

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

Presentation by

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**Citi Foundation
2008 Nonprofit Day**

May 7, 2008

Queens, NY

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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.

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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?**

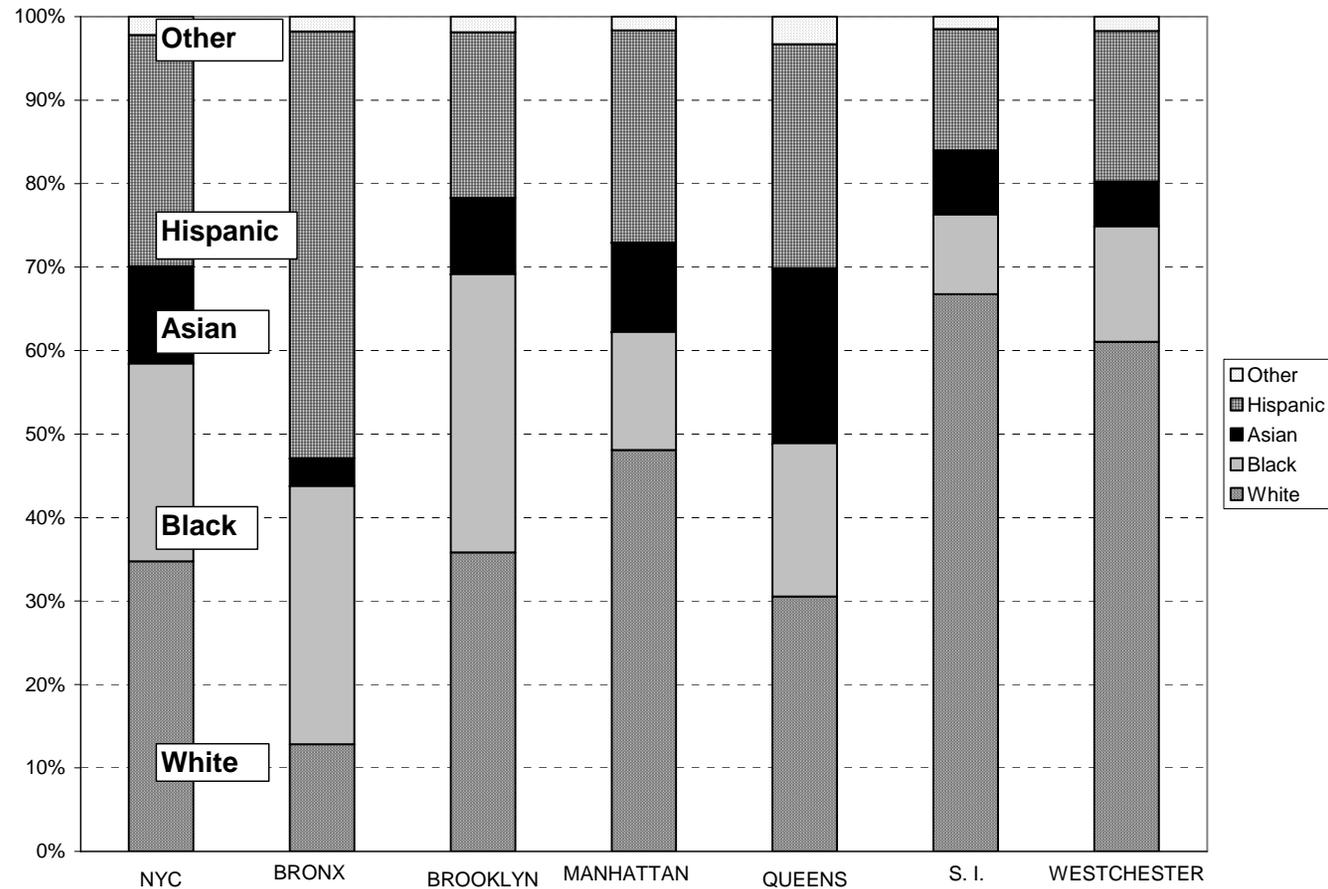
Shallow recovery and expansion did not provide broad-based benefits

- 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.

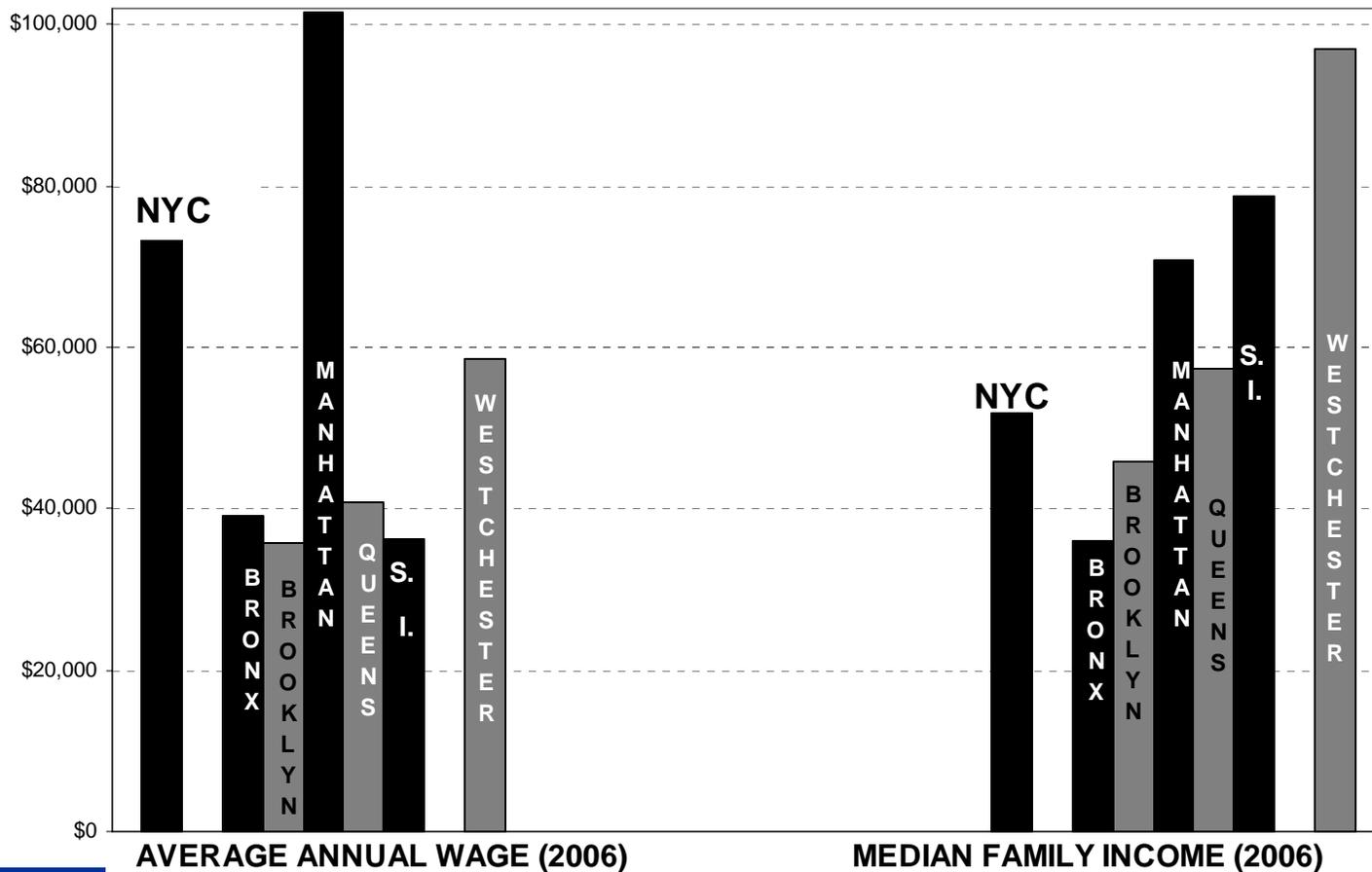
While local recession started on Wall Street, job losses and foreclosures hit neighborhoods hard

- 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.

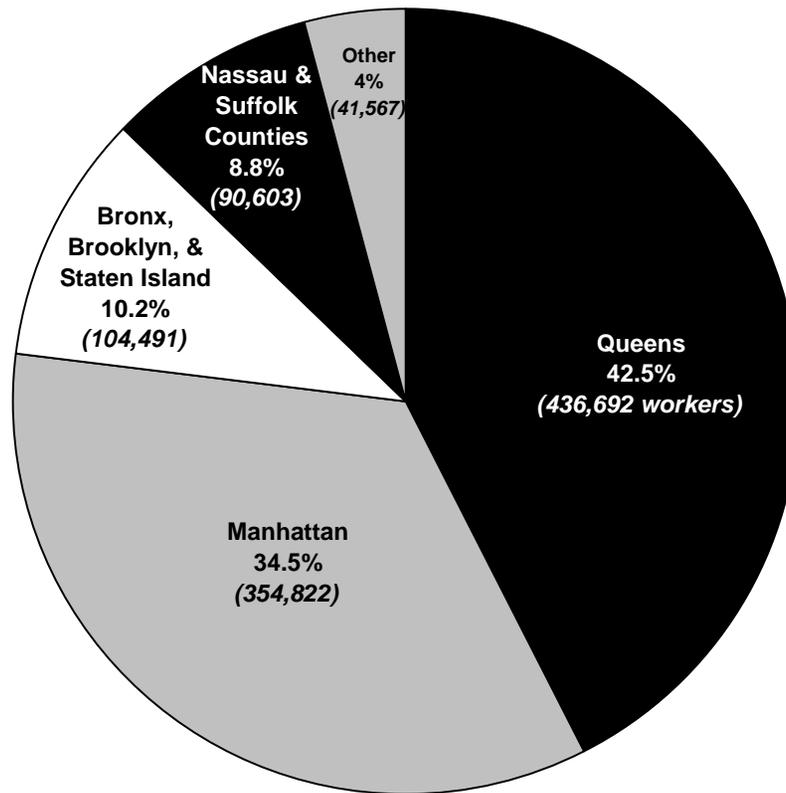
Queens population the most diverse among the five boroughs and Westchester.



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



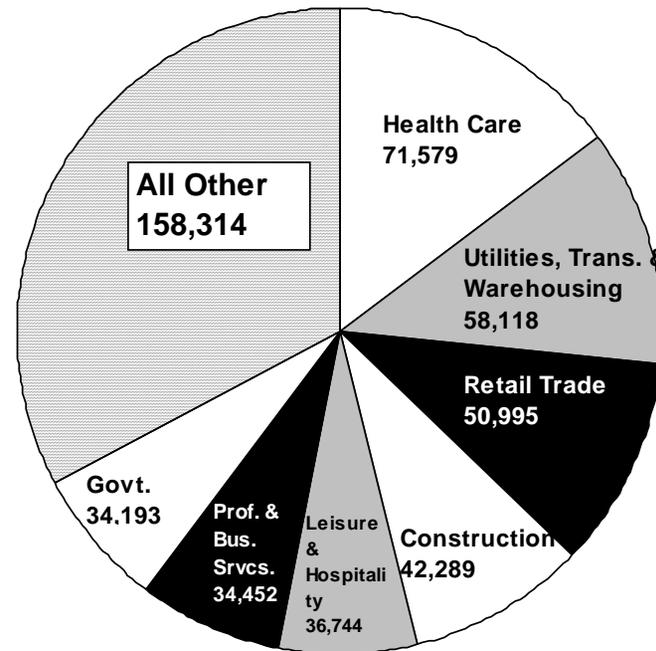
Out of 1.2 million Queens residents employed or self-employed, 43% work in Queens, but 35% work in Manhattan, and 19% in the other boroughs and L.I.



Seventy-eight percent of Queens residents earn under \$40,000 a year. Only one in six earn over \$50,000.

MAJOR SECTOR	COUNT	SHARE	AVERAGE WAGE
Health Care & Social Assistance	173,059	14.8%	\$37,177
Retail Trade	121,764	10.4%	\$25,984
Accommodation & Food Services	104,455	9.0%	\$22,658
Transportation & Warehousing	87,448	7.5%	\$36,665
Educational Services	85,841	7.4%	\$39,088
Other Services	85,197	7.3%	\$23,495
Construction	85,095	7.3%	\$34,921
Finance & Insurance	70,936	6.1%	\$54,481
Professional & Technical Services	67,604	5.8%	\$56,035
Manufacturing	58,170	5.0%	\$32,671
Wholesale Trade	43,299	3.7%	\$37,489
Government	40,993	3.5%	\$52,407
Administrative & Waste Services	40,073	3.4%	\$27,541
Real Estate and Rental & Leasing	38,649	3.3%	\$40,817
Information	34,844	3.0%	\$46,577
Arts, Entertainment, & Recreation	21,591	1.9%	\$23,962
Other	7,918	0.7%	\$52,506
TOTAL	1,166,936	100%	\$36,044

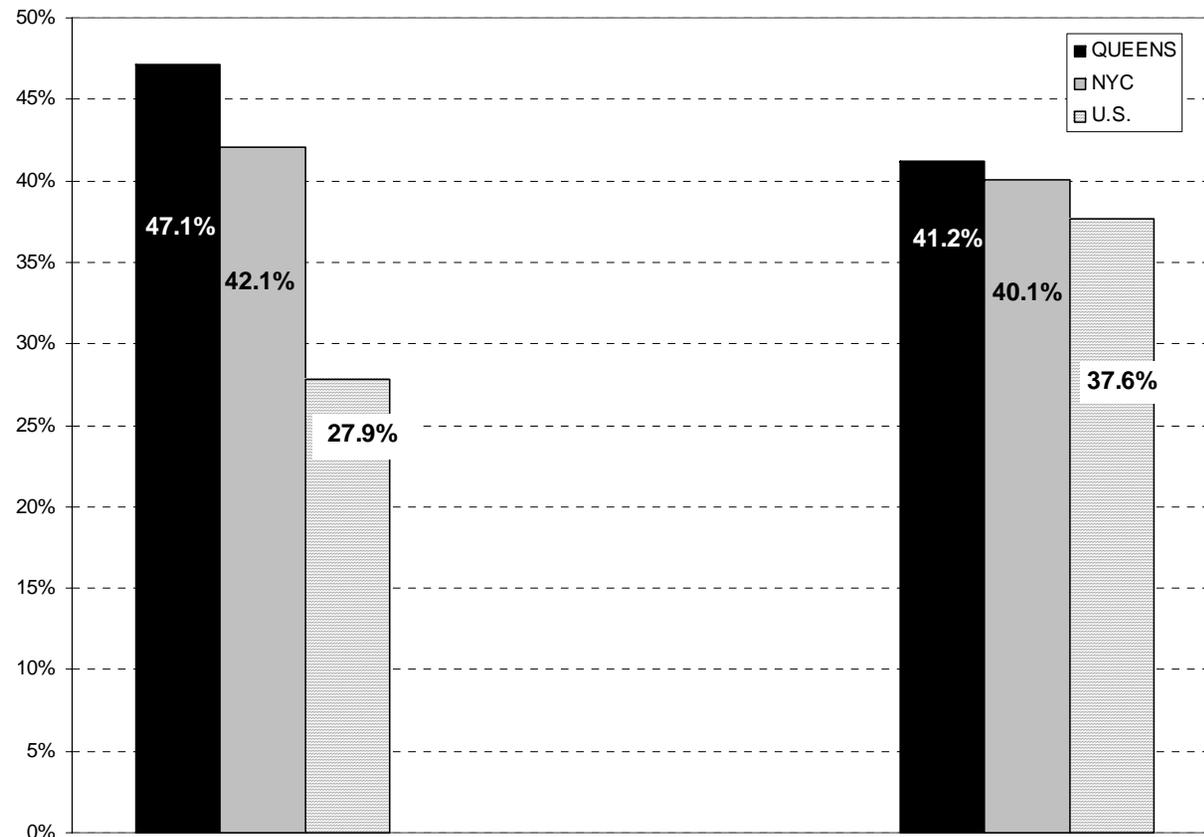
Health care, air transportation, retail, and construction are the leading sources of wage and salary jobs in Queens. (Total Queens payroll employment: 484,686 in 2006)



Unemployment higher in the Bronx.

Unemployment rates and number of unemployed persons, 1 st quarter 2008		
	unemployment rate	unemployed persons
Bronx	6.9%	35,133
Brooklyn	5.4%	58,500
Manhattan	4.4%	40,533
Queens	4.5%	50,233
Staten Island	4.5%	10,867
U. S.	4.9%	7,590,667

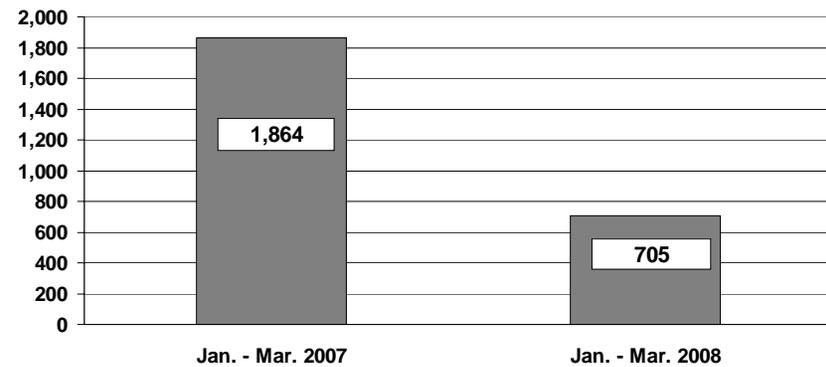
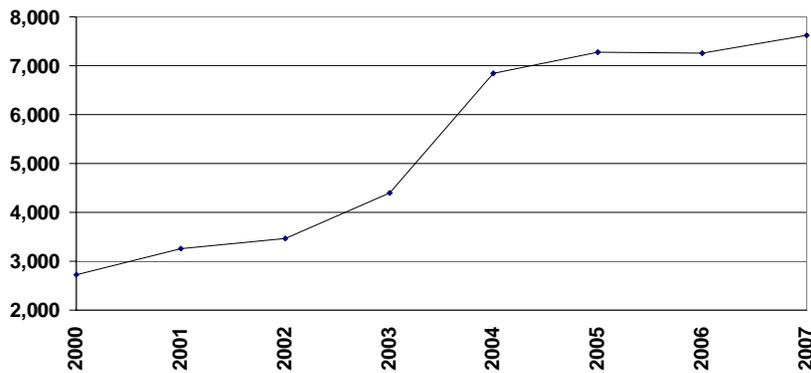
Nearly half of Queens home-owners and more than two-fifths of Queens renters spend 35% or more of their income on housing.



Subprime mortgage foreclosures highest in Far Rockaway and Jamaica.

Neighborhood	Number of Subprime Owner-Occupied Loans	Percentage in Foreclosure	Percentage 30+ Days Overdue	Percentage Adjustable Rate Mortgages Resetting April 2008 – Sept. 2009
Bayside-Little Neck	384	4.4%	12.8%	14.6%
Flushing	971	9.5%	14.4%	22.2%
Long Island City	540	6.9%	13.9%	26.3%
Elmhurst-Corona	1,621	10.1%	15.1%	27.1%
Rego Park-Forest Hills	194	8.8%	9.8%	18.0%
Maspeth-Ridgewood	798	6.8%	15.9%	23.9%
Springfield Gardens St. Albans	3,922	10.9%	21.3%	28.5%
Woodhaven-Ozone Park-Howard Beach	3,387	12.1%	17.0%	29.5%
Jamaica	2,672	15.2%	20.8%	32.0%
Rochdale Village	1,415	13.8%	22.9%	32.6%
Queens Village	1,322	9.0%	18.9%	24.7%
Far Rockaway	1,034	16.3%	20.5%	28.1%
Queens Total	18,260	11.5%	18.7%	28.1%

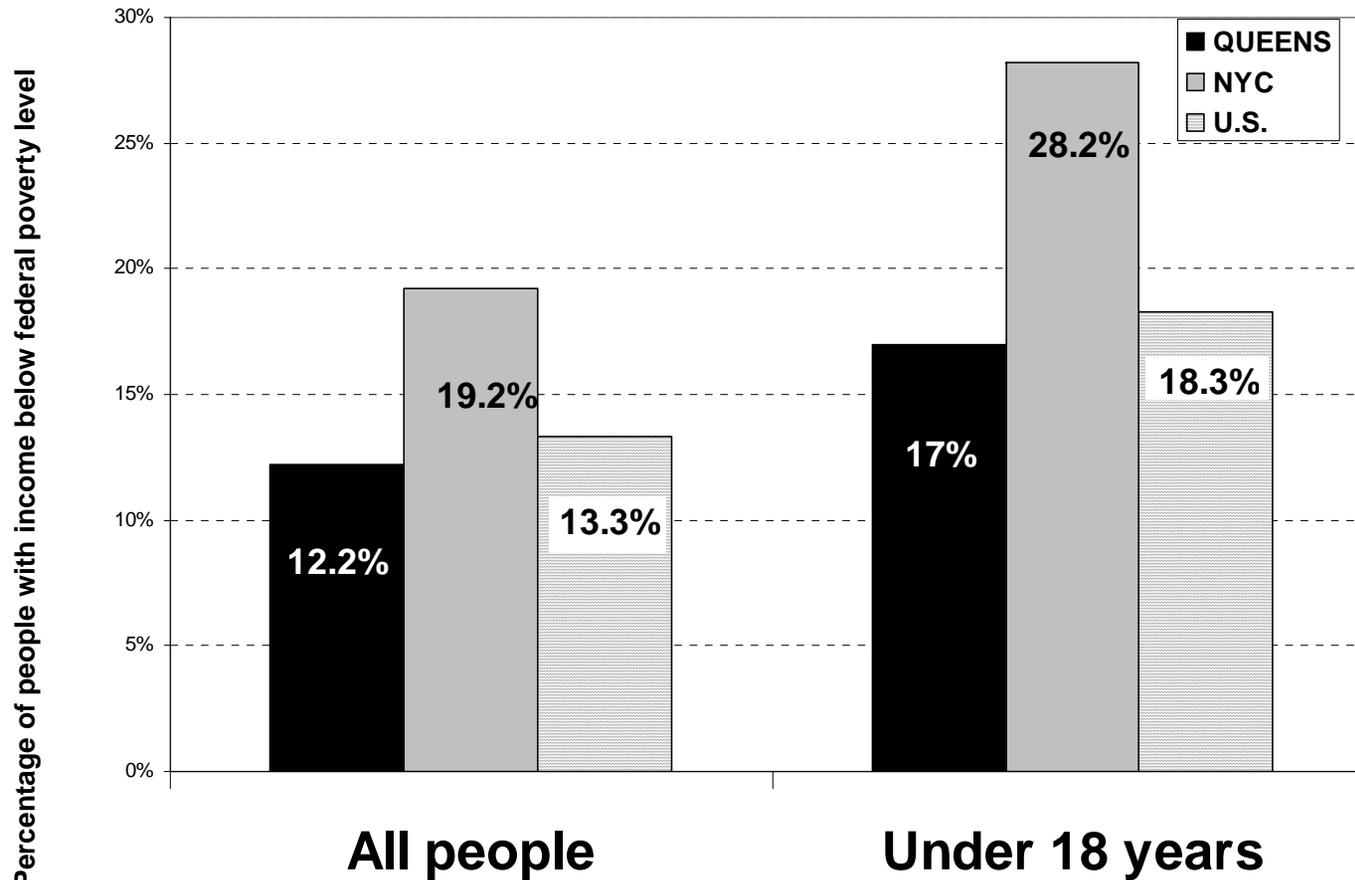
After 4 boom years, Queens residential building permits fell by 62% in the first quarter of 2008.



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.

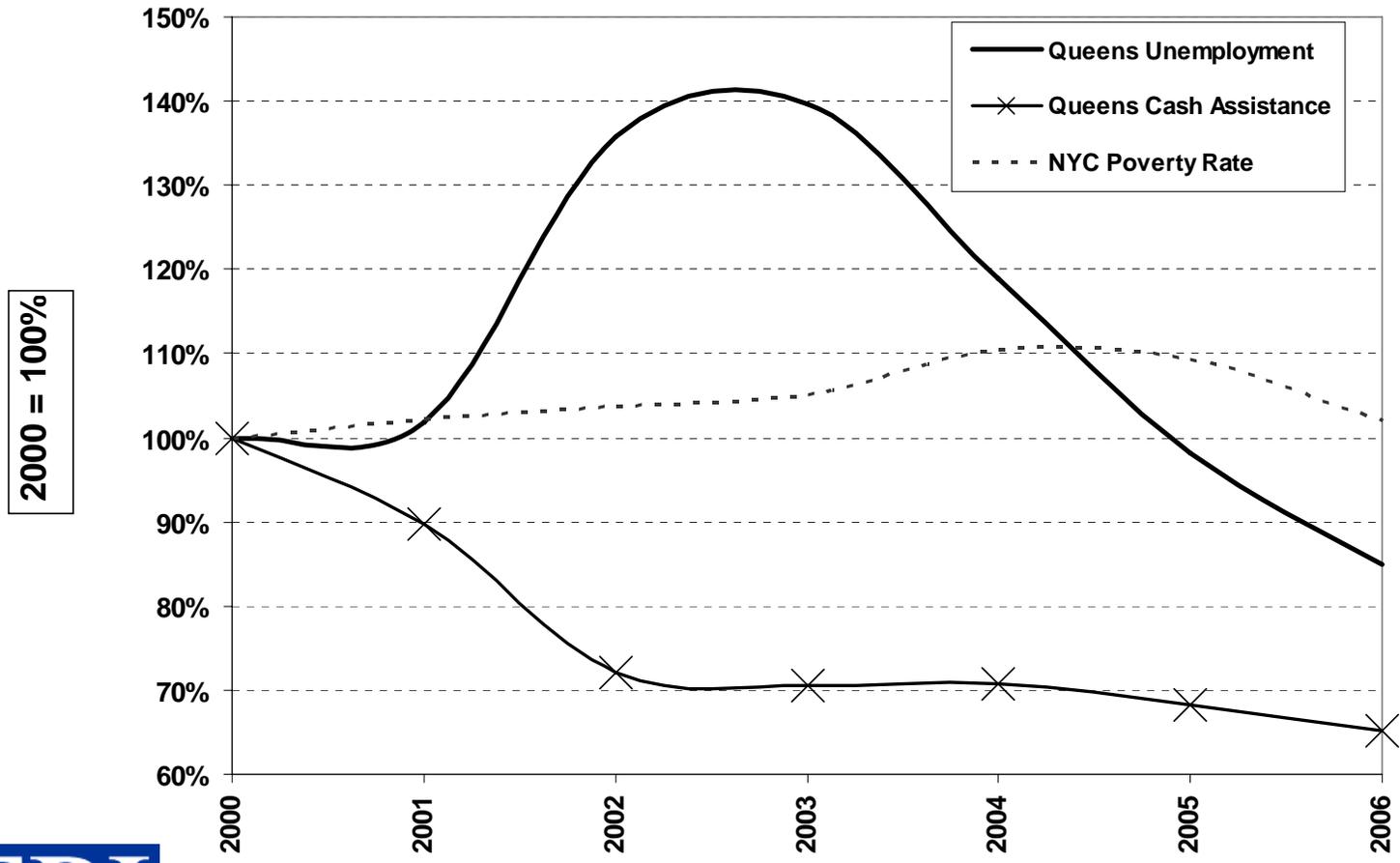
Poverty rates in Queens slightly below the U.S. average, but well below NYC's poverty levels.



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 slightly 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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