

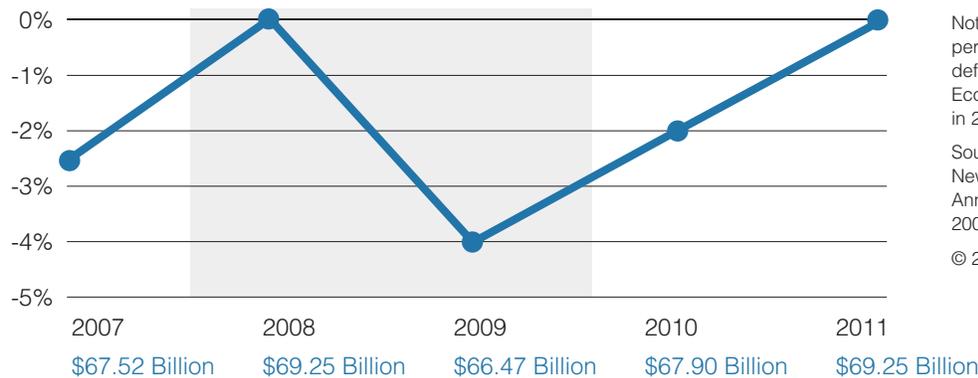
New York

An increase in property and sales tax revenue helped New York bounce back from the Great Recession

Two years after the end of the Great Recession, New York's revenue had almost returned to its previous peak by 2011. Total revenue had declined 4 percent between the 2008 peak and the 2009 low point, after adjusting for inflation. (See Figure 1.) Property and sales taxes were responsible for much of the recovery after that 2009 trough. Expenditures grew at the same time, though not as rapidly. New York's pensions and retiree health care obligations, the largest of any city in the country, remained underfunded, though reforms are underway.¹

FIGURE 1

New York Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from New York's Comprehensive Annual Financial Reports for fiscal 2007-11.

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New York reversed a property tax cut and expanded its sales tax to increase revenue

Economically sensitive sources such as the income and sales taxes drove New York's revenue losses in 2009. (See Figure 2.) In the years that followed, however, \$6 billion in annual infusions—from tax increases, savings from restructuring of employee health insurance, and a drawdown of assets from retiree health benefits, and other sources—helped plug the holes.²

FIGURE 2

Key Drivers of Change in New York's Revenue, 2008-09



Source: Pew calculations from New York's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Halfway through fiscal 2009, New York reversed a 7 percent property tax cut and eliminated a homeowner rebate program.³ These changes contributed to \$2.3 billion in property tax growth from 2009 to 2011. A sales tax rate increase and expansion, as well as a temporary rate increase for hotel and business taxes, also improved the revenue picture.⁴

Other important revenue sources declined during this period, however, offsetting some of the property and sales tax gains. Despite the passage of the American Recovery and Reinvestment Act, total aid from other governments fell slightly from 2009 to 2011. In addition, nontax revenue—most of which came from the School Construction Authority—dropped \$791 million during the same period.⁵

With a state mandate to carry no reserves,⁶ New York found other sources to tap. In the years after the recession, for example, the city borrowed from the assets set aside for retiree health care to fill budget gaps.⁷

Operating expenditures grew \$1.4 billion from 2009 to 2011. The largest increases were for debt service, education, and public safety.⁸

Managing the future: Widening gaps in pension funding and retiree health care obligations set the stage for reform

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape New York's fiscal future. Two long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

New York has by far the largest pension system of any American city. Pension funding levels were 60 percent in 2010, down from 72 percent three years earlier, leaving \$70 billion in unfunded obligations. In an effort to stem the growing gap, state lawmakers in 2012 created a discrete public pension tier category for newly hired state and local employees.⁹ The law increased the retirement age, revised employee contribution rates, and extended the number of working years used to calculate final average compensation.

In 2006 and 2007, when economic conditions were strong, the city funded some of its retiree health obligations. But by 2010, after the city had used the funds to cover budget shortfalls, those liabilities were only 4 percent funded, leaving New York with just \$3 billion in assets to cover a \$74 billion bill over the next several decades.¹⁰

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Thomas P. DiNapoli and Kenneth B. Bleiwas, *Review of the Financial Plan of the City of New York, Report 7-2010*, Office of the State Comptroller and Office of the State Deputy Comptroller for the City of New York, 19-20, <http://www.osc.state.ny.us/osdc/rpt7-2010.pdf>.

3 Ibid.

4 The combination of the sales tax rate increase from 8.375 percent to 8.875 percent, the repeal of the exemption on clothing and footwear priced above \$110, and the extension of the sales tax to energy purchases from nonutility companies was expected to yield \$660 million for the city in fiscal 2010. Also, the sales tax was broadened to include nonresident and out-of-state purchases of motor vehicles, aircraft, and luxury vessels for in-state use and certain Internet purchases. Those changes were valued at \$45 million annually for New York City. In December 2008, the City Council enacted a temporary increase in the hotel tax rate, from 5 percent to 5.875 percent, which was expected to generate \$15 million in 2009, more than \$60 million per year in 2010 and 2011, and \$35 million in 2012. DiNapoli and Bleiwas, *Review of the Financial Plan of the City of New York, Report 7-2010*, 20.

5 City of New York, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2010*, 123, <http://comptroller.nyc.gov/wp-content/uploads/documents/cafr2010.pdf>.

6 The state of New York has played a key role in financial oversight of New York City since the city's financial crisis of the 1970s. The Financial Emergency Act, which was scheduled to terminate July 1, 2008, was effectively extended until 2033. Although the law no longer gives the state control of the city's budget, the state reviews and monitors financial plans, major budget and policy issues, and other economic decisions. New York State Office of the State Comptroller, "New York City Fiscal Oversight," accessed March 25, 2013, <http://www.osc.state.ny.us/osdc/index.htm>.

7 Thomas P. DiNapoli and Kenneth B. Bleiwas, *Review of the Financial Plan of the City of New York, Report 11-2013*, Office of the State Comptroller and Office of the State Deputy Comptroller for the City of New York, 25, <http://www.osc.state.ny.us/osdc/rpt11-2013.pdf>.

8 New York refinanced \$6.6 billion in bonds from 2007 to 2011 and issued less than half as much debt for new projects in 2011 than it had in its peak year of 2009. Pew calculations from Thomson Reuters SDC Platinum municipal bond issuances database. Among the 30 cities studied, New York is one of just four to run its public school system and include it in its budgets. By contrast, in Philadelphia, the city helps fund the schools, but the city government does not run them and they are not part of the city budget.

9 The reform also requires New York City to pre-fund any new benefits it conceives of in future changes to its pension system. Joan Gralla and Dan Burns, "New York Cuts Pension Benefits for Public Workers," Reuters (March 15, 2012), <http://www.reuters.com/article/2012/03/15/us-newyork-pensions-idUSBRE82E00F20120315>; Ron Snell, "Pensions and Retirement Plan Enactments in 2012 State Legislatures," National Conference of State Legislatures, updated April 2013, <http://www.ncsl.org/issues-research/labor/2012-enacted-state-pension-legislation.aspx>; and Laws of New York, Chapter 18: Relates to persons joining certain public retirement systems after April 1, 2012, Article 25: Benefits Enhancements (March 16, 2012)

10 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.