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**Testimony of Louisa Chafee, Director, New York City Independent Budget Office
On the Mayor's November Plan & IBO's Fiscal Outlook Report
To The New York City Council Committee on Finance
Monday, December 11, 2023**

Good afternoon, Speaker Adams, Chair Brannan and members of the Finance Committee. My name is Louisa Chafee and I am the Director of the New York City Independent Budget Office (IBO). I am joined here by my colleagues Sarah Parker and Sarita Subramanian, IBO's Senior Research and Strategy Officers. Thank you for the opportunity to testify at this hearing on the November Plan.

In accordance with the New York City Charter mandate to enhance official and public understanding of the budgetary process and budget documents, IBO published the [Fiscal Outlook Report](#) this morning, which presents highlights of IBO's independent economic forecast and re-estimates of City revenues and expenses across the financial plan years. IBO projects that the City will end 2024 with an additional \$3.6 billion in surplus above OMB's estimates. (All references are to City fiscal years unless otherwise noted.) If the surplus prepays 2025 expenses, IBO projects a \$1.8 billion shortfall next year. Alternatively, any surplus may be used to cover increased spending in the current year instead of prepaying next year's expenses. The Mayor's Office of Management and Budget (OMB) projects a larger shortfall (\$7.1 billion) for 2025. IBO's gap projections for 2026 and 2027 (\$7.2 billion and \$6.6 billion, respectively), are higher than OMB's (\$6.5 billion and \$6.4 billion, respectively).

While New York City continues to face major budget challenges, the local economy continues to rebound from the Covid-19 pandemic, with an expected return to pre-pandemic levels of employment in the very near future, and a strong outlook for personal income. While not dramatically different than our projections in May, the national economic outlook has strengthened somewhat since then, with stronger GDP growth driven by sustained consumer spending, even amidst high interest rates, which are contributing to falling inflation. However, substantial risks to both the national and local economy remain.

In the November plan, OMB raised its 2024 revenue forecast by \$592 million to reflect stronger recent tax receipts. Consistent with past practice, OMB did not adjust its revenue forecasts for 2025 through 2027. IBO has re-forecast all major tax revenues to reflect the present economic outlook, which drives differences in revenue projections between IBO and OMB. IBO's tax forecasts exceed OMB's for almost all taxes, particularly for the property and personal income taxes. Barring an unexpected change to the economy, IBO expects that as OMB revises its revenue projections for the January plan, the IBO and OMB revenue totals will more closely align.

Overall, IBO estimates that the City will spend \$3.5 billion less than OMB forecasts in 2024, but \$366 million more than OMB's estimate for 2025. Highlights include:

- Cost of Services for Asylum Seekers: IBO has modeled three cost [scenarios](#) (published this morning) based on assumptions for the projected population, as well as daily costs, which may decline from higher rates paid under emergency contracts to lower rates likely to emerge from competitive procurements. These scenarios all result in lower expenditures than OMB projects for 2024 and 2025, and incorporate trends seen through November 2023, whereas OMB's estimates reflect trends observed earlier and presented in August. IBO did not re-estimate costs associated with asylum seekers in 2026 or 2027 due to uncertainty in future trends.
- Rental Housing Vouchers: IBO estimates \$200 million in additional annual expenditures for future years to match current levels for the City's primary housing voucher program, known as the City Family Homelessness and Eviction Prevention Supplement (CityFHEPS) program, relative to OMB's projections for 2025 through 2027.
- End of Federal Pandemic-Relief Funding for Out-Years: NYC received 13.5B in Federal Pandemic Funding, which is ending. Some of these funds were used for programs that are on-going. In the Department of Education and DYCD, alone, IBO estimates that the Administration will need to add over \$700 million in each year from 2025 through 2027 to replace this expiring federal Covid-era funding.
- Additional Education Spending: IBO projects additional annual expenditures of over \$600 million from 2025 through 2027 for Carter Case settlements and implementation of the State class size law.
- City Personnel Costs: During the first quarter of this calendar year, active City headcount dropped to its lowest level since 2015. As a result of the reduced headcount, IBO estimates that uniformed personnel overtime will continue to create upward pressure on the budget, requiring additional funds totaling \$575 million in 2024, growing to \$840 million in 2025. Existing vacancies and hiring attrition produced by the hiring freeze on non-uniformed staff will produce \$2.4 billion savings.

Although the City faces fiscal challenges, recent economic indicators and tax receipts, combined with re-estimates of City spending, provide a clearer picture of the City's fiscal health in the near-term. IBO estimates a budget surplus this year and the budget deficit for 2025 to be notably smaller than OMB's estimate. There is more uncertainty, however, around both revenues and expenditures in the later years of the financial plan. The City maintains several reserve funds, which may be a cushion for unexpected expenses or to make up for lower-than-anticipated tax revenues, although the City has not established clear standards for when and where the substantial use of reserves would be appropriate.

Thank you and we welcome your questions.