Fiscal Policy Institute
540 Broadway
Albany, NY 12207
fiscalpolicy.org

info@fiscalpolicy.org

What to Expect in Tomorrow's State of the State?



Nathan Gusdorf January 12, 2026

****Albany, NY** |* Fiscal Policy Institute Executive Director Nathan Gusdorf issued the following statement in advance of the State of the State address on behalf of FPI**:*

Tomorrow afternoon, Governor Kathy Hochul will give her annual State of the State (SOTS) address. The speech is expected to focus on making life more affordable for New Yorkers, particularly in light the election of Mayor Zohran Mamdani, who campaigned on an ambitious affordability agenda comprising universal childcare, free buses, and affordable housing.

But "affordability" can mean many different things. Last year, the Governor's affordability initiatives[a] prioritized a small tax cut for families making up to $300,000 and a one-time "inflation refund" check of up to $200 per adult. FPI criticized these measures[b] at the time as relatively inconsequential for household budgets, costly to the State, and inferior to permanent, structural policy changes that would more dramatically bring down the cost of living—for instance, establishing universal childcare.

Only a few days ago, the Governor and the Mayor jointly announced a new commitment to a universal childcare program, representing a shift towards more structural efforts to address affordability. Average childcare costs range from $20,000 to $25,000 annually. Eliminating or minimizing that cost will directly increase the ability of all families, even the relatively well-off, to stay in New York.

The joint announcement commits to phasing-in funding for "2-Care" in New York City, expanding of Universal Pre-K funding for the rest of the state, and additional funds to shore up the State's childcare voucher program for low-income families.

However, the State's ability to pursue bold policy initiatives will depend on its fiscal outlook, which faces serious challenges in the coming years due to federal funding cuts.

These are the issues to look out for in the Governor's address:

What Is the State's Fiscal Outlook?

As FPI explained in its November brief[c] on the State's fiscal outlook, there are two competing trends at plat. First, the Division of Budget's projected budget gaps, including a forecasted $4.2 billion gap in fiscal year 2027, would seem to exert pressure on the State's largest programmatic spending commitments, namely public schools and Medicaid. But these budgetary expectations are unrealistically bearish and would only come about in the event of a recession. Even if New York's economy were to grow at a below-average rate over the next three years, the State would continue to realize multibillion dollar annual surpluses (as it has in recent years).

At the same time, FPI's report shows that the State is underestimating the impact of federal funding cuts from the so-called "One Big Beautiful Bill Act," the costs of which will rise from $5.8 billion next year to $14.3 billion by 2030.

Because these spending cuts were imposed to offset federal tax cuts for the wealthy, it is both fair and economically reasonable for the State to recapture those tax cuts in order to sustain its public programs.

FPI estimates that in the next year alone New York's millionaire-income earners will save over $12 billion on their federal taxes[d] from the Trump tax cuts.

Will Childcare Be Universal?

The announcement by the Governor and the Mayor affirmed their aspiration to achieve universal childcare, but the program's long-term success, and its goal of truly universal coverage, will ultimately require new revenue measures.

SOTS watchers should pay attention to whether the Governor signals a commitment to putting childcare on even footing with public schools, such that childcare becomes a fully-funded legal entitlement for every infant and child in the state.

How Will the State Manage Federal Cuts to Medicaid and SNAP?

The costs of the federal cuts under the OBBBA will be concentrated in two programs: Medicaid and the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps). The State must manage these challenges to prevent a dual crisis of health insurance loss and hunger.

FPI estimates that up to one million New Yorkers could lose insurance coverage and 340,000 could lose SNAP benefits due to the cuts (and many low-income New Yorkers will lose both benefits).

Governor Hochul should speak to the State's plan to prevent these crises—for instance, the State should consider simply paying to keep these New Yorkers enrolled in Medicaid or setting up a public option through which the disenrolled could receive affordable insurance coverage

Will the State Change the School Funding Formula?

Public schools are the State's second largest spending program, behind only Medicaid. Since taking office, the Governor has consistently proposed reductions in planned education spending by changing the public school funding formula.

Last year's final budget included certain formula changes that had long been a priority of education advocacy groups, such as updating the poverty data, but the enacted budget also reduced growth in school funding for New York City by $320 million.

FPI will be watching for any signals that new spending reductions could be proposed this year.

Links

a https://fiscalpolicy.org/policy-and-research/governor-hochuls-affordability-policy-report-card
b https://fiscalpolicy.org/press/statement-on-2025-state-of-the-state
c https://fiscalpolicy.org/media/pages/policy-and-research/what-to-expect-in-tomorrows-state-of-the-state/3bd952f427-1789771122/2025.12.1-state-budget-outlook.pdf
d https://fiscalpolicy.org/policy-and-research/new-yorks-millionaires-will-get-a-12-billion-federal-tax-cut-next-year