



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

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**Testimony of the New York City Independent Budget Office
To the New York City Council Committee on Finance
Regarding the Mayor's Executive Budget for 2024 and Financial Plan through 2027
May 23, 2023**

Good afternoon, Chair Brannan and members of the New York City Council Committee on Finance. I am Louisa Chafee, Director of the New York City Independent Budget Office (IBO). Thank you for the opportunity to testify. Joining me are five key members of my team. They include Assistant Directors Jacob Berman (Social and Community Services), Michael Jacobs (Economics), Sarah Stefanski (Housing, Environment & Infrastructure), and Sarita Subramanian (Education), and Budget Analyst Brian Cain.

Today's testimony refers to and relies on IBO's Charter-mandated report on the Executive Budget, issued on May 15th. This report can be found at the [IBO website](#). I have also brought copies for your convenience. IBO is proud to provide nonpartisan budgetary, economic, and policy analysis that helps to increase New Yorkers' understanding of and participation in the budget process and that assists you, as elected representatives, in exercising your oversight, budgetary and legislative responsibilities.

This year, IBO's economic analysis is cautiously optimistic for New York City's short-term fiscal health. Based on IBO's revenue forecasts and re-estimates of City spending, IBO projects an additional fiscal year 2023 surplus of \$2.1 billion, beyond the \$3.0 billion in budget stabilization funds in the Executive Budget. Assuming the \$2.1 billion are applied as prepayments for fiscal year 2024 expenses, next year's budget is balanced.

Widening budget gaps in fiscal years 2025 through 2027 will pose challenges as the City emerges from the COVID-19 pandemic. The out-year gaps grow larger in that time frame, ranging from \$5.8 billion to \$7.7 billion. Relative to the current year, IBO anticipates that, over the course of the plan, expenditures will increase by 11.1 percent while revenues will grow by only 1.9 percent. Despite comparable growth in taxes and expenditures, this growing gap underscores the importance of federal and state revenue to the City's ongoing fiscal health.

Over the course of the financial plan, IBO forecasts that City-funded costs will be \$10.9 billion greater than the projections in the Executive Budget.

My team and I are available today to answer any questions you may have concerning our May 15th Executive Budget report, but to begin our discussion, I will flag three multi-agency risk areas and several agency-specific points.

- **Significant uncertainties remain in the labor force arena:** Two of New York City's largest unions, District Council 37 (DC 37) and the Police Benevolent Association (PBA), have ratified their contracts and the Executive Budget assumes they will set the pattern for other municipal unions. In addition to scheduled raises, these contracts include language concerning potential workplace adaptations

such as remote work, compressed schedules, and extended tours. Such innovations could be challenging for other unions, such as the United Federation of Teachers (UFT), whose members typically must work in person and during specified hours. With the UFT contract as yet unsettled, the City does not have full certainty on labor force costs. The large number of vacancies in the City workforce also adds uncertainties. Based on actual spending during the current year, and taking account of both vacancies and overtime spending, IBO projects that the City will save nearly \$700 million (in budgeted City funds) for personal services in fiscal year 2023, only a portion of which will be offset by the costs of the new labor settlements. IBO has flagged rising concerns that persistent vacancies may mean that some agencies miss key performance targets, a result that could also be costly. Not in IBO's report, but of note, given the concerns of the City Council, is the lack of fiscal recognition of workers funded through the City's human services contracts with nonprofit providers.

- **Exhaustion of federal stimulus funding –risk for the Department of Education (DOE):** The end of the federal stimulus fund pipeline presents an obvious budgetary risk for DOE, stemming from the City's use of some of its stimulus allocation to pay for recurring programs, such as Summer Rising, contracted nursing services, Pathways to Graduation, pre-school special education, and mental health counseling. While there will be other (smaller) gaps in agencies besides DOE, such as for the Department of Transportation's Open Restaurants program, IBO estimates that the City will need to provide additional funding to DOE in each of the upcoming fiscal years—\$5 million in 2023, \$285 million in 2024, \$678 million in 2025, and \$881 million annually in 2026 and 2027, to replace federal stimulus funds.
- **Escalating costs and uncertain arrival trends for asylum seekers:** The costs associated with asylum seekers have significantly increased during 2023, with the continuing influx of asylum seekers and escalations in shelter costs as the City continues to ramp up capacity. Prior to the General Welfare Committee hearing on the Executive Budget, IBO [analyzed three scenarios](#) for the cost of services across fiscal years 2023 and 2024, which yielded a range from \$2.7 billion at the low end to \$3.7 billion at the upper end, the latter being about \$600 million less than costs projected in the Executive Budget.

In addition to these uncertainties, IBO's report also flags several agency-specific issues, including:

- **Chronic underfunding of the New York City Housing Authority (NYCHA) presents near-term challenges:** Although the City will cover the estimated \$80 million cost to NYCHA of the DC 37 labor settlement, the Executive Budget has few other subsidies for NYCHA's operations. In December 2022, NYCHA reported that it was owed around half a billion dollars in unpaid rent, with its rent collection rate at 63 percent as of this past March. Until recently, the state's Emergency Rental Assistance Program (ERAP) was unavailable to NYCHA residents. Although residents are now eligible, ERAP is unlikely to provide sufficient funds to address pending arrears. If nothing is done to address this, NYCHA may need to reduce property maintenance spending in 2024, which could compel the City to provide additional subsidies to pay for structural work required under NYCHA's federal monitor agreement. Meanwhile, as IBO previously reported, NYCHA's \$40 billion in unfunded capital needs may lead to further deterioration of the housing stock, again potentially requiring further subsidies to meet legal obligations.

- **State Budget changes impacting paratransit:** IBO estimates that the City’s paratransit subsidy (known as Access-A-Ride) will need to increase by \$707 million across the financial plan. This includes an adjustment for the increase in the City’s paratransit subsidy rate for 2024 and 2025 enacted in the State Budget, as well as adjustments to the financial plan’s annual baseline to reflect the Metropolitan Transportation Authority’s projected growth in paratransit costs.
- **Smaller but noteworthy gaps in Executive Budget funding for many key programs:** The Executive Budget omits funding for many social and community services initiatives added by the City Council every year at budget adoption, including key youth, aging, library, cultural, and health and mental hygiene programs throughout the City. In addition, IBO noted several critical programs and services that were materially underfunded in the Executive Budget. One example: IBO estimates that the Human Resources Administration (HRA) will continue to spend \$247 million annually for legal services, including anti-eviction and related services, as well as deportation defense legal services, across all plan years. To baseline legal services funding at this level, not including the expansion of the Right to Counsel program, will require an additional \$9 million in City funds in fiscal year 2023, \$56 million in fiscal years 2024 and 2025, and \$72 million in fiscal years 2026 and 2027. This is a relatively small sum for an agency with a 2024 budget of more than \$11 billion, but a service of critical importance to New Yorkers facing homelessness, and to asylum-seekers.

Thank you for your time. We are happy to answer any questions.