



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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Testimony of NYC Comptroller Levine City Council Finance Committee Hearing on the Mayor's Executive Budget

June 9, 2026

Speaker Menin, Chair Lee, and members of the Finance Committee and City Council—thank you for the opportunity to share my Office's assessment of the FY 2027 Executive Budget and the May Financial Plan for Fiscal Years 2026 through 2030.

This is a time of enormous contradictions in New York City's economy and budget.

On the one hand, our city's economy is strong today by most measures. On the other hand, we are now heading into a period of greater economic uncertainty than any time in recent memory.

On the one hand, the stock market is near an all-time high. On the other hand, private sector job creation in the city has essentially come to halt.

On the one hand, our budget is being bolstered by a significant increase in tax revenue. On the other hand, we face extremely large out-year deficits.

How can all those things be true at once? I will attempt to square these contradictions in my testimony. I will also assess the extent to which the executive budget addresses our most pressing fiscal challenges, and I will suggest measures we can and should take now to prepare us for the uncertainty ahead.

First, the state of our economy.

Wall Street just has continued to show record strength. This has helped power our tax collections, which through April are 6.5% over last year. My office was thus able to revise our tax forecast UPWARD by \$927 million in FY 2026 and \$1.1 billion in FY 2027 since March. After the blowout first quarter, Wall Street profits in calendar 2026 are now projected at \$54 billion – below last year's record \$65 billion but still quite high by any historical standard.

Our jobs picture is more complicated. We are in what some are calling a low-fire, low-hire economy. Thanks to the relatively low pace of layoffs, the employment-population ratio in New York City is at an all-time high. But due to limited hiring, the private sector here, excluding educational and health services, has shed nearly 6,000 jobs so far in 2026.

Inflation in NYC is rising at a worrying pace, hitting 4.6% year-over-year in April, the steepest in three years — gas was up 34%, food was up 5%, electricity in the Northeast regions was up 12%. All putting an even greater affordability burden on New Yorkers who are struggling.

Wage growth has been strong, but here again there are two stories. The highest paid industries, where workers make an average of \$225,000 annually, saw wages grow by 5.7%. For the two-thirds of NYC private-sector workers in lower paying jobs, real wages declined.

What does all this mean for our budget?

I am relieved that today we are reviewing an executive budget which no longer calls for a property tax increase and no longer drains our Rainy-Day Fund. I am also pleased that, after years of uncertainty, the plan baselines funding for a variety of important programs. This includes \$269 million baselined for DOE in FY 2027 — for technology, the Learning to Work program, IESP support, and a partial fix to school custodial budgets. Additional baselined items include Right to Counsel, library subsidies, and foster-care contracts, and an additional \$25 million for Fair Fares.

How is that, given the dire warnings about our budget gap I and others issued in January we have made so much progress in the months since?

By far the biggest driver is the surge in City revenues both collected and forecasted, which totaled nearly \$7 Billion since the November plan. We received a much-needed increase in funding from Albany, which we are grateful to the Governor and legislature for providing. And the mayor, to his credit, has committed to a number of efficiency and savings measures. But all that wasn't enough to fully close our gap.

The budget is in fact balanced with a great deal of temporary fixes

The Plan relies on a slew of one-time measures and short-term savings, which, altogether, total \$6.1 billion for FY2027. These are measures which, by definition, will not be available next year. They include:

- \$2.3 billion from the re-amortization of the unfunded pension liability;
- \$1.6 billion in accounting adjustments to prior year accrued expenses, in addition to the \$500 million already budgeted in the Preliminary Budget;
- Nearly \$1 billion from the more gradual timeline to achieve the class size mandate and from the claw-back of H+H's share of pension re-amortization savings.
- \$200 million in one-time lower subsidy to the MTA in addition to the \$500 million already included in the Preliminary Budget.

Beyond the one-time measures, the Executive Budget Plan also dramatically draws down pre-payment of next year's expenses—from \$3.8 billion in FY 2025 to roughly \$1 billion in FY 2026 — a 72% decline year over year, the largest single-year drop since FY 2002, right after the 9/11 attacks.

Taking the reduced prepayment and the re-estimate of prior year expenses together, means that we are spending \$4.4 billion more than we are bringing in this fiscal year, continuing a worrisome trend. And next year, the General Reserve stands at just \$100 million *and* we are already assuming reductions in prior year expenses—setting a new precedent for using these types of measures even before the start of the fiscal year.

I also have to note that some of the savings the plan includes are really just targets at this point. The Plan still carries roughly \$600 million in unallocated efficiencies from various agencies, plus \$1.97 billion over four years in three new “cost-containment” targets — CityFHEPS, DHS shelter, and DOE special-education Due Process Cases — all still lacking implementation plans.

In plain English, this all means that we are kicking a very big can into next year.

Just how big is that can? The Executive Budget plan projects a gap of no less than \$7.1 billion in FY2028 and rising steadily thereafter.

Now my office of course runs our own calculations of out-year gaps. When we plug in our tax forecast and our estimates of underbudgeted costs and unmet program needs, including overtime and childcare vouchers, the FY 2028 gap widens even further to a whopping \$8.8 billion.

We will face that gap without the option of the many one-shot measures that we used up this year. We won't be able to re-amortize our pension again. We are unlikely to be able to further delay class size implementation, etc etc.

And all of this is predicated on a continuing strong economy.

Our baseline forecast does not assume a recession. It does not assume an AI-driven labor dislocation, or the popping of an AI investment bubble, outcomes which according to our recently released analysis could lower revenues relative to baseline by between \$9 billion and \$14 billion over the period of financial plan.

This plan assumes continued strength in the securities industry, in the pool of bonus payments, and in stock markets, the volatile foundations of our personal and business income tax collections. The City's bottom line in FY 2027 depends, in a real sense, on the bull market continuing for another year. Any of those assumptions can break.

And if we do hit turbulence ahead, our reserves are nowhere near adequate.

The City will finish the year with just \$2.0 billion in the Revenue Stabilization Fund — aka our rainy-day fund. This leaves us with an extremely thin fiscal cushion relative to the scale of our budget. Even if you count the \$5.2 billion in our Retiree Health Benefit Trust, which, I'll remind you is an offset to a roughly \$100 billion long-term liability toward retirees but has been used as a de facto additional rainy-day reserve, we are still far below the amount we would need to weather a typical recession. And among the ten largest cities in the nation, our reserves relative to annual revenue rank us 9th, ahead only of Chicago.

Looming over all of this are our credit ratings agencies

Moody's, Fitch, and Kroll sent us a warning sign when they lowered the outlook for the City's credit from stable to negative. I don't expect any immediate further actions from them, but the risk of a downgrade in the months ahead remains. The structural gap, the low level of reserves, and the repeated reliance on one-shot measures all increase the risk of a future credit rating downgrade. We should do everything we can to avoid this.

One critical step we can take is to establish formal rules for our rainy-day fund.

In April I laid out a plan to establish a target balance for the fund of 16% of tax revenues with a 10% floor, a deposit formula when revenues exceed trend, and clear, narrow criteria for withdrawals. In other words: rules that require we put money in when times are good and only take out when times are tough. I will be proposing a charter amendment to establish these rules in the coming days, and hope you will join me in this effort.

If we were to adhere to that formula this year, a year in which the economy is strong and tax revenues are up significantly, we would be adding \$854 million to the fund, not leaving it flat as the current plan does. I urge you to find ways to add to the rainy-day fund as your work to finalize the budget in the coming weeks.

I know that you will be pushing hard to fund the Council's priorities and initiatives in the final budget, as well you should. I fought for many of these same investments when I was in the Council. My ask is that you avoid adding even more one-shots to the budget as you find ways to offset the additional expenses you are fighting for.

New York City has many strengths to draw on as we navigate these challenges. Our economy is strong. Our workforce is supremely talented. Our tax base is the envy of other cities. Yes, we face real economic uncertainty ahead. Yes, we face a structural imbalance in our budget. But we have all the raw ingredients we need to solve this, and we still have time. Let's act decisively. Let's seize the moment.

Thank you. I look forward to your questions.

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