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City Labor Costs: Growth Rate Slows, For Now

THE CITY'S LABOR COSTS grew 3 percent in fiscal year 2004, the lowest growth rate in three years, largely due to the failure to reach labor settlements with teachers, police and other uniformed personnel. Labor costs totaled \$23.9 billion in 2004, a \$737 million increase from 2003. Although the city workforce grew by 3,000 in 2004 to nearly 297,000, there were roughly 10,000 fewer city workers than in 2001.

Different portions of the compensation package for city workers grew—or contracted—at different rates. Total wages and salaries paid to city employees actually decreased by 1 percent; fringe benefit costs, excluding pensions, grew by 4 percent. Pension contributions increased by 40 percent over 2003 as the city continues to phase in investment losses, the state-enacted cost-of-living adjustments for retirees, and other costs.

The Mayor's office projects that labor costs will rise 8 percent in 2005 after wage settlements with teachers and other pedagogical employees of the Department of Education and with uniformed personnel of the police, fire, correction, and sanitation departments. From 2005 through 2008, the projected average rate of growth in labor costs is 2.5 percent, while the projected average rate of growth in all city spending is 1.9 percent. This estimate assumes that teachers and uniformed personnel will receive pay raises based on District Council 37's (DC 37) 2004 pattern, with any increases from 2005 onward funded by higher productivity.

Fringe benefit costs, including pensions, will continue to rise rapidly—17 percent in the next year alone. IBO expects the growth in pension contributions to level off beginning in 2008.

Changing Employment Mix. In 2004, the total workforce (the number of full-time and “full-time equivalent” part-time employees) increased from 294,000 to 297,000, or 1 percent. (A full-time equivalent measures the total number of hours worked by part-time employees divided by a full-time schedule. For example, two half-time employees would be counted as one full-time equivalent.) Despite the increase, the total 2004 workforce was still 3.2 percent smaller than it was in 2001. The modest increase in the total workforce over the past year masks shifts in its composition, including a continued gradual decline in the number of pedagogical employees, while the number of civilian workers increased by 3.4 percent.

The Civilian Workforce. The Human Resources Administration (HRA), together with the departments of homeless services, parks and recreation, police, health, and housing preservation and development, account for most of the increase of roughly 3,900 positions in the civilian nonpedagogical workforce. HRA alone increased its workforce 11 percent, or about 1,500

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City Employment*Full time and full-time equivalent; as of June 30*

	2001	2003	2004	Change 2001 - 2004	Change 2003 - 2004
Uniformed	68,526	63,680	63,564	-4,962	-116
Pedagogical	116,569	115,050	113,625	-2,944	-1,425
Civilian Nonpedagogical	121,387	115,461	119,402	-1,985	3,941
TOTAL	306,482	294,191	296,591	-9,891	2,400
Memo: Full-time positions	249,824	239,616	262,206	12,382	22,590
Full-time equivalents	56,658	54,575	34,385	-22,273	-20,190

SOURCE: IBO.

NOTES: Uniformed city employees include police officers, firefighters, correction officers and uniformed sanitation workers. Pedagogical employees include teachers, principals and paraprofessionals at the Department of Education and City University of New York. The civilian nonpedagogical category includes all other city employees.

workers. The positions that were filled were mostly those that had been vacated in 2003 by employees taking early retirement. Also, HRA hired several hundred workers who had been employed by its contractors, terminating or reducing the scope of the contracts. HRA also converted many part-time positions to full time. The number of full-time equivalent part-time workers decreased by over 1,800; almost all of these positions were not lost but rather were converted to full-time positions.

Uniformed Personnel. The combined number of uniformed police officers, firefighters, correction officers, and sanitation workers remained virtually constant between 2003 and 2004. End-of-year police staffing fell for the fifth straight year, from an all-time high of over 40,000 in 2000 to under 36,000 by 2004. The number of correction officers decreased very slightly (by about 1 percent) between 2003 and 2004, but is down about 1,500 (or 14 percent) from its 2000 level—roughly commensurate with the 11 percent drop in the number of inmates in city jails. The number of uniformed fire and sanitation personnel increased slightly from 2003 to 2004, with staffing in these agencies now 2 percent and 4 percent respectively below their 2000 levels.

Education. The total pedagogical workforce of the Department of Education decreased by about 1,400 full-time equivalents, or 1.3 percent in 2004. At the same time, the number of full-time pedagogical employees increased last year mainly through the conversion of about 15,000 full-time equivalent paraprofessional positions to full-time—primarily a technical change as the former Board of Education accounting systems and practices are merged with the rest of the city's.

While the average teacher salary remained essentially unchanged, the average salary of full-time pedagogues decreased by over 10 percent due to the changing mix of employees. This also reduced the average salary of all full-time city workers.

Compensation. 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 to pension funds, health insurance, social security, supplemental benefits for certain unionized employees, and other items.

Wages and Salaries. Total spending on wages and salaries declined by 1 percent. Base salary costs for full-time city employees grew 2 percent from 2003 to 2004, from \$12.8 billion to \$13.1 billion, while spending for part-time workers fell by \$584 million, or over 27 percent. Overall, average wage and salary compensation for all city workers remained essentially unchanged at just over \$56,000.

This stability in compensation occurred because contracts with most union employees had expired. The average base salary for teachers remained roughly constant due to the expiration of the teachers' union contract in May 2003.

Labor Costs, 2003 and 2004*Dollars in millions*

	2003	2004	Change	Percent change
Full-Time Salaried				
Uniformed	3,575	3,490	-85	-2.4%
Pedagogical	5,690	5,869	179	3.1%
Civilian Nonpedagogical	\$3,588	\$3,738	\$150	4.2%
Subtotal, Full-Time Salaried	\$12,848	\$13,090	\$242	1.9%
Part-time workers	2,126	1,542	-584	-27.5%
Additional gross pay	1,735	1,923	188	10.8%
Subtotal, Wages & Salaries	\$16,709	\$16,555	(\$154)	-0.9%
Pension Contributions	\$1,751	\$2,444	\$693	39.6%
Other Fringe Benefits				
Health Insurance Plan	\$2,229	\$2,406	\$177	7.9%
Social Security (FICA)	1,299	1,261	-38	-2.9%
Supplemental Welfare Benefits	774	813	39	5.0%
All Other Fringe Benefits	360	381	21	5.9%
Subtotal, Other Fringe Benefits	\$4,661	\$4,861	\$200	4.2%
TOTAL	\$23,122	\$23,860	\$737	3.2%

SOURCES: IBO; Comptroller's Comprehensive Annual Financial Report.

Average Compensation, Full-Time and Full-Time Equivalent Employees, 2003 and 2004

	2003	2004	Percent change
Wages & Salaries	\$56,172	\$56,414	0.4%
Fringe Benefits excl. Pensions	15,669	16,565	5.7%
Pension Contributions	5,886	8,328	41.5%
TOTAL	\$77,727	\$81,307	4.6%

SOURCES: IBO; Comptroller's *Comprehensive Annual Financial Report*; Mayor's Office of Management and Budget.

NOTE: Calculated on the basis of average of end-of-month headcount figures and includes additional gross pay.

While the total amount of salary paid out to uniformed personnel in 2004 decreased slightly due to the 3 percent drop in the monthly average number of uniformed personnel, the average base salary increased by just under 1 percent last year. Uniformed service unions also were working under expired contracts in 2004. Police officers have been working under an expired contract since July 2002; sanitation workers since November 2002; firefighters since November 2002; correction officers since January 2003.

The average base salary of a civilian nonpedagogical full-time employee increased the fastest compared to other categories of employees, 2.3 percent. DC 37 along with several other unions received pay increases of 3 percent in 2004. But the unions' new hires had a 15 percent reduction in starting salaries, a concession that expires at the end of 2005.

The salaries of many city employees are funded, in whole or in part, by federal and state aid. The share of employment funded by non-city sources decreased in the last year—in essence shifting funding for about 3,400 workers from exclusively non-city funds to a mix of city, state, and federal funding.

Additional Gross Pay. In addition to base wages and salaries, certain employees receive additional gross pay, which in total grew by 10.8 percent from \$1.7 billion to \$1.9 billion (these figures are adjusted to exclude World Trade Center-related overtime and the impact of retroactive labor settlements). Additional gross pay accounted for 10.4 percent of total cash compensation in 2003, rising to 11.6 percent in 2004.

The biggest component of additional gross pay is overtime pay of uniformed workers, which grew by \$30 million—16 percent of the total growth. Uniformed overtime spending (excluding \$2 million in World Trade Center-related overtime) was \$640 million in 2004, or about \$10,069 per uniformed employee. Firefighters received the most overtime pay in 2004—an average of \$11,468. Other components of additional gross pay include salary differentials based on longevity or

assignments, holiday pay, and other items.

Pensions and Fringe Benefits. Together, pension contributions and other fringe benefits accounted for 31 percent of the city's total personal services spending in 2003. Total pension contributions grew 39.6 percent in just the last year, and we project them to grow at an average rate of about 23 percent per year through 2007. A combination of factors, including projected wage and salary increases, past investment losses, and enhancement of pension benefits, will drive the sharp growth in the coming years. In 2004, pension contributions were nearly 15 percent of wages and salaries, up from over 10 percent in 2003.

Other fringe benefits grew more slowly than pensions and comprised 20.4 percent of total personal services spending in 2004, only slightly higher than in 2003. Fringe benefit costs are still rising at a much faster rate than wages, however, driven largely by rising health insurance costs. Health insurance spending grew by nearly 8 percent last year and will grow by over 10 percent in 2005.

Although thousands of part-time employees converted to full-time status in 2004, these conversions had only a small impact on the cost of fringe benefits. A small increase in fringe costs resulted from the conversion of per diem employees in the finance department and HRA to full time. In contrast, most conversions concerned employees who had full benefits, including the pedagogical paraprofessionals. Few, if any, employees who were dismissed as a result of conversions had been receiving benefits.

Looking Ahead. During the current financial plan period, from 2005 through 2008, the annual rate of increase in spending on labor is projected to be about 2.5 percent. This estimate assumes that teachers and uniformed personnel will receive pay raises based on DC 37's 2004 pattern, with any increases from 2005 onward funded by higher productivity. That is a questionable assumption, particularly because more than half of fiscal year 2005 has already passed. If labor negotiations lead to larger settlements, each 1 percent increase above the pattern will cost the city about \$150 million for each year the increase is in effect.

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