FINANCIAL PLAN OVERVIEW

The State's financial position remains strong, with favorable operating results recorded through the first nine months of FY 2025 and a positive economic outlook. Forecast revisions since the FY 2025 Mid-Year Update have created new projected surpluses, resulting in a favorable baseline forecast. The FY 2026 Executive Budget leverages these resources to include a package of tax reforms and initiatives aimed at addressing affordability issues that continue to impact many New Yorkers while preserving reserves at the highest levels in history. In addition, debt levels remain nearly flat at less than 1 percent growth over the past decade, historic liquidity levels continue to deliver high investment returns, and other reserves are available to manage risks to the Financial Plan. The State continues to manage projected budget gaps in future years with the use of prior year cash management actions and resources, including the prepayment of future obligations (e.g., debt service and pension costs), as well as reserves for transaction risks.

At the same time, uncertainty looms. Risk as varied as policies and plans of the new Federal administration, the potential for a slowdown in economic growth, geopolitical risks, the ongoing implications of climate change, and sustained trends of rising enrollment and costs in public health insurance programs all present the potential for fiscal challenges in the future. While DOB expects economic growth to remain strong in the near term, inflation remains stubbornly high, increasing to 2.7 percent from the previous 2.2 percent forecast for 2025; housing prices and borrowing costs remain elevated; and labor market growth appears to be easing. Potential Federal changes to trade, immigration and tax policies could drive further inflation increases. Likewise, possible reductions in Federal assistance that support vital New York programs, including health care delivery, social services, and public safety, could negatively impact the State and New Yorkers who depend on these programs.

In light of these uncertainties and risks, the Executive Budget maintains the existing level of Principal Reserves to protect essential services in the event of an economic downturn or other future fiscal challenges. To further protect these important reserves, the Governor has directed the transfer of funds held in the reserve for economic uncertainties to the statutory Rainy Day Reserve to increase the balance by $1 billion annually over the next four years, as fiscal conditions permit.

Updated Financial Plan Estimates

Through December 2024, General Fund tax receipts, including transfers from other funds, were $1.1 billion higher than estimated in the Mid-Year Update, driven mainly by strength in personal income tax and PTET collections. Consumption and use tax receipts remain on track with projections, however, business tax collections to date continue to fall below expectations. Non-tax receipts exceeded estimates by $3.6 billion, almost entirely due to the earlier than planned transfer of Federal State and Local Fiscal Recovery Fund (SLFRF) moneys to the General Fund. General Fund disbursements, including transfers to other funds, were nearly $3 billion below the most recent cash flow estimate, due to lower spending across many local aid programs and capital projects.

On the strength of collections experienced to date, the baseline forecast for General Fund tax receipts has been increased by an average of over $1.7 billion annually, resulting in an $8.3 billion cumulative increase through FY 2029 compared to the Mid-Year Update. In addition, downward revisions to STAR and debt service spending, which are supported by tax receipts, increased General Fund receipts by a cumulative $2.8 billion through FY 2029 compared to the prior forecast. Other non-tax receipts have also been increased, including upward revisions to investment income projections in FY 2027 based on the revised interest rates, and additional mental hygiene Federal revenue related to retroactive rate increases under the Home and Community-Based Services (HCBS) waiver that support continued investments and service expansion.

At the same time, the baseline forecast for spending has been increased by a cumulative $6.1 billion through FY 2029 compared to the Mid-Year Update. Medicaid and School Aid spending estimates across the plan have been increased by a $6.1 billion and $3.1 billion, respectively. The higher spending reflects costs related to updated Medicaid enrollment and utilization data, particularly for Medicaid long-term care services, and inflationary growth in the Foundation Aid formula. In addition, higher pension costs are expected across all years of the Financial Plan due to workforce and salary increases, benefit expansion, and fund losses that drive higher rates for State and local governments. These increases are partly offset by downward revisions to spending estimates across nearly all other assistance and grant programs based on results to date, various updated assumptions, and timing-related adjustments. In addition, spending is reduced to reflect lower employee health insurance costs pursuant to a reduction in negotiated health insurance premium rates, and upward revisions to lottery and gaming revenue that support education spending.

The aggregate baseline forecast revisions leave General Fund surpluses of $3.5 billion in FY 2025 and $1.8 billion in FY 2026 prior to the new proposals included in the Governor's FY 2026 Executive Budget. Projected baseline gaps for FY 2027 and FY 2028 are lowered compared to the Mid-Year Update to $4 billion and $7.4 billion, respectively. The FY 2029 baseline gap is estimated at $11.8 billion. The annual gaps through FY 2029 include the use of prior year cash management actions and resources, including the prepayment of future obligations (e.g., debt service and pension costs), as well as cautious estimates and reserves for transaction risks.

The table below summarizes the impact of the updated forecast revisions on General Fund operations compared to the Mid-Year Update.

Other revisions that do not impact General Fund balance include PTET related revisions to receipts estimates and adjustments tor reserves, including the planned shift of funds into the statutory Rainy Day Reserve over the next four years, as fiscal conditions permit.

Since the implementation of the PTET program in FY 2022, increases to tax receipts related to PTET have been set aside in the PTET reserve to cover credits claimed in subsequent years. Previously the PTET program was expected to cease to be utilized after tax year 2025, aligning with the expected expiration of the State and Local Tax (SALT) deduction cap under current Federal law. The Executive Budget Financial Plan revises this assumption to reflect the continuation of the PTET program in perpetuity, absent amendments to current State law or Federal actions to end the program. The change reflects the likelihood that the Federal government will extend

FY 2026 EXECUTIVE BUDGET FINANCIAL PLAN
GENERAL FUND REVISIONS
SAVINGS/(COSTS)
(millions of dollars)

	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
MID-YEAR UPDATE SURPLUS/(GAP) ESTIMATE	**0**	**(1,019)**	**(6,191)**	**(7,077)**	**(9,912)**
Receipts	**2,989**	**5,475**	**12,952**	**2,783**	**2,192**
Tax Receipts	2,196	5,556	12,270	2,699	2,192
Tax Receipts, excluding PTET/STAR/Debt Service	1,193	1,636	2,294	1,716	1,413
PTET/PIT Related PTET (Financial Plan Neutral)	441	3,060	12,750	526	320
PIT/SALT Cap Adjustment (Financial Plan Neutral)	0	0	(3,200)	0	0
STAR	271	370	474	504	504
Debt Service	291	490	(48)	(47)	(45)
Miscellaneous/Federal Receipts	(50)	0	500	0	0
Transfers from Other Funds	843	(81)	182	84	0
Disbursements	**955**	**443**	**(1,203)**	**(2,558)**	**(3,782)**
Assistance and Grants	415	(166)	(1,453)	(2,380)	(3,542)
Agency Operations	361	88	(1)	(91)	(199)
Transfers to Other Funds	179	521	251	(87)	(41)
Use of/(Deposit to) Reserves	**(441)**	**(3,060)**	**(9,551)**	**(526)**	**(319)**
Rainy Day Reserve	(1,000)	(1,000)	(1,000)	(862)	0
Tax Stabilization Reserve	0	0	0	0	0
Contingency Reserve	0	0	0	0	0
Community Projects Reserve	0	0	0	0	0
Other Reserves	559	(2,060)	(8,551)	336	(319)
BASELINE SURPLUS/(GAP) ESTIMATE	**3,503**	**1,839**	**(3,993)**	**(7,378)**	**(11,821)**

SALT deduction cap and the widespread use of the similar taxes on pass-through income, which are utilized in 36 states and the City of New York (NYC). In addition, PIT estimated tax projections have been lowered by $3.2 billion in FY 2027 to reflect the assumed continuation of the SALT cap under the new Federal administration. This downward revision to tax estimates is entirely offset by the reserve previously set aside for this purpose, resulting in no net Financial Plan impact.

FY 2026 Executive Budget Proposal

The current year and budget year surplus, which totals roughly $5.3 billion, is expected to support new investments and proposals included in the FY 2026 Executive Budget and announced by the Governor in her State of the State presentation on January 14, 2025. DOB estimates that the General Fund is balanced on a cash basis in FY 2026, should the Legislature adopt the Governor's proposal without modification.

The Executive Budget also continues support for investments and increases to nearly all program areas made over the past three years, including fully funding Foundation Aid to schools; expanding access to mental health services, child care, and housing; providing assistance to distressed hospitals and other health care providers and workers; supporting health care delivery improvements; increasing support for public universities; addressing gun crime and violence; expanding access to school meals; protecting the environment and natural resources; and increasing wages.

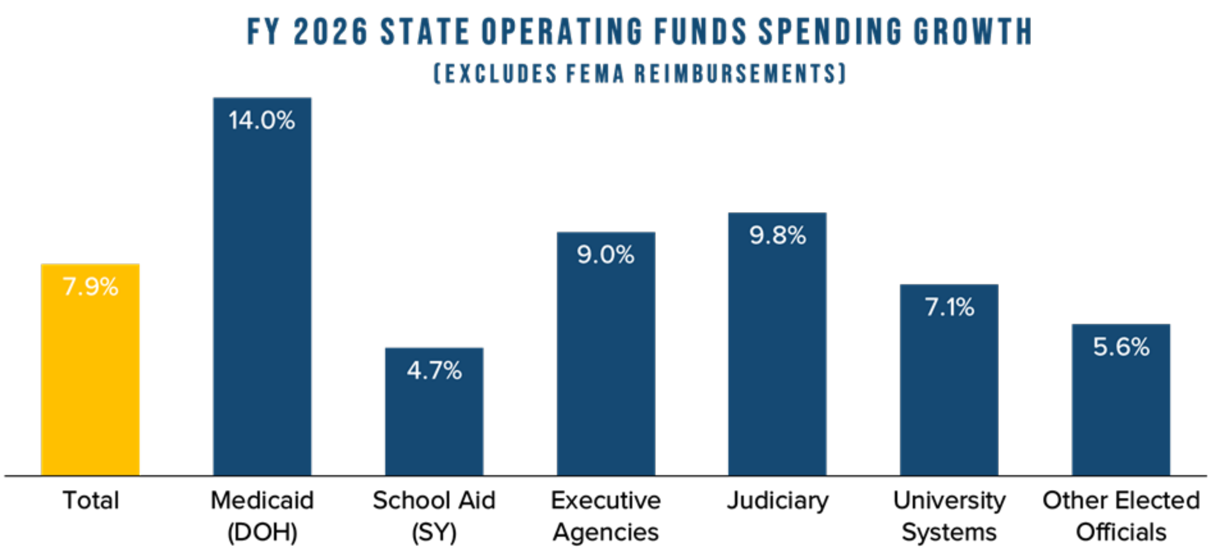
The Executive Budget proposes a tax affordability package that would deliver $3 billion back to New Yorkers through Inflation Refund payments to qualified tax filers from surplus resources available in FY 2025, lower the rates for five of the nine income tax brackets to reduce the tax burden, and significantly enhance the child tax credit for children under 4 years old in FY 2026 and for children ages 4 through 16 in FY 2027 and FY 2028. The Budget also proposes increases or extensions to several other tax credits and expands flexibility for businesses to opt into the PTET program by extending the opt-in deadline, which is cost neutral. To support the long-term cost of these tax cuts, the Executive Budget proposes extending the top tax rates for tax filers with taxable incomes above $2.1 million.

The Executive Budget also includes increased funding to address public safety, mental health care, housing affordability and access, transportation, health care delivery, abortion access, and child care. In addition, it proposes updates to the Foundation Aid formula, increasing aid by 5.9 percent in School Year (SY) 2026. Additional spending is included to support a 2.1 percent targeted inflationary increase for certain eligible programs; free school meals for all students regardless of income; a first-time homebuyers down payment assistance program; free community college for students ages 25 to 55 pursuing certain first-time associate degrees in high-demand occupations, including nursing, teaching, technology, and engineering; hunger prevention and nutrition assistance; operating aid for SUNY and CUNY campuses and the SUNY Downstate Hospital, medication assisted treatment (MAT) for substance use disorders, mental health services for justice-involved individuals, law enforcement activities, City of New York (NYC) subway safety initiatives; and payment of interest due on the outstanding Federal unemployment insurance loan that would otherwise be borne by businesses.

New capital funding commitments totaling $8.6 billion are proposed to support transportation, affordable and supportive housing, economic and community development, environmental and clean energy initiatives, increased access to care and housing opportunities for individuals with mental health issues, health care transformation, public safety, and investments in higher education. The new capital commitments proposed in the budget are funded not only with bonds but also with cash resources, to ensure the State's debt burden remains affordable. In addition, the Executive Budget includes a multi-year spending plan supported by the Federal government's approval of the Managed Care Organization (MCO) tax that is expected to provide up to $3.7 billion in resources over two years. The Healthcare Stability Fund (HSF) will receive and distribute the new MCO tax resources previously included in the FY 2025 Enacted Budget. The resources will be used to offset existing Global Cap

Medicaid spending and support continued funding for the Healthcare Safety Net Transformation Program, as well as new increases for hospitals, nursing homes and other health care providers, outpatient clinics and maternal health. These investments and funding are dependent on successful execution of the MCO tax transaction, which is dependent on continued Federal support. Absent assurance of continued Federal approval to continue the MCO tax, the Financial Plan does not include support for these investments in the later years.

The Executive Budget proposal is projected to drive nearly $144 billion of State Operating Funds spending in FY 2026, an increase of $10.5 billion or 7.9 percent compared to revised FY 2025 estimates. Roughly $6 billion or almost 60 percent of the spending increase supports the State's two largest assistance and grants programs – Medicaid and School Aid. Projected operational cost increases for all branches of State government also drives spending growth in FY 2026.



FY 2026 Executive Budget Financial Plan Summary

Consistent with statutory requirements, the Governor's FY 2026 Executive Budget proposal provides for balanced operations in the General Fund in FY 2026 due to surplus resources available in FY 2025 and FY 2026. However, the recurring cost of the FY 2026 Executive Budget proposals and upward revisions to baseline forecasts increase budget gaps in FY 2027 and beyond. Outyear budget gaps are projected to total $6.5 billion in FY 2027, $9.8 billion in FY 2028, and $11 billion in FY 2029 – cumulatively the outyear budget gaps are roughly $4 billion higher than the Mid-Year Update projections.

The following table summarizes the impact of the Executive proposals on General Fund operations, by financial plan category, starting with the revised baseline estimates.

Receipts. The FY 2026 Executive Budget includes a package of tax reforms and initiatives aimed at addressing affordability issues that continue to impact many New Yorkers. In December 2024, the Governor announced her plan to deliver inflation refund payments to New York tax filers. The rebates are subject to legislative approval and are expected to be issued in FY 2026 at a cost of roughly $3 billion.

In addition, the Executive Budget proposes lowering the tax rates for all joint tax filers making under $323,200 and providing an enhanced Empire State child tax credit for children under 4 years old in FY 2026 and children ages 4 through 16 in both FY 2027 and FY 2028. The Executive Budget also includes proposals to extend, increase, and add various tax credits, and proposes expanding flexibility for businesses to opt into the PTET program by extending the deadline. Proposed extensions include tax credits to support independent film productions,

FY 2026 EXECUTIVE BUDGET FINANCIAL PLAN
GENERAL FUND REVISIONS
SAVINGS/(COSTS)
(millions of dollars)

	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
BASELINE SURPLUS/(GAP) ESTIMATE	**1,839**	**(3,993)**	**(7,378)**	**(11,821)**
Receipts	**(6,678)**	**(1,783)**	**(1,092)**	**2,139**
Tax Receipts	(4,071)	(2,183)	(1,082)	2,306
PTET Flexibility (Financial Plan Neutral)	(3,045)	0	0	0
Debt Service	(7)	7	(60)	(167)
Miscellaneous/Federal Receipts	0	0	0	0
Transfers from Other Funds	445	393	50	0
Disbursements	**(1,709)**	**(703)**	**(1,305)**	**(1,344)**
Assistance and Grants	(372)	210	(455)	(473)
Agency Operations	(792)	(727)	(729)	(730)
Transfers to Other Funds	(545)	(186)	(121)	(141)
Use of/(Deposit to) Reserves	**6,548**	**0**	**0**	**0**
Rainy Day Reserve	0	0	0	0
Tax Stabilization Reserve	0	0	0	0
Contingency Reserve	0	0	0	0
Community Projects Reserve	0	0	0	0
Other Reserves	3,045	0	0	0
Carry-Forward FY 2025 Surplus	3,503	0	0	0
EXECUTIVE BUDGET SURPLUS/(GAP) ESTIMATE	**0**	**(6,479)**	**(9,775)**	**(11,026)**

low-income housing, musical and theater productions, clean heating fuel, and alternative fuel and electric vehicle recharging property. In addition, a new credit is established for living organ donors. To offset these changes, the top tax rates for tax filers making over $2,155,350 annually which otherwise expires at the end of tax year 2027 are instead extended for five-years through tax year 2032.

The Executive Budget proposal reduces General Fund receipts by a cumulative $1.3 billion through FY 2029 compared to the baseline forecast, excluding the cost neutral proposal to extend the opt-in deadline for businesses to opt into the PTET program and the proposed one-time inflation refund payments supported by projected surplus resources carried forward from FY 2025. Excluding the inflation refund payments, All Funds tax receipts are projected to total $117.8 billion in FY 2026, which results in an annual increase of 4.1 percent compared to revised FY 2025 estimates.

Disbursements. The Executive Budget proposes $5 billion in cumulative General Fund spending increases through FY 2029 to support agency operations increases and addresses the State's many continuing challenges, including access to mental health care, public safety, and the health care delivery system.

Operational spending is increased to support staffing increases, investments in cybersecurity and information technology, expanded access to mental health services, public safety enhancements, and Judiciary spending increases to support staffing levels to address case backlogs and provide operational support to various courts.

State Spending

All Funds spending is projected to total $252 billion in FY 2026, an increase of $8.6 billion or 3.6 percent from revised FY 2025 estimates.

Spending growth is largely driven by continued high levels of enrollment in the Medicaid program, as well as prior year expansion of benefits, increases in reimbursement rates, and expanded utilization of the State's Managed Long-Term Care (MLTC) program by the State's aging population. The State expects to develop proposals to provide recurring savings in future budgets to ensure long-term Medicaid spending levels are sustainable. The MCO tax transaction also increases Medicaid spending by nearly $1.2 billion through State share tax offsets.

Over the past three years, the State has made historic investments in nearly all program areas, including: fully funding Foundation Aid to schools; expanding access to mental health services, child care, and housing; providing assistance to distressed hospitals, other health care providers and workers; supporting health care delivery improvements; increasing support for higher education; addressing gun crime and violence; expanding access to school meals; protecting the environment, and energy affordability.

FY 2026 EXECUTIVE BUDGET
SPENDING ESTIMATES
(millions of dollars)

	FY 2025 Updated	FY 2026 Projected	$ Change	% Change
State Operating Funds	**133,336**	**143,804**	**10,468**	**7.9%**
School Aid (School Year Basis)	35,671	37,365	1,694	4.7%
Medicaid	31,021	35,369	4,348	14.0%
All Other Assistance and Grants	30,082	32,238	2,156	7.2%
Agency Operations	33,399	36,514	3,115	9.3%
Debt Service	3,163	2,318	(845)	-26.7%
Federal Operating	**93,013**	**87,037**	**(5,976)**	**-6.4%**
Capital Projects	**17,032**	**21,184**	**4,152**	**24.4%**
All Funds	**243,381**	**252,025**	**8,644**	**3.6%**

These investments have increased projected spending for assistance and grants to nearly $105 billion projected in FY 2026, an increase of nearly $30 billion (40 percent) compared to the $75 billion level recorded in FY 2022. Nearly three-quarters of the estimated $30 billion of growth in assistance and grants programs since FY 2022 is concentrated in School Aid and Medicaid, reflecting historic, recurring funding increases for schools and the health care system. New York continues to spend significantly more on these two programs than any other state in the nation.

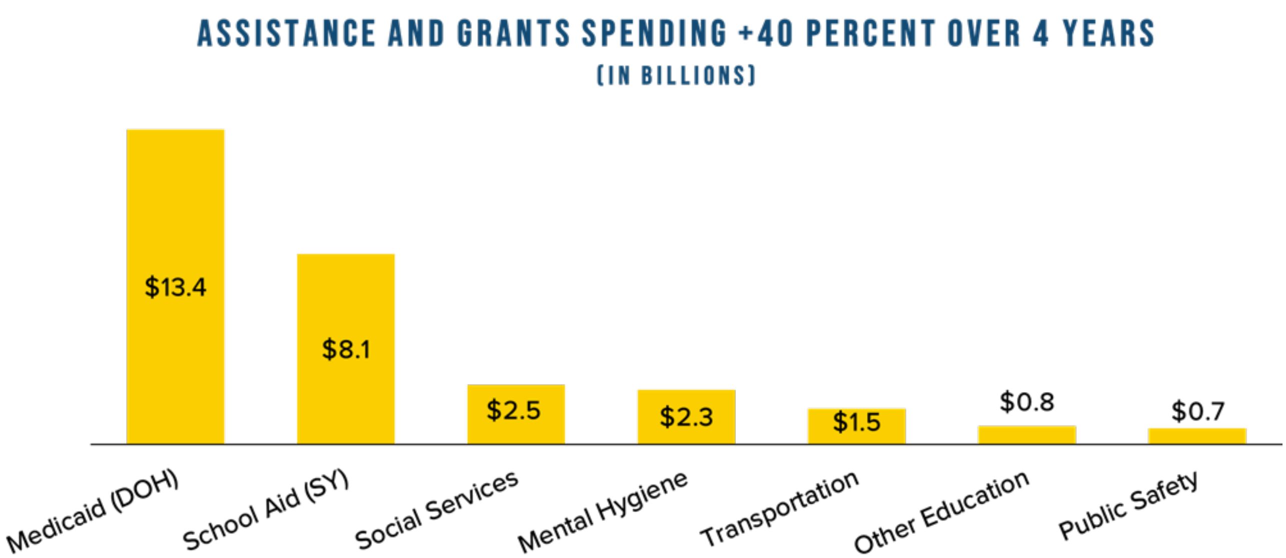
School Aid. The State provides a substantial amount of financial support for public schools through State formula aids and grants. Currently, approximately 2.5 million kindergarten through 12th grade students are enrolled in the State's public schools, including 186,000 students enrolled in charter schools. For over a decade, New York has ranked the highest in the nation for per pupil spending. In SY 2022, New York spent $29,873 per pupil, almost double the national average of $15,633 per pupil and approximately 19 percent higher than second ranked New Jersey.

Over the past decade, New York's per-pupil spending has increased from roughly $20,000 to $30,000. This increase was driven by the three-year phase-in of full funding of the Foundation Aid formula completed in SY 2024, which aided in adding over $6.6 billion (23 percent) to State-funded School Aid between SY 2022 and SY 2025. In addition to State aid, school districts have continued to raise revenue through local property tax increases, which when combined with State aid increases and Federal COVID-19 pandemic related assistance, have afforded many districts the ability to amass substantial reserves and surplus balances.

Adding to the historic increases in funding over the past several years, the Executive Budget proposes $37.4 billion for School Aid in SY 2026, an increase of $1.7 billion (4.7 percent), inclusive of a $1.5 billion (5.9 percent) Foundation Aid increase.

Medicaid. The New York State Medicaid Program provides health and long-term care coverage to lower-income children, pregnant women, adults, seniors, and people with disabilities. The Medicaid program also funds a portion of wages for home care workers and caregivers self-directed by consumers under the Consumer Directed Personal Assistance Program (CDPAP) and is a large contributor of funding to public and private hospitals and nursing homes through various supplemental programs. Medicaid spending growth continues to escalate as utilization of the system, primarily MLTC, which includes the CDPAP, rises with an aging population.

Nearly 7 million New Yorkers (36 percent) are currently covered by Medicaid. When combined with other public insurance coverage, such as Child Health Plus (CHP) and Essential Plan (EP), New York has the highest percent of people covered by



publicly funded medical insurance in the nation with a total of 9 million enrolled. The State offers some of the most comprehensive and extensive Medicaid benefits in the nation, including optional services such as coverage for pharmacy and personal care services, spending $4,724 per capita based on the latest Centers for Medicare & Medicaid Services (CMS) data (Federal Fiscal Year 2023) . New York's per capita spending was more than 46 percent above the national average of $2,554 per capita and over 19 percent higher than the next highest spending state -- New Mexico which spent $3,824 per capita.

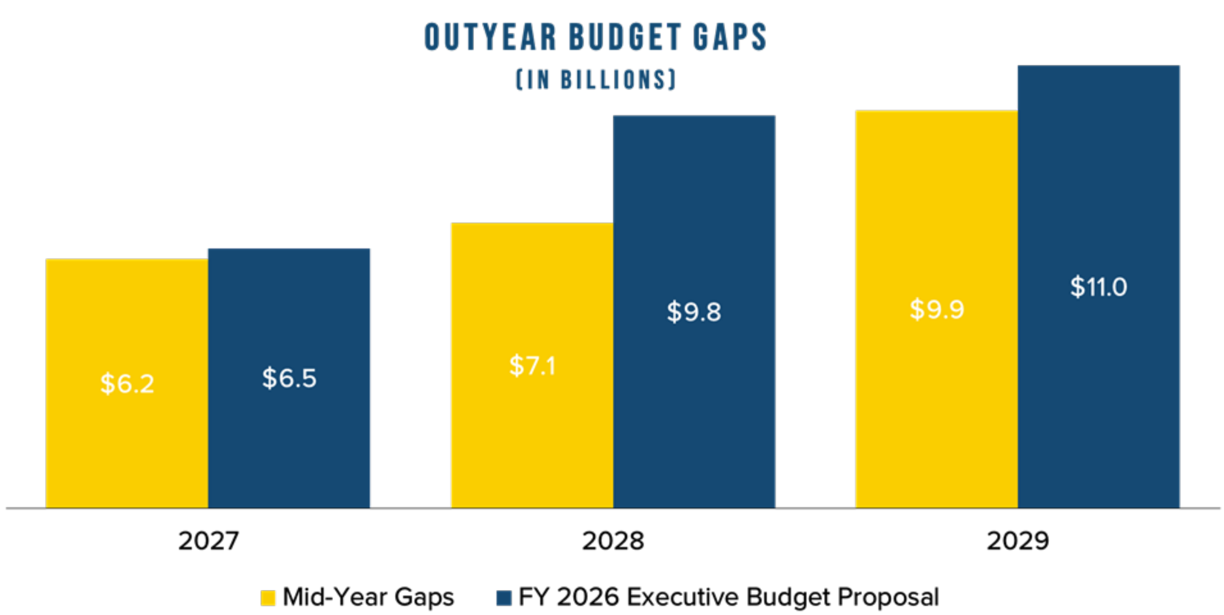
Medicaid costs are financed jointly by the Federal, State, and Local governments. New York receives the minimum Federal Medicaid matching share of roughly 50 percent. Local districts' costs have been capped at calendar year 2015 levels, shifting the increased costs of the program to the State and saving the City of New York and counties billions of dollars annually. In FY 2026, local governments will save an estimated $8.3 billion and have saved nearly $54 billion since 2015.

In FY 2026, Medicaid spending (excluding operational costs) is projected to total $35.4 billion, an increase of $4.3 billion (14 percent) from the revised FY 2025 levels. State spending for Medicaid has tripled over the past 15 years. The growth is due to medical cost increases, enrollment remaining at elevated levels, expansion of benefits, increases to reimbursement rates, and continued growth in aging and high utilization populations. Other factors that continue to place upward pressure on State-share Medicaid costs include, but are not limited to, provider reimbursements to cover home health wage increases, the phase-out of enhanced Federal funding, increased costs and enrollment growth in MLTC, and the needs of financially distressed hospitals.

Outyear Budget Gaps

The FY 2026 Executive Budget Financial Plan General Fund outyear budget gaps are slightly higher than the gaps projected in the Mid-Year Update . If the FY 2027 Budget is balanced with recurring savings, the budget gaps for FY 2028 and FY 2029 would be in the range of $4 billion annually.

The outyear budget gaps are the result of a structural imbalance between forecasted levels of spending growth and available resources. The estimated gaps include a $2 billion transaction risk reserve in each year. The projected budget gaps do not reflect the use of any Principal Reserves to balance operations but do include the use of prior year surpluses carried forward into future years and cautious estimates of disbursements, a practice that provides a cushion for potential receipts shortfalls and unanticipated costs that may materialize within a fiscal year.



Reserves and Risks

The Financial Plan faces ongoing economic risks, including: slowing economic growth; continued price inflation; geopolitical uncertainties; immigration policy; climate change and natural disasters; programmatic cost pressures; uncertainty about the fiscal conditions of outside entities relying on State assistance; risks due to the State's dependence on Federal funding and approvals; and possible policy changes under the new Federal administration.

While the DOB forecast of receipts and spending is primarily based on current law and reasonable assumptions as of the time it was prepared, economic uncertainties and the dependence of the State's tax base on the financial sector are embedded risks.

Reserves are the most practical and effective defense against such unpredictable risks. Outside experts view robust reserves as an essential tool for mitigating service reductions and public employee layoffs during periods of slow or declining growth.

During a "typical" recession, declines in receipts could be significant. DOB estimates that tax receipts can be expected to fall between $35 billion and $50 billion over three years in a recession that resembles those experienced after 9/11 and during the Great Recession of 2008.

Over the past several years, the State has significantly increased reserves to ensure that it can honor its commitments through good and bad times. The FY 2026 Executive Budget preserves these critical investments and, financial conditions permitting, plans to shift funds from the Reserve for Economic Uncertainties into the statutory Rainy Day Reserve.