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Testimony on the May 2025 Executive Budget and 2025-2029 Financial Plan Before the New York City Council Committee on Finance

Good afternoon, Speaker Adams, Council Finance Committee Chair Brannan, and members of the committee. I am Louisa Chafee, Director of the Independent Budget Office. I am joined today by my colleague Sarita Subramanian, Senior Research and Strategy Officer. We appreciate the opportunity to testify.

Context

IBO issued its [report on the Executive Budget](#) and accompanying financial plan on May 20th under unusual circumstances, including:

- Turmoil at the federal level, including cuts in spending layoffs of staff, erratic implementation of tariffs, and draconian immigration actions, to name a few, further complicated by the Mayor's silence around these issues.
- The absence of a State Enacted Budget causing the City's Executive Budget to include only placeholder dollar amounts.
- Continued budget dancing by the Adams administration, including simultaneous reinstatement of funding reductions from prior years, recognition of the end of COVID-19 aid, and more under- and over-budgeting in various categories.

And all of this is occurring during a competitive election year.

Basic Findings

IBO's forecast of tax revenues (\$79.7 billion in 2025, \$81.0 billion in 2026) do not vary significantly from OMB's forecast in those two years of the financial plan, but IBO estimates savings on the expenditures side of \$1.9 billion in 2025. In all, these adjustments net an additional surplus in 2025 of \$1.7 billion, and larger gaps in the rest of the financial plan window (\$7.2 billion in 2027, \$7.9 billion in 2028, and \$7.1 billion in 2029). These gaps are, on average, 7% of City tax revenues. This is larger than the gaps the City has closed in recent years, which were around 4% to 6% of City tax revenues.

Next Steps

In negotiating the Adopted Budget, IBO suggests that City Council and the Adams administration weigh how to allocate the current year surplus across two options:

1. Using funds to **prepay** next year's expenses.
2. **Placing funds into reserves.**

While **pre-payment** may offer short-term flexibility and offset existing costs, it does not address the root causes of those costs.

Placing funds into reserves provides more ability to address future shocks and requires the city to address cost overruns in the out years. IBO has identified additional surplus funds in 2025, meaning that funds could be added to reserves without decreasing planned spending in the Executive Budget. Further exercise of fiscal discipline with respect to near-term expenses—like uniformed overtime—could free up additional funds for reserves.

Keep in Mind

Federal dollars comprise \$10.5 billion (9%) of the City's \$119.8 billion budget this year, and \$7.4 billion (6%) of the budget for 2026. State dollars comprise \$20.7 billion of the city's 2025 budget (17%). (These amounts are subject to change as the city fully reflects the state enacted budget in our own, and if federal cuts are realized.)

New York State's fiscal year [2026 Enacted Budget](#) of \$252 billion included \$87.0 billion in federal funding (35% of the total State budget), the majority of which is Medicaid, about 58%. Some of the federal funds are among the 17% allocated by the State to the City and are for health and human services.

As the U.S. Senate takes up the "One Big Beautiful Bill Act," recently passed by the House, IBO is paying particularly close attention to proposed large cuts in areas such as Medicaid, the Supplemental Nutrition Assistance Program, and Temporary Assistance for Needy Families.

Beyond impacted programs, let's talk about New Yorkers. According to U.S. Census Bureau data, 37% of New York City residents are foreign born. Based on the State Comptroller's data, close to 4 million New Yorkers in the City utilize Medicaid, and over 1.6 have health insurance through the Essential Plan. In January 2025 1.8 million New Yorkers statewide received benefits through the Supplemental Nutrition Assistance Program (SNAP) totaling over \$423 million—keeping people fed and supporting businesses. These are a few examples of people facing potentially major changes to central existence (food and healthcare) due to federal changes.

The actual human scale of these cuts could affect millions of New Yorkers.

In addition, the budgets of Health + Hospitals (H+H) and New York City Housing Authority (NYCHA) are overwhelmingly dependent on federal funding.

Assuming Federal legislation dramatically reduces funding to the State, the State will need to convene a special session to account for these reductions in federal dollars and increased hardship for millions of New Yorkers. This in turn would require the City to reconsider how to continue to provide essential services to vulnerable New Yorkers with less funding while maintaining a balanced budget as required by law.

Back to IBO's Executive Report

Given this situation, IBO's report emphasizes three takeaways:

1. Given the scale of federal funding cuts combined with decisions to slash academic funding, implement severe limitations on immigration changes, and impose huge tariffs, the **time to increase the City's reserve funds is now.**

Potential Federal Impacts on New Yorkers and the Local Economy

Beyond federal spending, the policies and rhetoric of the Trump administration also impact the lives of New Yorkers directly, and the national and local economies.

- The federal government's targeting of immigrants, both documented and undocumented has created obvious dangers for many New Yorkers receiving city services, as demonstrated by the arrest by U.S. Immigration and Customs Enforcement of a New York City school student at his immigration hearing.
- Proposals to limit the federal deductibility of state and local taxes ("SALT") at \$40,000 and eliminate the workaround New York State created do not impact revenues to the State or City. However, they would impact the individual filers who use these benefits.
- Tariffs—central to President Trump's economic policy—have been subject to chaotic shifts in timing, depth, and coverage.
- Stock and bond markets have responded with volatility, and businesses are starting to indicate a reluctance to expand payrolls and undertake new capital investments as the tariff policies continue to play out.
- The city's job growth has gotten off to a slow start in the first four months of 2025, leading IBO to revise its annual job growth forecast downward, to 31,900 (Q4-to-Q4).
- A reduced outlook for international tourism will particularly affect the leisure and hospitality, entertainment, and retail trade industries.
- Fiscal year 2026 tax revenue is projected to grow slowly, consistent with general economic weakening.

2. New York State's policy choices pass fiscal pressure to the City:

- Only \$328 million for childcare vouchers was funded, approximately one third of the \$1.0 billion requested by the Adams administration.
- New York State's State Foundation Aid Formula resulted in smaller increases for the New York City Department of Education.

In addition to finding City funds to accommodate these State choices, the time to increase the City's reserve funds is now.

City's Critical Needs for the Childcare Voucher Program

Childcare vouchers (administered by the Administration for Children's Services) serve as an important source of childcare for thousands of children ages 6 weeks through 13 years. These are critical to keeping childcare affordable and supporting working parents.

- More than 100,000 vouchers were administered in March 2025, following year-over-year increases since 2021 as the program has expanded. However, the City has closed the system to new applicants since May 5th.
- IBO estimates that \$720 million in City funds will be needed in 2026 to maintain current enrollment levels, rising to over \$1.0 billion annually starting in 2027 (for a total program budget of \$1.6 billion). IBO's estimate incorporates the State allocation of \$328 million.

Foundation Aid for Public Schools

Foundation Aid is the largest single State revenue stream for school districts in New York. The Foundation Aid formula is complex, but at the highest level is a per-pupil dollar amount multiplied by a pupil count.

- For the 2024-2025 school year, the State has committed to distribute a total of \$24.9 billion in Foundation Aid. Of this total, \$9.9 billion is for New York City (25% of the DOE budget).
- This will increase to \$10.5 billion for the 2025-2026 school year based on the State Enacted Budget, which included changes to the formula for the first time since its inception in 2007.

The changes resulted in a smaller increase in revenue for New York City than it would have received under the prior formula because of the adjustment from the 2000 census poverty measure to instead use a three-year average of the Small Area Income Poverty Estimates (SAIPE).

As the new formula changes the City's poverty rate from 34% to 24%, IBO estimated that it caused substantial reductions in funding. Notably, the Senate and Assembly budget proposals to update the regional cost index (RCI) would have resulted in substantial additional revenue for New York City. Only Westchester County received an increased RCI.

The Adams administration's Executive Budget assumed that additional State revenue would annually fund programs previously funded by COVID-19 funds. One example is for 3-K programs, with total funding for 2026 now at \$744 million. IBO does not anticipate the formula changes to affect this assumption.

3. The Administration continues budget practices that increase internal risks. This takes the form of:
 - Underbudgeting—whether it be for uniformed overtime (\$658 million in 2026), Department of Education due process cases (\$258 million), or shelter provision, and rental and cash assistance programs (collectively \$1.4 billion in 2026). Overbudgeting—under the 2 for 1 hiring policy, the City achieves savings both directly on personnel (\$924 million in 2025), but also by reducing capacity to spend on other programmatic funds.
 - A continued dependence on pre-payment to offset next year's expenditures, all while the proportion of the pre-payment continues to shrink year over year.
 - Delays in payments to non-profit providers, which the City Comptroller estimates has resulted in over \$1 billion in unpaid invoices.

The time to increase the City's reserve funds is now.

The Adams administration and City Council need to better prepare New York City for changes the federal government is trying to impose. Given these uncertainties, it is hard to describe this Executive Budget as the "Best Budget Ever."

Thank you for the opportunity to testify and we are happy to answer any questions.