

Budget Briefing

FPI

Fiscal Policy
Institute

Virtual

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Outline

01 **Brief Overview of the Economy**
Growing GSP, jobs, immigration, inequality

02 **Fiscal Outlook**
Federal cuts, revenue projections, reserves

03 **NYC's Fiscal Challenges**
Underbudgeting, revenue, state support

04 **Universal Childcare**
Plan, unfinished business, true costs

05 **Public Schools & Higher Education**
Foundation aid, NYC cuts, CUNY & SUNY

06 **Healthcare**
Federal cuts, Essential Plan, homecare transition

07 **Tax and Revenue**
Tax policy recommendations: NYS, NYC

08 **“Affordability Policy”**
Approaches, food insecurity

Introduction

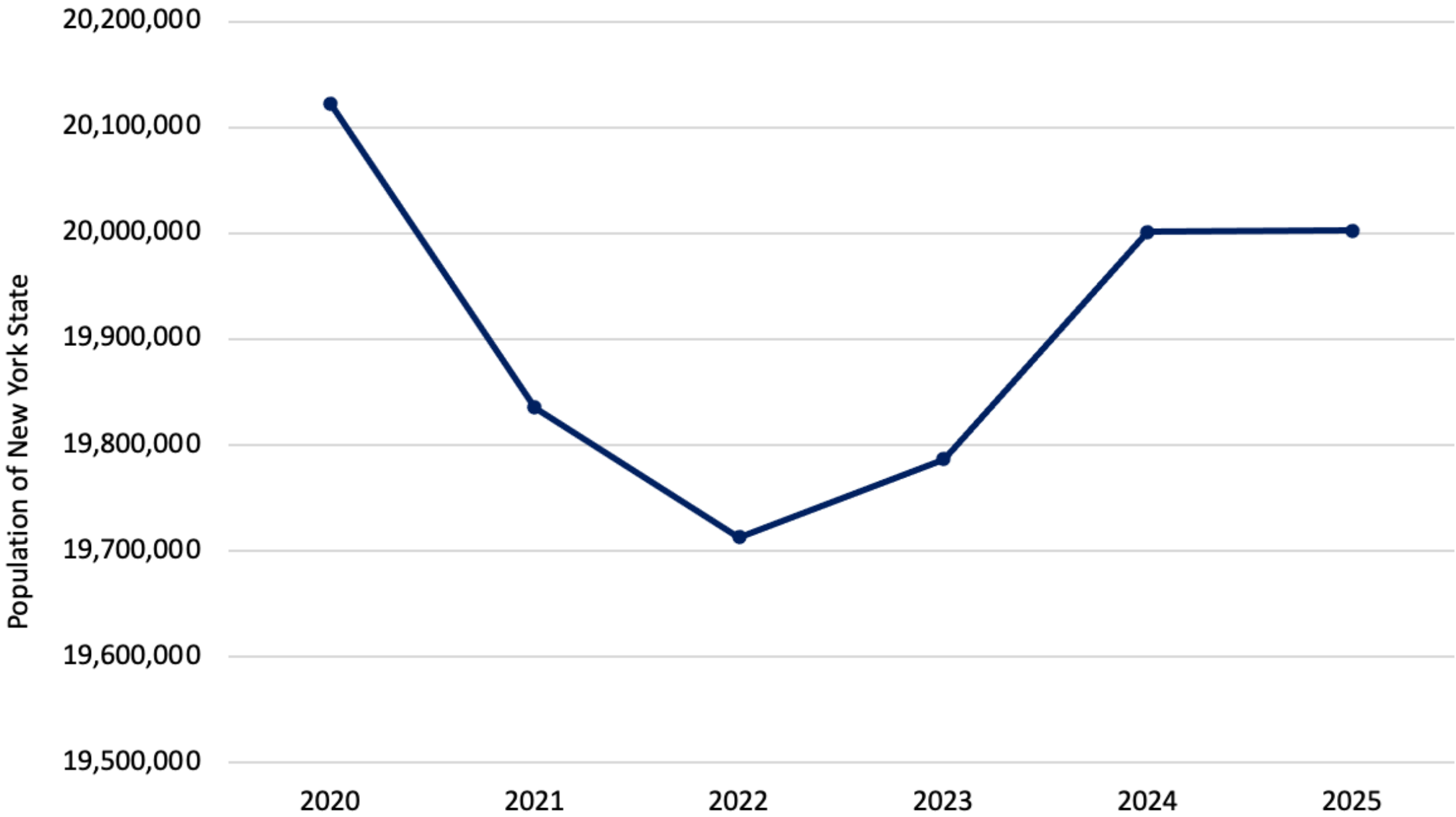
2025 has been a year of unprecedented economic and policy uncertainty with major changes to federal funding and statute that are impacting all New Yorkers.

1. Under the State's current plan, 470,000 New Yorkers will lose Essential Plan coverage this July, and the state's uninsurance rate will double over the next two years.
2. Federal funding cuts could be as high as \$12 billion in outyears and under current best-case-scenario will still sum to over \$7 billion annually.
3. Despite federal headwinds, state revenues are strong and will be allocated towards historic expansion in childcare.
4. State economy is defined by tepid growth, dramatic and rising inequality, and climbing cost-of-living.
5. Federal immigration policy has resulted in zero net population growth in New York, harming labor markets and economic activity (on top of the severe human costs).

Brief Overview of Economy

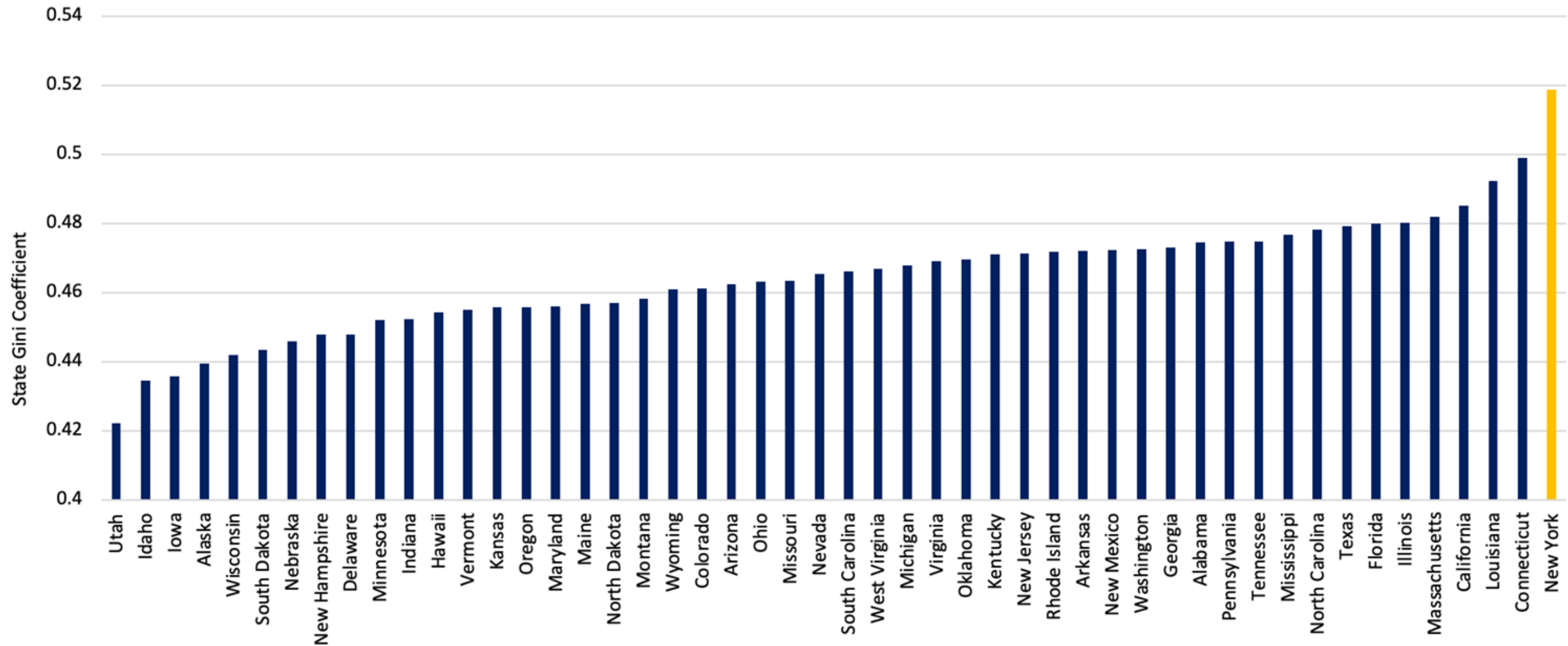
New York State population flatlined due to harsh immigration policies

New York population fell during the pandemic but was rebounding, until 2025 immigration policy changes that are suppressing international immigration



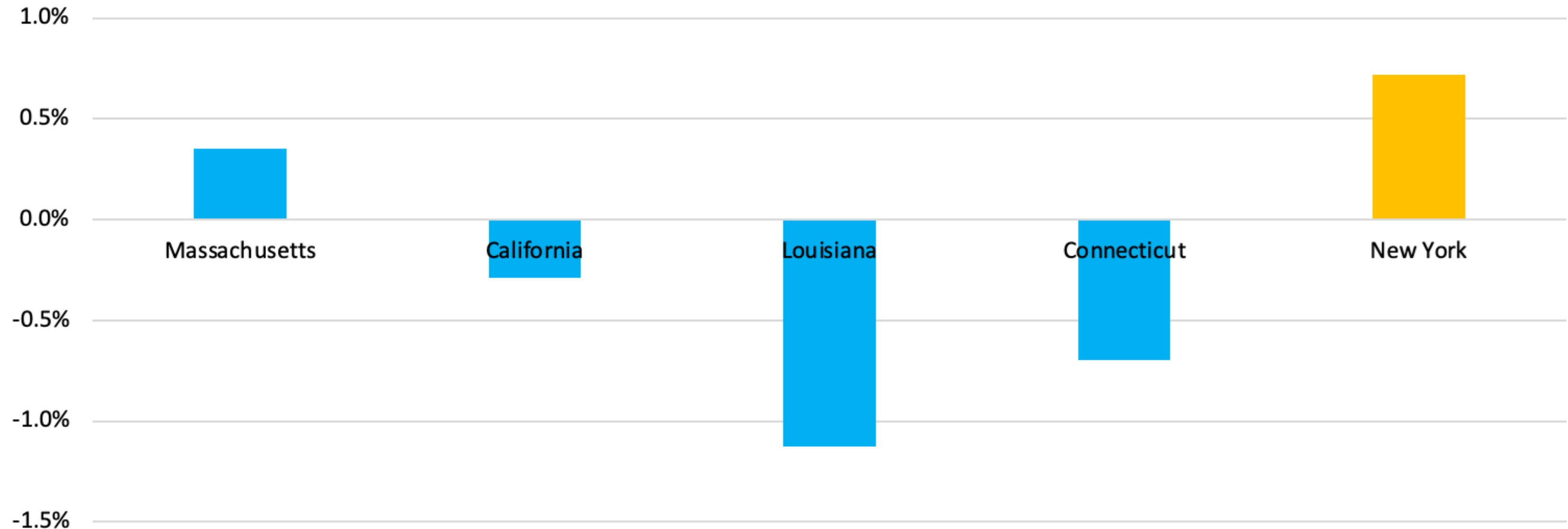
New York has highest inequality of all fifty states

Gini coefficient measuring income inequality in US states and territories, 2024



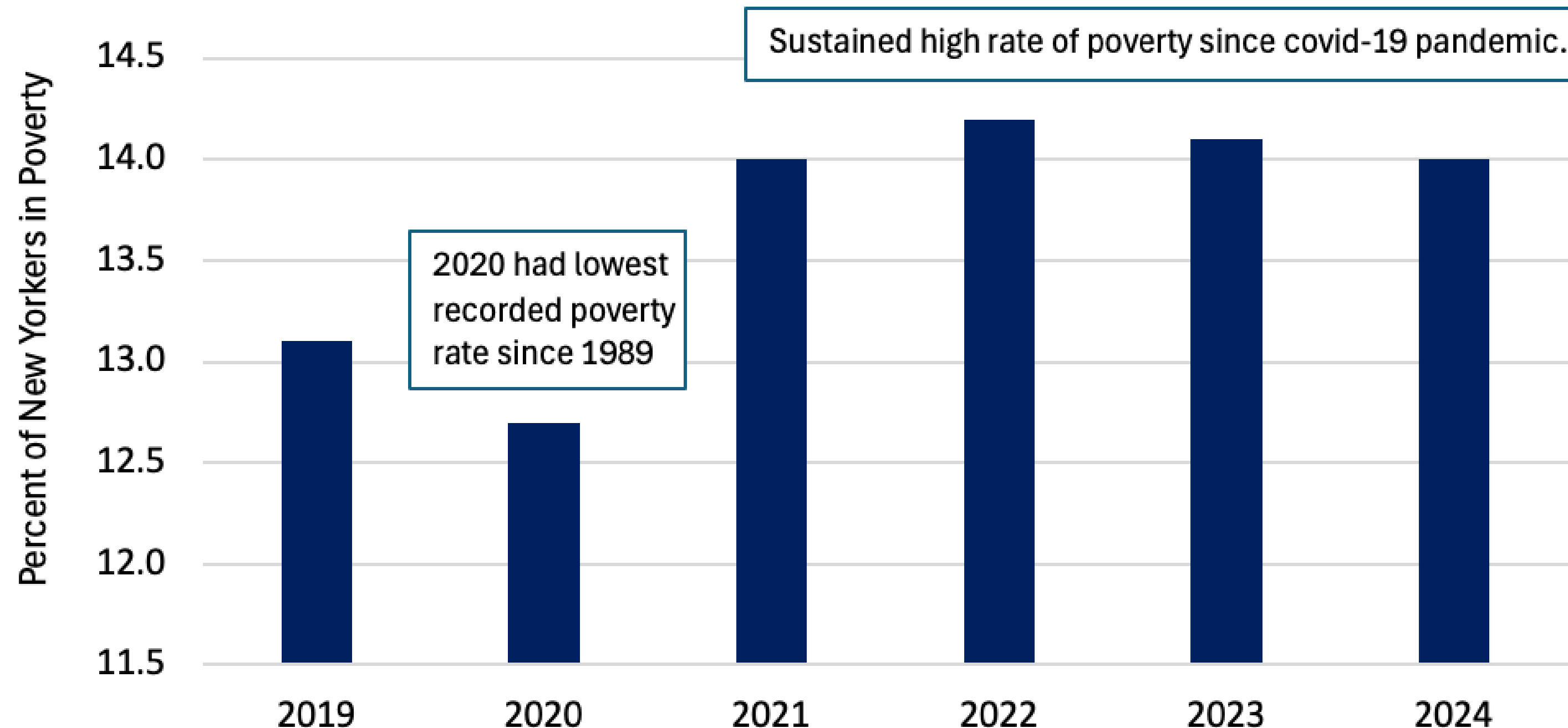
Of most unequal states, inequality in NY has grown fastest since 2019

Percent change in state Gini coefficient for 5 most unequal states, 2019–2024



State poverty rate has been elevated since Covid

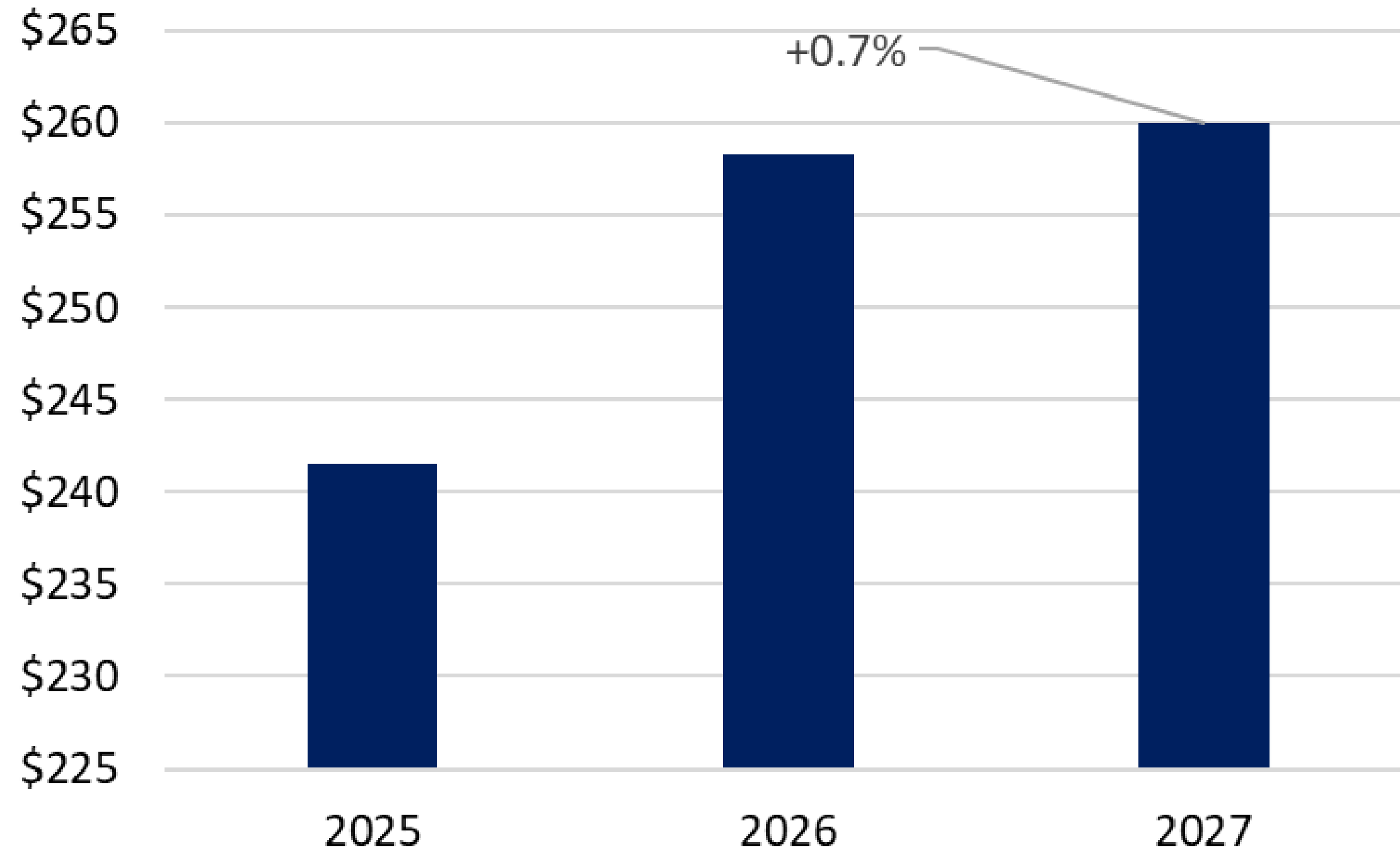
Percent of New Yorkers living under the federal poverty line (FPL)



New York State's Fiscal Situation

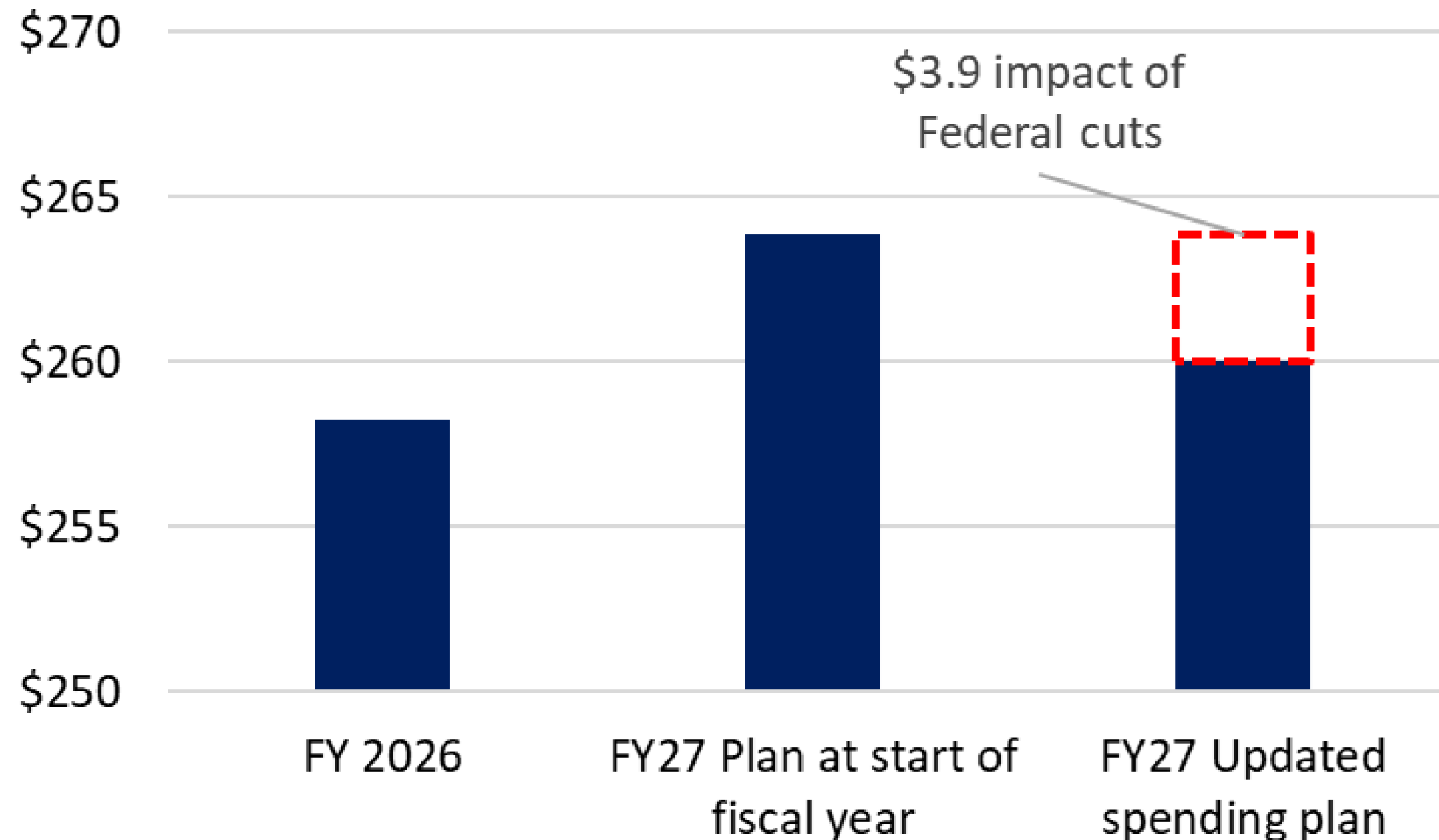
FY 2027 set for minimal growth

All Funds spending planned in FY 2027 Executive Budget (\$ in billions)



This is \$4bn less than initially planned

All Funds spending revisions in FY 2026 Enacted and FY 2027 Executive Budgets (\$ in billions)

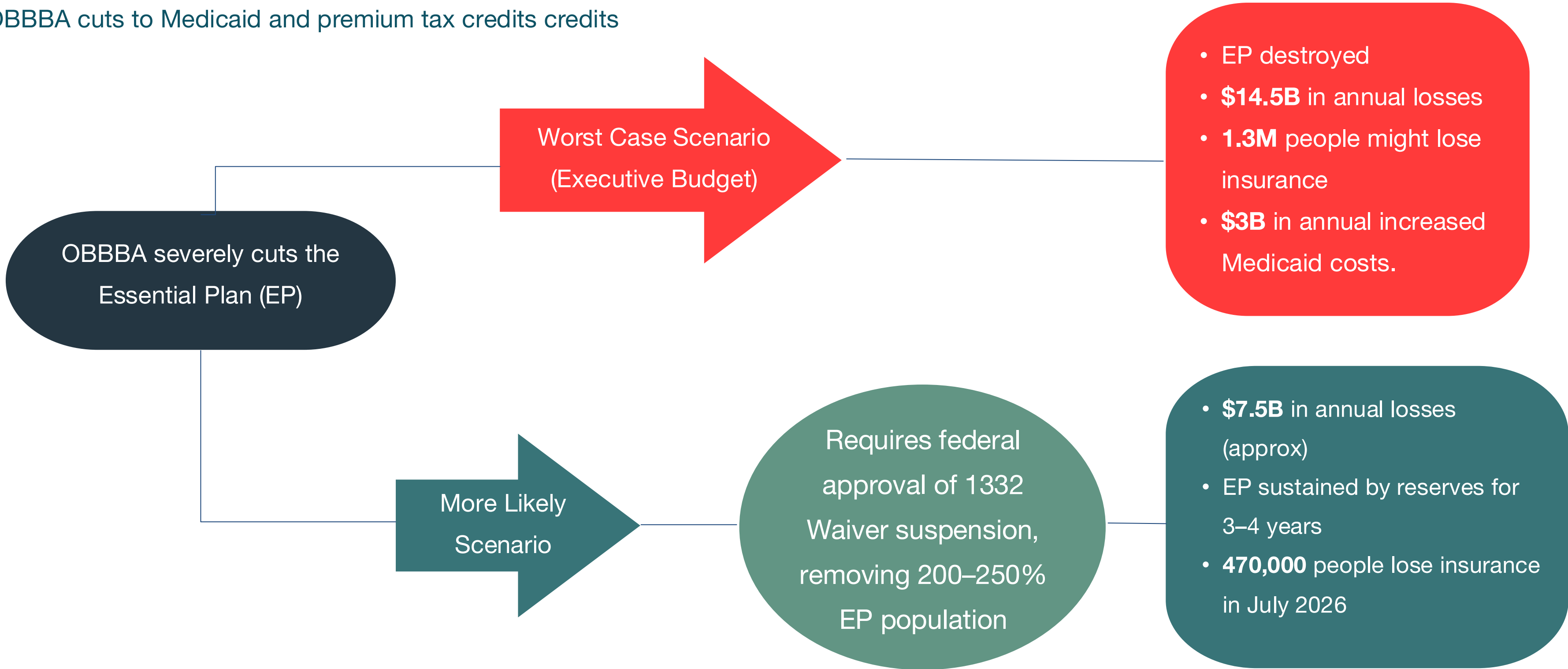


Federal Medicaid cuts drive spending reductions

	FY 2026	FY 2027		
		Plan at start of fiscal year	Updated spending plan	Difference
Total	\$258.3	\$263.9	\$260.0	-\$3.9
Federal	\$93.8	\$92.6	\$84.4	-\$8.2
<i>Medicaid & EP</i>	\$65.8	\$73.7	\$65.1	-\$8.5
State Funds	\$164.5	\$171.3	\$175.6	\$4.3

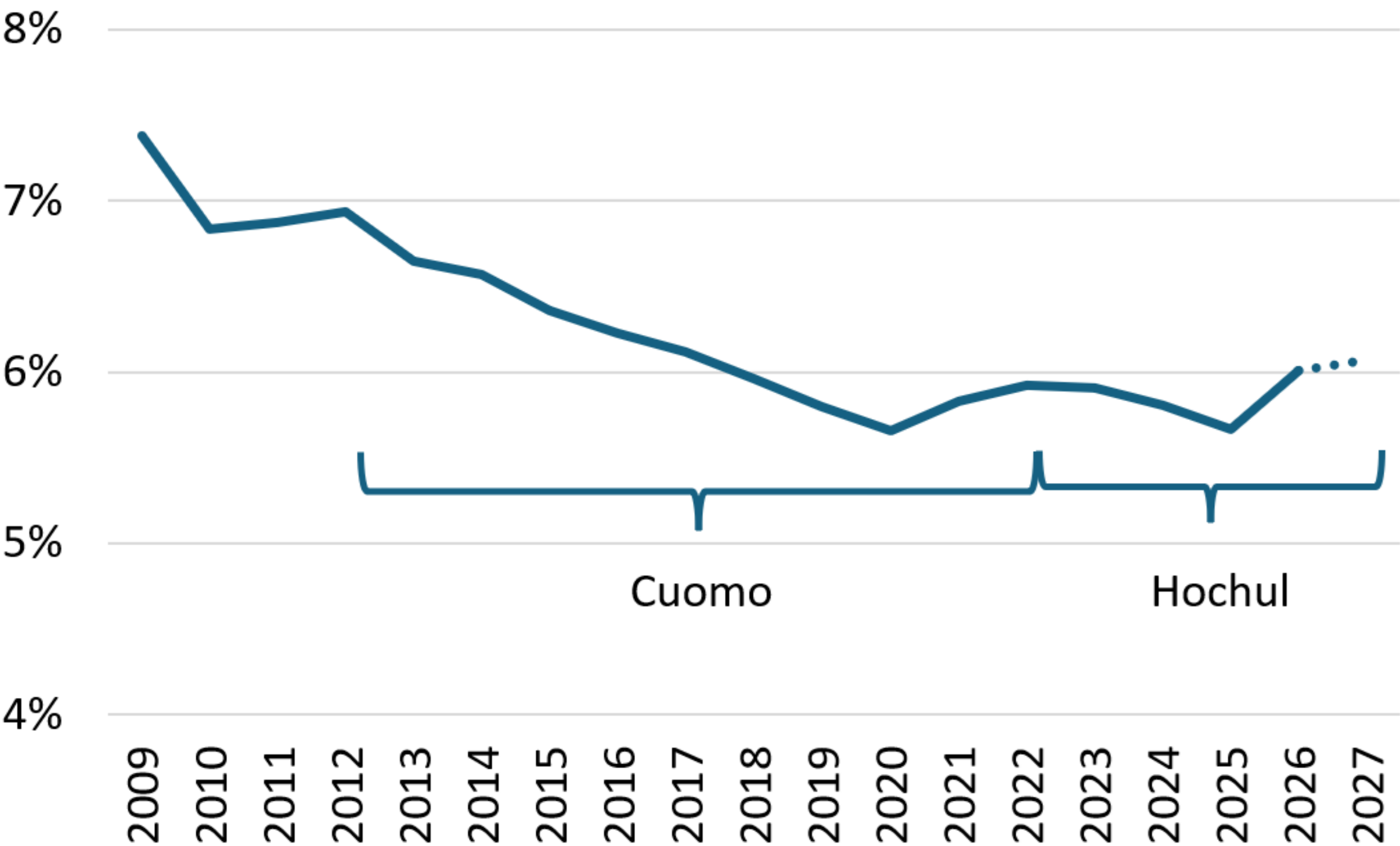
Federal funding cuts force a choice: EP dissolution or temporary reserve usage

Two distinct paths emerge for New York lawmakers to manage
OBBBA cuts to Medicaid and premium tax credits credits



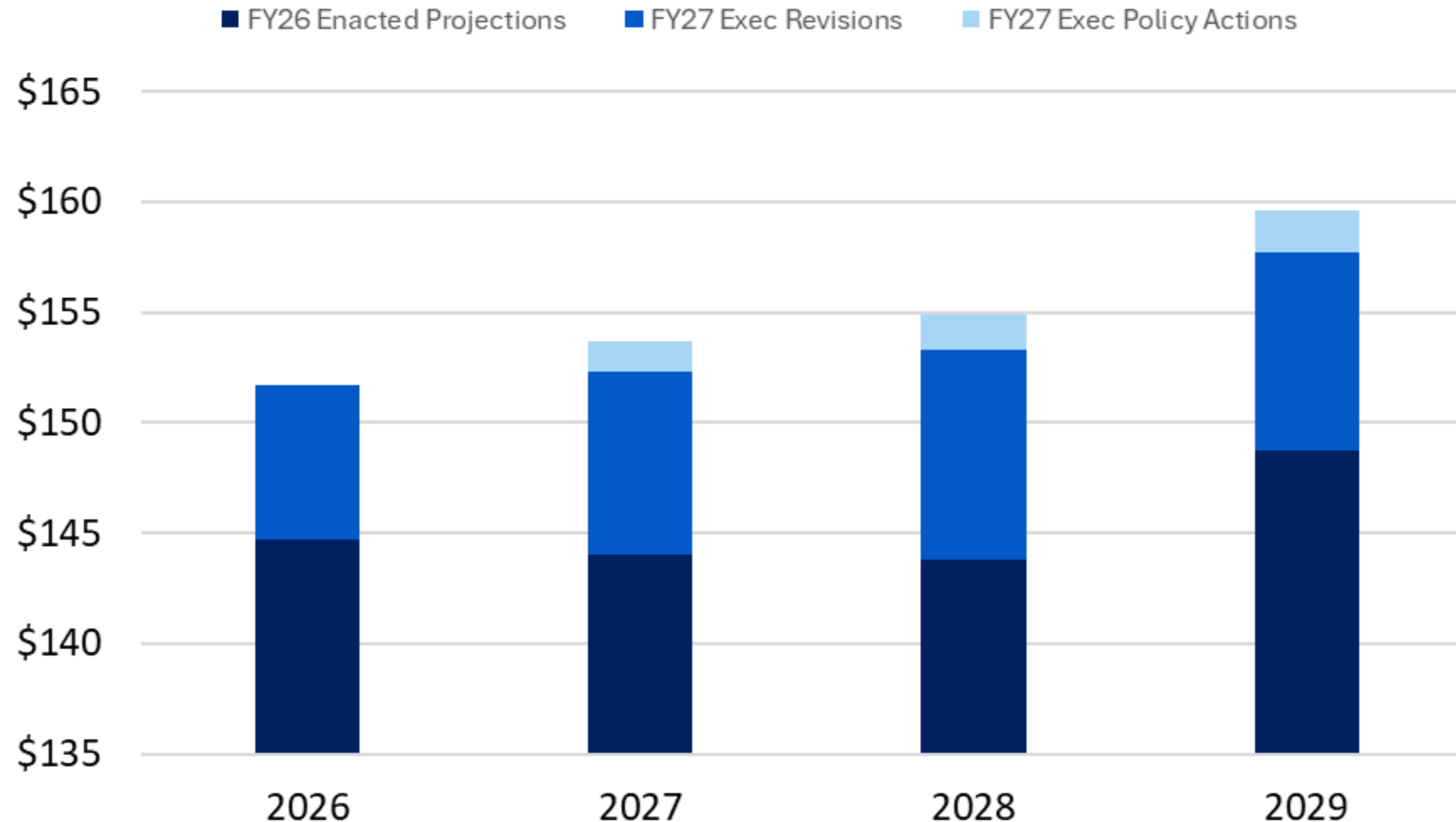
State spending in step with the economy

State funds spending as share of state GDP



State revenue projections revised up

**Revisions to revenue forecast including policy action between FY 2026 Enacted and FY 2027 Executive Budgets
(\$ in billions)**



State funds budget set for surplus

Revisions to the fiscal plan between FY 2026 Enacted and FY 2027 Executive Budgets (\$ in billions)

<i>State Funds Revenue</i>	\$16.7
<i>Uses</i>	\$16.7
Closing FY2027 Gap	\$7.5
New childcare spending	\$1.9
Other new spending	\$1.4
Total new spending	\$3.3
Debt prepayment	\$2.0
New reserves	\$4.0
Total added resources	\$6.0

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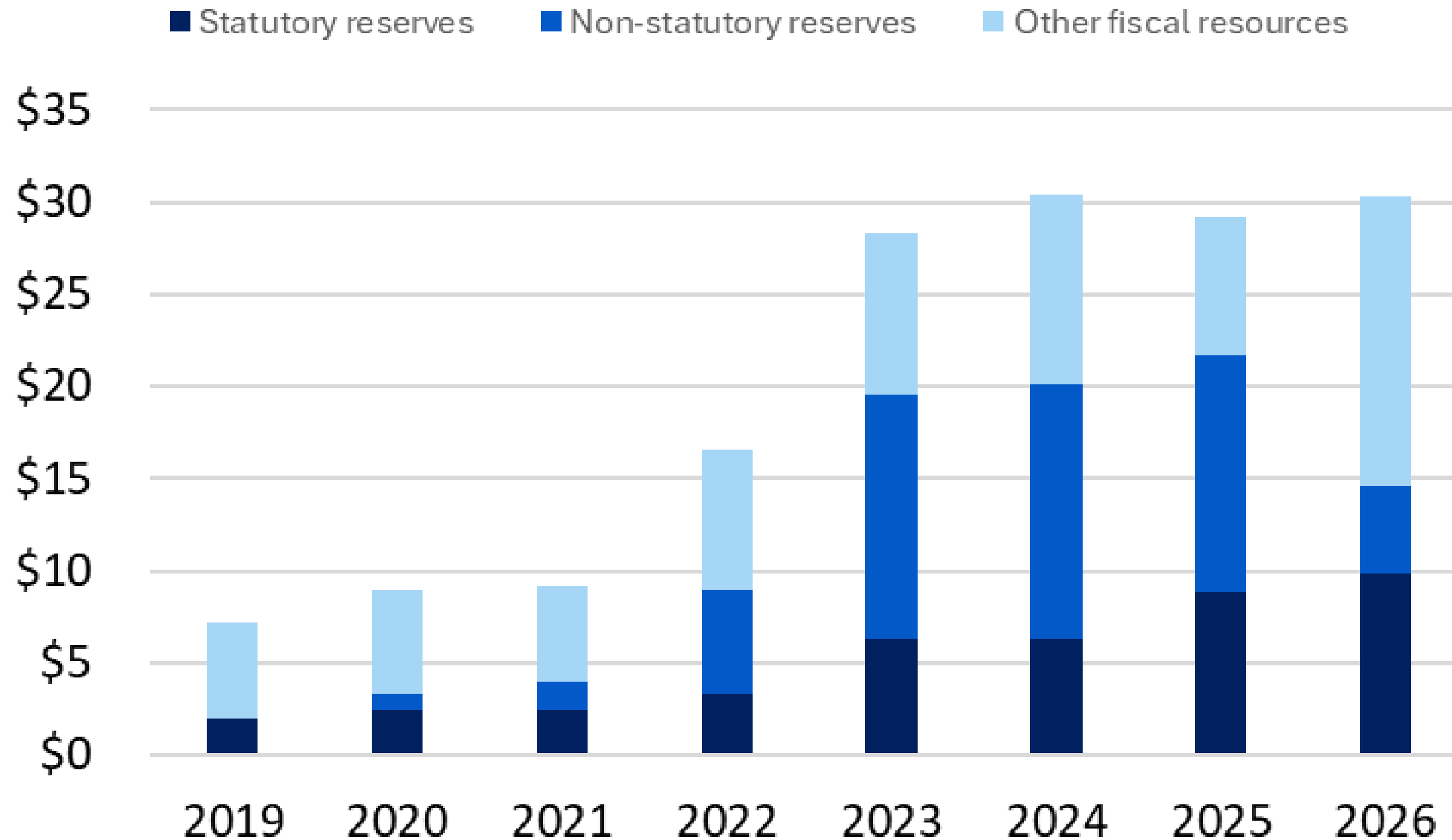
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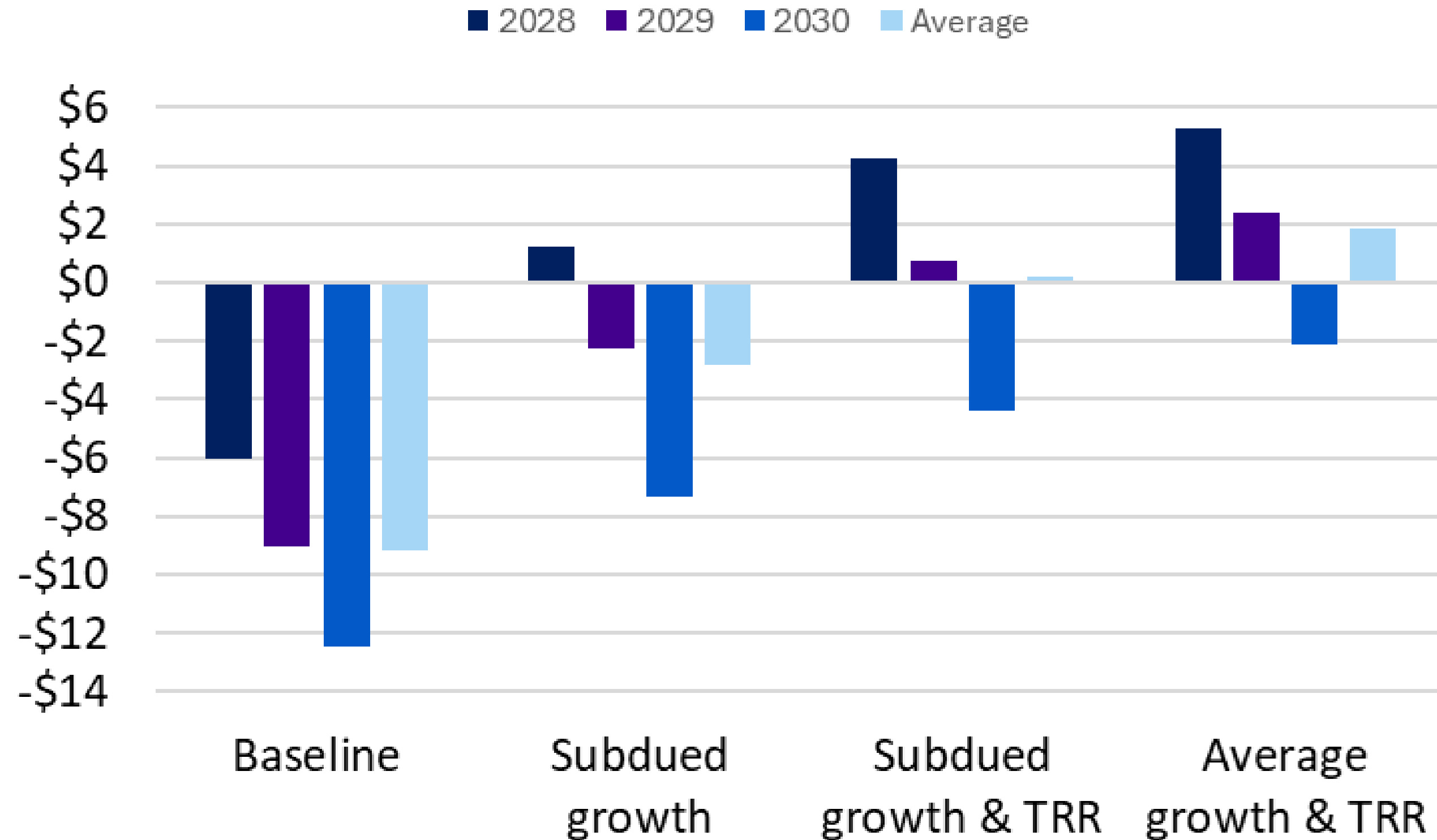
Reserves remain at record highs

Fiscal reserves by fund type (\$ in billions)



Revenue outlook remains cautious

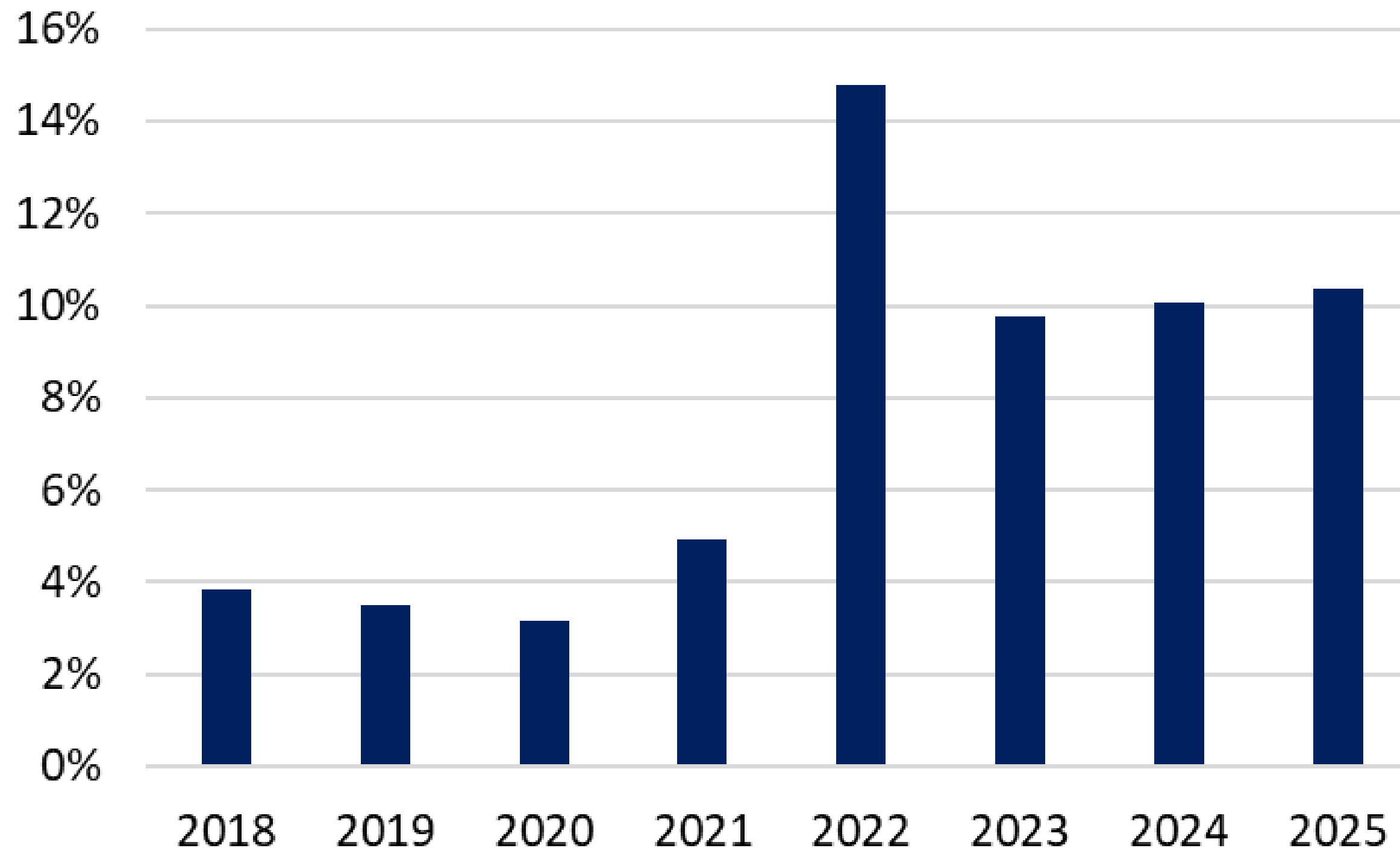
Budget gaps forecast by Executive Budget under various scenarios



New York City's Fiscal Challenges

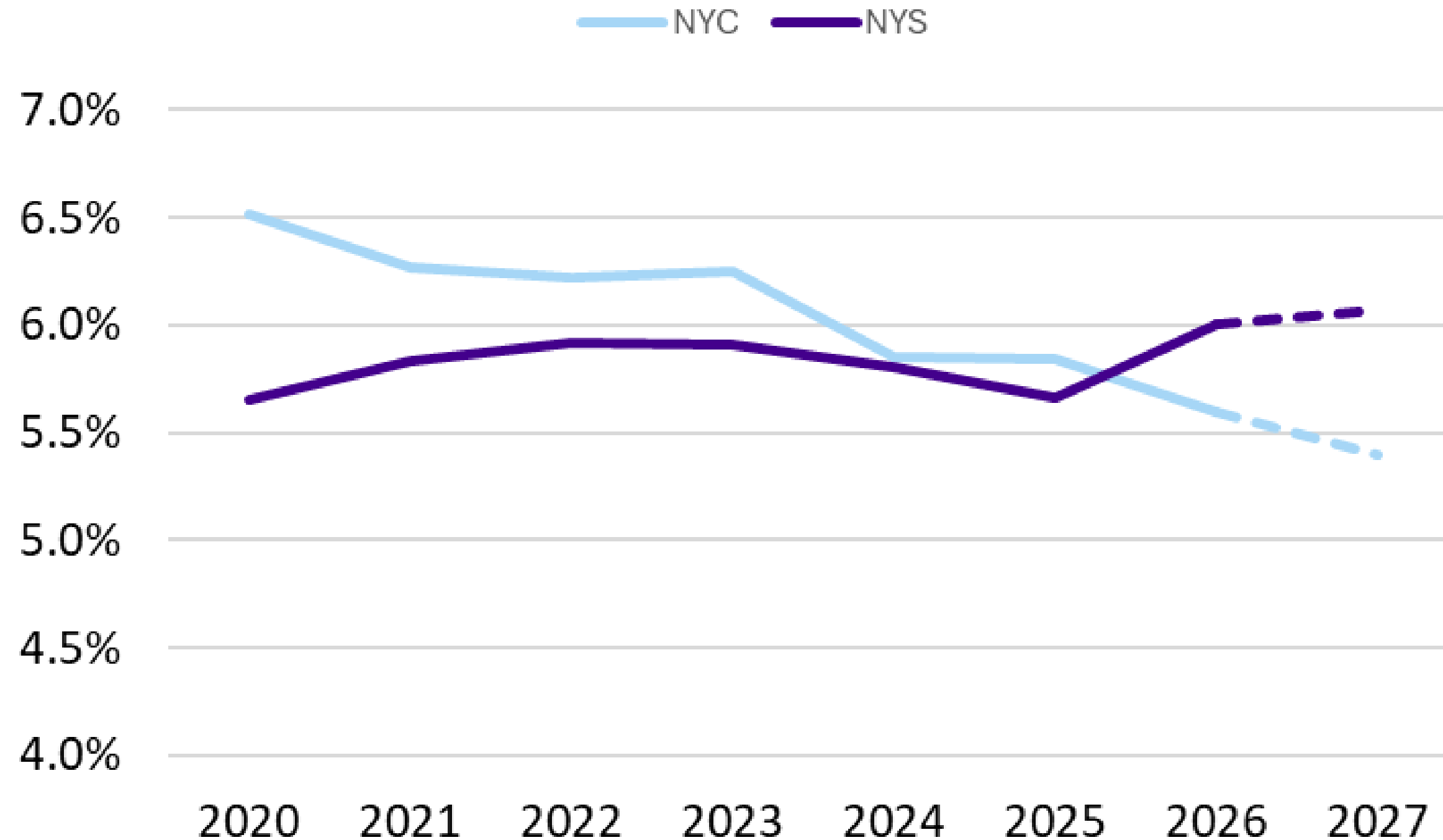
Was the budget mismanaged?

Underbudgeting: actual spending in excess of prior-year spending plan



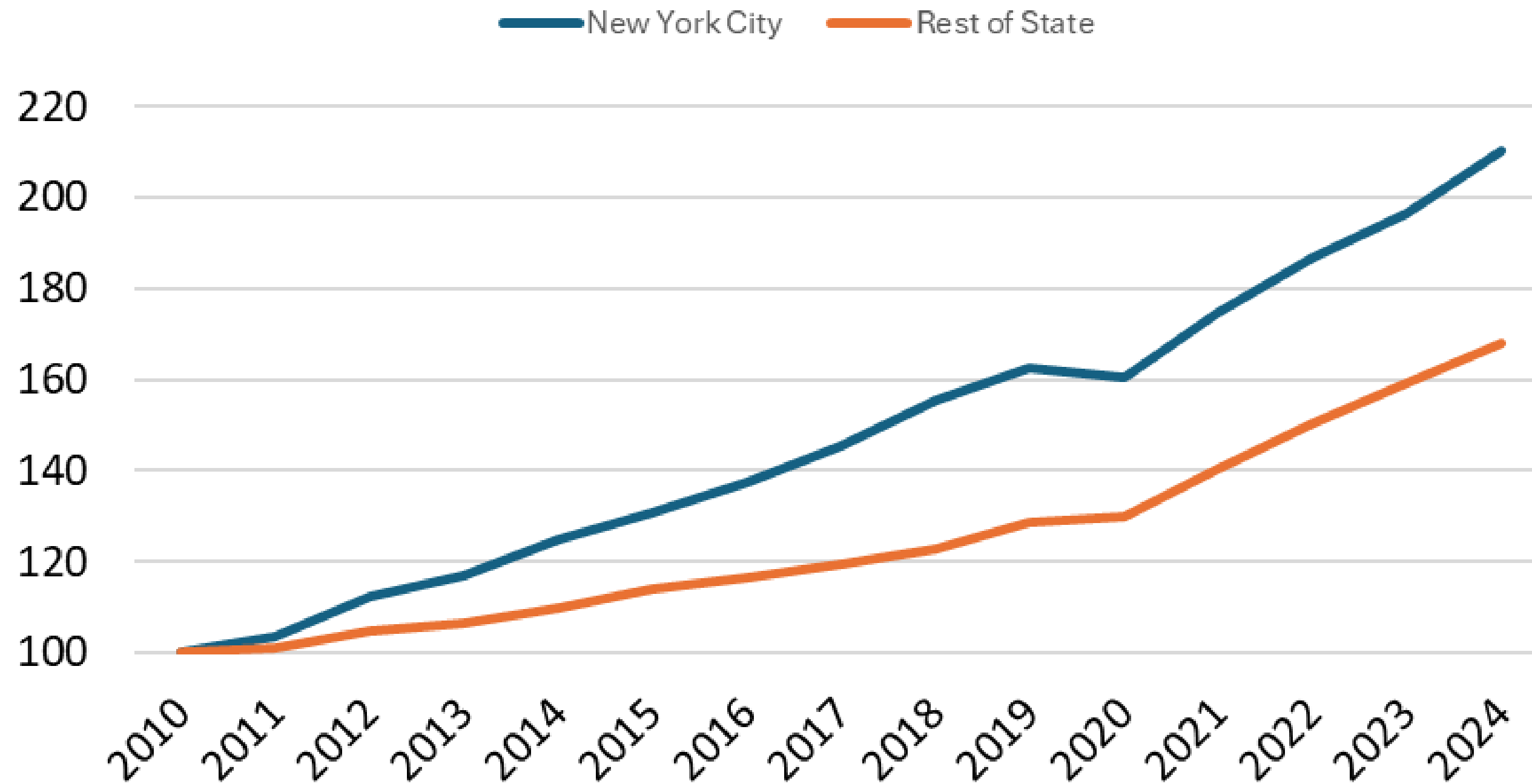
What about City revenue?

City and State revenue as a share of their respective economies



The City drives state economic growth

GDP growth for NYC and rest of state, indexed to 2010



How should the State support the City?

- Allow City to raise its own revenue
 - Personal Income Tax
 - Corporate
 - Fair share of State funding
 - Restore Aid and Incentives for Municipalities (AIM): \$550 million
 - Cancel school aid cuts: \$320 to \$540 million
 - Restore pre-Cuomo public assistance cost sharing: \$400 million
- State funds must be recurring

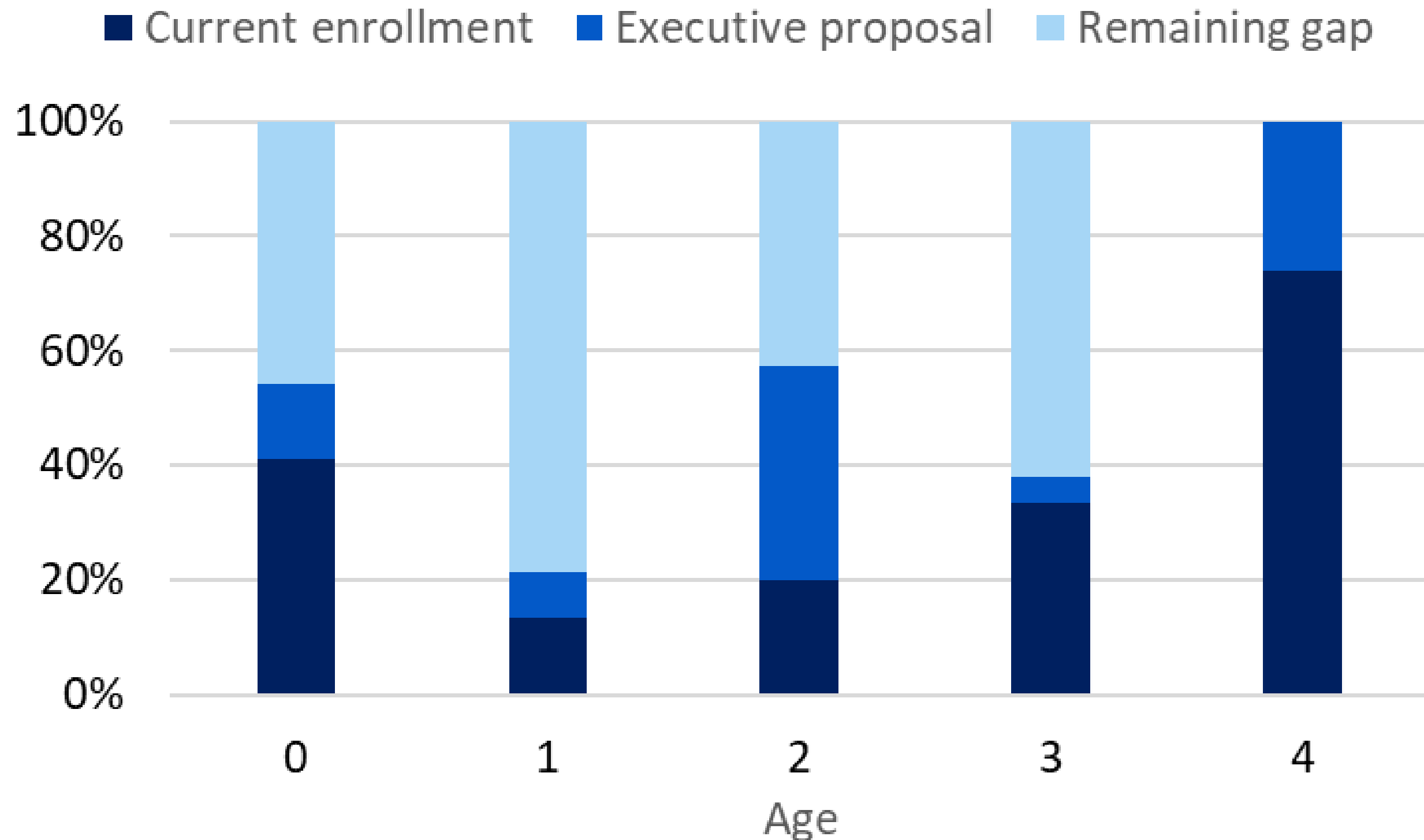
A Step Toward Universal Childcare

What is universal childcare?

Age	Current Programs	Executive Proposal	Universal Childcare
Infants (0–1)	Paid Family Leave; means-tested vouchers	Status-quo PFL; expands means-tested vouchers	Expanded PFL; universal system modeled on 2-Care
1	Means-tested vouchers	Expands means-tested vouchers	Expanded PFL; universal system modeled on 2-Care
2	Means-tested vouchers	Launches NYC 2-Care; expands means-tested vouchers	2-Care statewide
3	3-k in most of NYC	Bolsters 3-k in NYC	3-k statewide
4	Pre-k in most of state	Expands Pre-k statewide	Pre-k statewide
5	Kindergarten	Kindergarten	Kindergarten

What's the proposed plan?

Share of children supported by public childcare, by age



The plan for 2-year-olds

- This year: \$73 million and 2,000 kids in NYC
- The future: ~\$650 million and 30,000 kids in NYC
- Funding by annual appropriation, not a statutory commitment and not tied to costs
- Does not fund living wages for workers
- Funding appears sufficient for year-round care
 - Implementation is up to the City

The plan for preschoolers (3-4)

- This year: \$561 million to update UPK grants
- Achieves universality for 4-yr-olds: will serve about 40,000 4-year-olds across the state, a 65% increase in districts other than NYC
- Funding allows NYC to bolster 3-k
- Funding is permanent and statutory, though minimum grants will not automatically rise

The plan for everyone else

- This year: \$1.2 billion for CCAP
- CCAP supports kids up to 13 (for aftercare); only half supports under 5
- May support additional ~40,000 kids under 5
- Will address waitlists of ~16,000 kids across state and support anticipated future growth
- Annual appropriation

Unfinished business

- Expand Paid Family Leave
- Statewide support for daycare for under 2s
- 3-k and 2-Care in the rest of the state
- Make preschool full day and year round
- Living wages for childcare workers

The cost of true universal childcare

Costs above what is included in Executive proposal

Age	NYC	Rest of State	NYS Total
PFL	\$480	\$640	\$1,120
0-2	\$1,240	\$1,570	\$2,810
3	\$0	\$860	\$860
Living wages	\$1,000	\$180	\$1,180
Total	\$2,720	\$3,250	\$5,970

Public Schools & Higher Education

Foundation Aid status quo

	2026	2027	\$ change	% change
Foundation Aid	\$26,360	\$27,140	\$780	3.0%
Other school aid (ex. UPK)	\$9,760	\$9,870	\$110	1.2%
SUNY	\$4,020	\$4,180	\$150	3.8%
CUNY	\$2,260	\$2,340	\$80	3.6%

Cuts to NYC remain in place

- Last year: revisions cut NYC school aid by \$322 million
- This year: no proposed changes
- Two changes could counterbalance NYC cuts:
Regional Cost Index and funding for homeless
students (\$540 and \$320 million, respectively)

Public higher education status quo

	2026	2027	\$ change	% change
SUNY	\$4,024	\$4,176	\$152	3.8%
Fringe benefits	\$1,991	\$2,077	\$86	4.3%
State-operated campuses	\$694	\$694	\$0	0.0%
University-wide & central programs	\$755	\$818	\$63	8.4%
Statutory colleges	\$129	\$129	\$0	0.0%
Community colleges	\$456	\$458	\$2	0.5%
CUNY	\$2,255	\$2,336	\$81	3.6%
Senior colleges	\$2,007	\$2,087	\$80	4.0%
Community colleges	\$248	\$250	\$1	0.5%
Community college scholarships	\$35	\$57	\$22	61.0%

Healthcare

The Federal Context

- \$7.5B Essential Plan cuts force major changes
 - 470k to lose insurance in July 2026
- Medicaid work requirements will lead to huge enrollment loss beginning 1/1/27
 - Estimated coverage loss 800,000
- Other cuts, affecting provider funding:
 - MCO Tax (1/1/27)
 - Directed Payment Template funding (phased in beginning FY28).

The Essential Plan

- EP background:
 - Covers 1.8 million people
 - Funded with \$14.6B in federal money
- H.R. 1 disqualifies lawfully present immigrants from federal funds
 - \$7.5B federal funding reduction
 - EP in current form will be unsustainable (for immigrants and non-immigrants alike).

Alternatives for the Essential Plan

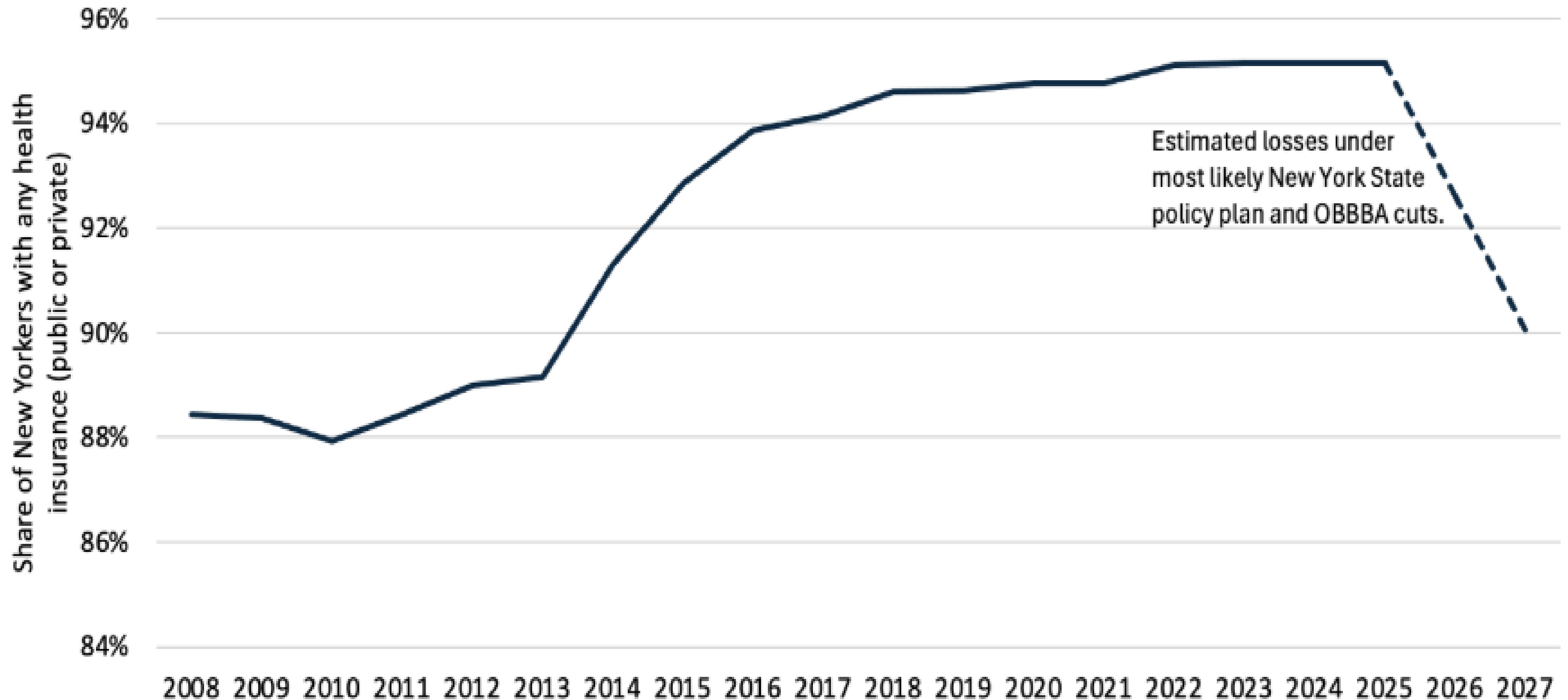
Alternative	Coverage Impact	Fiscal Impact	Long-Term Outcome
Plan A: With Federal Approval (“Good”)	<p>470k EP enrollees in the 200-250 group lose coverage on 7/1/27.</p> <p>1.3M EP <u>enrollees</u> with lower incomes remain in EP.</p>	No state resources required until FY29.	Fiscal issues as EP Trust Fund <u>runs</u> out.
Plan B: No Federal Approval (“Bad”)	<p>1.3M EP <u>enrollees</u> lose coverage in mid-2027.</p> <p>500k low-income immigrant enrollees move to state-funded Medicaid.</p>	\$2 billion annual cost to cover low-income group in FY27, \$3 billion annually thereafter.	Catastrophic loss of coverage.

There is No Backfill

MEDICAID SPENDING (millions of dollars)

	FY 2022 Actuals	FY 2023 Actuals	FY 2024 Actuals	FY 2025 Actuals	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected	FY 2030 Projected
Federal	53,592 60.0%	59,441 60.3%	66,754 60.1%	65,835 58.3%	72,919 57.9%	65,115 53.1%	59,349 49.7%	60,333 48.9%	62,628 48.6%
State	27,693 31.0%	31,296 31.7%	35,861 32.3%	38,437 34.0%	44,052 35.0%	48,455 39.5%	51,098 42.8%	54,079 43.8%	57,152 44.4%
Counties/NYC	8,017 9.0%	7,865 8.0%	8,505 7.7%	8,638 7.7%	9,051 7.2%	9,051 7.4%	9,051 7.6%	9,051 7.3%	9,051 7.0%
Total	89,302	98,602	111,120	112,910	126,022	122,621	119,498	123,463	128,831

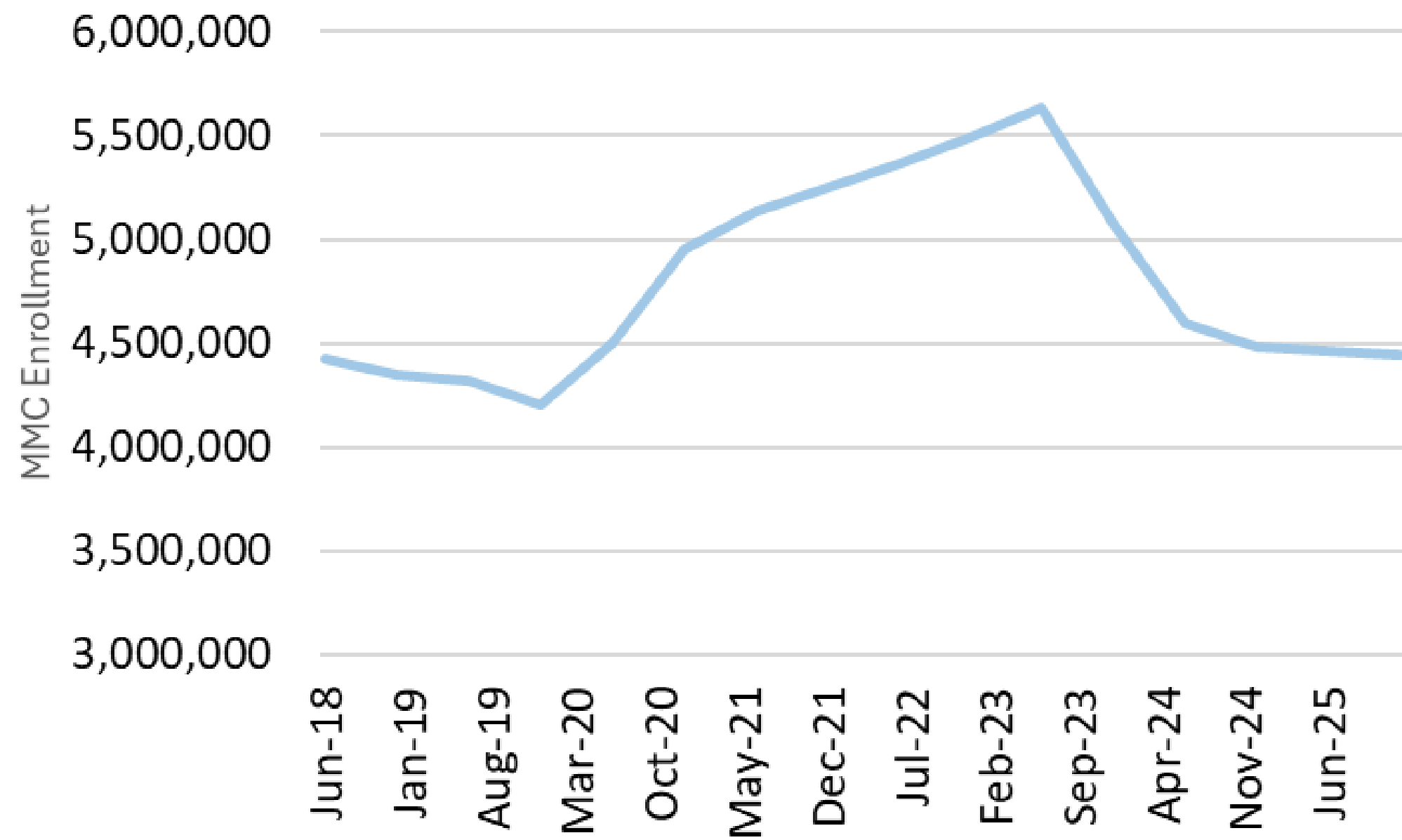
The Stakes are High



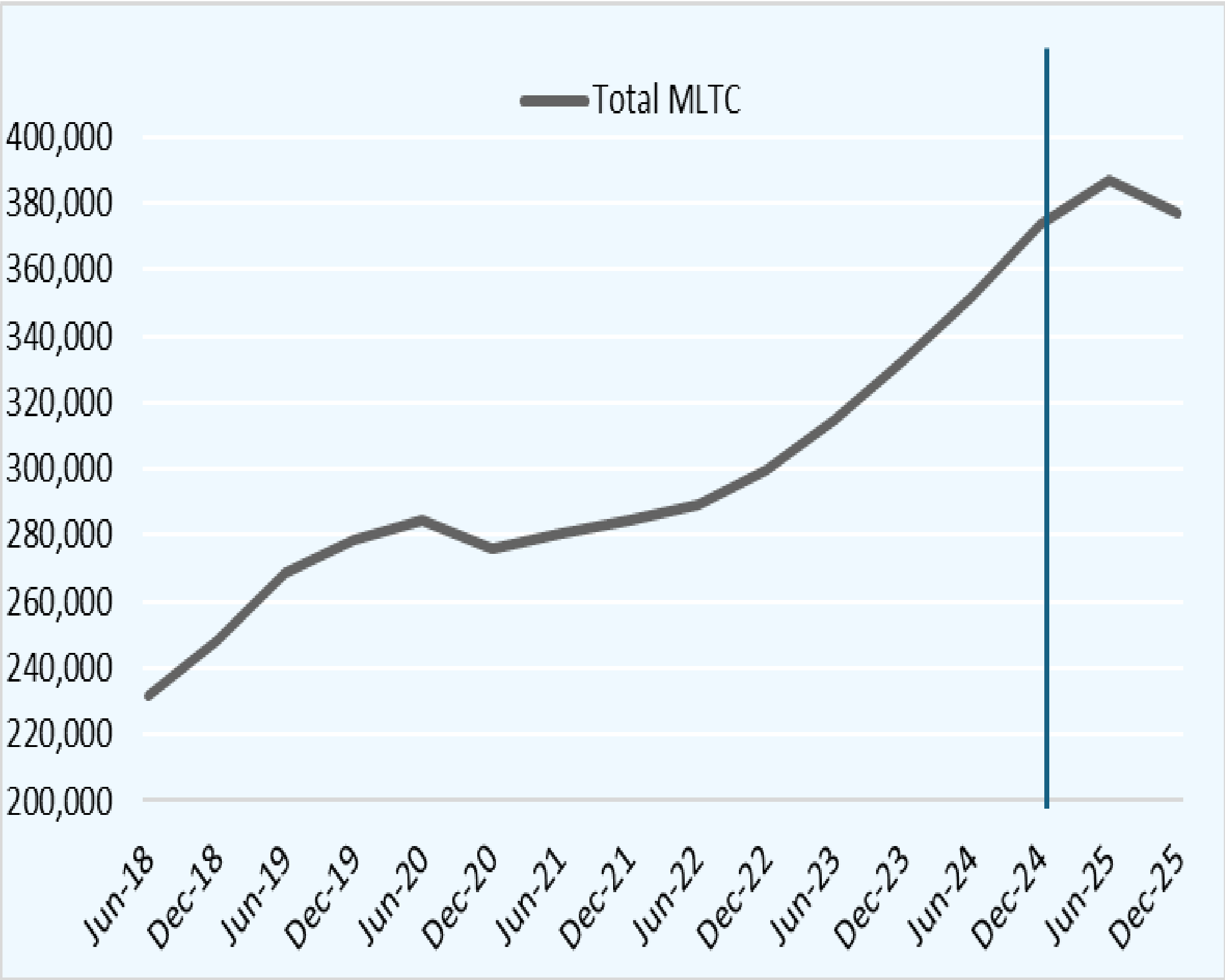
Medicaid Status Update

- Medicaid spending growth has moderated significantly:
 - Reduced enrollment in Mainstream Managed Care
 - Dramatic slowdown in MLTC enrollment and spending growth due to CDPAP transition.
- Hospital finance continues to drive spending.

Mainstream Medicaid Enrollment Down

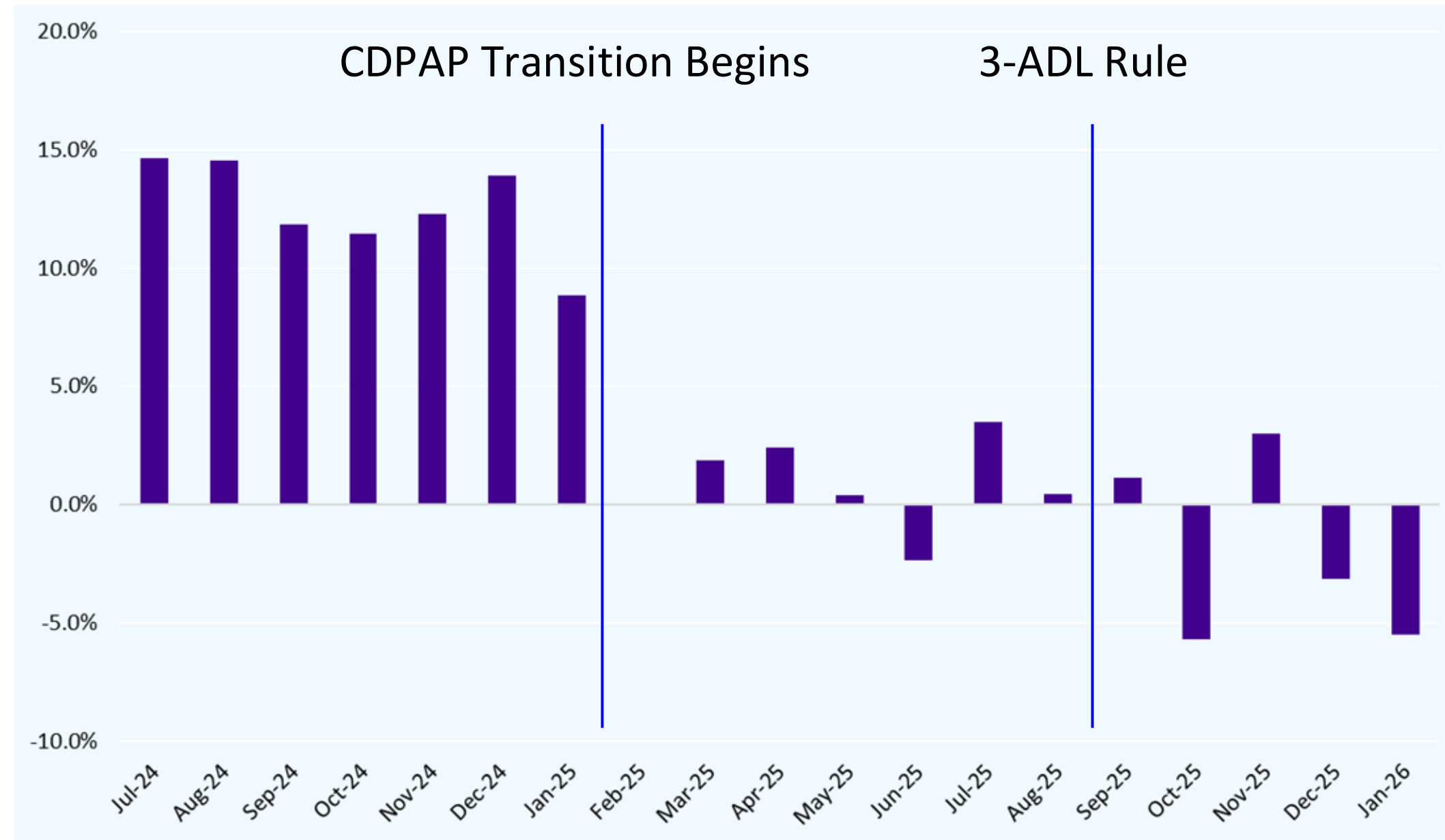


CDPAP Transition Dramatically Slows MLTC Growth



Total MLTC Enrollment, 2018-2025. (NYSDOH Medicaid Managed Care Enrollment Reports)

CDPAP Transition Dramatically Slows MLTC Growth



Annualized MLTC enrollment growth by month, July 2024-January 2026.
(NYSDOH Managed Care Enrollment Reports)

Fiscal Impacts of the CDPAP Transition

- Declining enrollment growth *alone* has a massive impact on spending.

	October 2024	October 2025	October 2026
Actual Enrollment	366,373	377,032	377,032
Enrollment at 2024 Growth Rate	366,373	414,001	467,822
Difference	-	36,969	90,790
Annualized Savings (Millions)	-	\$1,907	\$4,684

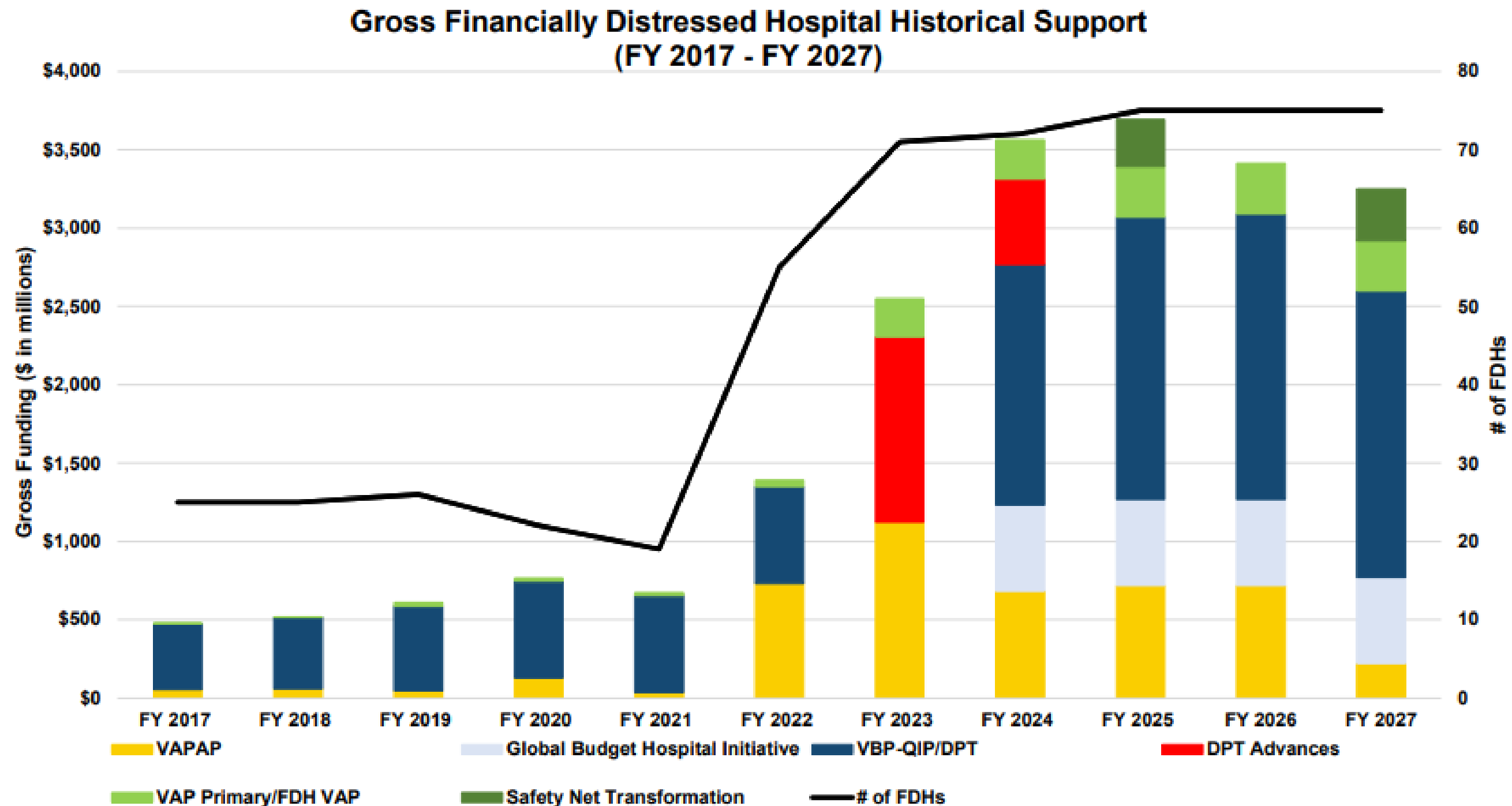
Sources of MLTC Spending Slowdown

- Governor claiming \$1.2B in state-share (\$2.4B total) savings
- Likely most savings come from *enrollment decline* due to Fiscal Intermediaries (FI) transition
 - FI advertising and enrollment support drove enrollment (whether you think that's good or bad)
- No evidence that any savings reduction is from identification of large-scale fraud.

The Future of MLTC Post-Single FI

- Single Fiscal Intermediaries generated substantial savings through reduced enrollment.
- Likely drivers are reduced program awareness and enrollment support.
- Concerns about sustainability of savings:
 - Massive shift to more expensive agency care will require increased MLTC payments in medium term.
 - Agencies may fill the gap left by FIs.
- Failed managed care model continues to dominate despite calls for reform (Home Care Savings and Reinvestment Act).

Hospital Costs Drive Medicaid Spending Growth



Safety Net Hospital Financing

- Key safety net funding sources:
 - Vital Access Provider Program (VAPAP)
 - Safety Net Transformation Program (SNTTP)
 - Global budgets through 1115 waiver
 - Directed Payment Template (DPT)
- Safety net funding stable except for \$500M VAPAP cut
 - Likely to be restored by the legislature as in past years

The Future of Safety Net Funding

- The state is structurally committed to ~\$3.5B in safety net funding for the foreseeable future
- Given the enormous (3x) rate gap between public and private payers, only comprehensive hospital finance reform could change this
- Clouds on the horizon:
 - DPT cuts (phased in after FY28)
 - Enormous increase in uninsured.

Summary

- Medicaid underlying trends:
 - Enrollment down
 - MLTC enrollment flat
 - Continued (but not rapidly increasing) safety net hospital issues.
- Despite these trends, Exec reports dramatic increases in Medicaid spending (11.4%)
 - Why?

Medicaid Spending has Moderated

	FY25 Actual	FY26 Projected	FY27 Projected
State Medicaid Spending	38,437	44,052	48,455
Growth		14.60%	10.00%
<i>Aliessa</i> Takeover			2,000
MCO Tax Wash Payments		582	765
Adjusted Spending	38,437	43,470	45,690
Adjusted Growth		13.10%	5.10%

Exec Funds Provider Rates

- \$750M (\$500M recurring) for “targeted healthcare investments”
 - Details TBD
- Exec fully “backfills” rate increases to hospitals and nursing homes
 - Formerly funded by the MCO tax
- “Healthcare Stability Fund” spending up \$900M from FY26, \$600M from projections in FY26 enacted, despite MCO tax cut

MCO Tax Update

- The MCO tax was enacted in the FY25 budget and went into effect on 1/1/25.
 - Projected to raise \$3.7B in net revenue.
- H.R.1 banned the tax but left timeline unclear.
- Executive Budget expected the tax to lapse on 4/1/26.
- CMS guidance now indicates it will lapse on 1/1/27
 - 9 more months of revenue
 - \$1.3B that wasn't anticipated in Executive Budget.

Review

- State faces massive insurance cliff (1 million over next two years even *with* federal EP approval)
- Medicaid spending growth is moderate, driven by provider funding
- Exec makes no investment in keeping people covered
- Exec invests instead in provider rate increases

What can we do?

- FPI analysis has shown that the state can *fully* prevent loss of coverage in FY27 with \$1.1B
 - Costs would rise in out years but would remain manageable
- Key mechanisms:
 - For the Essential Plan 200–250 population, the state can fund alternative coverage (~\$950M)
 - For Medicaid work requirements population, the state can fund a 6-month “grace period” to keep people insured (\$130M)

How can we fund it?

- The MCO tax extension gives the state \$1.3B in new funding relative to the Executive.
- If the state receives federal approval for EP changes, a further \$2B in FY27 (and \$3B recurring) will be available.
- The state has ample fiscal capacity

What to Watch For

- The Executive Budget prioritizes provider funding over coverage
- The two issues are linked: Loss of insurance will defund providers
- With \$3.3 billion in extra money likely in the Executive Budget, healthcare advocates should insist on funding coverage.

Tax and Revenue

Tax Policy in the Executive Budget

- **Decouple from OBBBA business tax breaks**
 - Prevents \$3.5 billion in lost corporate tax revenue over 4 years
- **“No Tax on Tips”**
 - \$25,000 deduction for tips (for taxpayers up to \$150k/\$300k)
 - Bad tax policy
- **Extends Corporate Tax Rate**
 - Keep 7.25% tax rate through 2029
 - Should be permanent

State Tax Policy Recommendations

- **New State Revenue Needs**
 - \$5–15 billion to manage OBBBA impact
 - ~\$6 billion for fully statewide childcare
- **New City Revenue Needs**
 - \$5.4 billion budget gap
 - \$5–10 billion for Mamdani Affordability Agenda—housing, childcare, transit

State Tax Policy Recommendations

- **State Income Tax**

- A 1 percentage point increase on the millionaire tax brackets yields about \$3 billion in new revenue

- **State Corporate Tax**

- NY has only the 16th highest state corporate tax rate in the country
- Could match NJ rate of 11.5%
 - \$5 billion/year

City Tax Policy Recommendations

- **City Income Tax**

- Current tax: flat 3.9%
- Mamdani proposal: 5.9% for all taxpayers making over \$1 million
 - \$3 billion/year

- **City Business Taxes**

- NYC imposes its own tax on corporations (8.85%) and non-corporate businesses (4%) with exemptions and low brackets for small biz.
- Could impose a surtax of 25% of tax liability on all business
 - ~\$2.5 billion/year

“Affordability” Policy

What is “affordability” policy

The word that has swept the current political landscape:

- **Supply** of goods, services, energy, and infrastructure
 - Eg. policies that support or induce housing supply growth, more renewable energy production, ...
- **Price regulation** to address market failures
 - Eg. Rent stabilization, hospital price regulation, ...
- **Public subsidy** to offset costs for service users
 - Free buses, housing vouchers, SNAP, ...

Many public programs may include elements of all three!
Eg. **affordable housing tax credits**

“Affordability” policy in the Executive Budget

- Housing supply reforms (State Environmental Review)
- Car insurance costs
- Home insurance costs
- Tax credits for rent stabilized housing improvements
- Food insecurity support

“Affordability” policy in the Executive Budget

- Housing supply reforms (State Environmental Review)
 - Look for future briefing!
- Car insurance costs
- Home insurance costs
 - Look for future briefing!
- Tax credits for rent stabilized housing improvements
- **Food insecurity support**

Food Insecurity

OBBBA cuts to SNAP operate through four interconnected mechanisms:

- (1) enhanced work requirements (March 2026);
- (2) cost-shifting that transfers administrative costs from the federal government to states (October 2026);
- (3) cost-shifting that transfers benefit costs from the federal government to states (October 2027); and
- (4) restricted eligibility that eliminates SNAP access for refugees, asylees, and other vulnerable populations (immediate).

Food Insecurity - New work requirements

- 129,000 households will be affected
 - ~15,000 children aged 14–17 years whose parents now no longer qualify for the caregiver exemption
 - 144,000 adults
- Annual benefit loss of \$380 million
 - Total annual economic impact (including multiplier effect) of \$588 million
- Projected annual job losses of 13,642 jobs

Food Insecurity - Cost-shifting to states

- October 2026: Administrative costs increase by \$240 million in New York annually
 - Already deeply underfunded, putting strain on system and slowing SNAP distribution
- October 2027: Benefit cost shift will result in additional \$1.2 billion liability in New York to keep SNAP benefits flowing

Food Insecurity - New restrictions on vulnerable populations

- 41,000 legally present immigrants in New York will lose SNAP benefits under these restrictions.
- Annual loss of \$108 million in direct nutritional assistance.

NO LONGER ELIGIBLE

- Refugees
- Asylees
- Survivors of domestic violence and VAWA self-petitioners
- Victims of trafficking (T-visa holders)
- Individuals granted 'withholding of removal' and certain humanitarian parolees, even if granted for at least one year
- Temporary Protected Status (TPS) holders

REMAIN ELIGIBLE

- U.S. citizens
- Lawful permanent residents (LPRs / green card holders) (subject to existing conditions like the five-year waiting period)
- Cuban and Haitian entrants
- Citizens of Compact of Free Association (COFA) nations—Micronesia, the Marshall Islands, and Palau

Food insecurity

Executive Proposal

- \$131 million for HPNAP, Nourish NY, and NY PLATE
 - Support for food banks and EROs
- Upgrading EBT cards to chip technology to prevent theft
- \$70 million allocation for SNAP administration in wake of OBBBA

Food insecurity

FPI Recommendations

- Budget for at least \$120 million in administrative costs for FY 2027 to assist county social service departments and \$240 million in out-years;
- Out-year budgets need to reflect fiscal strategies for providing up to \$1.2 billion in benefits starting in October 2028 (state FY 2029) due to federal cost shifting.
- Creation of a state-sponsored nutritional assistance program with the explicit aim of helping:
 - 41,000 legally present immigrants who have now lost SNAP eligibility (\$108 million), and
 - 144,000 ABAWD New Yorkers who would lose benefits by failing to meet work requirements (\$380 million).

Questions

RSVP for FPI's Annual Budget Briefing in Albany
Thursday, February 26, 8:30AM
Meeting Room 4
Empire State Plaza Convention Center

