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Budget Breakdown: New York State's Fiscal Year 2026 Enacted Budget

New York State's fiscal year 2026 budget was signed into law on May 9, more than a month after the official April 1st deadline. The delay resulted from Governor Hochul's inclusion of criminal justice priorities in the negotiation process, which left legislators with only a few days to discuss the significant fiscal risks facing the State.

The Enacted Budget, while it contains few significant new policy initiatives, does commit to planned increases in major spending categories, namely education and healthcare, allowing the budget to recover some of the lost ground from a decade of austerity policies in the 2010s. The most important policy measure in the budget is a long overdue increase in unemployment insurance benefits that will better prepare the State economy for a possible recession (discussed in detail below).

The bad news is that the Enacted Budget contains serious fiscal errors, including permanent tax cuts and one-time payments that will cost $3 billion in fiscal year 2026 alone. This is unwise fiscal management in any year, and particularly irresponsible this year, when the State is sure to lose substantial federal funding.

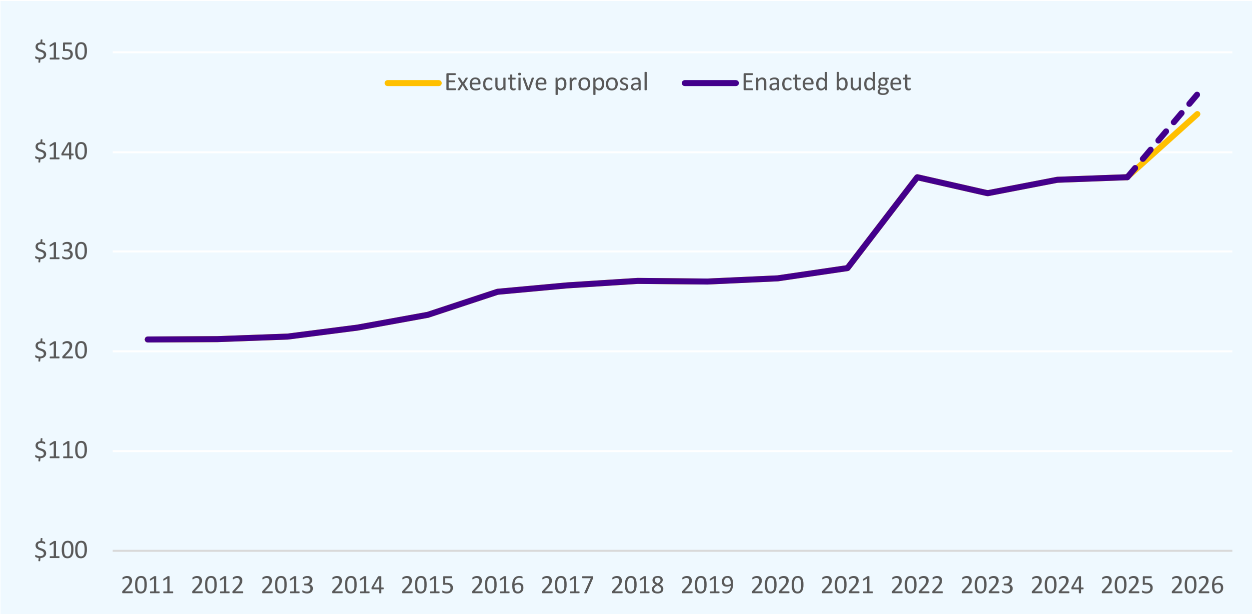
Even more concerning, the Enacted Budget authorizes the Budget Director to withhold spending in the event of a General Fund imbalance of $2 billion or more. This authorization essentially forfeits the Legislature's responsibility to determine how spending cuts should be implemented (or else avoided through tax increases) in the event of a recession or significant funding shortfalls.

The Enacted Budget totals $254 billion, just $2 billion higher than proposed in the Governor's Executive Budget from January. This represents an increase over last year's budget of $8.8 billion in state spending, and an inflation-adjusted increase of 6 percent. Measuring the budget in dollars, or even inflation-adjusted dollars, however, fails to provide an accurate picture of overall budgetary growth.

The budget should be understood in relation to the New York State economy, which determines the total capacity of the State government to finance public services and investment. Measured in these terms, State spending fell from its share of 9 percent of state personal income (a gauge of overall state economic activity) in fiscal year 2009 to 7 percent in 2021 amid a decade-long policy of fiscal austerity, underinvestment, and cost shifting onto local governments. In fiscal year 2026, the budget is set to reach just over 8 percent. This puts the State budget's relative size on par with fiscal year 2017.

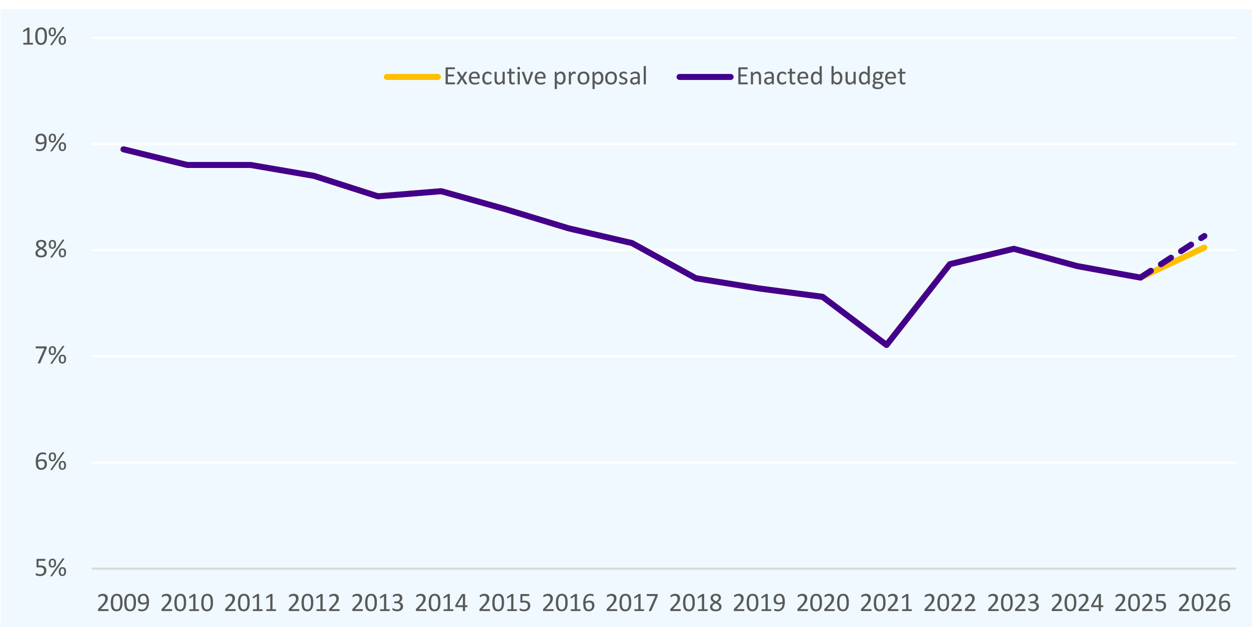
State operating funds spending, adjusted for inflation, fiscal years 2011 to 2026

Billions of dollars, adjusted to fiscal year 2025 dollars



State operating funds spending as a share of state personal income, fiscal years 2009 to 2026

Percent of total New York personal income



Other Fiscal Issues

- **Reserves: The State currently has $34 billion in reserves** — **more than at any time in its history.**[1]
  - These resources include $22 billion in formal reserves and $12 billion in undesignated balances available to support the budget
  - The State's strong reserve balances will allow it to continue to fund services through an economic downturn or loss of federal funding

- **Budget gaps: The State's forecasted budget gaps are primarily the result of conservative revenue projections.**
  - The gaps projected by the executive budget—$6.5 billion in fiscal year 2027, rising to $11 billion by fiscal year 2029—are within the range typically considered "manageable," as they are generally closed when revenue exceeds the State's overly-cautious forecasts.
  - If revenue grows in line with its average rate over the 2010s and the state extends corporate tax rates that are set to fall in 2027, gaps would average just $1 billion annually.

[1] This includes unrestricted general fund balances, but excludes PTET and labor agreement reserves. Fiscal year 2025 executive budget financial plan and March 2024 State Comptroller monthly cash basis report.

<u>Issue Focus: Unemployment Insurance</u>

The Enacted Budget includes one major accomplishment that will generate significant material benefits for New York workers: a deal to improve unemployment insurance benefits (UI) and pay off New York's long-held UI trust fund debt to the federal government, which had raised taxes on employers.

New York's Unemployment Insurance (UI) program has long needed reform: benefit levels have been too low to achieve economic stability in a downturn, and too many workers are excluded from the scope of the program. The high volume of unemployment claims during the Covid-19 pandemic forced the State to borrow substantial sums from the federal government in order to pay claims; now, the State owes the federal government a debt of $6.4 billion, and until that debt is paid down (and additional funding contributed to make the State's trust fund solvent), benefits will remain at below-poverty levels.

This year's budget negotiations included a major deal between labor representatives and business interests; the deal included the following changes:

1) **The State will use reserves to pay off the nearly $6.5 billion of debt with the federal government and return the UI trust fund to solvency.** By doing so, the State will "un-freeze" the maximum benefit level paid to unemployed workers and prevent an incremental increase — about $300 per employee annually — in the payroll tax rate levied on employers that pays for the program;

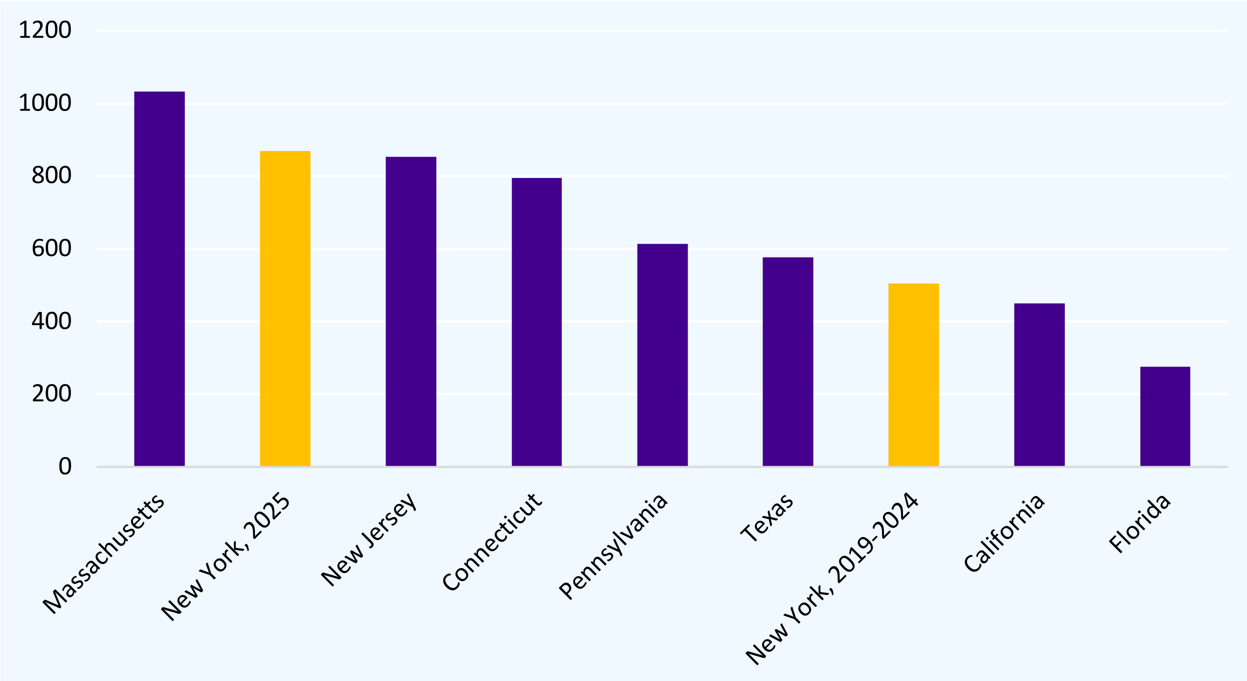
2) **The maximum weekly benefit paid to unemployed workers will increase from $504, the rate at which it's been frozen since 2019, to $869 on the first Monday in October 2025** — a 72 percent increase in the weekly benefit that will result in an additional payout of $1,500 per month for workers seeking the maximum benefit. This increase in the maximum benefit will occur regardless of whether the fund is solvent as of October 2025;

3) **The payroll tax the funds the UI program was slightly increased**. Specifically, the amendment to the UI law increased taxable wages from 16 percent of the state's average annual wage (about $14,700) to 18 percent of the state's average annual wage (about $16,600). This change will result in a revenue increase to the State of approximately $450 million annually and will likely increase the tax on most employees by less than $100 per employee annually; and

4) **Striking workers can now access unemployment benefits after a single week of being on strike.** Previously, striking workers had to be on strike for over two weeks before being eligible for unemployment insurance benefits.

By increasing benefits significantly for workers, the deal struck in this year's budget will not only prevent unemployed workers from potentially falling into poverty during unemployment spells, but it will also stabilize the State's macro-economy.

Maximum weekly UI benefit, by State



Healthcare

Policy	Description	Executive	Legislative	Enacted budget action
Provider Rate Increases	Increases to Medicaid payment rates funded by MCO tax.	$305M to hospitals, $192.5M to nursing homes, $50M to physicians, $50M to MCOs, $10M to FQHCs.	Much larger rate increases.	As in the Executive except for additional $30M in hospital rate increases, $20M in FQHC rate increases.
Support for Safety-Net Providers	Support for hospitals in financial distress.	$500M reduction to VAPAP. $300M for Safety Net Transformation Program operating funds.	Reject reduction to VAPAP.	$500M VAPAP spending restored, $300M Safety Net Transformation Program investment.
Cut to Nursing Home Transition and Diversion (NHTD) waiver.	NHTD is a small (~5000 participants) Medicaid program providing home care. It has grown rapidly in the past two years.	NHTD enrollment capped at current levels.	Unclear.	NHTD enrollment capped at current levels.
MCO Plan Penalties	Authorize DOH to penalize Medicaid MCOs for contract violations.	Authorizes penalties.	Authorizes penalties.	Authorizes penalties.
Scope of Practice Changes	Allow a variety of providers, including pharmacists, CNAs, dental assistants, physician's assistants to perform a wider variety of services.	Allow scope of practice expansion.	Reject scope of practice expansion.	Reject scope of practice expansion.
Nurse Licensure Compact	New York would join the interstate Nurse Licensure Compact, allowing out-of-state nurses to work in NY without recertification.	Join NLC	Do not join NLC.	Do not join NLC.
"Inflationary Increase" for Mental Health Providers	Would provide an across-the-board increase to mental health service providers (mostly nonprofits) in OMH, OASAS, OPWDD and other programs.	1.9% increase	7.8 percent increase, with language directing funding to workers.	2.6% increase, no language directing funding to workers.

Education & Childcare

Policy	Description	Executive	Legislative	Enacted budget action
Foundation Aid				
Poverty measure	Funding allocation based on districts' poverty	Update data	Accept executive proposal	Enact executive proposal
Economic disadvantage measure	Funding allocation based on districts' economic disadvantage	Change from free school meal eligibility to broader measure	Accept executive proposal	Enact executive proposal
English language learners (ELL)	Funding allocation to ELL students	No proposal	Assembly: Increase ELL weight from 50% to 65%	Increase ELL weight from 50% to 53%
Guaranteed minimum increase	Minimum funding increase for upcoming school year	2%	3%	Enact executive proposal
Maximum state share	State share of school funding for lowest-wealth districts	Increase from 91% to 93%	Accept executive proposal	Enact executive proposal
Regional cost index (RCI)	Funding allocation to districts in costly regions	No proposal	Update data	Increase RCI only for Westchester County
Foundation aid funding change		$25 million	$544 million	$152 million
Other education and early childhood				
Universal pre-kindergarten (UPK)	Outside of NYC, UPK is currently far short of true universality	No proposal	Assembly and Senate would raise minimum UPK grants, adding $302 million and $150 million, respectively	Not enacted
Universal free school meals	More than 80% of public school students receive free school meals	$160 million to close remaining gap	Accept executive proposal	Enact executive proposal
Childcare assistance	Childcare subsidies for low and moderate income families	Hold funding flat, creating shortfall, especially in NYC	Assembly and Senate add additional $213 million and $50 million, respectively	Add $400 million, of which $350 million is earmarked for NYC; increases NYC's required local contribution from $53 million to $328 million.

Tax Policy

Policy	Description	Executive	Legislative	Enacted budget action
"Inflation refund"	One-time checks for the majority of NY households, first proposed in the fiscal year 2026 executive budget. Framed by the Governor as a refund of sales tax receipts due to a period of high inflation.	First proposed in fiscal year 2026 executive budget. Estimated cost of $3 billion. Married taxpayers earning up to $300,000 receive $500. Single taxpayers earning up to $150,00 receive $300.	Assembly accepted inflation refund as proposed by executive budget. Senate counter-proposed a "senior inflation refund" only for taxpayers 63 years of age or older. Credit would be last from 2025 through 2027. Same income thresholds and amounts as executive budget.	Inflation refund included in enacted budget, but smaller than executive budget proposal at a total cost of $2 billion. Married taxpayers earning up to $150,000 receive $400; those earning between $150,000 and $300,000 receive $300. Single taxpayers earning up to $75,000 receive $300; those earning between $75,000 and $150,000 receive $200.
Child Tax Credit	Tax credit for families with young children.	For 2025, increases the state's child tax credit to $1000/child for children up to age 3; $330/child for children ages 4 to 16. For 2026 and 2027, the credit is $100/child for children up to age 3 and $500/child for children ages 4 to 16. The credit phases down by $16.50 per $1000 of income in excess of $110,000 for married taxpayers or $75,000 for single taxpayers.	Assembly proposes an increased credit of $1000 per child under 4 and $500 per child 4-16 for 2025, and a "New York works" tax credit of $1600 per child that phases in gradually by 2030. Senate proposes a $1600 per child "working families tax credit" that phases in gradually by 2029.	Adopts executive budget proposal.

Personal Income Tax Cut	Income tax cut of 0.2 percentage points for households making up to $323,000 at an annual cost of $1 billion. FPI estimates that only 15 percent of the benefit of the tax cut will go to households making under $104,000.	The fiscal year 2026 executive budget proposed a tax cut for households making up to $323,000 that would cost approximately $1 billion annually. Married taxpayers making up to $323,000, and single taxpayers making up to $215,000, would see a 0.2 percentage point reduction in their personal income tax rate. Half of the tax cut (a 0.1 percentage point reduction) would take effect in 2025, and the second half of the tax cut (another 0.1 percentage point reduction) would take effect in 2026.	Assembly proposed a tax cut for the same brackets as in the executive budget, but five times larger – a full 1 percentage point tax cut. FPI estimated that this would cost $3-3.5 billion per year. Senate accepted the executive budget proposal.	The enacted budget adopts the income tax cut proposed in the executive budget, but with a delayed phase-in. Half of the total tax cut (a 0.1 percentage point rate reduction) will take effect in 2026, and an additional 0.1 percentage point rate reduction will take effect in 2027.
Personal Income Tax Rates on top earners	In 2021 the State enacted higher income tax rates on single taxpayers earning over $1.08 million and married taxpayers earning over $2.16 million, with higher rates for taxpayers earning over $5 million and $25 million (regardless of filing status). The top tax rate is currently 10.9 percent.	The executive budget extends the current top rates through tax year 2032. Beginning in tax year 2033, the top personal income tax rate for single taxpayers earning over $1.08 million and married taxpayers earning over $2.16 million will be reduced to 8.82 percent.	Senate proposed raising rates on current top brackets by 0.5 percentage points and letting these rates expire in 2032. Assembly proposed new tax brackets for multi-million-dollar income earners and higher rates, which would also expire in 2032.	The enacted budget adopts the executive budget's extension of the current top rates through tax year 2032.

Corporate Tax Rate	The current corporate tax rate of 7.25 percent on corporations with profits in excess of $5 million is set to be cut to 6.5 percent starting in 2027.	No proposal		No change to prior law. Under the enacted budget, there will be an automatic corporate tax cut in 2027.
MTA funding	The next MTA five-year capital plan requires additional funding.	No proposal	No proposal	The capital plan will be funded, in part, through an increase to the payroll mobility tax, an employer-side payroll tax that applies to businesses in New York City, Long Island, and the Hudson Valley. The enacted budget creates two zones for the tax: one in NYC, and one in Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester counties. The tax rate is raised to 0.895 percent for employers with payroll expense over $2.5 million in zone 1 (NYC), and 0.635 percent for employers with payroll expense over $2.5 million in zone 2.
Unemployment insurance tax	The State's unemployment insurance trust is funded by an employer-side payroll tax on the first 16 percent of an employee's wages. The tax has long been inadequate, leaving the trust insolvent.	No proposal	No proposal	The enacted budget increases the share of taxable wages from 16 to 18 percent.

Housing

Policy	Description	Executive	Legislative	Enacted budget action
HAVP	Housing voucher program for low-income New Yorkers.	No proposal.	Both Senate and Assembly included proposal funded at $250 million.	Adopted as pilot program with $50 million appropriation.
Revolving loan fund	Fund that would issue low-interest loans to mixed-income multi-unit housing developers.	$50 million allocation for outside of NYC.	Assembly matched executive proposal. Senate matched executive proposal and additionally earmarked $80 million City of Yes funds for a revolving loan fund targeting New York City.	Adopted with $50 million appropriated for mixed-income housing outside of New York City and $50 million ear-marked for New York City out of City of Yes funds.
SLIHC (Revenue, Part D)	Tax credit for developers of low-income housing, similar to the federal Low Income Housing Tax Credit (LIHTC).	Proposed increase in allocated tax credits from $172 million to $187 million, and an acceleration of credit growth over time.	Matches executive proposal.	Executive proposal adopted in final budget.
NYCHA	Operating and capital funding for the New York City Housing Authority.	$25 million allocated as part of the overall City of Yes funding.	Assembly allocated $750 million in additional capital funds and $100 million in operating funds. Senate proposed $525 million City of Yes funds to be earmarked for NYCHA.	Final budget earmarks $225 million of City of Yes funds for NYCHA.