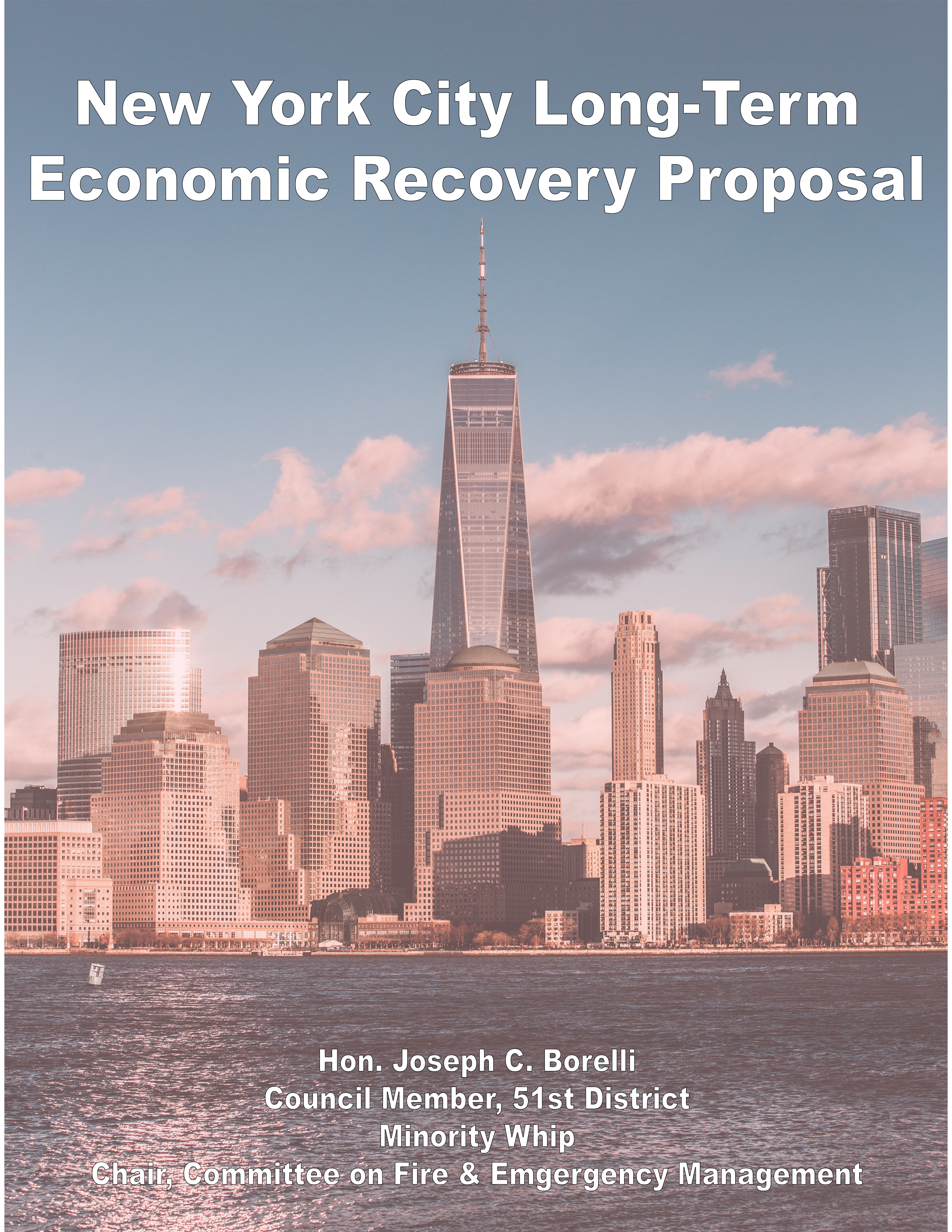
New York City Long-Term Economic Recovery Proposal



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As we see light at the end of the COVID-19 crisis, New York City is positioned to challenge the status quo and slow down the out of control spending that was already on an unsustainable trajectory before the economy bottomed out. More than $5 billion in federal aid from the recently passed stimulus legislation is a quick fix - not a long term solution - to New York City's budget woes.

The COVID-19 pandemic has been unprecedented, and its effects on our economy will be dramatic and lasting. We need to rise to the challenge with new ideas. New ideas to streamline government services and rein in costs; bring visitors back for a decimated tourism industry; fill millions of square feet of vacant office space; encourage customers to eat at our restaurants and shop at our local retailers again; help workers to transition to good-paying, high growth jobs; support middle and working class families in their efforts to achieving financial stability; and stop residents from fleeing to greener (and cheaper) pastures.

Unfortunately, buoyed by federal largesse, the Mayor and Governor have proposed billions of dollars in new spending in their latest budget proposals. This irresponsible budgeting simply kicks the can down the road, ensuring the projected budget gaps in the subsequent fiscal years will only grow.

This November, New Yorkers will likely elect even more "progressive" legislators to citywide office and the City Council. That's the reality when we live in a city where Democrats outnumber Republicans 7 to 1. But it would be wise to pump the brakes and ensure the financial footing of the city is secure before NYC government, as chosen by its electors, continues on its leftward journey.

Rather than ignoring the current economic crisis or pretending it does not exist by continuing with tax-and-spend business as usual, this recovery plan represents an alternative approach: Tackling it head on. These aren't necessarily new ideas - some have been already proposed by Democrats; others have been pushed by members of my party for years. But partisan politics and tribalistic ideology should never get in the way of solving our problems and improving the lives of its residents.

As Churchill said, and progressives often mimic, let's "Never let a good crisis go to waste."

Budgetary Savings

- **Postpone/Cancel the Closure of Rikers and the Construction of Borough-based Jails until the Economy Recovers**
  - Savings: $250 million + year, up to $10 billion

The cost of closing Rikers Island and building four new borough-based jails is projected to be **at least $8.6 billion** - all money that will be borrowed, and debt service is expected to exceed **$250 million per year.** At the same time, the City will spend a whopping **$565 million on ongoing capital projects at Rikers Island and the Vernon C. Bain Center** in Hunt's Point - despite the impending closure of both - as part of required safety improvements and mandated compliance with the Americans With Disabilities Act. We are going to have to make tough choices over the next few fiscal years to keep our city functioning and protect our residents from financial catastrophe - but the choice between laying off workers, raising taxes or cutting essential services and continuing to pay for new jails that are absolutely nonessential should be one of the easier ones.

- **Postpone Rollout of 3K**
  - Savings: $400 million - $1 billion annually, depending on state & federal aid

Most New Yorkers would agree universal Pre-K has been a success. However, universal "3-K" faces real challenges - not the least of which is the **$1 billion price tag.** Of that cost, the city estimates that $700 million must come from state and federal aid. An unprecedented and expensive program, U3K would be best delayed until economic conditions are more favorable.

- **Eliminate ThriveNYC**
  - Savings: Up to $250 million per year

While there is value to providing free mental health services to New Yorkers and New York City employees, the current administration has poured hundreds of millions of dollars into this program with virtually no accountability and no metrics or data to show what it has achieved. The best way forward is to end ThriveNYC and conduct a post-mortem study on what parts of the program may have worked, and what programs should be utilized by agencies - i.e. such as the mental health program to help police officers dealing with trauma.

- **Early Retirement Incentives**
  - Savings: $660 million per year over 5 years (assuming 10,000 early retirements)

According to estimates by the Citizens Budget Commission (CBC), Early Retirement Incentives (ERI) would net **savings of $3.3 billion over 5 years,** assuming about 10,000 employees take it. While voluntary separation or attrition would save more, ERI, especially when combined with a hiring freeze, would be a valuable tool for immediate, targeted savings.

- **Push State to Revoke or Pay for Bail Reform Implementation** (city needs additional officers and post-release supervision programs)
  - Savings: $175-$200 million year

Beside the harm that bail reform measures are causing our communities, they are also a costly, unfunded mandate. According to OMB, the city spent **$175 million in Fiscal Year 2020** for additional personnel and programs related to state bail reform laws passed in Albany, with that figure expected to rise in the coming fiscal years. Many of my colleagues and I have been advocating for revocation of these laws; at the very least, however, the state should foot the bill for them.

- **Attrition: 1 in for Every 3 Out**
  - Savings: $880 million per year over 5 years

In response to the budget crisis, the current administration has implemented a “1-for-3” attrition plan - hiring one city employee for every three vacancies. OMB estimates this will result in a net reduction of 5,000 employees, saving an estimated $377 million through Fiscal Year 2022. This is a good start, but we need to go further. The CBC estimates that a “1-for-3” attrition could save a total of $4.4 billion in salary and benefits over the course of 5 fiscal years.

- **One Year Pause on New Capital Spending**
  - Potential Savings: $1.2 billion (based on average annual increases in Capital spending)

One area of real budgetary concern that is often overlooked is the city’s debt service, which has become an increasingly larger portion of the budget each year. In Fiscal Year 2021, nearly $6 billion of the city’s $92.2 billion budget will be spent on paying down debt. This unsustainable figure will continue to grow in subsequent fiscal years, as capital spending increases and the cost of borrowing will rise, thanks to New York City’s bond ratings being downgraded due to its precarious financial position. It’s one of the biggest reasons why the average New York City resident has a tax debt burden of $68,200, according to a recent study by the non-partisan government watchdog Truth in Accounting.

Pausing all new capital projects (not those already well into the design and construction process) for the period of one fiscal year would be a difficult task - especially since many projects are mandated by federal laws, like the Americans With Disabilities Act. However, the savings would be substantial both near term and long term, as improving the city’s financial position and its credit ratings would save taxpayers tens of millions of dollars in interest payments alone.

- **Close DDC and Fold the Work Into Other Agencies**
  - Potential Savings: TBD

The city Department of Design and Construction oversees projects across 20 agencies, ranging from Sanitation garages to firehouses and street redesigns and libraries. The agency was created in 1996 to consolidate a vast array of construction programs and make them more efficient. But that has hardly been the case, as capital projects under DDC’s portfolio are far too often plagued with lengthy delays and cost overruns. One damning study by the Center for an Urban Future (CUF) found that infrastructure projects for libraries and cultural institutions managed by the DDC take much longer to complete and cost significantly more than similar capital projects that are managed by the institutions themselves or overseen by other governmental agencies.

Dissolving DDC and re-integrating design and construction work back into city agencies will not save the entirety of DDC's $100 million-plus annual budget, but it will save a significant chunk of it. It will also greatly benefit taxpayers in the long term if more projects are built on time and on budget.

- **City Council Budget Cut & Efficiencies**
  - Potential Savings: $4 million

In order to achieve real savings, every agency in New York City government must make sacrifices - and that includes the City Council. The goal would be to cut the City Council budget by 5 percent through tightened spending and efficiencies. For example, the Council spends $2.9 million leasing office space, including 5 floors in 250 Broadway. Some of this space is necessary for committee hearings and primary work space for the Council central staff. Other space, which is set aside for Council members as secondary legislative offices and storage, is underutilized and could be consolidated or removed altogether. Cutting down to three floors at 250 Broadway, renegotiating the lease there and leases at district offices (given the depressed commercial rental market) and re-purposing such as transforming the Members' lounge into a bullpen workspace could net significant savings.

Economic Stimulus & Revenue Raisers

- **Offer Property Tax Abatement/Tax Incentives to Commercial Landlords to Lower Rent or Forgive Arrears to Tenants**
  - Estimated tax expenditure: TBD

Under this bill, proposed by my colleague Keith Powers and state legislators, the state would authorize NYC to provide up to 10 years of property tax abatements to landlords who are willing to agree on new lease terms with business tenants, which would address any unpaid back rent and limit future rent increases.

- **Temporarily Cut Corporate Income in Half Tax Rate for Corps Making Less than $1 million**

New York State's corporate tax rate was lowered to 6.5 percent in 2016, along with other measures that simplified the tax structure and made it more competitive nationwide. But businesses downstate, including New York City, pay a MTA surcharge, set by the state, bringing the tax up to 8.34 percent. New York City also imposes a 8.85 percent corporate franchise tax.

- **Implement Payroll Tax Holiday -**
    - Estimated federal tax expenditure: $4.6 billion to $6.25 billion per month

Between Sept. 1 and Dec. 31, 2020, the federal government suspended payroll taxes for employees whose wages were less than $4,000 for a biweekly pay period and salaried workers earning less than $104,000 per year. Unlike a true "Payroll Tax Holiday," however, employers could opt out and taxes were only deferred, so employees who received extra cash in their paychecks during that period were hit with a large tax bill this year.

A real temporary Payroll Tax Holiday, or even a cut in the payroll tax rate, would add significantly more money to paychecks, help employers cut costs and retain employees, and stimulate local economies. The Congressional Budget Office (CBO) estimates that payroll tax cut could cost between $55 billion and $75 billion per percent rate cut, per year. In a 2010 analysis, CBO estimated a payroll cut would also boost economic output by roughly $90 billion to $270 billion (the equivalent of about $108 billion to $323 billion in 2021) over five years.

- **Implement a Sales Tax Holiday -**
    - Estimated tax expenditure: $18-$20 million per day

To be clear, a “sales tax holiday” - a temporary period in which sales taxes are suspended - will not solve the economic crisis this city currently faces, nor is it likely to significantly increase consumer spending, according to data from states that do implement them. However, what a sales tax holiday can do is shift consumer spending to a certain time period, promote local businesses and help them compete with neighboring jurisdictions with lower sales tax rates. Research indicates that consumers can and do leave high-tax areas to make major purchases in low-tax areas - i.e. cross the river to New Jersey, where there is no sales tax on clothing purchases.

As our economy re-opens, a targeted sale tax holiday could provide the jolt our restaurants and retail business need to begin to get back on their feet.

- **Property Tax Reform - “Reset” After Sale/Transfer of Property**
    - Estimated tax expenditure: Initially raises property tax revenue by potentially tens of millions; long term revenue neutral

The city's Advisory Commission on Property Tax Reform, which was empaneled by the City Council and the Mayor in 2018 to overhaul the city’s byzantine and inequitable property tax system, is expected to resume holding public hearings on its preliminary recommendations in the near future and plans to produce a final report by the end of the year.

Most of the panel’s suggestions won’t be easy to enact, and will require unprecedented cooperation with our colleagues in Albany. But we can do something relatively quickly that would go a long way in furthering our goals of providing fairness and equity in property taxes: Close the “de Blasio loophole.”

One of the biggest reasons owners of multi-million dollar homes in wealthy or gentrified neighborhoods are paying far less in property taxes than middle class owners of modest homes in less tony communities is a state law that caps assessments at 6 percent each year, or 20 percent over 5 years. That means that homes with modest market value increases have much higher effective property rates than those whose values have skyrocketed. One of Mayor de Blasio’s Park Slope homes presents the perfect example of this inequity - valued at $1.8 million, its property tax bill is less than $4,500. Meanwhile, the owner of a modest home in Staten Island with a market value of $650,000 pays more than $6,500 in annual property taxes.

State law already mandates resetting assessed value for new construction or other significant changes to the property, so resetting the assessed value when a home is sold is not only logical, it makes for a more fair system and would initially increase revenue by taking advantage of the current boom in residential sales.

- **Suspend Fines for 6 months as Restaurants Fully Re-Open**
    - Potential fines waived: $12 million-$15 million

A $27 billion industry before COVID-19, restaurants have been decimated by the ongoing pandemic. Industry groups estimate that as high as 25 percent of the city's restaurants have permanently closed due to loss of revenue caused by pandemic restrictions. And most of the surviving eateries are on the brink of closure- and punitive fines will put them over the edge.

- **Suspend Interest Payments on Real Estate Tax Debt for Hotel Industry**
    - Estimated revenue loss of at least $2 million interest payments

Devastated by a massive drop in visitors to New York City, 200 of the city's 700 hotels have closed since the start of the pandemic, according to the Hotel Association of New York. With no quick recovery to tourism or business travel in sight, many of the remaining hotels are likely to default on upcoming property tax payments, triggering an 18 percent interest penalty. Suspending this interest during the pandemic would help give these businesses a chance to survive, and help secure the long term viability of this vital industry. According to the most recent data from the Department of Finance, about 60 hotels are in arrears on a total of $23.5 million in property taxes, including $2 million accrued interest.

Housing & Jobs

- **Expand Obama's RAD (Rental Assistance Demonstration) Program**

The substantial budget challenges NYCHA faces cannot be solved with city taxpayer funding, and it is clear that the state and federal governments are not going to fill in the gaps. RAS, created by the Obama administration in 2011, is a creative private-public partnership that infuses public housing with much-needed funding for repairs and upgrades, while maintaining affordability for tenants and easing the burden on taxpayers New York City plans to convert about a third of its public housing stock to private management, but we should continue to aggressively expand RAD.

- **Provide More Assistance and Incentives for Home Ownership**

Home ownership is still the greatest single path to wealth accumulation and generational financial stability, but for many would-be buyers, owning a home in one of the most expensive cities in the world is just a pipe dream.

One of the great ironies of this pandemic is the boom and bust housing market. While interest rates have sunk to record lows, home prices have skyrocketed to record highs, and low inventory and more selective lenders have made buying a home in New York City even more out of reach. Adding to those obstacles are sky-high home closing costs, including a regressive Mortgage Recording Tax that penalizes buyers who have to take out bigger loans. The city collected $900 million in MRT in Fiscal Year 2020.

One way the city can help more families afford purchasing a home is to allow first time homeowners, as well as first time home refinancers, to deduct all or some of their closing costs from city income taxes.

- **Increase Training, Mentorship for Skilled Trades through Trade Unions, Promote in School**

While much attention has been focused on college affordability, one of the best pathways to middle class and financial stability are jobs in the skilled trades. For years, employers throughout New York State have been reporting labor shortages in the skilled trades, and the pandemic may have only exacerbated the scarcity of workers. A state Department of Labor study projected that the total job count in the skilled trades in New York is expected to grow by 116,270, or 17.0% through 2024. Besides excellent pay, these jobs have the benefit of no college debt, on the job training, strong income growth and the potential to become one's own boss.

We should continue to explore opportunities to work with the city's various trade unions and our educational institutions to attract more workers into these positions.

- **Zoning and Regulatory Reform to Expedite and Lower Cost of Development/ Add Building Jobs**

The scarcity of skilled workers is a big contributing factor to New York City's dubious distinction as the most expensive place to build in the world, according to Turner & Townsend's International Construction Market Survey. But other measures are necessary to help ease the cost of duration of building in the city. As a 2019 Comptroller report detailed, speeding up permit and licensing approvals would greatly improve the building process. And, as detailed in a Manhattan Institute report, we also need to change zoning laws to allow for the redevelopment of vacant or underutilized properties, by removing or amending requirements - such as ground floor retail space or parking - that no longer fit with the current economic reality.

- **"Shared Cost" of Rehiring Employees with Small Business (e.g. State pays half wages/business pays half wages)**

Under terms of the previous federal stimulus package, the federal government provided residents receiving unemployment benefits with $600 per week, in addition to the $504 they could receive through regular unemployment benefits. This created a disincentive for many New Yorkers to return to work, because unemployment benefits paid more than their jobs.

As a Crain's article suggested, perhaps a better method to assisting people who have lost their jobs is to encourage their employer to rehire them by sharing the "burden" of their wages - the state/federal government pays half of the weekly salary, up to $600 (or the current stimulus unemployment payment), and the employer pays the other half. This would not only save taxpayer dollars, but also help keep more people in the workforce and more businesses afloat.

- **Low-cost/Free Workforce Development or "Upskilling" at CUNY**

The city should explore more ways to partner with CUNY to help workers, particularly those in the hospitality and food service industries, transition to growth jobs such as healthcare and healthcare support, occupational therapy and paralegals.