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**Testimony of Louisa Chafee, Director, New York City Independent Budget Office
On IBO's Analysis of the 2025 Executive Budget and Financial Plan
To The New York City Council Committee on Finance
Wednesday, May 22, 2024**

Good morning, Speaker Adams, Chair Brannan, and members of the Finance Committee. I am Louisa Chafee, Director of the New York City 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.

Recently, IBO has published three reports on this budget: [Analysis of the 2025 Executive Budget and Financial Plan](#); [IBO's asylum seeker cost projections](#); and Details on [IBO's Economic and Revenue Forecasts](#). We brought copies of each for you today.

Here are the critical highlights:

- IBO forecasts a \$5.1 billion surplus in the current year, \$1.1 billion higher than the Administration's expected surplus of \$3.9 billion. (All years refer to City fiscal years.) The Administration anticipates this year's budget to be \$116.8 billion.
- IBO projects that 2025 will also end with a surplus, estimated at \$1.1 billion. The Administration anticipates next year's budget to be \$113.6 billion.
- Starting in 2026, IBO projects larger budget gaps than the Administration: \$6.2 billion in 2026, \$7.9 billion in 2027, and \$6.0 billion in 2028. IBO's higher gap estimate in 2027 is in part due to the Administration's budgeting of \$1.0 billion in State funding for asylum seekers that the State has yet to commit to; IBO's estimate reflects a more cautious assumption that such costs many need to be covered by City funds.
- IBO anticipates out-year gaps can be addressed over the course of the coming years, as a \$6.2 billion gap for 2026 represents 5.5% of IBO's projected total revenues. The Administration has closed gaps of similar magnitude in the recent past. In the past five years, the Administration's stated out-year gaps at the Executive Budget peaked at 5.3% of revenues, still well below the challenging times of the early- to mid-2000s, when the Administration's outyear gaps peaked at about 9.1% of revenues.

Both the Administration and IBO present a surplus in the current year but differ on the size of the projected surplus. The Council now has the opportunity to consider these findings in relationship to the fiscal and policy choices being proposed by the Administration in this Executive Budget.

Funding Restorations and New Additions:

- For 2025, \$64 million was added to reinstate two New York Police Department classes that had previously been eliminated, with additional funds through the plan period.
- The Administration added \$514 million in 2025 to fund Department of Education programs previously funded by Federal Covid-19 aid. This addition, of both State and City funding, will plug some, though not all, of the existing gap.

- Similarly, the Administration is proposing to add \$741 million in new funding intended to increase wages for the employees of human service organizations under contract with the City.
- After the Executive Budget was published, the Administration announced the addition of \$50 million for childcare as part of the Childcare Quality and Innovation Initiative for New York City.
- Previous financial plans cut funding across early childhood programs. In the Executive Budget, the Administration added \$92 million to the 3-K budget in 2025 to close the Federal stimulus fund gap, although that gap remains in the outyears. To bring funding for 3-K and pre-K expansion up to previously budgeted levels, an additional \$351 million in 2025 would be needed. Similarly, the gap for the subsidized childcare budget is \$136 million.

Program to Eliminate the Gap (PEG)

After two rounds of 5% agency cuts through PEGs, the Administration cancelled the final 5% PEG that had been announced last fall. While some PEGs recognize administrative efficiencies, other PEGs cut programs that provide services to New Yorkers. Certain restorations of previous PEG reductions have occurred while others remain, and new funding cuts were added, including:

- Libraries are projected to be cut by \$24 million in 2024 and \$22 million in every year thereafter.
- Older adult centers are targeted for cuts totaling \$19 million in 2024 and \$2 million in 2025.
- Despite partial restorations for cultural organizations, some significant cuts remain: \$13 million for the Cultural Development Fund and Cultural Institutions Group for 2024, and \$8 million for 2025.
- Similarly, despite some restorations for programs serving justice-involved individuals, cuts of \$32 million in 2025 and \$18 million in 2026 also remain.
- The Department of Sanitation's delayed expansion of the City's composting program currently accounts for planned PEGs of \$2.4 million annually for 2024 and 2025, delaying curbside organics collection in the Bronx and Staten Island from April 2024 to October 2024.
- The information technology (IT) system and related staffing that currently supports such essential parts of the procurement process as requests for proposals processing and invoice payments is set to be cut by \$3.9 million in 2024 and \$2.5 million every year after. This IT system is critical to vendors that deal with the City, including nonprofit service providers, minority- and/or women-owned businesses and other small businesses.

Totaling these programmatic PEGs, including cuts to early childhood from previous plans, the Administration's still-planned PEG cuts include \$232.2 million in 2024 and \$238.9 million in 2025—far smaller than the surplus amounts that the Administration and IBO have estimated for the current year.

Budgeting Practices

As the Council considers its next steps, IBO notes that there are areas of the budget that are notably characterized by a lack of transparency.

Overbudgeting: Areas where budgeted amounts are larger than current spending trends indicate are necessary, yielding savings.

- The Administration has a \$55 billion budget for 2024 citywide staffing costs in the Executive Budget. Looking at payroll data, spending on citywide personal services (PS) costs has been far lower than budgeted. Annual PS spending, especially towards the end of the fiscal year, is a

relatively predictable area of the budget. IBO estimates that City staffing costs are currently overbudgeted by at least \$1.2 billion (\$789 million in City funds), an area of substantial savings.

- Since May 2023, IBO has estimated lower costs for asylum seekers compared with the Administration. In the latest update last week, IBO estimates \$3.0 billion less in City spending on asylum seekers across 2025 and 2026.

Underbudgeting: Areas where there is a trend of adding funds over the course of the year to pay for programs expected to continue.

- Uniformed agency overtime for Police, Fire, Sanitation, and Correction: IBO estimates an additional \$605 million in 2025 for personnel services for Police, Sanitation, and Correction—largely for uniformed overtime.
- Carter Cases: Through Carter Cases, families of students with disabilities can enroll them in private schools and seek tuition payment from the City if they can show that public schools cannot meet their needs. IBO estimates an additional \$424 million is needed for 2025.
- Major changes to the City Fighting Homelessness and Eviction Prevention Supplement (CityFHEPS) with multi-year costs: For the first time since it was created in 2019, the Administration has included at least \$578 million for the program annually. But that is still not enough. IBO estimates additional needs of \$32 million in 2024 and \$144 million in 2025 to fund current spending levels—without including funds for expansion.

IBO recognizes that expenditures sometimes come in higher or lower than can be practically foreseen, and therefore mid-year adjustments to the Expense Budget are necessary. However, other areas which reflect long-standing, well-known programs that are expected to continue, are more foreseeable. Therefore, such expenses should be more accurately projected at the outset of the fiscal year. IBO strongly recommends the Council consider pressing the Administration to produce more accurate fiscal estimates, especially for longstanding and well-understood programs and costs.

Fiscal Outlook and the Economy:

- As expected, the Administration’s tax forecast for 2024 and 2025 has increased substantially over the course of the past three financial plans to meet the levels that IBO has consistently projected all year. IBO estimates that City tax revenue will grow by an annual average of 3.0%, growing from \$73.6 billion in 2024 to \$85.2 billion in 2028. This growth is expected to be driven by property, personal income, and business income taxes. IBO’s tax revenue forecast is based on an economic forecast marked by continued, but slower, growth.
- IBO’s May 2024 forecast projects that the economy is still on the path to a soft landing, where inflation approaches the Federal Reserve’s target level without causing a recession, although on a more delayed timeframe than previously expected. However, despite a generally positive macroeconomic outlook, the City’s economy is at risk of becoming constrained by the size of the labor force.
- IBO forecasts the City will add over 91,000 jobs in 2024 before gradually moderating in the future years as the labor market tightens. Job gains in the leisure and hospitality, professional services, and health care and human services sectors will continue to spur the local economy.

In sum, IBO’s findings indicate that there are areas where budget savings may enable the Council to achieve a balanced budget without fundamentally compromising critical City services.

IBO is happy to answer any questions and provide further details as needed. Thank you for the opportunity to testify today.