



September 14, 2011

ECONOMIC ADVISORY: **UPDATED IMPACT OF JOBS ACT ON NYC**

Payroll Tax Cut

The President has proposed a \$175 billion program to cut payroll taxes in half for every working American during 2012, which would reduce the Social Security tax levied on income up to \$106,800 from 6.2 percent to 3.1 percent. The 2011 tax cut currently in effect reduced Social Security tax to 4.2 percent and was scheduled to expire on December 31, 2011.

We estimate this tax cut would provide a total benefit of \$4.8 billion to New York City resident workers and create or preserve 25,000 jobs¹ in the City during 2012.

Estimated Savings From 3.1 percent Employee Payroll Tax Holiday For NYC Resident Workers, by Borough

Borough	Estimated Number of Workers Affected	Estimated Savings (\$ in millions)
Bronx	417,850	\$595
Brooklyn	966,500	\$1,195
Manhattan	782,500	\$1,600
Queens	1,251,500	\$1,100
Staten Island	191,600	\$305
Total	3,609,950	\$4,795

SOURCE: US Social Security Administration; Bureau of Labor Statistics; NYC Comptroller's Office

Extending the payroll tax deduction would also have a positive effect on the City's fiscal picture. If one-third of that amount is spent on consumer items subject to City sales taxes, sales tax revenue would be increased by about \$70 million. Moreover, the jobs created through greater consumption spending would generate additional income tax, sales tax, and real estate tax revenues.

While an extension of the payroll tax cut will have a positive impact on household budgets and on the City's economy, it does raise several areas of concern.

¹ Based on a multiplier analysis of household incomes.

First, the aging of the baby-boom generation will put financial stress on the Social Security program in coming decades. Repeated use of payroll tax “holidays” to provide fiscal stimulus to the economy may complicate long-term efforts to shore up Social Security as households become acclimated to lower payroll taxes and political opponents of Social Security portray a return to the pre-2011 tax levels as a “tax increase.”

Second, while the Social Security threshold of \$106,800 ensures that no individual will derive an annual benefit in excess of \$3,310, it provides more substantial benefits to higher earners. For example, a worker earning \$25,000 would receive an annual tax cut of just \$775, while a worker earning \$100,000 would receive an annual tax cut of \$3,100. Tax cuts could easily be designed to deliver more benefits to lower-income households and to provide a more reliable fiscal stimulus to the economy.

Our office is still assessing the impact of the \$65 billion employer payroll tax holiday for small businesses and those who increase the size of their payrolls. The plan will provide relief to employers, reducing their payroll tax to 3.1 percent on the first \$5 million in wages. The White House estimates that 440,000 firms in New York State will receive a payroll tax cut under this plan. We have yet to estimate the number of firms in New York City that would benefit from the plan. With that said, below are five sample firms that help demonstrate the employer savings related to this proposal. As can be seen with Sample “Firm E,” this benefit is capped at \$155,000.

Sample Firm	# of Employees	Average Salary	Total Payroll	Savings
A	25	\$50,000	\$1,250,000	\$38,750
B	50	\$50,000	\$2,500,000	\$77,500
C	75	\$50,000	\$3,750,000	\$116,250
D	100	\$50,000	\$5,000,000	\$155,000
E	200	\$50,000	\$10,000,000	\$155,000

In addition to the 3.1% payroll tax cut for all firms, the President’s plan provides a direct incentive to encourage firms to hire additional employees or raise wages for their current employees. The plan would completely refund payroll taxes paid on added workers or wage increases for current workers above the level of last year’s payroll.²

² <http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-and-overview>

Extension of Emergency Unemployment Benefits

The President has proposed a \$49 billion one-year extension of the Emergency Unemployment Compensation program, which provides unemployment benefits for 47 weeks beyond the regular federal/state unemployment insurance program. Currently, New Yorkers are eligible for up to 86 weeks of unemployment insurance benefits consisting of:

- Regular Unemployment Insurance - 26 weeks
- Extended Benefits (EB) - up to 13 weeks of benefits
- Emergency Unemployment Compensation (EUC) - 47 weeks of benefits

If the emergency unemployment benefits are not extended beyond the end of 2011, newly unemployed individuals and those currently receiving benefits for less than 39 weeks would be eligible for a maximum of 39 weeks of benefits.

Although it is difficult to project the value of this benefit extension for New York City residents, national estimates indicate that extra income will have some stimulatory effect on the national and local economies, increasing the rate of real GNP and GDP growth by 0.1 to 0.2 percentage points during 2012.

As the next table shows, there are more than 325,000 unemployed New Yorkers. As of July 2011, almost 190,000 city residents have been unemployed for over 26 weeks and more than 150,000 for over 39 weeks.

Unemployed in NYC by Age, Education and Duration

	Jul-08	Jul-09	Jul-10	Jul-11
Total	188,050	407,440	362,210	325,200
<i>by borough:</i>				
Queens	58,153	178,860	113,550	99,924
Brooklyn	55,361	69,985	92,900	101,880
Manhattan	32,825	72,116	64,111	37,066
Bronx	29,463	76,035	77,910	68,974
Staten Island	12,248	10,441	13,739	17,360
<i>by age:</i>				
16-24 yrs old	66,559	138,060	86,570	60,347
25-44 yrs old	60,206	160,500	170,810	165,070
45-59 yrs old	58,372	87,063	77,281	71,039
60 yrs and older	2,913	21,817	27,544	28,739
<i>by education:</i>				
No HS diploma	47,416	107,500	66,619	53,848
HS, some college	84,666	203,690	212,950	196,030
BA or more	55,968	96,248	82,639	75,321
<i>by duration:</i>				
26 weeks or less	145,710	259,900	190,530	135,610
27 to 39 weeks	28,556	41,005	50,482	38,059
40 weeks or more	13,780	106,530	121,190	151,530

SOURCE: US Bureau of Labor Statistics: NYC Comptroller's Office

While education is often considered the key to stable employment, it is noteworthy that in the present economic climate unemployment is not concentrated among the less educated. Over 83 percent of the city's unemployed have at least a high school diploma and nearly one-quarter, or more than 75,000, have a B.A. or higher degree. Moreover, more than 80 percent are 25 years old or older and more than 30 percent are 45 years old or over.

Mortgage Refinancing

The President has instructed his economic team to work with Fannie Mae and Freddie Mac, their regulator, the Federal Housing Finance Agency, major lenders and industry leaders to remove the barriers that exist in the current refinancing program (HARP) to help more borrowers benefit from today's historically low interest rates. This has the potential to not only help these borrowers, but their communities and the American taxpayer, by keeping borrowers in their homes and reducing risk to Fannie Mae and Freddie Mac.³

A particularly attractive element of this program is that it would not need to be "paid for" like other measures (e.g. payroll tax cut, infrastructure investments, etc.) and may not be subject to legislative approval. With that said, the implementation of this program could be challenging due to the fact that it would create a large number of unanticipated mortgage prepayments that are unlikely to be in the interest of bond holders currently enjoying income from higher yields.

According to estimates made by the Federal Reserve Bank of New York (FRBNY) there are more than 200,000 mortgage loans in New York City with an incentive to refinance at today's primary rate of 4.15 percent.⁴ Based on discussions with FRBNY we project that full participation in this program could provide annual savings of \$1.3 billion to New York City homeowners – resulting in an average annual savings of more than \$6,000 or average monthly savings of \$500 per borrower. These savings would not only help reduce the risk of foreclosure but also help stimulate the local economy by creating or preserving up to 6,700 jobs⁵ in 2012.

Infrastructure Spending

The President has proposed a \$50 billion program to rebuild the country's transportation infrastructure, a \$30 billion program to modernize schools and community colleges, and a \$15 billion program to rehabilitate and refurbish hundreds of thousands of vacant and foreclosed homes and businesses.

The City's biennial Ten Year Capital Strategy (TYCS) released in May 2011 totals \$54.1 billion for the ten-year period from FY 2012 to FY 2021. The total reflects a 10 percent reduction in City-funded commitments as compared to the prior TYCS. In addition, the City's FY 2011 Asset Information Management System Report shows that agencies' state of good repair schedule will only meet 48 percent of the state of good repair needs identified in the Asset Survey Report⁶ for the City's infrastructure in FYs 2012 - 2015. While capital needs have expanded, the

³ <http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-and-overview>

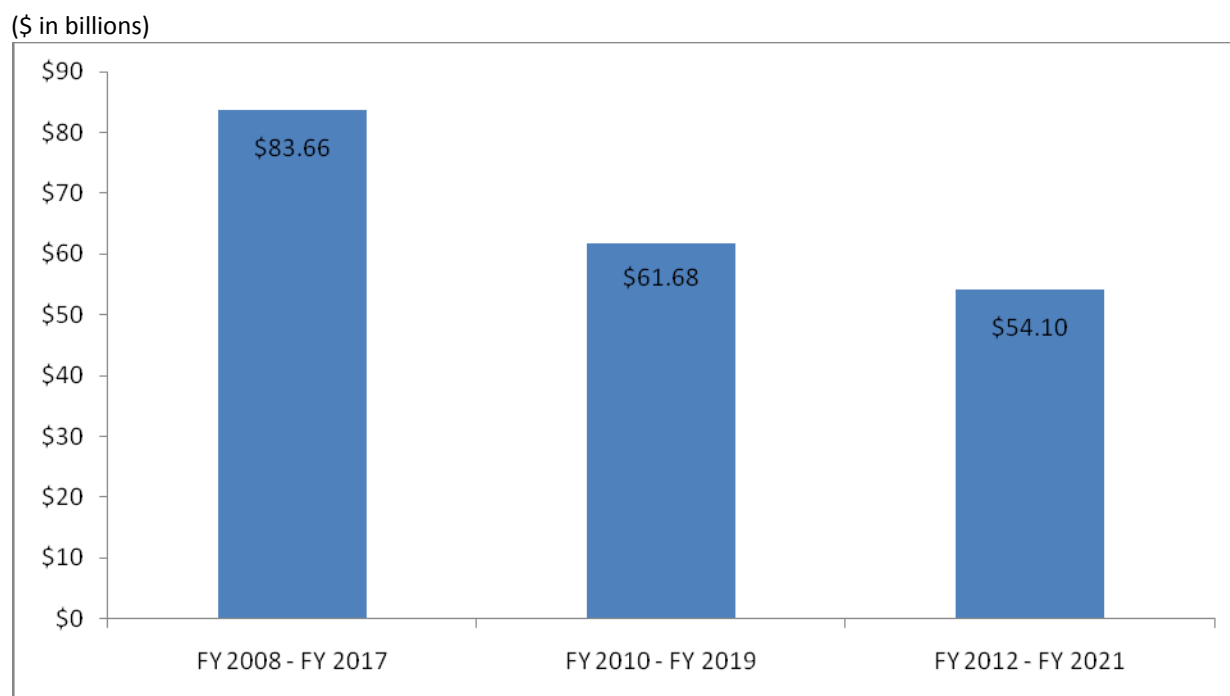
⁴ <http://www.freddiemac.com/pmms/data.html?week=36&year=2011&type=popup&height=600&width=700>

⁵ Based on a multiplier analysis of household incomes.

⁶ The Asset Survey Report portrays funding needs to maintain and achieve a state of good repair on an asset basis. The state of good repair needs identified in the Asset Survey Report is a subset of the total state of good repair needs. Items not considered directly related to the structural integrity of the assets are excluded from the Report.

City's investment in infrastructure has been on the decline, as demonstrated in the graph below. Since the release of the FY 2008, TYCS planned capital spending has decreased by nearly \$30 billion. Federal support could restore some portion of these reductions which would help revive dormant projects and delayed repairs.

Comparison of NYC's Last Three Ten-Year Capital Strategies



An increase in infrastructure spending would provide a much needed boost to the New York City construction industry that has seen employment drop from 128,612 in 2008 to 108,895 in 2010⁷. While the unemployment rate in 2010 for New York City was 8.5 percent, unemployment rate in the construction industry in the City was 14.6 percent.⁸

The White House estimates that the President's plan would provide the following infrastructure benefits:

- **Transportation** - \$2.98 billion to New York State for investment in highways, transit rail and aviation infrastructure. These dollars would support approximately 38,800 jobs in

These include but are not limited to components that do not meet code or local law compliance but do not affect the structural integrity of the asset, most equipment (fixed or movable), aesthetic consideration, fire alarm and security system, and hazardous material identification and removal.

⁷ "Quarterly Census of Employment and Wages (QCEW)", New York State Department of Labor.

⁸ "Selected Metropolitan Areas, Metropolitan Divisions, and Cities: Unemployment Rates for Nonagricultural Workers, Excluding Private Household Workers, By Industry, 2010 Annual Averages", Bureau of Labor Statistics.

New York State. We estimate that the City would receive \$1.2 billion of these funds, supporting 8,925 jobs in the City.

- Schools - \$2.26 billion to New York State to modernize schools that would support as many as 26,300 jobs statewide. We estimate that New York City would be in line to receive over \$1 billion for the modernization of public schools and investments in the City's community colleges supporting 7,725 jobs in the City.
- Foreclosed Properties - \$214 million to New York State for the rehabilitation of foreclosed homes and businesses. We estimate that the City would receive over \$85 million under this program supporting over 600 jobs.

The jobs resulting from infrastructure investments are unlikely to all materialize within a one-year time frame. According to an August 25, 2011 analysis by Macroeconomic Advisers⁹, there are fewer "shovel-ready" projects than once believed and infrastructure spending cannot jump-start near-term hiring unless ramped up at a pace and on a scale that, outside of wartime, would be unprecedented. In fact, spend-out schedules shown by the Congressional Budget Office for infrastructure spending suggest that in the first full year following the appropriation of funds, perhaps no more than 15% of the total would actually be spent.

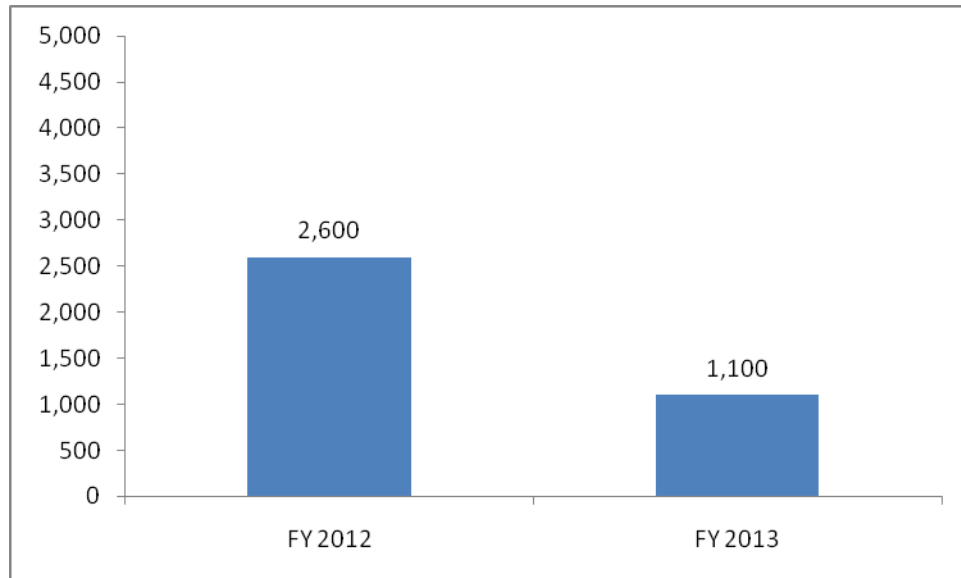
Providing Aid for Hiring of Teachers, Police Officers and Firefighters

The President has proposed a \$35 billion program to provide aid to municipalities to prevent layoffs of public school teachers and to support the hiring of police and firefighters. The White House estimates that the State would receive \$1.77 billion in funds allowing localities to avoid or reverse the laying off of nearly 18,000 educators and first responders. We estimate that New York City could receive more than \$700 million under this program.

The City's June 2011 Plan shows a reduction of about 1,100 teacher positions in FY 2013. This decline comes on top of the 2,600 teachers reduced through attrition without backfilling already reflected for FY 2012. Thus, the cumulative decline in teacher headcount in the FY 2013 baseline is more in the order of 3,700.

⁹ <http://macroadvisers.blogspot.com/2011/08/jobs-bill-not-so-great-expectations.html>

Planned Teacher Headcount Reductions in the Department of Education June 2011 Plan



While the City's current financial plan does not include headcount reductions for uniformed Police or Fire, the City is facing substantial multi-billion dollar out-year budget gaps. With such large gaps looming, there is risk that reductions in Police and Fire headcounts could soon become a consideration. Federal funding could be used to help avert layoffs or even increase uniformed Police or Fire headcount.

Conclusion

Our preliminary analysis clearly indicates that the Act will significantly benefit the City's employees, businesses, and government. What is much less clear are which specific revenue strategies will be used to finance the tax cuts and spending measures.