

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

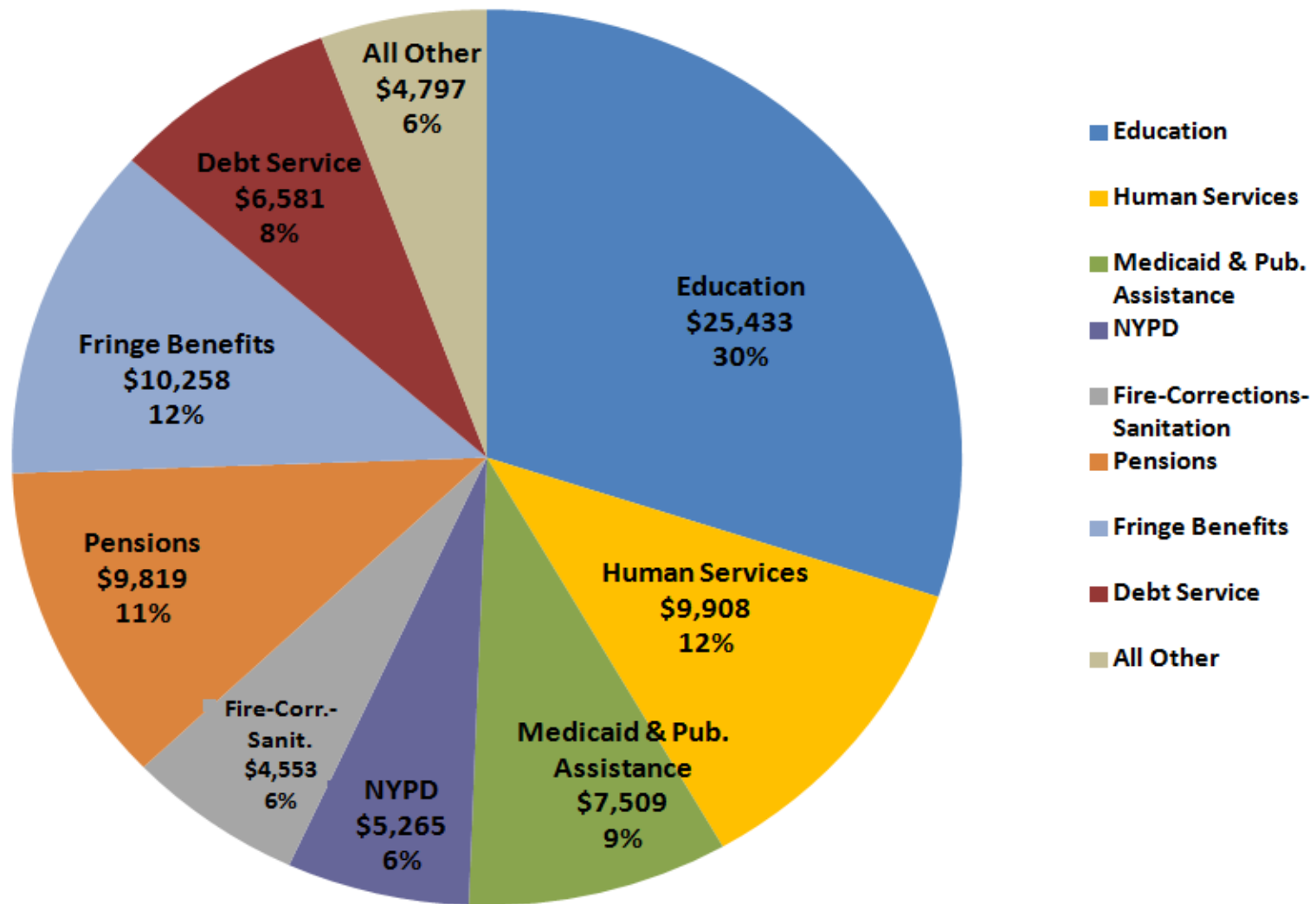
State budget better this year, but still challenges

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

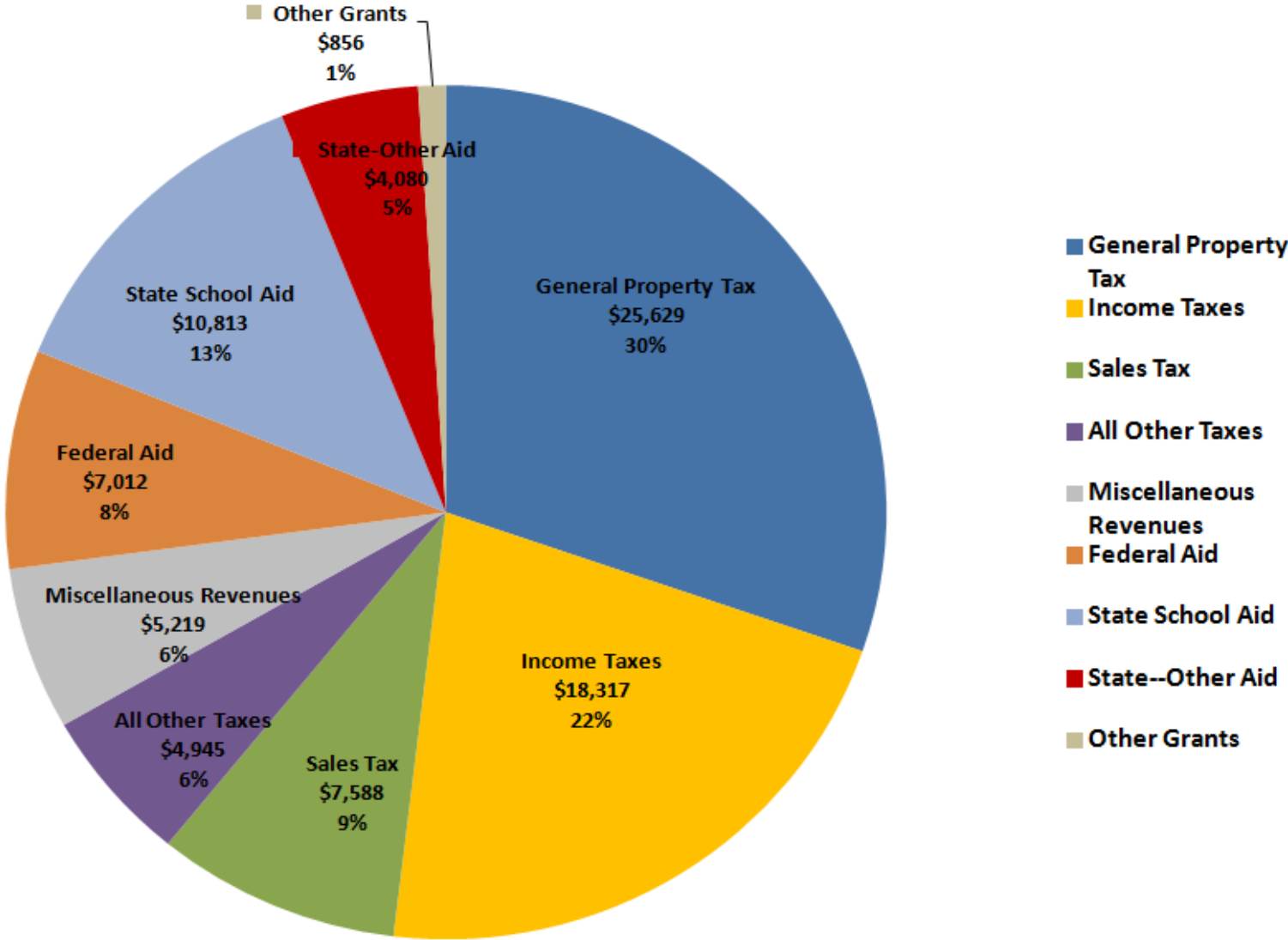
Before Trump's budget outline and the AHCA, the preliminary City budget looked reasonable

- 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



NYC Revenues (\$ in millions)--\$84.7 B Prelim. FY 2018



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:
 - More uninsured will end up at H+H
 - 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.

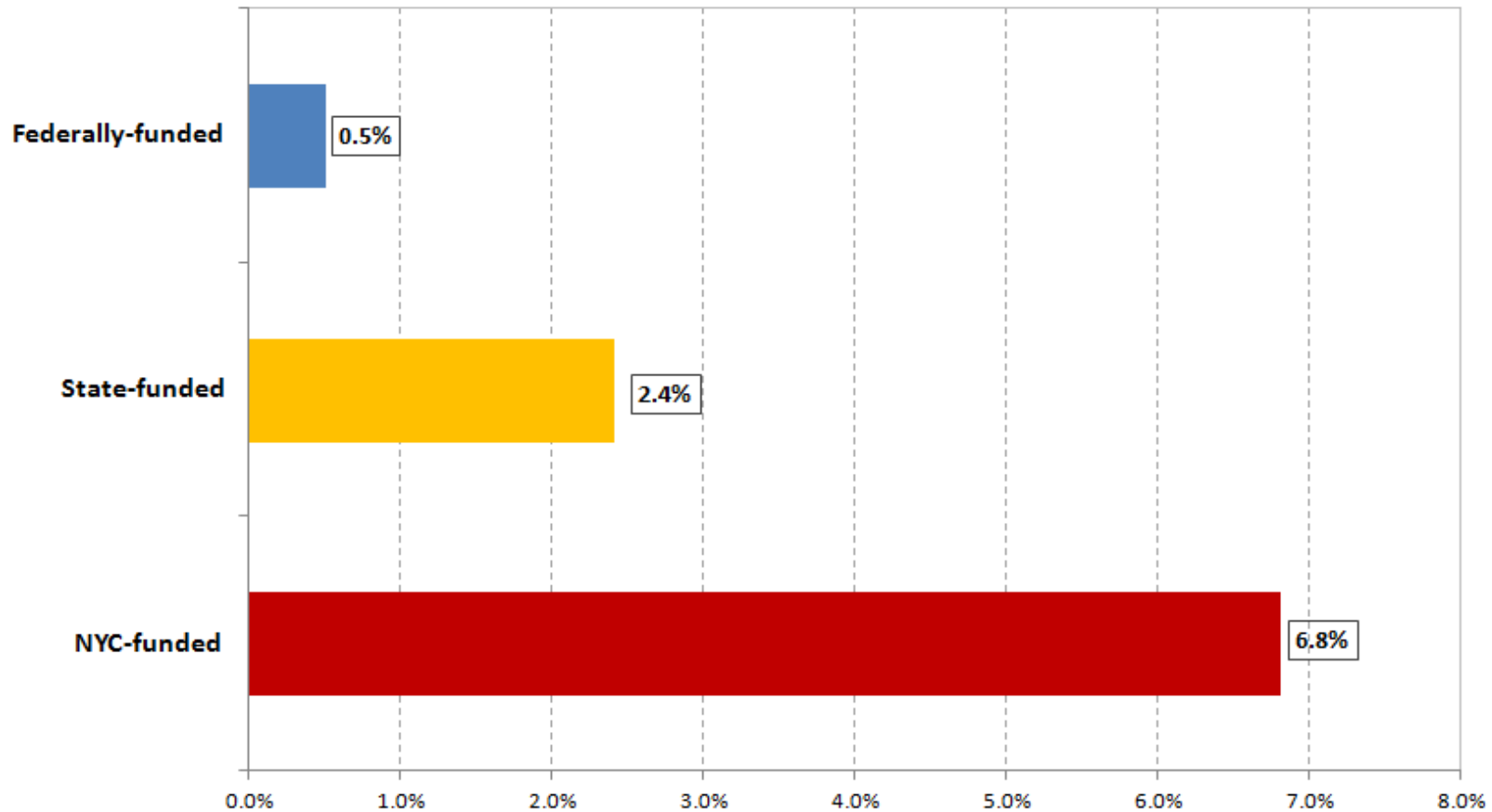
City-wide savings plan

- 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.



Source: July 2013 and January 2017 NYC financial plans; and Comptrollers Annual Financial Report.

Note: Annualized funding growth FY13-18 in nominal terms.

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.
 - 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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