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The State Budget Outlook

Executive Summary

New York State's Division of the Budget (DOB) recently published its mid-year budget update, which forecasts considerable budget gaps in the years ahead: an apparently staggering $26.8 billion gap over the next four years *before* even accounting for the impending losses of federal funding under the so-called "One Big Beautiful Bill Act" (OBBBA).[1]

At first glance, this seems like an insurmountable challenge. If the State is facing dramatic deficits *before* it loses federal funding, then a statewide fiscal crisis must be around the corner. As our report shows, however, the DOB's forecasted budget gaps are products of excessively conservative revenue forecasting, rather than an underlying imbalance between revenue and spending. In fact, barring a recession, the State's budget—before accounting for the OBBBA impacts—is likely to generate surpluses over the next four years.

The DOB forecasts overestimate the risk of revenue shortfalls but also *underestimate* the OBBBA impacts, thereby minimizing their impact on the state budget. The Fiscal Policy Institute (FPI) estimates that cumulative funding cuts under the OBBBA will be $5.6 billion in the next fiscal year, FY 2027, and $14.3 billion by 2030. These cuts broadly reflect the decision of the current Congress and President to eliminate health care coverage for many low- and middle-income families in order to fund tax cuts for the well off. The bill is especially generous to those earning more than $1 million each year. In New York, these taxpayers stand to save a collective $12 billion annually on their federal taxes.[2]

Our report explains why the State's fiscal position is considerably stronger than the DOB forecasts indicate and, at the same time, why the OBBBA's impacts are more severe than the State is accounting for. It also demonstrates the continuing strength of the State's tax base and fiscal reserves, and that the fiscal challenges ahead can be managed through raising new revenue to the extent necessary.

[1] New York State Division of the Budget, *FY 2026 Enacted Budget Financial Plan Mid-Year Update*, October 2025, https://www.budget.ny.gov/pubs/archive/fy26/en/fy26fp-en-myu.pdf.
[2] Andrew Perry, "New York's Millionaires Will Get a $12 Billion Federal Tax Cut Next Year," Fiscal Policy Institute, November 20, 2025, https://fiscalpolicy.org/new-yorks-millionaires-will-get-a-12-billion-federal-tax-cut-next-year.

The State's Budget Outlook

New York State's annual budget negotiations are guided by the fiscal forecasts of the Governor's Division of the Budget (DOB). These forecasts tell policymakers how much revenue to expect, spending growth trends, and the overall balance between revenue and spending. They also play an important role in keeping the public apprised of the State's fiscal situation.

The most recent DOB forecast, released in October 2025, predicts that spending will exceed revenue in each of three outyears (fiscal years 2027 through 2029), resulting in revenue shortfalls or "budget gaps" that total $26.8 billion over the entire four-year financial plan. This figure only partly incorporates the impact of federal funding losses under the federal budget reconciliation legislation known as the "One Big Beautiful Bill Act" (OBBBA).[3] But how realistic are these forecasts, and what should we expect in the next budget?

Breaking Down the "Cumulative" Budget Gap

The "cumulative" budget gap measure commonly used by the public, the press, and policymakers is based on a four-year window and it can create the mistaken impression that the cumulative gap over the plan's three outyears (in this case $26.8 billion) reflects an *annual* imbalance. But budgets are balanced on an annual basis, and eliminating $1 billion of annual spending would save $1 billion in each forecasted year—such that a $1 billion budget cut would produce $4 billion of savings in the conventional four-year financial plan window. Another important note is that the cumulative forecasted budget gap is sometimes understood by policymakers and the public as a *deficit*, which it emphatically is not, as there is no *current* mismatch between revenue and spending. This is separate from the issue of longer-term revenue and spending trends, which is discussed below.

Table 1. DOB Budget Gap Forecasts, Not Fully Accounting for the OBBBA

Fiscal Year	2026	2027	2028	2029
Spending Forecast	$146.1 billion	$154.1 billion	$160.2 billion	$166.5 billion
Revenue Forecast	$142.7 billion	$143.3 billion	$143.7 billion	$149.3 billion
Gap	Balanced	$4.2 billion	$10.0 billion	$12.6 billion

[3] The effects of the OBBBA were not included because the most recent forecasts were released before the bill had been signed into law, and budget forecasting is conducted based on current law.

Gaps are shown in red above.[4] Assessing whether these gaps pose a policy problem requires analyzing the underlying trends driving the gap forecasts. It could be that spending growth is expected to rise sharply, perhaps due to expiring federal aid or new legislated program costs. In this case, however, the DOB's gap estimates are driven by extremely pessimistic revenue estimates.

Unpacking the DOB Revenue Forecasts

The pessimism of the DOB's revenue forecast is reflected in the nearly flat nominal revenue expected in fiscal years 2026 through 2028, shown in the table above. In inflation-adjusted terms, this amounts to a revenue *contraction* of 9.2 percent (based on DOB inflation forecasts). Revenue contraction on this scale would be consistent with a major economic downturn such the early 2000s recession or the 2008 financial crisis, when revenue was flat in nominal terms. In recent non-recessionary periods the state economy has seen average real revenue growth of about 0.5 percent annually.

A more realistic but still highly cautious forecast would assume zero *real* revenue growth, where nominal revenue simply keeps pace with inflation. Under such a scenario, the gaps shrink considerably:

Table 2. State Fiscal Outlook Assuming No Real Revenue Growth

	2026	2027	2028	2029
Spending Forecast	$146.1 billion	$154.1 billion	$160.2 billion	$166.5 billion
No Real Revenue Growth	$149.4 billion	$154.2 billion	$158.4 billion	$162.3 billion
Surplus/Gap	Balanced	$1.3 billion surplus	Balanced	$3.0 billion gap

This scenario of zero real growth is consistent solely with major recessions: The only time 3-year revenue growth has been this depressed was fiscal years 2008 through 2010, the years in which the 2008 recession hit State revenue the hardest. And even in this model, the State's budget is still balanced until the final outyear.

In two alternatives, we model real revenue growth based on the average real growth rate of the 2010s—when the national economy was still in the long, slow recovery from the global financial crisis. Under the first scenario, real revenue increases at half its average rate of growth, a nominal rate of 3.3 percent. The budget gaps disappear entirely—except in fiscal year 2029—producing average annual surpluses of $0.7 billion. This would be consistent with subdued economic growth.

[4] The estimated gaps do not strictly correspond to the difference between projected revenue and spending because certain future expenses are prepaid with current year surpluses and the financial plan includes anticipated transfers between the state's general fund and special purpose funds.

Second, we model real revenue growth that matches the average rate of the 2010s. This would produce an average nominal rate of 3.6 percent and average annual surpluses of $2.0 billion.

Table 3. State Fiscal Outlook Assuming Historically Subdued Real Revenue Growth

	2026	2027	2028	2029
Spending Forecast	$146.1 billion	$154.1 billion	$160.2 billion	$166.5 billion
Subdued Revenue Growth	$149.8 billion	$155.0 billion	$159.7 billion	$164.1 billion
Gap—Subdued Growth	Balanced	$2.1 billion surplus	$1.3 billion surplus	$1.3 billion gap

Table 4. State Fiscal Outlook Assuming Historically Average Real Revenue Growth

	2026	2027	2028	2029
Spending Forecast	$146.1 billion	$154.1 billion	$160.2 billion	$166.5 billion
Average Revenue Growth	$150.2 billion	$155.9 billion	$161.0 billion	$165.9billion
Gap—Average Growth	Balance	$3.0 billion surplus	$2.6 billion surplus	$0.5 billion surplus

Throughout the brisk recovery from the Covid recession, the State has been more even more cautious than usual, consistently failing to expect continued economic resilience. This has led to consistent surpluses. In fiscal years 2024 and 2025, all funds revenue exceeded the revenue forecast in the Enacted Budget financial plan by 5 percent—amounting to more than $12 billion each year in additional, unexpected revenue. If a similar underestimate were to materialize in fiscal year 2026, the State would receive $12.5 billion more than the $259 billion they currently anticipate in all-funds revenue.

The Covid recovery has been unusually rapid—revenue growth averaged 7.9 percent during the recovery period, fiscal years 2021 to 2025. For this reason, the 2010s, during which economic growth was fairly subdued, may be a better benchmark for revenue expectations. Even cautious projections based on this benchmark suggest the State is set for annual surpluses, not budget shortfalls, in the years ahead.

DOB's Pessimistic Revenue Forecasts Appear at Odds with Its Own Economic Outlook

In its economic outlook, which is published separately from the financial plan, the DOB expects State personal income to grow by an average 3.6 percent in fiscal years 2026 and 2027, which is equal to the historical rate of average personal income growth in the 2010s.[5] As such, if personal income growth does meet this forecast level, it is unlikely that revenue would stagnate.

The DOB's national economic forecasts are on par with those produced by major national economic forecasters including the Federal Reserve.[6] Therefore, it is not the case that the DOB's economic outlook appears unduly pessimistic. Rather, the DOB has translated a reasonable economic outlook into a pessimistic fiscal forecast, a disconnect that has no precedent in the historical record.

Special Reserves Increase Budget Gaps by $2 Billion Annually

Another factor driving DOB's budget gap forecasts is their inclusion of a relatively new accounting feature designated as the "Transaction Risk Reserve" (TRR). The TRR backs $2 billion out of the General Fund, essentially simulating a revenue reduction in order to provide an additional fiscal cushion in case of unforeseen expenses arise during the year. When the DOB began this practice in fiscal year 2014, the TRR was just $105 million per year; they quickly ramped up use of the TRR over the initial years of the pandemic, causing reserves to reach $2 billion by fiscal year 2023. The TRR increases each outyear's budget gap by $2 billion but it does not reflect any structural imbalance in the budget as at the year end the TRR is recovered in the surplus; the apparent gap is strictly a function of the DOB's cautious forecasting.

Tax Cuts Increase the Budget Gaps

The DOB's forecasts models also account for planned tax cuts. Because the DOB issues its forecasts based on currently enacted spending obligations and tax measures, it must assume that these tax cuts will be implemented. However, tax cuts are *policy* decisions, and at a time when the State faces serious fiscal challenges from federal funding cuts, the State's tax cuts should be reversed to avoid compounding the problem.

The State's enacted budget for fiscal year 2026 included two tax cuts:

(1) A reduction in personal income tax rates that will cost $1 billion annually. The personal income tax cuts lower tax rates by 0.2 percentage points for taxpayers earning less than $323,000 (for joint filers). The lower rates will be phased in over two years beginning calendar year 2026. Overall, the cut costs the State $540 million in fiscal year 2027 and $1 billion annually starting in fiscal year 2028.

[5] New York State Division of the Budget, *FY2026 NYS Executive Budget, Economic and Revenue Outlook,* January 2025, https://www.budget.ny.gov/pubs/archive/fy26/ex/ero/fy26ero.pdf

[6] Board of Governors of the Federal Reserve System, "Summary of Economic Projections," September 17, 2025, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250917.pdf; New York State Division of the Budget, *FY 2026 Enacted Budget Financial Plan*, June 2025, https://www.budget.ny.gov/pubs/archive/fy26/en/fy26fp-en.pdf.

(2) A reduction to the corporate tax rate that will cost $1.2 billion annually. The corporate tax rate is set to be cut from 7.25 percent to 6.5 percent beginning in calendar year 2026. This will cost the State $300 million in fiscal year 2027 and $1.2 billion each year thereafter.

Collectively, these tax cuts will lower revenue by $840 million in fiscal year 2027 and by $2.2 billion in each of fiscal years 2028 and 2029.[7] Reversing them would increase revenue by $2.2 billion in the outyears and thus decrease the size of each year's forecast budget gap by $2.2 billion.

Taken together, the TRR—assuming it is unused—and cancelling these planned tax cuts would add to the State's future surpluses. Under the subdued growth revenue scenario, annual surpluses would average $2.7 billion. Accounting for the TRR and cancelling planned tax cuts, these surpluses would rise to $6.1 billion.

Table 5. State Revenue Outlook Accounting for TRR and Cancelling Planned Tax Cuts

	2026	2027	2028	2029
Surpluses Assuming Subdued Growth	Balanced	$2.1 billion surplus	$1.3 billion surplus	$1.3 billion gap
Adjust for TRR	$2.0 billion	$4.1 billion	$3.3 billion	$0.8 billion
Cancel Planned Tax Cuts	$4.1 billion	$5.0 billion	$5.4 billion	$3.0 billion

The Impact of Federal Funding Cuts Under the OBBBA

In contrast to the State's budget gap estimates, which are unrealistically pessimistic, the State is under-counting the impact of federal funding cuts under the OBBBA. While the State's mid-year update documents some of the OBBBA's costs to the State, it includes only a few of the direct fiscal costs to the State in its spending baseline, failing to account for the cost of the Supplemental Nutrition Assistance Program (SNAP, also known as food stamps) that will be shifted onto New York State, as well as the cancellation of revenue from its Managed Care Organization (MCO) tax.

The State's financial plan also fails to account for the future costs of supporting New Yorkers who will lose their health insurance or their SNAP benefits from the imposition of onerous, poorly targeted work requirements.

These costs will phase in over the next four years. Taken together, they will impose a $5 billion burden on the State in the coming fiscal year. Over the longer run, OBBBA costs to the State may total $14.3 billion.

[7] Fiscal year 2027 is only partly affected and will face an $840 million revenue loss.

Table 6. OBBBA Impacts on New York State in fiscal years 2027–2029

	FY 2026	FY 2027	FY 2028	FY 2029	Prospective
SNAP Administration	--	$103 million	$205 million	$205 million	$205 million
SNAP Work Requirements	--	$1.1 billion	$1.1 billion	$1.1 billion	$1.1 billion
SNAP Benefit Cost Shift	--	--	$585 million	$1.2 billion	$1.2 billion
MCO Tax Cancellation	$300 million	$1.4 billion	$1.4 billion	$1.4 billion	$1.4 billion
Medicaid Work Requirements	--	$1.4 billion	$5.6 billion	$5.6 billion	$5.6 billion
Essential Plan Expansion Population	--	$1.8 billion	$1.8 billion	$1.8 million	$1.8 million
Medicaid-Eligible EP Population	$750 million	$3 billion Covered by EP Trust Fund	$3 billion Covered by EP Trust Fund	$3 billion Covered by EP Trust Fund	$3 billion
Total OBBBA Cost	$1.05 billion	5.8 billion	$10.7 billion	$11.3 billion	$14.3 billion
Costs Included by DOB	**$30 million**	$3.5 billion	$4.4 billion	$4.3 billion	

Note: The DOB plans to cover the $3 billion cost to the State of funding Medicaid for eligible immigrants who will lose Essential Plan coverage by drawing down a federal trust fund over the next three years. When these funds run out, the State will have to cover the cost out of its current revenues.

(1) <u>SNAP Administration</u>: Under the OBBBA, states' share of SNAP administration costs will increase from 50 percent to 75 percent. This will raise New York's share of administrative costs (including state and local costs) by $205 million per year. The change takes effect in October 2026 and will partly affect fiscal year 2027. Currently, administrative costs are shared between state and local governments in New York, though the State could choose to absorb these higher costs, rather than passing them on to localities.

(2) <u>SNAP Benefit Cost Shift</u>: The OBBBA substantially reduces federal spending on SNAP by shifting costs to states. That is, it reduces federal funding for the program while assuming that state governments can simply absorb billions of dollars in additional program expenses. In New York, these additional expenses will total $1.2 billion annually. The costs will start to hit New York in October 2027 and will fully phase in by October 2028.

(3) SNAP Work Requirements: The OBBBA adds more stringent work requirements for SNAP eligibility that will cause hundreds of thousands of New York adults and children older than age fourteen to lose access to benefits beginning in early 2026. Research shows that work requirements are not effective at increasing employment and reduce SNAP participation even for those who remain eligible. In order to prevent a significant number of vulnerable New Yorkers from going hungry simply as a result of bureaucratic red tape, the State will need to cover the cost of replacing lost SNAP benefits.

(4) MCO Tax Cancellation: As of 2025, New York funds a portion of its Medicaid program with a tax on managed care organizations that was recently authorized by the federal government. The OBBBA will reverse this federal authorization and ban such funding mechanisms effective as early as late 2025, which could cost the state up to $1.4 billion in the next fiscal year. This funding is currently used to support healthcare provider rate increases, keep financially distressed hospitals open, and support general Medicaid expenses. The State will need to replace this lost funding to support safety net hospitals.

(5) Medicaid Work Requirements: The OBBBA would force states to impose a complex system of bureaucratic eligibility checks on its Medicaid population. Experience in other states demonstrates that such systems lead many Medicaid recipients to be kicked off the rolls for paperwork issues, even though the vast majority of Medicaid beneficiaries already work or are otherwise exempt from the requirements. Even the DOB has estimated that up to 1.5 million New Yorkers could lose health insurance, a socially catastrophic outcome that would also lead to statewide fiscal distress among the hospitals that will be required to treat this newly uninsured population.[8]

(6) Essential Plan: The state currently operates the Essential Plan (EP) with federal funding. The OBBBA eliminates lawfully present immigrants' eligibility for federal funding, reducing annual federal funding for the EP by an estimated $7.5 billion. The state has announced plans to address this shortfall by (1) reducing EP eligibility from 250 percent to 200 percent of the Federal Poverty Line, which would cause 450,000 New Yorkers to lose eligibility for the program, and (2) using reserves accumulated in the Essential Plan Trust Fund, estimated at $10 billion, to fund the program for the remaining population for approximately three years. The 450,000 New Yorkers losing EP coverage will face dramatically higher healthcare costs on the Affordable Care Act exchange and will require additional state subsidies if they are to remain insured. The remainder of EP enrollees will not face increased costs, but the State plans to sustain their coverage by spending down the reserve—a short-term fix. In the longer term, the State will need to raise additional revenues or find savings elsewhere to maintain their coverage.

Preventing Spending Cuts: Deploy Reserves and Raise Taxes

Using Reserves

The State holds its fiscal reserves in three types of funds: statutory reserves governed by state law; non-statutory funds designated as reserves; and undesignated general fund balances. As of the first half of

[8] Michael Kinnucan, "The State is Understating Threats to NYS Medicaid After OBBBA," Fiscal Policy Institute, July 25, 2025, https://fiscalpolicy.org/the-state-is-understating-threats-to-nys-medicaid-after-obbba.

fiscal year 2026, statutory reserves stand at $10 billion, non-statutory reserves at $4.9 billion, and undesignated resources at $19 billion. Collectively, this $33 billion reserve level remains at historic levels.

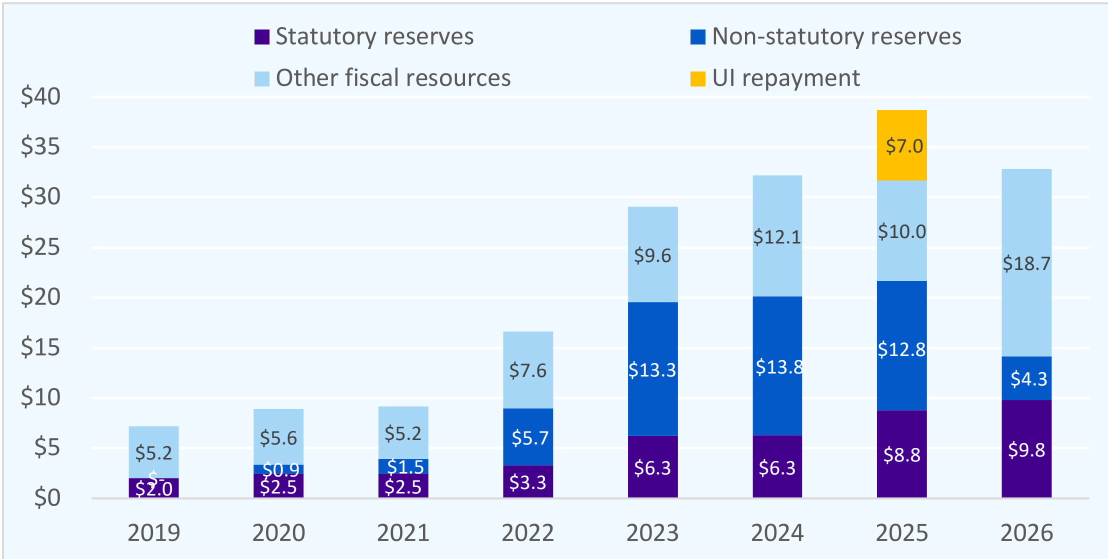
Numerous fiscal observers have commented that the State is drawing down its fiscal reserves to finance the repayment of its $7 billion Unemployment Insurance (UI) trust fund debt to the federal government. The repayment of UI debt, enacted by the fiscal year 2026 budget, allows the State to significantly increase UI benefits, raising the maximum weekly benefits from $504 to $869, a 72 percent increase, while lowering employers' UI taxes.[9] While the State did withdraw $7.5 billion from one of its informal reserves, the "Economic Uncertainties" fund, to finance the UI repayment, it simultaneously deposited $4.6 billion into another informal reserve, the "Timing of Resource Management" fund. The net result of these shifts was a $2.9 billion drawdown in overall fiscal resources.

Neither of these informal reserve funds are governed by state law or committed to specific uses and they are not legally or practically distinct from each other. Rather, both funds are available to support the budget and can be deployed at the DOB's discretion. However, the State considers only the Economic Uncertainties fund to be part of its "principal reserves," treating the Timing of Resource Management fund as "non-reserve general fund balances." By shifting funds from the former to the latter the DOB uses an accounting trick to claim that it is drawing down "reserves" in fiscal year 2026 despite the minimal effect of this expense on the total level of the State's fiscal resources.

Further, the State consistently underestimates revenue and general fund balances. In the first half of fiscal year 2026, higher-than-expected revenue and lower-than-expected spending pushed general fund balances above Enacted Budget projections by $4.1 billion. This brings the State's fiscal resources balance to $32.9 billion, a record high.

[9] See Fiscal Policy Institute, "Budget Breakdown: New York State's Fiscal Year 2026 Enacted Budget," May 14, 2025, https://fiscalpolicy.org/budget-breakdown-fiscal-year-2026-enacted-budget.

Figure 1. New York State fiscal resources, fiscal years 2019–2026



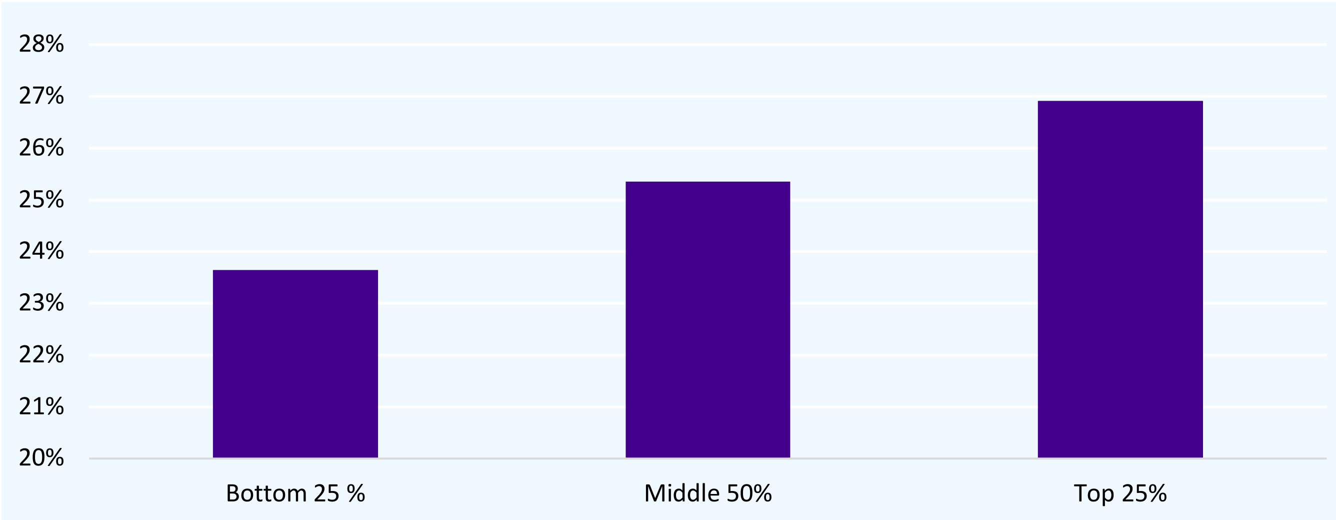
Note: Fiscal year 2026 other fiscal resources reflect general fund balances not committed to specific uses as of the end of the first quarter of the fiscal year. The decrease in non-statutory reserves between fiscal years 2025 and 2026 and coincident increase in other fiscal resources reflect a maneuver, discussed above, the allows the State to claim it drew down reserves to repay UI debt while maintaining total fiscal resources at historic levels.

Raising Revenue / Strength of the Tax Base

The post-Covid years have proven time and again that New York's tax base is strong. Revenue collections over the 2020–2024 period showed remarkable resilience in the face of major economic upheaval and somewhat tepid state-level economic growth coming out of the pandemic.

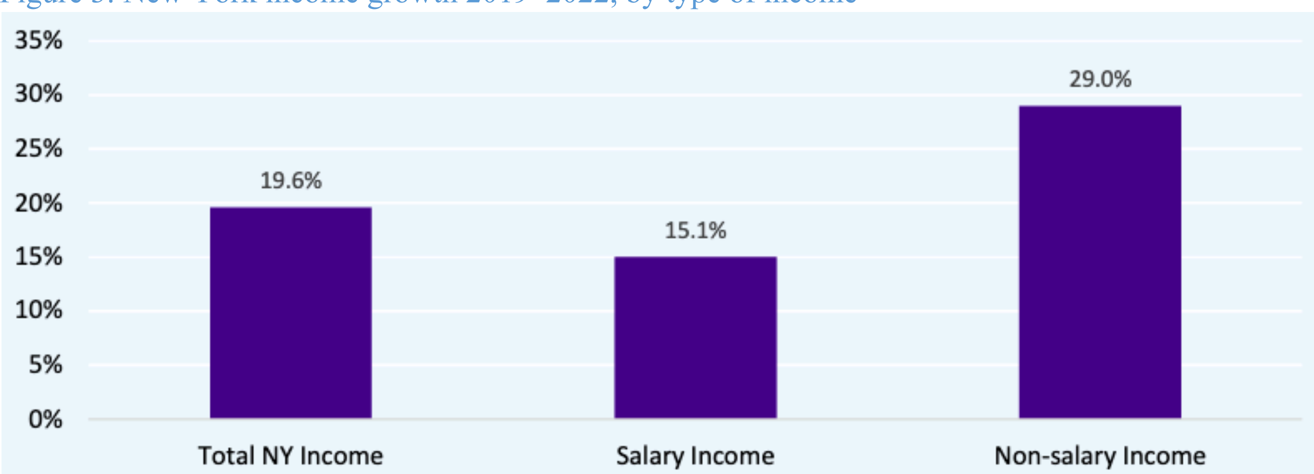
One clear reason for the relative strength of New York's fiscal base is the presence and fortune of the state's high earning class. High earners in New York faired very well over the pandemic years, showing high earnings growth and high non-wage income growth (primarily capital gains and business income) relative to their lower-earning peers. For example, the top 25 percent of labor-income earners in the State saw earnings growth of 27 percent between 2019 and 2024, whereas the bottom 25 percent of labor-income earners saw earnings growth of less than 24 percent over the same period. Likewise, salary incomes grew by 15 percent between 2019 and 2022, whereas non-salary income grew by nearly double—29 percent—over the same period. Because non-salary income is made mostly by top earners, these discrepancies in earnings growth over the pandemic year demonstrate that high earners in New York have continued to do well even as economic growth has slowed for most New Yorkers.

Figure 2. Average earnings growth 2019–2024, by average earnings percentile of industry



Note: This chart is constructed using data from the Quarterly Census of Employment and Wages (QCEW). The chart bins industries using their 4-digit North American Industry Classification System (NAICS) industry codes to compute average annual earnings by sub-industry and then sorts sub-industries into three groups based on those average earnings.

Figure 3. New York income growth 2019–2022, by type of income



Note: Data from the NYS Department of Taxation and Finance, 2019 and 2022 tax filings.

Tax hikes on high earners enacted in 2021 have made this group even more important to New York State's revenue outlook, meaning that the State's revenue has become more tied to the well-being of this class. As high earners continue to fare well under current economic conditions, the State's revenue will continue to be healthy.

Some political observers fear that tax hikes on high earners will force them to flee in search of lower tax rates. FPI's latest analysis of net out-migration of high earners shows that those in the top 1 percent of household income in New York currently show no net out-migration. These top earners are the *only* income group to show no net outmigration, with all other New Yorkers showing some level of net outmigration.[10] Those in the top 20 percent of earners also out-migrate at lower rates than all other New Yorkers.

Previous research by FPI showed that when high earners do out-migrate, they move to other high-tax states such as New Jersey or California.[11] Further, FPI tested whether recent tax changes in 2021 and 2017 induced heightened out-migration for those affected and found that there was no increase in out-migration following the tax changes. These results suggest that New York should not be worried about high-earner tax migration as a source of fiscal strain. Rather, failing to levy sufficiently high taxes should be seen as a greater risk to the state's revenue.

[10] Emily Eisner and Andrew Perry, "New Census Data Show Population Growth as well as Continuing Affordability Challenges," Fiscal Policy Institute, January 15, 2025, https://fiscalpolicy.org/new-census-data-show-population-growth-as-well-as-continuing-affordability-challenges.

[11] Emily Eisner and Andrew Perry, *Who is Leaving New York State? Part I: Income Trends*, Fiscal Policy Institute, December 5, 2023, https://fiscalpolicy.org/migration.