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Official Testimony of Louisa Chafee, Director
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January 2026 Preliminary Budget and 2026-2030 Financial Plan

Good morning, Speaker Menin, Public Advocate Williams, Deputy Speaker Williams, Council Finance Committee Chair Lee, and members of the 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. We appreciate the opportunity to testify today on the Mamdani administration's first Preliminary Budget.

This testimony will address three topics:

1. IBO's estimates of the City's revenues, expenditures, and gaps.
2. IBO's ideas on ways to begin to close the gap now and for future fiscal years by:
 - > Generating additional revenues;
 - > Implementing operational efficiencies; and
 - > Securing additional State funds to support the cost of unfunded mandates.
3. Framing potential lines of inquiry for the Administration.

IBO Estimated Revenues, Expenditures, and Gaps

Budgeted Expenditures Are Closer to Reality

The Mamdani administration's first budget is noteworthy because it reverses years' worth of underbudgeting practices by prior administrations. This Administration, in its Preliminary Budget, has added funds in many operational areas where IBO and other fiscal commentators have documented significant, deliberate underbudgeting over the course of many years. These include rental assistance, uniformed overtime, and the cost of compliance with class size mandates. IBO applauds the Administration's move to acknowledge the true cost of programs and services.

Optimistic Revenue Assumptions

The Administration's budget is grounded in two optimistic revenue assumptions:

- First, it assumes that very robust growth will propel personal income taxes and business income taxes to greater heights;
- Second, while the Administration does not include new personal income tax (PIT) revenues that would require State approval, it does include new property tax revenues that can only materialize if this Council approves such a change. The Mayor has made clear that he is seeking the property tax increase only as a less-preferred alternative to his priority proposal—an increase in PIT for the highest earners.

Given these two assumptions, the Administration’s forecasts exceed IBO’s for almost every major tax category throughout the financial plan period.

Personal Income Tax

The City’s PIT collections have been bolstered in recent years by high earnings in key sectors and increased capital gains, amidst strong Wall Street performance. This trend continues, as shown by the very large bonuses issued in the financial sector at the end of calendar year 2025. In its February 2026 tax forecast, IBO increased its projection of PIT revenue based upon this sustained strength. But even so, IBO’s PIT forecast is modestly lower (by about \$500 million annually) than the Administration’s.

Mayor Mamdani has proposed a 2 percentage-point increase to the rate for individuals with incomes over \$1 million (from a top marginal rate of 3.876% up to a rate of 5.876%), which could raise an additional \$3 billion annually in PIT revenue, if enacted in Albany. As this is not yet decided, the Administration did not include any revenue that could flow from this potential income tax increase on high-income New Yorkers in its budget.

Last year’s Federal One Big Beautiful Bill Act (OBBBA)/H.R. 1 made permanent a set of significant tax breaks for the highest earners, tax breaks granted during the first Trump administration that would have expired, but that were made permanent by OBBBA, significantly lowering the tax burdens on high earners.

Back when those tax breaks first took effect in 2019, New York State took action to recover for the State some of the funds high-income taxpayers were no longer paying federally. This points to a key distinction in how income taxes are structured at the State and City levels.

As detailed in IBO’s February 10, 2026 PIT [report](#):



- The City only has four tax brackets. New York City applies an identical tax rate of 3.876% to the New Yorker whose Adjusted Gross Incomes (AGI) is \$60,000 as it does for the New Yorker who earns over \$5 billion (which was the highest income in 2023, the most recently reported year).
- By contrast, New York State's PIT imposes higher and more progressively increasing rates across *nine* brackets. The State's tax rate for income of \$60,000 is approximately 5.5%, while at \$25 million, it climbs to approximately 10.9%.

Business Income Tax. The Administration's outlook for corporate tax collections is also quite rosy. It is boosted by Governor Hochul's call for New York State to decouple from certain federal tax code provisions that were also enacted as part of the OBBBA this past summer. In particular, the Administration expects that the accelerated depreciation now allowable at the federal level will be disallowed at the State and City level, and that revenue will be retroactively collected over the next two fiscal years. But after two years, the Administration projects corporate tax revenue to drop substantially, below recent levels. (The Administration goes from \$7.1 billion in 2028 to \$6.5 billion in 2029 and \$6.6 billion in 2030.) IBO projects somewhat lower corporate tax collections this fiscal year and next, but continued growth throughout the financial plan period.

Property Tax. Mayor Mamdani has proposed increasing the average property tax rate from 12.283% to 13.450% (a 9.5% increase). Yesterday, IBO published a [report](#) describing the structure of the property tax rate setting system, noting that the citywide average property tax rate has remained constant at 12.283% since 2004, with an exception in 2008, and explaining how the rates paid by individual properties vary based on State-designated shares allocated to each of the four different tax classes.

Reflecting strength in the tentative roll for 2027, IBO forecasts higher property tax revenue of \$36.9 billion in 2027 growing to \$41.2 billion in 2030, up from IBO's November estimate by \$400 million or greater for each year of the financial plan. IBO does not include revenue from the Mayor's proposed property tax increase, as it has not been reviewed or approved by the Council. This yields a significant difference in tax revenue between IBO and the Administration.

Revenue Summary

In general, IBO's economic outlook is consistent with the Mamdani administration and the broader macroeconomic consensus: the national economy has generally held up. However, there are conflicting signals for future performance, such as the strength of



Wall Street and consumer behavior, extremely weak job growth and continued threats to the global economic order stemming from tariff chaos and the war in Iran.

Rainy Day Funds to Be Used for 2026 and Replaced in 2028

The Administration is using \$980 million in reserves from the Revenue Stabilization Fund (known as the Rainy Day Fund) to balance 2026 and intends to replace those funds in 2028. This points to the need for clear rules on use of the Rainy Day Fund, rules that are at the discretion of the Council and Administration to set. To balance 2027, the Administration also used \$1.35 billion of the budgeted \$1.45 billion in general fund reserves, which is a move that generally happens after the fiscal year begins.

IBO applauds the Administration’s decision to reduce the allocation for the Retiree Health Benefits Trust, now \$229 million lower than in the November Plan. This fund was often used by past mayors to set aside excess funds and avoid much of the scrutiny normally afforded by the public budgeting process.

IBO Estimates Substantial Gaps for Next Year and Beyond

IBO projects that if spending stays constant, total revenues will grow by an annual average of 2% a year from 2025 through 2030, and that—partly as a result of the Administration’s laudable corrections to previously underbudgeting—expenditures will increase by an average of 4.5% a year. Thus, IBO projects gaps of \$535 million in the current year and almost \$6 billion in fiscal year 2027. These forecasts cannot yet factor in the impact of tariff issues or the war with Iran, nor of likely additional cuts to federal aid or the next round of collective bargaining, all of which contribute to uncertainty in 2027 and beyond.

Figure 1. IBO and Mamdani Administration Estimates of Revenues, Expenditures, and Budget Gaps

Dollars in Millions	Fiscal Year									
	2026		2027		2028		2029		2030	
	OMB	IBO	OMB	IBO	OMB	IBO	OMB	IBO	OMB	IBO
Revenues	\$122,370	\$121,415	\$127,001	\$122,676	\$128,933	\$125,573	\$130,203	\$127,539	\$133,024	\$130,528
Expenditures	\$122,370	\$121,950	\$127,001	\$128,615	\$135,595	\$137,078	\$136,957	\$138,501	\$140,133	\$141,578
Budget Gaps	\$0	(\$535)	\$0	(\$5,939)	(\$6,662)	(\$11,505)	(\$6,754)	(\$10,962)	(\$7,109)	(\$11,049)

SOURCES: Mayor’s Office of Management and Budget (OMB) and Independent Budget Office (IBO) February 2026 Budget Forecasts
 NOTES Revenue and expenditure estimates do not include intra-city transfers.



Closing the Gap: Controlling Expenditure Growth

Several categories of expenses are continuing to drive the scale of total expenditures and are areas that have experienced substantial growth in recent years. These include:

- > CityFHEPS,
- > Uniformed services personnel costs (mainly overtime), and
- > Due process cases.

The Mamdani administration has increased these budgets substantially, to the point where IBO no longer projects more-than-budgeted costs for two of those areas.

CityFHEPS

CityFHEPS is already the second largest rental assistance program in the nation, second only to Section 8. Spending has grown from under \$300 million in 2021 to almost \$1.3 billion in 2025, with an assumption in the Preliminary Budget that it will rise to almost \$3.5 billion by 2030. It is doubtful that there is sufficient housing supply in New York City to absorb that level of spending as this program is currently designed. IBO has concerns about this steeply increasing level, but recognizes that the Council and the Administration are working to establish a sound budget footing for this important program.

Uniformed Services Personnel Costs (Overtime)

Spending on uniformed services overtime in Police, Fire, Correction, and Sanitation has been chronically underbudgeted in the past, with New York Police Department (NYPD) spending as the largest driver of total costs. NYPD spending in this area has trended downwards under the leadership of Commissioner Tisch. As of the November Plan, NYPD was on pace to spend \$971 million this year, and as of the Preliminary Budget, that pace had slowed to \$894 million. The Mamdani administration has also realistically budgeted both NYPD and Fire Department personnel spending for future years, which is a stark departure from budgeting practices of past administrations.

At the Department of Correction (DOC), spending on uniformed overtime has trended steadily upwards over the past few years, and is on pace to be as high as it has ever been in 2026 at \$330 million. The Mamdani administration did not add money to DOC's budget in 2027, citing uncertainty around the ongoing situation with the court-ordered Federal Remediation Manager. IBO correspondingly projects that DOC will require more money in its budget next year.



The New York City Department of Sanitation (DSNY) has also experienced an increasing trend in uniformed overtime expenditures from \$140 million in 2024 and \$178 million in 2025, with expenditures unusually higher this year due to two major snowstorms. The Preliminary Budget brought the 2026 budget up to \$221 million, but that was before the blizzard in mid-February.

Due Process Cases

Spending on these cases—which are filed by public and nonpublic students seeking special education services outside of the public school system—has grown from \$807 million in 2021 to \$1.2 billion in 2025. The Preliminary Budget adds additional funds to this program’s budget for a total budget of \$1.6 billion in 2027 and beyond. Two areas drive this spending: 1) tuition payments for private schools; and 2) spending on educational services for nonpublic school students. Between 2021 and 2025, spending on nonpublic students, who are entitled to services under a [2007 amendment to State law](#), grew by 91%. Based on recent case-level data that IBO obtained from NYCPS, those State-eligible cases accounted for 59% of all due process cases settled between August 2021 and February 2026 and account for 29% of total payments for that time period. The Preliminary Budget added funds for those costs, as well as for additional staff to manage these special education processes and provide additional special education services within the public schools, so as to potentially reduce the need for services in nonpublic school settings.

Unfunded State Mandates

Large growth in due process cases is but one example of the unfunded mandates the State imposes. New York City is also being required to bring class sizes into compliance by September 2028 or risk losing a portion of State education aid. In December 2025, IBO [estimated](#) that NYCPS needed to budget for almost 7,000 additional teachers. The Mamdani administration added \$3.6 billion for 2027 through 2030 to meet this mandate, only \$228 million of which would come from State aid.

As the Mayor cited in his presentation of this Preliminary Budget, the City contributes almost 55% of the total revenue collected by the State but only receives less than 41% of State funding. As described earlier, the State increased its personal income tax brackets and therefore rates on the wealthiest earners in the State—most of whom reside in New York City—when it needed new revenue. But this funding has not been directed back to the City, even to assist with areas where the State is requiring services the City must struggle to fund.



Another area where the State has imposed significant and disproportionate costs on the City is that of the Metropolitan Transportation Authority (MTA) paratransit services. The City is required by State law to reimburse the MTA for a portion of its paratransit program, Access-A-Ride, which provides public transportation for eligible customers with disabilities who are unable to use public buses and subways. Before 2024, the City was only required to reimburse 50% of paratransit operating costs after fares and dedicated taxes. Starting in 2024, State law increased that to 80%, through at least 2027.

Similarly, for foster care, the City paid about 30% of costs prior to 2017 and 60% in 2027, while the State share declined from 54% to 26%, as the State [has shifted more costs onto the City](#). In 2018, City funding increased to \$197 million (36%) and State funding declined to \$173 million (32%). When federal funding declined in 2021 following an expiration of a waiver to prevent children from entering foster care, City funding continued to increase, reaching a high of 54% in 2023 and was about 46% (\$353 million) in 2025. Meanwhile, State funding was \$199 million (26%) in 2025. The Preliminary Budget projects that the City will spend \$523 million (60%) in 2027 rising to \$579 million (60%) in 2030.

Closing the Gap: Operational Efficiencies

The Mamdani Administration is working to find savings through operational efficiencies. The newly-appointed Chief Savings Officers (CSOs) at every Mayoral agency are tasked with the responsibility to identify 1.5% in savings for 2026 and 2.5% in savings for 2027 and beyond. The plans are due on March 20, 2026. IBO looks forward to reviewing the CSO reports as they emerge in the weeks to come.

- The Preliminary Budget reflects the hiring of 50 new auditors at the Department of Finance, which IBO has [long-estimated](#) could generate \$165 million annually. Similarly, it reflects the addition of 200 lawyers and 100 support staff at the Law Department, also with the goal of generating savings.
- There are many other areas, such as supplies and materials, where it is likely that savings could be generated. The City currently spends an average of \$2 billion each year on supplies and materials, a category that covers everything from office supplies, to food purchases and fuel oil. Capping this type of spending, at least for most of the major operating agencies, at 90% could yield up to \$200 million in savings.

IBO looks forward to reviewing the CSO reports as they emerge.



Closing the Gaps: Generating Revenues

IBO has published on additional ideas to raise revenues, both by eliminating or reducing existing tax breaks and by increasing various other specialized taxes. These ideas, which would all require New York State legislation to change, include:

- **Eliminate various tax abatements and exemptions, either immediately or over time, unlocking significant savings over time.** As IBO has previously reported, the City offers several tax benefit programs, including the [Industrial and Commercial Abatement Program \(ICAP\)](#)—a benefit that could shrink from \$609 annually over time as it is phased out—the [Relocation and Employment Assistance Program \(REAP\)](#), and the [Relocation Assistance Credit for Employees \(RACE\)](#), which reflect often-conflicting goals and result in significant amounts of foregone revenue with unclear economic benefits to the City. Ending or scaling back these programs would gradually restore millions of dollars in revenues to City coffers. In addition, IBO has [evaluated the property tax exemption](#) currently enjoyed by Madison Square Garden (MSG), which is the City’s oldest operating professional sports arena and the only major league sports facility located in Manhattan, sitting on prime real estate above Penn Station, the busiest transit hub in North America. The special permanent exemption enjoyed by MSG has cost the City at least \$1 billion in tax revenue since 1982 (about \$42 million annually). In the current environment, this exemption may warrant revisiting.
- **Increase other, more specialized taxes and fines.** IBO has estimated the impact of various other potential tax changes ([see the revenue volume of our "What If?" series here](#)), from expanding existing taxes such as the excise tax on alcohol, to eliminating currently carved out exceptions to the sales tax for services such as interior design services. Additionally, the City also may choose to reassess its structure for fees and fines to individuals or businesses who are expected to comply with City law. These ideas are not sufficient to close the currently estimated gaps but could contribute to an ultimate solution.

Potential Lines of Inquiry for the Mamdani Administration

IBO is testifying several weeks before the completion due date for its Charter-mandated Preliminary Budget report, and indeed, before the testimony of the Mayor’s Office of Management and Budget (OMB). Given the unusual timing of IBO’s testimony this year, IBO will conclude by listing some of the topics where IBO continues to have questions, and looks forward to hearing from OMB and City agencies in the weeks to come. These include:



Revenues

- Why does the Administration remain as optimistic about the national and local economy, particularly in the fintech sector, in light of such events as the Supreme Court ruling on tariffs and the war in Iran?
- Why does the Administration project such an optimistic outlook for corporate taxes through 2028, and then, by contrast, a precipitous falloff in later years?

Expense

- How is the Administration factoring into its budget planning the impact of a wide array of federal changes that are already impacting New Yorkers and will continue to grow in significance this year? These include:
 - Addressing hunger for New Yorkers no longer eligible for SNAP;
 - The loss of Essential Plan health coverage by hundreds of thousands of New Yorkers;
 - plummeting vaccination rates;
 - Caps on student loans and severe declines in the numbers of foreign students coming into New York City;
 - Increased work requirements for public benefits, resulting in loss of benefits; and
 - Federal cutbacks in climate and infrastructure resilience.

The list of these potential— and in some cases likely—impacts is truly daunting. But it is difficult to see within the Administration’s proposed budget where or how the City will begin to respond.

- This Administration appears to re-investing in environmental programs such as composting, but it is unclear why the Administration continues to project the costs of waste export and organics processing lower than IBO’s estimates. Why were the budgets for these areas not adjusted up as we saw for other areas of the budget? Costs have been rising, but budgeted levels for 2027 and on show a funding cliff.
- How do childcare vouchers factor into the Mayor’s plans to expand free or reduced-cost care for children ages birth-6? What level of childcare voucher usage does the Administration project going forward? Given the Governor’s additional funding, what level of voucher usage is anticipated going forward, and what are the plans, given the large waitlist?



- What is the plan to address pay parity for community-based organizations under contract with New York City, whose employees are paid much less than City counterparts?

City Workforce

- What is this Administration's approach to vacancies and hiring?
- Currently, the Labor Reserve has budgeted funding for 1.5% annual raises for collective bargaining agreements, which is about half of the increases negotiated by the Adams administration. Does the Mamdani administration anticipate increasing the Labor Reserve for the next round?
- What is the basis of the saving assumptions that support the budgeted lower costs for health insurance through the NYC Employees Preferred Provider Organization (NYCE PPO)?

Conclusion

In sum, I would like to again commend the Mamdani administration for its commitment to clarity, honesty, and transparency at the outset of the 2027 budget process. This Council will now navigate this very challenging budget environment, even as the issues mount every day with weakening job growth and chaos in the global economy. IBO looks forward to continuing to work with you in the months ahead, and we are available to address any questions you may have this morning.

