Briefing on Mayor Bloomberg's Preliminary FY 2014 NYC Budget, and a Forward-Looking Budget Agenda

Fiscal Policy Institute

A Fiscal Policy Institute Presentation
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Additional information on FPI's fiscal and economic analyses and copies of FPI's publications are available at www.fiscalpolicy.org.

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Overview

1. Unemployment remains very high in this historically weak "recovery." NYC job growth better than the U.S., but considerable hardships persist.
2. NYC tax revenues have rebounded, but federal and state aid share declined.
3. State budget choices and pressures continue to squeeze NYC.
4. City-funded expenditures projected to increase 3.4% in FY 2014, with increases in debt service and health insurance. Most agency budgets are cut.
5. Over the past five years, in the midst of the Great Recession and its aftermath, NYC inflation-adjusted spending on Human Services has fallen by 8%.

In Part II, a forward-looking, 4-part NYC budget agenda is presented:

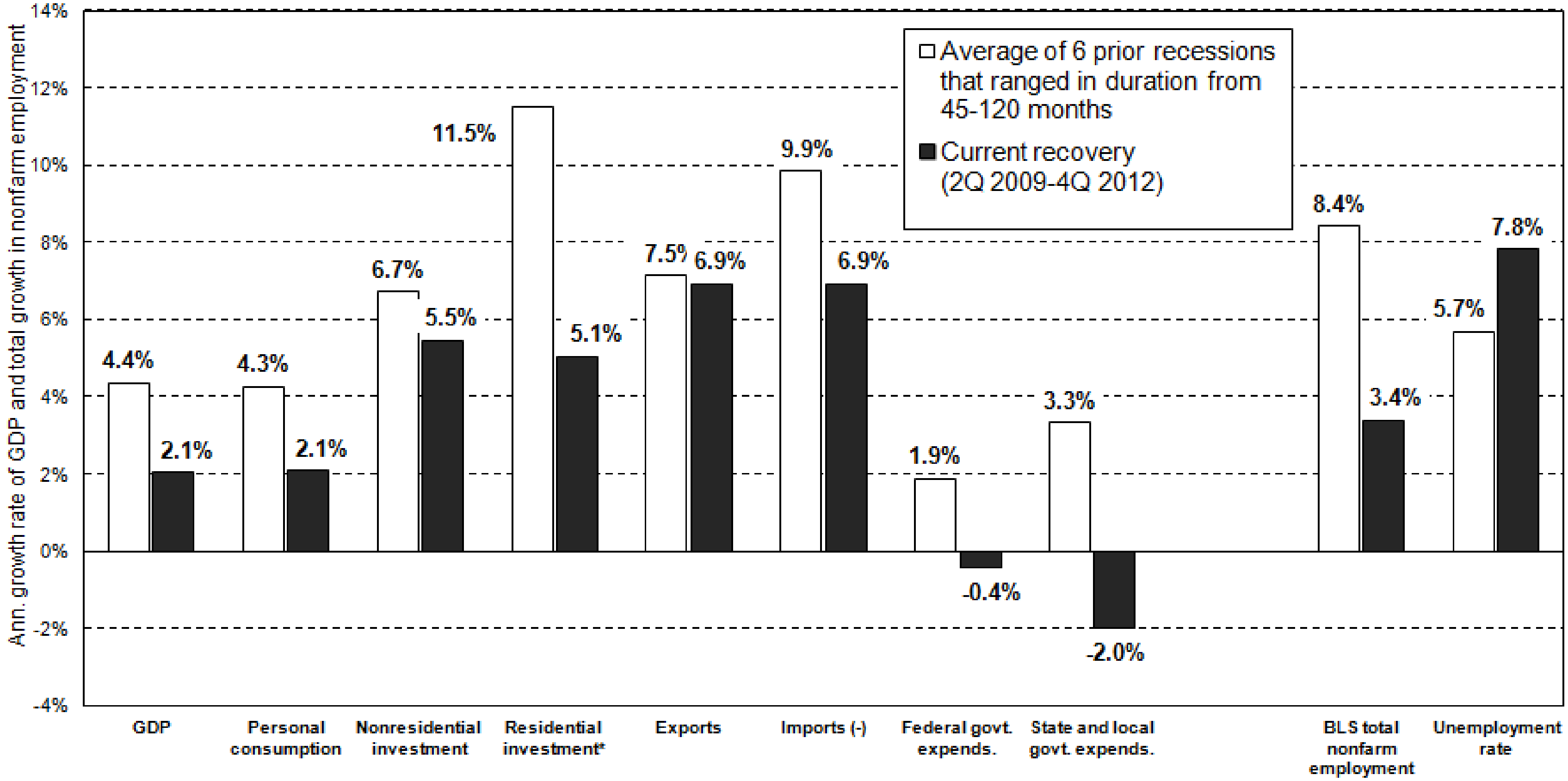
- Combat poverty to reduce the city's pronounced income polarization;
- Use city resources to more strategically invest in human and physical capital;
- Enhance overall progressivity of the city tax structure; and
- Work with the city workforce to enhance service delivery and to improve productivity to help settle expired collective bargaining contracts.

I. Briefing on the Preliminary FY 2014 NYC Budget

1. The continuing unemployment crisis in the weakest recovery since the 1930s.

- The national recession officially ended more than three-and-a-half years ago in June 2009. The weak job market has limited consumer spending, and declines in state and local government spending have contributed to historically weak GDP growth.
- Job growth through the first 14 quarters of this recovery has been only 40% of the job growth usually seen in a recovery.
- NYC job growth has been about 50% greater than for the U.S., but much of local job growth has come in sectors with below-average wages. Professional and business services, tourism, restaurants and retail have done well, although the preliminary numbers on professional services and retail job growth might get revised downward. Finance will also be revised down.
- Unemployment and underemployment remain very high and many people have been unemployed for prolonged periods—over half have been without work for more than 6 months, and 29% have been jobless for over a year.

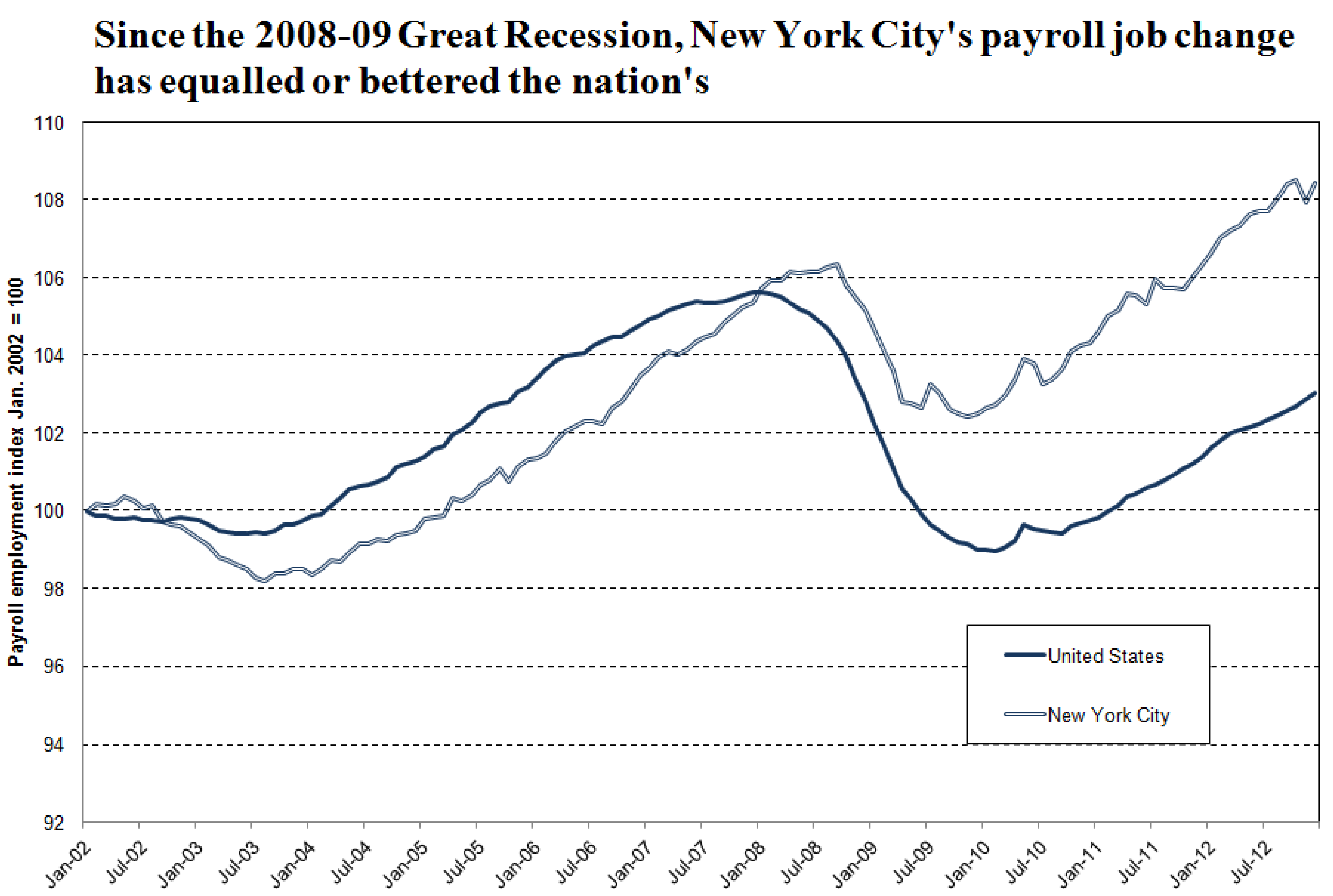
National economic growth during the first 14 quarters of the current recovery is half the pace of previous recoveries.



Average share of selected GDP components in current recovery (2Q 2009 through 4Q 2012):

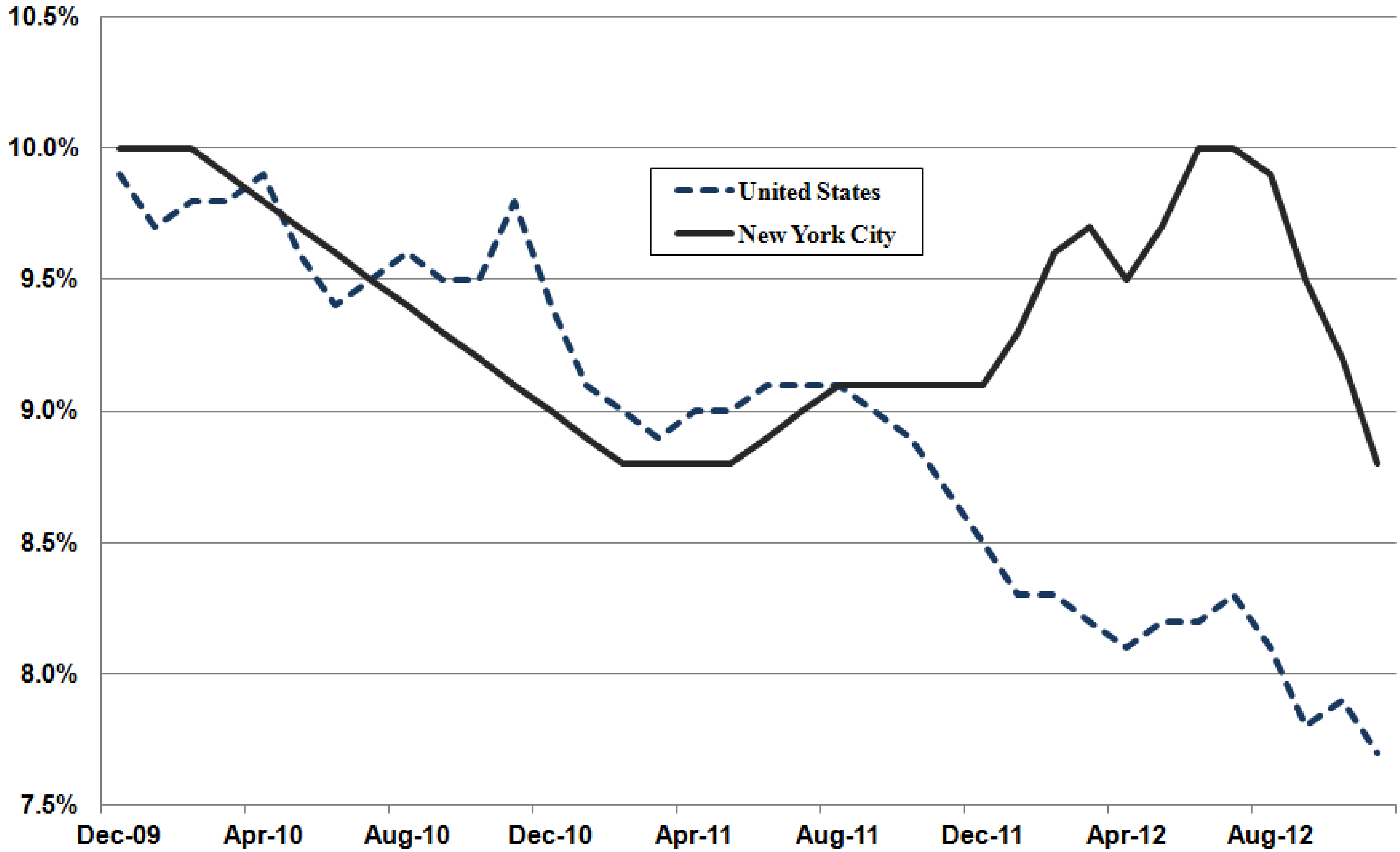
GDP	Personal consumption	Nonresidential investment	Residential investment	Export	Import(-)	Federal govt. expends.	State & local govt. expends.
100.0%	70.7%	10.2%	2.6%	13.0%	-16.1%	7.9%	11.4%

Note: The private residential investment share of GDP in the current recovery is unusually small because of the depressed condition of the housing market. In the early 2000s recovery, the residential investment share of GDP was 5.7 percent.
Source: BEA NIPA table 1.5.1 and 1.5.6 for GDP components and BLS CES employment data for total nonfarm employment level.

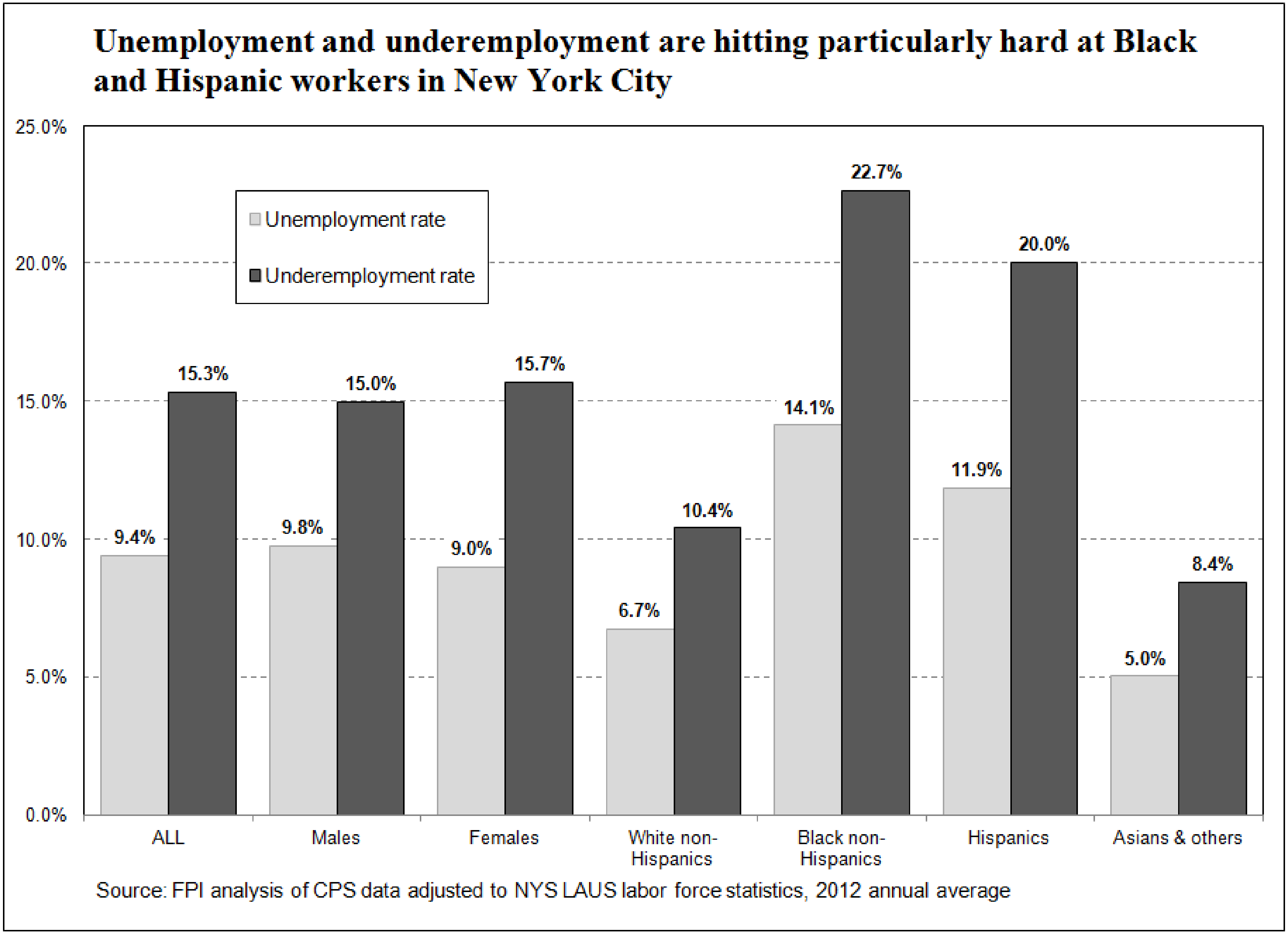


Source: FPI's analysis of Bureau of Labor Statistics seasonally adjusted CES employment data indexed Jan. 2002 = 100

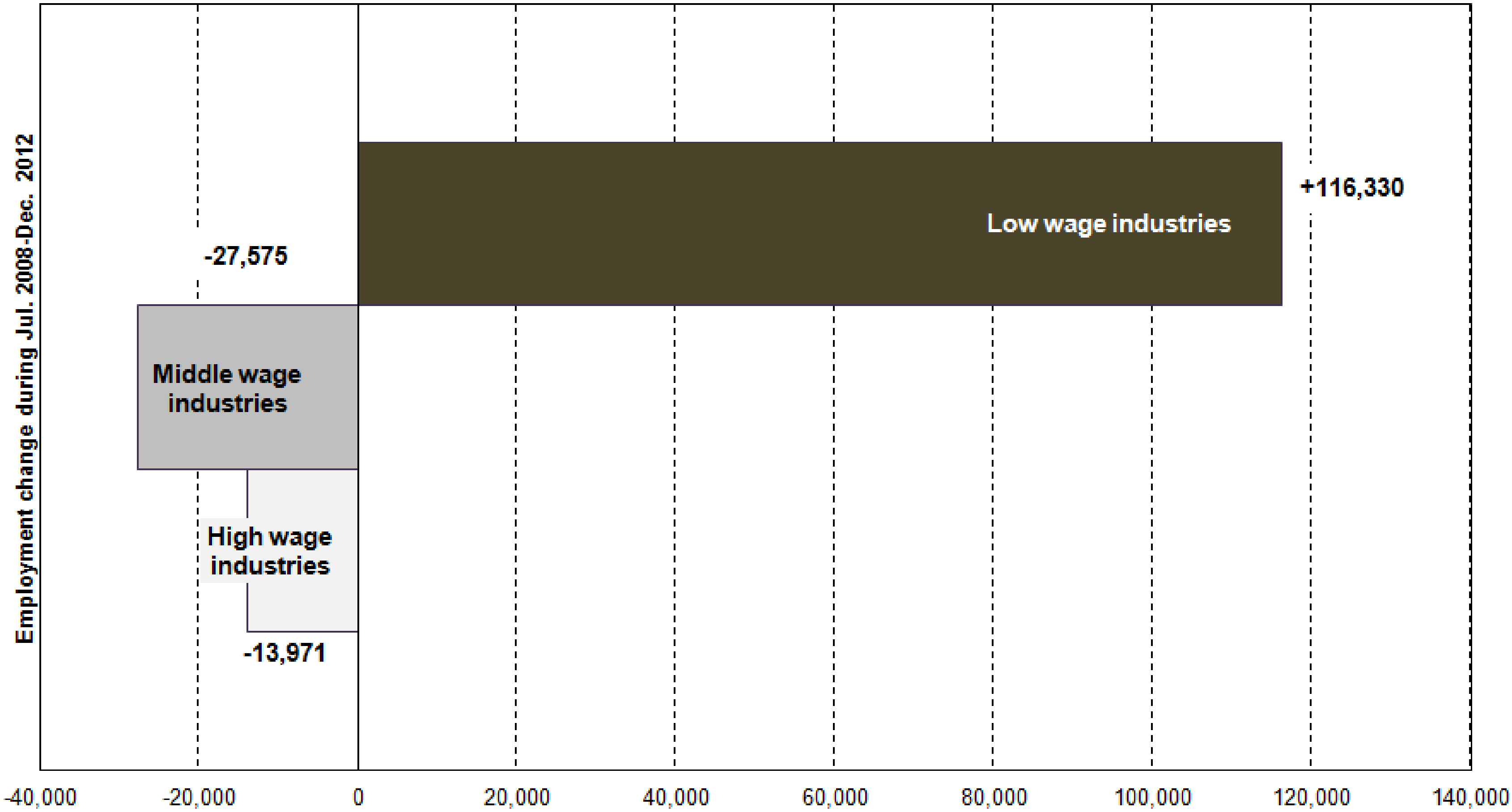
From mid-2011 through mid-2012, NYC's unemployment rate inexplicably rose while the national rate fell.



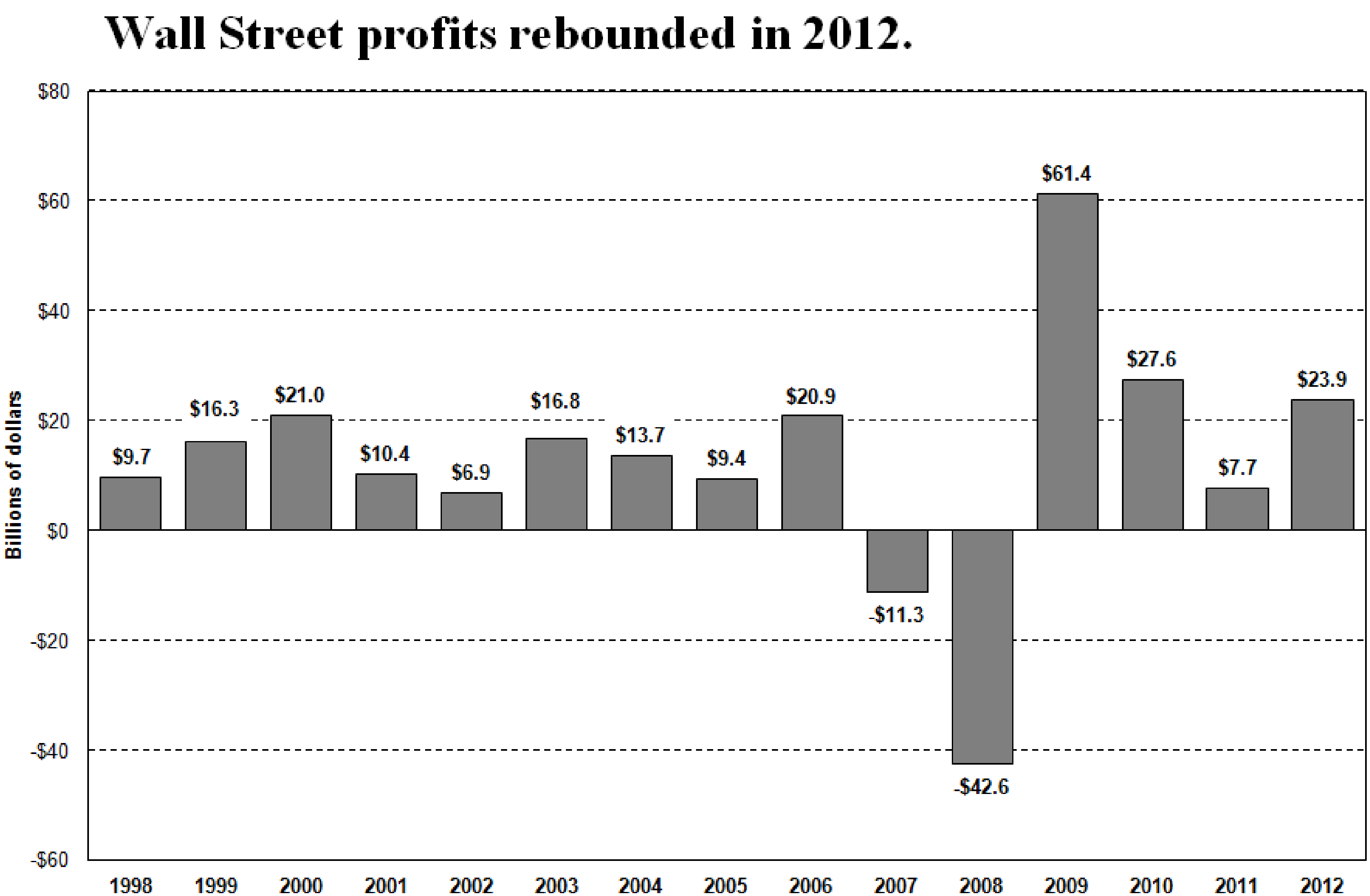
Source: US Bureau of Labor Statistics Current Population Survey data


Unemployment and underemployment are hitting particularly hard at Black and Hispanic workers in New York City
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Unemployment rate
Underemployment rate
9.4%
15.3%
9.8%
15.0%
9.0%
15.7%
6.7%
10.4%
14.1%
22.7%
11.9%
20.0%
5.0%
8.4%
ALL
Males
Females
White non-Hispanics
Black non-Hispanics
Hispanics
Asians & others
Source: FPI analysis of CPS data adjusted to NYS LAUS labor force statistics, 2012 annual average

Since the recession began in New York City in mid-2008, only low-wage industries have had net job gains.

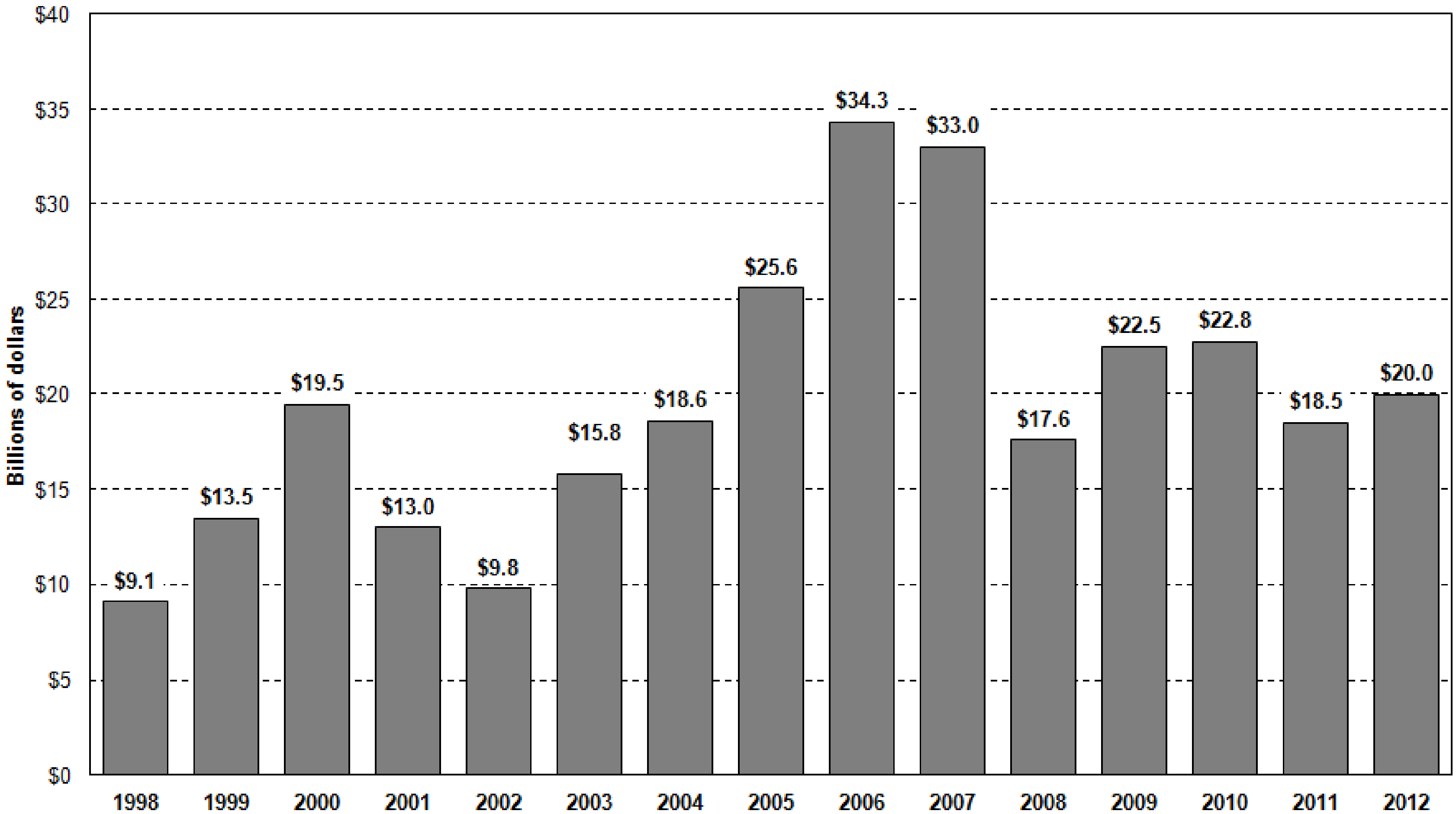


Note: Low wage industries are those whose annual average wage is below $45,000. Middle wage industries have annual average wages of $45,000-$75,000. High wage industries are those whose annual average wage is above $75,000.
Source: FPI's seasonal adjustment of CES employment data and QCEW annual average wage data from NYS DOL.



Source: New York Stock Exchange member firms' profits from NYSE Euronext and Securities Industry and Financial Markets Association (SIFMA)

Wall Street cash bonuses since the 2008 crash have been lower than in 2005-2007, reflecting a shift toward higher base salaries and deferred compensation.

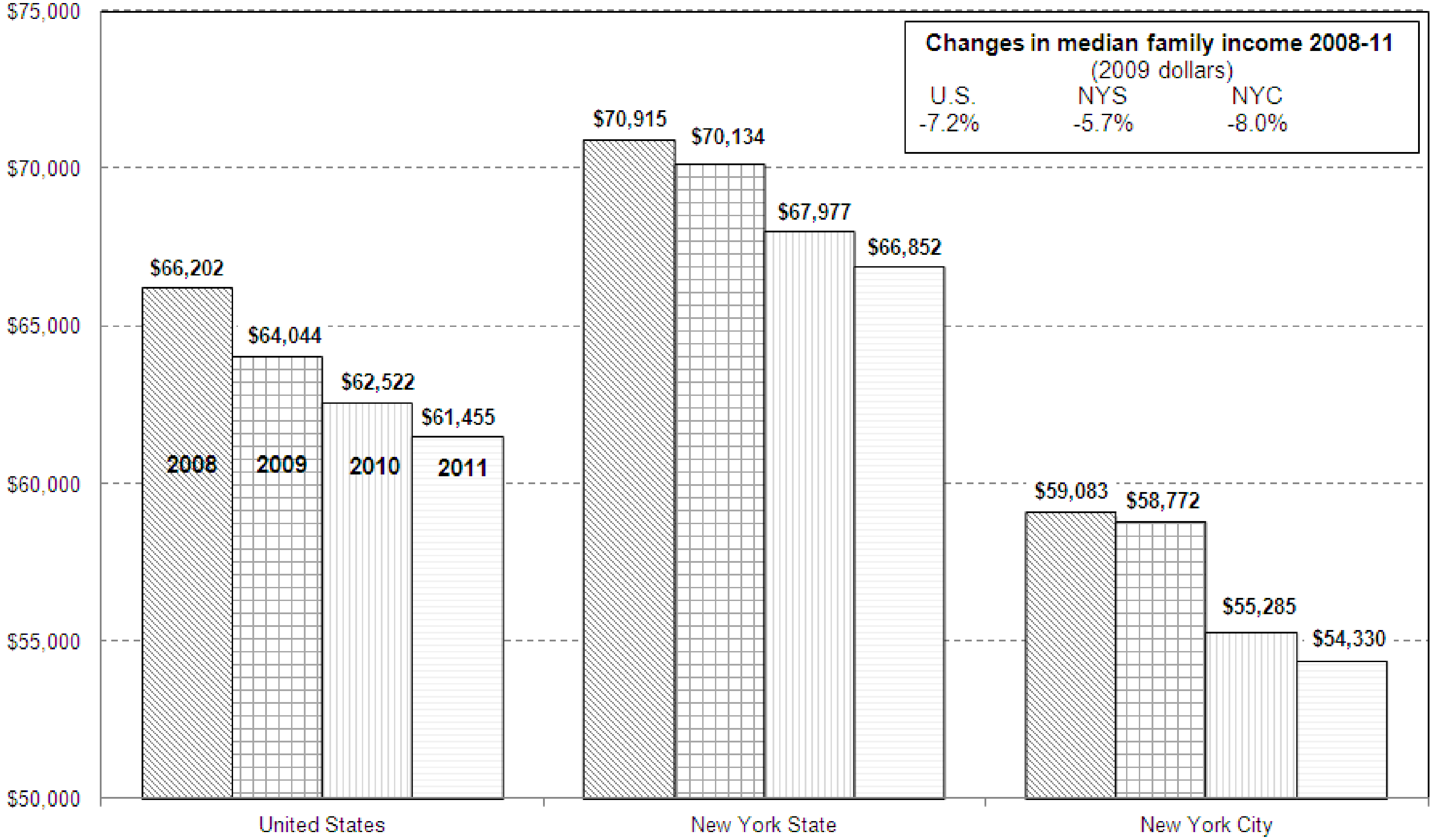


Source: New York City Securities industry bonuses from the Office of the State Comptroller, Feb. 2013

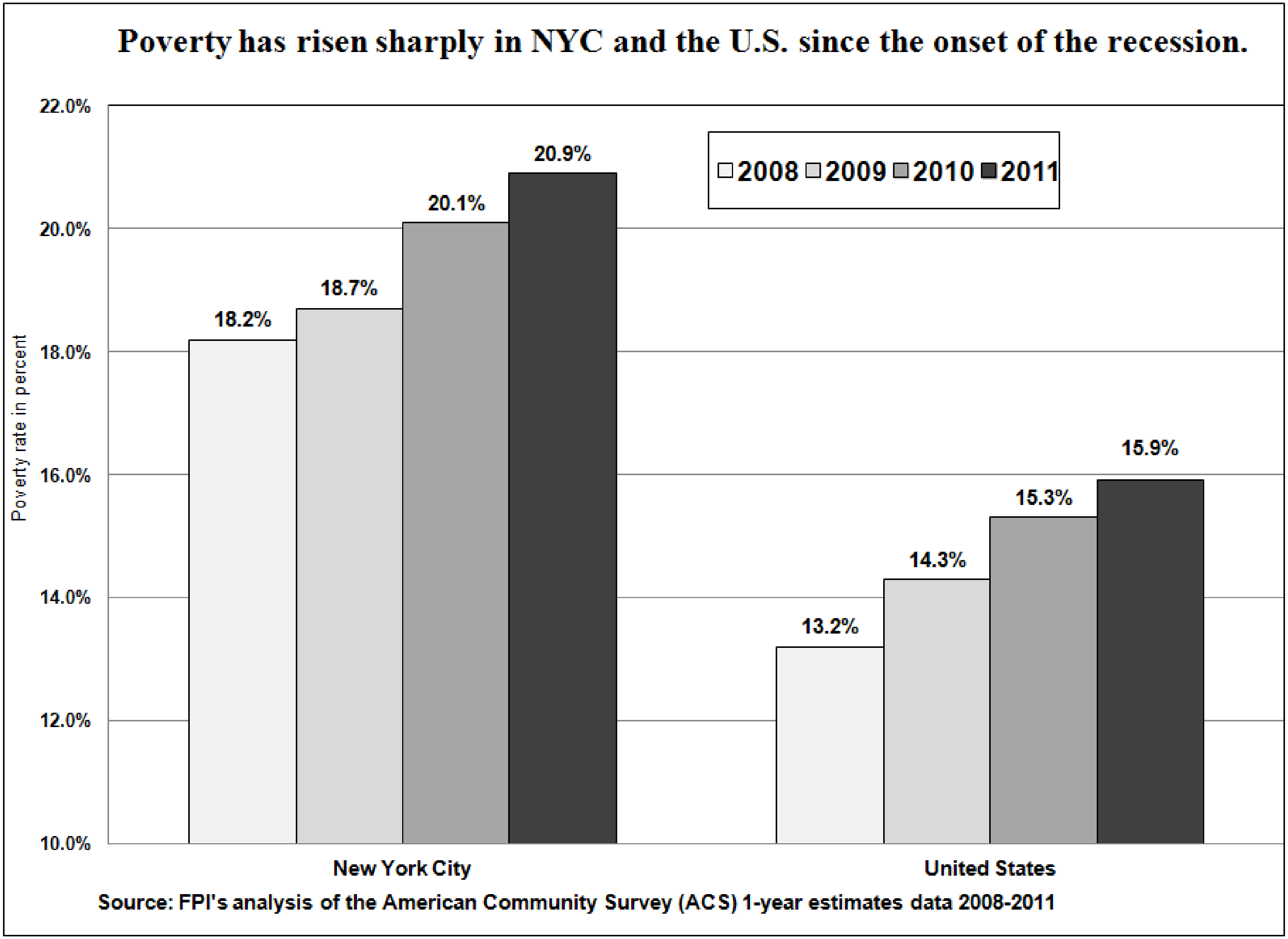
Significant economic hardships persist

- The recession pushed more than 200,000 additional New Yorkers into poverty between 2008 and 2011, as the city's poverty rate rose from 18.2 percent to 20.9 percent in 2011. Another 20 percent have "near poverty" incomes (100-200% of poverty), for a total of 3.34 million city residents living in poverty or near poverty.
- Thirty percent of city children were below the poverty line in 2011, up from 26.5 percent in 2008. Over half of all children live in poverty or near poverty.
- The number of NYC residents qualifying for food stamps has increased by 710,000 (63 percent) since the recession began.
- The sharp drop in employer-provided health insurance since the recession began has helped to push up the number of city residents enrolled in Medicaid by 17 percent. Over 38% of city residents (3.2 million) now rely on Medicaid.
- Homelessness now affects 50,000 NYC residents, including 20,000 children each night, with over 48,000 men, women and children staying in municipal shelters.

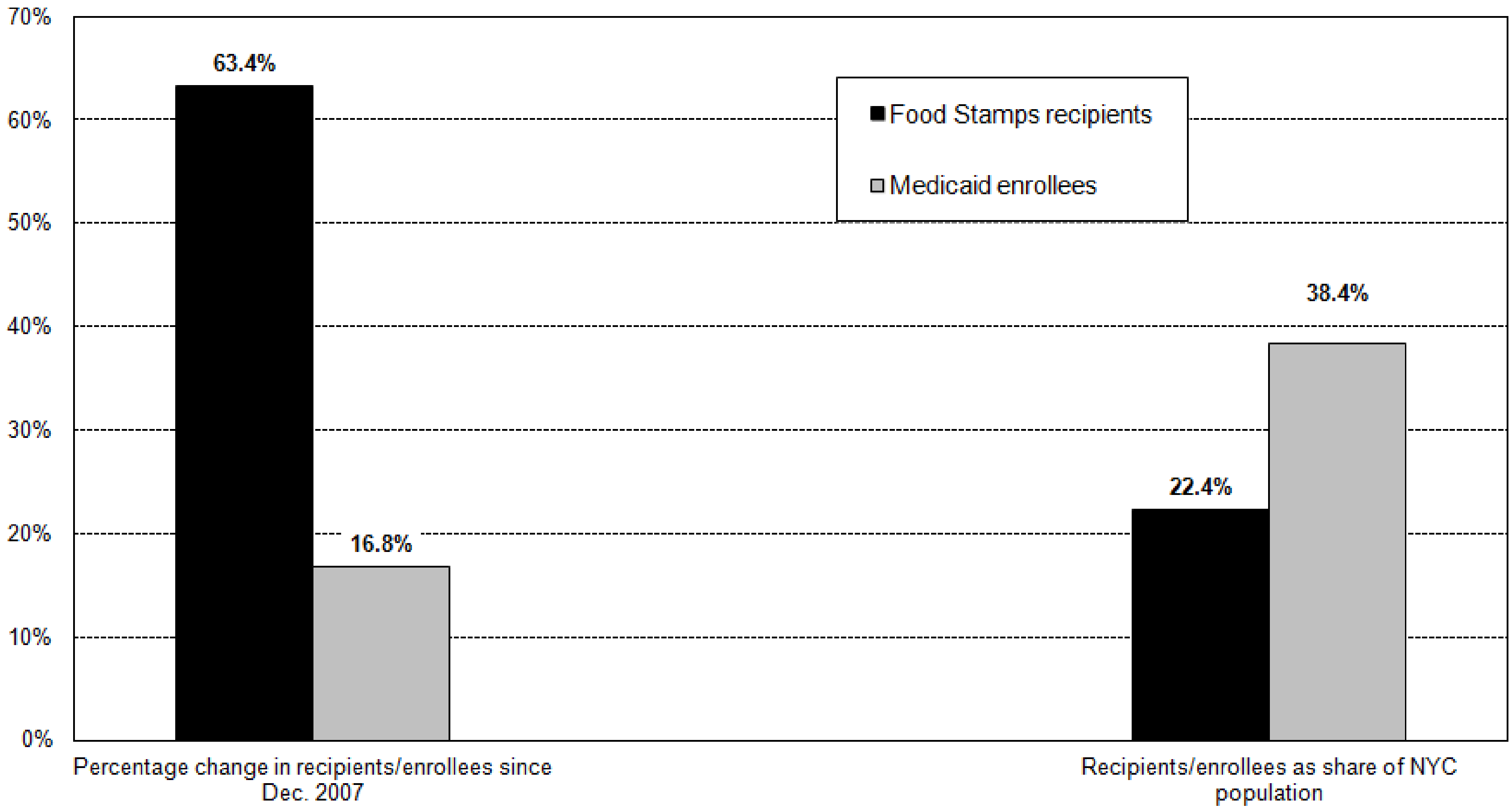
Inflation-adjusted median family income has fallen nationally and in New York State and City since the 2008-09 Great Recession.



Source: FPI analysis of the American Community Survey (ACS) data for 2008-2011 1-year estimates.

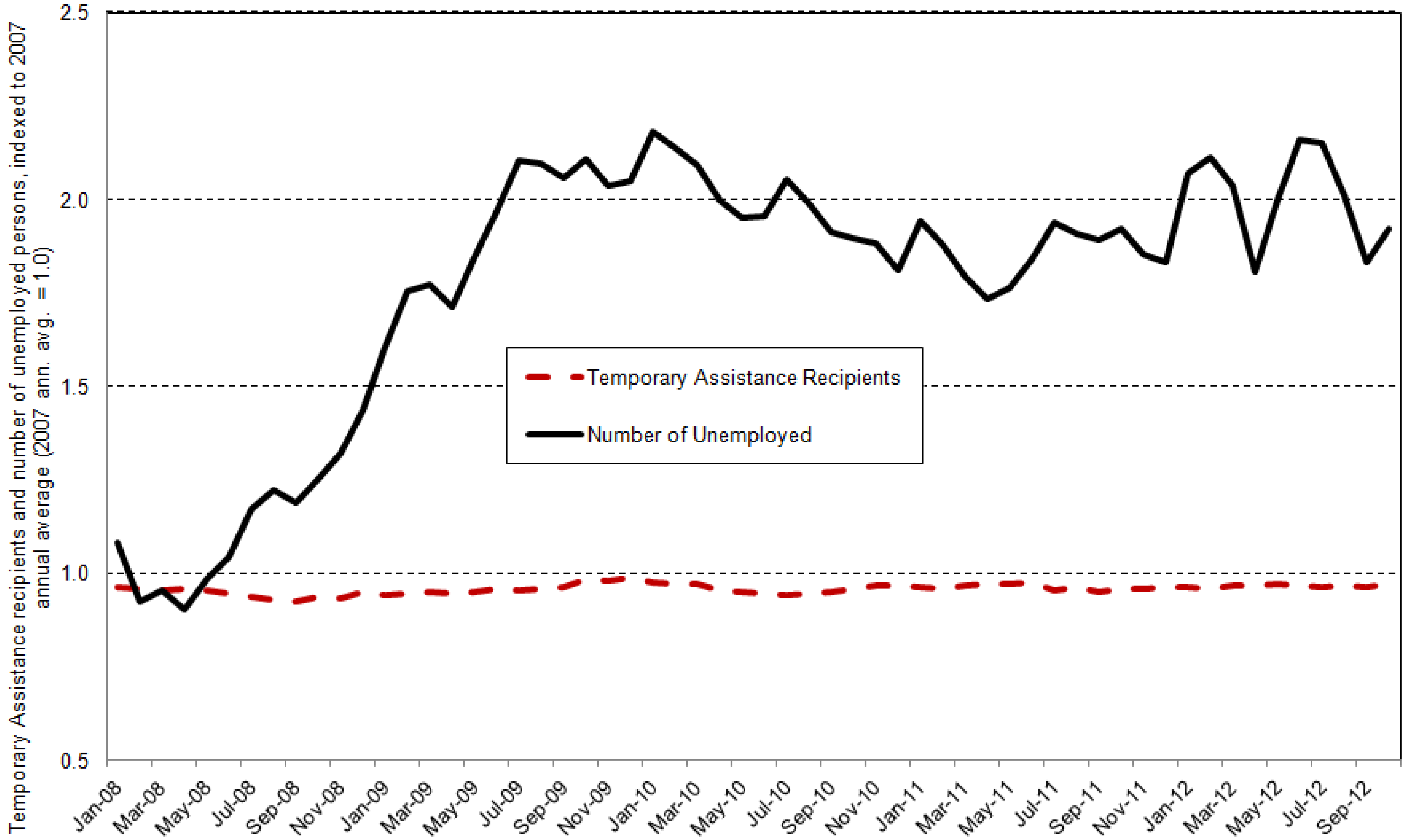

Poverty has risen sharply in NYC and the U.S. since the onset of the recession.
2008
2009
2010
2011
22.0%
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
Poverty rate in percent
18.2%
18.7%
20.1%
20.9%
13.2%
14.3%
15.3%
15.9%
New York City
United States
Source: FPI's analysis of the American Community Survey (ACS) 1-year estimates data 2008-2011

Participation in Food Stamps and Medicaid has risen during the Great Recession. More than one in five NYC residents now receive Food Stamps, and 38% are enrolled in Medicaid.



Source: FPI analysis of New York City Human Resource Administration data for Food Stamps and Medicaid enrollees, Dec. 2007 through Aug. 2012

Since 2008, unemployment in New York City has increased sharply, while the number of Temporary Assistance recipients is unchanged.



Source: FPI analysis of Office of Temporary Disability Assistance and New York State Department of Labor LAUS unemployment data (not seasonally adjusted).

2. NYC tax revenues growing, but slowly; federal aid will fall while state aid grows slightly, it is still less than in FY 2009.

- Total tax revenues are projected to increase by $700 million (1.6 percent) in FY 2013, and by $1.4 billion in FY 2014 (3.1 percent.) Real property, property-related and sales taxes are projected to grow moderately while personal and business income taxes are expected to slow in FY 2014.
- NYC tax collections are projected to increase by $8 billion (14%) from FY 2009-13. Both property taxes and economically-sensitive taxes each will increase by $4 billion. About one-third ($2.8 billion) of the increase is due to tax policy changes, mostly property tax ($1.6B) and sales tax ($900 M.)
- Federal stimulus fiscal relief (mainly education aid and Medicaid) aided the city budget by $2.5B in both FY 2010 and 2011. Federal hurricane relief is expected to provide about $1.4B to the city budget in FY 2013. Federal budget cuts will shrink the federal share of the city budget in the years ahead.
- NYS aid to NYC was cut by $1B from FY 2009-2012, and will increase only $200 million in FY 2013. The reduction was mostly in school aid, but also in human services. State aid in FY 2016 will be about the same as in FY 2009.

3. NYS budget choices and pressures squeeze NYC

- The new 2012-14 state income tax surcharge enacted in December 2011 generates \$2.5-\$3B less than did the 2009-11 surcharge, making it difficult for the state to restore any of the \$20 billion in budget cuts enacted in 2009, 2010 and 2011. The Governor's budget makes further human service cuts.
- Because NYS has reduced its share of NYC's school budget since 2007, the City is spending about \$2 billion more than it would have. This increased funding burden and reduced state revenue sharing funds for NYC have severely squeezed other areas of NYC's budget, including many in human services.
- State budget cuts have also meant fewer resources for CUNY schools even though enrollment has jumped since the recession began, less money for the MTA, and lower funding for many nonprofits funded through state social service contracts (including less funding for employee cost of living increases.)

For more on the Governor's budget proposal, see FPI's state budget briefing, ***New York State Economic and Fiscal Outlook 2013-2014****, January 2013.*

4. Mayor's proposed FY 2014 budget

- While City-funds expenditures are projected to increase by 3.4% in FY 2014, the only significant increases are in debt service and employee health insurance. Pension contributions start to level off.
- With few exceptions, the rest of the budget is profoundly austere. The DOE budget increases only 2%. City funds for CUNY are reduced by 5%.
- The combined budgets of the four uniformed agencies are flat, with the Fire Department cut by 5%.
- Medicaid spending is projected to increase by 1.3%, but spending on Public Assistance grants is flat next year after dropping by 9% this year.
- The seven Human Service agencies (ACS, DFTA, DOHMH, HHC, DHS, DSS and DYCD) are targeted for $248 million in cuts—an 8.6% reduction.
- And in keeping with the usual "budget dance," Libraries and Cultural Affairs are hit with sharp cuts in addition to those affecting ACS, Aging and DYCD.

Other aspects of note regarding the FY 2014 budget

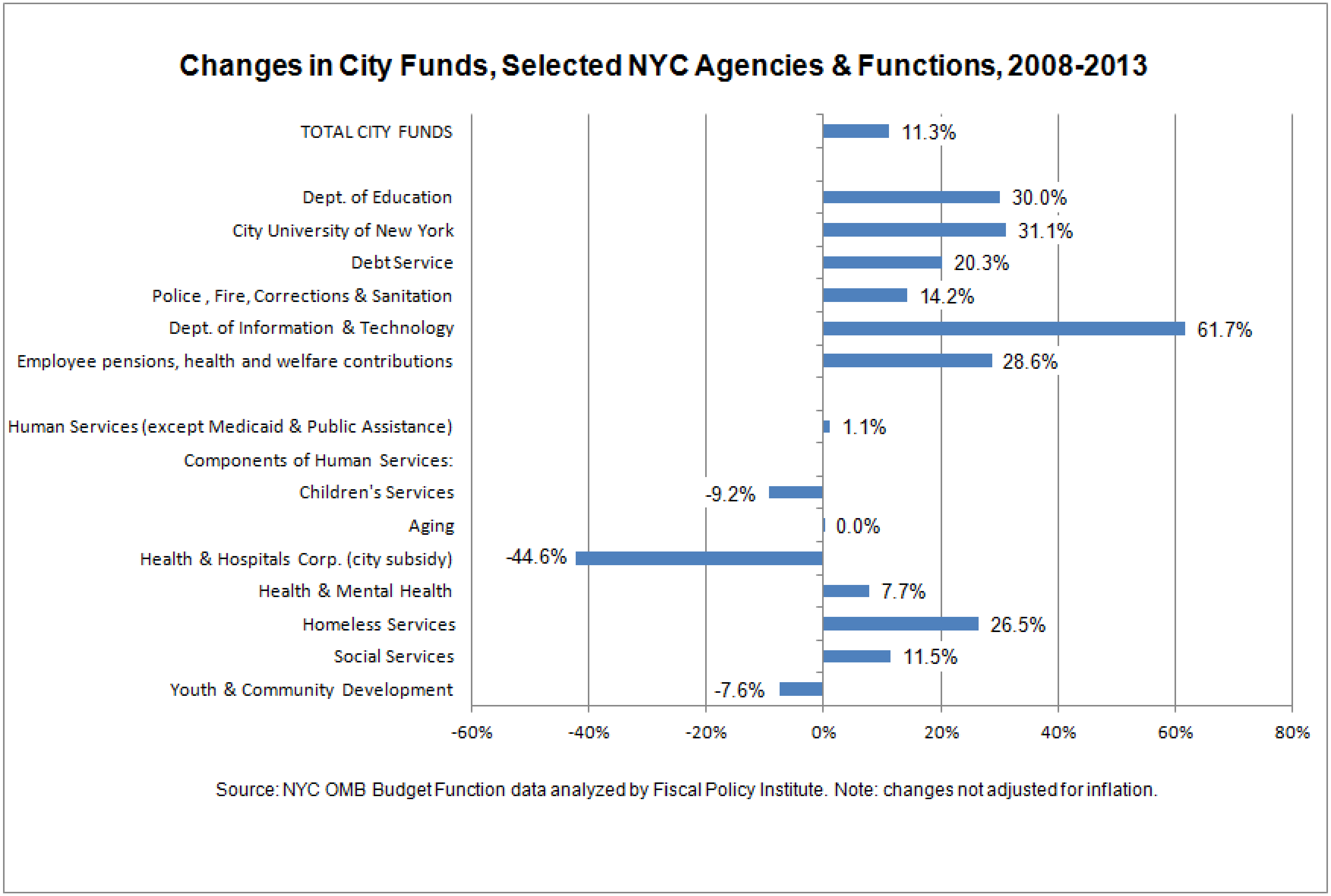
- City-funded headcount to be cut by a total of 3,300 (on total funds basis, reduction is 5,400), with the greatest proportionate reductions in Culturals, Libraries, Parks, DOT, and DOHMH.
- The FY 2013 and FY2014 budget gaps were closed with the help of $1 billion from the Retiree Health Benefit Trust Fund (each year) that was set up with some of the last expansion's surplus.
- Also, the projected $1.1 billion surplus for the current (FY 2013) year will be used to prepay a portion of debt service for 2014. The cumulative surplus built up through 2008 has been used to close gaps since and is disappearing.
- There are no tax increases in the proposed budget, but tax collections have been revised up since last June's adoption of the FY 2013 budget by $754 million for FY 2013 (+$427M) and FY 2014 (+$327M).
- However, the financial plan does not include funding for wage increases for teachers (UFT) and school administrators (CSA) who still lack a contract for the 2008-2010 collective bargaining round. Nor is there any funding for wage increases in the 3 years beyond that round for any union workers.

Uncertainties affecting the city budget outlook

- The City's failure to reach an agreement on teacher evaluations could cost the city $250 million this year and possibly more in 2014 and after.
- The federal budget sequester for the current federal fiscal year and the cloudy outlook for next year's federal budget add uncertainty.
- No city collective bargaining contracts are current and the teachers, school principals and HHC nurses do not have settlements from the prior round.
- The city financial plan includes $1.4B expected from the sale of 2,000 new taxi medallions, but the sale is currently blocked by a court injunction.
- The economic outlook is clouded by the fiscal drag exerted by austerity policies in Washington; in Europe, austerity has already pushed many countries back into recession, reducing the market for U.S. exports.
- On the other hand, the city budget is based on very conservative tax revenue forecasts. The City Comptroller, the IBO and the City Council Finance Div. all expect higher tax collections.

5. Since 2008, NYC taxes have grown moderately and only a handful of budget areas have experienced increases.

- Twelve PEG (Program to Eliminate the Gap) programs since early 2008 will generate recurring annual savings of over $6.5B in FY 2014. The overwhelming majority of these savings are from spending cuts.
- From FY 2008 to FY 2013, City funds generated by NYC taxes and other local revenues increased by $5.1B to $50.4B. This 11% increase is slightly higher than the 9.2% increase in the rate of consumer inflation in the NY metropolitan area over those 5 years.
- Two areas accounted for much of the expenditure increase financed with this City funds increase over this period: employee pension contributions and the Dept. of Education. Pension contributions increased by $2.3B mainly to make up for investment losses suffered due to the 2008 financial crash. DOE spending increased by $2.1B largely to make up for reduced state aid.
- Uniformed agency spending and debt service each increased by about $1B, and City funds going to Medicaid increased by about $600M.


Changes in City Funds, Selected NYC Agencies & Functions, 2008-2013
TOTAL CITY FUNDS
Dept. of Education
City University of New York
Debt Service
Police , Fire, Corrections & Sanitation
Dept. of Information & Technology
Employee pensions, health and welfare contributions
Human Services (except Medicaid & Public Assistance)
Components of Human Services:
Children's Services
Aging
Health & Hospitals Corp. (city subsidy)
Health & Mental Health
Homeless Services
Social Services
Youth & Community Development
11.3%
30.0%
31.1%
20.3%
14.2%
61.7%
28.6%
1.1%
-9.2%
0.0%
-44.6%
7.7%
26.5%
11.5%
-7.6%
-60%
-40%
-20%
0%
20%
40%
60%
80%
Source: NYC OMB Budget Function data analyzed by Fiscal Policy Institute. Note: changes not adjusted for inflation.

Although needs have grown in the wake of the recession, City human services funding dropped by 8% in real dollars

- The seven human service agencies (ACS, DFTA, DOHMH, HHC, DHS, DSS, and DYCD) together are receiving $2.9B in City funds this fiscal year (2013)—only 1% more than in FY 2008.
- However, inflation has been 9.2% over that period, meaning that, on an inflation-adjusted basis, city human services agency spending has fallen about 8% since 2008. See the table on the next page.
- Only Homeless Services had a significant inflation-adjusted increase in city funding. DYCD and ACS have both experienced sharp funding declines.
- These cuts are before $248M (9%) in spending cuts proposed for FY 2014. [However, $63M of this involves federal funds replacing City funds.]
- Medicaid spending increased by about $600M from 2008-13. City-funded Public Assistance spending increased by $86 million (20%) not because of an increase in caseloads, but as a result of the first increase in the basic grant in 20 years and due to an increased local share.

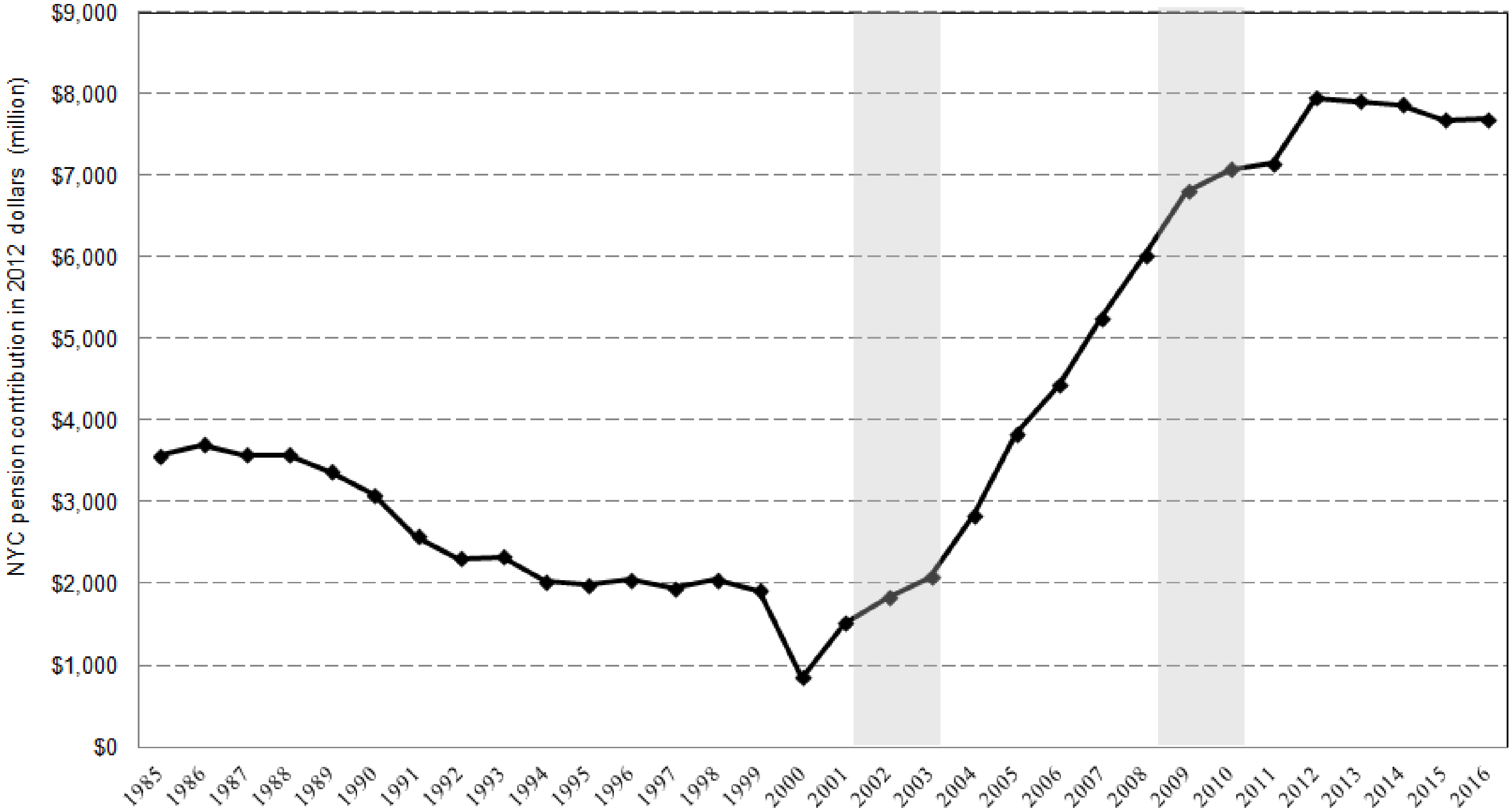
Human Service Agencies Short-changed in NYC Budget Since 2008

City Funds	2008	2013	2014	Change 2008-2013	% change 2008-13	Change 2013-2014	% change 2013-14
		Prelim. FY 2014, Jan. 2013					
($ in thousands, not adjusted for inflation)							
City Funds Total	**$45,317,000**	**$50,417,000**	**$52,143,000**	**$5,100,000**	**11.3%**	**$1,726,000**	**3.4%**
Human Services (exc. Medicaid & Public Assistance)	***$2,864,703***	***$2,896,806***	***$2,648,617***	**$32,103**	**1.1%**	**-$248,189**	**-8.6%**
Admin. for Children's Services (and Juvenile Justice)	$927,966	$842,436	$809,844	-$85,530	-9.2%	-$32,592	-3.9%
Aging, Dept. for the	$139,140	$139,197	$116,408	$57	0.0%	-$22,789	-16.4%
Health and Hospitals Corporation (NYC subsidy)	$128,181	$70,985	$65,385	-$57,196	-44.6%	-$5,600	-7.9%
Health and Mental Hygiene, Dept. of	$570,456	$614,395	$571,775	$43,939	7.7%	-$42,620	-6.9%
Homeless Services, Dept. of	$360,226	$455,691	$436,535	$95,465	26.5%	-$19,156	-4.2%
Social Services, Dept. of (exc. Medicaid & Public Ass't.)	$479,366	$534,547	$488,722	$55,181	11.5%	-$45,825	-8.6%
Youth & Community Development, Dept. of	$259,368	$239,555	$159,948	-$19,813	-7.6%	-$79,607	-33.2%

Employee pension, health and welfare costs in perspective

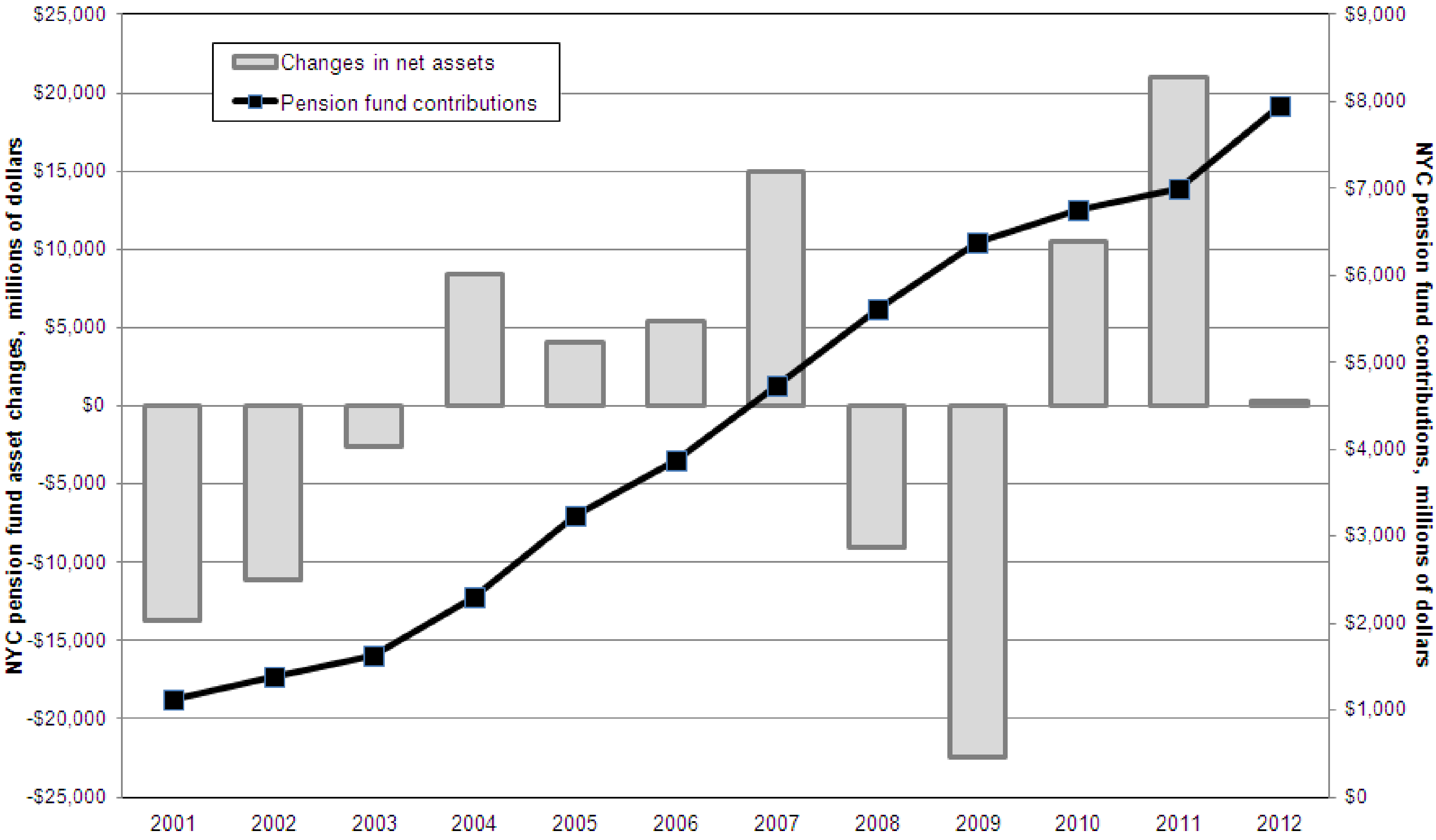
- While many observers have noted the sharp increase in city pension fund contribution, required contributions have grown since 2004 to make up for investment losses suffered in 2001-02, and again in 2008-09. As a result of Wall Street's 2008 meltdown, the City's five pension funds lost $31B.
- The typical non-uniformed NYC worker who is not a teacher receives an annual pension of about $20,000. For a given amount of monthly pension, defined benefit pensions fare 48% less costly than a defined contribution plan.
- In response to rising pension costs, the Governor pushed through far-reaching changes in the state and local retirement system (Tier VI) which affects NYC workers. The retirement age is increased, the benefit multiplier reduced, and employee contributions increased. Because only employees hired after April 1, 2012 are affected, savings are years down the road.
- Pension contributions are leveling off, but employee and retiree health and welfare contributions are projected to increase 8% in FY 2014 (+$200M). Those costs had been flat from 2008 to 2013.

NYC pension contributions have been pushed up since 2002 in the wake of poor financial market performance, and are projected to decline slightly in constant dollars beginning with FY 2013.



Source: NYC Comptroller Comprehensive Annual Financial Reports; projected FY 2013-2016 contributions from NYC Office of Manangement and Budget, Financial Plan, Jan.2013; shaded area indicates years when market returns were more than 10% below assumed rate

In 5 of the last 12 years, the net assets of the five NYC public pension funds have declined, forcing the city to increase its contributions.



Source: NYC pension contributions and net assets through FY 2012 from NYC Comptroller Comprehensive Annual Financial Reports

II. A Forward-looking 4-point NYC Budget Agenda

A forward-looking, 4-part NYC budget agenda

1. Combat poverty to reduce the city's pronounced income polarization;

2. Use city resources to more strategically invest in human and physical capital to foster broadly shared prosperity;

3. Enhance the overall progressivity of city tax structure; and

4. Work with the city workforce to enhance service delivery, reform employee health and welfare programs, and improve productivity to help settle expired collective bargaining contracts.

1. Combat poverty to reduce the city's pronounced income polarization

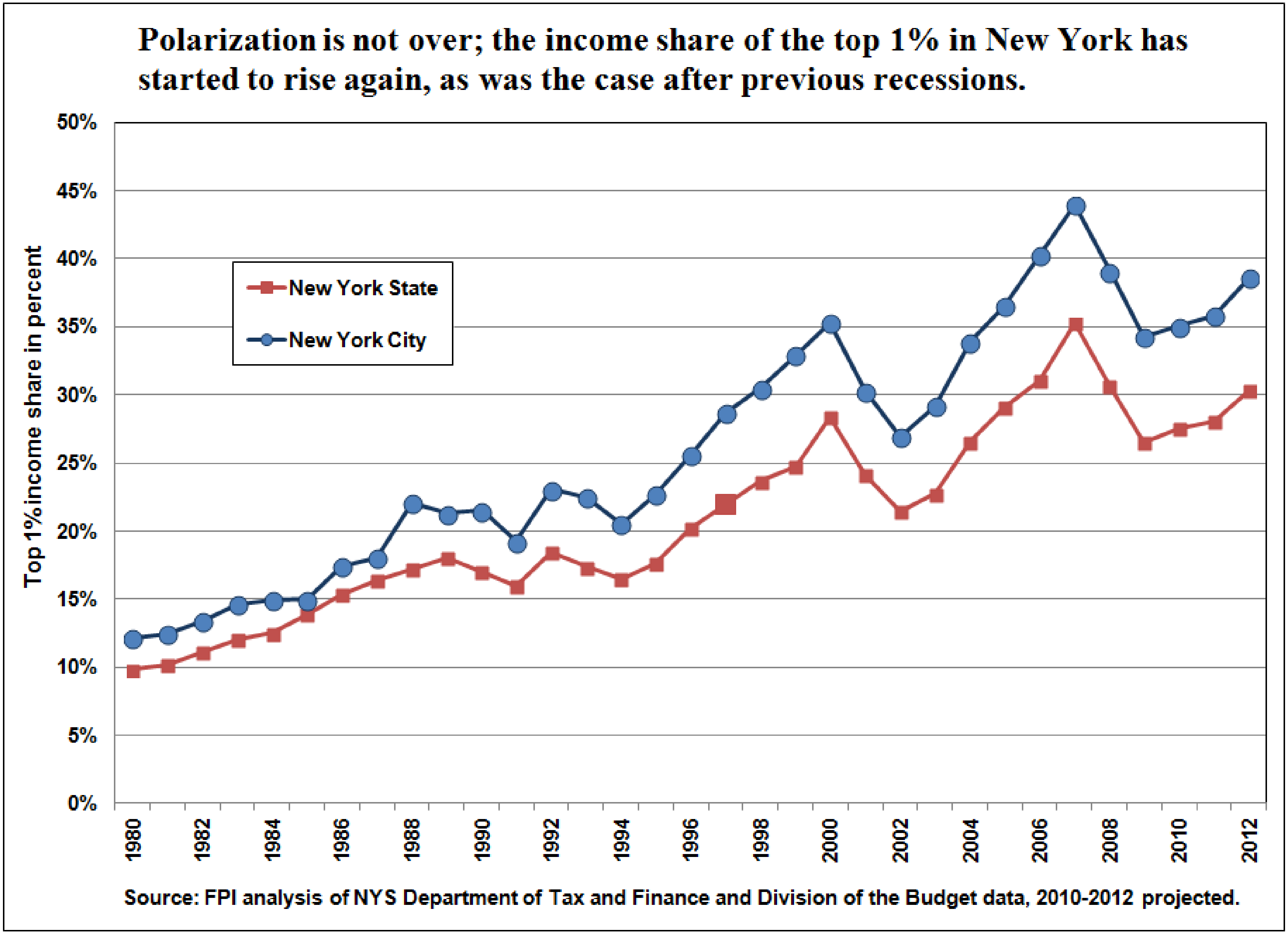
- In many respects, the city is not using the budget to respond to the hardships associated with continuing high unemployment, increased poverty and the adversity caused by the Great Recession.
- Despite a doubling of unemployment since the recession began, public assistance rolls have not responded to increased economic hardship.
  - number who work but remain poor continues to increase
  - no expansion of transitional employment opportunities or public service jobs to help people get into the workforce
  - by cutting back on child care funding, harder for parents to keep working
- The City needs a determined, comprehensive anti-poverty strategy. Mayor's Center for Economic Opportunity stresses that budget and fiscal policy matters in reducing poverty. This is true for city as well as federal efforts.
- Ending the annual "budget dance" is a matter of will and not wallet. It marginalizes programs serving low-income communities and has contributed to the disinvestment in the city's social safety net.

2. Use city resources to more strategically invest in human and physical capital to foster broadly shared prosperity

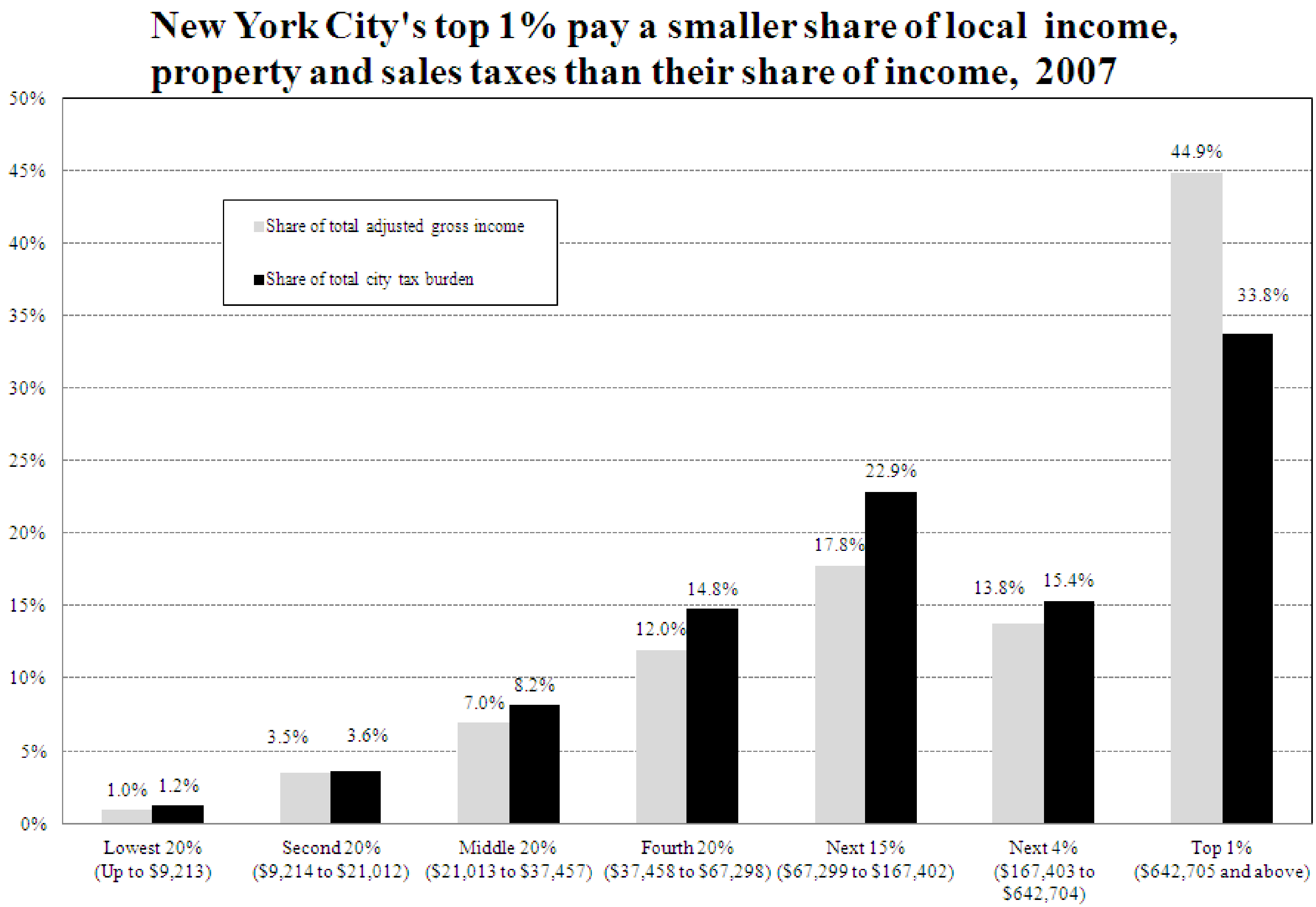
- Need unified development budget to better utilize $3 billion in business tax expenditures and $800 million EDC budget.
- Link city subsidies and land use changes to living wages and workforce investments. Tax giveaways were a response to 1970s corporate flight. It’s time to turn that around into a policy of “value capture” where the city benefits from the development city investments enable.
- Since it is essential that the city help raise the wage floor, it should ensure that city contracts allow workers a decent living.
  - $4B for social service contracts, yet over a third of workers have family incomes less than 200% of poverty
  - Getting rid of job security for school bus employees risks turning 9,000 moderate-paying jobs with benefits into poverty-wage jobs without benefits.
- Over the past 3 decades, NYC pension funds have helped revitalize neighborhoods and expand the supply of affordable housing. Such investments have yielded a better return than other pension investments over the past 10 years. Benefits from pooling investments with other pension funds.

3. Enhance the overall progressivity of city tax structure

- Over the past 10 years, tax changes have helped manage through 2 recessions, but sales and property tax increases have made the tax structure more regressive. Given the city's income polarization, progressive tax reform can both stimulate economic growth and buttress resources needed to ameliorate recession-related hardships.
- Because it hasn't adjusted its rate structure for inflation, NYC requires tens of thousands of low-income residents who have no state or federal income tax liability to pay a NYC income tax. The City should increase low-income tax credits to provide tax relief to over a hundred thousand low income households.
- There are many property tax inequities—like the pending renewal of the coop/condo tax abatement. We should address these to improve fairness for low-income communities.
- We should close costly loopholes that benefit a handful of high-income residents.
- Despite the fact that commuters receive 35% of all NYC wages, they pay no taxes to support city services their jobs rely on. In the lucrative finance sector, commuters take 48% of all wages. The City and Albany need to figure out a way to address this inequity.
- Understanding NYC's unique circumstances and cyclical economic tendencies, we need to recognize the limits to the individual and business tax burden.



Polarization is not over; the income share of the top 1% in New York has started to rise again, as was the case after previous recessions.
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Top 1% income share in percent
New York State
New York City
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Source: FPI analysis of NYS Department of Tax and Finance and Division of the Budget data, 2010-2012 projected.



Source: FPI analysis of NYS Tax and Finance data.

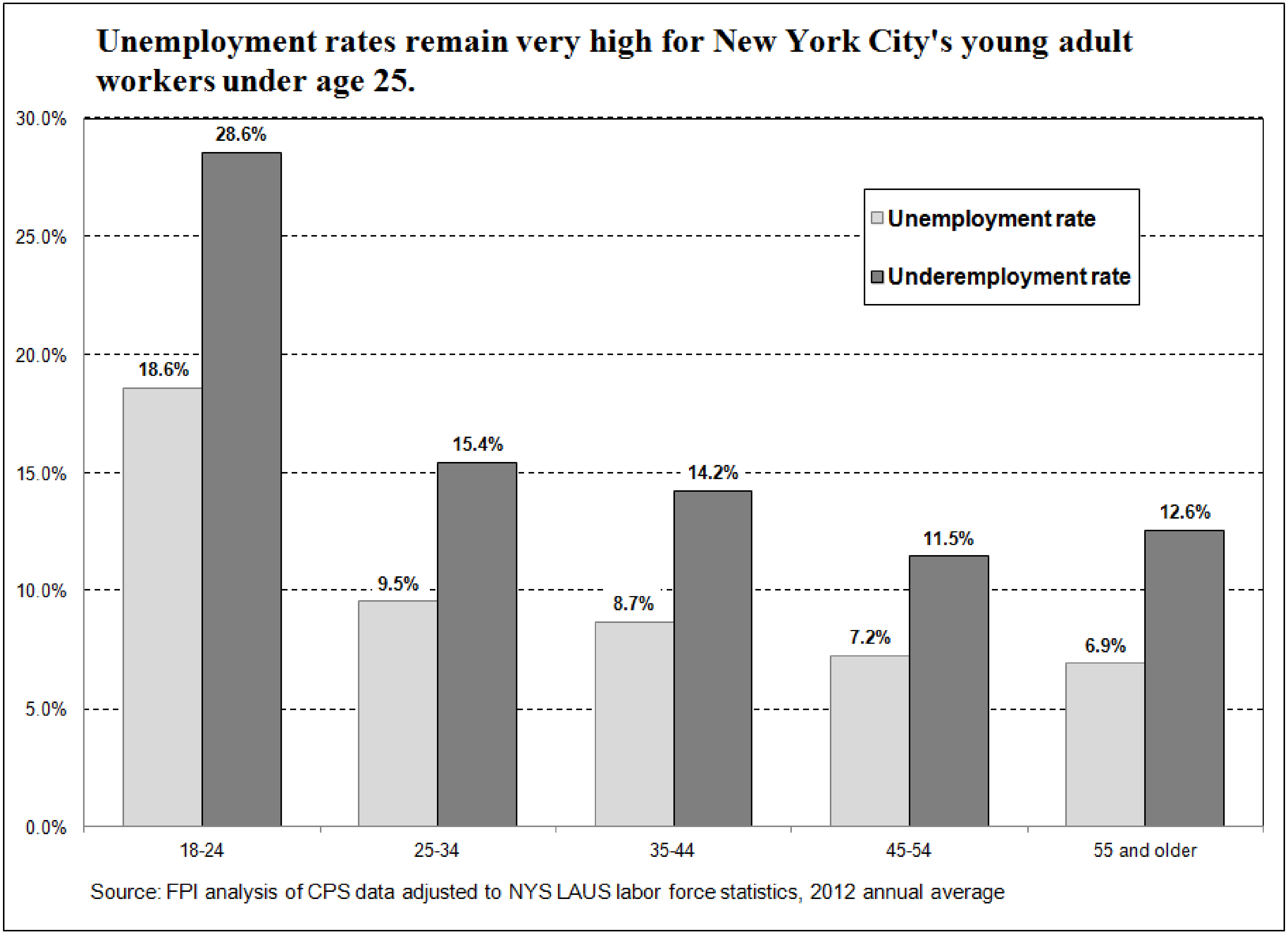
4. Work with the city workforce to enhance service delivery, reform employee health and welfare programs, and improve productivity to help settle expired contracts.

- There are about 300,000 unionized city workers, but no labor contracts are current, and 100,000 teachers, principals and nurses haven't received increases from the 2008-2010 bargaining round.
- The city and its unions used to engage in "gainsharing" where cost savings were linked to contract gains and benefits for the workforce. The City needs to involve the workforce in improving the efficiency and quality of services.
- Examples of union initiatives:
    - DC 37: revenue enforcement; curbing IT contract abuses and developing approaches to contract-in IT work
    - UFT: increase Medicaid reimbursements; scrutinize special education and charter school spending.
- Address rising employee and retiree health insurance costs, possibly through comprehensive reform of health care delivery.

Summary thoughts on NYC's budget

- Significant budget challenges loom large for the next city administration.
- It should pursue sound fiscal management practices but it should break new ground in budget stewardship by integrating several key objectives:
  - Develop a fresh approach to combat poverty (and end the "budget dance");
  - Re-think how to use nearly $4 billion in economic development resources to grow the economy and good jobs;
  - Make the tax system fairer while adequately funding essential services and operating within reasonable tax limit constraints; and
  - Work with the city workforce to improve service efficiency and quality and pursue gainsharing to help fund long-overdue collective bargaining contracts.

Appendix


Unemployment rates remain very high for New York City's young adult workers under age 25.
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
28.6%
18.6%
15.4%
9.5%
14.2%
8.7%
11.5%
7.2%
12.6%
6.9%
Unemployment rate
Underemployment rate
18-24
25-34
35-44
45-54
55 and older
Source: FPI analysis of CPS data adjusted to NYS LAUS labor force statistics, 2012 annual average

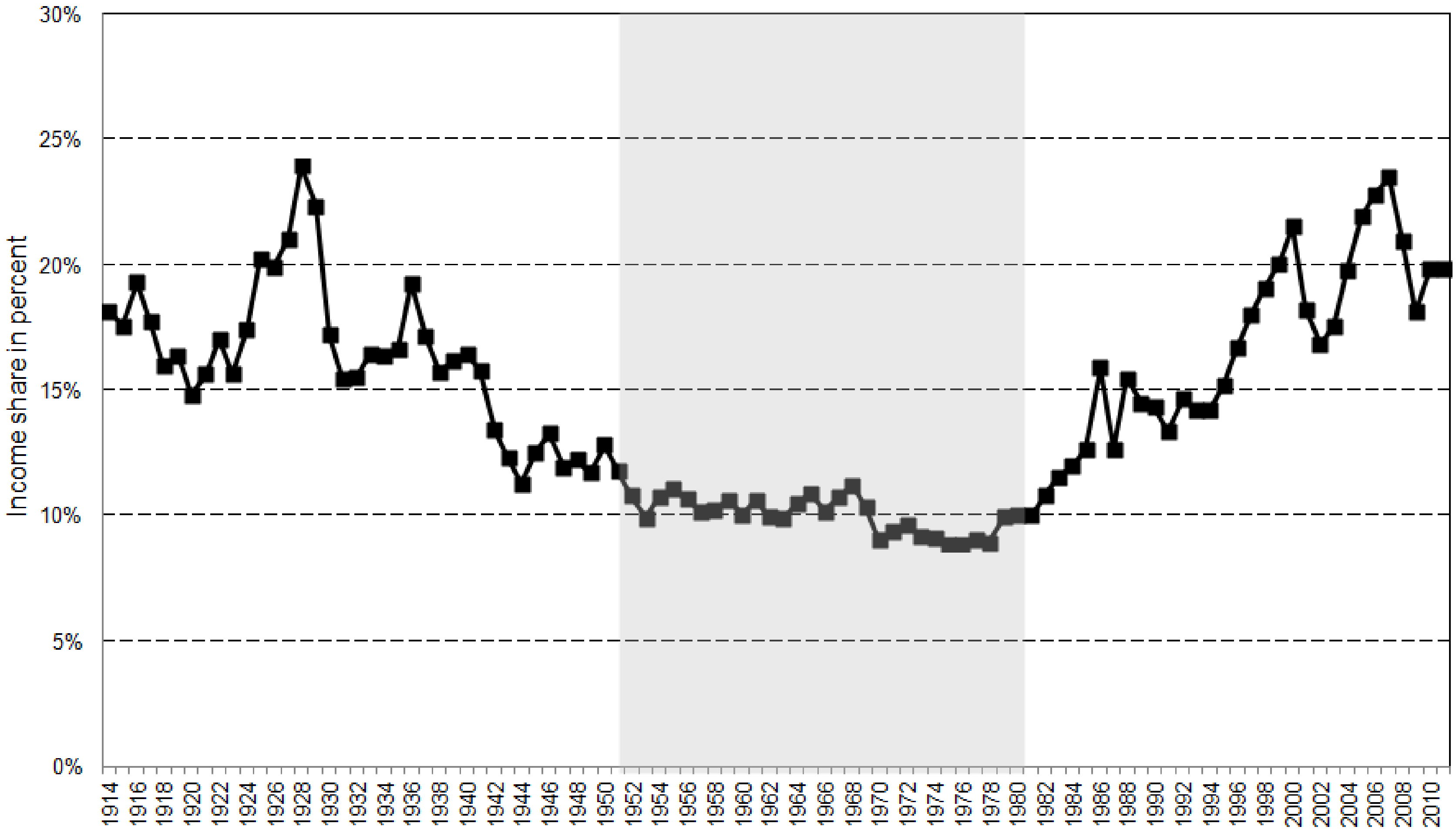
New York City OMB's forecast for 2013-2017 calls for slower growth in New York City than in the U.S.

	Calendar years, annual percent changes									
					Forecast					
	2008 actual	2009 actual	2010 actual	2011 actual	2012	2013	2014	2015	2016	2017
United States										
Real Gross Domestic Product	-0.3	-3.1	2.4	1.8	2.2	1.5	2.2	3.4	3.4	3.2
Personal income	4.6	-4.8	3.8	5.1	3.3	3.5	4.5	4.6	5.1	4.6
Total wages	2.6	0.1	2.9	2.8	1.6	1.9	2.5	2.5	2.5	2.7
Employment	-0.6	0.0	0.0	0.0	1.4	1.3	1.3	1.8	2.1	1.8
New York City										
Real Gross City Product	-6.2	-4.0	7.0	-0.6*	3.6	0.0	0.9	2.2	2.6	2.4
Personal income	2.7	-5.8	5.6	3.7*	2.0	2.7	3.4	3.3	3.9	3.5
Total wages	0.3	-8.0	5.7	2.7	-0.2	1.5	1.7	2.1	2.8	2.9
Employment	1.3	-2.7	0.5	2.0	2.0	1.1	1.0	1.0	1.1	1.1

Note: * Forecast, November 2012 Modification, FY 2012-2017

Source: NYC Office of Management and Budget, *Monthly Report on Current Economic Conditions, Oct.* 2012; January *2013 Financial Plan, Fiscal Years 2013-2017*, Jan. 29, 2013

During the heyday of America's middle class (1950-80), the top 1% had about 10% of total income. Now, the top 1% claims about 20% of all income.



Source: Piketty and Saez's analysis of the US income share (http://www.econ.berkeley.edu/~saez/index.html)