



BLOG | CITY BUDGET

# What to Look for in the NYC November Modification

November 10, 2020

Fiscal crises require leadership, hard choices, and diligent management from public officials. Like every prior recession, this fiscal crisis will affect New York City's finances for multiple years. While the prospects for additional federal stimulus may now be brighter, federal aid will not solve all the City's fiscal problems, but can serve as a bridge to fiscal stability if City leaders take appropriate actions.

New York City has a quarterly budget modification process. The "November modification," as it is known, is often a technical adjustment for revenues in the door and expenses already paid. However, crisis management demands the November modification reflect more than just budget updates; it should demonstrate aggressive management to control spending and prepare for looming downside risks.

Here are questions to ask once the November modification is released.

## **1. Have economic assumptions been updated to incorporate more recent data about the City's economy?**

The Adopted Budget was based on an economic forecast developed in May 2020 that projected a recovery starting in the fourth quarter of calendar year 2020; however, recent data suggest the economy will recover more slowly. Private sector jobs are still down by 582,000 compared to February 2020, hotel occupancy is at 40 percent including rooms rented by the City, and most office workers will continue to work from home into next year.<sup>1</sup> Furthermore, the recent increase in COVID-19 cases in the city, state, and nation pose a significant risk to the economic recovery.

## **2. How have fiscal year 2021 and future revenue projections been modified to reflect revenues collected to date?**

Despite the ongoing recession, City tax revenue collections in the first two months of fiscal year 2021 exceeded the Adopted Budget forecast by \$302 million (1.8 percent).<sup>2</sup> The November modification will

adjust current year revenues to reflect these collections. Future year revenue projections also may be updated, which would reduce future budget gaps.

### **3. How did the City's financial picture benefit from collecting \$1 billion more in fiscal year 2020 tax revenues than it was expecting?**

Audited financial statements show the City collected \$63 billion in tax revenue in fiscal year 2020, \$1 billion more than projected in June 2020.<sup>3</sup> This may have freed up resources to be used in fiscal year 2021.

### **4. How much does the City expect to spend due to the pandemic and how much does it expect to receive in federal aid, both to reimburse pandemic response costs and to provide fiscal relief?**

The City has already committed to spending \$2.2 billion on COVID-19-related expenditures in fiscal year 2021, an increase from \$118 million in the Adopted Budget.<sup>4</sup> The City should provide a detailed accounting of both response costs and core services, such as education, that may cost more during the pandemic. It also should identify how much of this spending it expects to be reimbursed by the federal government; unreimbursed costs will increase the budget gap.

The extension of the emergency declaration by U.S. Secretary of Health and Human Services Azar also lengthens the City's enhanced Federal Medical Assistance Percentage reimbursement through the first quarter of calendar year 2021, providing additional federal aid. The City might also include estimates of additional federal fiscal relief.

### **5. How large is the new savings program, and how much of it is recurring? Will agencies generate savings from operating more efficiently?**

In the last four years, the City has included a Citywide Savings Program (CSP) in the November modification. While the City has already announced more than \$600 million in savings in fiscal years 2021 and 2022 through refunding debt, there has been no announcement of an agency Program to Eliminate the Gap (PEG).<sup>5</sup> Agencies should be tasked with identifying savings, especially recurring savings that improve the efficiency of government and provide multi-year budget relief.

### **6. What is the plan to generate \$1 billion in recurring labor savings and the impact of payment deferral agreements and furloughs?**

The Adopted Budget included a pledge to work with labor unions to achieve \$1 billion in annual, recurring savings starting in fiscal year 2021. To date, the Mayor has not announced any contract modifications to increase operational efficiency, reform benefits, or make other changes that could [generate recurring labor savings](#). Instead, the City and some municipal unions agreed to shift a combined \$633 million in expenses from fiscal year 2021 to fiscal year 2022.<sup>6</sup> Thus, the needed fiscal

year 2022 savings rise to \$1.6 billion, with \$1 billion expected in fiscal years 2023 and 2024. Savings in future years that are not based on a feasible plan should be removed from the financial plan.

### **7. Will planned savings on overtime in fiscal year 2021 be realized?**

The Adopted Budget projected overtime spending of \$927 million, roughly half of the actual overtime spending in fiscal year 2020.<sup>7</sup> Fiscal monitors, including the Citizens Budget Commission, have questioned whether greatly reduced overtime spending could be achieved absent contractual or staffing reforms. The City has already spent \$410 million, 44 percent of the Adopted Budget amount, through October.<sup>8</sup>

### **8. How much will headcount decrease in fiscal year 2021?**

[Year-end fiscal year 2020 headcount](#) was 324,036 full-time and full-time equivalent employees, about 2,700 fewer than at the end of fiscal year 2019, but still roughly 26,500 more than at the end of fiscal year 2014. The City has a partial hiring freeze in place; this freeze should result in a steeper reduction in the workforce, and unfilled positions should be removed from the financial plan. Remarkably, the Adopted Budget projected headcount would grow by about 4,000 positions between fiscal years 2021 and 2022.<sup>9</sup>

### **9. How is the City managing delays in State aid disbursements and preparing for possible additional State aid cuts?**

New York State's Enacted Budget for fiscal year 2021 included \$8 billion in unspecified cuts to local assistance. While the State still has not released a plan for achieving those savings, it has been withholding a portion of the local aid payments since April 2020.

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## Endnotes

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2. City of New York, Office of Management and Budget, *Financial Plan Statements for New York City – August 2020* (October 20, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/fps-aug-2020.pdf>.
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5. City of New York, *New York City Transitional Finance Authority Announces Sale of \$1.6 Billion Refunding Bonds* (press release, August 20, 2020), <https://www1.nyc.gov/assets/transitionalfinance/pdf/pr/tfa-pr-08-20-20.pdf>, and *The City of New York Announces Successful Sale of \$1.4 Billion General Obligation Refunding Bonds* (press release, August 27, 2020), <https://www1.nyc.gov/assets/investorrelations/downloads/pdf/pr/gopr-08-27-20.pdf>.
6. City of New York, *Mayor de Blasio Announces an Additional \$164 Million in Labor Savings* (press release, October 28, 2020), <https://www1.nyc.gov/office-of-the-mayor/news/745-20/mayor-de-blasio-an-additional-164-million-labor-savings>.
7. City of New York, Office of Management and Budget, *Adopted Budget: Fiscal Year 2021: Supporting Schedules* (July 2, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/ss6-20.pdf>.
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9. City of New York, Office of Management and Budget, *Adopted Budget: Fiscal Year 2021: Full-Time and Full-Time Equivalent Staffing Levels* (July 1, 2020), <https://www1.nyc.gov/assets/omb/downloads/pdf/adopt20-stafflevels.pdf>.