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**Hearing before the Council of the City of New York
Contracts Committee**

Displaced Building Service Workers

**New York City
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Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents.

Thank you, Chairman Jackson, for inviting me to present my analysis of the proposed legislation pertaining to displaced building service workers. What happens to building service workers when the ownership of a building changes hands or there is turnover in the cleaning contractor is important not only to the workers immediately affected, and to City taxpayers in general, but in the larger sense, this issue affects the well being of all low- and moderate-income workers in the New York City economy. In several reports, most recently in ***Learning from the '90s, how poor public choices contributed to income erosion in New York City***, the Fiscal Policy Institute has documented how low- and moderate-income workers and their families in New York City generally failed to share meaningfully in the economic growth of the 1990s.¹ Our report concluded that the City and the State of New York need to do more to establish an effective floor under the labor market. This displaced worker legislation is a purposeful step in that direction.

The building service industry is a sizable industry in New York City, employing 88,000 janitors and building service workers. High quality building services are critical in an economy dominated by high profile, high value added industries such as corporate headquarters, media, finance and legal services.

Most building service workers receive good wages, \$16.50 to \$17.50 per hour, and family benefits, including health insurance and pension. These benefits are

¹ Fiscal Policy Institute, *Learning from the '90s*, Sept. 2002, available at:
<http://www.fiscalpolicy.org/learningfromthe90s.pdf>.

critical, especially in view of the increasing tendency on the part of private sector employers to not provide these essential benefits. In the late 1980s, private employers in New York still led the nation in providing health insurance and pension coverage to their workers. By the end of the 1990s, New York's employers lagged the nation overall.²

Good wages and benefits have clear economic benefits for the entire city. The total wages and benefits paid to the estimated 88,000 building service workers in New York City are approximately \$3 billion a year. This represents an enormous infusion into the city economy, and generates another 33,700 jobs and \$1.5 billion in economic output as wages are spent on New York City goods and services and as health benefits are consumed.

In a real estate market as vast as New York's, ownership turnover annually is measured in the hundreds. Industry sources estimate that 100 to 200 office buildings were sold in each of the last two years, and that about 300 residential buildings were sold in each of those years.³ In most cases when a building's ownership changes hands, the building service workers are retained on the job. Sometimes, however, building service workers are dismissed. This can happen whether the workers were direct employees of the previous building owner or employees of a cleaning or building service contractor. In addition to cases where the ownership of the building changes, building service workers are sometimes dismissed as part of a change in cleaning contractors without a change in ownership. SEIU 32B-32J estimates that altogether over the past two years, there has been an average of 300 instances of changes in building service employers – cleaning or security contractors, property managers or owners – in New York City buildings.

Using this information and industry benchmarks, we estimate that about 200 building service workers could be dismissed in any year simply because the ownership of the building changes hands or there is a change in the building service contractor. This worker displacement could entail significant costs for both businesses and taxpayers. These displaced workers might remain unemployed for some period of time, especially if the current economic slump continues. They may also be forced to rely on public assistance benefits such as food stamps and/or Medicaid. In the event they are not eligible to receive unemployment insurance or, as is the case for more and more workers, they exhaust their unemployment benefits, they may receive Temporary Assistance to Needy Families.

Using standard assumptions about public assistance eligibility for a four-person family, we estimate that the displacement of 200 building service workers for an average of six months could be costing taxpayers and employers who pay unemployment insurance premiums roughly \$3.2 million. Given the fact that the

² Fiscal Policy Institute, *The State of Working New York 2001*, p. 32

³ Cushman & Wakefield, unpublished data, 2002, and Costar, Group Inc. unpublished data, 2002.

city's unemployment rate is 7.9% and likely to continue rising in the months ahead, a six-month spell of unemployment following displacement is not out of the question. And if the displaced workers are replaced with workers earning less in wages and benefits, then there would be an additional loss in spending power in the local economy and a corresponding negative "ripple" effect in lost jobs and economic activity.

Thank you.