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New York City Independent Budget Office

Inside the Budget

Number 123 November 6, 2003

Paying for the City Workforce: Costs Rise as Headcount Falls

Although the city's workforce has fallen during the last several years by some 10,000 full-time positions, or 4 percent, the cost of the city's labor force rose 20 percent between 2000 and 2003, according to an analysis by IBO. Among the principal reasons are changes in the composition of the city workforce, salary hikes, and increases in health insurance and pension costs for city employees. Excluding pension costs, which were artificially low in 2000, full-time compensation grew 15 percent over the period.

Changing Employment Mix. Since June 2000, when the city had over 250,000 full-time employees, the number of city workers has steadily declined to 240,000 currently. This overall decline, however, masks significant shifts in the composition of the full-time city workforce, with the number of teachers actually rising while the number of other workers has declined.

The number of full-time civilian non-pedagogical employees—that is, excluding teachers and uniformed officers—declined by 5.4 percent, or nearly 4,600 positions. Among all city agencies, the Human Resources Administration and Department of Education have seen the largest declines in the numbers of full-time workers. These two agencies together with the Administration for Children's Services and departments of sanitation, fire, homeless services, probation, and finance, account for three-quarters of the civilian, non-pedagogical jobs lost.

The number of uniformed employees—police officers, firefighters, correction officers, and sanitation workers—declined even more sharply, falling by over 6,500 positions, or 9.3 percent. The city's police force reached a peak of over 40,000 officers in 2000 before beginning to decline through attrition to its current level of roughly 36,000. The number of correction officers has also fallen by some 1,300 officers—about 12 percent—as the number of inmates in city jails has fallen. The ranks of firefighters and sanitation employees have also been decreasing, although at somewhat slower rates—despite the layoff of over 300 sanitation workers in May and June 2003.

In contrast, the education department has continued to hire teachers and other pedagogical employees, largely driven by the goal of reducing average class size.

Wages, Salaries, and Other Pay. The salaries of many city employees are funded, in whole or in part, by federal and state aid. This is particularly true for teachers and for the city's Human Resources Administration, which together account for over half of the employees whose pay comes from sources other than city taxes. (Other departments with large percentages of non-city funded employees include housing, transportation, health, juvenile justice, probation, youth and community development, and aging). The city has managed to increase the share of total

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Full-Time City Employment, 2000 and 2003

	6/30/00	6/30/03	Change	Percent city-funded
Civilian/ Non-pedagogical	85,154	80,564	-4,590	73%
Uniformed	70,352	63,815	-6,537	99%
Pedagogical	95,020	96,196	1,176	82%
Total	**250,526**	**240,575**	**-9,951**	**83%**

SOURCE: IBO.

employment funded from non-city sources over the last four years—in essence shifting funding for about 4,000 workers from city funds to non-city funds. The funding shifts saved the city at least $300 million in 2003. Without these shifts and related savings, total headcount would probably have fallen even more.

The compensation of city employees includes base salaries and wages, and, for certain employees, a component known as "additional gross pay." In addition the city pays for fringe benefits for its workers, including contributions for pensions, health insurance, social security, supplemental benefits for certain unionized employees, and other items.

Base wage and salary costs for full-time city employees grew 11 percent between 2000 and 2003, from $11.6 billion to $12.8 billion. Three-quarters of this growth was for pedagogical employees at the education department. The growth in pay for teachers was not merely due to the fact that the city hired more teachers during this period, but also that teachers' average pay increased dramatically in 2003. The contract signed between the United Federation of Teachers and the city in 2002 raised starting salaries for teachers by 22 percent, and raised teachers' average pay by 16 percent in exchange for lengthening the work week by 100 minutes. Other city employees also received annual wage increases of between 4 percent and 5 percent retroactive to 2000 and 2001. Almost all of these contracts have now expired and the Mayor and the unions are attempting to negotiate new settlements.

In addition to base wages and salaries, certain employees receive additional gross pay, which in total grew by 24 percent between 2000 and 2003, from $1.4 billion to $1.7 billion (these figures are adjusted to exclude World Trade Center-related overtime and the impact of retroactive labor settlements). Additional gross pay (thus adjusted) accounted for 9.2 percent of total cash compensation of employees in 2000, rising to 10.4 percent in 2003.

The biggest component of additional gross pay is overtime pay of uniformed workers, which grew by $195 million—almost 60 percent of the total growth. Uniformed overtime spending (excluding $13 million in World Trade Center-related overtime) was $610 million in 2003, or about $9,555 per uniformed employee. Firefighters, who are guaranteed 96 hours of overtime per year as part of their contract, received the most overtime pay in 2003—an average of $14,395.

Personal Services Spending, 2000 and 2003

Millions of dollars

	2000	2003	Change	Percent change
Full-Time Salaried				
Civilian/ Non-Pedagogical	$3,462	$3,588	$126	3.6%
Uniformed	3,402	3,575	173	5.1%
Pedagogical	4,725	5,690	965	20.4%
Subtotal, Full-Time Salaried	*$11,588*	*$12,848*	*$1,260*	*10.9%*
Part-time workers	$1,869	$2,126	$258	13.8%
Additional gross pay*	1,371	1,735	363	26.5%
Subtotal, Wages & Salaries	*$14,828*	*$16,709*	*$1,881*	*12.7%*
Fringe Benefits				
Pensions	$698	$1,751	$1,053	150.8%
Health Insurance Plan	1,653	2,229	575	34.8%
Social Security (FICA)	1,101	1,299	198	18.0%
Supplemental Welfare Benefits	662	774	113	17.0%
All Other Fringe Benefits	280	360	80	28.5%
Subtotal, Fringe Benefits	*$4,394*	*$6,412*	*$2,018*	*45.9%*
Total Personal Services Spending	**$19,228**	**$23,123**	**$3,895**	**20.3%**
Memo: Fringe (excluding pensions) as percent of total PS spending	19.2%	20.2%		26.5%

SOURCES: IBO; *Comprehensive Annual Financial Reports 2000 and 2003.*
NOTES: *Adjusted to exclude WTC overtime, back pay, and labor reserve. Individual rows may not sum to totals due to rounding and the exclusion of certain items.

Other components of additional gross pay include salary "differentials" that reflect seniority or extra pay for working night shifts or other special assignments. Police officers, for example, receive base pay of $54,048 after five years on the force, along with longevity pay of $3,745. After that, base pay does not rise—additional years on the force are compensated by increasing the "longevity differential." Thus, a 20-year veteran police officer would still receive base pay of $54,048, plus $6,770 in longevity differential.

Teachers and classroom paraprofessionals (who were until recently classified as part-time employees) receive additional gross pay for preparation period and for "per session" work (work performed outside of normal school day hours, including summer school). The former is not included in the basis for calculating pensions. A recent court decision required the city to count "per session" pay as part of the base pay of pedagogical employees when determining the amount of their pensions.

Pensions and Fringe Benefits. Together, pension contributions and other fringe benefits accounted for 28 percent of the city's total personal services spending in 2003.

Fringe benefits in general take two forms: current compensation and deferred compensation. The majority of fringe benefits costs incurred by the city are in the form of deferred compensation. Pension and social security contributions are both examples of deferred compensation: while they are a component of the *employer*'s current-year wage bill, they are not current-period compensation for the *employee*. Similarly, disability insurance payments are considered deferred compensation, in that they are not realized if and until an employee leaves city service due to a disability. In contrast, health insurance premium payments by the employer are a form of current-period compensation.

Pension contributions were two-and-one-half times higher in 2003 then they were in 2000, and are projected to grow at an even faster rate through 2007. As a recent IBO report documents ("What's Driving New York City's Growing Pension Burden?" *Inside the Budget*, August 13, 2003), a combination of factors, including wage and salary increases, investment losses, and enhancement of pension benefits, will drive the sharp growth in the coming years. In 2000, however, pension contributions were unusually low because the city recognized in one year (rather than spreading out over several years), the significant increases in the value of pension fund assets arising from the market gains of the late 1990s. As a result the city was able to reduce pension contributions for 2000. The market losses of the following year quickly erased these gains, however, resulting in rising contributions. In 2003, pension contributions were 11.6 percent of wages and salaries, almost exactly their level in 1999. The city's current financial plan projects this figure will rise to 27 percent by 2007.

Other fringe benefits have grown more slowly, and constitute 20.2 percent of total personal services spending (excluding pensions)—up from 19.2 percent in 2000. Fringe benefit costs are nonetheless rising at a faster rate than wages, driven in particular by rising health insurance costs. Health plan insurance premiums grew by an annual average rate of nearly 11 percent over the period, making up nearly 10 percent of total personal services spending in 2003. The city's current financial plan projected premium increases of 8 percent annually for the next four years, raising the city's health insurance costs to $2.9 billion, or 11 percent of total personal services spending, by 2007.

Another major fringe benefit cost is another form of deferred compensation: social security contributions, which cost $1.3 billion in 2003. The city also pays so-called supplemental welfare benefits to provide additional discretionary benefits to employees and retirees. Supplemental welfare benefits cost the city $774 million in 2003, up 3 percent from 2000.

Can Cost Growth Be Contained? Taken together, the average cost to the city budget of a full-time city worker rose 23 percent between 2000 and 2003, an annual average rate of change of over 7 percent. Adjusting for the unusually low level of pension contributions in 2000, the growth was still a substantial 17.6 percent.

This increase in the cost per city worker follows two decades in which the rise in spending on municipal employees generally matched inflation. From 1980 through 1990, both inflation and the cost per city worker grew at an annual average rate of 5.6 percent. From 1990 through 2000, inflation rose at an annual average rate of 3 percent and the cost of each full-time municipal worker grew at an average rate of 3.2 percent.

Average Compensation Per Full-Time Employee, 2000 and 2003

	2000	2003	Percent Change
Average Salary	$46,602	$52,603	12.9%
Average Salary + Additional Gross Pay	$52,116	$59,704	14.6%
Fringe Benefits excluding Pension	$14,863	$19,085	28.4%
Pension Contributions	$2,808	$7,168	155.3%
Total	**$69,787**	**$85,957**	**23.2%**

SOURCE: IBO.

According to the city's current four-year financial plan the decline in full-time city employment should have largely ended by the end of the next fiscal year, remaining roughly level after that. Personal services spending will continue to grow, however, driven entirely by projected rising pension contributions and, to a lesser extent, growth in other fringe benefits. In contrast, the wage and salary component of compensation is projected to remain flat, consistent with the Mayor's position that future wage increases must be fully funded by labor productivity savings. In short, the Mayor is seeking to contain the growth in the city's per-employee costs. It remains to be seen whether he will be able to achieve his goal.

Written by Preston Niblack