# Highlights of Recent State Policy & Budget Impacts For New York City

New York City Independent Budget Office

New York City
Independent Budget Office
Louisa Chafee, Director

110 William Street 14th Floor
New York, New York 10038

Tel. 212-442-0632
www.ibo.nyc.gov
press@ibo.nyc.gov

This report was supervised by Sarah Parker and Sarita Subramanian, with report production by Tara V. Swanson.

Contributors to this report include: Jacob Berman, Brian Cain, Logan Clark, Gianpaolo Defelice, Richard DiSalvo, Zachary Herman, Sarah Internicola, Julia Konrad, Jan Mendez, Eric Mosher, Lisa Neary, Kaitlyn O'Hagan, Emily Pramik, Claire Salant, Youngwan Song, Cassandra Stuart, and Alaina Turnquist.

Please direct any inquiries on this report to press@ibo.nyc.gov.

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# Executive Summary

The 2024 New York State legislative session concluded in early June with a $237 billion Enacted Budget for 2025 and a slate of changes that will, or might in the future, impact New York City residents. Impacts may already be felt from increased funding for elementary, secondary, and higher education to greater enforcement of illegal Cannabis shops. Albany also now permits the City to increase allowable building bulk under zoning rules or greater speed and traffic enforcement, but implementation would require additional City Council legislation.

Mayor Eric Adam lobbied Albany for areas such as increased borrowing capacity to finance capital projects, an extension of mayoral control of the City's public schools, and greater flexibility for the reimbursement of asylum seeker-related expenses. Education policy also saw further changes, notably the increasing of Foundation Aid and the selection process for the Chair of the Panel for Education Policy (PEP), who approves major policy proposals and contracts for the City's Department of Education (DOE).

Several changes in Albany will take time to know what their impact is for the City. The revamping of the property tax exemption for new rental construction, known as 485-x, adjusts criteria to qualify for the program, mainly relating to using a share of apartments in the building used for affordable housing, geographical location, and wages paid to construction workers. Albany also increased tenant protections but the changes are applicable only for a subset of rental housing. The overall impact of these housing-related policies will become clearer over the next year.

IBO also details two areas—asylum seeker services and Medicaid—that would impact how services are paid for but not necessarily impact service provision itself. The State will aid the City in covering costs for asylum seekers in a more flexible process than the previous reimbursement structure. There were two process changes for Medicaid that could result in savings for the State. First, payments for the Consumer Directed Personal Assistance Program (CDPAP) home health aide program will now be consolidated into a centralized single administrator. Second, the State can now apply to the Centers for Medicare & Medicaid Services for a Medicaid waiver that is expected to generate additional Federal funding.

Notably absent from the end of session was a specific path forward to address the lost revenue to the Metropolitan Transportation Authority stemming from Governor Hochul's announcement to indefinitely pause the congestion pricing program for New York City. The State's Department of Budget first quarter update states that a solution will be forthcoming in next year's state budget process or sooner.

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## Introduction

Following a period of negotiations, the New York State Legislature passed the $237 billion Enacted State Budget for 2025 on April 22, 2024, nearly three weeks into the new State fiscal year. The prior year, the $229 billion State Enacted Budget was announced even later, May 3, 2023. The State budget is supposed to be enacted to start the State fiscal year on April 1st. The Mayor then releases the City's Executive Budget by April 26th, which allows the City time to reflect any changes to the City's fiscal outlook as a result of actions in Albany. Although the State budget was late, the Adams Administration was able to include much of the State impacts into the budget. Following the State Enacted Budget, Albany lawmakers shifted focus to other legislative priorities. This year's legislative session wrapped up in June, although much of the newly passed legislation was overshadowed by Governor Hochul's announcement to indefinitely pause the congestion pricing program for New York City.

In this report, IBO discusses some of the major highlights for New York City that resulted from the 2025 State Enacted Budget and legislative changes made through the end of session. Several areas of the State budget will increase State funding for New York City, others will reduce City revenues, and lastly, some changes—although not budgetary in nature—may have notable impacts on the lived experience of New Yorkers.

## Housing

After Governor Hochul's failed attempt to get housing and development-related incentives into last year's budget, the 2025 State Enacted Budget included several key housing components directly aimed at boosting development of housing in New York City.

***Extended Construction Period for Expired 421-a Program.*** New York City developers historically had relied on a property tax exemption through the Affordable New York Housing Program, which is also known as 421-a, named after the section of the State Real Property Tax Law the program is created under. 421-a provided full tax exemptions for qualifying properties for up to 35 years. The program, which dates to the 1970s, is intended to incentivize the construction of new multifamily residential housing. Subsequent renewals of the program over time have added affordable housing requirements. The 421-a program expired in June 2022, and the State Legislature last year did not renew the program in either the 2022 or 2023 legislative sessions. Although authorized at the State level, the City's Department of Finance administers the tax exemptions while the Department of Housing Preservation and Development is responsible for tracking the affordable housing created through the program.

Projects qualifying for 421-a had to start construction between January 1, 2016 and June 15, 2022 and be completed by June 15, 2026. With the onset of the pandemic, supply chain shortages, and higher interest rates, developers struggled to keep projects on schedule. The 2025 State Enacted Budget extends the window to complete construction to June 15, 2031 for projects qualifying through several of the lower-income housing options. Projects that only set aside affordable housing for middle income housing are still subject to the construction deadline of June 15, 2026.[1]

***Reboot of Tax Exemption for New Residential Construction Under the 485-x Program.*** In the 2025 State Enacted Budget, the 421-a program was revised, renamed Affordable Neighborhoods for New Yorkers, and placed under a different part of the tax law, 485-x. The 485-x program was made retroactive back to June 15, 2022, when 421-a expired, and applies to all qualifying new construction residential housing with construction starting by June 15, 2034. This 12-year period is a notable departure from the prior renewal, which authorized the program from January 2016 through June 2022, a little more than six years. There are substantial differences in the benefits and requirements in comparing 421-a with 485-x. Key changes include:

- **Affordability Levels**: Overall, the various 485-x options require slightly deeper affordability than the 421-a options did. 485-x limits affordable units to 100% Area Median Income (AMI), an annual income metric calculated by the U.S. Department of Housing and Urban Development. In contrast, 421-a allowed affordable units up to 130% AMI. Under 421-a, IBO found that many qualifying developments opted to build affordable housing for households at 130% AMI, defined as an annual income of $181,740 for a household of three in 2023, rather than more deeply affordable units.

- **Share of Building for Affordability**: Most rental buildings under 485-x will be required to set aside 25% of units as income-tested affordable units, compared with 25% to 30% of units under the 421-a. Small rental buildings with 6 to 10 units outside Manhattan under 485-x can instead have half of units enter into rent stabilization, which caps rent increases but does not income test tenants in those units. Under both programs, homeownership units have price restrictions for the first assessed value.

- **Rent Stabilization**: 485-x requires permanent rent stabilization for affordable rental units but does not require any rent stabilization for market-rate units. The prior 421-a program required both affordable and market-rate units to be rent stabilized for the duration of the compliance period, limiting how much rents could increase year-to-year for all units.

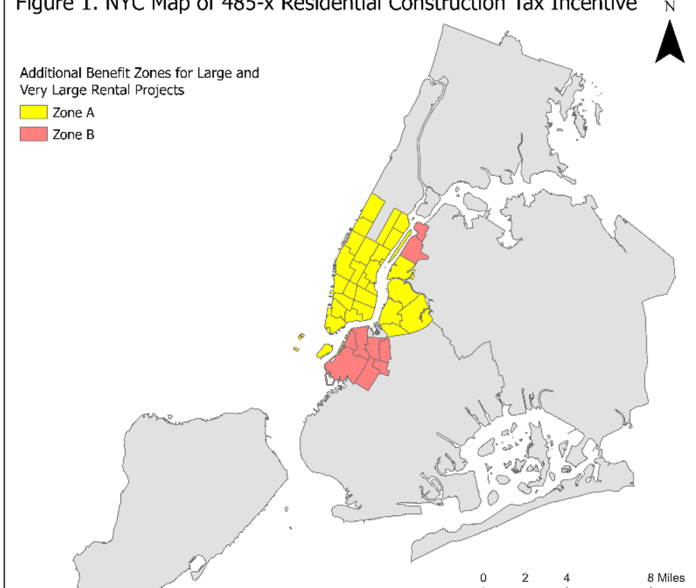
- **Project Size Requirements**: The affordable housing requirements to qualify for 485-x are based more on project size than were the requirements under 421-a. The 485-x program provides a more limited number of choices in terms of affordability levels and the number of affordable units to qualify for the program than 421-a.

- **Geography**: 485-x creates specific rules for projects of 100 units or larger located in areas of Manhattan and the Brooklyn and Queens waterfront neighborhoods, termed Zone A and Zone B (see Figure 1). 421-a had an "enhanced affordability area" that granted a special version of the program's benefits to development 300 units or larger to a similar (but slightly different) area of Manhattan, Brooklyn, and Queens.

- **Benefit Period**: 485-x has a longer maximum tax exemption period, up to 40 years, whereas the 421-a benefit period was up to 35 years. Under both programs, the length of the benefit period depends on the affordability option selected and the size of the project.

- **Wage Requirements**: 485-x requires projects with 100 units or more to use prevailing wages, with variations in starting pay and future pay

Figure 1. NYC Map of 485-x Residential Construction Tax Incentive




Source: IBO map of Neighborhood Tabulation Areas included in 485-x tax incentive.

increases, if the project is located in Zone A or B. Under 421-a, prevailing wages were required only for projects with 300 units or more. A 2016 IBO analysis found that requiring prevailing wages increases construction costs of affordable housing by 23 percent.

Note that although 421-a had expired in June 2022, meaning no additional development projects were granted the tax exemption benefits through the program, the tax breaks given prior to its expiration continue to benefit properties and reduce the amount of property taxes collected by the City. IBO found that developments already under the 421-a program would receive $25.7 billion from fiscal year 2023 through fiscal year 2056, when the last of the 421-a exemptions would cease (all amounts are in 2022 dollars). In fiscal year 2024, the Department of Finance reported that the City provided almost $1.9 billion in tax breaks to 421-a properties. For any new rental housing projects that would have been constructed in the absence of 485-x, the City will forego property tax revenue that otherwise would have been collected from such projects.

The new rules under 485-x—slightly deeper levels of affordability, revised geographical restrictions, and prevailing wage restrictions—coupled with higher interest rates than seen in the recent past increasing the cost to finance construction, makes for uncertainty as to how much developers will choose to participate in the new program. It will be after the conclusion of the City's fiscal year 2025, ending in June 2025, that the first full year of 485-x tax exemption information will be available. This will begin to illustrate how developers are utilizing the program and its impact on housing construction and the size of the tax expenditure for the City.

***Increased Floor Area Ratio Cap.*** The State grants localities the right to define and implement zoning rules, and certain parameters of local zoning are determined at the State level. The floor area ratio (FAR) is a metric used to control the shape and size of a building; the higher the FAR permitted, the larger or taller a building is permitted to be. (For more information, visit the Department of City Planning zoning terms glossary). FAR is regulated by the New York State Multiple Dwelling Law. In 1961, New York State implemented a cap on the FAR allowed by the city's zoning—limiting FAR to 12—to prevent very high-density development. The 2025 State Enacted Budget removed this cap, allowing for the option to build buildings of higher density.

With the State rule change, however, new developments are not automatically allowed to exceed 12 FAR. Any change would be led by the City's Department of City Planning and pass through the City's own Uniform Land Use Review Procedure (ULURP) process. For example, Mayor Adams through his City of Yes for Housing Opportunity zoning changes seeks to amend the City's zoning text to allow up to 15 FAR in the highest density residential zones, and up to 18 FAR for developments using density bonuses in those zones. City of Yes is presently undergoing the City's review process. Additionally, the State legislation requires that any residential development above 12 FAR must include affordable units—at least 25% of the units must be affordable up to an average income of 80% of the City's AMI.

***New Tax Incentive for Office-to-Residential Conversions.*** With concerns about lessening demand for office space in New York City following the pandemic, vacant office buildings have increasingly been seen as a potential resource for residential development. Multiple barriers exist for office-to-residential conversions: financial, physical, and legal. Furthermore, other types of new construction already had access to tax benefits, such as 485-x for new residential construction or the Industrial and Commercial Abatement Program for office-to-hotel conversions. To help make office-to-residential conversions more financially feasible, the 2025 State Enacted Budget includes a new tax exemption for office-to-residential conversion projects, called the Affordable Housing from Commercial Conversions Program, housed in Section 467-m of the Real Property Tax Law. This is the first tax incentive program for office-to-housing conversions since the 421-g incentive program, which from 1995 through 2006 specifically benefited conversions in an area of lower Manhattan.

467-m offers a full property tax exemption during construction, and a partial property tax exemption for up to 35 years after completion. The exemption is more generous for projects located south of 96th Street in Manhattan (referred to in the legislation as the Manhattan Prime Development Area). To receive benefits, at least 25% of the rental units must be affordable, with the affordability levels of those units averaging at 80% AMI or lower.[2] These units are subject to permanent rent stabilization. The tax exemption would be granted through the City's Department of Finance, while rules around office-to-residential conversions are dictated by the Departments of City Planning, Buildings, and Housing Preservation and Development.

***New Tenant Protections.*** Passed as part of the 2025 State Enacted Budget, Good Cause Eviction provides additional tenant protections for those renting in the private market. The legislation limits yearly rent increases to 10%, or 5% plus the consumer price index (CPI, a measure of inflation), whichever is lower. For example, with a CPI of 3%, annual rent increases would be limited to 8%. The increases will be published by New York State Homes and Community Renewal. It also prevents landlords from evicting tenants without a "good cause." Reasons for eviction which are permitted under the law include nonpayment of rent, violating the lease agreement, creating danger to others, or if the owner wants to occupy or demolish the unit, among others. The version that was passed this session has weaker stipulations and covers a much smaller group of tenants than prior versions of the bill.

Good cause protections only apply to tenants renting in the private market. This excludes tenants in rent-regulated units, who already have rent increase and lease renewal protections. This also excludes senior housing, owner-occupied units, condominiums, and cooperative apartments. Out of 2.1 million rental units in New York City, about 1 million are privately owned. The law also excludes tenants renting units in buildings constructed in 2009 or later and exempts such buildings from the law's requirements for 30 years post-construction. As of the 2021 Housing Vacancy Survey, conducted by the U.S. Census Bureau for New York City, there are around 89,000 rental units constructed in 2010 or later which would not qualify for good cause protection under this bill.

There are additional restrictions to exclude very high rent, luxury units. Luxury rentals are defined by price and size. For example, in 2024 luxury pricing is set at $5,846 for a studio or $6,005 for a one-bedroom. Out of almost 370,000 studios and one-bedroom occupied private rental apartments, about 1,200 are considered luxury rentals and would be excluded.[3]

Furthermore, the law exempts units belonging to property owners of 10 or fewer units. Governor Hochul says that this is intended to protect "small landlords." It is difficult for tenants to know whether this stipulation excludes them from protections, particularly because many buildings are owned by LLCs or groups of people, and because publicly available data on ownership is limited. Whether or not a unit qualifies for good cause protections should be included in their lease, but this requires property owners to understand the law and its exemptions correctly. If a tenant believes their rights under good cause protections have been breached, the onus is on the tenant to enforce their rights by taking the property owner to Housing Court.

Earlier drafts of the bill were intended for statewide implementation. However, the protections only apply in New York City, while other New York State municipalities must opt in for the protections to apply. So far, the Cities of Albany, Kingston, Poughkeepsie, and Ithaca have voted to opt in.

***State Support for New York City Public Housing Authority.*** The 2025 Enacted State Budget provided up to $100 million in funding for capital improvements at New York City Public Housing Authority (NYCHA) housing developments. While any additional State support for the housing authority is beneficial, $100 million is small relative to the estimated $78.3 billion in capital investment NYCHA was estimated in 2023 to need in order to bring apartments into a state of good repair.[4] This level of capital need reflects decades of

Federal disinvestment in public housing nationwide, which has had an outsized impact on the NYCHA, the nation's largest public housing authority.

The State funding is conditioned on NYCHA presenting a capital revitalization plan to the State detailing specific capital projects for the funding and their respective construction timelines. State funding for NYCHA will be processed through the State's Dormitory Authority. The State also specified that the New York City Comptroller is required to audit NYCHA's management and contracting processes for repairs and maintenance and make recommendations. NYCHA has in recent years struggled to execute building projects, a subject the Authority has sought to address through its 2021 transformation plan. (For more details on the transformation plan and NYCHA's recent efforts to finance and streamline capital improvements, see IBO's 2023 report.)

## Education

***Elementary and Secondary Education.*** The 2025 State Enacted Budget included an extension of mayoral control of NYC Public Schools for two years, through June 2026. State legislation regarding mayoral control also reaffirms the City's obligation to meet the mandates of the New York State class size law enacted in 2022. Additional borrowing capacity for the Transitional Finance Authority in the 2025 State Enacted Budget (discussed in more detail later in this report) includes language calling for the City to dedicate additional capital funds to meet the class size mandate. State legislation also expanded the Panel for Education Policy (PEP), which approves major policy proposals and contracts for the City's Department of Education (DOE), from 23 to 24 members. The Mayor maintains a majority of appointees to the PEP. While members of the PEP previously chose its Chair, in a notable change, the PEP's Chair will now be selected by the Mayor from a pool of three candidates selected by the New York State Senate, Assembly, and the Chancellor of Board of Regents.

There were also small changes to Foundation Aid, which comprises the majority of State Education aid to school districts, including New York City. While the Governor's original proposal for Foundation Aid suggested eliminating hold harmless provisions, which protect districts from receiving less funding due to enrollment losses, these provisions were preserved in the 2025 State Enacted Budget. However, the Budget did adjust the inflation factor applied to year-over-year Foundation Aid increases to 2.8%. A portion of the increase will be used by DOE to fund programs previously funded with Covid-19 stimulus funds. (See IBO's Executive Budget response for more details on the use of Covid-19 stimulus funds for education.) Finally, the budget included $2 million for a Foundation Aid study by the State University of New York Rockefeller Institute of Government on the Foundation Aid formula, which has not been updated since its creation in 2007. IBO recently testified at a hearing held by the Rockefeller Institute, which is expected to release a report in December so the Legislature can consider changes to the formula for next year's 2026 State budget.

***Higher Education: City University of New York (CUNY)***. The 2025 State Enacted Budget included a total of $2.1 billion in funding for CUNY for 2025. Over 88% of that funding ($1.9 billion) is dedicated to operating costs for CUNY four-year colleges, and the remaining 12% ($245 million) is for the community colleges. The community colleges are also funded by the City and they are therefore reflected in the City budget. At the City's 2025 Adopted Budget, the community college budget increased by $7 million in State aid. There was also an additional $27,000 in State funding added for CUNY's College Discovery program, which provides supports to enable students facing educational or financial difficulties to attend.

Additionally, the State expanded the Tuition Assistance Program for students by increasing the minimum award amount from $500 to $1,000 and expanded eligibility by increasing the maximum income thresholds. While these funds do not directly support the CUNY operating budget, the expanded eligibility may help stem recent declines in CUNY enrollment, which have led to budget reductions in the past few years.

The 2025 State Enacted Budget also added $424 million for capital appropriations for CUNY four-year colleges and $16 million for community colleges for 2025. As new capital projects receive appropriations over the next five-year period, the funding will support capital maintenance and improvement projects.

## Human Services

***Additional State Aid for Asylum Seekers and Change in Reimbursement Processing.*** In the 2024 State Enacted Budget, the State appropriated funding for the City for asylum seekers, reimbursing 29 cents for every $1 in City spending, up to $1 billion for costs incurred between April 1, 2022 and April 1, 2024. This followed the cost-sharing agreement for the cash assistance program Safety Net Assistance (SNA), which the State also reimburses at 29%. As of April 2024, the City had received $500 million in advance payments, reimbursing the City in advance for future spending. For costs already incurred, as of the City's Adopted Budget, the City had only submitted $2.26 billion in claims, which would result in reimbursements of just $655 million out of the possible $1 billion. In other words, the City had only submitted for $155 million above what it had already received in advance payments, and it has not yet submitted enough claims to be reimbursed by the State for the full $1 billion. The City must submit the remaining claims by August 15, 2024 in order to get the full $1 billion in State funds, or request the State to extend the deadline again.

While this approach effectively extended the pre-existing cost-sharing agreement for SNA, it required additional work for both the City and State to submit and process the claims for reimbursement. Consequently, the State moved to a more flexible strategy for next year's budget. Instead of reimbursement, the 2025 Executive Budget provides $2.4 billion to be distributed at the discretion of the State Budget Director. The language of the bill gives the State Budget Director authority to transfer "any amount" to agencies or authorities for a wide range of services, including short-term shelter, case management, legal services, National Guard expenses, and immunizations. In addition to this large pot of flexible funding, the budget separately specifies $25 million for resettlement and $137 million for Floyd Bennett Field (comprised of $122 million in the Office of Temporary and Disability Assistance and $15 million in the General Fund). Some of this funding will be in the form of direct State spending in New York City and some will flow through the City's budget.

The Enacted Financial Plan provides more insight on the potential breakdown of this funding. This includes $262 million in 2025 for National Guard expenses, which will not show up in the City budget. It also includes $67 million for SNA in 2025, which will be in the City budget but not specifically designated for asylum seekers. This is to account for the small increase in population following the State expansion of SNA eligibility requirements to include those who have filed for asylum. However, the funding will be part of the overall funding for SNA, which has been generally trending upward the past few years, apart from the asylum seeker population.

***Medicaid Redesign***. In budget negotiations, there was much discussion around the increasing use of personal care and home health aides through the Consumer Directed Personal Assistance Program (CDPAP) program, through which Medicaid funds a family member or friend to provide the care services. Home health care and personal aides has been a sector of tremendous job growth for New York City, including jobs through CDPAP. The 2025 State Enacted Budget, however, did not make major changes to the program's services, but instead focused on revising how the program is administered. CDPAP will now be administered through a centralized statewide administrator or its subcontractors by April 1, 2025, known as a fiscal intermediary. This will replace the current system where the State pays an administrative fee to each of several hundred private companies that oversee program enrollees. The request for proposals to select the statewide fiscal intermediary was published on June 17, 2024 and the anticipated contract start date is October 1, 2024. The State anticipates savings in administrative payments of $200 million from this program for the 2025 fiscal year.

The Enacted Budget also authorized the State to apply to the Centers for Medicare & Medicaid Services for a Medicaid waiver which would allow for a tax on Managed Care Organizations (MCOs). In other states like California, MCOs are taxed, then the rate at which the state pays the MCO is increased to offset the tax. The amount that a state spends to counter the tax is then matched with Federal dollars, thus generating a net increase in Medicaid funds. Any prospective revenue from the proposed MCO tax in New York State would be deposited into a dedicated fund, the Healthcare Stability Fund (HSF), and would be used to support the State's healthcare delivery systems and to offset State Medicaid costs. The 2025 State Enacted Budget directs $350 million from the general fund to the HSF—$200 million for the purpose of hospital investment and $150 million to be invested in nursing homes, assisted living programs, and hospice. These funds will support healthcare facilities across the State, including many in New York City.

***SUNY Downstate Hospital.*** The State University of New York (SUNY) Hospital at Brooklyn, commonly referred to as SUNY Downstate, has struggled with its finances, staff retention, and quality of care. Earlier this year, there were calls to close the hospital, which is located across the street from Health + Hospital's Kings County Hospital. Decisions on whether to close SUNY Downstate were temporarily put off, and instead the 2025 State Enacted Budget created an advisory board "for the modernization and revitalization of SUNY Downstate." The advisory board is required to submit a report to the Governor and Legislature by April 1, 2025. Until then, State administrators are not allowed to plan any reductions in inpatient services. The Enacted Budget provided $300 million in capital funding and up to $100 million for operating expenses for SUNY Downstate to help shore up its finances as the advisory board conducts its review.

The discussion around closing SUNY Downstate this past spring is part of a wider and ongoing review of New York State's hospitals' financial viability, patient demand, and quality of healthcare services. The New York State Commission on the Future of Health Care was launched in November 2023 and is tasked with providing ongoing recommendations for the transformation of the State's healthcare system with a focus on equity, accessibility, and quality. The commission must also provide formal recommendations annually, the first of which is due before the end of 2024.

***Distressed Provider Assistance Account.*** New York State Tax Law was amended in 2020 to withhold annual sales tax collections from New York City in the amount of $200 million, and $50 million from counties outside of New York City, for State fiscal years 2021 and 2022. These funds were to be placed in the Distressed Provider Assistance Account and used to support financially distressed hospitals and nursing homes in New York State during the Covid-19 pandemic. A 2022 amendment to the tax law eliminated collections for this purpose in counties outside of the City and reduced the amount to be collected from the City to $150 million per year for State fiscal years 2023 through 2025. This sales tax intercept was extended in the 2025 State Enacted Budget at $150 million annually through State fiscal year 2028, despite the original Covid-19 pandemic rationale for the fund having dissipated. The diversion of City sales tax revenue to a State-run account has been criticized as diminishing the City's ability to allocate its own local tax revenue and ensure it is spent locally within New York City.

## Cannabis Taxation and Enforcement

The 2025 State Enacted Budget repealed the cannabis potency tax, which was based on the THC content of cannabis products sold by processors to retail dispensaries. In place of the potency tax, the State introduces a flat 9% tax on wholesale cannabis sales from processors to distributors. This tax change will not affect City cannabis tax collections, which equal 4% of taxable retail sales of cannabis that take place within New York City.

The Enacted Budget also expanded and clarified the powers of local law enforcement to respond to the unlicensed sales of cannabis products. As of May 2024, the Adams Administration estimated that as many as

2,800 retail businesses sold cannabis products without a license in New York City. Before the State's Enacted Budget was passed, local law enforcement authorities and officers of the Office of Cannabis Management (OCM) needed a court order to shut down such stores permanently, even when an inspection revealed that the business lacked a cannabis license. Disciplinary actions against unlicensed dispensaries often proved ineffective, and many unlicensed stores continued to operate after receiving citations or after temporary closures.

Local law enforcement authorities can now immediately shutter a business for up to a year if they find that the business is both selling cannabis without a license and deemed as posing an imminent threat to public health and safety—for example, by selling to minors or violating siting restrictions, such as being located too close to a school or house of worship. Since the passage of the current budget, the New York Police Department and the New York City Sheriff's Office have increased enforcement of unlicensed cannabis dispensaries, and hundreds of such stores have since either been padlocked or privately opted to close.

## Economic Development

***Extension of Industrial & Commercial Abatement.*** On the final day of the session, the Legislature passed a four-year extension of the Industrial and Commercial Abatement program. The program, initially set to expire in 2025, will now expire in 2029. According to the City's Department of Finance, ICAP and its predecessor program (the Industrial and Commercial Incentive Program) constitute the City's largest as-of-right incentive for commercial real estate in the City—representing a total tax expenditure of $877.6 million annually.

ICAP's benefits are as-of-right, meaning that any applicant meeting the criteria is granted the benefit, and the program's tax benefits are broadly available to commercial and industrial properties throughout the City, with benefits focused on development outside of midtown Manhattan. To receive the abatement, the developer must make a minimum required expenditure on the property of 30% of assessed value either in new construction or renovation. The program provides full abatement of property tax on improvements for 8-16 years depending on the type of project undertaken and its location. The benefit is then phased out, for a total benefit period of 12-25 years.

Notably, the Legislature's memo of support primarily pointed to subsidization of energy bills as the underlying reason for the program's recent extension. Though ICAP is not available to utility properties generally, the ICAP program specifically allows for "peaker plants" located in New York City to receive ICAP benefits. Peaker plants are energy plants, often using high-emission forms of electrical generation, that are only employed during times of high grid demand.

***Increased and Faster Licensing for Casinos.*** Also in the final days of the legislative session, the State also passed a measure to speed up the due date for casino license applications and solidify the Siting Commission stated deadline of awarding the licenses by the end of 2025. The new application timeline strongly favors bids that do not face land use issues as well as properties like Resorts World in Queens and Empire City Racino in Yonkers, which are already functioning gaming facilities. This bill, if signed into law by the Governor, will most likely affect which bids are successful for the casino licenses because at least 4 of the 11 contenders require an additional land use review process. The measure does not make any changes to the taxation structure or licensing fee amount for the downstate casinos. The deadline matches the original timeline presented by the Siting Commission, but now solidifies that timeline in law.

The legislative intent and the public statements of the bill's sponsor suggest the casino licensing bill will help patch budget holes for the Metropolitan Transportation Authority (MTA) caused by the sudden suspension of congestion pricing (see Transportation section below for more details on congestion pricing). Under the proposed State casino arrangement, the MTA would receive a higher portion of generated tax revenue based on where the downstate casino licenses are sited—40% for New York City as opposed to 30% for the surrounding areas. The MTA will also receive a guaranteed $1.5 billion, from the one-time $500 million licensing fee that each selected casino will be required to pay. The siting of a casino and timing and size of any subsequent revenues for the MTA, however, are far less certain when compared with the revenue that was expected from the congestion pricing tolling structure. Separately, IBO does not anticipate any additional revenue to come to the City or State because of this bill language.

## Transportation

The 2025 State Enacted Budget and subsequent actions through the legislative session have implications for the City's ability to enforce additional rules on motorists and public transit riders, and would result in additional revenue. Additional State funds were also committed for several capital infrastructure projects for New York City.

***Congestion Pricing.*** The end of the 2024 legislative session was overshadowed by Governor Hochul's surprise June 5 announcement of an "indefinite pause" to the Metropolitan Transportation Authority (MTA)'s Central Business District Tolling Program, commonly referred to as congestion pricing. (See IBO's discussion on the ramifications for removing the single largest source of revenue planned for the MTA's 2020-2024 Capital Program.) While the Legislature hastily debated (and ultimately did not pass) replacement funding for the expected $1 billion in annual revenues from the program, a special session could be called between now and January to address this and other end-of-session business delayed by the announcement.

***MTA Fare and Toll Enforcement.*** The 2025 Enacted State Budget changed the MTA's fare and toll enforcement on the City's subway, buses, and tolled bridges and tunnels. For subway and bus riders, the budget introduced increased fines for repeat fare evasion, adding up to $50 in supplemental penalties on top of an initial $100 fine, for a maximum total fine of $150 per repeat violation. However, the law also now mandates written warnings instead of summonses for first time fare evasion. The new rules require the MTA to refund up to 50% of first-time fare evasion fines as an incentive for on-time payment, and to dismiss fare evasion penalties assessed against eligible low-income riders on the condition that they enroll in Fair Fares, the City's reduced-fare transit program. (If the rider is already enrolled in Fair Fares, penalties for fare evasion are reduced by 50%.) Notably, the fare evasion portion of the law also includes a new prohibition on the use of biometric identifying technology by the MTA, including facial recognition technology.

For drivers on the MTA's tolled bridges and tunnels, the 2025 State Enacted Budget increased fines for purposeful license plate defacement or covering, raising the minimum fine from $50 to $100 and maximum fines from $300 to $500. The law also now allows police to confiscate concealing material and empowers the New York Department of Motor Vehicles to revoke registrations for 90 days for repeated plate covering, defined as three or more times in a five-year period. The practice of covering or defacing license plates to be unreadable by toll cameras was also a major concern for the successful implementation of congestion pricing, which was on track to begin in June when these changes were made, and was subsequently then indefinitely paused.

***Traffic and Speed Enforcement***. Despite the disruption brough on by the congestion pricing announcement, on June 7 the Legislature did re-authorize and expand New York City's red-light camera program, originally scheduled to expire this December. Pending the Governor's signature, this program to automatically ticket motorists who fail to stop at red lights will be expanded from 150 to 600 cameras throughout the City, and is now set to expire on December 1, 2027 unless reauthorized again.

The 2025 State Enacted budget introduced several policy changes affecting the City's streets and transit system. The budget included the passage of Sammy's Law, which amends the State's vehicle and traffic law to allow New York City to lower its speed limit to 20 miles per hour (from the current minimum of 25) and to 10 miles per hour in areas with "traffic calming measures," such as speed bumps, curb extensions, and raised crosswalks. In late June, the New York City Department of Transportation (DOT) announced 250 planned speed limit reductions in particular areas to take effect by the end of 2025. Target areas include: near schools, Open Streets (areas where streets are transformed into public space that prioritizes pedestrians and cyclists), and Shared Streets (areas where drivers share the right of way with pedestrians and cyclists). While the law empowers DOT to change speed limits on a street-by-street basis as long as community boards have an opportunity to review and comment, a citywide reduction of the 25 mile per hour maximum speed limit would require City Council legislation—none has been proposed to date. City Council has, however, passed a resolution urging the State Legislature to authorize a five mile per hour speed limit on streets participating in Open Streets.

***Capital Infrastructure.*** While the 2025 State Enacted Budget largely maintained transit operating funds at historic levels, the State capital budget includes funding for preliminary work on two large transit expansion projects: $52 million for design and engineering of the Interborough Express (IBX), a proposed light-rail line connecting Bay Ridge, Brooklyn to Jackson Heights, Queens, and $16 million to fund a planning study of a Second Avenue Subway extension along 125th Street west to Broadway. Both items were funded separately from the MTA's 2020-2024 Capital Plan, and therefore do not depend on congestion pricing revenues arriving as planned. This past June, Senator Chuck Schumer announced a further $15 million for a planning assessment of the IBX through a Federal RAISE grant, a discretionary grant program funded by the Bipartisan Infrastructure Law that notably does not require a local funding match—and can therefore proceed without additional MTA funding.

## Increased Capital Borrowing Capacity for Transitional Finance Authority

To fund its capital program, the City takes on long-term debt by issuing bonds. These bonds are issued either by the City as General Obligation (GO) bonds or by the Transitional Finance Authority (TFA), a State authority. City bonds and most TFA bonds are limited by the State's Constitutional limit, set at 10% of the 5-year average of the full valuation of real estate within the city. Prior to the State's Enacted Budget in April, TFA was authorized to issue $13.5 billion in bonds that were exempt from the constitutional limit calculation.

Amid concerns that the City was at risk of hitting its constitutional debt limit in the out-years of the City's five-year financial plan period, the Adams Administration proposed increasing the TFA statutory debt issuing limit by $18.5 billion. As part of the 2025 State Enacted Budget, the State increased TFA's statutory limit by $14 billion over two State fiscal years, an additional $8.0 billion in 2024 and $6.0 billion in 2025, up to $27.5 billion. The law authorizing this additional debt capacity for TFA stipulates that the City "shall increase planned spending on classroom construction by $2.0 billion."

With this expanded borrowing capacity, the City added $12.5 billion in funds across the ten-year plan window as part of the 2025 Executive Budget Capital Commitment Plan. The vast majority of this went towards the School Construction Authority ($8.7 billion) to fund its 2025-2029 Capital Plan, and the Department of Correction ($2.8 billion) to address additional funding needs for the construction of borough-based jails.

## Pensions

The 2025 State Enacted Budget included an enhancement to the Tier VI pension plans for participating New York State and New York City employees, making it more comparable with earlier established pension tiers. The original Tier VI benefits took effect in 2012 and were seen as a way of reducing long-term pension obligations. However, the change in the Enacted Budget reverses one of those cost control measures by reducing the number of years that factor into calculating an employee's "final average salary" from five to three. The final average salary is the base amount upon which the employee's pension payments are calculated. By reducing the number of years, the payout to qualifying employees should increase, as two years of presumably lower wages will be dropped from the calculation.

In the fiscal note attached to the legislation, the New York City Chief Actuary notes that the impact of these changes on the City, will range from $190 million to $220 million annually within the current financial plan window of 2025 to 2028. By the end of the Office of the Actuary's twenty-five-year forecast, in 2049 the annual additional cost in contributions will be $548 million across the City's five pension systems.

## Conclusion

Decisions in Albany, both through the State's budget process and during the legislative session, generally yield mixed financial impacts for New York City's budget, and this year is no exception. The City got some financial wins, including changes to asylum seeker payments, continuation of traffic camera enforcement, capital investments in NYCHA public housing, and increases for education Foundation Aid, among others. Other laws created or extended tax incentive programs, which lead to less properties being taxed by the City. The size of the foregone tax revenue depends on how developers and businesses opt to participate in programs such as 485-x for new construction residential housing, 497-m for office-to-residential conversions, and ICAP for industrial and commercial properties. The continuation of diverting City sales tax revenue to the State's Distressed Provider Assistance Account is a more direct reduction of City revenue.

Other decisions with financial repercussions were put off, such as how to fund the MTA's capital plan following Governor Hochul's indefinite pause on congestion pricing, or whether to close SUNY Downstate hospital. Apart from monetary considerations, impacts from recent decisions in Albany will be seen and felt by many New Yorkers, such as increased cannabis enforcement and new tenant protections for market-rate apartments. IBO will continue to track changes in Albany, particularly any special State legislative sessions, that impact New York City.

### Endnotes

[1]For more details on the different affordability options under 421-a, see 421-a (16) Affordable Housing New York Program.
[2]Additionally, 5% of the units must be affordable at 40% AMI, and the maximum income allowed for affordable units is 100% AMI. For more information, see the Department of Housing Preservation and Development's page on 467-m: 467-m: Affordable Housing from Commercial Conversions (nyc.gov)
[3]Based on reporting limitations of the Housing Vacancy Survey, only studios and one-bedroom apartments at or above 245% Fair Market Rent could be identified, the definition in the State bill for identifying luxury apartments. Therefore, IBO reported on studios and one-bedrooms as an illustrative example, but there would also be larger apartments that are also excluded from good cause eviction protections.
[4]The 2023 Physical Needs Assessment for NYCHA properties estimated $78.3 billion in total capital improvements need over a 20-year period to keep apartments in a state of good repair. Of this $78.3 billion total, an estimated $30.3 billion would be needed for projects requiring replacement immediately or within the next five years.