

Fiscal Policy Institute

Fiscal Year 2026 Enacted Budget



Agenda

- I. Introduction
- II. General Budget Trends
- III. Tax Policy
- IV. Unemployment Insurance
- V. [Education and Childcare – will cover next time]
- VI. Medicaid + Other Health
- VII. Housing

I. Introduction

Introduction

- Won't have a financial plan for another month
- Likely will see legislators back for special session after federal cuts
- Serious fiscal concerns with the budget
 - Tax cuts
 - Refund checks
- Policy issues: Lack of structural reforms and investments, esp. in childcare and housing

II. General Budget Trends

Introduction

- Enacted budget is \$254 billion - just \$2 billion over Executive Budget

	Executive	Assembly	Senate	Enacted
All Funds	\$252.0	\$256.5	\$259.0	\$254
State Operating Funds	\$143.8	\$148.0	\$150.2	~\$146

One House Priorities

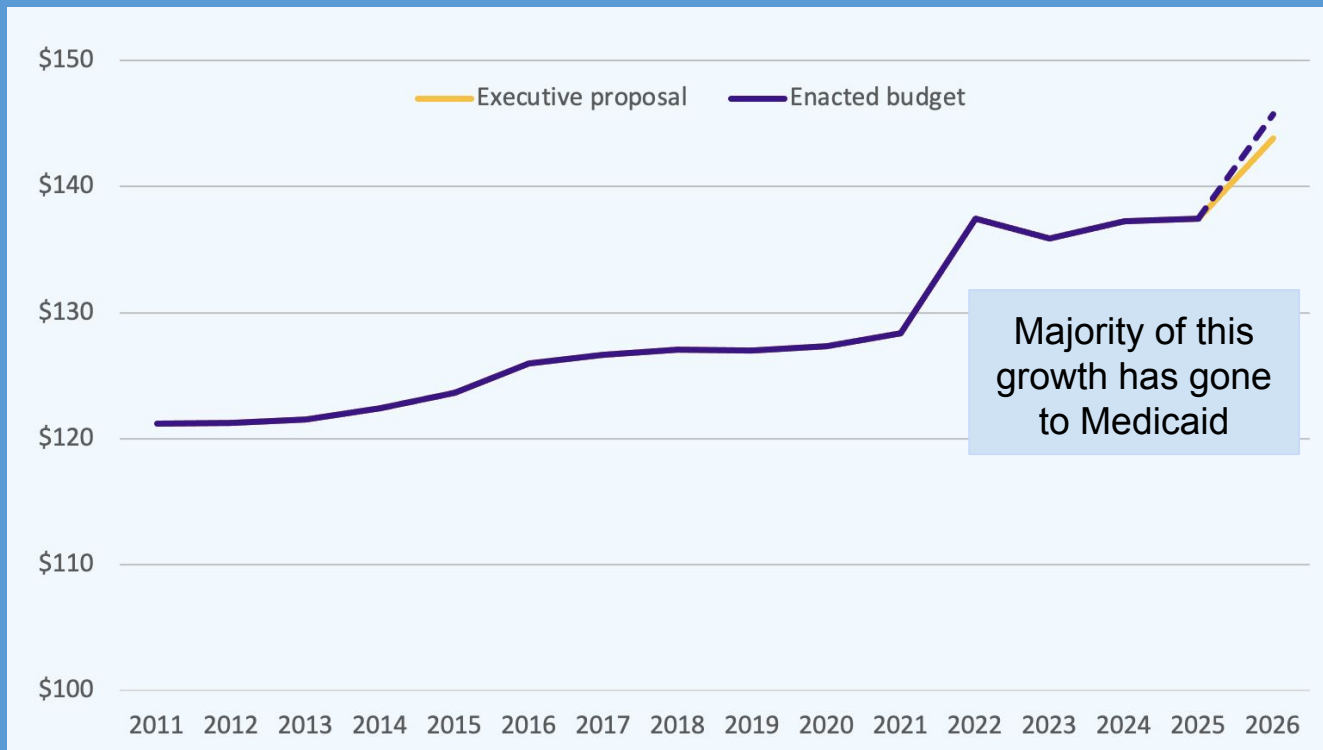
- One house budget proposals raised taxes on top earners and the corporate tax rate
- Larger increases in education funding, housing vouchers, Medicaid rate increases, funding for distressed hospitals, childcare workforce investments
- Larger child tax credit expansion/working families tax credit
- Assembly proposed paying off unemployment insurance trust debt of \$6.4 bn with reserves

Enacted Budget compared to One Houses

- Increase to childcare funding of \$350 million - but no workforce investment
- Changes to Foundation Aid (education funding formula) change the funding balance

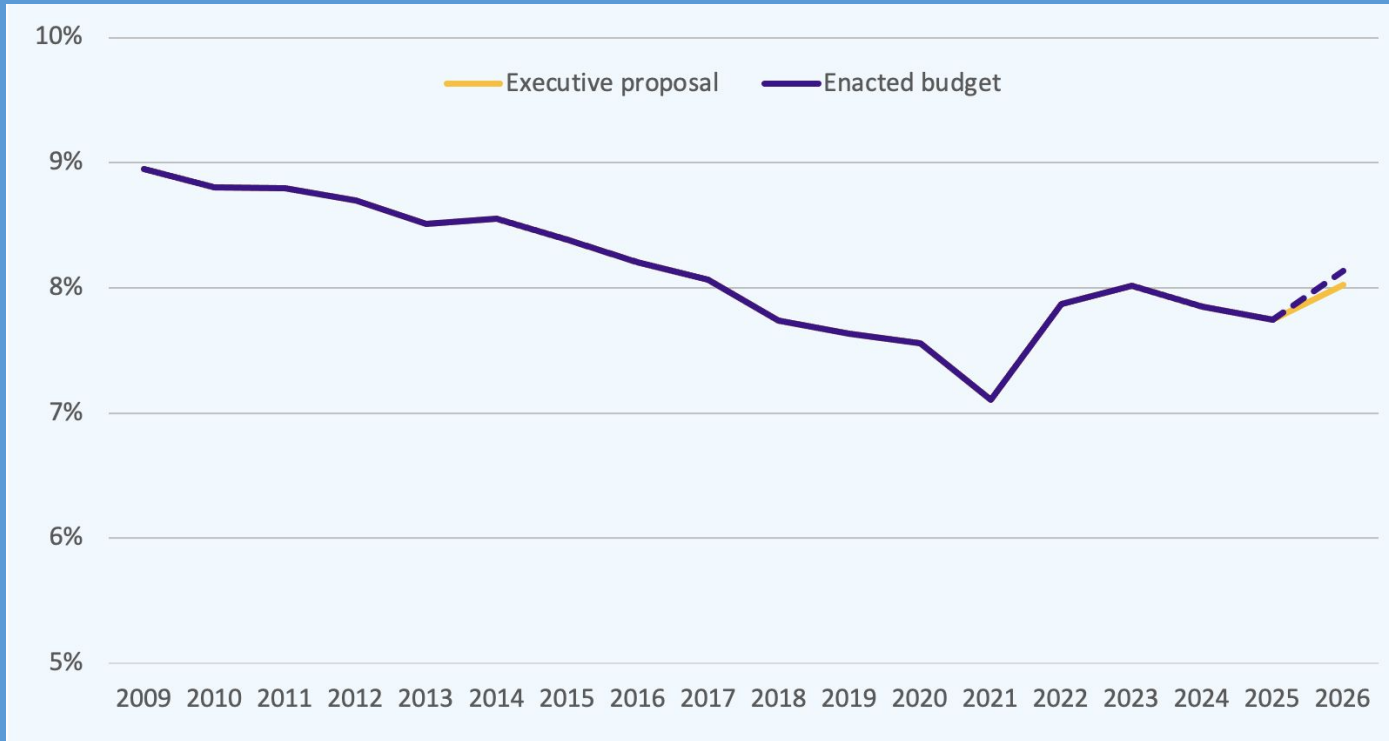
Budget has grown in real terms since Covid

State operating funds spending, adjusted for inflation (\$ billions, 2025 dollars)



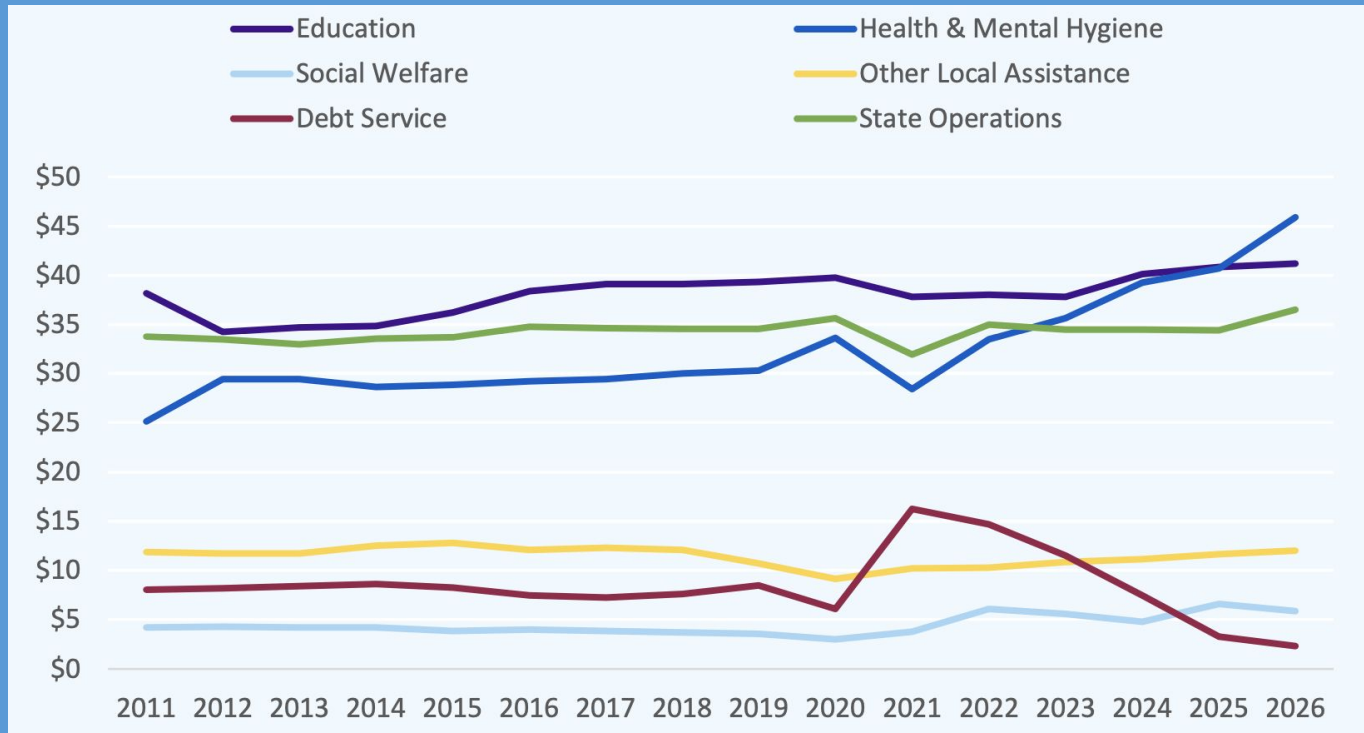
Budget continues to recover lost ground

State operating funds spending as a share of state personal income



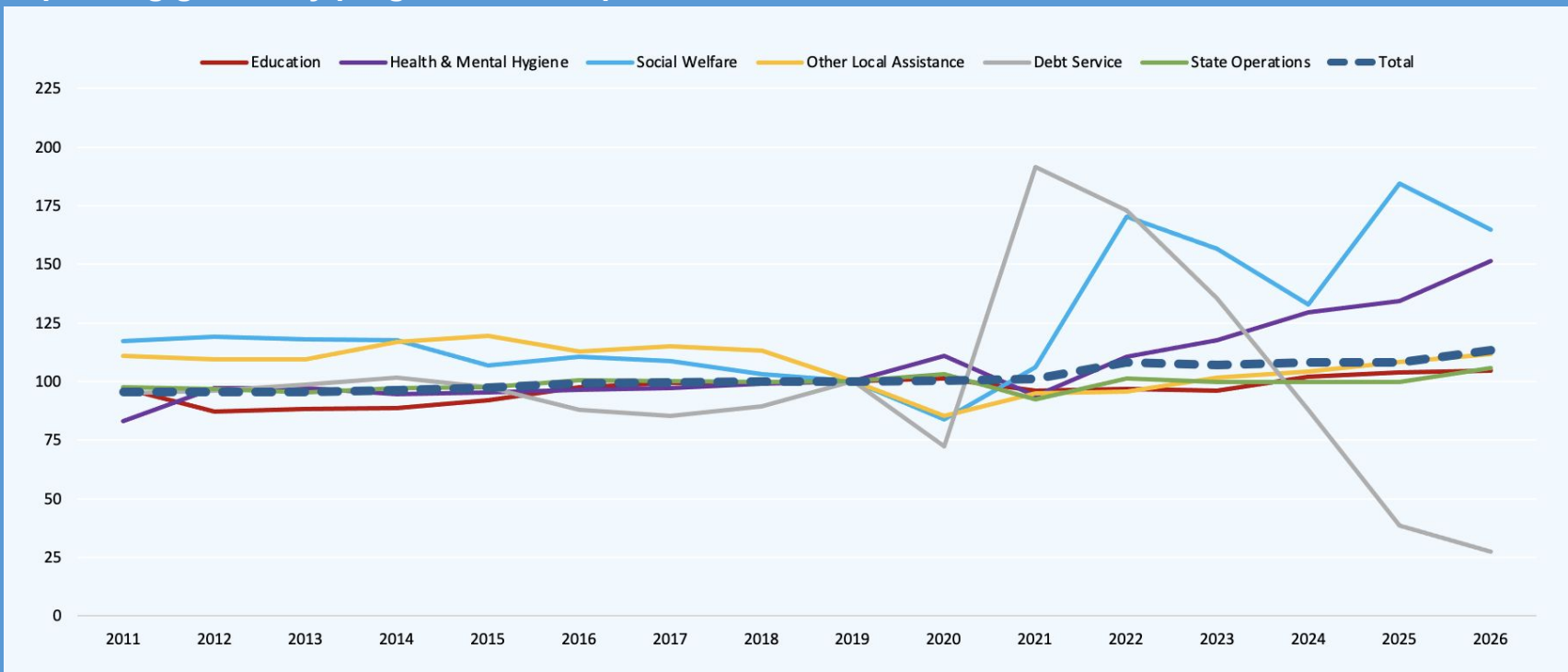
Growth is concentrated in Medicaid

Spending growth by program area, according to Executive budget financial plan (2025 dollars)



Overall budget growth

Spending growth by program area, as percent of 2019 level



Current Fiscal Outlook

- State ended fiscal year 2025 with \$6bn over forecasts
 - As of January, annual total receipts (tax + other) were projected to be \$142.3 bn
 - As of March 31, 2025, total receipts were \$148.3 bn
- As of January, \$3.5 bn surplus projected for end of fiscal year 2025
- Surplus of \$1.8 billion projected for next year
 - May be revised upward in light of strong tax receipts
- Budget gaps of \$6.4-\$11 billion project in years 2027-2029
 - Mostly due to low revenue projections
 - Risk from \$2 billion/year in income + corporate tax cuts

Reserves

- State ended year with \$34 billion in reserve
- Current year surplus used for inflation refund (now \$2 billion)
- TBD how the State pays down the UI debt. Possibly out of higher end-of-year surplus; possibly by drawing down reserves.
 - FY 2025 additional surplus could be used for this purpose or be used to pre-pay future expenses
 - Or it could come out of reserves

Federal Funding in the Fiscal Year 2026 Executive Budget

Federal Funding for FY 2026 (billions)	
Health	\$73.94
Social Welfare	\$5.28
Education	\$4.39
Public Protection	\$1.34
Transportation	\$2.84
Other	\$1.68
Total	\$90.83

Executive's Powers in case of Funding Cuts

- In the even of a General Fund imbalance over \$2 billion, the budget director has the power to withhold payments
 - First must draw down \$2 billion in reserves
- Legislature has ten days to propose alternative plan and adopt it by concurrent resolution
- If they don't, or if the budget director decides the plan doesn't work, the Governor's plan goes into effect

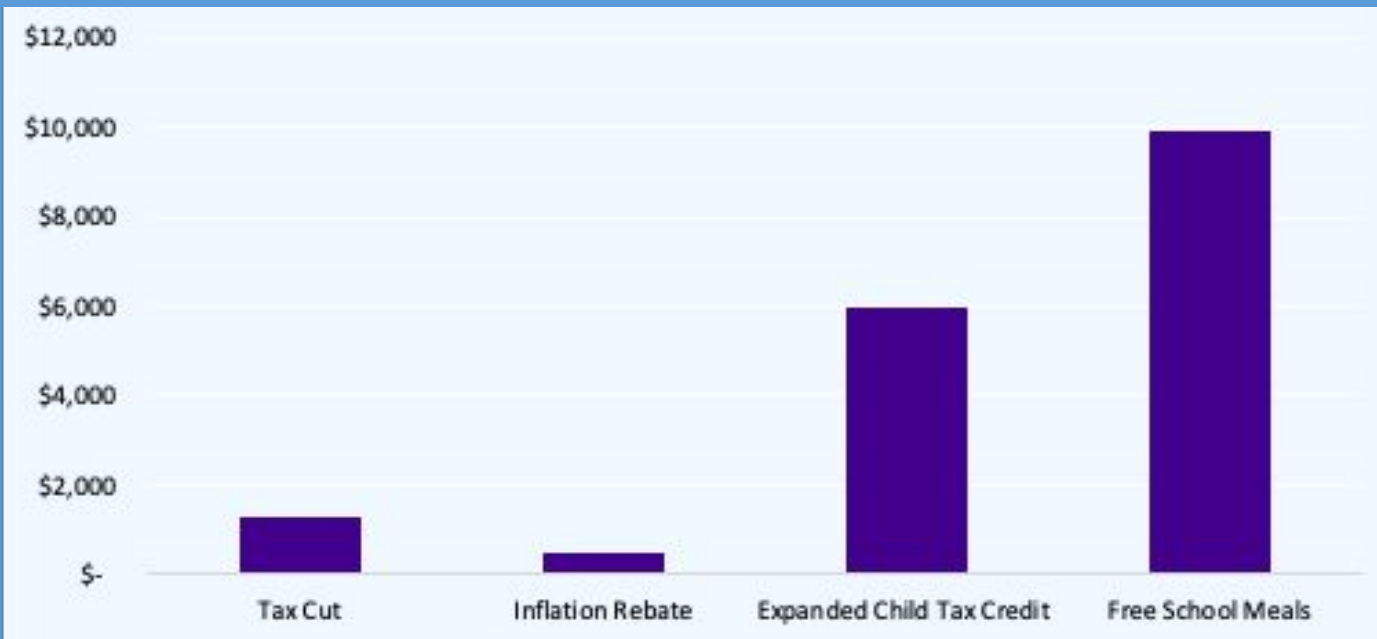
III. Tax Policy

“Affordability” Agenda

- **Inflation Rebate: Enacted**
 - Fiscal Cost: \$2 billion one-time
- **Income Tax Cut: Enacted**
 - Fiscal Cost: \$1.1 billion every year
- **Child Tax Credit (for 3 years): Enacted**
 - Fiscal Cost: \$825 million one-time
 - FPI’s Recommendation: **Adopt and make permanent**
- **Universal Free School Meals: Enacted**
 - Fiscal Cost: \$180 million (total cost = \$340 million)

Affordability policy

Accumulated 5-year benefit to married couple with two children.



Note: These estimates assume that the family earns \$100,000 per year and that the children are ages 2 and 6 at the start of the 5-year period. Varying these specifications does not dramatically change the results.

Tax & Revenue Issues

- Budget includes tax cut for households making up to \$323,000
 - Will cost \$1 billion per year - and will rise over time
- Delayed phase-in
 - 0.1 percentage point rate cut for each bracket in 2026
 - 0.2 percentage point rate cut for each bracket in 2027

Tax Cut for households up to \$323,000

Tax cut savings for joint filers, by household income



Tax & Revenue Issues

- Corporate tax rate lasts through 2026. Rate cut planned for 2027, will cost \$1 billion/year
- Current income tax rates on high earners are extended through 2032
 - Were set to expire in 2027
 - These raise \$3.6 billion/year
 - Applied to single filers over \$1.08 mn and joint filers over \$2.15 mn

MTA Capital Plan Funding

- Increases Payroll Mobility Tax
 - Splits into two districts: NYC and Long Island/Hudson Valley
- Raise rate to 0.895% on businesses with over \$2.5 million in payroll in NYC
- Raise rate to 0.635% on businesses with over \$2.5 million in payroll in LI/HV
- Requires MTA to trim \$3bn from spending
- Alternatives: Corporate tax

IV. Unemployment Insurance

Unemployment Insurance Policy

New York UI program has **three** major shortcomings:

- 1) Benefits are far too low (50% of previous wage with max)
 - Eg. The maximum benefit is \$504 per week, equivalent to an annual salary of just \$26,200,
- 2) Many workers are excluded from the scope of the program's coverage,
- 3) The program is chronically under-funded; needs to tax higher proportion of wages.

ALSO: New York has \$6.2 billion UI debt with federal government

—> Benefit level frozen while the debt is outstanding

Unemployment Insurance Policy

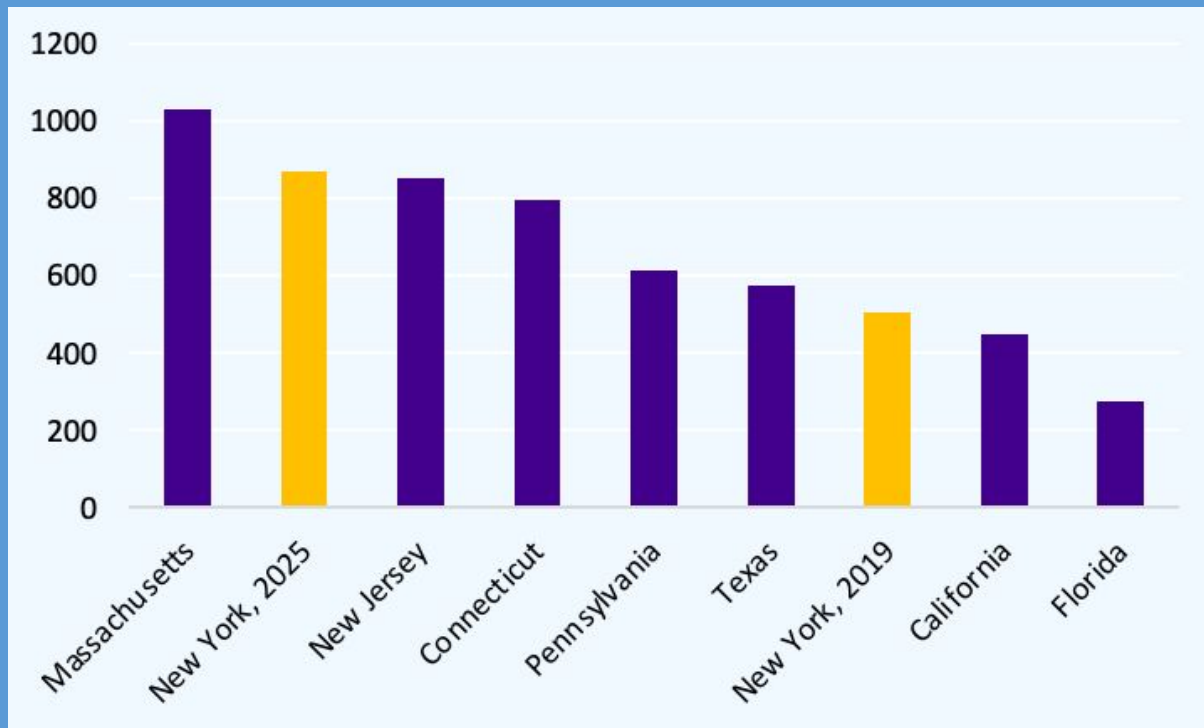
New York UI program has **three** major shortcomings:

- 1) Benefits are far too low
 - Maximum weekly benefit increased from \$504 to \$869 in final budget deal (\$45,000/year).
- 2) Many workers are excluded from the scope of the program's coverage,
- 3) The program is chronically under-funded.
 - A small increase to taxable wage base will raise about \$450 million annually

ALSO: New York has \$6.2 billion UI debt with federal government

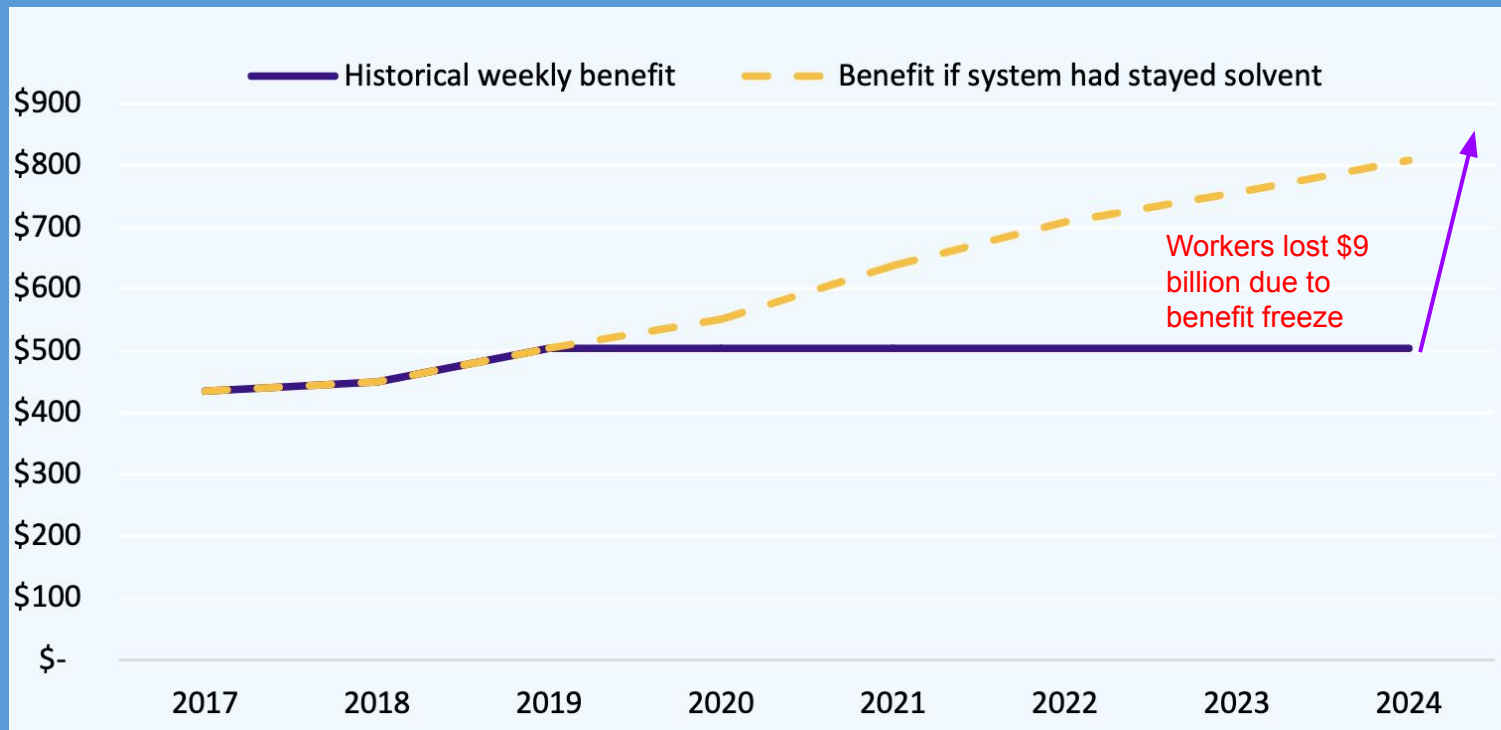
- Debt paid off in final budget deal, allowing benefit to un-freeze.

NY maximum UI benefit restored to its statutory level for 2025



NY maximum UI benefit restored to its statutory level for 2025

Unemployment insurance maximum weekly benefit



Unemployment Insurance Policy

FPI Policy Priorities:

- ✓ Pay off UI debt as soon as possible,
- ✓ Increase maximum benefit to 2025 level,
- ✓ Increase taxable wage base (current change raises \$450M, but more needed)
 1. Need greater expansion of taxable wage base to keep fund solvent,
 2. Increase overall benefit rate to higher share of previous wages (>50%),
 3. Expand UI to currently un-covered workers.

Expanding UI to Universal Coverage

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

- **The Unemployment Bridge Program** (S173/A3582): A proposal to expand UI to cover undocumented workers, self-employed workers, cash economy workers, and people who are in re-entry;
- **UI for education workers:** A proposal to expand UI coverage to school support staff, such as custodial staff and cafeteria staff, who lose their jobs during summer months while school is out;
- **UI for striking workers:** This budget shortens time before striking workers can claim benefits to one week

Unemployment Insurance Policy

- Executive budget: appropriated \$165 million to pay the *interest* on the debt to the federal government

- Final budget: Deal struck between labor and business that
 - a. Returns the UI fund to solvency,
 - This results in some tax relief to businesses
 - b. Small increase to taxable wage base (raises about \$450 million annually),
 - c. Increases maximum benefit to \$869/week (\$45,000/year) from \$504/week (\$24,000/year),

V. Education and Childcare

[To be covered at next briefing]

VI. Healthcare

Medicaid Spending Trends Overall

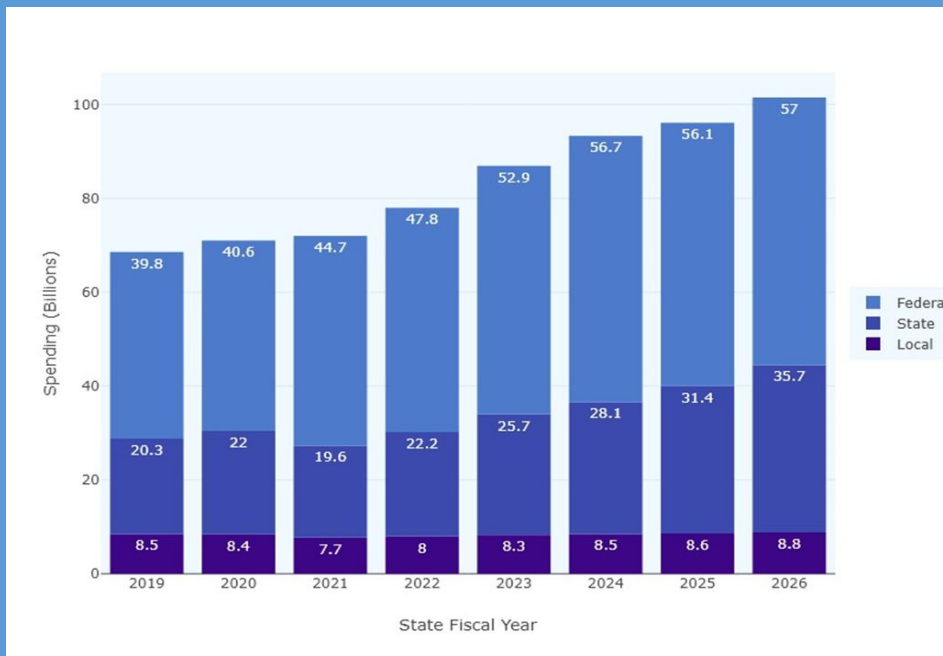
Medicaid spending in the Executive Budget:

- The exec claimed ~17% growth in Medicaid spending, but this was misleading due to accounting issues.
- True program growth was ~3.7%, from \$104.1B in FY25 to a projected \$108B in FY26.
- Reduction in federal support means *state-share* spending grew more quickly, around 11%.

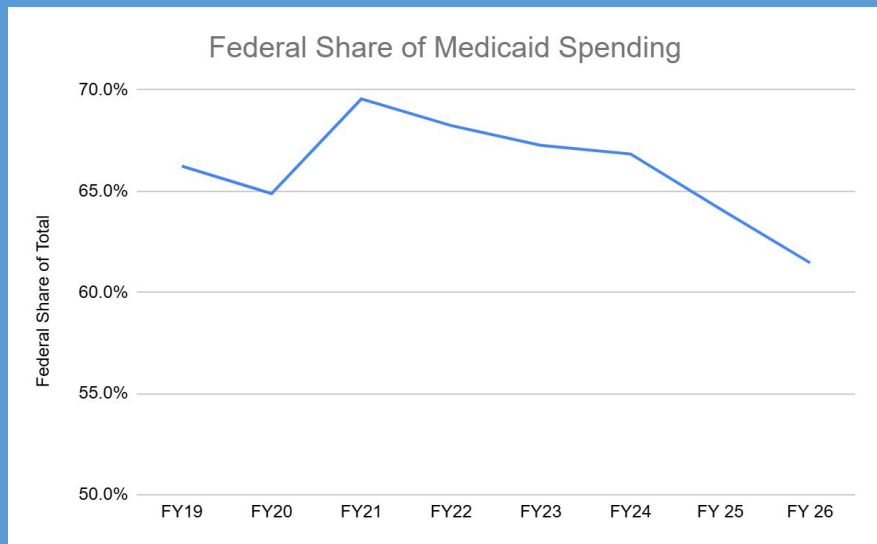
Medicaid spending in the Enacted:

- Likely slightly faster, around 4%, driven mostly by VAPAP restoration and somewhat larger provider rate increases.

All-Funds Medicaid Spending by Source



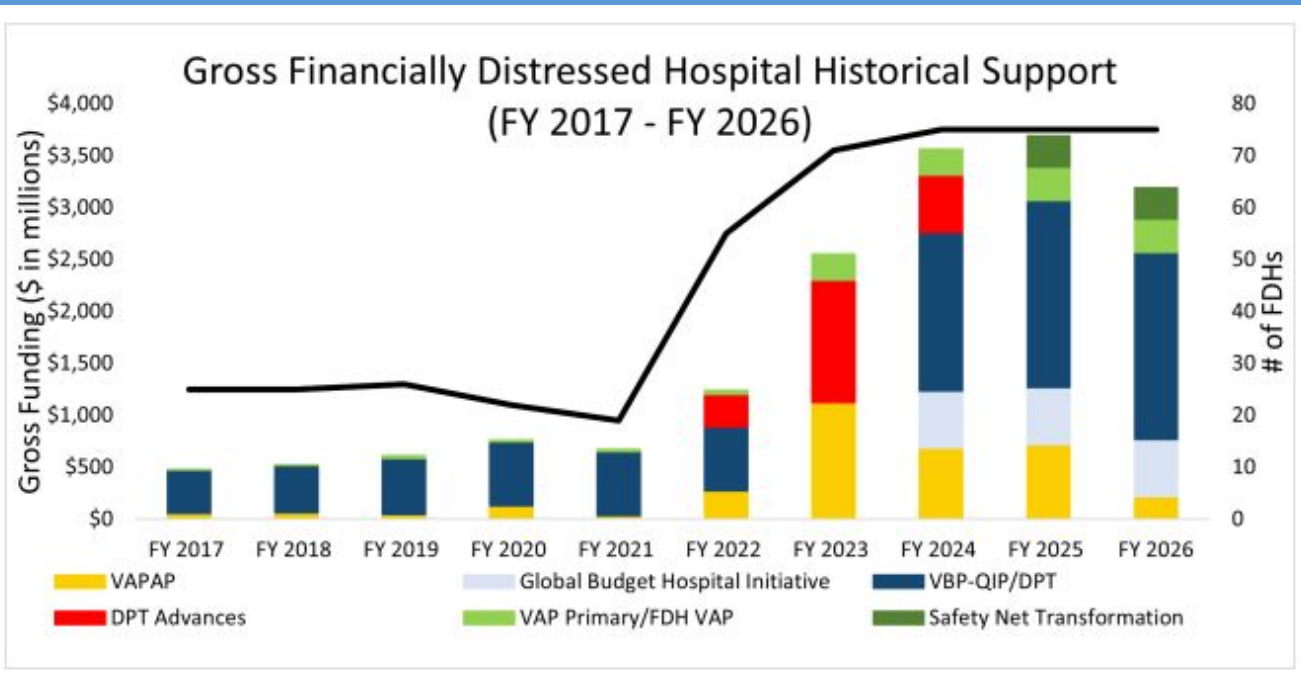
Federal Share of Medicaid Spending



Enacted Budget: Provider Rate Increases

- The MCO tax is a temporary source of revenue generating ~\$4.5 billion in spending.
 - This would have been temporary even in a Harris administration.
- The executive called for spending it largely on rate increases to hospitals (\$305M) and nursing homes (\$200M), with additional increases for physicians and FQHCs.
- The Enacted generally follows this pattern but with somewhat larger rate increases.
 -
- The Enacted also funds a \$125M hospital quality pool, with details unclear.
- Medical Indemnity Fund continued.

Enacted Budget: Safety Net Providers



Enacted Budget: Safety Net Providers

- Enacted budget restores \$500M cut to VAPAP in Executive Budget.
- Safety Net Transformation Program:
 - \$300M in operating funds and \$1B in capital funds.
- H+H under threat:
 - Executive Budget proposed a cut to H+H Indigent Care Pool funding.
 - This will be fully replaced by Directed Payment Template (DPT) funding *if all goes as planned*.
 - But DPT funding requires federal approval.
 - If DPT funding for H+H is not obtained, H+H and NYC may be at risk.

Continued Failure to Effectively Manage MLTC

- Spending growth in NYS Medicaid is dominated by long-term care, particularly home care.
 - Nearly 50% of total spending.
- Spending growth is driven in part by an aging population and in part by chronic mismanagement under Governors Cuomo and Hochul.
- CDPAP rollout:
 - The plan was to save on administrative expenses by shifting the program to a single statewide intermediary.
 - The rollout was mismanaged so badly that ~25% of participants shifted to more expensive agency-based care
 - Overall the move is likely to *increase* costs and dwarf any savings.

Other Failures

- Failure to manage MLTC:
 - The budget does not reform the managed long-term care program, which was implemented in 2011 and is now widely acknowledged as a failure even by its designers.
 - Some analysts suggest this could save ~\$3B / year.
 - The enacted budget makes limited progress in accountability for MCOs
 - MCO procurement was neither proposed nor enacted.
- Failure to address private-sector healthcare cost growth:
 - No Fair Pricing Act

Federal Threats

- Reconciliation bill:
 - What's apparently off the table: FMAP cuts, per capita caps.
 - What's still on the table:
 - Work requirements
 - Provider tax reform
 - Crackdowns on coverage for immigrants.
 - “Waste, Fraud and Abuse.” (????)
- Executive action:
 - Cuts to 1115 waiver
 - Rescission of MCO tax
 - Disapproval of state-directed payments

VI. Housing

Housing Policy in Recent Years

- During the FY 2024 budget, the Governor proposed the Housing Compact
 - Major land-use reform including Transit Oriented Development and local production mandates
 - Rejected by NYC suburbs
- Last year, housing deal that resulted in expansion and renewal of production tax incentives + Good Cause Eviction + modest land-use reform
- City of Yes in NYC

→ No more push for bold and sufficient land-use reform

Major federal funding risks

- Section 9
 - NYCHA receives > \$1 billion annually for operations from feds
 - NYCHA receives ~ \$ billion per year in capital funds from feds
- Section 8
 - > \$2 billion from federal government in NYC alone
- LIHTC
 - Major reduction in last Trump admin.
- Other block grants
 - relatively small

Land-Use/Zoning Reform

- **Reforms to New York's State Environmental Quality Review Act (SEQR)**
 - Would streamline regulatory hurdles for multifamily development
 - Exec proposal only applies to buildings less than 10,000 sq ft (major limitation)
 - **Not included in final budget – going through legislative process**
- **Faith-based affordable housing**
 - Would make it possible for worship communities to build affordable housing on their land
 - **Not included in final budget – going through legislative process**

Public Investment

- **Revolving Loan Fund**

- Low-interest rate loans to mixed-income housing development projects, making them cheaper to finance and thus better able to deliver long-term affordability
- **Executive budget: \$ 50 million**
- **Final budget: \$100 million**
 - \$ 50 million for NYC out of City of Yes funds
 - \$ 50 million for outside NYC

Public Investment

- **Public Housing Funding (Section 9)**
 - **Executive Proposal:**
 - \$25 million for NYCHA as part of City of Yes
 - **Final Budget:**
 - \$225 million for NYCHA as part of City of Yes
 - \$75 million for outside NYC
- **Mitchell-Lama Preservation:** \$60 million
 - \$30 million for NYC
 - \$30 million for outside NYC

Public Investment

- **Pro-Housing Supply Fund:** \$100 million
- **Mitchell-Lama Preservation:** \$60 million
 - \$30 million for NYC
 - \$30 million for outside NYC
- **Housing Access Voucher Program (HAVP)**
 - \$50 million (pilot program)

Additional FPI Recommendations

- Secure NYCHA funding from State
 - Last year NYCHA was funded at \$135 million, not enough
- REST Act to reduce barriers for localities that have housing emergencies and want to implement rent regulations
- Transit-oriented development, housing production requirements, and more land-use reform

Q & A