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New York balances political pressure and fiscal discipline

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New York remains a major municipal issuer supported by a vast economy anchored by financial services. A high-profile mayoral transition and contentious state budget tested fiscal governance this cycle, yet both levels of government preserved reserves and avoided major tax hikes. Growing state aid to localities, pension enhancements and a looming FY28 Medicaid cost shift deserve continued attention.

Key takeaways

- **New York's FY27 budget preserved reserves and avoided tax hikes despite political pressure, but growing state aid to localities warrants monitoring.**
- **Dedicated tax revenues backing New York's largest debt programs provide strong bondholder protection, with coverage ratios well above required minimums.**
- **Federal Medicaid cuts, pension benefit reforms and slow population growth pose credit risks the state has not yet fully confronted.**

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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New York is a heavyweight in municipal markets

New York State is deeply embedded in the municipal market. New municipal debt issuance in the state exceeded $63.2 billion in 2025, according to The Bond Buyer — 10.9% of national issuance, making New York the third largest state issuer. This capital markets dependence, and the state's need to preserve market access, reduces default risk; a rating downgrade is far more likely than default.

Like all states, New York cannot file for Chapter 9, though most political subdivisions — except school districts — can. The state has historically imposed financial control boards on troubled subdivisions before reaching that point, as it did with New York City, Yonkers and Buffalo in past decades.

New York issues debt under several programs, most well-secured. General obligation (GO) bonds carry the state's strongest pledge, rated Aa1 (Moody's) and AA+ (S&P and Fitch). GO issuance requires voter approval, with repayment protected under the state constitution's Article VII, Section 16.

The comptroller must prioritize debt service from the first general fund revenues received — effectively a first lien on tax revenues from the world's 11th largest economy — without requiring formal appropriations.

Dedicated taxes secure the two largest programs

Most New York State debt isn't GO debt. The two largest programs are secured by dedicated taxes — personal income and sales taxes — with strong set-asides and bondholder protections. Personal income tax (PIT) bonds represent roughly 71% of state-supported debt, secured by 50% of PIT revenues. PIT revenues rose 10.8% in FY26, with pledged revenues covering maximum annual debt service 10.2 times over, projected to stay above 7.9 times through FY30.

Sales tax bonds are secured by two cents of the state's four-cent sales tax. Sales tax revenues grew 5.9% in FY26, covering debt service 7.2 times over, projected to remain above 5.5 times through FY30. Annual appropriation debt, once the state's primary borrowing method, has diminished significantly with these two programs' growth.

New York's debt load is heavy

New York carries heavy debt relative to peers. The state holds the second-highest tax-supported debt outstanding at $65.3 billion, per Moody's. Per capita, its debt burden ranks seventh at $3,287 versus a $1,214 median. Net tax-supported debt as a share of personal income ranks 11th at 3.8% versus a 1.8% median; as a share of GDP, it ranks 13th at 2.8% versus 1.7%. These ratios have improved since FY13.

Despite the heavy load, principal and interest comprised only 1.2% of total governmental funds expenditures in FY26 — reflecting high overall spending as much as low debt costs. New York's per capita spending ($14,290 in FY26) dwarfs Florida ($5,691), Texas ($5,822) and even California ($12,447), showing New York isn't a bare-bones operation — and suggesting room to cut operating costs before debt service would be at risk.

Balanced budgets remain constitutionally required

New York's constitution requires a balanced budget from the governor, with the legislature required to enact one by April 1. The process is often contentious, and FY27 was no exception: The budget wasn't enacted until May 27, nearly two months late, continuing a pattern (FY24-FY26 budgets were each roughly a month late). As in past years, a separate debt service bill ensured timely debt payment regardless of delay — a practice we expect to continue.

The state closed FY26 from a position of strength, with reserves near record levels ($15.1 billion cash basis) after years of conservative budgeting and strong revenues. The enacted FY27 budget totals $161 billion, up 8% from FY26 and roughly 2% above the governor's original proposal. Reserves will hold steady at $15.1 billion, and revenue growth is projected to keep pace with spending. We view FY27 as credit neutral, though federal Medicaid cuts taking effect in FY28 may introduce pressure ahead. Despite a balanced FY27 budget, out-year gaps are forecast:

$6.4 billion in FY28, $10.5 billion in FY29 and $14.7 billion in FY30.

Notable FY27 items included foundation aid for school districts set at a 102% floor regardless of enrollment, bringing total state education funding to a record $39 billion. The budget also advanced consumer-facing measures: auto insurance reform to lower rates, a rollback of the 2030 carbon emissions target (while retaining the 2050 target) and roughly $1 billion in utility rebate checks.

Pension discipline faces a test

New York's pension funding discipline has been a credit strength, with NYSLRS and NYSTRS funded ratios at 93.1% and 102.1%, respectively, and total fixed costs — debt service, pension contributions and retiree health care — low at 3.3% of governmental funds expenditures in FY26. The FY27 budget broke from that discipline: "Fix Tier 6" pension reform restored benefits reduced under a 2012 law, costing $118 million annually. Modest against the state's $6 billion-plus annual pension contributions and overall budget, the change nonetheless reverses over a decade of cost containment and bears watching as a possible trend.

State aid to localities keeps expanding

New York City's FY27 cycle showed both the strength and limits of the state-local fiscal relationship. Mayor Zohran Mamdani, who took office in January 2026, opened the cycle by framing the budget gap as a "fiscal crisis," proposing a preliminary budget that would have fully depleted rainy-day reserves absent new state-approved tax revenue. The eventual outcome proved far more conventional — a reminder that opening proposals are negotiating positions, not final outcomes.

The city's $125.8 billion FY27 budget, adopted 30 June 2026 after a late deal with the City Council, preserved the $2 billion rainy-day fund and $5.2 billion retiree health benefits trust in full, included no property or income tax increases and closed its gap through departmental savings, a new pied-à-terre tax on high-value second homes, $500 million in one-time state aid and state-authorized relief including a pension amortization extension and delayed class-size mandate compliance.

Two mayoral priorities — a citywide millionaire's tax and reduced pass-through entity tax credit — required state approval and didn't survive negotiations.

New York City's reliance on state relief was the most visible instance of a broader pattern. The state also provided $135 million in temporary assistance to six financially strained cities (Albany, Buffalo, Mount Vernon, Rochester, Syracuse and Yonkers) and added $1.7 billion for statewide childcare and pre-K services.

Individually, each commitment is modest relative to the state's budget and credit-positive for recipients. Collectively, they raise a longer-term question: Will localities' growing reliance on state aid create political pressure for the state to sustain or expand that support?

Whether this proves to be temporary support or a durable commitment will be an important theme ahead.

New York's wealth is supported by an outsized economy

New York remains wealthy with a deep economy, though financial services carry outsized influence. For 2025, per capita income ($50,712) ranked fifth highest among states, at 116% of the U.S. average. The upstate economy leans on manufacturing with job growth lagging the nation, while the downstate economy — anchored by financial, professional and business services — drives growth. New York's $1.9 trillion economy represents 8% of U.S. real GDP, making it the world's 11th largest economy on a stand-alone basis, according to the IMF.

Wall Street generates a disproportionate tax share relative to its employment footprint — roughly 4% of jobs but typically 15%-20% of tax collections. In FY25, Wall Street accounted for 19% of state tax collections. In 2025, Wall Street's pre-tax profits rose 30% to $65.1 billion, and the bonus pool totaled $49.2 billion, up 9% from the prior year.

New York's two largest revenue sources — PIT and sales tax — made up 38.9% and 9.6% of FY26 general fund receipts, respectively. The progressive income tax structure concentrates PIT further on top earners, with the top 200,000 filers accounting for roughly half of 2024 PIT collections.

Outmigration concerns remain overstated

This wealth concentration has fueled persistent outmigration concerns, but evidence is mixed. IRS data shows New York's share of the nation's millionaire population fell from roughly 12.7% to 9.0% between 2010 and 2023, even as the state's total millionaire count roughly doubled from 35,800 to 71,700 — suggesting faster wealth creation elsewhere rather than an exodus.

New York still ranks at or near the top nationally in state and local taxes collected per capita, and the data show high-income residents are moving to New York City at higher rates than lower-income residents following a pandemic-era dip. The more consistent driver of long-term outmigration has been affordability pressure among lower- and middle-income households, not departing top earners. For a revenue base this concentrated, the durability of its highest earners remains the more relevant credit consideration.

Looking ahead: Weathering potential headwinds

Slowing population growth adds pressure

New York's population growth remains among the slowest nationally, constrained by outmigration, housing affordability and an aging population.

International immigration once partially offset domestic outmigration — New York has the third-highest foreign-born population of any state — but federal immigration policy now works against this counterbalance. Expiring Temporary Protected Status for large foreign-born populations adds further, more immediate pressure.

Medicaid cuts loom for FY28

Federal legislation tightening Medicaid provider tax rules, eligibility standards and redetermination procedures is phasing in over several years, with the largest impact arriving in FY28.

Under the FY27 enacted budget, the state opted not to cover the 500,000 New Yorkers losing Medicaid that year, avoiding near-term cost. But FY28 changes will bring considerably more pressure, which may be harder for the state to defer.

Congestion pricing litigation continues

As of September 2026, the Metropolitan Transportation Authority's (MTA) congestion pricing program remains active amid ongoing federal and state legal battles. The Federal Department of Transportation revoked its approval, but a court order allows the program to continue and prevents withholding federal funds during litigation.

While the MTA poses some contingent liability risk, the impact on the state's credit profile from absorbing funding gaps would likely be minimal regardless of the outcome.

Fiscal tools support continued stability

This year tested New York's fiscal governance as the new mayor's "fiscal crisis" rhetoric heightened budget talks. Despite that, and the usual delays, both the city and state reached conventional, credit-conscious outcomes: reserves preserved, tax increases avoided, debt service paid on time throughout.

Whether increased state support for localities becomes a recurring obligation, whether pension discipline wanes, and how the state absorbs FY28 Medicaid changes aren't immediate concerns, but merit watching. New York's fiscal tools — and its willingness to use them — remain considerable, supporting continued stability even as tests grow more complex.

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Endnotes

Sources

State of New York Basic Financial Statements and Other Supplementary Information for Fiscal Year 2026; State of New York Annual Information Statement for 2026; New York State Constitution; New York State Comptroller Reports; Enacted Budget Report, state fiscal year 2026-27; 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 2025; New York State and Local Retirement System Annual Comprehensive Financial Report for Fiscal 2025; Moody's Investors Service; S&P Global Ratings; Fitch Ratings; The Bond Buyer; Moody's 2024 State Debt Medians Report; Moody's New York State Pension Benefit Increases Will Mean Higher Contributions and Liabilities; 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; Current Foreign-Born Population by State and Congressional District | Congress.gov | Library of Congress; Citizen's Budget Commission New York

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