OFFICE OF THE NEW YORK STATE COMPTROLLER

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Identifying Fiscal Cliffs in New York City's Financial Plan

Highlights

- New York City's published financial plan includes funding for some recurring spending initiatives for only a limited period, creating additional risks to already identified budget gaps.
- The drop in funding, referred to as a "fiscal cliff," means that the current level of service is not supported, either partially or in full, going forward.
- The Office of the State Comptroller (OSC) has created a tool to identify sources and uses of funds for City programs that are not fully funded during the remaining years of the City's financial plan, through Fiscal Year (FY) 2025.
- Agencies analyzed in the tool cover 90 percent of expenses in FY 2022.
- Agencies include the Department of Education, uniformed agencies (e.g. police, fire, sanitation, and corrections), health and social services (e.g social services, homeless services, Health and Hospitals, and health and mental hygiene), and the Mayoralty.
- City and federal funded expenses are also identified in the tool, to identify those areas of spending most at-risk due to the exhaustion of federal COVID-19 relief funding.
- Identified cliffs could impact services for residents including expanded educational programs, housing assistance, and mental health and healthcare initiatives, among others.

As required by the Financial Emergency Act and embedded in the City Charter, the City of New York publishes a four-year financial plan to provide a framework for long-term budget decisions. This requirement offers decision makers a long lead time to identify initiatives for achieving budget balance each year by providing insight on the budgetary gap between the City's anticipated revenues and its projected expenditures based on current trends and mandates. The initiatives to close the gaps may include new revenues, cost efficiencies, or other forms of savings.

However, the City's Financial plan, including its most recent November 2021 modification, assumes that the funding for certain services will not recur beyond a finite period, even though spending on those services is not expected to decline (based on current trends) and, in some cases, are mandatory. As a result, the City's financial plan lacks transparency about the true recurring cost of some of its services, which may expand budgetary gaps if they are not offset by unanticipated resources or other alternatives.

These risks can be identified when there is more funding provided in the current year than in subsequent years in the plan ("out-years") without a rationale for the decline. The drop in funding, referred to as a "fiscal cliff," means that the current level of service may not be supported by planned spending projections, and that in order to maintain service levels, the City might have to reallocate or find new sources of funding.

Some of these fiscal cliffs reflect new programs, while others arise from service enhancements or sustained increases in service volume that are not reflected in future years. In addition to possible service declines, this creates uncertainty for service providers who are dependent upon City funding, and limits their ability to plan their spending as well.

In addition, the City created new programs to foster recovery and mitigate the harmful effects of the pandemic, funded with nonrecurring federal pandemic aid. However, a sizable portion of the cost of supporting these programs is expected to recur after the federal funds are exhausted. (See examples of projected fiscal cliffs in the sidebar.)

Recent OSC reports on the City's November 2021 Financial Plan and the Department of Education's response to the COVID-19 pandemic highlight the emergence of new fiscal cliffs. As a follow up, OSC has identified newly funded programs and services that face planned funding declines beginning in Fiscal Year 2023 through the rest of the financial plan period, and organized the information in an online tool.

The tool uses the City's published financial plan and ongoing budget modifications beginning April 2021 to show out-year funding shortfalls for specific programs and initiatives which could be reduced or eliminated, or will need to be funded through other means. OSC further refined the tool through discussion with the New York City Office of Management and Budget, which helped isolate start-up costs, timing differences, and funding offsets that may be reflected elsewhere in the plan.

The tool focuses primarily on the agencies that account for 90 percent of City spending each year. Gaps are calculated by comparing out-year funding amounts to the annual funding at the peak service level. City Council discretionary awards are excluded from the analysis, as these are distributed annually. Technical adjustments are also excluded from the analysis.

Selected Examples of Fiscal Cliffs

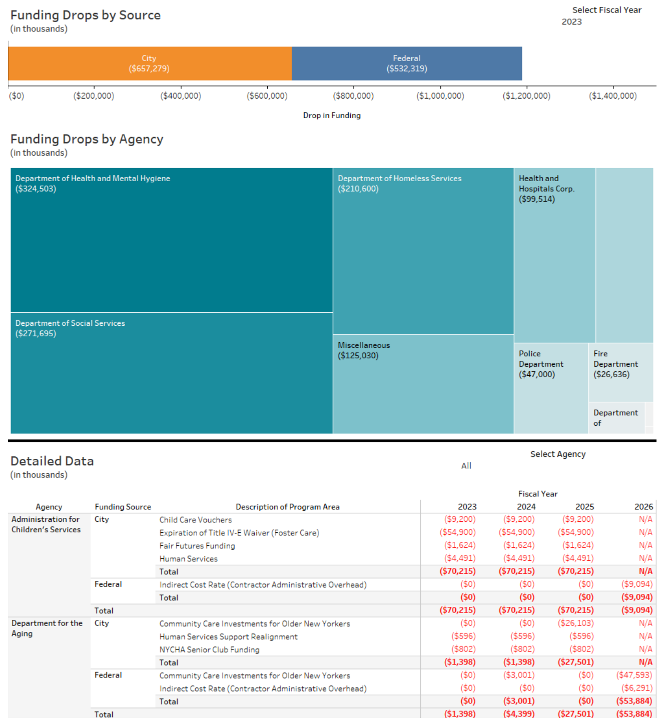
- Increased wages for security guards at homeless shelters – implemented in response to City legislation – will cost $41 million in FY 2022, but are unfunded in the out-years.
- Some higher recurring costs associated with combatting street homelessness are not funded after 2022.
- The Department of Health and Mental Hygiene adds $23 million to provide first-time families who live in public housing, who are engaged with child services or in neighborhoods with high risks of health and social burdens with health and mental health support in FY 2022 only.
- The Department of Sanitation expands litter basket service by $8.6 million in FY 2022, but not after.
- Recurring costs funded by one-time federal aid will exceed $1 billion by FY 2026, with the largest share at the Department of Education.
- About $38 million in matching City spending related to the World Trade Center Health program, as required by the federal Zadroga 9/11 Health and Compensation Act of 2010, is not funded after FY 2022.
- Funding for single-room occupancy housing for people with HIV/AIDS declines by $34 million after FY 2022.
- The plan does not include $9.2 million for the Administration for Children's Services to provide special child care vouchers after FY 2022.

Users can select an Agency, Fiscal Year, and/or funding source for detail on funding gaps within specific agencies or periods of the financial plan (See Figure 1). The tool also distinguishes City-funded cliffs from federal cliffs, which result from the use of pandemic relief dollars to pay for recurring services. The federal cliffs are of particular concern, since the City does not have the means to sustain this elevated level of spending after the relief funds expire.

As agencies consider ways to generate savings associated with the Mayor's request to identify a three percent "Program to Eliminate the Gap," they will have to make careful choices over what services they can provide within realistic funding assumptions. The identification of these fiscal cliffs should allow the City, and its residents, policymakers and other key stakeholders to consider budgetary policy choices. The decisions made now to begin the process of balancing future spending with available revenue, including targeting additional efficiencies, proposing reallocation of funds, or modifying service levels and the schedule for their delivery, will help to ensure the City minimizes service disruptions for its residents and ensure the City's fiscal health is not a burden to its business climate and long-term economic profile.

The online tool, and other materials on budgetary issues facing New York City, can be found at www.osc.state.ny.us/osdc.

FIGURE 1
Example Selection from Fiscal Cliff Tool



Agency	Funding Source	Description of Program Area	2023	2024	2025	2026
Administration for Children's Services	City	Child Care Vouchers	($9,200)	($9,200)	($9,200)	N/A
		Expiration of Title IV-E Waiver (Foster Care)	($54,900)	($54,900)	($54,900)	N/A
		Fair Futures Funding	($1,624)	($1,624)	($1,624)	N/A
		Human Services	($4,491)	($4,491)	($4,491)	N/A
		Total	**($70,215)**	**($70,215)**	**($70,215)**	**N/A**
	Federal	Indirect Cost Rate (Contractor Administrative Overhead)	($0)	($0)	($0)	($9,094)
		Total	**($0)**	**($0)**	**($0)**	**($9,094)**
	Total		**($70,215)**	**($70,215)**	**($70,215)**	**($9,094)**
Department for the Aging	City	Community Care Investments for Older New Yorkers	($0)	($0)	($26,103)	N/A
		Human Services Support Realignment	($596)	($596)	($596)	N/A
		NYCHA Senior Club Funding	($802)	($802)	($802)	N/A
		Total	**($1,398)**	**($1,398)**	**($27,501)**	**N/A**
	Federal	Community Care Investments for Older New Yorkers	($0)	($3,001)	($0)	($47,593)
		Indirect Cost Rate (Contractor Administrative Overhead)	($0)	($0)	($0)	($6,291)
		Total	**($0)**	**($3,001)**	**($0)**	**($53,884)**
	Total		**($1,398)**	**($4,399)**	**($27,501)**	**($53,884)**

Prepared by the Office of the State Deputy Comptroller for the City of New York

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