

New York City 2003-2004 Budget Outlook

Based on the Mayor's Nov. 14 Financial Plan

November 25, 2002

Fiscal Policy Institute

www.fiscalpolicy.org

One Lear Jet Lane
Latham, NY 12110
(518) 786-3156
Frank Mauro

275 Seventh Avenue, 6th floor
New York, NY 10001
(212) 414-9001
James Parrott

Total 2003-2004 gap of \$7.4 billion
to be closed over 20 months

- FY 03 gap \$1.1 billion; FY 04 gap \$6.4 billion

Why is there a huge gap?

- September 11th; recession; tax cuts; structural imbalance left over from Giuliani

Is this a crisis?

- Yes; in some ways better than 1975, in some ways worse
- Better: while the recession is steep now, the underlying economy is stronger
- Worse: state now has own fiscal crisis (not so in 1975)

How was FY 03 budget gap closed?

- \$2 billion in borrowing (\$1.5 billion TFA)
- Relatively small cuts, very small tax/fee increases
- Only \$500 million in special 9/11 borrowing capacity remains

Mayor Bloomberg's Nov. 14 Financial Plan proposals

(\$ in millions)	FY 2003	FY 2004
Budget gap	\$(1,073)	\$(6,360)
Agency expense reductions	844	1,108
Property tax	1,133	2,335
Workforce productivity	---	600
State aid (incl. Commuter tax)	---	1,413
Federal aid	---	200
Total gap closing program	\$1,977	\$5,656
Increase general reserve	(100)	(100)
Prepayments	(804)	804
Remaining gap/surplus	---	---

While his mix of tax hikes should be made more progressive and there are serious service cuts, Mayor Bloomberg's general approach is reasonably sound

- “(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 would prove counterproductive.”
- “And while tax increases are never desirable, the City is in a better position a year after the attack to weather the burden.”
- “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.”

-Mayor's cover letter for Nov. 14 Financial Plan

Mayor Bloomberg's general approach is reasonably sound.

- “I find it offensive, those that say, ‘Oh, there’s a lot of waste.’ There isn’t. I don’t know of any programs where some people don’t benefit.” (Daily News, Nov. 19, 2002)
- “What we’re trying to do is say that everybody that works in the city benefits from all the services...and it is only equitable that everybody pays some share of that.” (NY Post, Nov. 14, 2002)

The Mayor's basic message:

- Problem too big to solve solely through tax hikes or service cuts
- Requires “sacrifices from all those who have a stake in NYC”
 - Those who provide City services
 - Those who rely on these services
 - Those who pay for them

Bloomberg is relying heavily on tax increases to close \$7.5 billion gap

- \$4.4 billion of tax increases; \$3.1 billion in agency cuts, productivity and state and federal aid
- But is the Mayor's approach the right one on taxes?

→The Mayor's proposal must be modified in 3 ways:

- Change mix of taxes, with less reliance on property tax and more on personal and business income taxes
- Effectively press case for commuters to pay for services received
- Lay groundwork for increased state aid (Medicaid takeover, revenue sharing, fund sound and basic education)

Mayor's November tax proposals

- 25% property tax increase effective Jan. 1st (\$1.1 billion, \$2.3 billion)
- “Reform PIT” by lowering rate from 3.65% to 2.7% now, extend to commuters, then phase in further reductions to 2.25%

Problems with these proposals

- Generally regressive nature of property tax increase (many low and middle income homeowners)
- Questionable lowering of PIT for high-income residents (goes against “sacrifices by all” dictum)
- Lowering taxes for NYC’s rich makes it harder to pass commuter tax
- Why isn’t business being asked to pay more in taxes?

An alternative NYC tax program

- Smaller property tax increases, with circuit breakers, address inequities (especially intra-class)
- Raise, not reduce, PIT and make it more progressive
- Corporate income tax increases through closing loopholes
- Stock transfer tax so that participants in financial markets can contribute to NYC's recovery

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

Effectively press case for commuter tax, it makes tax structure more equitable and efficient and is fiscally viable

- Commuters receive nearly \$3,000 in city services (Chernick)
- Suburbs increasingly reliant on NYC economy in 1990s
- Commuters earn 2-3 times what NYC residents earn and their wages rose twice as fast in the 1990s
- Cost effective way for NYS to assist NYC
(NYS commuters receive 55% of commuter wages, out of state commuters 45%; about 1/3 federal deductible so NYS commuters pay net of 37%, Federal government 33%; out of state commuters pay 30%)

Lay groundwork for increased state aid

- State actions over last 4 years cost NYC \$1.1 billion in FY 2003, among them:
 - Elimination of commuter tax: \$405 million
 - Elimination of stock transfer incentive fund payment: \$114 million
 - Pension COLA increases: \$363 million
- The state should increase aid to NYC and other school districts with disproportionate numbers of needy students

Phased Increase in State Medicaid Share

- Medicaid share costs NYC \$4 billion (NYC pays 25% of non-long term care, 10% of long-term care)
- Possibly phase in state assumption of 40% of non-LT care so that NYC share drops to 10%. What would this save NYC? What would it cost NYS?

State revenue sharing

- The State Finance Law calls for the state to share 8% of revenues with local governments, but the share is now less than 1.4%
- If revenue sharing was at 1988-89 level of 3.9%, NYC would receive about \$200 million more than NYS

For the state to do any of these things requires re-vamping the state tax structure

- Increase PIT rates on high incomes: 7/10ths of 1% surcharge on portion of income over \$100,000, and another 7/10ths of 1% on portion over \$200,000
- New York used to have 3rd highest income tax rate of all the states with income taxes. It is now 19th out of 42 with a top rate of 6.85%
- Close corporate tax loopholes (NJ did)

Aggressively push a Federal agenda

- Federal stimulus (FMAP increase to benefit state/local governments)
- Amend Stafford Act to lift \$5 million cap on Community Disaster Loans and press for reallocation of FEMA funds to reimburse NYC & NYS for some of lost revenues
- Push Fred Thompson bill to remove AMT treatment of state and local taxes as a tax preference
- Extend unemployment insurance (while this won't help the NYC budget directly, it will infuse spending power into the local economy)