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Testimony on NYC November 2023 Financial Plan

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Thank you for the opportunity to testify on New York City's November 2023 Financial Plan. I am Ana Champeny, Vice President for Research at the Citizens Budget Commission, a nonpartisan, nonprofit think tank and watchdog devoted to constructive change in the finances, services, and policies of New York State and City governments.

New York City's fiscal health is extremely precarious. I want to be very clear. The budget problems are real and large. The choices made in the coming months will determine whether the City emerges as fiscally stable and competitive or risks both its ability to serve New Yorkers in need and its attractiveness to residents and businesses.

The choices will be hard; the City cannot provide everything to everyone. But it can thrive and help our most in-need neighbors if it prioritizes key services, relentlessly manages them to get results, and operates effectively and efficiently. It is not the time to raise taxes, which would weaken New York City's competitiveness, or dip into reserves, which would weaken the City's ability to withstand any future recession.

How did the City's budget pressure get to the boiling point? The rapid and persistent influx of migrants and asylum seekers has come with an immense, unanticipated fiscal cost. Furthermore, the federal government has not contributed anything close to its fair share. While the State has stepped up, it also should shoulder more of any non-federal burden.

The cost to serve migrants is just part of the problem, responsible for approximately half of CBC's estimate of the full budget gap, assuming OMB's estimates of migrant costs hold.

The rest of the gap is due to short-sighted choices—choices, not external events—to increase recurring spending without the support of recurring revenues, predictably leading to the City's current situation.

First, temporary federal COVID aid was used to support and expand recurring programs that will be unfunded once the aid is depleted—the federal fiscal cliff.

Second, the City's temporary personal income and business tax revenue surge was used to expand City services. But as the economy normalizes, the money is not recurring. This City fiscal cliff is more than twice as large as the federal cliff.

Third, the recent collective bargaining agreements, while providing reasonable raises, did not include any offsetting productivity increases to help pay the \$16 billion in added costs through 2027.

The City's financial plan shows a \$7.1 billion gap for fiscal year 2025. However, this does not include the impacts of the fiscal cliffs, or other areas that the City regularly underbudgets. Adding these brings the gap to a more accurate \$10.6 billion, a significant shortfall even if tax revenues modestly exceed the forecast or migrant costs are overestimated.

CBC urges the Administration and City Council to make the hard choices—and to make them thoughtfully and strategically. Now is not the time to focus on expanding services but rather to prioritize those services with significant impact and to increase efficiency.

Mayor Eric Adams' directive to identify savings in agency budgets is right. CBC's analysis of the previous four savings programs found that 92 percent of savings measures would not directly affect program services; instead they lowered spending by re-estimating costs, eliminating vacant positions, and shifting costs to federal or State sources when possible. Much low hanging fruit has been plucked, but there is more.

The most recent PEG is weighed more heavily to program reductions. CBC's preliminary analysis finds that 20 percent of the savings will affect current programs. The question is whether these are the wisest choices. How many police officers are needed for public safety and are they all deployed directly for that purpose? What strategies really increase student achievement? How do we pare down to the most critical services for migrants and asylum seekers and provide them cost effectively.

Making wise, hard choices requires transparent data on program impact and a relentless effort to manage programs well. This informed, strategic approach is needed to ensure that a budget axe is not swung blindly, which could slice key services. The Council should focus on the data to help make the hard choices and minimize the impact on New Yorkers.

Additionally, labor must be part of the solution. The City will not identify and be able to deliver services efficiently without the input of labor and without agreed-upon changes to work rules, job titles, health insurance, and other benefit administration structures.

This is not the time to raise revenue. The City's residents and businesses already face the highest marginal personal income and business taxes; especially post pandemic, further increases could undermine the City's recovery.

This is also not the time to use the City's precious reserves. Dipping into the reserves would delay fixing the underlying problems. It's simply kicking the can on tough budget calls further down the road, and recklessly depleting reserves that will be needed if the economy takes a downturn.

This is the time for collaborative, informed, and thoughtful discussions to drive the hard choices. These should be grounded in the realization that current spending levels are not sustainable, and the focus should be on identifying the most critical priorities and services and delivering them well.