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

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Good evening, Co-Chairs Garrido and Rice, Executive Director Castaldi-Micca, members of the Commission. I am Louisa Chafee, Director of the City's Independent Budget Office (IBO). 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. Our vision is to empower New Yorkers to engage with their government and shape the future for their families and their communities, armed with budget and policy information that is accessible, transparent, and timely.

As noted in the press release announcing this Commission, you are charged with "improving and restoring public confidence in city government by strengthening local democracy and enhancing government accountability and transparency." My testimony covers three areas:

- First, the need to strengthen and clarify the City's budget framework;
- Next, the critical need to ensure fairness and efficiency in contract spending; and
- Finally, the importance of improving budget transparency by aligning units of appropriation with well-understood definitions of programs and services.

### **Protecting the Framework for Sound Budgeting**

While the scope and scale of the changes on the federal horizon remain uncertain, New York City is likely to experience significant budget challenges, and our City government must be prepared to meet those challenges. IBO urges this Commission to consider strengthening the City's budgetary framework by including more of the protections from the State Financial Emergency Act into the Charter and tightening the Charter language around the Revenue Stabilization Fund, commonly called the Rainy Day Fund. To address your goal of enhancing accountability and transparency, IBO supports:

- Adding language to the Charter to ensure that all relevant information on the City's budget and fiscal health is made available to City fiscal monitors, including IBO, on a timely basis.
- Adding to the Charter more specificity on the transparency, usage, and implementation of all of the City's reserve accounts, including the Rainy Day Fund.

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

Fiscal responsibility is not merely a theoretical ideal. New Yorkers are not well-served unless City agencies administer the budget effectively and efficiently, ensuring the City gets real value for its spending. The budget must be administered in a way that ensures efficient delivery of those programs. In other words, how the City spends its money matters.

Most services for vulnerable New Yorkers are provided by nonprofit providers whose financial stability depends on timely payment on City contracts. As any household knows, sound fiscal management means one pays the

bills on time. Yet, the City often does not. Nowhere does this present more of a fiscal and programmatic risk than for human services programs such as pre-K, senior centers, and services for the unhoused. The City's contract-based spending exceeded \$34 billion during fiscal year 2024. Reforms in this area would promote your goal of enhancing accountability and transparency.

Several members of this Commission have significant expertise regarding the operations and workforces of the nonprofit sector. Prior to joining IBO, I served on the joint Mayoral/Comptroller Task Force to Get Nonprofits Paid on Time, which also focused attention on the huge operational challenges faced by providers and their staff because of the City's practices. IBO has identified several key opportunities for Charter reforms, beginning with the most basic of issues: paying the bills.

### ***Paying Bills on Time—Why the City Doesn't and How to Fix This***

Why aren't the City's bills paid? Sometimes it is because a contract ends and the responsible City agency does not complete the process of registering a new contract soon enough. Meanwhile, the agency expects services to continue uninterrupted, even though it knows that a lapse between when the existing contract ends and a new one starts means, by definition, that payment will stop. As much as the provider may be disappointed, or even outraged, by this expectation of work without payment, nonprofits face a daunting choice when payments cease. They must figure out how to continue to afford to pay their dedicated staff members, and how to meet the needs of their clients and communities.

The Charter established the Procurement Policy Board (PPB), with members appointed by the Mayor and the Comptroller, to regulate City contracting. The PPB should be required to adopt rules to fix this problem. In 2023, the City Council passed Local Law 169, in an effort to find a solution. Under LL 169, the Director of the Mayor's Office of Contract Services (MOCS) was required to publish a report last October, with recommendations for timeliness standards. The PPB is now required to establish such standards by October 2025.

### ***Late Registration: Problems and Solutions***

The MOCS report focused on new RFP awards and found that the timeline for the phase of that process that happens *after* proposals are received was between 90 and 120 days, plus 30 days for registration. (That timeline does not include the time needed—often just as long—for the proposal process itself.) Thus, for a contract that is intended to start July 1st, timely registration is possible only if the agency starts processing the new award by February 1<sup>st</sup>, which is 150 days before the contract start date. But agencies are often not ready to process awards that soon, and they thus often fail to complete registration before the prior contract ends.

So what is a provider supposed to do when its current contract is set to expire on June 30<sup>th</sup> and it will not receive a new award until months later? It is not legal for the City to pay a provider once its contract lapses. When the City agency eventually registers a new contract, say in September, the new award will be "retroactive" to July 1<sup>st</sup> (and will thus include funding for July and August). But this does not help the provider meet its payroll during the gap. The data suggests that the process for simply extending an existing contract is much more streamlined, but agencies do not always offer that option. To provide one example, IBO reviewed registration data for human services contracts from the Department of Youth and Community Development with start dates in fiscal year 2025. While most of these contracts were registered late, extensions were typically registered as much as 50 days sooner than new awards. For a struggling vendor, that difference is the equivalent of three or four payrolls.

IBO suggests a Charter requirement for the PPB to mandate that agencies automatically process extension contracts for existing vendors, rather than allowing those contracts to lapse and expecting services to continue



without payment for weeks or even months. This rule could be triggered whenever agencies are unable to begin processing new RFP awards at least six months prior to the end of the existing contract. As shown in the MOCS report, without such a mandate, agencies are unlikely to achieve timely contract registration.

### ***Delayed Invoice Processing: Problems and Solutions***

Providers also experience long gaps in payment even after their contracts are registered. Agencies will typically withhold payment on an entire invoice whenever there are questions about any of the line items, even where the bulk of the invoice is undisputed. Agencies deprive their vendors of the funds they need for costs such as payroll or rent, while they spend days or weeks negotiating about other, relatively minor, items. IBO reviewed spending data for human services contracts that ended last June 30<sup>th</sup> and found that as of mid-February less than 70% of the total value of those contracts had been received by those vendors. While it's possible that in some cases, the work was not completed and not all the funds are owed, it is likely that much of that gap relates to disagreements over invoices that are still going on some seven months after the contracts ended.

Unlike commercial vendors, who tend to discontinue services if bills are not paid, human service providers are relatively powerless during these delays. They often have staff that are 100% assigned to City work and vulnerable clients who depend on that work. IBO's analysis points to the need for a Charter fix for this problem. One option would be a rule to require City agencies to pay (very soon after receipt) a minimum percentage for each invoice from a contractor in good standing. Agencies could then resolve the disputed portions of invoices within a longer mandated timeframe without putting the fiscal stability of their nonprofit partners at risk.

### ***Other Contracting Changes: Public Hearings, MOCS, and Emergency Contracting***

IBO also supports several other Charter changes to advance the goal of ensuring accountability by the City to the vendors that provide services to millions of New Yorkers. These changes include:

- Raising the Charter's threshold for when public hearings are required on individual contracts, so as to shorten the contract registration process.
- Reinforcing real accountability by setting out a clear Charter mandate and responsibilities for MOCS, similar to those already in place for other critical Mayoral functions, such as the Office of Management and Budget and the Office of Operations. In making MOCS a charter agency it would elevate the importance of completing procurement, and require a procurement "Mayor's Management Report (MMR)" to give the public transparency on what goods and services the City purchases, with what mechanisms, and in what time frames.
- Limiting the extended use of emergency contracting, which is often very expensive, by requiring the Mayor and the Comptroller to renew their joint determination that emergency procurement remains appropriate, after such a contract has been in place for two years.

### **Enhancing the City Budget's Structure to Promote Transparency**

Finally, to turn 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 has never been greater. I would like to focus on an important reform in this area from the 1989 Charter that merits further attention by this Commission. For the 2026 fiscal year that starts on July 1st, the Mayor's proposed budget totals \$116.3 billion. That is larger than all but a handful of state budgets. Along with the City Council itself, the public should be able to clearly track the budgets for all of the programs that serve New Yorkers.



The Charter already offers a tool in its arsenal that can be deployed to address this challenge. Each year when the City Council adopts the budget, it authorizes spending in categories that are termed “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, units of appropriation have not corresponded at all to what the public—or even knowledgeable organizations that receive funding—would consider to be a single program. The goal of providing clear, understandable information as to how the City allocates its resources to the public has simply never become a reality. Beyond the lack of budget transparency, the use of huge, mixed-purpose U/As runs counter to the goal of effective oversight.

Some agency budgets include readily understandable U/As that allow the public to see how various programs are funded. But the budgets for many agencies are opaque. Some agencies have only two U/As, one for “personnel costs” and one for “non-personnel” costs, even though the agency itself provides several distinct services. In other agencies, the U/A categories are so huge that no useful information at all is communicated to the public.

Despite the clear Charter language, however, today it is the case that 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.

While new U/As can be, and often are, added each year as part of budget negotiations, there has not been a systematic approach to the dual challenge of ensuring both transparency and managerial flexibility. This Commission could add to the Charter a requirement for regular updates to all units of appropriation by requiring that on a regular basis all U/As be studied, and that a total system enhancement would then occur. The goal should be to truly enable the public to identify how each key program is funded.

IBO welcomes the opportunity to work with you and your staff around these and other ideas for enhancing accountability and increasing transparency. I’m available if you have any questions this evening, or in the weeks to come. Thank you for the opportunity to testify today.

