Briefing on Mayor deBlasio’s Preliminary FY 2016 NYC Budget: Addressing Needs and Budgeting Cautiously as the Recovery Progresses

James Parrott, Deputy Director and Chief Economist
Fiscal Policy Institute
parrott@fiscalpolicy.org

A Fiscal Policy Institute Presentation
www.fiscalpolicy.org
March 2015
Overview

1. **Several positive budgeting changes:** implementing UPK-afterschool initiative, settling 75% of municipal labor contracts at sustainable cost to the City, addressing critical human service needs, aiding the Housing Authority, addressing correctional system problems, and ending the annual budget dance.

2. **Strong job and tax growth, but uneven gains for workers and families:** NYC job growth continues better than the U.S., and while job growth is not all low-wage, wage and income growth is mixed. Tax growth continues strong and low interest rates and stock market gains have meant reduced debt service and pension contributions.

3. **Budget outlook improving:** Outyear gaps have been reduced and the City has a significant budget cushion.

4. **Still to be addressed on the budget front:** Low-wages for many social service sector workers providing human services under City contract, and reforming tax expenditures and residential property taxes and making local taxes more progressive.
NYC’s budgeting has changed in a number of positive ways under Mayor de Blasio.

- FY 2016 will see the full implementation of full-day universal pre-K to 70,000 seats, with the State covering a significant portion of the cost.

- Funding for middle school afterschool program serving 100,000 students.

- In his first 14 months, municipal labor contracts have been settled covering 76% of the City’s union workforce, with settlements at modest cost and including significant health care savings.

- Increased funding for several critical human service needs, including homeless services and prevention; runaway youth; rental assistance to help move families out of shelters and to help low-income New Yorkers with HIV/AIDS; expanded Summer Youth Jobs Program; expanded maternal, infant, and reproductive health services; and better case management for senior services.
NYC Revenues ($ in millions)--$77.7 B Prelim. FY 2016 Budget

- General Property Tax: $22,113 (29%)
- Income Taxes: $16,981 (22%)
- Sales Tax: $7,069 (9%)
- Federal Aid: $6,618 (9%)
- State School Aid: $9,560 (12%)
- Miscellaneous Revenues: $5,666 (7%)
- All Other Taxes: $4,803 (6%)
- State--Other Aid: $4,080 (5%)
- Other Grants: $832 (1%)

NYC Expenditures ($ in millions) -- $77.7 B Prelim. FY 2016 Budget

Source: City of New York, February 2015 Financial Plan, 2-9-15
From FY 2013-2015, City-funded human services spending has out-paced federal funding while state funding has fallen.

*Source: July 2013 and February 2015 NYC financial plans. Note: Data are inflation-adjusted*
What hasn’t changed on the budget front?

- Cautious budgeting with conservative tax forecasts, spending forecasts erring on the high side, and ample reserves for contingencies.
  - Similar story with taxes being revised upward
  - Debt service savings
  - Steadily shrinking projected budget gaps
  - The Retiree Health Benefit Trust is back, and growing

- Strong bond ratings: double-A on General Obligation bonds, and triple-A on Transitional Finance Authority and NY Water Authority debt.

- Unprecedented budget monitoring apparatus under state law.

- Continued stringent State budget policies, particularly on school funding.
Negative effects of the governor’s continued budget austerity.

- For 4th year in a row, Governor limiting state spending growth to less than 2% a year, despite revenues and incomes growing 4-6% annually.

- Taxes cut by $2 billion in 2011, and by several hundred million more each year since.

- State not honoring 2007 commitment to remedy under-funding of NYC schools; state NYC education aid shortfall is $2.6 billion a year. Governor linked most school aid this year to adoption of his education reforms (teacher evaluations, raising charter cap, etc.)

- Further budget cuts in higher ed and social services. If the governor’s budget proposal is adopted, inflation-adjusted State social services funding will drop by 10% since 2011.

- Governor proposed a progressive circuit breaker to provide property tax relief, but it is linked to compliance with freezing property taxes. Provides modest relief to NYC renters.

- City seeking state funds for NYCHA and rental assistance to address homelessness.

- Despite large MTA capital funding gap, governor provides little assistance.

NYC’s economy—robust tax and job growth without a Wall Street boom for the first time in decades. NYC has gained 500,000 jobs in the 5 years of recovery.

- NYC taxes grew 6.8% a year 2010-14; projected to grow 4.5% annually 2014-18 (based on IBO forecast). That’s about $2.3 billion more each year.

- NYC job growth continues to out-pace the U.S., with 120,000 more jobs in 2013 and 105,000 more in 2014. Unemployment dropped 1.6% last year; > than U.S. decline.

- While more of recent job growth in better-paying industries, most of recovery job growth has been in low-wage areas like restaurants, homecare, and retail.

- Some wage growth at the bottom from 2 state minimum wage increases, but for most workers, little wage gain.

- About half of improvement in NYC median family income in 2013 due to gentrification; still, median incomes 5% below 2008.

- All of 2009-12 income gains in New York State went to wealthiest 1%.

Note: Appendix provides several charts on NYC economic condition.
Mayor’s Preliminary FY 2016 budget proposals

- Tax growth and debt service savings used to address pent-up service needs and bolster reserves rather than cutting taxes (as usually done over past 20 years.)

- NYCHA police payment relief baselined, saving NYCHA $72 million a year to address maintenance backlog.

- $77 million in public safety increases (Corrections staffing and training, shorten EMS response time, replace NYPD vests).

- $40 million for rental assistance to move homeless families out of shelters and for eviction prevention and other homelessness prevention programs.

- $29 million in FY16 to expand STEM programming, increasing to $51 million in FY17.

- $10M for child welfare services, $9M to expand ID NYC, $18M for summer afterschool expansion, $8M to expand community health centers.
Revenue and debt service developments in the prelim

- For the current FY15 year, tax forecast raised $766M in Nov. and $1B in Feb (mostly from personal income and property taxes, but also audits and real estate-related taxes). FY16 tax forecast now $950M higher than last June, and 2017 and 2018 increased almost as much.

- Nearly $1B in debt service savings realized since FY15 adoption last June. Savings of $170M from Hudson Yards development fees that will be applied to interest on Hudson Yards debt sold to extend the #7 subway line.

- To conform to state corporate tax changes enacted last year, Mayor proposes combining the bank and general corporate taxes in a revenue neutral way by increasing the cap on the capital base alternative tax to $10 million and raising the minimum tax. These changes are in the governor’s proposed budget.
  - These provisions ensure large companies will still pay reasonable tax.
  - The changes also allow the City to reduce the corporate tax rate on small businesses and manufacturers.

- $1.5B FY 2015 surplus will be used to eliminate FY 2016 budget gap.
Labor developments

- In December, the City reached a settlement with 8 unions of the Uniformed Superior Officers Coalition that set a pattern for uniformed force employees in the 2010-2017 collective bargaining round. Similar to UFT pattern but includes 1% wage increase in the first year instead of a $1,000 lump sum. Uniform pattern followed in late Feb. agreement with the Police Sergeants.

- The cost above the already budgeted civilian pattern through FY 2019 was $750M when applied to all uniformed force employees, including the PBA (although the PBA is in arbitration.)

- This additional cost more than offset by FY 2014 pension investment returns that were more than 10% above the 7% assumed actuarial rate.

- The City reports that it is on track to achieve the employee health care cost savings negotiated with the Municipal Labor Committee at the time of last May’s UFT settlement. This will provide $1.3B in recurring annual savings.
New York City budget outlook

- When FY15 budget adopted, the combined gaps for FY16-18 were $7.6B. With this plan, FY16 gap is eliminated and the combined gaps for FY17-18 reduced to $2.4B. For FY19, added to this plan for the 1st time, the City projects a $2.1B gap. Tax forecasts raised $4.5B; debt service reduced by $1.6B.

- The Comptrollers and Council Finance project higher tax forecasts than OMB. The IBO also projects greater tax collections over the next four years, and even with some offsets for slightly higher expenditures, the IBO projects a net position (revenues minus expenditures) $6.6B above the City’s projections over the four years. That means a combined surplus of over $2B.

- No PEGS but still gap-closing actions and savings. The Mayor has asked agencies for savings proposals to be included in the Executive budget, including proposals to reduce contracting out.

- Reserve cushions: General Reserve of $750M per year, $2.4B in the Retiree Health Benefit Trust that Bloomberg used as a rainy day reserve, and likely savings from prior payables and such things as $75M for short term borrowing that won’t be needed.
One priority for the Executive Budget—Social Services Career Ladder and wage increase

- The City contracts out over $5 billion in social services services in the operating budget. This spending affects about 125,000 workers at non-profits, who are, in effect, indirect city employees.

- Half of these workers earn less than $14 an hour. They are predominantly women of color who live in low-income neighborhoods alongside many of the clients they serve. Few opportunities to move up.

- Most of these workers are not unionized and are not covered by either of the City’s living wage ordinances. Non-profit contracts significantly under-funded last 20 years.

- In growing number, nonprofits are supporting a Career Ladder Proposal for the City to increase contract amounts to raise wages for the lowest-paid workers and fund education and training programs to provide career advancement opportunities.

- Positive benefits from this initiative: improved retention and service quality, higher spending in poor neighborhoods, government savings and higher taxes. City leading by example in raising low wages.
New FPI Report: *NYC Taxes—Trends, Impact and Priorities for Reform* (summary distributed)

- NYS has 3rd lowest share of share of combined state and local taxes.
  - State requires local Medicaid spending
  - Falls short on school aid
  - Provides little revenue sharing

- Regressive local household tax burden: moderately progressive income tax offset by highly regressive property and sales taxes.

- No major progressive changes since 1990 despite income polarization.

- Many residential property tax inequities: lower assessment ratio for 1-3 family homes, assessment caps, and undervaluation of coop/condos. Renters pay more. These problems written into 1981 state law.

- Rapid rise in exemptions and business tax breaks (tripled since 2001).
NYC tax reform priorities

- Residential property tax reform: goal should be greater equity. While it’s complicated, more tools exist than ever before to minimize creating undue burdens. Does require considerable political balancing and broad leadership.

- Expand low-income tax credits and increase the number of tax brackets.
  - Recognize limits to increasing top rate because of higher NYS top rate, but could apply rate recapture.
  - Consider limiting the UBT credit for millionaires.

- Reform business tax expenditures.
  - Evaluate and rationalize current panoply of tax breaks that have evolved over decades.
  - Eliminate the unnecessary Hudson Yards property tax breaks and carried interest exemption on UBT.

- Pied-à-terre tax since non-residents don’t pay income tax, or “mansion” tax (new bracket on transfer tax).
Appendix on NYC Economic Conditions
Job growth in NYC continues to out-pace the U.S.

Source: FPI analysis of Bureau of Labor Statistics and NYS Dept. of Labor employment data; FPI seasonal adjustment of NYC data.
NYC's unemployment rate fell by 1.6% in 2014, greater than the 1.1% decline for the U.S. overall, but is still higher (6.5%) than pre-recession.
New York City job growth concentrated in low-wage jobs; in the recovery, half of job growth low-wage; since recession began in Aug. 2008, three-fourths of net job change low-wage.

Fiscal Policy Institute analysis. Employment from Current Employment Survey; average wages (2012$) from Quarterly Census of Employment and Wages. Low-wage industries are those with average wages below $45,000; High-wage industries have average wages above $75,000; Middle-wage industries are between $45,000 and $75,000.
Mixed picture for NYC wage growth

- Over the past two years, some improvement in inflation-adjusted hourly wages at the 1st decile (the 10th percentile), partly due to an increase in the state’s minimum wage.

- Better job growth among high-wage industries helped lift the median and 90th percentile hourly wages in 2014.

  - The average hourly wage in the private sector in NYC increased by 2 percent in 2014. Yet, since average weekly hours declined for the 6th straight year, average weekly earnings increased only 1.4 percent (about the same as the increase in the regional CPI.)
NYC median family income rose 3.5% in 2013, after falling more than 8% in the wake of the recession. But gentrification probably accounted for some of the apparent improvement.

### Changes in median family income (2013$)

- **2012-2013:**
  - U.S.: 0.9%
  - NYC: 3.5%

- **2008-2013:**
  - U.S.: -6.6%
  - NYC: -5.2%

Source: FPI analysis of Census American Community Survey data. Census estimates adjusted for inflation by FPI using U.S. City Average All Urban Consumers Consumer Price Index.
NYC’s labor force changes

- NYC’s labor force has risen during the recovery and, unlike at the national level, the city’s labor force participation rate has increased during the recovery.

- Over the past 10 years, the portion of the city’s work force with a 4-year college degree or better rose from 36% to 47%, and there was a decline of comparable magnitude among those with a high school diploma or less (declining from 44.6% to 34.3%).

- Along with the aging of the baby boom generation that is increasing the share of workers 55 and older, the share of workers ages 20-34 increased from 35% to 40% of the total. The share of the workforce in the middle group, those 35-54, fell from 45% to 39%.
NYC has a high cost of living, and it’s rising

- One-third of New York City renters are “severely rent burdened,” meaning they pay 50% or more of household income for rent, fuel and utilities, according to the 2014 Housing and Vacancy Survey.

- Record high homelessness, more than doubled since 2000, with 54% increase since rental assistance ended in April 2011 under Cuomo and Bloomberg.


- Median earnings, on the other hand, increased by only 17% over that period.

- 42% of NYC households lack sufficient income to meet minimum basic family needs for shelter, food, clothing, transportation, child care, health care, and taxes.

- 83% of households lacking sufficient income include one or more workers.
The income share of the top 1% rose sharply in 2012; in NYC, the top 1% had well over 40% of all income.

Source: Emmanuel Saez, Jan. 2015, U.S.; Estelle Sommeiller and Mark Price, Jan. 2015, NYS; FPI and IBO estimates, Jan. 2015, NYC.
From 2000 to 2012, the number of millionaire households and their incomes increased about the same in NYC as in the U.S.
The Fiscal Policy Institute (FPI) is grateful to the foundations, labor unions, faith-based organizations, human services providers and advocates, and community and good government groups that support FPI’s work and/or disseminate the results of FPI’s analysis.

Additional information on FPI’s fiscal and economic analyses and copies of FPI’s publications are available at www.fiscalpolicy.org.

March 2015

Fiscal Policy Institute
One Lear Jet Lane
Latham, New York 12110
518-786-3156

11 Park Place, Suite 701
New York, NY 10007
212-721-5624

www.fiscalpolicy.org
info@fiscalpolicy.org