Fiscal Watchdogs Differ On Whether City Can Now Afford Raises

By DAVID SIMS | Posted: Monday, December 9, 2013 5:00 pm

The fiscally conservative Citizens Budget Commission warned against raises for municipal workers and the creeping rise of employee health benefits at its Dec. 6 conference on the city's fiscal picture heading into the de Blasio years, but more-objective budget monitors said the future was rosier than the Bloomberg administration's forecasts.

CBC President Carol Kellermann said that while the Mayor had given his successor a balanced budget, many of the fiscal tricks he'd used to accomplish that were one-shot deals, and any significant raises, either retroactive or future, given to labor unions would require significant off-setting.

'Fragile But Steady'

"It's a fragile-but-steady recovery," she said. "There is job growth, but largely in low-wage sectors, and the financial-services industry on which we heavily depend is slowing down hiring because of regulation."

The budget will grow annually by 1.5 percent but debt service and health-care costs are projected to grow by more than 6 percent, she warned. She reiterated the CBC's typical call for municipal employees to pay for part of their health plans, saying it was "unusual" for any municipality to pay for the entirety of its employees' health care.

"Any new plans have to come on top of this unless you cut some services or you find significant savings, or revenue, or some combination of all of those," she said. "It's a precarious situation, we would say, as the Mayor-elect gets ready to submit his first preliminary budget."

But Ronnie Lowenstein of the Independent Budget Office said that Mayor Bloomberg's fiscal predictions were on the cautious side, and that her office was estimating a far stronger fiscal outlook.

Room for Raises

"We've got a new forecast coming out in two weeks. From that work in progress, it's clear that that revenue forecast is going to be greater...at times, significantly," she said. While "we're not out of the woods," the CBC's doom-and-gloom about pay increases above the two 1.25-percent raises Mayor Bloomberg built into his last five-year budget plan is overblown, she said. Raises could be paid for in a variety of ways, she asserted.

"Even if there were a 2- or 3-percent increase [for labor] going forward, you wouldn't be looking at surpluses going away," Ms. Lowenstein said. "To the extent that there are non-recurring resources, it's important to use them for non-recurring expenses. If some portion of the labor settlements are one-time payments, that would meet that definition."

Her fears concerned larger unseen projects, like the work required after the devastation of Hurricane Sandy last year. "There's a huge long-term risk in terms of resiliency," she said. "We're going to have to find ways to deal with future Sandy's and climate change, and we've barely scratched the surface of doing that."

FCB: Follow State's Lead

Financial Control Board Acting Executive Director Jeffrey Sommer brought up Governor Cuomo's five-year deals with the state labor unions, which contained a three-year wage freeze and then two two-percent raises, as a possible pattern for Mr. de Blasio to follow.

But those deals were struck in the shadow of the state's more-precarious fiscal situation, with Governor Cuomo threatening close to 10,000 layoffs to close a massive deficit, while Mayor de Blasio will enter office with a balanced budget. He will also have to contend with unions led by the United Federation of Teachers pursuing arbitration cases to obtain the two four-percent raises granted under the last round of pattern bargaining. But Mr. Sommer suggested he could get around that, too, if need be.

"The money was put into the financial plan to pay the Teachers the 4 percent [in 2008]," he said. "Before any settlement was reached, the world changed...what happened was, we had two reductions in education aid.

"The city chose, said it didn't want to live with those cuts, and they didn't want to lay off Teachers," he continued. "So they replaced, with city funds, multiple billions of dollars of lost state and Federal aid with the money set aside in the labor reserve.

"The choice was a salary raise or layoffs and bigger class sizes," he concluded. "The fact that they're talking about a retroactive raise is up for debate."

NYSNA Case Holds Key

That argument may be rendered moot by the New York State Nurses Association's ongoing arbitration. That union is also claiming a right to the two four-percent raises. If it is awarded them in binding arbitration, Mayor de Blasio's hand will likely be forced in talks with the UFT.

Another CBC panel debated the merits of raising property taxes to raise money for the city's coffers, an action the City Council would be able to take without state approval. Mr. de Blasio has not indicated a desire to do so, and is instead seeking a tax hike on those making more than $500,000 per year, which has met with resistance from state lawmakers.

Fiscal Policy Institute Chief Economist James Parrott said that even this increase would not fully address the inequality enjoyed by the city's high earners.

"The top 1 percent pays a lower share of income than the people in the middle," he said. Their share of the city's income is 36 percent, but they pay only 27 percent of its taxes.

'Regressive Tax System'

"Even with Mayor-elect de Blasio's proposal, that would increase their share, but only increase it up to 30 percent," Mr. Parrott said. "Overall, we have a regressive tax system and it's probably become more regressive over the past decade."

He predicted that the city's revenues would grow healthily over the coming years and said that it was not as reliant on the financial sector as the CBC's projections claimed.

"New York City has such a diverse tax base. It's probably more diversified and resilient than any tax base," he said. "When the economy is growing, the city tax base will grow pretty reasonably. You can see this even with very modest economic growth forecasts...the city certainly needs to have a way to put aside the excess revenues that are generated in these good economic times."