New York City Independent Budget Office

Focus On:
The Preliminary Budget

April 2023

Union Contracts to Increase Personnel Costs, Partially Offset by Low Headcount

On April 5, 2023, the Police Benevolent Association (PBA), the union representing the city's police officers, reached a tentative agreement with the city to settle its outstanding labor contract. The PBA is the second union to reach a deal with the city. District Council 37 (DC 37), the city's second largest municipal labor union, on Friday, March 31 approved its contract with the city—ratifying the terms of a tentative deal reached in February. These are the first of many agreements the city will need to reach in the coming months, as nearly all city union employees are working under expired contracts. The cost of settling these union contracts will increase the city's personal services spending, but by exactly how much remains to be seen. The city's other municipal unions typically follow the pattern set by the first major union to sign; in this case, that would be DC 37 for non-uniformed unions, and the PBA for uniformed unions. While eventual contracts with the remaining unions may or may not track the currently announced agreements in every respect, the city traditionally employs a pattern bargaining approach and will likely seek to keep any changes for other civilian and uniformed services agreements cost-neutral with the DC 37 and PBA agreements, respectively.

In this brief, IBO estimates the total price of the city's labor agreements under several possible scenarios. These include estimates of the impact of timing differences in contract ratification and the effect of growth in active headcount.

These estimates most likely eliminate IBO's projected surplus from the Mayor's Preliminary Budget in the current year. Prior to the announcement of these new labor agreements, IBO projected that the city would spend less on personal services than what was included in the Mayor's Preliminary Budget. This was primarily due to the high number of municipal vacancies—the difference between the number of active city employees and those funded in the budget. Despite the potential savings generated by these unfilled positions, IBO now forecasts that the new round of collective bargaining will lead to greater than budgeted city spending on personal services over the financial plan period in all scenarios presented.

Scenarios Estimating the Cost of City Labor Settlements

The five-year contract ratified by DC 37 last week includes 3 percent raises for each of the first four years of the new contract (retroactive to the contract start date in May 2021), a 3.25 percent raise in the fifth year, an $18 minimum wage, and a $3,000 one-time bonus for eligible members. There are also some open-ended terms including a work flexibility committee to create a pilot remote work program, and an equity panel to investigate potential salary and wage adjustments for "titles that have inequities and new job responsibilities," among other terms.

The eight-year tentative agreement with the PBA on April 5 ranges from August 2017 through July 2025. The first three years of raises follow the uniform pattern from the previous bargaining round; these first three years do not impact the current budget because OMB already accrued these costs in the labor reserve during the last bargaining round. The latter five years "provide the economic framework in the city's labor negotiations with the uniformed unions for this round of bargaining," according to Office of Labor Relations Commissioner Renee Campion. This pattern features 3.25 percent in years one and two, 3.5 percent in years three and four, and 4.0 percent in year five. The PBA's tentative agreement did not include a bonus.

Baseline Scenario. IBO used the DC 37 and PBA agreements to estimate a baseline scenario for the cost of all the city's labor settlements. For this scenario, IBO made three core assumptions:

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- First, that the DC 37 agreement sets the pattern of wage increases for all non-uniformed municipal employees, and the tentative PBA agreement set the pattern for uniformed employees. This includes all union and non-union employees at city agencies, as well as at the New York City Housing Authority, City University of New York, Health + Hospitals, libraries, and the Fashion Institute of Technology. IBO's estimate does not include the employees of non-profits that provide human services under contract with the city.
- Second, that all new contracts would take effect in fiscal year 2023. (All years refer to fiscal years unless stated otherwise.)
- Third, that the city's active headcount would remain around 2022 levels throughout the financial plan period, which was about 282,500 full-time employees. In other words, IBO assumes that without the wage increases from the new labor agreements, personal services costs would remain at 2022 levels for each year of the financial plan (which is independent of any changes in budgeted headcount and vacancies).[1]

Based on these assumptions, IBO forecasts that the total cost of the new contracts for all employees would be $18.2 billion over the course of the financial plan from 2023 through 2027. This estimate reflects the cost above the amount already set aside in the city's labor reserve.[2]

The actual contracts and other events (like headcount increasing) could invalidate these baseline assumptions and affect total citywide labor settlement costs. As such, IBO has estimated the costs of two possible alternative scenarios to this baseline.

Scenario 1: Timing Differences in Labor Agreement Ratification. Labor contracts can take months to negotiate and then must be approved by union members. As such, it is very unlikely that all contracts will be settled before the end of the fiscal year on June 30, 2023. The PBA reached a tentative agreement on Wednesday April 5, 2023, and recent news suggests that the United Federation of Teachers (UFT), the city's largest labor union (with approximately 114,000 full-time employee members), is next in line for negotiations. However, it is unclear exactly when either union will ratify its contracts.

For this scenario, IBO analyzed three variations, first estimating payments under the assumption DC 37 is the only union that has settled by the end of 2023. Second, that DC 37 and the PBA will settle by the end of 2023, with all other unions settling in 2024. Third, DC 37, PBA, and UFT settle in 2023. In all three variations, cash payments shift to later years in the financial plan, but total costs over the plan period remain unchanged based on the year of the settlement. Specifically retroactive payments and bonuses shift from 2023 to 2024, and some pension costs shift from 2025 to 2026. However, in accordance with Generally Accepted Accounting Principles, the city accrues the liability for the agreements based upon the fiscal year in which they are incurred. Meaning that while a union may settle in 2024, the city intends to budget for applicable expenses in 2023. This scenario reflects the changes in cash flow stemming from the agreements.

Timing Differences in Contract Ratification
Dollars in billions

Assumptions	2023	2024	2025	2026	2027	Total
IBO Baseline Projection	$2.7	$2.2	$3.7	$4.4	$5.2	$18.2
All Contracts Other Than DC 37 Settle in 2024	0.6	4.4	3.4	4.6	5.2	18.2
Incremental Cost	*($2.2)*	*$2.2*	*($0.2)*	*$0.2*	*$0.0*	*$0.0*
DC 37 and PBA Settle in 2023, All Others in 2024	$1.3	$3.7	$3.4	$4.6	$5.2	$18.2
Incremental Cost	*($1.5)*	*$1.5*	*($0.2)*	*$0.2*	*$0.0*	*$0.0*
DC 37, PBA, and UFT Settle in 2023, All Others in 2024	$1.8	$3.2	$3.6	$4.5	$5.2	$18.2
Incremental Cost	*($1.0)*	*$1.0*	*($0.1)*	*$0.1*	*$0.0*	*$0.0*

SOURCE: IBO projections used data from the Financial Management System and Personnel Management System
NOTE: Totals may not add due to rounding.
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Scenario 2: Headcount Increases to Budgeted Levels. IBO's baseline labor contract estimate assumed that the number of active municipal workers would remain at the 2022 level, which is below the current budgeted amount. It is possible that the new labor agreements or other factors could stimulate growth in city employment. Therefore, IBO estimated the cost of labor contracts assuming employment was to reach full budgeted levels at various points in the plan period.[3] In all other assumptions, this scenario follows the baseline (all contracts are settled in 2023 and all employees receive the same percentage increases).

Headcount Increases to Budgeted Levels
Dollars in billions

Assumptions	2023	2024	2025	2026	2027	Total
IBO Baseline Projection	$2.7	$2.2	$3.7	$4.4	$5.2	$18.2
Headcount Reaches Budgeted Levels On						
6/30/2024	2.7	2.2	3.7	4.5	5.3	18.6
6/30/2025	2.7	2.2	3.7	4.4	5.3	18.4
6/30/2026	2.7	2.2	3.7	4.4	5.2	18.2
6/30/2027	2.7	2.2	3.7	4.4	5.2	18.2

SOURCE: IBO projections used data from the Financial Management System and Personnel Management System
NOTE: Totals may not add due to rounding.
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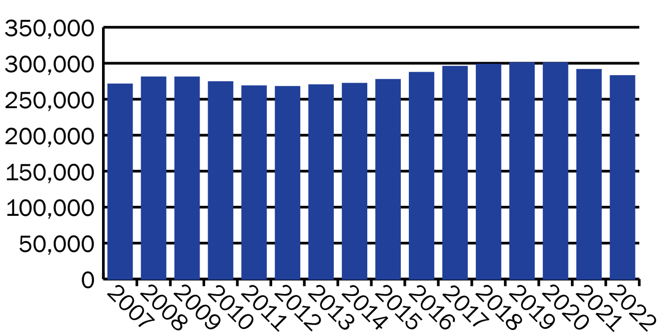
If the city were to reach budgeted headcount by the end of 2024, the additional cost to the city above the baseline scenario would be about $400 million over the plan period. If the city were to reach budgeted headcount by the end of 2025, the additional cost would be about $200 million over the baseline. The sooner active headcount reaches budgeted levels, the higher contract costs.

Labor Agreements Eliminate Projected Savings From Lower Headcount

Prior to the settlement of any new labor contracts, IBO estimated the city was likely to spend less on personal services than projected in the Mayor's Preliminary Budget, primarily due to the high number of municipal vacancies. While the settlement of the city's labor contracts will increase total personal services expenditures during the plan period, these potential savings from lower-than-budgeted headcount may be used to partially offset the cost of the labor contracts, should the administration so choose. Such savings could, of course, also be directed to meet other needs.

Active Full-Time Headcount



NOTE: All values are as of June 30 in that year.
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Declining Active Headcount Creates Savings on Personal Services. Active city headcount began to decline around the onset of the Covid-19 pandemic. Between 2012 and 2020, active full-time municipal headcount increased each year, to a record high of about 302,000 in January 2020. Since the pandemic began in March 2020, that total has dropped to just under 281,000 as of January 2023, a decrease of roughly 7 percent. At a hearing on the Preliminary Budget in March, the city's budget director attributed the decline to a mix of factors, including a tight labor market, the lack of a remote work option for city employees, and restrictions on hiring during the pandemic.

With the net loss in employees, the number of vacant positions has increased. In the city budget, agencies are allocated funds to support a certain headcount, which serves as the staffing limit for the agency. Due to normal staff attrition and turnover, it is rare for any agency's budgeted headcount to equal the actual number of staff; the difference between the active and budgeted headcount equals the agency's vacancies. When vacancy rates are high the resulting personal service budgets can appear inflated because vacant positions are included in budget estimates. The Adams administration implemented across-the-board vacancy reductions as part of the Preliminary Budget's Program to Eliminate the Gap (PEG), which removed about 4,000 vacancies. Despite this cut in budgeted headcount, almost 22,000 vacancies remain.

These vacancies will not all be filled in 2023. Under this assumption, IBO estimated that spending on personal services would be $1.2 billion less than budgeted this year, before considering the impact of labor settlement costs. IBO used actual personal service expenditures from the first half of 2023 to project these savings. IBO then

IBO Net Personal Services Adjustments to Preliminary Budget—Baseline
Dollars in billions

	2023	2024	2025	2026	2027	Total
Vacancy Savings	($1.4)	($1.2)	($1.2)	($1.1)	($1.2)	($6.0)
Labor Contract Cost Projection Baseline	2.7	2.2	3.7	4.4	5.2	18.2
Net Effect of IBO PS Projections-Baseline	**$1.4**	**$1.0**	**$2.5**	**$3.2**	**$4.0**	**$12.2**

SOURCE: IBO projections used data from the Financial Management System and Personnel Management System
NOTE: Totals may not add due to rounding.
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IBO Net Personal Services Adjustments to Preliminary Budget by Scenario
Dollars in billions

	Scenario	2023	2024	2025	2026	2027	Total
IBO Baseline Projection	Baseline	$1.4	$1.0	$2.5	$3.2	$4.0	$12.2
All Contracts Other Than DC 37 Settle in 2024	1	(0.8)	3.4	2.3	3.5	4.0	12.2
DC 37 and PBA Settle in 2023, All Others in 2024	1	(0.1)	2.5	2.3	3.5	4.0	12.2
DC 37, PBA, and UFT Settle in 2023, All Others in 2024	1	0.4	2.0	2.4	3.3	4.0	12.2
Headcount Reaches Budgeted Levels On							
6/30/2024	2	1.4	1.7	3.7	4.5	5.3	16.6
6/30/2025	2	1.4	1.0	3.1	4.4	5.3	15.2
6/30/2026	2	1.4	1.0	2.5	3.8	5.2	14.0
6/30/2027	2	1.4	1.0	2.5	3.2	4.6	12.8

SOURCE: IBO projections used data from the Financial Management System and Personnel Management System
NOTE: In scenario two, which assumes that the number of employees would reach budgeted amounts, the vacancy savings were removed from the projection once the active headcount reached budgeted levels. To reflect gradually rising headcount, IBO assumed that headcount would reach the midpoint of current and budgeted headcount in the year before reaching budgeted levels, so IBO effectively removes 50% of the vacancy savings in that year of the scenario. Totals may not add due to rounding.

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estimated labor savings assuming an active headcount at the current level for the remainder of the plan period for a total of $6 billion in savings over the plan period, again before labor settlement costs.

For each of the labor settlement scenarios presented above, IBO calculated the net increases in personal services costs after accounting for these projected savings in each year of the financial plan. Scenario one includes the full $6 billion in vacancy savings. In scenario two, which assumes that the number of active employees would reach budgeted amounts, the vacancy savings were removed from the projection once the active headcount reached budgeted levels.[4]

Except for the scenario one variations in which just DC 37, or just DC 37 and the PBA ratify their contracts this year, the annual estimated cost of labor settlements exceeds IBO's estimate of vacancy savings under each scenario every year. If headcount remains at its current level, however, the savings from paying fewer than budgeted employees would offset some of the additional costs of higher compensation under the new labor agreements. In all scenarios, IBO projects an increase in total personal services costs during the plan period.

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Endnotes

[1]However, IBO used January 2023 headcount, the most recently available data, for the estimate of one-time bonuses. IBO uses 2022 data for baseline costs data as that is the most recent available full fiscal year.
[2]The city's labor reserve is a pool of funds set aside for labor contract negotiations. Per OMB, as of the Preliminary Budget released in January, the labor reserve contains funds sufficient for 1.25% raises each year. IBO removed the 1.25% from our cost estimates because only the amounts above the labor reserve fund balance result in additional expenditures.
[3]To reflect rising headcount, IBO assumed that headcount would reach the midpoint of current and budgeted headcount in the year before reaching budgeted levels.
4 To reflect gradually rising headcount, IBO assumed that headcount would reach the midpoint of current and budgeted headcount in the year before reaching budgeted levels, so IBO effectively removes 50% of the vacancy savings in that year of the scenario.