

August 2025

# New York navigates federal policy changes with budget management



**Cora Bruemmer**  
Senior Research Analyst

*New York remains a major municipal debt issuer with an economy driven by the downstate region and financial services. Record reserves provide stability following strong tax receipts and federal stimulus. While recent federal policy shifts may reduce future revenue, the state maintains fiscal flexibility through potential tax adjustments and spending controls.*

## NEW YORK IS A MAJOR ISSUER OF MUNICIPAL BONDS

New York State participates extensively in the municipal market. Issuance of new municipal debt in New York State, including state and local issues, was more than \$58 billion in 2024, according to The Bond Buyer. That represented 11.5% of 2024 issuance nationwide and made New York State the third largest issuer of municipal debt in the nation (trailing California and Texas).

Such a dependence on the capital markets reduces the risk that New York State would imperil its access to the market by defaulting on any of its debt. A rating reduction is more probable than an outright default.

As is the case with all states, the state of New York itself is not authorized to file for Chapter 9 bankruptcy. New York State does, however, allow most of its political subdivisions (except school districts) to file for Chapter 9 bankruptcy.

Even so, New York State has a track record of imposing state financial control boards on its troubled subdivisions before conditions reach such a point. Examples include New York City in the 1970s, Yonkers in the 1980s, and Buffalo in the early 2000s. While a government entity can default without filing Chapter 9 (and, conversely,

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file Chapter 9 and continue to pay its bonded debt), New York State is nowhere near that for reasons outlined below.

The state itself issues debt under a variety of programs, including general obligations and dedicated revenue obligations. Most New York State debt is well-secured.

The state's general obligation (GO) bonds represent the state's strongest security pledge, rated Aa1 (Moody's) and AA+ (S&P and Fitch). These bonds require voter approval in general elections and feature constitutional protection under Article VII, Section 16. The state comptroller must prioritize debt service payments from the first general fund revenues received, effectively creating a first lien on tax revenues from the world's 10th largest economy — all without requiring formal budget appropriations.

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## THE TWO LARGEST DEBT PROGRAMS ARE SECURED BY DEDICATED TAXES

However, most debt issued by the state of New York is not GO debt. The state's two largest debt programs are secured by dedicated taxes — personal income taxes and sales taxes. Strong set-aside mechanisms and bondholder protection provisions are included in both programs. The personal income tax (PIT) bonds are the state's largest borrowing program, representing approximately 78% of the state-supported debt. PIT bonds are secured by a set-aside of 50% of the state's personal income tax revenues.

The New York State comptroller indicates that PIT revenues increased 13.7% in FY25 compared to FY24, due to strong wage growth. FY25 pledged PIT revenues covered maximum annual debt service by 10.0 times. Coverage of anticipated maximum annual debt service is projected to remain above 7.0 times through FY30.

The sales tax bonds are secured by a set-aside of two cents of the state's four cent sales tax revenue. The state comptroller indicates that sales tax revenues increased 2.2% in FY25, as opposed to

FY24, with pledged revenues covering maximum annual debt service by 7.1 times. Coverage of anticipated maximum annual debt service is projected to remain above 5.1 times through FY30. At one point, New York State mostly issued debt secured by annual appropriations. With the advent of the PIT and sales tax programs, use of appropriation debt has been greatly reduced.

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## NEW YORK'S DEBT LOAD IS HEAVY

In relation to other states, New York State is considered heavily indebted. New York State has the second highest amount of tax-supported debt outstanding at \$67.6 billion, according to Moody's. On a per capita basis, the state's debt burden is seventh highest among the 50 states at \$3,453 versus the Moody's median of \$1,189.

Net tax-supported debt as a percentage of personal income was tenth highest in the nation, at 4.2%, versus the Moody's median of 2.2%. Net tax-supported debt as a percentage of state GDP was the thirteenth highest in the nation, at 3.4%, versus the Moody's median of 2.0%. All of these ratios have improved since FY13.

Despite its being more heavily indebted than most states, principal and interest on New York State's bonded debt comprised only 1.7% of the state's total governmental funds' expenditures in FY25. This has as much to do with New York State's level of total expenditures being high as it does with the state's actual debt service expense being low.

Taking New York State's total governmental funds' expenses in FY25 (\$273.5 billion) and dividing them by the current population (19.8 million) produces an expenditure per capita of \$13,782. The same ratio for Florida, with a larger population, is roughly \$5,448. It is \$10,877 for California and \$5,875 for Texas.

No one can credibly accuse New York State of being a bare-bones, low-cost provider. This might suggest room for economizing before the state would move to impair debt service.

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## A BALANCED BUDGET IS REQUIRED

The New York State constitution requires that the governor submit a balanced budget, and New York State law requires that the legislature enact a balanced budget. The budget is due by the start of the state's fiscal year, which begins 01 April. Because New York State's politics and budget adoption process are sometimes chaotic, New York State has often missed the mandated 01 April deadline and adopted its budget late.

The FY24, FY25 and FY26 budgets were each approved approximately one month late. In years when the budget was delayed, the legislature enacted a separate debt service bill by 31 March to ensure timely, uninterrupted payment of the state's debt obligations. The rest of the budget may be months late, but historically New York State has always provided for the punctual payment of its public debt. We expect that will continue to be the case going forward.

The state's general fund posted a \$9.6 billion (GAAP basis) surplus in FY25, equal to 9.6% of general fund revenues, reflecting multiple years of conservative budgeting and better than anticipated revenues leading to positive year end results.

General fund tax revenues came in approximately \$9.3 billion (8.5%) ahead of the initial estimate. General fund expenditures came in \$904 million higher than initially budgeted. As a result, the total general fund balance increased to a record-high 59.7% of general fund revenues (GAAP basis).

The \$254 billion FY26 budget was adopted 09 May 2025. It is roughly 5.8% larger than the adopted FY25 budget and enacts tax reforms, provides rebate checks to middle-class families and increases funding for schools. Through the first quarter of FY26, General fund tax receipts were \$1.4 billion, or 8.4% above the first quarter of FY25, primarily due to strong personal income tax collections.

The FY26 Enacted Budget Financial Plan reflects the state's intent to deposit another \$1.0 billion in its rainy day fund, which would increase rainy day reserves to \$8.1 billion, a record high. The state also expects to maintain \$1.6 billion in its tax stabilization reserve and \$4.3 billion in its

reserves for economic uncertainties. It projects to have a combined \$14.0 billion (12% of revenue) in principal reserves at the close of FY26 and a total closing fund balance of \$44.9 billion (40% of revenue) on a cash basis.

Despite a balanced budget in FY26, budget gaps totaling \$7.5 billion in FY27, \$12.1 billion in FY28 and \$14.6 billion in FY29 are forecast for the remainder of the financial plan. It is important to remember that the state always has a looming deficit to be trimmed, and it has done what is necessary to balance the budget.

New York State's pensions have traditionally been well funded. The funded ratios for the New York State and Local Retirement System (NYSLRS) and the New York State Teachers' Retirement System (NYSTRS) were 93.2% and 99.1%, respectively, as of FY24. New York State is not pressured in that regard relative to so many other states. New York State's total fixed costs, including debt service, plus pension contributions, plus retirement health care (commonly referred to as other post-employment benefits or OPEB), are low at 3.8% of total governmental funds' expenditures in FY25.

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## NEW YORK IS A HIGH WEALTH STATE

New York State is a wealthy state. For 2024, New York State's per capita income (\$49,520) was third highest among the 50 states, at 118% of the U.S. average (\$43,313). Unemployment for the state stood at 4.0% in June 2025, just below the national average of 4.1% for the same period.

The state's economy is deep and diverse, though financial services exert an outsized influence. The upstate economy is more dependent on manufacturing, and job growth lags the nation. The downstate economy, anchored by financial, professional and business services, has been the state's growth engine.

New York State's \$1.8 trillion economy represents 7.9% of U.S. real GDP. On a stand-alone basis, according to the International Monetary Fund (IMF), New York State's economy would be the tenth largest in the world.

Wall Street activity has traditionally generated a disproportionate share of total state tax revenues because of its high levels of compensation, profitability and capital gains. While Wall Street represents about 4% of the state's job total, it can typically account for 15%-20% of total tax revenues realized by the state. In FY24, Wall Street accounted for 19% of state tax collections.

Wall Street's 2024 pre-tax profits were a strong \$49.9 billion, 90% higher than 2023 profits, due to robust economic growth and increased trading and underwriting. Still, 2024 profits were 15% under the record high of \$58.4 billion in profits made in 2021. The 2024 Wall Street bonus pool reached a record high \$47.5 billion, 34% higher than the prior year.

New York State's two largest sources of local revenue are the personal income tax (PIT) and the sales tax, accounting for 37.9% and 9.6% of the state's general fund receipts in FY25, respectively. The state's somewhat steep income tax structure further concentrates the PIT on the highest earners, making it sensitive to swings in asset prices and capital gains tax receipts. In 2023, the latest year for which data is available, the top 200,000 New York State income tax filers accounted for roughly 50% of the state's PIT collections.

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## LOOKING AHEAD: WEATHERING POTENTIAL HEADWINDS

### Demographic challenges and economic growth

New York State faces demographic headwinds that will impact its economic potential. With a compound annual population growth rate of just 0.19% from 2009 to 2024 — among the lowest in the nation — the state's economic expansion remains constrained. This sluggish growth stems from multiple factors:

- Resident outmigration from New York City during the pandemic
- Persistent housing affordability challenges
- Aging demographic profile

While international immigration provided a counterbalance to domestic migration losses between 2021 and 2024, recent federal policy changes have significantly reduced immigration flows, likely further dampening the state's population growth trajectory and economic potential. But New York State's economic base is extremely large, and even modest expansion represents a meaningful contribution to the base.

### Federal policy shifts and fiscal implications

Recent federal policy changes will create a substantial financial burden for New York State:

- Modified Medicaid eligibility requirements for legal immigrants will increase state costs by \$750 million in the current fiscal year
- New restrictions on Affordable Care Act premium tax credits are projected to cost the state \$3 billion annually beginning in FY27 (absent program modifications)
- Enhanced cost-sharing requirements for the Supplemental Nutrition Assistance Program (SNAP) will require additional state expenditures of \$18 million in FY27, growing to \$36 million annually thereafter

### Transportation funding uncertainties

Funding for the Metropolitan Transportation Authority (MTA), a critical component unit of New York State, was largely shored up with the state's passage of the MTA's 2025-2029 capital plan. However, MTA's congestion pricing program remains in dispute. The program, implemented in January 2025, was designed to generate \$15 billion for capital improvements while reducing traffic congestion in Manhattan. But federal opposition to the program has created uncertainty:

- The Federal Department of Transportation has revoked its approval for the congestion pricing program
- Federal authorities have threatened to withhold Highway Administration grant funding if the program continues

- The MTA has initiated legal challenges while maintaining program operations
- A court order currently prevents federal fund withholding while litigation proceeds

Although the MTA poses some contingent liability risk, the overall impact to the state's credit profile from absorbing current and future funding gaps would likely be minimal.

## PROVEN FISCAL TOOLS POSITION NEW YORK FOR CONTINUED STABILITY

New York State has a wide array of tools at its disposal to adapt and maintain financial stability and has demonstrated a willingness and ability to use them. Additional flexibility has been afforded the state by strong financial performance in the years following the pandemic. We believe this positions the state for a level of stability going forward.

**For more information, please visit [nuveen.com](https://nuveen.com).**

### Endnotes

### Sources

State of New York Basic Financial Statements and Other Supplementary Information for Fiscal Year 2025; State of New York Annual Information Statement for 2025; New York State Constitution; New York State Comptroller Reports; Enacted Budget Report, state fiscal year 2025-26; New York State Division of the Budget; New York State Department of Taxation and Finance; New York State Teachers' Retirement System Annual Comprehensive Financial Report for Fiscal Year 2024; New York State and Local Retirement System Annual Comprehensive Financial Report for Fiscal 2024; Moody's Investors Service; S&P Global Ratings; Fitch Ratings; The Bond Buyer; Moody's 2022 State Debt Medians Report; International Monetary Fund data base; U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; The Tax Foundation; U.S. Internal Revenue Service.

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