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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.

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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.

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Table of Contents

Executive Summary 2

I. Executive Budget Financial Plan 3

II. National Economic Outlook 10

III. State Economic Outlook 16

IV. Fiscal Outlook 30

- Revenue 31
- Expenditures 38
- Projected Budget Gaps 40
- Reserves 42

V. New York's Tax Base 44

VI. Tax Policy & Revenue Options 50

- Raising the Personal Income Tax 50
- Taxing Capital Gains 54
- Taxing Inherited Wealth 57

VII. Education & Higher Education 59

- School Aid 59
- Higher Education 60
- Executive Budget Proposals 61

VIII. Healthcare 64

- Medicaid Spending 64
- Executive Budget Proposals 66
- FPI Recommendations 70

IX. Housing 72

- New York's Housing Shortage 72
- Executive Budget Proposals 74
- Executive Budget Shortcomings 78
- FPI Recommendations 80

X. Climate 84

- New York's Climate Goals 84
- Executive Budget Proposals 89
- FPI Recommendations 91

Endnotes 95

Executive Summary

This year's executive budget proposes constrained spending growth of just over 2 percent. Following a period of high inflation, rising housing costs, and state population loss, this is no time for the State to hold back from investing in the policy initiatives necessary to make New York a more affordable place for working families.

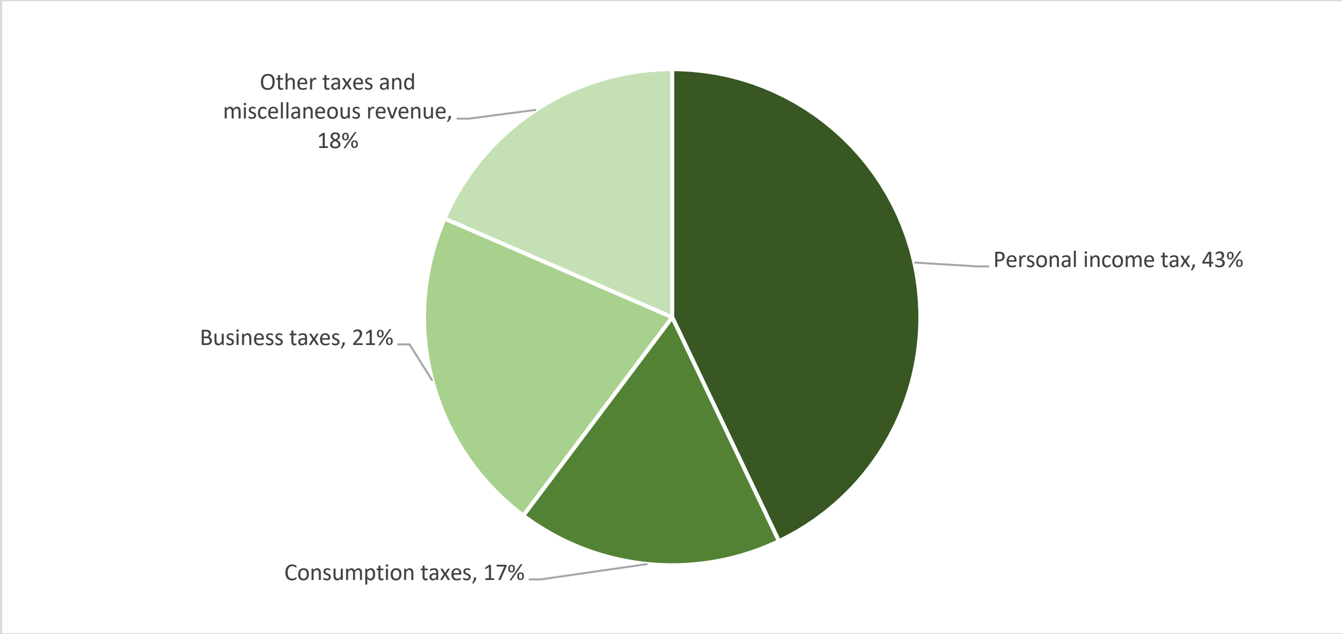
In education spending, the executive budget modifies the Foundation Aid formula so that school funding increases fall behind inflation, and leaves the SUNY system with an operating deficit. In healthcare, the executive budget proposes over $1 billion in cuts to total Medicaid spending, including a reversal of recent wage gains by home care workers. Meanwhile, the number of hospitals that face serious financial distress continues to rise. On housing policy, in contrast to last year's systematic proposals for housing reform, the executive budget only puts forth an array of tax incentives that subsidize private developers. And on climate, the executive budget misses an opportunity to invest in meeting the State's renewable energy goals.

Fortunately, the State is in a strong fiscal position to manage these policy challenges. Tax revenue remains stable despite a return to more ordinary rates of growth after the bumper years of Covid, and the State continues to have a large population of ultra-high income earners who can bear a substantially higher tax burden. Contrary to a policy myth that these high earners will leave if their taxes increase, recent FPI analysis has shown that this population rarely moves out of New York State in search of lower taxes.

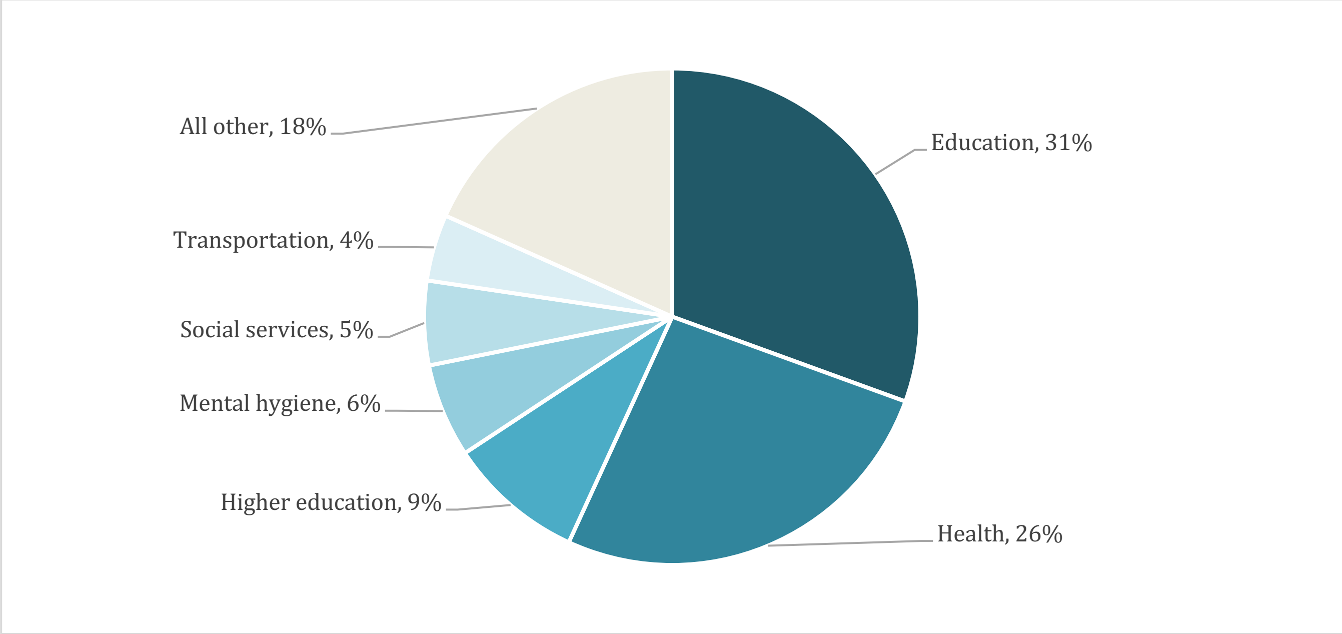
Chapters 7-10 of this publication review executive budget proposals on education, healthcare, housing, and climate, and make recommendations on how the budget could be improved. Given the strength of the State's fiscal position, and the acute problems faced by working families who struggle with a rising cost of living, now is the time to invest in making New York affordable.

I. Executive Budget Financial Plan

State Operating Funds Revenue: $129.3 billion



State Operating Funds Expenditures: $129.3 billion



Introduction

Budget curbs spending growth for school aid and Medicaid

The fiscal year 2025 executive budget presents moderate spending and revenue proposals for the year ahead. The executive budget's low rate of spending growth follows its expectation of low revenue growth in fiscal year 2025. To restrain spending, the budget proposes a 50 percent smaller increase to school aid than had been previously planned, and a $1.2 billion savings plan for Medicaid. Beyond these two programs (the State's largest spending areas by a considerable margin) the budget's other area of significant proposed spending growth is to support New York City's services to asylum seekers.

2.1 percent growth from fiscal year 2024 spending

The executive budget offers modest spending proposals for fiscal year 2025. The budget spends $129.3 billion in state operating funds — a measure of State-controlled funds that excludes federal aid and capital spending. This represents 2.1 percent growth from fiscal year 2024 spending — lower than the State's forecasted 2.7 percent inflation for fiscal year 2025.

Table 1.1. State operating funds spending growth, fiscal years 2024 to 2025

Billions of dollars

	FY 2024	FY 2025	% change
School Aid	$ 33.4	$ 34.9	4.3%
Medicaid	$ 35.7	$ 35.0	-2.1%
Asylum Seeker assistance to NYC	$ 0.8	$ 1.6	93.9%
All other local assistance	$ 21.7	$ 23.3	7.8%
State operations, general charges, debt service	$ 35.0	$ 34.5	-1.4%
Total State spending	$ 126.6	$ 129.3	2.1%

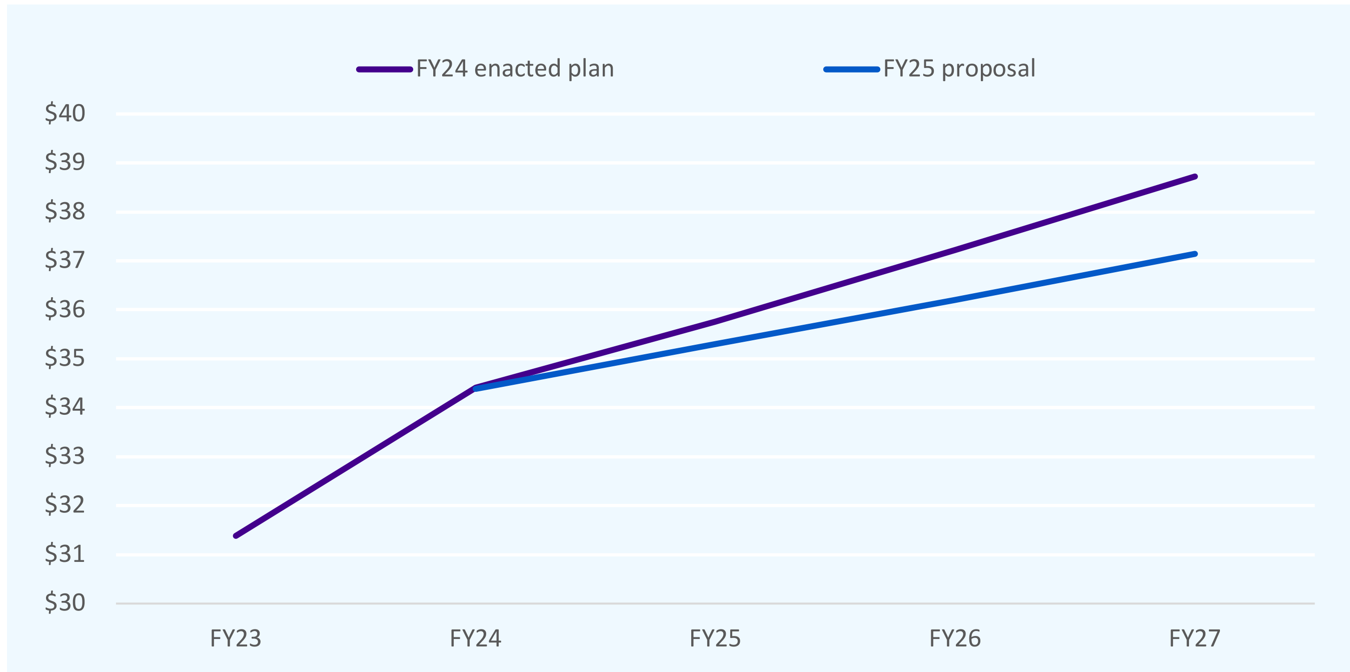
Note: For consistency, school aid here uses state fiscal year basis, not the commonly used school year basis; Medicaid includes all agency spending and removes Department of Health state operations spending; asylum seeker assistance reflects direct assistance to New York City and excludes related state operations spending.

School aid growth reduced by 50 percent

Funding for statewide public school districts is perennially the State's largest single expenditure.[1] As part of last year's budget, a formula-based funding model known as Foundation Aid was fully implemented to apportion school aid. Foundation Aid was the result of decades of advocacy and litigation to commit the State to increasing school aid, with past administrations delaying its implementation in the aftermath of the 2008 financial crisis, then slowing phasing-in during the 2010s. The fiscal year 2024's final phase-in of Foundation Aid drove school spending up nearly ten percent

from the prior fiscal year. For fiscal year 2025, the executive budget proposes sharply curtailing this growth rate, reducing school aid growth (on a school year basis) to 2.7 percent, a $454 million step down from the increase planned by last year's budget. Chapter VII will detail the proposed changes to the Foundation Aid formula as well as other changes to funding for education.

Figure 1.1. School aid under fiscal year 2024 enacted budget financial plan and fiscal year 2025 executive budget proposal



Medicaid spending set to fall in fiscal year 2025

The executive budget reports that the State's spending on its Medicaid program (excluding federal and local shares of spending) is set to grow to $30.9 billion in fiscal year 2025, up $3 billion, or 10.9 percent, from fiscal year 2024. However, this only captures Medicaid spending made by the Department of Health (DOH), the State agency that administers most, but not all, of the State's Medicaid program.

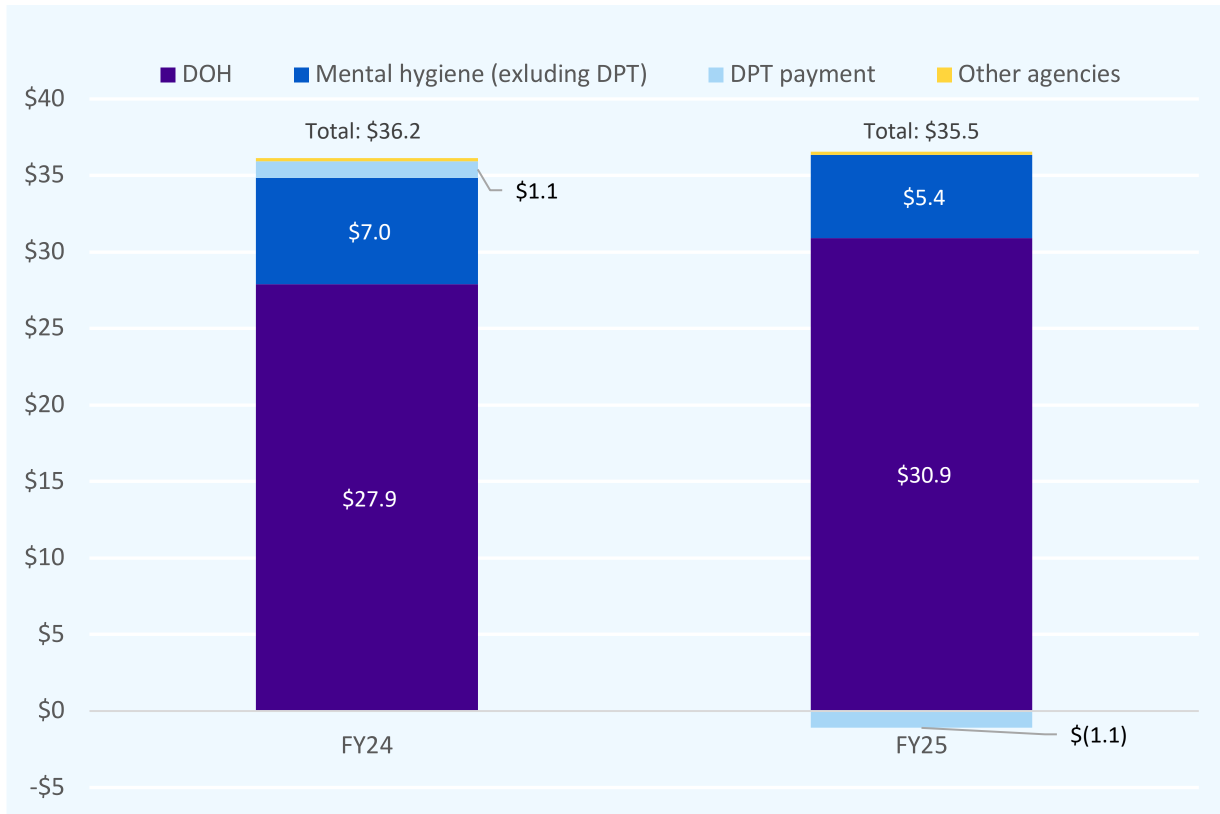
Other State agencies administer smaller Medicaid programs. Other agency Medicaid spending was significantly elevated in fiscal year 2024. This was driven by the State's apparent reclassification of Medicaid cost overruns and loans to hospitals (which the State expects to recoup next year) as spending made by the Office for People with Developmental Disabilities.

Accounting for this other agency spending, total State Medicaid spending is set to fall $700 million, or 1.9 percent, to $35.5 billion in fiscal year 2025. However, Medicaid spending is projected to grow in future years, driven by enrollment and demographic trends.

To restrain Medicaid spending, the financial plan includes proposals to cut spending by $1.2 billion in fiscal year 2025, with projected savings rising to $1.8 billion in fiscal year 2026. These annual savings include $400 million in unspecified spending reductions as well as $400 million in cuts to home care

worker wages. These cost reductions are included in the budget's fiscal year 2025 spending projections. Medicaid funding and the budget's policy proposals are detailed in Chapter X of this briefing.

Figure 1.2. State-share Medicaid spending by source, fiscal years 2024 and 2025



$2.2 Billion Added for Asylum Seekers

The executive budget proposes allocating $2.2 billion to support asylum seekers in New York City in fiscal year 2025, the largest area of spending growth beyond DOH Medicaid. This support is comprised of direct funding to New York City as well as increased state operations services to manage the crisis. Of the newly allocated funding, $1.6 billion directly supports New York City, including direct funding to the City and full reimbursement for its costs of three emergency shelters. The remaining $600 million in additional aid is State-direct emergency response funding, including deployment of the National Guard, and services that support asylum seekers, including healthcare services.

The budget proposes adding a collective $2.4 billion in support for asylum seekers through fiscal year 2026. This is in addition to the $1.9 billion committed in prior budgets, set to be disbursed between fiscal years 2024 to 2026. The executive budget plans to shift $500 million in funds from fiscal year 2024 to 2026 using a temporary reserve deposit. The State's reserves are discussed below.

Aid to New York City is disbursed through the State's Office of Temporary and Disability Assistance (OTDA). This aid, together with an increase in public assistance, is set to drive state spending on social welfare up by $1.5 billion in fiscal year 2025, or 27.8 percent – the largest percent increase of any program area.

Table 1.2. State support for asylum seeker services, fiscal years 2024 to 2026

Dollars in millions

	FY 2024	FY 2025	FY 2026
Aid to NYC	$ 830	$ 1,609	$ 676
Other services	$ 465	$ 602	$ 97
Total	$ 1,295	$ 2,211	$ 773

Revenue: No growth expected in year ahead

The fiscal year 2025 executive budget expects state revenue (which excludes federal funding) to reach $129.3 billion, up 0.5 percent from fiscal year 2024. While the State expects solid growth in personal income tax revenue (6.3 percent), it expects low growth in sales and business taxes. Other taxes and miscellaneous revenue are set to fall $3.5 billion, or 12.8 percent. This expected loss is concentrated in "other transactions" revenue earned by the State's special revenue funds. Major sources of "other transactions" revenue are the Health Care Reform Act (HCRA) taxes and gaming revenue. However, the State does not expect either of these two revenue sources to decline in the year ahead, and does not explain the drivers of this anticipated drop. Recent State forecasts have had an especially difficult time predicting revenue from these transactions in recent years.

Table 1.3. Change in state revenue, fiscal year 2024 to 2025

	FY 2024	FY 2025	% change
Personal income tax	$52.2	$55.5	6.3%
Consumption taxes	$21.9	$22.4	2.3%
Business taxes	$27.2	$27.5	1.1%
Other taxes & misc. revenue	$27.4	$23.9	-12.8%
Total	$128.7	$129.3	0.5%

Revenue proposals: Modest measures to raise $396 million

The executive budget proposes modest revenue actions consisting of measures that will collectively raise $396 million annually. The budget's proposal to make permanent a limit on high earners' itemized deductions comprises a vast majority of this value, bringing in an estimated $350 million annually. Passed in fiscal year 2009 and set to expire after tax year 2024, the provision limits the itemized deductions those earning over $525,000 can claim. The provision limits the total value of itemized deductions for those earning more than $1 million to 25 percent of the taxpayer's charitable deduction for both New York State and New York City income tax purposes. This limitation raises the effective tax rate for high income tax filers who would otherwise claim itemized deductions.

Beyond making limitations on itemized deductions permanent, the executive budget proposes three further small revenue actions. First, technical changes to the PIT and CFT would raise $20 million annually. Second, extending the sales tax to vacation rentals would raise $16 million annually. Finally, the allowance of amended sales tax returns would raise $10 million annually. Because local governments conform to the State tax system, these changes would also raise local revenue by $44 million.

Fiscal management: Strong fiscal position yields a current year surplus

The executive budget expects to end fiscal year 2024 with a $2.2 billion surplus, driven by higher-than-expected revenue. Of this surplus, the budget proposes using $1.7 billion to prepay fiscal year 2025 expenses — raising fiscal year 2024 expenditures and lowering them by the same amount in fiscal year 2025. The executive budget plans to deposit the remaining $500 million into its unrestricted general fund reserves. This $500 million deposit is temporary, with a planned withdrawal of $500 million in fiscal year 2026 to support New York City's asylum seekers services. While the executive budget specifies that these funds will be temporarily held in the State's informal fiscal reserves — designated the "economic uncertainties fund" — the shifting of funds between years through undesignated funds balances is a routine fiscal practice. The State's statutory and informal reserves are otherwise set to be held constant over the duration of the financial plan.

While the executive budget projects a $2.2 billion surplus, it also adds an additional $1 billion to its general fund balances, even after accounting for its prepayments and reserve deposit. This additional undesignated balance is available to offset costs in future fiscal years.

Figure 1.3. New York's reserve balances, fiscal years 2019 to 2028

The executive budget financial plan takes the unusual step of adjusting its reported spending levels for fiscal years 2023 through 2025 to account for the timing of prepayments and federal reimbursements. These adjustments illustrate this year's spending trajectory as if no prepayments had been made in fiscal year 2024 and certain federal aid did not exist. Making these adjustments, spending would be higher in both fiscal year 2024 and 2025, primarily because debt service prepayments made in fiscal years 2022 and 2023 lower actual debt service in fiscal year 2024 and subsequent years. Further, the apparent rate of spending growth is higher under this counterfactual scenario. This is the result of prepayments, which raise current year spending to lower future spending, and two selected types of temporary federal aid:

enhanced fMAP, which lowers State share Medicaid spending, a FEMA reimbursement. Without prepayments and federal aid, spending would rise more quickly between fiscal year 2024 and 2025 than it actually is. While the executive budget financial plan's tabulation of this counterfactual spending measure is new, the use of prepayments is not: prepaying future expenses is a routine fiscal management practice.

Table 1.4. Executive budget illustrative spending adjustment

	FY 2024	FY 2025	% change
Actual spending	$126.6	$129.3	2.1%
FY24 prepayment	$1.7	$(1.7)	
Medicaid recoupment delay	$1.1	$1.1	
Selected federal aid	$(2.7)	$(0.4)	
Prior debt service prepayments	$(3.7)	$(3.7)	
Counterfactual spending	**$130.2**	**$136.2**	**4.5%**

II. National Economic Outlook

Key Takeaways

- Rebounding from Covid, the US unemployment rate is now at a historical low.
- Standard measures of economic health do not align with public sentiment — high inflation over the past two years, including soaring housing costs, have left many people feeling pessimistic about the state of the economy.
- Inflation and home price appreciation are driving an affordability crisis.
- Robust federal fiscal policy supported rapid economic recovery from Covid-19.

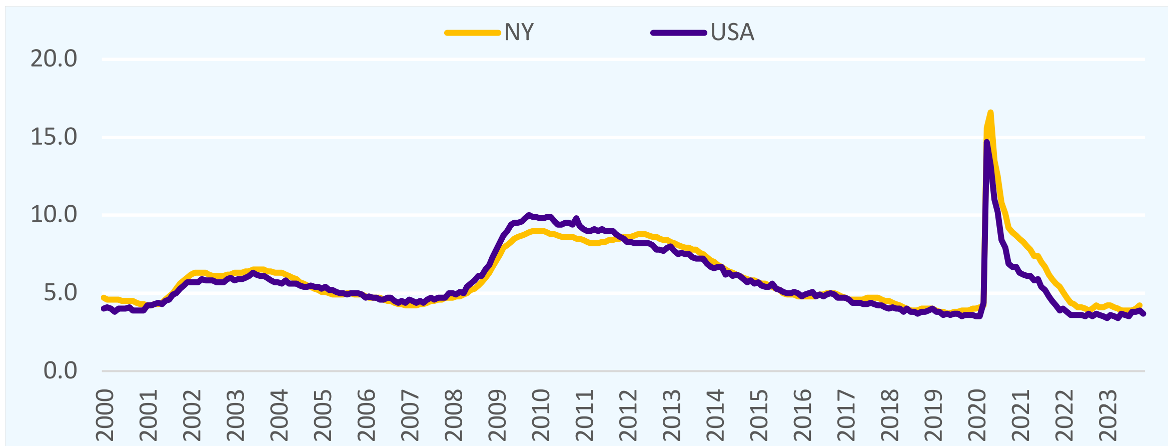
Introduction

Over the last four years, the US economy has experienced one of the most severe recessions in history. Despite the profound impact the Covid-19 pandemic had on people's lives and on labor markets, the national economy now looks stronger than expected — and appears to have recovered to pre-pandemic levels of employment. In fact, evidence shows a strong job market with historically low levels of unemployment and compression in the wage distribution. The strength of the labor market and economy more broadly are attributable to the robust fiscal spending during the pandemic. The Covid-19 fiscal policy proved the importance of large and broad support during crisis. However, standard measures of economic health do not align with public sentiment. High inflation over the past two years, including soaring housing costs, have left many people feeling pessimistic about the state of the economy.

Rebounding from Covid, the US unemployment rate is now at a historical low

The Covid-19 pandemic drove unemployment to increase to nearly 15 percent (over 15 percent in New York) in the first two quarters of 2020. This rate of unemployment far exceeded the top rate of unemployment during the Great Recession, driven in part by stay-at-home orders and in part by the fact that many people did not want to leave their homes and risk catching the deadly Covid-19 virus. However, despite this extreme increase in unemployment in early 2020, unemployment declined rapidly over the following two years and the current rate of unemployment is at a historic low of under 5 percent. New York is experiencing similarly low unemployment rates.

Figure 2.1. Unemployment rate in New York and the USA.



Simultaneously, forecasts of real Gross Domestic Product (GDP) reveal that the economy has consistently out-performed expectations over the last year. The past year started with many economists and policymakers fearing an imminent recession due to the fact that the Federal Reserve was raising interest rates to curb inflation — an action that could have resulted in heightened unemployment. However, no such increase in unemployment has materialized, suggesting that the Federal Reserve might have successfully accomplished a "soft landing," a curbing of inflation without an induced recession. Additionally, estimates of GDP show a strong and growing economy. Forecasts from three major US economic institutions — the Federal Open Market Committee (FOMC), the Congressional Budget Office (CBO) and the Philadelphia Federal Reserve's quarterly Survey of Professional Forecasters — each show improving sentiment regarding economic growth in 2023. Predictions are a bit more variable for 2024, but overall have improved over the past year, as economists become more confident in the state of the economy.

Table 2.1. Projections for real GDP growth rate by 2023 and 2026, by source and date of projection.

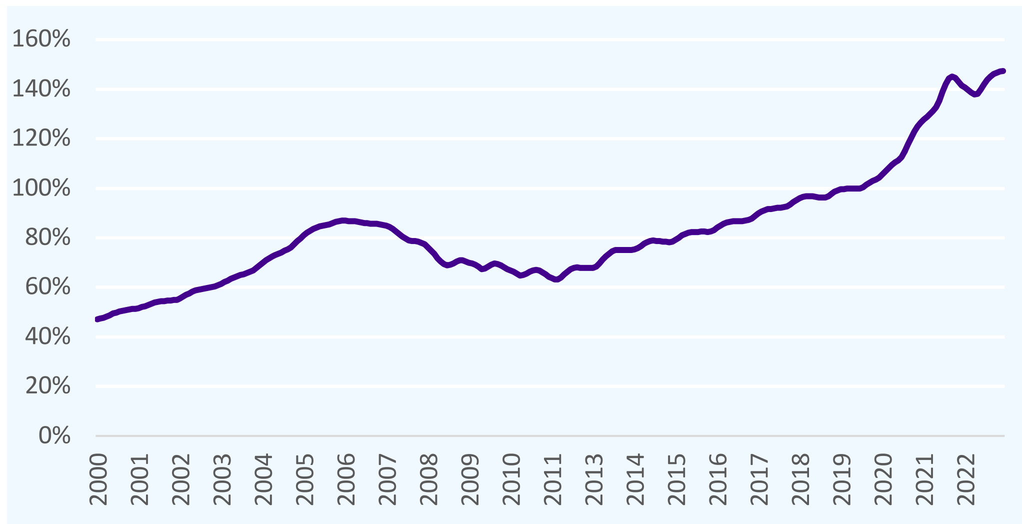
		2023	2024	2025	2026
CBO	February 2023 Projections	0.3	1.8	2.7	
	July 2023 Projections	1.5	1.0	2.2	
	December 2023 Projections	2.5	1.5	2.2	
FOMC	March 2023 Projections	0.4	1.2	1.9	
	June 2023 Projections	1.0	1.1	1.8	
	September 2023 Projections	2.1	1.5	1.8	1.8
	December 2023 Projections	2.6	1.4	1.8	1.9
Philadelphia Fed Survey of Professional Forecasters	February 2023 Projections	1.3	1.4	2.2	1.5
	May 2023 Projections	1.3	1.0	2.4	2.3
	August 2023 Projections	2.1	1.3	2.1	1.7
	December 2023 Projections	2.4	1.7	1.8	2.1

Inflation and home price appreciation are driving affordability crisis

While unemployment is low and GDP growth appears robust, prices and particularly the cost of housing have increased dramatically over the past few years, causing many individuals and families to face tightening budgets. Following the peak of the Covid-19 recession, inflation rose to over 8 percent, its highest rate since 1980. This increase in inflation was due in large part to shortages in the supply of goods stemming from the Covid-19 recession, as well as the war in Ukraine, which has caused supply shortages of resources including oil and wheat. Perhaps even more dramatically, home prices in the US have on average seen an over 40 percent increase since the start of the pandemic — an increase in size rivaling the run-up of home prices seen leading into the Great Recession.

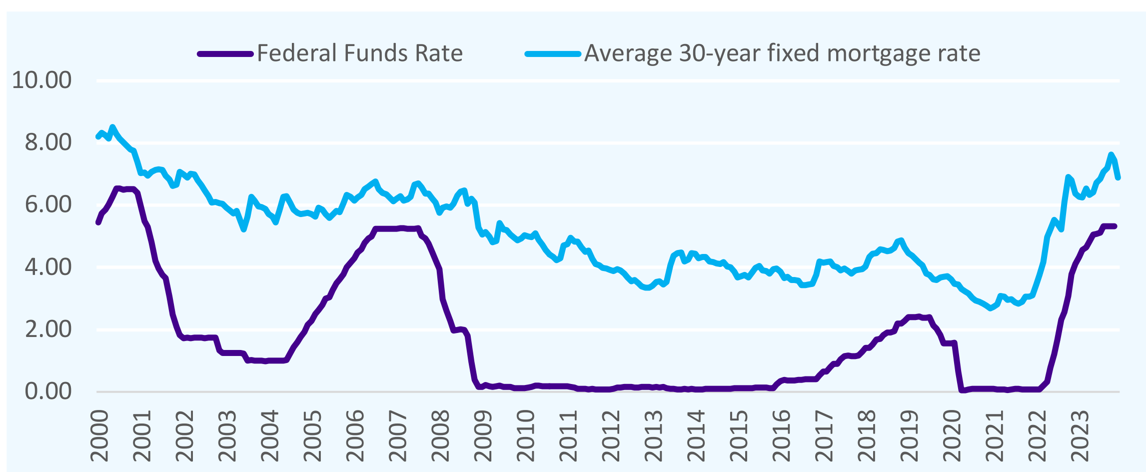
Figure 2.2. Year-over-year change in the consumer price index, i.e. inflation

Figure 2.3. Case-Shiller home price index, normalized to 100% in January 2020.



The increase in prices over the past few years has been addressed with monetary policy — increasing the Federal Funds rate — to slow economic activity and bring prices back down. Over 2022 and 2023, monetary policy makers increased the Federal Funds rate from near zero to over 5 percent — a large and rapid hike in rates. This interest rate hike has also pushed up other interest rates in the economy, including mortgage rates, increasing the cost of housing further for families. As of November 2023, inflation has cooled significantly, indicating that monetary policy has served its purpose in cooling prices. However, home prices have remained at historic highs despite the large increase in mortgage rates (which would typically push home prices down), indicating that housing is more expensive than it has ever been in history.

Figure 2.4. Federal funds interest rate and mortgage rates since 2000.



Robust fiscal policy supported rapid recovery from Covid-19

Finally, the Covid-19 pandemic also inspired the largest Federal fiscal spending seen since WWII. Current federal fiscal spending on pandemic aid is estimated to be about $4.6 trillion dollars, over 20 percent of US GDP. The expansion of unemployment insurance, investment in public health resources, and aid to states and municipalities were of huge consequence in helping individuals and communities safely and securely weather the pandemic. Though millions of lives were lost, it is likely that federal fiscal spending over the pandemic saved millions more and created the conditions for a rapid return to robust economic activity and stability.

The success of the large fiscal spending during Covid-19 demonstrates the importance of a robust social safety net for improving economic functioning. Investment in economic security and public health are not only helpful for the individuals that they serve but important pieces of securing a strong and resilient economy.

One area of concern remains the size of US Federal debt, which has grown larger than annual GDP in the past 10 years and shows little sign of slowing. Sustaining robust fiscal spending at the Federal level will require increased taxation to provide new revenue. Building a sound foundation of revenue is of key importance to the health of the US economy over the coming years as it will be important for maintaining services and having the needed resources for any future emergencies.

Figure 2.5. Total government expenditures in billions of US dollars.

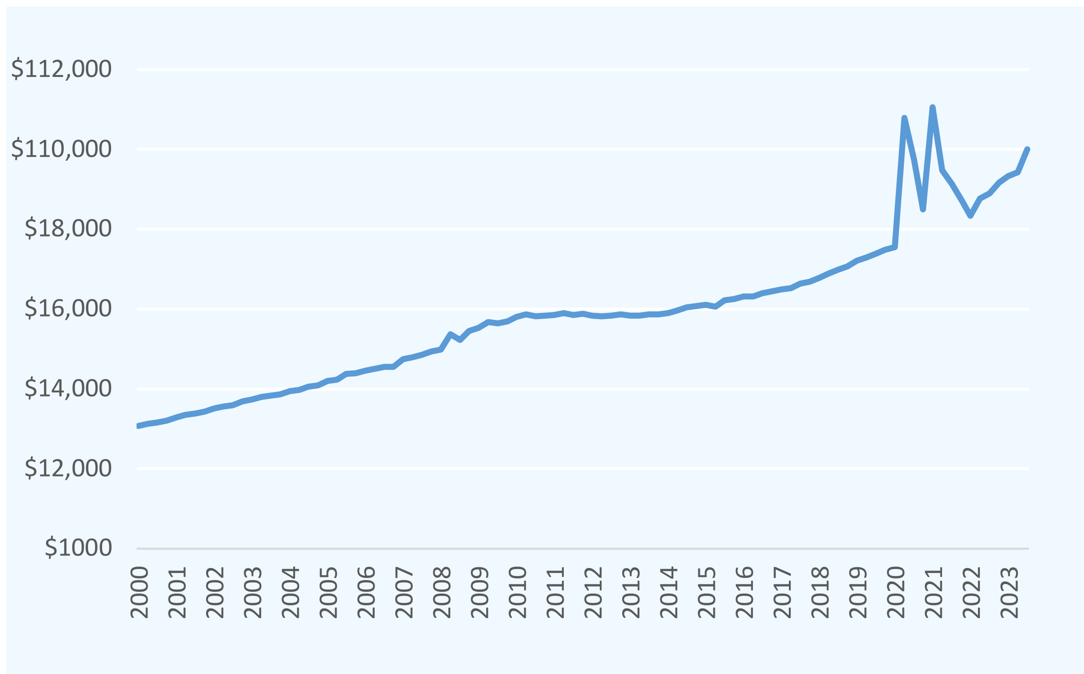
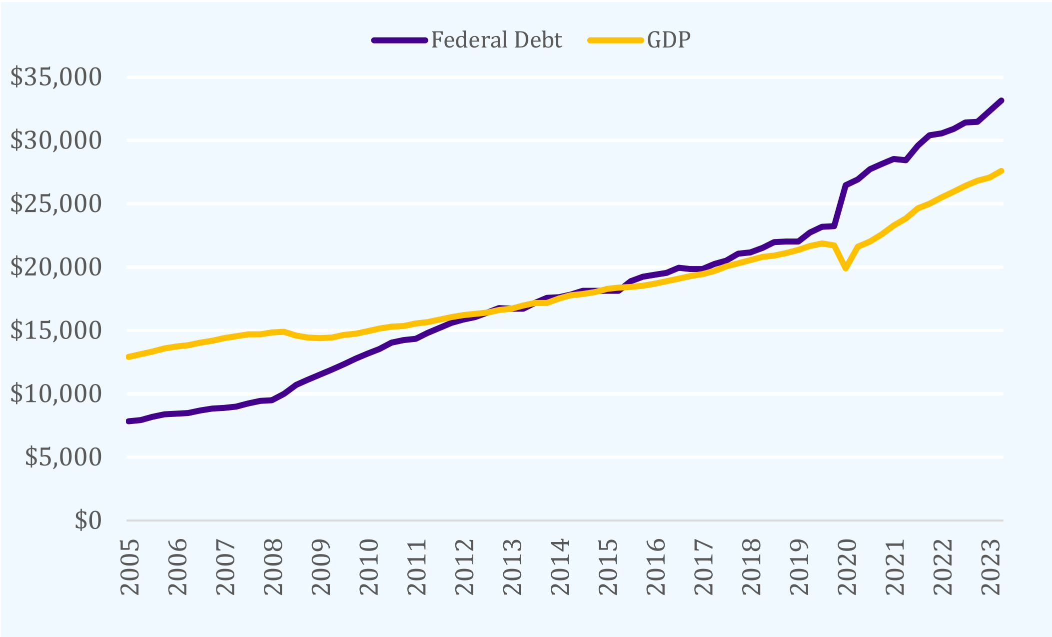


Figure 2.6. Nominal GDP and nominal federal debt level (billions US dollars)



III. State Economic Outlook

Key Takeaways

- New York State is home to one of the largest, most thriving economies in the world; as of 2022, New York's gross domestic product was over $2 trillion, rivaling the entire economy of Canada and larger than the economies of Australia and South Korea.

- Despite New York's aggregate economic strength, New York faces real economic challenges, including a decrease in total employment, climbing poverty rates, and extreme income inequality:

  - New York's total employment is around 9.72 million people — a decline of 120,000 workers since the eve of the pandemic.

  - The past three years have seen a rise in the poverty rate in New York to 14 percent.

  - The average income of the top 1 percent of earners in New York State is about $2.6 million in annual earnings, compared to just over $49,000 for the bottom 90 percent.

Introduction

New York State is home to one of the largest, most thriving economies in the world. As of 2022, New York's gross domestic product was over $2 trillion, rivaling the size of the entire economy of Canada and definitively larger than the economies of Australia and South Korea. Though both Texas and California boast larger overall economies, New York has the highest gross domestic product on a per capita basis of any US state — surpassing $100,000 per resident in 2022.

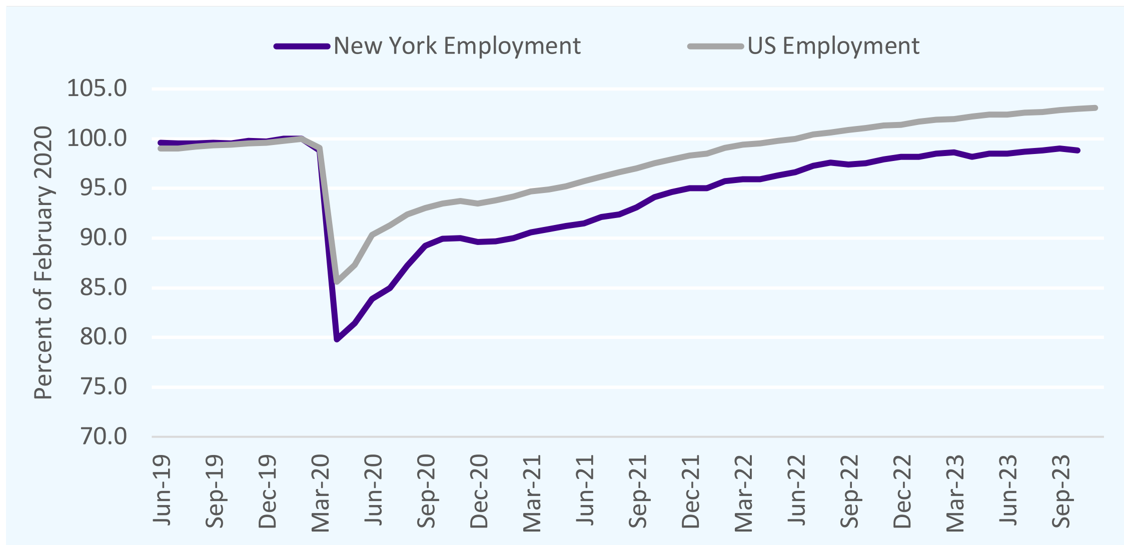
Despite New York's aggregate economic strength, the state faces real economic challenges. First, the Covid-19 pandemic induced a sustained decrease in total employment in the State relative to the rest of the country — in other words, while the rest of the United States has recovered and surpassed pre-pandemic employment, New York remains over 100,000 jobs below its pre-pandemic level as of the end of 2023. Second, poverty rates, which reached a 30-year low in 2020, have been climbing since the pandemic — a sign that New York faces real challenges in meeting the needs of its population. And third, New York's income inequality remains amongst the highest in the country.

A note on definitions. This report uses the terms "economy" and "labor market." By "labor market," the report refers to the wages and employment levels of the State. Discussion of the labor market includes the strength of the workforce as well as the resilience of jobs and employment opportunities. By the term "economy," the report refers to all economic activity taking place in New York, including the labor market, as well as consumption, total economic production, and costs to living such as housing and childcare.

New York's labor market has seen sustained deterioration since the start of Covid-19

In March of 2020, New York's employment (the total number of jobs based in the state) dropped by over 20 percent in a single month. Compared to the US as a whole — which saw a 15 percent decline in employment — New York suffered a worse shock to its labor market, while simultaneously serving as the epicenter of Covid-19 cases in the US. While US employment has surpassed pre-pandemic employment levels, New York's total employment — 9.84 million people in February 2020 — now hovers around 9.72 million people — a decline of 120,000 workers since the eve of the pandemic.

Figure 3.1. New York and US employment as a percent of their February 2020 levels.



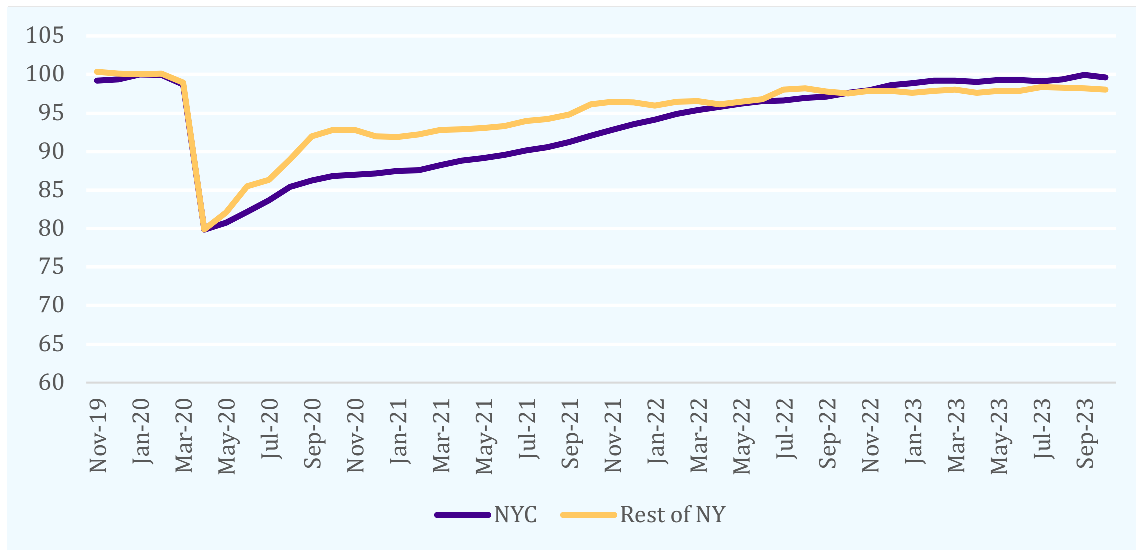
Note: Data from the Bureau of Labor Statistics and downloaded from FRED.

Seen relative to the US labor market, New York's employment level has fallen by four percentage points since the start of the Covid-19 pandemic and has shown no signs of recovery. This sustained deterioration in the size of the labor market following the 2020 Covid-19 recession indicates a potentially permanent shift towards a smaller labor market and economy.

New York's recovery has been strongest in New York City and the Hudson Valley

While overall employment has not fully recovered throughout the state, as of September 2023, employment in New York City had recovered to February 2020 levels. Employment in the rest of the state remains just below a full recovery, at 98 percent of the employment level of February 2020.

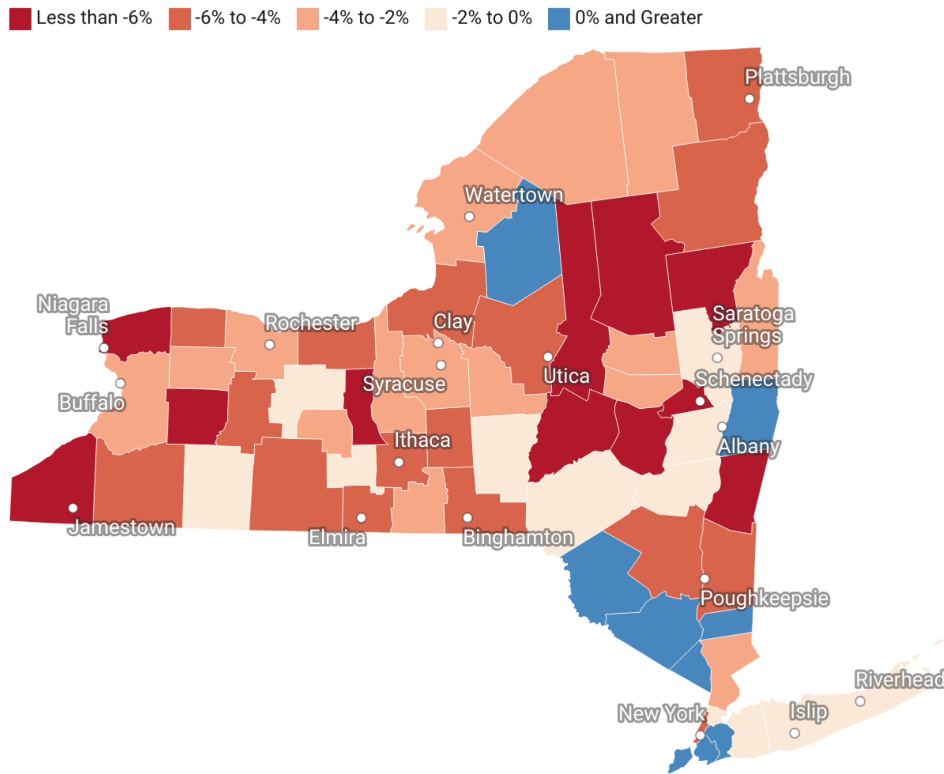
Figure 3.2. Employment relative to February 2020 in NYC and the rest of the State



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

Data at the county level reveal stark trends in employment across the state. Between 2019 and 2023, almost every county in the state experienced a sustained decline in employment. The only exceptions to this pattern are concentrated in New York City (excluding Manhattan and the Bronx) and parts of the Hudson Valley.

Figure 3.3. Change in employment by county between 2019 and 2023.



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

Table 3.1. List of counties that experienced positive employment growth between 2019 and 2023.

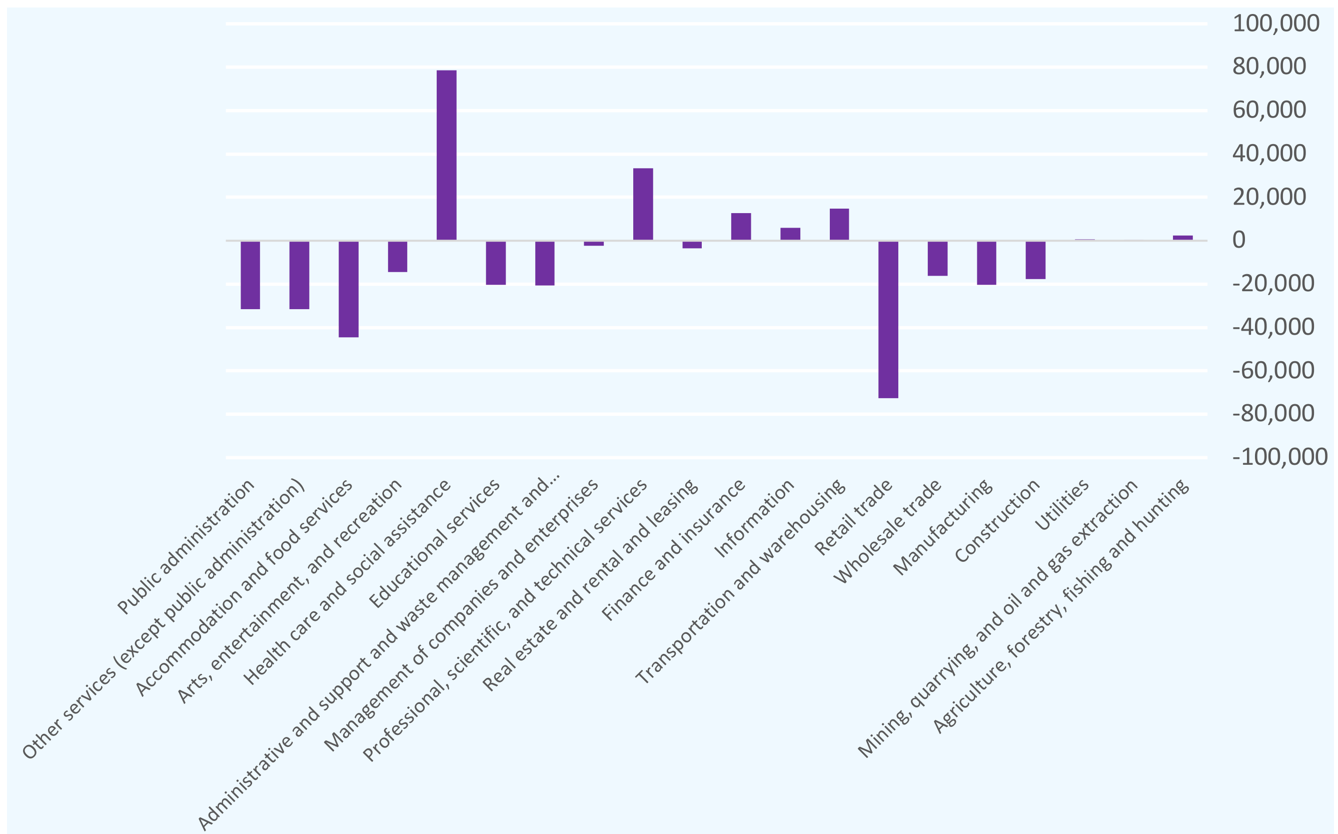
County	Region	Employment 2019	Employment 2023	Change	Pct. Change
Kings County (Brooklyn)	New York City	795,104	861,296	66,193	8.3
Lewis County	North Country	6,488	6,791	304	4.7
Richmond County (Staten Island)	New York City	128,053	132,077	4,024	3.1
Orange County	Hudson Valley	148,273	152,190	3,917	2.6
Putnam County	Hudson Valley	26,343	27,006	663	2.5
Rockland County	Hudson Valley	129,857	133,042	3,185	2.5
Rensselaer County	Capital District	54,484	55,721	1,237	2.3
Sullivan County	Hudson Valley	29,392	29,781	389	1.3
Queens County	New York City	717,786	726,945	9,159	1.3

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

Retail and Accommodation & Food Services see large declines, while Healthcare & Social Assistance sees growth

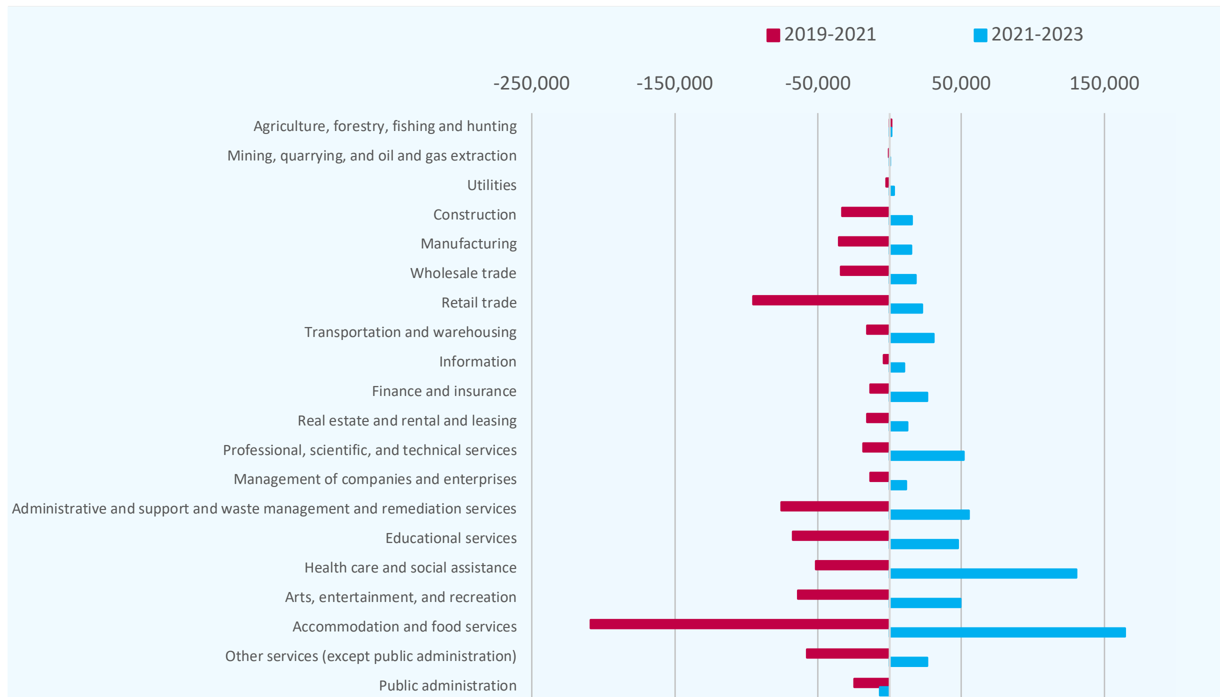
Data at the sectoral level shed light on which types of employment have grown or declined in New York since the start of the pandemic: New York has seen an increase of almost 80,000 jobs in Healthcare & Social Assistance and an almost equally large decline in retail trade. The other sectors that saw growth were mainly those that require high skills and high levels of education, such as professional services and finance. During the first part of the pandemic, between 2019 and 2021, New York's labor market saw large declines in employment across all sectors of the economy (except Agriculture, Forestry, Fishing and Hunting, which make up a very small proportion of the state labor force).

Figure 3.4. Change in employment by industry between 2019 and 2023.



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

Figure 3.5. Change in employment by industry and by phase of 2020 recession



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

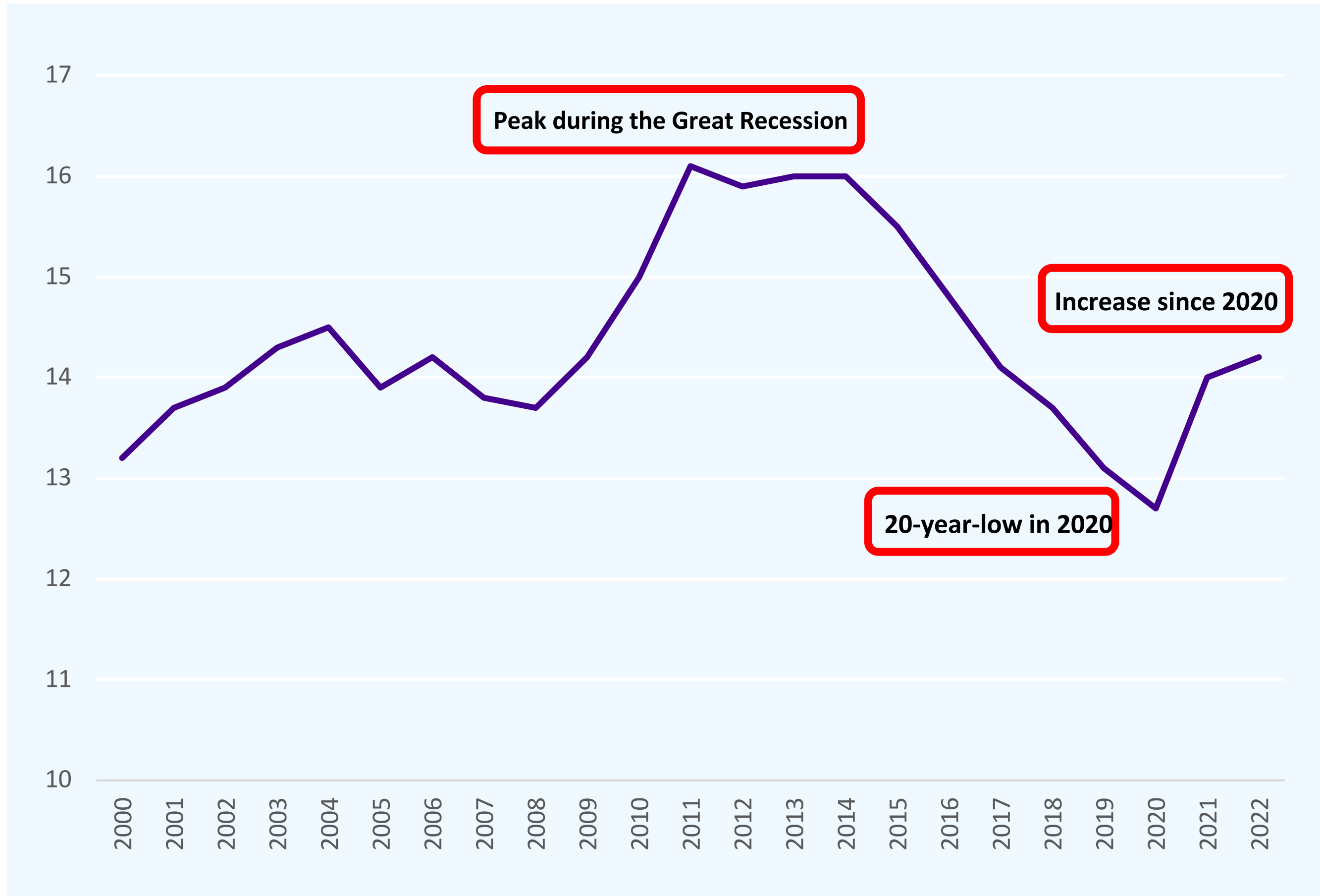
The sectors that saw the largest declines in employment were Retail Trade and Accommodation & Food Services. Retail Trade saw a reduction of almost 100,000 jobs, whereas Accommodation & Food Services saw a reduction of over 200,000 jobs. While Accommodation & Food Services has seen a large resurgence in jobs, nearing its 2019 level, Retail Trade has not recovered nearly as well, reflecting the shift to online retail across the world.

Most sectors have not recovered the jobs lost during the first two years of the pandemic. The sectors that have seen net growth since 2019 are Professional, Scientific & Technical Services, Healthcare & Social Assistance, Information, Transportation & Warehousing, and Finance & Insurance. Overall, these are sectors that have relatively high paid employees and require a relatively high level of skill. Increases to inequality resulting from these changes will be explored in a later section.

Poverty rates in NY have climbed since the pandemic

In 2020, poverty rates hit a 20 year low in New York, due in part to large relief spending during the pandemic and in part to the economy continuing to grow after the 2008 Recession. However, the past three years have seen a rise in the poverty rate in New York to 14 percent.

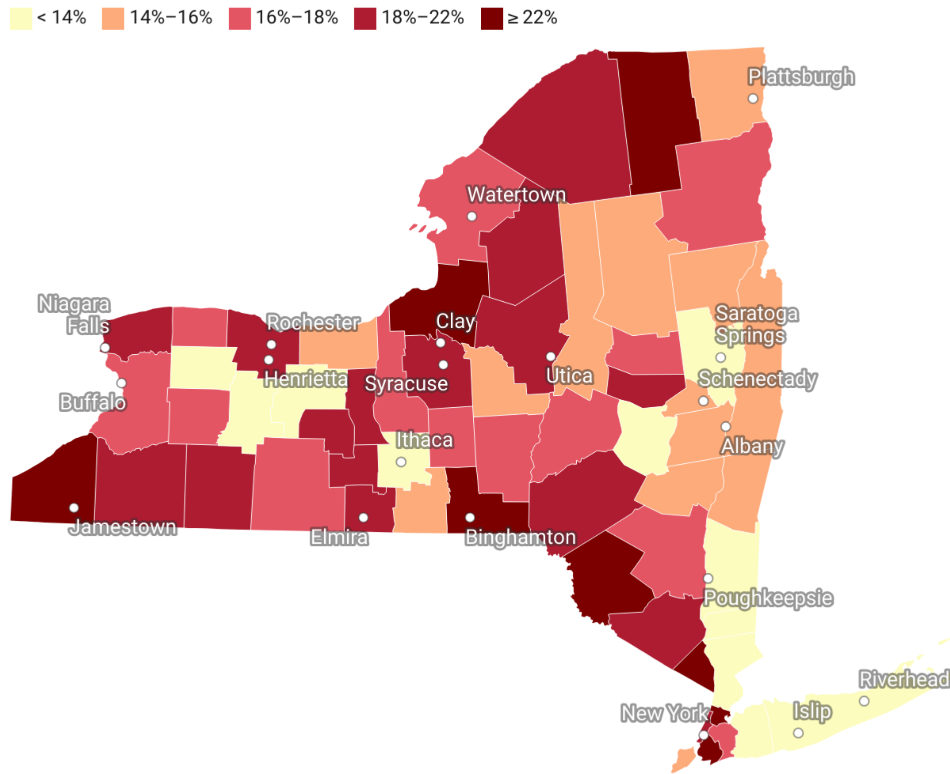
Figure 3.6. Percent living below national poverty line climbing in NY since 2020.



Note: Data from the U.S. Census Bureau and downloaded from FRED.

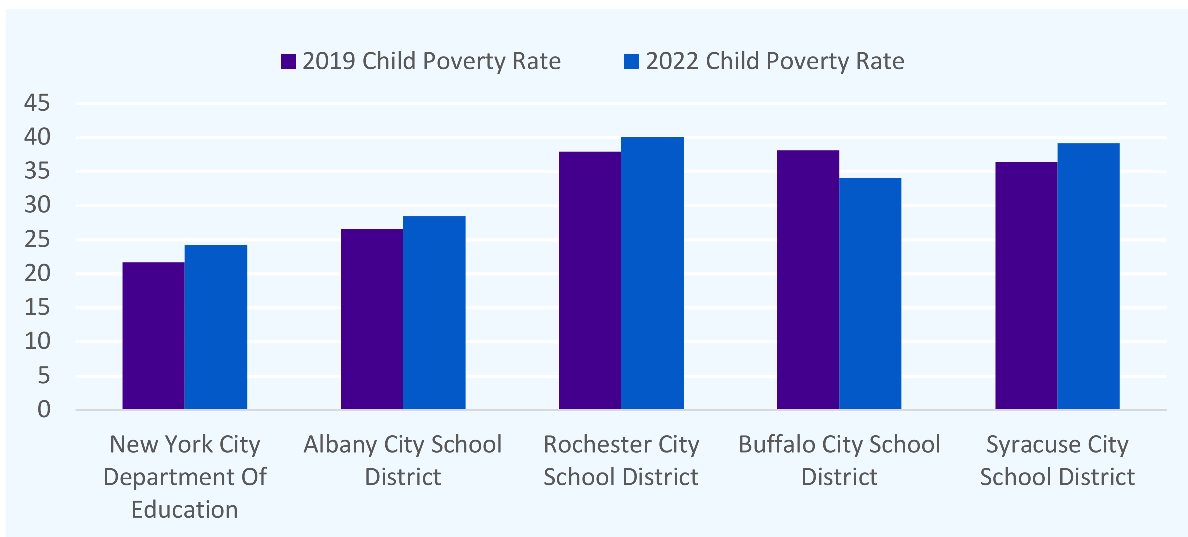
Rates of child poverty in New York remain higher on average than the general poverty rate and vary dramatically across the state. Some of the highest child poverty rates are seen in New York City, by far the largest city in New York. Examining child poverty rates by school district shows that all five of the largest school districts in New York have child poverty rates over 25 percent, with Rochester having a rate of 40 percent in the latest year of data (2022). In four of the five largest cities, child poverty increased between 2019 and 2022, indicating decaying economic security in all major urban areas in the state.

Figure 3.7. Percent children (under 18) living below national poverty line by county, 2022



Note: Data from the U.S. Census Bureau.

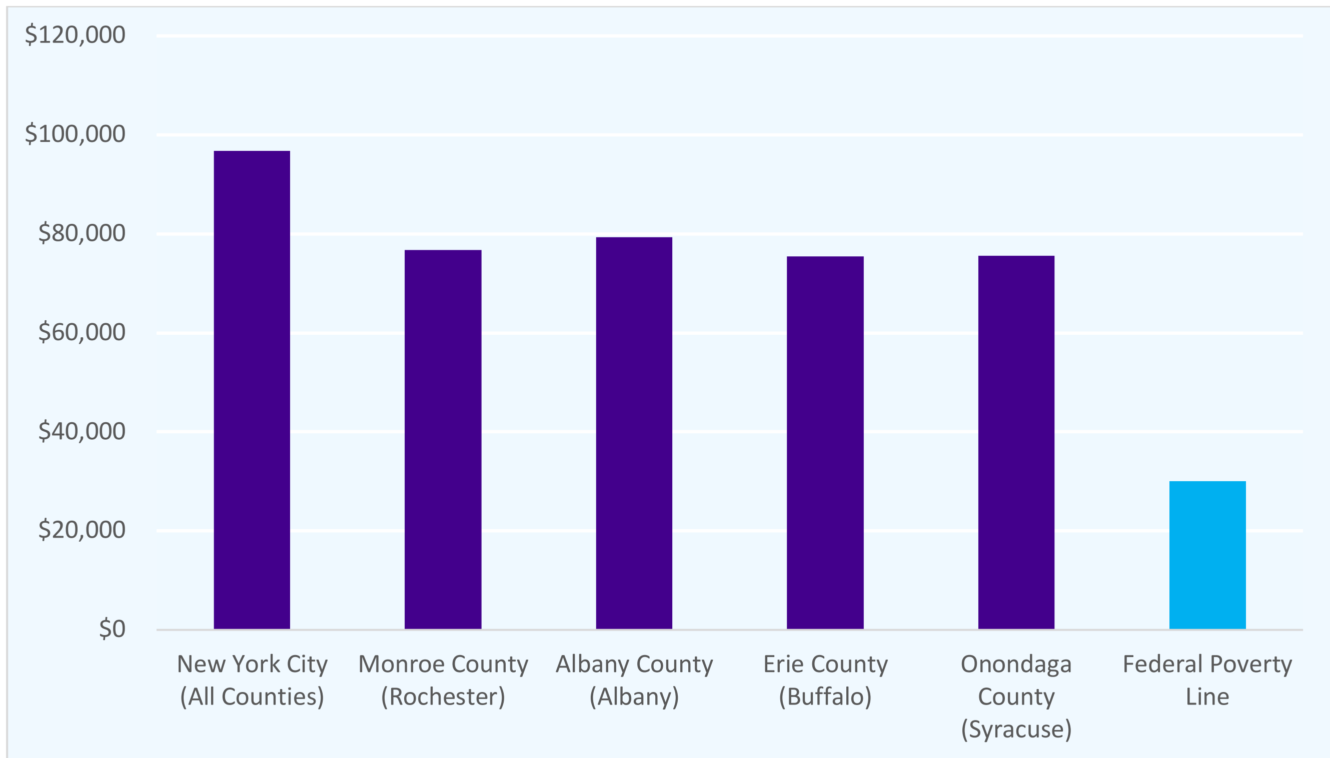
Figure 3.8. Percent children (under 18) living below national poverty line in five of the largest NY school districts, 2022



Note: Data from the U.S. Census Bureau.

It is important to note that poverty rates as measures by the Federal Poverty Line dramatically underestimate the number of families facing serious financial strain. Living wage estimates produced by MIT researchers show that the financial needs of a family of four living in any of the largest five cities in New York far exceed the income level defined by the Federal Poverty Line. That is, all of the statistics on poverty in New York severely undercount the number of families and individuals facing serious financial strain.

Figure 3.9. Living wage for a family of four compared to the Federal Poverty Line

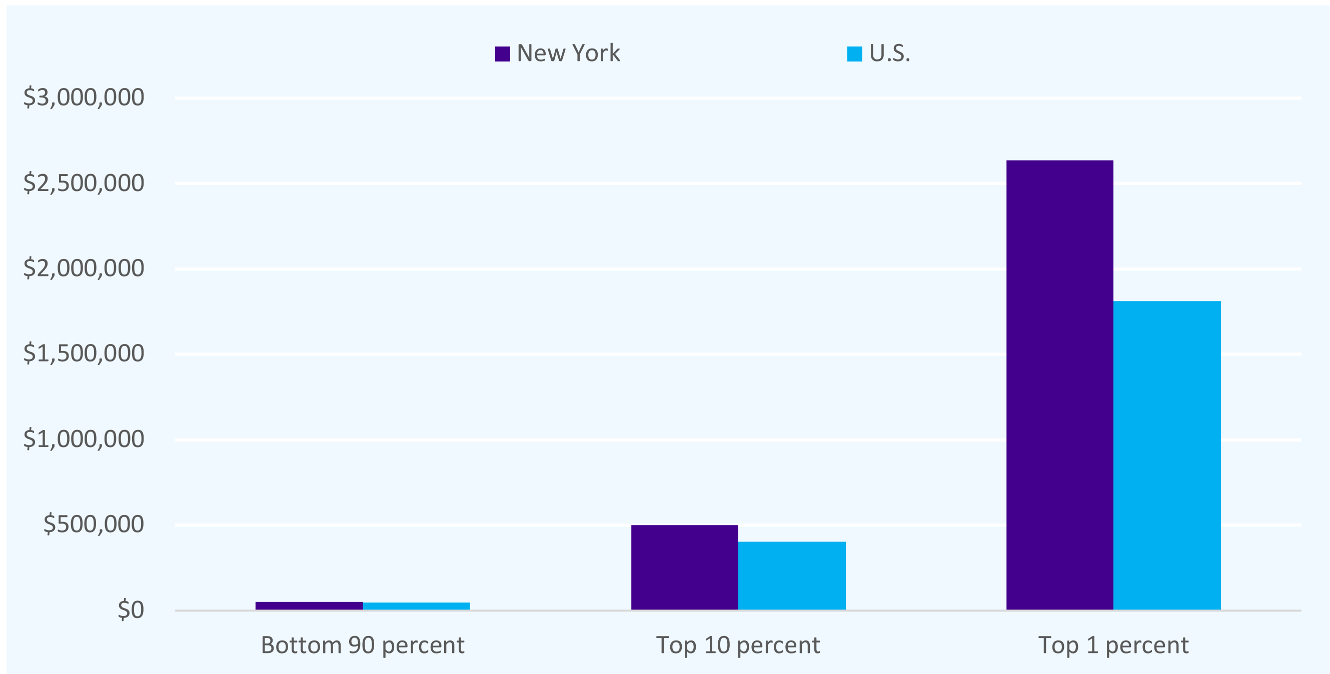


Source: Glasmeier, Amy K. Living Wage Calculator. 2023. Massachusetts Institute of Technology. https://livingwage.mit.edu

Income inequality has been on the rise since 2020 in NY, despite compression in wages

Income inequality is high throughout New York State, and particularly in New York City, which is home to many extremely high earners. The average income of the top 1 percent of earners in New York State is about $2.6 million in annual earnings, compared to just over $49,000 for the bottom 90 percent.

Figure 3.10. Average income by income percentile



Note: IRS Statistics of Income, 2020.

While earners making over $1 million in annual income make up less than 2 percent of tax filers in New York, they take in 35 percent of the income generated in the state. Those making over $10 million annually — less than 0.2 percent of the tax base — earn 18 percent of the total income generated in the state.

Figure 3.11. Share of income earned by households

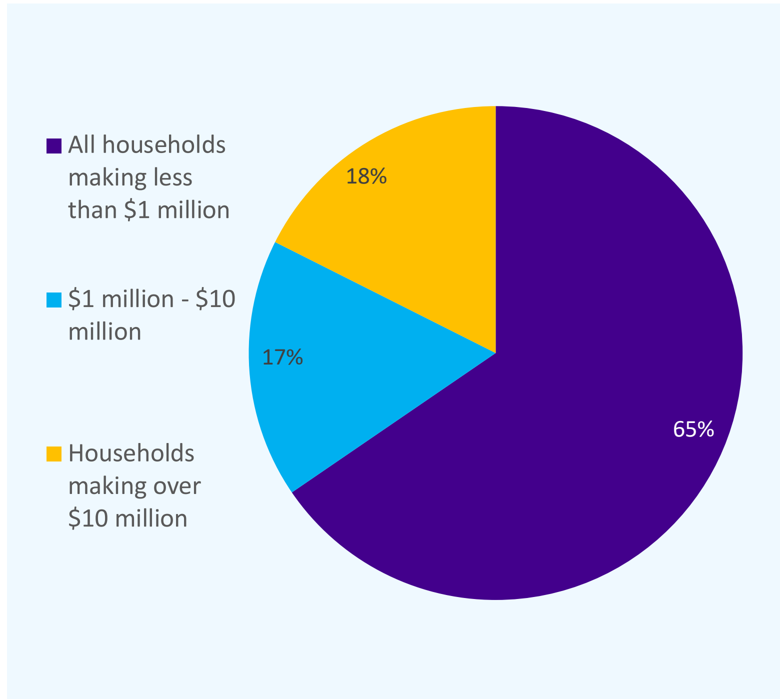
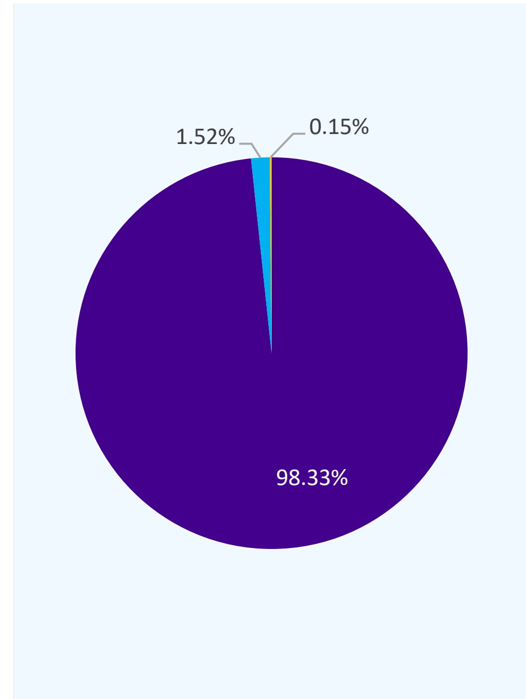


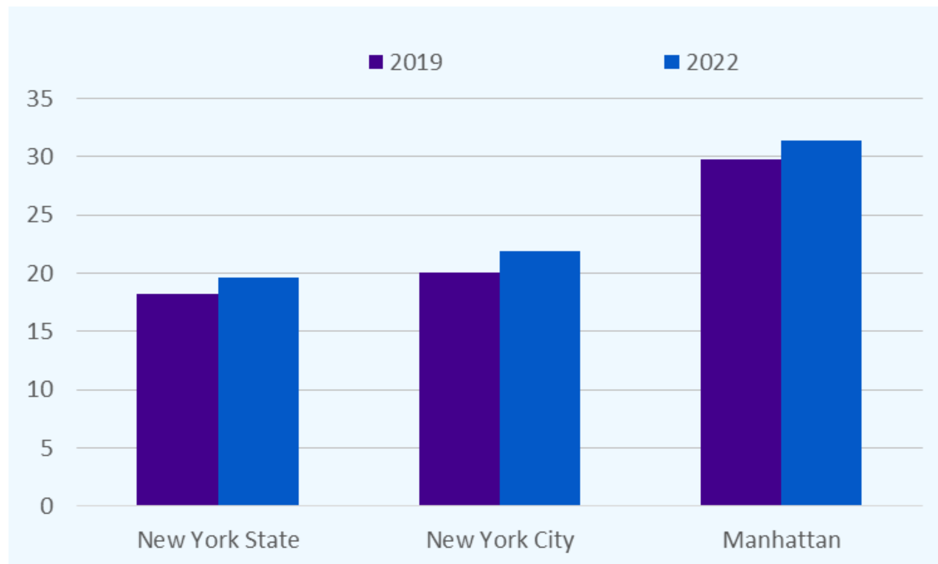
Figure 3.12. Household share of State's population



Note: Data from the NYS Department of Taxation and Finance, 2021 tax filings.

Income inequality increased during the Covid pandemic across New York State. The State's income inequality is driven by the unequal distribution of income in New York City, especially the borough of Manhattan. The top 20 percent of earners command higher wages in New York City, taking in $440,200 on average in 2022, compared with $326,700 statewide. Taken together, the wages of the top 20 percent were 20 times higher than those of the bottom 20 percent statewide in 2022, and 31 times higher in Manhattan. Between 2019 and 2022, this inequality ratio rose across the State and City.

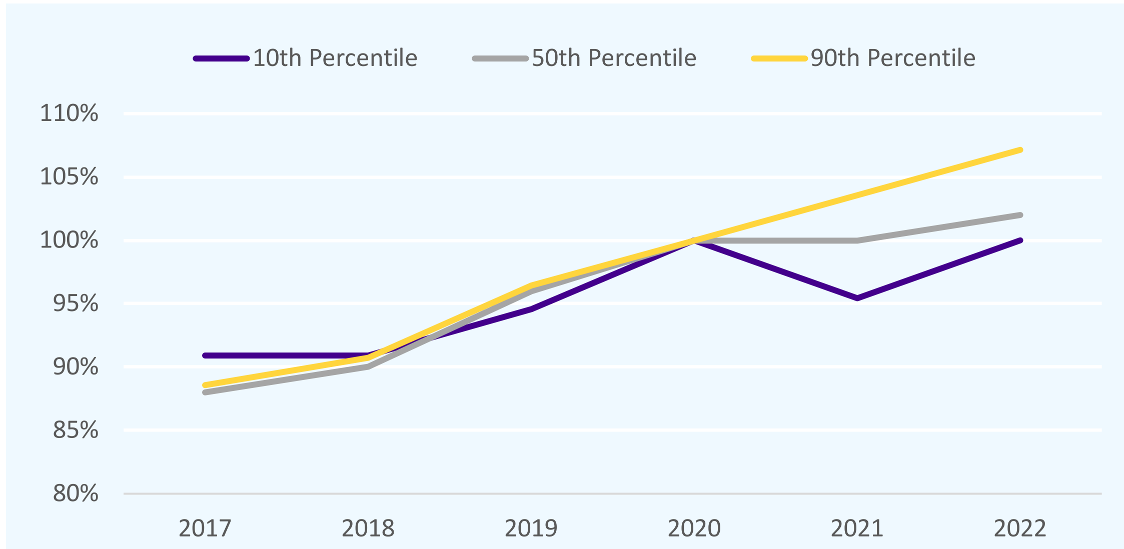
Figure 3.13. Ratio of average income for the top 20% of earners to average income for the bottom 20% of earners



Note: FPI analysis of American Community Survey Public Use Microdata Samples, 1-year files, 2019 and 2022

Income inequality has increased statewide since the pandemic. Comparing the growth in annual income in the 90th percentile to the growth in income for the 50th and 10th percentiles demonstrates that income inequality in New York has increased since 2020. While the 90th percentile of income earners saw growth of over 7 percent between 2020 and 2022, the bottom 10th percentile saw no growth at all, and the 50th percentile of income earners saw just 2 percent growth.

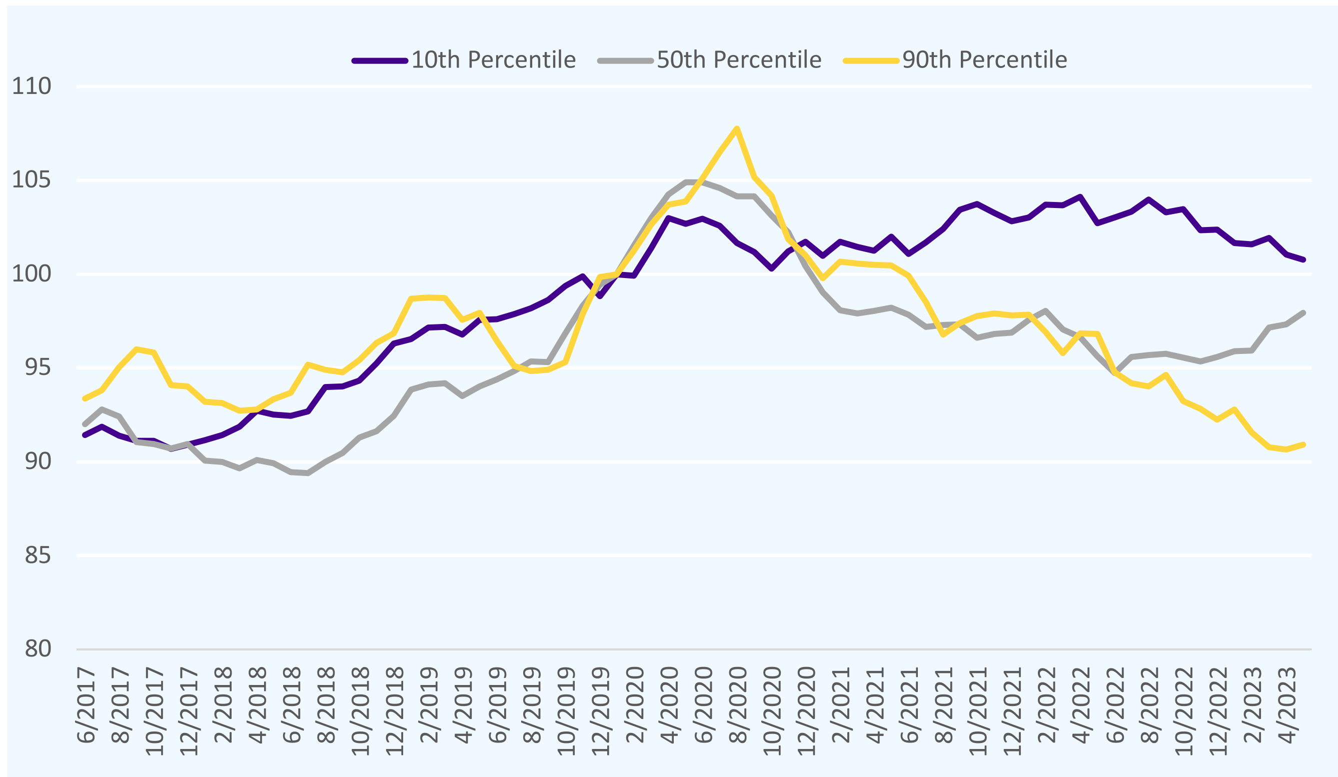
Figure 3.14. Income relative to level in 2020 for individuals in NY by income percentile



Source: American Community Survey and authors' calculations.

In contrast, as with elsewhere in the country, New York has seen some compression in hourly wages since the start of Covid-19 in 2020. While real wages at the 10th percentile of the wage distribution have stayed largely steady between 2020 and 2023, real wages for the 90th percentile of the wage distribution have seen a decline of ten percent. Median real wages have also seen a decline of a few percent since 2020. This compression in real wages across the wage distribution comes from the fact that while inflation has been high, real wages for high earners have declined while real wages have remained steady for low wage jobs. Thus, overall, wage compression has not been attributable to rising wages — simply a staving off of inflation-induced real wage reduction in low-wage jobs.

Figure 3.15. Inequality in real wages in NY has compressed since 2020



Note: Data from the Current Population Survey and authors' calculations.

Unfortunately, as was already demonstrated, this compression in the wage distribution has not translated into compression in the distribution of annual incomes. To the contrary, there has been an increase in income inequality in New York due to increases in non-wage income for high earners in the state.

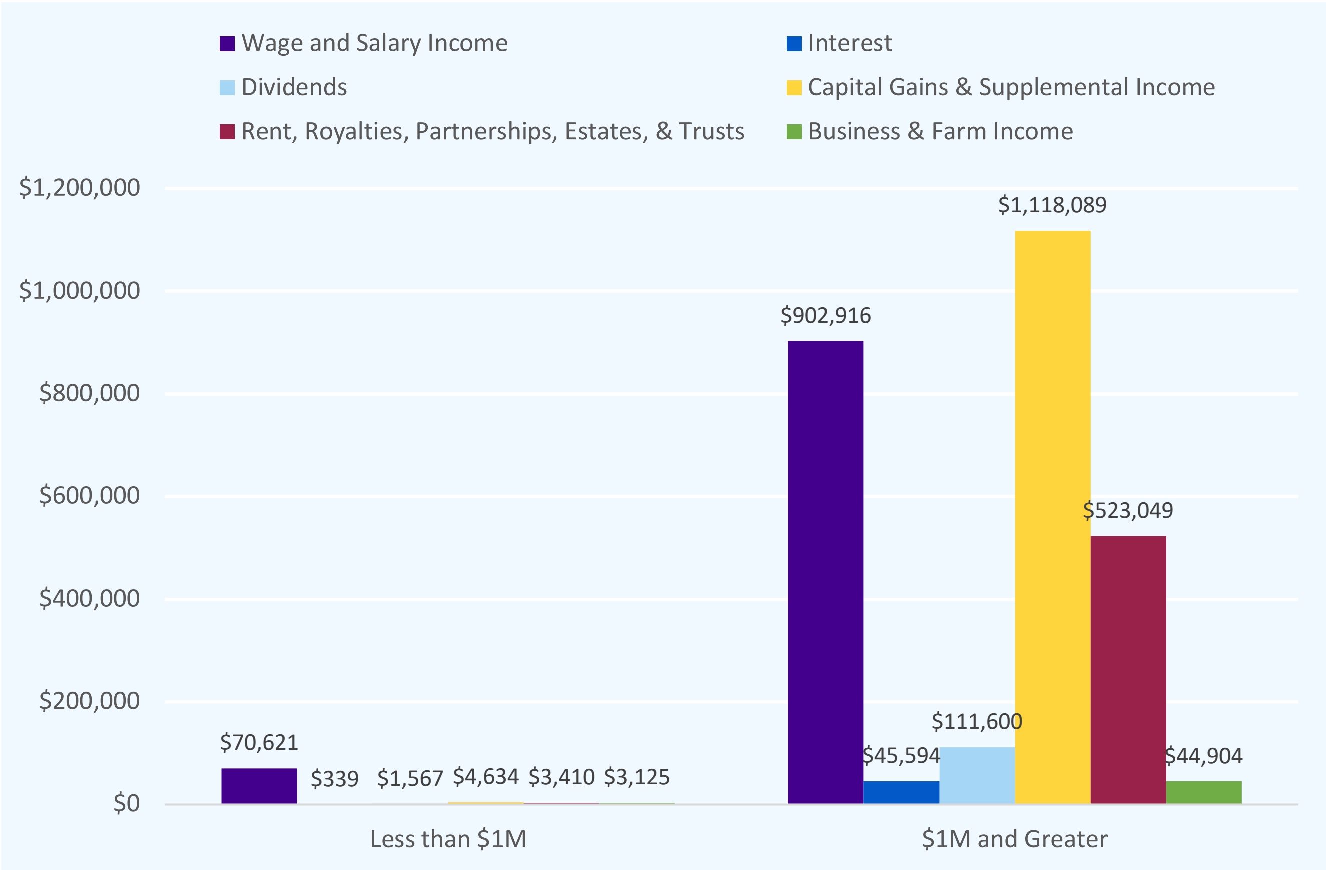
Finally, New York continues to be home for many of the wealthiest people in the world, with over 28,000 tax filers owning wealth in excess of $30 million and over 15,000 tax filers owning wealth in excess of $100 million.[2] With such astounding wealth, these individuals are able to earn a large amount of income from capital gains and other investment income. Tax filers reporting earnings of over $1 million annually report an average of over $1 million in income from capital gains and supplemental income, and another $500,000 from rent, royalties, partnerships, estates, and trusts. Those reporting less than $1 million in annual income report an average of less than $10,000 from these combined sources of investment income.

Table 3.2. Number of New York Tax Filers by Net Wealth

	Number of New York Tax Filers	Share of New York Tax Filers
$5.45 million or more (IRS data)	56,200	0.79%
Over $30 million (ITEP estimate)	28,300	0.40%
Over $100 million (ITEP estimate)	15,300	0.22%
Over $1 billion (ITEP estimate)	78	0.0011%

Note: Data from the IRS; FPI analysis of data from the Institute on Taxation and Economic Policy and NYS Department of Taxation and Finance

Figure 3.16. Average NY household annual earnings by type and income group.



Note: Data from the NYS Department of Taxation and Finance, 2021 tax filings.

IV. Fiscal Outlook

Key Takeaways

Revenue

- The fiscal year 2025 executive budget reverses recent pessimism and presents a balanced budget for FY25 with small, routine gaps thereafter.
- Over the last year, financial plans have successively lowered expectations of future revenue growth, though neither national macroeconomic forecasts nor the State's economic forecasts have become more pessimistic.
- The State would lose substantial revenue should these temporary PIT and CFT rate increases expire.

Expenditures

- In the decade before the Covid pandemic, New York's budget grew at a slow, consistent pace, a result of policies to restrain spending.
- While spending grew sharply in the midst of the Covid pandemic, subsequent slow budget growth and high inflation brought spending back toward its pre-Covid trajectory.

Projected Budget Gaps:

- The fiscal year 2025 executive budget dramatically cut its projected budget gaps for fiscal years 2026 through 2028, resulting in modest outyear budget gaps that typically represent conservative budgeting — not economic downturns.

New York's economic and fiscal condition have been resilient over the past year, with continued economic growth and steady revenue. This stability comes despite dramatic swings in the State's assessment of its fiscal condition, with the State beginning to project sizable budget gaps in successive financial plans over the last year. Importantly, this fiscal pessimism was not the result of economic conditions, but of revenue volatility related to swings in capital gains in recent years. The fiscal year 2025 executive budget reverses this pessimism, presenting a balanced budget for fiscal year 2025, and small, routine gaps thereafter. This section will provide an overview of projected revenue, spending, and budget gaps since Covid-19.

Revenue

A return to normal after Covid-era boom

Since the beginning of the Covid pandemic, New York State's economic and fiscal rebound has consistently exceeded expectations. State revenues boomed in 2021 and 2022, following a national economic recovery driven by federal stimulus and low interest rates. Over the last year revenues have slowed, returning to more ordinary growth rates.

In New York State, these fluctuations were amplified by the State's concentration of high earners. Because high earners, especially those in the finance industry, generally derive relatively large shares of their income from capital gains and bonuses, their annual income is highly dependent on financial conditions and more volatile than that of typical workers. As a result, State revenue has exhibited unusually high volatility in recent years.

Revenue for fiscal year 2024 (which ends March 31, 2024) fell below fiscal year 2023 revenue but remains above financial plan projections. This decline in revenue does not reflect an economic downturn, but rather a step down from fiscal year 2023's capital gains-driven above-trend revenue.

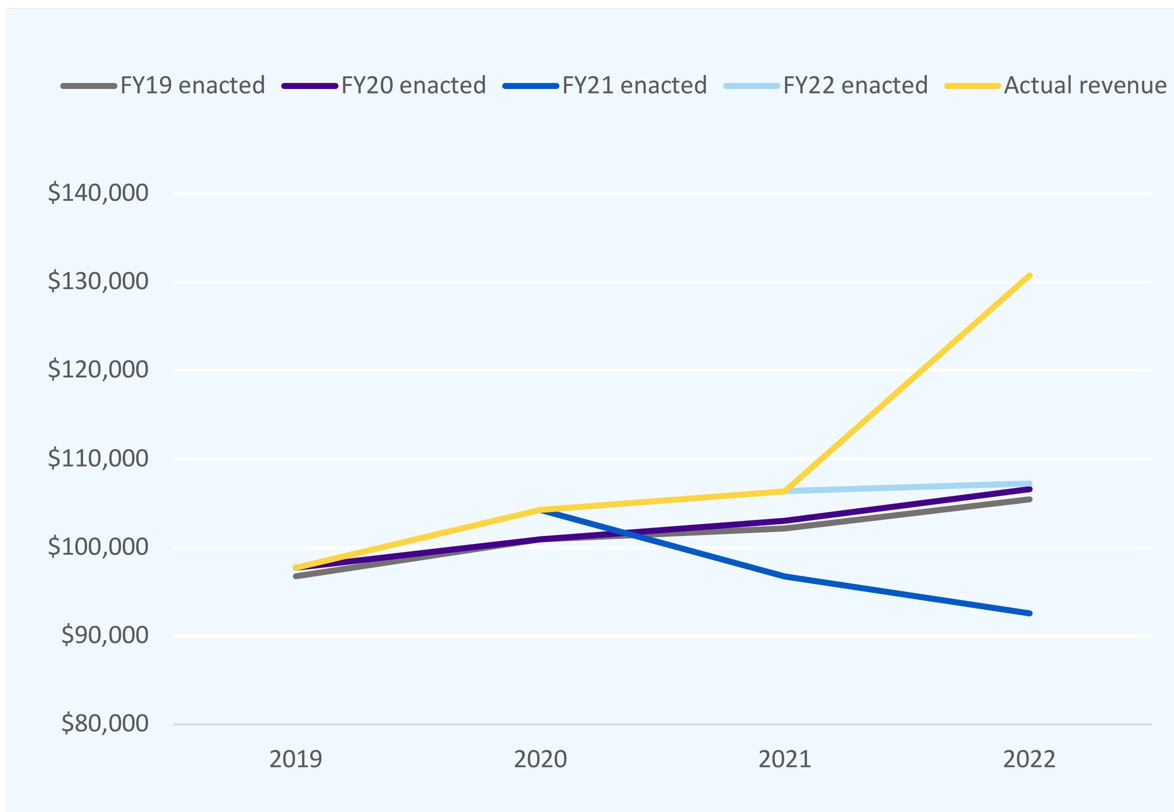
While fiscal year 2024 will likely close with a budget surplus, the State expects budget gaps in future years. These gaps are the result of pessimistic revenue projections. These pessimistic projections appear to be based largely on an expectation of prolonged sluggishness in financial markets that depresses capital gains, rather than a broader economic downturn affecting the State's labor market.

Fiscal Years 2020 and 2021: Resilient revenue despite Covid-19 pandemic

At the onset of the Covid pandemic, State officials expected a deep and prolonged recession. In fiscal year 2021 — the pandemic's first full fiscal year — the State expected revenue to fall 7.2 percent from the prior year.[3] Instead, State revenue (which, as discussed in this briefing, excludes federal funding) grew by 2.1 percent, exceeding projections by 10.0 percent.[4] Revenue growth was driven by a faster-than-expected economic recovery from Covid, which was supported by a range of extraordinary federal programs to support households and businesses.

Prior to Covid, revenue often exceeded projections, though by narrower margins. In fiscal year 2020 — only the final month of which was affected by Covid shutdowns — revenue grew 6.7 percent from the prior year and exceeded expectations by 3.3 percent — an historically typical margin.

Figure 4.1. Actual revenue compared to financial plan projections, fiscal years 2019 to 2022



Fiscal Year 2022: Revenue grows due to federal stimulus & tax increases

The fiscal year 2022 executive budget projected a current year deficit of $10 billion for fiscal year 2022, which it proposed closing through tax increases on high incomes, budget cuts, and anticipated federal aid.[5]

Two factors during budget negotiations put the State on stronger fiscal footing and largely eliminated all outyear gaps. First, the American Rescue Plan Act, signed into law on March 11, 2021, allocated significant federal aid to states and localities and stimulus to households and businesses. Second, the State adopted three higher personal income tax (PIT) brackets for tax filers earning $1 million, $5 million, and $25 million, as well as a higher corporate income tax rate.

These tax increases, enhanced by the success of federal stimulus, drove New York's fiscal year 2022 State revenue up 22.9 percent over the prior fiscal year, and the State ended the fiscal year with a surplus of $7.5 billion.

Fiscal year 2022 revenue growth was further inflated by the pass-through entity tax (PTET), an optional tax paid by pass-through businesses (such as partnerships and LLCs) to circumvent the federal limitation of the state and local tax deduction. Because PTET is fully rebated to taxpayers, it has no net effect on revenue over the life of the program. Accordingly, this section's discussion of revenue trends removes PTET's revenue impact for fiscal year 2022 onwards (revenue series throughout this section are adjusted to remove PTET-related volatility).

Fiscal Year 2023: Revenue continues to exceed expectations despite middle-class tax cuts

Revenue growth and outperformance of expectations continued in fiscal year 2023, which a booming economic recovery and strong financial markets pushing up personal income. This came despite the fiscal year 2023 budget's tax cuts and rebates, namely a $2.2 billion one-time homeowner tax rebate and an acceleration of middle-class tax cuts. The middle-class tax cuts, which lower taxes for those earning between $40,000 and $300,000, were enacted in 2016 and initially set to take full effect in 2025. Between fiscal years 2023 and 2026, the acceleration of these tax cuts cost the State $1.2 billion. Nevertheless, State revenue rose 6.9 percent and exceeded projections by 10.8 percent.

Fiscal Year 2024: Post-Covid revenue: a return to typical growth

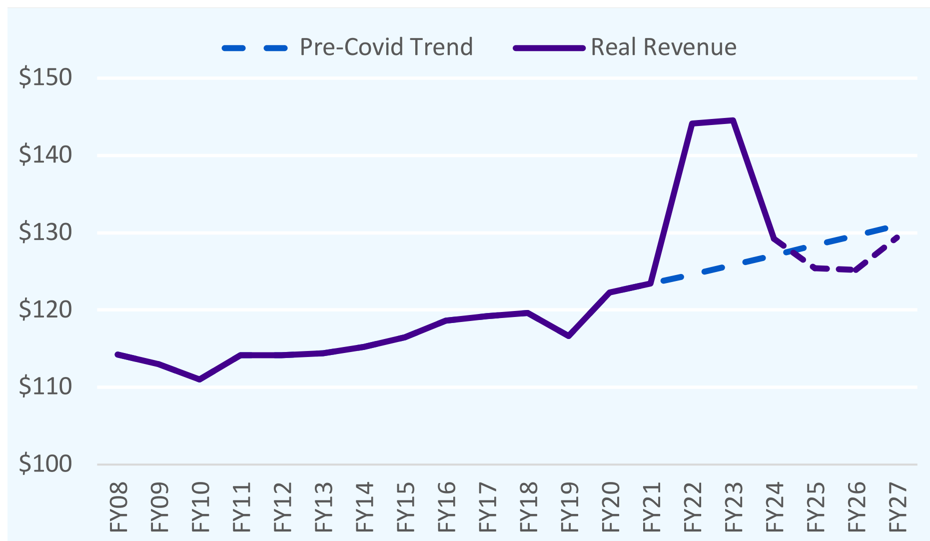
After two years of booming revenue growth, fiscal year 2024 represents a return to more typical levels of growth and a decline from the elevated revenue level of fiscal year 2023.

This decline is primarily the result of above-trend fiscal year 2023 revenue, rather than a current-year economic downturn. Extraordinary revenue in fiscal years 2022 and 2023 was driven by strong personal income growth, especially capital gains, and by fiscal year 2022's tax increases. Fiscal year 2024 revenue, by contrast, represents a return to pre-Covid trends.

In the decade prior to Covid, revenue grew at a pace of about 1 percent per year, after adjusting for inflation. This low growth rate was in part a result of tax reductions in the mid-2010s as well as continuous growth of economic development tax incentives. Fiscal year 2024 revenue is likely to closely align with the State's pre-Covid inflation-adjusted revenue trajectory.

Figure 4.2. Actual State revenue and pre-Covid revenue trend, fiscal years 2008 to 2024

Fiscal year 2024 dollars in billions



Note: pre-covid trend reflects 1.0 percent real (adjusted for inflation) annual growth, the average between fiscal years 2011 and 2021.

Importantly, the State's Covid-era surpluses were in large part deposited into the State's fiscal reserves, used to prepay future expenses such as debt service, or used as one-time initiatives to support the State's

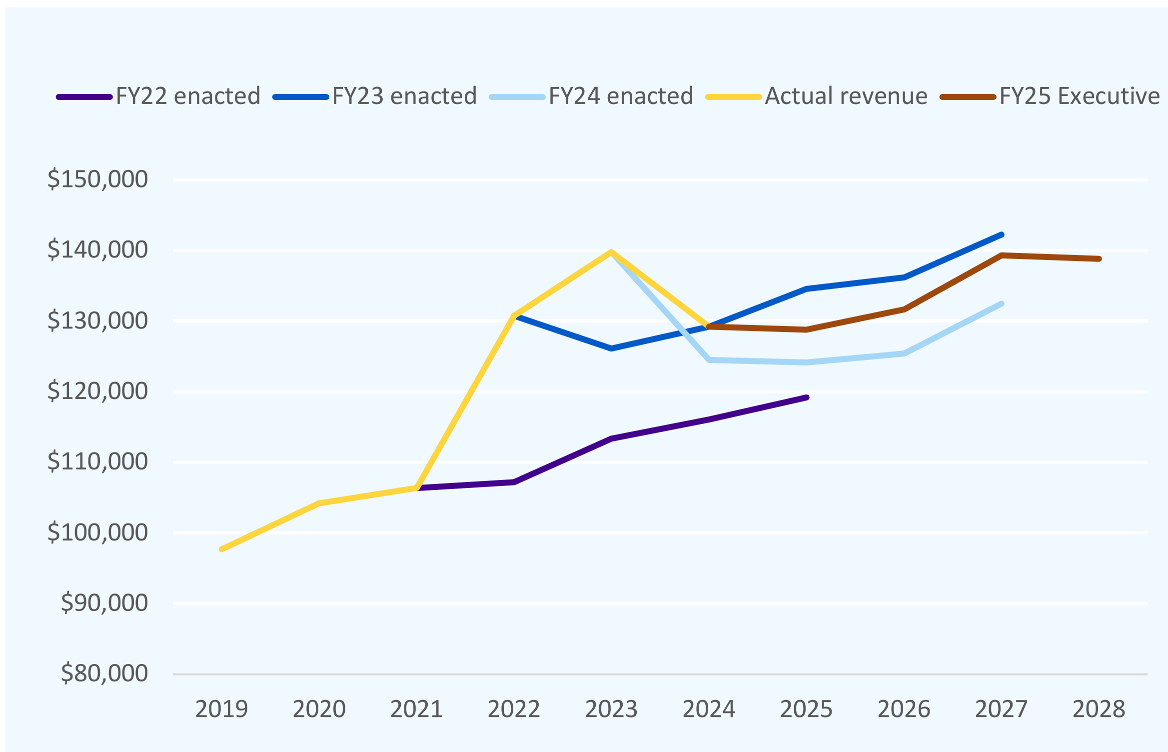
economic recovery. Surplus revenues were not used to support recurring operating expenses, which would risk creating structural fiscal imbalances.

Fiscal Year 2025: Pessimism about future revenue

Over the last year, successive financial plans have lowered expectations of future revenue growth, even though neither national macroeconomic forecasts nor the State's economic forecasts have become more pessimistic.[6] The fiscal year 2024 enacted budget financial plan expected current year revenue to fall by 11.0 percent, followed by near-stagnation for fiscal years 2025 and 2026, lowering revenue across all outyears by an average 7.5 percent. This pessimism about revenue contrasts with the fiscal year 2023 financial plan's expectation of higher, historically-typical rates of growth for the outyears. Expectations of slow revenue growth are not based on economic expectations, but rather projects low April 2023 tax receipts into the future. As discussed below, that month of low receipts is not a reliable indicator of future trends.

The fiscal year 2025 executive budget continues this expectation of relatively low growth, despite modest upward revisions to revenue projections.

Figure 4.3. Actual State revenue compared to financial plan projections, fiscal years 2022 to 2024



Note: actual revenue series for fiscal years 2025 through 2027 projects pre-Covid average revenue growth (1.0 percent, after adjusting for inflation); PTET revenue impact is removed from actual and projected revenue series beginning in fiscal year 2022.

This pessimistic near-term outlook is not directly related to the State's economic outlook. Despite revising projected revenue, the State has continued to revise projected growth in personal income— the best indicator of the State's tax base — down for fiscal year 2025. Bonus wages and proprietors' income –volatile sources of income that are disproportionately earned by high earners, and therefore important

to tax revenue – were revised up for the current year, explaining this year's above-expectation revenue, but longer-run trajectories were little changed.

Table 4.1. Division of Budget economic forecasts made in recent financial plans, fiscal years 2023 to 2028

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Personal income						
FY23 Enacted	1.1%	4.5%	4.5%	4.4%	-	-
FY24 Enacted	0.8%	3.5%	4.5%	4.4%	4.2%	-
FY25 Executive	0.7%	3.5%	4.0%	4.2%	4.1%	4.1%
Bonus wages						
FY23 Enacted	(13.3%)	4.4%	4.4%	4.4%	-	-
FY24 Enacted	(22.6%)	(6.0%)	6.9%	6.3%	6.2%	-
FY25 Executive	(14.8%)	(3.6%)	6.8%	6.2%	6.1%	6.1%
Proprietors' income						
FY23 Enacted	6.0%	5.1%	4.9%	5.1%	-	-
FY24 Enacted	1.3%	1.8%	4.3%	5.2%	5.5%	-
FY25 Executive	(4.4%)	6.2%	4.2%	4.7%	5.0%	5.2%
Employment						
FY23 Enacted	4.5%	1.4%	1.1%	0.9%	-	-
FY24 Enacted	4.0%	0.2%	0.4%	0.7%	0.7%	-
FY25 Executive	4.3%	1.0%	0.2%	0.5%	0.5%	0.5%

Downward revenue revisions driven by capital gains and PTET volatility — not current economic conditions

Recent downward revisions to revenue forecasts were the result of weak capital gains in 2022, which depressed fiscal year 2024 revenue. In April 2023, personal income tax receipts fell $4.1 billion below projections in the fiscal year 2024 executive budget, alarming State fiscal forecasters and sparking sharp downward revenue revisions. This one-month revenue shortfall was the result of low capital gains for 2022 rather than a weaking of current economic conditions, showing up in April when most taxpayers file their returns. Revenue in the prior fiscal years was lifted by extraordinarily strong financial markets and financial sector activity. By contrast, 2022's steep financial market downturn, together with a decline in dealmaking that resulted from the Federal Reserve's aggressive campaign of interest rate hikes, depressed capital gains and other non-wage income. This downturn was most reflected in April 2023 tax receipts.

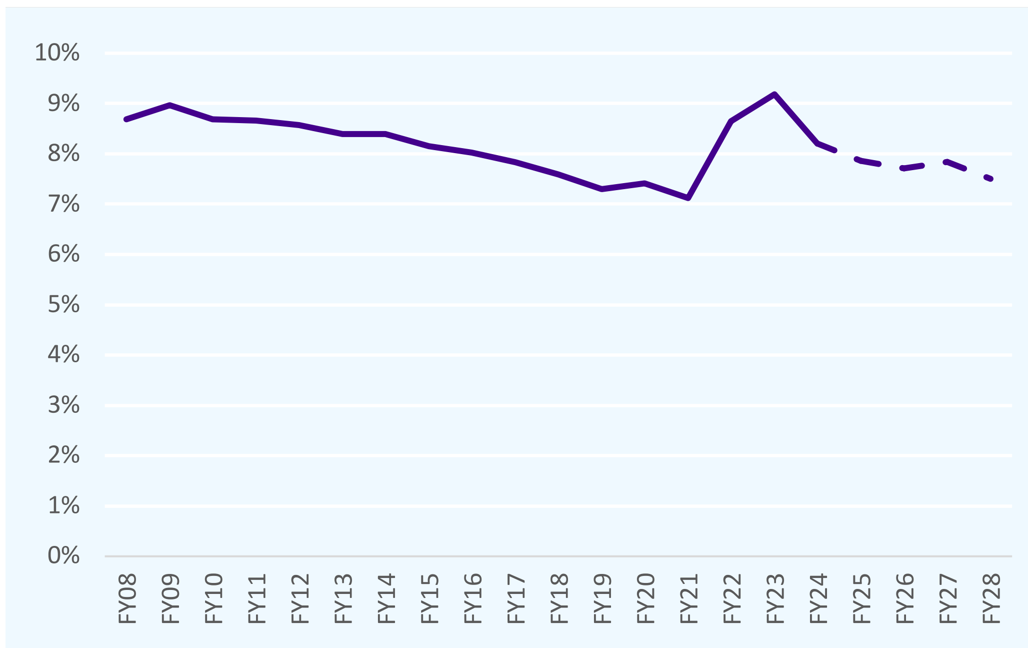
The pass-through entity tax (PTET) is another driver of an apparent fall in fiscal year 2024 revenue. In fiscal year 2023, the State expected PTET to have a strong negative effect, followed by negligible effects in fiscal years 2024 and 2025. Because taxpayers' decisions around claiming PTET are difficult to predict, its actual fiscal impacts have varied widely from initial estimates. While the program was expected to depress fiscal year 2023 revenue by $10.1 billion, it ultimately only lowered revenue by $2.1 billion. (These dynamics are controlled for in the discussion above). Conversely, PTET was initially expected to have a negligible but positive effect on fiscal year 2024 (increasing revenue by $358 million), but is now expected to depress revenue by $2.2 billion. These dynamics are fiscally irrelevant, as the

program will ultimately be revenue neutral across years and the State maintains a reserve of PTET funds to counterbalance its effect on any given year. Nevertheless, the program contributes to an apparent decline in fiscal year 2024. Further, updated PTET estimates project a more negative effect on fiscal year 2025, removing $1.0 billion in expected revenue.

Recent revenue gains partially reverse a decade of retrenchment

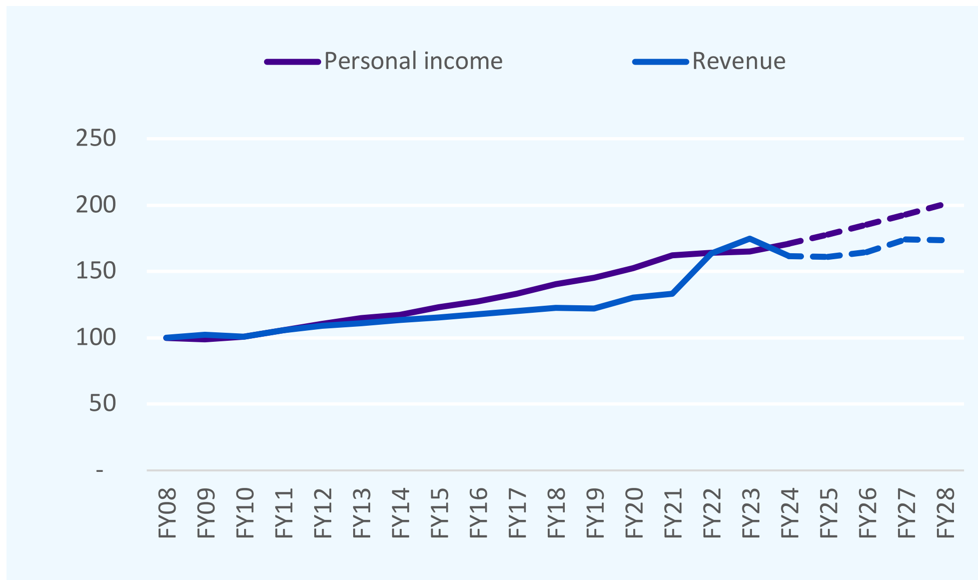
State revenue levels are only meaningful in relation to the state economy as a whole. Measuring State funds as a share of total personal income, the State's most important tax base, shows a trend of shrinking revenue going back to 2008 (see Figure X. below). Through the 2010s, New York's revenue consistently eroded relative to the State economy, falling from 9.0 percent in fiscal year 2009 to 7.3 percent in fiscal year 2019. This trend was reversed in fiscal years 2022 and 2023, due to Covid-era spending growth, but limited revenue growth in in fiscal year 2024 brought the budget's share of personal income to 7.9 percent – a level on par with fiscal year 2017. The State expects slow projected outyear growth to continue this downward trajectory.

Figure 4.4. State funds revenue as a share of State personal income, fiscal years 2008 to 2027



The steady erosion of the State's revenue over the 2010s was the result of policies to cut taxes, especially corporate taxes and upper-middle income personal income taxes. In 2011, the State allowed temporary tax brackets on income above $300,000 and $500,000 to expire, and slightly reduced its tax rate for income above $2 million. Tax rates for upper-middle income earners were further lowered in 2016, when the State enacted a new, lower tax for income between $150,000 and $300,000. This "middle class tax cut" was set to phase in between 2018 and 2025. Meanwhile, the State cut the corporate franchise tax in fiscal year 2015, lowering the rate from 7.1 percent to 6.5 percent. Together with corporate tax breaks over this period, these policies cost the State about $5 billion annually.[7]

Figure 4.5. State personal income and revenue, fiscal years 2008 to 2028, indexed to 2008



Expiring tax rates lower fiscal year 2028 revenue projection

In fiscal year 2022, New York enacted temporary increases to personal income tax (PIT) and corporate franchise tax (CFT) rates. PIT rates for tax filers with more than $1 million in annual income were raised, and new progressive brackets for filers with income above $5 million and $25 million were created. The CFT for businesses with over $5 million in annual profits was raised from 6.5 percent to 7.25 percent.

Both the PIT and CFT rates are temporary, with the current CFT rate set to last through tax year 202 and the top PIT rates set to last through tax year 2027. As such, the expiration of higher CFT rates affect the final quarter of fiscal year 2027 and take full effect for fiscal year 2028. The effects of the PIT rates' expiration of will affect revenue in fiscal year 2028.

Table 4.2. Fiscal year 2022 enacted changes to PIT brackets and rates

Filing status	Income	Rate before FY22	Rate after FY22
Single	$1,077,550	8.82%	9.65%
Joint	$2,155,350	8.82%	9.65%
All filers	$5,000,000	8.82%	10.3%
	$25,000,000	8.82%	10.9%

The State would lose substantial revenue should these temporary PIT and CFT rate increases expire. FPI estimates that by fiscal year 2028, the top PIT rates may raise about $5.1 billion.[8] Because the rates expire at the end of tax year 2027, expiration would affect final quarter of fiscal year 2028, losing the State $1.3 billion. The following year, fiscal year 2029 the first full fiscal year PIT rates' expiration would be in effect, the State stands to lose about 5.3 billion in revenue.

The elevated CFT rate raises about $1.2 in annual revenue, according to FPI analysis. This level appears relatively consistent across years. As such, should both the fiscal year 2022 PIT and CFT rates expire, New York State would lose about $2.4 billion in fiscal year 2028, which is partially affected by expiring PIT rates and about $6.4 billion in annual revenue in fiscal year 2029 and thereafter. This represents a state revenue loss about 2 percent in fiscal year and about 5 percent annually in subsequent fiscal years.

Expenditures

In the decade before the Covid pandemic, New York's budget grew at a slow, consistent pace, a result of policies to restrain spending. While spending grew sharply in the midst of the Covid pandemic, subsequent slow budget growth and high inflation brought the State's spending back toward its pre-Covid trajectory.

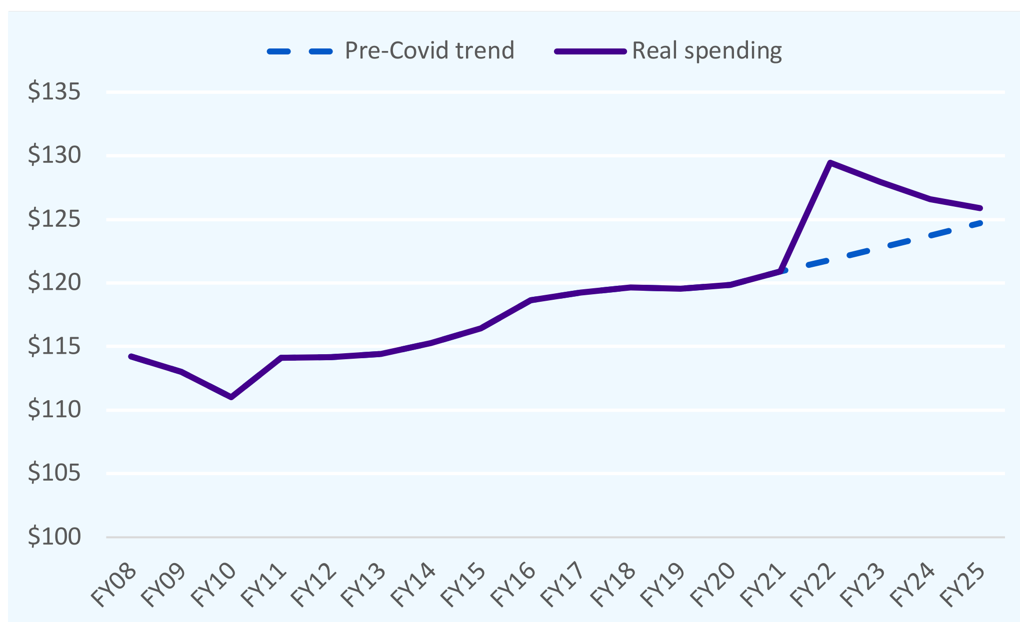
Between fiscal years 2010 and 2021, New York's State funds — which excludes federal aid — grew at an average rate of 0.8 percent, after adjusting for inflation. This growth rate was lower than overall economic growth (as discussed in the section above). While spending slightly outpaced the cost of living, it was slower than wage growth, reflecting a diminished capacity to provide expansive public services.

State spending growth during the pandemic surged in fiscal year 2022, as the State funded programs to support New Yorkers hit hardest by the pandemic. Major recovery initiatives included the Excluded Workers Fund and Emergency Rental Assistance Program.

Subsequent lower spending growth in fiscal years 2023 and 2024 and high inflation resulted in falling inflation-adjusted spending. In fiscal year 2025, State funds spending is expected to total $129.3 billion – on par with the level it would have been had Covid not occurred and the budget continued to grow at an inflation-adjusted rate of 0.8 percent per year.

Figure 4.6. State funds spending, fiscal years 2008 to 2024

Fiscal year 2024 dollars in billions



New York received extraordinary levels of federal support during the Covid pandemic. Federal emergency relief to the State largely flowed to Medicaid, through an enhanced Federal Medical Assistance Percentage (eFMAP), and to education. Because federal aid supported elevated healthcare and education need during the pandemic, their respective share of total State spending remained essentially unchanged between fiscal years 2020 and 2024. Education, which consists mainly of school aid, accounted for 31.4 percent of State funds spending in fiscal year 2020 and 30.6 percent in fiscal year 2025. Health, which consists mainly of Medicaid and is the second largest State expenditure, accounted for 24.3 percent of State funds spending in fiscal year 2020 and 26.3 percent five years later. Much of the growth in State costs, however, has occurred in fiscal years 2024 and 2025, as expiring federal support — through an enhanced federal Medical Assistance Percentage (fMAP) — shifts elevated program costs onto the state. Medicaid is poised to become a significant cost driver for the State in the years ahead. This briefing will discuss Medicaid spending in greater detail in Part VIII.

Beyond the State's largest areas of spending — health and education — social welfare saw the greatest change over the Covid period. Social welfare spending grew from 2.8 percent to 5.5 percent of the State budget between fiscal years 2020 and 2025. Growth was driven both by elevated public assistance caseloads that resulted from the pandemics economic fallout, and by a series of temporary initiatives. These temporary initiatives included $1.2 billion in emergency rental assistance disbursed in fiscal years 2023 and 2024 and asylum seeker assistance, which will be discussed in Part III of this briefing in fiscal years 2024 through 2026. Both of these programs are administered through the Office of Temporary and Disability Assistance (OTDA).

Fiscal space for these investments was created by reduced spending on debt service. Debt service prepayments made with Covid-era surpluses reduced fixed costs, which includes debt service, from 11.4 to 7.7 percent of State funds spending between fiscal years 2020 and 2025.

Table 4.3. State spending by program area, fiscal years 2020 and 2025

Dollars in billions

Program area	FY 2020 spending	Share of budget	FY 2025 spending	Share of budget
Education	$ 32.1	31.4%	$ 39.47	30.6%
Health	$ 24.8	24.3%	$ 34.01	26.3%
Mental Hygiene	$ 6.3	6.2%	$ 7.95	6.2%
Social Welfare	$ 2.9	2.8%	$ 7.06	5.5%
Higher Education	$ 9.3	9.1%	$ 11.45	8.9%
Transportation	$ 3.9	3.8%	$ 5.60	4.3%
Fixed Cost	$ 11.6	11.4%	$ 9.20	7.1%
All Other	$ 11.3	11.0%	$ 14.43	11.2%

Projected Budget Gaps

The fiscal year 2025 executive budget projects modest outyear budget gaps. These gaps, in line with typically-projected shortfalls, are considerably smaller than those projected over the last fiscal year. The sizable gaps projected by the fiscal year 2024 enacted budget were the result of its sharp downward revisions to revenue projections. As discussed in the Revenue section above, downward revisions to revenue projections appear to largely be the result of weak capital gains in 2022, rather than current economic conditions.

The fiscal year 2025 executive budget dramatically cut its projected budget gaps for fiscal years 2026 through 2028. The fiscal year 2024 enacted budget projected a $9.1 billion gap in fiscal year 2025 and gaps in excess of $13 billion in fiscal years 2026 and 2027. The executive budget balances fiscal year 2025 and more than halved subsequent year gaps, to $5.0 billion and $5.2 billion, respectively. This was the result of significant upward revisions to revenue across all years and, in fiscal year 2025, downward revisions to spending.

Table 4.4. State funds revenue, expenditures, and gaps projected by recent financial plans

	FY 2025	FY 2026	FY 2027	FY 2028
Revenue				
FY23 enacted	$ 134.6	$ 136.2	$ 142.3	–
FY24 enacted	$ 124.2	$ 125.4	$ 132.5	–
FY25 executive	$ 128.8	$ 131.7	$ 139.3	$ 138.8
Expenditures				
FY23 enacted	$ 129.1	$ 135.8	$ 141.2	–
FY24 enacted	$ 131.5	$ 138.8	$ 144.5	–
FY25 executive	$ 129.3	$ 140.2	$ 145.4	$ 150.8
Gaps				
FY23 enacted	$ 0	$ 0	$ 0	–
FY24 enacted	$ 9.1	$ 13.9	$ 13.4	–
FY25 executive	–	$ 5.0	$ 5.2	$ 9.9

The $9.9 billion gap projected for fiscal year 2028 reflects, in part, the expiration of temporary increases in the PIT and CFT. As discussed in the revenue section above, the expiration of PIT and CFT rates will cost the state $2.4 billion in lost tax revenue fiscal year 2028 and $6.2 billion the following year, when the expirations take full effect. If those rates were made permanent, the fiscal year 2028 gap would be $7.5 billion. Gaps of this magnitude are historically modest.

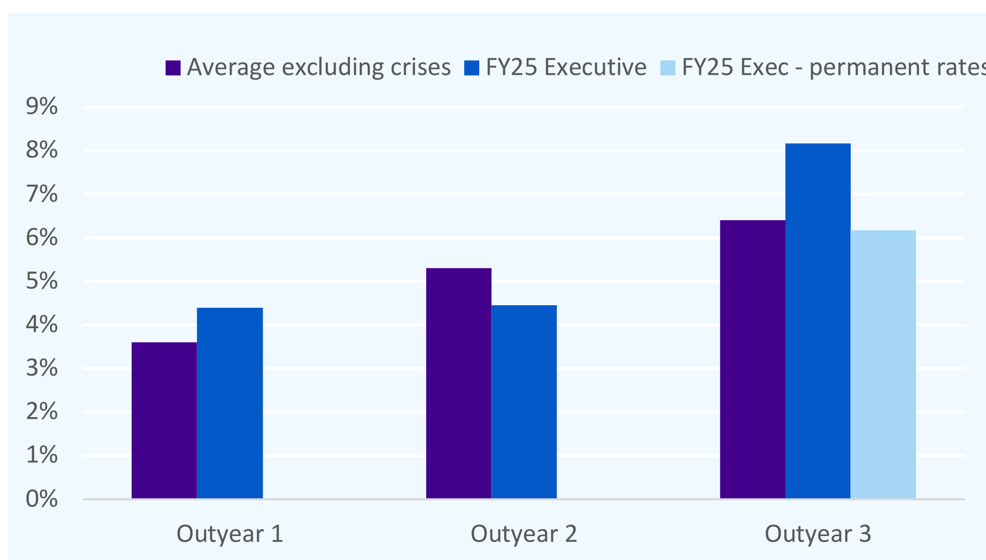
Budget gaps in historical context

Projected outyear gaps are a routine part of State fiscal management. The State's financial plans nearly always projects future shortfalls. In typical years, gaps projected in enacted budget financial plans for

the first outyear — the fiscal year immediately succeeding the current fiscal year — are typically 2 to 6 percent of general fund spending. In subsequent outyears, projected gaps generally fall between 4 and 10 percent of the budget.[9] These routine gaps typically close without major policy intervention, as actual revenue exceeds projections and, to a lesser extent, spending is restrained below initial projections.[10]

The outyear gaps projected in the executive budget are in line with routine levels. The budget gaps projected for fiscal years 2026 through 2028 total 4.4 percent, 4.5, and 8.2 percent of general fund spending, respectively. If temporary PIT and CFT rates were made permanent, fiscal year 2028's gap would be 6.2 percent of spending. These gaps are in line with average gaps projected in financial plans since 2009 for their respective outyears, excluding years of economic crisis. Gaps are generally larger in these crisis years.

Figure 4.7. FY25 executive budget projected gaps and historical averages, by financial plan outyear



Note: average budget gaps include gaps projected by financial plans since fiscal year 2009, excluding economic crisis years in aftermath of the financial crisis and Covid pandemic, in which projected gaps were much higher.

Projected outyear gaps are larger during recessions, or in the case of recent projected gaps, the anticipation of recession. These elevated gaps have required substantial policy interventions to balance the budget. In the aftermath of the 2008 financial crisis and Covid recession, projected gaps for the first outyear were 9 percent or higher. To balance the budget, the State raised taxes on high earners, creating new brackets for income above $300,000 and $500,000, and implemented across-the-board spending cuts. Following the Covid recession, cuts were averted by the adoption of progressive tax rates on very high income earners and extraordinary federal aid. The gaps projected in fiscal year 2024 differ from these recessionary gaps, as they resulted from an anticipated downturn, rather than an actual one. In particular, as noted above, recently projected gaps are premised on the expectation of a prolonged depressed in capital gains.

Further, outyear projected budget gaps are highly sensitive to small changes in projected revenue growth rates. For instance, if average revenue in the outyears grew at an annual rate of 2.0 percent, the fiscal year 2025 gap would nearly disappear and the following year would end in surplus. A 3.0 percent growth rate would generate substantial surpluses in the first two outyears, while a 3.5 percent growth rate — in line with average personal income growth — would reduce the fiscal year 2028 to a negligible level.

Table 4.5. Projected outyear gaps under hypothetical annual revenue growth rates

	FY 2026	FY 2027	FY 2028
Current (1.8%)	$ (4,974)	$ (5,249)	$ (9,943)
2.0%	$ (447)	$ 3,840	$ (9,124)
2.5%	$ 870	$ 5,859	$ (6,371)
3.0%	$ 2,192	$ 7,898	$ (3,578)
3.5%	$ 3,522	$ 9,957	$ (744)

Reserves

New York used Covid-era budget surpluses, in part, to bolster its fiscal reserves. Prior to Covid, the State's fiscal reserve balances were among the lowest in the country. The State's meager reserves left it inadequately prepared for an abrupt revenue downturn, as is typical during recessions. As such, the State relied on a combination of budget cuts and tax increases to balance budgets in past recession, rather than drawing down fiscal reserves.[11]

Well-funded reserves balances, by contrast, allow states to stabilize spending through the economic cycle. Economic cycles — intermittent expansions and contractions in economic activity — substantially affect state revenues, generating above-trend revenue during economic booms and depressed revenue in downturns. With prudent use of fiscal reserves, states can build reserves in boom years and draw down balances to maintain public services during contractions. The intensity of economic cycles is amplified in New York, where a large share of the State's total personal income is taken in by high-income earners, whose income tends to be earned from volatile capital gains, rather than more stable wages. As such, New York's revenue tends to be volatile and dependent on financial conditions.

New York's fiscal year 2022 and 2023 budget surpluses, in part, funded historic deposits to the State's fiscal reserves. Between fiscal year 2021 and 2023, the State's fiscal reserves grew from about $4 billion to $19.5 billion. This level brought reserves above 15 percent of State funds spending ––the State's long-run goal for reserve balance adequacy. In addition to the State's $19.5 billion of reserves, which includes both statutorily-restricted reserves and unrestricted general fund balances designated as fiscal reserves, the State's general fund includes $9.6 billion in unrestricted funds that it does not designate as fiscal reserves, but that are nevertheless available to support the budget. The executive budget proposes holding this formal and informal reserves at their present levels over outyears, while slowly drawing down undesignated fund balances. The next chapter will further discuss the executive budget's fiscal management proposals, including its plan to temporarily use informal reserves to support asylum seekers.

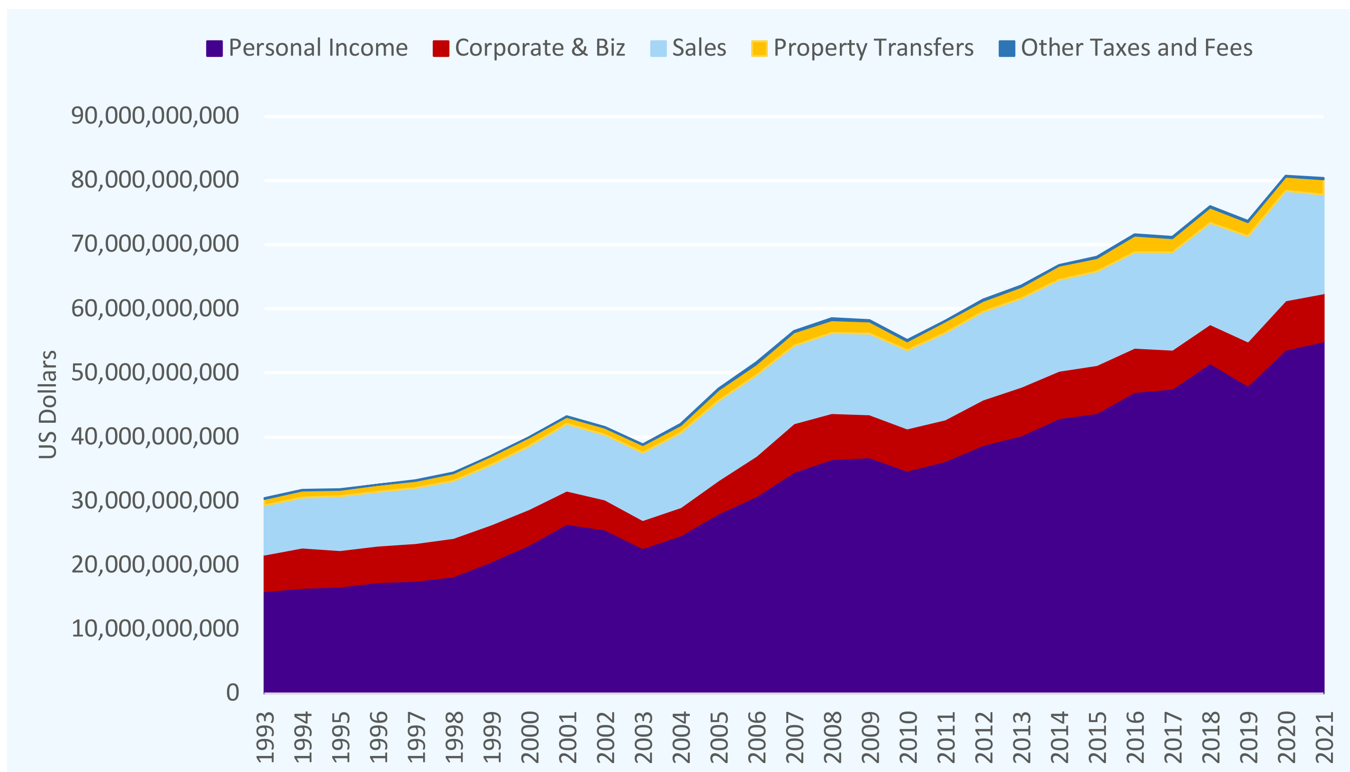
Figure 4.8. New York's fiscal reserves, fiscal years 2019 to 2028

V. New York's Tax Base

Introduction

New York's tax revenue overwhelmingly depends on three sources: the Personal Income Tax (PIT), the Corporate Franchise Tax (CFT), and the sales tax. Each tax is defined by its "tax base": the PIT is imposed on personal income, the CFT is imposed on corporate profits, and the Sales Tax is imposed upon consumer purchases of goods and a very small number of services. The State's fiscal future depends upon the strength of its tax base, which is determined by general economic conditions. Examining the specific types of economic activity that are subject to tax provides a clearer sense of the State's ability to sustain its spending patterns.

Figure 5.1. Tax revenue by type



The Personal Income Tax

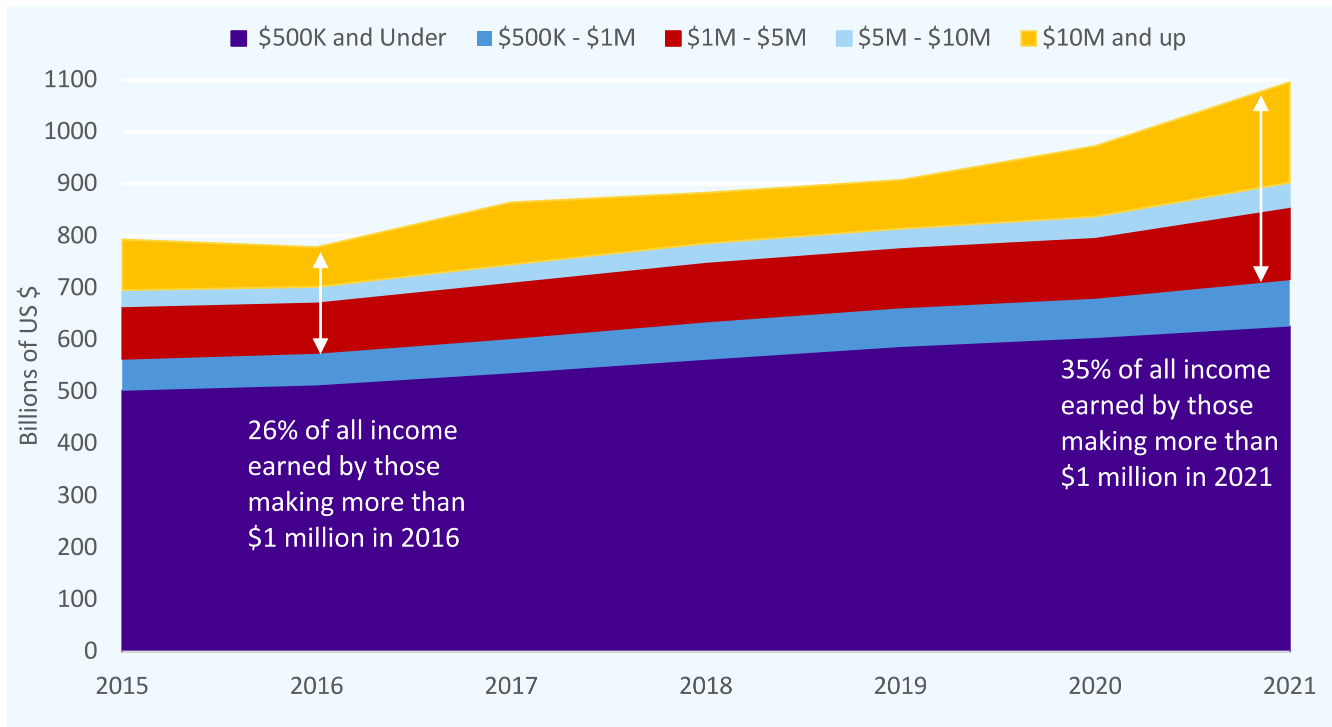
As shown above, the PIT has always been the State's primary source of revenue, but its importance has grown in recent decades compared to the CFT and the Sales Tax.

Total personal income measures all income earned by individuals in New York State, including wage or salary income as well as non-wage income such as business profits, capital gains and dividends, and rents and royalties. Personal income in the state has grown steadily since the recovery from the Global Financial Crisis, providing a strong and stable source of tax revenue for the State.

Because of the large number of high earners in New York, much of the total personal income in New York is earned by those earning over $1 million annually. Data from the New York Department of Taxation and Finance show the breakdown of reported personal income by income group. In 2016, individuals earning more than $1 million annually earned (collectively) 26 percent of total personal income and those earning less than $1 million annually collectively earned 74 percent. By 2021, the share of total personal income earned by those making over $1 million annually had risen to 35 percent and the share earned by those making less than $1 million annually had dropped to 65 percent, reflecting a widening inequality gap in New York.

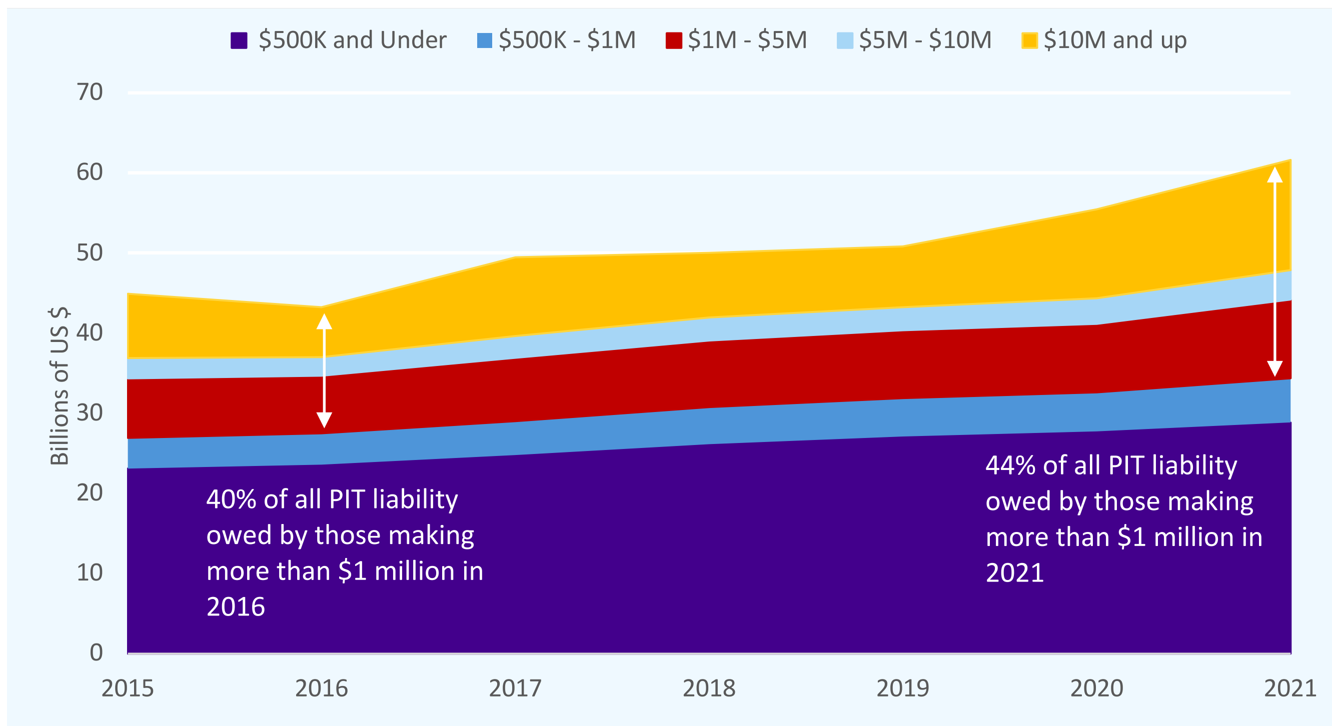
Figure 5.2. Personal income earned by New Yorkers, by income group.

Growing percentage of taxes paid by top earners reflects New York's widening inequality gap



Due to the moderately progressive PIT structure, high earners pay a large proportion of total PIT liabilities, though this share is comparable to their share of total personal income. In 2016, those making less than $1 million annually paid 60 percent of total personal income tax liability in NY while those making over $1 million that year paid 40 percent. In 2021, those earning less than $1 million paid 56 percent of total personal income tax liability while those making over $1 million paid 44 percent.

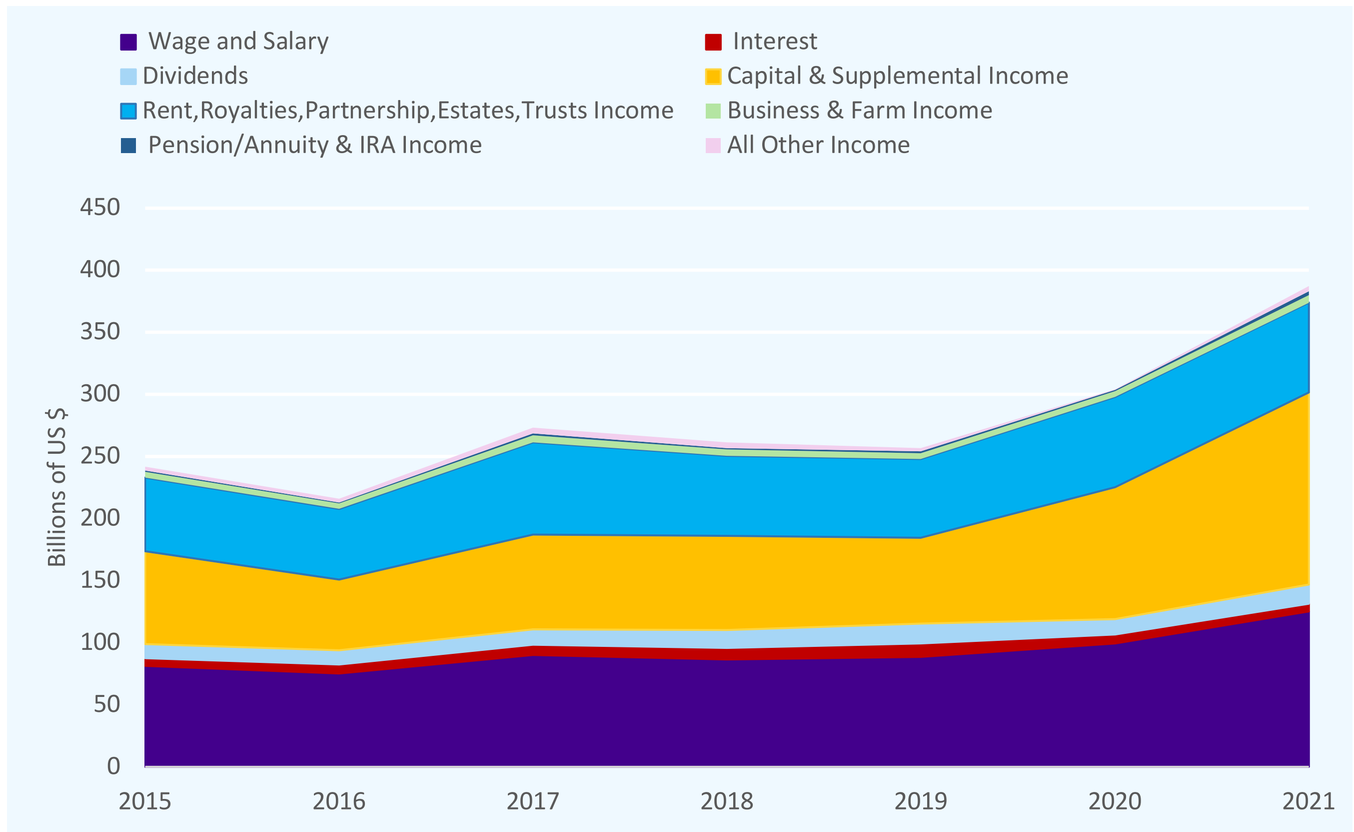
Figure 5.3. Personal income tax liability, by income group.



Another important dimension of the personal income tax base in New York is the variation in type of income. The PIT taxes all types of income under the same rate schedule. However, different types of income vary in their growth and volatility, often creating concern for policymakers. For example, income from capital gains has high volatility relative to wage and salary income. Data reported to the NY Department of Taxation and Finance show how important capital gains are to the state's income base. In 2021, capital gains and supplemental income made up 40 percent of earnings for those making over $1 million that year, whereas wages and salary income made up only 32 percent. Volatility in capital markets creates fluctuation in the personal income tax base, but those fluctuations are manageable for the state given reasonable expectations about the long run performance of financial markets.

Figure 5.4. Total personal income for those earning over $1 million each year, by income type.

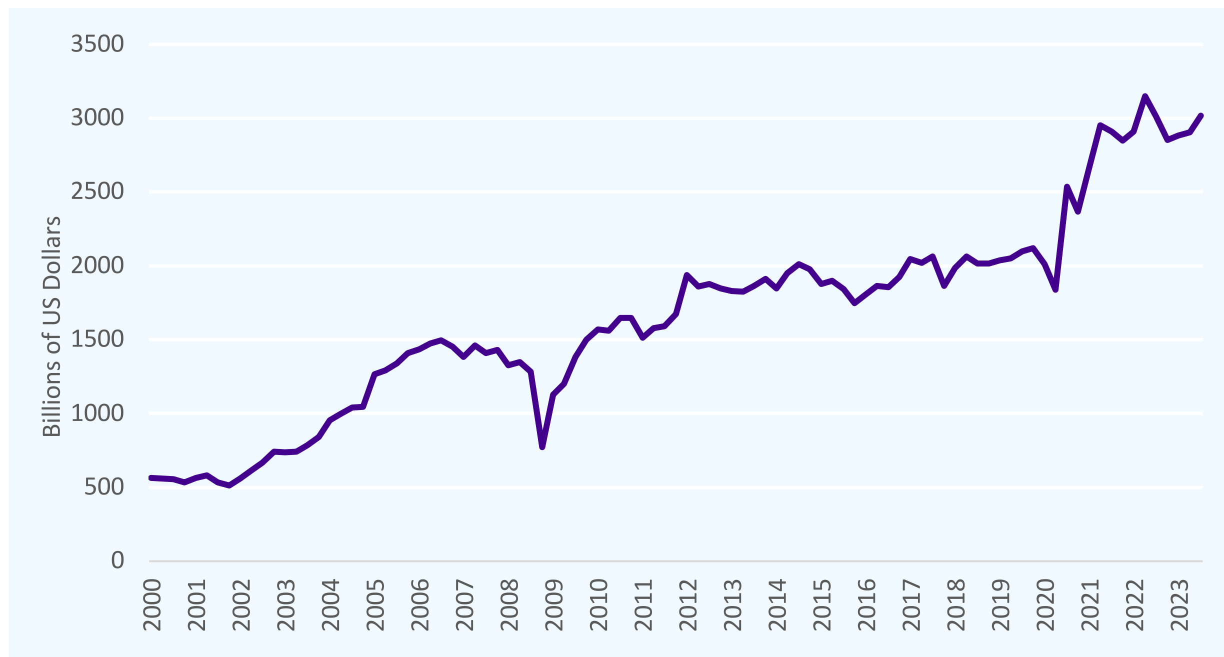
Recent high-earner personal income trends reflect growth in capital gains income



Corporate and business taxes

Corporate tax revenue makes up about 10 percent of the State's total revenue. Corporate profits in the US rose significantly in during the Covid-19 pandemic, due to high demand and suppressed supply in the aggregate economy, as well as likely the impact of fiscal and monetary policy that created an accommodative environment for US businesses.[12] In the last year, corporate profits have stabilized as interest rates have increased the cost of investment and borrowing.

Figure 5.5. Total corporate profits in the US.



New York's Corporate Franchise Tax (CFT) is imposed on the profits of corporations doing business in New York. 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. This formula is used to account for a corporation's payroll and property within the state as well, but it was changed in 2015 in order to avoid creating an incentive for corporations to move to other states.

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 has no direct effect on its CFT liability. 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.

Sales, excise, and use taxes

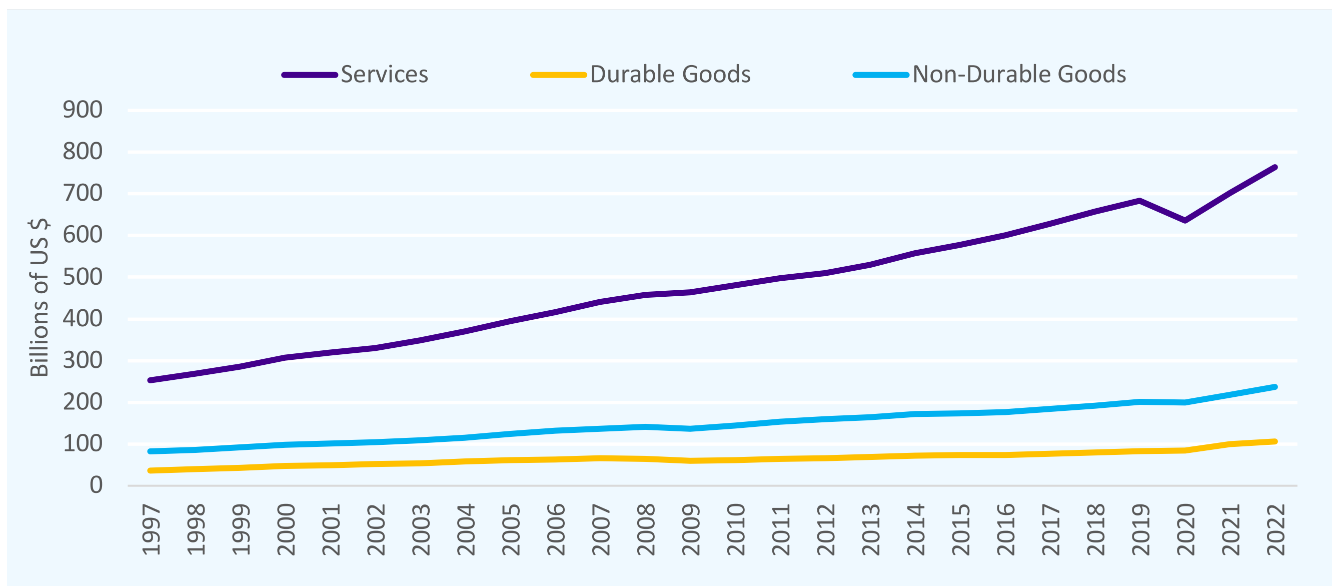
The third significant source of revenue is the sales tax. The sales tax is almost exclusively imposed upon consumer purchases of goods, with only a few services being subject to sales tax. New York City, for instance, imposes sales tax on massage services, tanning salons, barbershops, and a few other services.

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.

Consumer expenditures on both goods and services have grown at a healthy rate over recent years. Even with high interest rates intended to slow price growth, which could have easily dampened consumption, sales tax receipts have remained strong.[13]

Consumer expenditures on goods and services are a better indicator of the economic health of working- and middle-class New Yorkers than total personal income, which is dominated by high earners. After a small dip in 2020 due to the Covid-19 pandemic, New York total consumer expenditures have recovered and grown by about 20 percent between 2020 and 2022.

Figure 5.6. New York consumer expenditures, billions of US dollars.



VI. Tax Policy & Revenue Options

The State faces numerous policy challenges that require new revenue. Chief among them is managing the affordability crisis for working families through deeper investments in healthcare, education, and housing, as well as tackling both rising poverty and rising inequality. The State's ability to face these challenges depends on its willingness to continue raising revenue through the tax code.

Fortunately, New York has a strong tax base that can sustain higher taxes on the highest earners. This section reviews the following tax policy options to increase revenue:

- Make the income tax more progressive
- Raise the tax rate on capital gains
- Raise the corporate tax rate
- Combat global tax avoidance
- Tax the profits of pass-through businesses
- Tax inherited wealth

Raising the Personal Income Tax

The personal income tax (PIT) is the largest source of State tax revenue, and small changes to the top brackets yield substantial increases in revenue. For New York in particular, which has a large concentration of ultra-high earners as well as growing demands on public investment and social spending, the PIT should be prioritized as a source of stable new revenue.

Opponents of income tax increases point to the risk of high-earner tax flight from New York, as well as the State's top tax rate (which is relatively high by national standards), as reasons to avoid further tax increases. These arguments are mistaken and misleading. As recent FPI analysis shows, the top earners in New York move out of the state far less frequently than low- and middle-income New Yorkers, and when they do move, it is typically to other states with high income tax rates such as New Jersey and California.[1]

Moreover, while the State's top income tax rate is relatively high among U.S. states (although much lower than California's top tax rate), it only applies to a uniquely high $25 million income bracket. By contrast, other high tax states impose their top rates on incomes ranging from $200,000 to $1.4 million.

[1] For an extensive analysis of these issues, see FPI's report "Who Is Leaving New York" at fiscalpolicy.org/migration as well as a fact sheet summarizing the report's conclusions.

Table 6.1. Top state tax rates for married filers

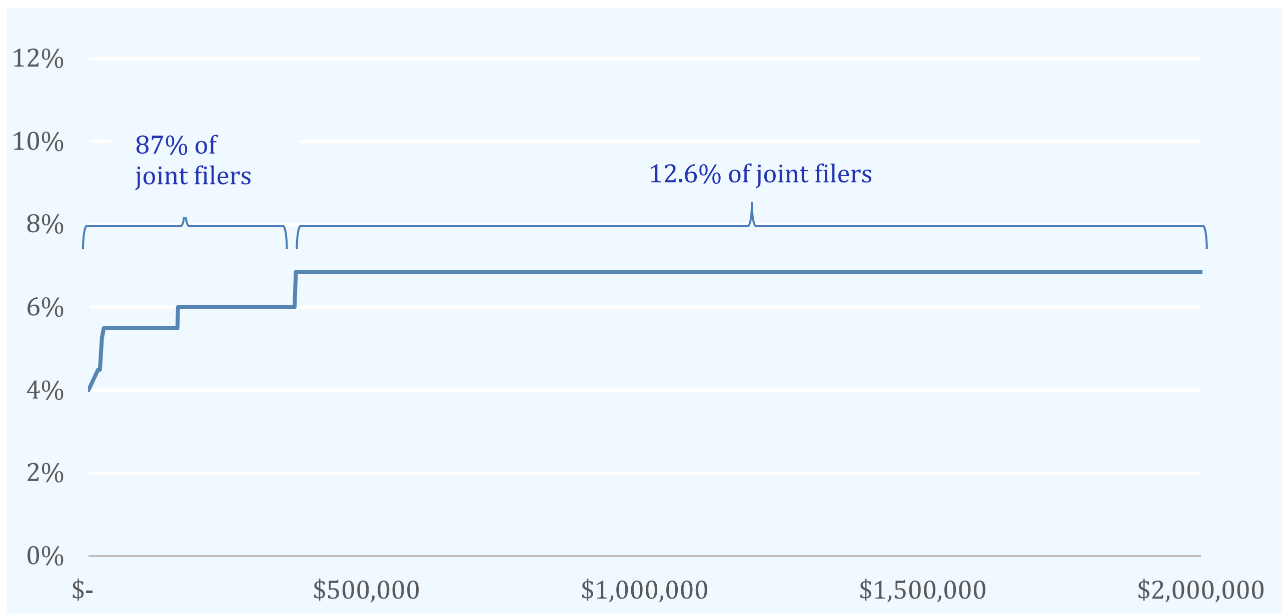
State	Top Tax Bracket	Top Tax Rate
New York	$ 25M	10.9%
California	$ 1.4M	13.3%
New Jersey	$ 1M	10.75%
Hawaii	$ 200,000	11.0%

Note that New York City residents also pay a city income tax of up to 3.9 percent, such that a small population of ultra-high earners located in New York City pay a combined state and local tax rate of 14.8 percent. Ultra-high earners who live in the wealthy New York suburbs pay no City income tax, however, even if they work in New York City (the City income tax only applies to New York City residents). By contrast, the State income tax applies to all income earned from working in New York. A millionaire resident of Greenwich, CT who works for a hedge fund based in New York City pays State income tax on their hedge fund compensation (because the compensation is from doing business within the state), but they pay no City income tax (because the individual is not a New York City resident).

Flatness of the State income tax

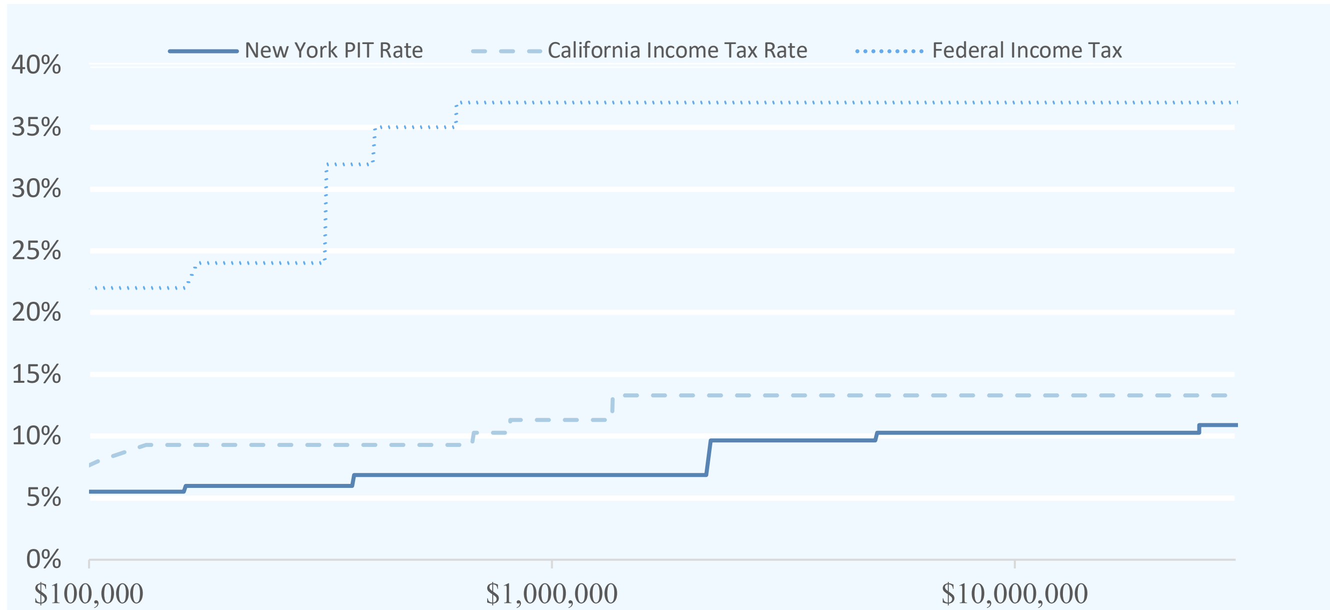
While the State imposes higher tax rates on those who earn millions of dollars annually, it imposes a relatively flat tax rate on all other earners. Even a married couple earning $2 million annually pays the same tax rate as a married couple earning $350,000 annually. When opponents of tax increases point to the State's high tax rates, they ignore the relatively lower tax rates imposed on over 99.5 percent of all taxpayers.

Figure 6.1. Personal Income Tax Rates for Joint Filers earning less than $2 million:



The flatness of New York's PIT contrasts markedly with the progressivity of the federal income tax as well as California's state income tax. While federal income tax rates are naturally higher than state tax rates, it is important to note that both the federal and California income taxes increase tax rates at lower levels of income, in contrast to the New York PIT.

Figure 6.2. New York PIT rates versus federal and California income tax rates



Revenue Estimates

FPI estimates the revenue yield from the tax increases modeled below, which would increase the progressivity of the State's income tax, thereby distributing the tax burden more fairly.

The simplest change to the current tax structure would be to consolidate the millionaire tax brackets, bringing New York's tax structure in line with other states that have progressive income taxes.

Table 6.2. Combine millionaire tax brackets

Additional Revenue: $2.2 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%

Beyond consolidating the millionaire tax brackets, the State's tax structure should aim for a higher degree of progressivity among taxpayers in the wide bracket that covers. In particular, the PIT should be more progressive with respect to married couple earning between $750,000 and $2 million.

Table 6.3. Combine millionaire tax brackets & increase progressivity in middle of income distribution

Revenue: $3.9 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	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%

The changes above would modestly improve the fairness of the overall State tax structure while yielding enough additional revenue to address current concerns about projected future budget gaps. In order to meaningfully pursue new social policy initiatives such as building social housing or effecting a climate transition (as discussed later in this book), the State will need to pursue a bolder revenue agenda.

The brackets below build on the changes described in Tables 6.2 and 6.3, but they maintain the top brackets for the ultra-high earns and impose moderately higher tax rates.

Table 6.4. Raise top tax rates & increase progressivity throughout income distribution

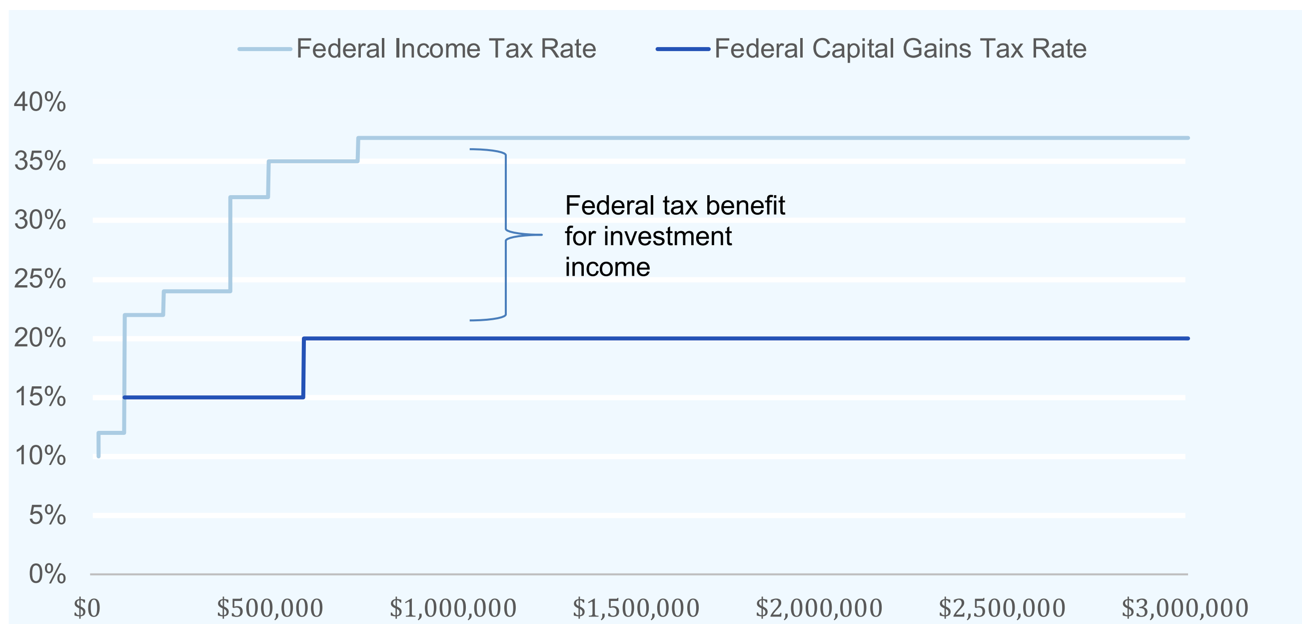
Revenue: $12.3 billion

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%

Taxing Capital Gains

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 gains, which generally includes income from investments. Individuals who earn capital gains benefit from lower federal income tax rates.[2] 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.[14]

Figure 6.3. Capital gains tax benefit (federal)



Capital gains are currently taxed in New York at the same rates as ordinary income (in other words, the rate schedules above apply equally to all types of income). The federal tax benefit for capital gains has long been controversial, particularly among progressive policymakers. The value of the tax benefit overwhelmingly accrues to the very wealthy who disproportionately own assets that produce investment income (e.g., corporate stocks and bonds, commodities, works of art, sophisticated financial products).[15]

Since 2020, New York State legislators have proposed a higher state income tax rate on capital gains in recognition of the fundamental unfairness of the federal tax benefit for capital gains.[16]

FPI estimated the revenue yield from three different options for imposing a higher New York State capital gains tax rate on the highest earners. These include: (1) a low surtax rate of 1 percent and 2 percent, (2) moderate surtaxes of 2 percent and 4 percent, and (3) surtaxes of 7.5 percent and 15 percent, as proposed in currently pending legislation.

[2] 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".

Table 6.5. Revenue estimates for capital gains surtaxes

Proposal	Income			Total Revenue[17]
	< $500,000	$500,000-$1,000,000	> $1,000,000	
Low Surtax	0%	1%	2%	$1.66 billion
Moderate Surtax	0%	2%	4%	$3.33 billion
Highest Surtax	0%	7.5%	15%	$12.47 billion

Only 1.3 percent of tax filers in New York would be affected by these proposals, and only 0.83 percent of tax filers would be subject to the highest surtax rate under these proposals (the $1M bracket). This incidence breakdown applies to all three proposals since they have the same income brackets guiding the rate increases. Under any of these three proposals, about 99 percent of tax filers in New York would see zero change in their tax rates.

Corporate & Business Taxes

As part of the 2021 tax increases, the state's corporate franchise tax rate was increased for corporations with over $5 million in profits, from 6.5 percent to 7.25 percent. This rate increase lasts through tax year 2026.[18]

Both the federal corporate income tax rate and New York State's corporate tax rate have fallen steadily since the 1960s. The 2017 tax law known as the "Tax Cuts and Jobs Act" cut the U.S. federal corporate tax rate from 35 percent to 21 percent, bringing it to its lowest level since 1942.[19] New York State's corporate tax rate gradually fell from 8.5 percent in 2000 to a low of 6.5 percent in 2016 (under then-Governor Andrew Cuomo), the lowest rate since 1967. The corporate tax rate remained at its historic low of 6.5 percent until the 2021 tax increase.[20]

The corporate tax is New York's third largest source of tax revenue, behind the personal income tax and sales taxes. Due to the falling corporate tax rate over time, corporations now contribute a smaller percentage of the state's total tax collections than they did in prior decades. New York State's corporate tax rate is also low by regional standards — New Jersey's rate is 11.5 percent; Pennsylvania's rate is 8.99 percent; and Massachusetts' rate is 8.0 percent.

Fig 6.4. New York's Falling Corporate Tax Rate: 1990 - 2024

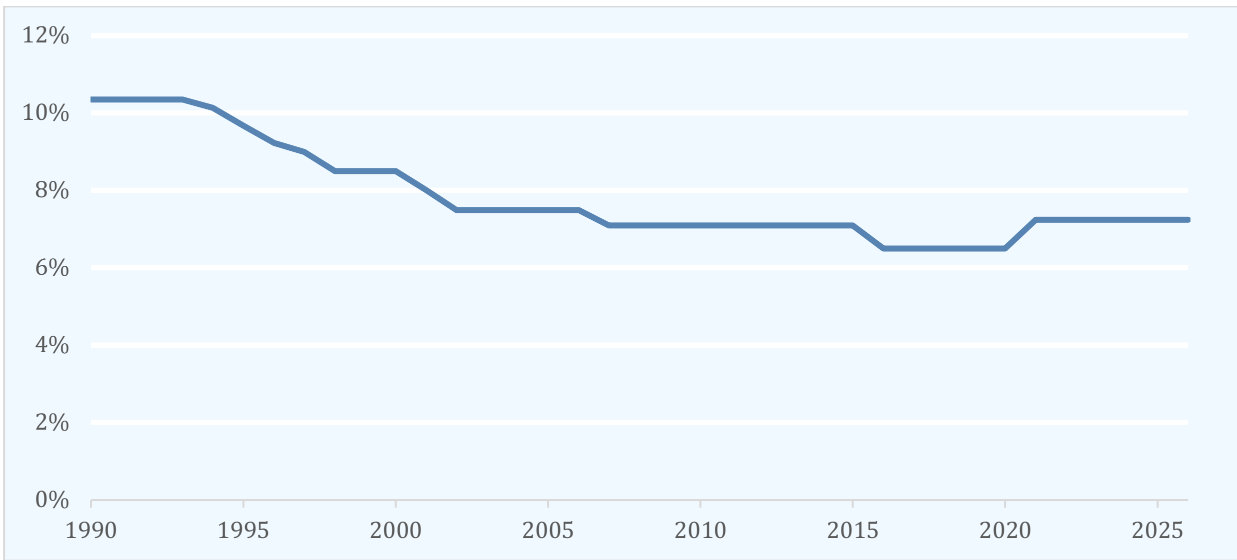
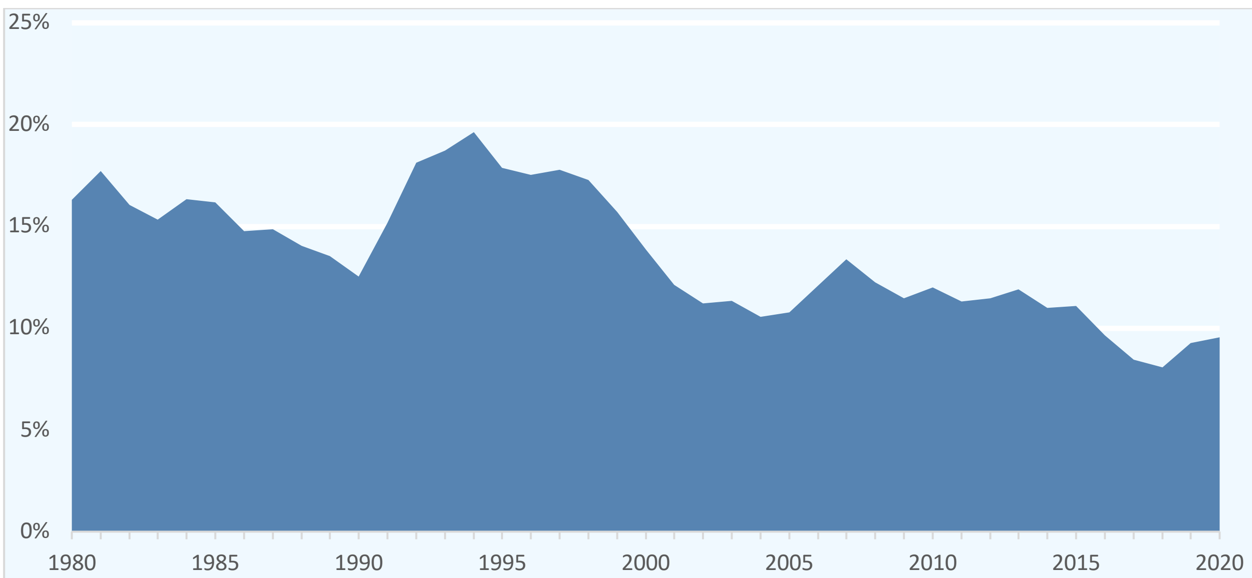


Fig 6.5. New York's Corporate and Business Tax Revenues as Share of Total Collections: 1980-2020



Combat global corporate tax avoidance

Tax policy scholarship in recent decades has focused on the techniques used by multinational corporations to shift profits into low-tax foreign countries, thereby avoiding federal corporate income tax in the U.S.[21] These strategies have likewise stripped corporate profits from state corporate taxes, which generally follow U.S. federal corporate income tax treatment.

Tax avoidance techniques by multinational corporations have a common theme: They concoct transactions on paper (which are said to have no "economic substance") that move profits out of U.S. corporate entities and into related corporations located in foreign countries with lower tax rates.

New York has multiple avenues for following recapturing some of those lost revenues:

- Worldwide Combined Reporting: The most straightforward policy solution is to require a corporation to treat related foreign corporations as part of a single business for tax purposes (thus the name "combined reporting"). In this manner the trick described above is rendered ineffective, as the corporation is treated as one entity for tax purposes.

- Global Intangible Low-Taxed Income: The 2017 federal tax law known as the "Tax Cuts and Jobs Act" imposes an additional tax on a corporation's foreign subsidiaries that are extraordinarily profitable relative to the value of their tangible property. Policymakers infer that such foreign subsidiaries likely hold valuable intellectual property that was moved out of the U.S.

Tax non-corporate businesses

The vast majority of businesses today are not organized as corporations, but rather as "pass-through" businesses that are not subject to the corporate tax.[22] These businesses include partnerships, LLCs (which are typically taxed as partnerships), and S-Corporations, all of which are treated as pass-through entities for federal and most state and local income tax purposes.[23] To equalize the tax treatment of business profits, the State could impose a business profits tax on businesses that do not pay the corporate tax.

Two existing mechanisms could be adapted to this purpose. The first option is the state's small filing fee on LLCs and partnerships based on gross income. The fee tops out at $4,500 annually for businesses with over $25 million in gross income. This filing fee could be redesigned as either a tax on a percent of gross receipts or as a tax on entity net income.

The second mechanism is New York's Pass-Through Entity Tax (PTET). This tax is an optional tax paid by pass-through businesses to circumvent the $10,000 limitation of the federal deduction for state and local taxes. Currently, the tax is paid and fully rebated to business owners. The State could reduce the rebate to generate additional revenue (a 10 percent reduction in the rebate would yield around $1 billion annually). The PTET could also be changed into a permanent business income tax.

Taxing Inherited Wealth

In principle, the estate tax should function as a tax on accumulated wealth at the end of an individual's life. However, it has largely ceased to perform this role due to a few unfortunate features of current estate tax law. Chief among them are that (i) the step up in basis rules eliminate taxable gain upon death, (ii) the estate tax exemption has continued to rise (currently, the first $26 million of a married couple's estate is exempt from federal estate tax, and the New York State estate tax exemption is over $13 million for a married couple), (iii) the wealthy can contribute their assets to a private foundation, thereby avoiding estate tax, and (iv) the estate tax planning industry has developed sophisticated tax avoidance techniques.

New York could reform any of the above features of its estate tax in order to more effectively tax accumulated wealth at death. The easiest strategy would be to end step-up in basis at death for state tax

purposes. Or, it could shift to a new, simpler inheritance tax scheme whereby inherited income is included in the recipient's income, putting it on par with wage income and investment income.[24]

VII. Education & Higher Education

School Aid

Last Year: Foundation Aid Long Delayed, Finally Funded

In fiscal year 2024, the State fully phased in formula-based funding for Foundation Aid, the largest component of school aid. This change brought fiscal year 2024 school aid to $34.4 billion, a 9.6 percent increase. This substantial increase was the culmination of a decades-long effort to commit the State to funding its annual school aid through the Foundation Aid formula. The State had delayed fully funding the formula amid the fiscal fallout of the 2008 financial crisis, and then slowed funding increases over much of the 2010s. Only in fiscal year 2022 did the State commit to phasing in full funding over three years.

Executive Budget: New Foundation Aid Growth Calculation

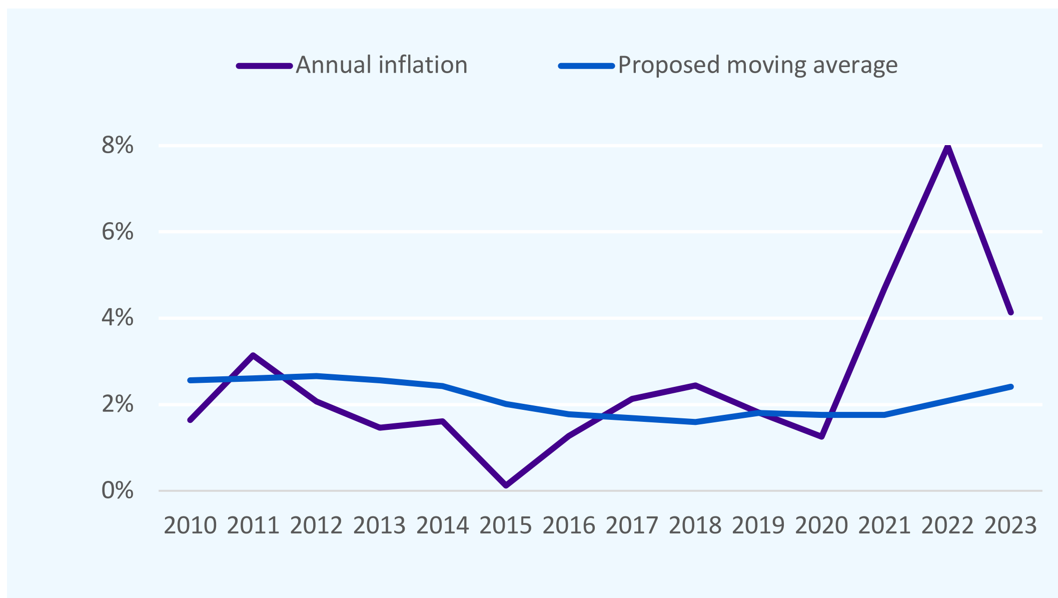
In the fiscal year 2024 enacted budget financial plan, school aid funding was projected to reach $35.8 billion in fiscal year 2025, or 3.9 percent growth. However, the fiscal year 2025 executive budget now proposes $35.3 billion in school aid — a spending increase of only 2.7 percent. This funding is $454 million less than the $35.8 billion originally planned for fiscal year 2025.

The State's primary proposal to restrain school aid spending is to permanently adjust the inflation factor used to calculate annual foundation aid growth. Currently, the Foundation Aid formula specifies that annual school aid growth should be indexed to the change in the national consumer price index (CPI) over the prior year. In 2023, the CPI increased 4.1 percent from the prior year. Following this inflation rate would require $35.8 billion in fiscal year 2025 school aid — the level anticipated in last year's enacted budget.

To reduce costs, the executive budget instead proposes calculating inflation growth as the average annual inflation over the preceding ten years, excluding the highest and lowest years of inflation. For the current year, the average ten-year inflation using this formulation is 2.4 percent — the rate of the current executive budget's proposed funding growth (excluding costs of taking over expiring federal pre-kindergarten expansion grants).

The preceding ten-year period used for this year's calculation includes seven years of low inflation (2014 to 2020) and three of elevated inflation (2021 to 2023). Notably, the proposed formula would significantly restrict school aid growth in years of sudden increases in inflation. Last year, for instance, school aid growth would have been restricted to 2.1 percent under this formula despite 8.0 percent annual inflation. Conversely, the formula would drive school aid growth above inflation during periods of unusually low inflation, such as 2013 to 2016.

Figure 7.1. Annual inflation and proposed moving average, 2010 to 2023



Reducing funding for districts with declining enrollment

Enrollment is declining in school districts across the State. The executive budget proposes eliminating a hold harmless provision, which prevents year-to-year funding cuts for districts with declining enrollment. In its place, the executive budget would create a "transition adjustment" to offset a formula-driven decline in school aid. Under the transition adjustment, school districts whose school aid would decline in fiscal year 2025 will receive between 50 and 91 percent of their potential loss. The ratio is set as the state sharing ratio, which is based on districts' wealth, with less wealthy districts receiving more funding than wealthy districts. The executive budget expects the transition adjustment to offset $207 million in school aid that would have otherwise been lost by eliminating the hold harmless provision.

Additional pre-kindergarten funding

The executive budget additionally commits $96 million in fiscal year 2025 to takeover costs of statewide universal pre-kindergarten (UPK) expansion grants that had previously been funded by federal Covid aid. The State estimates that districts now offer enough UPK funding to support 94 percent of the full statewide UPK target.

Higher Education

19 of 34 State-operated SUNY campuses face operating deficits

Enrollment in the State University of New York (SUNY) system rose last year for the first time in a decade. Nevertheless, a decade of declining enrollment — and therefore tuition revenue — as well as declining inflation-adjusted State aid have taken a toll on SUNY campuses. Of the SUNY system's 34 state-operated campuses (which excludes community colleges), 19 have operating deficits, spending more than they receive each year from tuition and state aid. These cumulative deficits totaled $138.7

million in fiscal year 2024. SUNY's central administration expects this shortfall to grow to $1.1 billion per year over the next decade.[25]

Campuses with operating deficits generally respond by implementing hiring and other spending freezes and drawing down reserves. Two campuses with particularly large deficits have entered into restructuring frameworks with SUNY administration, agreeing to eliminate degree programs and course offerings, generally receiving stopgap financial support from SUNY administration. Over the last year, SUNY colleges at Fredonia and Potsdam have entered into these restructuring agreements.

Executive Budget Proposals

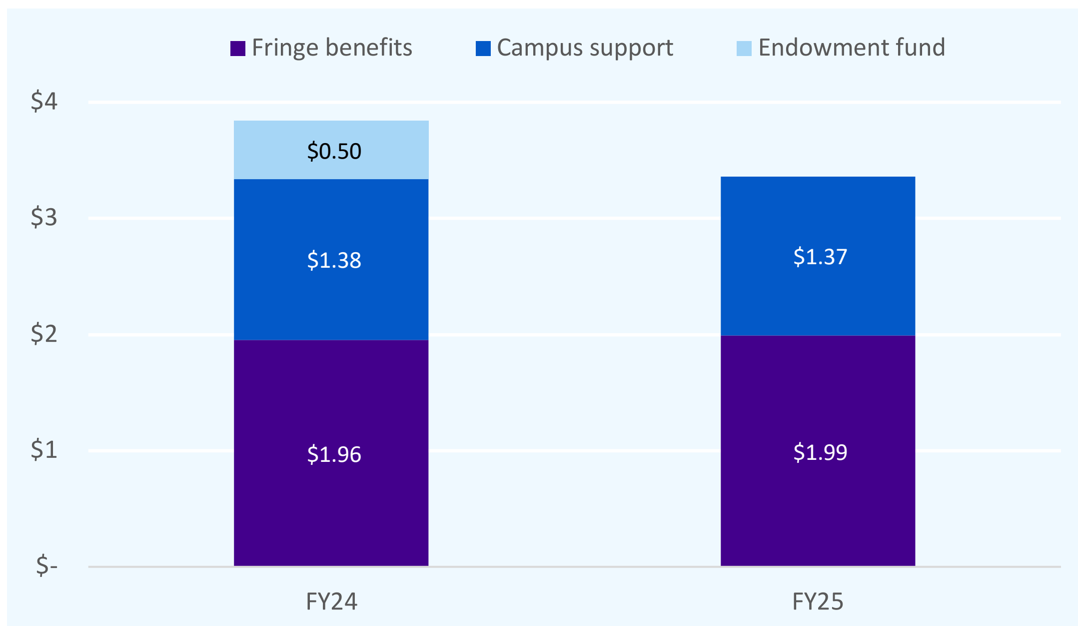
Hold SUNY funding flat

The fiscal year 2024 enacted budget took steps to shore up the SUNY system. The majority of the funding appropriated, however, was one-off and targeted toward the system's four universities. Most significantly, the budget created a $500 million matching endowment fund, restricted to the system's four universities. The budget also appropriated $183 million in temporary operating support, to be disbursed over the next two academic years. Recurring operating support to campuses was raised by $163 million. Despite this increase to recurring support, SUNY support from the State remained lower than a decade prior, after adjusting for inflation, and insufficient to close campus deficits.

This year's executive budget proposes holding operating support for state-operated SUNY campuses essentially flat at $3.4 billion. Operating support is comprised of payment of SUNY employees' fringe benefits, and direct operating funding to campuses. Fringe costs are set to grow $36 million, while operating aid will fall $20 million, resulting in a $16 million net increase. While the budget proposes increasing recurring operating support by $100 million, this is offset by a reduction in previously-enacted temporary support.

This $3.4 billion also excludes the effect of last year's $500 million one-off appropriation for a university endowment fund. If this $500 million were included as part of last year's spending, support for SUNY campuses would reflect a 12.5 percent funding reduction this year.

Figure 7.2. State support for SUNY campuses, fiscal year 2024 and 2025 (in billions of USD)



Reduction in private college & university grants

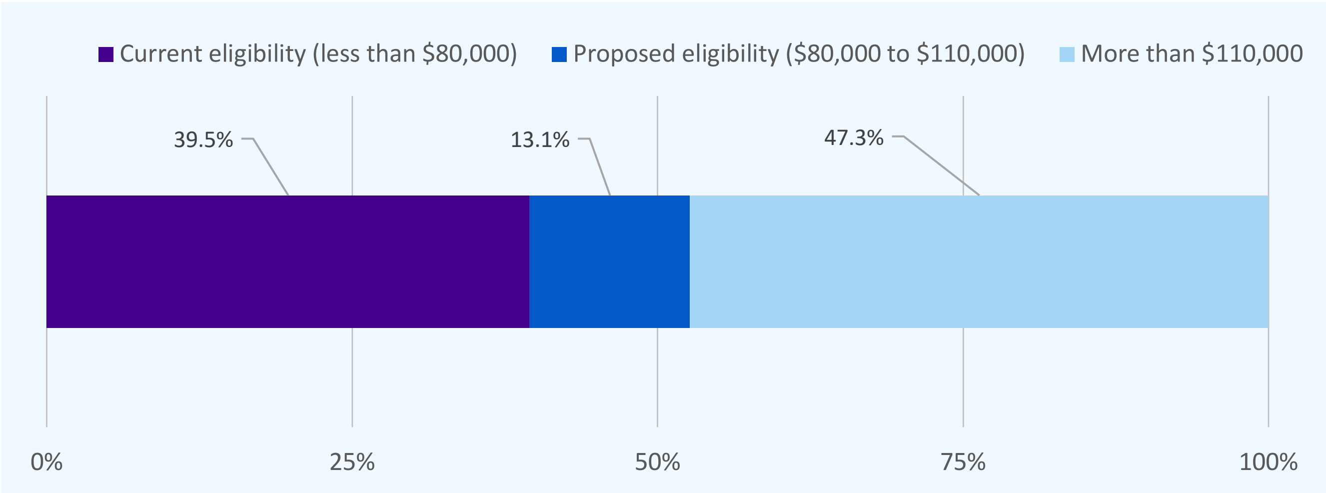
The executive budget additionally proposes two fiscally-relevant legislative proposals. First, the budget proposes spending reduction for the Bundy Aid program. Bundy Aid is a longstanding program that provides a total of $35 million in annual grants to private colleges and universities in the state. The executive budget proposal would restrict aid eligibility to institutions with endowments of $750 million of less. The proposal would save $19 million per year.

Permanently enacts tuition assistance program tuition credit

Second, the budget proposes making the Tuition Assistance Program (TAP) tuition credit permanent. TAP provides a tuition credit of $5,665 to children from low- and moderate-income families. The TAP tuition credit requires SUNY and CUNY to lower tuition to the level of the maximum amount of the TAP grant, so that students who receive TAP are not billed any remaining gap between tuition and their grant. The State then reimburses campuses the value of foregone tuition revenue. The TAP tuition credit was passed in 2011 and was set to expire this year. The proposal would make it permanent.

While not proposed in the budget, the State recently expanded TAP to cover the costs of non-degree workforce development programs offered by SUNY and CUNY.[26] Further, the State has expressed interest in working with the legislature to expand eligibility for TAP.[27] One legislative proposal would raise TAP eligibility from its current maximum level of $80,000 to $110,000.[28] If adopted, this would expand TAP eligibility by one-third, reaching an additional 270,000 (13.1 percent) of the two million households with children younger than 18 in New York. More than half (52.7 percent) of households would be eligible for the program under this proposal.

Figure 7.3. Current and proposed TAP eligibility as share of all New York households with children



VIII. Healthcare

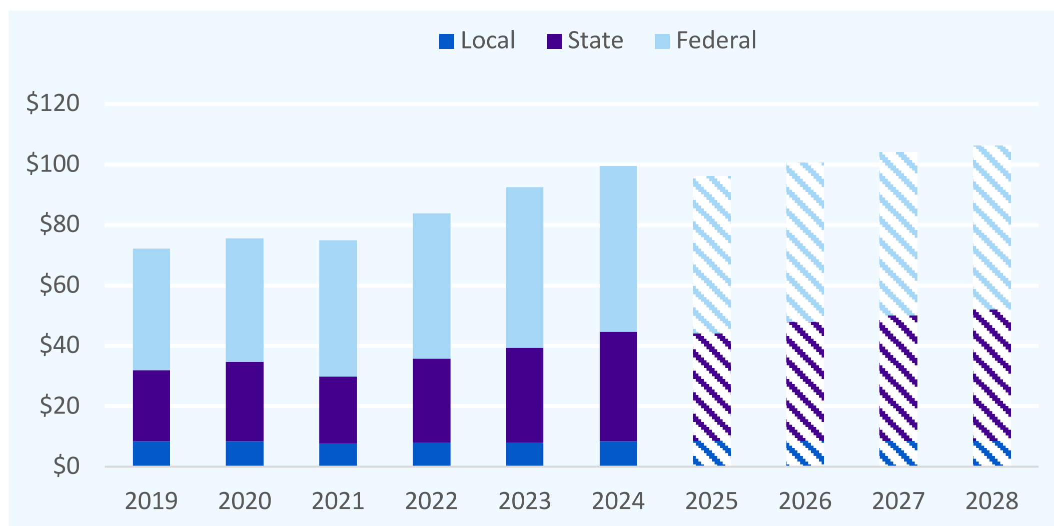
Medicaid Spending

State-Share Medicaid spending to decline 1.9 percent in fiscal year 2025

The executive budget includes meaningful expansions to healthcare access, including continuous coverage for children under the age of six, new initiatives to address medical debt, and a cap on out-of-pocket insulin costs. These initiatives, however, are matched by significant cuts to Medicaid spending, including cuts to home care worker wages, hospital payments and managed care plans, as well as $400 million in unspecified further cuts. The State claims that these Medicaid cuts are necessary given the high rate of spending growth in the program; according to the Executive Budget Financial Plan, the Medicaid budget will grow by 10.9 percent or $3 billion in fiscal year 2025, even with $1.2 billion in proposed spending cuts.

These figures are somewhat misleading. The executive budget financial plan shows that while spending accounted for in the Department of Health (DOH) budget line is increasing, total state-share Medicaid spending – including spending accounted for as mental hygiene, a significant portion of which appears to fund the DOH Medicaid program – is set to decline by $700 million, or 1.9 percent, between fiscal year 2024 and fiscal year 2025. A broader spending measure that includes federal and local shares, in addition to State spending, shows a similar trend: overall Medicaid spending (including state, local and federal funding) is projected to decline by 3.5 percent in fiscal year 2025, from $99.6 billion to $96.1 billion.

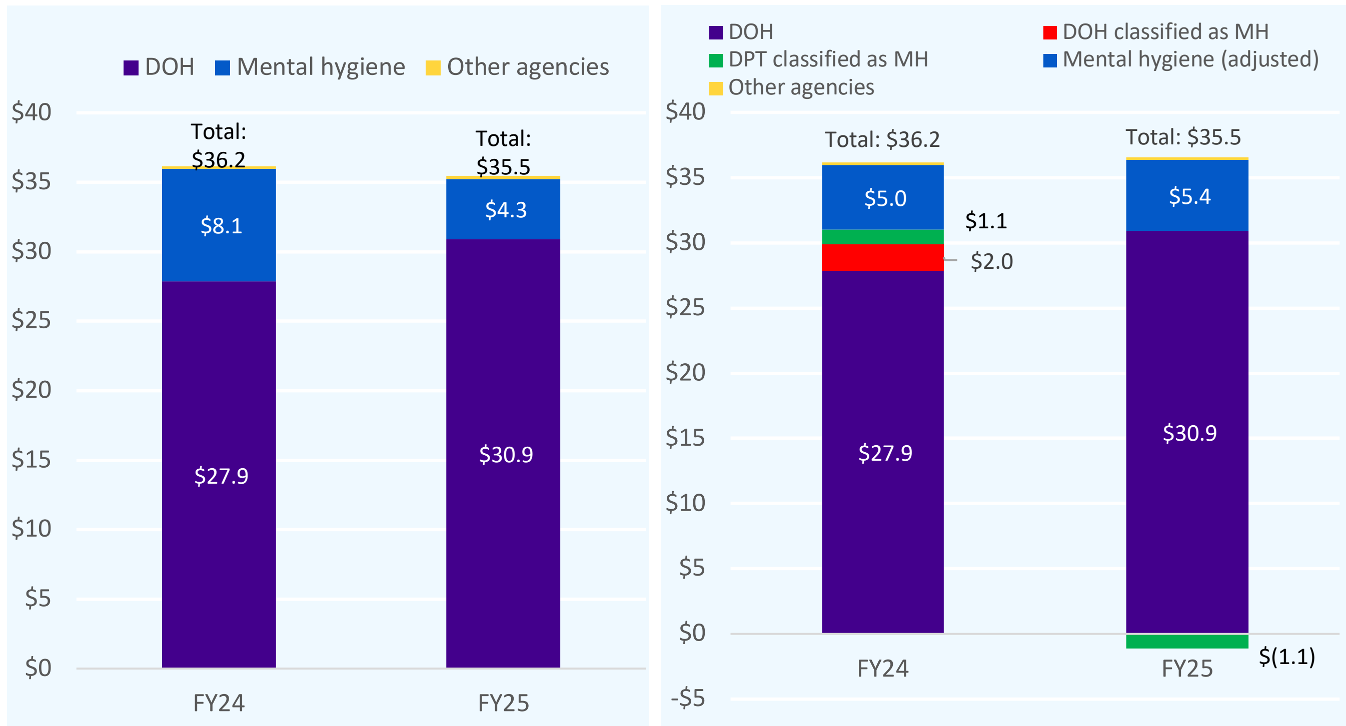
Figure 8.1. Medicaid funding by source, fiscal years 2019 to 2028



Declines in Medicaid spending are driven by several factors: (i) enrollment declines, (ii) the governor's proposed cuts, and (iii) the State's method of accounting for a one-time loan to financially distressed hospitals. The governor's budget address appears to show rapid spending growth due to the State's takeover of $1.7 billion that was previously paid for by federal pandemic funding. This amounts to an increase in State spending but not because of a parallel increase in services. Another reason for the

reported growth appears to be due to some creative accounting: the budget misclassifies over $2 billion in fiscal year 2024 DOH Medicaid spending as mental hygiene spending, likely in order to keep the State (technically) under the Medicaid Global Cap for fiscal year 2024. This maneuver has the effect of artificially depressing fiscal year 2024 DOH Medicaid spending, resulting in an artificially high reported rate of growth into 2025.

Figure 8.2. State-share Medicaid spending by classification, fiscal year 2024 to 2025



Factors that affect Medicaid spending

The opacity of the executive budget's Medicaid accounting makes it difficult to determine exactly how fast state-share Medicaid costs are increasing and to what degree this growth is sustainable. That said, it is clear that increased utilization and demographic trends will continue to cause program growth.

- **Enrollment decline:** Medicaid enrollment has declined substantially, to 7.6 million, from its pandemic-era peak of 8 million in June 2023. Prior to the pandemic, 6.1 million New Yorkers were enrolled in Medicaid. During the pandemic Public Health Emergency, many New Yorkers became eligible for Medicaid and the federal government prevented states from disenrolling Medicaid recipients, leading to a sharp increase in Medicaid enrollment. This federal requirement ended in mid-2023, and the State has begun to disenroll participants. The State now expects enrollment to stabilize at around 6.8 million people — somewhat above previous projections of 6.6 million — costing the state an extra $402 million in fiscal year 2025. Enrollment estimates for Child Health Plus and the Essential Plan were also revised upward.

- **Managed Long-Term Care Growth:** The state's Managed Long-Term Care (MLTC) program, which provides home care to older adults and disabled individuals through private insurance companies, represents a small share of total Medicaid enrollment but a much larger share of costs. Just 335,000 individuals were enrolled in New York's MLTC programs in 2023, less than 5 percent of total enrollment, but those programs accounted for 27 percent of total state-share Medicaid costs. MLTC enrollment and usage continue to climb as New York's population ages. MLTC enrollment rose by 11 percent between December 2022 and December 2023. Home care advocates have recently criticized these MLTC programs as wasteful, arguing that they waste billions of dollars in profits and high administrative costs while providing little of value to beneficiaries. The state has not released data on projected enrollment in Managed Long-Term Care, but they are likely to be a key driver of growth in future years given the state's aging population.

- **Financially Distressed Hospitals:** While many of New York's hospitals have recovered from the pandemic and operate at a profit, a growing number — particularly those that serve low-income Medicaid or uninsured populations — are operating at a loss. The Executive Budget briefing acknowledges this, pointing out that nearly 30 percent of New York's hospitals are financially distressed, but does not provide the financial resources to support these hospitals. In fact, the Executive Budget Briefing contains a graph showing that the sector will face nearly $1.5 billion in unmet need for nearly 30 hospitals around the state under the Governor's proposal. The state will face difficult choices about how — or whether — to keep these hospitals open.

- **Directed Payment Template (DPT) Recoupment:** The State reports a $1.1 billion expense in fiscal year 2024 and a corresponding $1.1 billion credit in fiscal year 2025 related to a previously undisclosed loan that the State provided to hospitals in fiscal year 2023. The Directed Payment Template program is a Medicaid program jointly funded by the State and the federal government to provide support to financially distressed hospitals. After federal approval of the program was delayed in 2023, the State loaned hospitals the entire cost of the program — $1.7 billion — agreeing that hospitals would pay back the $1.1 billion federal share when federal approvals came through. Although hospitals have received the federal funding, they have not reimbursed the State, for reasons that are unclear.

Executive Budget Proposals

The executive budget proposes $1.2 billion in cuts to Medicaid spending in fiscal year 2025.

Cuts to home care wages

The State offers home care to Medicaid beneficiaries through two programs: the agency model, in which a home care agency employs direct care workers who care for Medicaid beneficiaries, and the Consumer Directed Personal Assistance Program (CDPAP), in which Medicaid beneficiaries direct their own care, and caregivers are paid through a fiscal intermediary. CDPAP provides benefits to hundreds of thousands of Medicaid recipients and employs hundreds of thousands of aides, including many family caregivers.

Both programs have received wage increases in recent years. However, the executive budget proposes to reverse these wage gains for downstate CDPAP (but not agency) workers, reducing their wages by $2.54, or 12 percent. This cut is projected to save the state $200 million in fiscal year 2024 and $400 million annually in later years.

Cuts to mainstream Medicaid and long-term care

In addition to a number of specific cuts, the Executive Budget proposes $400 million in unspecified cuts. It is unclear what these cuts might be or what process will be used to arrive at them; the financial plan states only that "[t]he State will work with industry leaders and stakeholders in the coming months to develop actions that will provide recurring savings."

Cuts to hospital and nursing home funding

The State would reduce the capital component of Medicaid rates for both hospitals and nursing homes, reduce the Vital Access Provider Assurance Program (VAPAP) for financially distressed hospitals by $75 million, and appears to cut State support for VAPAP funding for hospitals by $275 million. These moves come as healthcare unions and hospital industry groups call for a major increase to provider Medicaid rates, which they argue fail to cover the cost of care.[29] The Governor appeared to push back against that demand in her executive budget presentation, arguing that the administration had already provided rate increases last year. However, providers argue that these rate increases were counterbalanced by cuts in other areas.

Cuts and reforms to managed care

The vast majority of New York Medicaid is operated by private insurance companies under managed care. These companies are paid a flat rate per member per month by the State, and are expected to fund some or all of a Medicaid beneficiary's healthcare costs out of this payment. Critics have argued that many of these companies, particularly those in the Managed Long-Term Care (MLTC) program, are wasteful, and are pushing to completely eliminate the role of these insurance companies in the State's long-term care program. The governor's budget rejects such wholesale reform, but it does impose a number of cuts on managed care, including:

- Eliminating Quality Pool Payments, intended to incentivize better performance, for both mainstream and long-term managed care plans, saving $112 million.
- Reversing a 1 percent across-the-board rate increase that MLTC plans received last budget, saving $204 million.
- Competitive procurement of MLTC plans, which would not achieve savings in fiscal year 2024 but is projected to save $300 million annually by fiscal year 2027. (Currently, the state does not select plans through procurement, and any qualifying plan is allowed to participate in the program, which has led to an excessive number of plans together with fragmentation and inefficiency.)

- Liquidated damages for contract violations, which would make it easier for the state to impose fines on managed care organizations that violate the terms of their contract, estimated to save $5 million per year beginning in fiscal year 2026.

Lack of support for safety net hospitals

The governor's budget reduces overall operating support for safety net hospitals. For some downstate hospitals, this lack of support will be partially compensated through new federal resources available in the state's 1115 waiver, but the future of safety-net hospitals statewide remains in doubt. The budget reallocates some $500 million in capital funding to fund a "Safety Net Transformation Program," but the goals of this program are unclear and may include service reductions; indeed, it appears that some of this funding will support a "transformation" of SUNY Downstate Hospital that advocates and labor have described as a closure.[30]

Savings on Medicaid pharmacy benefits

The budget proposes several reforms to Medicaid drug procurement, projected to collectively save the state $87 million by fiscal year 2026.

Increased Audit Target

The State hopes to save $100 million per year beginning in fiscal year 2025 by more effectively identifying and recouping inappropriate Medicaid payments. The budget does not detail how this will be achieved.

Expanded Coverage, Access, and Affordability

While the Executive Budget proposes deep cuts to the Medicaid program, the budget includes several initiatives which, while less fiscally significant, would expand healthcare access. These include:

- **Continuous Eligibility for Kids in Medicaid and CHIP:** In Medicaid, "continuous eligibility" means that once individuals demonstrate initial eligibility, they will not be disenrolled even if they fail to demonstrate eligibility in subsequent years. Continuous eligibility for specific populations can significantly expand insurance coverage. In this budget, the Governor proposes to offer continuous eligibility to children under 6, which would cost just $30 million a year but would significantly improve health coverage for this population.

- **Expanded Premium Subsidies for the Exchange Population:** Due to a recent expansion of the Essential Plan, the State will receive more flexible funding from the federal government. The Executive Budget proposes to use some of this funding to subsidize premiums for individuals making up to 350 percent of the federal poverty line who purchase insurance on the Affordable Care Act exchange. The budget does not detail how extensive these subsidies will be or what they will cost.

- **Further Measures to Combat Medical Debt:** Medical debt is a rising concern for New Yorkers, and the sharply declining quality of employer-sponsored insurance means that even

individuals with insurance are exposed to debt. The first line of defense against medical debt is hospital "charity care" provisions, which require hospitals to provide care below cost for patients who need it. The executive budget includes a number of regulations aimed at requiring hospitals to better protect patients from medical debt, including expanding charity care protections to families up to 400 percent of the federal poverty line, forbidding hospitals from initiating legal action to collect debt from those earning less than this, and including underinsured (as well as uninsured) patients in charity care coverage.

- **Limits on Out-of-Pocket Insulin Costs:** The Governor's budget proposes to require some employer-sponsored insurance plans to cover the full cost of insulin. This proposal would not cap the price of insulin but would protect patients from this price by requiring their insurers to pay it.

Other Healthcare Initiatives

Federal funding for social determinants of health (1115 waiver)

In early January, the state received approval of its new 1115 waiver from the federal government. This approval makes federal funding available for a significant investment in health equity. The State plans to spend nearly $3.8 billion over four years to build "Social Care Networks" which will allow Medicaid funds to pay for "social determinants of health" such as housing and food for Medicaid beneficiaries.

Workforce investment

The 1115 waiver also makes available nearly $700 million in largely federal Medicaid funds for training and loan forgiveness for healthcare workers. In addition, the budget proposes a number of "scope of practice" reforms, typically to allow less highly credentialed healthcare workers to perform tasks previously performed by more highly credentialed workers.

Risks and Missed Opportunities

- **The DPT Loan:** As discussed above, the executive budget assumes that the State will recoup loans of over $1 billion provided to financially distressed hospitals in 2023. These loans were due to be repaid last year, and the fact that they weren't — combined with the precarious state of many of New York's safety net hospitals — strongly suggests that the hospitals are not in a financial position to repay these loans. If the loans are not repaid in FY25, the State's Medicaid budget will need to fill a $1 billion hole.

- **Implausible Medicaid savings:** The budget depends on the Governor finding another $400 million in unspecified Medicaid cuts. It is unlikely that these cuts will be achievable.

- **Unclear and implausible enrollment projections:** The executive budget financial plan includes only limited information on projected Medicaid enrollment. Enrollment is projected to stabilize at 6,766,673 individuals in fiscal year 2025 and remain virtually flat at that level: the

fiscal year 2028 figure is just 0.03 percent lower. These estimates seem quite implausible, given that an aging population will increase long-term care enrollment, and they fail to provide any insight on how the State is incorporating this aging population into its models. Indeed, it appears possible that fiscal projections do not take growing MLTC enrollment into account at all; if so, real costs will likely be sharply higher by 2028 than the budget's projections.

FPI Recommendations

Eliminate Managed Long-Term Care

The Governor has correctly argued that the growth of New York's spending on Medicaid long-term care is unsustainable in the long term. However, the budget's proposal to address long-term spending growth through a roughly 12 percent cut to the wages of the largest group of home care workers is deeply unwise. New Yorkers who need home care already struggle to find home care workers at current wages; the steep cuts proposed in the executive budget would drive the system further into crisis and force some home care recipients into nursing homes, which are far more expensive for the State.[31] A far better path to controlling spending would be to reform the wasteful Managed Long Term Care (MLTC) program, which fundamentally distorts New York's spending on long-term care.

New York's MLTC program was implemented at the behest of the 2011 Medicaid Redesign Team initiative; its goal was to control the rising costs of providing long-term care for New York's aging population. In this regard, the program has been a failure: the State's long-term care costs have continued to rise dramatically, driven not only by a rise in enrollment and utilization, but by the rent-seeking behavior of private MLTC managed care organizations (MCOs). A 2022 audit by the State Comptroller estimated that New York had paid MCOs over $700 million to cover individuals who were not eligible for the program, and another $2.8 billion for individuals who used little or no long-term care.[32] Labor and advocates have recently argued that the State wastes as much as $2.5 billion annually on profit and administrative expenses for MCOs. The Department of Health has proven consistently incapable of policing MCO behavior, and MCOs' drive to expand generates an inherently inflationary dynamic in the system.

The executive budget reflects some awareness of these problems: The Governor proposes replacing the State's current "any willing provider" system in which any qualifying health plan can offer MLTC with a competitive procurement, and estimates that this alone — simply picking better, more efficient MCOs — would save $300 million State share ($600 million total) when fully implemented. However, adjustments around the edges of the system are inadequate to address the scale of the problem. A wholesale reform along the lines proposed in the Home Care Savings and Reinvestment Act, which would replace MCOs with a more efficient and streamlined care coordination system, would save far more money than the Governor's proposed adjustments and wage cuts, without sacrificing workers' wages or participants' safety and autonomy.

Expanding Coverage Using 1332 Waiver Funds

A major absence in the Executive Budget is any discussion of healthcare access for undocumented immigrants, as called for by the Coverage4All campaign. Given New York's history of coverage expansions, undocumented immigrants are the last major group of New Yorkers who lack access to health insurance. An analysis by the Community Service Society has credibly suggested that New York

could expand the Essential Plan to cover 150,000 undocumented immigrants at no cost to the state, using federal funding alone — yet the Executive Budget makes no mention of this proposal.[33]

The opportunity to cover undocumented New Yorkers at no cost to the state comes from the changing structure of the Essential Plan. The Essential Plan offers Medicaid-like coverage to 1.4 million New Yorkers and is administered by the State with subsidy from the federal government. Since the beginning of this program, federal subsidy has exceeded the total cost of the program, creating a surplus of billions of dollars a year. However, historically this surplus has not been available for State use due to federal regulations. That will change this year, as the State has expanded the Essential Plan using a different federal authority, the Section 1332 waiver program, which grants greater flexibility in use of the surplus. As a result, the State will receive surplus funding of over $1 billion a year going forward.

The budget proposes to use some of this funding to subsidize premiums for those who purchase coverage on the ACA exchange. However, significant funding will likely remain in the program — enough to cover 150,000 undocumented New Yorkers. This coverage expansion would be a boon to immigrant communities and to the doctors and hospitals who treat them.

Offering a Long-Term Vision for New York's Safety Net Hospitals

The budget acknowledges that nearly one-third of New York's hospitals are financially distressed, and for the past three years the State has been propping these hospitals up with one-time or temporary money — largely through the VAPAP program. Now the budget proposes reducing that funding stream. The budget also relies on these same hospitals repaying $1.1 billion in loans through the DPT recoupment. These policies will likely result in a chaotic series of hospital closures and mergers that reduce access to services, mitigated by ad hoc bailouts in response to community opposition.

The State's healthcare system should not depend on ad hoc bailouts. If the State believes that some of the state's hospitals need to close or merge, the executive budget should propose a systematic vision for achieving orderly closure. On the other hand, if the State believes that safety net hospitals require more support, the executive budget should propose recurring, stable funding to keep their doors open. One way to do this would be an overall increase to Medicaid rates, as proposed by healthcare unions and hospital industry groups. Another, less expensive, route would be to expand programs targeted specifically at safety-net hospitals, like the Directed Payment Template program and the Global Payment Model 1115 waiver. Either route would be preferable to continued year-to-year discretionary funding, which keeps hospitals on life support without allowing for long-term planning.

IX. Housing

New York State faces an acute housing shortage. The resulting high housing costs place a strain on New Yorkers, prompting many to leave to the State in search of opportunity in more affordable states. In a bid to redress this policy failure, Governor Hochul proposed an ambitious suite of proposals designed to boost housing production last year, as part of the fiscal year 2024 executive budget. None of the proposals were enacted, nor were the counterproposals put forward by the State legislature, which expressed support for greater tenant protections. In her fiscal year 2025 executive budget, Governor Hochul has proposed a far narrower set of proposals that would expand housing production in New York State. This section will provide an overview of the problem of the State's housing shortage, the Governor's policy proposals, and an outline of a more holistic approach to housing production and affordability for New York State.

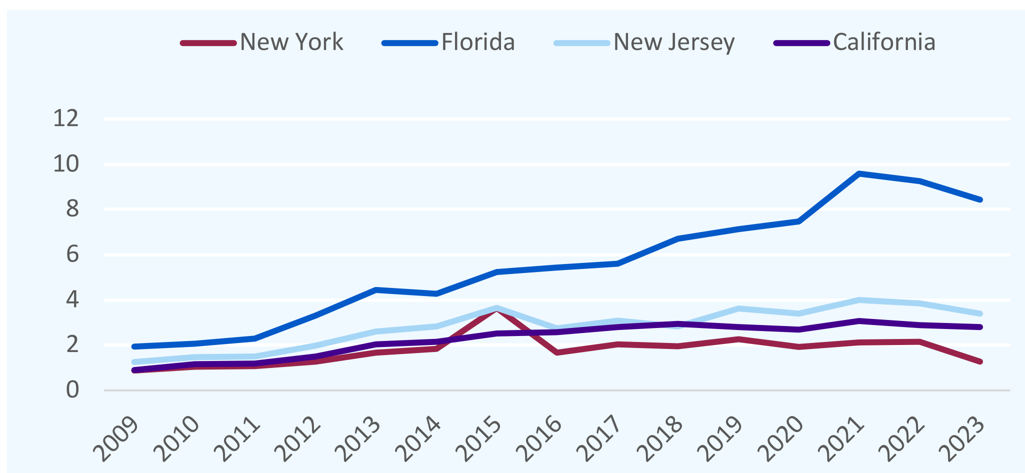
New York's Housing Shortage

A long-term threat to economic and population growth

Over the 2010s, New York City, the epicenter of the housing shortage, added jobs at a far faster rate than housing. Between 2010 and 2020, the City added 993,000 jobs and 206,000 housing units.[34] The resulting pressure on the housing market rapidly drove up the cost of housing. The New York metropolitan area was a national outlier in both building less housing than its peers and experiencing more dramatic home price increases. These high costs caused financial stress across the income distribution, leading to accelerated out-migration and population loss. As such, New York's housing shortage presents both an immediate threat to residents' quality of life and a longer-term economic challenge.

New York lags its neighbors and other large states in adding new housing. Between 2014 and 2023, an average of two (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.

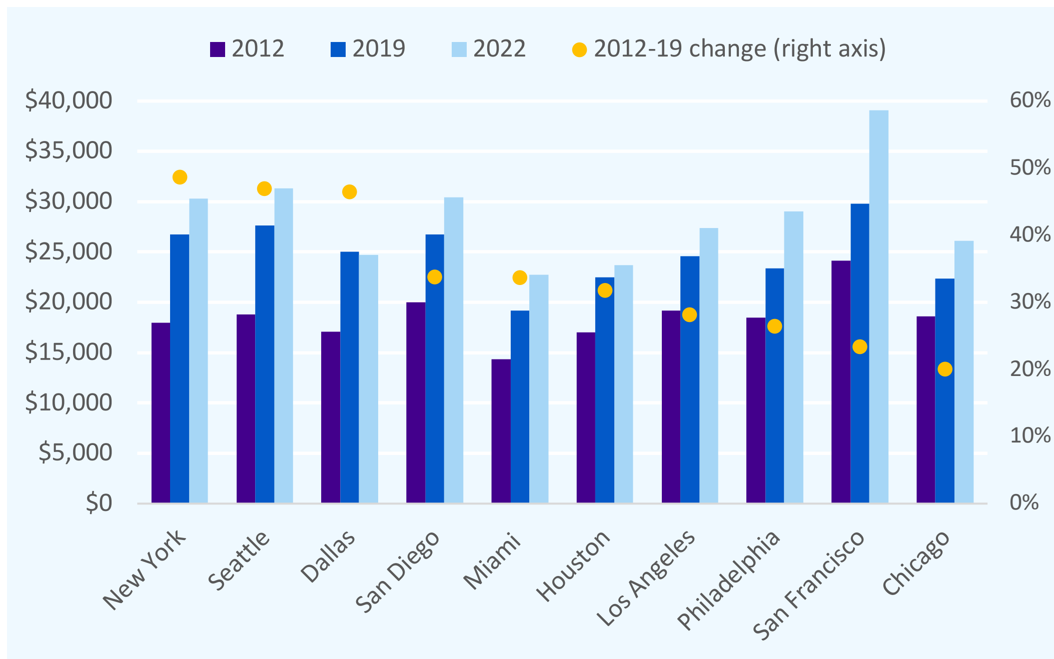
Figure 9.1. New housing units permitted per 1,000 residents by state, 2009 to 2023



While undersupply of new housing is a statewide problem, it is especially acute in the New York metropolitan area, which is home to two-thirds of the State's population. Taken as a whole — including its suburbs in New Jersey and Connecticut – the New York metropolitan area builds less housing than many of its national peers. Within the metro area, however, New York City and northern New Jersey add most of the area's new housing, while Downstate New York suburbs — Long Island and the Lower Hudson Valley — add very little.[35] New housing in the metro area, which has high job growth and high demand for housing, is largely limited by strict land use restrictions. By contrast, Upstate New York's low housing production is caused by relatively low demand.[36]

The New York metropolitan area's low supply of new housing over the last decade, together with strong job growth, increased housing costs. Between 2012 and 2019, average housing costs for New York area households rose 48.7 percent, according to a recent report by the New York State Comptroller. This increase was the largest of the ten major metropolitan areas studied by the report.[37]

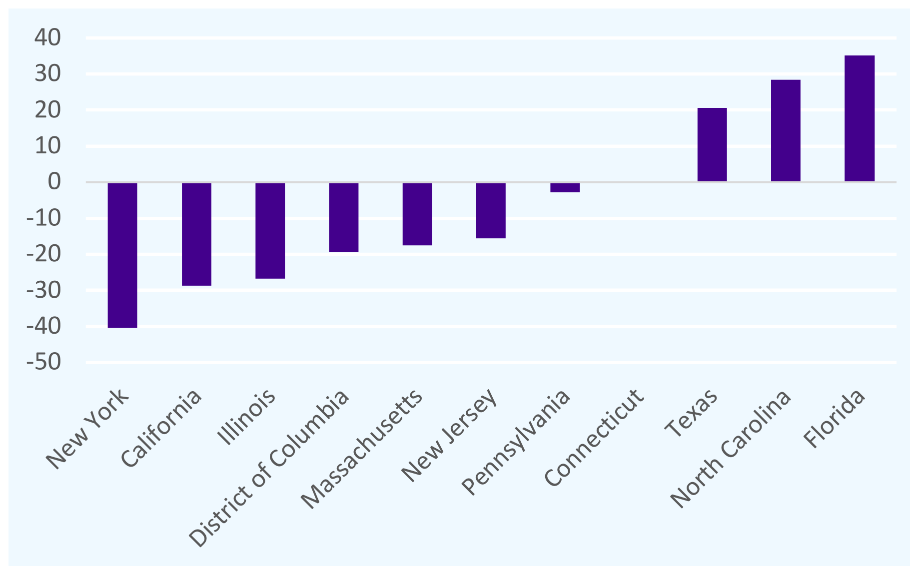
Figure 9.2. Housing costs for major metro areas in 2012, 2019, and 2022



Source: NYS Comptroller; Bureau of Labor Statistics, Consumer Expenditure Survey

New York's mounting housing pressure has created financial strain across the income distribution. This financial strain contributed to New York's high rate of net domestic out-migration – greater numbers of New Yorkers leaving the State than moving in from elsewhere in the U.S.

Figure 9.3. Cumulate net domestic migration between 2020 and 2023 per 1,000 residents for selected states



Recent FPI research found that out-migration is highest in the middle of the income distribution (households earning between $32,000 and $104,000), with the top one percent of earners — those with the least housing pressure — leaving at the lowest rate.[38] FPI research also found out-migrating New Yorkers tend to leave high-cost New York counties for more affordable counties in other states. These out-migrating New Yorkers stand to benefit from substantial housing cost savings that are, on average 15 times larger than potential tax savings.[39]

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., as discussed by Chapter II of this briefing. 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.

Executive Budget Proposals

The fiscal year 2025 executive budget proposes a set of tax incentives, regulatory changes, and executive actions designed to increase the supply of housing in New York. These proposals are considerably narrower in scope than those put forward by last year's fiscal year 2024 executive budget, which made housing a central part of its agenda. Last year, the governor proposed two sweeping measures that would have overridden local land use regulations in a bid to accelerate housing production and proposed a suite of tax incentives that would have made billions of dollars available to housing developers. By contrast, this year's executive budget reintroduces half of last year's proposed tax incentives, and none of its sweeping changes to local land use.

Fiscal year 2024 proposals

Last year, Governor Hochul made housing the centerpiece of her executive budget proposals. An ambitious suite of proposals, dubbed the New York Housing Compact, aimed to spur the construction of 800,000 new housing units statewide over the following decade. Two bills that would substantially alter local land use regulations across the State anchored the Compact. The first, the New Home Targets and Fast-track Approval Act, would have required counties to either meet set housing supply growth targets or adopt a set of prescribed policy measures. Those that failed to meet either standard would be required to approve new housing developments meeting affordability and other requirements set by the law. The second bill, the Transit-oriented Development Act of 2023, would have established residential density requirements in the half-mile radius around New York metropolitan area transit stations.

The New York Housing Compact further proposed five tax incentives designed to spur housing production. FPI estimated at the time that these tax incentives could collectively cost local governments as much as $2.8 billion annually.[40] Finally, the Compact included smaller regulatory changes to facilitate new housing development or the conversion of non-residential buildings, abandoned housing, and non-compliant housing into suitable housing units. None of these housing proposals were ultimately included in the Enacted Budget.

Fiscal year 2025 proposals

The fiscal year 2025 executive budget scales down its ambition. The budget excludes last year's proposals for two structural changes to New York's local land use regulations that would have had enforcement mechanisms to ensure housing goals were met. Instead, the budget reintroduces two of the four tax incentives proposed last year (in addition to a 421-a deadline extension). The budget also partially reintroduces proposed smaller-scale regulatory changes. Finally, it proposes new executive actions that would make modest progress on housing production.

Table 9.1. Comparison of fiscal year 2024 and 2025 executive budget housing proposals

Type	Proposal	FY24	FY25
Local land use	Local housing targets	Included	Excluded
	Transit-oriented development	Included	Excluded
Tax incentives	Non-NYC multifamily housing	Included	Excluded
	Accessory dwelling units	Included	Excluded
	NYC multifamily rehabilitation (J-51) renewal	Included	Excluded
	Office-to-residential conversions	Included	Included (modified)
	421-a deadline extension	Included	Included
	421-a replacement	Excluded	Included
Regulation	Smaller-scale regulatory changes	Included	Parts included
Executive actions	Redevelop state-owned land; pro-housing requirement for certain grants	Excluded	Included

Tax incentives

The budget reintroduces two tax incentives made last year, as well as a reworked attempt to revive a major tax incentive program for New York City.

- **Residential Conversion Tax Break:** The executive budget proposes the affordable housing commercial conversions (AHCC) program. Under the program, non-residential buildings in New York City can qualify for tax credits if they convert to primarily residential use. Twenty percent of units in converted buildings must be income restricted, including five percent income restricted to low-income households earning less than 40 percent of the area median income (AMI). The proposal allows the State's housing agency, the Division of Housing and Community Renewal (HCR) to set the level of taxes abated by the program and its duration. As such, the potential costs of AHCC tax breaks to New York City cannot be calculated and the executive budget does contain a cost estimate.

- **Extend Affordable Housing Tax Break:** The executive budget proposes giving projects that qualify for New York City's expired 421-a tax incentive more time to complete construction. The 421-a program, which provides tax breaks for housing projects that meet its affordability requirements, expired in 2022. The proposal would extend the completion deadline for projects that started construction before expiration from June 15, 2026 to June 15, 2031.

- **New Affordable Housing Tax Break (ANNY):** The executive budget proposes a new tax incentive for New York City to replace the expired 421-a program. The new program, Affordable Neighborhoods for New Yorkers (ANNY, or 485-x, the proposed section of law), would offer tax benefits to three types of residential buildings that include affordable units: (i) large rental buildings, (ii) small rental buildings, and (iii) homeownership buildings (see table below for more detail).

  Crucially, the ANNY proposal assigns responsibility for two central elements of program design to other non-State entities. First, the program does not establish affordability thresholds. Instead, ANNY directs New York City's housing agency, the Department of the Housing Preservation and Development (HPD) to set affordability requirements for each type of building. Second, rather than prescribing prevailing wages required for the construction of eligible buildings, the proposal directs the largest trade association of developers, the Real Estate Board of New York (REBNY) and the largest labor association of building and construction workers, the Building and Construction Trades Council (BCTC) to reach a memorandum of understanding outlining wage standards. Buildings in which at least half of units are income restricted to 90 percent of AMI or less would be exempt from these wage standards.

Table 9.2. ANNY proposed benefits by building type

<table>
<tr><th>Type of building</th><th>Benefit duration</th><th>Benefit level</th><th>Affordability duration</th></tr>
<tr><td>Homeownership</td><td>40 years</td><td>100%</td><td>Duration of benefit</td></tr>
<tr><td>Large rentals (30 or more units)</td><td rowspan="2">35 years</td><td rowspan="2">100% for 25 years; in proportion to share of affordable units for remaining 10 years</td><td>Perpetuity</td></tr>
<tr><td>Small rentals (fewer than 30 units)</td><td>Duration of benefit</td></tr>
</table>

Regulatory changes

The executive budget's housing platform also reintroduces two regulatory changes that would increase housing supply in New York City.

- **Allow Denser Residential Development in NYC**: The budget would allow New York City and the State's Empire State Development Corporation to use local law to override the State-imposed cap on the floor area ratio (FAR) – the ratio of a building's total floor area to its lot size. Currently, residential buildings in the City cannot exceed a FAR of 12, meaning a building that occupies 100 percent of its lot could not exceed 12 stories.

- **Legalize Pre-Existing Basement Dwellings:** The budget would authorize New York City to legalize basement dwelling units that are already inhabited.

Executive action

Finally, the executive budget proposes plans for executive action to boost housing supply that would be accomplished primarily through executive action:

- **Redevelopment of State-owned land:** The budget proposes to redevelop certain properties owned by State authorities as a first step towards building 15,000 housing units on State-owned land. As an initial step, the budget proposes to allow the redevelopment of three specific sites on Long Island. The budget provides $250 million in capital funding to support the redevelopment of these sites and commits to allocating an additional $250 million in fiscal year 2026. The budget does not outline any affordability requirements or targets for the developments. In its legislative testimony, the Empire State Development Corporation stated the funds are to support infrastructure upgrades necessary for the creation of housing by private developers on these sites.

- **Require pro-housing designation for certain grants:** The executive budget also includes a plan to make local progress on housing production a requirement for $650 million of existing discretionary grants the State makes to localities each year. Under the plan, localities would need to be designated as "pro-housing communities." This designation would be made by HCR. To date, neither HCR nor the executive office have issued proposed criteria for the "pro-housing" designation.

  The grants outlined by the executive plan broadly overlap with those bundled into the Regional Economic Development Council (REDC) program, comprising economic development

initiatives, such as the Downtown Revitalization Initiative, as well as transportation and infrastructure grants. This plan can largely be taken through executive action: Governor Hochul issued a directive outlining the initiative in July 2023, and the executive budget's capital plan attaches the pro-housing designation to relevant pre-existing grant programs.[41]

Executive Budget Shortcomings

Over the last two years, Governor Hochul's executive budgets have rightly prioritized housing policy. Last year's proposals to loosen restrictive local land use regulations, would have been major steps forward for the State. Other proposals mistakenly rely on costly tax incentives. The current executive budget leaves out changes to land use while reintroducing several incentives. As such, the executive budget housing plan both fails to make proposals at the scale necessary to address the housing crisis and doubles down on a costly tax incentive-led approach to housing policy.

The executive budget's unsound reliance on tax incentives

The fiscal year 2025 executive budget proposes two tax incentive programs, ANNY (a successor to 421-a) and AHCC, to boost housing production in New York City. These programs have high potential costs, and leave New York City financially liable for a region-wide housing shortfall.

Affordable Neighborhoods for New York

The executive budget proposes the Affordable Neighborhoods for New Yorkers (ANNY, or 485-x) program to succeed the expired 421-a tax incentive for New York City multifamily buildings. The proposed program closely mirrors 421-a. It is therefore likely to suffer from the same shortcomings and should not be adopted.

The level and duration of ANNY's tax incentives broadly align with those of 421-a. How closely the overall program will align with 421-a, however, if unclear, as the proposal directs HPD, the City's housing agency, to set the program's requirement for income-restricted units. Because the legislative proposal lacks set affordability requirements, it is unclear how developers' take-up of ANNY would compare to their use of the popular 421-a program.

If ANNY is as its predecessor, it could ultimately cost the City $1.8 billion, the annual cost of 421-a as of 2023.[42] If HPD sets ANNY's affordability requirements as more stringent than 421-a's, its take-up, and therefore, costs could be lower. Conversely, lower affordability requirements would likely raise the costs. This decision would fall on the New York City Mayor, who appoints the HPD Commissioner.

421-a was the largest housing tax incentive in the State. The 421-a program abated the property taxes of new residential buildings in New York City for up to 35 years, conditioned on the inclusion of affordable units. Due to the long duration of the program's benefits, 421-a's costs will remain elevated long after its expiration in mid-2022. In the City's fiscal year 2023, 421-a cost $1.8 billion in foregone property tax revenue, an all-time high.[43]

While 421-a subsidizes income-restricted housing units, it does so at a high price. A report from the Community Service Society found that the present value of 35-year tax breaks for each income-restricted units supported by the program is $1.6 million. That is, the program is akin to paying developers $1.6

million to build each income-restricted unit – far higher than other programs that subsidize new affordable housing units.[44]

Finally, the costs of 421-a are borne by New York City through forgone property taxes, a fiscally unsound model for incentivizing affordable housing construction. Abating property taxes deprives localities of revenue, while leaving them liable for providing services to a growing population of new residents. Instead, the costs of creating and supporting affordable housing should primarily be assumed by the State.

Affordable Housing Commercial Conversions

The other new tax incentive proposed by the executive budget, AHCC, would provide a credit for commercial-to-residential conversions in New York City that include income-restricted housing units. This proposal excludes the promising complementary regulatory changes proposed last year. Relying exclusively on tax incentives, without deeper regulatory changes to facilitate conversions, is a costly approach housing that is unlikely to generate sufficient units.

Last year's executive budget proposed a version of AHCC alongside a series of regulatory changes that would have expanded the number of offices and industrial buildings that would be permitted to undergo residential conversions without time-consuming City-level zoning changes. This year's budget excludes those promising regulatory changes, proposing only the AHCC.

The proposal does not specify the level or duration of the program's tax incentives and therefore cannot be costed. FPI estimated that the version of AHCC proposed last year, which did specify benefit levels and duration, could have cost the City up to $110 million per year. Costs could escalate quickly if HCR sets more generous benefits. As such, the proposed would impose unknown, potentially significant annual costs on New York City, without input from the City.

Converting aging, underutilized New York City commercial buildings to residential is an important goal and should be part of a broad housing supply plan. However, tax incentives may prove to be an expensive strategy that leaves New York City liable for the costs. A better approach would begin with regulatory changes to facilitate conversions, avoid layering on a potentially costly subsidy that would negate the benefit of these conversions for New York City.

Proposed executive and regulatory actions fall short of necessary scale

The executive budget proposes two executive actions: tying State grants to local action to boost housing production; and redeveloping State-owned land. While these initiatives have promising elements, they fall short of a comprehensive approach to the housing crisis. Finally, minor proposed regulatory changes are more modest than those proposed last year.

First, an executive plan will require a "pro-housing community" designation to receive certain State grants. These grants broadly align with those disbursed under the REDC program. As such, they are likely to be apportioned evenly among the State's ten economic developments, with each region receiving $65 million in designation-attached grants.

Downstate economic development regions are more populous than Upstate regions, making REDC awards to Downstate regions are vanishingly small on a per capita basis. For Long Island, average REDC grants totaled $225 per resident over an eight-year period, 2011 to 2018 – one-third of the statewide average.[45] For this reason, using these awards as an incentive is unlikely to influence many Downstate localities, where housing is need most urgently. The Governor herself has noted that positive incentives alone, without State mandates or penalties have a poor track record of changing local land use policy in other states.

Second, the State commits $500 million in capital funding to develop housing on State-owned land. This concept is could provide an opportunity to for the State to pilot innovative models of social housing, rather than recycling inefficient developer-led models. However, the State's proposed program lacks affordability targets, and the State has not released any information on the program's operating model.

Finally, the executive budget's two proposed regulatory changes affecting New York City's housing stock – repealing the FAR cap and authorizing basement apartments – are practical, but relatively modest steps that do not comprise a response to the State's housing crisis at the necessary scale.

FPI Recommendations

Social housing policy for New York

Many other countries, and a growing number of states and localities in the U.S., have embraced "social housing" policies to ensure that low- and middle-income households are able to afford their rent. Social housing is umbrella term that refers to a wide range of policy mechanisms that provide below-market rental housing to low- and middle-income households.[46] Social housing often entails the construction of new housing that will be rented out at below-market rates, typically by public, nonprofit, or limited-profit developers. Central to social housing policy is the attempt to insulate much of the housing stock from market forces. In this respect it differs from affordable housing policies that subsidize market-rate rentals or otherwise incentivize for-profit developers without affecting the overall housing market.

Solving New York's housing crisis will require an ambitious policy response modeled on the social housing initiatives in other states and countries. The primary goals of state housing policy must include: (i) lowering the cost of housing for middle-income households, (ii) providing affordable housing for the lowest-income households, and (iii) strengthening tenant protections for current renters.

In particular, the State should especially focus on creating a social housing authority, a public entity that finances and develops below-market housing for both low- and middle-income households. The development of publicly financed social housing should be complemented by policies that increase the supply of housing while safeguarding tenants

This section considers the three pillars of a comprehensive housing policy strategy for New York:

- (i) increasing housing production;
- (ii) safeguarding tenants; and
- (iii) creating a social housing authority.

Increasing housing production

The State has a chronic undersupply of housing that affects New Yorkers across the income distribution. Even households who are not rent burdened feel the strain of high housing costs, prompting New Yorkers to leave the State at higher rates than any other state. A recent comprehensive review of academic studies found consistent evidence that new housing reduces rents outright, or the rate of rent increases, at the regional level. That is, a metropolitan area that adds housing at a robust pace would have lower rent growth than one with the same level of demand but lower housing production.[47]

A plan to increase the supply of housing, focused on the New York metropolitan area, that also aligns with the State's climate goals would take an approach like that of the transit-oriented development act proposed as part of the New York Housing Compact. The act would have established residential density requirements for the half-mile radius around transit stations served by the MTA. Developers would have the right to build housing in non-compliant localities even if local zoning would otherwise prohibit such projects.

A truly comprehensive approach to housing production would require long-term planning along two dimensions. First, the State needs a detailed assessment of local housing shortfalls across the state. California, for instance, has a process to assess the need for new housing at a regional level and apportion that down to cities and counties.[48] This provides local officials with concrete housing targets. Second, long-term housing planning should be done in coordination with long-term transit planning. Expanding the commuter rail network and decreasing travel times would expand the radius around City's core business districts that would be suitable for dense, transit-oriented development. As such, local housing targets should take into consideration expansion and upgrades to regional transit systems.

Protect tenants from displacement

New York's high housing cost increases and low growth have led to displacement across the City. Neighborhoods with especially fast cost growth, like those in Upper Manhattan and Central Brooklyn, saw considerable demographic change over the last decade.[49] Higher-income households tend to have fewer people in each housing unit.[50] For this reason, if a neighborhood becomes higher income and the number of housing units remains constant, its population will fall. This creates the conditions for displacement.

Tenant protections capping allowable annual rent increases and guaranteeing tenants the right to renew leases would help safeguard them from displacement. The Good Cause Eviction bill would provide such a safeguard for incumbent renters.

While some studies have found that new housing construction does not displace incumbent residents, others have found no clear effect, or even displacement of existing, lower-income residents. The inconclusiveness of this research points to the heterogeneity of the housing markets studied; a concentrated spate of development in a high-pressure market would have a different effect on its neighborhood than development that is more dispersed or in a low-pressure housing market.[51]

Because the increased production of new housing has clearly beneficial effects on regional housing markets but heterogeneous effects at the neighborhood level, policies to abruptly accelerate housing production are well-complemented by policies that protect incumbent renters from any market fluctuations. A proposal to accomplish this is Good Cause Eviction, which would guarantee tenants the right to renew their leases and cap annual rent increases at three percent or one-and-a-half times the rate

of annual inflation, whichever is higher. Good Cause Eviction was supported in principle, but not introduced as legislation, by both legislative houses last year.

Create a social housing authority

Increasing the supply of housing and safeguarding tenants, while important steps, are insufficient on their own to provide below-market housing to a wide range of low- and middle-income households. For this reason, the creation of a social housing authority is a crucial complement to housing supply and tenant protection policies.

A social housing authority is a state entity that directly sponsors the creation of below-market housing. The authority would have the power to issue its own bonds to finance the construction of new buildings or the acquisition and renovation of existing buildings. Newly created units would continue to be owned by the authority, thereby staying insulated from market pressures.

Apartments in social housing buildings would be offered at sub-market rents, based on tenant's income. The State's portfolio of social housing would offer apartments for both low-income households and those with middle or upper-middle incomes. While a core goal of supportive social housing is to provide housing for those with income too low to afford market rate housing, the inclusion of more moderate-income households is essential for the operation of social housing. The rents charged to middle income residents would exceed the per-unit cost of operating of the apartment, allowing the social housing system to offer sub-markets to lower income households, a dynamic known as cross-subsidization.

Across the State's portfolio of social housing — though not necessarily within any given social housing building, which would be too restrictive — cross-subsidization would be calibrated support the greatest number of low-income households while covering the costs of operating the buildings. A social housing authority that relies entirely on cross-subsidization, without any additional public operating subsidy, would be able to support fewer low-income units than an authority with an operating subsidy.

Annual operating subsidies could take multiple forms and operate at different levels of government. Social housing developments may be exempt from local property taxes. However, this raises the same challenge as tax incentives: growing the size of a locality's population, raising demand for public services, including schools, without a commensurate growth in the local tax base. This could cause fiscal strain for some localities, especially smaller or less wealthy localities.

Alternatively, several forms of operating subsidy could be made by the State. First, the State could assume responsibility for all or a portion of the debt issued by the social housing authority. While the State generally covers debt service for State agencies, there are precedents for the State sharing costs with State-chartered authorities. For instance, while most of the MTA's capital program is backed by MTA-issued bonds and dedicated MTA revenue sources, the State covers a small share of the MTA capital costs, shifting debt that would otherwise be taken on by the MTA to the State's debt load. Second, the provision of housing vouchers to low-income social housing tenants would constitute a State transfer to the social housing authority, with the authority charging low-income tenants a higher rent and the voucher making up the difference between the full rent and the tenants' effective rent. The proposed Housing Access Voucher Program (HAVP), which would issue vouchers to households experiencing or at risk of homelessness, is an example of a program that could serve as an operating subsidy from the State to the authority. Third, the State could simply provide a direct annual operating subsidy to the

housing authority. State subsidies, for instance, comprise a small share of the MTA's operating budget, alongside the authority's own revenue and dedicated taxes.

Independent of potential operating subsidies, a social housing authority would be able to provide more sub-market units than the alternative approach of providing tax subsidies to developers. Three sources of efficiencies would allow the authority to support more sub-market units. First, developers charge a fee, assessed as a share of the total development cost, for their services. This fee would be avoided by the authority assuming the role of developer. Second, the social housing authority would be exempt from local land use regulations, affording it more development opportunities, and lower land acquisition costs, than private developers. Finally, the social housing authority would be equipped with the power to issue bonds backed by the credit of the New York State. Because these bonds are exempt from income taxes at the State and federal levels, they carry lower interest rates than private, taxable debt. Because a social housing authority is not a profit-making entity, these savings would be realized as deeper affordability, relative to the level provided by private developers.

Finally, the location of social housing developments matters, as mixed income neighborhoods tend to be more conducive to economic mobility than neighborhoods of concentrated poverty.[52] For this reason, the social housing authority should concentrate on "high opportunity" neighborhoods that research has shown to facilitate above-average economic mobility. Because the social housing authority would complement other policy interventions to increase housing production, the authority should follow contemporary development patterns, ensuring that areas being supplied with an influx of new market-rate units are also supplied with non-market housing.

The State's existing housing policy regime is deeply flawed, relying on expensive tax breaks and producing insufficient housing across the income distribution. The expiration of a major element of this policy regime, 421-a, gives the State an opportunity to rethink this approach. Rather than simply modifying old programs, the State should take a new, comprehensive approach on par with the scale of the crisis.

X. Climate

New York's Climate Goals

The climate crisis has come to the foreground as one of the most urgent challenges of this era. Before the Biden administration took office in 2020, the United States federal government had enacted very little policy to move US energy usage and infrastructure towards more sustainable models. At that time, state policy filled a large void in federal climate policy, leading the way for the US to meet global emissions targets. However, over the past few years, with the passage of the Inflation Reduction Act (IRA), Infrastructure Investment and Jobs Act (IIJA), and a general trend in consumer sentiment towards more environmentally sustainable products such as electric vehicles, both the federal government and the private sector have become more involved in the transition to a sustainable economy. Nonetheless, significant state action is still required to meet the US's climate goals.[53]

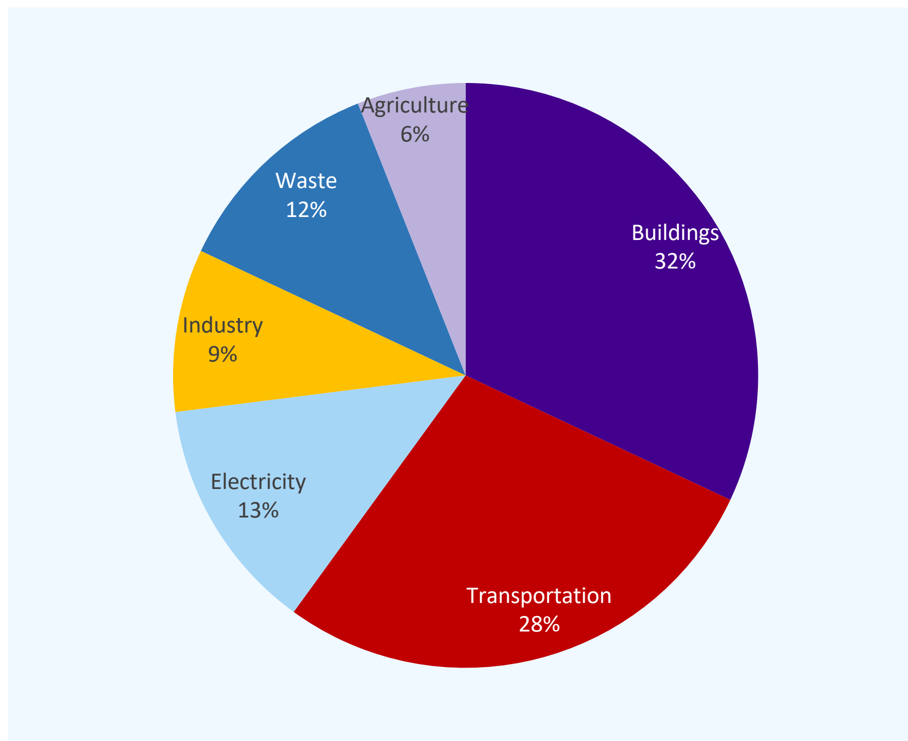
The State's policy goals are bold, but remain in the early stages of development, investment, and implementation. As such, there is a high risk of falling short of achieving key targets at the current rate of investment. According to a December 2023 report by the Environmental Defense Fund, the 24 states considered "leadership state" in climate policy are collectively projected to reduce net emissions by 23-38 percent of 2005 levels by 2030, which is far short of their target of reducing emissions 50 percent below 2005 levels.[54] Estimates by the Environmental Defense Fund demonstrate that New York may be as much as 18 percent over targeted emissions in 2030.

Figure 10.1. New York's CO_2 emissions levels and projections compared to 2030 target.

Note: Table reproduced from the Environmental Defense Fund (https://www.edf.org/sites/default/files/2023-11/EDF-State-Emissions-Gap-December-2023.pdf)

According to the New York Climate Action Council, as of 2019, 32 percent of New York's GHG emissions came from buildings, 28 percent from transportation, 13 percent from electricity usage, and the remaining 27 percent from a combination of industry, waste, and agriculture.[55] State policy targets each of these sectors to reduce emissions and build sustainable state energy infrastructure. As the State electrifies transit and buildings, emissions in the state will increasingly depend on the emissions produced by electricity generation.

Figure 10.2. New York State emission sources, 2019



Note: Chart reproduced from the Climate Action Commission's Scoping Plan, 2022. (Downloadable at https://climate.ny.gov/resources/scoping-plan/).

Climate Leadership and Community Protection Act (CLCPA)

In 2019, New York passed the Climate Leadership and Community Protection Act (CLCPA), establishing ambitious greenhouse gas emissions targets for the state. Specifically, the CLCPA:

- Commits New York to **reduce greenhouse gas (GHG) emissions** by 40 percent of 1990 levels by 2030, and by 85 percent of 1990 levels by 2050.
- Sets targets that 70 percent of the state's **energy comes from renewable sources** by 2030 and 100 percent of the state's energy comes from renewable sources by 2040.
- Mandates that actions be taken to mitigate climate change and **prioritize equity and justice for "Disadvantaged Communities,"** particularly those who have borne the brunt of climate change impacts and pollution.

To accomplish these ambitious goals, the CLCPA establishes the Climate Action Council, which was mandated with creating a "Scoping Plan" that would be updated every five years after its first publication (December 2022). The Scoping Plan produced by the Climate Action Council gives a more detailed account of the State's plan to transition New York to a "just and sustainable economy," broken down by seven sectors: transportation, buildings, electricity, industry, agriculture, forestry, and waste. Each sector has its own transition plan laid out by the Scoping Plan. For transportation, buildings, and electricity, the Scoping Plan lays out key policy targets (see Table 10.1).

Table 10.1. CLCPA targets for three highest emitting sectors of the economy

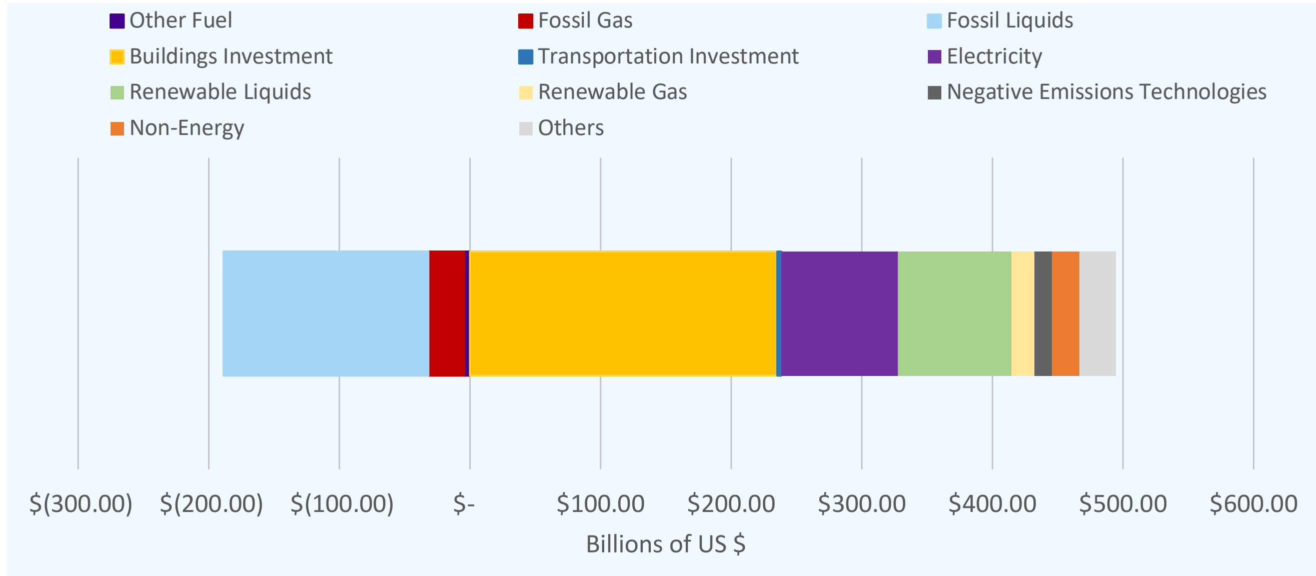
	Target Year	Targets
Transportation	2030	All new light-duty vehicle sales and half of new medium- and heavy-duty vehicle sales will be zero-emission. A substantial portion of personal transportation in urbanized areas will shift to public transportation.
	2050	All vehicles in NY will have zero tailpipe emissions. New Yorkers will have substantially greater access to low-carbon modes of transportation including public transportation.
Buildings	2030	85% of homes and commercial building space statewide electrified with mix of heat pumps and thermal energy networks.
Electricity	2025	*Install 6,000 megawatts of distributed solar
	2030	*70% of statewide electricity come from renewable energy sources; *Install 3,000 megawatts of energy storage.
	2035	*Install 9,000 megawatts of offshore wind.
	2040	*NY achieves zero-emission electricity system.

Note: Table reflects policy goals as stated in the finalized Scoping Plan (https://climate.ny.gov/resources/scoping-plan/). Targets marked with an asterisk (*) are mandated by the CLCPA.

The CLCPA does not commit to specific funding levels needed to achieve the policy's ambitious goals. The Scoping Plan estimates the cost of achieving the CLCPA's policy goals, amounting to a net present value of approximately $300 billion in private and public spending over and above what would occur in the absence of the CLCPA policy.[56] In other words, the CLCPA assumes the current trends in private sector activity will drive most of the energy transition (for instance, consumers buying electric vehicles) but that state policy measures are needed to fully meet CLCPA goals. Over $200 billion in costs are

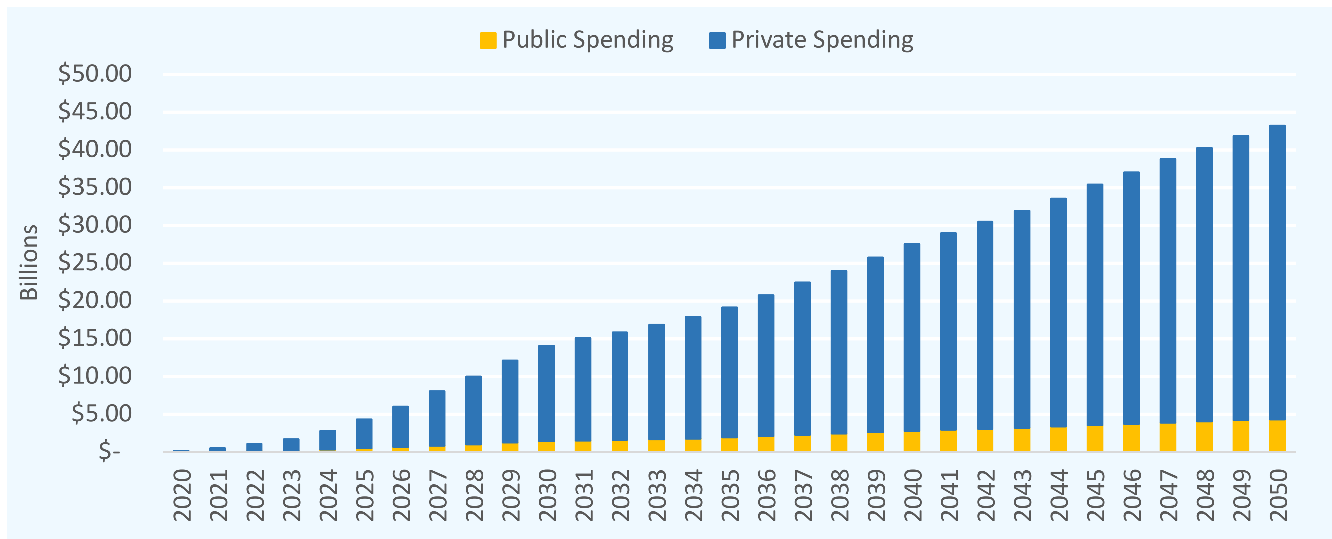
required to pay for building investments alone. To stimulate the necessary private investment in the transition, an analysis by a team of economists at the University of Massachusetts, Amherst finds that the public sector needs to bear about 10-20% of this additional cost, or $30-60 billion between now and 2050 (in net present value) – approximately $1.5-3 billion per year.[57]

Figure 10.2. Net present value of total public and private costs and savings from CLCPA between 2020 and 2050



Note: These cost estimates specifically relate to the "Low Fossil Fuel" scenario in the CLCPA scoping plan, which was estimated to be the highest cost of all analyzed scenarios. Other scenarios reflect similar cost breakdowns and total costs. https://climate.ny.gov/resources/scoping-plan/

Figure 10.3. Net direct annual spending needed to achieve CLCPA



Note: These cost estimates specifically relate to the "Low Fossil Fuel" scenario in the CLCPA scoping plan, which was estimated to be the highest cost of all analyzed scenarios. Other scenarios reflect similar cost breakdowns and total costs. Public spending is estimated at 10% of total CLCPA spending. https://climate.ny.gov/resources/scoping-plan/

Cap-and-Invest Program

One of the key programs that the State government is relying on to meet the CLCPA goals is a Cap-and-Invest program (NYCI). The program is currently being designed by the Department of Environmental Conservation (DEC) and the New York State Energy Research and Development Authority (NYSERDA). The program would put an annual cap on the amount of emissions permitted in the state, which would decline each year in tandem with the State's emission targets. The Cap-and-Invest program is in the early stages of development and is currently seeking public feedback on three main components of the program: 1) The mandatory reporting rule, 2) the cap-and-invest rule, and 3) the auction rule.[58] In principle, the program works by setting a maximum level of emissions allowed in the state (the "cap"), and then requiring large-scale emitters to purchase the rights to emission "allowances" via auction. By assigning a price to GHG emissions, the law would disincentivize emissions for large-scale emitters while also recouping funds, which would then be used to further invest in climate change mitigation and redistribution to adversely impacted communities.

- Mandatory GHG Reporting Program Rule: The mandatory GHG reporting Program rule will define which emitters in the state are required to report their greenhouse gas emissions to State regulators, how that group is chosen, and how those actors are required to report their emissions. Many of the mandatory reporters would also be required to purchase allowances for their emissions under the cap-and-invest rule (though the proposal states that there may be cases in which an entity that is required to report emissions is not required to purchase allowances, and vice versa).

- Cap-and-Invest Rule: The cap-and-invest rule sets the terms of the cap-and-invest program, including the emissions cap in the state. The emissions cap will be set to align with the CLCPA emissions targets for 2030 and 2050. The overall cap will include all emissions in the state both from emitters that are required to purchase allowances and from those who are not required to purchase allowances. The cap-and-invest rule will define threshold emission levels that require an entity to purchase GHG emission allowance. As of now, the proposed rule sets thresholds separately for stationary GHG emitters (any structure in NY with significant emissions), fuel suppliers with end-users in NY, and the electricity sector (potentially including both electricity generation and import). The proposed cap-and-invest rule also includes price floor and price ceiling mechanisms as part of the auction.

- Auction Rule: The auction rule concerns the format of the auction for GHG allowances. These auctions will be designed and run by NYSERDA. The auction will, under the current proposal, be a single-round, closed-bid, uniform price auction. Entities will be permitted to submit multiple bids. There will be a simplified bidding process for entities with below a certain level of emissions to make the burden of entry lesser for small entities.

Recent presentations made by the Department of Environmental Conservation (DEC) and NYSERDA report that the Cap-and-Invest program is expected to generate \$6-12 billion in revenue each year.[59] Of that revenue, about 30-33 percent is mandated to be paid back to New York residents, while the remaining 67-70 percent will be invested in CLCPA policy.

As with the CLCPA more generally, the Cap-and-Invest program considers its impact on what the CLCPA Scoping Plan defines as "Disadvantaged Communities." For example, the proposed rules consider options to set lower emissions caps for entities located near residential areas deemed disadvantaged communities. Under CLCPA, at least 35 percent of program benefits must go to Disadvantaged Communities, as defined by the CLCPA Scoping Plan.

It is important to note that New York's electricity system is already part of a cap-and-invest program called the Regional Greenhouse Gas Initiative (RGGI), which is an agreement among twelve Northeastern states to participate in a cap-and-trade program for carbon dioxide produced by power plants. Since 2005, RGGI claims to have reduced emissions from power plants by 50 percent while also raising over $7 billion.[60]

Environmental Bond Act

The Environmental Bond Act was a ballot proposition passed by New Yorkers in 2022. The law authorizes $4.2 billion in bond-financed state spending to support climate change mitigation, climate change adaptation efforts, and programs to support green jobs. The Bond Act requires that $1.1 billion be spent on "restoration and flood risk reduction," $650 million be used for land conservation, $1.5 billion for climate change mitigation efforts, and $650 million for water quality improvement. To date, it appears that only about $30 million of the $4.2 billion available has been issued, according to the last two years of the State's Capital Budget financial plans.

Table 10.2. Projected debt issued by the Environmental Bond Act (millions of USD)

	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	Total:
Issued Debt:	$5	$25	$100	$100	$150	$200	$200	$780 million
Remaining Capital:	$4,195	$4,170	$4,070	$3,970	$3,820	$3,620	$3,420	$3.4 billion

Note: Data are projections reported in the state's Capital Program Financial Plan for FY24 and FY25. The reported figures are the most up-to-date estimates available.

Executive Budget Proposals

The fiscal year 2025 executive budget makes important changes to the State's regulations and administrative structure that will help the State better meet CLCPA goals. For example, the executive budget proposes measures that would streamline the process of permitting renewable energy facilities, as well as measures that would lower the total amount of natural gas used by New Yorkers. However, the executive budget does not include any new major spending or investments that may be needed to meet the CLCPA targets by 2030.

Renewable Action Through Project Interconnection and Deployment (RAPID) Act

The RAPID Act transfers the Office of Renewable Energy Siting from the Department of State to the Department of Public Service. The rationale for this change is that there will be efficiencies associated with environmental review and permitting of renewable energy facilities and transmission facilities.

These efficiencies will help the State achieve targets set out in the CLCPA. The law states that all employees of the Office of Renewable Energy Siting will be transferred and that employees will maintain their current bargaining unit. There is no expected fiscal impact.

Affordable Gas Transition Act (AGTA)

The Affordable Gas Transition Act amends the law in a variety of ways that are intended to allow the Public Service Commission to meet the greenhouse gas emission reduction requirements set forth in the Climate Leadership and Community Protection Act. The amendments include:

1) Eliminate the requirement that gas corporations extend service to all new customers and offset the cost of the first 100 feet of infrastructure to all ratepayers (the "100-foot rule"),
2) Give the Public Service Commission the power to prohibit the use of natural gas when that discontinuance is required to meet the State's energy policy,
3) Empower the Public Service Commission to review capital construction plans for gas corporations and establish a process to examine feasible alternatives in order to align with climate justice goals.

This proposal has many similarities to the NY HEAT Act (S2016A), proposed by the State Senate in last year's budget negotiations. The legislation would shift New York's energy landscape away from natural gas and towards renewable energy. Notably, and unlike the NY HEAT Act (which would legislate that energy should not cost more than 6 percent of a household's income), the AGTA does not include any affordability provisions regarding the price of energy. There is no expected fiscal impact.

Clear Air Compliance and Pollution Reduction

The Clean Air Compliance and Pollution Reduction amendment alters the fee structure of the Department of Environmental Conservation's State Air Quality Control Program. The amendment changes the fee structure so that rather than having the fees correspond to emission sites, there will be flat annual fees for each facility. The bill also adjusts fees so that the Operating Permit Program is sufficiently funded (which it has not been in recent years). The amendment additionally allows the Department of Environmental Conservation to impose fees on emissions in the New York Metropolitan Area to meet compliance with the National Ambient Air Quality Act. Though there is no dollar amount estimated for this bill, the provision will help the Department of Environmental Conservation meet its budgetary requirements and may also result in additional revenue from the updated fees.

Dormitory Authority of the State of New York Omnibus State & Municipal Authorization

This bill expands the definitions of "Dormitory" and "Educational Institution" under the Dormitory Authority of the State of New York (DASNY) to include any state agency, county, city, town, and village that is undertaking a project funded by the following:

1. the New York State Environmental Bond Act of 2022;
2. the American Rescue Plan Act of 2021;
3. the Infrastructure Investment and Jobs Act of 2021; or
4. the Inflation Reduction Act of 2022.

The bill also expands the definition of "Dormitory" to include municipal entities receiving loans or grants from:

1. the downtown revitalization program; or
2. the NY Forward grant program.

The programs are designed to fund projects associated with housing, community renewal, economic development, and transportation.

Finally, the bill expands the definition of "municipal building" in the health and mental hygiene facility improvements act to include any building or infrastructure improvement project.

The bill has the potential to expedite state projects related to climate, infrastructure, economic development, and healthcare facilities. There are no direct budget implications.

FPI Recommendations

The climate transition remains an urgent project for the state. In order to meet its sustainability goals, the State will need to take an active role in directing policy and infrastructure investments. The CLCPA, enacted in 2019, has set forth bold targets along with a comprehensive overview of the different sectors of New York's economy that will need large investments and undergo costly transitions. Despite high costs associated with undertaking the climate transition, the costs of not building a green economy far outweigh the costs of transition. The Scoping Plan for the CLCPA estimates the total cost of the meeting the CLCPA goals to be between $10-14 billion annually over the next 25 years — a net present value of about $300 billion — and the implied benefit of the plan is estimated to have a net present value of over $400 billion. These costs are to be shared between the private sector and the public sector, with an expected cost to the public sector of between $1.5 billion and $3 billion annually from the present through 2050. Costs to the State could rise if the private sector fails to perform as expected. Even for a large and prosperous state like New York, these public costs are high and require significant State commitment. Without adequate public funding for the climate transition, New York could face calamitous environmental damage that will fall hardest on low-income and working-class New Yorkers.

Climate Policy as a State Fiscal Issue

If mismanaged, the State's climate transition could also have deep consequences for employment and affordability in the state. Currently, the CLCPA has laid out an ambitious set of goals with no clear plan for how to pay for the programs needed to meet those goals. Without a concrete and transparent plan for who will bear the associated costs of the climate transition, New York risks laying the burden on New Yorkers who already face a deep affordability crisis.

The three mechanisms by which increased costs may be imposed on New Yorkers are (i) increased energy bills, (ii) increased taxes, and (iii) upheaval to labor markets. Under the current plan, funding for meeting the CLCPA goals will primarily come from costs imposed on energy producers, a significant share of which may be passed on to consumers in the form of increased energy costs. While these costs do not appear in the State budget, they are nonetheless a significant aspect of State fiscal policy.

At this time, the State does not have a robust and detailed plan to fund the CLCPA. Without such a plan, New York is liable to miss important emissions targets or to mismanage the burden of costs. A plan for accomplishing the goals of the CLCPA must include a detailed account of how the State will mitigate

financial risks for low- and middle-income New Yorkers – which may entail higher, more progressive taxes in order to offset effects on energy bills and labor markets.

FPI recommends the following near-term considerations for building a robust fiscal model for the climate transition:

Monitor critical design features of Cap-and-Invest

Currently, much of the State's plan for a climate transition relies heavily on the success of the Cap-and-Invest program to both raise revenue and curb emissions. The program is currently under development and the Department of Environmental Conservation (DEC) and NYSERDA. Recently, NYSERDA reported that the Cap-and-Invest program is expected to bring in $6-12 billion in revenue each year. This estimate is highly uncertain and dependent upon the successful implementation of Cap-and-Invest. Many features of the Cap-and-Invest program's design are still under review, and the program is likely to evolve over the coming years. For Cap-and-Invest to be successful, the program must:

1. **Impose meaningfully low caps on emissions.** Cap-and-Invest programs in other states such as California have not been stringent enough to curtail emissions successfully.[61][62] Setting a low cap on emissions will create high prices for allowances such that they have the potentially to curb the behavior of large emitters, as well as raise revenue for the state.

2. **Offer few options for large emitters to circumvent those caps.** Other Cap-and-Invest programs, such as that of California, have provided exemptions or other means to circumvent the program's goals, such as the purchase of carbon offsets, to emitters who exceed emissions caps. These exemptions undermine the policy aim of curbing emissions both directly and indirectly by implicitly raising the cap.

3. **Set price ceilings high enough that emitters pay a high price.** The current proposal for Cap-and-Invest includes a price ceiling on auction prices. This ceiling will limit the prices paid by emitters and could weaken the policy's ability to curb emissions and raise revenue if the price is not high enough.

4. **Establish effective compliance mechanisms.** Currently, there is no clear consequence to emitters for failing to comply with the emissions cap and their allotted allowances. Future proposals should include mechanisms to ensure compliance.

5. **Limit "allowance banking."** The current proposal for Cap-and-Invest states that emitters can use a purchased allowance on any subsequent year's emissions (except for those allowances bought in 2025 and 2026). That is, emitters can "bank" allowances for use in future years. This policy, if not carefully designed, could be used by emitters to hoard low-price allowances and thus circumvent strict emissions caps.

6. **Carefully design how resulting revenues are used.** If the auction prices for allowances are high (as they should be to achieve a meaningful policy change), there is a risk that the cost burden will be passed on from the emitters to ratepayers (the consumers of the energy). For this reason, the Cap-and-Invest program must include a detailed plan to measure the cost burden

and remit a substantial proportion of revenue back to low- and middle-income households, so that they do not have to shoulder the cost of the energy transition.

Raise revenue that does not depend on Cap-and-Invest

While the Cap-and-Invest program has merit as one of several tools the State uses to curb emissions and raise revenue, the State also needs to leverage additional funding mechanisms to invest in the climate transition. Rather than leaning entirely on a market-driven incentive mechanism, the State should directly invest in renewable fuel generation, finance heat-pump installation and weatherization for residential households, and enhance the public transportation landscape. Each of these arenas involves up-front costs and investments that will render long term benefits to the State and to households.

Without early investment, costs will increase, and the burden of the costs will fall on low- and middle-income New Yorkers. For a more progressive solution, New York should consider funding models that directly raise revenue from high earner households and profitable businesses. New York can also expand bond financing of climate transition costs, as these investments will ultimately yield a stronger and more stable state economy, meriting long-term borrowing schemes that spread the cost out over a longer time horizon. While the Cap-and-Invest program may yield significant revenue, it is also important for the State to raise revenue that does not depend on the success of Cap-and-Invest and that increases the State's capacity for direct investment in the climate transition.

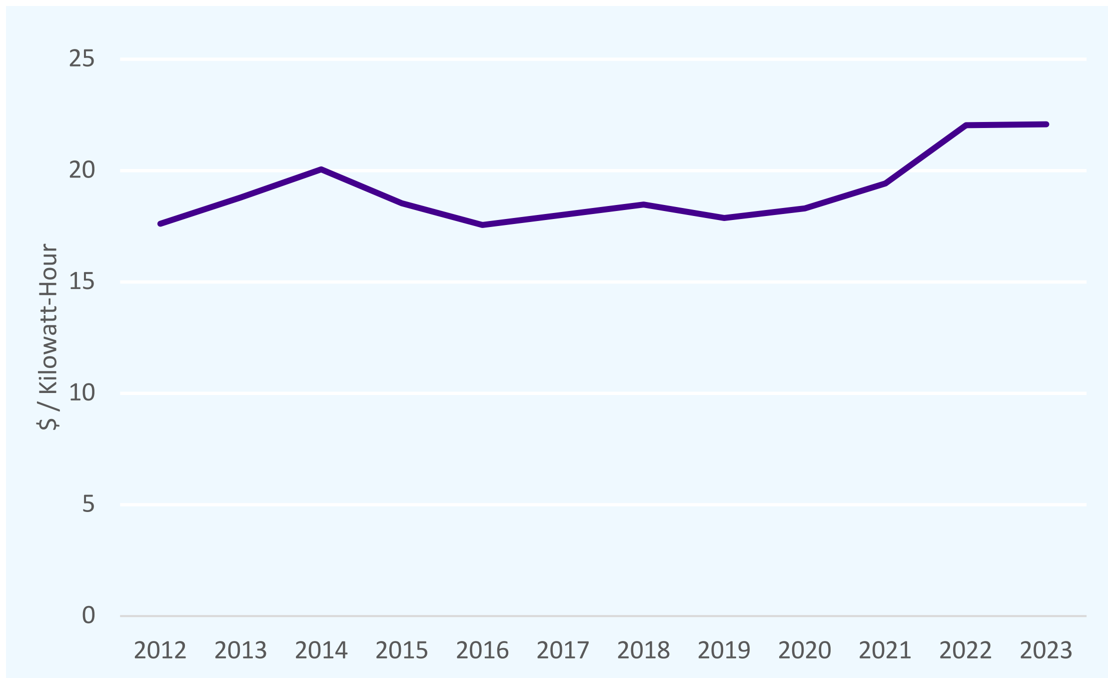
Leverage federal funding for climate projects

The federal Inflation Reduction Act (IRA) creates many funding opportunities for states to invest in the climate transition.[63] Around 75 percent of IRA funding – about $270 billion – is allocated to tax credits.[64] An innovative dimension of tax credits in the IRA, however, is that they are available to entities that do not pay taxes including state and local governments and non-profits. Many of the tax credits in the IRA defray the costs of specific climate transition needs, such the Home Efficiency Rebates program, which provides $4.3 billion in grants to states for the purpose of assisting homeowners and aggregators in retrofitting homes to be more energy efficient. The Neighborhood Access and Equity Program provides $3.2 billion to states for affordable public transportation and improvements in walkability. Many other grant programs exist alongside numerous tax incentives to provide states with ample opportunity for the State and localities to lower climate transition costs.

Adopt the affordability component of the NY HEAT Act

According to the US Census, about 20-30 percent of New Yorkers report that they are unable to pay their energy bills.[65] Energy prices in New York have risen from less than $18 per Kilowatt-hour in 2019 to over $22 per Kilowatt-hour in 2023 – a 22 percent increase. The New York HEAT Act includes a provision that would limit household spending on energy to 6 percent of total income. Currently, the executive proposals do not include this provision. Including such a provision would help make sure that the cost of the energy transition does not put undue burden on private households.

Figure 10.4. Average residential energy prices in NY



Note: Data from the US Department of Energy, as reported by NYSERDA. https://www.nyserda.ny.gov/Energy-Prices/Electricity/Monthly-Avg-Electricity-Residential

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