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Jacqueline Sherman, General Counsel and Chief Innovation Officer, New York City Independent Budget Office on  
Preparing for Changes in Federal Funding  
Before the New York City Council Committees on Finance and Governmental Operations

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Good morning Chair Brannan, Chair Restler, and members of the Finance and Government Operations Committees. I am Jacqueline Sherman, General Counsel and Chief Innovation Officer at the Independent Budget Office (IBO). I am here today with my colleague, Sarah Parker, Senior Research and Strategy Officer; we appreciate the opportunity to appear before you. My testimony builds upon IBO Director Chafee's [testimony last month](#), highlighting IBO's concerns about risks that ongoing federal actions pose to New Yorkers and to the City's fiscal health.

Since January 20<sup>th</sup>, New York—along with the rest of the nation—has faced a cascade of announcements of reductions in federal spending. Federal funding—currently around 8% of the City's expense budget—supports a range of core services, including services for the most vulnerable New Yorkers, public education, housing code inspectors, city planning, and public health. In addition to direct funding cuts, layoffs of federal workers—many of whom administer and disburse funds to state and localities—have already begun in some agencies.

Ongoing uncertainty in the national economy further complicates the picture. Rapid changes in tariffs and extreme volatility in trade policy continue to pose significant risks for inflation, consumer spending, tourism, and ultimately, state and local revenues.

We have yet to hear specifics from the Administration about how these combined risks are likely to affect New York City's budget. In that context, the rest of this testimony outlines crucial questions the Administration should address in the upcoming Executive Budget.

### **Transparency about Budget Expenditures**

Given the current high-risk environment, the City's budget process must embrace transparency and fiscal realism. Specifically, the City needs to move away from two types of inaccuracy invariably found in the budget that obscure crucial policy choices. First, the budget continues to materially understate costs for uniformed personnel overtime, "Carter Cases" at the Department of Education, and funding for CityFHEPs rental housing vouchers. Second, it continues to overestimate the City's payroll costs and costs for services to asylum seekers.

On a related note, the City also faces a critical fiscal policy decision—how to allocate the projected

fiscal year 2025 budget surplus. The Council should weigh the merits of two options: placing funds into reserves or using them to prepay next year's expenses. While pre-payment may offer short-term flexibility, it will not address the more structural risks in the current environment. Applying surplus to strengthen reserves provides more long-term stability and will allow the City to respond to unanticipated future shortfalls and forestall deeper cuts.

### **Large-Scale Risks to the Economy**

Through the City's budget process, the Administration should detail its economic assumptions in light of current discussions around trade, immigration, and tax policy, and how those underlie its revenue and expense forecasts. As examples, the Administration should explain its assumptions regarding how:

- inflation, GDP growth, and the chances of recession affect the local economy;
- rapidly changing federal trade policy could affect local job creation and the City's income, business, and sales tax bases;
- tariffs could change the City's purchasing power for goods and supplies; and
- volatility in the bond market may hinder the City and Authorities' ability to borrow.

### **Direct Federal Funding Cuts**

Some City agencies rely heavily on direct federal funding. For instance, according to the Mayor's Office of Management and Budget (OMB), federal funding totals over half of the budget of the Department of Housing Preservation & Development and more than 40% for the Administration for Children's Services.<sup>i</sup> Separate from the City's budget, federal funding is also critical to the New York City Housing Authority, Health + Hospitals, and the Metropolitan Transportation Authority. Here, critical questions include:

- What specific federal programs has the Administration identified as most vulnerable to cuts and what planning is under way to assure that the City continues to meet the needs of New Yorkers served by those programs?
- Have any City agencies—particularly those facing the greatest risks—been asked to prepare contingency plans to address potential loss of funding?
- What is the Administration doing to protect public health as the federal administration reduces support for the prevention of communicable diseases?
- Many federal workers who oversee program administration and process payments have



lost their jobs and more are threatened. Has the City noted any slowdowns in the processing of funds it expects to receive?

### **State Funding Affected by Federal Cuts**

The absence of a final State budget further complicates the picture. With recent reports that the State budget might not be finalized until May, close to \$3 billion in requests for asylum seeker aid and childcare assistance by OMB remains up in the air.<sup>ii</sup> Reductions in federal aid for New York State layer additional risks on New York City. The State funded 17% of the City's fiscal year 2025 budget, and federal funding totaled 38% of the State's budget last year. Public education appears to be at particular risk, with 41% of DOE's budget funded by the State, including federal dollars that flow through the State. With this in mind, some important questions include:

- What assumptions is the City currently making about FY 2026 funding from the State in the absence of an enacted State budget?
- Given the specific cuts and planned closure of the federal Department of Education, how does the Administration plan to fund the 3,700 new teachers it just [announced](#) would be hired in Fiscal Year 2026 to meet the State's class size mandate?
- Governor Hochul recently indicated the federal Department of Homeland Security has revoked hundreds of millions of dollars in [infrastructure resiliency programs](#), including millions of dollars that flow to the City. How will the City address critical capital budget priorities to prevent and respond to future natural disasters?

### **Risks to the Nonprofit Sector**

Finally, the City's nonprofit sector faces mounting fiscal stress as many organizations reel from material cuts to their own budgets, while simultaneously witnessing devastating policy changes aimed at the communities they serve. These providers operate with thin margins and delayed reimbursements. The Administration should articulate a clear strategy for supporting this critical sector in the face of compounding risks.

### **Conclusion**

In closing, the serious fiscal uncertainties facing the City have real implications for the services all New Yorkers rely upon. Now more than ever, New York City needs a budget process that is transparent, realistic and focused on long-term stability. IBO remains committed to providing analysis to support policymaking and responsible fiscal management. Thank you for the opportunity to testify. We welcome your questions.



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<sup>i</sup> Federal funding also accounts for between 10% and 30% of the budgets for these seven Departments: Emergency Management, City Planning, Health & Mental Hygiene, Small Business Services, Aging, Homeless Services, and Social Services.

<sup>ii</sup> Based on a response by OMB Director Jacques Jiha on April 2, 2025 to a request from IBO Director Louisa Chafee, the City has made several requests to the State for funding for 2026. These include \$1 billion to cover costs of services for asylum seekers and \$1.9 billion for childcare assistance.

