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Financial Plan Analysis: Fiscal Year 2026 Enacted Budget

State expects severe fiscal and economic consequences from federal policy

On Friday, June 13, New York State's Division of the Budget (DOB) released its financial plan for this year's enacted State budget. The financial plan forecasts a national economic slowdown over the next four years as well as dramatic federal budget cuts. These forecasts indicate that the State will likely need to implement tax increases to manage the fallout from federal economic and fiscal policy.

DOB expects that the current presidential administration's tariff and immigration policies will trigger a national economic slowdown and a condition of "stagflation" in which low rates of economic growth accompany relatively high rates of inflation. FPI previously wrote about the risk that New York State's economy is headed into such conditions. This economic slowdown is expected to result in a significant decline in tax receipts – an average decline of $4 billion per year over the next four years, relative to previous expectations.

The fiscal risks of declining tax receipts are compounded by the likelihood that the State will lose substantial federal funding. DOB estimates that the spending cuts included in the "One Big Beautiful Bill Act" – the federal budget legislation that passed the U.S. House on May 22nd – will cost New York State an average of $5.2 billion per year over the next four years.

Despite these gloomy forecasts, the State's *current* fiscal position is surprisingly strong. The State ended fiscal year 2026 with a $10.6 billion general fund surplus, driven by end-of-year receipts coming in $6 billion above its January projections. The end of year surplus was partly spent to pay down the State's $7 billion unemployment insurance (UI) trust fund debt, ending a six-year freeze of the benefit level.

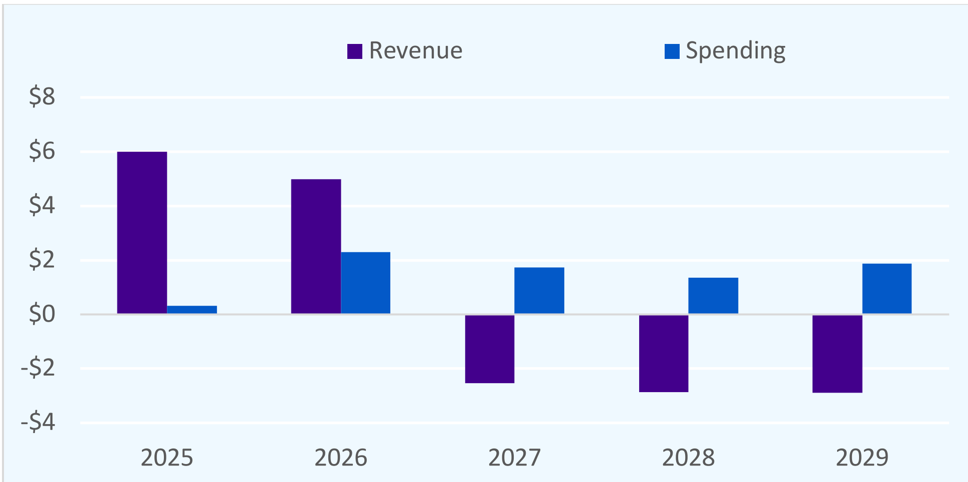
Even after paying down the UI trust debt, however, the State still holds record fiscal reserves – $31.7 billion at the end of fiscal year 2025 – providing a buffer against fiscal downturns.

The State's expectations may be far too pessimistic. But if they turn out to be accurate, a strong tax base and record reserves will enable the State to manage spending in the coming years while minimizing cuts to services – though it will likely implement tax increases to do so.

Detailed Analysis of FY 2026 Enacted Budget Financial Plan

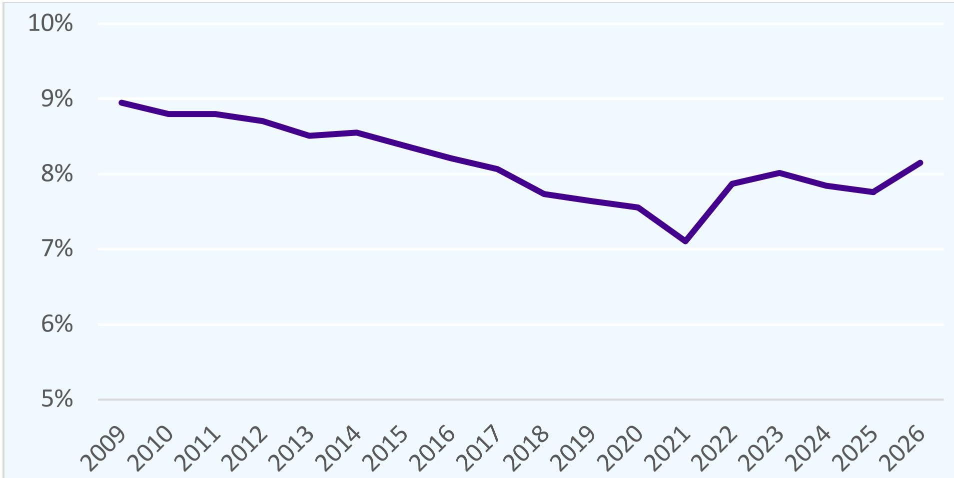
Spending

Figure 1. Change in projected state revenue and spending between Executive and Enacted Budget financial plans (billions of dollars)



- State operating funds spending is set to be $146.1 billion in fiscal year 2026, 9.3 percent higher than fiscal year 2025. It is $2.3 billion (1.6 percent) higher than the fiscal year 2026 level projected in the Executive Budget
- Adjusted for inflation, State spending is set to grow 5.9 percent. However, this follows three years (fiscal years 2023 through 2025) in which annual inflation adjusted growth averaged just 0.1 percent.

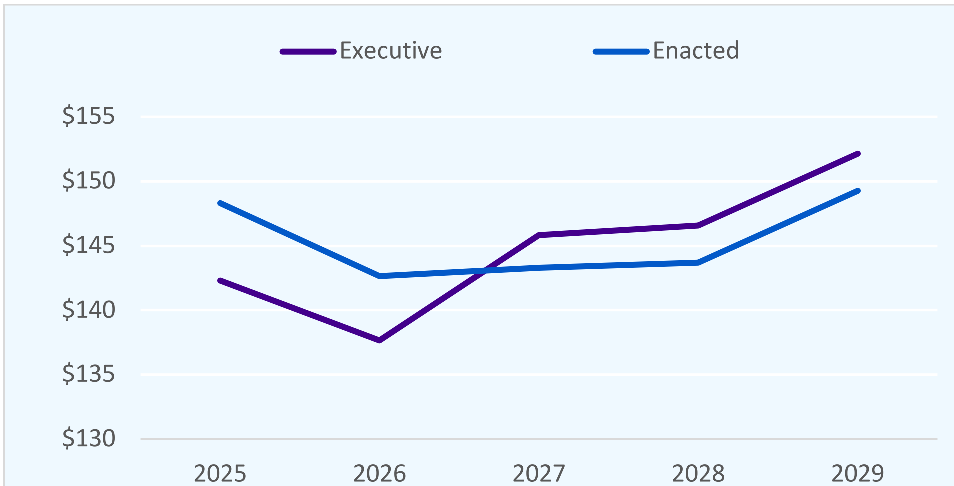
Figure 2. State spending as a share of total state personal income, fiscal years 2009 to 2026



- Spending should be measured relative to personal income because it represents the state economy's capacity to generate revenue and employ workers better than inflation.
- Relative to the size of the state economy, the budget shrank between fiscal years 2023 and 2025. In fiscal year 2026, State spending is set to be 8.2 percent of total personal income in the state, on par with fiscal year 2017. A campaign of consistent budget restraint shrank relative spending continuously through the 2010s, limiting the State's capacity to fund public services.

Revenue

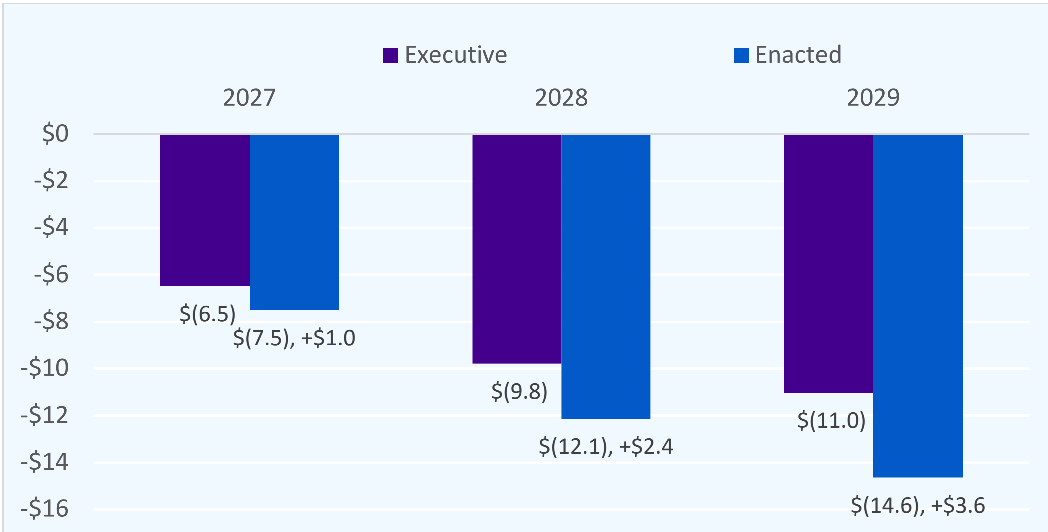
Figure 3. State revenue projected by the Executive and Enacted Budget financial plans, fiscal years 2025 to 2029 (dollars in billions)



- New York closed fiscal year 2025 with a significant surplus. End-of-year revenue exceeded Executive Budget projections by $6.0 billion, driven by higher-than-expected business taxes and miscellaneous revenue.
- The Enacted Budget also raises its expectations for current year revenue. The $142.7 billion expected for fiscal year 2026 is $5.0 billion higher than the projection made by the Executive Budget.
- Despite this, the Enacted Budget is far more pessimistic about the financial plan outyears—fiscal years 2027 to 2029 – lowering expected tax revenue by an average of $4.0 billion per year.
- Pessimistic revenue forecasts are driven by a gloomy economic outlook. The Enacted Budget revised its forecasts of state job and personal income growth downwards and revised its inflation forecast upwards, reflecting fears of looming "stagflation."
- Risks to federal revenue do not factor into the Enacted Budget. While the financial plan estimates that the One Big Beautiful Bill Act currently being considered by the US Congress could cost the state an average of $5.2 billion per year beginning in fiscal year 2027, this effect is not incorporated in financial plan projections because it has not been adopted. The financial plan does not make significant changes to anticipated federal funding.

Budget Gaps

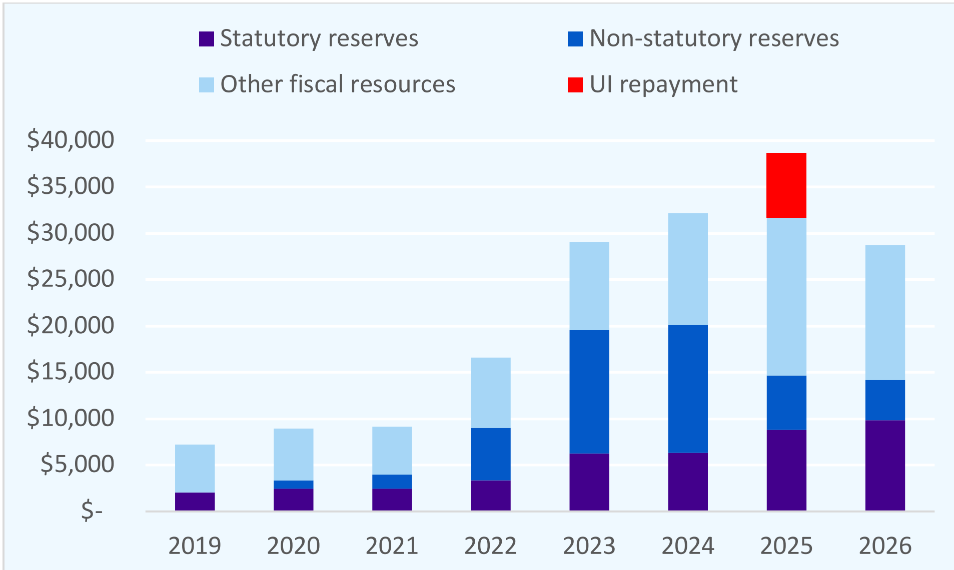
Figure 4. Budget gaps projected by fiscal year 2026 Executive and Enacted Budget financial plans (dollars in billions)



- Downward revenue revisions and modest upward spending revisions increased the outyear budget gaps forecast by the Enacted Budget by an average of $2.3 billion per year.
- Projected gaps are inflated by the projected decrease in corporate tax rates beginning in fiscal year 2027 and taking full effect the following year, at which point it would cost the state $1.2 per year.
- The personal income tax cuts enacted this year will also cost $1 billion annually in fiscal year 2028. Collectively, tax cuts add $2.2 billion to annual outyear budget gaps.

Reserves

Figure 5. State fiscal reserves, fiscal years 2019 to 2026 (dollars in billions)



- Fiscal year 2025 ended with $31.7 billion in fiscal reserves. This level remains near record levels, reflecting strong surpluses accumulated in recent years.
- The financial plan expects to close fiscal year 2026 with $28.7 billion in reserves, although past plans have tended to project similar decreases that have not occurred, as stronger-than-expected revenue maintains record balances.
- The financial plan funds the $7 billion UI repayment out of the non-statutory "economic uncertainties" reserve. This appears to reduce officially designated reserves in fiscal year 2026. However, this is offset by an increase in Rainy Day Fund, the use of which is restricted by law, and the "resource management" reserve, which is legally the same as the "economic uncertainties." These surpluses are added to the reserves in fiscal year 2025, while the repayment will be made in fiscal year 2026.