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The Next Mayor's Biggest Challenge

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As the New York City mayor's race builds momentum, candidates are discussing a wide range of issues -- but not how they would tackle the biggest challenge the next mayor will certainly face: negotiating municipal labor contracts. The challenge is huge, because all labor contracts with the city have expired, there's an issue of whether retroactive pay raises will be included, and the city has no reserves set aside for such raises. How the contracts are handled could be very expensive for New Yorkers.

Personnel costs, including salaries and benefits, make up more than half of the city's $72 billion budget. The vast majority of the workforce is unionized, and all labor contracts had expired as of July 2012, some as long ago as 2009.

Mayor Bloomberg proposed a three-year wage freeze as part of a broad strategy (that also included tax increases, cutting spending and advocating for state mandate relief) to balance the budget in the wake of the recession. While state employee unions agreed to similar terms with Governor Cuomo, none of the city union leaders agreed to the freeze. Negotiations have come to a standstill, as the leaders wait for what they hope will be a better deal from the next mayor.

Pressure to settle the contracts quickly is not high; teachers, uniformed employees and others continue to receive step increases, or automatic pay bumps linked to milestones in service. More importantly, the city has traditionally provided newly negotiated raises retroactive to the effective date of the new contract.

Moreover, some unions may seek to take the decision out of the mayor's hands. Under state law, police and fire unions may go to binding arbitration before the Public Employment Relations Board if they are at an impasse in the negotiations. Those arbitration decisions can have a spillover effect on settlements with other unions.

Granting the retroactive pay would have severe fiscal consequences. Given other fiscal pressures, Mayor Bloomberg eliminated the budgetary reserves set aside to pay for wage hikes for prior years. Therefore, any raises negotiated for past years would have to be paid in one lump sum from the city's fiscal year 2014 operating budget. The one-time cost could be more than $7 billion -- 10 percent of the operating budget in that year; and the future recurring costs would be almost $3 billion annually.

There would be no way to pay these large sums without sharp tax increases and significant spending cuts. While collective bargaining should not be conducted in public, with the stakes this high, taxpayers should pay attention to how candidates handle their courtship of union members' votes.

Additional information on the labor contracts is available in a new report by the Citizens Budget Commission. Titled "Seven Things New Yorkers Should Know About Municipal Labor Contracts In New York City," it's available at www.cbcny.org.

New Yorkers should take the time to understand this issue. They will be paying the bill.