



BLOG | CITY BUDGET

What to Look for in the NYC November Modification

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New York City will soon release the first quarter update to the Fiscal Year 2023 Financial Plan—the November modification. While normally a technical update focused on reflecting actual trends to date, this modification is likely to be more substantial and informative due to Mayor Eric Adams' call for a Program to Eliminate the Gap (PEG), a rocky economy with high inflation and danger of recession, and budget risks leading both City and State Comptrollers and CBC to warn that future gaps could approach \$10 billion. Three things that will undoubtedly and appropriately garner interest are:

1. **What Happens to Revenue Forecasts:** In addition to reflecting tax collections to date, which have been largely on plan, the Office of Management and Budget (OMB) may make economically driven revisions to revenue forecasts. The current forecast is based on fairly conservative assumptions, but the economic situation is uncertain. OMB typically does not update the economic forecast in a November modification, but continuing to rely on an economic forecast from April 2022, given current economic conditions, is increasingly risky.
2. **How Large Are and What Comprises the PEG Savings:** In September 2022, Mayor Adams instructed City agencies to identify efficiency savings of 3 percent in fiscal year 2023, increasing to 4.75 percent annually in fiscal year 2024 and beyond, to be included in the November 2022 Financial Plan. Agencies were given specific dollar targets by OMB and the City expected to achieve savings of \$1 billion in fiscal year 2023 and \$1.6 billion annually starting in fiscal year 2024. The November Financial Plan will present the savings initiatives, their value by agency and total, whether they meet the dollar and percent goals, and what shares stem from recurring efficiencies and restructuring operations versus spending re-estimates and funding shifts.
3. **How Big Are the Budget Gaps:** In June 2022, the City reported budget gaps of \$4.2 billion in fiscal year 2024, \$3.7 billion in fiscal year 2025, and \$4.0 billion in fiscal year

2026. However, these gaps did not reflect many budgetary risks, which may decrease revenues and increase expenses. For example, pension fund investment losses in fiscal year 2022 will require the City to increase contributions by \$861 million in fiscal year 2024, \$2.0 billion in fiscal year 2025, and \$3.0 billion in fiscal year 2026. Furthermore, the gaps do not reflect both City and federal fiscal cliffs—recurring programs that are not in the baseline and do not have funding in future years; these could total \$1.1 billion in 2024 and rise to \$2.5 billion in fiscal year 2026. Additional significant risks come from a possible recession that could reduce tax revenues below forecasts and collectively bargained raises that could exceed the funds currently set aside, which would support 1.25 percent raises annually.

CBC will monitor these and other issues, such as agency headcount levels, and publish our assessment of the November modification shortly after the City's release.

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