Fiscal Policy Institute
Annual Budget Briefing Book

Fiscal Year 2026





NATHAN GUSDORF
Executive Director

EMILY EISNER, PhD
Chief Economist

MICHAEL KINNUCAN
Director of Health Policy

ANDREW PERRY
Director of Fiscal Research

WWW.FISCALPOLICY.ORG

The Fiscal Policy Institute is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.

ALBANY | NEW YORK

Acknowledgements

The Fiscal Policy Institute (FPI) wishes to thank the Ford Foundation for their support of the state fiscal analysis work that makes this briefing book possible. FPI also wishes to thank the many organizations, including other foundations, labor unions, faith-based organizations, human services providers, advocates, and community groups that support FPI's work.

Additional information on state fiscal and economic issues and copies of the Fiscal Policy Institute's publications (including a PDF version of this briefing book) are available online at www.fiscalpolicy.org.

February 20, 2025

Executive Summary

These are challenging times for working New Yorkers. Families across the country feel the pinch of inflation, but in New York inflation runs higher than the national average due to the high cost of housing. The state economy is one of the slowest growing in the nation, and the state labor market has only recently recovered to its pre-pandemic level of employment. High-wage sectors of the economy such as finance and technology continue to grow, but we are losing middle-income jobs and replacing them with low-wage jobs. Both unionization rates and parts of the public sector workforce show long-term declines.

Despite the economic challenges facing working people, the State government is in a strong *fiscal* position due to rising incomes of the highest earners. A surplus of $3.5 billion is anticipated at the end of this fiscal year, and a surplus of $1.8 billion is anticipated for next fiscal year. The Executive Budget, recognizing this strong fiscal outlook, maintains a steady level of overall spending as a share of the state economy, and, in contrast to past years, does not propose substantial cuts to school aid or Medicaid.

The Executive Budget uses the bulk of this year's $3.5 billion surplus to fund a $3 billion "Inflation Refund" for 93 percent of taxpayers, supporting $300 checks for individuals making up to $150,000 and $500 checks for married couples making up to $300,000. These payments will have a negligible benefit for most recipients, and the multi-billion surplus ought to be used for more strategic purposes, such as housing investment or paying down the State's Unemployment Insurance debt to the federal government.

The Executive Budget proposes changes to Foundation Aid, the primary school funding formula, drawing on a recently commissioned study of the formula. The proposed changes maintain the overall level of spending growth, but reallocate $350 million from New York City to other districts. New funding for SUNY and CUNY is limited, but includes a $35 million allocation for a free community college initiative that could serve about 4,700 out of 226,000 students. FPI estimates that an incremental investment of $1.1 billion would be needed to make community college free for all.

In Medicaid, the Executive Budget shows real program growth of 3.7 percent, with a higher rate of growth in the State's share due to decreasing federal assistance, and maintains the State's commitment to bailing out the large number of financially-distressed hospitals that serve low-income New Yorkers. But the budget debate over health policy must also recognize that rising *private* insurance costs create an affordability problem for nearly every New Yorker. Premiums have increased by 75% since 2010, and deductibles have roughly doubled. Policy measures are urgently needed to manage underlying cost growth and hold down premiums across the board.

Housing is the chief affordability challenge for New Yorkers. Housings costs for New York City renters grew 57 percent faster than wages between 2019 and 2023, and New York State falls far behind its neighboring and peer states in producing new housing. Innovative policy measures are available to both increase the production of housing and manage costs, in particular public financing for mixed-income developments in which the State holds an equity interest, thereby

ensuring public oversight; these measures must supplement zoning reforms that end the state's housing shortage.

The Executive Budget makes a few significant missteps in tax policy. It commits to a planned corporate tax cut in 2026 that will permanently cost over $1 billion per year. And it proposes a $1 billion income tax cut that primarily benefits households earning over $150,000 (when the median household income is about $85,000). These tax cuts are particularly bad policy in a moment when all policymakers recognize the need for *new* revenue sources to fund the MTA's capital plan. These tax cuts may have the undesirable net effect of marginally lowering taxes statewide, while simultaneously *raising* taxes on lower-income workers in New York City by a greater margin to fund the MTA.

The most important fiscal concern for state policymakers in this budget cycle is the likely reduction in federal funding under the current presidential administration. New York State expects over $90 billion in federal aid for the next fiscal year, and significant cuts to any of the programs detailed below would pose serious threats to the health and economic stability of working people in the state.

The State must prepare, as part of its budget analysis, realistic contingency plans to bridge federal funding gaps, replace lost revenue, and resist federal policy threats that are at odds with the values of New Yorkers.

Federal Funding in the Fiscal Year 2026 Executive Budget

Total	**$93.1 billion**
Operating	**$89.3 billion**
Medicaid	$70.9 billion
Other health	$2.6 billion
Social assistance	$5.3 billion
Education	$4.4 billion
Capital	**$3.9 billion**
Transportation	$2.9 billion
Environment	$450 million
All other	$550 million

Table of Contents

The Executive Budget Financial Plan	**1**
The State Economy	**11**
State Tax Policy	**26**
Labor and Workforce Policy in New York	**46**
Issue Focus: Unemployment Insurance	**57**
Education, Higher Education, and Early Childhood	**63**
Healthcare	**71**
Housing Supply and Affordability	**90**

I. The Executive Budget Financial Plan

Summary of Findings

- Strong tax revenue will create surpluses of $3.5 billion and $1.8 billion in fiscal years 2025 and 2026, respectively.
- State spending will grow at 7.8 percent in nominal terms. Measured in relation to the state economy, spending will rise modestly from 7.7 percent to 8.0 percent of state personal income.
- Revenue is projected to grow at an annual rate of 1.7 percent, about half of the historical average rate.
- The executive budget projects a $6.5 billion budget gap in fiscal year 2027, rising to $11 billion in fiscal year 2029. If State revenue grows at an average historical rate—3 percent, after adjusting for inflation—through fiscal year 2029, the gaps would narrow from an average of $9 billion per year to $2 billion per year.
- Strong revenue but pessimistic forecasts in recent years have created a preference for one-off policies, a practice continued in the executive budget.

Introduction

New York State is heading into fiscal year 2026 on strong fiscal footing, with robust tax revenue set to create significant surpluses at the end of both this year and next fiscal year. The executive budget proposes using these surpluses to fund a substantial tax refund agenda, which would include one-off payments to most households, a temporary enhancement to the child tax credit, and a permanent personal income tax cut. The State's fiscal reserves continue to reach record levels.

Despite the State's strong fiscal outlook for the short-term, the State's revenue expectations are subdued in later fiscal years, with the State forecasting low growth relative to historical trends. Spending, however, is set to keep pace with the state's economic growth, creating moderate projected shortfalls (budget gaps). If revenue grows at a historically average pace and corporate tax rates remain at their current level, these projected gaps will be narrowed substantially. Given the State's low revenue expectations, planned future budgets refrain from making deeper long-run policy commitments.

Low projected revenue growth in the executive budget continues the State's conservative approach to fiscal planning, which has become more pronounced in the wake of the Covid pandemic. Recent high annual surpluses, but pessimistic revenue forecasts, have led the State to prefer one-off spending over permanent, structural policy changes. This ad hoc approach to policymaking represents a missed opportunity to address longstanding challenges, such as the cost of living, which demand more systematic policy action.

This chapter will provide an overview of the State's current fiscal position and outlook.

Spending

The executive budget proposes a state operating budget of $143.8 billion for fiscal year 2026, a 7.9 percent increase from fiscal year 2025. This rate of growth would be above the 3.8 percent rate reached in both fiscal years 2024 and 2025. However, spending growth in those two years was slower than the rate of economic growth in New York State.

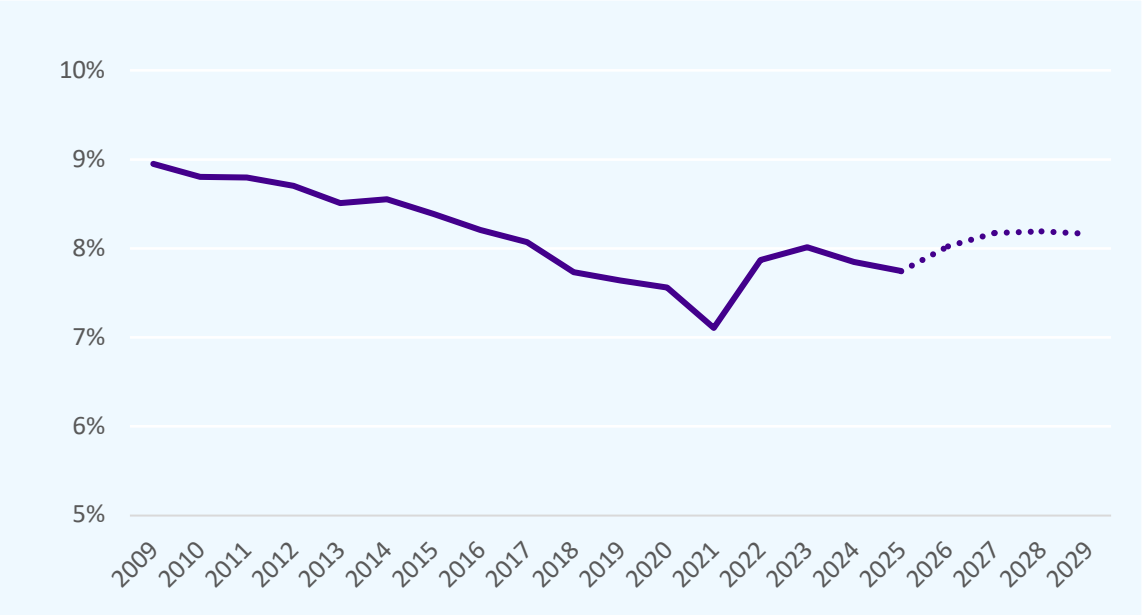
Table 1. State operating funds spending and measures of growth, fiscal year 2024 to 2026

	2024	2025	2026
State operating funds spending ($ in billions)	$128.5	$133.3	$143.8
Change from prior year	3.8%	3.8%	7.8%
Inflation adjusted change	1.0%	0.2%	4.6%
Share of state personal income	7.8%	7.7%	8.0%

Spending should be measured against the size of the economy to more accurately gauge the State's revenue capacity and its ability to provide public services. Relative to the state's economic growth, the State's spending has been relatively stable since fiscal year 2023, falling slightly over the last two years and set to rise in fiscal year 2026. The state expects this to remain true through the financial plan outyears, fiscal years 2027 to 2029, with spending growth set to keep pace with economic growth.

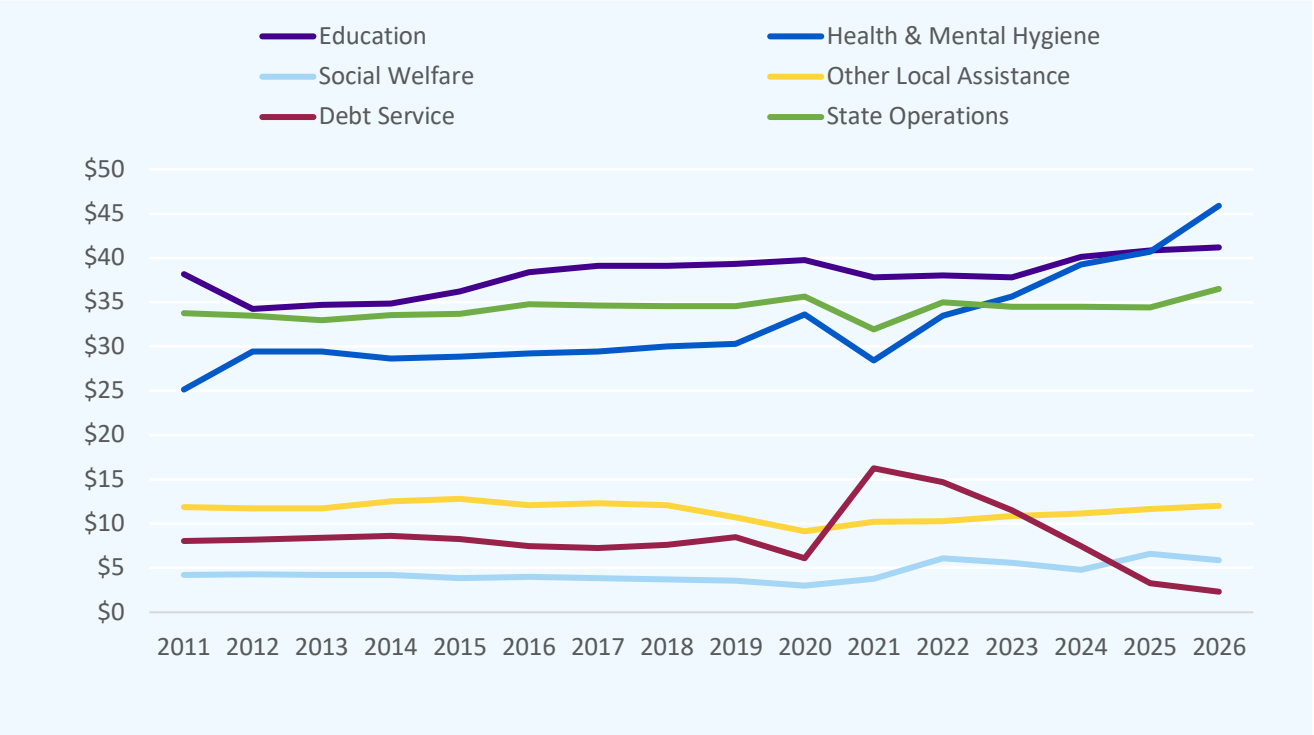
This investment reverses the budget's retrenchment over the 2010s, during which time policies to restrain spending shrank the budget relative to the economy. Over this period, the Governor imposed a non-binding goal of limiting spending growth to 2 percent per year. This rate of growth was lower than economic growth, constraining the State's ability to invest in core public services. Because revenue would have grown with the economy—a rate faster than 2 percent per year—the State cut personal income and corporate taxes while expanding corporate tax breaks, restraining the size of the budget.

Figure 1. State operating funds spending as share of state personal income, fiscal years 2009 to 2029



Restrained spending growth through the 2010s came at the expense of all spending areas other than education, which saw flat or declining funding, after adjusting for inflation. Education spending—primarily State aid to school districts—rose 15 percent between fiscal years 2012 and 2019. Despite this, low overall spending growth meant that even education funding fell short, with the State delaying fully funding the legally mandated Foundation Aid formula, which allocates school aid, until fiscal year 2024. Spending consistently declined for other programs providing financial assistance to localities. Funding for social assistance programs fell 16 percent over the same period, after adjusting for inflation, as the State shifted costs onto localities. All local assistance other than health, a category that includes transportation and environmental protection, fell 9 percent.

Figure 2. Program area spending as a share of state operating funds spending, fiscal years 2009 to 2026



In the wake of the Covid pandemic, healthcare has become a driver of State spending. Healthcare spending will be discussed in detail in Chapter 7 of this briefing. Education spending, by contrast, rose just 5 percent between fiscal years 2019 and 2026, after adjusting for inflation, the least of any program area. State-funded education spending fell temporarily during Covid amid an influx of federal relief funds. Growth has resumed in recent years, with the phasing-in of Foundation Aid and expiration of federal relief funds.

In a reversal of the 2010s disinvestment, the State has invested in social welfare (which includes State-funded cash assistance and childcare subsidies) in recent years, with inflation adjusted spending rising 65 percent—$2.3 billion—over fiscal years 2019 to 2026, the most of any program area. Much of this spending increase is attributable to investments in childcare, State spending for which has grown by more than $1 billion since fiscal year 2023. In recent years, the State has invested in expanding its Child Care Assistance Program, which subsidizes childcare for low- and middle-income families.

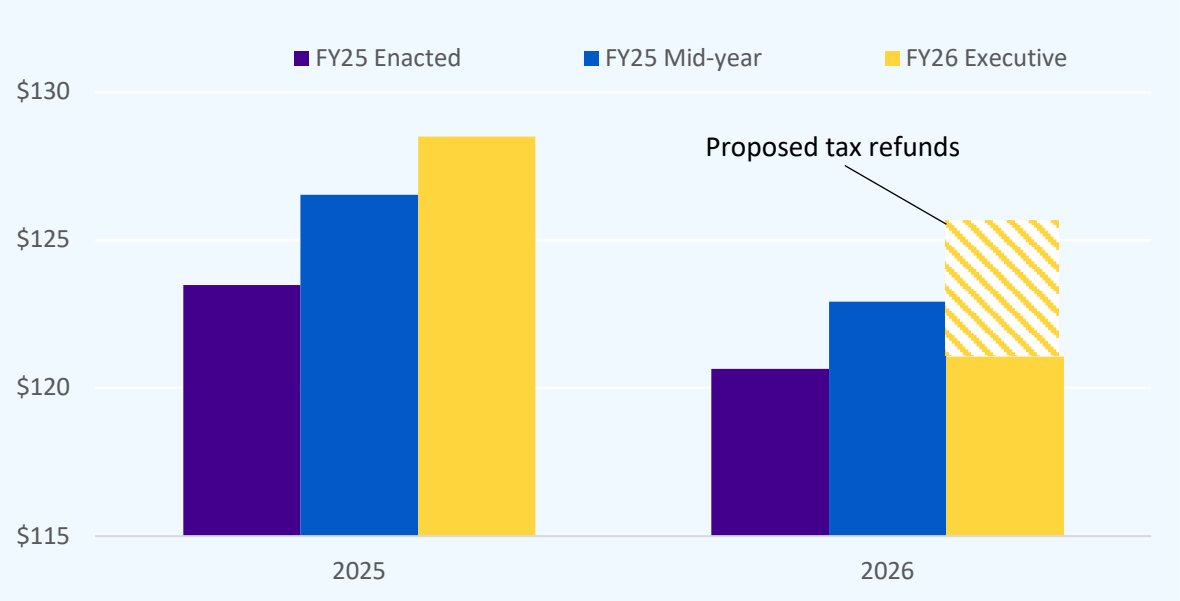
Revenue

The executive budget makes significant upward revisions to its expected revenue for both the current and upcoming fiscal years (fiscal years 2025 and 2026, respectively), raising anticipated tax receipts by $4.6 billion and $4.1 billion from the levels projected in the fiscal year 2025 enacted budget financial plan. Strong personal income tax receipts drive these upward revisions.

The executive budget's updated current and next-year revenue projections are above those made by recent financial plans. Nevertheless, if the executive budget's major policy proposals are enacted, fiscal year 2026 revenue will be pushed down by $4 billion and more than $1 billion in subsequent years. This

is because the budget's costliest policy proposals are tax refunds, which push down fiscal revenue, rather than raise spending. These tax refund policies will be detailed in Chapter 3.

Figure 3. Projected state funds revenue (see note) for fiscal years 2025 and 2026 (dollars in billions)



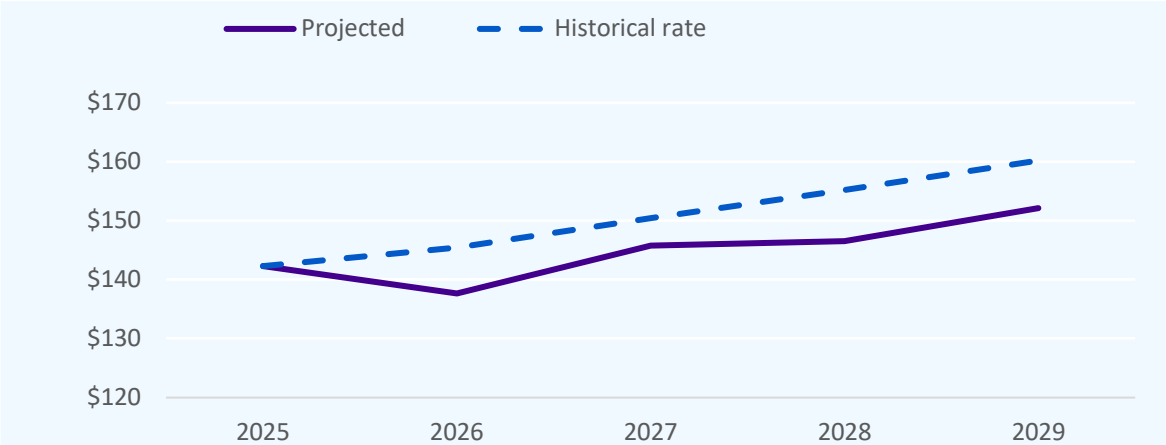
Note: State funds are the sum of tax receipts, other general fund revenue, and gaming receipts dedicated to education. This measure does not include other special revenue funds included in state operating funds.

Table 2. Fiscal effects of tax proposals by fiscal year (dollars in millions)

	2026	2027	2028	2029
Inflation refund	-$3,080	—	—	—
Tax cut	-$458	-$1,115	-$1,024	-$1,054
Child Tax Credit	-$471	-$825	-$825	—
Film Tax Credit	—	$111	-$115	-$115
Tax refund total	**-$4,009**	**-$2,051**	**-$1,964**	**-$1,169**
High earner rate extension	—	—	+$989	+$3,614

Despite strong revenue expectations in the near term, the budget projects subdued growth, averaging an annual rate of 1.7 percent, in the financial plan outyears, fiscal years 2027 to 2029. This rate is about half the historical rate of growth of 3.0 percent experienced over the 2010s, adjusting for inflation. If revenue grows at this historical rate, state operating funds revenue would reach $160.2 billion by fiscal year 2029, $8 billion above the level projected in the executive budget.

Figure 4. State operating funds revenue projected by executive budget and historical trend, fiscal years 2025 to 2029 (dollars in billions)



The State's revenue projections have been increasingly conservative in recent years. Revenue grew briskly in the immediate aftermath of the Covid pandemic, driven by a strong economic recovery and higher tax rates on top earners and corporations. While revenue has remained high (see figure 5), annual growth has been variable (see figure 6). This fiscal uncertainty prompted the State to take a very conservative approach to its fiscal projections. As a result, consistent annual surpluses have been accompanied by pessimistic forecasts.

Figure 5. State operating funds revenue, fiscal years 2007 to 2025 (dollars in billions)

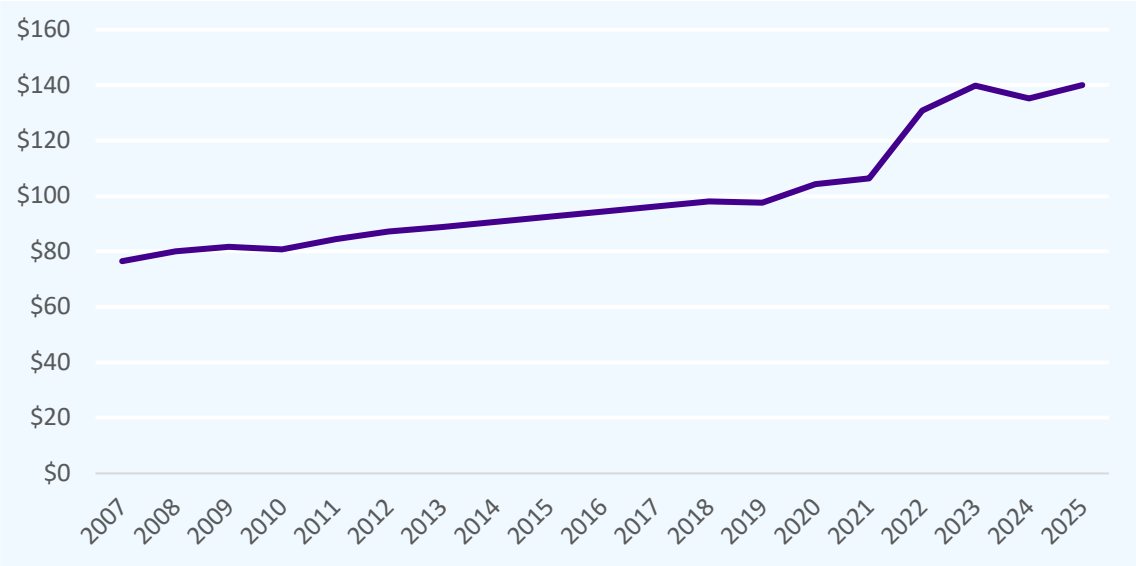
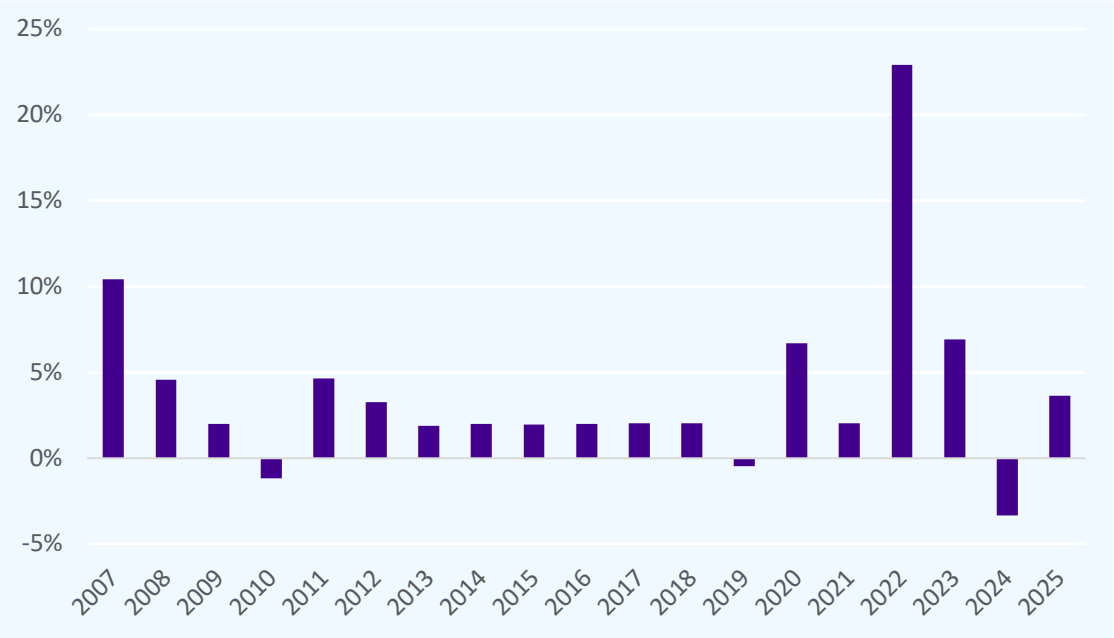


Figure 6. Annual change in state operating funds revenue, fiscal years 2007 to 2025



The State's recent surpluses, but cautious fiscal forecasts, have resulted in a strong preference for one-off and temporary policies, rather than commitments to permanent programs. In recent years, these have included:

- $2.2 billion for a homeowner tax rebate in fiscal year 2023;
- $300 million for a gas tax holiday in fiscal year 2023;
- $2.2 billion in one-off payments to healthcare workers between fiscal years 2023 and 2025;
- $800 million in one-off payments to childcare workers in fiscal years 2024 and 2025;
- $22.7 billion in debt service prepayments between fiscal years 2021 and 2025;
- $24.8 billion deposited into fiscal reserves since fiscal year 2021, which will be detailed below.

In the early phases of the Covid pandemic, temporary and one-off policies were appropriate given both the uncertainty of the State's fiscal future, the necessity of supporting those hit hardest by the pandemic, and the need to stimulate the state's economic recovery. Over time, however, one-off policies have increasingly been deployed to tackle long-running challenges, such as the rising cost of living.

Many of these one-off policies, including supporting the wages of healthcare and childcare workers, aimed to accomplish laudable goals. However, permanent, structural policies are necessary to solve the longstanding issues of wage adequacy and the cost of living. By deploying non-recurring resources, the State has missed opportunities for transformative policymaking. The preference of one-off policy and aversion to permanent commitments is driven by excessively pessimistic revenue forecasts.

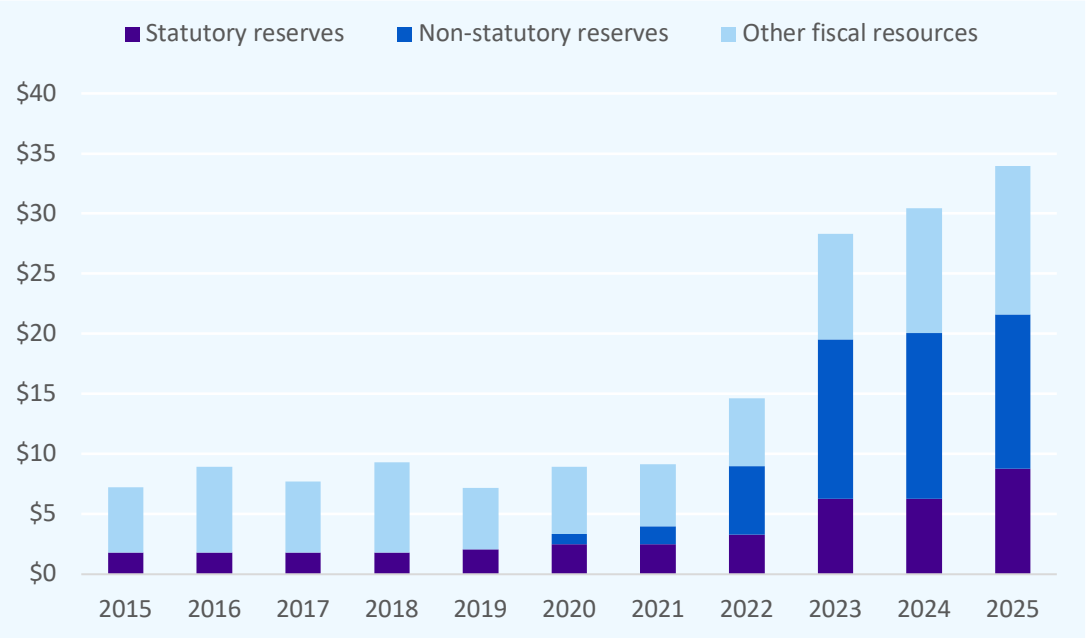
Surpluses

Strong revenue in fiscal years 2025 and 2026 is set to create a $3.5 billion surplus for fiscal year 2025 and $1.8 billion surplus in fiscal year 2026. The governor's proposed budget would roll the current year surplus into next year, financing the governor's policy proposals, chiefly its $4 billion tax refund agenda. The current surpluses, therefore, fully fund the $3 billion inflation rebate. Conversely, the costs of permanent polices, including the proposed $1.1 billion tax cut, would be offset next year, but not paid for in subsequent years. These recurring costs, therefore, contribute to future budget gaps, which will be discussed below.

Reserves

The State used its high, consistent surpluses to bolster its fiscal reserves in recent years. Prior to the pandemic, the State's meager fiscal reserves lagged other states and would have been inadequate to maintain spending during a downturn. Between fiscal years 2021 and 2023, the State increased its formal reserves from less than $4 billion to nearly $20 billion. Further, the State maintains other funds not designated as reserves but nevertheless uncommitted to other uses and available to support the budget. Taken together, the State's fiscal resources will reach $34 billion in fiscal year 2025, a record high.

Figure 7. State fiscal resources, fiscal year 2015 to 2025 (billions of dollars)



These deposits have pushed the State's fiscal resources above the targeted levels necessary to provide fiscal stability during revenue downturns. In 2019, the State Comptroller recommended increasing reserves to 10 percent of general fund revenues. For fiscal year 2025, this goal would require $11.6 billion in reserves—about half the State's current formal reserves of $21 billion and one-third of its overall fiscal resources of $34 billion.[1] In fiscal year 2024, the State raised the reserve funds' legal limit to 25 percent of general fund spending—$27.1 billion in fiscal year 2025. While the State's formal reserves are below this level, it holds nearly $7 billion above this limit after accounting for undesignated fund balances.

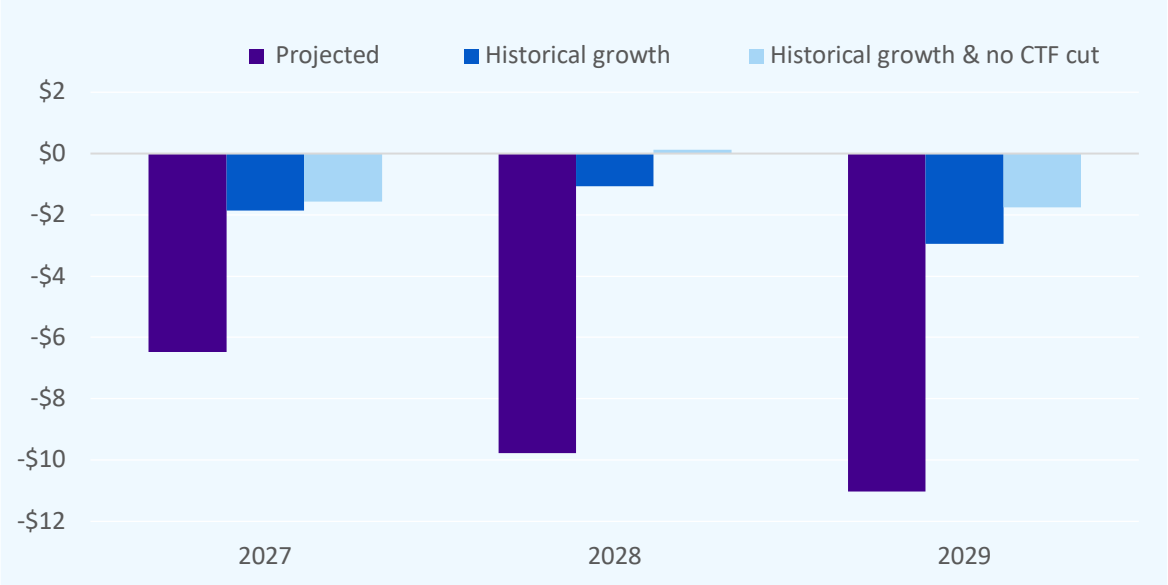
Gaps

The executive budget projects a $6.5 billion budget gap in fiscal year 2027 rising to $11 billion in fiscal year 2029. In presenting the budget, the State budget director called these gaps "manageable."[2] The State's budget gaps typically narrow as revenue exceeds conservative estimates.

If the State's revenue grows at an average historical rate—3 percent, after adjusting for inflation—through fiscal year 2029, the gaps would narrow from an average $9 billion per year to $2 billion. Further, the current gaps assume that the current corporate tax rate (passed in 2021) will expire in 2026, with a rate cut phasing in for 2027. If the current corporate tax rate is made permanent, and revenue grows at a historically average rate, the remaining budget gaps will average just $1 billion each year.

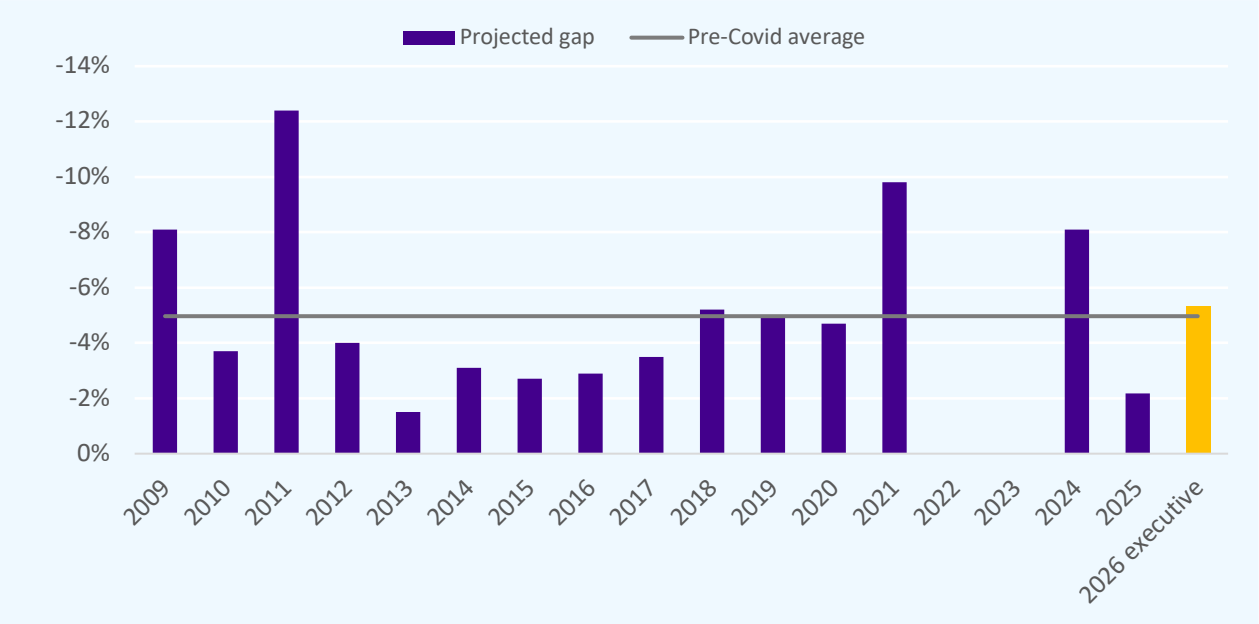
[1] https://www.osc.ny.gov/files/reports/budget/pdf/rainy-day-reserves-2019.pdf
[2] https://www.budget.ny.gov/pubs/archive/fy26/ex/fy26-director-presentation.pdf

Figure 8. Projected budget gaps and gaps under potential scenarios, fiscal year 2027 to 2029 (dollars in billions)



While it is occasionally claimed that the State's budget gaps are "structural" challenges that will eventually require deep cuts to spending, projected shortfalls in future years reflect the State's longstanding practice of conservative budget forecasting. Gaps are present in virtually every budget's outlook—while spending cuts have only been required in rare cases such as economic recessions. The projected gap for fiscal year 2027 totals 5.3 percent of expected general fund spending in that year. This is on par with the average projected gaps for the first outyear in the years immediately before the Covid pandemic and lower than the elevated gaps projected in midst of economic downturns.

Figure 10. Projected first outyear gap as a share of general fund spending, fiscal years 2009 to 2026



II. The State Economy: Tepid Growth, Widening Inequality, and the Rising Cost of Living

Summary of Findings

- New York is one of the five slowest growing states in the country. The US economy grew by 2.8 percent per year between 2020 and 2024 while New York's economy grew 1.6 percent over that same period.

- New York's labor market has only recently recovered to pre-pandemic levels of employment, whereas employment in the US economy overall is 4.5 percentage points above its pre-pandemic level.

- Inflation in New York has remained higher than the US average—4 percent compared to a national average of 3 percent. This divergence is due to the continued rise in housing costs in New York.

    - Over 2020-2024, New Yorkers saw an increase in food and beverage prices of 25 percent, and increase in energy costs of 30 percent, and an increase in housing costs of almost 20 percent.

- Income inequality and poverty have both increased in New York since the start of the Covid-19 pandemic.

    - In 2022, the top 1.5 percent of tax filers—those earning over $1 million that year—earned 32 percent of the total income earned in the State. Those making over $10 million earned 13 percent of the total income earned in the State.
    - While the 99th percentile of income earners saw growth of nearly 13 percent between 2019 and 2023, the bottom 10th percentile saw growth of just 9 percent.
    - Whereas the US rate of poverty has risen only marginally from 12.3 percent in 2019 to 12.5 percent in 2023, New York's rate of poverty rose from 13.1 percent in 2019 to 14.1 in 2023, an increase of 7.6 percent.

Introduction

New York's economy has recovered the jobs lost during the Covid-19 pandemic, but lags the economic growth seen in the rest of the country. This tepid growth comes alongside increasing rates of poverty and widening inequality: top earners have fared better in New York than those at the bottom of the income distribution due to outsized growth in non-wage income (such as capital gains and business income) compared to wage and salary income.

As the country heads into uncertain territory under the leadership of the Trump administration, the consequences for New York of continuing in this economic direction demand urgent attention: New York must find a way to support and grow middle-class jobs, must stimulate broadly shared economic growth, and must enact bold policy to alleviate the cost-of-living burden faced by so many.

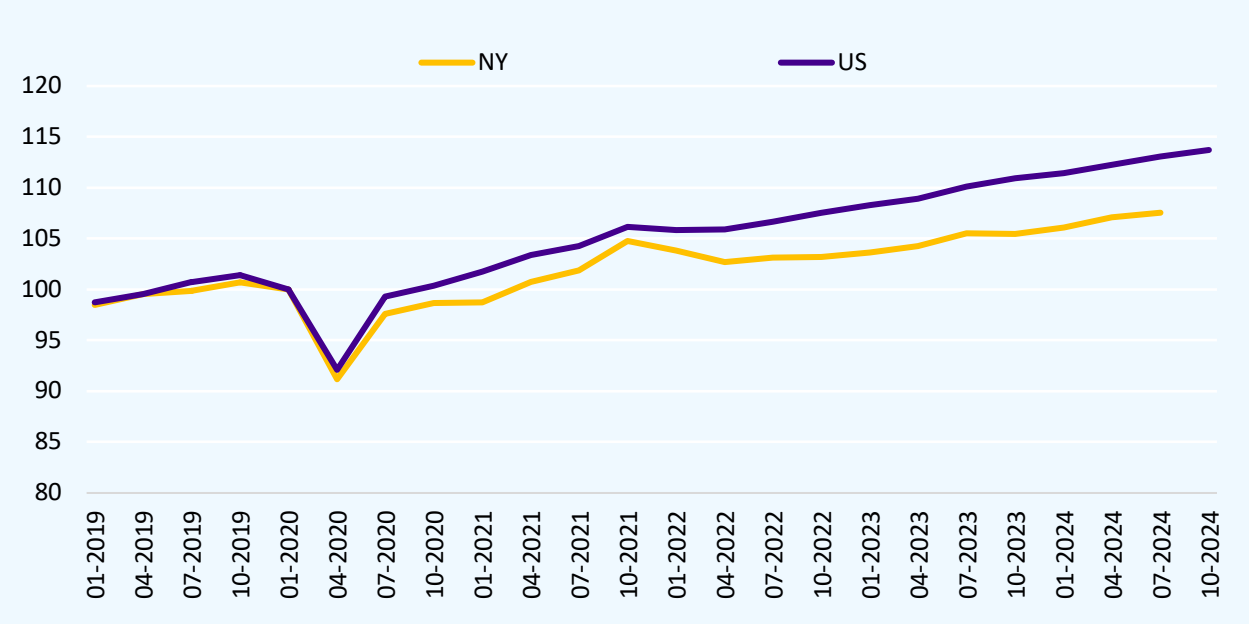
A policy agenda that meets the moment will require reforms to housing policy, childcare policy, labor policy, health policy, and tax policy to support social services that may face Trump cuts. Each of these policy areas will be covered in greater depth in the following chapters. Without substantial policy reforms, New York risks continued sclerotic growth and like more severe economic circumstances over the next four years.

Macroeconomic Outlook: Slow State Growth and an Uncertain National Outlook

The past five years have marked an unprecedented period of volatility and uncertainty. Despite these challenges, the U.S. economy has been remarkably resilient from a macroeconomic perspective. Total employment exceeds pre-pandemic levels by 4.5 percent and real gross domestic product—a measure of total produced output in the economy—has grown by nearly 14 percent since the start of Covid-19.

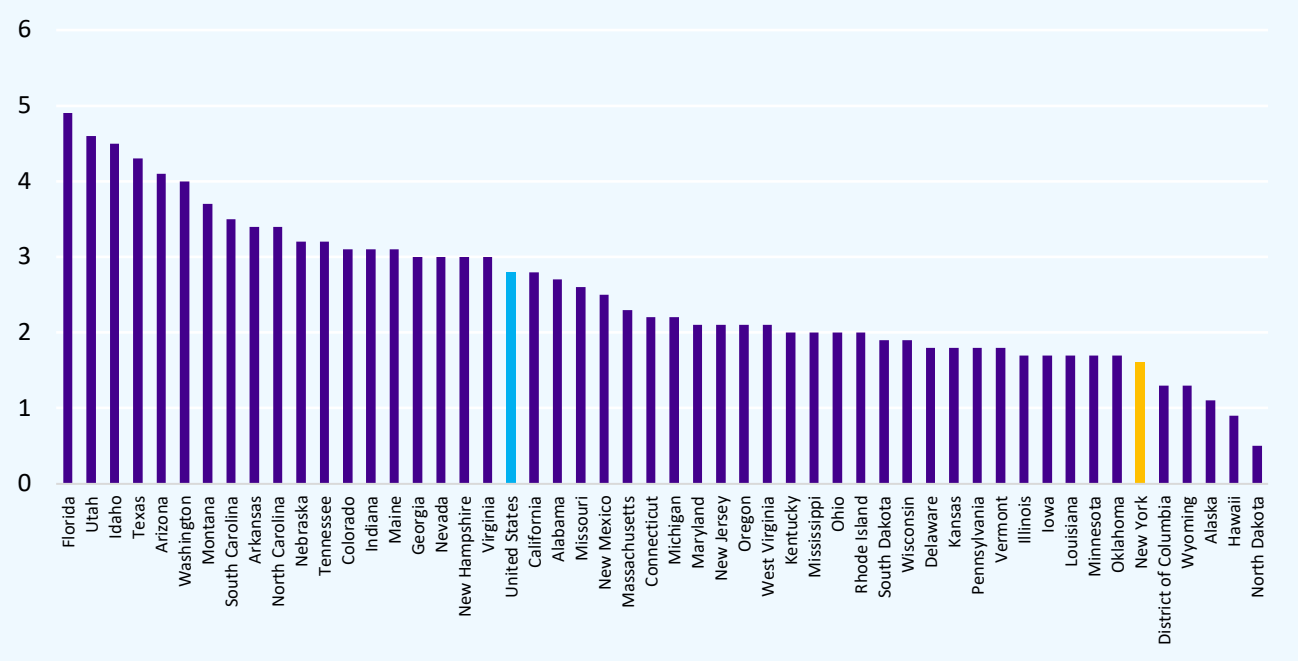
The picture in New York is not quite so rosy. Real gross domestic product in New York began to recover alongside the overall US economy, but has since diverged significantly and, as of July 2024, has only seen 7.5 percent growth since the early 2020, far below the 14 percent growth of the United States as a whole.

Figure 1. Real GDP in New York and the US, as percent of 2020:Q1 level



Note: Data from the Bureau of Economic Analysis.

Figure 2. Real GDP annualized growth rate between 2020:Q1 and 2024:Q3



Note: Data from the Bureau of Economic Analysis.

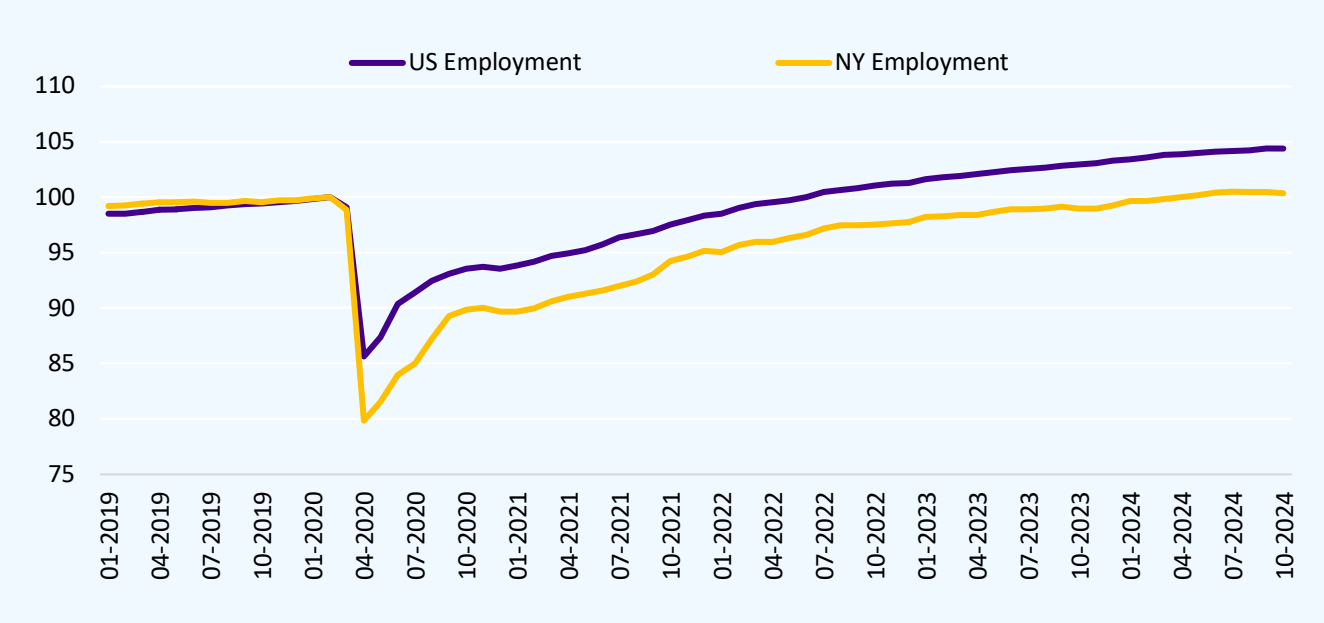
On an annualized basis, the US economy has grown by 2.8 percent per year between the first quarter of 2020 and the third quarter of 2024. In contrast, New York has only grown at an annualized rate of 1.6 percent over that same period, making New York one of the five slowest growing states in the country, alongside Wyoming, Alaska, Hawaii, and North Dakota, each of which showed even slower growth over

the pandemic and post-pandemic period. Peer states such as New Jersey, California, and Massachusetts all saw annual growth rates above 2 percent. What makes New York so different?

One thing that makes New York different is that New York saw an extremely large negative shock in the early pandemic—a much more severe shock to the economy than most other states. As the epicenter of the Covid-19 outbreak in the early part of the pandemic, New York's economy faced a uniquely challenging economic situation: while employment fell by about 15 percent on average in the U.S., New York's economy shrank by over 20 percent in April 2020. New York's labor market has only just recently recovered to pre-pandemic levels of employment, lagging the US economy by nearly 4.5 percentage points.

Another factor that likely contributes to the slow growth in New York is the very restrictive housing construction environment, making it difficult for New York to grow in population, and contributing to the significant increases in cost of living that have motivated some working- and middle-class New Yorkers to leave the State.[i] Without policy that significantly reforms zoning restrictions and alleviates regulatory burden and construction cost burden, New York will likely remain in a slow-growth equilibrium.

Figure 3. New York and US employment as a percent of their February 2020 levels.

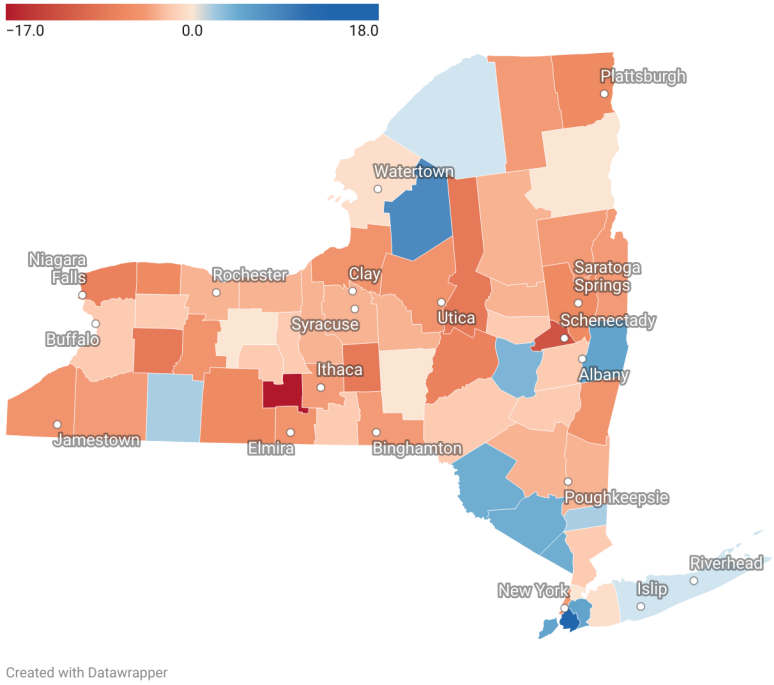


Note: Data from the Bureau of Labor Statistics and downloaded from FRED.

Within New York, the job growth over the past five years has been primarily concentrated in downstate counties. Job growth between 2019 and 2024 has been strongest in Kings County (Brooklyn), where the total employment has grown by 12 percent over the period. Queens County and Richmond County (Staten Island) in New York City also saw relatively large gains in employment. Also in the downstate region, Rockland, Putnam, and Orange Counties saw gains in employment. In contrast, very few upstate counties saw employment growth between 2019 and 2024; Just five counties upstate saw employment growth between 2019 and 2024 including Lewis County and Rensselaer County. In total, only 15 of the

State's 62 counties saw employment growth over the past 5 years. The remaining 47 counties—including Manhattan—all saw declines in employment. The geographic concentration of growth in mostly downstate counties reflects a long-term decline in the upstate New York economy as well as the pandemic-era movement towards suburbs and exurbs, which was made more possible by the shift towards work-from-home.

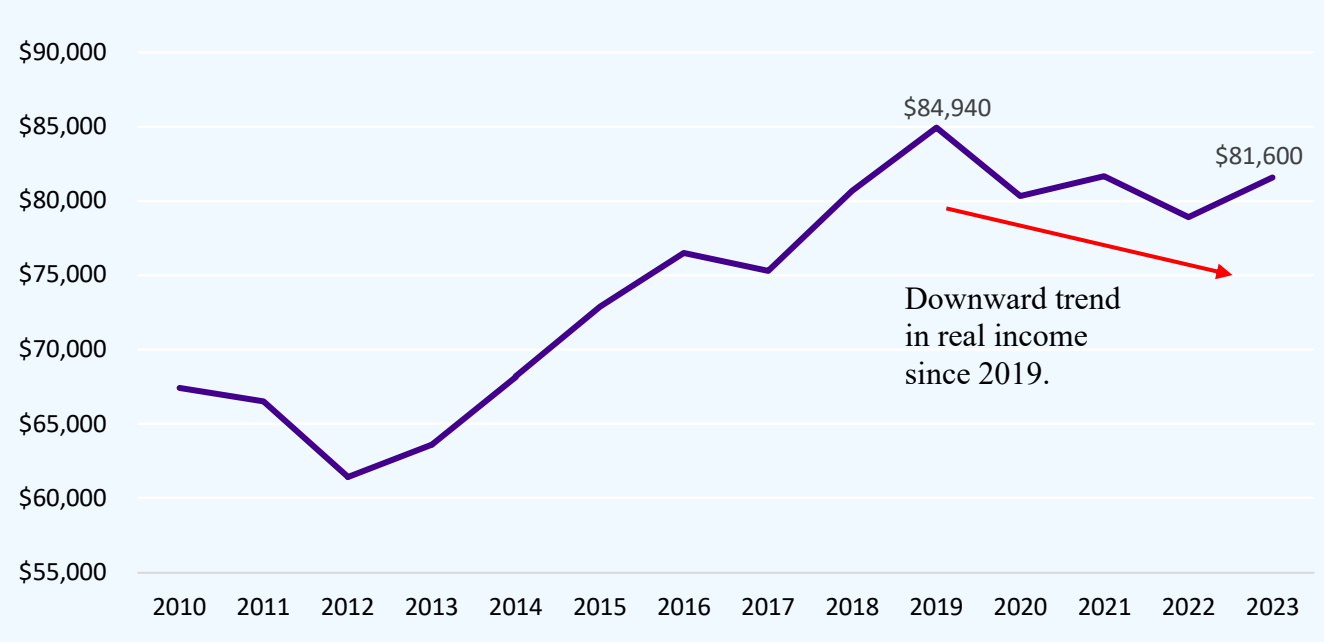
Figure 4. Percentage change in employment by county between 2019 and 2024.



Note: Data from the Quarterly Census of Employment and Wages.

While employment has basically returned to 2019 levels, real incomes in New York for many workers have seen a downward trend since the pandemic, falling from $84,940 in 2019 to $81,600 in 2023. While much of the country has seen real wages rise over the past five years, New Yorkers overall have seen declines in their spending power, as high inflation has eroded earnings increases. This will be discussed further in the next subsection on the rising cost-of-living.

Figure 5. Real median income in New York, 2023 dollars



Source: US Census Bureau, Real Median Income

The economic threat of the Trump administration to New York

This fall, with the return of Donald Trump to the United States presidency, renewed uncertainty falls on the U.S. economy. Steep tariffs placed on trade partners and massive federal funding cuts have both been attempted already in the first month of the presidency and will continue to be a priority for the president's administration. If successfully implemented, both tariffs and federal funding cuts would have dramatic implications for the New York State economy, threatening widespread job loss, price increases on necessary goods like oil and food, and decreases in social safety net services.

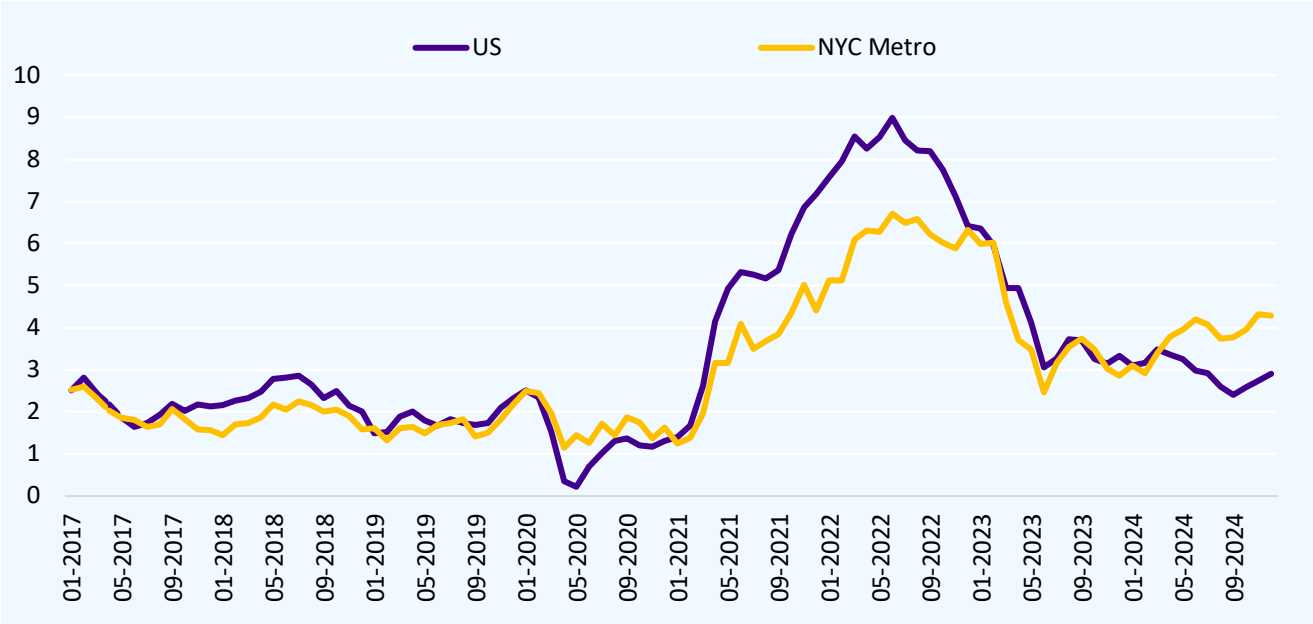
Mass deportations of undocumented immigrants and other immigrant groups could also place significant strain on the New York economy. Crucial sectors including construction, childcare, eldercare, agriculture, and food services all depend on the labor of undocumented immigrants. Beyond the humanitarian crisis that would be caused by mass deportations, these policies would cause upheaval to the State economy, would dramatically increase the cost of living and decrease the supply of these essential goods and services.

While much is still unknown in how the federal landscape will take shape, it is clear that there will be continued volatility and that there will likely be significant funding withheld from New York. Decreases in funding not only directly harm the programs they fund but also have indirect impacts on the entire state economy. New York must prepare for these funding shortages by bolstering revenue and continuing to pursue policy that helps New Yorkers afford to stay in the State.

Unsustainable cost-of-living for many New Yorkers

Inflation in New York has remained higher than the U.S. average, with both staying persistently above the target 2 percent. As of December 2024, year-over-year growth in consumer prices in the New York City metropolitan area was about 4 percent, a full percentage point higher than the US average. This divergence is due largely to the continued rise in housing costs in New York. Whether inflation remains high in New York will depend on interest rate policy at the federal level and whether New York policymakers can take sufficient action to increase housing supply and contain costs for New York residents.

Figure 6. Consumer Price Index for All Urban Consumers, percent change from a year prior



Note: Data from the Bureau of Labor Statistics and downloaded from FRED.

The cost of living has become a central concern to most households, with rising prices in all major family budget items. Over 2020-2024, New Yorkers saw an increase in food and beverage prices of 25 percent, and increase in energy costs of 30 percent, and an increase in housing costs of almost 20 percent. Medical care also increased by over 5 percent in that period. These large cost increases constitute a "last straw" for many who already felt the squeeze of high costs in New York.

Between 2019 and 2023, the median renter household in New York saw an increase in monthly rent of at least $250/month, translating into $3,000 per year in additional housing costs[ii]. In New York City, the median household with a young child saw an increase in childcare costs of over $450 per month, or over $5,400 per year.[iii] Annual food costs for a relatively frugal family of four increased by $3,000 due to climbing food prices.

Figure 7. Consumer price index for New York City metropolitan area, relative to February 2020

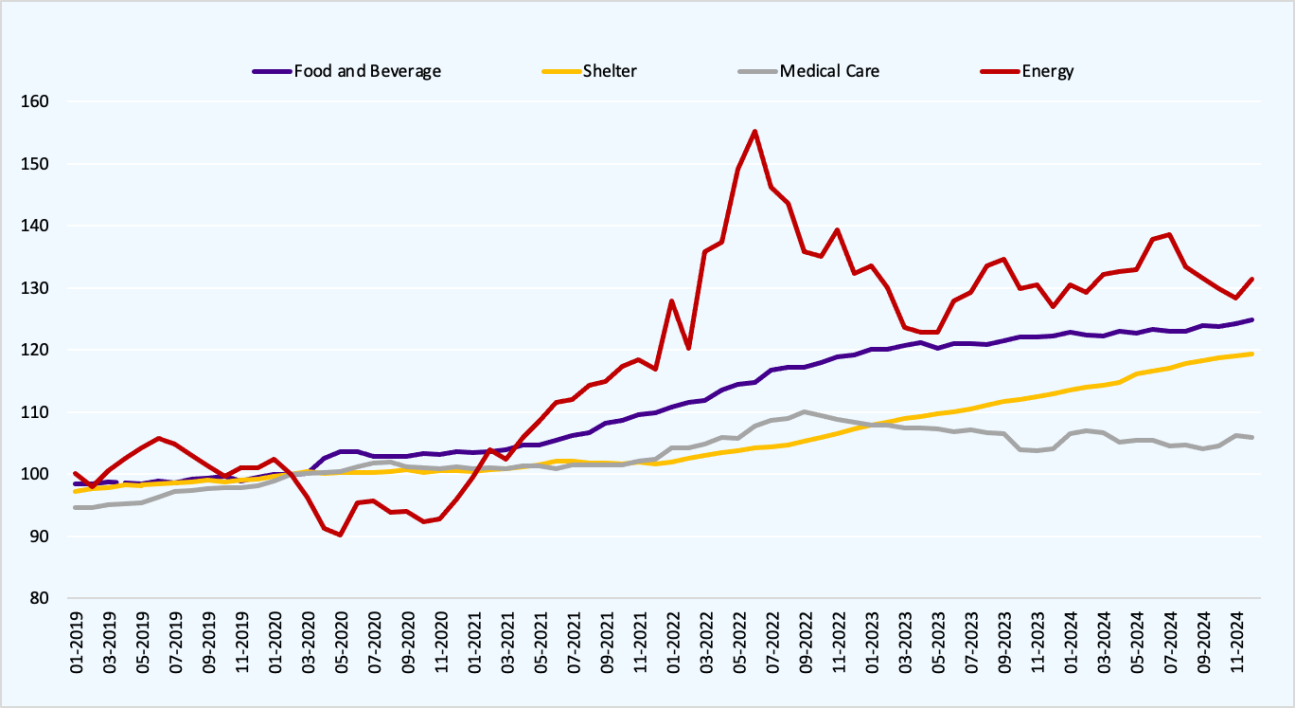
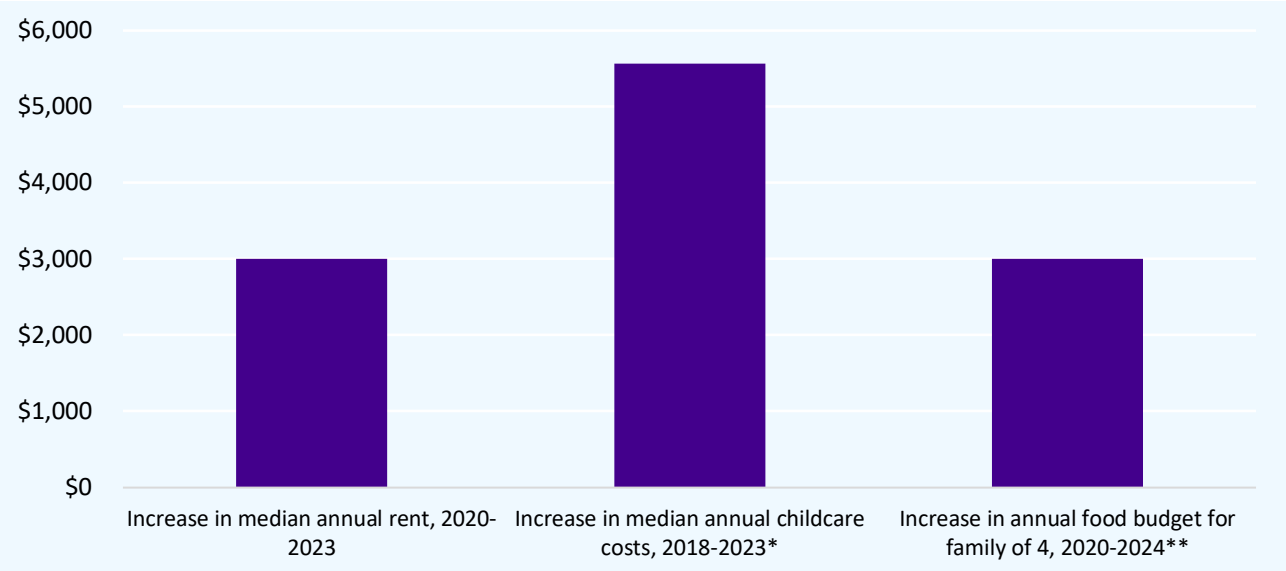


Figure 8. Estimated increase sin household costs for hypothetical New York family of 4



* Child care cost increases based on the Market Rate Surveys collected by the State in 2018 and 2023. This is the median cost increase for one child in NYC, attending a licensed group family day care home.
** Based on USDA's estimate of a "thrifty" food budget for a family of four of $1,000 per month. Increases will be larger for families with larger food budgets.

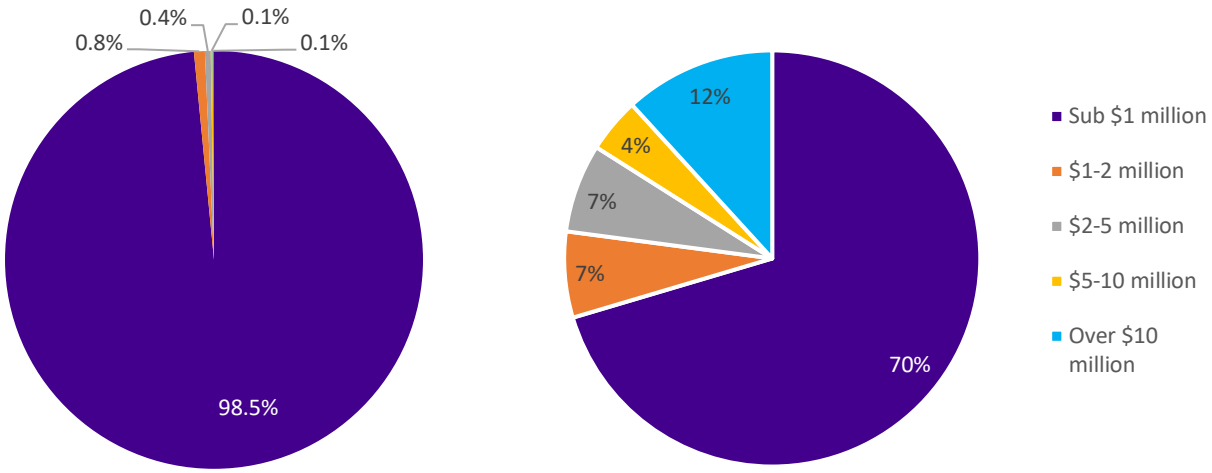
The unsustainable rise in the cost of living must be addressed through a combination of supply-side management of resources (such as the housing stock, clean energy production, and universal childcare

provision) as well as sufficient regulation of prices so that state residents do not bear the burden of mismanaged supply of basic universal needs like housing, food, energy, childcare, and medical care.

Inequality has continued to widen

New York continues to be one of the most unequal places in the world, due to the high concentration of extremely high income earners (discussed further in the chapter on tax policy in this briefing). Top earners in the State continue to make a huge proportion of New York total income earned; In 2022, the top 1.5 percent of earners—those earning over $1 million that year—earned 30 percent of the total income earned in the State. Those making over $10 million—about 0.1% of earners—earned 12 percent of the total income earned in the State.

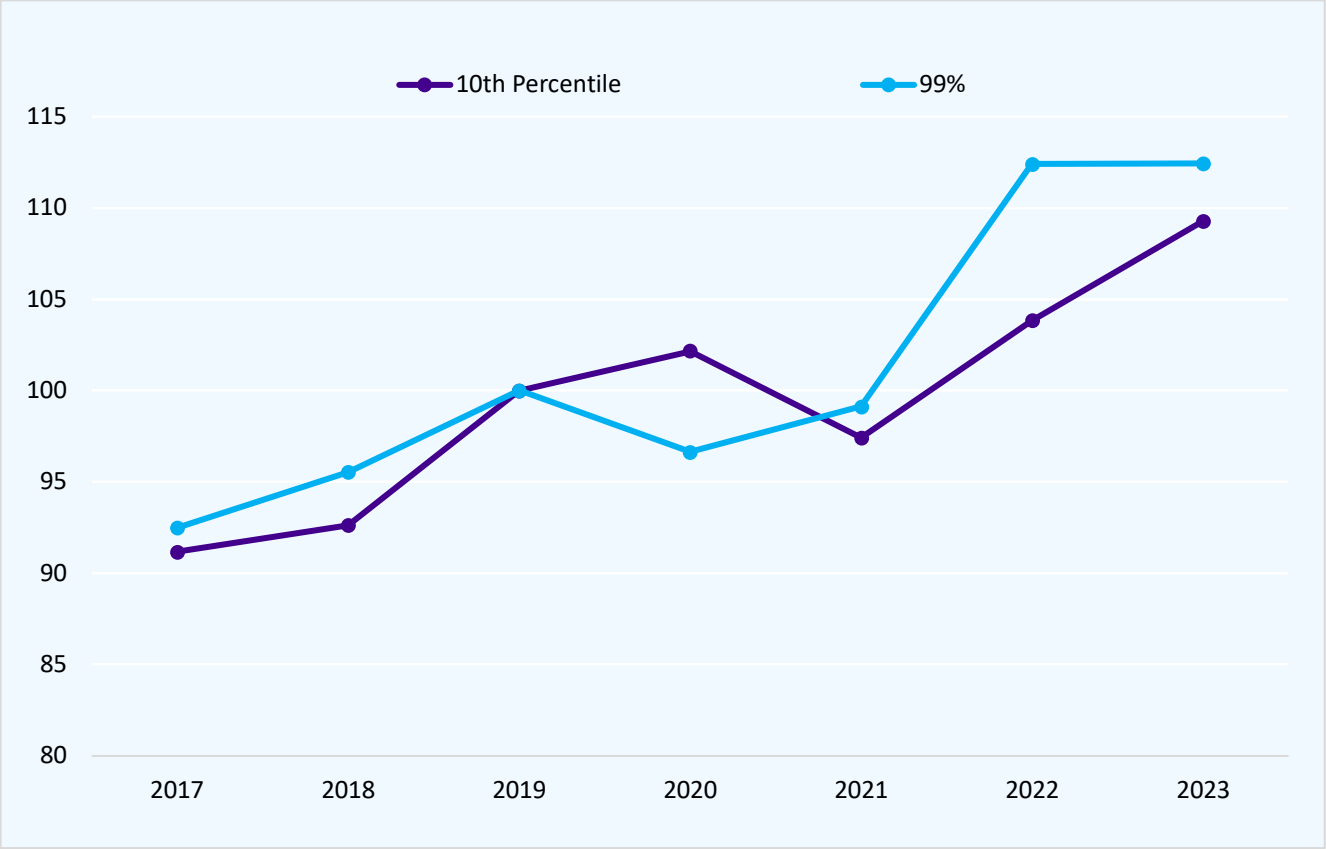
Figure 9. Share of population (left) and share of total income (right) by household income



Note: Data from the NYS Department of Taxation and Finance, 2022 tax filings.

Income inequality has increased statewide since the pandemic. Comparing the growth in annual income in the 99th percentile to the growth in income for the 10th percentile demonstrates that income inequality in New York has increased since 2019. While the 99th percentile of income earners saw growth of nearly 13 percent between 2019 and 2023, the bottom 10th percentile saw growth of just 9 percent. That is, the 10th percentile of the income distribution saw income growth at just 75 percent the rate of the 99th percentile.

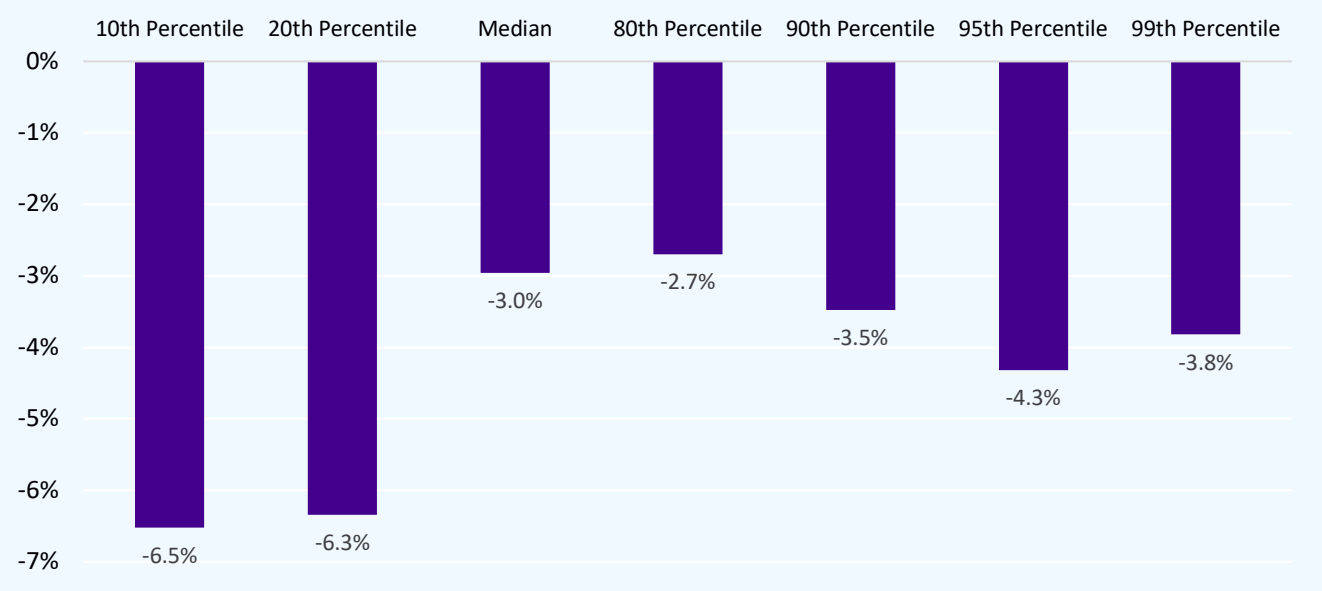
Figure 10. Income relative to level in 2020 for households in NY by income percentile (not inflation adjusted)



Source: American Community Survey and authors' calculations.

Adjusting for price increases over the past five years, we see that at almost all parts of the income distribution, New Yorkers have seen a decline in their purchasing power. The bottom 20 percent of households saw a decline in real earnings between 2019 and 2023 of over 6 percent. In contrast, those in the top 10 percent of the income distribution saw real income declines of only about 3.5-4.5 percent. While these are still meaningful declines in real income, they are less severe than for those earning the least, and who have the least buffer to rely upon.

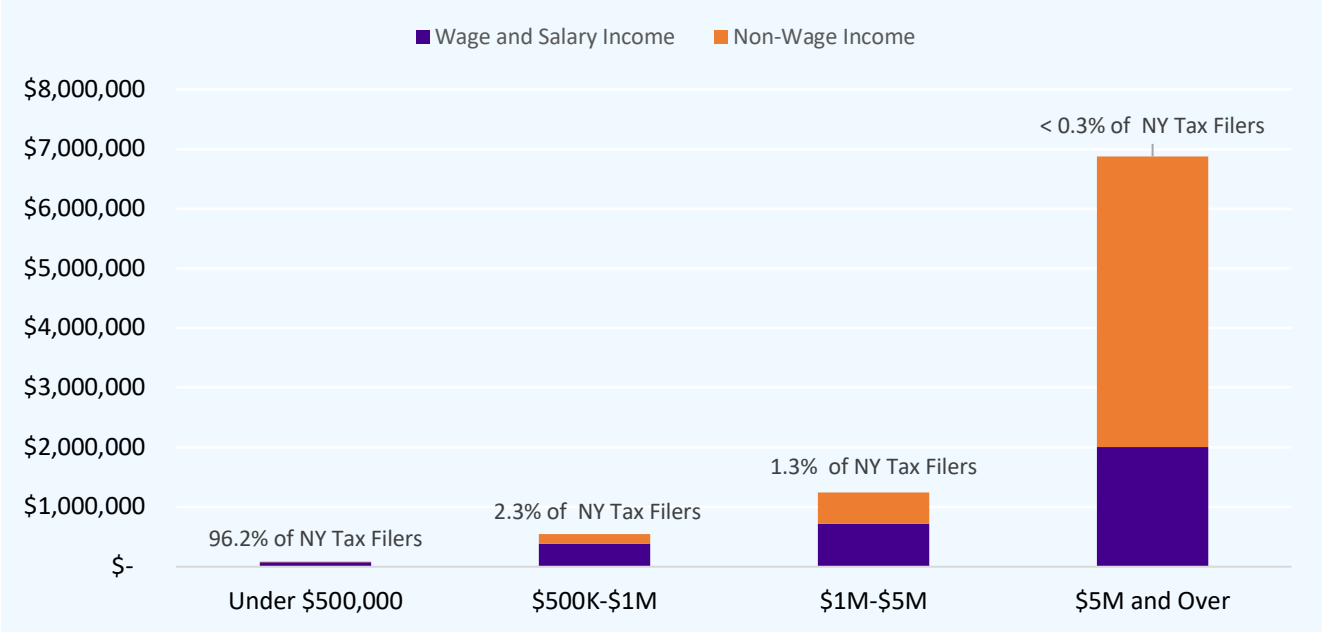
Figure 11. Change in inflation-adjusted income between 2019 and 2023, by income percentile



Source: American Community Survey and CPI-U Northeast.

While those making less than $1 million per year make most of their income through wages and salaries (labor income), those earning more than $1 million per year earn a significant portion of their income through non-labor income, predominantly capital gains. Though 2022 was a poor year for the stocks market, these top earners still earned an average of over $500,000 in capital gains alone. Those making over $5 million annually earned on average almost $5 million in non-wage income alone and $2 million in wage and salary income.

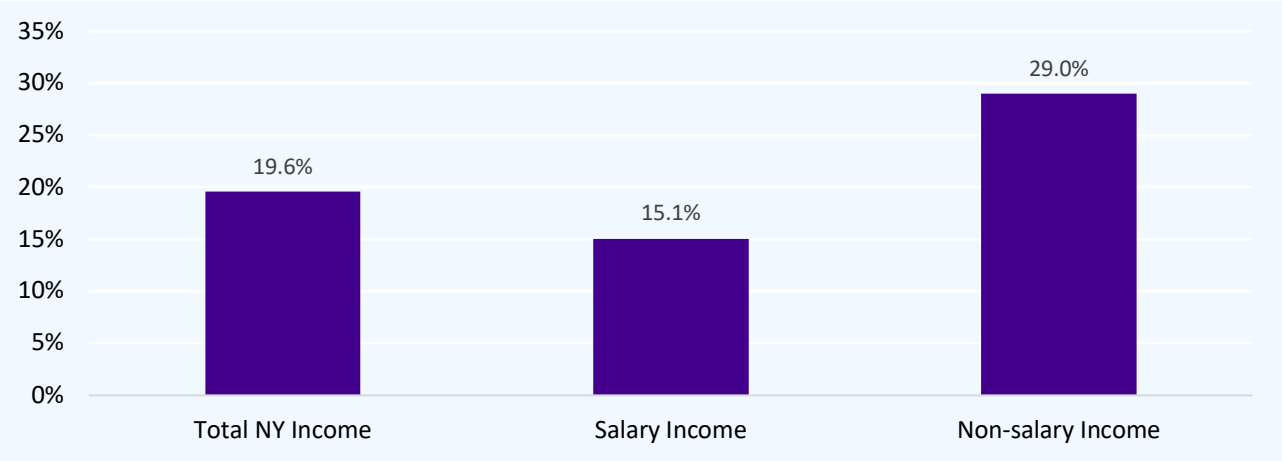
Figure 12. Average NY household annual earnings by type and income group, 2022



Note: Data from the NYS Department of Taxation and Finance, 2022 tax filings.

Growth in non-wage incomes—including capital gains and business income—grew 29 percent between 2019 and 2022 (the most recent year of tax data), while wage and salary incomes grew by only 15 percent over the same period. Because high earners have much more non-wage income, this difference demonstrates how inequality can grow.

Figure 13. New York income growth between 2019 and 2022, by type of income

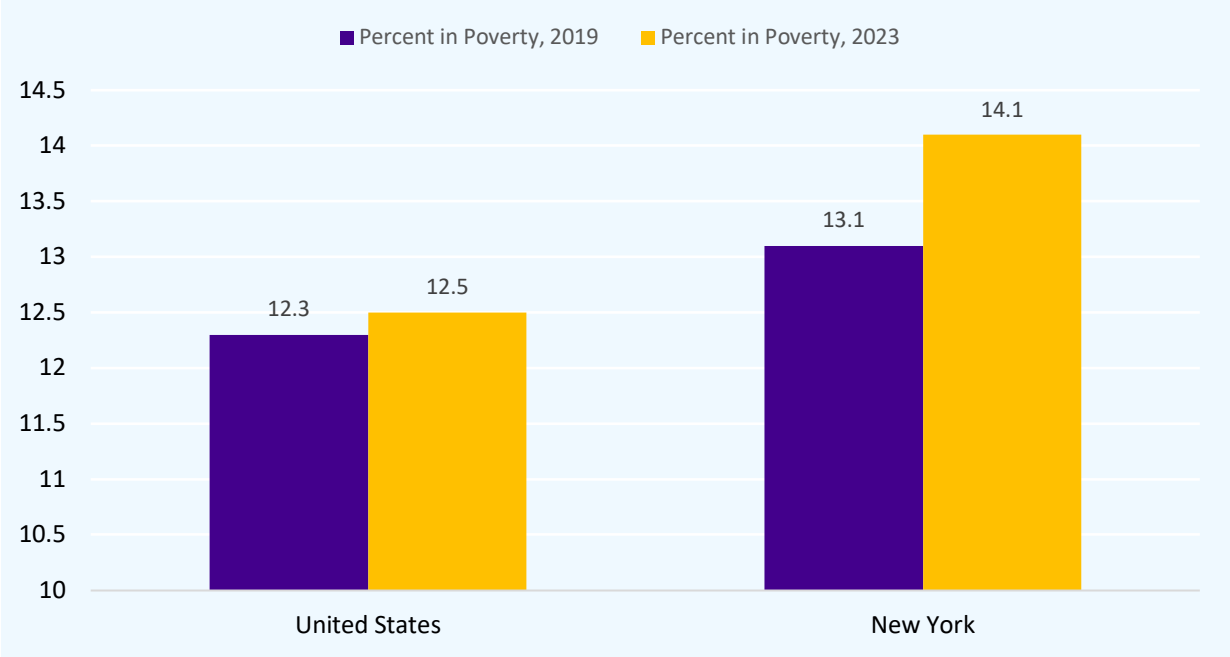


Note: Data from the NYS Department of Taxation and Finance, 2022 tax filings.

New York poverty is climbing faster than US poverty

In 2020, poverty rates hit a 20 year low in New York. However, in the years following the Covid-19 pandemic, New York has seen an increase in poverty that is significantly larger than what has been observed around the country. Whereas the US rate of poverty has risen only marginally from 12.3 percent in 2019 to 12.5 percent in 2023, New York's rate of poverty rose from 13.1 percent in 2019 to 14.1 in 2023, an increase of 7.6 percent. Poverty statistics in New York, while meaningful, also mask the severity of families' cost-of-living concerns since the true cost of living in New York is substantially higher than most other parts of the U.S.

Figure 14. Percent living below the national poverty line.



Note: Data from the U.S. Census Bureau's Small Area Income and Poverty Estimates.

Conclusion

New York's economy has suffered since the pandemic. New Yorkers of all income levels are feeling decreases in spending power as they face an ever-increasing cost of living and relatively low wage growth. From a macroeconomic perspective, New York faces serious impediments to sustained and robust growth that is shared across the income distribution. While this has not shown an impact on State tax revenue, it poses serious challenges for state policymakers who must find ways to address the unsustainable cost-of-living and build buffers against a possible economic downturn caused by the current presidential administration.

In housing policy, the State needs zoning reform that will generate greater supply of housing—both market rate and affordable. Particularly in the suburbs of New York City, adding multi-family housing will alleviate the cost of living for New Yorkers and contribute to overall economic growth of the region. Additionally, direct fiscal investments in the construction of mixed-income housing will promote housing construction, easing the housing affordability crisis. Continuing progress towards universal pre-kindergarten and establishing universal childcare in the State would also contribute significantly to alleviating family budgets, promoting employment, and stimulating economic growth in the State.

[i] Eisner and Perry, 2024, "Who is Leaving New York?" (https://fiscalpolicy.org/new-families-with-young-children-in-search-of-housing-drive-state-population)
[ii] American Community Survey, 2019-2023
[iii] New York State Market Rate Survey (https://ocfs.ny.gov/main/reports/2024-Child-Care-Market-Rate-Survey.pdf)

III. State Tax Policy

Introduction

Tax policy in New York State is full of controversies. The State faces regular fiscal challenges to maintain the integrity of its existing programs in Medicaid, school aid, transportation funding, and other permanent programs, as well as consistent calls from policymakers and advocates across the political spectrum to expand the public provision of affordable housing, childcare, anti-poverty initiatives, and more. Meanwhile, anti-tax advocates argue that state taxes are too high, creating a bad climate for business, and that our state income tax rates motivate the richest New Yorkers to move to other states. State policymakers must find the right balance of tax measures to ensure stable revenue, ensure tax fairness, and promote economic growth and stability.

This year is a particularly sensitive time for policy debates over state tax and revenue measures. The legislature has been handed the task of finding new funding sources for the MTA capital plan while the governor simultaneously pursues tax cuts; federal funding is liable to be reduced by billions of dollars annually, forcing the State to face hard choices between program reductions and tax increases; and all of this is before even reaching the need to *proactively* pursue policy measures to manage affordability challenges for working New Yorkers, which will require substantial new sources of revenue.

Fortunately, as discussed in Chapter 2 of this briefing on the state economy**,** New York's economy continues to grow for the high earners who provide a large share of state tax receipts. Middle-income job growth has fared poorly by contrast, alongside rising poverty and growth in low-wage jobs. These factors indicate that the State has both the opportunity and the need to continue increasing public investment, financed by progressive, broad-based taxation.

This section contains two sections: Part I provides an overview of the highest earning taxpayers in the state, illustrating the strength of the state tax base and why it still makes sense to raise tax rates on the highest earners. Part II analyzes the policy proposals in the executive budget and presents FPI's own recommendations as to sound tax policy options.

Taxes, Top Earners and the Migration Myth

One of the foremost questions on legislators' minds when it comes to tax policy is whether there is room to continue raising tax rates on the highest earners. As this chapter shows, the top 1.5 percent of New York taxpayers have extraordinary earning power and would be minimally impacted by higher tax rates. And the current structure of the state income tax, while progressive, is hardly redistributive (as discussed below). On this basis it appears that there is indeed room for higher and more progressive tax rates. But what is the case against tax increases?

Anti-tax advocates frequently make three arguments against higher, more progressive tax rates: (i) that it is unfair for a small share of the population to shoulder such a large share of the tax burden; (ii) that the State's revenues are unstable due to this reliance on a small share of taxpayers; and (iii) that high earning taxpayers move in response to state income tax rates, further undermining fiscal stability. Each of these arguments is mistaken.

With respect to the fairness concern, the top 1.5 percent of New York taxpayers earn about 30 percent of *all* income earned in the state. Due to modest progressivity in state income tax rates, this population pays about 45 percent of all tax liability (see Figures 1-3 below), a ratio that is still generally proportional to their earning power, and certainly fair in terms of distributing the burden of taxation in accordance with ability to pay—a foundational principle of modern tax policy. Anti-tax advocates typically take advantage of the apparent disproportion between the small size of this population and their share of tax liability, without acknowledging their share of total income.

With respect to the other two common arguments—that relying on a small number of taxpayers for such a large share of State revenue brings about fiscal instability, and that it motivates out-of-state migration—the evidence contradicts these claims.

New York State's millionaire taxpayer population (those earning over $1 million *per year*) is produced by the strength of the New York metro area's economy and the growing number of highly-compensated jobs in sectors such as finance and real estate. Rather than imagining this group as a fixed set of individuals who might move at any time, we rather should see them as a dynamic population produced by the urban economy. In concrete terms, this means that individuals routinely enter and exit the millionaire population—say, a real estate developer's business takes off one year, lifting her into the millionaire taxpayer group, as a partner in an investment bank retires, dropping him out of the millionaire taxpayer group. (The retired banker would still be a millionaire in the sense of having a high net worth, but is no longer earning over a million dollars in *income* and thus is not in the million-dollar tax bracket).

Thus we see in the Chapter 1 of this briefing, that State revenue has steadily risen, especially in response to the 2021 increases in the Corporate Franchise Tax and Personal Income Tax rates, and that the population of millionaire taxpayers has also risen steadily over time. Further, FPI's empirical research on migration patterns shows that the top 1 percent of income earners move less frequently than all other income groups (about ¼ the rate) and does not move in response to tax increases.[1]

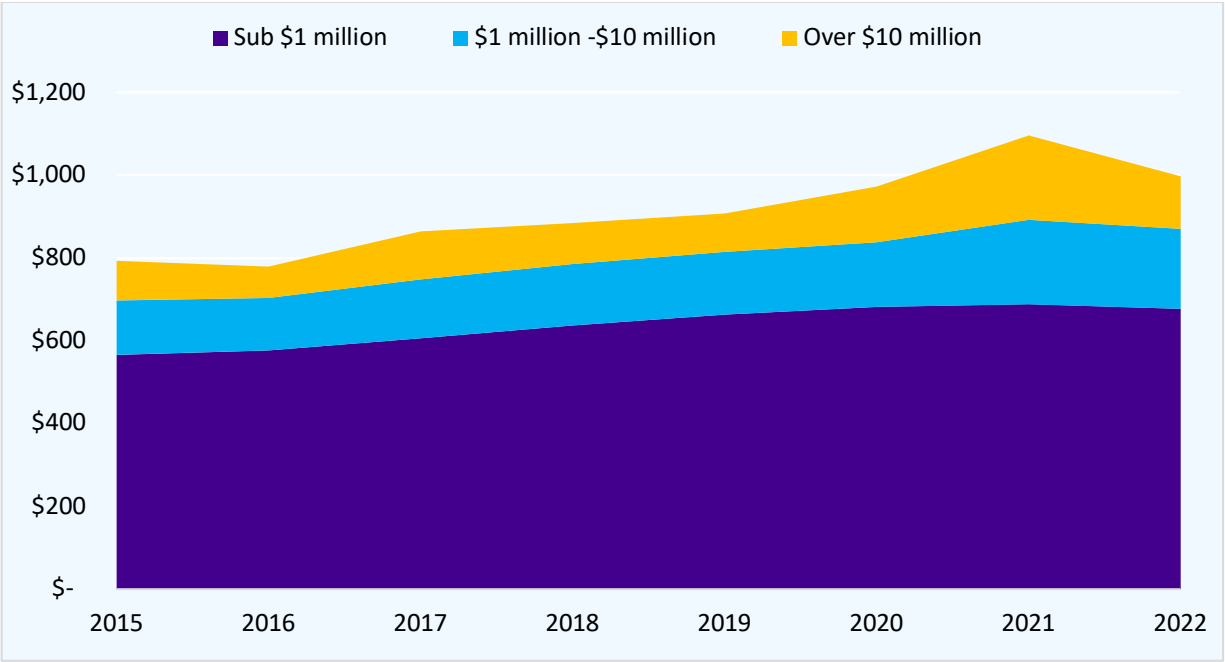
[1] See fiscalpolicy.org/migration

Part I: State Tax Statistics

How much do millionaire taxpayers earn?

Earning power in New York State is highly concentrated in the hands of a small number of taxpayers. Out of a total taxpaying population of about 10.7 million taxpayers (where a taxpayer is a tax filing unit, ranging from a single individual to a married couple with children), just 1.5 percent, or 165,000 taxpayers, earn over $1 million each year (whom we will call "millionaire taxpayers").

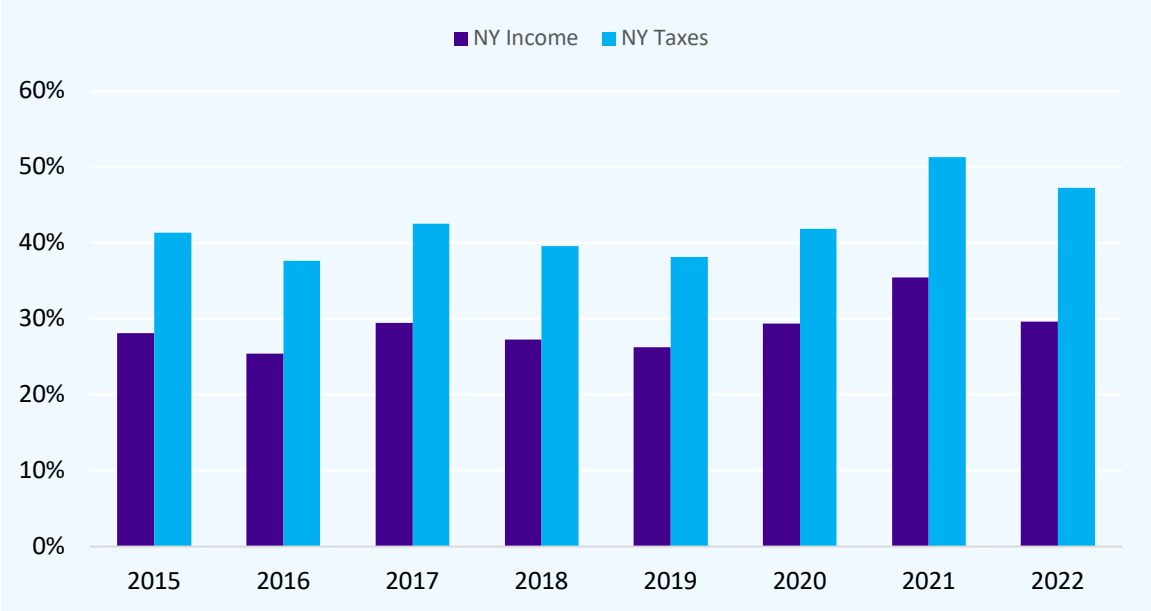
Figure 1. Total taxable income earned in New York State, by household income (billions)



In 2022, the 1.5 percent of millionaire taxpayers earned 30 percent of *all income* earned in New York. That is, 1.5 percent of taxpayers earned $320 billion of the $1.08 trillion in total personal income earned in New York, and have an average income of $1.9 million.

The even smaller population of taxpayers earning over $10 million in annual income, merely 11,600 taxpayers—just 0.1 percent—earned about 12 percent of all income earned in New York State in 2022.

Figure 2. Share of income earned and taxes paid by tax filers earning over $1 million per year



Before 2021, when the State raised tax rates on taxpayers making over $1 million per year, millionaire taxpayers earned a bit less than 30 percent of all income and paid about 40 percent of all tax liability. After the 2021 tax increases on the top Personal Income Tax rates, millionaire taxpayers paid 51 percent of all tax liability for 2021 and 47 percent of all tax liability for 2022. This coincided with stock market growth that brought the millionaire taxpayer share of income to 35 percent in 2021, and down to 30 percent in 2022 (a weak year for the stock market).

This progressivity in the Personal Income Tax is still only minimally redistributive due to the high concertation of earning power in at the top of the income distribution. While millionaire taxpayers earn 30 percent of all income, this population still earns 28.5 percent of all income *after* paying the Personal Income Tax. In other words, the overall distribution of income is essentially unaffected by state tax rates.

Many millionaires live in other states but still pay New York income tax

One important but little understood feature of the Personal Income Tax is the concept of New York "source" income, which refers to income earned from working in New York by non-residents. A New York resident pays tax to New York State on all of their income; a non-resident who lives in another state but works in New York *still pays tax* to New York State, but only on their income earned from working in New York—this would be their "New York source" income.

Many high earners already live in nearby states, but continue to work in New York. In 2022, non-resident paid $8.1 billion in PIT liability, $5.9 billion (73 percent) of which was paid residents of Connecticut and New Jersey.

Figure 3. Share of tax filers in each residency group, by and income level



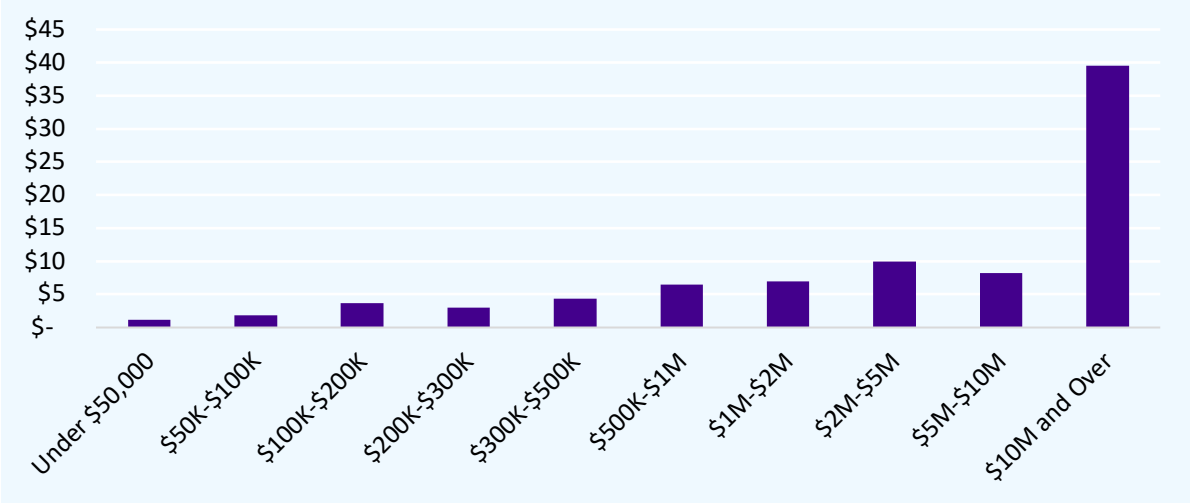
As shown above, there are taxpayers in every income group who live out of state and continue to pay the PIT. But the share of non-resident taxpayers is much larger for the top income groups—57 percent of millionaire taxpayers already live in other states.

Most investment income goes to the top earners

Part of the explanation for the earning power of millionaire taxpayers is that they generally make their income from investing and owning businesses rather than wages and salaries. Many of these taxpayers are owners (typically partners) of investment firms, law firms, consulting firms, or real estate businesses. As shown below, the millionaire taxpayer population predominantly earns business profits and investment income, not wages, and they also take home most of the investment income and business profits earned in the state.

Figure 4. Aggregate capital gains income for New York taxpayers in 2022, by household income

Billions of Dollars ($)



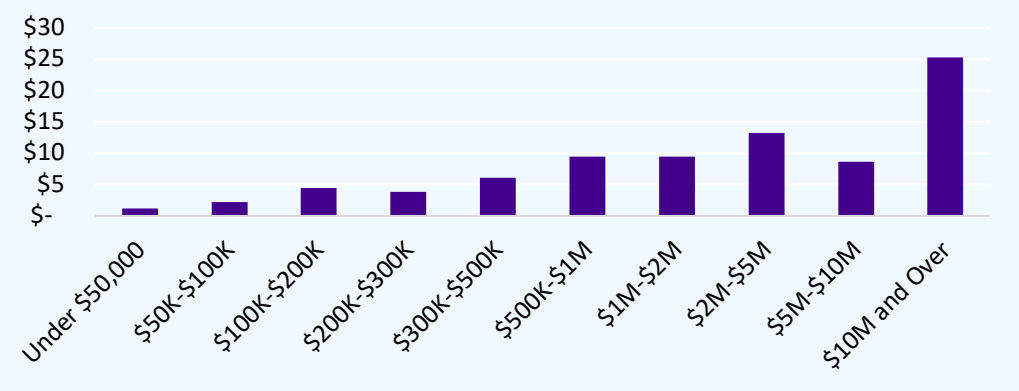
As shown above, 78 percent of all capital gain (income from the sale of investment assets) is earned by millionaire taxpayers, and 53 percent of all capital gain is earned by taxpayers making over $10 million.

Millionaire taxpayers also earn business profits

Similarly, income from business profits is also highly concentrated among the millionaire taxpayer population. This category generally captures income from owning an interest in a partnership, LLC, or S corporation—all of which are businesses that pay no corporate tax. Rather, these are called "pass-through" businesses because business profits are "passed through" to their owners free of corporate tax. Because of the tax benefits of pass-through status, 95 percent of all businesses are organized as pass-throughs rather than corporations.[2,i]

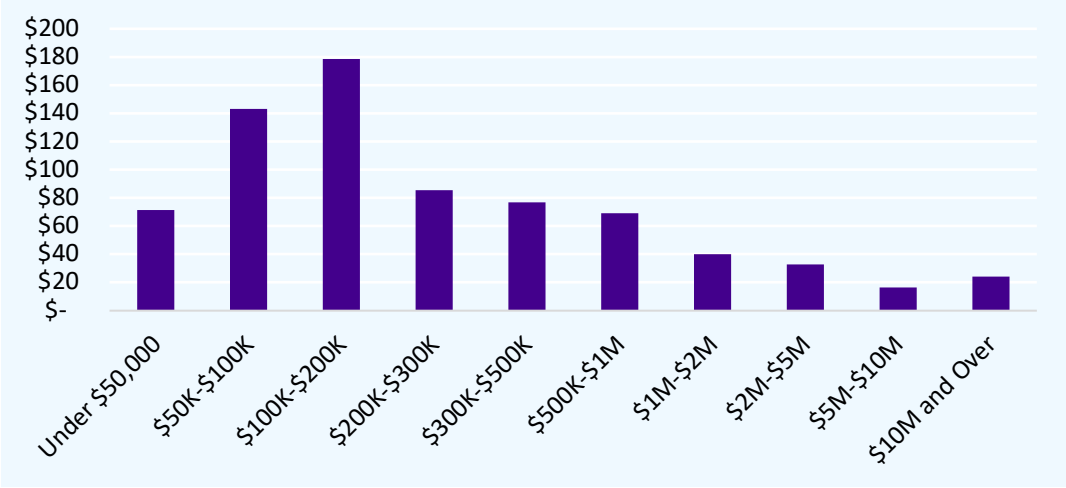
While many lawmakers mistakenly believe that businesses organized as LLCs, partnerships, and S corporations are all small businesses, state tax data show that in fact a large majority of the income earned by these businesses flows to the richest 1.5 percent of taxpayers.

Figure 5. Aggregate income from rents, royalties, partnerships, estates, and trusts for New York taxpayers in 2022, by household income (*Billions of Dollars)*



71 percent of pass-through business profits are earned by millionaire taxpayers. Conversely, millionaire taxpayers early a relatively small share of all wage and salary income earned in New York.

Figure 6. Total aggregate wage and salary income for New York tax filers in 2022, by household income *Billions of dollars*



[2] S corporations are also pass-through businesses, despite technically being a type of corporation.

PART II: POLICY ANALYSIS

The Governor's Agenda: Lost Revenue and Missed Opportunities

The governor's signature policy proposals for fiscal year 2026 are, in principle, focused on increasing affordability—a laudable goal in theory. But the governor's main proposals for achieving affordability are a set of tax cuts, refunds, and credits that—except for the temporary child tax credit expansion—will have negligible benefits for New Yorkers while resulting in permanent revenue losses.

The executive budget's most fiscally significant affordability proposals consist of: (1) an "inflation refund" of $3 billion; (2) an income tax cut for households making up to $323,000 dollars that will cost over $1 billion annually; and (3) an expanded child tax credit. This section details numerous policy problems with the governor's proposals; most notably, however, **the executive budget proposes a tax cut while forcing the legislature to look for new revenue sources to fund the MTA**.

Additionally, while the executive budget extends current Personal Income Tax rates, it plans for a corporate tax cut in 2026 at a cost of $1 billion annually. Combined with the executive budget's income tax cut, the State is looking at over $2 billion in lost revenue per year, an amount which will grow over time. This is also approximately the annual revenue needed to fund the MTA capital plan, indicating a troubling dynamic in which the legislature is compelled to find new sources of revenue to cover the cost of tax cuts, rather than to finance new public investment.

Inflation Refund: A missed opportunity to invest $3 billion

The governor's proposal for an "inflation refund" would send one-time payments of $500 to joint filers making up to $300,000, and $300 to single filers making up to $150,000 per year. In total, the payments would go to about 8.6 million households (93 percent of households) and would cost the State $3 billion. The cost of the inflation refund is covered by the fiscal year 2025 surplus of $3.5 billion.

This policy will do little to alleviate the stresses imposed by inflation and other cost-of-living increases, in part because it is spread over so many households, and in part because it does not make any permanent policy changes. The median renter household in New York saw an increase in rent of almost $250 *per month* between 2020 and 2023—such that the annual expense for the median renter increased by $3,000 from rent alone. A policy of this nature—sending modest checks to many people—could also have the adverse impact of actually *increasing* price inflation, and acting more as a stimulus policy than as a measure to reduce cost pressures. If implemented, the policy could easily backfire, increasing prices rather than easing household finances.

Even if the State is committed to spending its surplus for this fiscal year on a one-off project, there are superior alternatives to simply mailing out checks to 93 percent of households. For instance, it would be more productive to make a multi-billion dollar investment in public financing for mixed-income housing. A revolving loan fund capitalized with $3 billion could feasibly be used to produce 45,000 additional units of housing every five years. Or, these funds could be used to pay down part of the State's $6 billion unemployment insurance trust fund debt to the federal government, a necessary prerequisite to increasing benefits.

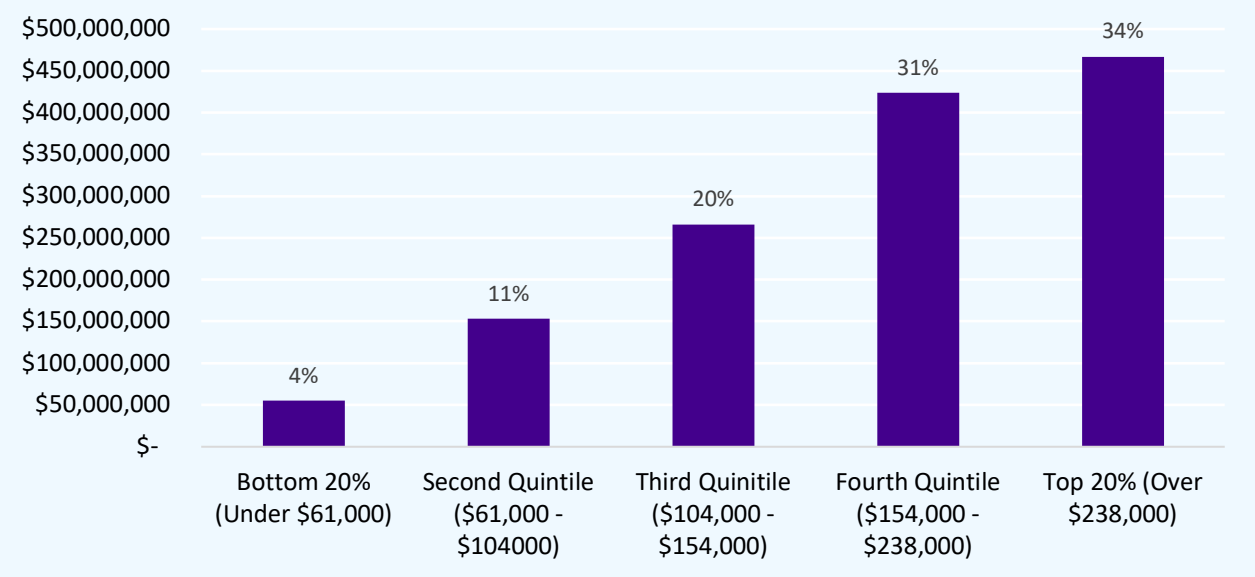
Tax Cut: $15 per month for a middle class family

In addition to the inflation refund, the governor has proposed a "middle class" tax cut—which in practice would mostly be an upper-middle class tax cut. The proposal would reduce the Personal Income Tax rate for households making up to $323,200 per year (for joint filers) by 0.2 percentage points, at an estimated cost to the State of $1 billion. The proposal is problematic in policy terms because it results in substantial and permanent revenue loss while providing a negligible benefit. Tax cuts are generally ineffective policy measures that ironically illustrate the power of public finance. A few dollars collected from millions of taxpayers provides *billions* of dollars for the State to invest in essential public services that will not otherwise be provided by the private sector, such as the subway or public education. Conversely, when the State spends $1 billion on a tax cut—which sounds like a substantial sum to most voters—virtually no one notices the impact on their paycheck because the effect is so small.

The governor's proposed tax cut also follows a larger permanent tax cut for this same population—households making up to $323,000—that was enacted in the fiscal year 2017 budget and fully phased in by fiscal year 2024, estimated to cost $4.2 billion per year in 2025. The governor's proposal would bring the combined revenue lost to these tax cuts to over $5 billion annually, continuing the unfortunate logic of undermining the State's ability to sustain its public services for the sake of low-impact policy initiatives that will soon be forgotten.

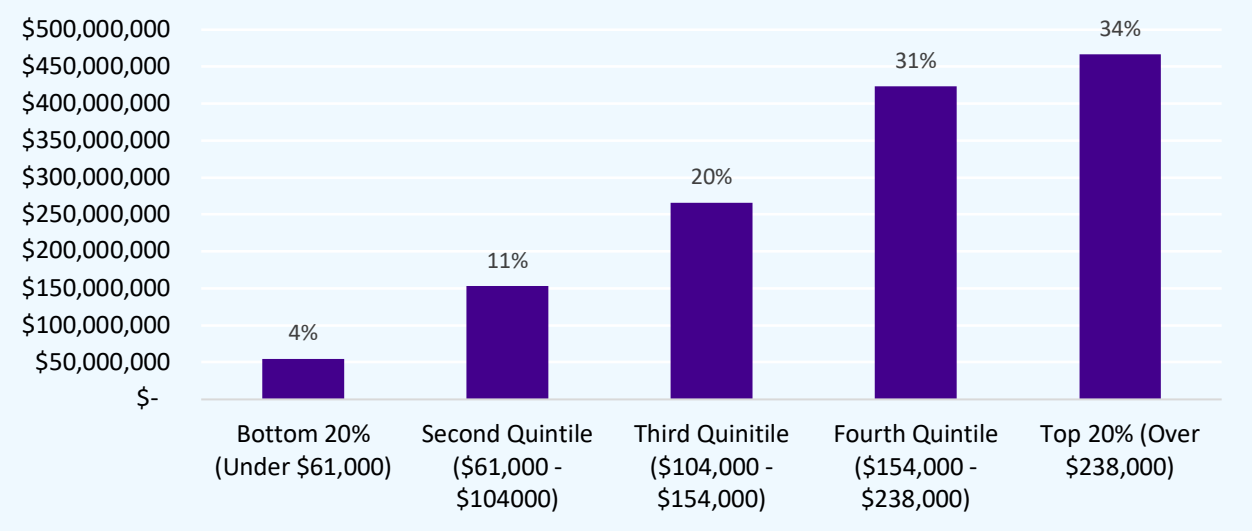
As shown below, truly middle class households (households concentrated around the median income of about $80,000) in New York will receive negligible benefit of just about $15 each month. Higher income households will receive a larger benefit, although one that will also go unnoticed—just $50 per month for a family making $300,000.

Figure 7. Annual benefit of proposed tax cut for New York households (by income group)



These distributive dynamics also entail that most of the cost of the tax cut will benefit higher income households. 65 percent of the $1 billion spent on the tax cut would benefit the top 40 percent of households, who earn more than $150,000. Just 35 percent of the tax cost would benefit the bottom 60 percent of taxpayers.

Figure 8. Share of total tax cost (by income group)



Empire State Child Credit: A Temporary Expansion

New York's Empire State Child Credit (ESCC) is a tax credit for low- and middle-income families with children younger than 17, modeled on the federal Child Tax Credit (CTC). The executive budget proposes a temporary expansion of the ESCC, that would phase-in in 2025 and only remain in full effect for two years before reverting to the current structure.

The ESCC supplements the federal CTC, providing a tax credit equal to 33 percent of a taxpayer's federal CTC, with a maximum benefit of $330 per child per year.[3] Following the federal structure, the ESCC provides no benefits to families with income below $3,000. Above this income threshold, the benefit phases-in, reaching its $330 maximum for families with income of $10,000. The credit then begins to phase out for families with income above $110,000 (if married and filing jointly) and $75,000 for single filers.

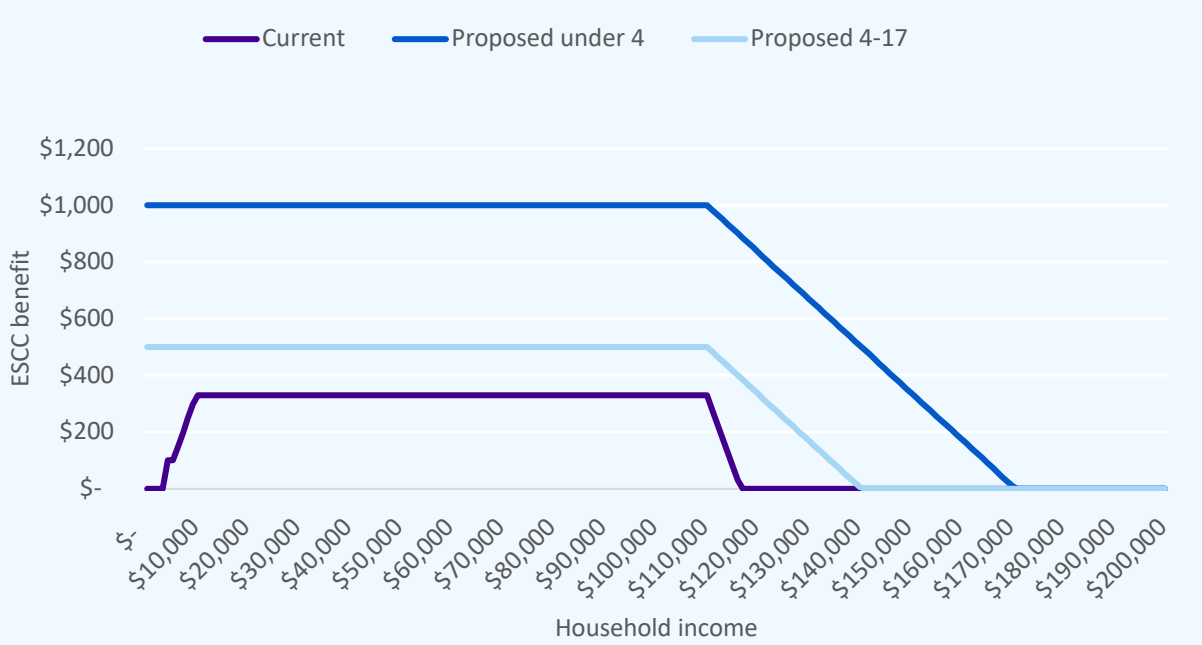
The executive budget's temporary expansion of ESCC benefits consists of three changes:

- The proposal would raise the maximum benefit to $1,000 for children under 4 years old and $500 for children between 4 and 17 years old.
- The proposal would eliminate the phase-in, delivering the maximum benefit to families with no or extremely low income.
- Third, the enhanced benefits would begin phasing out at the same income thresholds as the current law, but at a lower rate. The higher benefit levels and slower phase out rate mean that credits will reach higher income families than the current ESCC.

The expanded ESCC would deliver new benefits to very low income and upper middle-income families, while raising the benefit level for all current recipients. Benefits would be broadly raised for all but the top 20 percent of New York earners.

[3] New York's ESCC is tied to the federal CTC as structured prior to the 2017 Tax Cut and Jobs Act (TCJA). The TJCA enhances CTC benefits between 2018 and 2025, after which it is set to expire.

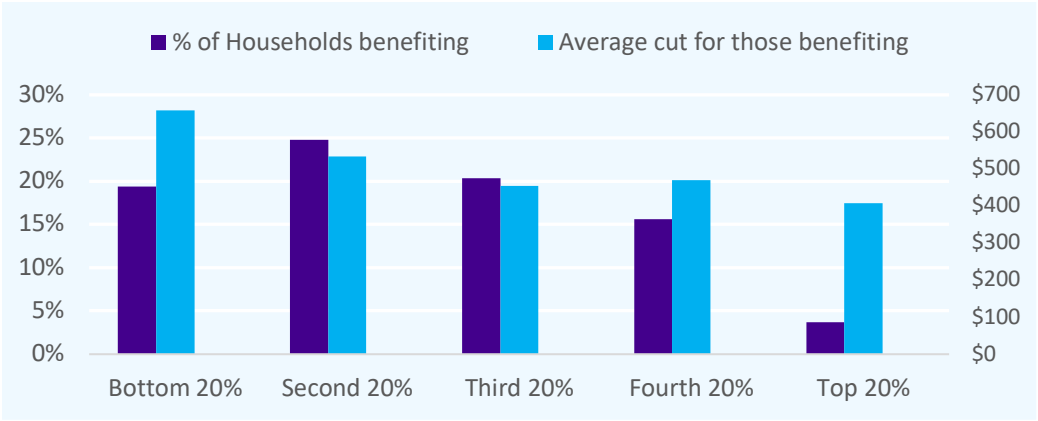
Figure 9. ESCC benefit per child under current structure and proposed enhancements for married, joint filers



Under the executive budget proposal, the enhanced ESCC benefits would only be in full effect for two years. In 2025, the proposal would enhance benefits only for children under four. Both age group enhancements would be in effect for 2026 and 2027, before reverting to the current structure.

The elimination of the low income phase-in would make the ESCC enhancement especially beneficial to the bottom 20 percent of earners. The average benefit of the enhancement for these households receiving the ESCC would be $658. For all other ESCC beneficiaries, the average enhancement would be $459.

Figure 10. Distribution of ESCC enhancement benefits by income group



Source: Institute for Taxation and Economic Policy

In 2021, the Governor established the Child Poverty Reduction Advisory Council (CPRAC), which was tasked with studying and making recommendations to reduce child poverty by 50 percent in New York State. In its December 2024 progress report, CPRAC made a series of recommendations, which included expanding the ESCC and other state funded public assistance programs.[4]

CPRAC's 2024 report included three options for enhancing ESCC. The Governor's proposal is slightly more limited than the least ambitious of CPRAC's three recommendations, which would raise the maximum ESCC benefit to $1,000 for children under 6 and $500 for children over 6. The Governor's proposal adopts those maximum benefits, but narrows eligibility to children aged 0-3. The executive budget proposal follows the CPRAC recommendation to eliminate the low-income phase-in of ESCC benefits.

CPRAC's most ambitious of its three ESCC proposals would increase the maximum benefit to $2,000 and $1,500, respectively, for children under and over six. The smallest proposal would cut child poverty by 9.7 percent, while the most ambitious would cut it by 25.5 percent, according to CPRAC estimates.[5]

Table 1. Comparison of current ESCC, proposal, and Child Poverty Task Force recommendation

	Current	CPRAC recommendation	Executive proposal
Low-income phase in	Follows federal; excludes very low income	Eliminate phase-in	Eliminates phase-in
High-income phase out	Follows federal structure	Follows federal structure	Lowers phase out rate; greater benefits for higher earners
Maximum benefit	$330	$1,000-$2,000 for under 6; $500-$1,500 for 6+	$1,000 for under 4; $500 for 4+
Time in effect	Permanent	Permanent	Two years

[4] https://otda.ny.gov/news/meetings/CPRAC/2024-12-18/attachments/2024-12-18-CPRAC-2024-Recommendations-and-Progress-Report.pdf
[5] https://otda.ny.gov/news/meetings/CPRAC/2024-12-18/attachments/2024-12-18-CPRAC-2024-Recommendations-and-Progress-Report.pdf

Other Tax Policy in the Executive Budget

Beyond the governor's affordability initiatives, the most important tax policy decisions in the executive budget are (1) extending the current PIT rates on high earners and (2) allowing the current corporate tax rate to expire in 2026. The State has routinely adopted the fiscally unsound practice of enacting "temporary" tax increases that do not support temporary spending—and therefore are not in any meaningful sense temporary—unless they are allowed to "expire" at the cost of significant cuts to the public sector. These temporary tax rates should be properly understood as tax increases accompanied by planned tax cuts.

Extending Top Personal Income Tax Rates

New York State Personal Income Tax (PIT) rates were raised in 2021 for single filers with incomes over $1.08 million and joint filers with incomes over $2.15 million dollars. Previously all taxpayers in these income ranges paid the same top rate of 8.82 percent. As of 2021, the State raise PIT rates on taxpayers in these brackets, with new brackets and rates for taxpayers earning over $5 million and $25 (regardless of filing status). These tax rates were enacted as temporary increases, set to expire in 2027. The executive budget maintains their temporary status but proposes extending the top rates through 2032.

These top PIT rates are estimated to raise $3.6 billion annually. Even though they were enacted as temporary rates, the revenue raised from these tax increases supports recurring operating expenses, not temporary expenses. Consequently, the State is obligated to make these rates permanent unless it is willing to impose $3.6 billion in cuts to programs and services.

Table 2. Current Top PIT Rates

Pre-2021 Rates				Current Rates			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$215,400	6.85%	$323,200	6.85%	$215,400	6.85%	$323,200	6.85%
$1.08M	8.82%	$2.15M	8.85%	$1.08M	9.65%	$2.15M	9.65%
				$5M	10.3%	$5M	10.3%
				$25M	10.8%	$25M	10.8%

A Planned Corporate Tax Cut in 2026

In addition to raising PIT rates in 2021, the State also created a new top tax rate for the Corporate Franchise Tax. Whereas previously all corporations had paid a tax rate of 6.5 percent on profits from doing business in New York State, the 2021 tax increases created a new top rate of 7.25 percent on corporations with over $5 million in profits. This higher CFT rate was, like the PIT rates, enacted as a temporary rate due to expire in 2023, and then subsequently extended through 2026.

FPI estimates that this top rate raises $950 million per year. As recurring revenue that supports normal operating expenses, the State cannot responsibly plan to allow a planned corporate tax cut.

Progressive Revenue Options: The Personal Income Tax

The Personal Income Tax (PIT) is the most important source of revenue for the State, accounting for nearly $80 billion of tax collections. And in light of the earning power and wealth of New York's millionaire taxpayer population discussed in section I of this chapter, there is still significant room to increase the tax rates on the highest earners and raise new revenue.

The conventional objection to further increasing top tax rates is that this will motivate tax flight, or "tax migration," by top earners searching for lower state income tax rates. Prior FPI research has refuted these arguments (see here and here), showing that the top 1 percent of income earners generally move at much lower rates than all other income groups, that they do not move in response to tax increases, and that when they do move out of state they most often move to other states with similar tax profiles.[2]

Increasing progressivity in the income tax

The current top PIT rates, which apply to single filers making over $1.08 million and joint filers making over $2.15 million, were enacted in 2021 and are set to expire in calendar year 2027, but would be extended through calendar year 2032 by the executive budget for fiscal year 2026.

New York's top rates are imposed on an unusual and peculiar bracket structure. Unlike peer states New Jersey and California, which impose their top tax rate on a general million-dollar bracket, New York State created a $5 million and $25 million tax bracket. There is no particular reason of either fairness or fiscal stability for distinguishing among taxpayers who make millions of dollars per year, and the State would be wise to consolidate these top brackets. One negative effect of the State's bracket structure is that it invites policymakers to consider raising the income tax rate on just a few thousand taxpayers making *multi*-million-dollar incomes, when both revenue needs and tax fairness dictate that all high earners should pay high rates.

Table 3. Top state tax rates for married filers

State	Top Tax Bracket	Top Tax Rate
New York	$ 25M	10.9%
California	$ 1.4M	13.3%
New Jersey	$ 1M	10.75%
Hawaii	$ 200,000	11.0%

Option 1: Combine brackets of all taxpayers earning over $1 million per year at top rate

Simply consolidating the top brackets into a single millionaire bracket with the current top rate would raise over $2 billion annually.

Table 4. Combine millionaire tax brackets

Additional Revenue: $2.1 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$1.08M	9.65%	$2.15M	9.65%	$1.08M	10.9%	$2.15M	10.9%
$5M	10.3%	$5M	10.3%	$5M	10.9%	$5M	10.9%
$25M	10.9%	$25M	10.9%	$25M	10.9%	$25M	10.9%

Tax increases should not necessarily be *limited* to the millionaire taxpayer population. While it has become something of a taboo in state policy discourse to propose tax increases on anyone making under $1 million, it must be recognized that many sub-millionaire households are still in the economic elite.

Option 2: Increase rates by 1 percentage point, starting at upper-middle class brackets

An across the board rate increase of 1 percentage point for all households in the top 8 percent of taxpayers—those making over $323,300 for a married couple (or $215,400 for a single filer) would raise $5.4 billion.

Table 5. Increase rates by 1 percentage points on the top 8 percent of households

Revenue: $5.4 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$215,400	6.85%	$323,200	6.85%	$215,400	7.85%	$323,200	7.85%
$1.08M	9.65%	$2.15M	9.65%	$1.08M	10.65%	$2.15M	10.65%
$5M	10.3%	$5M	10.3%	$5M	11.3%	$5M	11.3%
$25M	10.9%	$25M	10.9%	$25M	11.9%	$25M	11.9%

Option 3: Increase overall progressivity

A more significant change to the PIT would be to significantly increase the overall progressivity by raising top tax rates by multiple percentage points and adding a tax increase on single filers making over $500,000 and married couples making over 750,000.

Table 6. Raise top tax rates & increase progressivity throughout income distribution

Revenue: $7.6 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$215,400	6.85%	$323,200	6.85%	$215,400	6.85%	$323,200	6.85%
				$500,000	8.85%	$750,000	8.85%
$1.08M	9.65%	$2.15M	9.65%	$1.08M	11%	$1.5M	11%
				$2M	12.0%	$3M	12.0%
$5M	10.3%	$5M	10.3%	$5M	13.0%	$5M	13.0%
$25M	10.9%	$25M	10.9%	$25M	14.0%	$25M	14.0%

Option 4: Invest in Our New York Proposal (A.1281/S.1622)

Finally, we estimate the revenue from the legislative package supported by the "Invest in Our New York" coalition, which has numerous supporters in the Assembly and Senate, at $21.1 billion per year. The proposed rate schedules are below.

Table 7. Significantly increase rates and overall progressivity

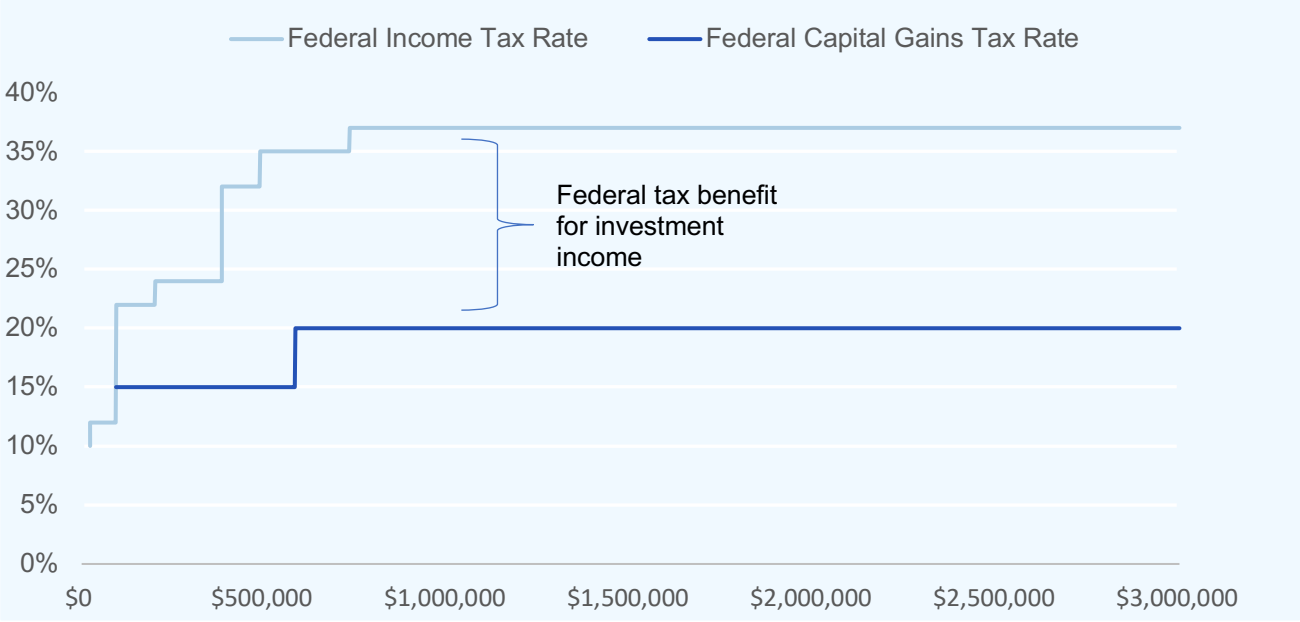
Revenue: $21.1 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$215,400	6.85%	$323,200	6.85%	$215,400	6.85%	$323,200	6.85%
				$450,000	7.50%	$500,000	7.50%
				$600,000	8.00%	700,000	8.00%
				$700,000	8.50%		
				$800,000	9.00%	900,000	9.00%
				$900,000	10.00%		
$1.08M	9.65%	$2.15M	9.65%	$1M	11.00%	$1M	10.00%
				$2M	12.00%	$2M	12.00%
				$3M	14.00%	$3M	14.00%
				$4M	16.00%	$4M	16.00%
$5M	10.3%	$5M	10.3%	$5M	18.00%	$5M	18.00%
				$10M	20.00%	$10M	20.00%
				$15M	22.00%	$15M	22.00%
$25M	10.9%	$25M	10.9%	$20M	24.00%	$20M	24.00%

Taxing Investment Income

The tax law treats individual income as falling into one of two categories: (i) ordinary income, which includes salaries, wages, and bonuses (among others) and (ii) capital gain, which generally includes income from investments. Individuals who earn capital gains benefit from lower federal income tax rates.[6] While the top U.S. federal income tax rate is 37 percent for a married couple filing jointly with earnings over $730,000, the top long-term capital gains rate is 20 percent for a married couple earning over $583,000.

Figure 11. Capital gains tax benefit (federal)



As shown above (Figure 12), nearly all income from investing (capital gain) is earned by the top taxpayers—with 84 percent going to those making over $500,000, just 3.5 percent of taxpayers. And over 50 percent of all capital gain is earned by the 0.1 percent of taxpayers making over $10 million per year.

[6] The preferential federal income tax rates apply to long-term capital gains and qualified dividends. For the sake of simplicity, this chapter refers to these types of income simply as "capital gains".

A tax of just a few percentage points on these top income groups would raise billions of dollars annually (as modeled below). Or, as has been proposed by some state legislators, the state could entirely offset the lower federal tax rate on capital gains with a high surtax of 15 percent, leading to a far higher revenue yield.

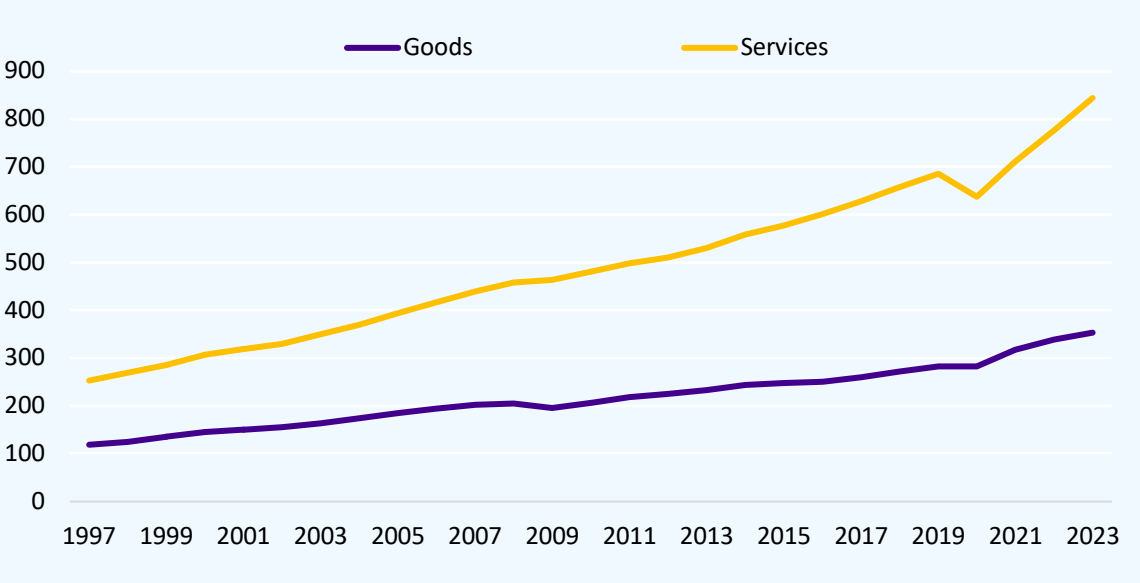
Table 8. Revenue estimates for capital gains surtaxes

Proposal	Income			Total Revenue
	< $500,000	$500,000-$1,000,000	> $1,000,000	
Low Surtax	0%	1%	2%	$1.9 billion
Moderate Surtax	0%	2%	4%	$3.9 billion
Highest Surtax	0%	7.5%	15%	$14.5 billion

Extending the Sales Tax to Services

The sales tax is almost exclusively imposed upon consumer purchases of goods. As shown below, services are a much larger component of total consumer expenditures in New York. Many countries impose a sales tax (in the form of a Value Added Tax) on both goods and services, as this broader tax base can finance expansive social spending programs. A truly broad-based sales tax on services could raise $7-8 billion for each percentage point of the tax.

Figure 12. Consumer expenditures in New York *(Billions of dollars)*



Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures

Taxing Business Profits

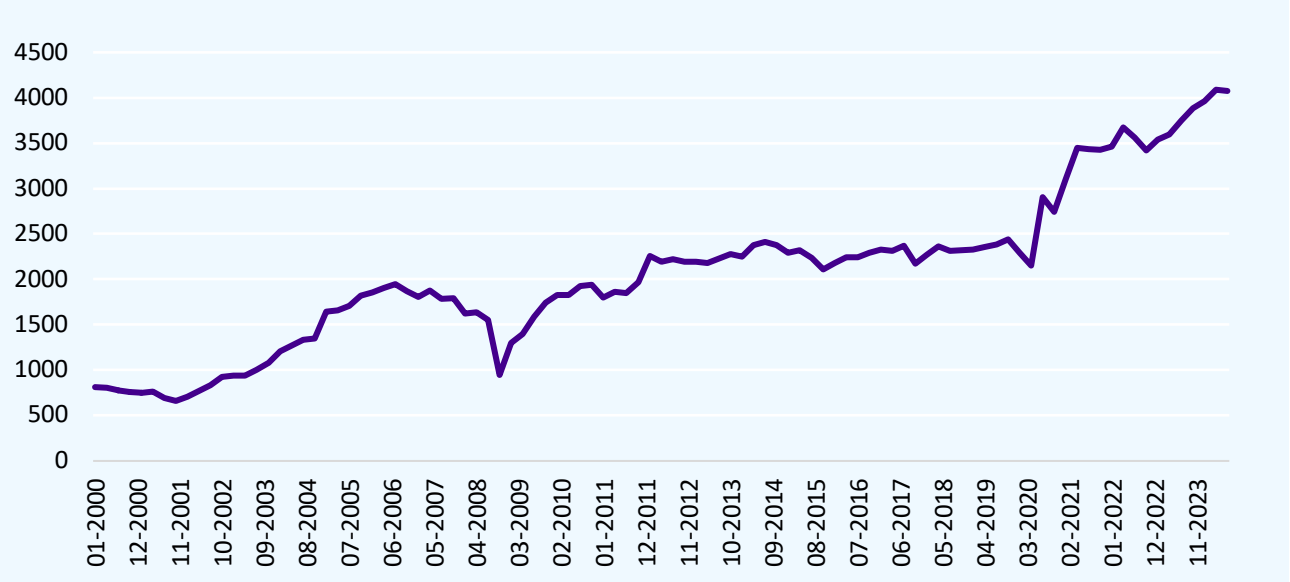
Taxing business profits generally must take the form of either a tax on corporate income or a tax on the income of non-corporate businesses such as partnerships, LLCs, and S corporations ("pass-through businesses"). As discussed in Part I (Figure 6 above), most of the profits earned by owners of pass-through businesses goes to millionaire taxpayers, not small businesses as is often believed. Extending the current corporate tax to all pass-through businesses could raise $8-9 billion annually.

The State already imposes a tax on corporate profits—the Corporate Franchise Tax (CFT). As with all state corporate income taxes, the tax is "apportioned" based on the share of the corporation's profits that are attributable to their business activities in the state. That is, a corporation doing business in both New York and New Jersey is not subject to tax by both states on *all* of its profits. Instead, each state is only entitled to tax its fair share of the corporation's profits, determined under a scheme that approximates the profit attributable to business activities within that state. In New York, the formula is based exclusively on a corporation's sales into the state. This is known as the single sales factor apportionment. Before 2015 the formula included other factors, but was changed to ensure that corporations would have no incentive to move their offices or operations for tax reasons. Moreover, this change to the corporate tax shifts more of the burden to out-of-state corporations.

In other words, contrary to the common belief that corporations are taxed based on the location of their headquarters, the location of a corporation's offices or employees *does not matter* and the CFT rate creates *no incentive* for corporations to relocate. In order to reduce its CFT liability, a corporation would have to decrease its sales in New York State and therefore reduce its profits by more than it would save on taxes.

Corporate profits have risen dramatically since prior to the pandemic, as shown below.

Figure 13. Corporate profits pre-tax in the U.S. *(Billions of dollars)*



Source: U.S. Bureau of Economic Analysis, National income: Corporate profits before tax (without IVA and CCAdj)

The current top CFT rate is 7.25 percent, imposed only on corporations with over $5 million in profits. This rate is set to expire in calendar year 2026, leading to an annual expected revenue loss of about $1 billion.

Making the CFT rate of 7.25 percent permanent would yield another $950 million dollars. Further increases, shown below, could yield substantial additional revenue.

Table 9. Revenue raised under various corporate tax scenarios *(Millions of dollars)*

Tax Rate	Revenue Raised
6.50%	$ 8,300
7.25%	+ $ 950
10.00%	+ $ 4,500
20.50%	+ $ 17,500

[i] Prisinzano et al., 2016. https://home.treasury.gov/system/files/131/TP4-Update.pdf.
[2] Eisner and Perry, "Who is Leaving New York State?" Fiscal Policy Institute (2023).

IV. Labor and Workforce Policy in New York

Overview

- New York's post-pandemic labor market recovery has resulted in concerning shifts in the overall composition of jobs for New Yorkers:
  - A dramatic decline in the number of "middle-wage" jobs;
  - Growth in high-wage jobs in the finance and technology sector; and
  - Growth in low-wage jobs, alongside a reallocation of low-wage jobs out of retail and food services and into home healthcare (and other low-wage care work).
- Over the past four decades, union membership has perpetually fallen. As of 2024, only 11% of workers in New York are represented by a union, about the same share as is covered in the entire United States.
- New York's public sector workforce has been on the decline since the early 1990s and continued to decline over the past five years.
  - Within public administration, jobs were primarily lost in legislative bodies, correctional institutions, and police forces, and the administration of public assistance and social welfare.

Introduction

New York's workforce is the engine of the State's economy, making New York one of the most industrious, creative, and productive places in the world. However, as discussed in detail in the Chapter 2 of this briefing, the State Economic Outlook, New York employment has only just barely recovered to pre-pandemic levels, lagging the recovery seen in the rest of the country.

What's more, New York's recovery has seen a major shake-up in the types of jobs performed by New Yorkers. Middle class jobs are on the decline alongside growth in both high-wage and low-wage work. Within the low-wage sector, large declines in retail, food services and accommodations have been matched by growth in low-wage care work such as home healthcare and personal care. These changes continue the long-run trend of widening inequality and decreased economic mobility.

The public sector workforce in New York has also been on the decline. Over the past five years, State employment and local government employment have both seen dips, with the majority of job loss concentrated in "Public Administration," an industry that includes the executive and legislative branches of government, the justice system and public safety, and administrators of public services, safety net programs, and economic programs.

Alongside all these changes, union representation is at an all-time low in the State, with just 11 percent of workers covered by union membership. This comes at the same time that favorability of unions is at a fifty-year high, begging the question of why unions have not been able to reverse their long-run decline in membership.

Labor policy in the State has not been central to the budget negotiations thus far. One key policy issue that has been central is ongoing concerns about the status of the healthcare workforce in the State, which has been an ongoing issue since before the pandemic, but got more extreme when the Covid-19 pandemic reduced the size of the workforce further, driving up labor costs for hospitals who sought out expensive temporary workers. The executive budget makes a major proposal intended to increase the size of the healthcare workforce in the State. The executive budget also includes legislation to improve enforcement of wage theft penalties and legislation to improve enforcement in child labor law.

This chapter will 1) describe the changes in the New York labor market over the past 5 years, 2) explore the changes to the public sector workforce over the past 5 years, and 3) discuss the executive budget proposals that directly impact the State's workforce.

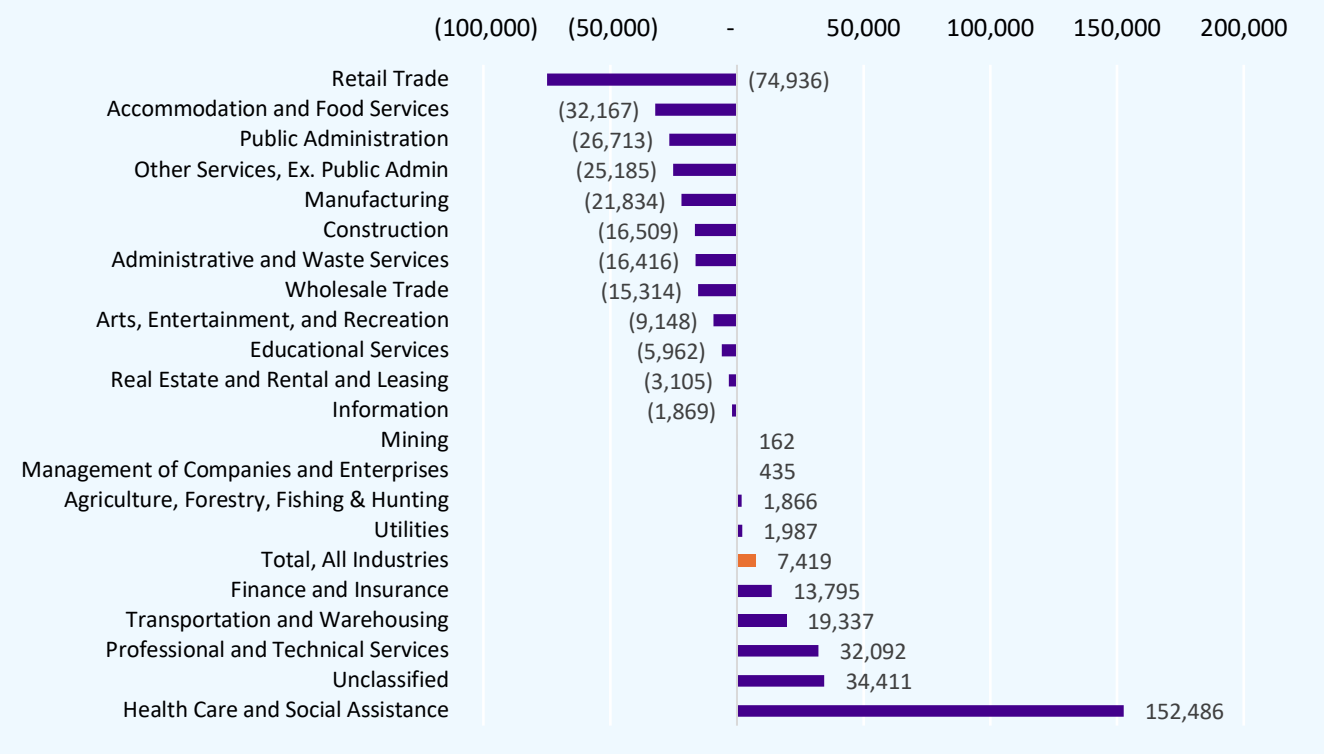
New York's Labor Market: Declining Middle-Class Jobs, Growth in Low-Wage Healthcare and Social Assistance

New York State's labor market has seen a dramatic upheaval over the past five years, stemming from the pandemic-driven decline in employment in 2020, reallocation of which industries are most productive in New York, and shifts in the dynamics of work. While the state economy has recovered to its pre-pandemic level of employment, it still lags behind the national economy overall, and the recovery has resulted in concerning shifts in the overall composition of jobs for New Yorkers:

1) A dramatic decline in the number of "middle-wage" jobs;
2) Growth in high-wage jobs in the finance and technology sector; and
3) Growth in low-wage jobs, alongside a reallocation of low-wage jobs out of retail and food services and into home healthcare (and other low-wage care work).

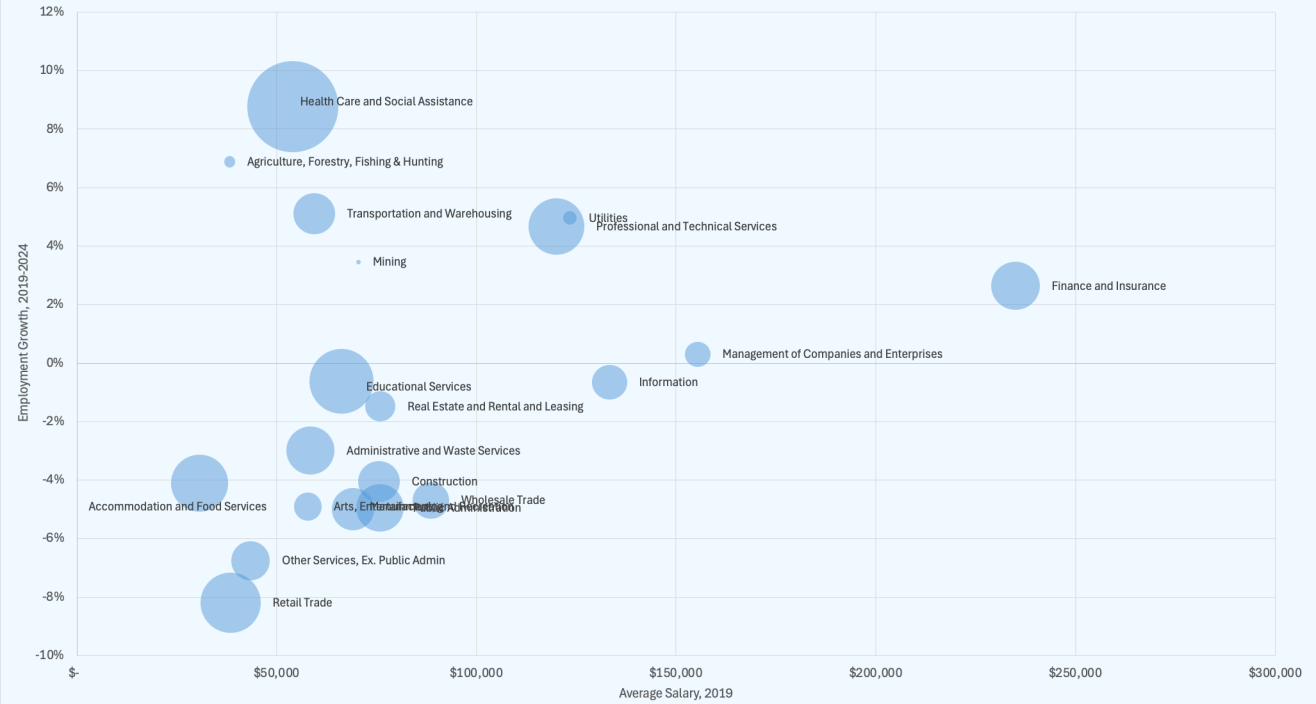
These three changes have contributed to rising inequality in the State, increased poverty, and a rising cost of living. They also indicate a worrying decline in economic mobility and opportunity, due primarily to the loss of middle-wage jobs and a long-run decline in unionization.

Figure 1. Change in employment by industry between 2019 and 2024.



Note: Data from the Quarterly Census of Employment and Wages.

Figure 2. Change in employment between 2019 and 2024 vs. average annual earnings in 2019, by industry.



Note: Data from the Quarterly Census of Employment and Wages. Bubble area is proportional to the size of the respective workforce in 2024.

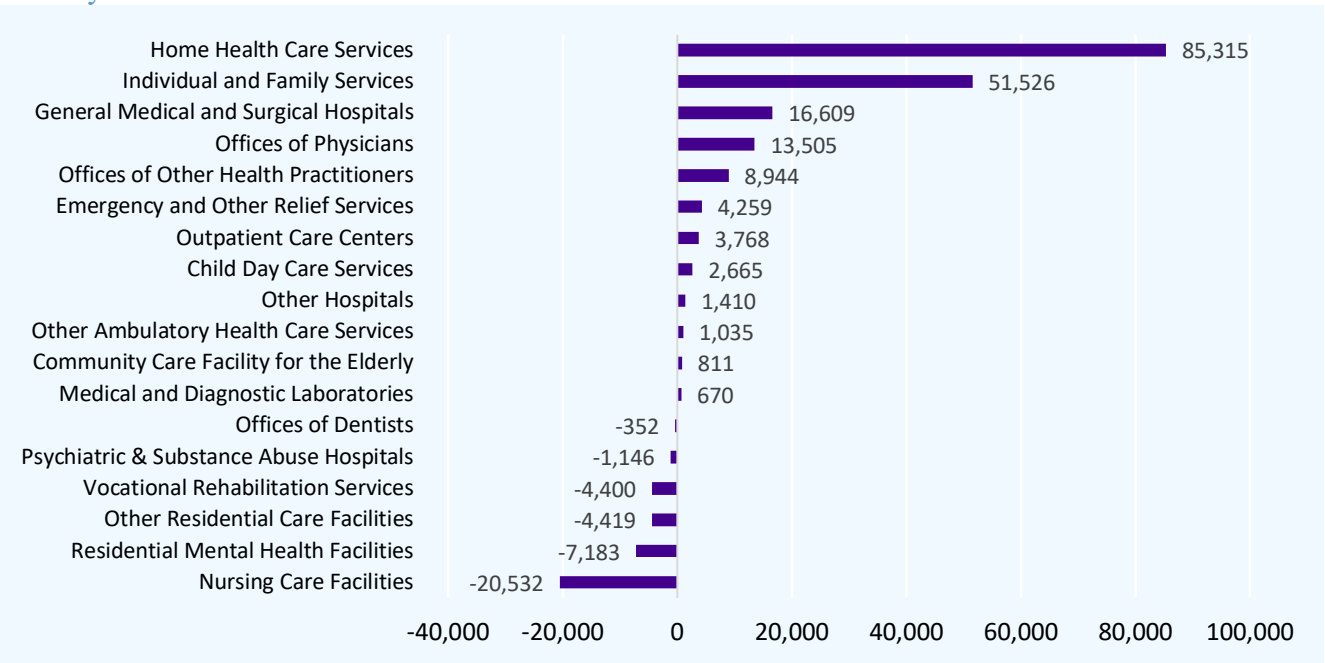
Upheaval in low-wage work

Perhaps the most striking feature of the churn of the last five years in New York's labor force is the massive reallocation within the low wage sectors. The sector that saw *by far* the largest employment growth over 2019-2024 was "Healthcare and Social Assistance," which saw an increase in employment of over 150,000 jobs.

Healthcare and Social Assistance includes hospitals, offices of physicians and other healthcare providers, home health care, mental and behavioral care, family services, and childcare. There are many occupations in this industry with wide ranging earning potential. However, looking more closely at the changes within these "sub-industries," we see that the vast majority of growth in the sector is among low-wage jobs, primarily home healthcare.

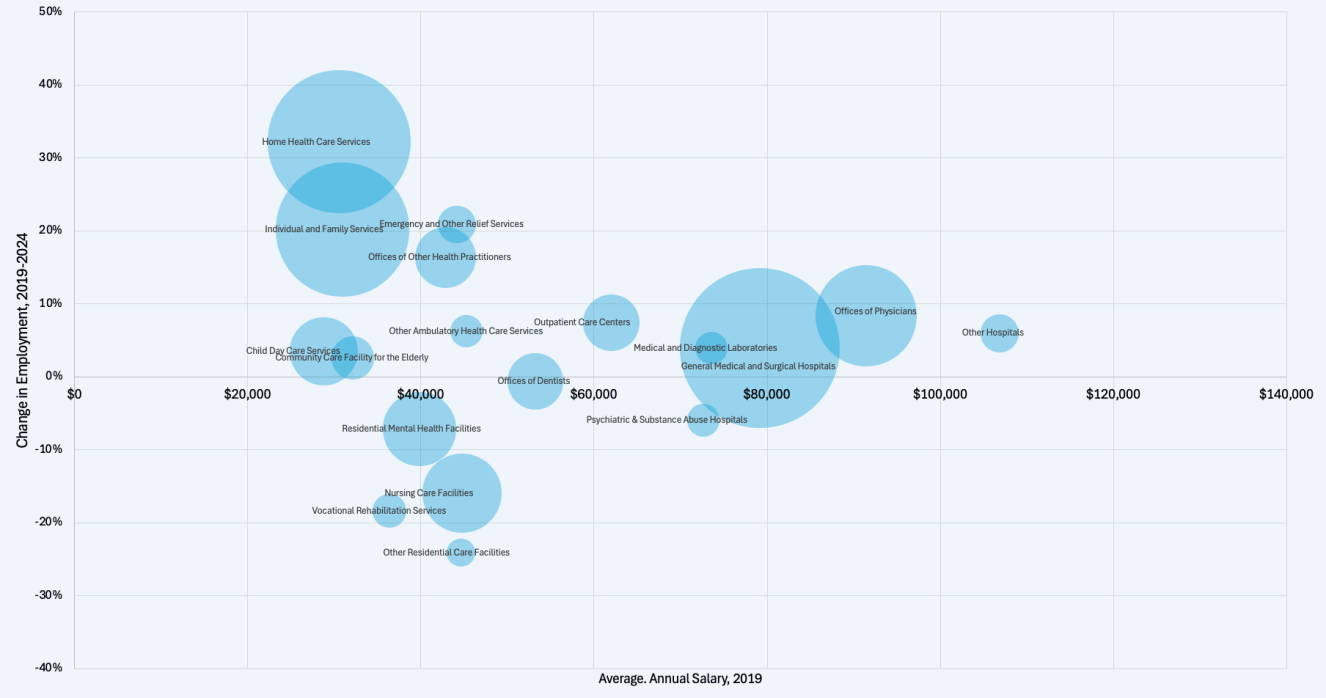
The industry with the greatest employment loss in the State was retail trade, which lost almost 75,000 jobs in New York between 2019 and 2024 as consumers have increased their online shopping. Accommodation and food services also all lost over 20,000 jobs over the past five years. These low-wage sectors saw major declines in employment opportunities in the State. Overall, the slack in these labor markets was met by the large growth in the low-wage home healthcare industry and by some more moderate growth in Transportation and Warehousing.

Figure 3. Employment change in the healthcare and social assistance industry over 2019-2024, by sub-industry.



Note: Data from the Quarterly Census of Employment and Wages.

Figure 4. Employment Growth vs. Average Salary for sub-industries in the Healthcare and Social Services sector, 2019-2024



Note: Data from the Quarterly Census of Employment and Wages. Bubble area is proportional to the size of the respective workforce in 2024.

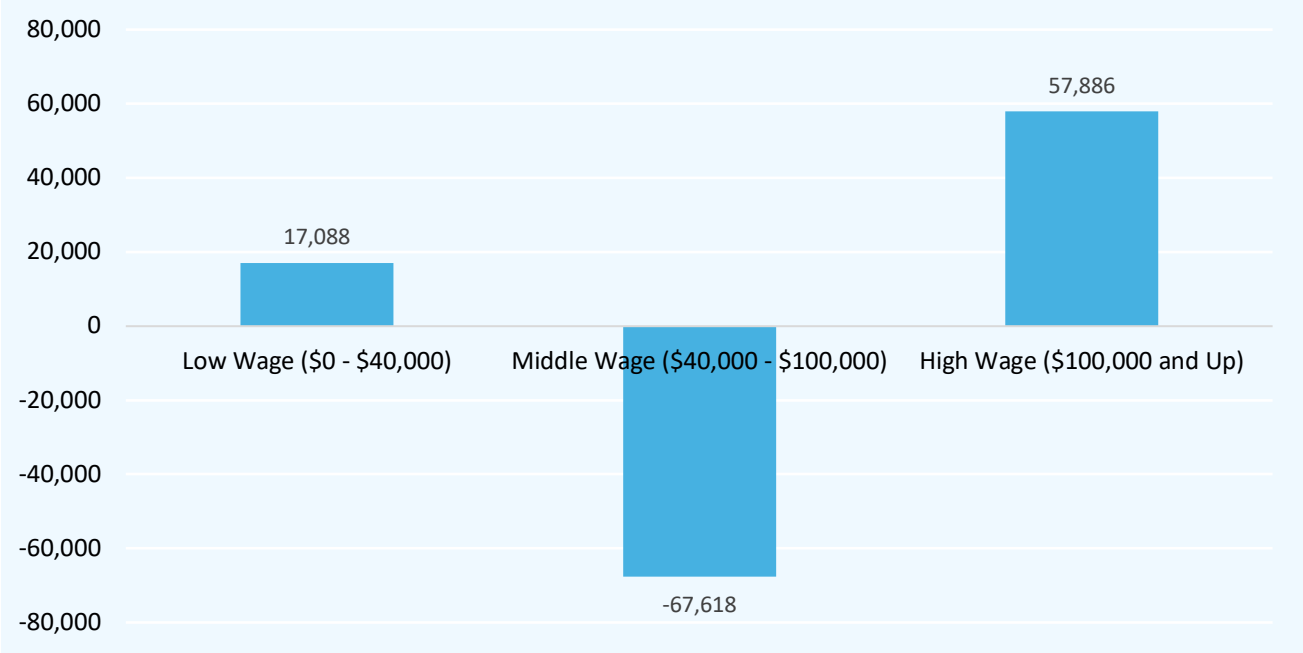
Decline in middle-wage jobs and growth in high-wage jobs

While data by major sector (as is shown in figure 6) tell us how the labor market and economy are changing, as we saw with Healthcare and Social Assistance, we need to look at employment at the sub-industry level to see how jobs are changing by wage-class. When we sort sub-industry employment into three wage groups—low-wage, middle-wage, and high-wage—we see that over 2019-2024 the majority of employment growth in New York has been in sub-industries with high average wages (over $100,000 per year in 2019) and the vast concentration of employment losses in the State has been in industries with middle-class wages (between $40,000 and $100,000 per year in 2019).

Middle-wage jobs are essential to the ability of people to move out of low-wage work and into more professionalized and upwardly-mobile jobs. There was a net decrease of about 68,000 jobs in middle wage sub-industries (those earning between $40,000 and $100,000 annually in 2019). The decline in middle-wage jobs reflects the long-run decline of these types of jobs all over the United States.

New York has added nearly 60,000 jobs in high-wage industries over the past five years. New York added over 30,000 jobs in the "Professional and Technical Services" sector, which includes the digital technology industry, and is generally a high earning sector. The "Finance and Insurance" sector also added almost 14,000 jobs and is very high paying industry.

Figure 5. Employment change over 2019-2024, by average income of sub-industry.



Note: Data from the Quarterly Census of Employment and Wages. Industries (using 4-digit NAICS) were grouped by average 2019 annual earnings.

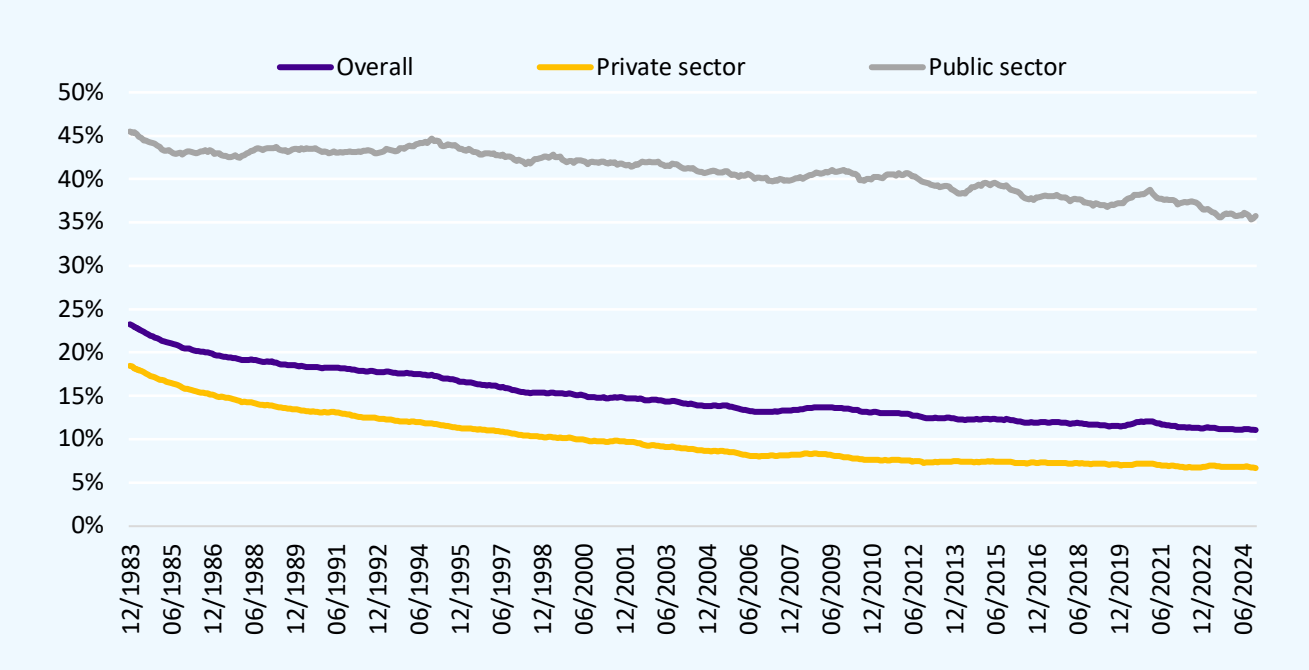
The significant upheaval in the State's labor force—the shift away from retail trade, growth in low-wage healthcare, and the increasing presence of the high-paying technology sector—demonstrate the declining opportunity for social mobility that has been a long run trend both in the State and around the country. Jobs with middle-class earning potential have been dwindling, leaving little opportunity for an individual to build savings and establish economic security. Simultaneously, growth in high-wage industries like finance and technology generate economic activity but also put price pressure on the local economy—particularly driving up the cost of housing—and exacerbate inequality.

Long-run decline in union representation

Another impediment to shared prosperity and economic security for the New York workforce is the long-run decline in union representation. In 1983, about 22.5 percent of the New York workforce was represented by a union. That included about 45 percent of the public sector workforce and 18 percent of the private sector workforce. Over the past four decades, union membership has perpetually fallen. As of 2024, only 11% of workers in New York are represented by a union, about the same share as is covered in the entire United States. The public sector workforce in New York is still much more likely to be represented by a union, with 35 percent of public sector workers and just 6.5% of private sector workers. However, even the public sector has seen major declines in unionization over recent decades.

According to polling, favorability of unions is at a fifty-year high, with about 67 percent of polled individuals approving of labor unions.[i] This is after an all-time low in union approval was reached in 2009, when only 48 percent of polled individuals approved of unions. However, despite the strengthened approval, New York has yet to see a reversal in the long-term decline of labor union representation in the State.

Figure 6. Share of New York workers represented by a union



Source: Economic Policy Institute, State of Working America Data Library

New York's Public Sector Workforce

New York's public sector workforce has been on the decline since the early 1990s and continued to decline over the past five years. Public sector employment in local government has not seen the same long-run decline as the New York State workforce, however, it did see an acute loss of employment during the Covid-19 pandemic, and has yet to fully recover to pre-pandemic levels.

Figure 7. New York state government employment 1990-2023 (thousands of people)

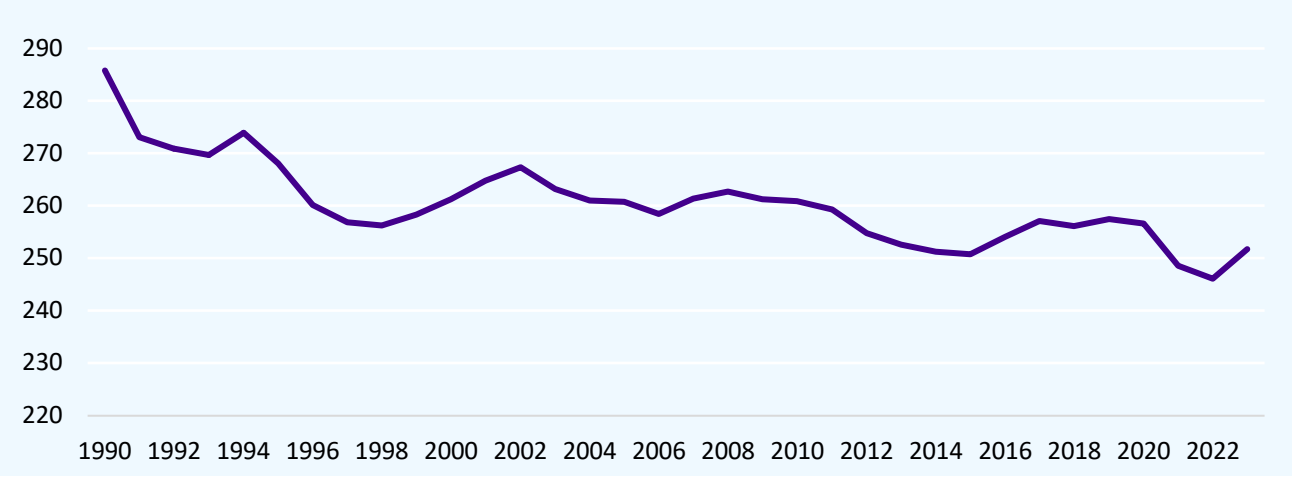
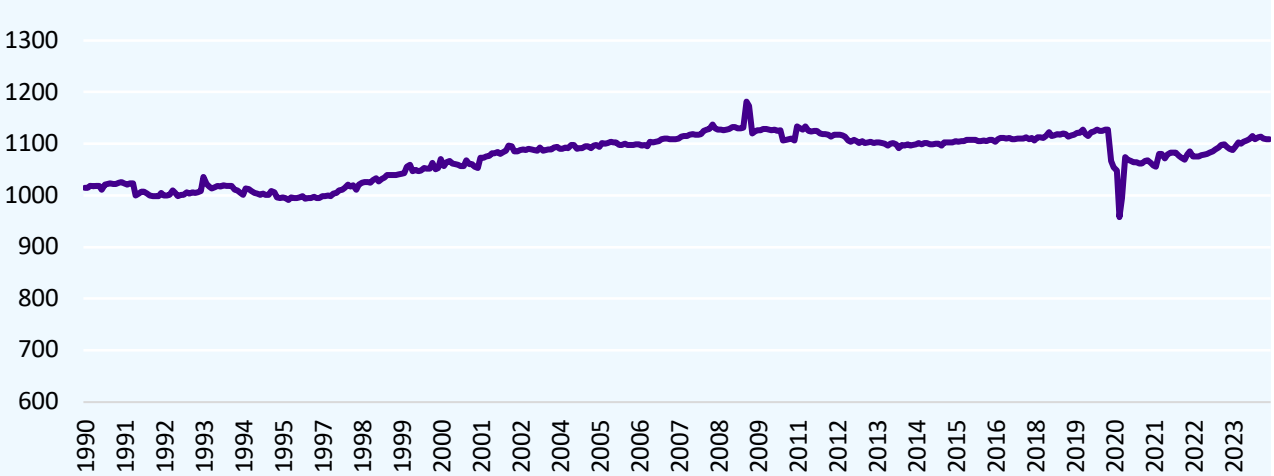


Figure 8. New York local government employment 1990-2023 (thousands of people)

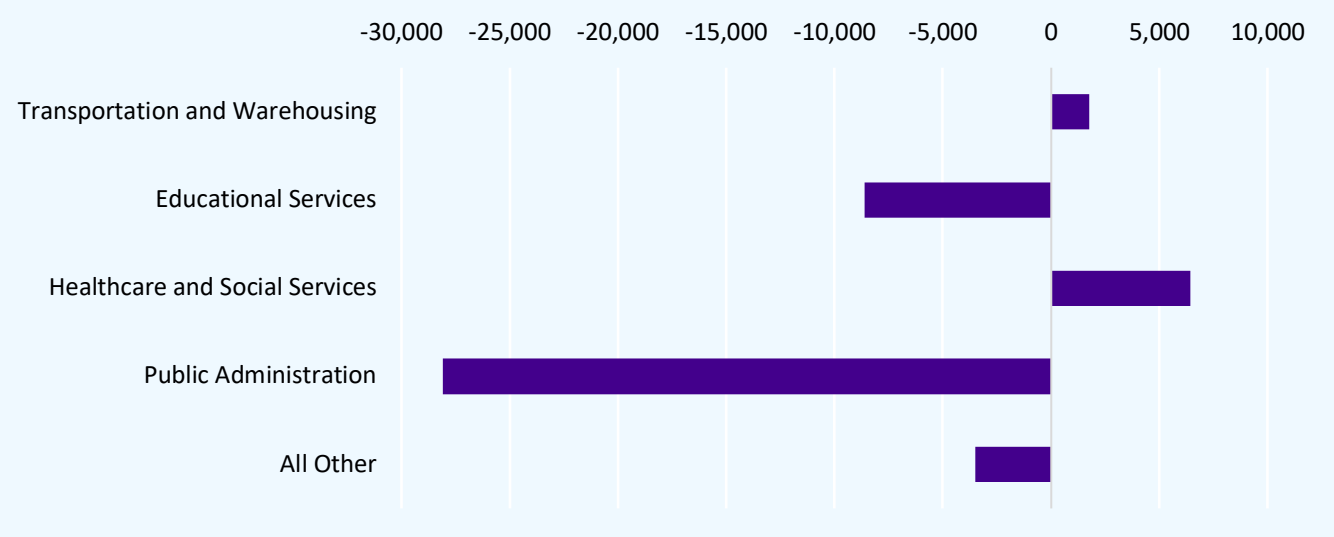


The declines of the past five years are concentrated in state and local public administration—the sector that includes the executive and legislative branches, the judiciary, public safety, and human services. Public administration in state and local government saw a five-year decline of over 28,000 jobs (6%). To a lesser degree, there has been a decline in employment of teachers and other workers in public sector education—a loss of 8,600 jobs, or 1% of that workforce. Healthcare and Social Services and Transportation and Warehousing—too other major industries that include public sector workers—saw growth in their public sector workforce, but at a pace slower than the respective industry's growth in the private sector.

Table 1. New York state and local public sector employment 2019-2024

	2019	2024	Change	% Change	% Change in Private Sector
Transportation and Warehousing	67,024	68,781	1,757	3%	7%
Educational Services	604,436	595,820	(8,616)	-1%	1%
Healthcare and Social Services	96,311	102,731	6,420	7%	9%
Public Administration	492,767	464,690	(28,078)	-6%	NA
All Other	45,800	42,290	(3,510)	-8%	-2%

Figure 9. New York state and local public sector employment change, 2019-2024



Within public administration, jobs were primarily lost in legislative bodies, correctional institutions, and police forces, and the administration of public assistance and social welfare. In terms of the legislative bodies, between 2019 and 2024 there was a decline of about 6,500 jobs (4%) in local legislative bodies and a decline of about 300 jobs (10%) in state-level legislative bodies. Within the Justice, Public Order, and Safety Activities sub-industry, there was a decline of about 10,600 jobs in correctional institutions (25%) and decline in the police protection workforce by 4,700 workers (7%). In the administration of human services, the State has seen a decline of about 3,200 people in the workforce associated with the administration of Social Security, disability insurance, Medicare, unemployment insurance, and workers' compensation (7%). The State government also saw a decline of nearly 700 jobs in Public Finance Activities (8%). Tribal Governments also saw a decline of about 300 jobs (14%).

Table 2. New York state and local public administration employment 2019-2024

	2019	2024	2019-2024 Change	2019-2024 % Change	Contribution to total change
Executive, Legislative, & General Government	212,202	203,370	(8,832)	-4%	31%
Justice, Public Order, and Safety Activities	154,013	138,046	(15,967)	-10%	57%
Administration of Human Resource Programs	47,033	43,857	(3,176)	-7%	11%
Administration of Environmental Programs	34,633	33,689	(944)	-3%	3%
Community and Housing Program Admin	12,821	13,582	761	6%	-3%
Administration of Economic Programs	31,628	31,742	114	0%	0%

Executive Budget Proposals

This year's executive budget makes some progress on enforcing laws against wage theft and child labor, but does not address the full scope of labor needs in the State. This section summarizes labor and workforce policy included in the executive budget.

Expand Department of Labor Enforcement Power for Wage Theft (ELFA, part V)

In 2023, Governor Hochul signed legislation that modified the penal law of New York to make wage theft a form of larceny (S2832-A/A154-A). The legislation also gave prosecutors authority to pursue more severe criminal penalties against employers who commit wage theft. In this year's executive budget, the Governor proposes modifying state labor law to expand the power of the Commissioner of Labor and county sheriffs in the enforcement of wage theft law and in the collection of funds to compensate workers that have been the victims of wage theft.

Rationalize Child Labor Penalties (ELFA, part W)

The executive budget proposes updating the current state law to increase the penalties for employers who violate child labor law. The new law increases the maximum penalty for a first violation from $1,000 to $10,000 and the maximum penalty for a second violation from $2,000 to $30,000, and sets a minimum penalty for the second violation of $2,000. Any subsequent violations are updated to have a minimum penalty of $10,000 (up from $0) and a maximum penalty of $75,000 (up from $3,000). These penalty amounts are all higher if a minor is seriously injured while working for an employer. Further, a person is deemed guilty of criminally negligent homicide of a child worker if a child under 18 dies in the course of employment.

Scope of practice and nurse licensure compact (HMH, part W)

The executive budget proposes adding a new section to the State's education law that would establish a "Nurse Licensure Compact." The Nurse Licensure Compact has long been floated as a solution for the State's healthcare workforce woes. However, the complicated legislation could have major implications both for the wages and job security of healthcare providers in the State, as well as the quality of care provided. For further discussion of these changes, please see the Healthcare chapter (7) of this briefing.

"Targeted inflationary increase" to mental health providers (HMH, part FF)

Discussed in the Mental Hygiene section of the Healthcare chapter (7) in this briefing.

Eliminate outdated barriers in public safety recruitment (PPGG, part C)

This proposal eliminates the requirement of living in the state for those who work as correctional officers or at correctional facilities in New York. The proposal likely results from the acute decline seen in this workforce over the past five years. The proposed bill also increases the retirement age for correctional officers from 60 to 63. This provision is motivated by a desire to increase the size of this workforce.

Create safer workplaces for survivors of gender-based violence (PPGG, part J)

The governor proposes that all state agencies formulate and issue gender-based violence policies. State agencies will also be required to have a domestic violence agency liaison who will monitor compliance at the agency. All organizations and companies that submit bids to any competitive bidding process with the State must also have a gender-based violence policy in effect, under penalty of perjury.

Reforms to Workers Compensation (PPGG, parts AA-DD)

The executive budget proposes allowing medical residents and fellows to provide care to workers compensation claimants. The proposed legislation also adapts the insurance law and payment policy for healthcare provided to workers compensation claimants so that claimants are not burdened with unnecessary payments.

Conclusion

The New York workforce suffers from underinvestment and an erosion of middle-class jobs. Two contributing factors are the long-term decline in unionization as well as the long-term decline in the State's public sector workforce. In the absence of policy to support the expansion of unions and invest in public services and State infrastructure, New York's economy is at risk of failing to provide economic opportunity and mobility to those looking to create stable secure lives. This year's executive budget does provide some positive change by looking to more strongly enforce the laws preventing wage theft and child labor while also improving worker's compensation marginally. However, the budget falls in its treatment of the State's health and mental healthcare workforce.

[i] https://news.gallup.com/poll/510281/unions-strengthening.aspx

V. Issue Focus: Unemployment Insurance

Introduction

New York State's Unemployment Insurance (UI) program is in urgent need of reform: benefit levels are too low to achieve economic stability in a downturn, and too many workers are excluded from the scope of the program. The high volume of unemployment claims during the Covid-19 pandemic forced the State to borrow substantial sums from the federal government in order to pay claims; now, the State owes the federal government a debt of $6.2 billion, and until that debt is paid down (and additional funding contributed to make the State's trust fund solvent), no reforms can be made to the UI program.

UI is an essential component of the social safety net in the Unites States, and acts as an important stabilizer during economic downturns by providing temporary income to those who have faced lay-offs or joblessness through no fault of their own (i.e. not due to poor performance or a voluntary departure). The State must urgently prepare to meet rising unemployment claims in light of current federal workforce layoffs, impending federal spending cuts (which will impact state and local public employees), and the economic turmoil likely to result from the new Trump administration's policy agenda.

Shortcomings of New York's UI Program

The basic mechanic of the UI system is that when a qualifying individual loses their job, they can apply for temporary financial assistance from the New York State government for up to 26 weeks (about 6 months). Unfortunately, the New York UI program has three major shortcomings:

1) The maximum benefit is $504 per week, equivalent to an annual salary of just $26,200,
2) The benefit replaces only 50 percent of an individual's previous earnings, and
3) Many workers are excluded from the scope of the program's coverage.

During the pandemic in 2020, New York's economy saw such a sharp increase in unemployment that the State's UI fund was drained of resources and New York had to borrow from the federal government to cover unemployment insurance claims. This dynamic is not a new phenomenon: New York's unemployment insurance program has been chronically underfunded, and in need of structural reform, for decades.[i]

The executive budget appropriates $165 million to pay the *interest* on the debt to the federal government and provide a small measure of tax relief to the employers who would otherwise cover that payment through the UI tax. But this issue needs to be solved soon, and quickly, before the State faces another unemployment crisis.

Fiscal Year 2026 UI Reform Priorities

Here are the top priorities that policymakers should consider this year:

Pay off outstanding loan balance to federal government (about $7 billion)

New York's unemployment insurance system has been frozen in time since the start of the pandemic due to large outstanding loans from the federal government, known as its "Title XII Loan Balance." New York's loan as of December 2024 was $6.2 billion. The only other state with a significant outstanding Title XII loan is California, which has an outstanding balance of $20 billion.

Without paying off these outstanding loans, New York cannot raise its maximum benefit and is unlikely to extend coverage to workers currently not eligible for the program. Because these changes are both timely and necessary, the State must prioritize paying down this debt as soon as possible.

Options for paying down the UI debt include:

- New York has accumulated $34 billion in fiscal reserves and uncommitted funds over the past five years. Some share of these reserve funds could be used to pay down the UI debt while still maintaining a substantial reserve. In fact, a large share of these reserves come from the federal funding during the Covid-19 pandemic that many other states have used to pay off UI debt.[ii]
- New York could use its current year surplus of $3.5 billion and next-year's surplus of $1.8 billion to pay down some of the UI debt. These surpluses are currently being used to fund the governor's "Inflation Refund" and "Middle Class Tax Cut"—costly expenditures for the State that will deliver little tangible benefit to New Yorkers. Ensuring the solvency of the State's UI trust and improving benefits would prove far more beneficial for working New Yorkers and would promote state economic stability in these highly uncertain times.
- Both to pay down the trust debt and to generally ensure solvency in the future, New York needs to reform its UI tax on employer payrolls. The current UI tax structure unfairly burdens small employers and employers in volatile industries such construction, while placing a relatively lower burden on large employers as well as firms in sectors such as finance and technology, which face less cyclicality in their business.

Increase the weekly UI benefit

In New York, the weekly benefit is calculated to be 50 percent of the individual's weekly earnings in the highest-earning quarter of the previous year, with a maximum weekly benefit of $504 (the weekly equivalent of earning $26,200 per year).[iii] This benefit should be restructured so that it provides 100 percent wage replacement up to the State's median wage (currently about $51,200). The maximum benefit would be set at the State's median wage. In other words, an individual who makes $45,000, if unemployed, would receive the equivalent of their full salary for at least 26 weeks. An individual who makes $80,000, if unemployed, would receive the equivalent of an annual salary of $51,200 for 26 weeks.

The current benefit limit is so low that the program cannot serve its safety-net function. For instance, an out-of-work individual who had been working full time and making $40,000 in annual earnings will

receive only $385 as their weekly UI payment (keyed to 50 percent of their annual earnings, or $20,000). This is about $9.60 on an hourly basis. significantly below the New York State minimum wage and not enough to pay for basic needs.

Figure 1. New York unemployment insurance tax revenue and benefit payments (thousands)

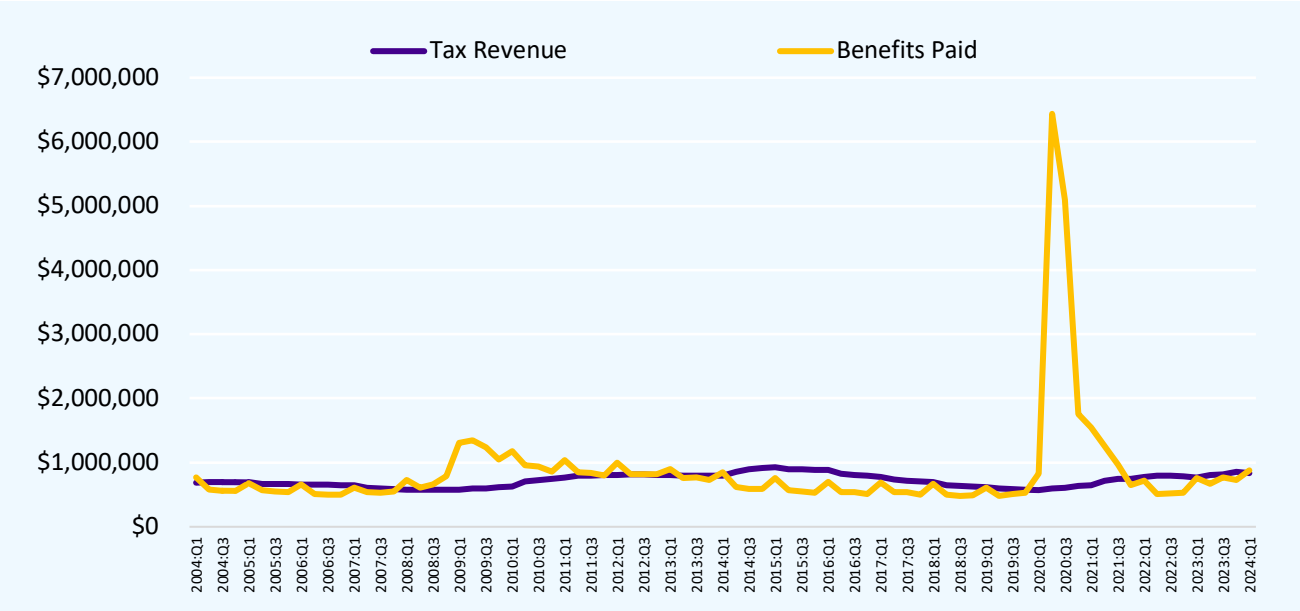
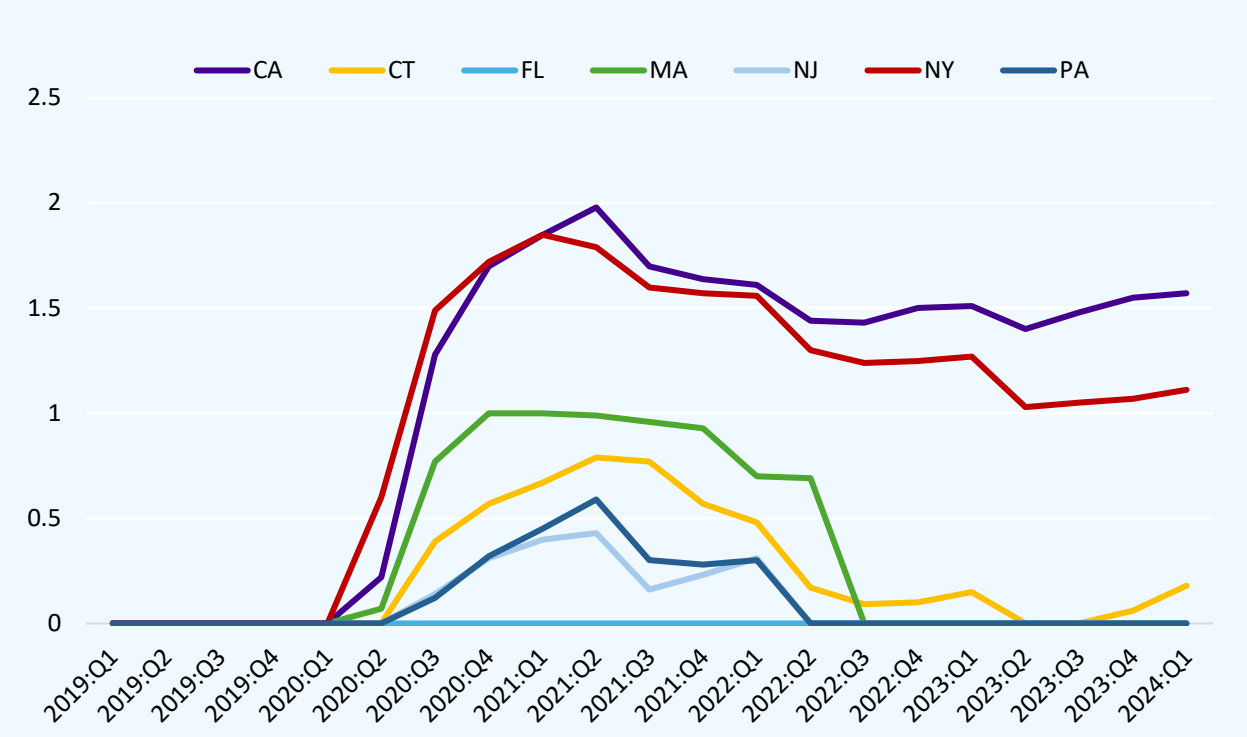


Figure 2. Title XII Loan Balance, as percent of total state wages, for NY and peer states



The UI program's maximum benefit is also notably lower than peer and neighbor states. For example, New Jersey's maximum benefits is $854 per week, Massachusetts's is $1,033 per week, Connecticut's is $796 per week, and Pennsylvania's is $613 per week.

Figure 3. UI benefit levels by worker earnings

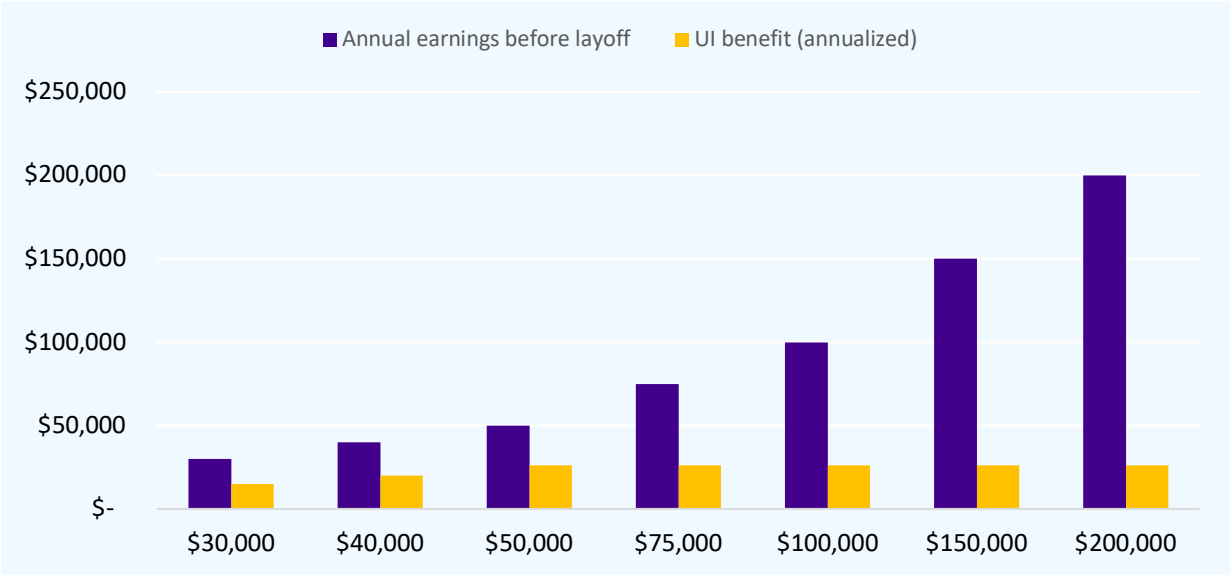
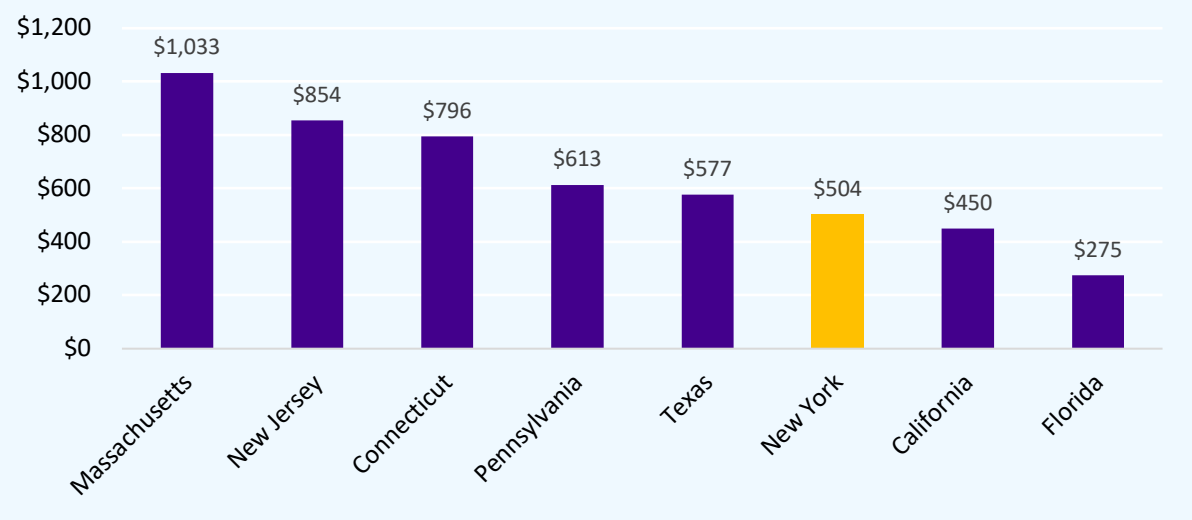


Figure 4. Unemployment insurance maximum weekly benefit in NY and peer states



Raise the UI taxable wage base

The UI funding mechanism also needs reform, primarily through an increase in the taxable wage base. Currently, employers only pay tax on the first $12,500 of employee wages (that is, for an employee earning $50,000, the tax only applies to the first $12,500 of those earnings). According to data from the

Department of Labor, only 16 percent of total wages in New York are considered "taxable" under the State's UI program. This percentage fell precipitously over the 1990s and early 2000s, and has been stable at just above 15 percent since 2007.

Figure 5. Ratio of taxable to total wages

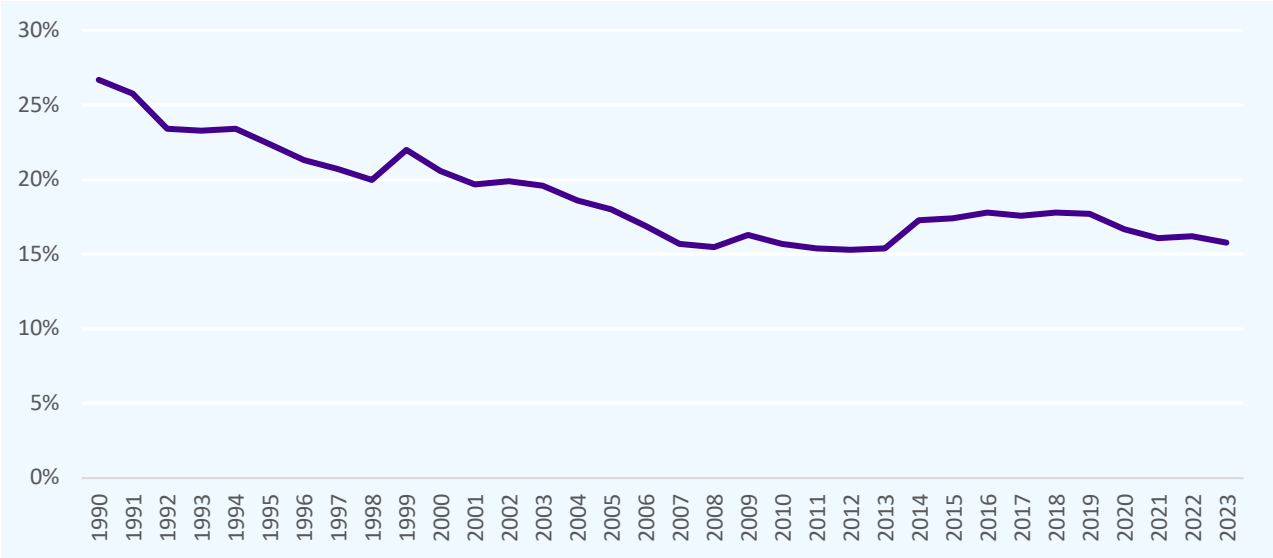
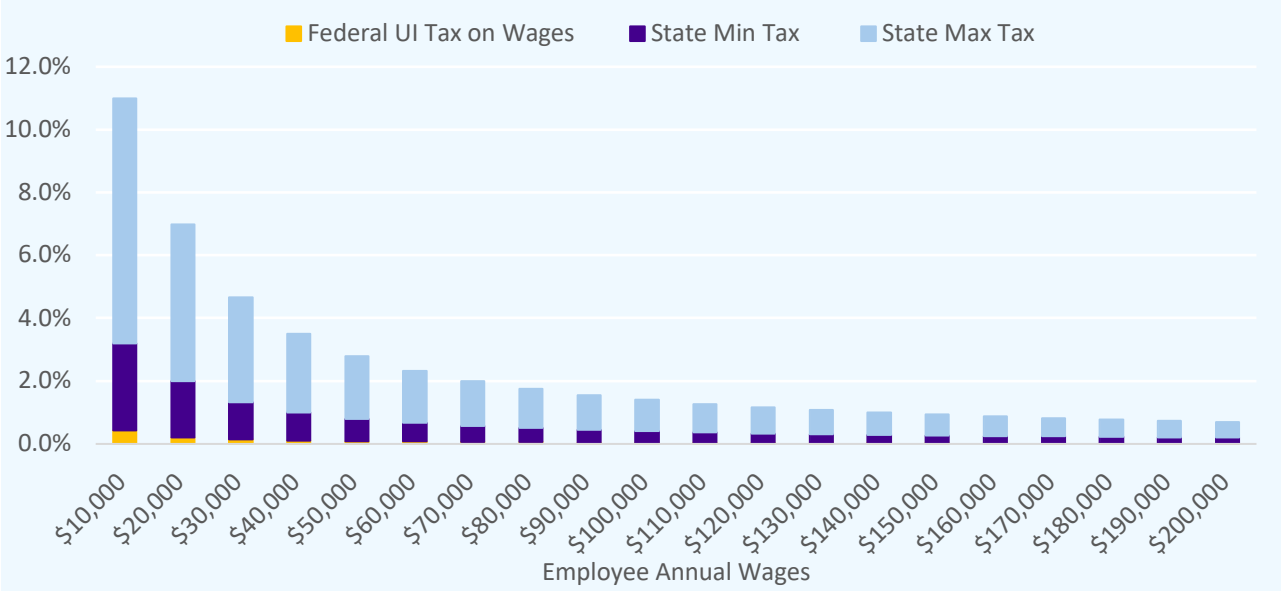


Figure 6. UI tax rates on employee wages by wage level



Because only the first $12,500 of an employee's wages are subject to the UI tax, low wage workers and their employers are taxed at implicitly higher rates, making the tax regressive to the extent it is passed through to workers. The wages of employees making less than $50,000 per year are taxed at a maximum

of 3 percent, whereas the wages of an employee making over $150,000 per year are taxed at a maximum of 1 percent.

In order to ensure the stability and solvency of the State's UI program, and in the interest of fairness, the taxable wage base ought to be raised to a much higher level. Forthcoming FPI analysis will discuss this in greater detail.

Extend coverage towards universality

Many of the most important reforms to UI that the State can make are through expanding the program to cover more workers. There is no principled explanation for why our UI program does not cover all workers in the State—and, in fact, increasing the scope of covered workers would increase the capacity of the state economy to weather downturns and disruptions.

There are numerous existing proposals to extend UI coverage to more workers, including:

- The Unemployment Bridge Program (S173/A3582): A proposal to expand UI to cover undocumented workers, self-employed workers, cash economy workers, and people who are in re-entry;[iv]
- UI for education workers: A proposal to expand UI coverage to school support staff, such as custodial staff and cafeteria staff, who lose their jobs during summer months while school is out[v];
- UI for striking workers: a proposal to extend UI benefits to workers who are on strike or are locked out of work due to an ongoing labor dispute[vi].

Each of these proposals is essential for achieving comprehensive UI coverage of all workers in New York.

Conclusion

In the context of a tumultuous federal government and an uncertain economic outlook, New York policymakers should make every effort possible to restore the State's UI program to solvency and improve and expand benefits to hard-working New Yorkers. Making these important reforms requires first paying off nearly $7 billion currently owed to the federal government, money that the State has owed since the onset of the Covid-19 pandemic. New York policymakers should seriously consider paying off outstanding debt using current reserves or the current surplus.

---

[i] https://cbcny.org/research/options-address-nys-unemployment-insurance-trust-fund-debt
[ii] Tax Foundation, "States Have $95 Billion to Restore their Unemployment Trust Funds—Why Aren't They Using It?" (September 2021), https://taxfoundation.org/state-unemployment-trust-funds-2021/.
[iii] https://www.rfsuny.org/media/rfsuny/procedures/ben_unemployment-insurance-benefits_pro.pdf
[iv] https://fundexcludedworkers.org/
[v] https://www.epi.org/publication/k12-support-staff-summer-ui/
[vi] https://www.nelp.org/insights-research/unemployment-insurance-for-striking-workers/

VI. Education, higher education, and early childhood

Key Findings

- School aid will increase $1.7 billion in fiscal year 2026, 4.7 percent. Three proposed reforms to the main school aid funding formula, Foundation Aid, would affect the distribution of funds between school districts—notably redistributing from New York City to smaller districts—but not the overall level.
- Funding for the SUNY system will increase by $127 million—all of this increase will go to central administration, which is at the discretion of the Governor, rather than directly to campuses.
- CUNY funding would rise by $133 million, primarily supporting senior colleges' operating costs.
- A $35 million program would provide free community college to as many as 4,700 adults across the state. $1.1 billion would be needed to make community college free statewide.
- Childcare subsidy funding rise will rise $171 million, as enrollment continues to climb following recent expansions.
- The State faces substantial risks to its federal funding, receiving $5.1 billion and $4.4 billion for social assistance and education programs, respectively.

Public schools

New York is set to allocate $36.9 billion to public school districts across the state in the 2025-26 school year 2026, 26 percent of all state spending. State school aid is primarily allocated by Foundation Aid, a formula that factors in districts' resources, costs, and level of student need. The executive budget proposes three technical changes to the Foundation Aid formula. The changes would not substantially affect the overall amount of funding disbursed by formula. Rather, their main effect would be on the distribution of funds between districts, with smaller, relatively low-wealth districts seeing relative increases and New York City experiencing a relative decrease in funding.

Beyond Foundation Aid, the executive budget proposes funding universal free meals in the State's public schools.

Recent developments to Foundation Aid

The Foundation Aid formula has been a point of contention over the last year. As part of last year's executive budget, the governor proposed reducing planned growth in school aid spending. Two reforms to the Foundation Aid formula—the State's primary school aid formula—would have curbed annual spending growth by $454 million in fiscal year 2025. The first change would have adjusted the formula's inflation factor, averaging recent inflation to smooth spikes. In the wake of the recent inflationary spike, this averaging would have reduced annual growth in Foundation Aid funding. The second would have eliminated the formula's "save harmless" provision, which prevents any given district's school aid from falling from year to year.

While these changes were not adopted, the fiscal year 2025 budget included $2 million for SUNY Albany's Rockefeller Institute of Government to study the formula and make recommendations. The report, published December 2024, included a host of recommendations for updating the formula. The recommendations included versions of last year's proposed reforms to inflation and save harmless, along with recommended changes to nearly every other aspect of the formula. Of these recommendations, two—updates to the measures used to estimate district's rates of student poverty and economic disadvantage—are proposed in the fiscal year 2026 executive budget.

Proposed changes to Foundation Aid

The executive budget makes three proposed changes to the Foundation Aid formula. First, the data used to measure the number of students living in poverty would be updated from 2000 Census estimates to three year averages of the most recent data produced by the Census Bureau. Second, the formula's measure of student economic disadvantage would be changed from the number eligible for free and reduced price lunch to a broader metric that counts the number of students enrolled in a range of public assistance programs. Finally, the share of school funding paid by the State is currently capped at 91 percent for the lowest-wealth districts. This would rise to 93 percent under the proposal.

To smooth out the effects of these changes across districts, the executive budget also proposes that districts receive a minimum 2 percent increase in their Foundation Aid (that is, districts receiving a greater increase as a result of the pre-existing formula or proposed changes are not affected by this proposal). Taken together, these proposals would increase Foundation Aid by $25 million, just 0.1

percent, above the most recent projections. Foundation Aid is still set to grow from fiscal year 2025, rising $1.5 billion, 5.9 percent.

Rather than changing the overall level of Foundation Aid, the major effect of these changes would be to the distribution of funds across school districts. Without these changes, the formula would send $10.87 billion to New York City in the 2025-26 school year. Under the changes, the City would take in $10.52 billion, a $350 million decrease—3.2 percent of its total Foundation Aid. New York City's Foundation Aid is still set to grow next year: its school year 2024-25 allocation was $9.9 billion. This is the result of rising enrollment and inflation.

Nevertheless, the proposed updates would depress the City's estimated rate of poverty relative to the benchmark currently in use, depressing the City's Foundation Aid. Conversely, the updated measure of economic disadvantage would slightly increase the City's Foundation Aid, but not enough to offset the change in poverty measures.

Outside of New York City, the proposed reforms would deliver relatively broad-based increases. More than half (57 percent) of districts would benefit from the guaranteed 2 percent funding increase, indicating that the reformed formula would not have a positive effect of greater than 2 percent. Raising the maximum state sharing ratio would benefit the lowest-wealth tenth of districts, while updates to the measures of poverty and economic disadvantage would affect districts across the wealth distribution.
Funding changes for the four largest cities after New York City—collectively referred to as the Big Five—would be a mixed bag. Foundation Aid for Buffalo and Yonkers would not be changed by the proposals. Rochester and Syracuse would benefit from the increase to the maximum state sharing ratio. Only Syracuse would also see its measure of pupil need, which factors in poverty and economic disadvantage, increase under the proposals. As such, its Foundation Aid would be 3.1 percent above its school year 2025-26 allocation without the changes, the largest increase of any Big Five district. Increases in Foundation Aid would be broadly distributed among smaller districts across the state.

Figure 1. Change in school year 2025-26 Foundation Aid under executive proposals by district wealth decile



Free school meals

The executive budget proposes $160 million in additional State funding for universal free school meals. The State already spends $180 million in State funds to supplement the federal National School Lunch Program, bringing the total State spending to $340 million. More than 80 percent of New York students already receive free school meals.[2] The executive proposal would close the remaining gap, establishing universal free school meals.

Public higher education

Funding for SUNY and CUNY has been stagnant over the last decade-and-a-half. This stagnant funding failed to keep pace with the rising costs of operating colleges and universities, creating acute fiscal strain at both SUNY colleges and hospitals and CUNY campuses. This strain is likely to grow in the coming years. Without a course correction, the State's model for funding public higher education poses a threat to its reach and quality. This looming retrenchment threatens SUNY and CUNY's positions as economic engines and drivers of upward social mobility for the State.[1]

Table 1. Proposed public higher education appropriations (dollars in millions)

	2025	2026
SUNY	**$3,882**	**$4,009**
Fringe benefits	$1,991	$1,991
State-operated campuses	$694	$694
University-wide & system administration	$620	$745
Statutory colleges	$129	$129
Community colleges	$447	$449
CUNY	**$2,124**	**$2,257**
Senior colleges	$1,879	$1,997
Community colleges	$245	$260

SUNY

Funding for State University of New York (SUNY) campuses is set to rise modestly for fiscal year 2026. Total funding across these two spending areas would rise $127 million to $4 billion, a 3.2 percent increase. All of the funding increase, however, would be directed to SUNY's central administration, rather than directly to campuses, affording greater discretion to the Governor. While this will enable SUNY to deploy resources at its discretion, it does not address fiscal shortfalls on campuses across the state nor the precarious situation of Downstate Medical Center.

New York State funds SUNY through two channels: paying for the fringe benefits of its employees and direct state appropriations to SUNY institutions and centrally-run programs. Fringe benefit costs will remain flat at $1.99 billion between fiscal years 2025 and 2026. Direct appropriations for SUNY campuses would also be flat. Within these appropriations, the budget proposes shifting $3.8 million from SUNY's technical colleges to its doctoral universities and health centers—a 7 percent decrease for the technical colleges (to $50 million) and a 0.8 percent increase for the universities (to $475 million).

The entire fiscal year 2026 funding increase would be directed to SUNY's central administration, which would increase to $745 million on SUNY administration in fiscal year 2026. Much of this funding supports programming on SUNY campuses, and the fiscal year 2026 increase mainly consists of flexible funding under the oversight of the State's budget director.

CUNY

The City University of New York would benefit slightly more than SUNY under the executive budget, with State funding rising $133 million to $2.3 billion—a 6 percent increase. Because this funding is governed by State law, it is largely automatic, rather than reflective of policy priorities.

New York State is responsible for funding CUNY senior colleges' net operating expenses—$2.0 billion in fiscal year 2026. The State is also responsible for one-third of CUNY community college funding, the rest of which split between the City and tuition. Under the executive budget, State operating funding would be flat, while a proposed scholarship would $14 million.

A Step Towards Free Community College: The New York Opportunity Promise Scholarship

The executive budget would create the New York Opportunity Promise Scholarship, a limited form of free community college. The program would provide free tuition for adult students, ages 25 to 55, pursing associate's degrees in a "high-demand field" including engineering, nursing, and green energy.

The executive budget would appropriate $35 million in fiscal year 2026: $21 million to SUNY community colleges and $14 million to CUNY community colleges. The program would cover the costs of tuition, fees, and books for eligible students. Given the costs reported by SUNY and CUNY, this appropriation may be able to cover as many as 4,700 students in its first year.[1] This would represent a modest expansion of statewide community college, which enrolls 226,630 students.[2]

The local, State, and federal governments already spend substantial money subsidizing community college tuition. These funds total $424 million for SUNY community colleges and $170 million CUNY.[3] Accounting for these current funding sources, universal free community college tuition would total about $1.1 billion per year: $886 million for SUNY and $256 million for CUNY.

Table 2. New York Opportunity Promise Scholarship potential reach

	SUNY	CUNY	Total
Scholarship funding	$21.15 million	$14.1 million	$35.25
Estimated annual cost per student	$7,930	$6,940	—
Potential students supported	2,670	2,030	4,700
Community college enrollment	165,230	61,400	226,630

[1] https://www.suny.edu/smarttrack/tuition-and-fees/; https://www.cuny.edu/financial-aid/tuition-and-college-costs/
[2] https://www.suny.edu/media/suny/content-assets/documents/news/2024-SUNY-Fall-Enrollment.pdf; https://comptroller.nyc.gov/reports/spotlight-cuny-and-the-new-york-city-economy/
[3] CUNY: https://www.cuny.edu/wp-content/uploads/sites/4/media-assets/FY2026-CUNY-Budget-Request.pdf; SUNY scholarships estimated as proportional to community college enrollment relative to total SUNY enrollment.

Early childhood

New York State has invested deeply in childcare in recent years, increasing funding and expanding eligibility for the Child Care Assistance Program (CCAP), which subsidizes childcare for low- and moderate-income households. These expansions aimed to address mounting tension in the childcare sector, in which fast-rising costs and low wages have raised financial strain on families and workers alike.

State CCAP funding is set to rise $171 million, 18.8 percent, to $1.1 billion in fiscal year 2026. This funding reflects continued expansions to enrollment following recent expansions, rather than new priorities. The federal government is set to contribute an additional $759 million to the program. CCAP subsidizes childcare for families earning up to 85 percent of the state median income—$108,600 for a family of four. The program currently supports 81,600 families.

In her State of the State address, the Governor announced the creation of a New York Coalition for Child Care, which would be tasked with charting a roadmap to universal childcare. This move follows a recommendation made by the Governor's Child Care Availability Task Force in its 2024 report.[4] As such, the budget does not take steps to further expand childcare subsidies, instead making relatively modest steps to support the childcare sector and new parents. These proposals include:

- $100 million for the Child Care Capital Program, which will make capital grants for childcare providers to build out or renovate childcare centers.
- $8.5 million for the Birth Allowance for Beginning Year (BABY) benefit, which will make payments—$100 during each month of pregnancy and $1,200 upon the birth of a child—to pregnant women receiving public assistance.
- $3 million to pilot the Child Care Worker Substitute Pool, which would create a pool of workers authorized to fill staffing gaps at licensed childcare providers.

[4] https://ocfs.ny.gov/reports/childcare/Child-Care-Availability-Task-Force-Report-2024.pdf

Federal funding risks to education and early childhood programs

As New York policymakers consider funding and reforms to education and early childhood programs, the risk of changes in federal funding loom large. The federal government has threatened to eliminate core programs, in some cases already freezing funding in contravention of court order.

Social assistance programs that support children and the U.S. Department of Education are at especially high risk. In fiscal year 2025, the State received $5.1 billion in federal social assistance funding and $4.4 billion in federal school funding. This funding is detailed below.

Table 3. Federal funding to New York State for programs at risk of funding loss

Education	**$4.4**
Every Student Succeeds Act	$1.6
National School Lunch Program	$1.9
Individuals with Disabilities Education Act	$0.8
Social Assistance	**$5.1**
Temporary Assistance for Needy Families	$2.7
Head Start	$0.6
Child Care Development Fund	$0.6

Every Student Succeeds Act (ESSA) — $1.6 billion

ESSA provides funding to public school districts across the country. ESSA's primary funding stream (Title I Part A) targets funding to schools with high shares of low-income students. New York schools received $1.3 billion in Title I Part A funding in school year 2024. While the State has seen a recent influx of emergency Covid relief for education, in typical years ESSA constitutes a majority of federal aid for K-12 education. Project 2025 would convert this funding to a block grant administered by HHS and phase it out over 10 years.

National School Lunch Act (NSLA) — $1.9 billion

New York is set to receive $1.9 billion in NSLA funding, which allocates formula-based grants to districts to provide free school meals to low-income students. Project 2025 recommends administrative action to restrict the portion of NSLA funding that provides free school meals for all students in high-poverty school districts and legislative action to eliminate this portion of funding altogether.

Individuals with Disabilities Education Act (IDEA) — $800 million

IDEA provides school districts with funding to support educational services, including early intervention, for students with disabilities. Project 2025 recommends converting the current formula-funded program to a block grant administered by HHS. The value of block grants tends to erode over time, as funding is generally not tied to inflation or underlying need.

Temporary Assistance for Needy Families (TANF) — $2.7 billion

TANF funds New York State's Family Assistance program, which provides cash transfers to low-income households with children. New York State also uses TANF funds for other programs including childcare assistance and low-income tax credits.

TANF is a block grant: the federal government apportions funds to states, which then have discretion over their uses. The national TANF block grant has been frozen at $16.5 billion since it was established in 1996 (meaning its value has declined in real terms). In recent years, TANF has been extended by Congress in short increments, often only months at a time. During past government shutdowns, TANF funding has lapsed, although subsequent funding bills have restored annual funding.

Congress has the power to reduce or eliminate TANF funding. A budget proposal for fiscal year 2025 made by the House of Representatives' Committee on the Budget recommends reducing funding for income security, a broad category that includes TANF, by $100 billion per year, a 13 percent reduction. The proposal does not specify greater detail on cuts to individual programs within that category, including TANF.

Project 2025 recommends increasing work requirements for basic assistance (called Family Assistance in New York) and extending work requirements to other state programs that use TANF funding. While federal rules currently impose work requirements for basic assistance, it also provides states the ability to waive requirements for families with young children, which New York does.

Head Start — $600 million

Head Start provides free preschool and other education services to 3- to 5-year-old children from low-income families. Early Head Start, which exists under the Head Start program but is a separate funding stream, provides support services, including daycare, to children younger than 3.

Project 2025 proposes eliminating Head Start entirely without replacing any of the services it provides. The federal government has reportedly continued to hold up funds for Head Start despite an order from a federal judge halting the funding freeze.[5]

Child Care Development Fund (CCDF) — $600 million

The Child Care Development Fund supports low- and moderate-income families in accessing childcare, primarily through state-run childcare subsidy programs. Neither Project 2025 nor Congressional proposals appear to target CCDF for funding cuts, although Congress could restrict funding or tighten the program's work requirements and eligibility criteria.

[5] https://www.npr.org/2025/02/08/nx-s1-5290249/stress-and-uncertainty-at-head-start-and-clinics-as-federal-health-funding-system-sputters

VII. Healthcare

Summary of Findings

- New York's uninsured rate is at a historic low of 4.8 percent. However, healthcare affordability remains a challenge due to healthcare-sector inflation and decreasing insurance quality in the private sector. Premiums have increased by 75% since 2010, and deductibles have roughly doubled.
- State-share Medicaid spending continues to grow, but growth is driven largely by one-time charges and declining federal support. Underlying all-agency all-funds Medicaid is projected to grow 3.7 percent in FY26.
- The executive budget makes a variety of investments in Medicaid via the MCO tax, which will generate a net $3.7 billion in state-share Medicaid funding over the next three years.
- New York has shifted the way it funds safety-net hospitals substantially in the past three years, likely stabilizing a "new normal" in which safety nets receive, in effect, substantially higher Medicaid rates than other hospitals.
- Medicaid long-term care spending continues to grow, and the Executive may implement several cuts to the program.

Introduction

Healthcare has taken center stage in New York and national politics in recent months. At the federal level, Congressional Republicans appear likely to advance hundreds of billions of dollars in Medicaid cuts. At the state level, Medicaid remains New York State's largest budget item, providing health insurance, long-term care and help with Medicare premiums to nearly 7 million New Yorkers. Unlike in Fiscal Year 2025, Governor Hochul has not proposed any dramatic cuts to Medicaid in her Fiscal Year 2026 Executive Budget. However, the Executive continues to express concern about rising costs.

Rising healthcare costs *outside* the Medicaid program have received far less attention – but they represent a growing burden for millions of New Yorkers who have private insurance. The State has been extremely successful at ensuring broad access to health insurance: New York's uninsured rate in 2023 was 4.8 percent, well below the national average of 7.9 percent and down more than half since 2013, when 10.9 percent of New Yorkers were uninsured.[1] But people with commercial insurance have faced rising costs – and deteriorating benefits.

[1] Kaiser Family Foundation, "Insurance Coverage of the Total Population," presenting American Community Survey data. Accessed at https://www.kff.org/other/state-indicator/total-population/.

Healthcare Affordability: Spiraling Private-Sector Costs, Efficient Public Programs

While policy debates in New York tend to focus on *public-sector* healthcare spending, many New Yorkers continue to struggle with private-sector healthcare costs. The average insurance premium for an individual worker enrolled in employer-sponsored insurance in New York has risen dramatically in recent years, from $5,220 in 2010 to $9,173 in 2023 – an increase of over 75 percent. (See Figure 1.) Single individual health insurance now costs 11.7 percent of the average wage in New York. The average family premium in 2023 was an astonishing $26,355 – 33.4 percent of the average wage.[2] (Premium costs are typically split between employers and employees.) New York's health insurance costs are among the highest in the nation (only New Jersey and Massachusetts pay more), but costs have risen across the country.[3] The US continues to spend far more per person on healthcare than any other country.

Figure 1. Insurance premiums for employer-sponsored insurance in New York State, 2010 and 2023.

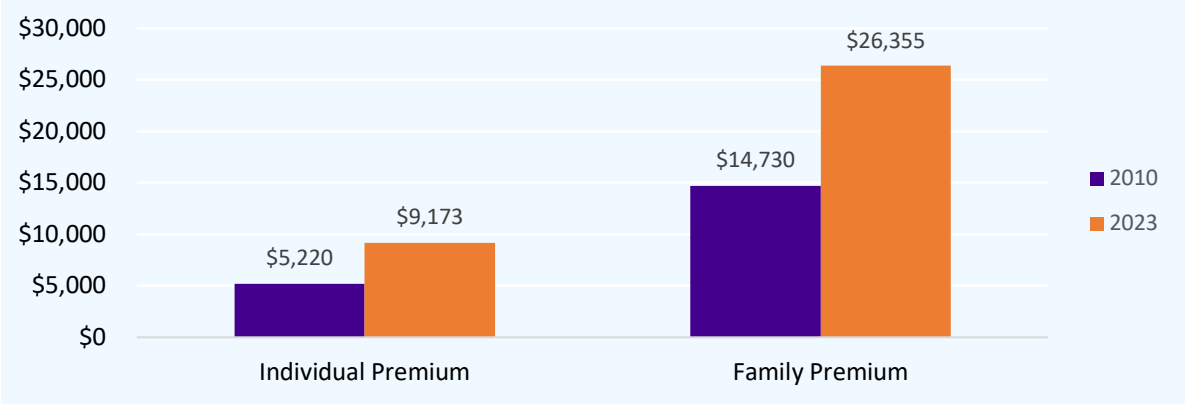
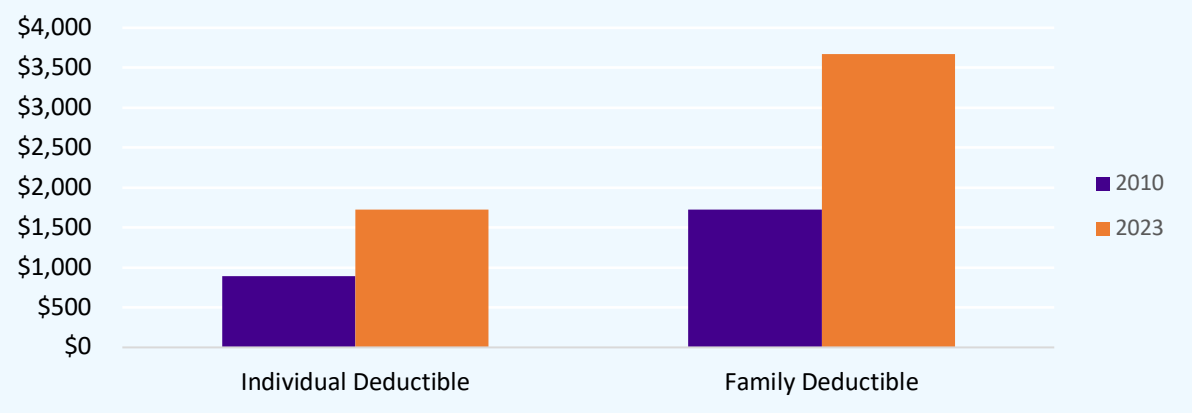


Figure 2. Deductibles for employer-sponsored insurance in New York State, 2010 and 2023.



[2] Premium and deductible figures are from the Agency for Healthcare Research and Quality Medical Expenditure Panel Survey – Insurance Component (MEPS-IC), accessed at https://datatools.ahrq.gov/meps-ic/ . Average wage is from the Bureau of Labor Statistics, "Occupational Employment and Wage Statistics," May 2023, accessed at https://www.bls.gov/oes/2023/may/oes_ny.htm.

[3] https://www.kff.org/other/state-indicator/single-coverage/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Total%20Annual%20Premium%22,%22sort%22:%22desc%22%7D

While New Yorkers pay far more for insurance than they did a decade ago, we get far less coverage for our money. As Figure 2 shows, deductibles in New York have nearly doubled since 2010, rising from an average of $891 to $1,722 for an individual policy and $1,728 to $3,672 for a family policy. (Both numbers are below the national average, possibly reflecting New York's high union density.) As a result, even New Yorkers who have insurance coverage frequently struggle to pay medical bills and face medical debt.

New York has made significant strides in addressing the effects of rising healthcare costs in recent years – enacting protections for those with medical debt, requiring hospitals to do a better job of providing charity care for low-income patients, and requiring some insurance companies to cover insulin costs. But the root causes of cost growth – a needlessly complex, profit-driven healthcare system and rising prices for everything from hospital care to pharmaceuticals – have received far less attention. That may be changing as the Executive Budget includes a limited provision to address drug prices and Senator Liz Krueger has introduced a far more far-reaching bill to address hospital costs (see below).

The efficiency of public health insurance: It should be noted that New York's public programs have been far more effective in controlling healthcare spending than its private sector. While employer-sponsored individual premiums were nearly $9,200 per year in 2023, New York's Mainstream Managed Care program, which enrolls 4.6 million New Yorkers, spent less than $5,600 per enrollee in 2023. The Essential Plan spent just $5,450 per enrollee in 2023. While the State has chosen to increase the cost of the Essential Plan in recent years, including through higher payments to providers, the plan is projected to cost just $8,520 per enrollee in FY25 – well below rates in the employer-sponsored insurance market. The difference is even starker when we consider that both Medicaid and the Essential Plan have no deductibles and no or very low copays, making them far more comprehensive than most employer-sponsored insurance.

Commentators sometimes suggest that New York can't afford to keep so many people in public insurance programs, but in fact the opposite is true. Medicaid and the Essential Plan are a good deal for New York, not only because the federal government pays a substantial share of costs for Medicaid and virtually all costs for the Essential Plan, but because these programs simply cost less than employer-sponsored insurance. Shifting the Medicaid and Essential Plan populations to private insurance would cost the state far more than the status quo and place an enormous burden on individuals and employers, *even if New York received no funding from the federal government for these programs.*

Why are New York's public insurance programs so efficient? The answer is straightforward: The public sector does a far better job of constraining healthcare inflation than do private insurance companies. New York's public insurance programs pay less for hospital care, pharmaceuticals and just about everything else than do commercial insurance plans. Some have argued that these low payments shift costs onto the commercial market, although research doesn't back that up.[4] Regardless of the reason, it is clear that New York's public insurance programs play a crucial role in reducing costs to consumers and to the system overall.

Measures to Address Affordability

[4] https://jamanetwork.com/journals/jama-health-forum/fullarticle/2781591

In recent years, New York policymakers have made significant strides in protecting New Yorkers from the *effects* of healthcare inflation. The Governor and legislature heeded longstanding calls by advocates to protect consumers facing medical debt and require hospitals to offer more charity care. The FY25 budget also included a measure limiting out-of-pocket costs for insulin, although this provision will not protect the roughly two-thirds of New Yorkers in employer-sponsored insurance whose employers self-insure their coverage.

New York has done little, however, to address the *causes* of healthcare inflation – escalating prices and a needlessly complex, profit-driven healthcare system.

This year, that may change. The Executive proposes an interesting pathway to addressing high prescription drug costs, while Senator Liz Krueger has introduced a far more ambitious bill to regulate prices for hospital care.

Prescription Drug Prices: Hope from the North?

Americans overpay dramatically for prescription drugs: Our spending is more than double the OECD average, and 36 percent higher than that of the next-highest-spending country, Germany.[5]

The Governor's State of the State Briefing Book proposes "explor[ing] participation in the FDA's Section 804 Importation Program," a federal program which allows states to apply for permission to import prescription drugs from Canada. Several states are exploring this option, and Florida received federal approval for its own program last year.

Why are Canadian drugs cheaper? The answer is simple: The Canadian government simply sets the prices of most prescription drugs. By buying drugs in Canada and importing them to the US, New York can take advantage of Canada's sensible regulatory framework.

Or that's the idea, anyway. So far, Florida has failed to import a single drug through its program; one big reason is that Canada doesn't want Americans buying its drugs en masse. Canada is much smaller than the US, with a population of just 40 million people; it's easy to imagine drug imports from New York and Florida creating shortages in its market. The Executive proposal, while useful in shining a light on the high cost of prescriptions – and the possibility that price regulation may be part of the solution – is unlikely to make a significant dent in prices.

A better path would be to cut out the "middleman" and simply regulate prices directly, the way Canada does. That's what Colorado is doing. Its Prescription Drug Affordability Board is currently tied up in litigation with the pharmaceutical industry, but offers a far more plausible path to long-term savings.[6]

The Executive also expands New York State regulation of Pharmacy Benefit Managers (PBMs), middlemen who negotiate drug prices with drug suppliers on behalf of insurance companies and consumers. Many argue that they fail to pass on the benefit of lower prices to consumers, and the Executive Budget legislation would expand transparency on this matter.

[5] https://www.americanprogress.org/article/following-the-money-untangling-u-s-prescription-drug-financing/
[6] https://oneill.law.georgetown.edu/pharmaceutical-industry-seeks-to-thwart-state-initiatives-to-tackle-unaffordability-of-prescription-drugs/

Hospital Prices: Back to the future

Hospital costs are a far larger share of healthcare spending than are drug costs, and the Executive does nothing to address them. But a new bill introduced by Senator Liz Krueger and supported by the labor union SEIU 32BJ would take a large step forward in getting hospital costs under control. The Fair Pricing Act (S.705/A.2140) would cap how much hospitals could charge for a subset of routine procedures at 1.5 times the Medicare rate for those procedures. The procedures targeted can be performed either at hospitals or at doctor's offices – but they often cost far more at hospitals, which negotiate exorbitant rates.[7]

How much would that save? 32BJ estimates that the bill would save approximately 2 percent of its health fund's total health benefit spending.[8] That could mean substantial savings for New York State, which spends billions on employee benefits; 32BJ suggests savings could amount to $121 million for the state employee health plan, NYSHIP.

Hospital price regulation may sound radical, but it was once common: New York regulated all hospital prices until the mid-1990s, and Maryland still does. As healthcare costs continue to rise, we expect this idea to receive more attention.

Medicaid Program Trends: The Big Picture

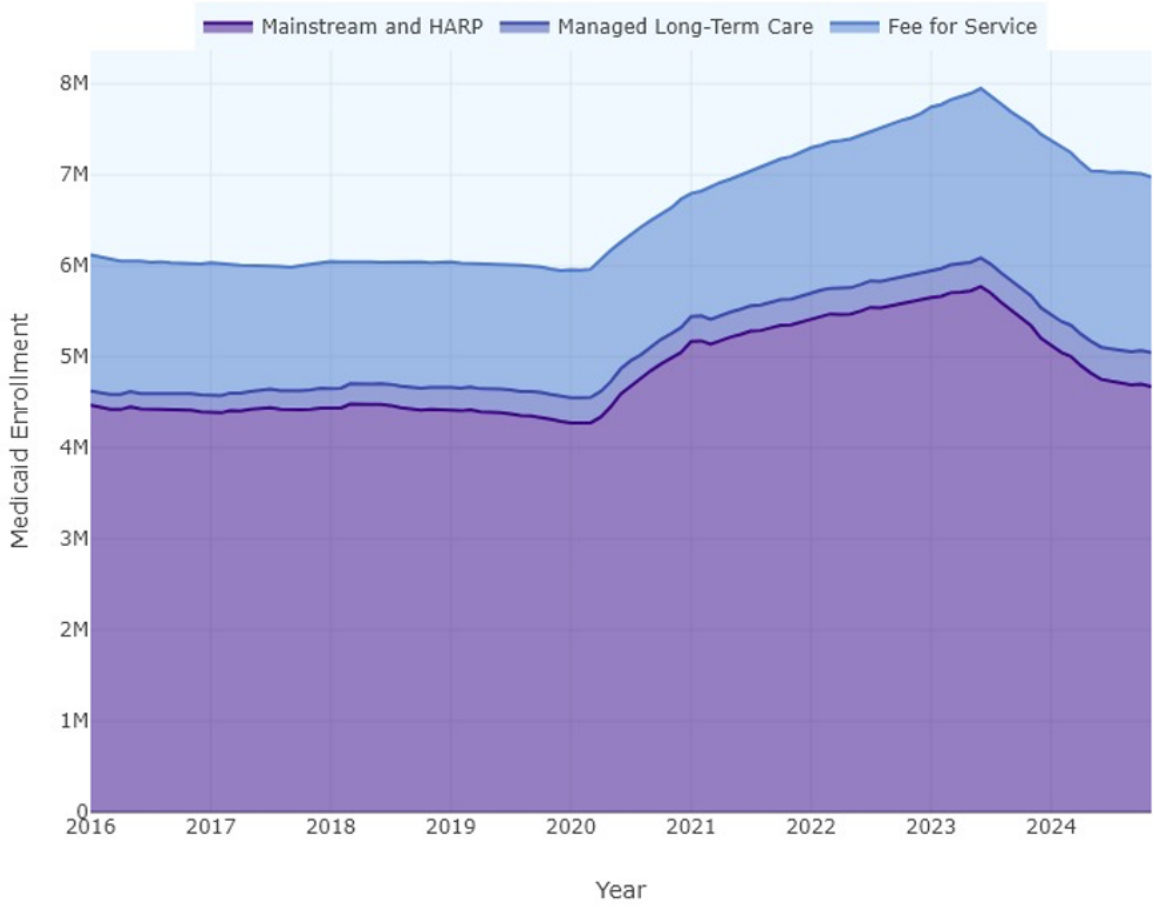
Medicaid Enrollment

Medicaid is New York State's largest program, projected to spend $103.1 billion this year, including $37.7 billion in state funds.[9] The program enrolls approximately 7 million New Yorkers and provides a wide range of services – not only comprehensive health insurance for low-income New Yorkers, but also mental health and substance abuse treatment, assistance with Medicare premiums and copays, care for individuals with intellectual and developmental disabilities, long-term care for older adults and those with physical disabilities, and financial support for safety-net hospitals.

Medicaid enrollment increased dramatically during the Covid-19 pandemic, driven by pandemic-related job loss and a federal rule preventing states from disenrolling beneficiaries between 2020 and 2023. Enrollment rose from approximately 6 million at the beginning of 2020 to a peak of 8 million in mid-2023, but has since fallen to under 7 million.

[7] https://nypost.com/2024/11/20/us-news/ny-coalition-proposes-first-in-the-nation-cap-on-hospital-clinic-bills/
[8] https://nyassembly.gov/write/upload/publichearing/001446/005756.pdf
[9] Figures include Department of Health Medicaid and Medicaid spending by other state agencies, but exclude the Essential Plan and Child Health Plus.

Figure 3. Medicaid enrollment growth by program, 2016-2024.



Still, enrollment remains approximately 1 million or 17 percent above pre-pandemic levels. What is driving this higher enrollment? The answer is not entirely clear (see Table 1). The bulk of New York's Medicaid enrollment is in the state's Mainstream Managed Care (MMC) program, which provides basic health insurance to 4.7 million low-income people – and MMC has grown since 2019, but only by 400,000 since 2020. Enrollment in the program is currently 9.3 percent above pre-pandemic levels and continues to fall.

New York's various Managed Long-Term Care (MLTC) programs have continued to grow – by 12 percent in the last year alone – but these programs account for a small share of both total enrollment and enrollment growth. They are just 93,000 above pre-pandemic levels.

The bulk of enrollment growth has occurred elsewhere – in non-managed care Medicaid, which remains half a million enrollees higher than pre-pandemic levels.

Table 1. Medicaid enrollment growth by program, 2020-2024.

Plan Type	January 2020	June 2023	November 2024	Change	Change (%)
MMC	4,276	5,772	4,674	398	9.3%
MLTC	278	315	372	93	33.5%
Fee for Service	1,403	1,862	1,932	529	37.7%
Total	5,957	7,949	6,977	1,020	17.1%

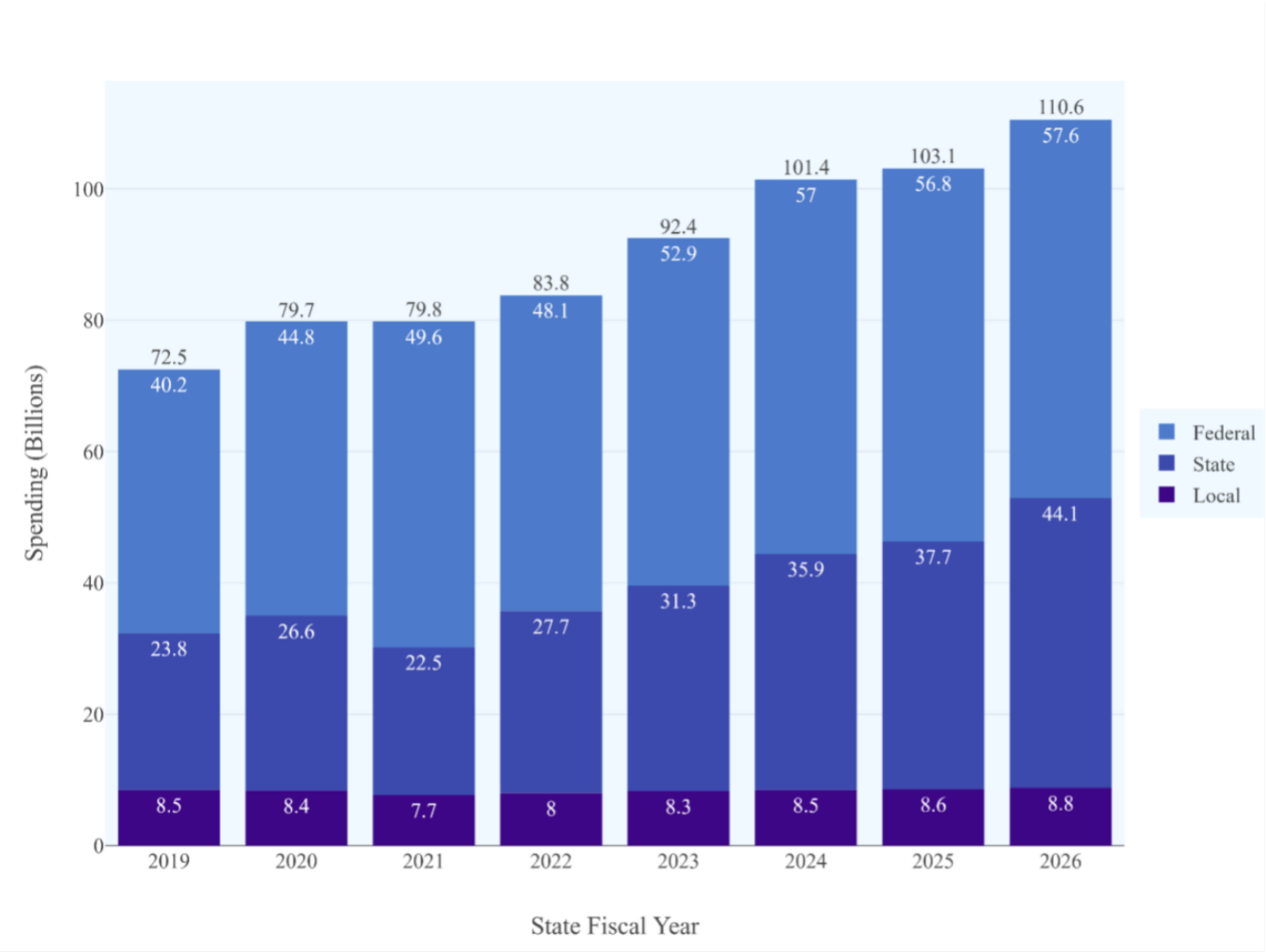
In a recent piece, FPI's Michael Kinnucan has argued that most of these new enrollees fall into two groups: (1) low-income older adults who receive financial support to help pay Medicare premiums and copays through a Medicaid initiative called the Medicare Savings Program (MSP), and (2) individuals who remain formally enrolled in Medicaid due to New York's continuous eligibility provisions but in fact have other health insurance and do not use Medicaid services and do not drive Medicaid spending.[10]

Medicaid Spending

Despite recent declines in enrollment, Medicaid *spending* continues to grow. The Executive Budget projects a 13.7 percent increase in state-share Department of Health (DOH) Medicaid spending, from $31.4 billion in FY25 to $35.7 billion in FY26. Unfortunately, the state's habit of arbitrarily reclassifying spending between DOH and other state agencies makes the DOH Medicaid metric unreliable. A broader measure incorporating state-share spending across all state agencies shows an even sharper increase – from $37.7 billion in FY25 to $44.1 billion in FY26, up 17.1% in a single year. (This measure includes Executive investments in mental health.)

[10] Fiscal Policy Institute, "Medicaid Enrollment: Getting the Facts Straight." Accessed at https://fiscalpolicy.org/medicaid-enrollment-getting-the-facts-straight

Figure 4. Medicaid Spending by Source of Funds, 2019-24



This figure presents a picture of runaway program growth – but the picture is quite misleading. Projected state-share growth is heavily shaped by three factors:

1) All-funds Medicaid spending, including federal funding, is projected to increase at a much lower rate – just 7.2 percent. Increased state-share spending reflects a decline in federal support rather than increased enrollment, utilization or reimbursement. It is not fully clear from the Executive Budget why federal support has declined so much, but the expiration of pandemic aid and the looming reduction in New York's Disproportionate Share Hospital (DSH) allotment may be factors.

2) The Executive Budget FY26 projection includes $1.2 billion in state-share Medicaid spending and $2.6 billion in all-funds spending solely to reimburse managed care organizations (MCOs) for their share of the MCO Tax (see below). Unlike the $1.4 billion in MCO tax revenue invested in provider rate increases and other Medicaid services, this MCO reimbursement does not represent real program growth and would not need to be continued if federal approval for the MCO tax were withdrawn.

3) The Executive Budget counts a credit of $951 billion for the repayment of a loan to hospitals. This one-time repayment artificially lowers spending in FY25.

Interested readers may examine our recent blog post on the subject**.** Adjusting for the MCO reimbursement and loan repayment, all-funds Medicaid spending is set to increase by 3.7 percent in FY26, from $104.1 billion to $108 billion. State-share spending is projected to grow by $4.3 billion or 11 percent, driven largely by declining federal reimbursement.

Drivers of Increased Spending

Why is spending growing at all, given declining enrollment? Several factors appear to be at work:

- **Managed Long-Term Care (MLTC) enrollment growth:** The state projects MLTC enrollment growth to continue at its FY25 rate of 12 percent, and expects spending on the program to increase by 13 percent.[11] The state reports $9.5 billion in net state-share MLTC spending in FY25, so MLTC spending growth accounts for $1.2 billion in state-share spending. (It is surprising that the state expects continued rapid enrollment growth given that it also assumes the implementation of dramatic new restrictions on MLTC eligibility, discussed below.)
- **Provider payments and rate increases:** The Executive Budget continues hospital and nursing home rate increases from the FY25 budget and proposes further increases of $565 million (state share) to hospitals, nursing homes, physicians, MCOs and clinics in FY26.
- **Mental health investments:** The Executive Budget proposes a variety of mental hygiene initiatives, raising non-DOH Medicaid spending by approximately $700 million (state share).
- **Declining federal support:** The last major tranche of federal pandemic-related Medicaid aid, $764 million in enhanced matching funds through the American Rescue Plan, expired in FY25. In addition, New York's federal Disproportionate Share Hospital (DSH) allotment is set to decline by $1.4 billion next year barring Congressional action to stave off cuts.[12]

The MCO Tax

Accounting for the MCO Tax

One major new feature of New York's Medicaid financing is a tax on managed care organizations (MCOs), which was authorized in the FY25 budget and approved by the federal government in December. The purpose of this tax is to increase federal funding for New York's Medicaid program. FPI wrote a lengthy brief last year on how the MCO tax works, but we are now able to fill in the details on how much money the tax will raise and how it will be spent.

In brief, the MCO tax transaction will work as follows:

1. **Raise revenue by taxing MCOs:** MCOs will be taxed on a per-member-per-month basis, with specific rates varying based on MCO size and type. The overwhelming majority of tax revenue will come from MCOs participating in two public insurance programs: Medicaid and the Essential Plan. Commercial MCOs (those serving the employer and ACA exchange market) will

[11] FY 26 Budget Briefing,
[12] MACPAC, "Annual Analysis of Medicaid Disproportionate Share Hospital Allotments," p.88.

pay a negligible tax of just $1.50 - $2 per member per month. The tax is projected to raise $3.3B in FY26 across all MCOs.

2. **Reimburse the MCOs using tax revenue and federal matching funds:** The state will then pay the MCOs back for their tax contribution using a portion of tax revenue plus federal matching funds. For example, the Medicaid MCOs will be reimbursed for their share of the FY26 tax with $1.2 billion in state tax revenue and approximately $1.4 billion in federal matching funds. Essential Plan MCOs will be reimbursed through federal Essential Plan funding.
3. **Spend the remaining funding (plus associated federal revenue) on Medicaid programs:** Since the state will raise $3.3 billion in tax revenue but will spend just $1.2 billion to reimburse the MCOs, it will have approximately $2.1 billion in tax revenue left to spend on Medicaid program costs and provider rate increases. This spending will in turn receive federal matching funds, generating approximately $4.5 billion in all-funds spending.

This process is described in Table 1. In total, the state will raise $5.9 billion in tax revenue over two years, spend $2.2 billion (state share) reimbursing the Medicaid MCOs, and spend $3.7 billion (state share) on the Medicaid program. On an all-funds basis, the state will generate $7.9 billion in new Medicaid spending over three years at no net cost to state taxpayers.

Table 2. MCO Assessment revenue and spending plan

Category	FY26		FY27		FY28		Three-Year Total	
Tax Received from MCOs	3,278		2,625		0		5,903	
Carried Over from Previous Year	0		646		883			
	FY26 State	FY26 All Funds	FY27 State	FY27 All Funds	FY28 State	FY28 All Funds	State	All Funds
Medicaid MCO Reimbursement	**1,215**	**2,589**	**973**	**2,074**	**0**	**0**	**2,188**	**4,663**
New Spending	**1415**	**3,015**	**1,415**	**3,015**	**883**	**1,882**	**3,713**	**7,913**
General Medicaid	500	1,066	500	1,066	0	0	1,000	2,131
Hospitals	305	650	305	650	305	650	915	1,950
Nursing Homes	200	426	200	426	200	426	600	1,279
Physician Fee Schedule	50	107	50	107	50	107	150	320
MCO Quality Pool	50	107	50	107	50	107	150	320
Clinics	10	21	10	21	10	21	30	64
Safety Net Transformation Fund	300	639	300	639	268	571	868	1,850
Reserved for Subsequent Years	646		883		0			

Note: The tax is effective January 1, 2025, so the FY26 revenue figure includes five quarters of revenue.

MCO Tax Sustainability and Spending

While the MCO tax received federal approval through FY27, the federal government under Biden expressed interest in issuing new regulations to forbid state tax structures like these in the future.[13] The Trump administration is very likely to pursue such regulations. Thus, it is unlikely that the MCO tax in its current form will continue beyond FY27. Critics have expressed concern that the state will need to find other sources of funding to continue this spending after FY27. The state attempts to address these concerns by spreading new spending over three fiscal years (FYs 26, 27 and 28), thus ensuring at least short-term sustainability.

How will the money be spent? In FY26, the Executive proposes spending $500 million on general Medicaid expenses and investing $565 million in rate increases and other spending for hospitals ($305 million), nursing homes ($200 million), physicians ($50 million), and Federally Qualified Health Centers (FQHCs) ($10 million). An additional $300 million will support the Safety Net Transformation Fund. This fund primarily provides capital funding to restructure financially distressed hospitals, but $300 million of MCO tax revenue will be spent on operating support for hospitals undergoing restructuring. See below for more discussion on each of these categories of spending.

Hospital Policy and Funding

Safety Net and Financially Distressed Hospital Funding: Achieving a New Normal

New York State's hospital system remains highly unstable. The Executive Budget reports that 75 of New York's 261 hospitals (29 percent) are in financial distress. In response, the state has ramped up operating support for financially distressed hospitals, from approximately $500 million per year before the pandemic to approximately $3.5 billion in FYs 24 and 25 (see Figure 5).

While the reasons for post-pandemic financial distress in the hospital sector are complex, the underlying challenges facing safety net hospitals are simple and well-known: Safety-net hospitals treat more Medicaid and uninsured patients and often provide a lower-margin service mix (e.g. more primary care and behavioral health). In effect, safety-net institutions subsidize the rest of the healthcare system by providing services that other institutions will not provide to populations that other institutions will not treat.

[13] To be clear, the Biden CMS did not express an intention to forbid all taxes on healthcare providers used to increase Medicaid reimbursement; such taxes are ubiquitous across the country, including in red states, and are a well-established aspect of Medicaid finance. Even the Trump administration has not contemplated a complete ban. Rather, CMS expressed concern with the particular tax structure used by a few states including California in recent years, which raise revenue almost exclusively from Medicaid MCOs. New federal guidelines would likely require states to pursue a more broadly-based tax structure which also impacted non-Medicaid providers. This would constrain states since non-Medicaid MCOs, who are unable to fully recoup their tax costs through increased Medicaid funding, would resist large-scale taxation.

Figure 5. Financially distressed hospital funding, FY17-26.

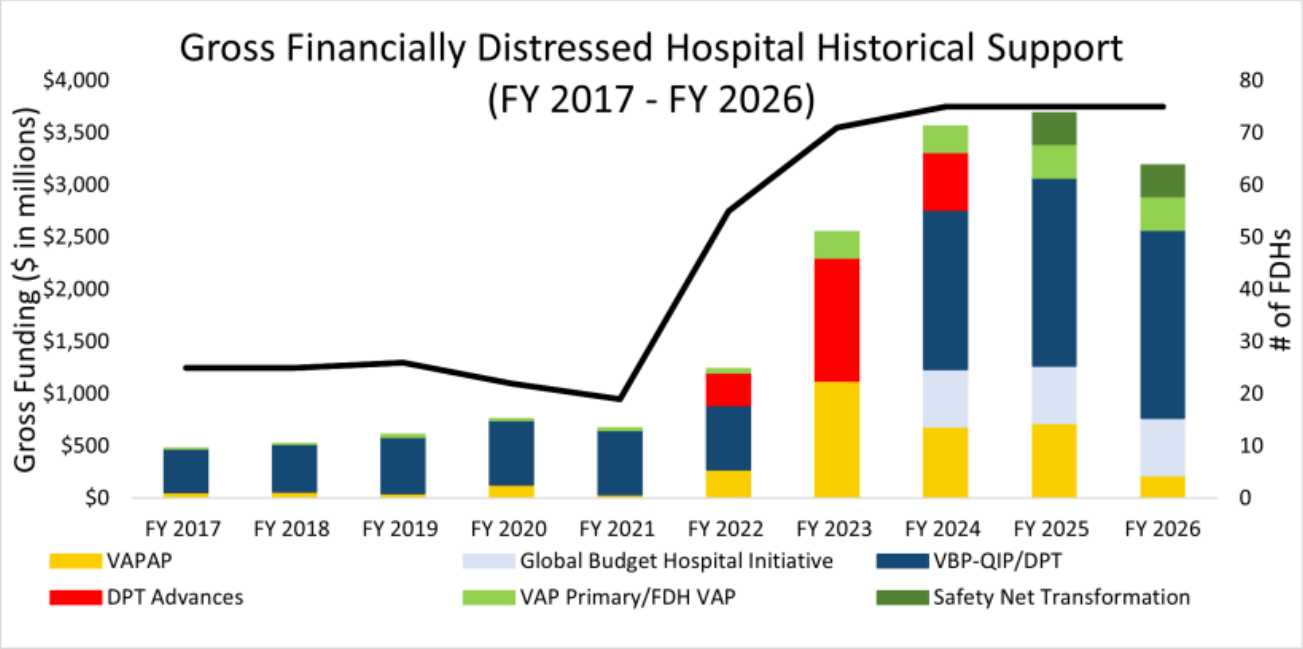


Figure 5 may give the somewhat misleading impression that the state has made little progress on its financially-distressed hospital problem: We're spending over $3 billion a year, but 75 hospitals are "still" in distress. Careful examination of the underlying policy details, however, tells a different story. The pots of money described in the graph can be divided into "short-term" and "long-term" funding:

- **Short-term:**
  - **VAP (~$300M) and VAPAP (~$800M):** These programs provide short-term operating subsidies to facilities in acute financial distress. VAPAP is unique in that it does not receive the federal Medicaid match, making it an inefficient use of state tax dollars.
  - **Safety Net Transformation ($300M):** This funds the *operating* costs of hospitals which apply for and receive capital funding through the Safety Net Transformation Program (SNTP). The SNTP incentivizes financially distressed hospitals to partner with other organizations (typically large hospital systems) to restructure their operations.
- **Long-term:**
  - **Directed Payment Template (DPT) funding (~$2B):** This program in effect substantially increases the rate paid by Medicaid to hospitals serving a large number of Medicaid patients. (It's a "directed payment" since the state is "directing" Medicaid managed care organizations to pay higher rates.) DPT effectively doubles the Medicaid rate for these hospitals.
  - **Global Budget Hospital Initiative ($550M):** This program, funded by New York's 1115 waiver through FY28, provides a subset of downstate, private safety-net hospitals with funding to address population health.

The distinction between short-term and long-term funding is important because it allows us to recognize the state's de facto strategy on safety-net hospitals. As of Fiscal Year 2023, the state's hospital finance was in an exceptionally unstable situation: The state was pumping over a billion dollars a year in short-term, state-only VAPAP into the system while also advancing hospitals the federal share of not-yet-approved federal DPT funding. Today, much of that funding has been replaced by stable, federally-matched funding (DPT and Global Budget); the state has implicitly recognized the need to fund high-Medicaid hospitals with much higher Medicaid rates and/or global budgets.

Facilities for which DPT and Global Budgets don't provide enough support are encouraged to restructure through the Safety Net Transformation Program. Facilities which can neither sustain themselves with higher funding levels nor restructure have continued to rely on short-term VAPAP funding. The Executive Budget proposes a $500 million cut to VAPAP, which the legislature may push to restore.

Thus, Figure 5 represents not an ongoing crisis in New York's hospital system but the emergence of a "new normal" policy regime: Safety-net hospitals will receive substantially higher Medicaid reimbursements on an ongoing basis.

Hospital Funding: Continued Rate Increases and Continued Opacity

The Executive Budget invests a further $305 million into hospital funding via the MCO tax. While the Executive does not detail how this funding will be spent, budget testimony from the hospital trade associations suggests that they have been given the following breakdown:

- **Hospital outpatient rate increase: $145 million** (state-share) or approximately 10%. This is in addition to the rate increases hospitals won in the FY25 state budget, which are made permanent.
- **New hospital quality pool ($125 million)**
- **Maternal health quality program ($25 million)**
- **Critical access hospital / sole community hospital Directed Payment Template ($10 million)**

The "hospital quality pool" proposal is of great interest; no program of that name currently exists and the Executive Budget provides no details on it. Testimony from the Greater New York Hospital Association states that "the Governor also proposes a new $125 million quality pool to incentivize high-quality care to Medicaid beneficiaries and the provision of safety net services such as maternity care, trauma care, and psychiatric services." These services are typically provided by safety-net hospitals, and psychiatric services in particular are a recent site of controversy: DOH has repeatedly attempted to persuade wealthy nonprofit hospitals in New York City to reopen closed psych beds, to little avail. The hospital "quality pool" may represent an effort to provide incentives for such services.

Long-Term Care

New York State's Medicaid program provides crucial support for older and disabled New Yorkers who require long-term care, either at home or in a nursing home. The vast majority of these individuals receive healthcare through the federal Medicare program, but Medicare does not cover long-term care, so they receive coverage for these services through Medicaid.

The number of Medicaid LTSS beneficiaries is quite modest – around 5% of all Medicaid enrollees. But LTSS represents a very significant share of total Medicaid spending (the Executive Budget briefing puts the number at 60 percent, although it does not provide evidence) and therefore of controversy.

CDPAP Transition

By far the most controversial long-term care issue in this year's state budget is a holdover from last year's state budget: The transition of the state's Consumer-Directed Personal Assistance Program (CDPAP) to a single fiscal intermediary. The CDPAP program provides roughly half of New York State's home care and enrolls approximately 250,000 participants. In CDPAP, enrollees choose their own caregivers, who may be friends or relatives, and the caregivers are paid by an entity called a fiscal intermediary (FI); 600 FIs are currently licensed, including many for-profit intermediaries and a smaller number of nonprofit disability rights-oriented providers. Last year, legislators and the governor agreed in the budget to require all participants to use a single FI, banking an extraordinary (and largely unexplained) $500 million in state-share Medicaid savings. The deadline to complete the transition was set at April 1, 2025. This summer, a Georgia-based company called PPL was selected as the single FI.

The transition to a single FI has faced massive opposition, both from well-funded FI industry lobbyists seeking to protect their niche in the home care system and from advocates for older adults and the disabled, who worry that consumers and workers will suffer. The transition is supported by the Governor, who has argued that a single FI will enable better program oversight, and by 1199, the state's largest private-sector labor union, which will be better able to organize CDPAP workers in a consolidated system.

Even for those who support the transition in principle, the timeline is cause for serious concern. Last year's budget deal made it illegal for FIs to operate in the state after April 1 – but with that deadline less than six weeks away, the state is reporting that only 50,000 of the program's 250,000 consumers have either "either started or completed" the transition.[14] (The fact that the state is declining to separately report how many have *completed* the transition makes one suspect the number is quite low.) It is extremely unlikely at this point that all participants will be able to make the transition by April 1, and for those who don't transition, the consequences may be frightening: Lost access to care for participants and missed paychecks for low-income workers.
Thus far DOH has expressed no willingness in public to support a shift to the deadline, which would require legislative action.

Cuts to Medicaid Eligibility

Another piece of "unfinished business" has attracted far less attention but is likely to be far more consequential for New York's Medicaid system in the long term: The state is threatening to implement significant restrictions on eligibility for long-term care by requiring an "asset lookback" for long-term care and raising the bar for HCBS eligibility. These restrictions were enacted as part of the Medicaid Redesign Team II (MRT II) process under Governor Andrew Cuomo in 2020, but have not yet been implemented because of the pandemic and associated federal restrictions on Medicaid cuts.

[14] https://www.health.ny.gov/press/releases/2025/2025-02-14_cdpap.htm

- **Asset lookback:** Currently, individuals seeking Medicaid home care in New York must meet both an income test and an asset test. However, the asset test is significantly less restrictive than it would otherwise be because there is no "lookback": Beneficiaries may give away their assets to family members, or place them in trust, in order to qualify and are not penalized for doing so. In 2020, however, the state passed a law creating a 30-month "lookback": Applicants would need to submit documentation showing whether they had given away assets in the 30 months prior to enrollment, and would be penalized through an enrollment delay if so. This change would save the state very little money if enacted (just $11 million state-share per year, according to 2020 state estimates), but would create substantial paperwork and delays for applicants.

- **Three-ADL rule:** Also in 2020, the legislature raised the bar for eligibility for HCBS based on eligibility: While people are currently eligible for LTC if they struggle with only two activities of daily living (ADLs), under this rule they would need to demonstrate difficulty with three ADLs. This change would have a far larger effect, cutting LTC spending by an estimated $277M (state-share) according to 2020 state estimates.

A major open question regarding these changes is whether they, and particularly the ADL change, have been "priced in" to the state's forecast of Medicaid cost and enrollment growth. The state is projecting that MLTC enrollment growth will continue at its current rate (12 percent per year), strongly implying that its forecasts *do not* incorporate the ADL rule change. If this is the case, then the state's projections of MLTC cost growth are somewhat exaggerated.

Open Questions on the Nursing Home Transition and Diversion Waiver

The Nursing Home Transition and Diversion (NHTD) program is a small program for high-need Medicaid beneficiaries at risk of nursing home placement. The state reports rapid growth in this waiver and proposes a hard cap on total enrollment, which it suggests will save a somewhat astonishing $75 million state-share per year. The state does not publish any statistics on total spending or enrollment in the NHTD waiver, but figures in its waiver application to the federal government suggest that the program enrolled just 5-6,000 beneficiaries at a total cost of around $500 million, so savings of $75 million state share / $150 million total (around 30 percent of *total* program spend in previous years) would be very large. The implication of these figures is that the program, which has existed for many years, is suddenly growing very rapidly, at a rate of around 30 percent per year.

What might explain such rapid growth? First, dynamics in the Managed Long-Term Care program may be encouraging enrollment: MLTC plans have a financial incentive to avoid enrolling participants with high home care needs, and we have received anecdotal reports that some plans may encourage high-need participants to move to the NHTD program. Second, upheaval caused by the CDPAP FI transition may be at work, encouraging some individuals to switch programs.

Whatever is causing growth in NHTD, there is substantial reason to doubt that the state will achieve $75 million in savings by capping the program. NHTD serves a very high-need population, and capping NHTD growth will force those excluded from the program to seek care elsewhere – whether through Managed Long-Term Care or by entering a nursing home. In either case, Medicaid will continue to pay for their care, and it is not obvious that the state will achieve any savings – much less the tens of millions assumed in the Executive Budget.

Doubling Down on a Wasteful Managed Long-Term Care Program

New York's Medicaid long-term care program has been run on a managed care basis since 2011. While managed care was initially viewed as a way to improve quality by coordinating care while controlling costs, even the architects of the move to managed care see the current MLTC program structure as a failure. Medicaid MLTC MCOs cannot provide meaningful care coordination, since they fund only long-term care; most program participants receive other healthcare through Medicare rather than Medicaid. And they don't even fund all long-term care; nursing home care has been carved out of the program since 2020. Thus the plans essentially function as little more than pass-throughs for home care spending. Plans which receive a fixed monthly payment per enrollee have little incentive to coordinate care; instead, they are incentivized to enroll clients with relatively low needs while avoiding those with high needs. In addition, the plan market is highly fragmented, making it difficult for the state to exercise sufficient oversight. While most other states select a limited number of MCOs through a procurement process, New York allows any plan that meets program requirements to participate – resulting in a large number of plans and reduced accountability to the state.

Two major avenues for reform have been proposed. A coalition including advocates for the aged and disabled and major unions has advocated eliminating managed long-term care and returning to a simpler, more efficient system of direct state payment, in which care management would be paid for as a separate service. (This is sometimes described as "managed fee-for-service.") This would offer the state significant administrative savings, as much as $3 billion according to some advocates.

On the other hand, those who continue to believe in the promise of managed care for the dual-eligible population have proposed that the state exercise more control over the system by initiating a procurement for MCOs. This would increase accountability and would also address the care management problem: a procurement would give the state more power to require plans and participants into "aligned" Medicare/Medicaid managed care plans, which combine funding from Medicare Advantage and Medicaid.[15]

In the FY25 Executive Budget proposal, the state appeared poised to take the latter route: The budget proposed a procurement for MCOs. The legislature rejected that proposal, which would likely have significantly reduced the number of managed care plans.

This year, the state does not even propose such a move. It now proposes merely to encourage Medicare/Medicaid alignment through unspecified administrative action – a far less potent tool than procurement. The broken structure of the state's MLTC program is likely to remain in place for the foreseeable future.

Other Long-Term Care Actions:

- Nursing home rate increase ($200 million state-share).
- Removal of long-stay nursing home residents from Mainstream Managed Care ($15.2 million in annualized state-share savings)

[15] This view is well summarized in the "Final Report on Managed Care Organization Services" which the state commissioned from the Boston Consulting Group.
https://www.health.ny.gov/health_care/managed_care/reports/docs/final_report_mco_services.pdf

Mental Health

Involuntary Commitment and Assisted Outpatient Treatment

Among the most controversial aspects of the state budget this year is mental health. The Executive Budget proposes expanding involuntary commitment of people experiencing mental illness as well as Assisted Outpatient Treatment (AOT, also known as Kendra's Law), which allows courts to order individuals to undergo outpatient treatment. Governor Hochul has argued that these moves are humane and necessary, pointing to a handful of high-profile incidents in which mentally ill homeless people have harmed others or been harmed themselves in New York City. Advocates for the homeless argue that expanding forced treatment represents a carceral approach to mental health.

The Executive's proposed changes to involuntary treatment laws are relatively modest. New York State already has laws on the books allowing police to involuntarily transport individuals to a hospital for a psychiatric evaluation if they appear to be a danger to themselves or others, and allows psychiatric professionals to order involuntary commitment of those who appear to require it. Governor Hochul's Office of Mental Health issued guidance expanding the scope of those laws in 2022 by clarifying that for the purposes of the law a person can be a "danger to themselves" if they appear unable to care for themselves, even if they don't appear to be at immediate risk. Also in 2022, New York City Mayor Eric Adams ordered the police to ramp up involuntary removals, and the city has been pursuing them at a rate of 130 per week since that time. The Executive's proposed changes do little more than codify existing regulatory guidance and make other technical changes, like allowing psychiatric nurse practitioners as well as psychiatrists to make determinations regarding involuntary commitment. Rather than representing a dramatic shift towards a more carceral approach to homelessness, the Executive proposals effectively doubles down on existing policies.

Existing policies, however, have not succeeded in addressing the problem of homelessness among mentally ill people. As has been widely reported, involuntary removals and commitments of the mentally ill frequently result in a "revolving door" of short-term treatment: A mentally ill individual is taken from the subway to a psychiatric ward, admitted for a short-term stay, discharged, and back on the street in a few days. Psychiatric wards in general hospitals are not intended for and do not provide long-term residential care. The state does operate long-stay psychiatric facilities, but these are near capacity: The state's 2,386 adult OMH beds statewide are at 93% capacity, while forensic beds are at 97% capacity. Supportive housing with access to services is likewise in extremely short supply (94.4% occupancy in New York City as of 2024), and the process for entering such housing can take over a year.[16]

Other Mental Health-Related Actions

State operating spending on mental hygiene is projected to leap from $5.5 billion in FY25 to $7.7 billion in FY26, but this increase is largely due to various reclassifications of DOH Medicaid spending. Actual mental hygiene spending rose more modestly, from $5.97 billion to $6.7 billion, an increase of 12.2

[16] https://www.nyc.gov/assets/operations/downloads/pdf/mmr2024/MMR-2024-Cover.pdf

percent. The Executive proposes a variety of investments in the Office of Mental Health (OMH), the Office for People with Developmental Disabilities (OPWDD), and the Office of Addiction Services and Supports (OASAS), including:

- **Targeted inflationary increase of 2.1 percent** ($195.4 million state / $328.3 million all funds) and a further $53 million to fund minimum wage increases among nonprofits working with OMH, OPWDD and OASAS. This increase is less than the current rate of inflation.
- **Capital funding for a new 100-bed forensic inpatient facility on Ward's Island ($160 million)**
- Operating support for forensic inpatient facilities ($28.3 million annually)

Healthcare Workforce Actions

Scope of practice and licensure proposals

The Executive Budget proposes a number of changes to licensure and scope of practice for healthcare professionals. Many of these proposals were also included in the FY25 Executive Budget, but rejected by the legislature. These proposals are typically supported by healthcare sector employers, who argue that they would ease staffing pressures and lower labor costs, but opposed by the professional associations and labor unions representing the professions concerned, who worry that they would harm quality of care and create downward pressure on wages.

Proposals include:

- **Nurse Licensure Compact:** Under this proposal, New York would join the Nurse Licensure Compact, under which nurse licensing is standardized across 40 states. (In a shift from last year, the Executive does not propose joining the Medical Licensure Compact, which would do the same for physician licensing.)
- **Certified medication aides:** Under this proposal, CMAs would be allowed to administer medication in residential healthcare settings like nursing homes, work currently performed by trained nurses.
- **Pharmacists:** Under this proposal, pharmacists would be permitted to administer Covid-19 vaccinations and prescribe nicotine replacement therapy.
- **Physician assistant independent practice:** Under this proposal, physician assistants would be allowed to practice independently (without physician supervision) in some settings for some services.
- **Dental hygienists:** Under this proposal, dental hygienists would be allowed to administer anesthesia if they meet certification requirements.

Conclusion

New York's healthcare system faces an uncertain future: Republicans in Congress have threatened to dramatically cut Medicaid, which may force the state to consider cuts to the program or raise new revenue. Meanwhile, rising private-sector costs place a serious burden on families and employers across the state.

Regardless of what the next year brings in terms of federal cuts, policymakers must take a comprehensive, balanced approach to the healthcare system and address the root causes of healthcare spending growth.

IV. Housing Supply and Affordability

Summary of Findings

- Housing costs have grown unsustainable for New Yorkers across the State, demanding urgent policy intervention.
  - For renters, housing costs grew 57 percent faster than wages between 2019 and 2023.
  - Across the State, 23 percent of those making between 80 and 100 percent of their local Area Median Income pay over 30 percent of their earnings towards housing.
  - In New York City, 43 percent of those making between $50,000 and $100,000 face housing cost burdens.
- New York lags its neighbors and other large states in adding new housing.
  - Between 2014 and 2023, an average of 2.1 new housing units were permitted per 1,000 state residents in New York State.
  - In contrast, New Jersey permitted 3.3 units per 1,000 residents, Florida built 6.9, and California 2.7 units per 1,000 residents.
- The executive budget does not offer solutions on the scale necessary to bring down the cost of housing.
  - Instead, the executive budget expands tax abatements for mixed-income housing production.
  - The executive budget does not include funding for NYCHA, nor investment in a State voucher program. NYCHA and Section 8 vouchers both face risks to federal funding.
  - The executive budget does propose a revolving loan fund, but fails to fund it adequately so that it could contribute meaningfully to needed housing supply.

Introduction

New York faces four major problems: housing affordability, population loss, a lagging state economy and threats to federal funding for needed social services. While there is no cure-all for these policy concerns, all four of these problems would be improved if the State were to address the urgent need for more housing production and deeper investment in housing affordability.

In recent years, both City and State legislative debates have focused on the housing crisis, but have made only limited progress. Two years ago, Governor Hochul proposed the Housing Compact, a set of measures estimated to generate 800,000 new units of housing over 10 years by enforcing housing production requirement on localities and implementing density requirements in Downstate transit centers. The proposal was rejected due to opposition from legislators representing the New York City suburbs, and the Hochul administration hasn't since revisited such bold attempts at reform.

Last year, the Governor and legislatures came to what was lauded as a "landmark" housing deal. The deal included renewal of long-running New York City tax abatements for mixed-income housing development as well as the long-awaited passage of "Good Cause Eviction" protections—an important victory in the tenant protection agenda—alongside modest regulatory reforms such as the legalization of Accessory Dwelling Units. The deal, however, did not include serious progress towards needed land-use reform.

Also in the last year, New York City passed the "City of Yes" legislation, which reforms zoning restrictions to allow the production of an estimated 80,000 additional units of housing over the next decade. This, too, is an important measure, but it falls short of producing the more than 500,000 units that the metropolitan area needs.[i]

This year's executive budget proposes even less than in prior years to transform the housing landscape, and fails to establish affordability measures to protect low-income New Yorkers from housing insecurity. The proposed budget does include some modest proposals that may help in the production of mixed income housing, but these programs would need to be expanded dramatically if they were to make a difference in the State's red hot housing market. Concurrently, federal funding for housing programs will likely see major reductions over the next few years, something that New York policymakers should be thinking about as we go into this year's budget negotiations.

The bottom line is this: New York must build more housing. By building more housing in the State, New York can grow its population, grow its economy, and grow its revenue. More revenue makes possible deeper social investment and a broader safety net, tools we need now more than ever. And building housing will also provide more affordable housing options to more families, which will begin to address the cost-of-living crisis that has prompted many families to pick up and leave the State altogether.

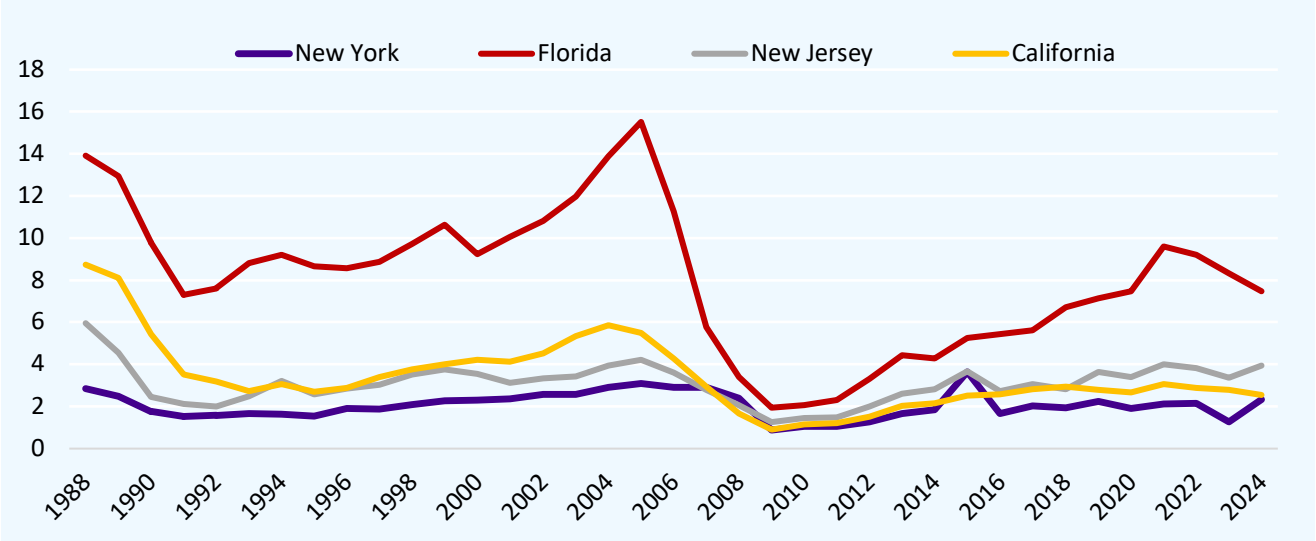
This brief will discuss (i) the current state of New York's housing market; (ii) possible risks to federal funding for housing under the Trump administration; (iii) this year's executive budget proposals; and (iv) policy recommendations for this year's budget negotiations.

A Severe Housing Supply Shortage

While advocates, researchers, and policymakers until recently debated the merits of policies that increase the supply of housing, a consensus has emerged that under-supply of housing drives rent increases, housing insecurity, displacement, and homelessness.[ii] Without reforms to land-use that allow for large increases in the overall supply of housing—on the order of 800,000 units more than is currently projected in the next decade—New York's affordability problems will remain.[iii] In order to achieve this target, New York would need to increase housing production rates by approximately 50 percent.

New York lags its neighbors and other large states in adding new housing. Between 2014 and 2023, an average of 2.1 new housing units were permitted per 1,000 state residents in New York State. By contrast, neighboring New Jersey permitted 3.3 units per 1,000 residents and fast-growing Florida built 6.9. These two states are the top destinations for New Yorkers who leave the state, attracted in part by more affordable housing. Even California permitted one-third more housing per capita (2.7 units per 1,000 residents) than New York over this period.

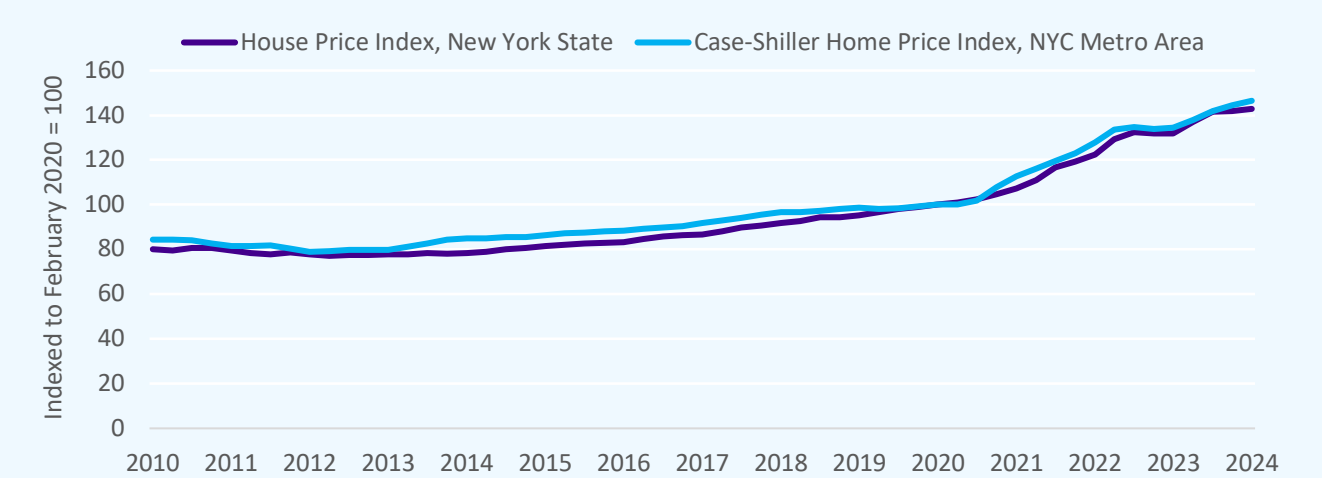
Figure 1. New housing units permitted per 1,000 residents by state, 2009 to 2024



Source: U.S. Census Bureau, New Private Housing Units Authorized by Building Permits

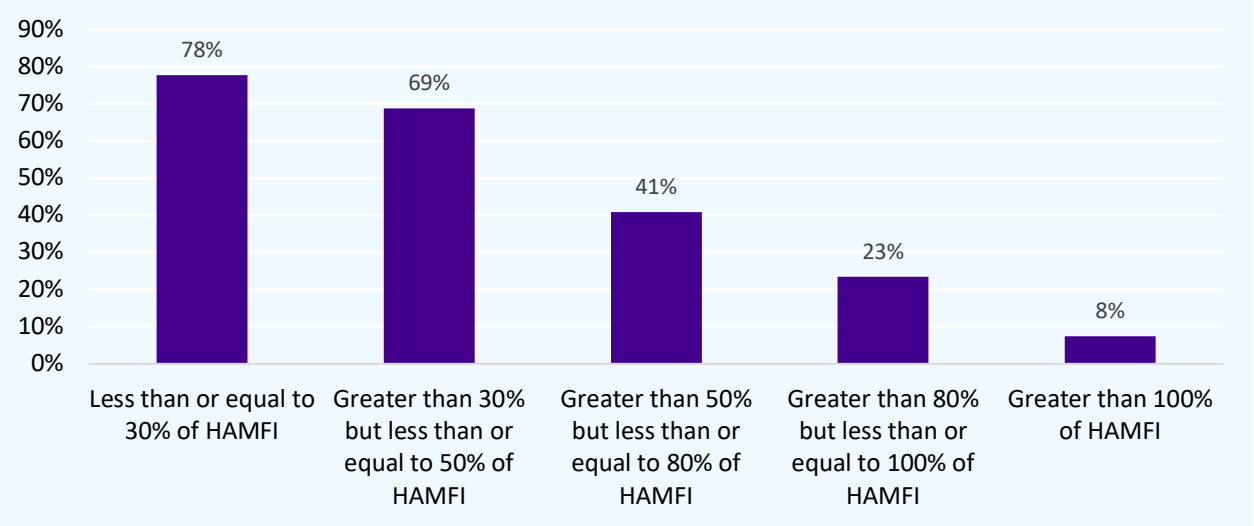
The lack of adequate housing supply has pushed up prices in the State to beyond what many New Yorkers can pay. Between 2020 and 2024, home prices for owner-occupied housing increased by over 40 percent. For renters in New York City, the median income grew by 11.5 percent from 2019 to 2023, whereas housing costs grew by nearly 18 percent. That is, for renters in New York City, housing costs grew 57 percent faster than wages between 2019 and 2023.[iv] For homeowners in New York City, incomes grew by 9.8 percent from 2019 to 2023, whereas housing costs grew by 11.6 percent. That is, for homeowners in New York City, housing costs grew 18 percent faster than wages between 2019 and 2023.[v]

Figure 2. Home price indexes for New York State and New York City



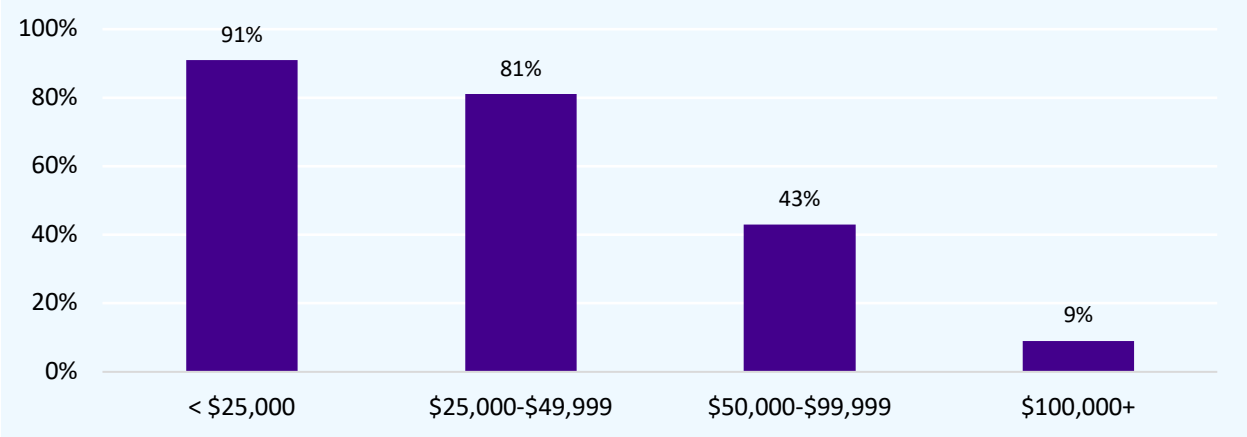
All around the State, New Yorkers are burdened by the cost of housing. For those making between 30 percent and 50 percent of their local HUD area median family income (or HAMFI, a measure defined by the federal department of housing and urban development, meant to capture the average income in someone's locale), a full 69 percent pay over 30 percent of their annual earnings towards housing costs. For those making between 80 and 100 percent of their HAMFI, 23 percent pay over 30 percent of their earnings towards housing. In New York City, over 80 percent of renters making less than $50,000 per year face housing cost burdens (defined as paying over 30 percent of annual income towards housing), and 43 percent of those making between $50,000 and $100,000 face housing cost burdens.

Figure 3. Proportion of New York State households experiencing housing costs greater than 30% of their household income



Source: HUD CHAS

Figure 4. Proportion of New York City renters experiencing housing costs greater than 30% of their household income, by household income

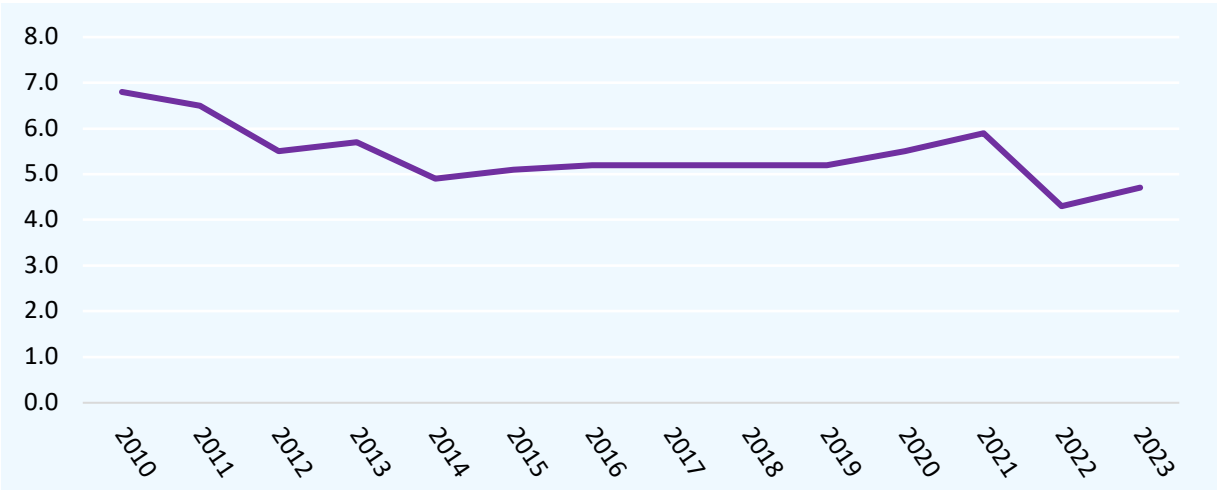


Source: New York City Vacancy Survey

The vacancy rate in the rental housing market is at historically low levels in both the State and New York City. In the State, the rental vacancy rate dipped below 5 percent in 2022 and remained below 5 percent in 2023. According to State law, localities that document a vacancy rate below 5 percent can opt into rental price regulation. With a State average below 5 percent, these data indicate that a significant portion of the State may also be in what State law considers to be a "housing emergency."

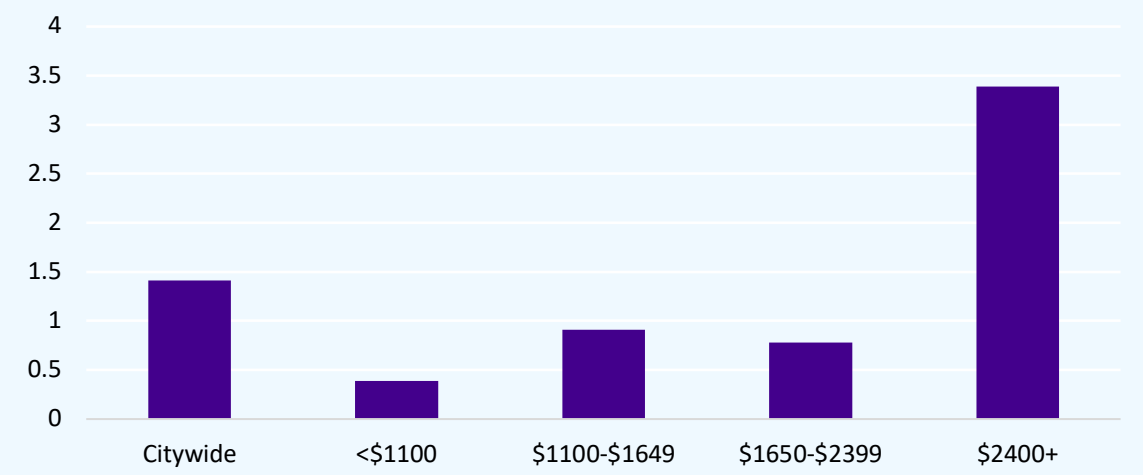
In New York City, the 2023 vacancy survey found an overall vacancy rate of 1.4 percent in the City. This vacancy rate is even more extreme when looking at apartments with more affordable rents. Apartments with rents below $1,100/month saw a vacancy rate below 0.5 percent, and apartments with rents between $1,100/month and $1649/month saw a vacancy rate below 1 percent. With such little wiggle room for New York renters, many are left with no option but to leave the State if they can no longer afford housing.

Figure 5. Rental Vacancy Rate, New York State



Source: U.S. Census Bureau, Rental Vacancy Rate for New York

Figure 5. 2023 rental vacancy rate in New York City, by monthly rent

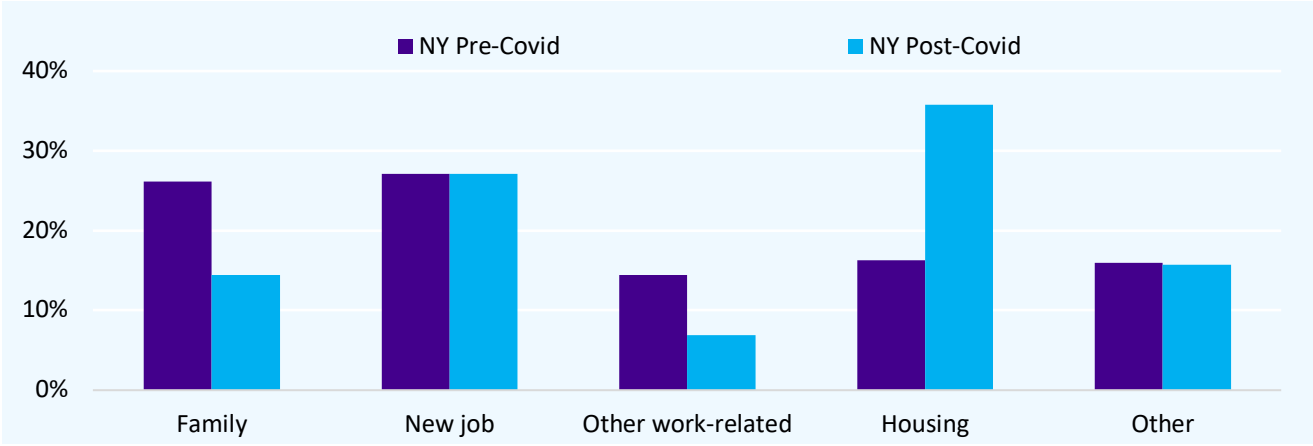


Source: New York City Vacancy Survey

Housing affordability has become the leading reason that families are leaving New York State. Recent population loss—546,000 people over the past four years[vi]—threatens the economic and fiscal stability of New York City by hindering job growth and undermining the tax base. 36 percent of out-migrants cite housing as their primary reason for moving out of New York. Before the Covid-19 pandemic, this number was only 16 percent.

While out-migration is not a new phenomenon for New York, elevated out-migration in the aftermath of Covid has led to the steepest population loss of any state in the U.S. Sustained population loss, concentrated in New York City, poses a long-run economic challenge to New York. Further, high housing costs and population loss are indicative of a policy failure; the State is unable to ensure families can grow and establish financial security while remaining in New York.

Figure 3. New York domestic migrants' reasons for moving, pre- and post-Covid



Note. Data from the Current Population Survey.

Threats to federal funding in New York housing policy

The federal government funds housing policy in New York State through three main mechanisms: 1) allocating Low Income Housing Tax Credits (LIHTC) that support building affordable housing, 2) Housing Choice Vouchers (i.e. Section 8 funding), and 3) direct grants that support affordable housing, including public housing (i.e. Section 9 funding). Each of these program areas face different threats from the incoming administration.

Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) has had generally bi-partisan support at the federal level. However, the allocation of LIHTC credits to New York dropped significantly during the previous Trump administration, from a high of $171 million in 2017 to a low of $60 million in 2019. The value of these credits is further threatened by decreases to corporate tax liability, limiting the demand for the credits. The appropriation amount is decided annually by Congress.

Section 8 Housing Choice Vouchers

Section 8 vouchers provide subsidies to low-income renters around the country. The program is administered by public housing authorities throughout the state, including the New York City Housing Authority, which distributes approximately $2 billion in Section 8 vouchers to low-income residents of the city. The conservative policy agenda "Project 2025" discusses imposing stronger work requirements on Section 8 benefits and limiting the amount of time an individual or household can access the benefit.

Section 9 and Other Grants

Public housing funded under Section 9 has decreased precipitously across the country in recent decades but still plays a large role in New York City's low-income housing landscape. As of fiscal year 2024, the New York City Housing Authority (NYCHA) received $1.3 billion from the federal government in operating support and projected another $4.5 billion in capital support over the years 2024-2028. Reductions in this funding would result in major fiscal challenges for the Authority. The New York City Department of Housing Preservation and Development (HPD) also receives approximately $180 million in Community Development Block Grant (CDBG) funding that could be at risk. At the State level, Homes and Community Renewal receives additional CDBG funding from the federal government.

Executive Budget Proposals

The executive budget includes a number of proposals that aim to support affordability and marginally increase home building in the State. Overall, the Governor's proposals rely heavily on tax incentive programs that may support some new development but are also costly for the State. The Governor also fails to propose any zoning reform plans that could significantly shift the housing market. Finally, the governor has not included plans to protect tenants from rising costs, nor any plans to establish a robust State housing voucher program.

This section reviews the executive budget proposals that 1) increase housing supply, 2) improve and preserve affordability, and 3) protect tenants and ensure fair housing opportunity.

Proposals to Increase Housing Supply

- A revolving loan fund to increase housing production

The Governor's executive budget proposes creating a revolving loan fund—funded at $50 million—that would provide low-interest rate loans to mixed-income housing development projects, making them cheaper to finance and thus better able to deliver long-term affordability. Particularly in a relatively high-interest rate economy, a revolving loan fund could help stimulate the production of mixed-income multifamily housing.

While there are relatively few details of the proposal included in the executive budget, similar models have been used in Montgomery County, Maryland and gained attention for its success. In Maryland, the revolving loan fund produces one housing unit for approximately $9,000 in public funds. Because they use a mixed-income model, cross-subsidizing 30 percent of the units that are set at affordable rents with 70 percent set at market rate, the cost equates to $30,000 for each permanently affordable unit and zero cost for the market rate units.[1] Massachusetts has also recently implemented a similar revolving loan fund for mixed-income multifamily construction in the greater Boston region.[vii]

While New York may not be able to achieve quite the same cost breakdown as Maryland, public investment in new mixed-income multi-family housing can be relatively cost effective. In Montgomery County, their revolving loan fund was capitalized with $100 million and could reportedly produce 1,500 units every 5 years. New York need to be building closer to 40,000 units every 5 years. Thus, New York policymakers should consider raising the revolving loan funds capitalization to at least $2 billion.

- Reforms to New York's State Environmental Quality Review Act (SEQR)

One hurdle that may be slowing New York's private-sector housing production is the State Environmental Quality Review process, which subjects state and local governments to what can be a lengthy and expensive review process for actions like up-zonings. Discussion about reforming the State Environmental Quality Review Act (SEQR) has been ongoing for a few years. The fiscal year 2024 State of the State opened a review process internal to the Department of Environmental Conservation. Additionally, legislative proposals, such as one that would streamline the regulatory process for multifamily affordable buildings (2023-S925C), have been introduced. This year's executive budget proposes to allow some multi-family developments that are no larger than 10,000 square feet to bypass review under SEQR. With a 10,000 square foot size restriction, this bill will only apply to relatively small multifamily developments (4 units or less in most cases), dramatically limiting its effectiveness.

- Acquire abandoned properties and expand tax abatement for redevelopment (ELFA, parts J and M)

[1] These cost calculations do not take into account any property tax relief that Montgomery County may be giving the new buildings, nor does it consider whether the buildings are produced using publicly owned land.

The executive budget expands the definition of what qualifies as an "abandoned" dwelling under the Real Property Actions and Proceedings Law. The expanded definition will make it easier for municipalities to acquire these abandoned buildings (ELFA, part J). This proposal goes hand-in-hand with another proposal in the executive budget that would expand a tax abatement under section 485-r of the Real Property Tax Law (ELFA, part M). Under current law, this property tax abatement only applies to cities with a population between 15,000 and 15,500 and can only be used for owner-occupied single-family homes. The new proposal allows all cities, towns and villages to use the tax abatement and expands its applicability to 1–4-unit buildings and those that are either owner-occupied or renter-occupied.

- Affordable homebuyer tax exemption (ELFA, part K)

This proposal, which adds section 457-a to the Real Property Tax Law, gives municipalities the right to establish a property tax exemption for housing that is used as a primary residence for a household making under 80 percent of the area median income. The property would need to be sold or leased to the qualifying family by a government entity, nonprofit housing organization, or land bank. The value of the tax exemption is between 25 and 50 percent of the assessed value of the property.

- Double the value of the State Low Income Housing Tax Credit (SLIHC; Revenue, part D)

The State Low Income Housing Tax Credit (SLIHC) is modeled after the federal Low Income Housing Tax Credit (LIHTC), providing tax credits to developers of affordable housing. In the executive budget, the Governor has proposed to increase this coming year's allotment of credits from $172 million to $187 million. The proposal also doubles the rate at which available tax credits have been increasing year to year; since 2022, the total amount of allocated credits has been increased by $15 million each year, but under the new proposal, credit allocation will increase by $30 million each year through 2029.

Proposals to Improve and Preserve Affordability

- Ban Collusion Through the Use of Algorithm-Enabled Rent Price Fixing (ELFA, part H)

The executive budget proposes amending the General Business Law to ban the use of algorithmic tools that coordinate rental prices between two or more property owners or managers. The intent of the law is to prevent collusion between property owners and managers that can create anti-competitive forces and drive up the price of housing. There are not penalties for these coordinating activities specified by the proposed law.

- Decrease property taxes for Mitchell-Lama Dwellings (ELFA, part L)

The executive budget proposes to reduce the local property tax rate of New York City Mitchell-Lama developments from its current level of 10 percent of annual shelter rent (rent net of utility payments) or carrying costs for the development, to just 5 percent of annual shelter rent or carrying costs. The amendment would also allow other municipalities around the State to opt into this change. The intent of the bill is to provide financial relief to Mitchell-Lama properties that are currently facing high and rising operating costs.

- Transfer funds from Mortgage Insurance Fund to housing programs (ELFA, part N)

This bill authorizes $98 million in excess funds from the Mortgage Insurance Fund, part of the State of New York Mortgage Agency (SONYMA), to be used for three other housing programs run by the State:

1) $18.19 million for Neighborhood and Rural Preservation Programs,
2) $23.46 million for the Rural Rental Assistance Program, and
3) $56.38 million Homeless housing programs.

The transfer will not harm SONYMA's credit rating.

- Waiting Period Restriction and Limit Deductions on Institutional Real Estate Investors (Revenue, part F)

This proposal puts restrictions on the types of entities that can purchase single- or two-family homes. Specifically, the law does not allow an institutional investor who owns 10 or more single- or two-family homes and has $50 million or more in assets to buy a single- or two-family home unless it has been on the market for over 75 days. Entities that violate this law would be subject to $250,000 in damages and penalties. The proposed law also bans institutions investors from claiming depreciation tax deductions on these homes, lessening the financial incentive to buy them. Overall, the goal of this proposal is to limit the amount of competition that family home-buyers face from institutional investors and to limit the amount these institutional investors can push up prices in the market.

Tenant Protections and Anti-discrimination Programs

- Combatting Home Appraisal Discrimination (ELFA, part G)

The executive budget proposes to include new legislation forbidding home appraisers from discriminating on the basis of race, gender identity, sexual orientation, immigration status, and many other demographics and identity characteristics. Those who violate the law in this manner would be subject to a fine not exceeding $2,000, of which 50 percent will be paid into the anti-discrimination in housing fund. The proposal also expands the activities allowable by the anti-discrimination in housing fund.

Policy Recommendations

Achieving housing affordability requires a three-pronged approach consisting of: (i) increasing the supply of housing; (ii) public financing of affordable housing; and (iii) tenant protections that stabilize the market for lower-income households and prevent evictions.

Mounting evidence demonstrates that the overall availability of housing – the "housing supply" – drives the rates of eviction, homelessness, and gentrification-induced displacement. Zoning rules from the mid

20th century have limited housing growth regionally, driving up inequality, segregation, housing insecurity and dampening economic growth for all.

In the absence of more substantial proposals, the budget negotiations will likely revolve around modest increases to tax benefit programs. This year, policymakers should consider the following proposals:

Policies that support housing supply and invest public funds into affordable housing

- Increase funding to proposed revolving loan fund and grant zoning override authority to funded projects

The executive budget contributes $50 million into a revolving loan fund that would supply low interest rate "mezzanine" loans to housing developers producing mixed income housing. These low-interest rate loans fill a financing gap faced by many housing developers in the State; the current rate of borrowing is high enough that many projects become financially infeasible. This proposal from the Governor is good but does not go far enough to meet the needs of New Yorkers. Three changes should be made to the proposal to strengthen the legislation's impact:

1) **Policymakers should significantly increase the amount of funding supplied to the revolving loan fund**. At its current funding level, the fund will assist in the production of *at most* 1,000 units every 5 year. This is simply not enough to meet the State's housing needs. The fund should be increased to at least $2 billion. With that level of funding, the fund could support on the order of 30,000 new units every 5 years.
2) **Authorize local zoning overrides for projects using these funds.** Housing supply in the State is hindered by strict zoning regulations that are outdated and responsible for driving up inequality and housing prices in the State. The revolving loan fund will be able to move more expediently and will fund projects more efficiently if those projects can be exempted from local zoning regulations.
3) **Establish an equity portfolio at HCR and maintain partial ownership of projects.** By maintaining partial ownership of projects, the State can earn revenue on the projects that can then be reinvest in future projects.

- Increased State funding for NYCHA and other public housing authorities

In this year's budget, the Governor has not allocated any funding towards one of New York's most important assets for low-income households: the New York City Housing Authority, which provides permanently affordable housing to half a million New Yorkers. In the last budget, New York State contributed $135 million to the New York City Housing Authority (NYCHA). Over recent years, NYCHA has been predominantly funded by City and Federal funds. With federal funding at risk over the next few years, New York State should focus on securing stable funding for NYCHA operations. Further, NYCHA continues to need over $30 billion in capital funds to repair apartments that are currently in poor condition. Stable funding from the State could dramatically improve the conditions and expand access for NYCHA residents, predominantly very low-income New Yorkers.

- Faith-Based Affordable Housing Act (S7791/A8386)

The Faith-Based affordable housing act would permit faith-based organizations to build affordable housing on their premises. The specifics of what construction would be allowed vary by municipality size. In New York City, faith-based organizations would be permitted to build up to a height of 55 feet, or the height of the tallest building already on the premises (or higher, depending on the local zoning). It is estimated that, if enacted, the legislation would add 60,000 units of housing to the State over the next ten years.[viii] Notably, permitting housing on the premises on faith-based organizations, which are tax-exempt, would increase the property tax base in New York, as the newly built housing would not be exempt from taxation. This could significantly increase revenue to municipalities around the State.

- Establish a Social Housing Development Authority (S8494/A9088)

A social housing development authority (SHDA) would serve as a public developer within a division of the government that could authorize bond issuance to fund and build mixed-income multifamily housing around New York. The authority would maintain ownership rights over the housing it produces so that the State benefits from the success of projects. By building mixed-income housing, the SHDA would cross-subsidize affordable apartments with market-rate apartments and would target maximizing affordability while minimizing public costs. Importantly, the SHDA would have the ability to override local zoning rules, allowing it to build multifamily housing in areas currently not zoned to permit such housing.

Policies that protect tenants, prevent eviction, and reduce housing insecurity

- Housing Access Voucher Program (S72/A1704)

The Housing Access Voucher Program (HAVP) would establish funding to be distributed to families or individuals who are either homeless or at risk of losing their homes imminently. The program would be administered by the Division of Housing and Community Renewal (HCR). Last legislative session, both the State Assembly and State Legislature included HAVP in their One-House proposals, funded at $250 million. The Child Poverty Reduction Advisory Council's 2024 Recommendations and Progress Report emphasizes the role of a housing choice voucher program modeled after the federal section 8 housing choice vouchers as a key tool for the State to use to reduce child poverty.[ix]

- Rent Emergency Stabilization for Tenants Act (REST Act; A4877)

This year, new legislation has been proposed that would ease the process for localities to opt into rental price regulations. Currently under state law, a locality must perform a housing vacancy survey and use the survey's results to prove that the local vacancy rate is below 5 percent, before being able to opt into rental price regulations. This requirement demands a high level of administrative funding and process that makes rental regulation out of reach for many small municipalities. The REST Act proposes that localities be able to use pre-existing public data and other factors to support opting into rent stabilization. The Act also would expand the types of buildings that can be rent regulated to all buildings with fewer than six units and any building that has not been built or substantially renovated in the last year. The bill only applies to areas outside New York City.

Conclusion

It is not looking like this will be a year for major housing reforms. Nonetheless, given the State's slow growth and the extent of the affordability crisis in the State, New York policymakers must address the housing shortage in the State. This requires seriously grappling with land-use reform to allow for more housing production across the State. In the absence of these reforms, New York policymakers should consider expanding current public investment in housing production. In light of federal funding risks, New York policymakers should specifically make sure that NYCHA receives necessary operating and capital funds.

[i] Marcel Negret and others, The Affordability Squeeze (Regional Plan Association, May 2024), https://rpa.org/work/reports/impacts-ny-housing-crisis.
[ii] https://homelessnesshousingproblem.com/
[iii] Marcel Negret and others, Meeting Housing Need and the Pace of Growth in New York State, (Regional Plan Association, December 19, 2022), https://rpa.org/latest/lab/meeting-housing-need-and-the-pace-of-growth-in-new-york-state.
[iv] Based on data from the American Community Survey
[v] Based on data from the American Community Survey
[vi] NYC Department of City Planning Population Division, New York City's Current Population Estimates and Trends, *June 2024.*
[vii] https://www.masshousing.com/en/developers/bild
[viii] Estimate by Open New York.
[ix] https://otda.ny.gov/news/meetings/CPRAC/2024-12-18/attachments/2024-12-18-CPRAC-2024-Recommendations-and-Progress-Report.pdf