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What to Look for in New York City's Executive Budget

Familiar budget games threaten the City's ability to prepare for looming risks

Key Findings

- In recent years, the Mayor's budget proposals have increasingly used budget games that obscure the City's actual fiscal resources and spending priorities. Recent Executive Budgets have underestimated the upcoming fiscal year's revenue by an average of $4.3 billion—5.6 percent.
- Recent budgets have also overestimated spending. The Mayor's January 2025 Preliminary Budget made $6.4 billion in downward revisions to spending—especially on asylum seekers, city worker payrolls, and in-year reserves—across fiscal years 2025 and 2026. Other fiscal observers have identified nearly $3 billion in additional overestimates.
- Overestimated spending has been partly offset by underestimates of spending on core services. The Preliminary Budget made $4.7 billion in upward revisions to spending, especially social services, education, and overtime.
- These misleading fiscal tactics threaten the City's ability to respond to the risks posed by the federal government and economic uncertainty. A budget that does not reflect actual revenue and spending positions allows the Mayor to dramatically modify the budget over the course of the year. This raises the risk that critical services that are inadequately funded in the Adopted Budget will remain underfunded in the event of a revenue downturn.

FPI Recommendation

The Adopted Budget should anticipate realistic revenue and spending on core services while maintaining a flexible reserve to prepare for fiscal uncertainty. The budget response put forward by the City Council takes important steps toward these goals.

Introduction

In the next week, the Mayor will release his Executive Budget proposal for fiscal year 2026. The Mayor's Preliminary Budget, released in January 2025, suggests that the Mayor is intent on continuing budget games that jeopardize the City's ability to respond to the dual risks posed by a hostile federal administration and an uncertain economy. A better approach, like the one put forward by the City Council, would include more realistic revenue, spending priorities that invest in core services, and flexible reserves that positions the City to weather fiscal uncertainty.

In recent years, the Mayor has ramped up misleading budget practices by underestimating revenue and obfuscating spending priorities by over-estimating likely spending in some areas and under-estimating other areas. Recent Executive Budgets have underestimated the upcoming fiscal year's revenue by an average of $4.3 billion—5.6 percent. Further, recent budgets have inflated some costs, especially for asylum seeker services, while underestimating other spending, especially for education and social services. Taken together, these practices falsely deflate the City's apparent ability to fund services and create a misleading picture of its spending priorities.

The failure of recent budgets to reflect spending priorities and available revenue hand greater power to the Mayor to adjust the budget throughout the year. These tactics were used to justify unnecessary budget cuts last year. In the year ahead, they threaten the City's ability to respond to looming federal and economic risks. First, these practices make it difficult to gauge the actual level of unallocated fiscal reserves that can be used to fill funding needs. Second, they raise the risk that underfunded but essential services, especially in education and social services, remain underfunded in the event of a revenue downturn by the Mayor simply holding spending to its inadequate Adopted Budget level.

Instead of continuing these misleading tactics, the City should adopt a budget that reflects its full fiscal capacity and commits to funding actual spending needs. The City Council's budget response takes important steps towards these goals. The Council revised expected revenue up by $2.3 billion, a more realistic level. Further, the Council corrects for misleading underestimates of social services spending, committing to adequately fund those programs. Downward revisions of overestimates more than offset these upward revisions. Taken together, these actions create fiscal space to spend $2.2 billion on Council priorities and a surplus of $1.9 billion to be available as fiscal risks emerge throughout the year.[1]

Recent revenue projections have been excessively pessimistic

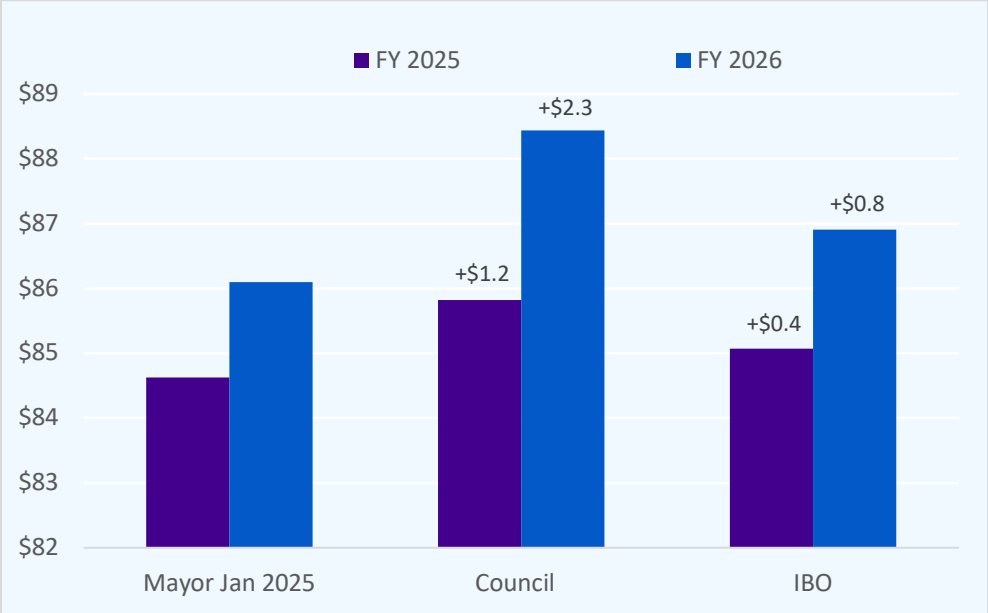
Mayors have long underestimated future revenue.[2] The current mayoral administration, however, has amplified this practice. Since 2021, Executive Budgets have underestimated revenue for the next fiscal year by an average of $4.3 billion—5.6 percent. By contrast, Executive Budgets in the years immediately prior to Covid underestimated revenue by an average of 2.4 percent.[3]

The Mayor's January 2025 Preliminary Budget appears to have continued this pattern. While the proposal revised projected City Funds revenue in fiscal years 2025 and 2026 upward by $1.9 billion and

[1] https://council.nyc.gov/budget/wp-content/uploads/sites/54/2025/04/Fiscal-2026-Preliminary-Budget-Response-8.pdf
[2] https://fiscalpolicy.org/low-expectations-understanding-the-nyc-budget-gap
[3] FPI analysis of New York City Office of Management and Budget, "Revenue Budget and Financial Plan" retrieved from NYCOpenData.

$2.3 billion, respectively, relative to the April 2024 Executive Budget, this is likely still a significant underestimation. The City Council, which has historically produced more accurate, though still conservative, revenue projections, expects fiscal year 2025 City Funds revenue to be $1.2 billion higher than the Mayor's Preliminary Budget estimate and $2.3 billion higher in fiscal year 2026. The State Comptroller expects fiscal year 2026 revenue to be $3.4 billion higher. The Council's estimates reflect a revenue growth rate consistent with recent years.

Figure 1. City Funds revenue projections by source for fiscal years 2025 and 2026
Labels reflect change relative to Executive Budget; dollars in billions



The City has not enacted realistic spending plans in recent years

In recent years, the budgets passed each June have increasingly departed from the City's actual spending at the end of the year. Recent budgets have tended to dramatically overestimate spending in certain areas, especially asylum seeker services, and underestimated spending in other areas. As part of the City's quarterly budget modifications, it incrementally corrects these misestimates, downwardly revising overestimates and upwardly revising underestimates. As such, the budget progressively begins to resemble actual spending by the end of the year.

This disconnect obfuscates the City's actual spending priorities. In fiscal year 2024, this tactic was used to justify deep, unnecessary cuts to core services. In the year ahead, it will make it more difficult for the City to adequately plan for potential federal funding cuts or economic downturns. For instance, a budget that reflects unrealistically high spending on asylum seeker services but unrealistically low spending on social services runs is more likely to respond to a revenue downturn by failing to upwardly revise social services spending. This potential response might be less likely if the services were appropriately baselined into the City's spending plan. A better approach would fully fund core programs in the Adopted Budget while maintaining a flexible reserve in the event of federal cuts.

Spending Overestimates: Asylum seekers, City workers, and in-year reserves

Collectively, the downward revisions to spending estimates in the Mayor's November 2024 Modified Budget and January 2025 Preliminary Budget (the two budget modifications since the June 2024 Adopted Budget) totaled $6.4 billion. These spending revisions more than offset $4.6 billion in upward revisions to other spending areas (discussed below), allowing the City to roll a surplus into fiscal year 2026. The City Council expects an additional $2.8 billion in savings across fiscal years 2025 and 2026, while the Independent Budget Office (IBO) expects $3 billion.[4] These downward spending revisions are driven by overestimated asylum seeker costs, City worker payroll costs, and in-year reserves.

Asylum seekers

In fiscal year 2024, the City experienced an influx of asylum seekers. In response, the City modified the Adopted Budget, increasing their estimates of asylum seeker services' cumulative costs by $10 billion and beginning a series of deep budget cuts. Over the following year, the City slowly began to decrease these excessive estimates while, at the behest of the City Council, restoring much of the spending cuts.

This pattern has continued through the January 2025 Preliminary Budget. The Preliminary Budget lowered expected asylum seeker costs by $1.5 billion in fiscal year 2025 and $1.4 billion in fiscal year 2026, relative to projections made in the November 2024 Modified Budget.

Despite this, costs are likely still overestimated. The State Comptroller, which modeled likely asylum seeker spending using the most currently available data, expects fiscal year 2026 asylum seeker costs to be lower by an additional $1.1 billion. Similarly, IBO expects savings of $1.2 billion across fiscal years 2025 and 2026. The City Council did not incorporate lower asylum seeker costs, indicating that its plan may have additional fiscal space if the Comptroller and IBO projections prove true.

City workers

As part of his campaign to restrain spending amid rising asylum seeker costs, the Mayor implemented a hiring freeze across all departments. While this hiring freeze has been partly relaxed—departments can now hire one worker for every two vacancies—the City's public workforce remains 15,300 below the 301,500 authorized under the budget, a 5.1 percent vacancy rate.[5] This has resulted in lower-than-authorized payroll expenditures.

The Preliminary Budget partly recognizes this, reducing estimated payroll spending by a collective $372 million across fiscal years 2025 and 2026 since November 2024. The City Council estimates that this is far too low, projecting that actual payroll costs will be lower by an additional $2.2 billion.

In-year reserves

Every Adopted Budget includes in-year reserves—unallocated funds that are available to be used as needed. These funds are generally not spent and they form the basis of end-of-year surpluses that are

[4] https://www.ibo.nyc.ny.us/iboreports/analysis-of-the-january-2025-preliminary-budget-and-2025-2029-financial-plan-february-2025.pdf

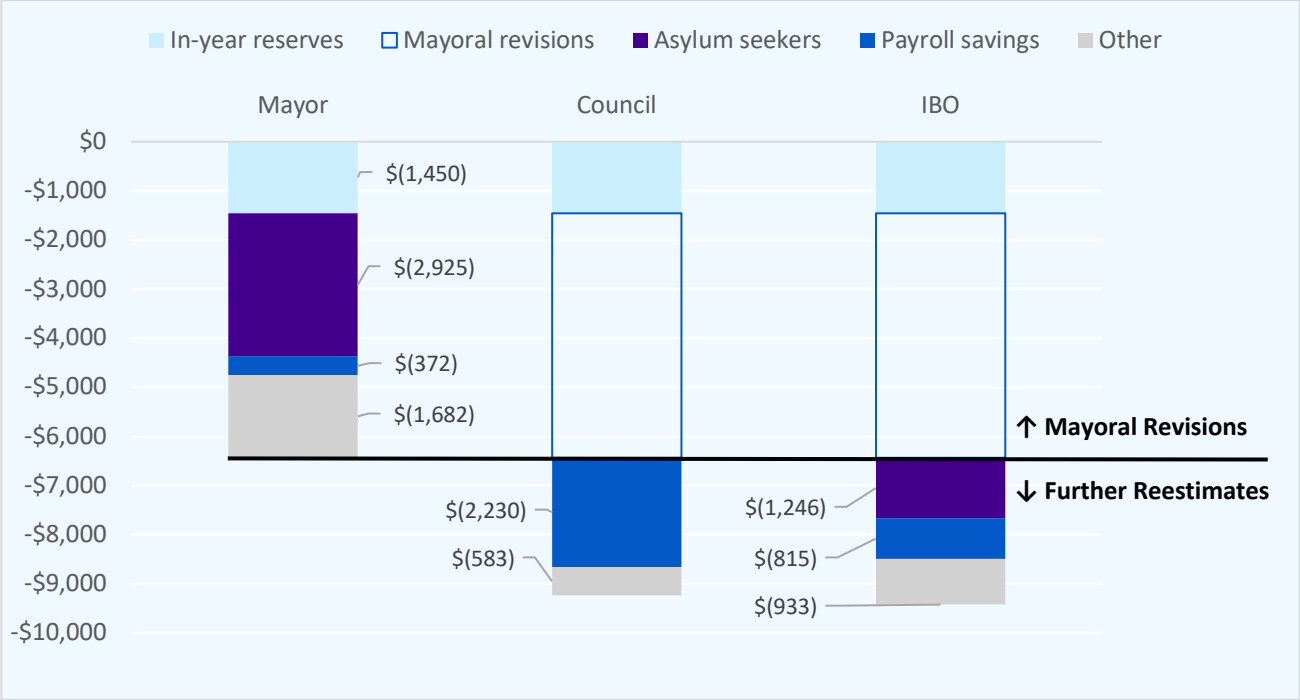
[5] https://www.osc.ny.gov/files/reports/osdc/pdf/report-23-2025.pdf

rolled over into the subsequent year. Recent Executive Budgets have allocated $1.45 billion in in-year reserves.

The Preliminary Budget eliminates all but $50 million of the fiscal year 2025's in-year reserves, reallocating $1.4 billion into a $2.3 billion surplus that will help balance fiscal year 2026. (This means $50 million will be available to support the Executive Budget). The City Council budget response does not allocate future in-year reserves, meaning that fiscal year 2026 will have an additional $1.45 in fiscal resources.

Figure 2. Downward revisions create $6.4 billion in additional fiscal capacity under the Mayor's plan; other fiscal observers believe there may be an additional $3 billion in remaining overestimates

Downward spending revisions for fiscal years 2025 and 2026 collectively (dollars in millions)



Note: this figure illustrates all downward re-estimates made by the Mayor's budget modifications, the City Council, and IBO for both fiscal years 2025 and 2026. Downard revisions to overestimates indicate funds appropriated for each program area that will not be spent, freeing them for other uses. Because current year (fiscal year 2025) surpluses will be rolled into next year, this collective figure best captures the City's fiscal resources for the year ahead.

Spending Underestimates: Social services, education, and overtime

Since the June 2024 Adopted Budget, the City has revised agency spending up by $4.7 billion for fiscal years 2025 and 2026, collectively. Despite this upward revision, fiscal observers believe the City is continuing to underestimate spending in certain program areas, especially social services, education, and overtime, for fiscal year 2026.The City Council and IBO expect spending in these areas to be $2.2 billion and $4.4 billion higher than Preliminary Budget estimates, respectively.

Social services

The City has recently begun significantly underestimating social services spending. All of the City Council's $2.2 billion revisions to underestimates are in social services programs, while IBO projects $1.2 billion in social services underestimates.

Social services spending revisions are concentrated in three programs that have seen high case growth since the Covid pandemic: rental assistance, cash assistance, and non-asylum seeker shelters. Caseloads for these programs have risen in recent years amid Covid-era measures.

In fiscal year 2022, the City expanded eligibility and voucher values for CityFHEPS, a voucher program for those facing homelessness. As caseloads rose in recent years, the City began dramatically underestimating spending, especially in fiscal years 2024 and 2025. The January 2025 Preliminary Budget expects rental assistance spending to fall in fiscal year 2026—unlikely given current case trends.[6]

Similarly, cash assistance caseloads and the non-asylum seeker shelter population have risen in recent years. The increase in cash assistance increase was driven by a State-level suspension of work requirements. The State began re-imposing work requirements in 2024. The City expects this change to reduce fiscal year 2026 costs. Nevertheless, the most recent data does not show a decline in caseloads, creating the possibility that cost reductions may not materialize.

By contrast, the non-asylum seeker shelter population has simply returned to pre-Covid levels—it was depressed during the pandemic amid extraordinary, but temporary rental assistance programs and a moratorium on evictions. The City has not appropriately budgeted for the return to this status quo.[7]

Education

The City is likely underestimating spending on three education needs: 3-K, special education, and compliance with the State-mandated reduction in class sizes. The Preliminary Budget projects that spending for 3-K—universal pre-kindergarten for the three-year-olds—will fall from $1.8 billion in fiscal year 2024 to $1.5 billion in fiscal year 2026 and each subsequent year. This is unlikely, and follows a recent pattern of underestimating 3-K needs.

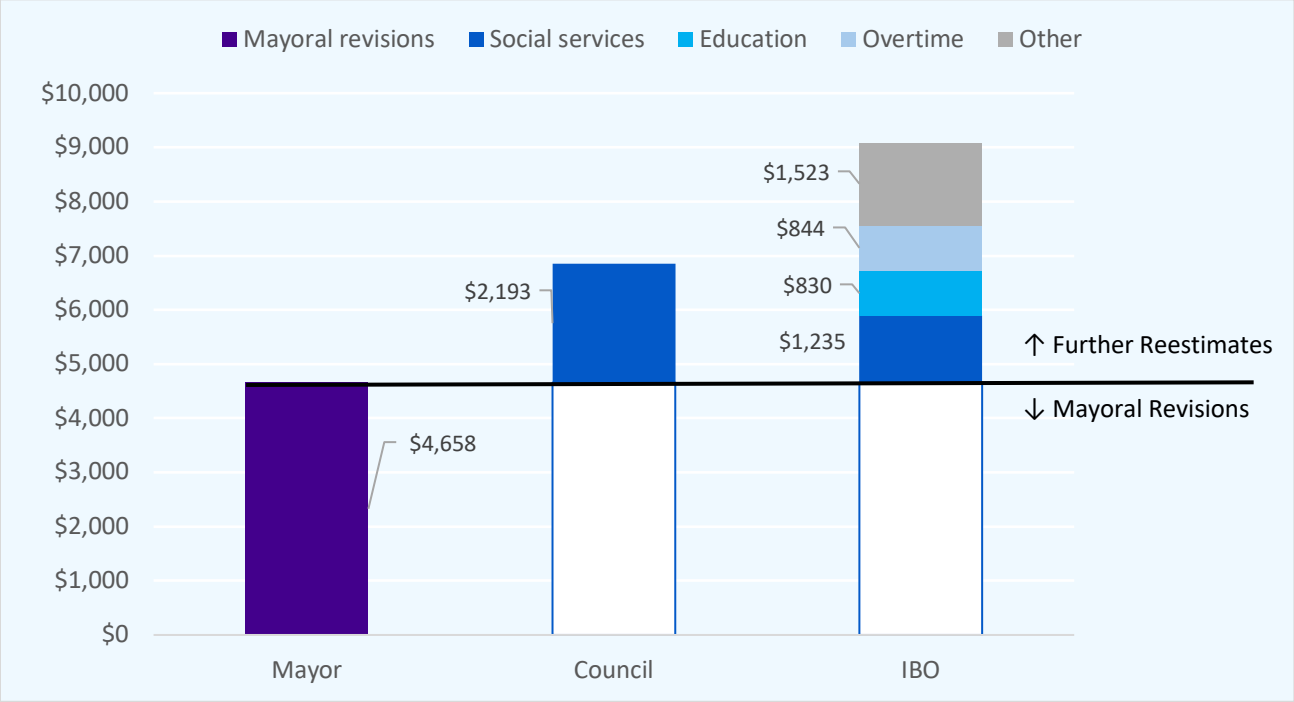
The two other potentially underfunded spending needs are legally mandated. The City is required to fund any appropriate education, including private school, for special needs students. These costs quadrupled between fiscal years 2016 and 2024, with the City increasingly behind the curve on budgeting for them. Second, the Preliminary Budget does not include resources to implement a State-mandated cap on class sizes by 2028.[8] IBO estimates these costs to be $830 million in fiscal year 2026.

Overtime

[6] https://comptroller.nyc.gov/reports/comments-on-new-york-citys-preliminary-budget/
[7] https://www.osc.ny.gov/files/reports/osdc/pdf/report-23-2025.pdf
[88] https://comptroller.nyc.gov/reports/comments-on-new-york-citys-preliminary-budget

While the City has historically underbudgeted overtime pay for its workforce—especially the Police Department—this dynamic has grown far worse in recent years. In fiscal year 2019, the Adopted Budget underestimated actual overtime for uniformed agencies by approximately $200 million. In fiscal year 2024, this gap between the Adopted Budget and reality was $1 billion. This divergence has been driven the rapid growth in Police Department overtime since fiscal year 2021.[9]

Figure 3. Upward revisions to spending estimates for fiscal years 2025 and 2026 collectively
Dollars in millions



Note: this figure sums re-estimates for both fiscal year 2025 (for which re-estimates capture the second half of the fiscal year) and fiscal year 2026.

Budgets should reflect planned spending

The budget adopted each June should reflect the City's actual spending plans as closely as possible. Recent budgets have increasingly departed from this simple principle. The importance of this goes far beyond accounting propriety. A budget that does not reflect spending plans hands greater power to the Mayor, who has an upper hand in putting forward modified budgets each quarter of the fiscal year. This can result in unnecessary cuts, as in fiscal year 2024. In the event of a revenue downturn—a distinct risk in the year ahead—this dynamic would empower the Mayor to hold down spending in mandatory and essential services, especially in social services and education, that is not included in the baseline budget. Instead, the City should adopt a budget with realistic estimates of tax revenue and spending priorities along with a reserve of unallocated funding to be used in case of revenue downturns. Such an approach would best position the City to respond to the economic and federal risks ahead.

[9] https://www.osc.ny.gov/files/reports/osdc/pdf/report-23-2025.pdf