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Investment Insights

State of the State: New York

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Overview

New York's robust and wealthy economy, adequate resources, and budget flexibility support our outlook on the credit.

The state's conservative budgeting has led to a prudent use of resources in the last few years. While it faces future budget gaps, New York's history of conservative budgeting, proactive management, and material increases in reserves lead us to believe its creditworthiness will remain stable.

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 benefits from a robust economy, with its flexible budget and adequate resources that act as buffers against potential economic headwinds; these qualities support our stable outlook on the credit. While the pandemic caused a dramatic and sudden disruption in the New York economy, the state was able to quickly stabilize its finances with relief funding and a fast recovery in tax collections.

The state has demonstrated strong management practices and quickly identified gap-closing measures to balance the budgets for Fiscal Years 2024 and 2025, which had projected General Fund budget gaps of 1% and 2% of total disbursements as of the fiscal 2022 enacted budget.[1,2] Additionally, the state benefits from well-funded pensions and a moderate fixed cost burden.[3]

Fiscal Year 2025 performance

The third quarter update for the fiscal 2025 budget state operating fund budget was $133.3 billion, a 3.8% increase over fiscal 2024.[2] Actual tax revenue collection through the third quarter of fiscal 2025 exceeded expectations, coming in 4% above budget with personal income tax (PIT) receipts leading the outperformance by outpacing budgeted estimates by $2.4 billion, or 6%.[4] Sales and use tax receipts tracked in line with the mid-year update estimates.[5] However, business tax collections fell below original estimates.[5] The year is anticipated to end with a $3.5 billion general fund surplus, equal to 3% of state operating funds' estimated revenues.[5]

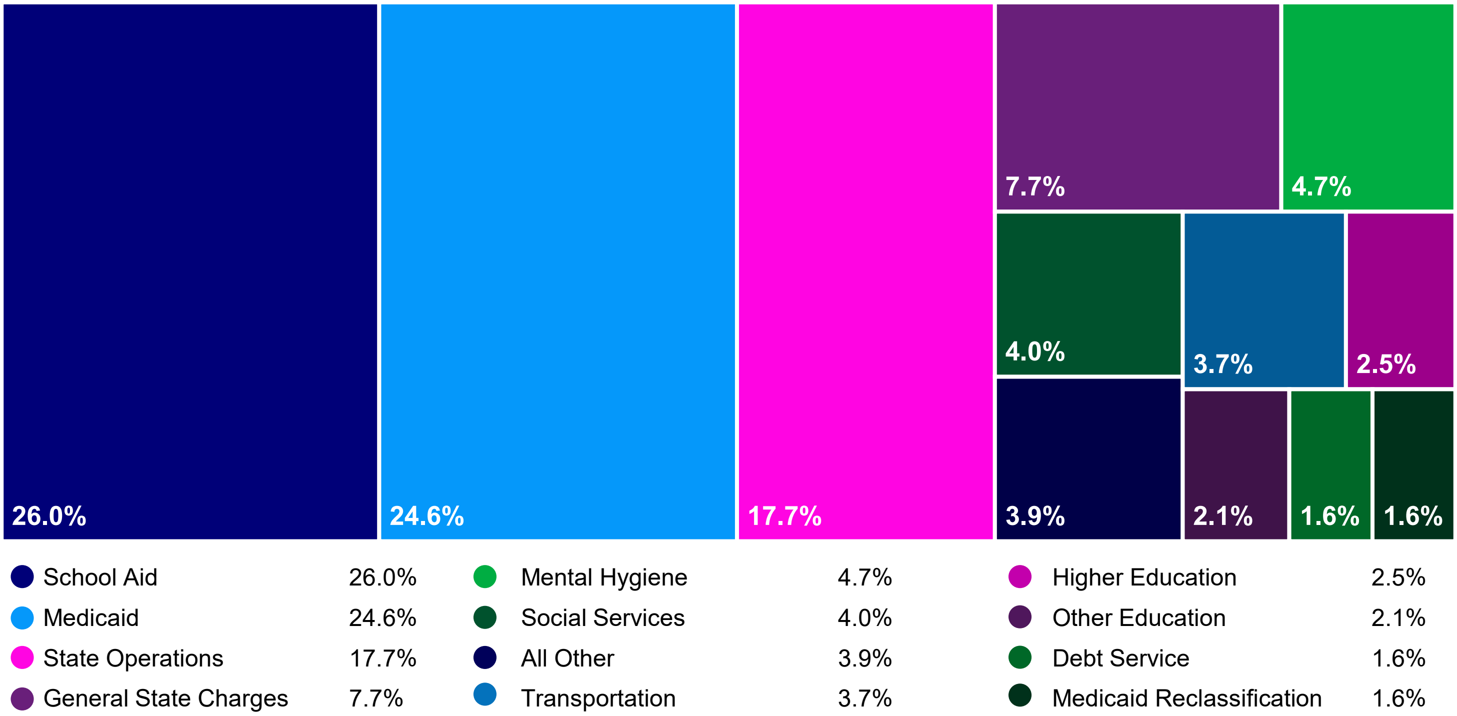
Fiscal Year 2026 budget

Five weeks into the fiscal year, the state passed the fiscal 2026 budget, totaling $254 billion, a 9% increase over fiscal 2025.[6] We view late budget adoption as a governance issue and will continue to monitor the state's ability to pass timely budgets for its impact on overall creditworthiness. The budget includes the use of $8 billion of reserves to fund the state's unemployment trust, using the funds to pay off New York's unemployment insurance debt and boost unemployment benefits for the first time in six years.[7]

Per the executive fiscal 2026 budget, state operating funds total $143.8 billion, a $10.5 billion, or 8% increase over the current estimate for fiscal 2025.[5] Of this increase, $6 billion, or 60%, is tied to increases in the state's two largest disbursement categories, Medicaid and school aid. These categories make up 23% and 27% of the updated fiscal 2025 projected budget, respectively.[5] The enacted budget also includes an increase to the payroll mobility tax that will be used to fund the capital plan for the MTA.[7]

New York's fiscal 2026 financial plan includes future budget gaps through fiscal 2029 driven by higher Medicaid spending projections coupled with a slowdown of revenue growth. However, we don't view this as an immediate concern given the state's history of passing balanced budgets and the current level of reserves available.[4]

Figure 1: Fiscal Year 2025 New York State Operating Funds Spending



Source: New York State Fiscal Year 2026 Executive Budget, dated January 21, 2025. Total may not equal 100% due to rounding.

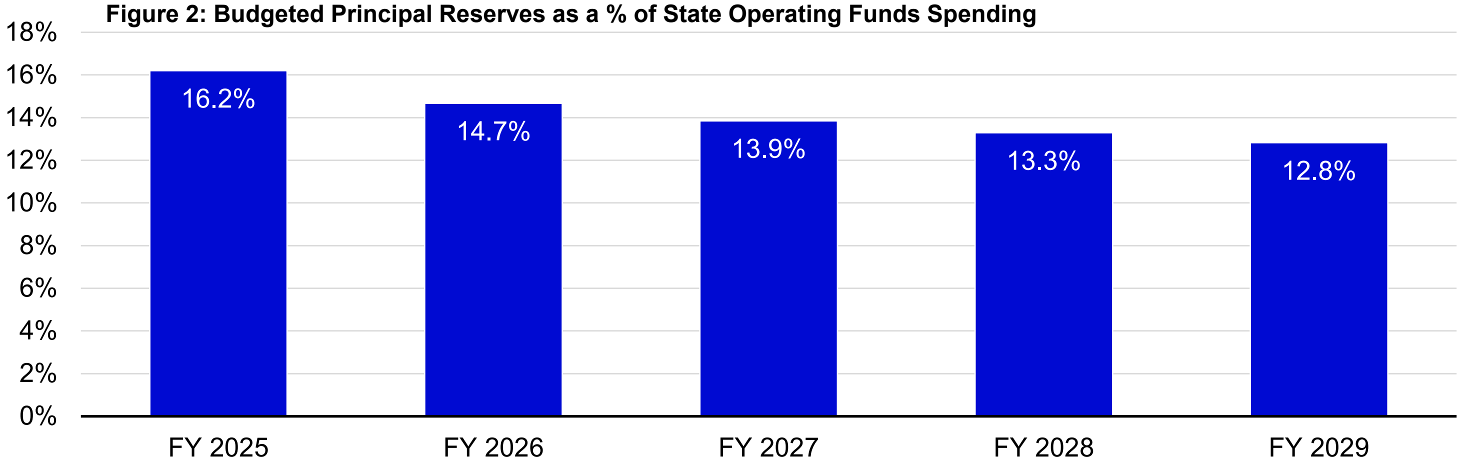
Reserves and Liquidity

New York State's conservative budgeting, tax revenue growth and proactive expense management have allowed a prudent use of resources and growth in rainy day funds. Management has shown its commitment to maintain these high levels of reserves, demonstrated by the increased the cap on the rainy day fund reserve to 25% of general fund disbursements, which was previously capped at 15%.[8]

Per the fiscal 2026 executive budget, principal reserves have more than tripled from $5.6 billion in fiscal 2022 to $21.1 billion in fiscal 2026. These reserves equal 15% of fiscal 2026 estimated state operating revenues.[2] The executive fiscal 2026 budget demonstrates commitment to continue reserve funds with plans to increase reserves by $1 billion annually, as fiscal conditions permit.[5] As mentioned above, the enacted fiscal 2026 budget includes an $8 billion drawdown on reserves to put toward the state's unemployment trust. Even with this planned $8 billion reserve drawdown, the State's reserve levels will still be near record highs both in terms of dollar amounts and as a percentage of expenditures.[4]

Encouragingly, from fiscal years 2026 through 2029, principal reserves are expected to hold steady at $21.1 billion.[1] However, state operating fund spending is expected to increase, leading to reserves as a percentage of state operating fund disbursements decreasing moderately from 15% in fiscal 2026 to 13% in fiscal 2029.[1]

Figure 2: Budgeted Principal Reserves as a % of State Operating Funds Spending



Source: State Comptroller's Report on the State Fiscal Year 2025-26, dated February 14, 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.[9] While the state's per capita income and median household income remained strong at 114% and 108% of the respective national averages, its poverty level has trended above the national level. As of December 2023, New York's poverty rate was 13.7% compared to the national average of 12.5%. However, the state's poverty level is declining, with a 10-year compound annual growth rate of -1.2%.[9]

Per the New York State Comptroller's latest Financial Condition Report, financial activities (31.7%), professional and business services (14.0%), and information (10.5%) industries are the largest contributors to the state's economy.[10] The high concentration of employment in financial activities sectors has historically contributed to volatility of the one of the state's largest revenue sources, PIT receipts, particularly during times of economic contraction.[11]

State gross domestic product (GDP) in 2023 was nearly $1.8 trillion, representing 7.8% of the nation's GDP and ranking third in size nationwide.[10] New York continues its recovery following the coronavirus outbreak and lock-down orders in March 2020. The leisure and hospitality sector, the hardest hit sector during the pandemic, realized the largest job gains in 2023 with 5.5%, although this figure is still 5.4% below pre-pandemic levels.[10]

In the fourth quarter of 2024, New York saw a GDP increase of 3.1%, outpacing national GDP growth of 2.4% in the same period.[12] Similarly, the state's personal income growth of 5.1% outpaced the nation's growth of 4.6% in the same period.[12] Employment metrics showed New York's unemployment rate as 4.3% in March 2025, essentially on par with the national average.[13]

Long-term challenges

Though the state's liability profile may weaken in the near term, its pension system is well-funded, and we expect debt levels to remain manageable. Long-term challenges include increases in Medicaid disbursements, population trends and projected outyear budget gaps.

Medicaid, the second largest disbursement category, continues to weigh on the state as 7 million, or 36% of New Yorkers, are currently covered by the program. Additionally, New York's Medicaid spending per capita is almost double the national average.[5] This category of spending is expected to increase in the coming years due to increased managed long term care enrollment, increased home and expanded health coverage, and higher provider reimbursements.[5]

New York has seen a decade of flat population growth, exacerbated by the pandemic which caused a surge of outmigration in 2020 and 2021, primarily in New York City.[12] Despite relatively stagnant population growth, it should be noted that the majority of the state's largest revenue source, personal income taxes, are paid by the wealthiest tier of residents with millionaires accounting for 41% of the State's total PIT revenues in tax year 2023.[13] Positively, data indicates that migration trends for the wealthiest residents (those making $800,000 per year or more) leave at one fourth the rate of those making less income.[13]

The state expects budget gaps from fiscal 2027 through fiscal 2029 that average $6.8 million, or 6% of estimated fiscal 2026 general fund disbursements. Although these gaps present potential financial headwinds, it should be noted that this isn't the first time New York has projected multi-year gaps and has been able to produce a balanced budget.[2]

New York State Rating Update

Moody's Rating: Aa1 / Stable, as of July 26, 2023
S&P Rating: AA+ / Stable, as of July 25, 2023
Fitch Rating: AA+ / Stable, as of September 13, 2023

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.[14]

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.[11]

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.[15]

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.

Spotlight: New York Metropolitan Transportation Authority Revenue Bonds

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 North America's largest transportation network, serving a population of over 15.3 million people in the 5,000-square mile area from New York City to Long, Island, southeastern New York State, and Connecticut.[16]

The transportation revenue bonds are secured by fares and other operating revenues from the NYC Transit, MTA Commuter, and MTA Bus system; surplus operating revenue from MTA Bridges and Tunnels; various State and Local government subsidies, and certain dedicated tax revenue. [17]

The Authority benefits from its monopolistic and essential nature, which has contributed to a strong history of support from New York State and New York City. New York State most recently showed support to the MTA by increasing payroll mobility tax (PMT) revenues to fund the multi-billion gap in the MTA's 2025-2029 capital improvement plan.[18] The approved New York State fiscal 2026 budget also includes direct support to the MTA's capital plan, with New York State and New York City each contributing $3 billion.[19]

The relationship is of the MTA and the city and state is symbiotic, with the system serving as the major economic generator. Of the State's two largest own-source revenue streams, personal income tax receipts and sales and use tax receipts, 80% and 65% are generated, are generated in the MTA region, respectively.[16]

Financial flexibility is somewhat limited given the high fixed cost burden and the Authority's own-source revenues (roughly 45% of the Authority's budgeted FY25 revenues).[16] Although the Authority can set fare rates, fare hikes are subject to consumer and political pushback. Positively, tax-supported subsidies (including those from the state and city) account for over 50% of revenues and as we have seen in the fiscal 2026 New York State budget and can bolster debt service coverage more than farebox revenues alone.

While ridership is tracking below pre-pandemic levels,[19] farebox revenue is up 67% from 2021 to 2024.[20] Uncertainty still looms while the Trump administration threatens to withhold federal funding unless congestions pricing is dismantled, and ridership recovery continues. However, increasing revenues, the essential role the MTA plays as the New York metro-area's economic engine, buttressed by support of both state and local governments, provide cushioning from credit headwinds.

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. CreditScope as of March 31, 2024
4. State Comptroller's Report on the State Fiscal Year 2025-26, dated February 14, 2025
5. FY 2026 New York State Executive Budget Briefing Book, dated January 20, 2025
6. New York Times, May 10, 2025
7. The Ithaca Voice, May 12,2025
8. Moody's Report, as of July 25, 2023
9. US Census Bureau, as of December 31, 2024
10. State Comptroller's State of New York Financial Condition Report for the Fiscal Year ended March, 31 2024, dated September 26, 2024
11. S&P, as of March 17, 2025
12. Fiscal Policy Institute, dated June 2, 2024
13. New York State Department of Taxation and Finance Personal Income report, as of March 31, 2024
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15. Fitch Report as of March 14, 2025
16. 2025-2029 MTA Capital Plan, dated June 10, 2025
17. MTA Transportation Revenue Bonds Series 2024A, Offering Statement, dated March 20, 2024
18. MTA Press Release, May 9, 2025,
19. Partnership for New York City, dated March 31, 2025
20. Progress Report on Fare and Toll Collection Update to the MTA Operating Committees 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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For more information on Moody's rating methodology, please visit https://ratings.moodys.io/ratings and select 'Rating Methodologies' on the homepage.

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