The Mayor's Universal Pre-K and After-School Initiative

Testimony Presented to the New York City Council Committees on Education and Women's Issues

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Good afternoon Chairpersons Dromm and Cumbo and members of the Education and Women's Issues Committees. Thank you for the opportunity to testify today on this critical New York City priority.

The Right Policy

All New Yorkers support Mayor deBlasio's call for universal pre-kindergarten for four-year olds, and after-school for middle-school children as part of a bold and comprehensive program to enable New York City's children to fulfill their potential. I was pleased to be part of the Advisory Council on Child Well-Being that was formed after the New York City Child Summit held in November 2013. The Advisory Council's Declaration on the Well-Being of NYC's Children aptly sums up the pressing need for the Mayor's proposal to invest in our children:

> "We call attention to the overwhelming evidence that investing in the health and education of children is the highest-return investment available to society. We recognize the critical role of parents and a range of support programs that enrich the years of early development. We note that critical investments in learning, nutrition, and health—including mental health—are needed at every stage of a child's life, indeed from birth onward. When these investments are inadequate at any stage, children can fall behind, making it more difficult for them to make up lost ground and making it more costly to society. Indeed, investments at the youngest ages, including the pre-K years, have the highest returns of all."[1]

The Mayor's pre-K and after-school proposals are grounded in a vast body of research on child development, and represent enlightened budget and economic policies for New York City, particularly given our high and concentrated poverty. These policies are critical to the Mayor's refreshing, and comprehensive, approach to addressing New York City's biggest challenge—its pronounced income polarization.

[1] Declaration on the Well-Being of NYC's Children By the New York City Advisory Council on Child Well-Being, convened by Jeffrey Sachs and Irwin Redlener, December 14, 2013. See http://www.huffingtonpost.com/jeffrey-sachs/declaration-on-the-wellbe_b_4473846.html

Since this proposal was the centerpiece of the Mayor's campaign, and voters endorsed his candidacy by such a substantial margin, there is a clear expectation on the part of the voters that local and state elected officials will do everything they can to realize the will of the electorate.

The Need for Dedicated Funding Under City Control

Dedicated funding is the surest way to deliver on that promise, and to ensure that action is taken immediately to develop and implement this program.

Arguably, New York City should, within reasonable parameters established by the State, have the authority to adjust its tax structure to provide dedicated tax revenue funding for this initiative. New York City's economy, as indicated by the magnitude of its Gross Domestic Product, is larger than that of 45 states, that is, larger than all states but California, Texas, New York, Florida and Illinois. New York City's economy accounts for 54.5 percent of the state's total GDP. New York City's elected officials should be able to determine the City's tax policies, and for that matter, should be able to set its own minimum wage, just as many other states permit their localities to establish their own minimum wage.

In the absence of standing local authority on this matter, Albany should respect the will of the voters of New York City and the consent of locally-elected leaders, and approve the dedicated funding the Mayor seeks for universal pre-K and after-school programs.

It is laudable that the Governor has embraced a commitment to expand universal pre-K statewide and has proposed new state funding for this purpose. However, there is a real concern that the amount of funding proposed by the Governor falls far short of the amount needed, as evidenced by estimates made by New York education expert and Columbia Professor Michael Rebell, the Citizens Budget Commission, and by state Education Commission John King.

Moreover, the Governor's proposed 2014-2015 budget calls for four more years of austerity budgets on top of the six that New Yorkers have seen since the recession began in 2008. Considering the severity of the budget cuts in almost every area of local aid and state spending in that four-year budget plan, it is difficult to see how the Governor can make good on a commitment to follow through with funding to pay for a qualitatively adequate statewide universal pre-K plan. Despite claims to the contrary, there is no $2 billion surplus in the outyears of the state budget. There is only a determination to push through billions of dollars in unspecified budget cuts in order to create the impression that there is a "surplus" so that massive, unaffordable tax cuts can be proposed to soak up nearly every last dollar of "surplus." [2]

The Governor's recent budgets have already seriously short-changed New York City in terms of revenue sharing and the education aid needed to honor the spirit of the legislatively-enacted 2007 statewide resolution to the Campaign for Fiscal Equity case. In addition, 15 years ago the state made a commitment to fund universal pre-K and has yet to fulfill that commitment.

[2] Fiscal Policy Institute, New York State Economic and Fiscal Outlook 2014-2015, February 2014, http://fiscalpolicy.org/new-york-state-economic-and-fiscal-outlook-2014-2015

A Modest Personal Income Tax Increase is a Reasonable Way to Fund Pre-K and After-School

The Mayor's dedicated tax proposal would modestly increase the top city personal income tax rate on filers with incomes over $500,000. The top income tax rate would rise by 0.5 percent, making it 4.376 percent, a rate lower than the top rate that prevailed through most of the 1990s and lower than the top rate under Mayor Bloomberg for the years 2003 to 2005. About 40,000 households would be affected, those representing the 1.1 percent of city tax filers with the highest incomes.

Keep in mind that with the deductibility of state and local income taxes on the federal income tax, that about 40 percent of the New York City increase (or 0.2 of the 0.5 percent increase) will effectively be paid by the federal government for those who itemize deductions. Given existing state and local tax differentials in the tri-state region, economist Don Boyd found that an increase in New York City's top income tax rate of 0.75 percent (i.e., an increase greater than that proposed by Mayor deBlasio) would have only a modest impact on the differential between NYC and the surrounding areas.[3]

FPI's own research on the local tax burden borne by households indicates that the wealthiest one percent of households bear a smaller share of the local tax burden[4] than their share of total income. For 2010, we estimate that the top one percent had 36.5 percent of all income received by New York City residents, but paid 27.6 percent of local taxes. The Mayor's tax proposal would fall mainly on the top one percent, and it would increase their share of local taxes—by about two percentage points. That would mean that the top one percent was still paying a smaller share of local taxes (30 percent) than their share of local incomes (36 percent).

Whenever talk turns to raising taxes on the wealthiest New Yorkers, invariably some will argue that hiking taxes will induce taxpayers to take a hike, and leave New York behind. However, there is just very little empirical evidence that that is the result. A recent careful research summary compiled by the Center on Budget and Policy Priorities concludes:

- Migration is not common;
- The migration that is occurring is much more likely to be prompted by high housing costs than state and local taxes;
- Research shows that income tax increases cause little or no inter-state migration; and
- Low taxes can prevent a state from maintaining the kind of high-quality public services that potential migrants value.[5]

New York State has had among the highest income tax rates of all state for much of the last

[3] Don Boyd, "Tax Policy Choices and New York City's Competitive Position," Prepared for the Citizens Budget Commission, December 2013.
http://www.cbcny.org/sites/default/files/Interactive/2013_Conference/REPORT_Taxes_12062013.pdf

[4] The personal income tax, residential property taxes and the sales tax.

[5] Robert Tannenwald, Jon Shure and Nicholas Johnson, "Tax Flight is a Myth. Higher Taxes Bring More Revenue, Not More Migration," August 4, 2011. http://www.cbpp.org/files/8-4-11sfp.pdf

decade. Yet, IRS data show that high-income households have increased at a faster rate in New York State than in the nation overall. From 2000 to 2011, the number of households with incomes of $1 million or more in New York State rose by 48 percent, almost twice the 26 percent increase for the nation overall. On top of that, the total incomes of high-income households increased much faster in New York—the total incomes of households with more than $1 million in income rose by 63 percent from 2000 to 2011, two-and-a-half times as fast as for the nation overall.

Even though New York's share of U.S. population declined slightly from 2000 to 2011, New York's share of millionaires rose, and the total income of millionaires rose much faster in New York than in the U.S.

	2000	2011	2000 to 2011
New York State			
Total population	18,976,457	19,465,197	2.6%
Number of tax returns with AGI of $1 millon and over	25,780	38,240	48.3%
Total income on returns of $1 millon and over	$85,466,363,000	$139,387,527,000	63.1%
United States			
Total population	281,421,906	311,591,917	10.7%
Number of tax returns with AGI of $1 millon and over	241,068	304,118	26.2%
Total income on returns of $1 millon and over	$760,954,547,000	$947,002,288,000	24.4%
New York State share of United States			
Total population	6.7%	6.2%	
Number of tax returns with AGI of $1 millon and over	10.7%	12.6%	
Total income on returns of $1 millon and over	11.2%	14.7%	

Note: AGI = Adjusted Gross Income
Source: Tax data from Internal Revenue Service, population from the U.S. Census Bureau.

Fiscal Policy Institute, New York State Economic and Fiscal Outlook 2014-2015, February 2014, p. 51.
http://fiscalpolicy.org/new-york-state-economic-and-fiscal-outlook-2014-2015

And within New York, the number of households with incomes over $200,000 rose faster in New York City from 2000 to 2010, than in the rest of the state. And the total incomes of such households increased nearly twice as fast in New York City as in the rest of the state.[6]

Thank you for the opportunity to testify today.

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[6] New York State Department of Taxation and Finance, NYS Adjusted Gross Income and Tax Liability: Analysis of State Personal Income Tax Returns by Place of Residence, reports for 2000 and 2010.