Briefing on Mayor deBlasio's Preliminary FY 2017 NYC Budget: Budgeting Cautiously amid State and Economic Uncertainty

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A Fiscal Policy Institute Presentation
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March 2016

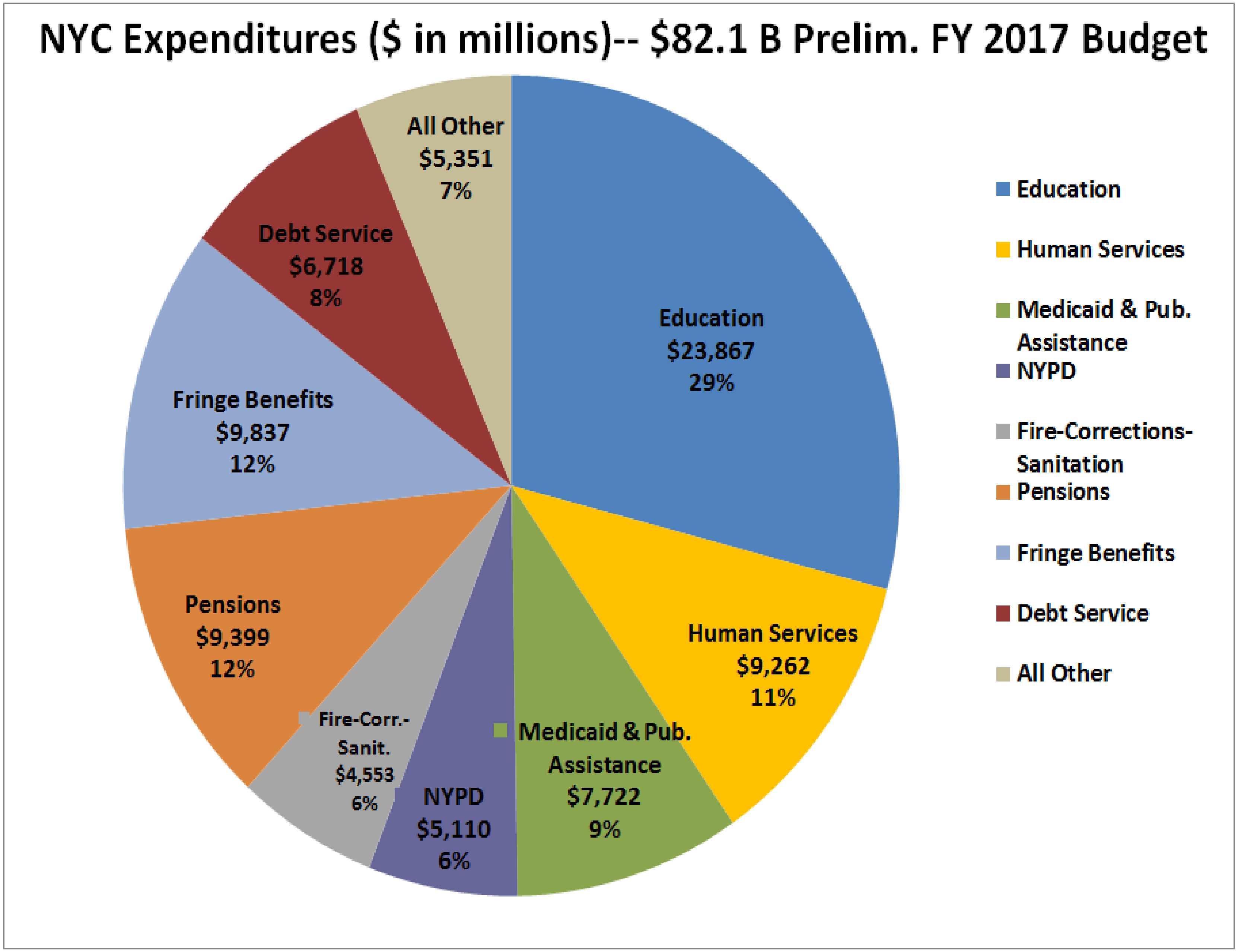
Overview

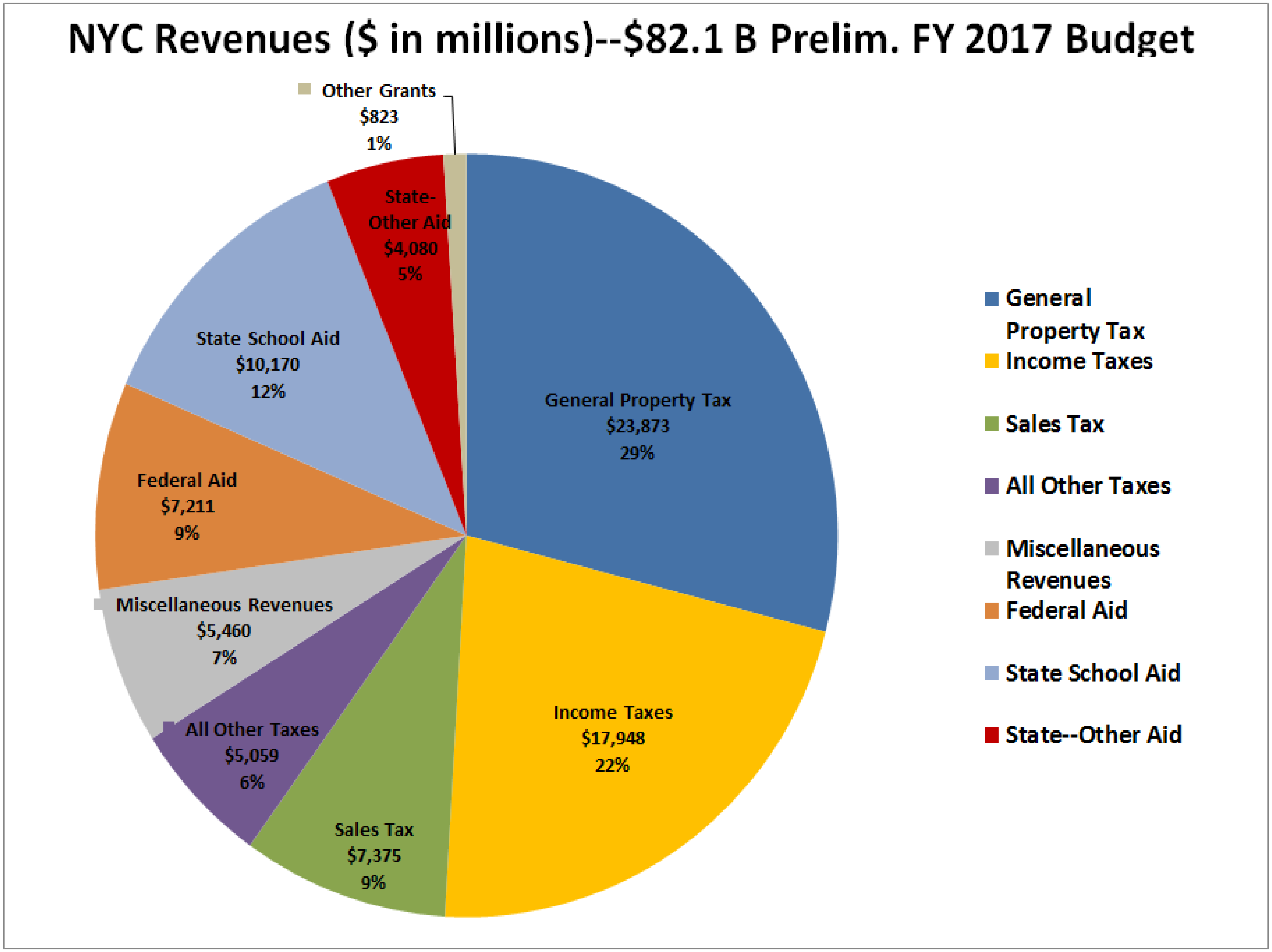
1. **Strong economic and tax growth used to further a different set of budget and policy priorities than predecessors:** reinvesting in human services; committing new resources to address housing and homelessness; continuing and different investments in public safety; and changing employment and wage policies to aid workers.

2. **Cautious budgeting in the face of economic uncertainty:** Outyear gaps have been reduced; City has a significant budget reserve cushion; new focus on budget savings and greater efficiencies promised in Executive Budget.

3. **Budget and tax cap proposals from Albany pose new risks for NYC:** These risks have risen to a new level that departs from a 40-year history of City-State financial partnership.

4. **Still to be addressed:** The City hasn't yet focused on reforming local taxes to make them less regressive, especially residential property taxes.


NYC Expenditures ($ in millions)-- $82.1 B Prelim. FY 2017 Budget
All Other
$5,351
7%
Debt Service
$6,718
8%
Education
$23,867
29%
Fringe Benefits
$9,837
12%
Pensions
$9,399
12%
Human Services
$9,262
11%
Fire-Corr.-
Sanit.
$4,553
6%
Medicaid & Pub.
Assistance
$7,722
9%
NYPD
$5,110
6%
Education
Human Services
Medicaid & Pub. Assistance
NYPD
Fire-Corrections-Sanitation
Pensions
Fringe Benefits
Debt Service
All Other


NYC Revenues ($ in millions)--$82.1 B Prelim. FY 2017 Budget
Other Grants $823 1%
State-Other Aid $4,080 5%
State School Aid $10,170 12%
General Property Tax $23,873 29%
Federal Aid $7,211 9%
Miscellaneous Revenues $5,460 7%
All Other Taxes $5,059 6%
Income Taxes $17,948 22%
Sales Tax $7,375 9%
General Property Tax
Income Taxes
Sales Tax
All Other Taxes
Miscellaneous Revenues
Federal Aid
State School Aid
State--Other Aid

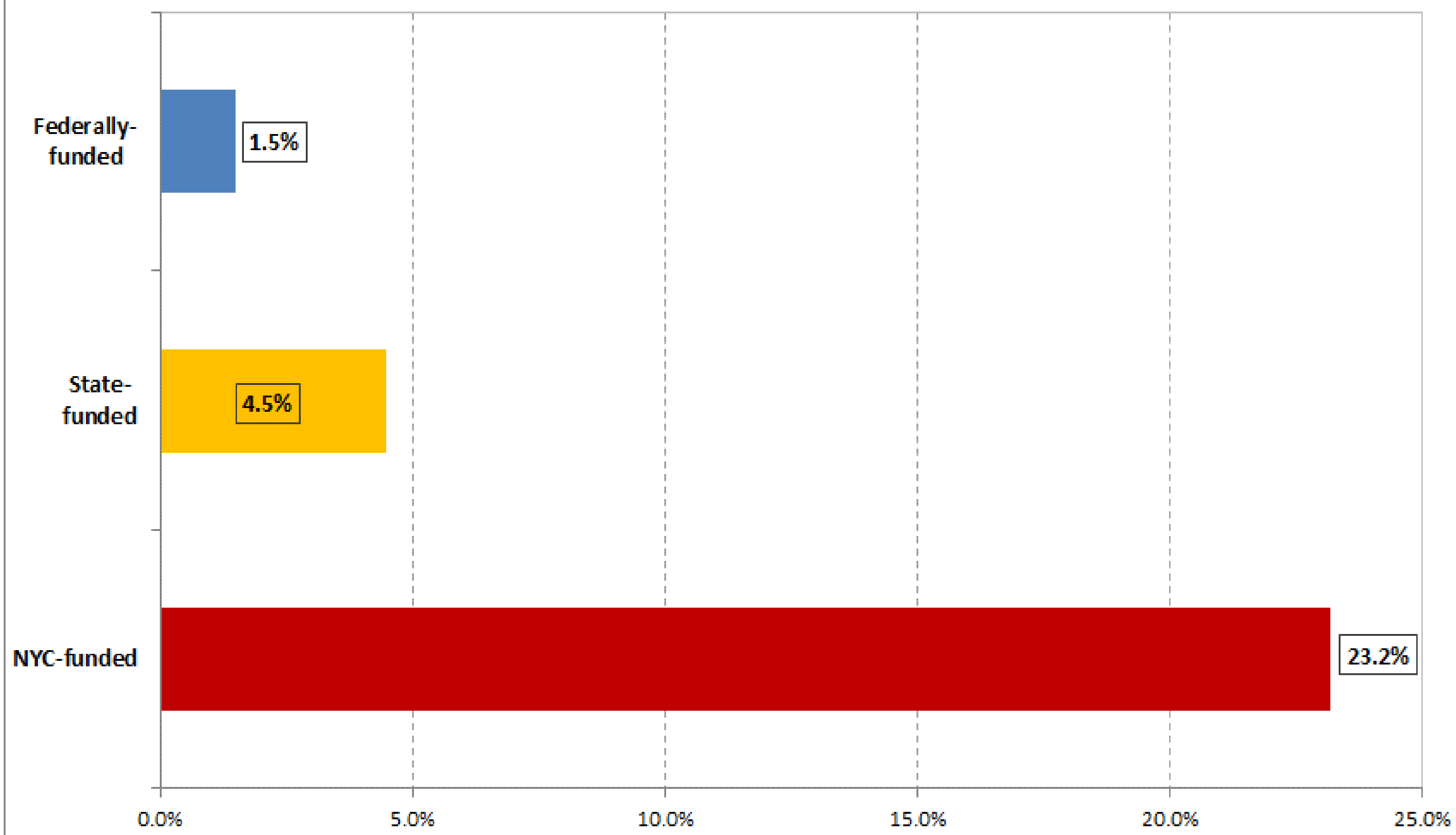
Mayor's Preliminary FY 2017 budget proposals

- As in the last two years, 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.)
- Schools: 2nd grade literacy, college & career readiness, adding more seats.
- Public Safety: treat mentally ill who may pose a threat, Rikers anti-violence plan and add'l training, Vision Zero investments, more ambulance tours
- Transportation: enforcement for Select Bus Service lanes, new ferries, BQX streetcar
- Mental Health: $62 million in FY17 to promote mental healthcare in communities.
- Homelessness: expedite shelter repairs, expand employment effortss and implement Home-Stat to address street homelessness.

Continuing de Blasio initiatives

- Affordable housing and related measures: ambitious 200,000 10-year goal; stabilize NYCHA finances, supportive housing expansion,1st ever rent freeze, adding beds for runaway youth.
- Homelessness and prevention: moving families from shelter to permanent housing, focus on keeping people in their homes, improving shelter conditions, expanded services to aid the homeless.
- Reforming welfare reform: allowing public assistance recipients more flexibility in scheduling appointments to reduce sanctions, allowing low-income students to receive benefits, providing emergency aid to keep people in their homes, and completely overhauling employment services and goals.
- Raising wages: school bus drivers and matrons; $15 wage floor for human service contract workers; and providing benefits for workers previously left behind (paid sick leave, paid parental leave for non-represented City workers, private sector retirement savings plan.)

From FY 2013 to FY2016, City-funded human services spending has far out-paced state and federal funding.



Source: July 2013 and January 2016 NYC financial plans.
Note: Data are inflation-adjusted

Governor Cuomo's "NYC Billion" (budget grab that is)

- Without discussing with the City, Gov. Cuomo included 3 measures in his Jan. budget proposal that amount to an unprecedented NYC budget raid.
- These proposals increase City costs by $1 B in FY 2017; the Mayor did not include in his January plan because the Governor backtracked some.
- Gov. wants City to fund 30% of CUNY costs; $485 M in FY17, more in future.
- Gov. wants City to fund the growth in the local share of Medicaid, making it the only locality in the State so required. Costs City $300 M in FY 2017, rising to $700 M+ by FY2020.
- Gov. wants to take $600 M over three years from the $650 M savings the City received when it refinanced bonds issued by Sales Tax Asset Receivables Corp.
- Governor's unilateral action is unprecendented and punishes NYC's responsible budget management and economic success.
- State budget policies that may have set the stage for this. … (next page)

Overview of FPI’s State budget analysis

- Since 2011, NYS budgeting best characterized as “unforced austerity.”
- Significant state budget cuts affecting many service areas and steep personnel reductions compromising state government’s ability to function.
- Substantial future year unspecified budget cuts to keep within self-imposed 2% spending cap, with savings used to do still more tax cuts. (The spending cap may have something to do with off-loading costs onto NYC.)
- Tax cuts enacted last 3 years = $1.3B this year, rising to $2.3B in FY 2020.
- Declines in local aid coupled with stringent local property tax cap have undermined range of local services, including community colleges.
- $8B+ in bank settlement windfall: some used for infrastructure, some for big economic development programs, some might be unofficial “rainy day reserve.”

January NYC financial plan developments

- Since City retirees are living longer, actuary recommended that **pension contributions** increase by $600 M beginning in the current 2016 fiscal year.

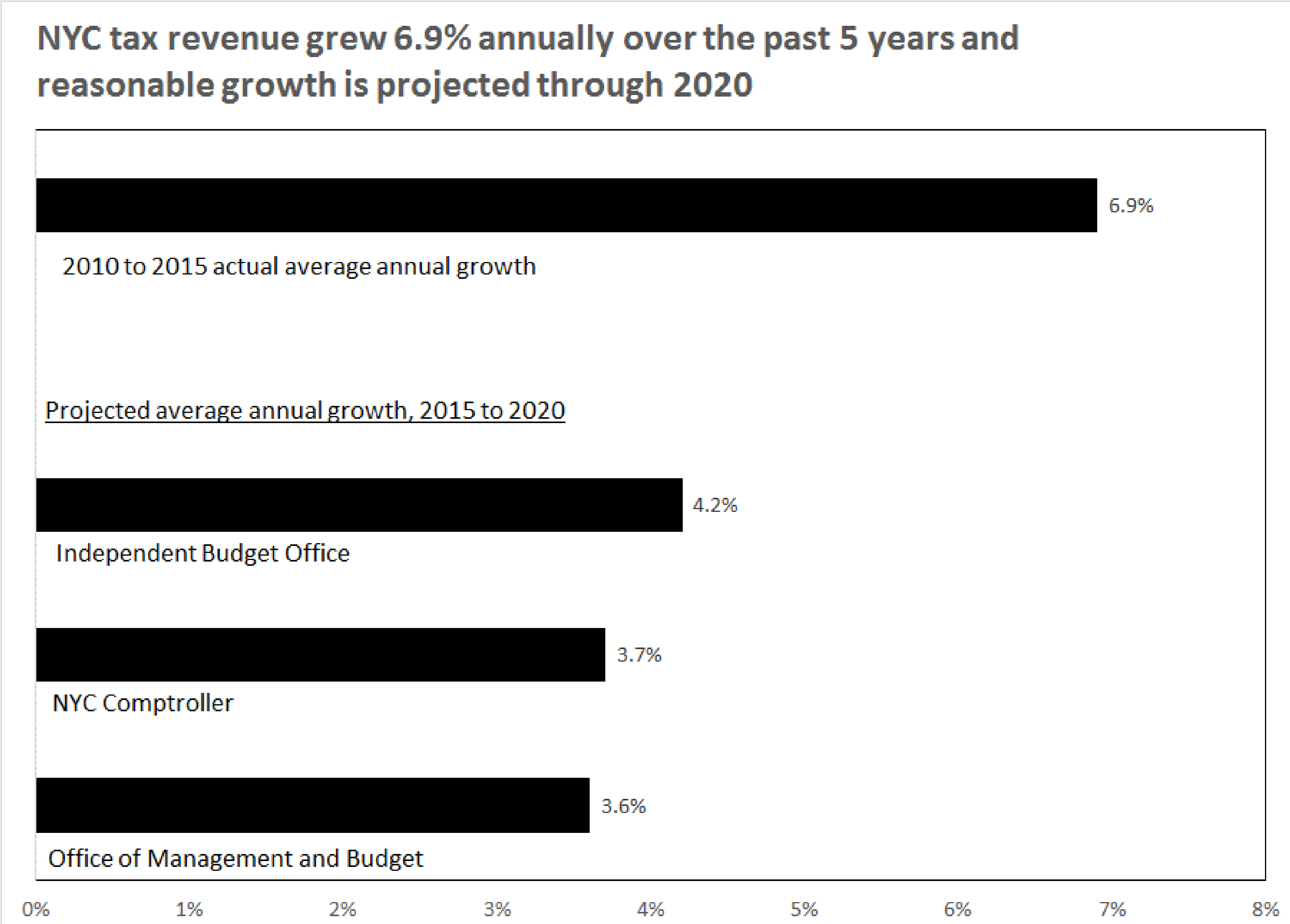
- In response to continuing financial pressures at **HHC**, the City is increasing its subsidy by $337 M this year; more may be needed.

- While there have been about $400 M in **debt service savings** and various agency savings since the Adopted budget, the City also increased spending on **services for the homeless** by nearly $200 M this year, and funded a little over $500 M in other new agency needs.

- On net, with nearly $1.5 B more in **tax collections** than forecast and drawing down some reserves not needed this year, the City is projecting a **$2.3 B surplus for FY 2016**, with those funds used to close next year’s gap.

1st steps toward $15 wage floor for nonprofit human service workers

- Two NYC living wage laws, but neither cover nonprofit human service workers
- $11.50 and 2.5% COLA—still being implemented, but increases effective 7-1-15
- Early January announcement to raise wage floor for nonprofit human service contract workers: $10.50 12-31-15; $12 12-31-16; $13.50 12-31-17; and $15 on 12-31-18.
- Commitment to fund increases in human service contracts with nonprofits included in the budget ($5 M in FY 17, rising to $100 M in 2020).
- However, current commitment only includes funds to pay the wage floor, no allowance for a spillover increase or COLA for other workers. No spilloever will create problems.
- City included $5 M in Adopted FY16 budget to fund the development of a career ladder for nonprofit human service workers. … this is a work in progress ….

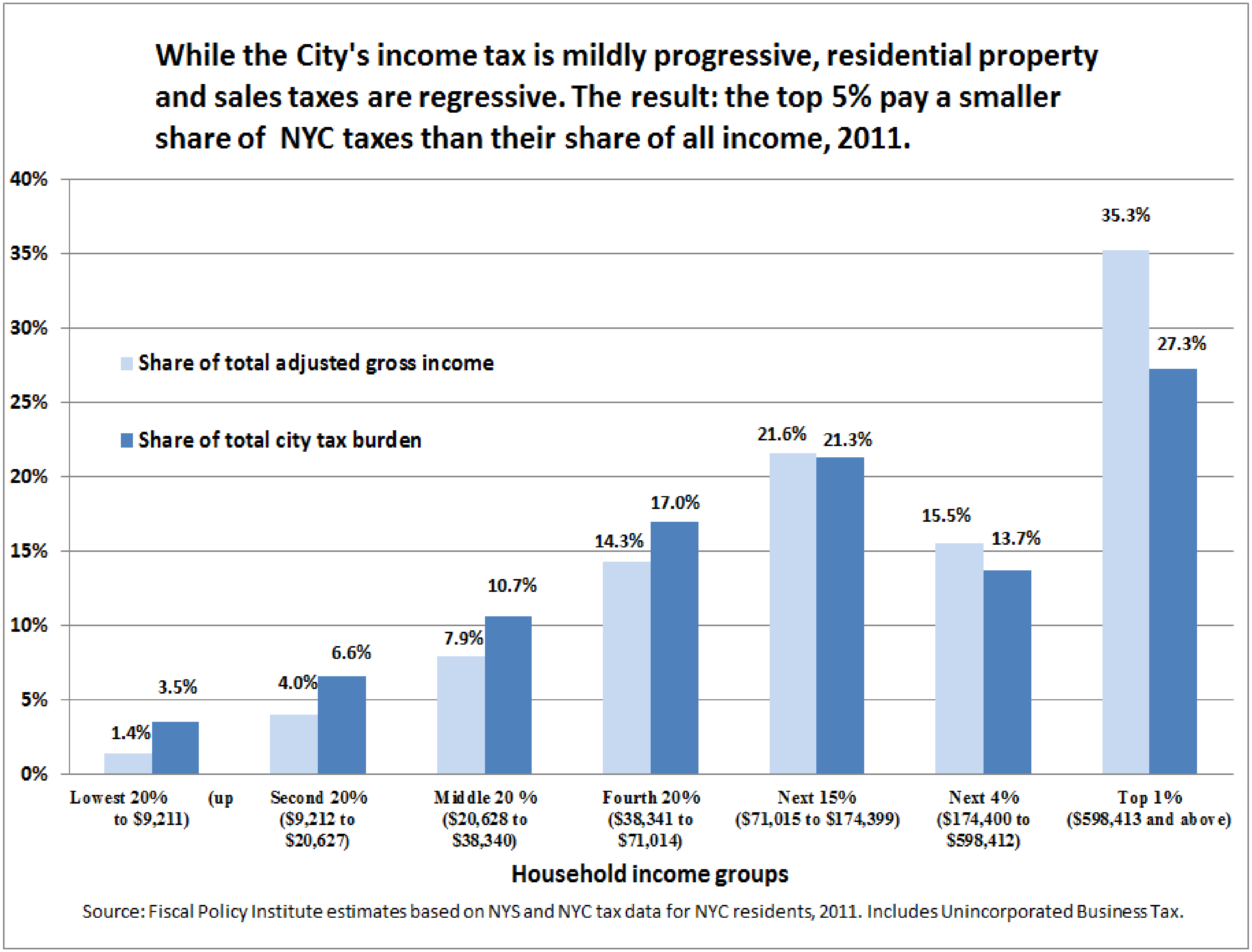

NYC tax revenue grew 6.9% annually over the past 5 years and reasonable growth is projected through 2020
6.9%
2010 to 2015 actual average annual growth
Projected average annual growth, 2015 to 2020
4.2%
Independent Budget Office
3.7%
NYC Comptroller
3.6%
Office of Management and Budget
0%
1%
2%
3%
4%
5%
6%
7%
8%

New York City budget outlook

- The City’s budget has benefitted tremendously from strong revenue and diversified economic growth. In the short run, moderate growth is likely to continue but the economic outlook is clouded by international uncertainties.
- Outyear budget gaps are $2-$3 B but small in relation to tax revenues. The City has ample reserves of $3.4 B in the retiree health fund, $500 M in capital stabilization funds and $1 B general reserve in each of the next 4 years.
- The biggest near-term budget threat is the governor’s billion dollar budget grab, which is troubling on several counts and represents a breakdown in a long history of city-state financial cooperation.
- The Mayor has asked agencies for savings proposals to be included in the Executive budget, including proposals to reduce contracting out.
- The Health and Hospitals Corporation may require increased City financial support.

Relevant recent NYC tax history

- NYS has 2nd 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).


While the City's income tax is mildly progressive, residential property and sales taxes are regressive. The result: the top 5% pay a smaller share of NYC taxes than their share of all income, 2011.
40%
35%
30%
25%
20%
15%
10%
5%
0%
Share of total adjusted gross income
Share of total city tax burden
1.4%
3.5%
4.0%
6.6%
7.9%
10.7%
14.3%
17.0%
21.6%
21.3%
15.5%
13.7%
35.3%
27.3%
Lowest 20% (up to $9,211)
Second 20% ($9,212 to $20,627)
Middle 20 % ($20,628 to $38,340)
Fourth 20% ($38,341 to $71,014)
Next 15% ($71,015 to $174,399)
Next 4% ($174,400 to $598,412)
Top 1% ($598,413 and above)
Household income groups
Source: Fiscal Policy Institute estimates based on NYS and NYC tax data for NYC residents, 2011. Includes Unincorporated Business Tax.

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. Requires 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).

State Senate NYC property tax cap bill passed 45-16

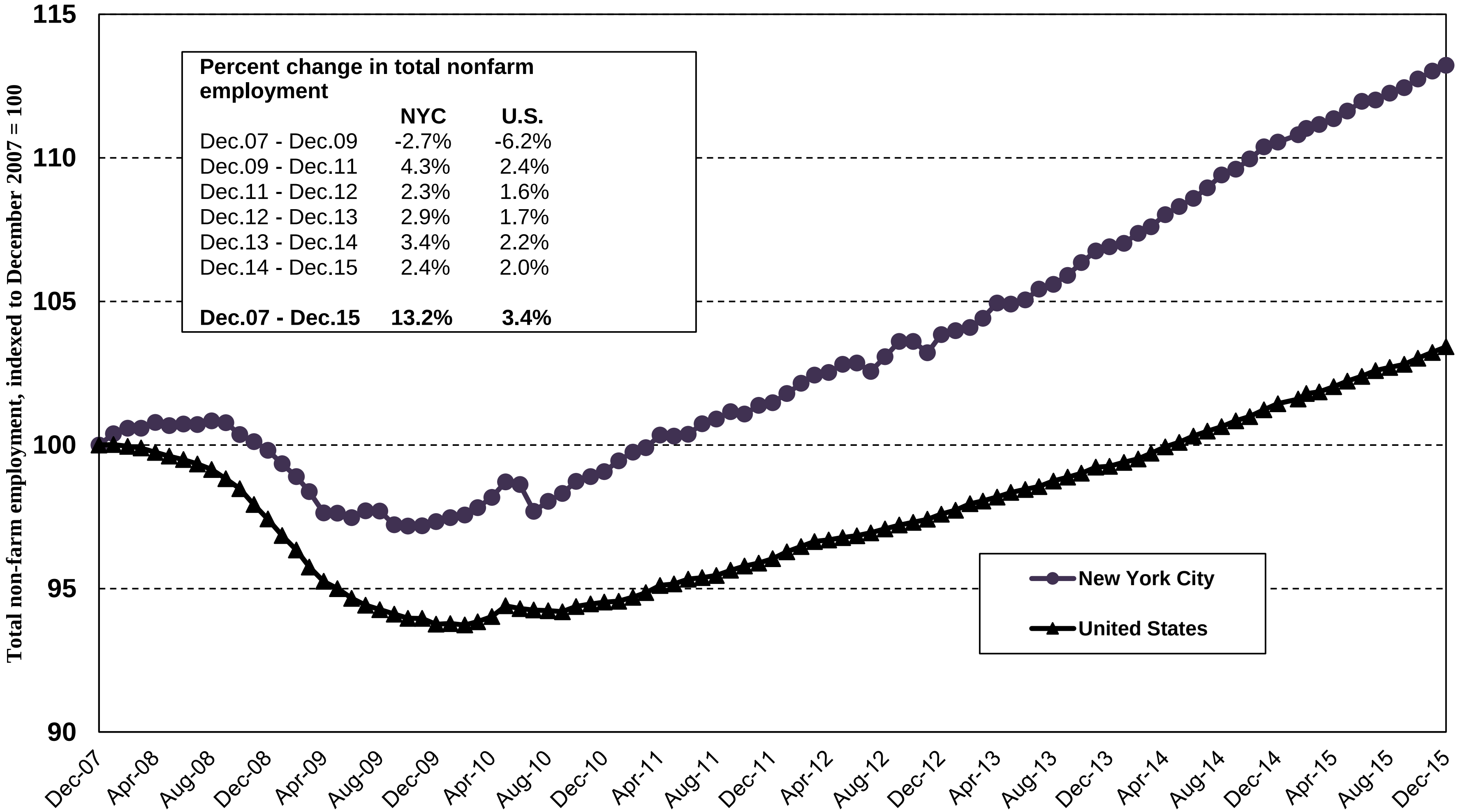
- Rationale provided: taxes too burdensome for middle-class homeowners; claim the cap is "success" outside of NYC; and, NYC has other tax revenue sources. (There may also be unspoken reasons for this.)
- Ignores the inequities seen by analysts across the spectrum.
- The biggest inequity is that renters pay 5 times the effective property tax as home- and apartment-owners. Two-thirds of city residents rent, their incomes are half of homeowners, and ¾ of renters are persons of color.
- Proposed cap would exacerbate these inequities and provide the biggest benefit to owners whose property has increased the most in value.
- Far better for legislature to address inequities.
- Property tax cap has imposed a fiscal strait jacket on school districts and local gov'ts outside NYC; it should be examined for impact on services.

Overview of NYC economy (see Appendix charts)

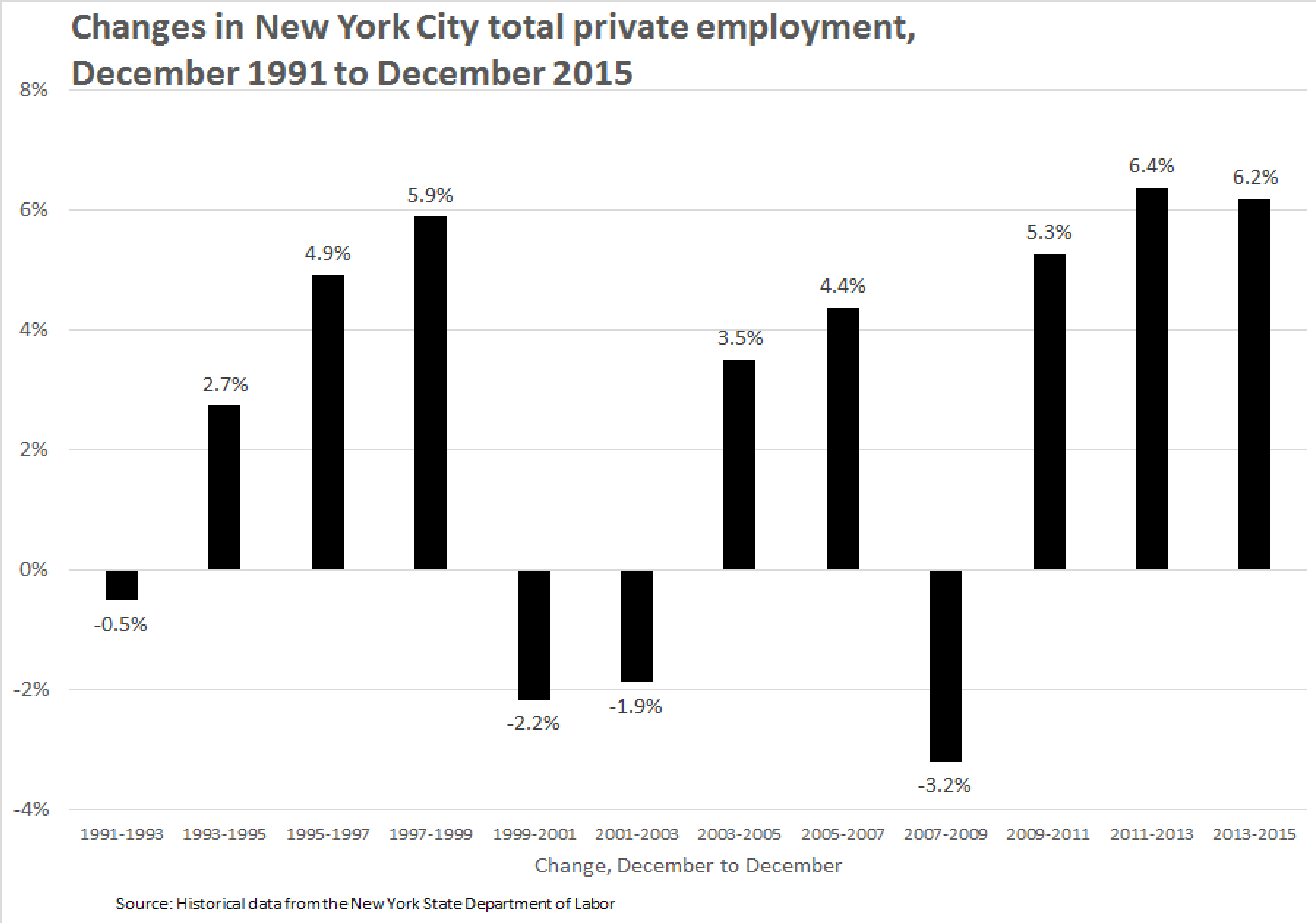
- Faster NYC job growth than the nation since the recession, and historically strong growth over past four years.
- Unemployment is back to 5 percent and, unlike the nation, the employment rate has risen since the recession. Black and Latino unemployment more than twice the non-Hispanic white unemployment rate.
- Inflation-adjusted hourly wages have risen across the spectrum in the past 2 years, a sharp improvement over the first 3 recovery years.
- Real median family incomes have started to rise since 2012 but are still about 5% below the pre-recession level.
- NYC's economic growth in recent years has been more diversified and less reliant on Wall Street than any time since the early 1960s.
- The long-term income polarization trend is still in place.

Appendix on NYC Economic Conditions

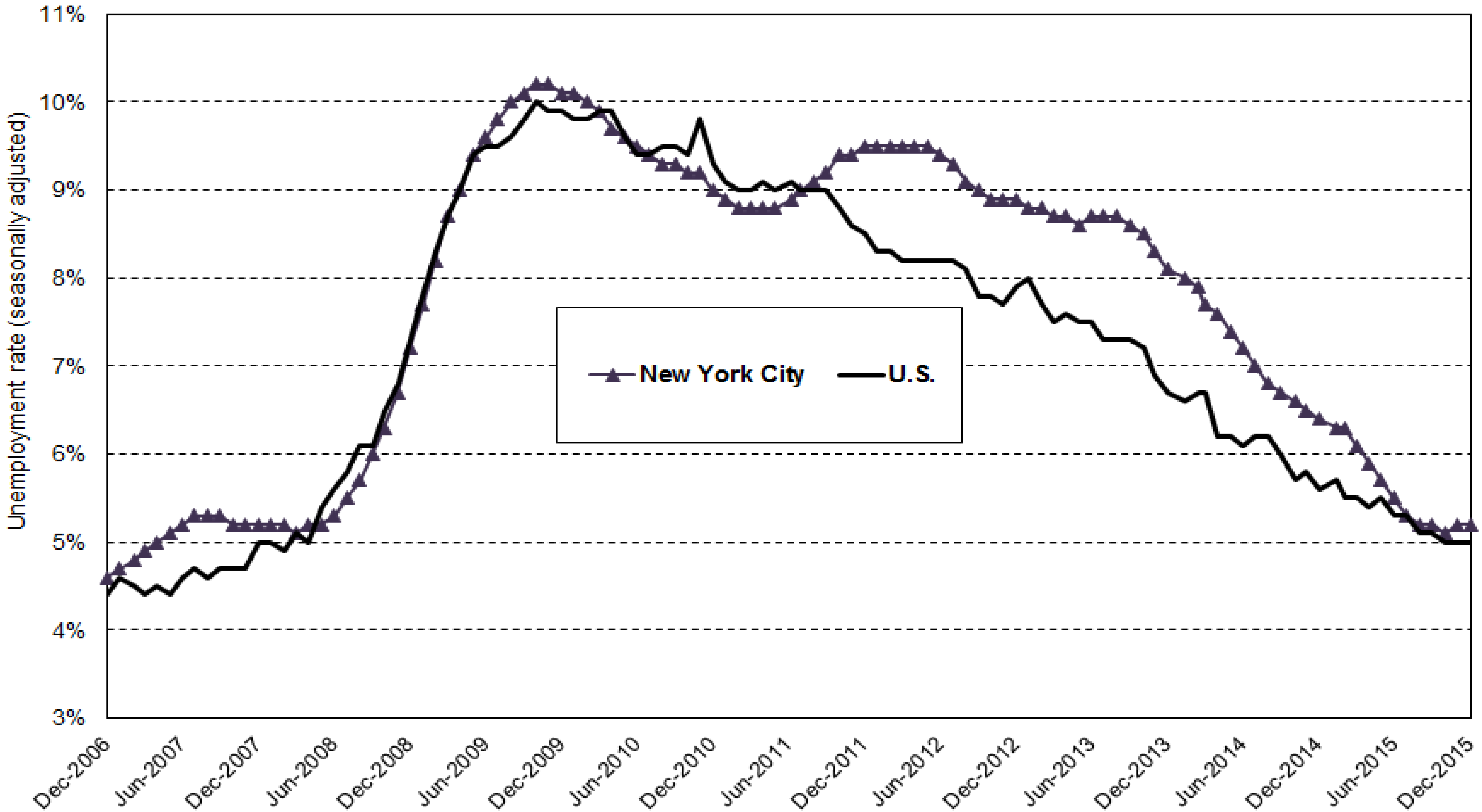
Job growth in NYC continues to out-pace the U.S.



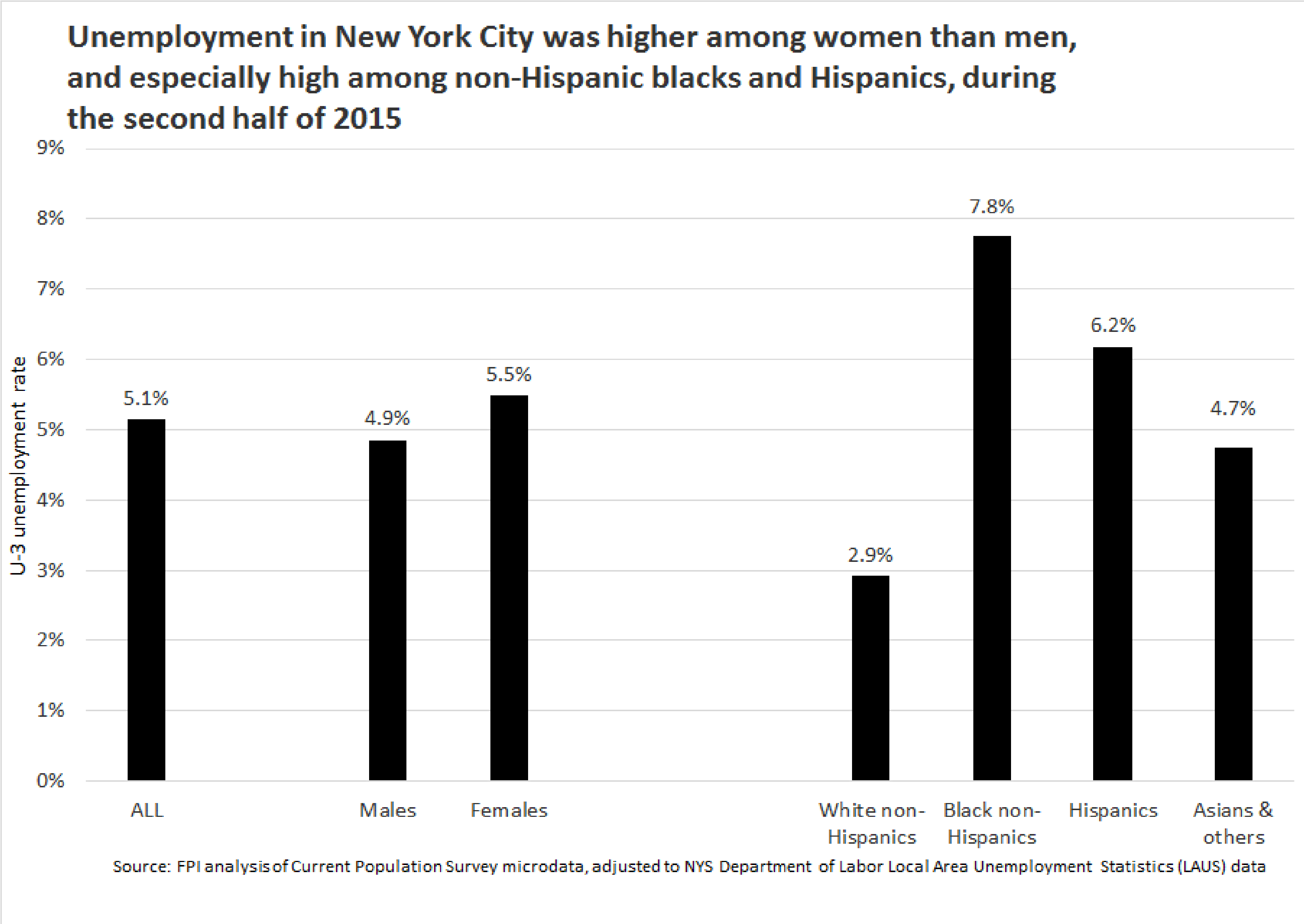
Source: FPI analysis of Bureau of Labor Statistics and NYS Dept. of Labor employment data. Seasonally adjusted data post-February 2016 benchmark.


Changes in New York City total private employment,
December 1991 to December 2015
8%
6%
4%
2%
0%
-2%
-4%
-0.5%
2.7%
4.9%
5.9%
-2.2%
-1.9%
3.5%
4.4%
-3.2%
5.3%
6.4%
6.2%
1991-1993
1993-1995
1995-1997
1997-1999
1999-2001
2001-2003
2003-2005
2005-2007
2007-2009
2009-2011
2011-2013
2013-2015
Change, December to December
Source: Historical data from the New York State Department of Labor

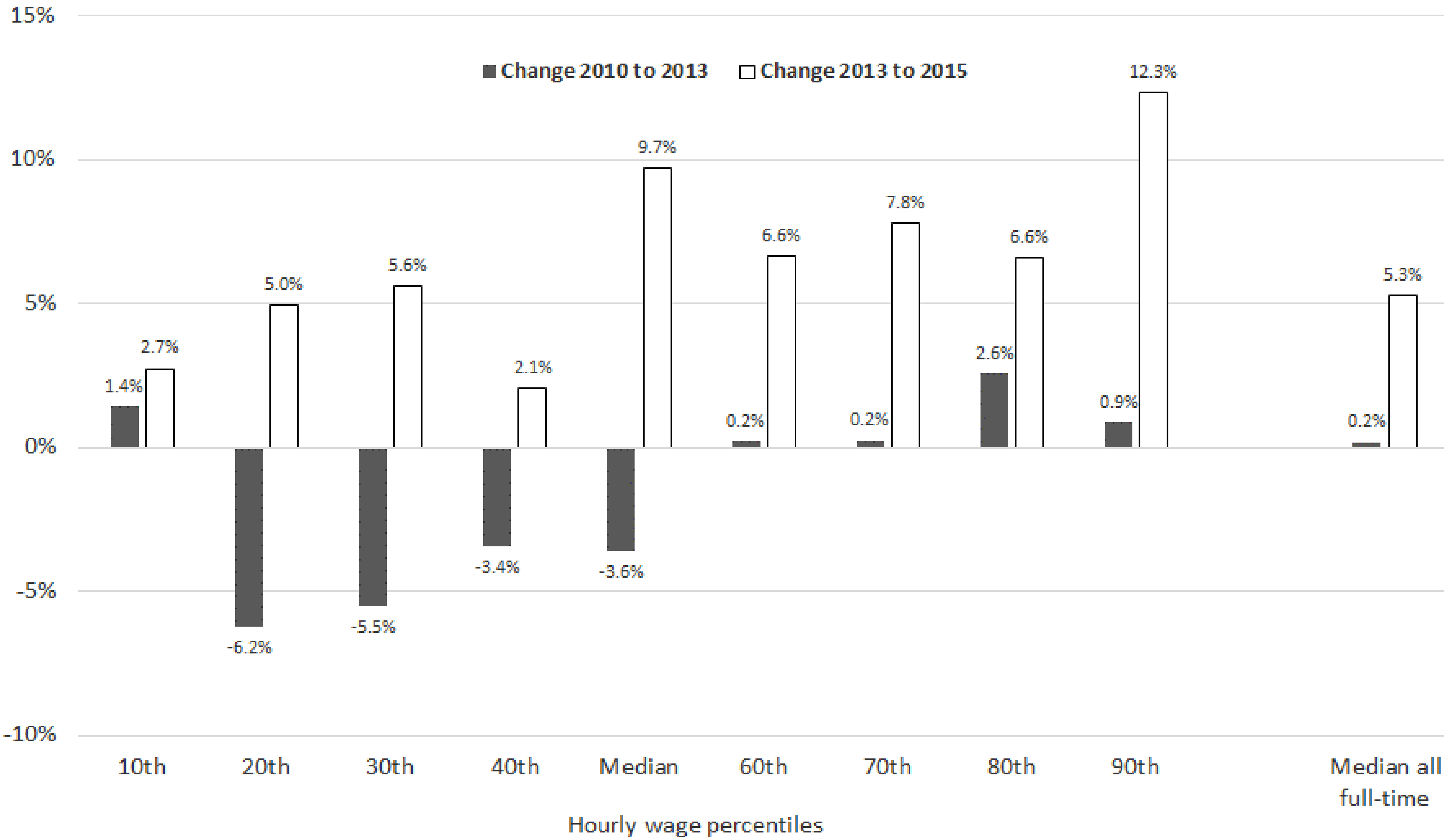
NYC's unemployment rate fell by 1.2 points in 2015, greater than the 0.6 point decline for the U.S. overall, to essentially the same as the pre-recession level



Source: Bureau of Labor Statistics and New York State Department of Labor.

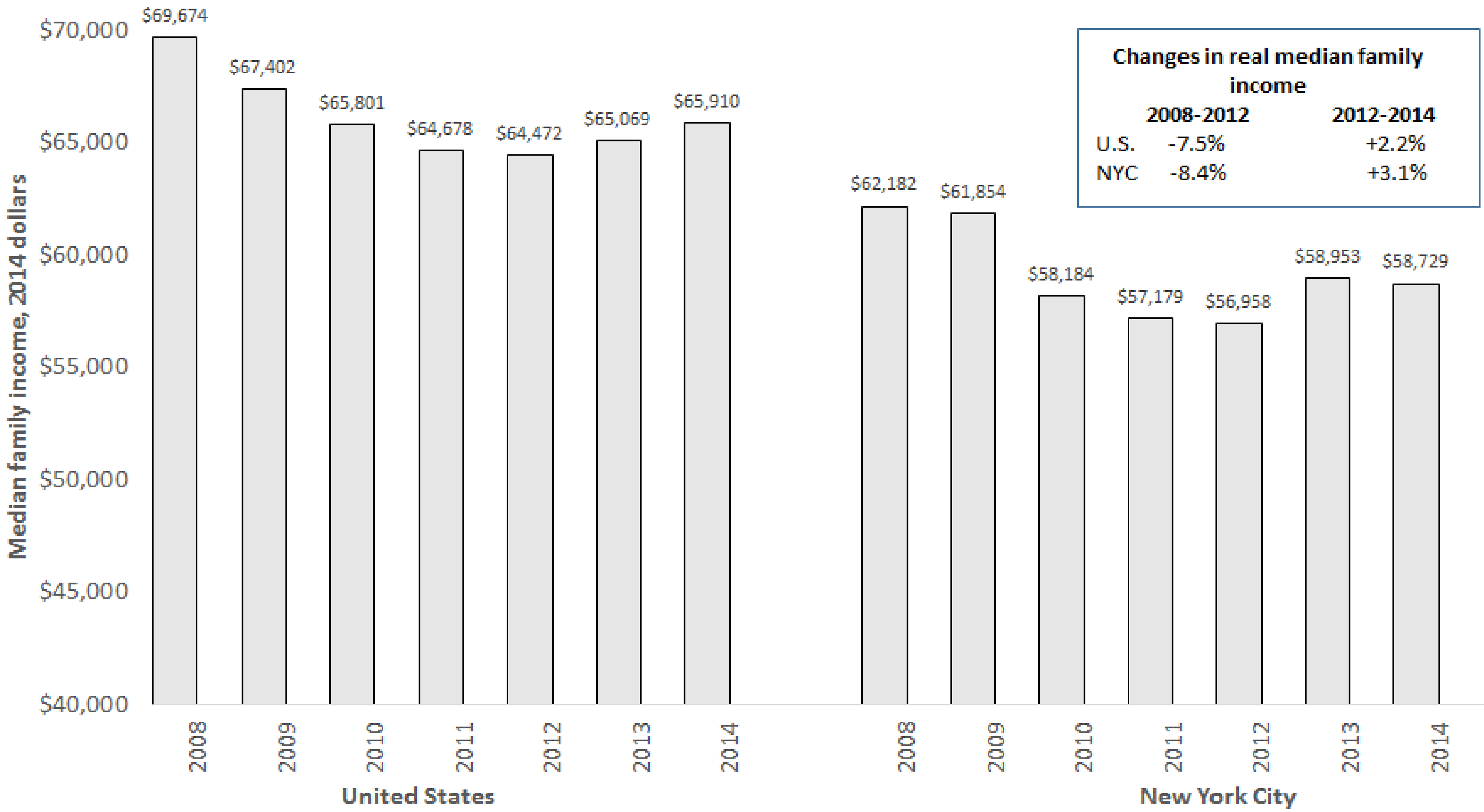

Unemployment in New York City was higher among women than men, and especially high among non-Hispanic blacks and Hispanics, during the second half of 2015
U-3 unemployment rate
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
5.1%
4.9%
5.5%
2.9%
7.8%
6.2%
4.7%
ALL
Males
Females
White non-Hispanics
Black non-Hispanics
Hispanics
Asians & others
Source: FPI analysis of Current Population Survey microdata, adjusted to NYS Department of Labor Local Area Unemployment Statistics (LAUS) data

Changes in inflation-adjusted hourly wages, New York City, 2010 to 2013 and 2013 to 2015



"Full-time" (last set of bars) includes those usually working 35 hours a week or more. Inflation adjustment using NY metro area Consumer Price Index.
Source: Fiscal Policy Institute analysis of Current Population Survey data provided by the Economic Policy Institute.

NYC real median family income rose 3.1% from 2012 to 2014, after falling more than 8% in the wake of the recession.

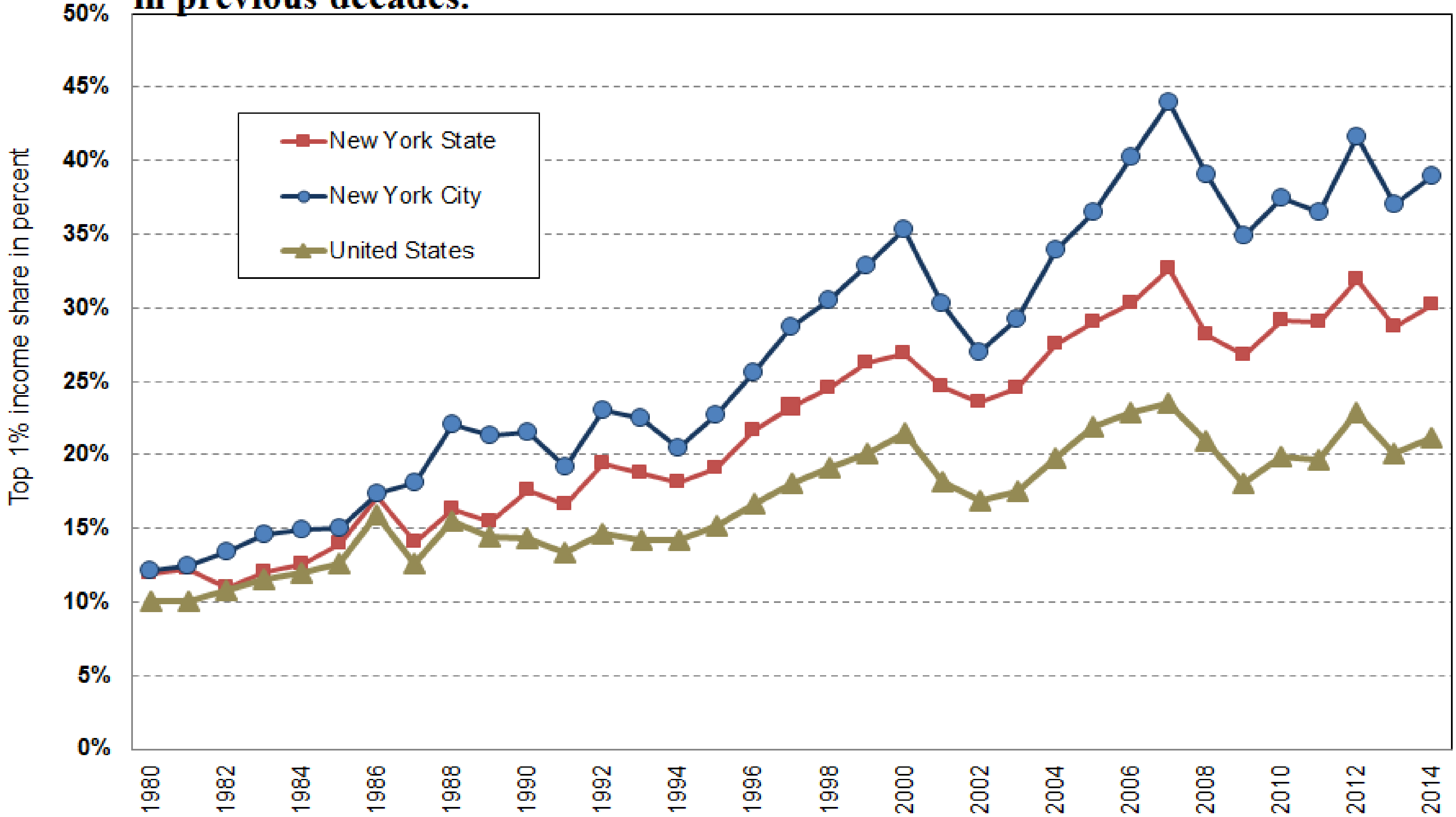


Source: American Community Survey data. Inflation to 2014 dollars using CPI-U.

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 40% to 48%, and there was a decline of comparable magnitude among those with a high school diploma or less (declining from 39% to 33%.)
- 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 40%.

The income share of the top 1% in the U.S. and New York fluctuates with the amount of capital gains. But since the late 1990s it has remained higher than in previous decades.



Source: Emmanuel Saez, Jan. 2016, U.S.; Estelle Sommeiller and Mark Price, Jan. 2015, NYS; and FPI estimates, Jan. 2016, NYC.

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 2016

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