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By Dana Rubinstein

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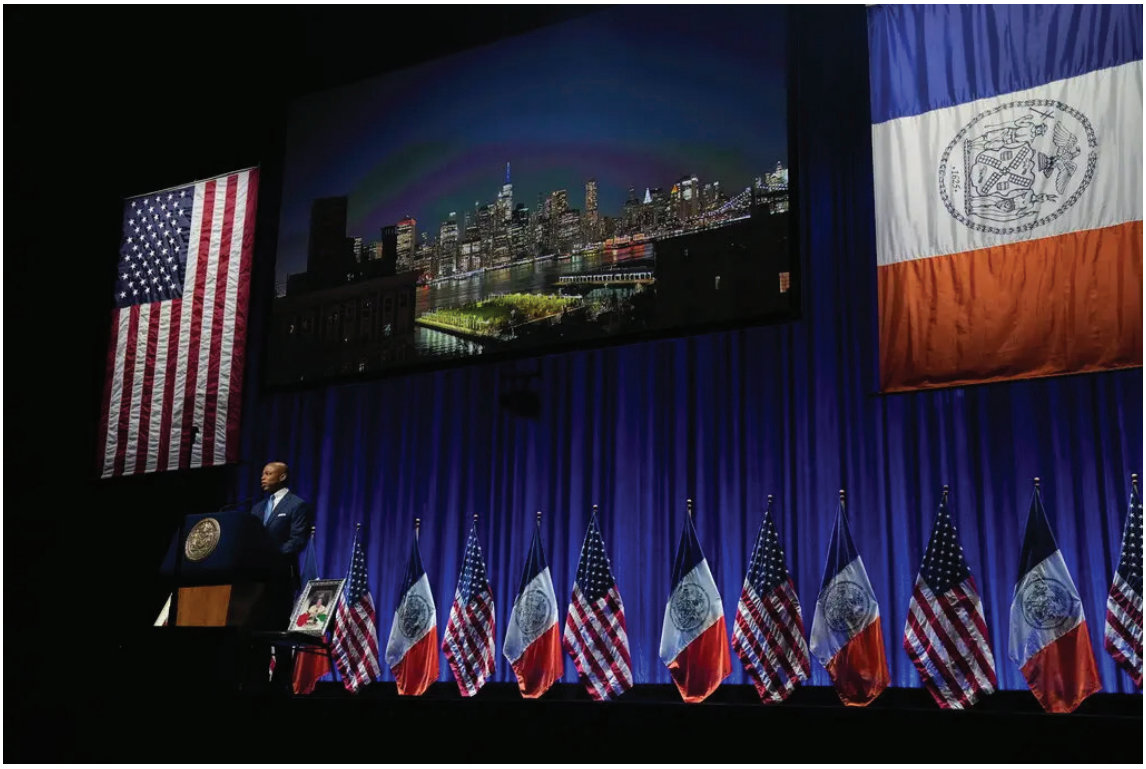
In New Forecast, New York City Projects $2.9 Billion Deficit

The stock market's weak performance is projected to cost the city billions of dollars in pension fund obligations in the coming years.



Mayor Eric Adams, presenting his executive budget in April, has directed city agencies to cut spending.Credit...Todd Heisler/The New York Times

Facing growing pension costs and stiff inflation, New York City officials on Tuesday projected that the city's budget deficit would shrink to $2.9 billion next year after recent belt-tightening efforts, before ballooning again in subsequent years.

The grim forecast was not unexpected: For months, Mayor Eric Adams's administration has been tracking various economic indicators that suggest the city's economic underpinnings are shaky.

Officials have predicted a drop-off in business and personal-income tax revenue. They have warned that reaching new labor settlements with the city's unionized work force could add yet substantial new stress to the budget, even as an underperforming stock market requires the city to contribute more to its pension funds.

With that in mind, the mayor in September demanded that his agencies cut city-funded expenses by 3 percent this year, and 4.75 percent the next. The effort reduced the current fiscal year's budget gap by nearly $1 billion and will cut future deficits even further.

But the gaps remain large: City officials disclosed on Tuesday that they were now

projecting a combined budget gap of $13.4 billion for the next three fiscal years, compared with the $12 billion the city projected in June.

City Hall attributed those increased out-year gaps in part to the stock market's weak performance.

"The city faces significant economic headwinds that pose real threats to our fiscal stability, including growing pension contributions, expiring labor contracts and rising health care expenses — and we are taking decisive actions in the administration's first November Financial Plan to meet those challenges," Mr. Adams said in a statement.

The city's worsening economic conditions come at an inopportune time for the mayor, who is finishing up his first year in office at the helm of a city struggling to emerge from the pandemic, and afflicted by a brain drain so severe that the state comptroller on Monday warned it could affect "critical and essential services for our children and most vulnerable residents."

City officials said that no layoffs were necessary, adding that the administration's ongoing efficiency efforts would cut $1.6 billion from next year's budget, and $1.5 billion the year after that. But those savings will be outpaced by the growth in pension costs starting in 2025.

"Short-term savings should never give people solace when you see the long-term situation getting worse," said Andrew Rein, president of the Citizens Budget Commission.

Though the original savings mandate warned that noncompliant agencies could be subject to hiring freezes, not every agency complied, and none were penalized.

The New York Police Department only achieved 41 percent of its two-year savings targets, city officials said Tuesday. The Department of Sanitation achieved only 39 percent. And the Fire Department achieved 98 percent.

Mr. Rein said the city achieved its sought-after savings largely through re-estimates of projected spending, rather than making more lasting structural changes.

The Adams administration, for example, has signaled ambivalence about its commitment to expand the city's prekindergarten program for 3-year-olds. That is reflected in the budget modifications, which show a nearly $600 million savings next fiscal year achieved through "right sizing."

City officials said they originally projected they would need 61,000 seats in future years for the prekindergarten program, something they now consider unrealistically high. Though there are wait lists in some neighborhoods, the program is currently serving only 36,000 children, and in coming years, the city estimates it will need only 55,000 seats.

Nevertheless, the right-sizing plan earned a rebuke from the New York City Council.

"Early childhood education programs, such as universal 3-K, are pivotal to the economic success of our city and must be a priority in which to invest," Adrienne Adams, the Council speaker, and Justin Brannan, the finance chair, said in a joint statement on Tuesday.

Similarly, the city is cutting costs by trimming about $12 million from the Behavioral Health Emergency Assistance Response Division, or B-Heard, which dispatches specialists to 911 mental health calls.

City officials said the program was not spending its existing budget and that it was able to cover the same service area with fewer teams.

But Jordyn Rosenthal, the advocacy coordinator for Community Access, a supportive housing nonprofit, said the city risked undermining the program.

"All of the trends are going in the wrong direction," she said. "When the program

first started, response times were under 14 minutes and now they're over 18 minutes. And potentially, why that is happening is that there are longer wait times because there aren't enough teams to respond."

Mr. Brannan and Ms. Adams quibbled with some of the city's findings. They noted that the city is not accounting for tax collections from the last fiscal year that came in roughly $1 billion higher than expected — calculations that the city considers premature, even as it did include $1 billion in federal funding for migrants that it has yet to formally apply for.

"Yes, the inflationary headwinds that we're facing are real and they're going to squeeze our budget and for the first time in a generation, we're going to have to adapt a budget to a significant level of inflation," Mr. Brannan said in an interview. "But right now, the money is still coming in."

Once the city releases the formal budget modification documents, the City Council is expected to hold a hearing and a vote on the matter.

"We have to pass it," Mr. Brannan said. "They can't do it without us."