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## **Testimony on NYC Fiscal Year 2025 Preliminary Budget**

Submitted to New York City Council Finance Committee

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Good afternoon, Chair Brannan and members of the City Council Finance Committee. I am Ana Champeny, Vice President for Research at the Citizens Budget Commission (CBC), a nonpartisan, nonprofit think tank and watchdog dedicated to constructive change in the finances, services, and policies of New York City and New York State governments. Thank you for the opportunity to testify on the NYC Fiscal Year 2025 Preliminary Budget.

Chronic underbudgeting and the more recent trend of funding recurring programs one year at a time—what we call the fiscal cliff—have grown to dangerous levels in recent years. These, along with the surge in costs to support migrants and asylum seekers, put the City's fiscal health at significant risk despite an expanding economy.

Through its role in shaping the City budget, the City Council will partly determine whether the City's fiscal foundation is stable, and therefore, whether the City will be able to serve New Yorkers well.

We urge you to ensure that your proposals to add or modify spending are affordable and do not make the City budget even more fiscally precarious. This first requires that the City fully fund the programs it plans to deliver. The spending plan has to accurately reflect the program plan. While the Administration made some important improvements to budget transparency by funding some previously underbudgeted ongoing programs, much more must be done to show clearly the City's fiscal condition once current services are fully funded in the budget.

By this, for example, we mean that the funding required to support the current level of City FHEPS vouchers—whose costs are expected to exceed \$800 million this year but are budgeted at approximately \$150 million next year—should be in the budget before adding or expanding this or other programs. Adding programs when the current ones are not fully funded, yet are expected to continue, adds unsupportable weight to the fiscal house of cards.

CBC's analysis finds that the Preliminary Budget presents balanced budgets for fiscal years 2024 and 2025 as required by law; however, proposed spending in fiscal year 2025 is short by \$3.6 billion needed to continue the current level of services. (A full table is provided with the testimony.) Furthermore, spending in fiscal years 2026 through 2028—assuming ongoing programs will be fully funded—is similarly understated. Adding this, we project the future budget gaps are between \$8.8 billion to \$9.7 billion, even without expanding City FHEPS or complying with the State class size reduction law, and assuming the Administration's revenue estimates hold.

That is why CBC believes it was ill advised to cancel the April 2024 Program to Eliminate the Gap (PEG). Even if higher revenue projections prove accurate, which would be good news, the City may abruptly face funding shortfalls that require significant, sudden spending cuts that can harm programs more than restraining spending to affordable levels over time. Furthermore, the City has not made a voluntary deposit to the Rainy Day Fund since fiscal year 2022; the \$2 billion set aside is woefully insufficient for the next economic contraction.

CBC found that higher than previously projected revenue, in-year reserves and resources, and reductions in agency and asylum seeker spending provided \$10.2 billion of resources across fiscal years 2024 and 2025. These resources were used to balance fiscal year 2025 (\$7.1 billion), fund underbudgeted fiscal year 2024 programs (\$2.5 billion), for increased spending in fiscal year 2025 (\$400 million), and to restore some previously announced PEG savings (\$200 million), just 5 percent of the fiscal year 2024 and 2025 PEG savings.

The fiscal year 2025 budget was balanced in part by the two PEG rounds. Even if the revenue added in January had been added in November 2023, those spending reductions would still have been needed to get to where the budget is now. Furthermore, additional revenue, if available, will be needed to support already planned spending in fiscal year 2025, unless those unsupported programs are shrunk or eliminated.

The current level of underfunded ongoing programs, which started in the years right before the pandemic and was increased by using federal COVID aid for recurring programs, has reached critical levels—\$3.6 billion next year, far exceeding in-year budgetary reserves of \$1.45 billion.

Only when the budget is transparent—and completely and accurately funds the City's current programs and the full cost of desired program expansions—will the prospect of a fiscal reckoning be clear. We hope that this would encourage City leaders, both the Executive and the City Council, to make the hard and wise choices needed to prioritize key, high-impact programs and increase government efficiency.

Prioritization based on data and efficient and quality service delivery are hallmarks of the thoughtful, nuanced approach needed. Blunt instruments, such as blanket hiring freezes and across-the-board targets, may achieve needed savings, but too often come with unwarranted service reductions. Doing this right will protect essential services and create the fiscal stability needed for the City to ensure New York and New Yorkers thrive.

Proximate funding shortfalls and future gaps this large, especially during an economic recovery, are evidence of the City’s precarious fiscal position. Budget gaps that appear smaller due to underbudgeting may be easier to abide by in the short term, but they dangerously mask the true challenge and minimize the need for swift and thoughtful action to restrain City spending growth. That lack of transparency could have dire consequences in the long term.

### City-Funds Fiscal Cliff, Federal-Funds Fiscal Cliff, and Underbudgeting in the NYC Fiscal Year 2025 Preliminary Budget

(dollars in millions)

Agency	Program	FY 2025	FY 2026	FY 2027 and out
<b>Existing City-Funds Fiscal Cliff</b>				
DSS	CityFHEPS	\$704.3	\$704.3	\$704.3
DSS	Cash Assistance Funding	\$467.6	\$467.6	\$167.6
DHS	Shelter Cost Re-estimate	\$200.0	\$200.0	\$200.0
DHS	EAF Revenue Shortfall	\$140.0	\$140.0	\$140.0
ACS	Foster Care	\$118.0	\$118.0	\$118.0
ACS	Child Care	\$81.0	\$81.0	\$81.0
DSS	HASA housing	\$69.0	\$69.0	\$69.0
DOHMH	Early Intervention	\$65.0	\$65.0	\$65.0
DOHMH	Article VI School Health	\$64.1	\$64.1	\$64.1
NYPD	Mobility Data Plans	\$55.5	\$55.5	\$55.5
Misc	Precision Employment	\$54.0	\$54.0	\$54.0
DHS	Prevailing Wage	\$50.1	\$50.1	\$50.1
ACS	State Mandate	\$47.2	\$47.2	\$47.2
NYPD	Domain Awareness	\$42.0	\$42.0	\$42.0
DSS	Emergency Food	\$30.0	\$30.0	\$30.0
DSNY	Litter Basket Service	\$16.5	\$16.4	\$16.4
DHS	Subway Plan Re-estimate	\$22.0	\$22.0	\$22.0
DYCD	SYEP Metrocards	\$16.5	\$16.5	\$16.5
ACS	Promise NYC	\$16.0	\$16.0	\$16.0
DSS	Security and Janatorial	\$15.9	\$15.9	\$15.9
DOE	Community School	\$9.8	\$9.8	\$9.8
DOHMH	Office of Equity Initiatives	\$7.6	\$7.6	\$7.6
DSS	Benefits Access	\$6.9	\$6.9	\$6.9
DHS	IT	\$6.5	\$6.5	\$6.5
DOC	Medical Evaluation	\$5.6	\$5.6	\$5.6
Various	All Other Programs	\$45.6	\$45.6	\$45.6
<b>Subtotal</b>	<b>City-Funds Fiscal Cliff</b>	<b>\$2,356.7</b>	<b>\$2,356.5</b>	<b>\$2,056.5</b>
<b>Adjustment</b>	<b>15% Reserve for Estimate Variance</b>	<b>(\$353.5)</b>	<b>(\$353.5)</b>	<b>(\$308.5)</b>
<b>Total</b>	<b>Existing City-Funds Fiscal Cliff</b>	<b>\$2,003.2</b>	<b>\$2,003.0</b>	<b>\$1,748.0</b>
<b>New City-Funds Fiscal Cliff</b>				
DOE	School Nurses	\$87.0	\$87.0	\$87.0
DSS	Information Technology	\$53.2	\$53.2	\$53.2
DOE	School Cleaning	\$22.0	\$22.0	\$22.0
DOHMH	Supportive Housing	\$20.0	\$20.0	\$20.0
Other	All Other Programs	\$17.8	\$17.8	\$17.8
<b>Subtotal</b>	<b>New City-Funds Fiscal Cliff</b>	<b>\$199.9</b>	<b>\$199.9</b>	<b>\$199.9</b>
<b>Adjustment</b>	<b>15% Reserve for Estimate Variance</b>	<b>(\$30.0)</b>	<b>(\$30.0)</b>	<b>(\$30.0)</b>
<b>Total</b>	<b>New City-Funds Fiscal Cliff</b>	<b>\$170.0</b>	<b>\$170.0</b>	<b>\$170.0</b>

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Federal Fiscal Cliff				
DOE	Summer Rising	\$96.0	\$176.0	\$176.0
DOE	Expand Pre-K for All Special Education	\$94.6	\$94.6	\$94.6
DOE	3K Expansion	\$92.2	\$92.2	\$92.2
DOE	Mental Health Support	\$85.8	\$85.8	\$85.8
Various	Non-Profit Overhead	\$0.0	\$60.6	\$60.6
DOE	Restoration of Equity and Excellence Program Reduction	\$54.0	\$54.0	\$54.0
DOE	Pathways Expansion	\$52.3	\$52.3	\$52.3
DOE	Community Schools Expansion	\$51.2	\$51.2	\$51.2
DftA	Community Care Investments for Older New Yorkers	\$0.0	\$47.6	\$47.6
DOHMH	Mobile Treatment	\$0.0	\$47.4	\$47.4
DSS	Universal Access in Housing Court	\$0.0	\$15.6	\$15.6
DOE	Restoration of Expanded Arts Instruction	\$15.5	\$15.5	\$15.5
DOE	Expand Restorative Justice	\$14.8	\$14.8	\$14.8
DOE	All Other	\$13.6	\$13.6	\$13.6
DOE	Digital Learning	\$13.4	\$13.4	\$13.4
DOE	Bilingual Education Expansion	\$13.2	\$13.2	\$13.2
DOHMH	NYC Well Expansion Funding Swap	\$9.6	\$9.6	\$9.6
DOE	Safe Supportive Schools	\$9.2	\$9.2	\$9.2
DOE	Head Start	\$8.8	\$8.8	\$8.8
DOE	Restoration of Air Conditioning	\$8.3	\$8.3	\$8.3
DOE	Literacy and Dyslexia Screening	\$7.8	\$7.8	\$7.8
DOE	Translation and Interpretation	\$7.1	\$7.1	\$7.1
DOE	Expand Public School Athletic League	\$7.1	\$7.1	\$7.1
DYCD	Community Centers	\$0.0	\$6.2	\$6.2
DOHMH	Clubhouses	\$2.0	\$6.0	\$6.0
DOE	Restoration of Community School OTPS Contract	\$6.0	\$6.0	\$6.0
DOHMH	Mobile Food Vending Permits & Grading	\$2.9	\$5.8	\$5.8
DOE	Restoration of Comprehensive School Supports	\$5.0	\$5.0	\$5.0
Various	All Other	\$4.9	\$10.7	\$10.7
<b>Total</b>	<b>Federal Fiscal Cliff</b>	<b>\$675.2</b>	<b>\$945.2</b>	<b>\$945.2</b>
Underbudgeting				
Uniformed	Overtime	\$655.0	\$655.0	\$655.0
MISC	MTA Subsidies	\$145.0	\$145.0	\$145.0
<b>Total</b>	<b>Underbudgeting</b>	<b>\$800.0</b>	<b>\$800.0</b>	<b>\$800.0</b>
<b>GRAND TOTAL</b>		<b>\$3,648</b>	<b>\$3,918</b>	<b>\$3,663</b>

**Notes:** Fiscal cliff estimate is based on a CBC analysis of "Identifying Fiscal Cliffs in NYC's Financial Plan," updated in December 2023, produced by the Office of the State Comptroller. CBC reconciled the reported cliffs as of November 2023 Financial Plan with the City's Fiscal Year 2025 Preliminary Budget and updated the cliff estimate for fiscal year 2025 and out as appropriate. If funding in FY 2024 was at least 90 percent of the cliff estimate, the lower amount was the new cliff going forward. Similarly, if a program was funded at 110 percent or more of the cliff amount, the higher level is the cliff going forward. For cash assistance, the cliff is increased by \$300 million in fiscal year 2025 and 2026 to reflect higher spending in fiscal year 2024 and lower budgeted levels in those years. New funding added to just fiscal year 2024 was considered a new fiscal cliff if it was likely to recur based on the limited description available. The federal fiscal cliff for Summer Rising was reduced by \$80 million in fiscal year 2025 only, to reflect increased City funding. The overtime estimate is based on fiscal year 2024 overtime spending at the four uniformed agencies as of January 2024, projected through the end of the fiscal year, compared to budgeted funding in fiscal year 2025 and beyond. MTA subsidy was based on reports by the Office of the New York City Comptroller and the Office of the New York State Comptroller. For the City-funds cliff, to account for limited details and year-to-year variation in spending, the projected cliff was reduced by 15 percent.

**Sources:** CBC analysis of City of New York, Mayor's Office of Management and Budget, Fiscal Year 2025 Preliminary Budget: Reconciliation (January 16, 2024), Fiscal Year 2025 Preliminary Budget: Financial Plan Detail (January 16, 2024), and Fiscal Year 2025 Preliminary Budget: Departmental Estimates (January 16, 2024); Office of the New York State Comptroller, "Identifying Fiscal Cliffs in New York City's Financial Plan" (updated December 22, 2023, accessed February 6, 2024), and Review of the Financial Plan of the City of New York (Report 16-2024, December 2023); and Office of the New York City Comptroller, "Checkbook NYC: Data Feeds" (accessed January 22, 2024), and The State of the City's Economy and Finances (December 15, 2023).