New York City Independent Budget Office

TESTIMONY

The City of New York Independent Budget Office
110 William Street, 14th Floor New York, NY 10038
212-442-0632 | press@ibo.nyc.ny.us | ibo.nyc.gov

March 5, 2025

Testimony of Louisa Chafee, Director, New York City Independent Budget Office on
IBO's Analysis of the January 2025 Financial Plan for 2025-2029
Before the New York City Council Committee on Finance

Good day, Speaker Adams, Chair Brannan, and members of the Committee. I am Louisa Chafee, Director of the Independent Budget Office (IBO). I am here today with my colleagues, Sarah Parker and Sarita Subramanian, IBO's Senior Research and Strategy Officers. We appreciate the opportunity to testify today.

Last week, IBO published its analysis of the Administration's January 2025 Financial Plan for 2025-2029. This includes the Chart Book, Economic Forecast, and Breakdown of City Spending, and we brought copies of each for you today. As IBO details in the publications, the single most significant concern looming before the City during this budget season is, quite simply, the risk that federal actions pose to New York City's financial health, and in particular to the New Yorkers who rely upon the City's provision of safety net social services.

Shrinking Surpluses and Rising Risks

Before I turn to specifics of shrinking surpluses and rising risks, I will start by comparing IBO's fiscal outlook with that presented by the Mayor's Office of Management and Budget (OMB). As was the case last November, IBO's 2025 estimates are relatively close to those of OMB. IBO's projected 2025 surplus is about $1.4 billion larger than OMB's, while IBO also forecasts a small deficit for 2026. Overall, both IBO's and OMB's projections reflect what would be, in normal times, manageable budget gaps for the City to navigate.

It is concerning, however, that the City's year-end operating surplus has decreased every year since 2022. This means that the City's budgetary "cushion" is shrinking at a time of very significant changes outside of the City's control—such as federal funding being slashed or the possibility of an economic downturn. What was once an expectation of a surplus amounting to 7-8% of the total City tax revenue, has now shrunk to less than 5%, well below pre-pandemic levels. That is why it is important, even with IBO's forecast aligning closely with OMB's, to pay close attention to the budget gaps likely to occur in the near term.

Historically, the City has used current year surpluses to pre-pay expenses and balance the following year's budget; such actions seem likely to occur this year. However, if the Council chooses to close the relatively modest budget gap for 2026 through other means, IBO recommends that strong consideration be given to applying at least a portion of the 2025 surplus to the Revenue Stabilization Fund, commonly referred to as the Rainy Day Fund. In the remainder of my testimony, I'd like to outline some of the many ways in which, to further the analogy, it's clearly already raining, and that even larger storms loom on the horizon.

Impact of Federal Policy Changes and Funding Cuts

As we know from recent headlines, the federal government is trying to claw back funding that was duly legislatively appropriated by Congress and sent to New York City, as well as rescind federal approval for New York City's pioneering congestion pricing program. These two highly publicized events are likely just the beginning.

In the current year, New York State budgets $93 billion in federal funds, and New York City budgets $9.7 billion in federal funds. That totals 38% of the State's budget revenue and 8% of the City's. Federal funds directly support 7% of the budget of the Department of Education (DOE), particularly for programs for low-income students. Similarly, direct federal dollars form 14% of the budget of the Department of Social Services (DSS), supporting food assistance, energy assistance, income support, and Medicaid. Fully 58% of the budget of the Department of Housing Preservation & Development (HPD) consists of federally funded housing vouchers, housing inspections, and affordable housing financing.

Those dollars are the tip of a very large iceberg. Our City and its economy rely on federal funds to support homeland security initiatives, medical and educational research, Head Start and child care, public transit, and climate resiliency, to name but a few. We count among our residents some 46,000 federal workers. Among their many responsibilities, these workers form the entirety of the staff responsible for such critical services as Social Security offices to air traffic control towers to the Statue of Liberty.

Reductions in federal aid to New York State will likely also yield compounding impacts to the City. State funding amounts to 17% of this year's City budget, and some of the agencies that have the largest amounts of federal support also have the most State support, particularly DOE with 41% of its budget State supported. As the State loses funding, pressure may mount for the City to try to fill the gap.

As we consider impending federal changes, it is also important to note the many ways in which federal funds directly reach our citizenry, especially New Yorkers in need. Federal funding supports critical programs such as cash assistance, Social Security, Supplemental Security Income, Medicaid, Medicare, the Supplemental Nutrition Assistance Program (SNAP), the Veterans Administration and education grants and loans. While the Trump Administration and the House budget "blueprint" both disclaim an interest in cutting many of these programs, it is difficult to envision how they can achieve their planned budget cuts without doing so. This is all the more true given the support in the Administration and Congress to extend and potentially expand the 2017 federal tax cuts.

While at this point IBO's forecast can only incorporate early indicators of the economic implications of this rapidly evolving situation, there are signs emerging of challenges to come: slowing economic growth, stubborn inflation, and growing consumer anxiety. The combination of federal cuts, a potential economic downturn, an unforeseen crisis, or any combination of these, could undercut City revenues and put increased pressure on the City's budget. As we know, widespread tariffs have been proposed, including new tariffs on Canada, China, and Mexico that are now in place. These and others, including reciprocal tariffs from impacted nations, will negatively impact the supply chain, consumers' wallets and the overall New York City economy. Meanwhile, major changes in federal immigration policy will likely create upheavals in the City's labor market across many sectors, ranging from finance and technology, to the construction trades, to food service, hospitality, and home health care.

<u>Chronic Underfunding Practices as the City Seeks to Navigate External Budget Threats</u>

The City's financial challenges extend beyond federal policy and reliance on past surpluses. As I've previously testified, IBO continues to identify a number of chronically underfunded areas, most notably:

- *City Fighting Homelessness and Eviction Prevention Supplement (CityFHEPS) housing voucher program.* While the Administration has aligned the 2026 budget for the program with its historical trends, it continues to significantly underfund for future years.

- *Uniformed Agency overtime*. Similarly, IBO estimates that the City is currently on track to spend more than $840 million over and above the budgets for uniformed agency overtime in 2025.

- *DOE's Impartial Hearings ("Carter Cases")*. Costs to support students with disabilities who are not able to be appropriately educated by DOE continue to soar. Although the DOE spent $1.2 billion last year, the City has budgeted $258 million less than that for this year.

- *End of federal COVID-19 Aid.* Finally, the City's budget continues to lack transparency regarding the sources of funds to plug gaps, particularly at DOE, for programs previously supported by federal stimulus funding sources that have now expired.

Procurement Choices Furthering Fiscal Risks

I would like to spend a few minutes to connect a couple of the topics that I have covered in my various testimonies before the two Charter Revision Commissions (most recently on February 24, 2025) and how these connect to the City's budget. I also look forward to the opportunity to testify before the Council's Charter Revision Commission. Fiscal responsibility is not just a theoretical ideal. New Yorkers expect City agencies that administer the budget effectively and efficiently, ensuring that the City gets real value for its spending. As any household knows, sound fiscal management means one pays the bills on time. Yet, New York City often does not. This practice causes enormous fiscal and programmatic risks for human services programs such as pre-K, senior centers, and services for the unhoused. It is also a risk for the City budget as it is an area where New York City has millions of dollars in unpaid obligations. I know this is also an issue the Speaker and Council care deeply about.

While some of the necessary reforms may require Charter change, this Council can also use this budget process and your oversight role to continue to push City agencies to behave more responsibly toward the nonprofit providers whose financial stability depends on timely payment for their services to the City.

Local Law 169 of 2023 began a process that envisions the Procurement Policy Board (PPB) eventually writing new rules. The law required the Mayor's Office of Contract Services (MOCS) to issue a report last fall with recommendations for timeliness standards, which the PPB is supposed to act on by October 2025. The MOCS report focused on new RFP awards, and described a very lengthy award process, totaling about 150 days. But, as this Council well knows, what often happens is that City agencies fail to complete the award process for new RFP contracts prior to the expiration of the providers' existing contracts, and as a result, payments lapse.

Even when contracts are registered, providers still often experience payment lapses during the invoicing process, typically because the agency raises a concern about a small item included on an invoice and holds up the entire payment, even though much of the invoice is undisputed. Thus, the vendor is often deprived of reimbursement for its largest costs, such as payroll or rent, while relatively minor items are debated.

IBO is currently looking into these issues and expects to report more of our findings this spring. But just as an illustration of the scale of these two problems, consider the following two data points:

- IBO reviewed registration data for human services contracts with the Department of Youth and Community Development (DYCD) with start dates in fiscal year 2025 and found that its RFP awards were registered an average of 84 days late. In contrast, when DYCD chose instead to extend existing contracts, registration was still late, but only by an average of 34 days. For a struggling vendor, that payment gap could be the equivalent of three or four payrolls.

- Similarly, IBO looked at spending data for human services contracts that ended on June 30, 2024. As of two weeks ago, vendors had been paid less than 70% of the contract value. While some of that difference may reflect work that was not completed, much of it likely relates to relatively minor disagreements that are holding up entire invoice payments.

Turning back to the prospect of our City—and many of our most vulnerable residents—now facing potentially significant budget belt-tightening, the urgency of ensuring fiscal responsibility and transparency in these areas has never been greater. This Council, and your constituents, need to be able to clearly track the budgets for the programs that serve New Yorkers.

The Council already has a tool in its arsenal that can be deployed to address this challenge. Section 100 c of the Charter clearly says that the budget is supposed to be presented with every "particular program, purpose, activity or institution" having its own unique unit of appropriation (U/A). Today, the Department for the Aging (DTFA) lumps together in a single U/A all the funding for home-delivered meals, homecare, and older adult centers, and DYCD puts the budgets for after-school, adult literacy, and assistance to immigrants in another mixed-purpose U/A. Even more egregiously, and at a much larger scale, DOE puts $8 billion–over 23% of its $33 billion budget—in a single U/A entitled "general education instruction and school leadership." Similarly, the Police Department mixes the budgets for all 123 police precincts, along with boroughwide offices and such divisions such as detectives, forensic investigation, narcotics, and strategic response into a single "operations" U/A. That single U/A accounts for a quarter of the $6.4 billion departmental budget. With all of these overly broad U/As, what we lose as a City is both informed public discourse and more effective oversight. In recent years the Council has added UAs. One way to improve the structure would be to study each agency and their UAs and create a comprehensively revised UA approach, balancing accountability with transparency and fiscal management.

Conclusion

Multiple factors put the City's ability to weather near-term shocks and maintain long-term fiscal stability at risk:

- Continued reliance on a shrinking financial cushion while not sufficiently adding to the Rainy Day Fund;
- Persistent underfunding in areas of known expense;
- Chronic late payment of NYC's vendors;
- Federal and related State funding and policy reductions, and;
- Economic uncertainty.

With all of these major issues coming to a head, never has it been more important for the City of New York to be heard, in Washington, in Albany and here at home, on behalf of all New Yorkers. And in that context, IBO urges this Council's consideration of the ideas I've detailed today, in the areas of fiscal responsibility and transparency.

My team and I are happy to answer any questions and provide further details as needed. Thank you for the opportunity to testify today.