New York City Independent Budget Office

TESTIMONY

The City of New York Independent Budget Office
110 William Street, 14th Floor New York, NY 10038
212-442-0632 | press@ibo.nyc.gov | ibo.nyc.gov

June 9, 2026

Official Testimony of Louisa Chafee, Director
New York City Independent Budget Office
Before the New York City Council Committee on Finance

May 2026 Executive Budget and 2026-2030 Financial Plan

Good afternoon, Speaker Menin, Council Finance Committee Chair Lee, and members of the Council and committee. I am Louisa Chafee, Director of the Independent Budget Office (IBO). I am joined today by my colleagues Sarah Parker and Sarita Subramanian, IBO's Senior Research and Strategy Officers. Thank you for the opportunity to testify today on Mayor Zohran Kwame Mamdani's Fiscal Year 2027 Executive Budget.

State Enacted Budget & City Executive Budget

The New York State Constitution requires an adopted State budget by April 1. In the first year of a NYC Mayoral Administration, the New York City Charter requires the Mayor to publish an Executive Budget by May 1. As that date neared with no State budget, the City Council passed a Local Law to grant the Administration an extension to May 12. May 12 arrived and the State still had not completed its budget, so the Administration published the Executive Budget with "placeholders"— guesses as to what the State budget would contain. In the last week of May, some 2 months late, the State came to an agreement on its budget, leaving just days before the end of the legislative session to complete all other legislative work.

On June 1, in accordance with the deadline set by Local Law, IBO published its analysis of the Executive Budget, including an assessment of the State Budget. IBO determined that the State Budget has largely matched the Administration's placeholder assumptions, which should enable the City to close its projected 2027 budget gap.

Overall, IBO's projected budget gaps are similar to the Administration's projections. For the Administration's $124.7 billion 2027 budget, IBO projects a gap of $1.6 billion that would decrease to $1.1 billion if a small surplus for the current year ($476 million) is used to prepay next year's expenditures. It is reasonable to assume that this remaining gap can be closed prior to budget adoption. However, the estimated gaps of $7.6 billion in 2028, rising to $9.6 billion in 2030, will require the Administration to identify some combination of new revenues, cuts to programs, or efficiencies that preserve service delivery with lower spending.

Areas of concern:

State Class Size Law

To address the $5 billion fiscal shortfall left by the Adams Administration, the Mayor and Chancellor requested a delay in of the State Education Law Section 211-d. (This law requires class size reductions, a mandate the State imposed without providing any fiscal supports). While this action was not included in the State Budget, on the last day of the legislative session a two-year extension was approved. Why does this matter? Removing the class size extension from the budget put NYC in a precarious position, as meeting the original timeframe, New York City Public Schools (NYCPS) would have had to hire 3,000 teachers this summer—a requirement that would have posed massive operational challenges, in addition to the obvious financial burden.

Interestingly, on June 1, the United Federation of Teachers (UFT) announced an incentive bonus of $8,500 in year 1 ($9,500 in year 2) for teachers whose classes remain above class size caps. Only teachers within schools that received certain exemptions from compliance will be eligible for these bonuses. Using the list of exempted classes from the current school year, IBO estimates at least 2,463 general education teachers will be eligible for the bonuses next year. If all teachers receive the maximum bonus of $8,500, IBO estimates this could cost an additional $21 million in year one. It is unclear whether the Department of Education budget will require additional funds for these bonuses.

IBO is not yet able to account for several factors that will affect the financial impact of the bonus program:

IBO did not account for...	How this factor might change our estimate...
Integrated co-teaching classes and eligible special education teachers	**Increase** in teachers eligible and total costs
Enrollment declines next year	**Decrease** in teachers eligible and total costs
Principals' efforts to redistribute students	**Decrease** in teachers eligible and total costs
Bonus amounts less than $8,500	**Decrease** in costs if teachers receive partial bonuses based on the number of exempted classes, or number of students above the cap

This bonus program helps teachers in crowded classrooms but does not address the presumed benefits that lower class sizes were envisioned to have for children's education.

Childcare Vouchers

NYC provides means-tested vouchers for childcare for lower-income parents/caregivers through a portal run through the Administration for Children's Services (ACS). The ability to request a voucher (sign up on the portal) has been closed since May of 2025. As of April 2026, there are over 109,504 childcare vouchers, supporting care for children from ages 6 weeks through 13 years. The State is fiscally supporting this initiative until 2028, on top of offering the City a generous matching program to access additional State funds.

- The Executive Budget contains an unexplained structural shortfall in this area: total funding drops from $1.8 billion in 2026 to $849 million in 2027 and $818 million annually starting in 2028. The money is projected to go down, but there are no signs that childcare voucher demand will decrease. In fact, with the portal closed, there are 25,600 children on the waitlist.
- IBO estimates the City will need at least an additional $78 million in 2027, rising to almost $1 billion annually beginning in 2028—even with the sign up portal closed—to address both the structural shortfall and the end of the State's commitment, and keep stability for these 109,504 children.

These vouchers are separate from initiatives to expand universal free childcare for two-year-olds, known as 2-K.

Housing Vouchers

Rather than adding funds to NYC's existing housing voucher program—City Fighting Homelessness and Eviction Prevention Supplement (CityFHEPS)—the State provided a single year of funding for its own housing assistance program, Housing Access Voucher Program (HAVP). The Executive Budget does not include the City's likely share of State HAVP funds. Out of the $50 million appropriated by the State for these housing vouchers statewide, the City expects about $33 million to flow to the City's Department of Housing Preservation and Development, supporting 900 to 1,100 vouchers.

- With no coordination between programs, IBO anticipates $33 million in additional State funds for HAVP but does not anticipate the Mamdani Administration would reduce CityFHEPS funding as a result of this State program.

Tier 6 Pension Enhancements

Tier 6 applies to State and local employees joining the pension after April 2012. It required higher employee contributions and set later retirement ages than previous pension tiers. These changes were made to achieve cost savings. This year the State Budget "sweetened" Tier 6 (for select categories) by lowering the retirement age, reducing contribution rates, and/or increasing the overtime earnings cap for pension calculations.

- Based on estimates from the City's Chief Actuary, IBO projects the City will now need additional funding beyond the budgeted $110 million annually in the Executive Budget—$41 million in 2027 growing to $69 million in 2030.

Pied-à-terre Surcharge

The Executive Budget assumes $500 million annually in new revenue starting in FY2027 from a surcharge on "non-primary residence" properties in New York City, referred to as the pied-à-terre tax. This surcharge will apply to high-value one- to three-unit houses as well as cooperative and condominium apartments and is separate from the City's Real Property Tax. State legislation imposes a transitional period from fiscal years 2027 through 2028, with the surcharge to be fully phased in by the start of fiscal year 2029 and expiring at the end of fiscal year 2031.

- The amount of revenue generated will depend on several variables: how properties values are calculated; how the City administers and enforces collections; and how second property owners behave in relation to the surcharge.

Food Support and Health Insurance

These two areas have been particularly impacted by federal changes since January 2025. IBO's *Federal Changes, Local Impacts* series is a collection of short reports that examine areas of New York City's budget, economy, and operations that are particularly reliant on federal funding, subject to notable federal policy changes, or both. Dramatic federal cutbacks have only been partially addressed by State actions.

Food Support

- An estimated 43,500 New Yorkers have been at additional risk of losing their Supplemental Nutrition Assistance Program(SNAP) benefits as of June of 2026. This will result in a cut of $298 to about $ 1,789 less per household monthly, and (using the highest benefit amount and standard SNAP multiplier of 1.54) up to $120 million a month in reduced spending at retail establishments citywide.
- State funding for the Hunger Prevention and Nutrition Assistance Program and Nourish New York, two initiatives that support food banks and pantries, increased by $15 million up to $128 million statewide for 2027.
- The Mamdani Administration's Executive Budget continues the additional $54 million to the Community Food Connection food pantry program for 2027 and annually thereafter.
- With New Yorkers facing up to $900 million dollars less in food supports, the addition of $69 million between City and State are likely insufficient to address the level of hunger needs.

Health Insurance

- Starting July 1, 2026, an estimated 150,000 to 450,000 individuals statewide will become uninsured because of federal changes undercutting New York State's Essential Plan, according to NY State Department of Health estimates. Nearly half of this impacted population lives in New York City. Neither the State Budget nor the Executive budget addressed this loss of health insurance access.

Cost Containment Strategies Are Unclear

The Mamdani Administration maintains the commitment it made in the Preliminary Budget to more accurately reflect anticipated expenses, and in the Executive Budget, has identified potential savings that partly offset those increases.

CityFHEPS

- CityFHEPS provides eligible New Yorkers help to find and keep housing by paying part of monthly rent anywhere in NY State for up to five years. It is the second largest rental assistance program in the U.S. (after the federal Section 8 program).
- As of the Executive Budget, the annual CityFHEPS budget is $2 billion for 2027 growing to $3.25 billion in 2030. CityFHEPS spending has grown from $300 million in fiscal year 2021 to $1.2 billion through fiscal year 2025 as the program expanded.
- The Executive Plan anticipates savings of $235 million annually by implementing unspecified administrative streamlining measures.

Due Process Cases

- Due process cases are filed by public and nonpublic students seeking funding that enables them to receive special education services outside of the public school system. Such funding can cover any combination of: tuition, educational services, transportation, and legal services.
- As of the Executive Budget, the annual due process case budget is $1.4 billion for 2027. Spending for due process cases has grown from $499 million in fiscal year 2019 to $1.1 billion through fiscal year 2025.
- The Administration now projects that it can achieve $149 million annually in savings in this area, mainly by increasing special education services elsewhere in the NYCPS budget.

Several Unusual Circumstances Continue to Impact This Year's Executive Budget:

- The United States war on Iran and other U.S. and Russian wars and military actions;
- The Trump Administration's severe funding reductions and policy changes for many federal programs;
- Draconian changes to the country's immigration enforcement policies, with a resulting increase in deportation and significant drop in the arrival of new immigrants; and
- Great uncertainty about the future of the local economy and rising costs.

Just as consumers are bearing the rising costs for fuel caused primarily by the conflict in Iran, so too, the City must now pay more for needed fuel. The Executive Budget reflects substantially increased funding for City agency costs associated with heat, light, and power for 2027 by $376 million, rising to $477 million by 2030. This amounts to the largest such adjustment since 2023—bringing the total citywide budget for building energy costs up to $1.3 billion.

Conclusion

With help from the State, the City has dodged the fiscal bullet for 2026 and 2027. But the coast is by no means clear. The strategies the Mamdani administration is depending on to close gaps starting in 2027 remain uncertain and untested. Given the scale of the outyear gaps, IBO looks forward to working with the City Council as they lead fiscal responsibility and oversee the Administration's transparency and budget accuracy.

To see more of IBO's work and to follow IBO on socials scan here: SCAN ME