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Testimony of Louisa Chafee, Director, New York City Independent Budget Office
Before the Commission to Strengthen Local Democracy

Good evening, Co-Chairs Garrido and Rice, Executive Director Castaldi-Micca, and members of the Commission. I am Louisa Chafee, Director of the City's Independent Budget Office (IBO), and I thank you for inviting me back to continue our conversation about these important issues. As you know, IBO is a nonpartisan, independent government agency mandated by the New York City Charter (Charter). IBO's mission is to enhance public understanding of New York City's budget, public policy, and economy through independent analysis.

In response to your invitation, my testimony today will cover three areas:

- First, the need to strengthen the City's budget framework, particularly to ensure adequate reserves;
- Next, the critical need to ensure fairness and efficiency in contract spending; and
- Finally, the importance of ensuring meaningful units of appropriation.

Protecting the Framework for Sound Budgeting

In the months since I last spoke with this Commission, the challenges presented by federal policy and budgetary changes have grown exponentially. Recognizing that it is very difficult for lawmakers to make the decision to set aside funds that are otherwise available for new or enhanced programs to address the very significant unmet needs of New Yorkers, all the more so when a Mayoral administration is also seeking to spend more and save less, suggests that the Charter should provide greater guidance to all decision-makers as to the importance of investing in reserves, particularly the Revenue Stabilization Fund (RSF), commonly called the Rainy Day Fund.

Specifically, IBO urges this Commission to consider adding language to Section 258 b, which defines the contents of the four-year plan. That section already references the RSF in connection with deficits at the close of a fiscal year, as well as a mandate for a minimum of \$100 million in general reserves, but it offers no standards for the treatment of any potential year-end surplus. Language could be added to establish a minimum target for investment in the RSF for any fiscal year that closes in surplus. The minimum target could perhaps be set as a percentage of such surplus. This new requirement could be applied unless the Mayor includes within the four-year plan a statement of reasons why adding funds to the RSF is either unnecessary or infeasible.





Ensuring Cost-Effective Services to New Yorkers and Fairness to City Service Providers

IBO has also made three recommendations to improve the procurement process: one, ensuring timely registration and timely invoice payment for nonprofit vendors; two, broadening the membership of the Procurement Policy Board (PPB); and three, limiting the extended use of emergency contracts.

IBO has not proposed a Charter mandate for across-the-board payment of advances to human services vendors. Advances provide eventual relief to providers *after* they have already endured having their contracts registered far too late. But, by not getting their contracts registered on time, City agencies routinely expect human services vendors to provide services for weeks or months during which there is no contract in place, time when the City is legally *barred* from paying that vendor. It cannot pay invoices and it cannot issue advances. IBO recommends a Charter amendment to require agencies to process contract extensions for active human services contracts that would otherwise expire, in any case where continued payment otherwise would be at risk.

The second problem is late payment on invoices. Invoices languish at City agencies for long periods of time, often because an agency holds up the entire payment while it disputes a tiny percentage of the claimed costs. IBO supports a Charter mandate to require agencies to pay 80% of every invoice submitted by a human services contractor in good standing, within a reasonable time frame from its receipt (such as 30 or 60 days). IBO is confident an appropriate partial payment process could be automated into the City's financial management system (FMS) and contract management data systems (PASSPort), to ensure that funds could be paid to the vendor initially and also allowing a City agency to continue its vetting process before releasing the remainder. To the extent that this automatic payment process would raise any risks, that risk is minimal, for three reasons: 1) the majority of the invoice is generally for rent and payroll, two cost items that are negotiated as part of the approval process for contract budgets; 2) the City has the power to recoup from future invoices; and 3) contracts are audited and amounts paid in error are recovered in that process as well.

IBO also supports changes to the PPB's structure and duties. First, the PPB should be required to meet at least four times per year. Second, its membership should be doubled in size, with strict limits on the number of members who are current City employees and a requirement for some members to come from the vendor arena. Section 259(d) of the Charter, defining the composition of the IBO Advisory Committee, could serve as a model. Finally, the PPB should have its own director and staff, with a requirement to produce an annual report evaluating the effectiveness of its rulemaking actions.

IBO's final procurement recommendation is for the Charter limitations on the extended use of emergency contracts. Such contracts are often very open-ended (resulting in high expenses), and as seen with asylum seeker services, it is preferable to move to more fiscally responsible and programmatically appropriate service delivery approaches sooner rather than later. The Mayor and





the Comptroller should be mandated to renew their joint decision to use emergency procurement every two years after original registration date.

Enhancing the City Budget's Structure to Promote Transparency

Finally, looming federal policy changes and budget cuts now threaten our City—and in particular, our most vulnerable residents who depend on City services that either directly flow from federal funds or could be hit with cuts as the City absorbs the loss of federal dollar in other areas. As City decision-makers wrestle with how to address this challenge, it is crucial for the public to be able to clearly track the budgets for all programs that serve New Yorkers.

Each year when the City Council adopts the budget, it authorizes spending in “units of appropriation” – commonly known as U/As. Under Section 100 c of the Charter, each U/A is supposed to be presented with every “particular program, purpose, activity or institution.” In practice, however, the goal of providing clear, understandable information to the public remains unmet.

Many agencies lump unrelated programs, with unrelated funding streams, into a single U/A. This process conveys little useful information to the public or the Council. For example, the Department of Youth and Community Development (DYCD) combines after-school, adult literacy, and assistance to immigrants in a single U/A. The Police Department has a single U/A that totals nearly a quarter of the entire NYPD \$6 billion budget. Both of these agencies, along with others, will likely face cuts in federal funding. Failure to provide understandable U/As ultimately shortchanges public accountability.

While, as your staff report notes, new U/As can be added in budget negotiations, there has not been a systematic approach. IBO suggests that the Charter require U/As to be studied and updated on a regular basis, jointly by the Mayor and the Council. IBO also suggests that the Charter proscribe a minimum number of U/As for each agency to: IBO suggests a minimum of four or five U/As per agency. The Charter should also set a maximum, in terms of a percentage of the overall budget, for the size of any single U/A. IBO suggests that no single U/A ought to exceed one percent of the budget, unless the Mayor and the Council agree that a specific item is, in fact, indivisible. Based on such a standard, for example, the NYPD's U/A lumping together all police precincts, boroughwide offices, and various specialty units, would be required to be divided, but a U/A covering the City's debt service costs or employee health insurance, may be permitted to exceed the 1% threshold.

I welcome any questions you may have this evening, or in the weeks to come. Thank you.

