Meeting NYC's Fiscal (and Economic) Challenges in 2003

Based on the Mayor's January 28 Financial Plan for FY 2003-2007

February 12, 2003

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The City has taken a big budget step but still faces high hurdles.

In November, NYC faced a FY 2004 gap of $6.4 billion – 24% of City fund revenues and the largest gap, in both absolute and relative terms, since the 1975 fiscal crisis.

- City acted in late November and early December to raise property taxes and reduce agency spending to reduce FY 03-04 gaps by $4.5 B (these actions have recurring value of $3 B in '05 and '06).
- By January 28 plan, revenue projections dropped further and City still faces budget gap of $3.4 B for FY 04 and out-year gaps (FY 05-07) averaging $4.4 B.

City fiscal crisis stems from a "perfect storm" of:

- Structural budget imbalances inherited from the "boom" years;
- Tax cuts during the late 1990s have reduced revenues by about $3 B a year;
- The attack on the World Trade Center;
- The downturn in the stock market that reduced revenues and pension fund performance; and
- The national recession.

Between June 2001 and November 2002, the last 3 developments increased the FY 2004 deficit by $3.8 B, according to the State Comptroller's office. Pension costs account for $1.9 B of the FY 06 budget gap.

The Wall Street slump has reduced jobs, profits and bonuses and accounts for much of the falloff in City tax collections.

- From the 1st half of 2001 to the 1st half of 2002, Wall Street jobs fell by 12.3%, but total wages and bonuses dropped by 23.8%.
- Total wages paid in NYC fell by 8.9% from the 1st half of 2001 to the 1st half of 2002; Wall Street directly accounted for 60% of this decline.
- In all NYC industries except Wall Street, the decline in total wages in this period was still 4.7%.
- Wage income fell 5% in FY02 and is projected to drop another 1.8% in FY03. This will be the first time since the Great Depression that wage income has fallen two years in a row.
- Capital gains realizations--largely related to the stock market--fell by an estimated 44% in 2001 and 38% in 2002.

➡ These developments caused total NYC tax collections to decline by 13% in FY02, after adjusting for inflation, rate and base changes, according to OSDC.

NYC's economic crisis is as severe as its fiscal crisis

- Since the Dec. 2000 employment peak, NYC has lost 174,000 jobs through Dec. 2002. This is a decline of 4.6%, 3-and-a-half times greater than the 1.3% national job decline over this period.
- About half of the NYC job loss came in the wake of the WTC attack and hit low-wage occupations the hardest.
- When NYS revises the employment numbers for the last 2 years, it is likely that the total job loss since the peak will reach 225,000. This would be a decline of 6.0%, a rate of decline worse than in the first 24 months of the 1989-1992 recession. That recession eventually cost NYC 10% of its total jobs.
- Official unemployment was 8.2% in December with nearly 300,000 city residents out of work. Among Blacks the unemployment rate is an estimated 11-12%, and among Hispanics over 9%.
- The current jobs crisis is on top of severe underlying problems of inadequate wages and substandard benefits for many workers.

The lessons of the last recession and the past decade

- The way budgets were balanced at the city and state levels worsened the recession of the early 1990s.
- Throughout the 1990s recession, recovery and expansion, NYC and NYS government failed to address the economic problems facing low- and moderate-income workers, and did not attempt to diversify the economy to lessen the vulnerability to Wall Street volatility.

NYC is in the 3rd year of what is likely to be a 7-year slump.

- City OMB is forecasting a 3rd year of job declines in 2003 and a fairly weak, almost "jobless" recovery for the next 4 years.
- This means that it will be late 2007 or 2008, for the city to regain the Dec. 2000 peak employment level.
- With this outlook for the next 5 years, joblessness, low wages and fewer health and pension benefits will continue to plague low- and moderate-income workers and their families in NYC.

In addressing the budget gap, the Mayor's general approach of relying heavily on tax increases and state and federal aid is the right one.

- "(T)he need for taxes as a contributing source to remedy the budget gap is more compelling. Despite implementation of deep and recurring spending cuts, a huge problem remains. Significantly deeper cuts in agency related spending wold prove counterproductive."
- "One of the many lessons learned from the 1975 fiscal crisis is the tremendous consequence of large-scale layoffs in the municipal workforce … Along with these cuts came disruption, the radical altering of services, and a degradation of the quality of life for New Yorkers for years to come."

from the Mayor's cover letter for the November 14 Financial Plan

The Mayor's January gap closing program:

($ in millions)	FY 2004
Personal income tax reform *	$ 962
Additional agency program **	487
Federal aid	200
Airport rents	690
Regional transportation initiatives (tolls)	200
Agency program requiring state action	52
Other state aid	200
Labor actions (productivity)	600
Total gap closing program	**$ 3,391**

*PIT reform includes extending the NYC PIT to non-residents working in NYC, and a phased-reduction in the rate schedule.

**Together w/ actions taken in 2002, FY 2004 agency spending will have been reduced by a total of $2.6 billion, or 17%, excluding education (compared to the June 2001 plan.)

The President's budget and tax plans hurt New York

- The "stimulus" proposal fails to provide fiscal relief to states and localities.
- It will provide almost no economic stimulus to boost job growth or to avert the further erosion in consumer and business confidence that will result should there be a second Gulf War.
- The proposed elimination of the tax on corporate dividends will cost NYC $125 million in 2003 and $525 million over four years (State Comptroller Hevesi).
- The dividend measure will also reduce tax collections from capital gains and will likely increase the City's borrowing costs.
- The President's budget reduces funding for NYC in areas extending from community policing, schools, community development and housing.

The Mayor's financial plan calls for $200 million in federal aid and presents a menu of federal actions that would help close the gap, among these are:

• State and local government fiscal assistance	$ 600 M
• Flexibility in hazard mitigation grant or 1st Responder funding for uniform operating funds	250
• Increase in federal share of medicaid funding	241
• Provide Medicare drug benefit	145
• Restore medicaid funding for legal immigrants	27

[The Bush administration reportedly has agreed to allow NYC to use $630 M in FEMA and other WTC rebuilding funds for gap-closing purposes, NYT, 2/7/03. However, the Mayor had been counting on $650 M ($230 M in the baseline and $420 M as part of the FY03 gap closing program.)]

The Mayor's financial plan also calls for $200 million in state aid and presents a menu of actions (totaling $1.5B) that would help close the gap, among these are:

• Cap Medicaid at 2001 level	$ 394 M
• Medicaid cost containment	250
• Establish an early intervention pool	150
• Restoration of the Stock Transfer Incentive fund	114
• Tort reform	100

The Mayor is also seeking $275 M to fund the ongoing costs for extending the school day.

In presenting his state aid proposals, the Mayor notes that actions taken by the state over the past 4 years will cost the City $1.26 B in FY04.

The Governor's budget and his position on taxes makes it harder for the City to close its budget gap.

- The Governor's fee and tax increases (transit hike, tuition hike, re-imposing the sales tax on clothing) are generally regressive, hurting low- and moderate-income households the most and hindering economic recovery.
- The Governor's statements about broad-based taxes being "job-killing" hinders the effort to tax commuters.
- The Governor's $1.2 B in school aid cuts, according to the Mayor, would mean a $478 M (8.8%) reduction for NYC and result in the reduction of 1,900 teaching positions in kindergarten through 3rd grade.
- On Medicaid, the Governor's proposal would cost NYC $250 M in the 1st year and would reduce Medicaid reimbursements to HHC facilities by over $100 M.

What NYC needs to address its fiscal and economic challenges:

- Federal stimulus to provide state/local fiscal relief and extend unemployment compensation.
- State PIT top rate increases to avert school and health cuts
- State action to reinstate and possibly modify the commuter tax and to allow City to modify its PIT (discussed in next slide)
- City to launch a $1 B job creation and retention program using some of the remaining Community Development Block Grant funds now under the control of the Lower Manhattan Development Corporation.
- City to actively encourage persons eligible for food stamps to apply.
- City to embark on broad re-vamping of economic development to diversify the economy through a sector focus
- Integrate workforce development in furtherance of a City priority to develop better paying and more secure jobs for city residents.

An alternative NYC tax program:

- Change the Personal Income Tax by expanding the top (base) bracket into 3 brackets (w/ increases of .3%, .65% and 1% over the current top bracket of 3.2%), and reduce the 2 bottom brackets by .25% each. This would generate about $600 M and is a progressive alternative to an across-the-board surcharge (it reduces taxes for those w/ incomes under $100,000).

- Institute a progressive commuter tax at 1/3 of the resident PIT rates (as modified above). This would generate over $1 B a year but would tax commuters less than under the Mayor's proposal to extend (and then reduce) resident PIT rates to commuters.

- If additional revenues are needed, consider various proposals to increase business tax revenues. Among these, reinstating the Stock Transfer Tax at a fraction of its previous rate; extend the General Corporation Tax to insurance companies; increase the corporate alternative minimum tax; equalize the tax rate paid by LLCs and partnerships with the GCT tax rate.

Moderate tax increases will not hurt the economy

- Nobel prize-winning Stiglitz says tax on high income households “the least harmful” to the economy
- Extensive literature says business location driven primarily by access to skilled labor and markets and good infrastructure, not by relative taxes
- Empirical studies on NYC that allege that tax hikes kill jobs are flawed and end up conflating correlation with causation

What role did NYC and NYS tax cuts play in the last 1990s economic "boom"?

- The $3 B in NYC tax cuts and the $13B in NYS tax cuts over the past 8 years did not play a meaningful role in New York's 1997-2000 economic expansion.
- City and state employment and income growth were largely driven by the Wall Street financial bubble and the rapid expansion in business services. Half of the total economic growth in the state, as reported by the U.S. Commerce Department in its Gross product series, stemmed directly from Wall Street.
- State tax policies are uniform across the state yet job growth from 1994-2000 averaged 1.9% annually downstate but only 1.2% a year in the upstate regions.

A NYC plan to stimulate and diversify the economy, and preserve a safety net:

- Use $1 B in CDBG funds for a Liberty Jobs emergency job creation program tied to rebuilding lower Manhattan. Through combination of wage subsidies and public service jobs, this could create and retain roughly 70,000 jobs. This program should be part of a large effort to re-orient the city's economic development programs using a sector approach and to diversify the economy.

- The City should actively encourage the more than 800,000 residents who are potentially eligible for food stamps to apply for this 100% federally-funded program. This could bring about $1 B in food spending into the city to help low-income and unemployed residents. (see Community Food Resource Center report, Missing Millions.)

- To aid many of the 300,000 unemployed city residents, the federal government should extend unemployment insurance benefits more than once as is usually done during a recession.