

# ***How Will the Economic Downturn Affect New York City's Nonprofit Sector?***

*Presentation by*

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# **Fiscal Policy Institute**

*Nonpartisan research and education organization that focuses on tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York State residents. Founded in 1991, FPI's work furthers the development and implementation of public policies that create a strong, sustainable economy in which prosperity is broadly shared by all New Yorkers. FPI has offices in Albany and New York City.*

## **Recent Policy and Advocacy Work:**

**School finance**

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**Labor market standards and social insurance**

**Economic development strategy and accountability**

**NYS economic policy agenda**

**Economic impact of immigrants in NYS/NYC**

**State of Working New York**



# **Overview of Presentation**

- **Context: previous expansion and current downturn**
- **Understanding the borough/county economies**
- **High housing costs and foreclosure problems**
- **Regional economic outlook**
- **How the economy affects demand for services**
- **Financial pressures on gov't budgets and donors**
- **How will nonprofit services providers respond to challenges posed by the economic downturn?**

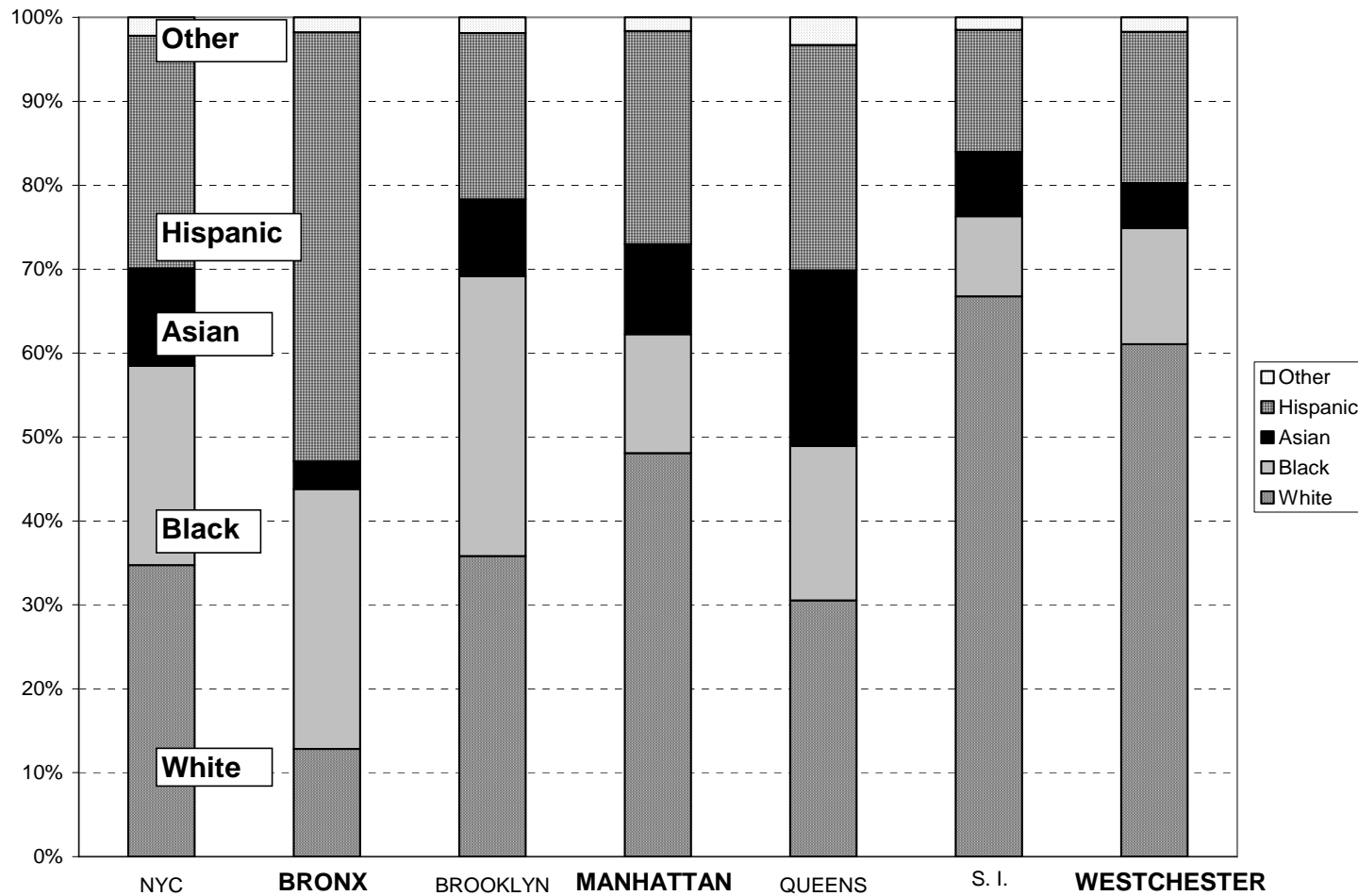
## **Shallow recovery and expansion did not provide broad-based benefits**

- While NYC showed remarkable resilience after 9/11, recovery and expansion from mid-2003 through 2007 was heavily reliant on debt and unsustainable housing bubble.
- Wages and incomes for most families were stagnant or didn't rise much.
- To understand NY's job growth, think of an hour glass: wide at the top and bottom, but narrow in the middle.

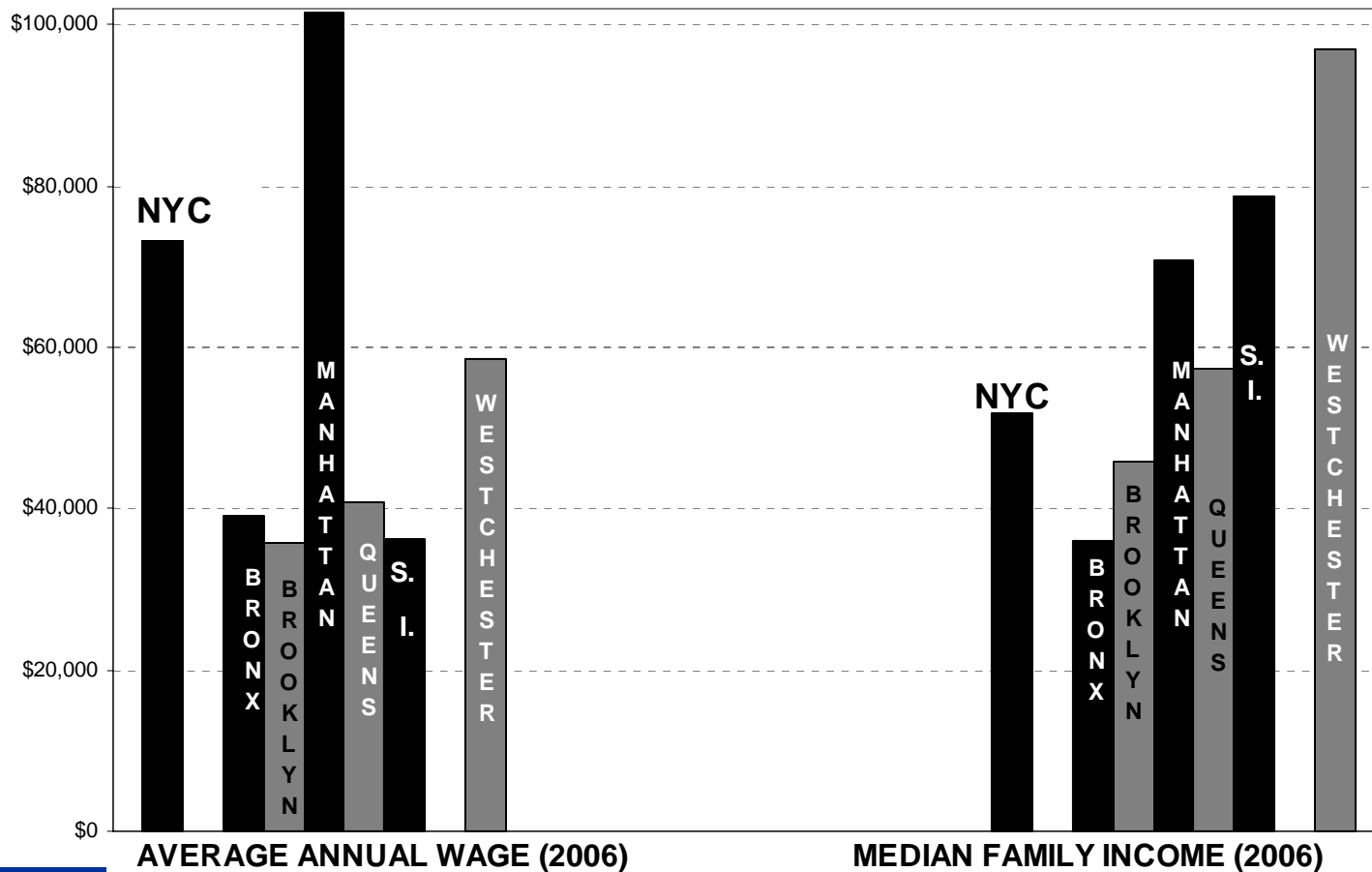
## **While local recession started on Wall Street, job losses and foreclosures hit neighborhoods hard**

- Wall Street turmoil, slowing job growth, rising unemployment.
- Job losses could total 100,000 or more and may take 2-3 years, or longer, to recover.
- What's different this time? Huge housing market problems, foreclosure crisis will hit certain neighborhoods very hard. Renters in foreclosed buildings in jeopardy.
- Fuel and food prices also rising sharply.

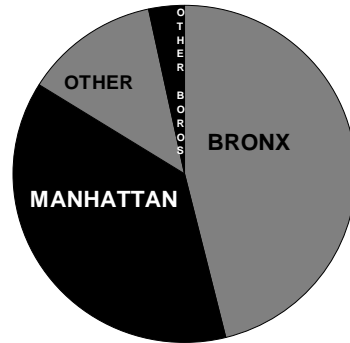
# Variation in race/ethnicity for the Bronx, Manhattan and Westchester



**Wide variation in county wages and family incomes points to differences in jobs and presence of low-wage neighborhoods.**



**Nearly as many Bronx residents work in Manhattan as in the Bronx, while 85% of Manhattan residents work in Manhattan.**



**Bronx Residents**

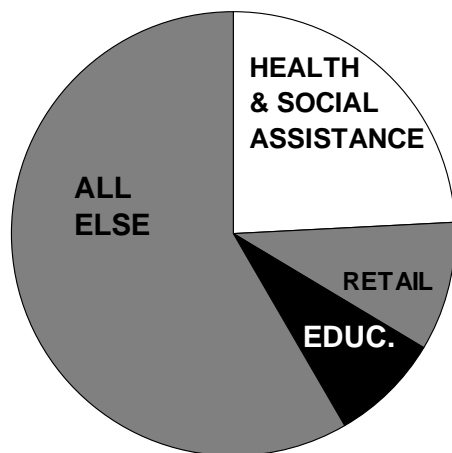


**Manhattan Residents**

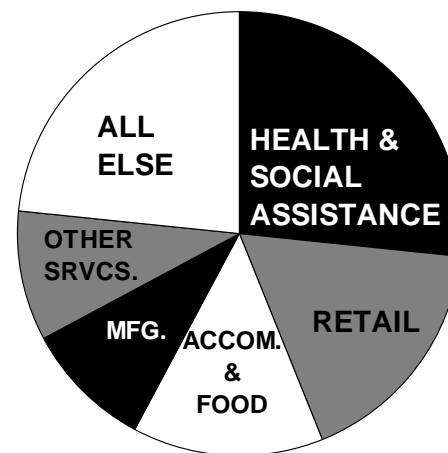


**Besides health & social services, no single sector is a major employer of Bronx residents.**

**For moderate-income Manhattanites, retail and accomodation & food are large employers, along w/ health & social services.**



**Bronx Residents**



**Manhattan Residents**

(employed in sectors where median FT-wages < \$50,000)

**Professional services and finance dominate Manhattan job picture, while health care jobs lead in the Bronx and three sectors vie for the job lead in Westchester.**

<b>MANHATTAN</b>	
<i>1,844,011 Total Employment</i>	
Professional & Business Services	24.9%
Financial Activities	19.8%
Leisure & Hospitality	10.8%
Health Care	8.0%
Retail Trade	7.4%
Combined Share of Top 5 Employers	70.9%

<b>BRONX</b>	
<i>199,107 Total Employment</i>	
Health Care	27.4%
Retail Trade	12.1%
Social Assistance	9.8%
Financial Activities	7.1%
Leisure & Hospitality	6.8%
Combined Share of Top 5 Employers	63.3%

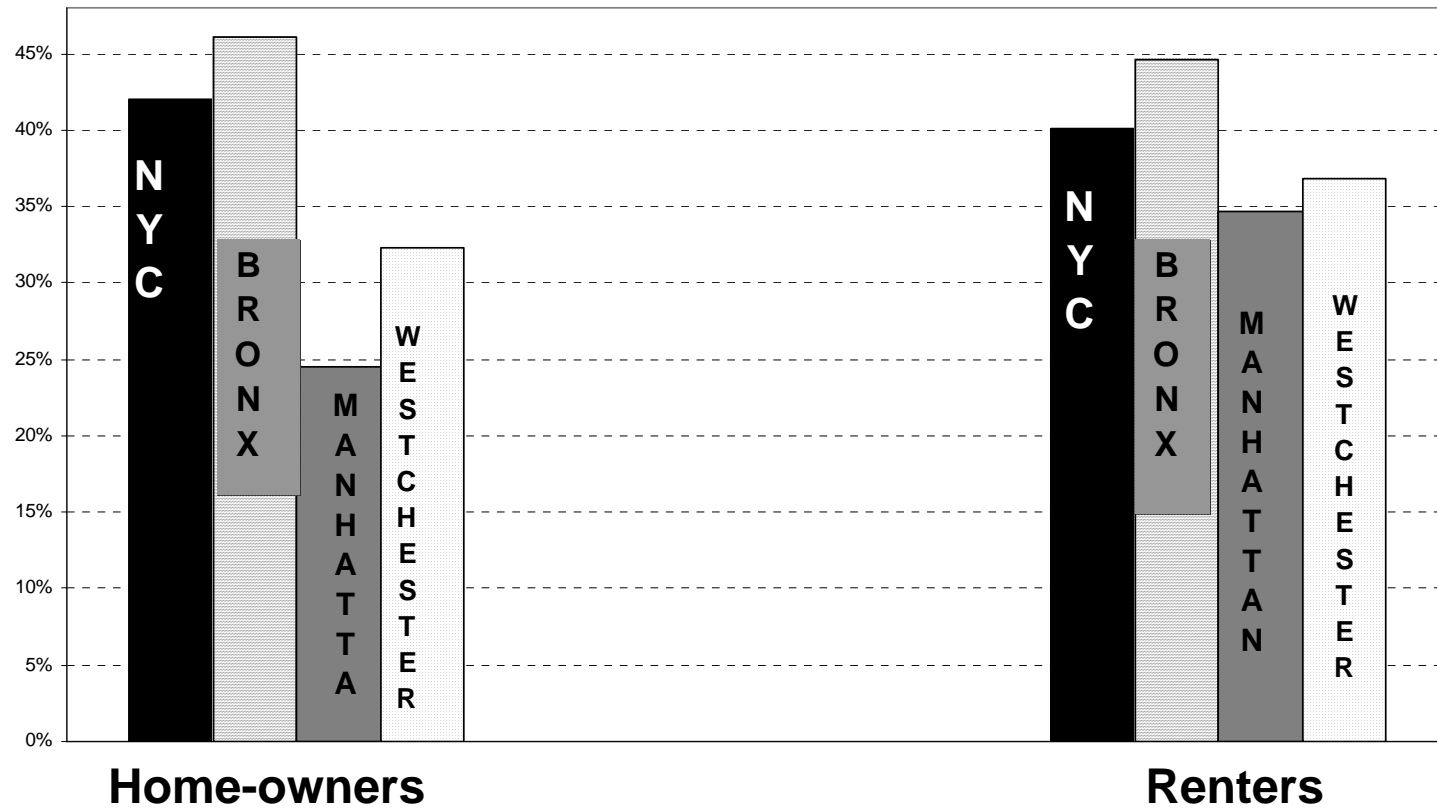
<b>WESTCHESTER</b>	
<i>337,622 Total Employment</i>	
Professional & Business Services	16.0%
Health Care	15.2%
Retail Trade	14.4%
Financial Activities	9.3%
Leisure & Hospitality	8.9%
Combined Share of Top 5 Employers	63.7%

**Unemployment higher in the Bronx.**  
**Recent declines in unemployment rates in the**  
**Bronx and Manhattan reflect declining labor**  
**force.**

*Unemployment rates and number of unemployed persons,  
1st quarter 2008*

	unemployment rate	unemployed persons
Bronx	6.9%	35,100
Manhattan	4.4%	40,500
Westchester	4.5%	21,900

**Bronx residents have the highest housing cost burden, measured as the percentage of residents who spend more than 35% of income on housing (2006)**

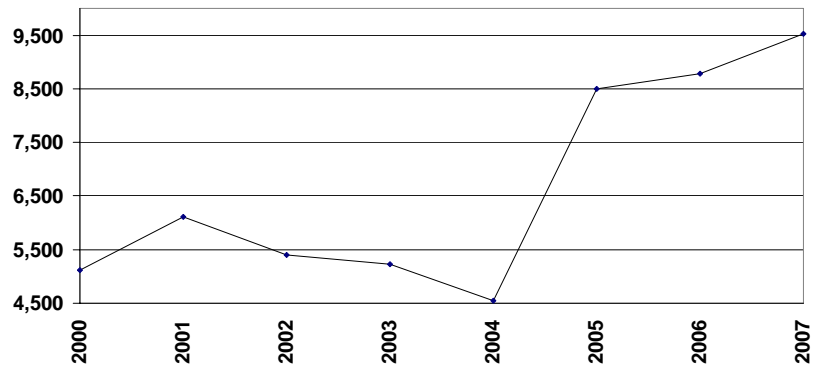


**Subprime foreclosures already high in some areas, and likely to rise (foreclosures as of Oct. 2007)**

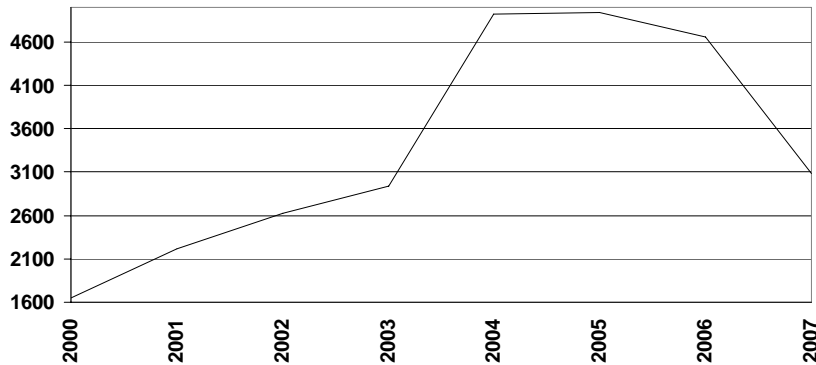
County (Neighborhood)	# of Subprime Owner-Occupied Loans	Percentage in 30+ Days Foreclosure	Percentage Overdue	Percentage ARMs Resetting April 2008 - Sept. 2009
Bronx	6,186	9.6%	17.6%	26.2%
Mid-Bronx	535	15.1%	17.0%	33.3%
Mott Haven	190	15.8%	17.9%	24.2%
Westchester	6,533	8.6%	17.1%	22.2%
Mount Vernon	1,067	11.7%	22.4%	26.8%
Manhattan	485	6.4%	15.8%	19.6%

# Real estate market problems will reduce residential building permits in 2008 compared to recent years

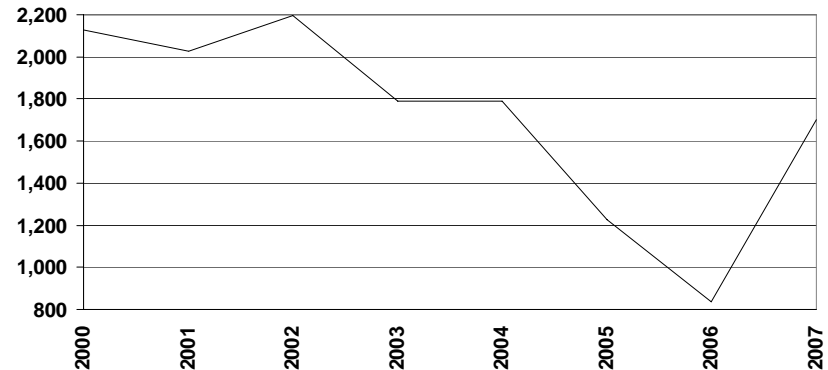
### Manhattan



### Bronx



### Westchester



## **Regional economic outlook**

- Expect further job declines in construction, finance, professional services, and eventually retail, restaurants and local services. Declines will last most of 2008.
- Health, education and social service employment expected to remain steady or grow slightly.
- Job quality (benefits) and inflation-adjusted pay will suffer.
- Continued cost of living pressures from high housing costs.
- Dislocations from foreclosures for owners and renters.
- Uncertain outlook for timing and strength of recovery.

**Overall poverty and child poverty rates already very high in certain areas**

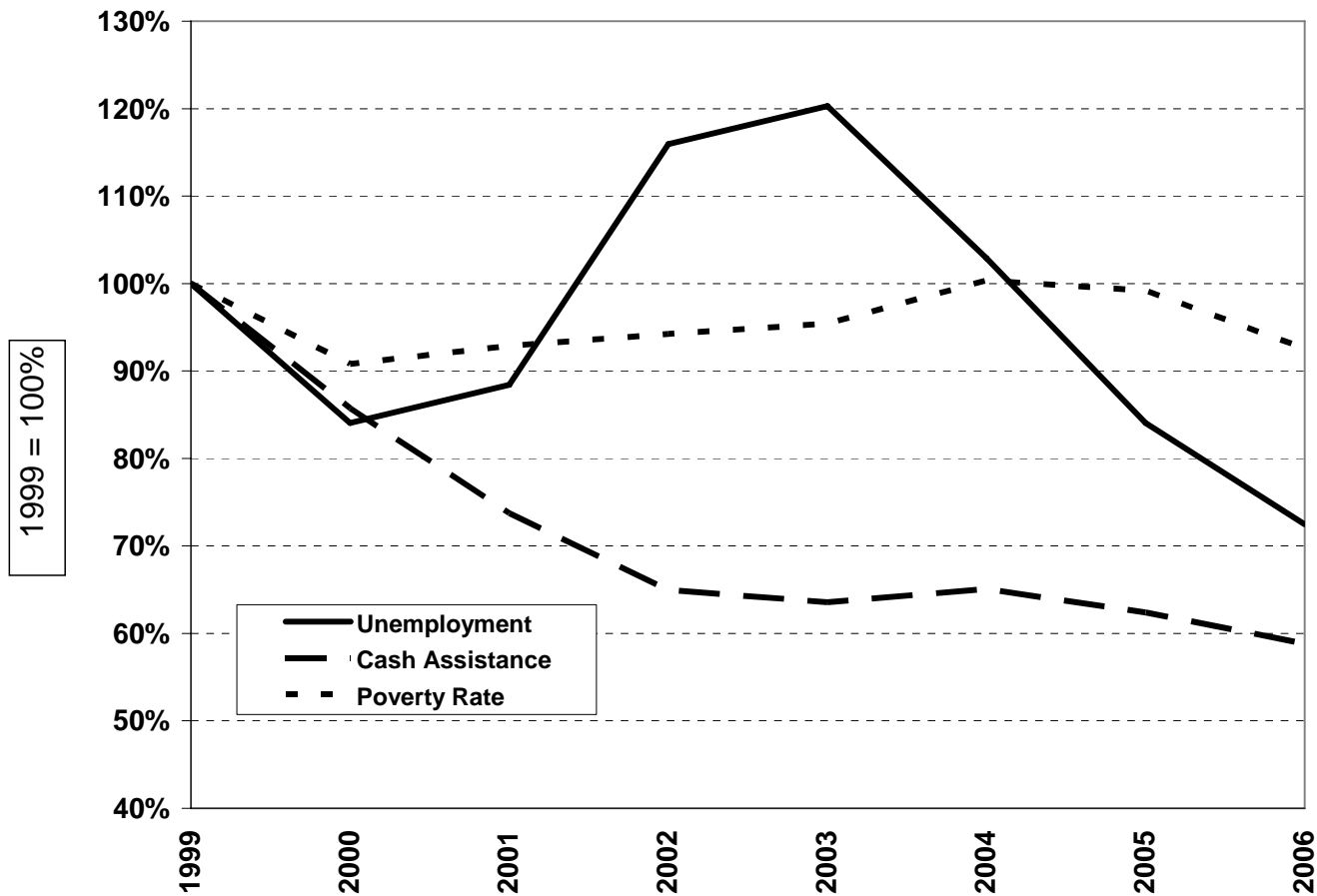
2006	Overall Poverty Rate	% of Children in Poverty
Bronx	29.1%	41.3%
Manhattan	18.3%	27.1%
Westchester	7.0%	8.4%
U.S.	13.3%	18.3%



## **Increased demand for social services**

- Unemployment will rise; while unemployment insurance is a critical part of the safety net, many low-income workers won't qualify; long-term unemployment already high, no extended benefits.
- Lowest income workers in retail and neighborhood services will suffer the most from weak job market.
- Many workers will endure stagnant or declining real wages.
- The weak economy and rising food prices will escalate hunger.
- Electricity and water rates will squeeze already-strained family budgets.
- Triple housing whammy: shrinking number of affordable units; still high prices and rents; foreclosures threaten to destabilize neighborhoods and increase renter displacement.

**During the last recession, public assistance rolls declined as unemployment and the poverty rate rose.**



## **Strained city and state budgets**

- Wall Street downturn will strain NYC and NYS budgets and restrain spending; state budget will get hit harder because of greater reliance on income taxes.
- Governor Paterson intent on reducing expenditures.
- State failed to increase basic welfare grant, still frozen at 1990 level.
- Medicaid spending rose sharply during last two recessions and helped cushion the downturn. Not clear if that will happen this time.
- State will continue exploring how to provide universal health coverage but a solution is a few years off.
- Will health and social services employment continue growing as it has done in last two recessions.?
- Demands on social service providers will increase at a time when government budgets not likely to provide for increases, and might decrease.

## **Outlook for private funding sources**

- While private funding is essential, the magnitude of government spending is such that it is highly unlikely that private spending will fill the gap.
- Growth in philanthropy largely has gone to universities, education and hospitals; not to aid the poor in the U.S.
- Weaker Wall Street performance will reduce foundation income (ytd S&P down 7-8% vs. +12.8% prior 5 years).
- Many, but not necessarily all, wealthy private donors also will see weaker market returns.
- High concentration of income gains at the top means there is more overall private wealth than 5 years ago.

# **Areas of uncertainty cloud the economic outlook**

- How will the regulation of financial markets change and what will the implications be for NYC and NYS?
- What will change at the federal level in January 2009? Will this be an historic juncture in terms of national economic policy?
- What will happen to city and state budgets if revenues decline further?
- What are the longer-term implications of growing income polarization for NYC and NYS, and how will civic, religious and elected leaders respond? (NYS is the most polarized among the 50 states and, nationally, income gaps are the greatest since the 1920s.)

## **How will nonprofit social service providers respond to the immense challenges posed by the economic downturn?**

- Carefully manage costs; pool purchasing; share services and functions; further professionalize management. But don't slash personnel costs at the expense of maintaining a skilled, dedicated and productive workforce.
- Diversify funding, particularly beyond government contract funds.
- Develop and articulate a vision about community and how "we're all in this together"; and what this means for the respective roles of government and the nonprofit sector.
- Think about the critical role that government policy can play in addressing systemic challenges that drive the need for many types of social services. For example, distorted economic growth sows the seeds for dislocations that can generate greater service needs.

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