The City of New York
Mayor's Office of Management and Budget
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Jacques Jiha, Ph.D.
Budget Director

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Dear Colleagues:

I am writing to you today to share concerns about threats to the city's financial condition and the steps we will be taking to balance the city's budget, ensure continuous service delivery, and protect the health and safety of New Yorkers.

Working together, we overcame substantial obstacles to maintain and establish balanced budgets in FY23 and FY24 in the January Financial Plan. However, we have since encountered developments that place a massive strain on the city's budget, specifically the substantial growth in the cost of caring for asylum seekers ($4.3 billion over FY23 and FY24), the need to fully fund the labor reserve for the cost of the pattern established by the DC37 labor deal (more than $16 billion through FY27), and the unexpected cuts and cost shifts proposed in the governor's Executive Budget (more than $1 billion per year).

We have now welcomed more than 54,000 asylum seekers and are caring for over 32,500. To put this into perspective, when this administration came into office last January, the shelter population was just over 45,000. Today, the number of people in our care – between the DSS shelters and the humanitarian relief centers – is nearly 82,000. This is an 82% increase in a little over a year.

As of the end of March, we will have spent $817 million to care for the asylum seekers. And though we expect that total related costs will be $4.3 billion over Fiscal Years 2023 and 2024, we have yet to receive adequate assistance from the federal and the state governments. The governor has proposed reimbursing just 29% of the costs incurred by the city over two years, capped at $1 billion, and Congress has appropriated $800 million, which must be shared with other localities across the country.

Additionally, in mid-February we reached a tentative contract settlement with DC37 for the 2021 through 2026 round of collective bargaining that provides 3 percent annual raises beginning in May 2021 and then 3.25 percent in May 2025. While these raises are reasonable and will provide more competitive salaries for our workforce, they increase our baseline operating costs. Applying the DC37 framework across the workforce will have a net impact of more than $16 billion across the financial plan through FY27 after applying funding already in the labor reserve.

On top of these concerns, the governor's Executive Budget imposes cuts and cost shifts of more than $1 billion onto New York City. These include a contribution of $530 million to the MTA – in addition to the $2.4 billion we now provide – and a $340 million annual cut in Medicaid funding that is intended to reimburse the city for costs associated with providing healthcare to eligible low-income adults, children, pregnant women, elderly adults, and people with disabilities.

The Legislature's one-house bills rejected many of the governor's most harmful cuts and cost-shifting proposals. As we enter the final phase of state budget negotiations, we will continue to work with our partners in Albany to remove initiatives that harm New York City. However, it is still possible that we will face some budget cuts.

Shifting responsibility for the state's costs or cutting our reimbursement levels always threatens our ability to deliver services. However, today we are dealing with substantial and unprecedented new needs, so the impact would be dire. Further, we face these new needs and threats at a time when the city's tax revenue growth is slowing, and many economists fear that stress in the banking sector increases the odds of an economic recession.

Therefore, we must act now. We have less than a month to identify the resources needed to reduce the strain on our budget, decrease outyear gaps, and avoid disruption to programs and services that keep our city clean, safe, and healthy.

Accordingly, in the Executive Budget we are implementing a 4% PEG program in FY24 and the outyears that applies to all agencies except for the Department of Education and the City University of New York, which will be subject to a 3% PEG to minimize disruption to schools and classrooms. Targets for each fiscal year will be based on the agency's city funded budget in that year as of the January Financial Plan. Savings initiatives must be submitted to OMB by April 14; they cannot include layoffs and should avoid meaningfully impacting services where possible. OMB will identify savings opportunities for your respective agency if the PEG targets are not met. We also encourage agencies to review their operations to ensure that spending aligns with their core mission.

Additionally, as you know, we are requiring agencies to self-fund all new needs.

OMB staff will reach out to your budget office today to share savings targets and technical details. We are mindful of the challenges ahead and look forward to working with you to achieve the new PEG targets.

I know that achieving this PEG will not be easy, but it is critically important, and I have great confidence in this team's ability to find creative and thoughtful solutions to the challenges we face. As always, I appreciate your commitment to "getting stuff done" for New Yorkers.

Thank you, and do not hesitate to reach out if you have questions.

Sincerely,

Jacques Jiha, Ph.D.
Budget Director