IV. Fiscal Outlook

<u>Key Takeaways</u>

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.

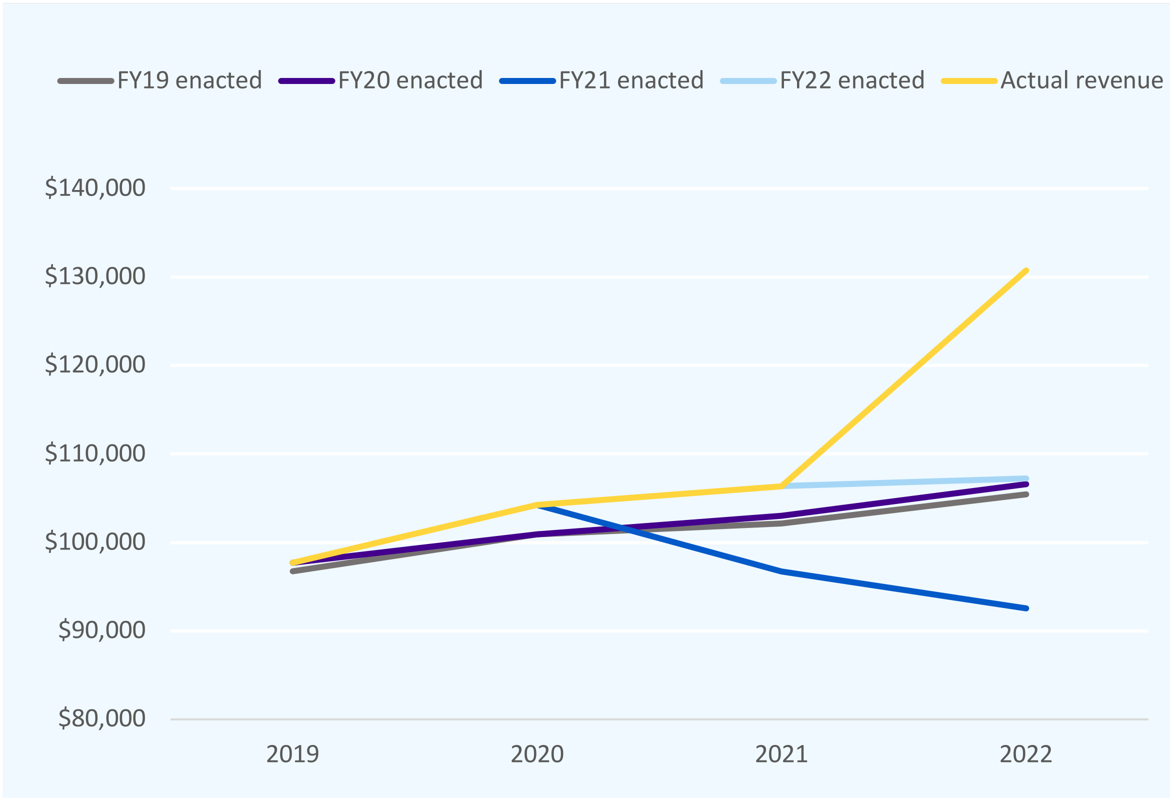
While fiscal year 2024 will likely close with a budget surplus, the State expects budget gaps in future years. These gaps are the result of pessimistic revenue projections. These pessimistic projections appear to be based largely on an expectation of prolonged sluggishness in financial markets that depresses 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

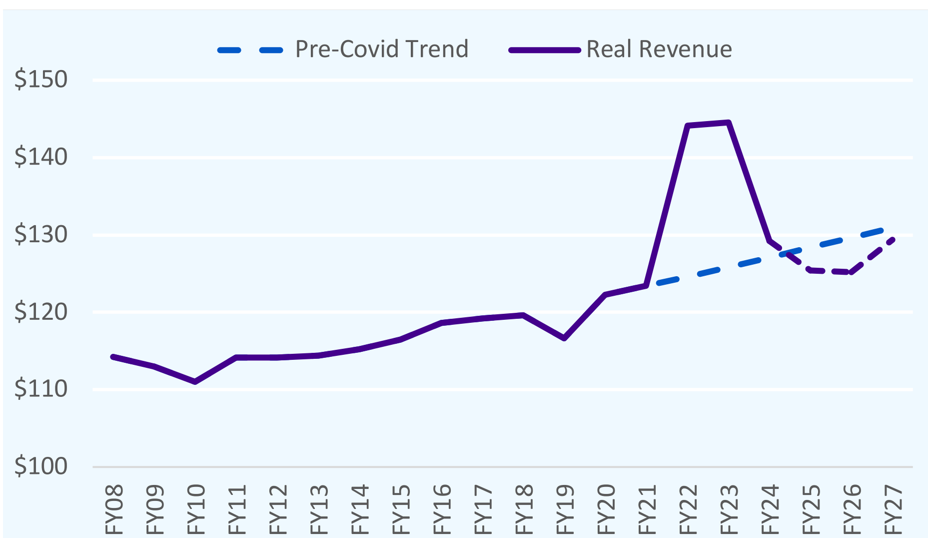
After two years of booming revenue growth, fiscal year 2024 represents a return to more typical levels of growth and a decline from the elevated revenue level of fiscal year 2023.

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.

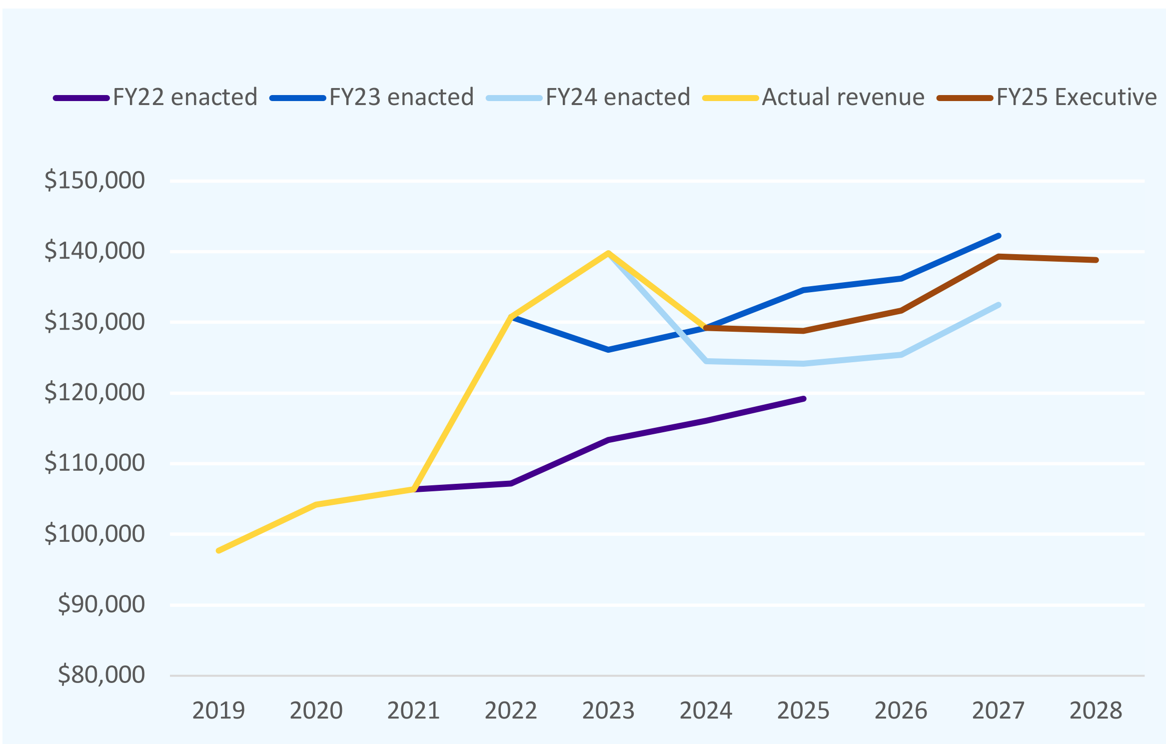
Importantly, the State's Covid-era surpluses were in large part deposited into the State's fiscal reserves, used to prepay future expenses such as debt service, or used as one-time initiatives to support the State's economic recovery. Surplus revenues were not used to support recurring operating expenses, 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

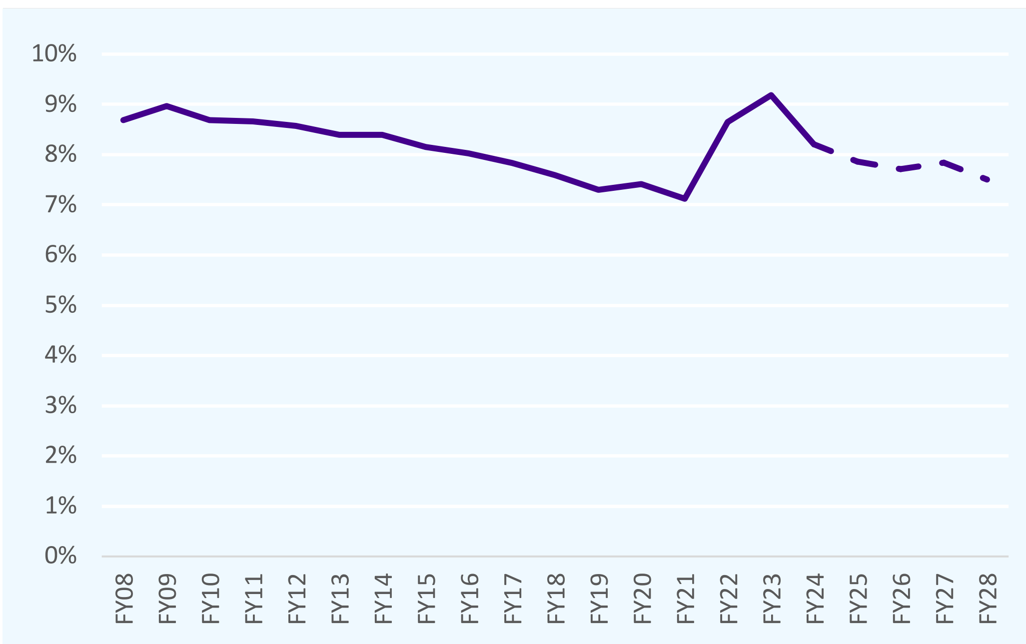
Recent downward revisions to revenue forecasts were the result of weak capital gains in 2022, which depressed fiscal year 2024 revenue. In April 2023, personal income tax receipts fell $4.1 billion below projections in the fiscal year 2024 executive budget, alarming State fiscal forecasters and sparking 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

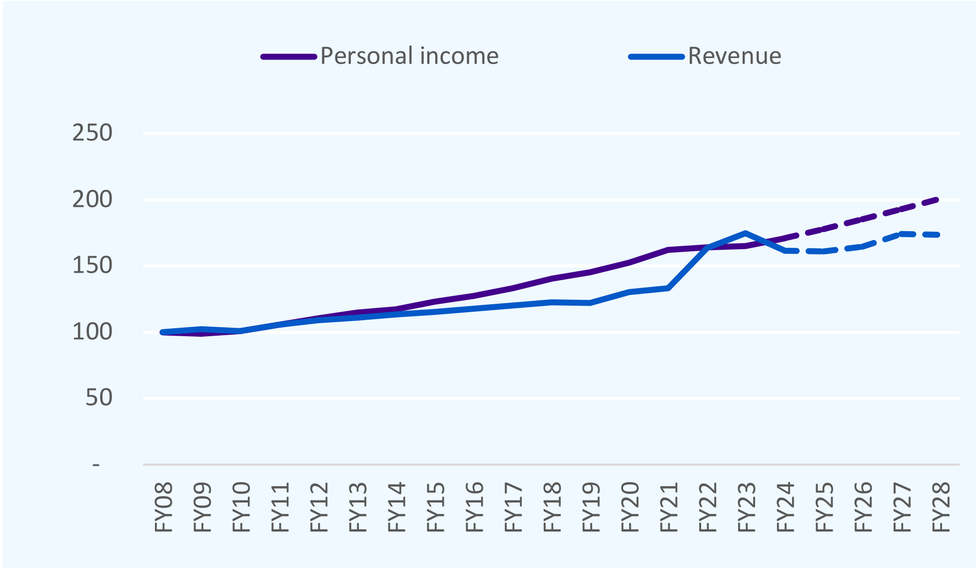
State revenue levels are only meaningful in relation to the state economy as a whole. Measuring State funds as a share of total personal income, the State's most important tax base, shows a trend of shrinking revenue going back to 2008 (see Figure X. below). Through the 2010s, New York's revenue consistently 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.

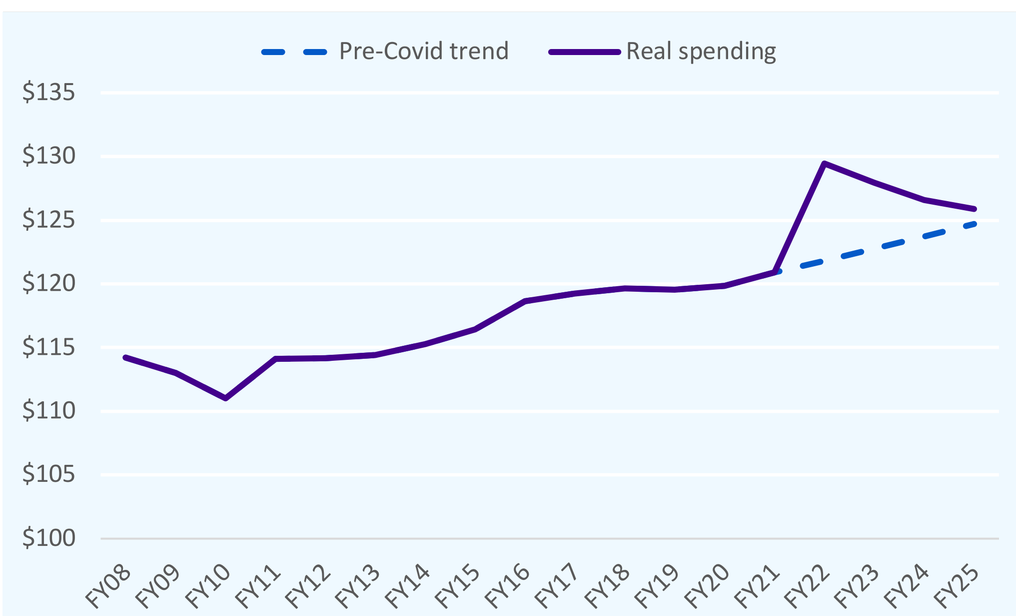
Between fiscal years 2010 and 2021, New York's State funds — which excludes federal aid — grew at an average rate of 0.8 percent, after adjusting for inflation. This growth rate was lower than overall economic growth (as discussed in the section above). While spending slightly outpaced the cost of living,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

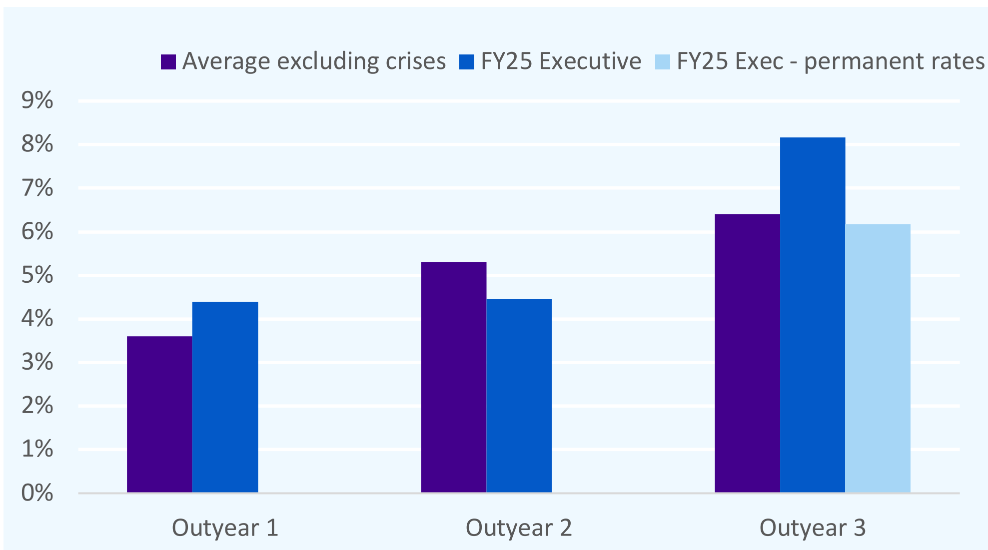
The $9.9 billion gap projected for fiscal year 2028 reflects, in part, the expiration of temporary increases in the PIT and CFT. As discussed in the revenue section above, the expiration of PIT and CFT rates will cost the state $2.4 billion in lost tax revenue fiscal year 2028 and $6.2 billion the following 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