Citywide Pay Freeze

Savings: Over $1 billion in 2021

The city typically negotiates scheduled wage increases with the unions representing municipal employees covering multiple years in order to provide some stability in the budgeting process. As a result, public-sector wages are slower to respond to a financial crisis or a subsequent recovery than those in the private sector. In some cases city employees have received previously negotiated salary increases even after recessions have reduced revenues and the city's ability to afford these increases. Beyond wage increases, many permanent civil servants are entitled to automatic "step" pay increases or bonuses based on their length of tenure in a position.

As of September 2020, the city has signed contracts with labor unions representing 80 percent of the city workforce in the current 2017-2021 contract round, including Mayoral decrees to authorize similar wage increases for managerial and non-union employees. Many of these raises have already been implemented, although some are pending. Uniformed unions awaiting binding arbitration represent two-thirds of the employees with contracts outstanding. If the city were to eliminate anticipated wage increases for bargaining units without signed contracts, the city would accrue budgetary savings of $518.0 million in 2021 ($146.3 million of current-year costs and $371.8 million of retroactive contract costs). Additionally, if the city were able to successfully argue that it did not have the ability to pay for salary increases for the unsettled contracts currently in arbitration, it would accrue an additional $941.0 million in savings ($307.8 million of current-year costs and $633.2 million of retroactive contract costs). These estimates do not include freezing step increases or longevity bonuses, which would result in greater savings.

There is some precedent for freezing pay in times of economic turmoil. In 2010, Mayor Bloomberg ended negotiations with the United Federation of Teachers on wage increases; the Bloomberg Administration framed their decision as a means of avoiding teacher layoffs during the Great Recession. With recovery from the recession underway, the de Blasio Administration restored these foregone wage increases. During the 1970s, already-negotiated wage increases were frozen by the New York State Financial Control Board under the 1975 Financial Emergency Act; now that the Financial Emergency Act has sunset, a similar wage freeze would require state legislation

Proponents might argue that salaries, wages, and fringe benefits compose half of the city's annual expense budget. Halting salary increases is a release valve to avoid layoffs. In the event that the city recovers sufficiently, a future administration can choose to restore foregone increases. In an environment that necessitates dramatic measures to balance the city's finances, spreading impacts over the broadest swath of employees results in the least interruption of services for the public. This approach also promotes a sense of shared sacrifice when the city at large is struggling..

Opponents might argue that most of the city's workforce has already received wage increases. This proposal punishes some employees for decisions far beyond their control while preserving salaries of larger unions and those with preferential access to the negotiation table. Public labor unions agree to certain base concessions within the state's Taylor law (including a ban on strikes) in exchange for a fair contract process. Establishing a precedent that ignores contractual requirements and conventions when inconvenient harms mutual trust in the process and could have reverberations through future rounds of bargaining.

Prepared by Robert Callahan

Savings Options

Cut Managerial Pay on a Graduated Basis

Savings: $25 million in 2021

The city's managerial workforce is responsible for ensuring that work of city agencies is successfully implemented. These professionals command among the highest salaries in the public sector. Their salaries are more readily adjusted than those of employees subject to collective bargaining, however, because managers' salaries can be changed by the Mayor through executive action rather than through union negotiations.

As of September 2020, there were approximately 8,100 city employees serving in managerial positions, of whom nearly 7,000 earned more than $100,000 a year, a total of $1.1 billion annually. Sixty-two percent of managerial employees are competitive class civil servants, having been permanently appointed after a competitive examination and hiring process. Competitive class managers are typically responsible for directly managing the civil service workforce. In contrast, noncompetitively hired managers and those serving in positions exempt from civil service requirements are more likely to serve in high-level executive positions such as commissioners, agency legal counsel, or special advisors.

The salary reductions could be structured like a graduated income tax, with deeper reductions in earnings for managers whose salaries are higher. To take one example, salaries of managers earning less than $100,000 a year would not be affected, earnings from $100,000 to $150,000 would be reduced by 5 percent, earnings from $150,000 to $200,000 would be cut by 10 percent, and any earnings over $200,000 would be reduced by 20 percent. Under this example, a manager earning $220,000 a year would see their salary reduced to $208,500 [($50,000 x 0.95) + ($50,000 x 0.9) + ($20,000 x 0. 8)]. The average reduction in managerial pay would be about $2,500. A one-time graduated reduction in salary for the 7,000 current managerial employees earning over $100,000 would generate $25.2 million of savings for the city, $20.4 million in salaries and $4.8 million in associated fringe benefits. If these lower salaries become permanent, then the savings would recur in subsequent years.

Proponents might argue that managerial employees are often among the highest-paid city employees, meaning that a reduced salary is less likely to endanger their ability to afford necessities in lean times than might be the case for lower-paid employees. Salary reductions can also avoid the more destructive option of layoffs, which can lead to service reductions or even weaken the local economy, hindering the city's ability to recover. By temporarily reducing salaries that are more discretionary than those of unionized employees, the city can keep more of its workforce on payroll and be prepared to raise managerial earnings when the city's fiscal condition improves.

Opponents might argue that many city managers accept salaries that are lower than in the private sector in exchange for more generous and stable fringe benefits and the satisfaction of public service. Arbitrarily reducing their salaries to generate budget savings, in part because the savings are easier to obtain than through collective bargaining with municipal unions, risks reducing incentives for qualified applicants to make the switch to management or seek public employment altogether. In some cases, salary reductions would result in managers earning less than the employees they manage.

Prepared by Robert Callahan

Eliminate Retiree Health Care Coverage for City Retirees Eligible for Coverage from Another Employer

Savings: $35 million to $70 million in 2022

In general, New York City employees who are eligible to receive a pension upon retirement are also entitled to receive retiree health care coverage from the city. Retirees who do not yet qualify for coverage under the federal Medicare program are provided the same health insurance options that are available to current city employees. The city continues to pay the employer portion of the health insurance premiums for these retirees until they qualify for Medicare. In 2020, the city spent approximately $284.1 million on health insurance premiums for non-Medicare eligible retirees.

While a majority of current New York City retirees are over 65 and therefore eligible for Medicare coverage, many city retirees have years to go before reaching the eligibility threshold. For most non-uniform city employees, pension eligibility is based on age. These employees are typically not eligible to retire, and thus collect benefits, until they reach 62 (although a certain segment of employees reach retirement age at 57). Unlike the non-uniform pension systems, qualifying for retirement in the city's uniform pension systems is based on years of city service. Most members of the city's Police and Fire Pension Systems can qualify for full retirement after just 20 years of city service; 22 years of service are required for individuals hired after July 1, 2009. As a result, a large number of current retirees (over 4,100) are under the age of 50. Many of these younger retirees will remain in the workforce, obtaining non-city jobs while collecting their city pensions.

In many instances, younger city retirees have the opportunity to qualify for health insurance through their current employer. Under this option, any city retiree who has the opportunity to receive health insurance through their current employer would be ineligible for health insurance paid for by the city.

While it is difficult to estimate the number of retirees who choose to be employed while collecting city pensions, if we assume that half of the 36,300 current New York City retirees under the age of 60 have other health insurance options available through their employers, the city would save $69.5 million in the current year.[1] If only 25 percent of these retirees had other health care coverage available, the city's savings would be $34.7 million.

Proponents might argue that the city's retirees not only receive a valuable pension benefit, but they also have the option of a no-upfront cost health insurance plan until they turn 65. This benefit is costly for the city to provide, especially when some retirees can begin collecting retirement health benefits as young as their early 40s. These younger retirees are still well within their prime working years and likely will find other employment opportunities that provide health insurance options. The city should not be liable for the health insurance costs of retirees who choose to find other income sources.

Opponents might argue that this policy would be difficult to monitor and enforce. Moreover, while many city retirees have jobs that offer options for health insurance, those options can be very costly. Opponents could also contend that health insurance coverage for city retirees is a benefit of working in the public sector. Many retirees made their decision to work in the public sector weighing both the income opportunities and the retirement benefits. Altering these benefits decades later is a callous treatment of these former public servants.

[1]We have excluded from this cohort any retiree under 60 designated as a disability-related retirement on the assumption that these retirees would be much less likely to find other full-time employment. There are currently 18,550 retirees under 60 whose retirements are designated as disability-related.

NEW December 2020

Prepared by Jonathan Rosenberg

Require a Health Insurance Contribution by Current City Employees

Savings: $584 million in 2022

City expenditures on employee health insurance have increased sharply over the past decade, and are expected to continue increasing rapidly in the future. The Health Insurance Plan of New York (HIP) base rate increased by 3.2 percent for 2020, and IBO projects that it will rise 5.5 percent annually in both 2021 and 2022. About 96 percent of active city employees are enrolled either in General Health Incorporated (GHI) or HIP health plans, with the city bearing the entire cost of premiums for these workers. Savings could be achieved by requiring all city workers to contribute a share of the cost now borne by the city for their health insurance. This option would require active employees to make a graduated contribution based upon their salary.

Under this option city employees making under $50,000 would contribute 5 percent of the HIP base rate ($450 a year for individuals and $1,182 for families), those earning between $50,000 and $100,000 would contribute 10 percent ($900 and $2,363), those earning between $100,000 and $150,000 would contribute 17.5 percent ($1,575 and $4,136 those earning between $150,000 and $200,000 would contribute 25 percent ($2,250 and $5,908), and those earning over $200,000 would contribute 30 percent ($2,700 and $7,090). The city's savings for a proposal with these contribution rates would be $584.2 million in 2022. Other alternatives could use a single rate for all employees or some variation of the proposed rate structure that could generate more or less savings.

Employee health insurance premium contributions would be deducted from salaries on a pretax basis. This would reduce the amount of federal income and Social Security taxes owed and therefore partially offset the cost to employees of the premium contributions. The city would also avoid some of its share of payroll taxes. Implementation of this proposal would require negotiations with the municipal unions and the applicable provisions of the city's Administrative Code would need amendment

Proponents might argue that this proposal generates recurring savings for the city and potential additional savings by providing labor unions, employees, and retirees with an incentive to become more cost conscious and to work with the city to seek lower premiums. Proponents also might argue that given the considerable increases in health insurance costs in recent years, premium cost sharing is preferable to reducing the level of coverage and service provided to city employees. Finally, they could note that employee copayment of health insurance premiums is common practice in the private sector, and becoming more common in public- sector employment.

Opponents might argue that requiring employees to contribute more for primary health insurance would be a burden, particularly for low-wage employees. Critics could argue that cost sharing would merely shift some of the burden onto employees, with no guarantee that slower premium growth would result. Additionally, critics could argue that many city employees, particularly professional employees, are willing to work for the city because of the attractive benefits package. Thus, the proposed change could hinder the city's ability to attract or retain talented employees, especially in positions that are hard to fill.

Prepared by Jonathan Rosenberg

Savings Options

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds

Savings: $14 million annually

New York City is expected to spend approximately $1.1 billion annually on supplemental employee benefits. These expenditures take the form of city contributions to numerous union administered welfare funds that supplement benefits provided by the city to employees and retirees. Dental care, optical care, and prescription drug coverage are examples of supplemental benefits.

Consolidating these supplemental health and welfare benefit funds into a single fund serving all union members would yield savings from economies of scale in administration and, perhaps, enhanced bargaining power when negotiating prices for services with benefit providers and/or administrative contractors. Many small funds currently represent fewer than 5,000 members. In contrast, the 20 largest funds represent an average of nearly 23,000 members. Although the specific benefit packages offered to some members may change, IBO assumes no overall benefit reduction would be required because of consolidation of the funds.

Using data from the March 2018 Comptroller's audit of the union benefit funds, IBO estimates that fund consolidation could save about $14 million annually. Our main assumption is that fund consolidation could allow annual administrative expenses for 63 welfare funds to be reduced from their current average of almost $180 per member to $173 per member, the average cost of administering the 20 largest funds, in 2015 dollars. IBO also assumes some savings from third party insurance providers through enhanced bargaining power.

Implementing the proposed consolidation of the benefit funds would require the approval of unions through collective bargaining. Note that this proposal has been included among the list of options that will be considered as part of the agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find ways to reduce the cost of delivering health services to the union's membership.

Proponents might argue that consolidating the administration of the supplemental benefit funds would produce savings for the city without reducing member benefits. They might also contend that one centralized staff dedicated solely to benefit administration could improve the quality of service provided to members of funds that currently lack full-time benefit administrators.

Opponents might argue that because each union now determines the supplemental benefit package offered to its members based on its knowledge of member needs, workers could be less well-off under the proposed consolidation. Opponents might also claim that a consolidated fund administrator would not respond to workers' varied needs as well as would individual union administrators.

Updated October 2018

Prepared by Jonathan Rosenberg

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Prepared by Jonathan Rosenberg

Double the Incentive Payments for the Health Benefit Waiver Program

Savings: $3 million in 2019, growing annually in the following years

New York City has experienced a dramatic rise in the cost of providing health care to its workforce. From 2007 through 2017, individual and family premiums have increased over 100 percent, from $3,740 to $7,669 and $9,163 to $18,789, respectively. One strategy the city employs to reduce medical expenses is the Medical Spending Conversion Health Benefits Buy-Out Waiver Program. Employees who are covered by another health plan (either through their spouse/partner, parents, or outside employment) are eligible to receive an annual buyout from the city—$500 for waiving individual coverage and $1,000 for family coverage.

With one exception, the buyout waivers have remained at $500 and $1,000 since they doubled in 2008. With waiver payments remaining constant in nominal terms and declining in inflation-adjusted terms, participation in the waiver program gradually declined from 2010 through 2015. In 2016 the city briefly tripled the waiver payments, increasing the number of participants by over 1,000, or 24 percent. Even after payments reverted to $500 and $1,000 in 2017, however, the number of employees participating in the buyout program barely declined, dropping by approximately 170 (2.6 percent). In 2017 the number of takers for the waivers remained 20.6 percent higher than it was in 2015.

Under this option the city would double the health waiver benefit payments to roughly reflect the increase in premium costs over the last decade, providing a greater incentive for employees to join the program. Assuming a modest increase in the waiver participation rate rather than the declines seen in past years where payments stayed flat, IBO estimates that doubling the current payment levels would save the city an additional $3.3 million in the first year. Savings will continue to grow as health insurance premium costs continue to rise, outpacing the impact of possible future declines in waiver program participation.

Proponents might argue that the amount of the waiver has not been permanently increased in 10 years while the city's premium costs have doubled. Moreover, proponents could argue that an increase need not be as large as in 2016 when the city tripled the waiver payments and program signups spiked, but the net savings grew by a relatively modest 9.2 percent. Even a more modest increase would be sufficient to generate savings. Proponents also might ontend that a regular calibration of the real value of the waiver payment to the increase in health care premium costs would enable the city to achieve a more balanced incentive and attract a greater pool of participants.

Opponents might argue that in years when the waiver amounts have remained steady the net number of waiver takers has barely declined despite the drop in the real value of the waiver amounts, and thus each year the city has accrued greater annual savings per participant. So long as participation does not precipitously drop, the city should not further subsidize waiver takers who already have outside coverage in order to attract new waiver beneficiaries. They may also argue that increased participation in the waiver program would reduce the number of employees in the city's pool of health insurance recipients. At some point, if too many employees opt out of the city's health insurance program, the city's bargaining power with the health insurance companies may diminish, leading to higher premium costs.

Prepared by Robert Callahan

Eliminate Additional Pay for Workers on Two-Person Sanitation Trucks

Savings: $48 million in the first year

Currently, Department of Sanitation employees receive additional pay for productivity enhancing work, including the operation of two-person sanitation trucks. Two-person productivity pay began approximately 30 years ago when the number of workers assigned to sanitation trucks was reduced from three to two and the Uniformed Sanitationmens' Association negotiated additional pay to compensate workers for their greater productivity and increased work effort.

In addition, certain Department of Sanitation employees also receive additional pay for operating the roll-on/roll-off container vehicles. These container vehicles, which are operated by a single person instead of two people, are used primarily at large residential complexes, such as Lefrak City and New York City Housing Authority developments.

Under this option, two-person productivity payments would cease, as assigning two workers to sanitation trucks is now considered the norm. Moreover, the one person roll- on/roll-off container differential would be eliminated.

In 2018, 5,975 sanitation workers earned a total of $42.6 million in two-person productivity pay—$7,135 per worker on average. In 2018, 191 sanitation workers accrued $1.8 million in one person roll-on/roll-off container differential pay, averaging out to $9,392 per sanitation worker. Eliminating these types of productivity pay would reduce salaries and associated payroll taxes in the sanitation department by about $48 million in the first year. Because productivity pay is included in the final average salary calculation for pension purposes, the city would also begin to save from reduced pension costs two years after implementation (the delay is due to the lag methodology used in pension valuation), and the estimated savings jumps to nearly $57 million.

This option would require the consent of the Uniformed Sanitationmens' Association.

Proponents might argue that employee productivity payments for a reduction in staffing for sanitation trucks are extremely rare in both the public and private sector. Since most current sanitation employees have never worked on three-person truck crews, there is no need to compensate workers for a change in work practices they have never experienced. Moreover, in the years since these productivity payments began, new technology and work practices have been introduced, lessening the additional effort per worker needed on smaller truck crews. Finally, some may argue that eventually, the productivity gains associated with decades-old staffing changes have been embedded in current practices making it unnecessary to continue paying a differential.

Opponents might argue that these productivity payments allow sanitation workers to share in the recurring savings from this staffing change. Additionally, since sanitation work takes an extreme toll on the body, the additional work required as a result of two-person operations warrants additional compensation. Finally, eliminating two-person productivity payments will serve as a disincentive for the union and the rank and file to offer suggestions for other productivity enhancing measures.

 Prepared by Jonathan Rosenberg

Eliminate Reimbursement of Medicare Part B Surcharge to High-Income Retirees

Savings: $40million annually

In 2007, the federal government began imposing additional Medicare Part B premiums on higher-income enrollees. The additional premiums, which are added on to the standard monthly premium, are referred to as Income Related Medicare Adjustment Amounts, or IRMAA premiums. Single retirees with annual incomes above $87,000 and married couples with incomes above $174,000 are required to make monthly IRMAA premium payments ranging from $58 to $347 per enrollee, depending upon total income.

Only about 10 percent of city retirees currently enrolled in Medicare Part B have incomes high enough to be required to make IRMAA premium payments. However, the City of New York fully reimburses all Medicare Part B premium costs, including IRMAA premiums, for city retirees, with a lag of about one year. Under this option, the city would no longer reimburse its retirees enrolled in Medicare Part B for any IRMAA premium payments they are required to make. The annual savings are estimated to be about $40 million.

Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented directly through City Council legislation.

Proponents might argue that the federal government has seen fit since 2007 to require relatively high income Medicare Part B enrollees to contribute more for their coverage than standard enrollees. Therefore, it is inappropriate for the city to essentially shield relatively well-off municipal retirees from that decision by continuing to reimburse their IRMAA premium payments. They would also argue that the financial impact on higher-income retirees would be relatively small, particularly given that the city would continue to reimburse their standard monthly premiums for Medicare Part B coverage.

Opponents might argue that a single retiree in New York City with an annual income of $87,000 (or a couple with an annual income of $174,000) should hardly be considered wealthy. Therefore, it is not unreasonable for all their Medicare Part B premium costs to be fully reimbursed. They might also argue that if any reduction in reimbursement of Medicare Part B premiums is to take place, it should not impact current retirees, but instead only future retirees who would at least have more time to make adjustments to their plans for financing retirement.

Prepared by Jonathan Rosenberg

Savings Options

Reduce City Reimbursements to Retirees For Standard Medicare Part B Premiums

Savings: $148 million in the first year

Eligible city retirees and their spouses/domestic partners are currently entitled to three types of retiree health benefits: retiree health insurance, retiree welfare fund benefits, and reimbursement of Medicare Part B premiums. Medicare Part B covers approved doctors' services, outpatient care, home health services, and some preventive services.

As of 2016, the standard Part B premium paid to Medicare by enrolled city retirees was about $105 per month, which translates to $1,259 per year or $2,518 per year for couples. The city at present fully reimburses all such premium payments, with a lag of about one year. Under this option, New York City would reduce standard Medicare Part B premium reimbursements by 50 percent, which would affect all enrolled city retirees and save the city $148 million in the first year.

Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented directly through City Council legislation.

Proponents might argue that reduction of Medicare Part B reimbursements is warranted because the city already provides its retirees with generous pension and health care benefits. Proponents might also note that the majority of other public-sector employers (including the federal government) do not offer any level of Medicare Part B reimbursement as part of retiree fringe benefit packages, and those that do typically offer only partial reimbursement.

Opponents might argue that reducing the reimbursement rate for standard Medicare Part B premiums could adversely affect relatively low-income retirees, many of whom may be struggling to survive on their pension and Social Security checks. They might also argue that if any reduction in reimbursement is to take place it should be limited to future (but not current) retirees who would at least have more time to make adjustments to their plans for financing retirement.

Prepared by Bernard O'Brien

End City Contributions to Union Annuity Funds

Savings: $155 million annually

In addition to a city pension, some city employees are eligible to receive an annuity payment from their union, or in the case of teachers through the Teacher's Retirement System (TRS), upon retirement, death, termination of employment, or other eligible types of exit from city service. Virtually all of these unions offer lump-sum payments, though some also offer the choice of periodic payments, the form of payment available to eligible TRS members. Aside from members of United Federation of Teachers and Council of Supervisors and Administrators enrolled in TRS, most eligible employees are members of either the uniformed service unions or Section 220 craft unions representing skilled-trade workers (such as electricians, plumbers, and carpenters). The city makes monthly contributions to unions' or TRS annuity funds, with per member contributions varying by union, hours worked during the month, and in some cases, tenure. The value of these annuity payments depends on the total amount of city contributions and the investment performance of the annuity funds.

This option would end the city's contributions on behalf of current workers to union annuity funds and the TRS. If adopted, this option would effectively eliminate the benefit for future employees and limit it for current employees. Current eligible employees would receive their annuity upon retirement, but its value would be limited to the city's contributions prior to enactment of this option plus investment returns. The annuities of current retirees would not be affected. In fiscal year 2018, the city made approximately $129 million in union annuity contributions and $26 million to TRS. Annual savings from this option would be comparable. Implementation of this option would require the consent of the affected unions.

Proponents might argue that the city already provides generous support for employees' retirement through city pensions and, for some, recurring Variable Supplement Fund payments. Others might argue that it is inherently unfair for some union members to get this benefit, while other union members do not. Moreover, because employees eligible for annuities forgo further city contributions to their annuities when they move into management, there is a disincentive for these employees to leave their union jobs. Eliminating annuity benefits would remove this disincentive and enable the city to attract more qualified applicants for management positions.

Opponents might argue that annuities are a form of deferred compensation offered in lieu of higher wages and that the loss of this benefit without any other form of remuneration would be unfair. Moreover, some could contend that this benefit should actually be expanded for newer uniformed employees, since their pension allotment will be reduced at age 62 by 50 percent of their Social Security benefit attributed to city employment.

Prepared by Robert Callahan

Savings Options

Increase the Service Requirements For Retiree Health Insurance

Savings: $12 million in 2029, growing to $37 million in 2031

Most city employees receive subsidized retiree health insurance if they collect a pension from one of the city-maintained retirement systems. Employees hired on or before December 27, 2001 become eligible after completing a minimum of 5 years of credited service while those hired after that date are required to complete 10 years. Under this option, all new employees would need to have at least 15 years of credited service, in addition to the other current requirements, before becoming eligible for subsidized retiree health insurance. This option is modeled after the agreement between the city and the United Federation of Teachers to increase from 10 to 15 the number of years of service required for retiree health insurance.

Adopting this option would generate savings only after 10 years, since it would affect new employees who would otherwise retire with more than 10 years but less than 15 years of service under the current system. If the option were to take effect at the start of 2019, the savings would begin in 2029—an estimated $11.5 million in the first year—and increase to $36.8 million in 2031. The savings come from workers no longer being eligible for retiree health insurance, a reduction in certain Retiree Welfare Fund and Medicare Part B benefits contingent on eligibility for retiree health insurance, and from employees delaying their retirement to qualify for retiree health insurance.

This option can only be adopted through collective bargaining.

Proponents might argue that since retiree health insurance is an extraordinary fringe benefit to former employees, it is not unreasonable to ask that this benefit be reserved only for those who have served the city for a long period of time. This option would help reduce pension costs because it would induce some employees to defer retirement, increasing the length of time some retirees would make pension contributions. This option could also boost the city's creditworthiness because it would reduce its reported liabilities for post-employment benefits.

Opponents might argue that this option would make it harder to attract highly qualified people to city government, particularly for certain hard-to-fill titles—such as engineers, architects, finance analysts, and others—where nonpecuniary fringe benefits such as retiree health insurance substitute for the city's less competitive pay. If the reduction in retiree benefits increases turnover, costs associated with attracting and retaining personnel will increase. They might also point out that this option would especially affect some of the city's lowest-paid workers, such as school crossing guards and school lunch aides, who rely on this untaxed fringe benefit as a significant part of their retirement package. Finally, the option could also increase the city's Medicaid spending if some employees who otherwise would have been eligible for retiree health insurance instead enroll in Medicaid.

Savings Options

Require a Health Insurance Contribution by City Employees and Retirees

Savings: $557 million in 2019, $590 million in 2020

City expenditures on employee and retiree health insurance have increased sharply over the past decade, and IBO expects these costs will continue to increase at a fast rate. The Health Insurance Plan of New York (HIP) base rate has increased by 6.5 percent for 2018, and IBO projects that the HIP base rate will increase by an estimated 5.9 percent and 5.8 percent annually in 2019 and 2020, respectively. About 96 percent of active city employees are enrolled either in General Health Incorporated (GHI) or HIP health plans, with the city bearing the entire cost of premiums for these workers. Savings could be achieved by requiring all city workers and those retirees not yet on Medicare to contribute 10 percent of the cost now borne by the city for their health insurance, with the city contributing 90 percent of the HIP rate.

IBO anticipates that the employee contributions would be deducted from their salaries on a pretax basis. This would reduce the amount of federal income and Social Security taxes owed and therefore partially offset the cost to employees of the premium contributions. The city would also avoid some of its share of payroll taxes.

Implementation of this proposal would need to be negotiated with the municipal unions and the applicable provisions of the city's Administrative Code would require amendment. Under an agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find health insurance savings to help offset the cost of salary increases in the current round of collective bargaining, a similar proposal could be considered if agreement cannot be reached on achieving the necessary savings through other options.

Proponents might argue that this proposal generates recurring savings for the city and potential additional savings by providing labor unions, employees, and retirees with an incentive to become more cost conscious and to work with the city to seek lower premiums. Proponents also might argue that given the recent significant dramatic rise in health insurance costs, premium cost sharing is preferable to reducing the level of coverage and service provided to city employees. Finally, they could note that employee copayment of health insurance premiums is common practice in the private sector, and becoming more common in public-sector employment.

Opponents might argue that requiring employees and retirees to contribute more for primary health insurance would be a burden, particularly for low-wage employees and fixed-income retirees. Critics could argue that cost sharing would merely shift some of the burden onto employees, with no guarantee that slower premium growth would result. Additionally, critics could argue that many city employees, particularly professional employees, are willing to work for the city despite higher private-sector salaries because of the attractive benefits package. Thus, the proposed change could hinder the city's effort to attract or retain talented employees, especially in positions that are hard to fill. Finally, critics could argue that free retiree health insurance was part of the social contract between the employee and the city, and that it would be unfair to break this implied contact, particularly for retired workers who have few options to adjust if a benefit they were counting on becomes more expensive.

Updated March 2018

Prepared by Robert Callahan

Merge Separate City Employee Pension Systems

Savings: $20 million in the first year, growing to $41 million in two years

New York City currently maintains five retirement systems: the New York City Employees' Retirement System (NYCERS), the New York City Teachers' Retirement System (TRS), the Board of Education Retirement System (BERS), the Police Pension Fund, and the Fire Pension Fund. This option would reduce the number of retirement systems to three—the same number that New York State maintains—by merging the city's Police and Fire Pension Funds into one system for uniformed police and fire personnel, and by transferring employees currently covered by BERS to either NYCERS or TRS.

The Police and Fire Pension Funds have very similar retirement plans making a merger of these two systems quite feasible. BERS covers civilian, nonpedagogical personnel employed by the Department of Education and the School Construction Authority, plus a small cohort of other personnel, such as education analysts, therapists, and substitute teachers, represented by the United Federation of Teachers (UFT). Under this option, the UFT-represented employees who are eligible for BERS would be merged into TRS, while the rest of BERS would be merged into NYCERS.

The estimated savings from merging pension systems, which would require state legislation, would come from reduced staffing made possible by greater administrative efficiencies, lower fees for investment fund advisors and program managers due to better bargaining power, interagency savings, and real estate savings. The city could also realize additional annual savings as a result of fewer audits by the Comptroller, and greater efficiencies in the Office of Actuary and other oversight agencies. There would be significant one-time costs of moving, training, portfolio rebalancing, and other transition expenses if this option were implemented. Allowing for these first year costs, the option would realize $20 million in savings in the first year, increasing to $41 million two years later.

Proponents might argue that given the broad overlap in the functions of the systems, it is wasteful to maintain separate administrative staffs in separate office spaces. Proponents could point out that the main differences between the police and fire pension systems relate only to actuarial assumptions and a few plan provisions. They could also note that recent pension reforms (Chapter 18) have placed almost all new BERS and NYCERS employees in the same retirement plan, thus facilitating any merger. Moreover, for BERS members who joined the pension plan prior to Chapter 18, there are plans in TRS and/or NYCERS with little, if any, differences regarding eligibility determination, benefit calculation, or credit for service time. Finally, many could advocate for this option because it achieves pension reform savings without adversely affecting retirement system members.

Opponents might argue that some differences between plans would complicate implementation of the option. Non-UFT members of the Board of Education Retirement System transferred to NYCERS would lose an attractive tax-deferred annuity benefit. Future school-based, part-time employees now in BERS would have to work about 25 percent more hours to obtain one year of credited service if their pensions were transferred to NYCERS. Some would argue that there are occupational and cultural differences between the police and fire departments that warrant separate pension systems. Opponents might also note that the city recently proposed merging BERS into TRS, but that the proposal was dropped due to union opposition.

Prepared by Jonathan Rosenberg

Savings Options

Peg Health Insurance Reimbursement To the Lowest Cost Carrier

Savings: $46 million in the first year

The city is obligated to pay the cost of health insurance for active and retired city employees at a rate equal to premiums for the Health Insurance Plan's (HIP) health maintenance organization. Additionally, collective bargaining has established the Health Insurance Premium Stabilization Fund (HIPSF) in part to allow city employees and retirees who are not yet eligible for Medicare to select the Group Health Incorporated's (GHI) comprehensive benefit plan at no cost.

When GHI's premiums are higher than HIP's, money in the fund is used to cover the difference. When the GHI rate is lower than the HIP rate, as it has been in recent years, including the current year, the city budgets for health insurance at the HIP rate and contributes the excess over the cost of GHI-enrolled employees to the fund. In addition, under a labor agreement the city contributes $35 million annually to HIPSF.

Under this option, the city would tie its budget for employee health insurance to the lowest cost provider for active employees. Employees selecting health insurance whose cost exceeds the rate charged by the lowest-cost carrier would either pay the difference themselves or, if the city and unions choose, have the premium differential paid in full or in part by the HIPSF, assuming there is enough money in the fund. To sustain HIPSF, the city would continue its annual $35 million contribution. Funding for health insurance of current and future retirees would not be affected, and the city would continue to peg funding to the HIP rate. It also would continue contributing to HIPSF to the extent the current non-Medicare retirees' GHI premium is below the HIP rate.

This option would save the city an estimated $46.2 million next fiscal year and similar amounts in following years. IBO's estimates reflect projected headcounts and an expected narrowing of the difference between GHI and HIP premiums in the coming years. Note that this option is among those that will be considered as part of the agreement between the city's Office of Labor Relations and the Municipal Labor Coalition to find health insurance savings to help cover the cost of the current round of collective bargaining and would require changes to the city's Administrative Code and union contracts.

Proponents might argue that this option allows the city to slow the growth in health insurance obligations without bringing hardship to city employees who would still have the opportunity to maintain a premium-free health insurance plan. Moreover, the overwhelming majority of city employees (74.4 percent, excluding those with insurance waivers) now choose GHI, the current lowest cost carrier. Should HIP become the lowest-cost provider, current HIPSF balances could cover in part or in whole any premium shortfalls for employees who select a different carrier. Finally, this option would allow other carriers to revise their health insurance package to become viable competitors with the lowest-cost carrier.

Opponents might argue that removing the requirement to offer the HIP option would allow the city to offer a very low-cost health insurance plan without regard to quality. This proposal would reduce city contributions to HIPSF, which could quickly deplete the fund if the city maintains other HIPSF-funded benefits, such as the mental health/substance abuse rider or welfare benefits for line-of-duty survivors. If HIP becomes the lowest-cost provider and HIPSF funding is not available, obtaining premium-health insurance would become more difficult for employees who reside in New Jersey, where health care through HIP is limited. Additionally, this option could significantly increase health insurance costs of employees selecting plans other than GHI or HIP by widening the difference between their plan and the premium-free plan.

Prepared by Robert Callahan

Shift Payment of All Fees for Commuter Benefit Plans to Employees

Savings: $700,000 annually

New York City employees have access to a variety of pre-tax benefit plans. Among the options available to employees are plans providing pre-tax benefits for the cost of commuting. Beginning in April 2019 the city contracted with Edenred to manage the provision of these commuter benefits on a per-user fee. Edenred's fees range from $1.25 to $2.05 for each user per month.

Prior to 2010 the city directly managed the pre-tax commuter benefit program with the administrative costs paid for by the city. In 2010 the city contracted with WageWorks to manage the benefit program. The contract allowed the city to offer a wider variety of commuting options to the plan participants. The city and its labor unions agreed that going forward, the city rather than employees would pay the commuter benefit administrative fee for those participating in commuter benefit plans that had existed prior to the shift to WageWorks. Employees who enrolled in the Transit Pass program, the Park-n-Ride program or the Unrestricted Commuter Card program—all programs newly available to city workers following the shift to WageWorks—were required to pay the administrative fee out of their post-tax income.

Over the past six years the city's fee payment for commuter benefits averaged $858,000 annually; in calendar year 2016 the city paid the fee for over 49,000 participating city employees. The new contract with Edenred reduces the city's administrative fees by about 30 percent overall to an estimated $700,000 annually at current usage rates. Because the Internal Revenue Service treats the payment of these city-subsidized fees as a fringe benefit, this arrangement increases the employees' taxable income, thus reducing the benefit of the payment. In 2016 nearly 22,000 other city employees participated in commuter plans in which the employee paid the WageWorks fee, paying a total of nearly $270,000.

This option would shift the monthly payment of the pre-tax commuter benefit fee for all of the commuter benefit programs to employees, ending the distinction between participants in different plans. The elimination of this fee would have to be done as a part of a collective bargaining agreement between the city and its labor unions.

Proponents might argue that the city is treating the variety of pre-tax commuter plans differently in subsidizing users of certain plans while not subsidizing those who opt for other plans. They could point out that the fees employees would now have to pay are relatively small compared with benefits received and that they would no longer be taxed on the fee since the city is no longer paying it.

Opponents might argue that city employees have never had to pay the fee for these pre-tax commuter plans and this change would result in a reduction in benefits provided to employees. They might also point out that for at least some of the lowest paid city employees, the extra burden of paying the fee could deter them from taking advantage of the program.

Prepared by Jonathan Rosenberg

Stop Including Overtime Pay When Calculating City Employee Pensions

Savings: $10 million in 2021, and growing annually

A key factor in determining the monthly pension received by a retiring city employee is his or her final average salary (FAS). Based on legislation enacted in 2012, for city personnel joining one of the five city-maintained retirement systems on or after April 1, 2012, final average salary in most cases equals average pensionable earnings in the last five credited years before retirement. Among the other pension reforms was a limit on the amount of pensionable overtime pay allowed in the FAS calculation for almost all civilian employees: $15,000 a year, adjusted annually for inflation. Overtime for police, fire, and other uniformed service employees, as well as a small group of civilian employees, remains fully pensionable.

Under this option all overtime pay for all city employees would be eliminated in the calculation of FAS for pension purposes. Based on the current lag methodology, if this option took effect at the beginning of 2019, pension savings would start to accrue to the city in 2021 when they would equal $10 million. In subsequent years, the savings would increase by a comparable amount each year as the city replaces personnel leaving city employment with new hires whose overtime would not be pensionable. A significant share of these savings would come from the reduced costs of uniformed employees' pensions, as these workers typically accrue a considerable amount of overtime in their final years of employment, boosting their final average salaries and therefore their pensions.

This option would need state legislative approval.

Proponents might argue that pension amounts should not be based on overtime pay because unlike other types of pay that regularly add to the base salary, such as longevity and differential pay, overtime compensation varies widely and should not be considered a part of regular wages. Others might also argue that the current situation, in which only some city personnel are subject to an overtime ceiling, is inherently unfair. Additionally, if overtime pay were not a factor in pension costs, managers would have more flexibility to assign overtime to city workers without incurring associated pension costs.

Opponents might argue that if managers employ overtime instead of the often more expensive option of hiring new employees, current employees should be allowed to share in the savings by having overtime pay included in the pension calculation. They also might argue that within some work units, overtime earnings are so typical that they should be considered a portion of regular, pensionable pay. Some could also argue that for civilian employees, increasing overtime pay at the end of one's career is a needed hedge against inflation, since current cost-of-living adjustments for civilians—applied only to the first $18,000 of one's pension at 50 percent of the consumer price index, with a maximum annual adjustment of 3 percent—will not keep up with inflation. Furthermore, the impact of eliminating overtime as pensionable pay is compounded for uniformed personnel because when these workers become eligible for Social Security, at age 62 or earlier in some cases, their pensions are reduced by 50 percent of their Social Security benefits attributable to city employment—benefits derived from total pay regardless of whether it is pensionable.

Prepared by Robert Callahan

Switch to Auto-Loading Garbage Pick-Up in Low-Density Neighborhoods

Savings: $30 million annually

The Department of Sanitation (DSNY) currently uses single or dual bin rear-loading trucks to pick up the majority of curbside refuse in New York City. These trucks require two DSNY workers—one to drive while the other manually loads curbside refuse onto the truck. Alternatively, the city could shift to using automatic side loading sanitation trucks in some areas. These trucks use mechanical arms to pick up standardized plastic garbage cans curbside and dump them overhead into the truck before replacing the empty can on the curb. If use of these auto-loading trucks were expanded in low-density neighborhoods, only one sanitation worker would be required per route, lowering DSNY labor costs. Additionally, eliminating the requirement to repeatedly lift heavy bags or cans on these routes could reduce injuries and worker compensation costs.

Many municipalities across the country have switched to automatic loading sanitation trucks and have successfully lowered waste collection costs. However, these trucks are usually deployed in low- to moderate-density areas because high density areas lack the requisite curbside space for them to operate. In New York City, this would mean restricting the use of auto-loader trucks to Staten Island and outlying areas of Brooklyn, the Bronx, and Queens. Rear auto-loading sanitation trucks could be used in high-density neighborhoods, but these trucks would still require a second sanitation worker to move the garbage cans onto the lifting platform, which eliminates much of the savings on labor. Parking and street cleaning regulations would need to be coordinated to facilitate the auto-loaders, especially in areas that do not have alternate side of the street parking rules.

If neighborhoods with a density of under 30,000 residents per square mile were converted to auto-loading pickup, about 32 percent of city refuse, or 815,000 tons per year, could be collected on single-worker routes, achieving annual savings of about $30 million. This would require purchasing around 700 new side-loading trucks, which cost around $50,000 more per truck than regular sanitation trucks, and supplying participating households with truck-compatible bins at $50 apiece. The new trucks would be expected to last roughly as long as the city's current trucks, but would likely have higher maintenance costs, estimated at $7.4 million per year. The estimated $30 million in annual savings is net of these costs.

Proponents might argue that New York is currently behind in taking advantage of new collection truck technology, and by using auto-loaders in neighborhoods where it is feasible, substantial savings on labor costs could be realized. In addition, it would create a safer work environment for DSNY workers. Switching to the uniform hard plastic garbage cans that are required for auto-loaders could make streets cleaner by containing leaks and smells and making it more difficult for rodents to rummage in the trash.

Opponents might argue that reducing the number of sanitation workers per route could involve difficult union negotiations that could reduce savings. In addition, the new trucks cost more to purchase and maintain. Residents may also be opposed to increased parking regulations, especially if they do not see the benefit of cleaner streets.

Prepared by Daniel Huber

Savings Options

Eliminate Supplemental Subsidy for School Bus Drivers

Savings: $35 million annually

Since 2014, the city has been paying a subsidy to school bus transportation firms through a grant program administered by the Department of Small Business Services. The grant provides funding to private school bus companies to hire and retain school bus workers from a seniority list, with salary, health, and retirement benefits comparable to what they had previously earned working for companies under contract with the Department of Education. The pre-2014 contract included so-called employee protection provisions (EPPs), which were first included in bus contracts following a strike by school bus employees in 1979. The provisions required contracted bus companies to give priority in hiring to workers who had become unemployed when their previous employers lost bus contracts; these employees would receive the same pay and benefits they had previously received. EPPs covered thousands of school bus drivers, attendants, dispatchers, and mechanics.

EPPs were eliminated in 2012 following a lawsuit in which the New York Court of Appeals determined that they violated competitive bidding laws. The Bloomberg Administration's decision to start contracting without including EPPs led to a month-long school bus strike in 2013, which was settled without restoring the protections for employees. Subsequently, with the support of the incoming de Blasio Administration, the City Council enacted Local Law 44 of 2014, creating the school bus grant program for the 2014-2015 school year. The grant program has been renewed annually through school year 2019-2020.

Under this option, if the school bus grant program was not renewed for this year and subsequent school years, the city would save $35 million annually.

Proponents might argue that such a move is long overdue, as the city's Local Law 44 originally covered only the 2014-2015 school year. They could argue that the subsidy undermines the competitive bidding process, which is intended to award the contract to the firm capable of delivering the best service at the best price. Knowing the city will subsidize their labor costs reduces bidders' incentives to operate efficiently. They could also argue that school bus employee compensation should be settled between the employees and the bus companies and that having the city establish a floor for compensation in a single industry could distort the broader labor market.

Opponents might argue that such a move would eliminate an incentive that city bus contractors presently have to hire and retain experienced drivers and attendants, who they contend are safer than novice workers. They could also argue that the school bus program was meant to temporarily cover bus drivers while changes were made to state contracting rules to allow for EPP-requirement contracts, a move that never materialized in Albany. Finally, they could contend that bus drivers might once again strike for restoration of the grant, creating more havoc as the city schools are trying to recover from the disruptions caused by the pandemic.

Prepared by Conrad Pattillo

Savings Options

Match NYC Ferry Fares to Express Bus Fares

Savings: $35 million annually

Since NYC Ferry launched in 2017, the fare for the service has been set at $2.75 per ride, on par with the cost of a subway fare. Estimates by the Citizens Budget Commission peg the average cost-per-ride to operate the NYC Ferry network at more than $12, with an estimated subsidy of $9.34 per trip—the second highest local ferry subsidy in the nation. The actual cost per ride and required subsidy varies with the volume of ridership and the seasonality of the business. With the planned expansion of the NYC Ferry to Coney Island and Staten Island, taxpayer subsidies for the service are projected to exceed upwards of $20 per trip for certain routes.

Under the city's current pricing strategy for NYC Ferry, operating expenses will continue to outstrip revenue for a transportation service that is primarily used by a small and more affluent subset of the population than other forms of public transit. This option proposes to reduce taxpayer subsidies needed for NYC Ferry by increasing the per-trip fare to $6.75, which is on par with the cost of a trip on Metropolitan Transportation Authority's express bus service. Assuming a 25 percent decrease in ridership in response to the proposed fare increase, this option would generate an estimated $35 million in savings annually, which could potentially grow if ridership continues to increase over time.

Proponents might argue that comparable ferry services in other parts of the country—with per-trip subsidy generally falling within the range of $5 or less—recoup far more of their expenses. The NYC Ferry service is a less crowded, premium mode of transportation similar to the city's express bus services and therefore ferry users should pay a similar fare as express bus riders. A 2019 study indicated that many ferry users have household incomes ranging from $75,000 to $100,000, suggesting that these riders can afford to pay a higher fare.

Opponents might argue that NYC Ferry is a vital piece of the city's ever-expanding transportation network, as it reaches locales that may be underserved by the city's buses and subways. More than doubling the fare could lead to a large loss of ridership if riders are particularly price sensitive, potentially leading to the need for an even higher per-trip subsidy to continue NYC Ferry operations.

Prepared by Conrad Pattillo

Raise Paratransit Fare to Maximum Level Allowed Under Federal Regulations

Savings: $15 million annually

The federal Americans with Disabilities Act of 1990 mandates that transit agencies provide "comparable" paratransit service to individuals who are unable to use regular public transportation. New York City's paratransit program—Access-a-Ride—is administered by NYC Transit, which is the part of the Metropolitan Transportation Authority (MTA) responsible for subway and bus service in the city. Under an agreement between the city and NYC Transit that expired this year, the city paid one-third of paratransit net operating expenses after subtracting out fare revenue, tax revenues dedicated to paratransit, and the program's administrative expenses. In addition, the year-to-year increase in the city subsidy was capped at 20 percent. Earlier this year, however, New York State enacted legislation at the urging of the MTA that increased the city's share of net operating expenses to 50 percent beginning July 1, 2020 (the beginning of fiscal year 2021 for the city, and the midpoint of fiscal year 2020 for the MTA). The MTA projects that the newly enacted funding formula will increase the city's contribution by roughly $100 million per year.

Regulations of the Federal Transit Administration (FTA) permit transit agencies to charge up to twice the base transit fare for paratransit trips. Under the proposed option, the MTA would double the paratransit fare for registered paratransit users and their guests—currently set at the $2.75 fare of subway and bus rides—to $5.50, with the additional revenue applied to the city's contribution.

Access-a-Ride contracts with private transportation firms to deliver paratransit services. This includes paratransit wheelchair-accessible vehicles as well as taxis and livery cars, some of which are additionally wheelchair-accessible. Roughly 80 percent of Access-a-Ride users, however, do not require a wheelchair. The average cost of providing both Access-A-Ride and conventional transit trips varies considerably depending on how administrative and capital costs, as well as depreciation, are treated in official reports. Nevertheless, by any measure it is far less expensive to provide a trip on conventional transit. For calendar year 2019, the contract costs of Access-A-Ride (costs excluding direct capital expenditures and program administration) were $81 per trip on conventional paratransit vehicles, and $34 per trip through car services and taxi companies. The overall average cost of all trips was $54. In contrast, for NYC Transit subways and buses, the average operating expense per ride in 2019 (excluding debt service and depreciation) was just under $4.

Access-a-Ride fare revenue in calendar year 2019 was $23.5 million. IBO estimates that doubling the fare would generate sufficient new revenue to allow a reduction of $15 million in the city's contribution to paratransit, after accounting for the state's recent shift of operating costs to the city. To the extent that NYC Transit and the MTA Bus Company are able to implement improvements that make it easier for disabled customers to use conventional transit, the potential cost savings to both the MTA and the city would be even greater.

Proponents might argue that that paratransit services are subsidized to a far greater degree than conventional transit, and that even if the fare is doubled to $5.50, it will remain well below the cost of a ride using a taxi or livery service, or an app-based ride-hailing service such as Uber or Lyft. At $5.50, the fare would also be less than the $6.75 charged for express bus service, another conventional transit option offered by the MTA. The additional paratransit charge may encourage paratransit users with fewer physical limitations to switch to conventional transit, which costs less to operate.

Opponents might argue that despite ADA requirements that the level of paratransit service be "comparable" to that of conventional transit, wait and travel times can be far longer than for regular subway and bus service, and the higher fare would further exacerbate the disparity between paratransit service and conventional subway or bus service. Also, it is likely that on average, Access-a-Ride users have lower incomes than users of conventional transit, making the fare hike regressive.

NEW December 2020

Prepared by Alan Treffeis

Eliminate City Funding for Nonpublic Schools

Savings: $70 million annually

Students in private and parochial schools are legally entitled to some publicly funded services that are paid either by the state or the school district. State-funded programs and services include: health services, textbook loan program, computer software loan program, transportation, and mandated services reimbursement including for academic intervention services. City dollars provide additional funding for transportation and school safety. Under this option, nonpublic schools, with the exception of private special education schools providing special education and related services under contracts with the Department of Education, would no longer receive city funding. This option does not account for additional savings at the state or federal levels.

State law requires that if city school districts provide transportation for students who are not disabled, the district must also provide equivalent transportation to nonpublic school students in like circumstances. In school year 2017–2018, roughly 207,000 private and parochial school students in New York City were provided transportation either through MetroCards or yellow bus service. Elimination of the transportation benefit for nonpublic schools, which would require a change in state law, could reduce city funding by roughly $55 million—$11 million for MetroCards and $44 million for yellow bus service.

In school year 2016-2017, the city started reimbursing nonpublic schools that chose to hire unarmed security guards, provided they were paid a union-level wage of at least $18 an hour. Schools with 300 to 499 students can be reimbursed for the cost of one unarmed security guard, while schools with 500 to 999 students can get enough money for two guards. Schools with larger populations are entitled to additional security guards. The city expects to reimburse nonpublic schools a total of $14 million in the 2018-2019 school year under this program.

Proponents might argue that when families choose to use nonpublic schools they assume full financial responsibility for their children's education and there is no reason for city subsidies, except for those attending private special education programs. Proponents concerned about separation of church and state might also argue that a large number of nonpublic school children attend religious schools and public money is therefore supporting religious education.

Opponents might argue that the majority of nonpublic school students in New York attend religious schools rather than independent schools. Families using such schools are not, on average, much wealthier than those in public schools and the increased cost would be a burden in some cases. Additionally, the parochial schools enroll a large number of students and serve as an alternative to already crowded public schools. If the elimination of public benefits forced a large number of students to transfer into public schools, the system would have difficulty accommodating the additional students. Opponents also might argue that parents of nonpublic school students support the public schools through tax dollars and are therefore entitled to some public education-related services.

Prepared by Erica Vladimer

End the Department of Education's Financial Role as FIT's Local Sponsor

Savings: $60 million annually

The Fashion Institute of Technology (FIT) is a community college in the State University of New York (SUNY) system. Like all SUNY community colleges, it has a local sponsor, in this case the city's Department of Education, which is required to pay part of its costs. FIT is the only SUNY community college in New York City; all other community colleges in the city are part of the City University of New York system. The city has no financial responsibility for any other SUNY school, even though several are located here.

FIT specializes in fashion and related fashion professions. Originally, it was a two-year community college, but in the 1970s FIT began to confer bachelor's and master's degrees. Today the school has 23 bachelor degree programs along with 6 graduate programs, which account for nearly half its enrollment. Admission to FIT is selective, with fewer than half of applicants accepted; a large majority of its students are full-time and a substantial fraction are from out of state. Thus the school is a community college in name only; functionally, it is a four-year college.

In New York State, funding for community colleges is shared between state support, student tuition, and payments from a "local sponsor." Under this proposal, FIT would convert from a community college to a regular four-year SUNY college; the Department of Education would cease to act as the local sponsor and would no longer make pass-through payments to subsidize FIT. As a result of this change, the college would have to rely more on tuition, state support, its own endowment, and any operational efficiencies and savings that it can implement. This change in FIT's status would require state legislation.

Proponents might argue that there is no reason for FIT's anomalous status as a community college sponsored by the Department of Education; given that it is, in practice, a four-year SUNY college it should be funded like any other SUNY college. They might also argue that because New York City is a major fashion capitol, there are good prospects for philanthropic and industry support to make up for loss of local sponsorship. They might also note that the mission of the Department of Education is to provide for K–12 education for New York City children, and that subsidizing FIT is not relevant to this mission. Finally, they might point out that demand for higher education has been growing—especially at affordable, well-regarded institutions like FIT—so tuition will continue to be a strong revenue source, softening the blow of the loss of city funds.

Opponents might argue that the loss of local sponsorship could lead to a sharp rise in tuition that will offset the affordability of FIT. Additionally, opponents could also point out that the state does not meet its current mandate for funding of community colleges so it is not likely that the state would make up the loss of city funds. They also might suggest that even if the current arrangement does not make sense, the logical alternative would be to incorporate FIT into the city university system, which would not produce savings for the city nor guarantee that the funds would be available for other education department spending. And finally, they could say that other funding sources such as contributions from the business community are too unstable because they can shrink when the economy slows.

Savings Options

Replace Selected MTA Bus Company Service With Street Hail Liveries (Green Taxis)

Savings: $20 million annually

The MTA Bus Company (MTA Bus) was created in 2004 as a subsidiary of the Metropolitan Transportation Authority (MTA). MTA Bus operates local bus service, mostly in the borough of Queens, and express service to and from Manhattan. This bus service was formerly operated by private companies under franchise agreements with New York City. The companies received subsidies administered through the city's Department of Transportation. The MTA agreed to take over the bus routes under the condition that the city would reimburse the MTA for operating expenses net of fare revenues and certain other subsidies. The cost to the city of reimbursing the MTA has grown steadily over time, reaching $462 million in 2017. MTA Bus reported operating expenses of $689 million in 2016, equivalent to $214.22 per vehicle revenue hour (the cost of maintaining one bus in service for one hour). This figure is similar to the $226.46 cost per vehicle revenue hour for New York City Transit buses.

This option would reduce the city's reimbursement to MTA Bus by instituting a pilot project that would replace service on lightly traveled local bus runs in Queens with taxi service. In conjunction with the MTA, the city would identify 10 percent of bus runs with low passenger counts that could be replaced with taxis that agree to "cruise" the pilot routes. After accounting for administrative costs, including possible payments to both the MTA and taxi owners or operators as an inducement to participate in the pilot, IBO's conservative estimate is that the city could reduce its subsidy payment to the MTA by $20 million per year.

Specially marked street hail liveries (better-known as green taxis) would pick up and drop off passengers at stops along the bus route, for a cash fare equivalent to the undiscounted subway and bus fare, currently $2.75 per passenger. Taxis could pick up and discharge multiple passengers along the route, as long as the normal capacity of the vehicle were not exceeded. The fares would go to the driver and taxi owner, not the MTA. Incorporating the MetroCard fare system into taxis would be prohibitively expensive. However, as the MTA moves to new payment systems that use dedicated "smart cards" or bank cards, the payments to taxis could be integrated into the MTA fare system. Until that transition takes place, taxis could partially compensate riders by issuing paper transfers valid for a free bus ride.

According to the city's Taxi and Limousine Commission, the average gross fare revenue per hour (excluding tips) for green taxis was $20.63 in 2015 (A 2017 study of app-based ride services such as Uber in New York City concluded that the mean gross pay for those drivers, excluding tips, was $24.49 per hour.) Assuming that drivers of green taxis can earn $25 per hour providing regular service once tips are included, a driver would need to transport 10 passengers per hour along the bus route at the $2.75 fare to exceed the average taxi fare revenue.

Proponents might argue that replacing buses with taxis on lightly traveled runs represents a more efficient use of public resources. With taxis, service can be provided more frequently, and the hours of service extended. The city's green taxis have been hit hard by the rise of services such as Uber and Lyft, and the proposed pilot would give them a new and important role to play in the transportation system.

Opponents might argue that that the inability to pay with a MetroCard penalizes riders, particularly those with unlimited MetroCards who would be charged a cash fare when the trip would otherwise be covered with their unlimited card. In addition, some users may prefer riding a bus to sharing a taxi with strangers. Others might argue that this change could lead to job losses for the MTA employees currently staffing these bus lines.

Prepared by Alan Treffeisen

Savings Options

Reduce Hours of Operation for 311 Call Services

Savings: $6 million annually

Since it was launched in 2003, New York City's 311 Customer Service Center (known as 311) has been operational 24 hours a day, 7 days a week fielding non-emergency calls. Users of 311 are connected with an operator to receive information, register complaints, and access non-emergency city services; in addition to calls to 311, requests can also be placed through the website, app, or social media. The most frequent 311 requests are complaints about noise and lack of heat, and requests for sanitation to collect large, bulky items. Although the volume of requests to 311 is relatively stable across the days of the week, they are not evenly distributed across all 24 hours of the day. In 2019, 85 percent of 311 requests were placed in the two-thirds of the day between 8 a.m. and midnight. This pattern has held true so far in 2020 as well, even with the surge in less-routine service requests related to the pandemic, Black Lives Matter protests, and Tropical Storm Isaias, in addition to the more typical noise and heat complaints.

This option would cut full 311 service to 16 hours per day—from 8 a.m. to midnight. Users would still be able to submit requests through online platforms at any time, and recorded messages such as the status of alternate side parking would continue at all hours. Reducing the hours of operation for the call center would yield an estimated $6 million in savings annually, primarily through a reduction in costs associated with call center personnel, a mix of both city workers and contractors.

Proponents might argue that scaling back services during the hours when they are unused is a common-sense efficiency. Other major cities such as San Antonio, Denver, and Philadelphia operate 311 systems within set service hours. The 311 service is not intended to address emergencies, and those who are able could use the website, app, or social media platforms to place a request during hours phone operators are not available. The majority of service requests placed after midnight concern noise complaints, many of which either cannot be substantiated or have cleared up by the time the police department responds, or agency-specific questions, which would not be seen by the relevant agency representatives until the following morning anyway.

Opponents might argue that that city residents, workers, and visitors are accustomed to around-the-clock service, and that they should be able to connect with 311 no matter the hour. They would further argue that late-night calls currently made to 311 would be replaced by calls to 911 instead, potentially slowing the city's response to emergencies and potentially compelling the city to add personnel to the 911 system. It is also possible that many of the calls to 311 that would have been made during the night would instead be made when the service resumes at 8 a.m., leading to a spike in early morning calls that could require added staffing on the morning shift.

Prepared by Sarah Stefanski

Savings Options

Reduce Assessment of School Buildings to One-Half of All Buildings Every Year

Savings: $7 million annually

Every year, the School Construction Authority conducts a comprehensive set of building inspections for each school building owned and operated by the Department of Education. The inspections, called the Building Condition Assessment Survey (BCAS), are critical to identifying deficiencies in school buildings in three domains: architectural, electrical, and mechanical. Therefore, inspections are conducted by teams that include an architect, an electrical engineer, and a mechanical engineer, who rate components on a scale from 1 to 5, with “1” denoting the best condition and “5” denoting the worst.

The School Construction Authority contracts the work to one or more private companies each year. For the last school year, 2018-2019, Parsons Brinckerhoff and Amman & Whitney were jointly awarded the contract to inspect each of the more than 1,300 school buildings owned by the Department of Education for a total cost of $16.4 million. On average, teams survey one school building per day. Over the past five years (fiscal years 2015 through 2019), Building Condition Surveys cost the School Construction Authority an average of $14 million a year.

The New York State Education Department requires that building conditions be surveyed once every five years. If, rather than survey all school buildings each year, the School Construction Authority instead surveyed half of all school buildings, the city could save about $7 million annually. This option assumes that the cost of the contract could be halved if the number of buildings surveyed was similarly halved.

Proponents might argue that this would be a good way to cut back on the amount of money spent on contracts and at the same time reduce the disruption to schools when inspections are underway. Biennial inspections would not only exceed the state’s inspection standard but also exceed requirements under the city’s Local Law 11, which requires buildings taller than six stories have their exteriors inspected every five years.

Opponents might argue that about 80 percent of the city’s school buildings were built in 1970 or earlier and frequent inspections are necessary to properly identify deficiencies that need to be addressed. They might also point out that in seeking to balance the risk of allowing potentially dangerous conditions to develop against the cost of more frequent inspections, the city’s first priority should be student safety.

Prepared by Sarita Subramanian

Reinstate Performance Incentive Program for Providers of Shelter for the Single Adult Homeless Population

Savings: $21 million annually

While the city has focused on measures to prevent homelessness and improve shelter conditions, the number of homeless households in city shelters remains high and the average length of stay in shelters continues to increase. This option would revive a model used in both the Giuliani and Bloomberg administrations where the city paid financial bonuses on top of existing operating contracts to shelter providers who helped their clients leave the shelter system. These bonuses were based upon metrics such as length of stay, rates of placement into permanent housing, and rates of households returning to shelter.

Under a new performance incentive program, high-performing providers of shelter for single adults would be granted bonus payments commensurate with any reduction in the average length of stay for their shelter residents compared with the prior year. Payments would only be made, however, if clients who exited a shelter do not return to the shelter system within a year. Such a performance incentive program would be expected to reduce the average length of stays and therefore reduce city shelter costs. There would be no reduction in payments for missing targets, a feature of past iterations of this program.

The average length of stay for single adults in shelter exceeds 13 months, and these shelters are almost entirely city-funded. If a performance incentive program yielded even a 5 percent reduction of care days, the city would save $21 million in annual shelter costs. This assumes that shelter savings are split 50/50 between the city and shelter provider, after accounting for a small number of clients who exit the shelter system but return to a shelter within a year. Shelter providers that serve special populations—such as mental health shelters—could be given modified goals that reflect the needs of those populations. The Department of Homeless Services client database already is set up to allow the agency to track these performance metrics.

If the incentive does not result in reduced shelter stays, the city is not financially worse off because no performance payments would have been paid. Similarly, shelter providers would not be worse off because they would continue to be paid at their contracted rates as they would in the absence of the program.

Proponents might argue that there is no payment difference between keeping one shelter resident there for a longer period versus multiple clients entering and exiting over the same period. Since intake and exit are the most labor-intensive parts of a homeless shelter stay and therefore the most costly, there is currently a financial disincentive to moving shelter residents out. Performance incentive payments provide a monetary motivation for shelter providers to reduce lengths of stay and help exiting clients remain stably housed outside of the shelter system.

Opponents might argue that shelter operators are currently paid at rates to cover the expenses of assisting homeless households to move into permanent housing; they should not need additional incentives to do a job they are already being compensated to do. Shelter providers that serve special needs or particularly difficult clients could potentially lose out on bonuses. The program could lead shelter providers to focus their rehousing efforts on the easier-to-place clients assigned to their shelters and reduce assistance to clients who are harder to place.

Prepared by Sarah Stefanski

Savings Options

Require Landlords of Rental Buildings To Obtain Operating Permits

Savings: $17 million annually

Under current law, owners of rental buildings with three or more apartments must annually register their contact information with the Department of Housing Preservation and Development (HPD) for a $13 fee. There is no relationship between registration and ensuring that a building meets health and safety standards under the city's housing maintenance code. It has been decades since the city routinely inspected apartment buildings. Generally, HPD only inspects apartments for violations of the city's housing code if a tenant complains.

This option would require landlords to obtain an annual permit to operate their buildings, modelled after the city's restaurant permitting requirement. The city of Toronto is implementing a similar program in an effort to spur better housing maintenance by building owners, particularly of lower rent housing. Under this option, landlords would be required to hold a permit for each of their buildings and to either be trained or have a managing agent or other employee trained and certified on the housing code. All buildings would be subject to an annual inspection, and, like restaurants, a posted grade rating.

To ensure access to a property, inspections would be scheduled with owners, who would facilitate inspection of common areas and building systems. Owners would also have to post notice of an upcoming inspection and tenants would have the option of having their individual apartments inspected.

The city would charge an annual fee based on a building's apartment count to obtain a permit, which would cover the annual inspection and training costs. The fee would be about $600 for a 24-unit building (using current inspection costs adjusted for the economies of scale created by performing many inspections in one building at once). Because of these routine inspections, complaint-based inspections would decrease, generating savings for the city. Most of the costs to perform a complaint-based inspection are borne by the city, not the landlord. If complaint-based inspections were to drop by half, the city would save $17 million annually.

Proponents might argue that permits are already required to operate a motor vehicle and to open a restaurant, tasks that, if done improperly, pose a public risk. Failure to maintain safe housing poses a similar risk. Permitting would help ensure landlords know health and safety laws. Landlords would also have an incentive to maintain their buildings properly to receive a good rating while also helping to meet the public policy goal of preserving housing, especially more affordable units. Posted grades would be an easy way to inform prospective tenants of building issues. Restaurant permitting does not appear to hurt the restaurant industry or dramatically increase prices—similar results could be expected for rental buildings.

Opponents might argue that the cost of obtaining a permit and possible increased civil penalties for housing code deficiencies would be passed on to renters. They also might argue that posting ratings publicly might create a stigma for the building's tenants, and that with rent-stabilized tenants often reluctant to give up a lease and limited vacancies at low and moderate rents, it is much harder to move than to choose a restaurant based upon rating information. Additionally, opponents might argue that responsible landlords with few or no housing code violations will now have to shoulder the cost of ensuring that less responsible landlords are maintaining their buildings properly.

Prepared by Sarah Stefanski

Savings Options

Use Open-Source Software Instead of Licensed Software For Certain Applications

Savings: $29 million annually

Each year the city pays fees to maintain a variety of computer software licenses. Many open-source alternatives to traditional software packages are available at no cost for the software. Several cities have transitioned to using open-source software for such functions. For example, Munich, Germany switched from Microsoft to use the open-source systems of Linux and LibreOffice, creating its own "LiMux" system. Under this option the city would reduce its use of licensed software by switching to open-source software. In February 2016, a hearing was held on legislation introduced in the City Council that would require the city to minimize its contracts for licensed software in favor of open-source software.

Initially, the city would need to invest funds to hire developers to create and install the programs, as well as new applications for specialized city programs that would be compatible with the new systems. Staff would need retraining, though some of these costs would be offset by reducing current spending on training for existing software. In recent years, the city has spent an average of $29 million to maintain its Microsoft licenses, which includes email, server technology, and desktop programs for city employees. If the city were to switch from Microsoft to open-source software and reduce what it is now spending on licenses by one-third as it developed the new programs, the initial savings would be around $10 million. In several years, as the city completed the development of its open-source system, the savings could increase to the full cost of the Microsoft licenses.

The city also pays for licenses for other software programs that it uses on a smaller scale, which might be more easily transitioned to open-source software, although city savings would also be much less. For example, many city agencies have individual licenses for analytical software such as SAS and ArcGIS, software that has open-source alternatives such as R and QGIS that could instead be adopted. A city agency with 25 licenses for licensed analytical packages would spend about $32,000 a year to maintain the licenses. If 10 agencies of roughly that size switched from a commercial package to open-source, the city could achieve savings of about $320,000 per year.

Proponents might argue that open-source software has become comparable or superior to licensed software over time and would allow the city more technological flexibility and independence. Moreover, open-source software is constantly being improved by users, unlike improvements to licensed software that are often available through expensive updates. Switching to open-source software would become easier as more employees in other sectors learn to use the software prior to working for the city.

Opponents might argue that purchasing software from established companies provides the city with access to greater technical support. In addition, city workers have been trained and are experienced using licensed software. Finally, new software may not interact as well with the licensed software used by other government agencies or firms.

Tax Parking Placards as a Fringe Bene

Revenue: $13 million annually

New York City-issued parking permits, also known as placards, are issued by the New York Police Department, Department of Transportation, and Department of Education and allow the holder to park in a subset of otherwise restricted parking spaces ostensibly in connection with the conduct of official duties. With legal parking spaces in short supply in much of the city, having access to reserved spaces is a valuable convenience. Currently, there are 125,500 city-issued placards in circulation.

If you qualify for one, a city-issued parking permit can be a valuable benefit of city employment, yet there is no official valuation placed on them. In general, Internal Revenue Service regulations state that employment compensation is subject to tax, including many forms of nonmonetary compensation that flows from employer to employee. Nonmonetary fringe benefits are supposed to be taxed at "fair market value," the amount someone would pay in an arm's length transaction to buy the benefit. Recognizing placards as a fringe benefit, which would require state approval, would enable them to be subject to city income tax.

Using the estimated going rate of counterfeit placard sales and factoring in a premium that a legal placard would presumably command, the fair market value of a placard is about $4,000. With the number of parking permits currently authorized, the total value of outstanding placards is over $500 million. Taxing the value of these placards as income would yield considerable revenue for the city. Even if 25 percent of recipients forgo their placard rather than pay tax on the benefit, the city would generate an estimated $13.1 million in new city tax revenue. If the state chose to recognize parking placards as a form of compensation city employees would also see an increase in their state income tax liability.

Proponents might argue that these placards, which act as a de facto free parking pass for the permit holder, should already be taxable, and formalizing the process could bring the city into closer compliance with federal tax regulations. Taxing placards may also lead to some reduction in the number issued, which in turn would help congestion and potentially reduce the illegal practice of using placards to park in unapproved areas such as next to fire hydrants or in bus and bicycle lanes. Taxing placards would also raise revenue from a car-centric benefit greatly maligned by transit advocates, revenue that could fund other city services.

Opponents might argue that the additional revenue raised from taxing legalized sports gambling does not outweigh the societal costs of increased access to betting, particularly for people with gambling addictions. They might also point out that taxing gambling is a regressive form of taxation, placing the greatest burden on individuals with the lowest incomes. Finally, opponents may contend that the recent history of casino failures shows the market for gambling has become saturated, which suggests further expansion of gambling is unlikely to have much impact on tax revenues.

Prepared by Daniel Huber

Levy an Additional 3 Percent Sales Tax on Alcohol

Revenue: $150 million annually

Alcoholic beverages sold in bars, restaurants, and liquor stores in New York City are currently subject to the general sales tax at a combined rate of 8.875 percent that consists of a 4.0 percent state tax, a 4.5 percent city tax, and 0.375 percent earmarked for public transportation needs. Because excessive consumption often has negative economic and health consequences for individuals, households, and communities, a number of jurisdictions (including Washington, D.C., Maryland, and Tennessee) use higher sales tax rates on alcohol as a tool to discourage excessive consumption while generating extra revenue. This option, which would require approval by the State Legislature, would increase the sales tax applicable to all alcohol sales in New York City by 3.0 percentage points, thereby raising the total tax rate for alcohol to 11.875 percent. Considering annual alcohol sales in New York City's bars, restaurants, and liquor stores, this sales tax increase would result in about $150 million of additional revenue for the city each year.

Proponents might argue that an additional tax above and beyond the general sales tax can be an effective tool to discourage consumption of harmful items—similar to the increase in the cigarette tax in 2002, which is credited with reducing tobacco consumption. Proponents could justify taxing alcohol at higher rates by highlighting the social costs of alcohol consumption, like impaired driving, higher mortality, general health problems, crime, and domestic violence. They would also cite studies indicating that increasing the price of alcohol has been demonstrated to be an effective means of curtailing underage alcohol usage as well as adult binge drinking. They could argue that unlike the existing alcohol excise tax—a flat charge paid by vendors for each gallon sold—which has lost much of its bite when adjusted for inflation, sales taxes are based on a percentage of the price and therefore will maintain their effectiveness over time. Lastly, they could contend that much of the economic impact from such a tax increase would fall on heavy drinkers and individuals who purchase the most expensive alcoholic beverages, and that a portion of the generated revenue could be earmarked for alcohol abuse treatment programs.

Opponents might argue that compared with other revenue-generating options, seeking to raise revenue by increasing sales taxes is inevitably more burdensome for lower-income groups, which spend a larger proportion of their disposable income on consumption goods, including alcohol. They could contend that an increase in the price of alcohol in New York City may increase tax evasion—as has been the case with New York's cigarette taxes, among the very highest in the nation—and shift a portion of alcohol purchases to neighboring jurisdictions. They might also voice skepticism of claims that problem drinkers will lower their alcohol consumption as a result of price increases. Opponents might also argue that instituting a higher tax rate on alcohol would greatly harm restaurants and bars, where profits disproportionately come from the sale of alcohol. Such establishments support tourism and nightlife, local industries that are major employers and important sources of city tax revenue. Finally, opponents could argue that the resulting reductions in personal income and business tax collections might well offset some or all of the revenue gains from increasing the sales tax.

Prepared by Pooya Ghorbani

Adjust the Alcohol Tax to Partially Account for Inflation Since 1980

Revenue: $25 million annually

Since 1980, New York City has taxed wholesale distributors of beer at a rate of 12 cents per gallon and of liquor (with alcohol content greater than 24 percent) at 26.4 cents per liter, or a dollar per gallon. Because this tax is based on volume and the rates have remained unchanged, revenue from the tax has been declining when adjusted for inflation and is now about a third of what it was in 1980. To address the erosion of tax revenue, this option—which requires state approval—would double the current alcohol excise tax to 24 cents per gallon of beer and $2 per gallon of liquor with alcohol content greater than 24 percent, resulting in additional tax revenue of $25 million. If this option were adopted in conjunction with the option to extend the excise tax to wine and other liquor with less than 24 percent alcohol (see page 67), they together would bring in $35 million in additional tax revenue annually—$25 million from doubling the rate on alcohol currently subject to the tax and $10 million from the higher rate extended to wine and other alcohol not currently taxed.

Proponents might argue that since the tax has eroded in real terms over the last 30 years, the city should restore at least a portion of the real value of the tax. On a per serving basis, this would amount to about 1 cent per 12 ounce beer and 1.5 ounce serving of liquor. They might also argue that in addition to boosting city revenue, doubling the rate would make it more effective at reducing consumption and mitigating some of the negative social costs associated with excessive drinking such as drunk driving. Moreover, additional revenue from a tax increase could be used to fund treatment and prevention programs to directly address these problems. Finally, doubling the rate would result in a tax that is still not as onerous as it was in 1980.

Opponents might argue that given that alcohol taxes account for a small proportion of the price of alcohol, even doubling the tax is unlikely to substantially reduce alcohol consumption. They might also argue that a one-time increase does not address the loss in the real value of the tax going forward, as prices rise but the tax rate remains constant in per gallon terms. Further, they would point out that the proposed tax rate on beer—24 cents per gallon—would be higher than the state's own excise tax of 14 cents per gallon. Finally, opponents might also argue that the alcohol tax is very regressive compared with the city's other revenue sources, for two reasons. First, alcohol expenditures, like consumption expenditures generally, are a larger share of income for low-income consumers. Second, since the tax is levied on quantity, instead of price, the tax paid (as a percent of price) is higher for the less costly products lower-income New Yorkers are most likely to purchase.

Updated March 2018

Prepared by Michael Jacobs

Broaden Alcohol Tax to Include Wine and Liquor with Low Alcohol Content

Revenue: $6 million annually

Since 1980, New York City has taxed distributors of beer at a rate of 12 cents per gallon and of liquor (with alcohol content greater than 24 percent) at 26.4 cents per liter, or a dollar per gallon. Wine and liquor with less than 24 percent alcohol are currently exempt from the alcohol excise tax. To address the disparity in taxation between wine and other forms of alcohol, this option would extend the beer tax rate of 12 cents per gallon to wine and other liquor with less than 24 percent alcohol, leaving the combined state and local tax rate on wine well below the state tax rate in New Jersey and Connecticut. This measure—which would require state legislation—would generate an additional $6 million in revenue each year.

Proponents might argue that the exemption of wine and liquor with lower alcohol content from the city's alcohol tax is arbitrary and that similar goods should be treated the same under tax law. They could also argue that in addition to boosting city revenue, broadening the alcohol excise tax base might reduce consumption and mitigate some of the negative social costs associated with excessive drinking such as drunk driving. Moreover, additional revenue from a tax increase could be used to fund treatment and prevention programs to directly address these problems. Finally, they might point out that because New York State's Department of Taxation and Finance already collects both city and state taxes on alcohol, and because the state already levies its own tax on wine and liquor with lower alcohol content, the additional cost of administering the new tax would be very low.

Opponents might argue that given that alcohol taxes account for a small proportion of the price of alcohol, a tax increase is unlikely to change consumption patterns significantly and thus substantially reduce alcohol consumption. Opponents might also point out that excise taxes like the alcohol tax are very regressive compared with the city's other revenue sources, making a relatively bigger dent in the budgets of low- and moderate-income New Yorkers. This regressiveness stems from two sources. First, alcohol expenditures, like consumption expenditures generally, are a larger share of income for low-income citizens. Second, since the tax is levied on quantity of the alcoholic beverage, not price, the tax rate (as a percent of price) is higher for less costly products which lower- income New Yorkers are more likely to purchase.

Prepared by Pooya Ghorbani

Revenue Options

Collect Sales Tax on Capital Improvement Installation Services

Revenue: $275 million annually

Currently both the city and state sales taxes in New York exclude charges for improvements that constitute a permanent addition or alteration to real property, substantially increasing its value or prolonging its useful life. Examples include installation or replacement of central air systems, heating systems, windows, and electrical wiring, and planting trees, lawns, and perennials. Property repair, maintenance, and more minor installation services (including installations of items, such as window air conditioners, that do not constitute permanent additions to real property) are currently subject to the sales tax. By broadening the sales tax base to include capital improvement installation services, this option, which would require state approval, would increase city revenue by an estimated $275 million.

A sales tax exception would be retained for replacements necessitated by property casualties such as storms or fires. Note that the above revenue estimate does not incorporate an estimate for a casualty exception. Nor does it factor in the possibility that imposing the sales tax could reduce the scale of installation services, or lead to substantial tax evasion by the providers and purchasers of these services.

Proponents might argue that there is no economic distinction between real property improvements and other services that are currently taxed; broadening the sales tax base would ensure a more neutral tax structure and decrease differential tax treatment. Others might argue that base-broadening could allow a reduction in the overall city sales tax rate, strengthening the city's competitiveness and diminishing the economic burden imposed by the sales tax.

Opponents might argue that capital improvement installation services, unlike other services, are intermediary inputs whose benefits are not exhausted when they are purchased, but only over a long period of time. Thus a tax on installation services would run afoul of the principle that sales taxes fall on final household consumption. In addition, improvement installation services increase property values. They are therefore already a source of revenue through the city's real property tax and real estate transaction taxes, and to the extent that taxing installation services curtails improvements, it will have a negative impact on revenue from these other taxes. Finally, the tax would hit employment in—and in some cases possibly the existence of—many small firms and subcontractors providing improvement services.

Prepared by David Belkin

Extend Tax on Cosmetic Surgical and Nonsurgical Procedures

Revenue: $30 million annually

A March 2012 ruling by the New York State Department of Taxation and Finance narrowed the exemption of Botox and dermal filler products from the sales tax; this exemption now applies only to instances where these products are being used for clearly medical rather than cosmetic purposes. However, there is still a broad range of cosmetic surgical and nonsurgical procedures that remain exempt from city and state sales taxes. IBO estimated that over $600 million will be spent on currently exempt cosmetic procedures in New York City in 2020. Assuming some impact of taxation on baseline expenditures, extending the sales tax to cover all cosmetic procedures would generate an average of about $30 million per year for New York City. This change requires state approval.

Proponents might argue that all of the reasons for taxing cosmetic articles, such as facial creams or lip balms, and (now) selected cosmetic compounds and applications, apply as well to cosmetic surgery and related procedures. While medical training and certification are required to perform all of the surgical and most of the nonsurgical procedures, the procedures themselves have primarily aesthetic rather than medical rationales—a distinction noted in the American Medical Association's recommendations as to what to exclude from and include in standard health benefits packages. For tax purposes, there is thus no reason to treat cosmetic enhancements differently than cosmetic products: the exemption should apply only to cases where medical conditions or abnormalities are being treated. Insofar as there is an economic return to physical attractiveness, cosmetic procedures may increasingly reallocate income to those who can spend the most on enhancements.

Opponents might argue that rather than seeing cosmetic procedures as luxuries, people increasingly regard them as vital to improving self-esteem and general quality of life. Moreover, they may even be seen as investments that augment professional status and income, which are positively correlated with physical attractiveness. Furthermore, cosmetic surgical and nonsurgical procedures are sought by persons at all income levels. The burden of a tax on these procedures would therefore not fall only on the wealthy. Health benefits never should be subject to a sales tax, and it will not suffice to tax procedures not covered by insurance, because insurers do not provide consistent guidelines.

Prepared by David Belkin

Revenue Options

Implement a Carbon Tax and Dividend

Revenue: $157 million annually

New York City has made some progress in reducing carbon emissions: city residents, businesses, and visitors were responsible for the emission of 52 million tons of carbon in 2016, 15 percent below the baseline metric established in 2005. Despite this progress, additional action will be required to meet the city's goal of an 80 percent reduction by 2050. Fees or taxes on the emission of greenhouse gases are regarded by economists as an economically efficient way to reduce emissions, which can help to slow the pace of global warming and rising sea-levels, while also providing revenue.

Under this option, a tax would be collected by electric, gas, and heating oil companies and would be assessed on energy from each provider according to the carbon intensity of their energy mix. Customers could lower their tax by using less energy or choosing a less socially costly source of energy. The city's ability to collect the tax from a few points in the energy delivery chain with existing collection processes would reduce overhead costs and simplify compliance.

This option, which would institute an initial charge equivalent to $2 per ton, rising to $10 per ton over five years, would generate $307 million annually at the full rate, and cover emissions associated with electricity, natural gas, steam, and heating oil use. In New York, a $10 per ton carbon tax would add approximately 0.3 cents per kilowatt hour, or around 2 percent, to the residential cost of electricity, less than half the rate of some recently imposed local carbon taxes. IBO's estimate assumes that emissions would decline 10 percent in the short run. In the long run, these declines would likely be larger, as building efficiency increases and the market demands cleaner sources of electricity.

In order to alleviate equity issues if the city, with state approval, imposed such a tax, consideration would have to be given to how to protect low-income households. As an alternative to exempting low-income households, a carbon dividend credit could be refunded based on the revenue generated from the carbon tax. IBO assumes that each household—regardless of income—would receive an equal share of the dividend, which would ensure that families are not unduly burdened, but leave in place incentives to reduce energy use.

Instituting a dividend would reduce the new revenue from $306 million to $157 million per year, with the balance refunded to households.

Proponents might argue that charging a tax on each ton of carbon emitted would force consumers to acknowledge the cost of energy use and therefore influence consumer behavior. The revenue could be used to prepare New York City for the costs of climate change or other priorities including reductions in other taxes. They could point to popular carbon taxes in Boulder, Colorado and British Columbia that have led to emission reductions and stable revenue streams while appropriately pricing a resource with large social costs.

Opponents might argue that the fee may encourage businesses to relocate to jurisdictions with lower energy prices or that carbon intensive power would still be generated due to demand outside the city. They also might be concerned about costs to low-income families that are nonetheless high energy consumers. Opponents could argue that eventual regulation on the state or federal level could affect New York City's tax as emissions would be subject to multiple regulatory authorities.

Prepared by Daniel Huber

Extend Sales Tax to Digital Goods, Including Music, E-Books, and Video

Revenue: $34 million annually

Currently, receipts from the sale of digital goods, including music, video, and e-books, are excluded from New York State and New York City sales taxes. (However, sales of digital software are taxed.) This option would extend the local sales tax to digital goods and broaden the sales tax base, consistent with the recommendation of the New York State Tax Reform and Fairness Commission. The demand for physical goods like CDs, DVDs, and books has been declining over the past several years in favor of their electronic substitutes, most notably due to the increase in online streaming of film and music. In response to these changes many states have adapted their tax laws to include digital goods in their sales tax bases, either by including them in their definition of tangible personal property or by explicitly listing digital goods in the delineation of tax base components. If New York State were to extend the New York sales tax base to include digital goods—either for both the city and state or the city alone—this option would result in additional city tax revenue of approximately $34 million, based on conservative sales estimates.

Proponents might argue that digital goods should be taxed in the same way as their physical substitutes so that government tax policy does not distort the consumption decisions of households. They might point out that households that opt for digital goods are relatively wealthier than those that purchase the physical substitutes, so eliminating the current tax exemption for digital goods would lessen the general regressivity of the sales tax. Proponents might further argue that tax law should be responsive to changing markets, so that as the market for physical goods erodes, the tax on its more popular substitute at least partially offsets the loss in revenue. Finally, they might argue that although the litigation surrounding the ability to tax out-of-state vendors applies to both shipped physical goods and digital goods, this is less of a concern in New York State because most of the major vendors, such as Amazon and Apple, have a physical presence in the state.

Opponents might argue that digital goods are inherently different from their physical analogues, especially given that digital goods cannot easily be resold. They might also argue that sourcing is not straightforward for sales of digital goods, since the location of the business selling the good is not as relevant, and there is no physical shipment address in the sale of digital goods. They also might point out that while the delivery of physical goods to stores or customers does impose costs to the city—wear and tear on city streets, air pollution from trucks, police and fire services to protect store property, garbage pick-up of packaging, etc.—the delivery of digital goods makes no such demands on city services and thus there is no justification for subjecting them to the sales tax. Finally, unless the state also adopts this option, extending the city sales tax to digital goods would add to the compliance burden on sellers by significantly undermining the conformity between the city's and state's sales tax bases.

Prepared by Pooya Ghorbani

Impose a 75 Percent Excise Tax on E-Cigarettes

Revenue: $30 million annually

Sales of electronic nicotine delivery systems (ENDS)—often sold as electronic cigarettes or vaporizers—have ballooned since their introduction to the U.S. market in 2007. ENDS devices heat liquid nicotine to allow users to ingest it through vapor, rather than smoke. ENDS products come in two major categories: small disposable and reusable e-cigarettes that look very similar to conventional combustible cigarettes and larger vaporizers that come in many shapes and sizes and are filled with liquid nicotine. The use of e-cigarettes is increasing rapidly, driven by their perceived lower health risk as compared with combustible cigarettes, their declining price, and their convenience. While the long-term health impact of e-cigarette use is not known, they are currently seen as safer than conventional cigarettes.

The federal government does not yet regulate e-cigarettes, but over 40 states have implemented various policies governing their sale and use. New York State bans retailers from selling e-cigarettes to minors and bans e-cigarette use in all public spaces in which conventional cigarette use is also banned. Currently, eight states have e-cigarette taxes. Unlike conventional cigarettes, which come in a standard form of 20 cigarettes to a pack and are subject to an excise (unit) tax on each pack, ENDS products are not sold in a consistent form. Most ENDS excise tax proposals take one of two forms: a tax proportional to either the wholesale or retail product price or a tax proportional to the amount of nicotine in the product, with the former the most common. Minnesota law defines e-cigarettes and liquid nicotine as tobacco products and taxes them at 95 percent of their wholesale price; estimated revenue from this levy was $5.3 million in Minnesota's 2014 fiscal year. North Carolina taxes ENDS products by the amount of liquid nicotine they contain at a rate of 5 cents per milliliter. Given the variety of nicotine concentrations and products for sale, a tax proportional to price would be much simpler to implement.

In 2013, a proposal was introduced in the New York State Legislature to define "electronic cigarette cartridges" and liquid nicotine as "other tobacco products" and impose a tax on them at rates of 75 percent of the wholesale price; a 2014 proposal would have imposed a 95 percent tax. In the state's January 2017 budget proposal, Governor Cuomo proposed a 10 cents per milliliter tax. If New York City were to implement a 75 percent wholesale tax on ENDS products, which requires state approval, revenue could amount to $30 million annually. This figure takes into account forecast growth in the ENDS market, a decline in consumption attributable to the increased cost, and a relatively low rate of compliance given the large number of ENDS sales online.

Proponents might argue that excise taxes on combustible cigarettes have long functioned to both dissuade people from smoking and to generate revenue. A tax on ENDS would function to further discourage people from ingesting nicotine and would offset a small part of the continuing decline in cigarette tax revenue. They might further argue that the safety of ENDS remains unknown and that we should discourage their use until they are proven safe.

Opponents might argue that ENDS are helping people to quit smoking combustible cigarettes and their use should be encouraged. They could also say that an excise tax would more heavily impact in-person sales and that it would not fully capture online sales, placing a greater burden on small convenience stores and "vape shops." Opponents could also point out the inconsistency of taxing ENDS while not taxing nicotine patches and gums, which are also nicotine delivery systems, albeit solely used for quitting smoking.

Prepared by Melinda Elias

Include Live Theatrical Performances, Movie Theater Tickets, And Other Amusements in the Sales Tax Base

Revenue: $98 million annually

Currently, state and local sales taxes are levied on ticket sales to amusement parks featuring rides and games and to spectator sports such as professional baseball and basketball games. But sales of tickets to live dramatic or musical performances, movies, and admission to sports recreation facilities where the patron is a participant (such as bowling alleys and pool halls) are exempt from New York City's 4.5 percent sales tax, New York State's 4.0 percent sales tax, and the 0.375 percent Metropolitan Commuter Transportation District (MCTD) sales tax. IBO estimates that in 2017 these businesses generated just over $3.0 billion in revenue, nearly $1.7 billion of which was attributable to Broadway ticket sales.

If the sales of tickets to live theatrical performances, movies, and other amusements were added to the city's tax base, the city would gain an estimated $98 million in sales tax revenue, assuming that Broadway ticket sales—by far the largest contributor to the estimated revenue generated by amusements in New York City—do not decline significantly in future years. Because New York City's sales tax base is established in state law, such a change would require legislation by Albany.

Proponents might argue that the current sales tax exemptions provide an unfair advantage to some forms of entertainment over others, such as untaxed opera tickets over taxed admissions to hockey games. In addition, they may argue that a large share of the additional sales tax would be paid by tourists, who make up the majority of Broadway show theatergoers, as opposed to New York City residents. Proponents may also contend that the tax will have relatively little impact on the quantity and price of theater tickets sold to visitors because Broadway shows are a major tourist attraction for which there are few substitutes.

Opponents might argue that subjecting currently exempt amusements to the sales tax would hurt sales of some local amusements more than others. For example, while sales of Broadway tickets may be relatively unaffected by the introduction of a sales tax on ticket sales, sales of movie theater tickets may decline as more residents substitute a movie streamed over the Internet for a night out at the cinema. In addition, fewer ticket sales for live musical and theatrical performances as well as movies may also reduce demand for complementary goods and services such as meals at city restaurants and shopping at retail stores. Opponents may also point out that this option would break conformity with the state in terms of sales tax base, unless Albany also adds these activities to the state sales tax base (as well as the tax base for the MCTD tax).

Prepared by Cole Rakow

Legalize and Levy Sales Tax on Recreational Marijuana

Revenue: $28 million in the first year

Currently, marijuana use in the state of New York is legal only for prescribed medicinal purposes. Medical marijuana is subject to a 7 percent New York State excise tax, but consistent with the tax treatment of other medicinal products it is not subject to either the city or state sales tax. This option would legalize the sale and use of marijuana for recreational purposes and specifically extend the city's 4.5 percent sales tax to recreational sales. This would require legalization at the state level, as well as authorization from the state for New York City to tax local retail sales.

In July 2018, the New York State Department of Health released a report, requested by the Governor and authorized by the Legislature, assessing the impact of legalizing and regulating recreational marijuana. It recommended that New York move towards legalization, a conclusion endorsed by the Governor and the Mayor. The Governor has formed a working group tasked with drafting legalization legislation, to be introduced during the next legislative session in 2019. If successful, this would make New York the 11th state to legalize recreational marijuana.

To estimate the potential impact on city revenue, IBO adapted the Department of Health's methodology using city-specific estimates of usage and pricing and incorporated other states' experiences in the timing and development of a retail sector. IBO estimates that a 4.5 percent tax on retail sales would bring in approximately $28 million in the first year after legalization, increasing to $41 million in the second year and $54 million in the third year, as the legal market becomes more established and more consumers opt out of the existing illicit market.

Based on the approach of other states, including neighboring Massachusetts, it is likely that there would be an additional excise tax levied on recreational marijuana. In order to stay somewhat competitive with the nearest states that either have or may soon legalize, a plausible scenario could be a 10 percent state excise tax (so that recreational marijuana is taxed higher than medical marijuana) and an additional 5 percent city excise tax. Such a city excise tax would yield $31 million in the first year, $46 million in the second year, and $60 million in the third year in addition to revenue from a city sales tax.

Proponents might argue that unlike the de facto decriminalization that is already underway, as evidenced by the Manhattan District Attorney's recent decision to not prosecute cases involving marijuana possession except in extreme cases, formal legalization would allow the city to expand the sales tax base and generate increased tax revenue. They might advocate dedicating a portion of the additional tax revenue to substance abuse programs, which in turn would lower health costs and crime rates and have other positive spillover effects. They also might contend that cannabis sold through legal means on a regulated market would be less risky in terms of its potential to contain other harmful ingredients or augmented THC content.

Opponents might argue that given the well-established black market that exists in the city, much of the distribution of recreational marijuana would likely remain untaxed after legalization, limiting the potential for new city revenue. They might also contend that since marijuana sales remain unlawful at the federal level, breaking from conformity would create legal barriers to implementation. Opponents might further argue that the legalization of marijuana would have social costs, including an increase in traffic accidents and fatalities. Additionally, they might argue that with legalization, it will be hard to limit permitted recreational use to adults, risking greater drug use drug use among young people.

Prepared by Cole Rakow

Repeal the New York City Sales Tax Exemption on Interior Decorating and Design Services

Revenue: $20 million annually

Unlike other localities in New York State and the state itself, New York City exempts the interior design services industry from the sales tax. The definition of decorating and design services includes the preparation of layout drawings, furniture arranging, staging, lighting and sound design, and interior floral design. The decorating and design industry is highly concentrated in the city, with annual sales totaling $720 million in 2015, more than half (55 percent) of sales in the state as a whole. By way of comparison, 48 percent of all sales tax collections statewide in 2015 were attributable to sales in New York City.

Opportunities for businesses to assign the interior decorating and design services performed in the rest of the state to the city might contribute to the industry's concentration in the city. New York State Department of Taxation and Finance guidelines state that the geographical location of the services' delivery determines the sales tax rate to be applied. For example, an owner of a second home in Washington County, which levies a 3 percent sales tax on interior design services, can hire a design firm in the same county to develop plans for that home and yet avoid the local tax if the firm mails the plans to the owner's home or office in New York City.

Using detailed industry-level data on New York State's sales tax collections both within and outside the city, IBO estimates that repealing the city sales tax exemption for interior design services could add $20 million in revenue to the city budget annually. This estimate is conservative, because it incorporates both a decline in the volume of decorating services rendered in New York City and a drop in the volume of services actually performed outside the city but currently reported as within the five boroughs in response to the differences in tax rates.

Repealing the tax exemption for interior decorating services would require approval from the New York State Legislature.

Proponents might argue that by making the city's taxation of interior design services conform to the tax treatment elsewhere in the state, repealing this exemption would simplify the tax code, reducing compliance costs for both businesses and taxing authorities. They could also point out that services such as painting and repair of real property (but not capital improvements) that involve some aspects of interior decorating services are currently subject to sales tax. As a result, applying the sales tax to interior decorating services would reduce opportunities for tax avoidance.

Opponents might argue that taxing interior design services, which are often an input for other goods and services rather than a final product, is economically inefficient. New York City may lose some firms currently registered within the city due to the exemption. The repeal may also negatively affect consumer expenditures on taxable goods and services such as furniture, fixtures, and floral arrangements that are frequently purchased as part of projects involving interior design work, therefore, reducing the sales tax base.

Revenue Options

Legalize and Tax Sports Betting in New York State

Revenue: $9 million annually

The Supreme Court's 2018 decision in Murphy v. NCAA empowered states to decide whether to legalize sports betting within their borders. Since then, a number of states, including New Jersey, moved to legalize some form of sports betting. A number of bills have been submitted in Albany that would allow for the legalization of sports betting in New York. A 2013 law enabled sports betting at four upstate casinos, but broader, more comprehensive sports gambling in the state—including online gambling—would require additional legislation and possibly a state constitutional amendment.

With sports betting illegal in most parts of the United States it is difficult to measure the actual amount of money wagered on sporting events, which also makes estimating potential revenue from legalizing and taxing sports betting highly speculative. In the United Kingdom, where sports betting has been legal for many years, an average of about $205 U.S. dollars per capita was wagered in 2017. Based on this average, we estimate that $66.8 billion would be wagered annually nationwide—less than many other estimates, which range as high as nearly $400 billion. A conservative estimate of New York City's share of the total wagered nationwide would be roughly $2 billion a year.

There are many different models by which sports wagers could be taxed. For now we assume that the sports wagering legislation enacted in New York would mirror the legislation passed in New Jersey, with a new tax created at the state level as New York City lacks the authority to create a tax on its own. Under the pattern set by New Jersey, most of the new revenue from the legalization of sports betting would flow to the state. New Jersey's law established an 8.5 percent state tax on in-person wagers made at authorized brick and mortar sports betting facilities, including horse race tracks and casinos. In addition, the New Jersey legislation establishes a 1.25 percent fee that flows directly to the communities in which sports betting venues are located. New Jersey also allows individuals to place sports bets online or through apps on mobile devices, although these wagers are not subject to the 1.25 percent local assessment.

Based on the limited history of legal sports betting in New Jersey, approximately 40 percent of bets are placed at brick and mortar locations. This would translate to just over $700 million of in-person sports bets placed annually in New York City. Assuming a 1.25 percent local tax as allowed under the New Jersey law, New York City would receive $8.8 million in revenue a year. This estimate does not account for any increase in business taxes or indirect economic output that would result from business activity created by legalization of sports betting.

Proponents might argue that sports betting is a huge untapped reservoir of business activity that currently exists illicitly in New York. It makes sense to legalize and administer the process, effectively eliminating the criminal element while generating tax revenue from the transactions. Proponents might also contend that the state already encourages other types of gambling, including wagering on certain types of sports events. With the recent Supreme Court ruling, many states have begun the process of passing legislation to legalize sports gambling. In addition to New Jersey, nearby states that have legalized sports betting are Pennsylvania, Delaware, and Rhode Island. If New York does not pass its own legal sports gambling legislation, it runs the risk of losing a larger portion of the existing illicit sports betting revenue to neighboring states.

Opponents might argue that the additional revenue raised from taxing legalized sports gambling does not outweigh the societal costs of increased access to betting, particularly for people with gambling addictions. They might also point out that taxing gambling is a regressive form of taxation, placing the greatest burden on individuals with the lowest incomes. Finally, opponents may contend that the recent history of casino failures shows the market for gambling has become saturated, which suggests further expansion of gambling is unlikely to have much impact on tax revenues.

Prepared by Jonathan Rosenberg

Tax Laundering, Dry Cleaning, and Similar Services

Revenue: $33 million annually

Receipts from dry cleaning, laundering, tailoring, shoe repair, and shoe shining services are not currently subject to city and state sales tax. This option would lift the city exemption, broadening the sales tax base to include these services. It would result in additional New York City sales tax revenue of approximately $33 million annually and would require state legislation.

Proponents might argue that laundering, tailoring, shoe repair, and similar services should not be treated differently from other goods and services that are presently being taxed. They might further argue that services make up a growing share of total consumption. Broadening the sales tax base to include more services would help the city maintain sales tax revenue and also decrease the economic inefficiency created by differences in tax treatment. In addition, the bulk of the new taxes would be paid by more affluent consumers who use such services more frequently and have a greater ability to pay. The city's commitment to a cleaner environment, which is reflected in the various city policies that regulate laundering and dry-cleaning services, further justifies inclusion of these services in the sales tax base.

Opponents might argue that laundering, tailoring, shoe repair, and similar services are generally provided by the self-employed and small businesses, and these operators may not have the facility to record, collect, and transmit the tax. They could also argue that bringing those services into the sales tax base would increase the incentive for hotels and restaurants—which together account for a sizable portion of the demand for laundering and dry cleaning services—to do their own laundry and dry cleaning (vertical integration), in turn reducing the revenue of small businesses that formerly provided these services. Finally, they might also point out that, even without vertical integration, a portion of the additional cost associated with the tax may be shifted to the consumer through an increase in the price of the services.

Prepared by Pooya Ghorbani

Tax Single-Use Disposable Plastic Bags

Revenue: $80 million annually

Single-use disposable plastic bags (such as those used in supermarkets and drug stores) are made of thin, lightweight film, typically from polyethylene, a petroleum-based material. Although convenient, plastic bags represent the largest share of plastic in the city's waste stream. Plastic bags make up about 2.3 percent, or 67,000 tons, of New York City's residential waste, according to the Department of Sanitation. In 2015, the city spent approximately $7 million to export and landfill plastic bags. Once in a landfill, plastic bags can take 10 years to fully break down—and for some plastics it can take much longer.

Even if disposed of properly, single-use bags are often a source of litter in the city. Due to their light weight, plastic bags are carried by the wind into the surrounding environment where they litter streets, roads, and parks; pollute waterways; and harm marine life. The city devotes considerable resources to collecting plastic bags, as well as cleaning up streets, catch basins, and surrounding waters. Retailers purchase plastic bags in bulk for about 2 cents to 5 cents per bag, a cost that is passed on to consumers.

This option, which would institute a tax of 6 cents per bag, would generate $80 million in revenue in the first year, including $1.6 million in averted waste export costs due to fewer bags being thrown out. Institution of this tax would require state approval.

IBO's estimate assumes that the tax would be collected along with the general sales tax at grocery, liquor, and drug stores throughout the city. Of the 6 cents, 4 cents would go to the city while 2 cents would be transferred to the retailer as an incentive for compliance. This estimate assumes that the use of plastic bags would drop by 20 percent in the short term in response to the tax and that administrative and enforcement costs would amount to 10 percent of total revenue generated. Over time, as consumers further reduce their use of plastic bags, annual revenue would decline. City revenue from the tax would drop to $62 million a year if the use of plastic bags declined by a total of 40 percent.

In 2016, the City Council passed legislation to charge customers a 5 cent fee for disposable shopping bags. Albany legislators, however, enacted roadblocks to its implementation that would still need to be overturned for any plastic tax or fee to be established in the city.

Proponents might argue that charging a tax on each plastic bag would force consumers to acknowledge the cost of the product's disposal and therefore influence consumer behavior. They could point to the recently instituted tax in Washington, D.C., as well as results from several cities in Europe that have reduced bag consumption by 80 percent to 90 percent over time while generating revenue for local governments.

Opponents might argue that the tax may encourage city residents to switch to single-use paper bags or shop in surrounding communities. Some could also argue that the tax is regressive, having the greatest impact on the poorest New Yorkers. Opponents also might be concerned about increased costs more broadly to consumers and potential effects on customer convenience.

Prepared by Daniel Huber

Revenue Options

Tax Sugar-Sweetened Beverages

Revenue: $208 million annually

New York City residents consume over 325 million gallons of sugar-sweetened beverages each year. These products—including soda, energy drinks, and fruit beverages—have little nutritional value, but extensive marketing and low costs have made them popular consumer choices. Scientific evidence suggests that drinking such beverages can increase the risk of obesity and related conditions like diabetes, heart disease, stroke, arthritis, and cancer. Many New Yorkers already suffer from these conditions: 34 percent of adults are overweight and another 24 percent are obese.

A tax on sugar-sweetened beverages, which would require state approval, could discourage consumption of high calorie drinks and raise revenue. An excise tax of half a cent per ounce levied on beverages with any added caloric sweetener could generate $208.1 million in revenue for the city, equivalent to 13 percent of the Department of Health and Mental Hygiene's total budget. Diet beverages or those sweetened with noncaloric sugar substitutes would not be subject to the tax.

Unlike many other food and beverage items, soft drinks are already subject to the combined New York State and local sales tax of 8.875 percent, or about 13 cents per 20-ounce bottle. That amount may be too low to affect consumption. The proposed excise tax would increase the cost of beverages by an additional 7 percent on average, providing more of an incentive for consumers to choose water, milk, or another unsweetened drink for refreshment. In addition, the excise tax would discourage consumers from choosing larger portions to maximize value, as the tax would be proportional to the size rather than the price of a drink.

IBO's revenue estimate is based on the assumption that there would be full compliance, that the tax would be fully reflected in the retail price, and that a 10 percent increase in price yields a 12 percent reduction in purchases.ue: $208 million annually

Proponents might argue that soda is not necessary for survival and offers no nutritional value. A tax-induced price increase would encourage consumers to substitute other beverages that have few if any negative health consequences such as milk or water. Mexico implemented a national tax on sugar-sweetened beverages beginning in January 2014 and initial data has shown that consumption of these drinks declined by 6 percent from 2014 to 2015. Additionally, soda is associated with costly conditions like obesity and diabetes that are often treated with public funds through Medicaid. A 2008 poll of New York State residents showed that 72 percent of those surveyed were in favor of a tax on sugary beverages if the revenue is used for obesity prevention and health promotion programs.

Opponents might argue that a tax on sugar-sweetened beverages would disproportionately affect some consumers and may not lead to weight reduction. Such a tax is regressive, falling more heavily on low-income consumers. In addition, soft drink consumption is a relatively small part of the diet for overweight people and food and drinks that serve as substitutes for sugar sweetened sodas may also be highly caloric, reducing the tax's impact on weight loss. Furthermore, it would adversely affect local retailers and producers who will see sales and/or profits fall as consumption declines. In March 2015, Berkeley, California implemented a one cent per ounce tax on sugar-sweetened beverages and initial reports show that only a portion of the tax has been passed along to consumers.

Prepared by Melinda Elias

Resume Water Board Rental Payments

Revenue: $107 million in 2021, $244 million annually in the following years

The New York City Water Board establishes water rates and uses the revenue to operate and maintain the city's water and sewer system. Historically, the Water Board has paid the city a rental payment for use of the city-owned water system. When the city collects the payment from the nominally independent Water Board, it is deposited into the city's general fund. The lower the Water Board's rental payment to the city, the less the board must raise through water and sewer bills. Conversely, the higher the rental payment, the more that must be raised through water and sewer bills. In 2016, the de Blasio Administration reduced the rental payment to $138 million, and then eliminated it entirely starting in 2017. Prior to its elimination, the payment was substantial, totaling over $200 million in some years.

The size of the rental payment the city can collect is capped at 15 percent of the annual debt service on New York City Water Authority bonds, currently $244 million. The Water Board is required to hold the total 15 percent in reserve each year, but only makes the payment for that year—which can be any amount up to the cap—if requested by the city. Accordingly, when the Covid-19 crisis began and projected tax revenues decreased, the de Blasio Administration tapped this revenue source, bringing the city $128 million of additional general fund revenue in 2020 and $137 million in 2021. So far, the city has not budgeted for rental payments beyond 2021, meaning there is room under the 15 percent cap to increase these payments by $107 million in 2021 and $244 million a year thereafter.

Ultimately, any increase in expenses to the Water Board will fall on ratepayers in the form of higher water rates. IBO previously calculated that a 20 percent reduction in the rental payment would reduce the annual rate increase by around 0.25 percent, so fully reinstating the rental payment would lead to an increase in water rates of around 1.25 percent. Given that the average water bill for a single-family home in New York City is currently about $1,100, this option would increase the average charge by about $14. The costs to ratepayers would be lower if the city chose to request less than the maximum rental payment allowed under the cap in future years.

Proponents might argue that city has historically collected rental payments from the Water Board, with the payments funded by property owners as part of their water bills. It is a ready source of additional revenue the city can access at the discretion of the Mayor and does not require any action or cooperation from others. An increase in water rates encourages the public to conserve water, which is good for the environment. In addition, the incremental increase in water bills for the average household is relatively small, yet the payments yield substantial revenue for the city.

Opponents might argue that requiring a rental payment on top of maintenance and operations funding for a critical city service is a revenue-enhancing sleight of hand and is simply a tax on water use. It is also unclear whether the rate hike would motivate any change in behavior, since water rates also include the costs of sewer maintenance costs, thereby diluting any price signal regarding water use. Increasing water costs is also regressive, since water bills make up a larger share of costs for lower income New Yorkers. Opponents could also note that large users of water, such as restaurants and hotels, are already hard hit by the pandemic and would shoulder the brunt of an across-the-board increase in water rates.

NEW December 2020

Prepared by Daniel Huber

Revenue Options

Charge a Fee for Curbside Collection of Nonrecyclable Bulk Items

Revenue: $43 million annually

The Department of Sanitation (DSNY) currently provides free removal of large items that do not fit in a bag or container as part of its residential curbside collection service. Bulk items that are predominantly or entirely metal, including washers, dryers, refrigerators, and air conditioners are collected as recycling, while all other bulk items are collected as refuse. Nonrecyclable bulk items, including mattresses, couches, carpet, and wood furniture, make up about 3.2 percent, or 93,000 tons, of New York City's residential refuse stream (61 bulk items per ton, in an average year). In 2017, the city spent $10.5 million to export and landfill these items.

This option would have DSNY institute a $15 fee for every nonrecyclable bulk item that they collect, generating around $43 million in revenue in the first year. The fee could be paid through the purchase of a sticker or tag at various retailers, such as grocery and convenience stores, or directly from DSNY's website. The sticker or tag would be attached to the bulk item, once it is placed at the curb, making proof of payment easy for sanitation workers to see. Items would continue to be collected on regular trash days.

This option assumes a 20 percent reduction in the number of bulk items thrown out for DSNY to collect in response to the fee, which itself would lead to a $2.4 million reduction in waste export costs due to fewer bulk items being sent to landfills. Administrative and enforcement costs are assumed to equal 20 percent of total revenue. Ten percent of the bulk items are assumed to be picked up erroneously, not having paid the fee and an additional 15 percent, representing bulk items weighing less than 15 pounds, are assumed to be shifted into the bagged refuse stream. Under this option, the collection of recyclable metal bulk items would continue to be provided without a fee. This estimate does not include fees for electronic bulk items, such as computers or televisions, which are banned from disposal and are handled through legally mandated free manufacturer take-back programs.

Proponents might argue that exporting waste to out-of-state landfills is expensive and having residents pay directly for their largest and heaviest items more directly aligns use of the service to the cost of providing the service. They could note that many other cities charge for bulk collection or limit the number of bulk items a property may have collected each year. Additionally, charging a fee for large refuse items would give residents some incentive to send less of their waste to landfills, either by donating their items for reuse or simply by throwing out fewer bulk items. Proponents could point to the city's NYC Stuff Exchange, which could help residents get rid of items they do not want without throwing them away and at no cost. They could also argue that any needed increases in enforcement for illegal dumping would be covered by the revenue generated by the collection fees and the summonses issued to violating properties.

Opponents might argue that this fee would be difficult to implement and enforce in a large, dense city such as New York. Instituting a fee for what was previously a free service could increase illegal dumping of bulk items, which could require increased spending on enforcement and be a nuisance to nearby residents. Multifamily buildings, which often gather all residents' garbage in common areas, could face more difficulties with this new charge, as the building owners would be responsible for their tenants' behavior. They could be burdened with untraceable items and forced to pay the fee on their tenants' behalf. Opponents could also argue that the flat fee is particularly burdensome for low-income residents. Lastly, they could argue that this fee would not reduce DSNY's tonnage very much because certain items, such as broken or heavily used furniture will have no potential for reuse and will have to go to a landfill eventually.

Prepared by Daniel Huber

Establish a Stormwater Utility Fee

Revenue: $88 million annually

New York City's sewer system consists of 6,000 miles of pipes and 14 treatment plants that process 1.3 billion gallons of stormwater and wastewater daily. The city's sewers are old and often under funded, and the majority mix stormwater and wastewater into the same channel. During heavy rain or snow storms, the system becomes overloaded and a mix of stormwater and wastewater is discharged directly into local waterways—billions of gallons of untreated sewerage and stormwater each year. A primary reason for this is the expanse of impermeable surfaces in the city, where water cannot soak into the ground and instead runs off into the sewers. Currently, 72 percent of the city's area is impermeable, although the city is developing a green infrastructure plan to reduce that number.

With a growing population, more frequent heavy precipitation, and increasingly stringent regulatory standards, New York's investment in green infrastructure and stormwater management will continue to grow, putting upward pressure on water rates. Facing similar challenges, over 500 U.S. municipalities have created stormwater utilities and designed a fee structure to provide a stable source of revenue and encourage development of green infrastructure.

In New York City, stormwater expenses are largely paid out of charges levied on the volume of water consumed. However, there is little or no correlation between consumption of water and the quantity of stormwater generated by a property. This raises equity concerns, as the properties consuming a substantial amount of the city's stormwater capacity are not necessarily the properties funding the maintenance of the system.

The Department of Environmental Protection currently devotes around $350 million per year to stormwater management. Under a stormwater fee system this expense would be funded directly from use of the stormwater infrastructure. IBO estimates that fees similar to those charged in other large cities ($8 per month per thousand square feet of impermeable area) would roughly cover the current spending. As a result, water rates, no longer driven by stormwater costs, would fall or rise more slowly. Properties with limited impermeable area would pay less, while properties with large impermeable areas would see their overall costs rise. Properties that do not currently pay water costs, such as garages, parking lots, and vacant lots, would pay the stormwater fee generating $88 million in new revenue each year. Although there are several methods to calculating the fee, a system that accurately measures surface permeability offers the strongest incentives for property owners to adopt green infrastructure and mitigate runoff.

Proponents might argue that by sending a price signal, property owners will have an incentive to reduce runoff, saving the city money and reducing pollution in local waterways. Implementing a fee would also generate revenue from properties that are heavy users of stormwater infrastructure but do not pay for it and provide a more stable revenue stream for necessary water infrastructure improvements. They may also point to how similar programs have been successfully implemented in other cities.

Opponents might argue that a stormwater fee could favor high-density areas, where the stormwater fee would be spread over more units in a single footprint, while facilities with large, low-density paved areas could see costs substantially increase. They also might be concerned about the cost of administrating the utility and maintaining a complex property database using multiple data sources. Excluding roadways and sidewalks, as this option does, could require action at the state level.

Updated October 2018

Prepared by Daniel Huber

Establish a User Fee for Some Child Support Cases

Revenue: $3 million annually

The New York City Office of Child Support Enforcement (OCSE) offers a wide spectrum of services to custodial parents of children under 21 looking to collect child support, including locating the noncustodial parent and serving a summons, establishing paternity, securing child support orders, and collecting child support payments. In fiscal year 2017, OCSE collected $781 million from noncustodial parents, continuing a significant upward trend in child support collections. Over 90 percent of the funds collected went to families, providing a vital source of financial support to thousands of custodial parents and children. The remainder went to reimburse the city for some of the cost of public assistance grants paid to OCSE clients who were also receiving cash assistance.

The increase in child support payments reflects, in part, improvements in collecting payments from noncustodial parents with child support orders. However, the biggest factor driving increases in child support payments has been a shift in the composition of the child support caseload. As a result of the welfare reform policies of the 1990s, the number of families with minor children who are current or former public assistance recipients continues to shrink. At the same time, expanded outreach efforts by OCSE have increased demand for child support services from custodial parents who have never been on cash assistance. Families in this category are generally better off financially, which makes it more likely that noncustodial parents can be located and a court order established, have higher compliance rates, and make much higher average payments.

OCSE does not currently charge its clients for the child support services it provides. (New York State charges a fee of $25 per year to custodial parents who have never been on cash assistance and receive over $500 per year in child support.) Under this option, OCSE would charge custodial parents who have never been on cash assistance an annual fee equal to 1 percent of the child support collections they actually receive. IBO assumes that such a modest fee would not reduce the number of child support cases. Annual revenue from the new fee would total $3.3 million. This option would require state legislation.

Proponents might argue that OCSE provides these families with valuable services while saving them the cost of hiring a lawyer and other expenses they would likely incur if they sought child support payments on their own. The fee would only be charged in cases where OCSE succeeds in collecting court-ordered payments. Since the fee would be set as a share of actual collections, it would be paid primarily by higher income families.

Opponents might argue that the fee could discourage custodial parents from requesting help from OCSE, which could have negative consequences for their children. Opponents might also argue that the child support program already helps to pay for itself. A portion of collections from cash assistance cases is withheld by the city, providing a significant offset to public assistance grant costs. They might also contend that since child support collections likely keep many families off of social services programs by increasing their income, a change that discouraged families from using OCSE risks increasing caseloads and costs.

Prepared by Melinda Elias

Revenue Options

Impose a 50 Cent Surcharge on Hotel Room Nights to Fund NYC & Company

Revenue: $18 million annually

NYC & Company is a nonprofit organization tasked with marketing the city as a business and leisure tourist destination. The organization operates as a partnership between the city and the private sector, and its operations are funded by a mix of city tax revenue and private sources.

The city's contribution to NYC & Company has fluctuated in recent years. Funding was cut repeatedly to help close budget gaps, bringing it to an all-time low of $12.3 million in 2014. Beginning in 2017 the de Blasio Administration increased funding to $21.2 million. The uncertainty around the city contribution, however, has made it difficult for NYC & Company to plan its budget from year to year.

This option would replace most, if not all, of the city's annual contribution with a new $0.50 surcharge on hotel room nights. Revenue generated from the surcharge would be dedicated to NYC & Company. Since 2010, the city's hotel industry has thrived, with room-nights sold and room supply experiencing annual growth at a rate of roughly 5 percent. In 2017, the city sold a record 36.4 million hotel room nights and approximately 4,000 new rooms were added to the city's hotel inventory. Assuming the surcharge is too small to have an impact on the volume of hotel stays, this additional $0.50 charge would raise $18 million annually to support NYC & Company's operations and reduce the city contribution. Currently, visitors pay a total of 14.75 percent in sales and hotel occupancy taxes, plus a tax of $2.00 per room per night for rooms charging more than $40 per night and $1.50 per room per night to help finance the renovation of the Jacob Javits Convention Center. The surcharge would require an act of the State Legislature.

Proponents might argue that funding NYC & Company through a hotel surcharge instead of through the city's general fund frees up revenue for other initiatives or to help balance the city's budget. It also allows NYC & Company to plan its future budgets free from the politics of the city's annual budget process. Basing the city's contribution on hotel room nights would also tie NYC & Company's funding directly to the success of its marketing efforts. Others might argue that the city's hotels directly benefit from NYC & Company and therefore it is appropriate to use revenue generated by visitors to help pay for the organization's operations.

Opponents might argue that hotel guests already pay a high tax rate on hotel stays, and that an additional surcharge could discourage some visitors from staying in the city. Others might argue that it would be fairer to fund NYC & Company through the city's general fund. A broad base of city taxpayers—including both businesses and workers—benefit from the tourist market, and so it is unfair to single out hotel operators and their overnight visitors to fund NYC & Company. Finally, some might argue that moving the city's contribution to NYC & Company off of the city's budget would reduce transparency and diminish the organization's accountability to the City Council and the public at large.

Updated October 2018

Prepared by Conrad Pattillo

Institute a Tourist Fare on the Staten Island Ferry

Revenue: $5 million annually

This option, based on a 2014 analysis conducted by IBO at the request of Borough President James Oddo, would reinstitute a fare for certain passengers on the Staten Island Ferry.

Passenger fares on the Staten Island Ferry were abolished in 1997, as part of New York City's "One City, One Fare" initiative that also introduced free MetroCard subway and bus transfers. Prior to the initiative, the round-trip fare on the ferry was 50 cents. Under this option the city would charge a $4 round-trip fare, with exemptions for residents of Staten Island, as well as for other New York City residents who document the need to travel to Staten Island for work or study. This would require legislation to amend the city's Administrative Code. City residents who are exempt from the fare would receive a special fare card allowing them to go through the ferry turnstiles without charge.

IBO estimates that annual gross revenues from a $4 "tourist" fare would be $9.4 million. After subtracting out the annualized cost of building and maintaining the fare collection system, and issuing and distributing passes to exempt passengers, net revenues would be $5.1 million a year. Viewed from a different perspective, almost half of the gross revenues from a $4 tourist fare would be used to cover the cost of building and maintaining the system. Looking ahead, an outlet shopping complex under construction near the Staten Island ferry terminal is likely to increase ferry ridership.

Proponents might argue that ferry riders should be expected to pay at least a nominal share of the cost of the service. The Staten Island Ferry's operating expenses have increased dramatically in recent years, due in part to increased safety and security measures, as well as expanded service. According to the Mayor's Management Report for fiscal year 2018, the operating expense per passenger trip for the Staten Island Ferry was $5.39 one way or $10.78 round trip. Passengers subject to the $4 round-trip fare would be paying well under one-half of the cost of a ride. In contrast, fares on New York City Transit subways and buses cover more than half of operating expenses. IBO estimates that around 80 percent of current ferry riders are Staten Island residents or residents of other boroughs who regularly use the ferry for work or school trips, and therefore would be exempt from the fare.

Opponents might argue that charging even a subset of ferry riders violates the spirit of the "one city, one fare" policy. Opponents might also object to singling out visitors to the city and occasional riders from the other boroughs for the charge. Having free attractions such as the Staten Island Ferry creates good will among visitors to the city, and may encourage more tourism. As Staten Island proceeds with plans to develop tourist destinations such as the Empire Outlets, the availability of free transportation from Manhattan enhances their appeal. Finally, the fare is a relatively inefficient way to raise revenue, as the annual capital and operating costs of the fare system would equal almost half of the gross fare revenue.

Prepared by Alan Treffeisen

Make City Marshals City Employees

Revenue: $11 million annually

City marshals are mayoral-appointed law enforcement officers tasked with implementing Civil Court orders, including collecting on judgments, towing vehicles, seizing utility meters, and carrying out evictions. They are appointed for five-year terms, but there are no limits on the number of terms that they can serve. City marshals are under the oversight of the New York City Department of Investigation, but are not city employees.

Although privately employed, city marshals carry badges and are empowered to seize bank accounts, garnish wages, and sell personal property. Marshals collect fees according to a schedule set in New York State law, and also collect 5 percent of the total amount collected for services known as “poundage.” In turn, marshals are required annually to give $1,500 plus 4.5 percent of their gross income to the city. In recent years, the annual gross income of a city marshal averaged $1 million, with the city collecting fees averaging $47,000 per marshal. On average, marshals generate $420,000 in net income from their work each year.

In many other U.S. cities, such tasks instead are performed within the Sheriff’s Office. In New York City, the City Sheriff’s Office similarly enforces court mandates and processes for state courts, and is staffed by city employees. Currently, there are 35 marshals in New York City and some city marshals may employ additional support staff. Under this option if each marshal were replaced by 1.25 city employees earning the median salary of a deputy sheriff, the city would collect about $11 million in net additional revenue. This assumes that the current poundage and fees collections continue, but as revenue to the city and not to individual marshals. IBO’s estimate of city revenue assumes poundage and fee collections would decrease by a third because there would no longer be a financial incentive for collecting on judgments.

Proponents might argue that the broad powers granted to city marshals should be left to a neutral party that does not rely on a political reappointment or have a financial incentive to perform judgments. Other cities employ salaried Sheriff’s Office staff to perform similar tasks, and employees of the New York City Sheriff’s Office currently earn significantly less than marshals for performing similar work. Creating marshal positions akin to sheriff deputies would streamline overhead, increase the city’s oversight capacity, and reduce the potential abuse of power.

Opponents might argue that the private for-profit structure of city marshals leads to better rates of collection, resulting in more timely resolutions of court orders. Private individuals have more flexibility than government employees in implementing civil court judgments, leading to better outcomes for those seeking restitution.

Prepared by Sarah Stefanski

Require All New Education Department Staff to Meet the Same Residency and Tax Rules as Other City Workers

Revenue: $5 million in the first year

Most of New York City's government workers, after meeting certain conditions, may live outside the city in one of six surrounding New York State counties: Nassau, Suffolk, Westchester, Rockland, Putnam, and Orange. Instead of paying the city personal income tax, they must make payments to the city equivalent to the liability they would incur if they were city residents. The term for these payments, Section 1127 payments, comes from the section of the City Charter mandating them as a condition of city employment for nonresidents. Department of Education (DOE) employees, however, are exempt from the in-state six-county residency requirement and from having to make Section 1127 payments. Approximately a fourth of the DOE workforce lives outside the city—many outside New York State—and these employees neither pay city income taxes nor make Section 1127 payments.

Under this option, new DOE employees starting work after June 30, 2019 would be subject to the same residency requirements that other city workers face and be required to make Section 1127 payments if they move out of the city. IBO estimates that imposing residency restrictions and Section 1127 payments on new DOE employees would have generated $4.5 million in 2018. Revenue from this option would continue growing as newly hired employees, some of whom would choose to live outside the city, replace current nonresident employees who retire. Also, as these new employees move up the wage ladder, revenue from Section 1127 payments would increase. Enacting this option would require state legislation and a change in the city's Administrative Code.

Proponents might argue that that DOE employees should be treated the same as other city employees with respect to residency and Section 1127 payments. The current Section 1127 exemption also creates unfair differences in after-tax compensation among DOE employees based solely on where they live. Others might argue that requiring newly hired city employees to live in the city or the surrounding counties and not out of state would benefit the region's economy since more city earnings would be spent locally, boosting both economic activity and city and state tax revenue. Some could argue as well that having city employees live in or closer to the communities they serve improves employees understanding of the needs of those communities, which can result in improved services to city residents.

Opponents might argue that this option would restrict DOE's ability to recruit and retain highly educated and skilled teachers, administrators, and other professionals. They would point out that the majority of major U.S. cities do not have residency requirements for their public school employees. They could also argue that it would be unfair to impose residency restrictions or payments in lieu of taxes as a condition of employment when similarly situated private-sector employees face none. Additionally, they might argue that requiring Section 1127 payments would create an undeserved financial burden for affected personnel, many of whom are paid less than similarly skilled counterparts in the private sector or the more affluent suburbs.

Updated October 2018

Prepared by Robert Callahan

Require the Economic Development Corporation To Remit Surplus Income to the City

Revenue: $103 million per year for three years, $30 million annually in subsequent years

Economic development programs in New York City are administered by the Economic Development Corporation (EDC), a nonprofit organization, under contract with the city. EDC operates and maintains city-owned real estate and can retain surplus revenue to fund its own initiatives, in addition to grant money that it receives from the city and other sources.

EDC's real estate operations are extremely profitable. Since 2015, EDC has earned an average of $276 million annually in gross operating revenue from sources such as rental income from city-owned properties, income from the sale of city-owned assets, and developer and tenant fees. Related expenses have averaged about $107 million per year, leaving an average annual net operating income of $168 million—a 59 percent profit margin.

EDC must remit some of this net income to the city, though the amount is subject to annual negotiations with the Mayor and the Comptroller. Over the past three years, EDC has paid the city an average of $80 million a year. EDC is allowed to retain the rest of its net operating income—$88 million on average—to pay for its own activities. These funds are in addition to grants it receives from the city and other sources, such as federal community development grants and capital project funds.

EDC retains surpluses and over time has built up substantial cash reserves. At the end of 2017, EDC held $145 million in unrestricted cash and investments. The Industrial Development Agency and Build NYC, two affiliated organizations staffed by EDC employees, had additional unrestricted investments worth $50 million.

This option would require EDC and its affiliates to remit their net operating income from real estate asset management activities to the city at the end of each fiscal year. Based on a recent three-year period, the transfers would net about $30 million in city revenue, in addition to the funds the city currently receives from EDC. If the city were to sweep EDC's current unrestricted cash and investments over a three- year period, this would result in the transfer of another $73 million per year for three years.

Proponents might argue that EDC should not fund its policy agenda using revenue from city-owned property. They could contend that it would be more transparent if the city directly appropriated money for economic development in the context of competing needs, rather than allow EDC to retain revenue that would otherwise flow to the city. This would treat EDC like other revenue-generating city agencies, which are required to remit the revenue they raise to the city budget. They might also argue that the proposal would not compromise EDC's ability to manage city-owned properties, and that EDC could retain its policy functions—though paid for from the city budget.

Opponents might argue that in addition to maintaining and investing in city-owned real estate, EDC already contributes hundreds of millions of dollars to the city's budget each year. They could also argue that EDC funds its own operations without any assistance from the city's general fund, which frees up funds for other needs. Finally, they could contend that EDC's expense spending is already monitored by the Mayor, the Office of Management and Budget, the Comptroller, and the corporation's independent board of directors.

Updated October 2018

Prepared by Conrad Pattillo

Revenue Options

Sell Biogas Produced as a Byproduct Of Wastewater Treatment

Revenue: $2 million annually

New York City's 14 wastewater treatment plants process 1.3 billion gallons of wastewater per year. As a byproduct, these facilities produce biogas during the anaerobic digestion stage of treatment. Currently, much of this biogas is flared (burned) off, although some treatment plants use a portion of this biogas to run boilers that provide heat to the treatment processes or to generate electricity. This unused gas represents a renewable source of energy that could instead generate revenue and reduce greenhouse gas emissions.

Biogas is mostly methane, which is the primary component in natural gas and can be used to heat homes and generate electricity. While biogas cannot be directly fed into city gas pipelines, a relatively simple process can make it suitable for sale as a renewable energy source. At the Newtown Creek Wastewater Treatment Plant, National Grid is currently building a $30 million system to capture and process the excess gas that was previously flared off. Under the terms of the deal, the city will receive half the profits from the gas sale. Use of biogas for heating or electricity generation at wastewater treatment plants is common and New York City's large wastewater treatment plants produce large amounts of valuable biogas.

Assuming the capital cost of installing a biogas processing and capture system is the same across the city as at Newtown Creek, three plants (Hunts Point, Wards Island and North River) have the potential to produce enough excess biogas to make the investment worthwhile. North River currently has a cogeneration system that produces both heat and electricity for the facility, which leaves little gas left over to be flared. At the other two facilities, an estimated 2.2 million cubic feet of gas is produced daily with local market value of about $6 million per year. Factoring in the capital cost of constructing two processing facilities, the city could generate $2 million per year by processing and selling the gas itself at market rates. If the city were to persuade National Grid to build facilities similar to the one planned at Newtown Creek at the other two plants with excess biogas with a similar split of the profit, the city would realize an estimated $1 million in revenue with no additional capital cost. In addition to the new revenue source, by expanding the use of the gas and limiting flaring, the city could reduce use of nonrenewable natural gas, benefiting the environment through saving an estimated 44,000 metric tons of CO_2 per year.

Proponents might argue that New York City is currently wasting a renewable energy source and could simultaneously reduce greenhouse gas emissions and generate revenue. Because National Grid already believes that gas capture and processing is profitable and is willing to cover the capital cost in exchange for half the profits, the city would bear little risk if it funded the systems on its own or no risk if it expanded its Newtown Creek agreement with National Grid to cover other wastewater treatment plants.

Opponents might argue that capturing and processing the waste will take up valuable space at wastewater treatment plants and a better use of the gas might be to expand cogeneration instead of processing the gas for public sale. They might also be concerned that if gas prices continue to fall, the capture systems may become unprofitable.

Updated April 2018

Prepared by Daniel Huber

Surcharge on Gas-Inefficient Personal Vehicles

Revenue: $22 million annually

Despite having the most extensive public transportation system in the United States and a commitment to addressing environmental issues, New York City fails to meet federal air quality standards and much of the city's air pollution is attributable to vehicle exhaust. In this option, the city could enact a surcharge on gas-inefficient personal vehicles, such as sports cars, sport utility vehicles and pickup trucks, as a mechanism to discourage the ownership of high-polluting vehicles. There are nearly 2 million private, noncommercial cars and trucks registered in New York City, of which roughly half are either sport utility vehicles or pickup trucks.

While it is difficult to quantify the total cost of externalities associated with car pollution, the city could place a vehicle registration surcharge scaled to reflect the carbon emissions of gasoline above a certain mile-per-gallon threshold. This is similar to the 1978 federal gas guzzler tax, which applies an additional surcharge to gas-inefficient cars at the point of purchase, although the federal tax only applies to cars and not other motor vehicles such as trucks or sport utility vehicles. At the current Environmental Protection Administration-recognized social cost of carbon of $42 per ton, the additional cost to register a large vehicle would average $21 a year. This surcharge, collected by the state on behalf of the city similar to how the motor vehicle use tax is administered would produce additional revenue of $22.4 million per year. The surcharge would require approval by the State Legislature.

Proponents might argue that this surcharge has substantial environmental benefits while only raising costs for those who choose to buy particularly large gas inefficient vehicles. They would argue that this surcharge is an attempt to recoup some of the social costs of pollution that are currently borne by the general public. In addition, large or sporty vehicles are generally more expensive than the average car and therefore the surcharge targets those who can best afford to pay.

Opponents might argue that some city residents may have a critical need to own a particular type of vehicle that may be gas-inefficient, and that this surcharge would unfairly target them. They might also argue that the surcharge is for owning the vehicle but not tied to how far the vehicle is driven or how much exhaust it emits. Opponents might also note that this option would increase the incentive to register the car out of state—an issue with which the city already struggles. Additionally, considering that larger vehicles already sell at a premium and their popularity only seems to increase, the surcharge may have little impact on behavior, undermining any potential environmental benefits.

Prepared by Daniel Huber

Toll the East River and Harlem River Bridges

Revenue: More than $1 billion annually

This proposal, analyzed in more detail in the IBO report *Bridge Tolls: Who Would Pay? And How Much?* involves placing tolls on 12 city-owned bridges between Manhattan and Queens, Brooklyn, and the Bronx. In order to minimize backups and avoid the expense of installing toll booths or transponder readers at both ends of the bridges, a toll equivalent to twicethe one-way toll on adjacent Metropolitan Transportation Authority (MTA) facilities would be charged to vehicles entering Manhattan, and no toll would be charged leaving Manhattan. The automobile toll on the four East River bridges would be $11.52, equal to twice the one-way E-ZPass toll for the MTA-owned Hugh L. Carey (formerly Brooklyn-Battery) and Queens-Midtown tunnels. The automobile toll on the eight Harlem River bridges would be $5.28, equal to twice the one-way E-ZPass toll for the MTA's Henry Hudson Bridge. A ninth Harlem River bridge, Willis Avenue, would not be tolled since it carries only traffic leaving Manhattan.

Estimated annual toll revenue would be $760 million for the East River bridges and $290 million for the Harlem River bridges, for a total of $1.05 billion. The MTA plans to raise tolls on its bridges in 2019, and if the proposed East River and Harlem River tolls are pegged to MTA levels, this implies an increase in projected revenue from them. On all of the tolled bridges, buses would be exempt from payment. IBO's revenue estimates assume that trucks pay the same tolls as automobiles. If trucks paid more, as they do on bridges and tunnels that are currently tolled, there would be a corresponding increase in total revenue. IBO estimates that exempting all city residents from tolls would reduce revenue by more than half, to $475 million. Proposals to toll the East River and Harlem River bridges have also been suggested as part of congestion pricing plans to raise funds for public transit, which, if approved, would not raise revenue for the city.

Proponents might argue that the tolls would provide a stable revenue source for the operating and capital budgets of the city Department of Transportation. Many proponents could argue that it is appropriate to charge a user fee to drivers to compensate the city for the expense of maintaining the bridges, rather than paying for it out of general taxes borne by bridge users and nonusers alike. Others argues that although tolls represent an additional expense for drivers, they can make drivers better off by guaranteeing that roads, bridges, tunnels, and highways receive adequate funding. Some advocacy groups have promoted tolls to generate revenue, but also as a tool to reduce traffic congestion and encourage greater transit use. Peak-load pricing (higher fares at rush hours than at other hours) is an option that could further this goal. If more drivers switch to public transit, people who continue to drive would benefit from reduced congestion and shorter travel times. A portion of the toll revenue could potentially be used to support improved public transportation alternatives. Proponents might note that city residents or businesses could be charged at a lower rate than nonresidents to address local concerns.

Opponents might argue that motorists who drive to Manhattan already pay steep parking fees, and that many drivers who use the free bridges already pay tolls on other bridges and tunnels. Drawing a parallel with transit pricing policy, some toll opponents may believe that it is particularly unfair to charge motorists to travel between Manhattan and the other boroughs. With the advent of free MetroCard transfers between buses and subways, and the elimination of the fare on the Staten Island Ferry, most transit riders pay the same fare to travel between Manhattan and the other boroughs as they do to travel within each borough. Tolls on the East River and Harlem River bridges would make travel to and from Manhattan more expensive than travel within a borough. In addition, because most automobile trips between Manhattan and the other boroughs are made by residents of the latter, inhabitants of Staten Island, Brooklyn, Queens, and the Bronx would be more adversely affected by tolls than residents of Manhattan. An additional concern might be the effect on small businesses. Opponents might also argue that even with E-ZPass technology, tolling could lead to traffic backups on local streets and increased air pollution.

Updated October 2018

Prepared by Alan Treffeisen

Revenue Options

Open Outdoor Municipal Lots for Overnight Parking

Revenue: $2 million annually

The city's Department of Transportation (DOT) owns and operates 29 parking fields across New York City. These facilities range in size from a few dozen spots on a small lot to large facilities with hundreds of spaces available. While some lots are open 24 hours per day, most are closed at night, usually from 10pm until 7am. Parking outside of posted hours can result in a summons. DOT reports that they close lots at night as a lack of security leaves vehicles at risk, although many parking sites are unattended metered parking during the day. By opening outdoor municipal parking for at-your-own-risk overnight parking and charging a fee, the city could increase revenue while potentially easing parking shortages.

Payment options at these facilities include an hourly rate for daytime hours or the purchase of a monthly or quarterly permit, with parking available on a first come, first serve basis. Because the market for parking varies greatly across the city, monthly rates on outdoor municipal parking permits range from $30 on Staten Island to $225 in Bay Ridge. Hourly rates vary less, ranging from $1.25 to $2.50. If the lots opened overnight, the city might opt to continue free parking on Sunday and may charge a lower rate than daytime parking. IBO additionally assumed that each lot would be half-full overnight to calculate the potential revenue for this option. In total, $2.1 million of new revenue could be generated for the city from these outdoor municipal lots. Much of this revenue comes from large parking fields in Brooklyn and Queens neighborhoods that have seen a big influx of recent development and related demand for parking.

Proponents might argue that existing municipal parking facilities are currently underused and can both improve availability of parking and generate revenue for the city. No significant investments would be required beyond updating the meters to dispense an overnight rate. With crime near all-time lows, there is little reason to think the risk of parking overnight in a municipal field would be different from the risk of parking overnight on a nearby street, especially if security lighting is installed. To the extent the availability of additional parking spaces reduces the number of drivers circling looking for a space, there would also be a reduction in vehicle emissions.

Opponents might argue that the city may lose revenue if fewer parking tickets are issued for vehicles parked illegally overnight. They might also argue that without the public visibility that comes with car and foot traffic on streets, cars parked in lots may be an attractive target for crime. Additionally, increasing the number of available parking spaces may have the unintended effect of encouraging more car use, potentially adding to street congestion and emissions.

Prepared by Daniel Huber

Revenue Options

Increase Certain Vehicle Fines for Multiple Violations in the Same Year

Revenue: $119 million in 2022

The New York State Legislature has authorized the installation of cameras around the city to provide for monitoring and enforcement of certain vehicular violations. Speed cameras operate in 750 school zones around the city from 6 a.m. to 10 p.m. every weekday. Based on images captured by school zone speed cameras, the city issues citations to owners of vehicles that are found to exceed the posted speed limit by more than 10 miles per hour. The city also operates hundreds of cameras posted at critical intersections, monitoring vehicles that illegally pass through red lights.

Currently, the fine for either a speed or red light camera violation is $50. While legislation passed in early 2020 requires vehicle-owners who get 5 camera-issued red light tickets or 15 camera-issued speeding tickets in a 12-month period to take a traffic safety course or risk losing their vehicles, the legislation did not increase the fines for multiple violations. A number of other violations issued by the city include incremental increases for multiple violations in the same 12-month period. For example, the owner of a vehicle that illegally travels in a posted bus lane is currently fined $50. A second offense within the same 12-month period results in a fine of $100 and the fines increase to $150 for a third offense, $200 for a fourth offense, and $250 for each additional offense after that.

In calendar year 2019 the city issued over 2.3 million summonses to 1.3 million vehicles that violated the posted speed limits in school zones. Over 490,000 of these vehicles (39.0 percent) were issued multiple school speed zone violations during the year, while over 7,400 were issued 10 or more violations. The city also issued nearly 430,000 summonses to over 368,000 vehicles for red light camera violations during 2019. Of this total just over 47,000 vehicles (12.8 percent) were issued multiple summonses for red-light violations, with 845 vehicles issued more than five violations in the year.

If in 2019 the city had an incremental fine structure for repeated school zone speeding and red light camera violations that mirrored the existing incremental fines for other violations, the city would have collected approximately $119 million of additional revenue. Fines for school zone speed camera violations would have increased by 84 percent while the red light camera fines would have increased by 16 percent. State legislation would be required to implement this change.

The primary goal of establishing an incremental fine structure would be to further discourage reckless driving. Some studies of the relation between recidivism and increased traffic fines have found that the effects of fine increases are very mixed, however. The most frequent offenders do not seem to be influenced by increases in fines, while more occasional offenders do seem to change their behavior. Our estimate of revenues under an incremental fine structure assumes no behavioral change.

Proponents might argue that school speed zone and red light camera violations involve moving vehicles and pose a serious threat to life and property. In too many cases, innocent lives have been lost due to someone driving recklessly. Increasing the fine structure for multiple violations could help to further deter reckless driving and thus increase the safety of the city's streets.

Opponents might argue that because red light and school speed zone camera violations are issued to the owner of a vehicle, it is possible that the actual driver of the vehicle may not be paying the increase in fines for repeated violations. If that is the case, an increase in fines would raise revenue but would do little to reduce recidivism. Moreover, some research suggests that there is little relation between traffic fines and behavior for the most frequent offenders..

Prepared by Jonathan Rosenberg

Charge a Fee for the Cost of Collecting Business Improvement District Assessments

Revenue: $1 million annually

New York City has 75 Business Improvement Districts (BIDs)—organizations of property and business owners that provide services (primarily sanitation, security, and marketing) in defined commercial districts. These organizations receive a combination of public and private financing, with the majority of their revenue (74 percent in 2017) coming from additional assessments levied on property owners in the districts and typically passed on to tenants.

This assessment is billed and collected by the Department of Finance, which disburses funds to the District Management Associations, which in turn deliver the services. (The city also provides some additional services such as assistance forming BIDs and liaison and reporting services from the Department of Small Business Services.) The city does not currently charge or collect any fee for providing this administrative service. In fiscal year 2017, the city billed $108.9 million on behalf of BIDs. Under this option, the city would levy a 1 percent fee for the collection and distribution of BID charges by the Department of Finance, resulting in about $1 million in revenue. BID assessments vary greatly, so that the fee would range from about $600 for a small BID in Queens to more than $160,000 for the largest BIDs in Manhattan.

About one-third of BIDs reporting to the city had revenues of less than $300,000 and were especially dependent on assessments for their revenue. The effect of an administrative fee would be relatively greater for these BIDs, where assessments constitute an average of 93 percent of revenue, as compared with 85 percent of revenue for all BIDs. BIDs also differ in the share of administrative costs in their budgets, accounting for 40 percent at smaller BIDs and only 15 percent at larger ones, on average. One option to address this problem would be to exempt some BIDs based on criteria such as low annual revenue or eligibility for the new BID Express program, which targets smaller neighborhoods in the city. Such a change would lower the potential revenue to the city.

Proponents might argue that the city is providing a free service to private organizations that provide services in limited geographic areas, rather than benefiting the city as a whole. As a general rule the city does not collect revenue on behalf of private organizations. Additionally, the fee would be easy to collect either as an additional charge on the property owners as part of the BID assessment billing, or a reduction in the distributions to the BIDs themselves.

Opponents might argue that BIDs are important contributors to the economic health of the city and deserving of this small, but important support that the city provides. Furthermore, having the city administer the BID charges is efficient because the BID assessments are easily added to the existing property tax bills that the city prepares each year. Opponents could also argue that while a handful of BIDs—mostly in Manhattan—are well funded, the majority of BIDs are fairly small with limited budgets that have little room to incur additional fees.

Prepared by Conrad Pattillo

Convert Multiple Dwelling Registration Flat Fee to Per Unit Fee

Revenue: $2 million annually

Owners of residential buildings with three or more apartments are required to register their building annually with the Department of Housing Preservation and Development (HPD). The fee for registration is $13 per building. In 2019, the city collected about $2 million in multiple dwelling registration fees. Converting the flat fee to a $2 per unit fee would increase the revenue collected by HPD by $2 million annually (assuming around a 90 percent collection rate). This would require City Council approval.

Proponents might argue that much of HPD's regulatory and enforcement activities take place at the unit rather than the building level. Tenants report maintenance deficiencies in their own units, for example, and HPD is responsible for inspecting and potentially correcting these deficiencies. Therefore, a building with 100 units represents a much larger universe of possible activity for HPD than a building with 10 units. Converting the registration from a flat fee to a per unit basis more equitably distributes the cost of monitoring the housing stock in New York City. They also could argue that a $2 per unit fee is a negligible fraction of the unit's value, so it should have little or no effect on landlords' costs and rents.

Opponents might argue that, by law, fees and charges must be reasonably related to the services provided, and not simply a revenue generating tool. The cost of registering a building should not vary with the number of units in the building. They also might express concern about adding further financial burdens on building owners, particularly in light of the rising property tax liabilities faced by many of the properties subject to the fee.

Prepared by Sarah Stefanski

Impose Development Impact Fees On Construction Projects

Revenue: $24 million to $55 million annually

In recent years, the city has increasingly looked to extract benefits from real estate developers for a variety of public purposes, ranging from transportation improvements, to local hiring and living wage pledges, to affordable housing and open space. Currently, the city negotiates with each developer on a case by case basis, resulting in a variety of approaches, including a district improvement fund as part of the Hudson Yards rezoning, community benefit agreements as part of the Atlantic Yards redevelopment and Columbia University's expansion in Upper Manhattan, and a $210 million commitment for transportation improvements from the developer of One Vanderbilt in exchange for rezoning the site for additional density.

Under this option, the city would introduce development fees that would impose a standard fee schedule on all projects to mitigate their impacts on city services and infrastructure. Development fees in other cities are usually limited to specific types of development or to specific geographic areas. Based on the Department of City Planning's PLUTO database, from 2000 through 2017, developers constructed an average of 7.7 million square feet a year of new buildings in Manhattan south of 96th Street, of which about 60 percent was residential and the remainder commercial. Some of those buildings include affordable housing, community facilities, and other uses that would presumably be exempt from the fee. Imposing additional costs might also prevent some marginally feasible projects from going forward. Recognizing these issues, IBO has assumed that 80 percent of the projects would have been required to pay a development fee and that 90 percent of those projects would have gone forward despite the imposition of the fee. If the city imposed a fee of $10 per square foot, it would have raised an average of about $55 million a year. If it imposed the same fee only on commercial developments, revenue would have averaged $24 million a year. This revenue would be offset in part by the cost to administer the fee and to track its use. Depending upon how the impact fees are structured, state approval may be needed.

There would likely be legal restrictions on how and where the city can spend the proceeds, but in general, the revenue could be spent on anything that is reasonably connected to the impacts of the project in question.

Proponents might argue that development impact fees force new development projects to pay for their marginal impacts on the public realm and public services. Impact fees would also formalize and standardize exactions that are already occurring on an ad-hoc basis. Adding impact fees to projects going through the Uniform Land Use Review Procedure, for example, would increase transparency for community members and increase certainty for developers and lenders. It would also raise substantial amounts of money for public improvements in neighborhoods directly affected by development projects.

Opponents might argue that construction costs in New York City are already among the highest in the world, and that new fees will either be passed through to end users or will discourage development. They would also argue that the use of impact fees could make the city overly reliant on real estate development to pay for city services and capital projects. They would argue that on-going city services and bond-financed capital projects should be funded by stable revenue sources like property taxes, not by volatile, nonrecurring sources of revenue like development fees. The use of impact fees also unfairly forces new developments to bear the cost of projects and services that benefit nearby property owners and future generations.

Prepared by Conrad Pattillo

Revenue Options

Increase Fees for Birth and Death Certificates to $45

Revenue: $17 million annually

Residents of New York State are entitled to original birth certificates at no cost, but both the state and the city charge a fee for duplicate copies of birth certificates and for all death certificates. The city's Department of Health and Mental Hygiene issued over 615,700 paid birth and death certificates in 2017.

A provision of the state public health law sets the fee New York City charges for birth and death certificates at $15. Municipalities elsewhere in the state are subject to different limits; some are required to charge $10, while in others the local health department is free to set any fee equal to or less than the $45 fee charged by the New York State Department of Health.

Raising the city fee to the state level would presumably have little effect on the number of certificates purchased, since people require them for legal or employment reasons. IBO assumes that increasing the charge to $45 would reduce the number of certificates requested by 5 percent, yielding a net revenue increase of $17.1 million.

State legislation would be required for this proposal, either to raise the fee directly or to grant the authority to raise it to the City Council or Board of Health.

Proponents might argue that there is no reason the city should charge less than the state for the identical service. They might further argue that a state law specifically limiting fees in New York City is arbitrary and does not serve any legitimate policy goal; such fees should either be consistent statewide or set by local elected officials. Proponents might also argue that given the highly inelastic demand for birth and death certificates, even doubling the price will have little impact on the number of certificates purchased.

Opponents might argue that the purpose of this fee is not to raise revenue but to cover the cost of producing the records, which has certainly not tripled. They might further argue that provision of vital records is a basic public service, access to which should not be restricted by fees. Finally, they might argue that it is appropriate for fees to be lower in New York City than elsewhere because of the greater proportion of low-income residents here.

Prepared by Melinda Elias

Increase Food Service Permit Fee to $700

Revenue: $11 million annually

Restaurants and other food service establishments in New York require a license from the Department of Health and Mental Hygiene to operate, which must be renewed annually. Fees for these licenses are currently set at $280, plus $25 if the establishment serves frozen desserts. In 2017, the department processed 3,737 new food service establishment applications and 24,764 renewals, for a total of 28,501 permits. About 8 percent of these permits were for school cafeterias and other noncommercial establishments, which are exempt from fees.

In fiscal year 2017, the cost for processing these permits including the cost of inspections was budgeted at approximately $14.7 million for commercial establishments. But the department budgeted only $8.8 million from restaurant, vendor, and other permits for 2017 . Thus, fees cover less than 60 percent of the full costs associated with restaurant permits. Increasing the application fee from $280 to $700 (leaving the frozen dessert charge unchanged) would bring permit fees closer in line with permit costs and raise $10.9 million in revenue.

However, New York City is unable to raise permit fees under current New York State law, which holds that only the costs incurred in issuing the permit and the cost of an initial inspection can be included in the fee. Increasing the fee to cover the cost of subsequent inspections and enforcement would therefore require action by the State Legislature.

Proponents might argue that it is established city policy that the fees charged for services like restaurant permits should cover the full associated costs. They might further note that permits are a very small portion of restaurant costs so that this increase is unlikely to have a noticeable effect on restaurants' ability to operate in the city. In fact, if undercharging for permits leads to inadequate resources for processing permits, delay or uncertainty in that process could be much more costly to restaurants.

Opponents might argue that while paying an additional $420 would be trivial for a large restaurant, many restaurants are very small and operate on thin profit margins. In addition, they might argue that if the real goal of the option is simply to raise revenue, economists generally agree that broad-based taxes are preferable to charges focused on particular industries.

Updated October 2018

Prepared by Melinda Elias

Increase Fines for Drivers Who Receive Repeated Speed and Red-Light Camera Violations

Revenue: $4 million annually

New York City issued about 1.6 million tickets for speed and red-light camera violations to around 1.1 million drivers (as measured by unique license plates) in fiscal year 2019. That same year the city received $65 million in speed and red-light camera ticket revenue. While the majority of penalized drivers received only one ticket during the year, a small group of drivers received multiple tickets for the same offense. For example, of the around 700,000 drivers who received speed camera tickets—issued for speeding within a quarter mile of a school zone—just under 30 percent received more than one. A smaller share (13 percent) of the roughly 400,000 drivers who were photographed failing to stop at a red light received more than one ticket for doing so.

Tickets for speed and red-light camera violations carry $50 fines. Unlike many other fines given out by the city—especially those meant to discourage behavior that impacts New Yorkers' health and safety—these fines do not increase after multiple offenses. For example, repeat violations of the same building code within three years trigger "aggravated penalties" that are most often more than twice the initial penalty. Similarly, the state increases fines for drivers who repeatedly text while driving; the maximum fine is $200 for the first offense, $250 for the second offense, and then $450 for the third and any subsequent offenses within 18 months.

If the city were to increase the fines for multiple speed and red-light camera tickets in the same year—for example $100 for the second offense, $200 for the third, and $400 for the fourth and each subsequent offense—the city could increase revenue from speed and red- light camera fines by about $5 million annually. This estimate assumes that in response to the increase in fines, drivers who had repeat violations will change their behavior, reducing their number of violations by roughly a third. It also assumes that about 25 percent of the fines would go uncollected in any given year. This option requires changes to the state laws governing New York City's speed and red-light cameras.

Proponents might argue that the city has prioritized traffic safety through its Vision Zero initiative and that the increase in the number of speed and red-light cameras has been a critical part of the program. A driver who receives multiple tickets for the same offense in one year is likely to be a more careless and dangerous driver than one who receives a single ticket. Higher fines for repeat violators can reduce the total number of violations without more harshly penalizing other drivers. Additionally, graduated fines do not create an administrative burden as the city already compiles electronic databases of tickets and could easily use license plate data to assign higher fines to repeat offenders

Opponents might argue that increasing fines for multiple speed and red-light camera ticket violations unfairly targets certain parts of the city's population, specifically those who live or work near schools and areas targeted for red-light cameras. Moreover, increasing fines would have a disproportionate impact on low-income households. Lastly, research on the impact of financial penalties on driver behavior is mixed and it is not certain that higher fines for repeat offenders would result in substantially fewer violations.

Prepared by Elizabeth Brown

Increase Parks Marina Dockage Rates to Mirror Market Rates

Revenue: $2 million annually

The Department of Parks and Recreation owns and operates three marinas in the city—the West 79th Street Boat Basin in Manhattan, the World's Fair Marina in Queens, and the Sheepshead Bay Piers in Brooklyn—where boat owners can rent docking slips to park their boats. There are waitlists to obtain docking permits—notably there are over 700 boats on the waitlist for the 79th Street Boat Basin. Six-month "summer" (May-October) docking permits from the parks department currently range from $75 to $120 per linear foot, rates that have not been changed since 2012. There are numerous privately owned marinas, as well as boat basins affiliated with park trusts, such as Brooklyn Bridge Park and the Hudson River Park, within the city or on the New Jersey side of the Hudson River that offer similar services, but charge rates that vary from $180 to $295 per linear foot for the same six-month period.

Under this option, the dockage rates at the municipally operated marinas would be raised to mirror the rates charged by the privately owned marinas, which could be done through a parks department rule change. IBO estimates that this could generate an additional $2 million annually. There is the potential for additional revenue if rates for services such as cleaning, winter dry storage, and towing at city marinas were also increased to mirror market rates.

Proponents might argue that the parks department is providing the same service as other marinas and should charge comparable rates. Charging below-market rates hurts the competitiveness of private businesses. Current revenue does not cover the capital investment required to maintain the marinas, so the city is subsidizing those who use them, including permit holders who are not city residents.

Opponents might argue that holding dockage fees low allows for more New York residents and visitors to participate in boating by making it more affordable to dock a boat. If prices were to rise, some current permit-holders might become priced out due to the increase.

Prepared by Sarah Stefanski

Institute a Residential Permit Parking Program

Revenue: $2 million in the first year; $6 million annually by year three

This option involves establishing a pilot residential permit parking program in New York City. The program would be phased in over three years, with 25,000 annual permits issued the first year, 50,000 the second year, and 75,000 the third year. If successful, the program could be expanded further in subsequent years.

On-street parking has become increasingly difficult for residents of many New York City neighborhoods. Residential areas adjacent to commercial districts, schools, and major employment centers attract large numbers of outside vehicles. These vehicles compete with those of residents for a limited number of parking spaces. Many cities faced with similar situations have decided to give preferential parking access to local residents, most commonly through a neighborhood parking permit program. The permit itself does not guarantee a parking space, but by preventing all or most outside vehicles from using on-street spaces for more than a limited period of time, permit programs can make parking easier for residents. City Council members have introduced several bills to create residential parking permitting, although any parking program would require state approval.

Under the proposal, permit parking zones would be created in selected areas of the city. Within these zones, a set number of parking spaces in a designated area would be available only to resident permit holders, with the remaining spaces available to non-residents. The permitted areas would exclude commercial zones and metered parking areas. Permits would be sold to neighborhood residents with valid New York State license plates. IBO has assumed an annual charge of $100, with administrative costs equal to 20 percent of revenue. Depending on the initial performance of the program, the city may opt to expand it to include a limited supply of premium permits that may be purchased by individuals with out-of-state plates and qualified local businesses on a month-to-month and quarterly basis, respectively.

Proponents might argue that residential permit parking has a proven track record in other major cities, and that the benefits to neighborhood residents of easier parking would far outweigh the fees. To ensure success in New York City, neighborhoods chosen for the program would be those with ample public transportation options and in many cases, sufficient paid off-street parking available. The program would also serve as a deterrent to commuters who would otherwise seek free parking in neighborhoods that lie just beyond the zone where congestion pricing is scheduled to take effect in 2021. Finally, requiring permit holders to have vehicles registered in state would incentivize car owners to relinquish their out-of-state plates, an issue that affects the state's Department of Motor Vehicles and insurance companies.

Opponents might argue that it is unfair for city residents to have to pay for on-street parking in their own neighborhoods. Opponents also might worry that despite the availability of public transportation or off- street parking, businesses located in or near permit zones may experience a loss of clientele, particularly from outside the neighborhood, because residents would take more of the on-street parking. A Department of Transportation report on parking conditions around Yankee Stadium and the Barclays Center found that much of the demand for parking on game days is absorbed by off-street lots and garages, with much of the on-street parking supply remaining available for residents and other visitors.

Prepared by Conrad Pattillo

Institute Competitive Bidding for Mobile Food Vending Permits

Revenue: $40 million annually

Food carts and trucks operating in New York City must obtain a Mobile Food Vending Unit permit from the Department of Health and Mental Hygiene (DOHMH). DOHMH collects fees from the vendors for the initial permit and for renewals —every two years for year-round permits and every year for seasonal permits. Local law limits the number of mobile food vending permits that may be issued for use on public space to 4,100 year-round permits, of which 2,800 may operate citywide; 200 are borough specific; 100 are reserved for disabled veterans, disabled persons or nondisabled veterans; and 1,000 are available for Green Carts. There are an additional 1,000 seasonal permits. Demand for permits greatly exceeds the number available. In 2017, DOHMH issued 2,494 permits, 85.6 percent of them renewals, and raised $288,000 in revenue, less than the costs associated with issuing them.

Food carts or trucks that operate on private, commercially zoned property, or in city parks, are exempt from limits placed on the number of DOHMH permits. Vendors wishing to operate on park land must enter into a separate concession agreement with the parks department through a competitive bidding process. These concessions are valid year-round for five years; in 2017, they ranged in price from $200 to $657,000, depending on location. In 2017, 258 parks department mobile food vending concessions generated a total of $5 million in revenue for the city, or an average of $19,338 per concession. In contrast, health department-issued permits on average brought in only $115 per permit.

If DOHMH were to institute a competitive bidding process for its food cart permits, it could increase revenue by $43.1 million, assuming it was able to command prices somewhat lower than those obtained by the parks department. Based on data from the bidding for taxi medallions, the bidding process would raise administrative costs to about 9 percent of revenue, reducing net revenue to $39.6 million. Because city and state law require that permit fees be set in accordance with administrative costs, implementing this option may also require DOHMH to reclassify their mobile food vending permits as concessions.

Proponents might argue that competitive bidding is successfully used in other city programs, such as the parks department food concessions and taxicab medallions. They might also argue that the current system of flat fees undervalues the true worth of permits to vendors, as evidenced by the long waiting lists. Further, allocating permits via a waiting list does not actually shield vendors from high costs, as it has encouraged the development of a black market in which permits are resold or rented out at a considerable mark up. In 2009, the Department of Investigation uncovered what it described as a “lucrative underground market” in which two-year mobile food vending permits were being resold for up to $15,000 apiece. It recommended that DOHMH move to a competitive sealed bidding process.

Opponents might argue that competitive bidding would price some small vendors out of the mobile food vending market. If permit costs were to rise from the current maximum of $200 to tens of thousands of dollars every two years, only large scale operators would be able to afford them. If a credit market were to form to provide financing for food vending permits, such as for taxicab medallions, this could enable small business owners to obtain permits, but it would increase their overall operating costs. In addition, critics might note that a competitive bidding system may lead to greater than anticipated increases in administrative costs or less revenue than expected. For example, a 2011 audit by the city Comptroller found that delays in the awarding of parks department mobile food vending concessions resulted in $3 million in forgone revenue over three years.

Prepared by Melinda Elias

Raise the City's Passenger Vehicle Use Tax And Charge More for Heavier Vehicles

Revenue: $36 million annually

New York City residents and businesses that own or lease passenger vehicles kept, stored, or garaged in the city currently pay a biennial $30 use tax for each registered vehicle (there are a few exemptions to the tax). Although New York City charges a flat rate for registered passenger vehicles, a majority of counties elsewhere in the state have an auto use tax that is based on weight—a lower fee for vehicles that weigh up to 3,500 pounds and a higher fee for vehicles that weigh more. Most counties that base their vehicle use tax on weight charge $20 every two years for vehicles weighing more than 3,500 pounds. Some of the closest counties to the city charge even more; Westchester and Suffolk counties' use tax is $60 every two years for these heavier vehicles. This type of county- level passenger vehicle use tax mirrors the weight-based differences in New York State's biennial vehicle registration fee. In New York City and its neighboring counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester that make up the Metropolitan Commuter Transportation District, there is also a supplemental biennial fee of $50 for each registered vehicle.

Under this option, which would require state approval, a city resident or business that has a passenger vehicle registered in New York State would pay a higher, weight-based vehicle use tax to New York City. Owners of vehicles that weigh less than 3,500 pounds would pay $40 and owners of vehicles that weigh more would pay $100, which are roughly equivalent to the average vehicle registration fees imposed by New York State.

Since residents register their passenger vehicles every two years, it is assumed that half of the 1.8 million registered vehicles would renew each year. Under the current $30 biennial auto use tax, New York City collected $30.7 million in revenue in 2017. Based on registration data by vehicle weight for New York City, 46 percent of city auto use payers would pay the $40 fee and 54 percent would pay the $100 fee, resulting in $36 million in additional annual revenue.

Proponents might argue that a change to a weight-based passenger vehicle use tax is consistent with similar taxes in much of the state. They could also point out that charging by weight reflects the greater social impact of heavier cars on road surfaces, accident fatality rates, and carbon emissions.

Opponents might argue that much of the negative consequences of automobile use in the city stems from commuters and visitors rather than city residents and that raising registration fees for local residents would do little to discourage driving in the city. They could also argue that in parts of the city poorly served by public transportation, a car remains a necessity for getting to work and that adding to the tax burden of residents in those areas is discriminatory.

Updated October 2018

Prepared by Conrad Pattillo

Start Fining Drivers for Idling Violations Without Warnings

Revenue: $1 million annually

New York City has some of the highest rates of asthma in the country and air pollution is a known risk factor for the condition. Reducing air pollutant emissions from vehicles and using fuel more efficiently are important goals for the city. But as an active, growing city, New York depends on cars and trucks to keep the city functioning. Yet vehicles parked with their engines running are emitting dangerous pollutants and are a substantial contributor to local air pollution in the city and pose risks to public health, particularly when idling occurs near schools or health facilities. Other than during very cold weather, there is usually no necessity to keep a vehicle running while parked.

The city currently has two laws that impose penalties for excessive idling of motor vehicles 1) traffic rules promulgated by the Department of Transportation and enforced by police department traffic enforcement agents, and 2) the city's air pollution control code, which is enforced by the Department of Environmental Protection (DEP). According to both regulations, no vehicle may idle for more than three minutes while parked, standing, or stopping, excepting emergency vehicles and vehicles that use the engine to operate another device. If the vehicle is in front of a school, the time limit is reduced to one minute. Currently, traffic enforcement agents who find cars idling ask drivers to turn off their engines twice before issuing tickets, which resulted in 3,284 violations in fiscal year 2016. These agents issue a $100 parking summons or a criminal summons. Alternatively, DEP agents respond to idling complaints and monitor select areas where idling is an issue. These agents can issue notices of violations that are adjudicated through the city's Environmental Control Board with penalties ranging from $200 to $2,000 per violation, although in 2015 the average penalty was $441.

This option would iinstruct traffic enforcement agents to no longer give drivers warnings before issuing a ticket and for DEP to be more aggressive in looking for idling drivers and in responding to complaints. IBO estimates that using existing resources, traffic enforcement agents could issue many more tickets to raise an additional $985,000, while DEP agents could raise an additional $80,000 through increased enforcement, resulting in just over $1 million in new revenue. This total takes into account that about 25 percent of the penalties typically go uncollected in any given year. These actions would require only a change in enforcement policy from DEP and the police department.

Proponents might argue that asking drivers to turn off their engines has not meaningfully reduced the amount of idling that occurs and more aggressive enforcement will cause many drivers to turn off their vehicles when stopped. More vigorous enforcement will decrease the amount of air pollution in New York City, improving public health and fuel efficiency for drivers.

Opponents might argue that drivers will be upset about being ticketed without warning, which could reduce trust between law enforcement and citizens, while the difficult-to-prove nature of the infraction could increase administrative burdens as drivers contest citations, offsetting some of the new revenue. They might say this policy encourages drivers to circle the block instead, especially in the winter to keep the vehicle warm, which would actually increase air pollution. They might also point out that if the policy is successful and drivers no longer idle their vehicles, the new revenue stream from fines would diminish in future years.

Updated March 2018

Prepared by Dan Huber

Establish a Pied-A-Terre Tax

Revenue: $9 million annually

Although difficult to quantify, in some city neighborhoods the share of housing units that are owned by nonresidents and used as second homes is believed to have grown in the past decade, particularly for high-value properties. Borrowing from models in other cities, advocates have proposed an additional property tax on second homes as a means of raising revenue from high-income households and reducing pressure on the cost of land. A bill recently introduced in the State Legislature (S44-B) would establish an "additional property tax on certain non-primary residences."

The pied-a-terre tax would be assessed on one-, two-, and three-family residences (Class 1 properties) with market values of $5 million or more, and condominium and cooperative apartments with assessed value for property tax purposes of $300,000 or more. Assessed values of condos and coops are far lower than their market values. S44-B allows for apartment owners to apply for and receive an exemption from the tax if the state certifies that the property has been appraised at less than $5 million within the last three years. The proposal also exempts properties that are the primary residence of at least one owner or of a parent or child of at least one owner, and properties rented on a full-time basis to tenants for whom the property is their primary residence.

Under S44-B, the city's finance commissioner would be responsible for defining brackets for the tax. For coops and condos the tax rates would range from 10.0 percent to 13.5 percent of assessed value in excess of $300,000. For Class 1 homes with market value in excess of $5 million, the rates would range from 0.5 percent to 4.0 percent of market value. IBO's estimate of the additional revenue that would be raised by a pied-a-terre tax—$390 million annually—is based on the progressive schedule of tax rates specified in a prior version of the bill for Class 1 homes, and a similar rate schedule developed by IBO for apartments. Department of Finance data that can be used to indicate whether a property is used as a primary residence and this year's assessment roll were used to determine which residences would likely be subject to the tax

Proponents might argue that an additional tax on expensive second homes, which are typically owned by high-income households and used infrequently, would raise revenue from individuals with the ability to pay. Moreover, a pied-a-terre tax would raise revenue from households that are not subject to the city's income tax, unlike households that have chosen New York City as their primary residence. They could also point out that some of the new revenue would be paid by owners of apartments benefiting from 421-a property tax exemptions.

Opponents might argue that pied-a-terre owners who do not live full-time in New York City would be unfairly taxed under this option. These owners still pay the property taxes associated with their properties, even though they typically rely less heavily on city services than full-time residents. In addition, a pied-a-terre tax would decrease demand for high-end residences, further weakening a real estate market that has already been hit hard by the coronavirus pandemic. Finally, a pied-a-terre tax would also reduce construction industry activity and employment in the city.

Prepared by Yaw Owusu-Ansah

Revenue Options

Eliminate Commercial Rent Tax Exemptions for Retail Tenants in Lower Manhattan

Revenue: $9 million annually

The commercial rent tax (CRT) is imposed on tenants who lease commercial space in buildings south of 96th Street in Manhattan. The tax only applies to leases worth more than $250,000 per year. Nonprofit organizations, government agencies, and many theatrical productions are exempt.

The State Legislature created two additional CRT exemptions in 2005 as part of a bill to stimulate commercial recovery in Lower Manhattan. The new exemptions apply to all retailers located south of City Hall between South Street and West Street, as well as all tenants in the new World Trade Center buildings and most of those in the new Fulton Transit Center. According to data from city planning's PLUTO database, this exemption area includes 3.5 million gross square feet of retail space. Now that several of the buildings at the World Trade Center and the Fulton Transit Center have largely been completed, there is additional retail space of almost 400,000 square feet in the area. This option, which would require state legislation, would repeal the CRT exemptions for retailers in Lower Manhattan.

The Mayor's Office of Management and Budget estimates that the Lower Manhattan retail CRT exemptions will cost the city approximately $4 million in fiscal year 2019 and grow by about $300,000 annually. This estimate does not include the new retail space coming on-line at the Fulton Center and at the World Trade Center, which will substantially increase the cost of the incentive. Assuming that the new space is rented for $400 per square foot and that 10 percent of the space will be vacant or exempt, the Fulton Center and World Trade Center retail exemptions could cost the city an additional $5 million per year, for a total cost of the Lower Manhattan exemption of about $9 million.

Proponents might argue that subsidizing retailers is an unwise use of taxpayer money given their history of creating low-wage jobs. They might also argue that the CRT exemptions disproportionately benefit large retailers and national chains because most small retailers in Lower Manhattan are already exempt from the tax. Finally, they might argue that incentives are not necessary to attract new retailers. The owners of Brookfield Place and Pier 17, for example, are redeveloping their retail spaces even though both sites fall outside of the CRT exemption zones. New retailers are also attracted to the neighborhood's affluent and growing residential population, as well as its improving office market and record levels of tourism.

Opponents might argue that the incentives are needed to help Lower Manhattan recover from the effects of both September 11th and Hurricane Sandy. They might also argue that the neighborhood is underserved by retail, and that additional incentives are needed to attract retailers that will support Lower Manhattan's transformation into a mixed-use community. They might also note that the savings from the CRT exemption help overcome the disadvantage of trying to lure shoppers in a neighborhood still burdened by large construction sites and street disruptions.

Prepared by Alan Treffeisen

Eliminate Special Tax Treatment on the Sale of Properties To Real Estate Investment Trusts

Revenue: $11 million annually

This option would eliminate New York City's special real property transfer tax (RPTT) treatment of real estate investment trust (REIT) transfers. The city's residential and commercial RPTT tax rates range from 1.0 percent to 2.625 percent of the sales price, depending on the value and type of property, and New York State levies its own real estate transfer tax at 0.4 percent to 1.4 percent. Designed to lower the expense associated with transferring property to a REIT structure, state legislation enacted in 1994 provided (among other benefits) 50 percent reductions in both city and state RPTT rates during a two-year period for qualifying property transfers made in connection with the formation of REITs.

In 1996, legislation made the RPTT benefit for new REITs permanent and temporarily expanded the 50 percent rate reduction to cover some property transfers to already established REITs. State legislation has repeatedly extended the reduced RPTT rates for property transfers to already established REITs, most recently to August 2020. Ending RPTT rate reductions for all REITs would provide the city with an estimated $11 million annually in additional revenue.

Eliminating the city's RPTT rate reduction for new REITs would require state legislation.

Proponents might argue that REITs already receive a number of tax benefits from New York City, including deductibility of income that is distributed to shareholders and corporate income tax liability that is determined using only two of the four alternate tax bases that other firms are subject to: net income and a fixed minimum tax. The state also provides a 50 percent reduction in its own RPTT and an exemption from the capital gains tax for property transfers to REITs. Given these benefits, they might argue that the advantages from converting to a REIT would outweigh the cost even in the absence of the city's RPTT break. Proponents might also question why the city would want to promote the formation of REITs and create a preference for one form of property ownership over another.

Opponents might argue that the formation of a REIT, which is a change in structure rather than a change in ownership, should not be subject to the same level of transfer tax as the transfer of property from one owner to another. They might also argue that without the tax incentive, transferring ownership to a REIT structure is more costly and would reduce the number of REIT formations, thereby limiting real estate investment opportunities for smaller investors. Moreover, the revenue gain associated with making the RPTT rate whole would be partially negated—and may even result in a net loss in RPTT revenue—depending on the extent to which property transfers to REITs decrease in response to a doubling of the RPTT rate.

Updated October 2018

Prepared by Alan Treffeisen

Extend the Mortgage Recording Tax to Coops

Revenue: Over $95 million annually

The mortgage recording tax (MRT) is levied on the amount of the mortgage used to finance the purchase of houses, condo apartments, and all commercial property. It is also levied when mortgages on such properties are refinanced. The city's residential MRT tax rate is1.0 percent of the value of the mortgage if the amount of the loan is under $500,000, and 1.125 percent for larger mortgages. In addition, mortgages recorded in New York City are subject to a state MRT, of which a portion, equal to 0.5 percent of the value of the mortgage, is deposited into the city's general fund. Currently, loans to finance the sales of coop apartments are not subject to either the city or state MRT, since such loans are not technically mortgages. Extending the MRT to coops was initially proposed in 1989 when the real property transfer tax was amended to cover coop apartment sales.

The change would require the State Legislature to broaden the definition of financing subject to the MRT to include not only traditional mortgages but also loans used to finance the purchase of shares in residential cooperatives. In January 2010, then-Governor Paterson proposed extending the state MRT to include coops, and Mayor Bloomberg subsequently included in his preliminary budget for 2011 the additional revenue that would have flowed into the city's general fund had the proposal been enacted; ultimately, it was not adopted. IBO estimates that extending the city MRT to coops would raise over $95 million per year. If the state MRT were also extended to coops, the additional revenue to the city would be around 50 percent greater.

Proponents might argue that this option serves the dual purpose of increasing revenue and ending the inequity that allows cooperative apartment buyers to avoid a tax that is imposed on transactions involving other types of real estate.

Opponents might argue that the proposal will increase costs to coop purchasers, driving down sales prices and ultimately reducing market values.

Updated October 2018

Prepared by Alan Treffeisen

Impose a City “Mansion Tax”

Revenue: $300 million annually

Sales of real property in New York City are subject to a real property transfer tax (RPTT). The combined city and state tax rates for residential properties are 1.4 percent when the sales price is $500,000 or less, and 1.825 percent when the price is above $500,000 but less than $1 million. Residential properties that sell for $1 million or more are subject to an additional state tax, often referred to as a “mansion tax.” Formerly a flat rate of 1.0 percent, beginning in fiscal year 2020 this tax is on a sliding scale from 1.0 percent for residential properties selling from $1 million to $2 million, increasing to a high of 3.9 percent for residences sold for $25 million or more. While technically the RPTT is paid by the seller, economic theory suggests that the burden of the tax will be shared (not necessarily equally) between buyers and sellers.

Under this option, a city version of the mansion tax would be levied on residential properties selling for $1 million or more. The tax would have three rates: 0.5 percent on sales of $1 million to $2 million, 1.0 percent on sales from $2 million to $5 million, and 1.5 percent on sales of $5 million and above. These thresholds align with those in the new state tax for sales up to $5 million. This tax would be on the entire value of the property, and would be in addition to the existing city and state rates. IBO estimates that the tax would generate around $300 million in annual city revenue. If the tax were applied only to the value over $1 million, the additional city revenue would be about $215 million. This option would require state legislative approval.

Proponents might argue that the tax would raise a considerable amount of revenue while affecting a relatively small number of buyers and sellers—about 24 percent of residential sales in fiscal year 2019 would have been subject to the new tax—with the burden of the tax shared by sellers and buyers. They could also point out that many buyers of luxury residences in New York City do not pay the mortgage recording tax (MRT) because they make all-cash purchases, obtain financing overseas, or purchase co-ops, which are not subject to the MRT. Even with the addition of a city mansion tax these buyers may face a lower combined transfer tax burden than purchasers of less-costly residences who are more likely to pay both RPTT and MRT.

Opponents might argue that with the new state tax, luxury residential real estate is already subject to a high combined city and state RPTT rate, ranging from 2.825 percent on sales at $1 million to as high as 5.975 percent on properties sold for $25 million or more—top rates well above the RPTT rate imposed on commercial sales. Opponents might also point out that taxes on economic activity reduce the level of that activity, meaning that the new tax would lead to fewer sales of luxury homes and lower prices net of taxes. This downward pressure on the housing market would come on top of changes to federal tax law that have already reduced the fiscal benefits of home ownership for many households. Finally, because the higher tax rate would apply to the entire value of the property, as soon as the sales price reached the $1 million, $2 million, or $5 million thresholds there would be big jumps in city RPTT liability. As a result, we would expect a “bunching” of sales just below the thresholds and therefore a smaller revenue yield.

Updated February 2020

Prepared by Alan Treffeisen

Limit J-51 Benefits to Projects With An Affordable Housing Component

Revenue: $1 million annually

The J-51 program encourages the rehabilitation of residential buildings by providing the owner with both a property tax exemption and an abatement for approved improvements. Property owners receive the exemption on the increase in assessed value due to the improvement while the abatement partially refunds property owners for the cost of the improvement. Exemption periods can be either 34 years or 14 years—the former applies if the project also receives government support through an affordable housing program. In both instances, the exemption phases out in the final four years of the benefit period. Generally speaking, projects receiving government assistance can have up to 150 percent of the rehabilitation costs abated compared with 90 percent for all other projects. The total amount abated is spread over a 20-year period regardless of project type. In exchange for the benefit, apartments in rental properties become rent stabilized or remain rent stabilized while the building is receiving J-51 benefits.

In 2019, the program will cost the city $292.8 million in forgone revenue—$74.8 million from the abatement and $218.0 million from the exemption. Roughly 90 percent of the aggregate benefit is distributed evenly between Manhattan, the Bronx, and Brooklyn. Rental properties citywide will receive two-thirds of the total J-51 benefits in 2019. About $100 million is for projects with no affordable housing residential units.

This option, which would require Albany approval, proposes eliminating future J-51 benefits for new projects that do not have an affordable housing component. In effect, only projects receiving other government support under a program requiring low- or moderate-income housing would be eligible for new J-51 benefits. Were this proposal in effect in 2019, the city would raise an additional $1.3 million in property tax revenue in 2019. This estimate is considerably lower than previous estimates because legislation passed in 2013 eliminated J-51 eligibility for many higher value coops and condos, which typically do not have affordable housing units.

Proponents might argue that awarding J-51 benefits without requiring an affordable housing component is an inefficient use of public funds. In addition, the city no longer needs to incentivize residential rehabilitation for higher-income tenants because the current tight housing market provides a sufficient incentive by itself. Also, the program is not responsible for adding much to the city's stock of rent-stabilized housing. Many residential units that receive J-51 benefits are already rent stabilized because they were built before 1974 and have yet to be deregulated. The additional revenue could be reinvested into more worthwhile affordable housing programs.

Opponents might argue that J-51 is responsible for higher quality residences in areas of the city that would otherwise be dilapidated, having been ignored by the housing market. In addition, the J-51 program serves families that make too much money to qualify for affordable housing but not enough to live comfortably in market-rate housing. Thus, eliminating the 14-year program would also eliminate housing options for middle-income families.

Prepared by Yaw Owusu-Ansah

Make Real Estate Sales Between Nonprofits and For-Profits Subject to the City's Property Transfer Tax

Revenue: $36 million annually

This option would modify the city tax treatment of real property transfers between nonprofit and for-profit entities, making them conform to state tax practice. Both New York City and the Metropolitan Transportation Authority (MTA) would receive new revenue from this change.

Property sales in New York City are subject to both a city and state real property transfer tax (RPTT). There are some exceptions, including transfers between two nonprofit entities, which are exempt from both city and state RPTT. Currently, transfers of real property between not- for-profit and for-profit entities are subject to the state RPTT, but not the city RPTT. The RPTT is normally paid by the seller, but in the case of a nonprofit entity selling to a for-profit concern, the buyer pays the (state) tax.

The city's RPTT rates range from 1.0 percent to 2.625 percent, depending on the property's value and type. Included in the highest rate is a 1.0 percent "urban tax" that is dedicated to the MTA. Based on sales data for fiscal year 2018, IBO estimates that eliminating the exemption in the city RPTT for nonprofit transfers to or from for-profit entities would raise about $36 million annually for the city, and an additional $24 million in urban tax revenue dedicated to the MTA. This change would require state legislation.

Proponents might argue that for-profit entities that sell real property should not receive a tax break solely by virtue of the type of buyer. Conversely, if the not-for-profit entity is the seller, it will continue to be exempt from the tax, which would instead be paid by the for-profit buyer. In addition, proponents might argue that conforming city taxation to state practice increases the transparency of the tax system.

Opponents might argue that while the proposed tax would formally be paid by the for-profit entity, economic theory posits that buyer and seller would each bear part of the burden. As a result, the proposed extension of the city RPTT would increase the costs incurred by nonprofits, thereby diminishing their ability to provide the services that are their mission.

Updated October 2018

Prepared by Alan Treffeisen

Parks Districts Fees

Revenue: $44 million annually

The Department of Parks and Recreation maintains over 1,700 parks, playgrounds, and recreation facilities across the city. These open spaces are enjoyed by city residents and are considered cornerstones of many neighborhoods. Not all parks are maintained equally, however. Faced with similar difficulties, other municipalities including Seattle and Chicago, have created independent entities funded by a small property tax surcharge to pay for parks improvements and maintenance citywide. New York City's parks department currently has an annual budget of $571 million of which $272 million is spent on routine maintenance citywide. These needs will likely continue to grow as new parks amenities are added, and the city's population and tourism increase.

While New York City parks are open to use by all residents, property owners who live nearby a park receive an additional benefit from the impact of the park, with the extent of the benefit reflecting the attractiveness of the particular park as an amenity. This boost in property values due to public parks spending could be partially reclaimed and directed towards parks upkeep through a small fee per $1,000 of fair market property value. This would create a dedicated funding stream for maintaining and improving the park near the property. It could displace some of what the city currently spends on maintenance and the city could use the savings elsewhere in the city budget or shift the savings to parks that suffer from underinvestment, thereby increasing parks funding equity across the city.

Currently, there is around $436 billion of residential property value within 1,500 feet of a flagship, community, or neighborhood park. Assessing a fee of $0.10 per $1,000 of property value, equal to $100 per year on a million dollar home, would create a dedicated revenue stream of $44 million for parks improvements assuming state approval of legislation permitting the creation of the districts and the fee rate. This flat fee could be adjusted along a possible sliding scale based on distance from the park or even on the estimated impact of a specific park on the value of nearby properties.

Proponents might argue that by favoring popular parks in wealthier areas of the city, the parks department is furthering inequality by providing both monetary and aesthetic benefits to residents who do not need the help. Reclaiming some of the monetary benefits of parks spending could free up city funds for other uses and increase fairness. Additionally, because the funding for a given park would come from the surrounding area, the parks districts could be structured to allow local input into how the park is improved and maintained.

Opponents might argue that this is simply a property tax increase and that because property taxes are based on market values, the value associated with being close to a park is already reflected in their property tax bill, making it unfair for the city to level additional fees on their properties. In addition, the properties with the greatest value that would contribute the most revenue are disproportionately located near parks that are already very well maintained, while lower value properties tend to be closer to parks that have been historically neglected. Without a robust mechanism to share funding or redirect city funds, implementing a property value based fee may exacerbate rather than reduce inequality between parks and neighborhoods. This is especially true if the burden for improving neglected parks is shifted onto local residents less able to pay for it.

Prepared by Daniel Huber

Raise the Cap on Property Tax Assessment Increases

Revenue: $156 million in first year and at least $500 million in fifth year

Under current law, property tax assessments for Class 1 properties (one-, two-, and three-family homes) may not increase by more than 6 percent per year or 20 percent over five years. For apartment buildings with 4 units to 10 units, assessment increases are limited to 8 percent in one year and 30 percent over five years. This option would raise the annual assessment caps to 8 percent and 30 percent for five years for Class 1 properties and to 10 percent annually and 40 percent over five years for small apartment buildings. State legislation would be needed to implement the higher caps and to adjust the property tax class shares to allow the city to recognize the higher revenues.

This change would bring in $156 million in the first fiscal year and $500 million to $633 million annually by the fifth year. These revenue estimates are highly sensitive to assumptions about changes in market values. The average property tax increase in the first year for Class 1 properties would be about $177. With the assessment roll for fiscal year 2019 nearly complete, 2020 is the first year the option could be in effect.

The assessment caps for Class 1 were established in the 1981 legislation creating the city's current property tax system (S7000a) and first took effect for fiscal year 1983. The limits on small apartment buildings in Class 2 (which includes all multifamily buildings) were added several years later. The caps are one of a number of features in the city's property tax system that keeps the tax burden on Class 1 properties low in order to promote home ownership. Assessment caps are one way to provide protection from rapid increases in taxes driven by appreciation in the overall property market that may outstrip the ability of individual owners to pay, particularly those who are retired or on fixed incomes.

Although effective at protecting Class 1 property owners, assessment caps nevertheless cause other problems. They can exacerbate existing inequities within the capped classes if market values in some neighborhoods are growing faster than the cap while values in other neighborhoods are growing slower than the cap. Moreover, in a classified tax system, such as New York's, if only one type of property benefits from a cap, interclass differences in tax burdens will also grow. Beyond these equity concerns, caps can constrain revenue growth if market values are growing at a rate above the cap, particularly if the caps are set lower than needed to provide the desired protection for homeowners' ability to pay.

Proponents might argue that an increase in the caps would eventually yield significant new revenue for the city. Further, by allowing the assessments on more properties to grow proportionately with their market values, intra-class inequities would be lessened. Finally, by allowing the overall level of assessment in Class 1 and in part of Class 2 to grow faster, the interclass inequities in the city's property tax system would be reduced.

Opponents might argue that increasing the burden on homeowners would undermine the city's goals of encouraging home ownership and discouraging the flight of middle-class taxpayers to the suburbs. Other opponents could argue that given the equity and revenue shortcomings of assessment caps they should be eliminated entirely rather than merely raised.

Updated November 2017

Prepared by Yaw Owusu-Ansah

Reacquire Battery Park City

Revenue: $70 million annually after two years

Battery Park City is a 92-acre neighborhood built on landfill on the southern tip of Manhattan. The state created the Battery Park City Authority (BPCA) in 1968 to finance, develop, and operate the area. The BPCA is a public benefit corporation. It owns the land and manages the now fully developed area, which includes residential and commercial buildings and parkland. The Governor appoints BPCA's board.

Although Battery Park City is exempt from city property taxes, the city assesses pro forma property taxes as if they were owed and tenants make payments in lieu of taxes (PILOTs) to BPCA instead of payments to the city. BPCA's operating revenues—which totaled $307 million in 2018—come primarily from the PILOTs and rents from ground leases. BPCA expenses are largely debt service and operating costs, such as infrastructure and parks maintenance. The city provides most municipal services, however, such as schools, sanitation, and police.

The BPCA is required to remit to the city PILOT revenue remaining after operating expenses, certain debt-service payments and other costs. In 2018, this transfer totaled $155 million. The BPCA retains its other surplus revenue, but can spend it only for purposes agreed upon by the Mayor, BPCA, and the City Comptroller. The most recent agreement was signed in 2010. It allocated $861 million of accumulated and projected future surpluses: $200 million each to the city and state for budget relief, $200 million to the city for affordable housing, and $261 million for city for pay-as-you-go-capital (PAYGO). As of 2018, $88 million remained to be paid to the city for PAYGO capital.

Under the terms of its agreements, the city can reacquire Battery Park City for a nominal fee at any time. To do so, the city must assume or pay off BPCA's outstanding debt (about $1 billion in 2018) and satisfy other contractual obligations. This option would have the city reacquire Battery Park City, giving the city full control over the development's revenues. City revenue would increase by guaranteeing all surplus income would flow to the city without requiring the authority's approval. Following the satisfaction of past agreements and based on recent budgets, this could total about $70 million annually, above what the city now receives as a transfer of PILOT revenue in as little as two years.

Proponents might argue that Battery Park City differs little from other city neighborhoods—it receives similar services, and its residents, in effect, pay the same taxes. Now that the neighborhood's construction is complete, the BPCA is unnecessary and the city should have exclusive control over the revenue it produces. While the city already receives most of BPCA's excess funds, the state-controlled BPCA board can and has at times allocated funds to fill state budget gaps to the detriment of the city. If the city realizes efficiencies by combining BPCA and city operations, revenue would increase. The city would also have the right to sell land now leased through ground leases to private developers.

Opponents might argue that Battery Park City is one of the city's best-maintained neighborhoods thanks to its dedicated funding. Residents and business moved to the area, often paying higher rents due to the ground lease structure, in exchange for its amenities. If funds were distributed citywide, local maintenance would suffer—particularly hurting the neighborhood's many parks. They also might argue an ownership change is unnecessary: BPCA is already required to transfer most of its surpluses to the city and the remaining funds cannot be spent without the city's approval.

Prepared by Elizabeth Brown

Revenue Options

Tax Vacant Residential Land the Same as Commercial Property

Revenue: $17 million in the first year, rising to $115 million annually when fully phased in

Under New York State law, a residentially zoned vacant lot or a commercially zoned lot that is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and has an area of no more than 10,000 square feet is currently taxed as Class 1 residential property. All other vacant land is taxed as commercial property. In fiscal year 2019, there are 15,127 vacant properties not owned by government. As Class 1 property, these vacant lots are assessed at no more than 6 percent of full market value, with increases in assessed value due to appreciation capped at 6 percent per year and 20 percent over five years. In 2019, the median ratio of assessed value to full market value was 3.0 percent for these properties.

Under this option, which would require state approval, vacant lots not owned by a government entity with an area of 2,500 square feet or more would be taxed as Class 4, or commercial property, which is assessed at 45 percent of full market value and has no caps on annual assessment growth; 7,467 lots would be reclassified. Phasing in the assessment increase evenly over five years would generate $17.0 million in additional property tax revenue in the first year, and the total increment would grow by $25.0 million in each of the next four years. Assuming that tax rates remain at their 2019 levels, the total property tax revenue generated by the reclassification upon completion of the phase-in would be $115.4 million.

Proponents might argue that vacant property could be better utilized, and awarding it preferential treatment further encourages its underdevelopment. The intention of the lower assessment rate, they could argue, is to incentivize development of Class 1 property. Vacant land zoned for residential use that is not being developed for its intended purposes may thus be an unwise policy at a time in which the city is experiencing a shortage of affordable housing. Proponents might further note that the lot size restriction of 2,500 square feet (the median lot size for Class 1 properties with buildings on them in New York City) would not create incentives to develop very small lots, and the city's zoning laws and land use review process also provide a safeguard against inappropriate development in residential areas.

Opponents might argue that the current tax treatment of vacant land serves to preserve open space in residential areas in a city with far too little open space. Opponents might also argue that zoning policies are less effective at restricting development in residential areas than the preferential tax treatment because the latter is codified in real property tax law. Furthermore, opponents might also point out that the vacant lots have a median land area of 4,000 square feet while the median area of existing Class 1A, 1C, and Class 2 property with at least 2,500 square feet is 10,200 square feet. Thus, many of the vacant residential lots would be too small to develop for housing and would sit vacant even if reclassified.

Prepared by Yaw Owusu-Ansah