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Testimony on New York City's Preliminary Fiscal Year 2023 Budget

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Thank you for the opportunity to testify regarding the City's Preliminary Budget for fiscal year 2023. I am Ana Champeny, Deputy Research Director at the Citizens Budget Commission (CBC), a nonprofit, nonpartisan think tank and watchdog dedicated to constructive change in the services, finances, and policies of the New York City and New York State governments.

Mayor Eric Adams' Preliminary Budget for Fiscal Year 2023 took important fiscally prudent steps, including eliminating over 7,000 vacant positions and removing \$500 million in annual illusory labor savings. To truly set the City on a path to fiscal stability, the Administration should follow these preliminary steps with actions that substantively restructure how the City delivers services and manages its finances. Specifically, the Executive Budget should include another Program to Eliminate the Gap (PEG) focused on increasing agency and central service efficiency, actions to mitigate the coming impacts of the City and federal fiscal cliffs, and annual deposits to the Rainy Day Fund (RDF).

Program to Eliminate the Gap (PEG) and Other Efficiencies

Including a PEG in the Preliminary Budget was the right choice, but much more should be done to increase efficiency in government. While positive that most of the Preliminary Budget's PEG savings recur in the outyears, the savings were achieved primarily by eliminating vacant positions and re-estimating spending rather than increasing the efficiency of City operations. A review of the PEG found that:

- Efficiency initiatives, based on initial review by CBC, were approximately nine percent of PEG savings (\$500 million over five years) and represent around 0.25 percent of City-funded spending at participating agencies. Re-estimates and funding shifts yielded 59

percent of the five-year PEG savings, while vacancy reductions that did not increase efficiency were 24 percent;

- Eliminating more than 7,000 vacant full-time positions was a beneficial, important step. While this may seem substantial, the City had nearly 26,000 vacant full-time positions on December 31, 2021. Compared to next year's authorized levels and after accounting for other headcount adjustments, the City still has more than 18,500 vacant full-time positions to hire necessary personnel; and
- The savings also were slightly below the three percent annual target. Excluding central costs and agencies that were exempted from the PEG, savings totaled 2.3% (\$820 million) of City-funded spending in fiscal year 2022, 2.8 percent (\$999 million) in fiscal year 2023, and 2.6 percent in each fiscal year 2024 through 2026.

The Executive Budget should build on this start and include a PEG targeting 3 percent in fiscal year 2023 and each year thereafter, focused on strategies that increase efficiency and reduce unit costs. In addition, the Executive Budget should include efficiency savings from centrally managed services like space and fleet. CBC has previously estimated savings from potential actions, such as modernizing contractual differentials, work rule changes, and consolidation of welfare benefits.¹ Streamlining and improving City services is critically important to ensure effective use of taxpayer resources and high-quality services for residents and businesses.

City and Federally Funded Fiscal Cliffs

While fiscal year 2024 to 2026 budget gaps appear manageable at \$2.7 billion, \$2.2 billion, and \$3.0 billion, respectively, they understate the City's fiscal challenge because looming fiscal cliffs were not addressed in the Preliminary Budget.

The City-funded fiscal cliff is of immediate concern. As of November 2021, the City budget did not include fiscal year 2023 funding for over \$650 million in recurring programs that are funded in fiscal year 2022.² These programs include City Council priorities such as prevailing wages for shelter security, higher allowable rents for the Family Homelessness & Eviction Prevention Supplement (FHEPS) housing voucher program, and additional street waste basket collection routes. CBC's review of the Preliminary Budget shows that only a few of these programs are funded for fiscal year 2023, leaving most of the cliff to be addressed in the Executive Budget.

Though the federally funded fiscal cliff will not become a significant issue until fiscal year 2026 when more than \$1.3 billion in recurring programs will lose their funding, agencies will begin to see the decrease in COVID-related federal aid as soon as fiscal year 2023. Although this federal aid was designed to be non-recurring, some incorrectly perceive the year-over-year decline of federal aid as a budget cut. Furthermore, the City explicitly used federal aid to support recurring

programs through fiscal year 2025, including \$375 million for 3K (half of the program is City funded), \$77 million for Journey Home street homeless program, and \$62 million for non-profit indirect rate reimbursement.

City agencies should have clear plans for how to taper federal funds over the next few years, while the Executive Budget should propose a plan to start to transition recurring programs to recurring funding.

Reserves

Mayor Adams' touted the City's record level of reserves in the Preliminary Budget. While reserves were built up following a dip due to the pandemic and recession, they remain well below recommended levels of \$11 to \$12 billion and without a plan to increase them to that level.

[Our blog](#) provided historical data on reserve levels in absolute dollars and relative to the City budget, the better measure.³ Currently, the City counts reserves of \$6.1 billion, which is 8.3 percent of City-funded expenditures. (CBC does not consider the Retiree Health Benefits Trust, which holds \$3.8 billion, as a reserve.)

The most appropriate vehicle for City reserves is the recently created Rainy Day Fund (RDF); its balance is \$1 billion, including a planned \$500 million deposit this year. No deposits are planned in future years. The Executive Budget should include planned deposits of at least \$500 million annually in each year of the financial plan.

Furthermore, the State legislation that established the fund did not provide sufficient guardrails with regards [to mandatory deposits and withdrawal rules](#). Both the City Comptroller and State Comptroller have supported stronger rules for the RDF.⁴ The Mayor and City Council should also advance legislation to mandate deposits and establish stricter controls for use of the RDF.

¹ Ana Champeny, *Hard Choices That Can Balance New York City's Budget* (Citizens Budget Commission, June 10, 2020), <https://cbcny.org/research/hard-choices-can-balance-new-york-citys-budget>; and Ana Champeny and Maria Doulis, *How to Make \$1 Billion in Labor Savings Real & Recurring* (Citizens Budget Commission, September 2, 2020), <https://cbcny.org/research/how-make-1-billion-labor-savings-real-recurring>.

² Office of the New York State Comptroller, "Identifying Fiscal Cliffs in New York City's Financial Plan" (accessed February 28, 2022), <https://www.osc.state.ny.us/reports/osdc/identifying-fiscal-cliffs-new-york-citys-financial-plan>.

³ Ana Champeny, "The Record on Reserves: New York City Fiscal Year 2023 Preliminary Budget Reserves," *Citizens Budget Commission Blog* (February 28, 2022), <https://cbcny.org/research/record-reserves>.

⁴ Office of the New York State Comptroller, *Strengthening New York City's Rainy-Day Fund* (Report 13-2022, November 2021), <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-13-2022.pdf>; and Office of the New York City Comptroller, "Statement from NYC Comptroller Brad Lander on Mayor Adams' FY 23 Preliminary Budget" (press release, February 16, 2022), <https://comptroller.nyc.gov/newsroom/statement-from-nyc-comptroller-brad-lander-on-mayor-adams-fy-23-preliminary-budget/>.