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Low Expectations: Understanding the NYC Budget Gap

City 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.

Introduction

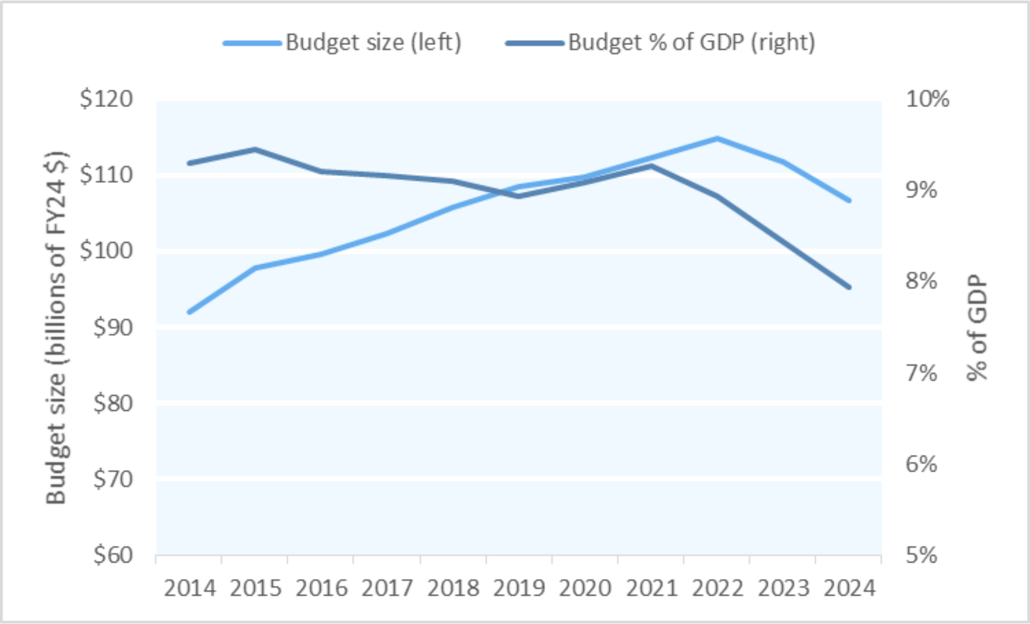
Over the last decade, New York City financial plans consistently underestimated revenue forecasts for future fiscal years (referred to as “outyears”). These low revenue estimates led to projected outyear budget gaps. Projected budget gaps, however, have generally not indicated structural deficits. Sound 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.

The Fiscal Year 2024 Executive Budget

On April 26, 2024, Mayor Eric Adams released an executive budget for fiscal year 2024 of $106.7 million, representing an inflation-adjusted decline to the city's spending level from 2018. Moreover, the budget's share of city GDP will fall to 7.9 percent, down from a pre-pandemic average of 9.2 percent.[1]

Figure 1. Size of New York City budget, adjusted for inflation, and as a share of city GDP, fiscal years 2014-2024



To manage the city's fiscal strain, the Mayor has directed city agencies to implement budget cuts as part of the Program to Eliminate the Gap (PEG). Across three successive PEGs instituted in November 2022, January 2023, and April 2023, the city reduced spending by $3.0 billion — 2.8 percent — from baseline estimates. Spending cuts are generally recurring and annual spending reductions are set to remain at about $3.0 billion through fiscal year 2027.[2]

After accounting for PEG spending reductions, the fiscal year 2023 and 2024 budgets are set to be balanced. While outyear gaps have been present in recent financial plans, they widened by nearly $1.0 billion in fiscal years 2025 and 2026 and $508 million in fiscal year 2027, a result of higher-than-budgeted labor agreements and a pessimistic economic forecast. Outyear gaps are not

[1] FPI analysis of data from: Mayor's Office of Management & Budget, "Executive Budget Fiscal Year 2024: Message of the Mayor" (April 2023), https://www.nyc.gov/assets/omb/downloads/pdf/mm4-23.pdf; Bureau of Labor Statistics, "CPI-U – New York-Newark-Jersey City, NY-NJ-PA" (accessed May 2023), https://www.bls.gov/cpi/data.htm; Bureau of Economic Analysis, "CAGDP9 Real GDP by county and metropolitan area" (accessed May 2023), https://www.bea.gov/itable/regional-gdp-and-personal-income. FPI used OMB CPI and GDP projections for calendar years 2022 to 2024, adjusted to fiscal year.

[2] Mayor's Office of Management & Budget, "Executive Budget Fiscal Year 2024: Program to Eliminate the Gap" (April 2023), https://www.nyc.gov/assets/omb/downloads/pdf/peg4-23.pdf.

primarily attributable to the costs associated with supporting asylum seekers, as these costs are largely budgeted for fiscal years 2023 and 2024, which are balanced.[3]

Figure 2. Outyear gaps in the fiscal year 2024 executive budget

	FY24	FY25	FY26	FY27
$ (billions)	$0	$4.20	$5.95	$6.98
% of revenue	–	4.0%	5.6%	6.4%

New York City's Outyear Budget Gaps in Historical Context

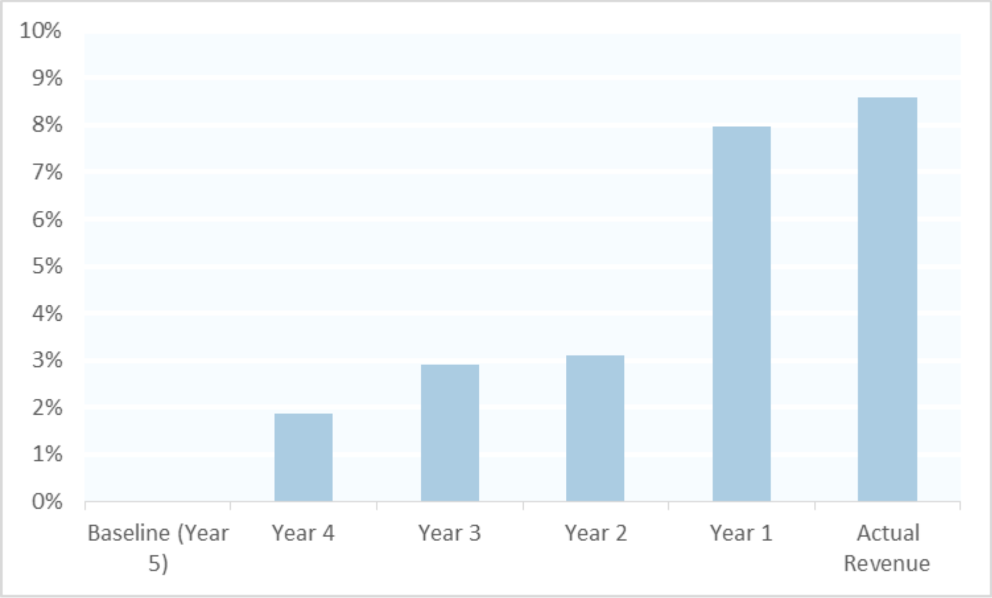
Looming fiscal gaps are a familiar feature of New York City's budgets. City budgets, however, are always balanced, generally without making dramatic spending cuts or raising tax rates, which would require authorization from New York State. Rather, data from financial plans over the past decade shows that **outyear budget gaps are the result of consistent underestimation of future revenue**. While the estimates of future spending do not exhibit a consistent upward or downward bias, revenue estimates have exclusively underestimated actual revenue in the past decade.

Revenue estimation relies on projections of the city's economy over the next five years, as well as expected program grants from the state and federal governments, which depend on both a complex of funding formulas and politics within each level of government. As such, revenue forecasting is inherently uncertain. Given this uncertainty, conservative revenue estimates are important to sound fiscal policy, minimizing the likelihood of unexpected fiscal shortfalls and resulting cuts to services. Contextualizing revenue and spending forecast error, however, can help policymakers set fiscal priorities. While deep outyear gaps may highlight the need for spending restraint, **the presence of routine budget gaps does not reflect a structural fiscal imbalance, and may not require quickly-made and damaging cuts to services.**

Over the last decade, revenue estimates made in each year's executive budget financial plan have consistently underestimated actual revenue. On average, revenue projections for a given fiscal year are continually revised upward in successive financial plans. Over five years of financial plan projections, the average year's revenue has been revised upward by 8.0 percent from its year five baseline (the furthest outyear forecast in the financial plan) to year one (the plan's current fiscal year). Actual revenue was higher still — 8.6 percent above initial projections.

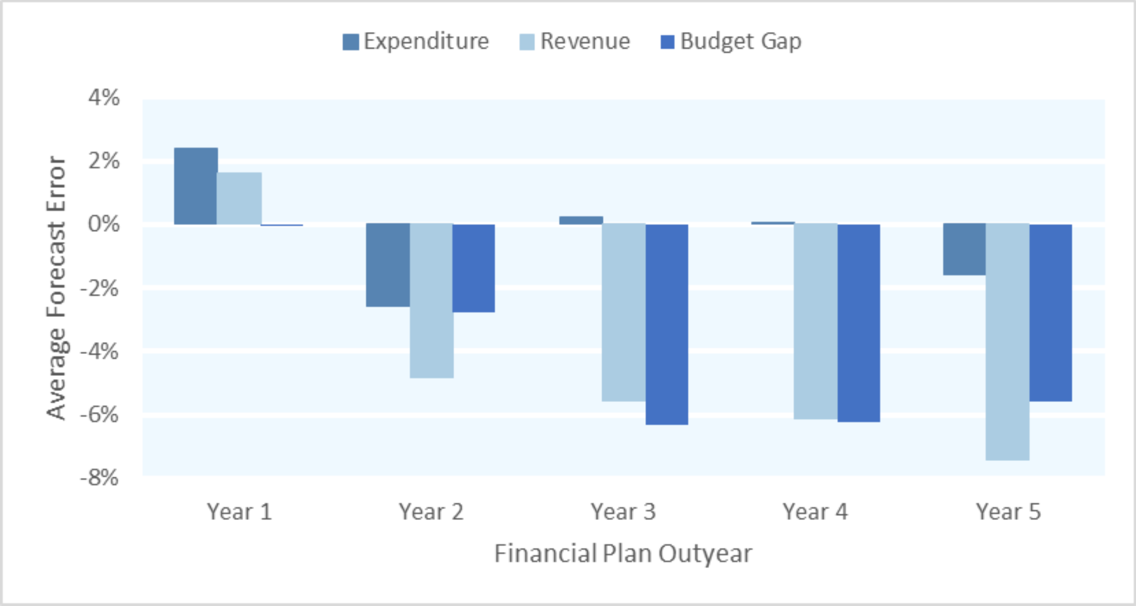
[3] Mayor's Office of Management & Budget, "Executive Budget Fiscal Year 2024: Message of the Mayor" (April 2023), https://www.nyc.gov/assets/omb/downloads/pdf/mm4-23.pdf.

Figure 3. Average revisions to revenue projections across financial plan outyears, fiscal year 2017 to 2022



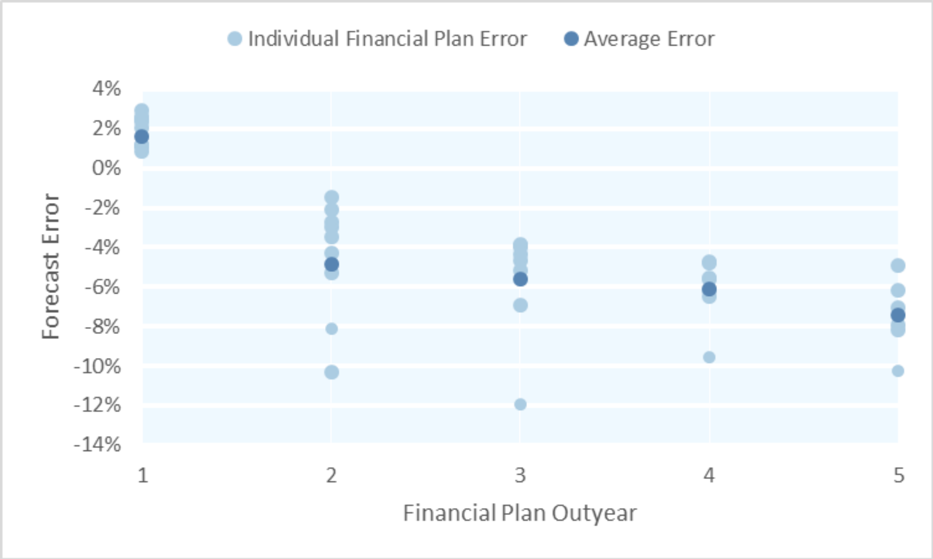
While financial plan forecasts consistently underestimate revenue, spending estimates do not consistently over- or underestimate actual spending. In the third and fourth financial plan year, for instance, average spending was 0.2 percent above actual level and on par (0.0 percent above), respectively. As such, budget gaps, which averaged 6.1 percent across the three outyears (financial plan years three through five), were closed almost entirely as a result of higher-than-expected revenue.

Figure 4. Average absolute forecast error for revenue and expenditure and average projected budget gaps in executive budget by financial plan year, fiscal years 2013 to 2022



While revenue forecast error was elevated in fiscal years 2021 and 2022, amid Covid-era economic and policy uncertainty, underestimation has been consistent across the decade of financial plans included in this analysis. None of the financial plans analyzed overestimated revenue for any outyear (those following the nearly-completed financial plan year one). In financial plan year three, for instance, underestimates ranged from 3.9 percent to 12.0 percent and averaged 5.6 percent over the last decade.

Figure 5. Revenue forecast error for executive budget financial plans, fiscal years 2013 to 2022



These measures of average error reflect whether estimates exhibit bias in a consistent direction. Another measure of forecast error, root mean square error (RMSE), gauges estimates' deviation from actual levels regardless of the direction of error. Average error and RMSE for revenue are similar, given the consistency of revenue underestimation. For spending, however, average error for spending is very low, while RMSE reports a modest forecast error that rises in the outyears. This suggests that revenue is both more difficult to forecast than spending, and that revenue forecasts are intentionally conservative, which is not true of spending.

Figure 6. Comparison of average error and root mean square error for revenue and spending by financial plan year

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue					
Average error	1.6%	-4.8%	-5.6%	-6.1%	-7.4%
RMSE (+/-)	1.7%	5.8%	6.3%	6.3%	7.6%
Expenditure					
Average error	1.0%	-2.0%	0.5%	-0.2%	-2.2%
RMSE (+/-)	2.8%	3.7%	3.3%	3.7%	3.6%
Budget Gaps					
Average projected gap	0.0%	-2.8%	-6.3%	-6.2%	-5.6%

Revenue forecast error is highest for federal funding, which supports a range of city-administered services through an array of categorical grants. Across all financial plan years, federal funding's forecast error is plus-or-minus 32.9 percent. While the forecast error for federal funding rose during Covid, it was higher than the forecast error for other funding sources even prior to the pandemic. In fiscal year 2019, for instance, forecasts deviated 11.1 percent from the year's actual revenue. Over the decade, forecast error for state grants and city revenue was both lower and remained more consistent in recent years, despite Covid-era uncertainty.

Figure 7. Revenue forecast error (RMSE) by funding source

Federal	32.9%
State	3.9%
City	4.0%

The consistency of downside revenue forecast error — absent from spending forecast error — is the result of intentionally conservative economic, tax, and grant funding projections. While this represents sound fiscal practice, it should not necessarily be taken as cause for reactive, across-the-board spending cuts. Rather, context around revenue forecasts should temper calls for excessive cuts to close apparent future fiscal gaps.

Methodology

FPI analyzed ten years of budget documents, covering fiscal years 2013 through 2022 for this analysis. The analysis used both executive budget financial plans and January financial plans to compile a dataset of revenue and expenditure projections across each financial plans' five forecast years. For revenue data, the analysis used executive budget data; expenditure data used January financial plan data because of data availability. Revenue forecast error was similar in both the executive and January financial plans (January revenue RMSE was plus-or-minus 5.7 percent, 6.5 percent, and 8.1 percent for years three through five). For fiscal years 2017 onward, FPI used OMB's financial plan dataset on NYC OpenData. For data prior to fiscal year 2017, FPI accessed financial plans through OMB's fiscal year archive. The New York City Comptroller's Annual Comprehensive Financial Reports provided revenue and expenditure actuals. For consistency in expenditure measures in the financial plan, analysis of outyear projected budget gaps only uses data from fiscal year 2017 onwards, as available from OMB's NYC OpenData dataset. This series subtracts "intra-city other" spending from the total for consistency with the levels reported in published financial plans.

Sources:

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