

## Investment Insights

# State of the State: New York



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### Overview

New York remains one of the strongest state economies in the US, supported by high income levels, diverse industries, and disciplined financial management.

While, the state faces future budget gaps, we believe its creditworthiness will remain stable due to its history of conservative budgeting, proactive management and material increases in reserves.

We highlight New York Metropolitan Transportation Authority (MTA) revenue bonds. As the primary provider of public transportation in New York City, the MTA is well equipped to combat headwinds with increasing revenues, and support of both state and local governments.

### State overview

New York remains one of the strongest state economies in the US, supported by high income levels, diverse industries, and disciplined financial management. The COVID-19 pandemic caused a dramatic and sudden disruption in the New York economy five years ago, but federal relief funding and a fast recovery in tax collections allowed the state to quickly stabilize its finances. New York's strong economy, ample resources, and budget flexibility have mitigated pandemic-related challenges and reinforce Invesco's stable credit outlook.

The state has demonstrated disciplined fiscal management, quickly identifying gap-closing measures to balance the budgets for Fiscal Years (FY) 2025 and 2026. These actions addressed projected general fund shortfalls of \$5.7 billion and \$9 billion—which translates to 4% and 7% of estimated fiscal 2025 operating revenues.<sup>1,2</sup> In addition, New York benefits from well-funded pensions and a moderate fixed cost burden, further supporting its fiscal stability.<sup>3</sup>

### Fiscal Year 2025 results

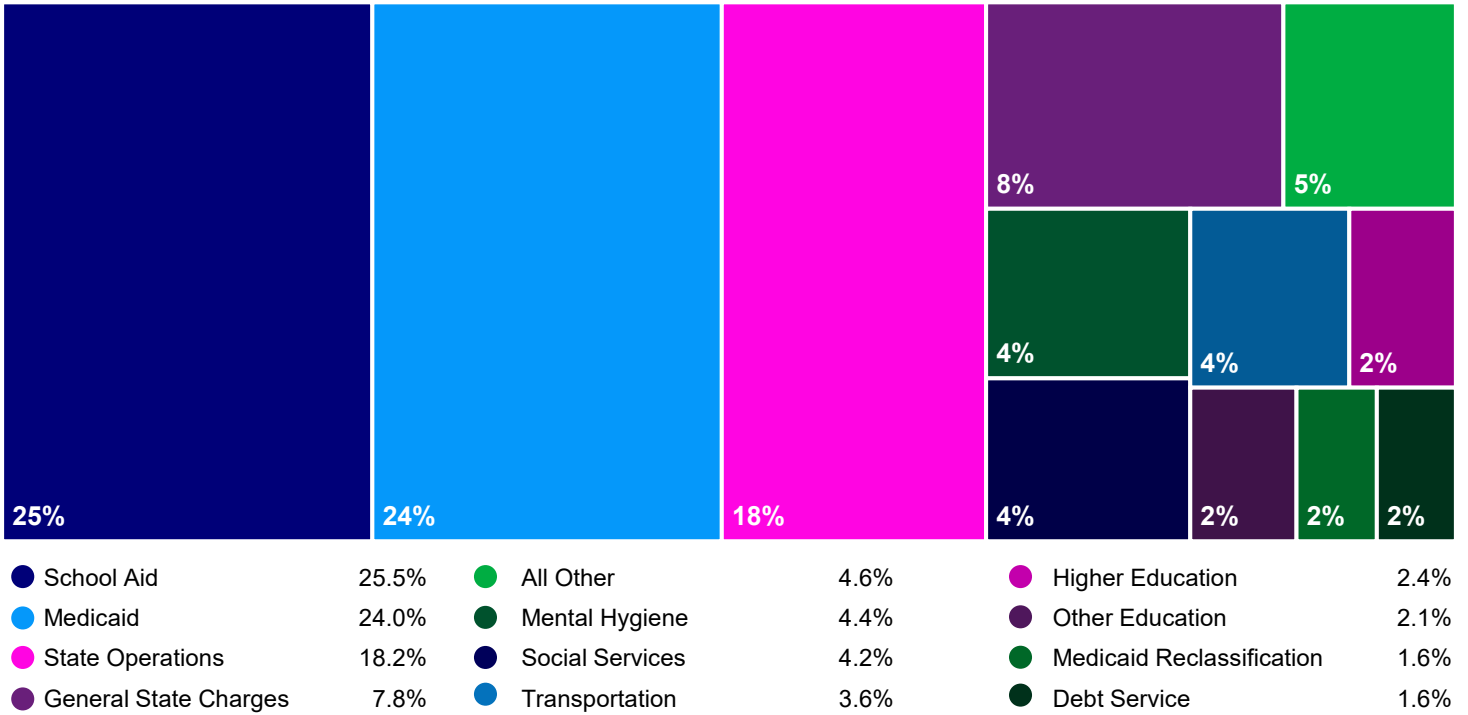
Fiscal year 2025 closed with state operating fund expenditures totaling \$133 billion, up 4% from the previous year. Tax revenue collections grew 10.4%, driven mainly by a 14% increase in personal income tax receipts, which accounted for more than half of New York's total tax receipts.<sup>4</sup> Sales and use tax receipts also rose year over year, albeit by a more modest 2%.<sup>5</sup> The year finished with a general fund surplus of \$9.6 billion, equal to 7% of annual general fund expenditures.<sup>4</sup>

### Fiscal Year 2026 update

Five weeks into the fiscal year, New York enacted its FY 2026 budget totaling \$254 billion—a 9% increase over FY 2025.<sup>6</sup> While the delayed budget adoption raises governance concerns, we will continue monitoring its implications for credit quality. Notably, on March 27, 2025, just days before the budget deadline of April 1, 2025, the state legislature approved annual debt service appropriations without amendment, partially mitigating this governance risk.<sup>5</sup> The budget also allocates \$7 billion of reserves to strengthen the state's unemployment trust, using the funds to retire unemployment debt and support job recovery.<sup>7</sup>

The New York Division of Budget's improved economic outlook—driven in part by factors like finance and insurance bonuses—prompted an upward revision of FY 2026 general fund revenues by \$2.6 billion, or 2% of projected operating fund spending.<sup>7</sup> According to the the mid-year financial plan, state operating expenditures are now estimated at \$147.5 billion, representing a \$13.8 billion increase, or 10.4% growth over FY 2025.<sup>7</sup> Notably, \$6 billion, or 42% of this year-over-year increase, is concentrated in Medicaid and school aid, which together account for nearly half of the mid-year FY 2026 budget at 24% and 25%, respectively.<sup>7</sup>

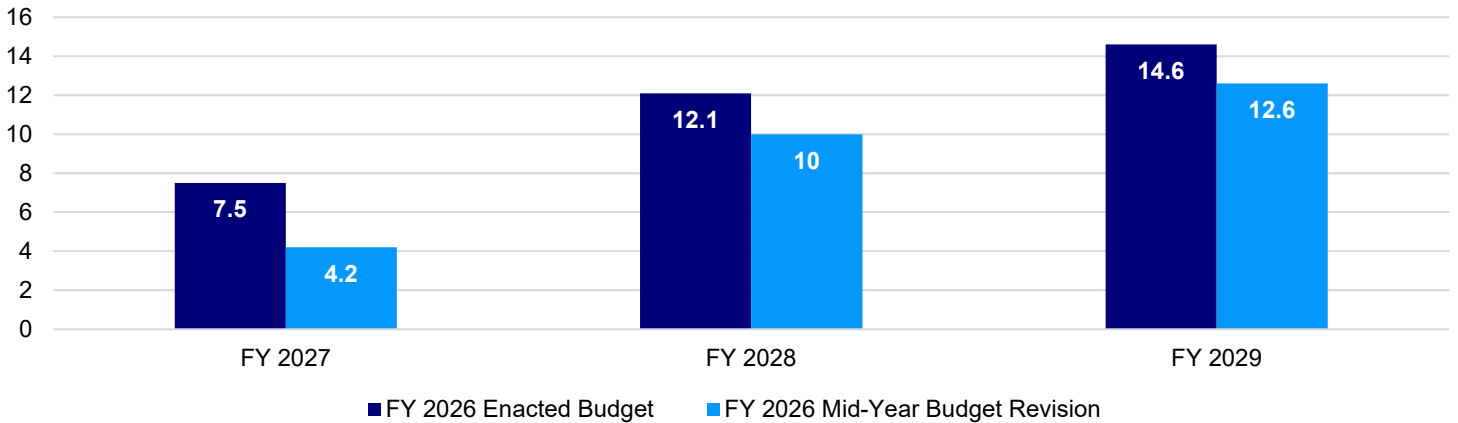
**Figure 1: Fiscal Year 2026 budgeted operating funds spending**



Source: New York State Fiscal Year 2026 Enacted Budget Financial Plan—Mid-Year Update, dated October 30, 2025. Total may not equal 100% due to rounding.

While future budget gaps are still projected through FY 2029, the latest budget revision shows these deficits narrowing due to stronger-than-expected economic performance.<sup>7</sup> Historically, New York has consistently managed similar gaps, so while we continue to monitor this metric, it does not pose an immediate credit concern.

**Figure 2: New York State projected budget gap (\$billions)**



Source: New York State Fiscal Year 2026 Enacted Budget Financial Plan—Mid-Year Update, dated October 30, 2025. Total may not equal 100% due to rounding.

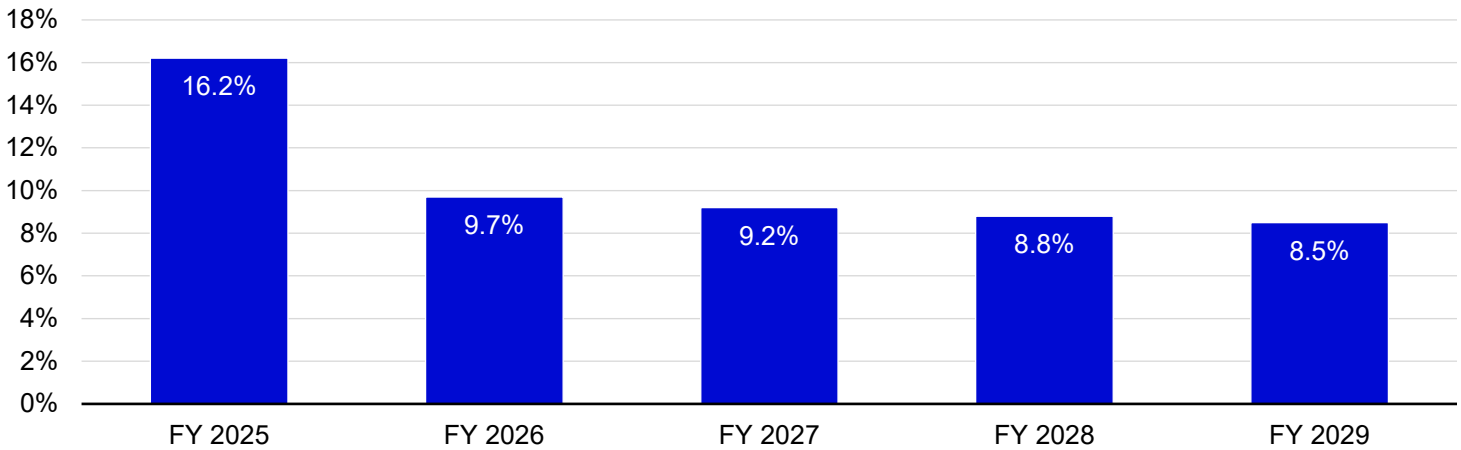
## Reserves and liquidity

Facing economic challenges like slower growth, ongoing inflation, and other uncertainties, New York has been working hard to strengthen its financial reserves. The state’s leadership has shown a strong commitment to keeping these reserves healthy, highlighted by raising the cap on the rainy day fund from 15% to 25% of general fund disbursements.<sup>8</sup> In FY 2025, New York added \$2.5 billion to its principal reserves, ending the year with a total of \$14 billion. That’s more than three times what the state had in fiscal 2021 and over eight times the amount from ten years ago.<sup>5</sup>

As mentioned earlier, the fiscal 2026 budget includes a \$7 billion withdrawal from reserves to support the state’s unemployment trust fund. This will bring reserves down to just under \$15 billion, or about 9.7% of the state operating fund’s estimated spending for 2026. Even with this drawdown, the reserve levels remain strong compared to past years.

Looking forward, the state expects to keep its principal reserves steady at around 9% of state operating fund disbursements from fiscal 2026 through 2029, showing a continued focus on careful financial management.<sup>9</sup>

**Figure 3: Budgeted principal reserves as a percentage of state operating fund spending**



Source: New York State Comptroller's Report on the State Fiscal Year 2026 and First Quarterly Financial Plans, dated August 7, 2025

### Economic update

New York is the nation's fourth most populous state with a population of 19.8 million, which has remained essentially flat for the last decade.<sup>3</sup> When it comes to income, New Yorkers are doing well—per capita income and median household income are at 114% and 108% of the national averages, respectively. However, the state's poverty rate has been a bit higher than the national average. As of December 2024, New York's poverty rate stood at 14%, compared to 12.1% nationwide. On a positive note, the state's poverty rate has been steadily declining, with a 10-year compound annual growth rate of -1.2%.<sup>3</sup>

According to the comptroller's latest Financial Condition Report, the biggest drivers of New York's economy are financial activities (31.5%), professional and business services (14.5%), and transportation, trade, and utilities (11.4%).<sup>4</sup> The heavy reliance on the financial sector has historically made one of the state's largest revenue sources—personal income tax receipts—more volatile, especially during economic downturns.<sup>10</sup>

In 2024, New York's real gross domestic product (GDP) grew by 2.4%, up from 1.5% in 2023. The state's GDP ranks third in the nation, accounting for 8% of the country's total.<sup>4</sup> As of August 2025, the unemployment rate in New York was 4.7%, which is roughly in line with the national rate for that period.<sup>10</sup>

### Future considerations

Despite concerns about an economic slowdown and uncertainty around federal funding, we expect New York's fiscal health to stay strong. The state benefits from a well-funded pension system, and debt levels are expected to remain manageable. That said, long-term challenges persist, including rising costs, unclear federal policies—especially related to Medicaid—and the projected budget gaps in future years.

Currently, about 7 million New Yorkers, or 36% of the population, are covered by Medicaid. As one of the state's largest spending categories, Medicaid continues to put pressure on the budget, with year-over-year growth expected at \$4.2 billion, or 13.5%.<sup>7</sup> This spending is likely to rise further due to increased enrollment in managed long-term care, expanded home and health coverage, and higher provider reimbursements.

While budget gaps are anticipated from fiscal 2027 through 2029, we believe state management is experienced and prudent enough to handle these challenges. It's worth noting that New York has faced multi-year budget gaps before and has consistently managed to pass balanced budgets.<sup>13</sup> In fact, management has already taken steps to reduce the projected deficits for 2027-2029 by 21% between the fiscal 2026 budget enactment and the mid-year update, showing proactive efforts to address these imbalances.<sup>7</sup>

Although rising Medicaid expenses and projected budget gaps warrant careful attention, New York's robust reserve levels and proven track record of addressing shortfalls lead us to expect overall credit stability over the next 12 to 18 months.

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## New York State credit rating update

Moody's Rating: Aa1 / Stable, as of July 17, 2025

S&P Rating: AA+ / Stable, as of March 17, 2025

Fitch Rating: AA+ / Stable, as of March 14, 2025

Moody's has maintained a Aa1 rating since April 2022. This rating is based on the large and diverse economy that generates above average wealth demographics, healthy liquidity and reserve levels and a history of closing large projected budget gaps. Credit headwinds cited include volatile revenue trends and elevated debt profile.<sup>11</sup>

S&P's rating incorporates the state's strong government framework and budgetary management, healthy economic metrics and revenue trends and recent years of increased reserves that should provide budgetary flexibility despite a decline in receipts compared to previous fiscal years.<sup>12</sup>

Fitch has rated the state AA+ since 2016. Credit positives cited include a wealthy and diverse economy, proactive budgetary policies, unprecedented high reserve levels and a low long-term liability burden. Credit headwinds cited include capital spending pressures and declining tax receipt growth.<sup>13</sup>

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## Revenue bond spotlight: New York Metropolitan Transportation Authority

Moody's Rating: A2/Stable, as of June 13, 2025

S&P Rating: A-/Positive, as of March 11, 2025

Fitch: AA/Stable, as of February 28, 2025

The New York Metropolitan Transportation Authority (MTA) is the largest transportation network in North America, serving over 15.3 million people across a 5,000-square-mile area that includes New York City, Long Island, southeastern New York State, and Connecticut.<sup>14</sup>

The MTA's transportation revenue bonds are backed by fares and other operating revenues from NYC Transit, MTA Commuter, and MTA Bus systems; surplus revenues from MTA Bridges and Tunnels; various state and local government subsidies; and certain dedicated tax revenues.<sup>15</sup>

The Authority benefits from its essential, monopolistic position, which has helped secure strong support from both New York State and New York City. Recently, the state increased payroll mobility tax revenues to help cover the multi-billion-dollar gap in the MTA's 2025-2029 capital improvement plan.<sup>16</sup> Additionally, the approved New York State fiscal 2026 budget includes direct contributions of \$3 billion each from the state and the city toward the MTA's capital plan.<sup>16</sup>

The relationship between the MTA and the city and state is symbiotic, with the transit system serving as a major economic driver. In fact, 80% of the state's personal income tax receipts and 65% of sales and use tax receipts come from the MTA region.<sup>14</sup>

Financial flexibility for the MTA is somewhat limited due to a high fixed cost burden and reliance on its own-source revenues, which make up about 45% of the Authority's budgeted revenues for FY 2025.<sup>17</sup> While the MTA can set fare rates, fare increases often face consumer and political resistance. On the positive side, tax-supported subsidies—including those from the state and city—account for over half of the Authority's revenues and, as seen in the fiscal 2026 state budget, can provide stronger debt service coverage than farebox revenues alone.

Although ridership remains below pre-pandemic levels,<sup>18</sup> farebox revenue has increased by 67% from 2021 to 2024.<sup>19</sup> Uncertainty remains, especially with federal funding at risk due to threats from the Trump administration to withhold funds unless congestion pricing is removed, and as ridership continues to recover. However, growing revenues, the MTA's critical role as the economic engine of the New York metro area, and strong support from state and local governments help cushion the Authority against potential credit challenges.

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The General Fund is the major operating fund of the state. It receives all state income not earmarked for a particular program or activity and not specified by law to be deposited in another fund. Gross domestic product (GDP) represents the total monetary value of all final goods and services produced (and sold on the market) within a region.

**Sources:**

1. New York State Comptroller's Report on the State Fiscal Year 2023-24 Executive Budget, dated March 9, 2023
2. New York State's Division of Budget, February Update to FY 2025 New York State Annual Information Statement, dated February 20, 2025
3. US Census Bureau, as of December 31, 2024
4. New York State Comptroller's State of New York Financial Condition Report for the Fiscal Year Ended March 31, 2025, dated September 26, 2025
5. Fiscal 2026 NYS Enacted Budget Financial Plan, dated June 12, 2025
6. New York Times, dated May 10, 2025
7. Fiscal 2026 NYS Enacted Budget Financial Plan Mid-Year Update, dated October 30, 2025
8. Moody's Ratings, dated July 25, 2023
9. New York Comptroller's Report on the State Fiscal Year 2026 Enacted Budget and First Quarterly Financial Plans, dated August 7, 2025
10. Bureau of Labor Statistics, as of August 31, 2025
11. Moody's Ratings, dated July 17, 2025
12. S&P Global Ratings, dated March 17, 2025
13. Fitch Ratings, dated March 14, 2025
14. 2025-2029 MTA Capital Plan, dated June 10, 2025
15. MTA Transportation Revenue Bonds Series 2024A Offering Statement, dated March 20, 2024
16. MTA Press Release, dated May 9, 2025
17. MTA 2025 Adopted Budget, dated May 4, 2025
18. Partnership for New York City, dated March 31, 2025
19. Progress Report on Fare and Toll Collection Update to the MTA Operating Committees, dated April 28, 2025

**About risk**

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/or interest.

Junk bonds involve greater risk of default or price changes due to changes in the issuer's credit quality.

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. The values of junk bonds fluctuate more than those of high-quality bonds and can decline significantly over short time periods.

All fixed income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Municipal bonds are issued by state and local government agencies to finance public projects and services. They typically pay interest that is tax-free in their state of issuance. Because of their tax benefits, municipal bonds usually offer lower pre-tax yields than similar taxable bonds. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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**Past performance does not guarantee future results.**

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. NR indicates the debtor was not rated and should not be interpreted as indicating low quality.

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For more information on Moody's rating methodology, please visit <https://ratings.moody's.io/ratings> and select 'Rating Methodologies' on the homepage.

For more information on Fitch Ratings rating methodology, please visit [www.fitchratings.com](http://www.fitchratings.com) and select 'Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.

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