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Low Expectations: Understanding the NYC Budget Gap



Andrew Perry May 23, 2023

City's outyear budget gaps reflect conservative budgeting, not structural deficits

Key findings

In each of the past ten years, projected New York City budget gaps have been completely eliminated by revenues that exceeded projections.

Outyear budget gaps are generally the result of conservative revenue estimates intended to ensure fiscal stability.

Conservative budget forecasting is a sound fiscal practice that protects against economic downturns — not a rationale for unnecessary, preemptive cuts.

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ALBANY, NY | May 23, 2023 — The Fiscal Policy Institute today released a new report, "**Low Expectations: Understanding the NYC Budget Gap**[a]." Through an analysis of the past ten years of New York City outyear budget gaps, the report illustrates how the City uses conservative budget forecasting to protect against economic downturns, and outlines why lawmakers should not misinterpret outyear budget gaps as large impending deficits.

“Over the last decade, projected budget gaps have all been completely eliminated by revenues that exceeded projections. In other words, New York City consistently and intentionally underestimates revenue in the outyears. The city’s outyear gaps are typically the result of conservative revenue estimates intended to ensure fiscal stability — rather than a sign of excessive spending or impending revenue shortfalls,” said Fiscal Policy Institute Senior Policy Analyst Andrew Perry. “Conservative budget forecasting is a sound fiscal practice that protects against economic downturns; however, conservative forecasting should not be used as a rationale for unnecessary, preemptive cuts.”

Over the last decade, New York City financial plans consistently underestimated revenue forecasts for future fiscal years (referred to as “outyears”). These low revenue estimates led to projected outyear budget gaps. Projected budget gaps, however, have generally not indicated structural deficits. Sound fiscal policy relies on conservative revenue forecasting for future years so as to avoid spending deficits, but actual revenues generally exceed those forecasts. Every year for the past ten years, projected budget gaps were completely eliminated as revenue came in over projections.

FPI analysis of the past ten years of New York City financial plans shows average projected budget gaps of 6.1 percent. In the same period, revenue exceeded such projections, on average, by 6.4 percent. In other words, projected budget gaps were completely eliminated because revenue exceeded projections by more than the amount of the budget gap.

Links

a https://fiscalpolicy.org/media/pages/policy-and-research/low-expectations-understanding-the-nyc-budget-gap/72dd9e0131-1789771205/low-expectations_-understanding-the-nyc-budget-gap-1.pdf