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Employees of Human Service Nonprofits Under Contract with New York City Set to Receive Less Than Half the Raises of NYC Employees Over 5 Years

New York City’s (“the City”) government-funded human services programs, from senior centers to child care, are mostly delivered via contractual relationships with nonprofits. These nonprofits act as agents of the City, and their contractual relationship controls all aspects of the fundamental services that they provide to the public. Salary and wage rate increases for these nonprofits thus take place outside the negotiated union structure that governs wages for City employees. Instead, increases for nonprofits— when they happen— occur through the service procurement process and rarely match negotiated raises. This has led to a growing wage gap between the two sectors, a gap which will only increase after the most recent contracts between the City and the municipal labor unions, most of which are modeled on the contract for District Council 37 (DC 37), the City’s largest municipal union. Under the DC 37 model, municipal union workers receive retroactive raises to the last contract expiration (September 2021), specifically receiving 3 percent raises each year for four years, and a 3.25 percent raise in the fifth year. By contrast, the City has not provided human service nonprofits with any corresponding increase for their workers’ salaries, typically called a cost-of-living adjustment (COLA), since 2020.^{1,2} At the joint request of Human Services Council, Chinese-American Planning Council, and Citizens’ Committee for the Children of New York, IBO estimated the difference between what human services nonprofits would have received under a COLA pattern similar to the DC 37 pattern and what the City offered them in June 2023—a Workforce Enhancement Initiative.

The City’s “Workforce Enhancement Initiative” Does Not Fully Address the Wage Gap Growing Between City Employees and Contracted Nonprofit Workers

In the June 2023 Adopted Budget for Fiscal Year 2024, the City chose to address this wage gap for a select subset of all human services nonprofits contracted by the City through a Workforce Enhancement Initiative (WEI), rather than a COLA. Some view a WEI as more flexible than a COLA because the nonprofit may use the funds it is awarded for any of the costs in its Personal Services (“PS”) budget. This includes salaries, wages, and, notably in contrast to a COLA, fringe costs (i.e., employee benefits). However, it does not compound over time nor reflect changes in nonprofit headcount; it merely raises the baseline budget for the affected contract.

Some contracted programs receive a mix of City and non-City funding within their City-procured contract budget. If these providers did not receive a state or federal COLA, regardless of the amount of the state or federal COLA received, the City deemed them eligible for the WEI. The City also explicitly excluded other types of contracts: emergency contracts, City Council discretionary contracts, and subcontracts between a provider and a 3rd party subcontractor, as well as Universal Pre-Kindergarten providers.^{3,4}

As part of the WEI, the City allocated:

- 2023: \$60 million from City tax levy (CTL) funds; this amount is budgeted for all the later years of the contract as well, also known as baselining.

- 2024: \$100 million total, comprised of \$60 million baselined from 2023, with an additional \$20 million from CTL and \$20 million in City Council discretionary funding.
- 2025 and baselined onward: \$150 million total, comprised of \$60 million baselined from 2023, with an additional \$90 million from CTL.

These City-funded WEI totals were not calculated specifically from the contract budgets, but rather resulted from negotiations between the Office of Management and Budget (OMB) and the City Council.

To distribute this funding in the 2024 Adopted Budget to each human service nonprofit provider, the City used the relative amount of total City-funded PS costs contracted with each provider. The City-funded WEI amounts listed above were only applied to the City-funded portion of each provider’s PS costs. However, all eligible contracts received the same effective increase to total PS costs, even those who receive a mix of City and non-City funds for PS costs. This was achieved by allocating additional non-City funds (i.e., funds received from state, federal, and other sources) in the Workforce Enhancement to match the percentage provided by City funds. For example, in 2023 City-funded PS costs effectively received a 2.9 percent increase from the \$60 million in City funds, so the non-City PS costs of eligible contracts also received a 2.9 percent increase from non-City funds, which added about \$9.5 million to the Workforce Enhancement.⁵

Although not finalized and budgeted yet, OMB expects to include similar additional non-City funds in future years. IBO expects them to be approximately proportional to the 2023 amount, so IBO used the 2023 ratio to project out future non-City funded WEI amounts. This equals approximately \$15.7 million in 2024, and \$23.5 million in 2025 and onward. IBO included these non-City projections in the estimates below to allow for a comparison with IBO’s DC 37 COLA estimate (which included City-funded and non-City PS costs).⁶

IBO Estimate Finds WEI Produces Lower Increases than a DC 37-based COLA Over Time

Based on the data currently available, IBO could only calculate the applicable DC 37 bargaining pattern to the PS portions of the same subset of all contracted human services nonprofits, i.e., those that OMB had deemed eligible for the Workforce Enhancement. Therefore, IBO’s analysis provides a floor for what it would cost the City to provide a COLA matching the DC 37 pattern. Because IBO has not yet obtained data to determine the full population of contracted human services nonprofits and their related PS costs, it is unclear how much IBO’s estimates understate the full cost of parity with the DC 37 pattern. IBO presents five years of differences between the WEI and our estimated COLA because the DC 37 wage pattern covers five years. IBO notes that it is possible the City will provide a WEI or COLA starting in 2026, but IBO is just reflecting the terms of the 2023 WEI.

Giving DC 37 Raise Pattern to Nonprofit Providers Would Double the Cumulative Rate of Increase and Cost at Least \$416 Million (59 Percent) More Than the Current Workforce Enhancement Initiative						
<i>Dollars in millions</i>						
	2023	2024	2025	2026	2027	Total
Workforce Enhancement Initiative	\$69.5	\$115.7	\$173.5	\$173.5	\$173.5	\$705.7
<i>Percentage Increase from Prior Year</i>	2.9%	1.9%	2.3%	0.0%	0.0%	7.3%
COLA (IBO Estimate)	\$71.4	\$144.9	\$220.7	\$298.7	\$385.7	\$1,121.4
<i>Percentage Increase from Prior Year</i>	3.0%	3.0%	3.0%	3.0%	3.25%	16.2%
Difference	\$1.9	\$29.2	\$47.2	\$125.2	\$212.2	\$415.7

SOURCE: Mayor’s Office of Management & Budget Workforce Enhancement Initiative data; IBO Analysis
New York City Independent Budget Office

If the City applied a COLA matching the DC 37 pattern beginning in 2023 to the WEI-eligible portfolio, it would translate to 16.2 percent for the resulting COLA in cumulative raises, compared with 7.3 percent for the actual WEI. For the City to match the cumulative raise of the DC 37 pattern, a minimum of \$416 million (or 59 percent) would need to be added to the budget. This amount would still only cover the pool of WEI-eligible nonprofit contracts, in addition to the roughly \$40 million in non-City funds that have been pledged but not yet budgeted.

Other Considerations That Would Add Costs To the Estimated \$416 Million Gap Floor

There are additional elements of the DC 37 bargaining agreement that widen the gap between City and nonprofit workers which IBO cannot yet model. First, the DC 37 contract includes an \$18

minimum wage, and a \$3,000 one-time bonus for eligible members. IBO cannot access employee-level PS data for nonprofit providers, making it impossible to model the cost of these contract elements for that population. Second, the DC 37 pattern applies retroactively to union members, commencing the day after the previous contract expired (May 2021 for most DC 37 contracts); this retroactive application has not been used in COLAs for the nonprofit providers in the past, so IBO modeled the COLA as if it were applied as of the date of the agreement (fiscal year 2023). This effectively means that nonprofit providers will not receive raises from 2020 through 2022, while municipal employees have been made whole for that period. Third, IBO's estimates are based on 2023 contracted salaries and there may be pre-existing gaps in salaries between nonprofit providers and City employees with similar job responsibilities and titles. All of these factors would contribute to further widening the gap.

Endnotes

¹All years refer to fiscal years, unless noted otherwise.

²The City provided a 2.5 percent COLA in April 2016, along with a \$11.50 wage floor in April 2016 that rose to \$15 in November 2016. Daycare Local 205 received a COLA in January 2017, and remaining providers received a series of three 2 percent COLAs in 2017, 2018, and 2019.

³For programs that are subject to a state or federal COLA but are run through providers that contract with the City, the COLA is passed through their rates with the City. For example, some Head Start providers contract with the federal government directly and others contract through the City, but all providers receive the federal COLA and are thus excluded from the human services WEI.

⁴OMB's explanation: OMB has historically addressed UPK separately from other budget initiatives and continued that trend here.

⁵If a provider received a capped non-City grant, the WEI will be all CTL revenue, because the provider has reached the maximum allowed under the grant with non-City funds.

⁶To allocate this wage enhancement in the 2024 Adopted Budget, the City conducted a three-step process: First, OMB allocated the \$60 million to the City agencies based on the proportion of total City-funded PS costs for human services contracts under each agency. For example, contracts under the Department of Youth and Community Development (DYCD) represent 17.6 percent of all City-funded PS costs in human services contracts, so DYCD received 17.6 percent of the City-funded portion of the wage enhancement, about \$10.6 million in 2023. Second, the City split the agency allocations between nonprofit providers based on the proportion of each provider's City-funded PS costs out of all human service contracts within that agency. OMB used either PS funding in the Accelerator database, or, if not available, agency tracking of PS funding. Third, the City applied the effective raise percentage (2.9 percent of PS costs in 2023) to the non-City PS costs in mixed funding contracts, effectively increasing all PS costs by the same percentage.