Briefing on Mayor deBlasio’s Preliminary FY 2018 NYC Budget: Budgeting Cautiously Under a Washington Cloud

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Overview

Cautious in face of an uncertain Washington
- Federal aid is 1/3 of State budget (which is 18% of City budget)
- 8-10% of City budget
- 64% of NYCHA budget
- Half of H+H budget

State budget better this year, but still challenges
- Governor proposed to extend millionaires tax, but it should be enhanced
- Threat to CFE-settlement determined school aid
- Handful of negative budget impacts

Before Trump’s budget outline and the AHCA, the preliminary City budget looked reasonable
- Manageable budget gaps, reasonable reserves and moderate revenue growth in the context of slower job growth with wage and income growth improving.
NYC Expenditures ($ in millions) -- $84.7 B Prelim. FY 2018 Budget

- Education: $25,433 (30%)
- Human Services: $9,908 (12%)
- Medicaid & Pub. Assistance: $7,509 (9%)
- Pensions: $9,819 (11%)
- Fringe Benefits: $10,258 (12%)
- Debt Service: $6,581 (8%)
- NYPD: $5,265 (6%)
- Fire-Corr.-Sanit.: $4,553 (6%)
- All Other: $4,797 (6%)
NYC Revenues ($ in millions)--$84.7 B Prelim. FY 2018

- General Property Tax: $25,629 (30%)
- Income Taxes: $18,317 (22%)
- Sales Tax: $7,588 (9%)
- Miscellaneous Revenues: $5,219 (6%)
- All Other Taxes: $4,945 (6%)
- Sales Tax: $7,588 (9%)
- Federal Aid: $7,012 (8%)
- State School Aid: $10,813 (13%)
- State--Other Aid: $4,080 (5%)
- Other Grants: $856 (1%)

General Property Tax is the largest source of revenue, followed by Income Taxes, Sales Tax, and Miscellaneous Revenues.
Major FY 2018 preliminary budget actions

- City projects that it will end FY 2017 with a $3.1 B surplus (not as much as in recent years) from business tax audits, agency savings ($1.2 B), and freeing up $1.8 B in reserves (reducing general and capital reserves and $200M from reduction in reserve for disallowances.)

- Relatively few new spending initiatives.
  - Additional money for Homeless Services
  - Additional funds for SYEP and School’s Out NYC Summer
  - Capital commitments for new NYPD firing range, street safety improvements, more school seats, and $1 B for NYCHA roof repairs
  - Added money in November to make up for weak pension earnings
  - After preliminary budget announced, Mayor and Speaker announced additional money for legal services for tenants facing evictions (phased in over 5 years, $15M in FY18 rising to $93M in FY 2022.)

- Added to Citywide Savings and saying more to come with the Executive Budget.
Outyear budget gaps and reserves

- FY 17 surplus used to close FY 18 gap.
  - FY 19 gap is now projected at $3.3 B, up from before, partly due to adding a $250 M capital stabilization reserve.
  - FY 20 and 21 gaps are little changed; $2.5 B and $1.8 B, respectively.

- The financial plan contains fairly significant reserves, that in the aggregate total $9 billion, 13-14% of the City-funded part of the budget.
  - General reserve of $1 B a year
  - Capital stabilization reserve of $250 M a year
  - Retiree Health Benefit Trust Fund is up to $4 B, and while it has a designated purpose, it has been used in the past to help close budget gaps.
  - In addition, City has realized $400-$500 M a year on average for several years from freeing up money set aside for “prior year payables”

- Tax forecasts are mixed, and there is a risk that funds from planned sale of taxi medallions won’t materialize ($731M over FY19-21).
State budget impact mixed, but better than last year

- Gov. finally proposed to extend the millionaires’ tax that brings in $3.6-$4 billion each year. Helps offset a like amount of prior tax cuts. The Assembly (and FPI) proposed an enhanced millionaires’ tax to raise $2-$2.5B more.

- Proposes to water down the state commitment to CFE foundation funding.

- When it expired last year, the 421-a tax break was costly and not targeted. The governor’s proposed replacement is even more costly.

- Proposed state budget cuts/cost shifts that would cost the City budget
  - Reduces state public health aid that would cost City $33 M
  - Reduces foster care block grant funding by $22M this year, $44M next year
  - Shifts $50 M in Medicaid administrative costs to City
  - Proposes forcing the City to bear $200 M in charter school costs
NYS budget could be profoundly affected by significant Federal aid reductions

• $54B out of $152B total budget (34%)

• Lion’s share, $34B, is Medicaid. An additional $3.75B is for the Essential health plan for low-income, non-Medicaid households

• 30% of all New Yorkers are enrolled in Medicaid

• Most of the rest of Fed. aid is in the discretionary non-military part of the Fed. budget that is on the Congressional chopping block.

• $3.65B for TANF block grant that also funds # of state social service programs

• > $2B each for school aid, public health and capital
New York City is similarly vulnerable to likely Federal budget and policy actions as is the State of New York

- While Fed. aid is a smaller share of the City budget (9-10%),
  - The City relies on the State for 18% of its budget
  - Both NYCHA and the Health and Hospitals Corporation (H+H) are heavily dependent on federal funds; the City backstops their finances.

- The City receives Federal aid in the $7B-$9B range.
  - Close to half is for a wide range of Social Services; $3.7 B in FY 17. This is twice the amount the City receives from Albany.
  - Fed Education aid is $1.7 B, and Community Development and Housing funds are about $1.6B.
  - Public safety and judicial funding totals about $360 M.
Partial ACA repeal with the Am. Health Care Act

• About what we expected: big tax cuts for the wealthy; millions will lose coverage and others will pay more, while most expansion states will be financially punished.
• State Health Department analysis:
  ° FMAP reduction for NY and 12 other states will be effective 1-1-17
  ° For new enrollees after Jan. 1 2020, enhanced FMAP will drop to 50%.
  ° Essential plan will end.
  ° Medicaid reimbursements would be capped based on 2016 base year expenses with a medical component CPI adjustment.
  ° DSH payments (a form of funding for safety net hospitals) will be slashed for expansion states only, with NYS taking 21% of the cuts.
• Estimated budget impact for NYS: $240M in SFY18; $681M in SFY19; $1.2B in SFY20; and $2.4B in SFY21.
• Over 1 million New Yorkers would face significant loss of health care.
• NYers would lose $400M in tax credits used to purchase health insurance.
AHCA impacts in NYC

• Hundreds of thousands of city residents will lose health insurance, many will pay more.
• The City will lose funding and will have to aid H+H.
• H+H will be hurt in multiple ways:
  o More uninsured will end up at H+H
  o With steep DSH cuts, H+H will receive less safety net funding intended to offset costs of caring for the uninsured.
• Health care employment is likely to decline.
• But NYC’s wealthy will see reduced ACA taxes [About $2.5B 2018]—can we channel that into offsetting the AHCA losses?
• 43% of NYC residents benefit from Medicaid—a block grant is likely to have far-reaching impacts as well.
Domestic spending cuts coming at us

- Trump’s budget “blueprint” calls for $54B increase in military spending that is offset by a like amount of cuts that will fall on housing, environmental and safety net programs (but maybe not entitlement programs.)

- $58M in section 8 subsidies (to NYCHA & HPD) in the works pre-Trump.

- Parts of the $5.5 B NYC receives in Social Services funding in Federal and State aid are in jeopardy.

- Not at all clear how the City and the State might respond. The one response so far was the Mayor’s proposal for a “mansion” tax to generate funds to offset likely housing cuts.

- While it’s a tall order, the City and the State should work together to figure out how to respond. If they don’t, NYers will not be well-served.
City-wide savings plan

- Started last year and expanded in the preliminary to include $2.1 B in savings in FY 2017 and 2018. Consciously distinct from PEG programs of the past (although with obvious similarities.)

- 4 general categories of actions:
  - Debt service savings: $235M in FY17 and $368M in FY18
  - Reimbursement reestimates: $658M and $204M
  - Expense reestimates: $170M and $130M
  - Efficiencies: $141M and $192M
Substantial City-funded human services investments

- Under the previous administration, I often voiced concern about the steep cuts in human services spending in the years following the Great Recession. From the onset of the recession until 2012, inflation-adjusted City funds spending on human services fell by nearly 10% despite elevated unemployment and hardships.

- In the prelim FY 18 budget, human services spending will have grown by 39% ($1.1B) since FY 2013, almost twice growth in City funding spending elsewhere in the budget. Adjusted for inflation, that would be roughly a 30% real increase.

- Much of that increase has been for various homeless services (shelters and prevention), but some has also gone for after-school and summer youth employment programs, and for staffing in senior services, and other areas.

- A significant funding increase has also occurred for the human services contract workforce. By 2020, the annual increment in funding for wage increases at nonprofit providers will total $240 million (raises from 9-50%). This includes $93 million for the recently proposed 2% annual COLA for three years.
City-funded human services spending has far out-paced the growth in state & federal funding, FY 2013-18.

City of NY can address inequality

• City can improve conditions among those of modest means and address quality of life issues in a city of great wealth.
• Public services constitute an important part of the consumption bundle—equitable service delivery is critical (police, fire, sanitation), as is funding human services, libraries, and parks.
• Investing in higher quality public education, pre-K through higher ed, is critical to expand opportunities.
  o Raj Chetty’s research shows tremendous value of CUNY in boosting students from low-income backgrounds.
• The importance of raising low wages (fixing welfare reform & paying for increases for contract workers), mandating workplace benefits (like paid sick days), and providing worker protections (freelancers, etc.)
• Maintaining affordable housing is critical.
• The combined result of much of the above is to lift up the bottom and expand opportunities.
More can be done to address inequality

• A progressive tax system would help reduce after-tax polarization.
  ° Enhance low income credits
  ° Make the property tax less regressive
  ° Curb unneeded business tax breaks

• Half-priced subway ride (“Fair Fare”) for 800,000 New Yorkers living below the poverty line.
  ° Having the City pay for this is complicated because the Governor controls the MTA.

• Since much of the job growth over the past decade has been among low-wage jobs, the Mayor’s plan to create 100,000 moderate- and middle-income jobs is laudable. (Details are sketchy so far.)

[Also, see my article, “Going Local in the Fight Against Inequality,” The American Prospect, 10-12-16, http://prospect.org/article/going-local-fight-against-inequality]
Appendix: Recent NYC economic trends

The extended recovery and low unemployment are starting to provide real gains for workers and their families.

- NYC’s unemployment rate fell to 4.5% in January, the lowest level on record since 1976.
- Real median household income rose 5.1% in 2015.
- From 2013-16, real wages have increased by 7.1% for workers at the 1st decile in the wage distribution, and by 8.4% for workers at the median.
- For black workers over this period, real wages at the 1st decile rose 8.9%, and for the median black worker, 14.5%. Latino workers also saw significant, but smaller, real wage gains.
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