



THE COUNCIL OF
THE CITY OF NEW YORK

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Testimony of New York City Council Speaker Adrienne E. Adams

Joint Legislative Hearing for Fiscal Year 2026 Executive Budget Proposal: Local
Government

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Good afternoon, Chairs Krueger, Pretlow, Sepúlveda, and Burke, Ranking Minority Members O'Mara, Ra, Chan, and Chang, and all members of the Senate Finance, Assembly Ways and Means, and Cities Committees.

I'm New York City Council Speaker Adrienne Adams. Thank you for providing the opportunity to discuss Governor Kathy Hochul's Executive Budget for State Fiscal Year 2026 and its potential impact on New York City.

I also want to thank Senate Majority Leader Andrea Stewart-Cousins and Assembly Speaker Carl Heastie for their leadership.

On behalf of the New York City Council, I would like to address several of our priorities for New York City in the New York State budget.

Our governments share the goal to improve the lives of New Yorkers, and there are several impending challenges that require our strong partnership to confront, including the uncertainty coming from Washington D.C. The Governor's Executive Budget offers a starting point, with important investments and policies, that we should build upon.

One overarching and continuing area of concern is the shifting share of costs between the City and State for key programs and services. Over the past years, several state budget changes have shifted new costs to the City, by either requiring City government to cover an increased cost share of programs previously covered by the State, or diverting funds once available to the City. These shifts continue to impact our city and remain a major concern.

The most significant of these relate to the MTA and public transit, healthcare, and homeless services.

Cost-Sharing Changes and Issues

MTA Paratransit Funding

In 2020, the State mandated that New York City provide 50 percent of the net paratransit operating expenses of the MTA. In Fiscal Year 2024, the Governor requested an increase in the City's contribution, to 80 percent of the operating expenses with a maximum annual contribution of 50 percent plus \$165 million. At the time, the Governor stated that this increase would only be for two years. Now, two years later, the Governor proposes to permanently extend the City's contribution to 80 percent. This extension would cost the City \$165 million annually starting in State Fiscal Year 2026, a cost shift that would have otherwise sunset. The Council urges the State to allow this change in the City's contribution to sunset, rather than making it permanent.

MTA Capital Plan

Governor Hochul's Executive Budget includes the City's contribution match to the State of \$3 billion for the MTA's 2025-2029 Capital Plan, \$400 million of which is required in State Fiscal 2026. Accompanying this funding requirement is a \$3 billion increase in the City's Transitional Finance Authority bonding capacity. However, regardless of the increased capital commitment from the City, the proposed MTA Capital Plan currently has a \$33.5 billion gap. The MTA Capital Plan will likely have to be amended to remove several priorities. The Council reiterates the importance of preserving key state-of-good repair upgrades, as well as all ADA accessibility upgrades in the Capital Plan.

Medicaid

In the 2024 State budget, the State took over the Affordable Care Act (ACA) Federal Medicaid Assistance Percentage (FMAP) for all localities, including New York City. This allowed the State to utilize localities' FMAP savings to offset its forecasted Medicaid deficits, commandeering FMAP savings that had previously been passed through to the City and other localities since the enactment of the ACA. Due to the City's population and high concentration of people living below the poverty line, we receive the greatest portion of the funding, but each year, the State recaptures \$343 million of the City's FMAP savings.

The Council urges the State to reverse this takeover policy and revert to passing on FMAP savings to the City. Additionally, given that the State has committed to fully covering all Medicaid growth since State Fiscal Year 2015, should the Trump Administration choose to reduce federal support for Medicaid, the State should absorb the additional costs rather than passing them onto the City.

H+H Indigent Care Pool

Governor Hochul is proposing to eliminate additional inpatient hospital payments up to the aggregate voluntary upper payment limit after 2025 by discontinuing the State's Indigent Care Pool (ICP) payments for the City's public hospitals. This action would reduce payments to New York City Health + Hospitals (H+H) by \$56.7 million annually, which would have a significantly negative impact on its provision of services to those most in need. H+H is the largest public hospital system in the nation, providing care to 1.4 million

patients annually, including more than 475,000 uninsured city residents. We urge the State to reverse course and continue the State's ICP payments to the City's public hospitals.

Homeless Shelter Costs

The State currently provides some support for the City's homeless shelter costs, but it is limited to the Adult Shelter Cap and Safety Net Assistance. The contribution from the State under these programs has not increased in years, despite the City's considerable rise in homelessness and the costs of providing shelter. The State may reimburse the City for 50 percent of adult shelter costs, but the total amount has been capped at just under \$70 million since City Fiscal 2013. Safety Net Assistance funding for the cost of housing homeless families on public assistance in the City's shelter system has been static, at just over \$102 million, for many years as well. In total, the State contributes around \$172 million towards City shelter costs, which is less than 5 percent of the budget for the New York City Department of Homeless Services (DHS) in Fiscal Years 2025 and 2026. The State should lift these caps and increase its support for the cost of providing shelter to homeless individuals in the City.

There are several other priorities for the City within the State budget, which can help support our success and continued strength as a contributing economic engine for the state.

Education

Education is the great equalizer, and it is government's responsibility to provide all students with access to a high-quality education. Today, however, students are still struggling to recover from historic levels of learning loss caused by the pandemic. Disruptions in learning have set our students back and have disproportionately affected those who live in low-income communities and in temporary housing, require special education services, and are English Language Learners. They need our full support to recover, especially as federal stimulus funding that supported many educational initiatives has now expired.

The Governor's proposed Executive Budget aligns with many of the City's priorities, including universal free breakfast and lunch that New York City has been implementing for years and an expansion of early college credit opportunities for high school students. There are additional changes required to help meet the educational needs of the City's children and families.

Foundation Aid Formula

Governor Hochul's proposed changes to the State's Foundation Aid provide an initial start to its improvement. We share the belief that the Foundation Aid formula must be updated, but the currently proposed change would result in New York City schools missing out on an additional \$350 million it would have received under the current formula. We support the proposed replacement of the Free and Reduced-Price Lunch variable with a funding weight that considers a broader group of students who are economically disadvantaged. However, we urge other changes by the Governor and State Legislature to ensure the Foundation Aid formula is updated in a way that accurately captures the significant needs of New York City students and does not result in our schools receiving less money to serve low-income students than they otherwise would.

For example, the State should:

- Include an update to the Regional Cost Index (RCI), which is supposed to account for differences in costs in different parts of the State, but has not been updated since 2006. The New York State Board of Regents and the Rockefeller Institute recommended updating the RCI, but this important change was left out of the Executive Budget.
- Add a weight for students in temporary housing and students in foster care, who have unique educational needs that are currently not considered in the formula.
- Consider additional ways of measuring poverty, such as using differentiated weights for different concentrations of poverty, as recommended by the Rockefeller Institute, and adding a cost-of-living adjustment or a higher poverty threshold for certain communities.
- Increase the Foundation Aid formula weights for students with disabilities and English Language Learners that reflect the cost of providing legally required classes and services, and replace the outdated “successful school district model” that forms the base of the formula.
- Provide resources for implementation of the State’s new class size requirements for New York City.

Early Childhood Education

Early childhood education is one of the best investments we can make to support working families, our economy, and the future of New York. Pre-K and 3-K programs are critical to the development of our youngest New Yorkers and to the stability of our workforce. However, the prohibitive cost of childcare is impacting our local economy and forcing working families to leave our state. State education funding that flows to the City for the most part does not include funds for children enrolled in 3-K and Pre-K programs. While the State contributes a portion of the cost of Pre-K through a separate funding stream, this amount has not changed since Fiscal Year 2019 and the City has been paying for 3-K almost entirely on its own since the expiration of federal stimulus funding at the end of Fiscal Year 2024. The Council urges the State to increase its commitment towards early childhood education to protect our city’s 3-K program that working families depend on and to better support Pre-K.

City University of New York (CUNY) Funding

The Council is grateful to Governor Hochul for her commitment to higher education in her Executive Budget. CUNY is an engine of opportunity that educates New Yorkers of all backgrounds and expands access to opportunity.

However, more must be done to ensure the City University of New York (CUNY)’s continued success and its ability to serve our New Yorkers. That’s why we support CUNY’s mandatory needs, including an additional \$34 million for their collective bargaining agreement, \$40 million in fringe benefit funding, \$4.1 million for building rentals, \$800,000 for energy costs, and \$9.4 million to address OTPS inflationary costs. These investments will help in continuing to reduce the institution’s structural deficit.

In addition to these mandatory operational costs, \$600 million in capital funding for CUNY is needed. Together, these critical investments can help CUNY improve enrollment and graduation rates, enhance academic and career advisement, repair aging facilities, and support workforce retention.

Housing and Homeless Services

Confronting the housing and affordability crisis affecting all New Yorkers remains a top priority. Housing is key to the safety and stability of our communities, and it is critical that we build more homes that are affordable to a range of New Yorkers. In December, the Council passed historic citywide zoning reforms as part of our *City for All* housing plan that is estimated to create more than 82,000 new homes. As part of the agreement, the Council secured \$5 billion to support affordable housing, homeownership, and neighborhood infrastructure improvements, including a \$1 billion commitment from the State. We thank Governor Hochul for including this investment in the Fiscal Year 2026 Executive Budget. When combined with the passage of policies such as eliminating the 12 floor-to-area (FAR) ratio cap, enabling the conversion of commercial buildings to housing, and creating a new financial incentive program for affordable housing production, these actions will have a tremendous impact on increasing housing production in New York and easing the housing crisis.

Mitchell-Lama

New York has a rich history of creating affordable housing that meets the needs of our residents, including Mitchell-Lama, which was one of the most prolific affordable housing creation tools. However, in the nearly seven decades since this program was established, many Mitchell-Lama developments have accumulated billions of dollars in deferred maintenance. To address these issues, the City and State have agreed to establish a Mitchell-Lama Action Group as part of the *City for All* housing plan commitments.

Among the top issues the Mitchell-Lama Action Group must examine is the need for additional financial resources to address critical maintenance and capital improvements. The Governor's proposed budget reduces the Mitchell-Lama shelter tax rate by about half, to 5 percent across the board. Presumably, this would free up dollars that would have been collected as tax revenue for residents to directly fund maintenance. The Council welcomes these efforts to reduce the tax burden. However, while this may financially assist Mitchell-Lamas in need, it may also become an unnecessary financial benefit for other developments that are not in a state of disrepair. The \$1 billion in State housing commitments, agreed upon in the *City for All* housing plan, could assist some Mitchell-Lamas, as well as a reappropriation of funding for Mitchell-Lama support flowing to the City, which has been unused for the past few fiscal years.

The issues facing Mitchell-Lamas are nuanced, and so are its solutions. That is why the Council called for and negotiated the creation of the Mitchell-Lama Action Group with the State. The State should commit necessary efforts and resources to advance the work of the Mitchell-Lama Action Group, which will be comprised of officials and legislators from the City and State governments.

NYCHA

At the same time, we cannot neglect the needs of residents living in NYCHA, which is home to 1 in 17 New Yorkers and has nearly \$80 billion in capital repair needs. Its five-year capital plan only addresses \$7.8 billion of that need, and the Council has consistently called for greater State contributions to NYCHA. No tenant should have to tolerate environmental hazards like lead, mold, and asbestos, and that's exactly the type of maintenance that NYCHA still lacks resources to fully fund.

We applaud lawmakers for including \$140 million in new State funding for NYCHA's capital projects in the 2025 State Budget. However, NYCHA has reported that there is still \$561 million left to be committed of the \$1.25 billion awarded by the State for boilers, elevators, and brickwork improvements. The State and NYCHA must effectively collaborate to quickly disburse this remaining balance.

Another major issue for NYCHA is tenant rental arrears. Even after accounting for the \$185 million in State and federal funds anticipated to flow to NYCHA in the coming months, there are still over \$300 million remaining in rental arrears. This gap is driving a \$217 million operating deficit at NYCHA in 2026. The State should increase its funding commitments to help close this gap.

NYCHA has a responsibility to improve its services and properties as part of the compliance agreement with the U.S. Department of Housing and Urban Development (HUD) and the Southern District of New York. As lawmakers, we will continue to hold NYCHA management accountable and provide the necessary resources to address critical maintenance issues and further relieve rental arrears.

Homeless Services

To help protect New York families from eviction and reduce homelessness, the State Legislature should enact, and the State should fund, the Housing Access Voucher Program. This would help create a flexible and inclusive statewide housing voucher for people at risk of or experiencing homelessness to access permanent housing, similar to Section 8.

Health

New York City, like other parts of the state and nation, is in the midst of maternal and mental health crises that require investments into solutions at a greater scale. The State has made these issues a priority, and the Council wants to continue collaborating with our state partners to address the gaps in care that must be closed to ensure New Yorkers are healthier.

Mental Health

Governor Hochul's Executive Budget includes some funding for proven mental health programs, such as clubhouses, and other services for New Yorkers with serious mental illness. The proposal to create 100 new forensic inpatient psychiatric beds in New York City is welcomed. While we recognize the Governor's commitment to investing in mental healthcare, these proposed investments should be scaled up to better match the immense need.

For example, New York City needs approximately 500 forensic psychiatric beds, ideally in State facilities, to address those in need of the services who currently are not receiving them. As a result, many are being forced to remain in the City's jail system that is ill-equipped to serve them. The de facto use of jails for New Yorkers with mental health issues is exacerbating our city's mental health crisis by worsening people's conditions. Many of our effective mental healthcare interventions and programs also have waitlists that are the product of insufficient funding for programs.

Mental health court programs and mobile response teams are currently unable to serve all those in need of them. This leaves people without adequate care and courts without viable options for interventions that are effective. While significant focus has been placed on responding to challenges in the subway system, which is necessary, more attention is needed on the underlying problems that lead to these issues by making a concerted effort to increase access to a more holistic set of mental health programs.

Maternal Health

The continuing maternal mortality crisis, which disproportionately harms Black women and low-income New Yorkers in communities of color, is a public health emergency. Confronting it requires sustained actions at every level of government and across all sectors. While the State has committed resources to improve maternal health, several other critical interventions can be advanced to better address this health crisis. These should include increased Medicaid reimbursement and other support for doula visits, automatic authorization of coverage of a blood pressure cuff without a prescription under Medicaid for pregnant New Yorkers, and increased midwife reimbursement rates to 100 percent. There must be a recognition that maternal health is impacted by many determinants of health before, during and after pregnancy. The Council has established a taskforce to bring together the many stakeholders required to address this crisis through action and is committed to partnering with the State to advance solutions that help end maternal mortality.

Supporting Immigrant Communities

The State budget largely reflects prior year commitments for supporting our city's diverse immigrant communities, including funding for programs like legal services, case management, and job training, among others. However, the expected targeting of our state by the federal government for funding reductions and attacks on communities that benefit from these critical programs will require greater State funding support. The Council has sought to increase City commitments to expand legal services and supports for our immigrant communities, and the State should be a partner in funding these programs.

Fiscal and Tax Policy

Debt Limit & Property Tax Reform

Governor Hochul's Executive Budget includes a proposal for raising the bonding limit for the City's Transitional Finance Authority, in line with the City's contribution to the MTA's capital plan. The Council supports this proposal. Moving forward, the Council hopes to address the debt limit holistically by urging the Mayor to present a plan for property tax

reform. We recognize the State Legislature is aligned with this desire to reform the City's property tax system, but progress requires the active partnership of the Governor and Mayor. A potential impact of property tax reform, as proposed by the Property Tax Commission, is that there would be an increase of the City's total market value, and therefore holistically raising the City's current debt limit by approximately 35 percent.

REAP and RACE Tax Breaks

Governor Hochul's Executive Budget includes several related proposals to provide tax breaks to businesses, including an extension of the City's Relocation Employment Assistance Program (REAP) tax program for another five years. The Council does not support this renewal absent an independent evaluation of its effectiveness or need. REAP is a tax program from 1987 that provides companies with tax breaks for relocating jobs from places like Midtown Manhattan to other parts of New York City. Considering the current difficulties facing the City's office buildings, including those in Midtown, renewing this tax break without a deeper analysis is unwarranted and at odds with the City's current goals.

The City spends hundreds of millions of dollars on economic development-related tax breaks. While the City creates new tax breaks and expands them, it rarely seeks to end or reform existing ones. It's clear that for programs like REAP, the State Legislature should demand more independent information and data on their effectiveness before approving them again.

Similar to REAP, the Council has not seen any analysis of the effectiveness of the Relocation Assistance Credit per Employee (RACE) tax break. There is no substantive study that shows this tax credit will actually induce businesses to relocate jobs from outside the State into New York City. While the Council is not opposed to investing in economic development, providing these tax breaks without substantive study only creates undue budgetary stress that results in higher taxes on other New Yorkers.

Conclusion

The Council will continue to prioritize the needs and stability of our working families and diverse communities. As stewards of our city's fiscal health, we look forward to working with you and all our partners in State government to enact a budget that equitably supports our city and state.

Thank you for your time and consideration.