of natural disasters, economic or other emergencies (such as severe weather events or the 9/11 attacks on the World Trade Center), the State needs to assume greater financial and leadership responsibility in dealing with the current asylum seeker emergency. The New York State Constitution also tightly circumscribes the tax and spending authority delegated to local governments.

There is also a valuable precedent in the State assisting with refugee resettlement in other parts of New York. Additionally, since most upstate metro areas have labor shortages with 2023 unemployment rates of 3.5 percent or less and have experienced labor force declines of at least one to two percent since 2019, they could benefit from further refugee resettlement.

2024 is a year of reckoning for New York City and New York State. It is a time to come to grips with the uneven and incomplete pandemic recovery, and also a time for the State to join the City in mapping out a coordinated response to the migrant crisis. It is *not* a time for austerity but a time for facing and addressing problems, and for the State to use its considerable fiscal resources (much of which have been generated by the city's economic might) to shoulder more of the resulting fiscal burden.

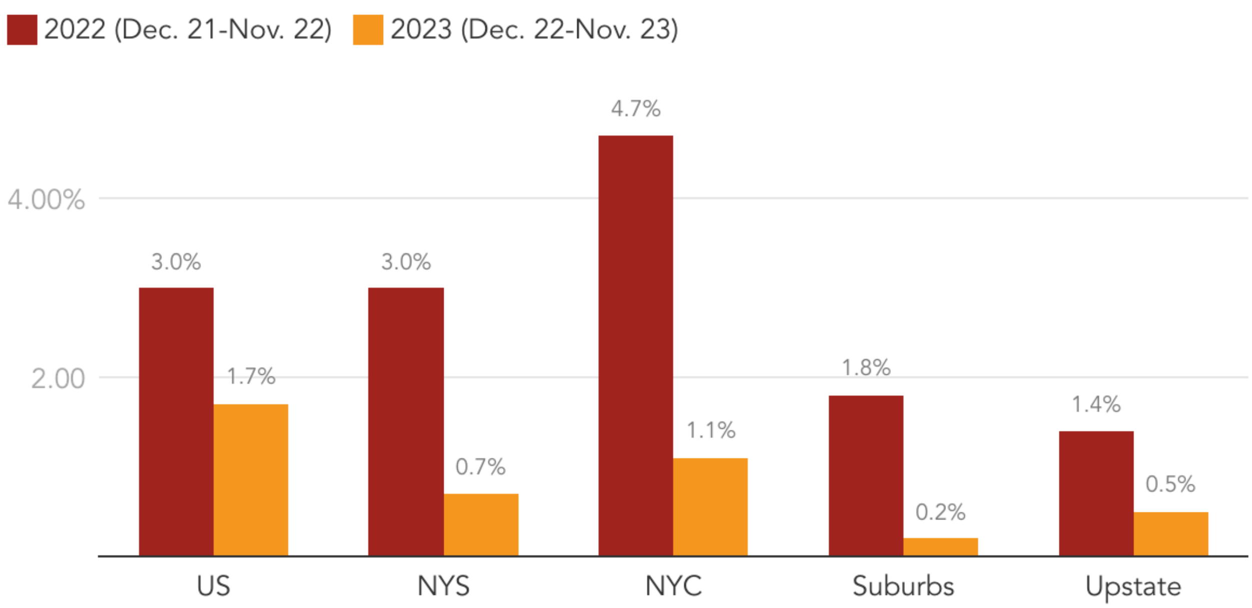
This report proceeds as follows. The next section summarizes the dual economic status of the state and city at the end of 2023. It reviews data showing how New York's lagging employment recovery from the pandemic affects those in the bottom half of the income distribution, while also discussing how the State's economic strength in high-paying industries has lifted State revenue growth. The following section turns to the 2024 city and state economic and revenue outlook. Attention then shifts to the budget front, with discussions of the New York City fiscal situation and the recently proposed budget cuts. The next section discusses why, contrastingly, the State budget is in much better shape and in a position to provide more assistance to New York City. Recognizing that additional resources beyond increased State aid are warranted to avert damaging budget cuts, the final section discusses three areas where, provided State approval is affirmed, New York City could reasonably seek additional revenues.

II. New York's 2023 employment growth slowed; pandemic recovery lagged and has been highly uneven.

As national job growth shifted into lower gear in 2023, the pace of job growth in New York's regions slowed even more. U.S. total job growth fell to 1.7 percent during the first 11 months of 2023 from three percent in the first 11 months of 2022. The pace of statewide New York job gains slowed from three percent in 2022 to 0.7 percent in the first 11 months of 2023, with New York City's job growth dipping sharply from 4.7 percent in 2022 to 1.1 percent in 2023. Suburban job growth slipped from 1.8 percent in 2022 to 0.2 percent in 2023, and upstate job growth eased from 1.4 percent over the first 11 months of 2022 to 0.5 percent over the corresponding months of 2023.

Figure 1

2023 job growth slowed more in New York compared to 2022 than in the U.S. overall



While U.S. nonfarm jobs are up 3.1% vs. Feb. 2020, all NY regions lag; with 2.1% pandemic jobs deficit Upstate, Suburbs, 1.6%, and NYC 0.3%

Created with Datawrapper

Source: BLS, CES.

Weaker 2023 job growth meant that, as of the November 2023 jobs data, New York State and its regions still have not returned to pre-pandemic employment levels. While the nation's November 2023 total job level was 3.1 percent above February 2020, New

York State's pandemic jobs deficit stood at 1.1 percent as of November, with job deficits of -0.3 percent for New York City, -1.6 percent for the five suburban New York counties, and -2.1 percent for the 52 upstate counties.

The stronger 2022 job growth in both New York City and across the state largely benefitted from the return of jobs in "face-to-face" industries that had experienced steep declines early in the pandemic. Nearly half of statewide employment gains of 300,000 in 2022 occurred in leisure and hospitality, administrative services, construction, other services, manufacturing, and wholesale trade. The set of higher-paying industries that were able to pivot and prosper during the pandemic and largely operate on a remote basis (a group we have termed "remote-working" industries), and that include professional services, finance, tech, and media, added about 60,000 jobs in 2022.

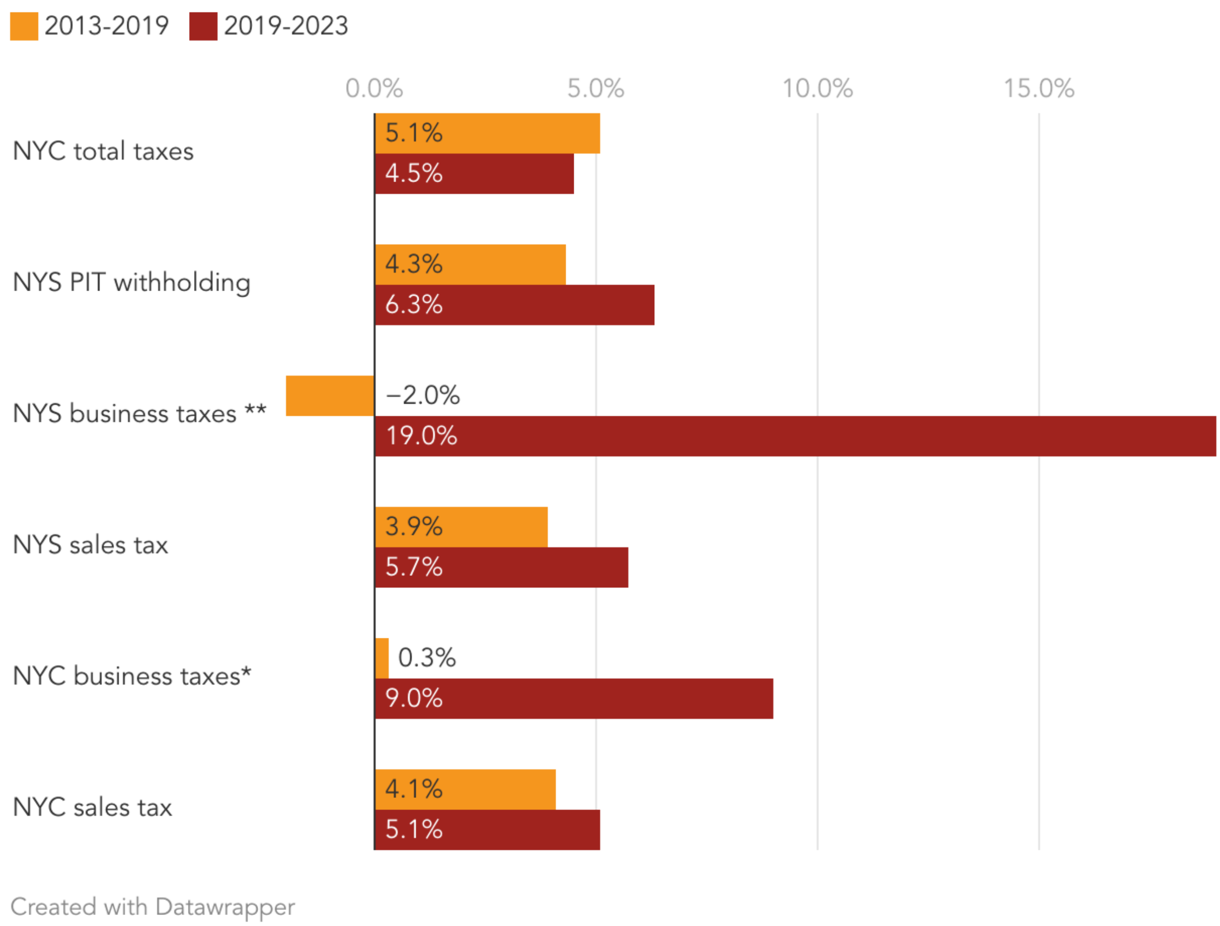
The 2023 job growth downshift saw the rebound in face-to-face industries stall and some of the remote-working industries lay workers off, with an overall net 25,000-job decline in 2023. New York's job growth in 2023 came almost entirely from four industries: home health care and social assistance (which together added 68,000 jobs); private higher education, which added 25,000; and private hospitals, which added 15,000. The first two of these four are among the lowest-paying of all industries in the state, and the second two pay wages in the middle tier. Thus, combined with the loss of 25,000 higher-paying jobs in tech and finance, the mix of New York's 2023 job gains shifted toward the lower end of the wage spectrum. The comparative employment trends for 2022 and 2023 described in this and the preceding paragraph apply to both the city and the state.

Generally, there has been a much greater degree of recovery and real growth in New York's highly compensated finance, tech, professional services, and media sectors than in lower-paying face-to-face sectors. As a result, New York City and State have fared better in terms of growth in business income and sales tax collections and in total output as measured by state real gross domestic product (state GDP) than slower job growth would suggest.

Despite New York's lagging recovery, business profits and total consumer spending (at least on sales taxable items) have risen at higher rates over the past four years (including during the worst of the pandemic-related economic downturn) than in the six years of expansion preceding the pandemic. Despite the impact of the pandemic, total State tax collections have risen over 10 percent annually from 2019-23, more than four times faster than the annual growth from 2013-19. (Two new State personal income tax brackets and a corporate tax increase contributed to the strong 2019-23 tax growth.) Certainly, the New York City commercial property tax base has been adversely affected by the continuation of a higher extent of working-from-home. That helps explain why the city's total tax collections increased at a slightly slower rate over the past four years compared to the previous six years (4.5 percent vs. 5.1 percent). Nevertheless, that 4.5 percent annual tax growth reflects relatively solid overall economic growth.

Figure 2

New York business income, sales and total state taxes increased at faster annual rates from 2019-23 than in the state's economic expansion from 2013-19



Source: CNYCA analysis of NYC and NYS tax data.

New York State continues to have the highest average productivity among all states as measured by state GDP per worker, followed by Washington State, California, and

Massachusetts. New York State average productivity per worker was $137,000 in 2022, 33 percent greater than the national average.[1]

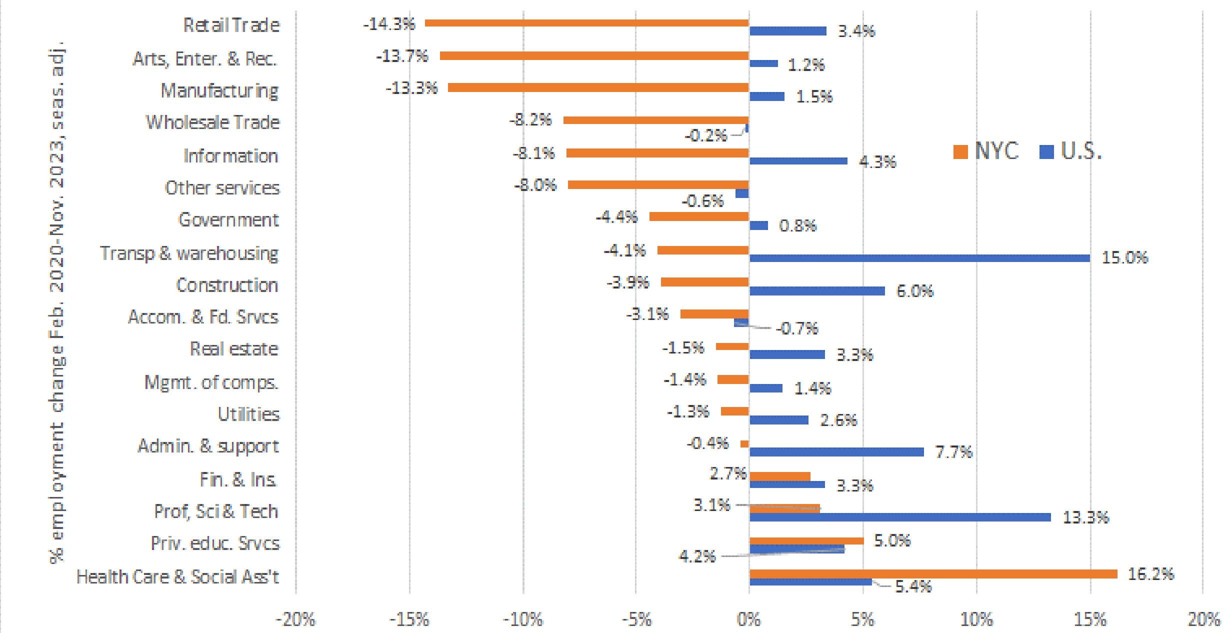
Figure 3 below compares the relative sectoral job growth for New York City and the U.S. since the start of the pandemic. It makes clear that local pandemic job deficits persist in many in face-to-face industries where there has been net job growth at the national level. Examples include retail trade; arts, entertainment and recreation; manufacturing; transportation and warehousing; administrative support; and construction. Employment in professional and technical services has grown much faster at the national level than in the city. A slightly greater decline in New York City's tech sector than in the nation partly accounts for the 8.1 percent employment decline in information compared to 4.3 percent national job growth. The city's finance and insurance sector gained jobs at nearly the same rate as in the nation.

Jobs in health care and social assistance rose by 16.2 percent in New York City from February 2020 to November 2023, three times the national job growth pace for these industries. Jobs in private education services have grown slightly faster in the city than in the nation over this period. At a statewide level, the February 2020-November 2023 declines generally are smaller, most notably for manufacturing and government employment.

[1] U.S. Bureau of Economic Analysis (BEA), Real quarterly Gross Domestic Product (GDP) by State, in $2017 chained dollars. Per worker productivity calculated by the authors as real state GDP divided by BEA total employment, a broader measure than payroll employment that includes all self-employment.

Figure 3

As of Nov. 2023, employment in most sectors in the NYC economy remains below pre-pandemic Feb. 2020 levels



Source: U.S. BLS; NYC, seasonal adjustment by NYC Office of Management and Budget.

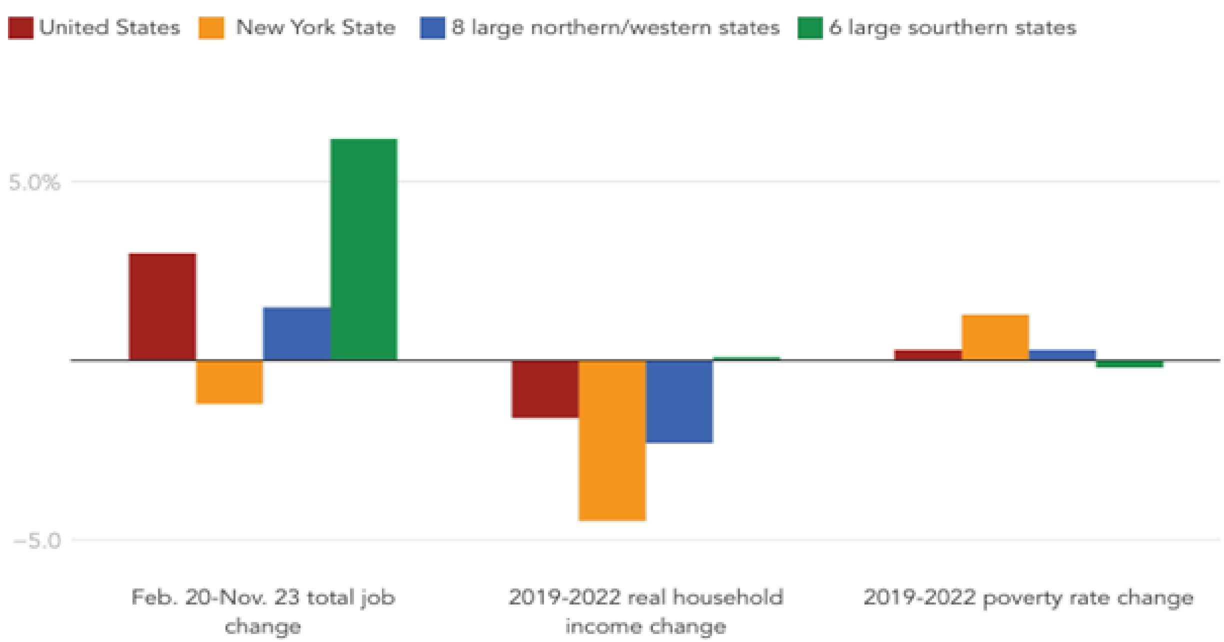
New York City's unemployment rate edged up from 5.2 percent in November 2022 to 5.3 percent for the same 2023 month. The city's unemployment rate has maintained a 1.5 percent differential over the national unemployment rate over the past year. However, in our latest quarterly analysis of New York City's unemployment rate for the third quarter of 2023, significant racial disparities in unemployment continued, with Black unemployment 7.6 percent and the Latinx unemployment 6.5 percent compared to 3.7 percent for whites.

New York's lagging economic performance since the onset of the pandemic

Relative to the U.S. as a whole, and to 14 other large states, New York's job and household income growth have lagged, and its poverty rate has risen, more since the start of the pandemic. Figure 4 shows the comparisons for these three mainstay measures of economic performance, with the 14 other large states separated into eight northern and western states (MA, NJ, PA, OH, MI, IL, CA, and WA) and six southern states (VA, NC, TN, GA, FL, and TX). The southern states that generally experienced faster economic growth in recent decades than most northern and western states are shown separately to provide a better point of comparison between New York State and the group of northern and western states.

Figure 4

New York lags the U.S. and other large states in job and income growth and poverty has risen more since the onset of the pandemic

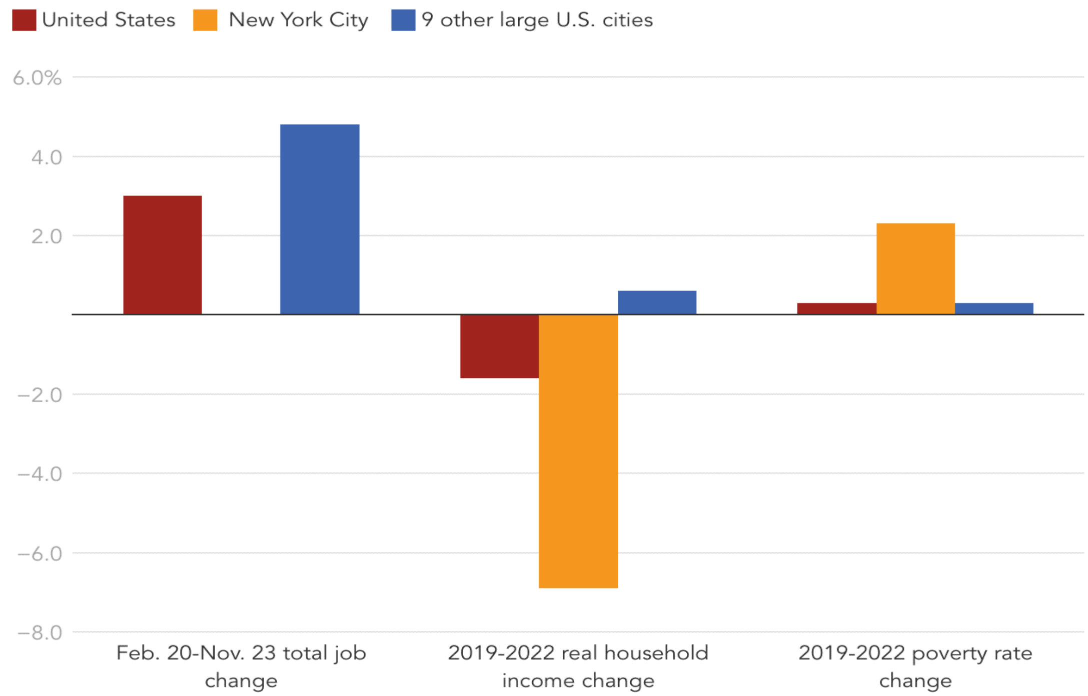


Source: BLS; American Community Survey, 2019-2022. See the Appendix Economic Charts state-level changes for these indicators. • Created with Datawrapper

Similarly, As Figure 5 shows, New York City also lags the other nine largest cities in the nation in job and income growth and in poverty reduction. (The nine other large cities include Los Angeles, Chicago, Houston, Phoenix, Philadelphia, San Antonio, San Diego, Dallas, and San Jose.)

Figure 5

Since the onset of the pandemic, New York City lags behind other large cities in job and income growth and poverty has increased more



Job change in NYC between Feb. 20 - Nov. 23: 0%

Source: BLS; NYC OMB; American Community Survey, 2019-2022. See the Appendix Economic Charts city-level changes for these indicators. • Created with Datawrapper

The city has recovered its pre-pandemic total employment level (indicated by a zero value in Fig. 5) but lags well behind the 9 other large U.S. cities. Nevertheless, the city's 2019-2022 decline in inflation-adjusted median household income has been greater than the state's (-6.9 percent compared to -4.5 percent), and its poverty percentage point increase between 2019 and 2022 has been greater (2.3 percentage points compared to 1.3 percentage points). By the federal poverty measure, which does not account for the city's higher housing costs, New York City's overall poverty rate was 18.3 percent in 2022, but poverty for Blacks and Latinx persons was roughly twice that for non-Hispanic whites (22.9 percent, 24.3 percent, and 11.6 percent, respectively.)

Bulk of wage gains go to high-earners; the cost of failing to index the minimum wage.

Lopsided wage growth has been a big contributing factor to New York City's 2019-22 drop in median household income. While workers in the city's high-wage industries (finance, tech, media, and professional services) saw their average inflation-adjusted wages rise by 2.5 percent annually from 2019-22, workers in low- and middle-wage industries experienced only 0.5 to 0.6 percent real annual wage gains over that period.[2] Overall, high-wage industries accounted for more than three-quarters (77 percent) of all New York City wage gains over that three-year period despite accounting for only one-quarter (26 percent) of all employment.[3]

The extremely lopsided nature of New York City income growth is clearly evident over the 2019-2021 period for which income tax data are available. Figure 6 shows this tale of two cities. The nearly 98 percent of tax filers (a proxy for households) with incomes below $500,000 saw very marginal income gains or declines from 2019-21. At the same time, two percent of city taxpayers with incomes between $500,000 and $10 million experienced 5.9 percent income gains over that two-year period, and the one-tenth of a percent of tax filers with incomes over $10 million saw incomes shoot up over 56 percent. The richest one-tenth of a percent (fewer than 2,800 households) garnered 85 percent of all city income gains 2019-21. Because the volatility of realized capital gains can distort year-to-year comparisons, the data in Figure 6 exclude this income, which more than doubled between 2019 and 2021. The $10 million+ households received two-thirds of all capital gains income in 2021.

One of the reasons for the weakness in wage growth at the low-end of the income spectrum is that the State minimum wage was not indexed for inflation after the New York City minimum reached $15 an hour in 2019. Over the past four years (through November 2023) the Consumer Price Index (CPI) rose 20 percent, but there were no adjustments to the State minimum wage. Even with the $1 hourly increase on January 1, 2024, and the 50 cent hourly increases to come on January 1 of 2026 and 2027, there will have been only a 13.3 percent increase in the minimum wage between 2019 and 2027. That is less than half the likely CPI increase over that period. The minimum wage increase that Albany enacted last session failed to make up for the erosion of low wages in the midst of a period when consumer prices rose at their fastest pace in four decades and wages have soared at the high end. Even with this January's increase to $16 an hour, New York City's minimum wage no longer puts it in the leading tier of U.S. cities, as Figure 7 demonstrates.

Figure 6

Almost all 2019-21 NYC income gains* received by the top 2.1 percent of taxpayers

[2] Lauren Melodia, *Pandemic wage gains in New York City's high-wage industries outpace gains for low- and middle-wage industry workers*, Center for New York City Economic Update, August 24, 2023.
[3] CNYCA analysis of BLS Quarterly Census of Employment and Wages, 2019 and 2022.

income range	# of 2021 NYC tax filers	% of 2021 tax filers	share of 2021 NYC income	2019-21 % income change	share of 2019-21 NYC income growth
$0-$49,999	2,293,880	59.0%	14.2%	0.8%	1.8%
$50,000-$125,000	1,057,782	27.2%	22.3%	-3.0%	-11.6%
$125,000-$500,000	450,970	11.6%	25.3%	0.4%	1.9%
$500,000-$1,000,000	47,478	1.2%	7.8%	5.9%	7.3%
$1,000,000-$10,000,000	32,416	0.8%	16.6%	5.9%	15.7%
$10,000,000 and over	2,776	0.1%	13.9%	56.6%	85.0%
All filers	3,885,302	100.0%	100.0%	6.3%	100.0%

* Excludes realized capital gains which, due to their volatility, can distort year-to-year comparisons.

Source: CNYCA analysis based on Independent Budget Office income tax data.

Figure 7

While the state minimum wage for New York City increased to $16.00 on January 1, 2024, several other large cities are well ahead of New York City

* Minimum wage will increase on 7/1/24 based on the increase in the Consumer Price Index.

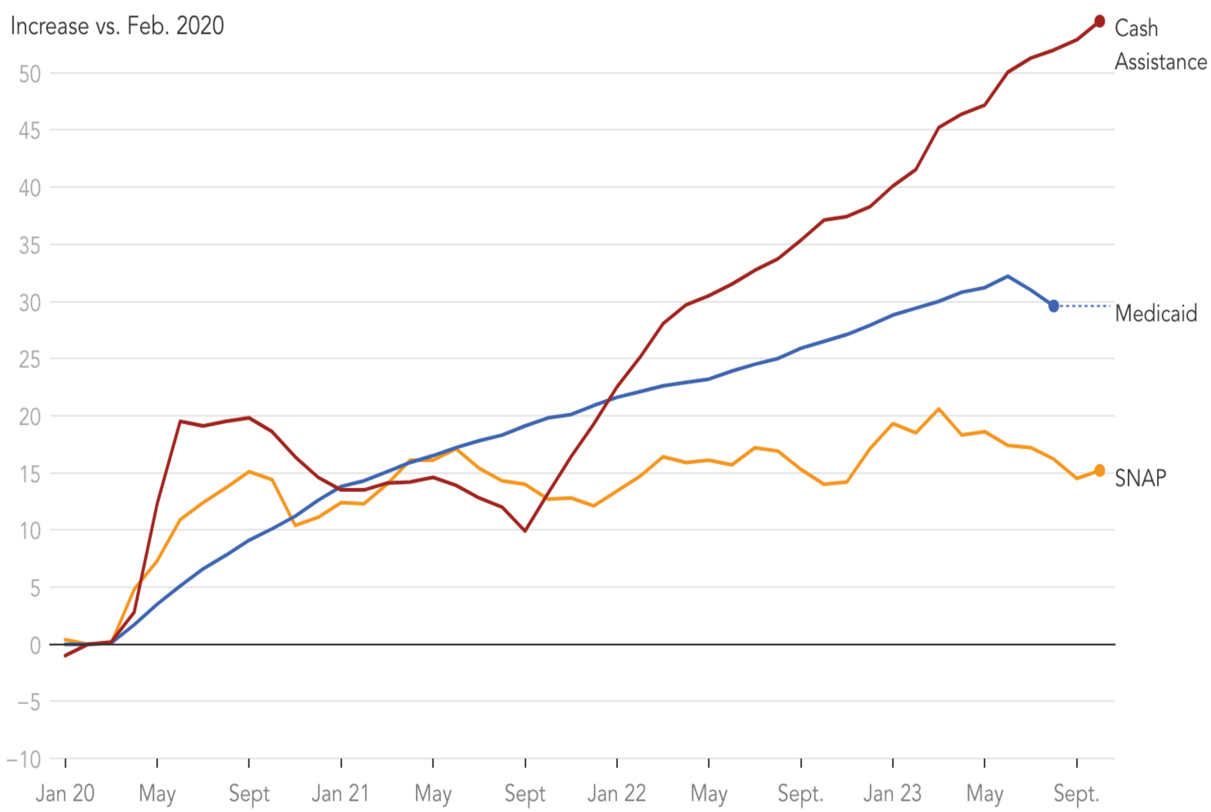
Created with Datawrapper

Economic hardships rising in the context of high-income gains at the top.

Economic hardships among some New Yorkers have continued to rise even as the city has partially recovered from the economic dislocations triggered by the pandemic. The number of city residents receiving cash assistance was 490,000, 55 percent greater (+173,000) in October of 2023 than in February of 2020. (See Figure 8.) Nearly 4.4 million city residents qualified for Medicaid in August, representing a 30 percent increase in the overall number, and 1.7 million city residents participated in the Supplemental Nutrition Assistance Program (SNAP, commonly referred to as food stamps.) (There have been slight declines in the Medicaid and food stamp rolls since the spring of 2023, as both programs reinstated regular re-certification requirements, ending temporary waivers that were put in place during the pandemic.) The number of persons in the New York suburbs and Upstate qualifying for Medicaid assistance has risen by nearly as much as in the city, increasing 27 percent from February 2020 to August 2023 (the latest month for which data are available). Statewide, the number of Medicaid recipients rose by 1.75 million from February 2020 to 7.84 million in August 2023.

Figure 8

NYC cash assistance recipiency continues to rise but recertifications have halted the growth in SNAP and Medicaid rolls



Source: NYS Office of Temporary and Disability Assistance, and NYS Dept. of Health • Created with Datawrapper

With declining incomes for many low-income renters, the lack of affordable housing in New York City has only gotten worse since the onset of the pandemic. Housing costs have been a factor in the out-migration of many households of modest means, and in the increase in homelessness even before the influx of migrants. As of 2021, 53 percent of the city's renters were considered rent-burdened (defined as those who paid more than 30 percent of household income in rent), with 32 percent considered severely ren-burdened (paying more than 50 percent of income in rent.[4]

New York's lopsided and incomplete economic recovery from the pandemic has meant not only faltering job growth and median incomes, higher poverty and greater economic hardship. It has also increased income polarization. The U.S. Census Bureau measures income inequality using the Gini coefficient of inequality which ranges from zero (all persons have the same income) to one (one person has all the income). By this measure, New York State had a statistically significant increase in income inequality and the greatest degree of income inequality among the 15 largest states in 2022 (as well as the highest among all 50 states).

Income inequality in New York City also rose over the past three years, following a six-year period (2013-19) when income inequality had stabilized. (There was no statistically significant change in the Gini coefficient in the city over that period.) While the Census definition of income does not include realized capital gains, income tax data *does* include it. And by that broader income measure, there has been an even sharper local acceleration in income inequality since the beginning of the pandemic. Boosted by surging corporate profits and financial market gains in 2021, the share of all New York City incomes going to the richest one percent of tax filers jumped from 35 percent in 2019 to 44 percent in 2021. While not as high as the peak level of 46 percent reached at the height of the 2007 financial and housing bubble, the 2021 level reflected a significant change from the 2008-20 period when the city's one percent income share stayed in the 35-40 percent range. (Without realized capital gains, the richest one percent's share of city income rose from 29 percent to 32 percent from 2019-22.)

The U.S. Census Bureau estimates that New York City's population declined by 468,000 or 5.3 percent between 2020 and 2022, eroding about three-quarters of the previous decade's population growth. Many factors contributed to the decline, led by the outflow of families seeking more (and less expensive) space with the increased ability to work-from-home. It is worth noting how the nature of the population changes

[4] New York City Department of Housing Preservation & Development, *2021 New York City Housing and Vacancy Survey Selected Initial Findings*, May 16, 2022, pp. 54-56.

differed between 2021 and 2022. Continued declines in international in-migration in 2021 and over 41,000 Covid-19-related local deaths contributed to the 2021 falloff. According to an analysis by the State Comptroller's office, the median wage of people moving into the city rose by 13 percent in 2022 compared to 2021, while the median income of those moving out declined by 18 percent. The net population change was more Black and Hispanic and less white in 2022 than in 2021. [5] Tax data for 2021, the latest year available, suggest that most of those with millionaire incomes leaving New York City moved elsewhere in New York State, and that the total number of millionaire New York City tax filers rose by 16 percent.

[5] Office of the New York State Comptroller, *NYC's Shifting Population: The Latest Statistics*, December 2023.

III. 2024 Economic and Revenue Outlook

It's true that median incomes have faltered and economic recovery has yet to reach many low-income households. Nevertheless, it's also true that the City and State tax base that largely drives tax collections depend heavily on the incomes of those who have fared reasonably well over the past four years, and on the profitability of New York's businesses, many of which have also prospered. High-income earners account for a high share of New York City and State personal income taxes precisely because they account for a disproportionate share of incomes.

Recent national economic news has considerably brightened the economic outlook for 2024, and that means the City and State revenue outlook has turned for the better. The steady decline in inflation and slowing job growth have led Federal Reserve policymakers to hold off on further interest rate increases and to signal the possibility of lowering rates if economic softening continues. At its December meeting, the Federal Reserve's Open Market Committee projected three quarter-point interest rate declines in 2024.

Last spring, most macroeconomic forecasters assumed very slow or negative growth in the national economy. They, and City and State budget officials, thought the odds were better than even for a mild recession in either calendar year 2023 or 2024, as the Federal Reserve continued to keep interest rates elevated to bring inflation under control. The failure of two significant regional banks last spring, continued geo-political tensions, and the possibility of a debt limit meltdown in Congress all also seemed to make a recession more likely.

At this writing in early January, however, the consensus among most macroeconomic forecasters has shifted to an outlook for a "soft landing" without even a shallow recession. In December, the Federal Reserve significantly raised its 2023 GDP projection. While it foresees slower growth in 2024, by reducing its 2024 year-end interest rate target by a half percentage point (from 5.1 to 4.6 percent),[6] it is almost a certainty that the New York City and State economic forecasts for 2024 will be revised upward with the release of new budgets later this month. City and State tax forecasts are also very likely to be revised upward. (Nevertheless, in its mid-year budget report based on data through September, the State budget office lowered their projection for FY 2024 tax collections by $1.06 billion despite the fact that actual collections were running well ahead of forecasts for the first six months of the fiscal year according to the State Comptroller's cash basis report.)

[6] Federal Reserve Open Market Committee, *Summary of Economic Projections*, December 13, 2023.

The sections that follow on the City and State budgets will discuss in more detail the respective revenue outlooks.

IV. NYC budget outlook

On November 16th, Mayor Eric Adams released the required first quarter modification for the 2024 Fiscal Year budget. (Unless otherwise noted, all subsequent references in this section are to City fiscal years.) The City's projected spending for the current year has grown by $3.4 billion, to $110.5 billion, since the budget was adopted in June. The growth results in part from a $1.8 billion increase ($1.4 billion in City funds) in the projected costs for sheltering and serving migrants arriving in the city from the southern border areas. There was also a net increase of $2.3 billion in higher-than-anticipated agency spending for items such as overtime, pupil transportation, and special education services. (Although agency spending increased on net, planned spending in some agencies was lowered. That included $120 million in early education spending by the Department of Education, as the administration brought spending into line with what it claims is the current demand for 3K and 4K slots.) Offsetting these changes was an increase in the tax revenue forecast of $592 million, and $2.5 billion in state and federal categorical grant revenue (some was shifted from 2025 to 2024).

The budget modification also introduced $1.7 billion in budget reductions (known as the Program to Eliminate the Gap, or "PEG") for this year and $2.0 billion for 2025. While the 2024 budget remains in balance, the City's four-year financial plan still shows large gaps of over $7.1 billion for 2025 (9.0 percent of City fund revenue) and roughly $6.5 billion for 2026 and 2027, despite the cuts. While large in absolute terms, in percentage terms these are large, but not record-high, out-year gaps. Under the City Charter the Preliminary Budget due later this month must show 2025 in balance.

The November budget mod makes it clear the City is facing tough fiscal times in the next few years. It's also clear that the challenges are similar in scale to those the City has successfully faced in the past. Overcoming them will require that the City use all the tools at its disposal: carefully chosen budget cuts; lobbying state and federal partners for assistance; spending wisely and efficiently; drawing down some of our reserves; and considering tax increases.

Program to Eliminate the Gap (PEG)

With one round of PEGs included in the November modification, the administration has instructed most agencies to submit two more rounds of budget savings, one that will be included in the Preliminary Budget, and a second round in April for release with the Executive Budget. Each round is to be five percent of the agency's City-funded budgets. (The police, fire, and sanitation departments were excluded from the upcoming rounds.) Within days of releasing the November Modification, the Mayor also instructed agencies dealing with the migrant emergency to find ways to cut 20 percent of their spending on services and supports for migrants. It is not clear if this additional savings target is on top of the two five percent rounds or replaces them for the affected agencies.

The City's Office of Management and Budget (OMB)reckons that relatively few of the PEGs included in the November modification will result in service reductions. These include: reducing funding for the Department of Education's Community Schools initiative ($10 million in 2024 and $8 million in 2025); savings from cancelling several police academy classes ($42 million in 2024 and $289 million in 2025); cutbacks in the Summer Rising program ($20 million in 2025); reductions in a number of job training programs that prepare participants for jobs with the City, and several sanitation street cleaning initiatives. In addition, other cuts that were not labeled as reductions in service by OMB will likely reduce service, including subsidies for the four library systems ($27 million in 2024) and cultural institutions ($6 million), as well as school safety staffing.

Other November PEGs will help close budget gaps by raising revenue. For example, the Department of Finance will be hiring 45 new tax auditors, with the expectation that they will generate $48 million in new revenue in 2025, or more than $1 million per auditor each year. The Sheriff's Office, which is part of the Finance Department, plans to hire two staffers in their parking booting enforcement unit and expects to collect an additional $5.5 million.

Even if including the cuts mislabeled as efficiencies rather than service reductions, the cuts in this round of PEGs have largely consisted of vacancy reductions, personal service accruals, hiring freezes, and finding ways to tap federal reimbursements. As these options are exhausted, future rounds of cuts are likely to include more service reductions and perhaps layoffs unless the City can secure additional federal and state assistance or raise revenue.

Services for migrants

The November modification assumes that the City will spend $3.6 billion this year in services to migrants, and $5.5 billion in 2025, before tapering off to $1.0 billion in 2027. In 2025, the City cost would amount to 6.0 percent of total City fund revenue. If the federal or state government were shouldering half of these costs, the City's projected gap for 2025 would be cut nearly in half, to $3.3 billion.

Lacking support from the state and federal governments, the City has begun taking steps to reduce costs by imposing time limits for shelter stays and ordering the 20 percent reduction in agency spending for migrants. Whether these actions withstand the opposition they face will play a role in determining the scale of future budget cuts. The governor has already pledged to provide more aid for the city in her Executive Budget due later this month. The state is in much stronger fiscal shape than the city and should be able to provide more assistance to help deal with the migrant crisis.

The November modification assumed the net number of asylum-seeking households in the city's care was rising by 55 each day and that the average cost per day was $396 per household. Data from November and December 2023 show a smaller actual net increase of 29 households per day, perhaps in response to the City's policy change of limiting lengths of stay in the shelter system. The per diem cost may also decline in light of the City Comptroller's decision to limit the use of emergency contracts and return to more routine contract procedures.

In its budget pronouncements this fall, the Adams administration has pointed to the financial burden the migrant crisis is placing on the city, leaving the implication that it is largely responsible for the fiscal challenge the city faces. While there is no doubt that the migrant crisis has added to the city's fiscal stress, it is hardly the only cause. Early in its term, the Adams administration negotiated pattern-setting labor contracts with raises larger than the City had budgeted. Another contribution was the prior City administration's practice of establishing or expanding a number of programs using temporarily available federal Covid relief funds without identifying a source of permanent replacement funding. Slowing tax revenue growth has further added to City's fiscal challenge. If revenues in 2024 had grown at even half 2023's rapid pace of 5.5 percent, tax revenue this year would have reached $75 billion, which would have generated a large surplus to be used to address the 2025 gap.

Federal fiscal cliff remains

While the costs of migrant services are highlighted, other costs the City is likely to face are not mentioned in the modification. City funds are needed to maintain the programs funded with Covid-era federal fiscal relief funding that expires in September 2024. If City funds do not replace federal funds in programs such as the partially-expanded PreK-3, Summer Rising, or the provision of special education services to all Universal Pre-K children requiring them, the initiatives would almost certainly be scaled back. The City is also facing a new mandate from the State to reduce class sizes, although no State funding has been provided. While estimates vary, the mandate would require the City to hire thousands of teachers and build classrooms with tens of thousands of seats. The recent expansion of the "CityFEPs" rental assistance program also awaits funding, with some estimates indicating hundreds of millions of dollars in City funding may be required.

Tax revenue

Coming off three consecutive years of strong tax revenue growth averaging 5.2 percent annually, the outlook for 2024 is weaker. OMB is forecasting a decline from 2023 to 2024 of 2.1 percent. That's a drop of $1.6 billion partly due to an expectation of slower economic growth, and lower Wall Street profits and end-of-year bonuses. This would mark the first year-to-year decline in tax revenues since 2009 when, in the wake of the 2008-2009 financial crisis, they fell by 7.2 percent. OMB's forecast for 2024 through 2027 is largely unchanged since last spring.

The administration did make a few changes to the 2024 forecast based on stronger-than-anticipated current year collections, particularly from the personal and business income taxes, amounting to $592 million. As is common at this point in the budget process, the changes were not carried forward into the subsequent years of the financial plan.

Despite the improvement in the 2024 outlook, OMB's forecast still assumed negative revenue growth for this year. The other change made by OMB was to increase the property tax forecast by roughly $450 million for 2025 through 2027, to recognize unanticipated strength in the 2024 assessment roll that had not been included when the budget was adopted last spring.

While tax revenue is likely to slow this fiscal year, there are reasons to expect stronger performance than OMB is forecasting. The higher-than-expected collections so far this year are one indicator that there will likely be a larger budget surplus available this year to help balance 2025. More significantly, both the local and national economies look stronger today than they did last spring, allowing the City's tax base to grow and generate additional revenue.

As noted earlier, OMB's revenue forecast from last spring assumed a mild recession, and their outlook for the local economy cited concern about the financial services sector, commercial real estate, and shrinkage of the city's labor force. Today, inflation has slowed without tipping the economy into recession, although this remains a risk if the Fed keeps interest rates elevated for longer than markets anticipate. In the city, office occupancy has been slowly creeping up, tourism is once again a leading industry for the city, and the financial sector has seemingly weathered last spring's banking crisis without experiencing many of the anticipated job losses, helped by rising equity markets in the second half of calendar year 2023.

The number of workers in the city has almost fully recovered the number lost during the 2020 Covid recession, although as noted earlier, the recovery has been very uneven among segments of the labor force, and poverty and public assistance rolls in the city have grown significantly. New evidence indicates that the increase in the exodus of high-income households at the height of the Covid pandemic was temporary and may be reversing.

These changes at the U.S. and local level portend a stronger city tax base which will generate additional revenue above what was recognized in the November modification, although far from sufficient to close the gaps alone.

Recent tax revenue forecasts from the City Council, the City and State Comptrollers, and the Independent Budget Office, relying on more recent data on the local economy and current tax collections, all offer more optimistic outlooks than OMB, although projected growth is still well short of trends in the recent past. All four offices are projecting negative total tax growth for 2024, but with smaller declines than OMB forecasts.

Over the financial plan period, the other offices all predict at least somewhat stronger growth than OMB in revenue from the personal income and corporate income taxes and the sales tax. The outlook for the real property tax, which is the city's largest revenue source, varies over the course of the financial plan, but IBO, the City Council, and the City Comptroller all project collections to exceed OMB's by between $1.3 billion and $2.3 billion in 2027. Annual growth for total tax collections is expected to average between 1.8 percent to 2.2 percent in 2024 through 2027, compared with OMB's 1.4 percent annual average.

Figure 9

Other budget offices project NYC tax revenues to average $1.1-$2 billion greater annually than City OMB forecasts for FY 2024-27

NYC Tax Forecasts ($ millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
OMB 2024 Adoption (June 2023)	$72,978	$71,139	$72,834	$74,472	$76,921
OMB November Changes	$321	$592	$480	$487	$536
OMB November Modified Budget	**$73,299**	**$71,731**	**$73,314**	**$74,959**	**$77,457**
Additonal projected tax collections					
New York City Comptroller		$1,183	$813	$799	$1,313
New York State Comptroller		$1,140	$1,330	$1,370	$1,130
City Council Finance Division		$1,200	$294	$1,362	$2,441
NYC Independent Budget Office		$1,067	$2,028	$2,494	$3,191

NYC Comptroller forecasts adjusted to remove STAR for compatability with others

Created with Datawrapper

Reserves

The City has been adding to its budget reserves and could provide some temporary fiscal relief by tapping them, particularly if the alternative is cutting services. The easiest sources to draw on are the so-called "general reserve" and "capital stabilization reserve" in the City budget. The former is required under the City Charter with an initial appropriation of $100 million, although the City has been routinely starting each fiscal year with $1 billion or more. This year it is $1.2 billion with another $250 million in the capital fund reserve. Since these are appropriated funds with no assigned use, they could be used to offset service cuts. Money can be transferred from these reserves and used where necessary.

In most years the money is not used and is gradually drawn down over the course of the fiscal year to help build up the surplus to be rolled into the next fiscal year. In 2020, the State Legislature granted the City the right to establish the "revenue stabilization fund," which will function like a traditional rainy day fund. It has since accumulated a balance of $2 billion. The City has yet to define the size or set rules for deposits and withdrawals from the fund. Finally, the City has access to the Retiree Health Benefit Trust which has $4.6 billion, although withdrawals must leave sufficient funds to cover the annual cost of retiree benefits.

V. New York State Budget Outlook

No longer forecasting a national economic downturn

In its Midyear Budget Update (MYU) released in November, the State Division of the Budget (DoB) withdrew their projection that there would be a national economic downturn in the second half of 2023 and estimated that calendar year 2023 real GDP would grow by 2.4 percent. A more comprehensive updating of DoB's economic and revenue forecasts will be presented with the release of the Governor's State FY 2025 Executive Budget proposal in mid-January. It is expected that the possibility of three Federal Reserve interest rate declines in calendar 2024 will result in projections for stronger economic and revenue growth.

The State's revised economic outlook should remedy the disconnect between DoB's economic outlook and tax forecasts evident in last spring's Enacted Budget report. Then, there was a 10 percent reduction in projected FY 2024 tax revenues between the FY24 Executive and Enacted budgets (i.e., from January to June 2023), even though the projected calendar year 2023 real GDP growth from 0.5 percent to 1.2 percent and there was very little change in the forecasts for state personal income and total wages.

The national and state economic outlook for the next year or two is undeniably brighter today than it was at the time of the Enacted budget report; yet FY 24 tax projections have been reduced by $1 billion (-0.9 percent), and FY 2025 revenues were increased by only $675 million (0.7 percent) between the Enacted budget and the Midyear Update.

The State tax forecasting picture for the current FY 24 budget has become very murky. DoB reported that tax collections for the first six months of FY 24 (April-September) were coming in $2.2 billion greater than the Enacted budget estimate, yet DoB lowered the FY 24 tax forecast by $1 billion in October. Recently the State Comptroller reported that FY 24 tax receipts through November (eight months into the fiscal year) were $750 million greater than the revised MYU level. At this point, unless there is unexpected economic weakening, it seems very likely that there will be additional State tax revenues in both FYs 24 and 25.

The Governor's messaging to date on what to expect in the FY 2025 Executive Budget proposal include a much more modest housing agenda than last year, no new taxes, and a commitment to increase funding for the influx of migrants, including more aid for

New York City to help with its shelter and related costs. Following Mayor Adams's announcement of his proposal to significantly cut the City budget in his November modification -- including reductions in the number of police officers -- the Governor indicated she was directing her budget staff to look into how the State can help with City with public safety funding.

At the "Quick Start" budget meeting in mid-November, the DoB director indicated the governor is focused on maintaining full State foundation school aid, health care infrastructure investments, and increased mental health spending. The budget director noted that health care spending will grow by over 10 percent in the coming year, to fund minimum wage and pay increases for home health care workers and to maintain health insurance for many of those currently receiving Medicaid coverage. (Last May, a pandemic era policy of not requiring Medicaid recipients to recertify their eligibility ended. Over 1.7 million state residents were added to the Medicaid rolls since February 2020, a 29 percent increase.)

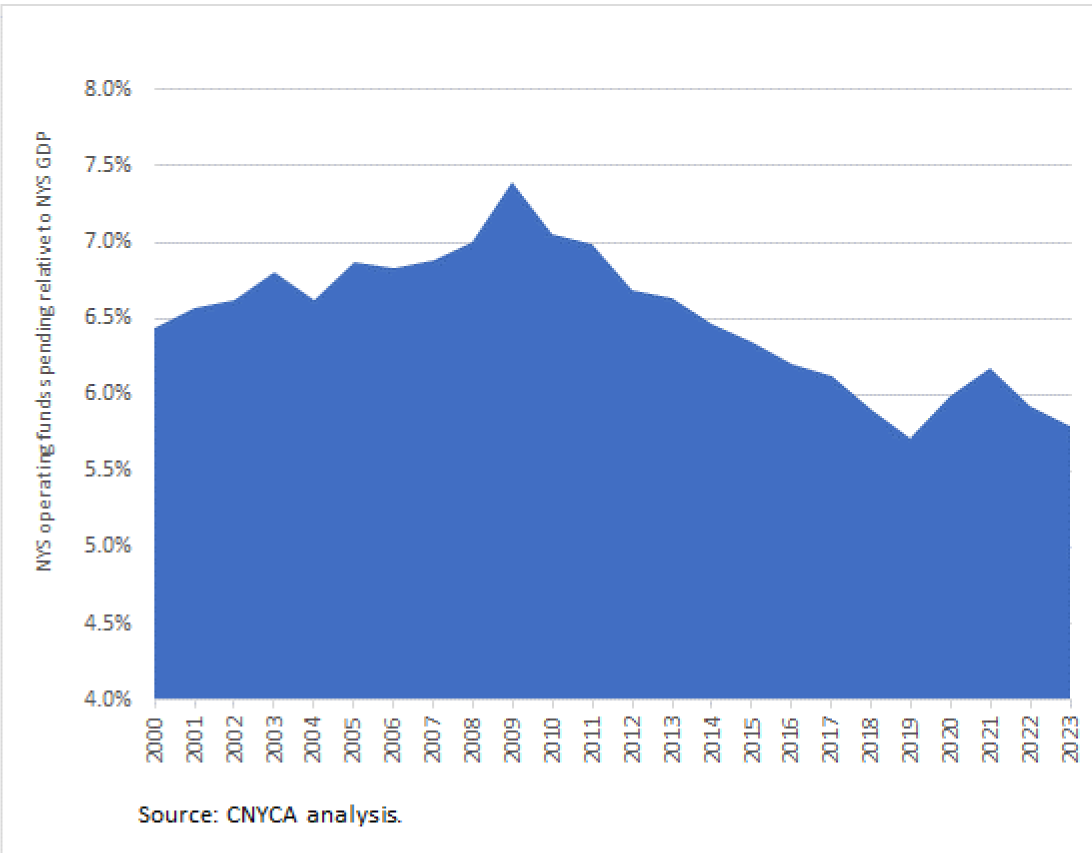
Ample State budget reserves

Between its "rainy day" reserves ($6.3 billion), the debt management reserve ($2.4 billion), and the reserve for "economic uncertainties," ($13.3 billion), the State has a total of $22 billion in reserves. While spending from the rainy day reserves can only be triggered by an economic downturn, there are no restrictions on the use of the informal reserve for economic uncertainties. Extraordinary expenses related to the unprecedented situation involving the influx of over 100,000 migrants could be covered by a portion of the "economic uncertainties" reserve. In addition, the State also has a sizable labor settlements reserve and is projected to end FY 2024 with an additional "undesignated fund balance" of $5.7 billion. This gives the State significant reserves on hand in the event of an unforeseen drop in tax collections.

For the past decade and a half, New York State has been reducing State operating funds spending relative to the size of the state's economy. This can be interpreted as a measure of under-investing in State spending that supports equitable growth. As Figure 10 shows, from 2000-2011 State-funded budget spending averaged 6.8 percent of New York's GDP. Projected State spending in FY 2024 (most of which falls in 2023) would be an estimated 5.8 percent of state GDP. That's more than $22 billion less than it would be if that spending-to-economy ratio were 6.8 percent, an indication of the extent to which New York has been disinvesting in its people over the past dozen years. If a third of the $22 billion in reserves was allocated for critical spending needs and greater aid to New York City, the ratio of state spending to GDP would increase to only 6.1 percent, still well below the average level for the 2000-2011 period.

Figure 10

New York State operating funds spending is close to a record low level as a share of state GDP



Source: CNYCA analysis of BEA and NYS Division of the Budget data.

NYS budget priorities in the context of the lopsided economic well-being of the past four years

As this report has documented, the pandemic economic dislocations were extremely lopsided and the last four years have seen a wide disparity in the well-being of the New York City and New York State population. While New York's employment recovery may be incomplete and job growth slowing there has been considerable overall economic and income growth since 2019, even as the benefits of that growth have largely gone to the well-off. The economic outlook for the year ahead has brightened considerably, and the outlook for City and State tax revenues is stronger than recent City and State budget offices have reported although not strong enough to completely close budget gaps.

2024 is a year of reckoning for the City and the State. It is a time to come to grips with the uneven and incomplete pandemic recovery and time for the State to increase financial aid to the City needed to effectively respond to the migrant crisis. Further budget austerity will only exacerbate these problems. It is prudent for the State to maintain sufficient budget reserves but keeping them at an excessive level in the midst of the need to deal with tens of thousands of recent asylum seekers and with the substantial post-pandemic economic hardships would be ineffective budget and economic policy.

New York State budget spending has fallen below long-term levels in relation to the magnitude of the state's economy and needs. Using $5-$7 billion of the $22 billion in State budget reserves would still result in a spending level much lower than during the 2000-2017 period as shown in Figure 10. Some of that additional spending should take the form of increased financial aid to the City of New York for addressing the needs of asylum-seekers, and some should be used to respond to rising poverty and economic hardships, both of which otherwise will undermine the state's long-term economic performance. The State also needs to craft better policies to improve the grossly inadequate compensation for the growing number of health care and social assistance workers whose pay is largely determined by New York State and local governments.[7] That low pay persists as the unfortunate legacy of severe gender and racial disparities.

[7] James A. Parrott and L.K. Moe, *The Case for Ending Poverty Wages for New York City's Human Services Workers*, Center for New York City Affairs, March 2022; and L.K. Moe, *Closing the Gender Pay Gap, Why Pay Equity Has Stalled in New York City and the Urgent Need for Action*, Center for New York City Affairs, November 2023.

VI. Time to raise New York City revenues?

It is clear that the city is facing tough choices. It has taken on most of the burden of providing services and shelter to tens of thousands of migrants. It must decide whether to use City funds to replace expiring federal Covid relief funds to keep some popular and important programs in operation. It also is facing slower tax revenue growth this year (albeit, likely higher than currently projected by OMB). A question for city leaders to answer is whether it is better to solve the shortfalls solely by cutting the budget or perhaps use a combination of prudent cuts and tax revenue hikes as was done in the wake of 9/11 and the 1989-93 recession.

With the exception of the real property tax rate, the City is limited in actions it can take to raise tax revenue without the approval of the State Legislature and the governor. Nevertheless, the glaring inequities in the city's residential property tax that would be exacerbated by raising the rate make it a poor candidate for raising new revenue.

There are other options for raising tax revenue while enhancing the overall progressivity of the City's revenue structure. These include rescinding the Madison Square Garden property tax exemption. Ending it entirely would bring the City $43 million in 2024. Another option would be to add one or more bracket with higher rates to the City's income tax. The income tax is currently not very progressive, with the top bracket beginning at $90,000 for a married couple. For example, to generate roughly $1 billion in new revenue, the City could add two new high-income tax brackets of $1 million to $5 million and $5 million and up, with rates of 4.2 percent and 4.4 percent, respectively. The City Comptroller first raised a proposal along these lines last spring.

Another option would be to either negotiate or assess a payment in lieu of tax (PILOT) from private universities and hospitals that are currently exempt from property tax under state law. Such institutions benefit from City services that are funded in part through the property tax paid by others. A number of cities with large amounts of not-for-profit exempt property receive PILOTs as an alternative to bringing hospital and university property directly onto the tax roll, usually at some discount from their liability if not exempt. In New York City, over $28 billion in market value is currently exempt for private universities and hospitals in the city according to Department of Finance data. If taxed as regular property they would owe about $1.4 billion.