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Budget Options

For New York City



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Introduction

When compiling New York City's budget, it is critical to bear in mind that the city cannot provide all the services its citizens want. Policymakers must determine which services they can realistically fund and how they are to be funded. Tough decisions inevitably must be made.

It is precisely for this reason that IBO has compiled the 12th annual *Budget Options for New York City*. With this publication, we examine ways that the city could save money or raise revenue, and impartially analyze the pros and cons of each option. An option's inclusion in the volume does not imply a recommendation, nor does the omission of an idea mean IBO does not consider it viable.

IBO does not recommend or advocate any of the options in this volume—our role is to analyze, not endorse

Long-time readers will recognize many options from previous years, but IBO has also included 11 new items for this edition involving diverse areas of public policy such as land use, labor relations, and sanitation. Options that appeared in prior volumes have been revised and their savings or revenue estimates updated.

The budget options originate in a number of different ways. Some are included because elected officials, advocates, and other individuals have asked IBO to analyze their potential to cut costs or raise revenue for the city. Other options were generated by IBO's own team of experts. More than a few have been the subject of public discourse for many years. Members of the public can also suggest options and for the first time this year, IBO invited them to send us their ideas via social media. Fans and followers sent in several thought-provoking suggestions; our option to consider development impact fees came by way of Facebook. It is IBO's hope that in the years to come we will receive more ideas from our online readership for which we can estimate savings or revenue.

Some options that have appeared in previous editions of this report have been adopted by the city. For instance, in past volumes IBO examined shifting children from the child welfare system's congregate facilities to family-based home care, as well as merging the Department of Employment with the Department of Small Business Services. On the revenue side, IBO's option of charging a fee to file a property tax challenge with the Tax Commission has been implemented. In earlier volumes, IBO also explored including certain Botox treatments as part of the sales tax base, an option that was recently adopted by New York State.

We hope that the 12th volume of *Budget Options for New York City* will continue to inform the debate on the city's budget priorities.

Savings Options

OPTION:

Eliminate Public Funding of Transportation For Private School Students

Savings: \$47 million

New York State law requires that if city school districts provide transportation for students who are not disabled, the district must also provide equivalent transportation to private school students in like circumstances. Under Department of Education regulations, students in kindergarten through second grade must live more than a half mile from the school to qualify for free transportation, and as students age the minimum distance increases to 1.5 miles. The Department of Education (DOE) provides several different types of transportation benefits including yellow bus service, and full- and reduced-fare MetroCards.

In the 2012 school year, 24 percent of general education students receiving full- or reduced-fare MetroCards attended private schools (roughly 132,000 children). In the same year, about 39 percent of general education students using yellow bus service attended private schools (approximately 34,000 children). DOE spends more than \$279 million on the MetroCard program and yellow bus services for general education students at public and private schools, combined.

The MetroCard program is financed by the state, the city, and the Metropolitan Transportation Authority (MTA)—the city's contribution is \$45 million and in recent years the state's has been \$25 million, while the MTA absorbs the remaining costs. Total expenditures in the 2012–2013 school year for yellow bus service are expected to be \$234 million, making the city's portion roughly \$92 million based on a 39 percent share of expenditures. Elimination of the private school benefit, which would require a change in state law, could reduce city funding by roughly \$47 million—\$11 million for MetroCards (24 percent of the city's \$45 million expense) and \$36 million for yellow bus service.

PROPOSERS MIGHT ARGUE that when families choose to use private schools, they assume full financial responsibility for their children's education and there is no reason for the city to subsidize their transportation, except for those attending private special education programs. Proponents concerned about separation of church and state might also argue that a large number of private school children attend religious schools and public money is therefore supporting religious education. Transportation advocates could also argue that the reduction of eligible students in the MetroCard program will benefit the MTA even more than the city and state as the program costs to the authority are believed to be greater than the amount of funding.

OPPOSERS MIGHT ARGUE that the majority of private 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 a safety valve for already crowded public schools. If the elimination of a transportation benefit forced a large number of students to transfer into the public schools, the system would have difficulty accommodating the additional students. Opponents also might argue that parents of private school students support the public schools through tax dollars and are therefore entitled to some education-related government services. Furthermore, opponents might argue that as public transportation becomes increasingly expensive in New York City all school children have an increased need for this benefit.

OPTION:

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

Savings: \$45 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's degree programs along with six 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.

PROPOSERS 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 campus it should be funded like any other SUNY campus. 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 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. Moreover, there is no reason to expect that funds saved by ending local sponsorship would become available for other education department spending. And finally, they can say that other funding sources such as contributions from the business community are too unstable because they are likely to shrink when the economy slows.

OPTION:

Eliminate Performance Bonus for Principals and Assistant Principals

Savings: \$6 million annually

In 2007, the Department of Education and the New York City Council of Supervisors and Administrators reached an agreement on an updated Principal Performance Review (PPR). Notably, the new PPR included a provision that entitled principals and assistant principals to a merit bonus if the schools they lead earned a Progress Report in the top 20 percent citywide. Specifically, there are four tiers of awards: those principals whose schools score in the top 1 percent receive \$25,000; in the top 2 percent to 5 percent \$17,000; in the top 6 percent to 10 percent \$12,000; and in the top 11 percent to 20 percent \$7,000. Assistant principals receive half the bonus amount received by their principals.

In school year 2008-2009, the city awarded about \$5.7 million in bonuses; in 2009-2010 the bonuses totaled approximately \$6.5 million. In February 2012, the Department of Education awarded about \$5.7 million in principal and assistant principal performance bonuses based on student progress from 2010-2011. Under this option, the city would do away with these bonuses and save on average about \$6 million annually.

PROponents MIGHT ARGUE that the more weight that is placed on the Progress Reports, the more incentive there is for administrators and teachers to “teach to the test” and even to manipulate data. Moreover, the remaining measurement problems in the Progress Reports might imply that the basis for awarding the bonuses is flawed. Proponents might also argue that the city discontinued its merit pay program for teachers because research revealed that it was not effective at increasing test scores. Finally, because pensions for individuals who retire after receiving these bonuses are higher than they would have been otherwise, the bonus payments may actually create an incentive for high-performing principals to retire.

OPponents MIGHT ARGUE that these bonuses reward principals and assistant principals who have worked to produce measurable results. Rather than eliminate the bonuses, the education department should study whether the bonuses have an impact on the behavior of principals—for example, whether principals and assistant principals who receive bonus payments are more likely to remain in the system. In addition, this program is the result of collective bargaining and an agreement to eliminate bonuses might include increases in other forms of compensation that could partly or fully offset the savings attributable to the elimination of bonuses.

OPTION:
Citywide “Vote-by-Mail”

Savings: \$5 million annually

Election Day poll sites no longer exist in Oregon or within the state of Washington. Instead, all registered voters in those states receive their ballots in advance of each election and then have the option of returning their completed ballots either by regular mail or by personally dropping them off at specially designated collection sites. Many counties and cities within 17 other states have also discontinued poll site operations at least for off-year or primary elections and have instead adopted vote-by-mail.

This option proposes that New York City move towards discontinuing the operation of election poll sites across the city by adopting a similar vote-by-mail system. Implementing this proposal would require amending New York State’s Constitution, a process that takes several years.

Securing permission to institute vote-by-mail in New York City could result in net annual savings of about \$5 million after factoring in additional postage costs. The savings would be attained largely from reduced personnel needs. On average, \$20 million is now spent annually by the city on about 30,000 per diem workers needed to staff citywide elections at roughly 1,350 poll sites across the five boroughs. The city also currently spends about \$3 million each year to transport voting machines to and from poll sites and about \$1.5 million on police overtime for officers assigned to polling places.

PROponents MIGHT ARGUE that vote-by-mail systems present a number of advantages in addition to cost savings. As in Oregon, where voter participation increased after adoption of vote-by-mail, implementing such a system could boost voter turnout here as well. The public would also come to appreciate no longer being required to rush to poll sites before closing, sometimes in inclement weather, often followed by waits on long lines before casting their votes. Voters would also have more time to gather information on referenda appearing on the ballot, which many voters are totally unaware of until entering the voting booth.

OPponents MIGHT ARGUE that poll sites have long been places of civic community and that the gathering of citizens at Election Day polling places is a venerable tradition that should be preserved. Opponents could also argue, notwithstanding claims to the contrary by officials in jurisdictions that have adopted vote-by-mail systems, that such a process would almost certainly increase the risk of fraud or abuse. For example, given the loss of the privacy voters now enjoy at poll sites, voters who have received their ballots in the mail could be more readily induced to sell their votes or intimidated into voting for certain parties or candidates.

OPTION:

Construct a Waste-to-Energy Plant For a Portion of City Refuse

Savings: \$34 million annually beginning in 2020

Waste-to-energy (WTE) facilities generate electricity from nonrecyclable refuse, mainly through the use of combustion but also through emerging technologies such as thermal processing and anaerobic digestion. About 12 percent of garbage generated in the U.S. is converted into energy at 86 modern waste-to-energy facilities, although none exist in New York City. Modern plants produce fewer emissions than allowed under federal regulations and shrink the volume of waste they handle by 70 percent while generating electricity. A city-built WTE combustion facility would reduce the city's waste export costs and reduce pollution caused by exporting much of our waste to out-of-state landfills.

Currently, the city exports about 11,000 tons of waste per day. Most of it goes to landfills as far away as Georgia and North Carolina. In 2012 the city's average cost to export waste to a landfill was \$94 a ton. About 12 percent of the city's exported waste is processed in privately owned WTE plants near the city, at a cost of about \$67 per ton. Greater export distances, rising fuel costs, and a decreasing supply of landfill space will continue to drive up the city's future waste disposal costs. Total waste export costs were \$299 million in 2012 and are projected to grow substantially, at about 7 percent a year on average through 2016.

If the city built its own WTE combustion plant, equivalent to the size and capacity of an existing advanced technology plant, an additional 900,000 tons of refuse, about 28 percent of the city's annual waste exports, could be diverted from export and landfill. While this option considers a combustion plant because data from comparable plants are available, the city has issued a Request for Proposals for an emerging WTE technology plant within 80 miles of the city. The city would save \$34 million annually on waste disposal once the WTE plant is up and running, although just a \$10 increase in per ton export cost would raise the annual estimated savings to \$40 million.

The estimate assumes the plant would cost \$731 million, take three years to complete, and be financed with 30-year bonds at an interest rate of 6 percent a year. Site acquisition and securing the required permits from the state would take a considerable amount of time prior to construction. Once built, the cost of running the plant is assumed to be in line with comparable plants, while electricity generated is expected to bring in revenues of \$0.11 per kilowatt hour, and the averted export costs are projected to reach approximately \$148 per ton in 2020.

PROponents MIGHT ARGUE that advanced technology WTE facilities provide an environmentally better alternative to waste management than disposing of waste in a landfill. Furthermore, it has been reported that recycling rates in communities with WTE facilities are 5 percent higher on average than the national recycling rate, which suggests that WTE facilities are compatible with waste management policies that encourage recycling. Also the plants can be equipped to recover recyclable metals from the waste stream, thereby generating additional revenue.

OPponents MIGHT ARGUE that finding a suitable location in or near the city for the facility will be challenging and that once the plant is built, it will disproportionately affect nearby communities. Some communities might express environmental concerns about WTE facilities, such as issues with ash disposal. They could also argue that with the city already investing in the infrastructure needed to implement its waste export plan, such a change in direction could result in wasting some of that investment. A WTE plant could also discourage ongoing efforts to promote recycling and waste reduction.

OPTION:

Eliminate Elementary and Middle Summer School Program**Savings: \$22 million**

Over the past three years, the number of third grade through eighth grade students enrolled in the Department of Education's (DOE) summer instructional program has grown substantially from about 10,000 in 2009 to 33,000 in 2012. Two factors contributing to this increase were the 2009 completion of the DOE's five-year program to eliminate social promotion in grades three through eight and the increased difficulty of state math and English exams in 2010. Promotion guidelines now dictate that students scoring a level 1 on state tests must enroll in the four-week summer program or else repeat the grade.

Because final results on state exams are not released until late in the summer, when summer school is almost over, schools must predict final scores in order to enroll students in the program. However, as the state has developed more demanding exams it has become more difficult for the city to accurately forecast how children will score. School officials recommended 32,868 students in grades three through eight for last summer's program. In July, when final results from the May tests were released, the DOE reported that about 7,000 of those students were over-identified, meaning that they had in fact attained at least a level 2 on the May exam and had not actually needed to attend.

According to DOE's School Allocation Memo No. 7 for school year 2012-2013, roughly \$22 million was allocated for elementary and middle school summer instructional programs. These allocations were largely based on estimates of how many students would be mandated to attend. Under this option, the city would eliminate the summer instructional program for grades three through eight. Instead, the Department of Education could offer a retest in June for those students identified as being in danger of scoring a level 1 on the May exam. With the benefit of an additional month of instruction, plus the variation in standardized test results, a substantial number of students who would have been enrolled in summer school are likely to score high enough on the retest to avoid being held back.

PROPOSERS MIGHT ARGUE that city money is wasted because so many students are placed in the program unnecessarily. Proponents might also argue that the academic gains made in a four-week summer program are illusory, and more a reflection of the imprecision of the tests than of actual improvement.

OPPOSERS MIGHT ARGUE that elimination might exacerbate the normal summer learning loss for some of the system's weakest students. Other summer programs often have long waiting lists or expensive price tags. The summer instructional program provides a safe environment for the city's students. They might also point out that, under current policies, more students are likely to have to repeat a grade if the summer program were eliminated, thereby offsetting at least some of the savings.

OPTION:

Eliminate Need for Citywide Run-Off Elections

Savings: \$20 million (potential savings every four years, beginning in fiscal year 2014)

Primary elections for citywide offices, which often involve more than two candidates vying for their party's spot on the November general election ballot, currently require that a candidate receive at least 40 percent of the votes cast in order to prevail. If no candidate reaches that threshold for a citywide office, a run-off election involving the top two vote getters is held two weeks later. This most recently occurred in the September 2009 Democratic primaries for City Comptroller and Public Advocate.

Eligible candidates competing in run-off elections receive an additional allocation of taxpayer-generated funds from the city's Campaign Finance Board. Even more costly is staffing polling sites with per diem employees for an additional day, printing new ballots, trucking costs associated with transporting voting machines, and overtime for police officers assigned to polling sites. A citywide run-off election currently costs about \$20 million, depending on the amount of matching funds for which candidates are eligible.

This option would save money by eliminating the need for run-off elections through the implementation of instant run-off voting (IRV). IRV has been implemented in a number of large cities across the country such as San Francisco, Memphis, Minneapolis, and Oakland. Legislation calling for eliminating primary run-off elections (but without instituting IRV) was introduced last year in both the New York State Senate and Assembly; other legislation calling for settling primaries on Primary Day via establishment of instant run-off voting was introduced in the Assembly.

Instant run-off voting allows voters to rank multiple candidates for a single office rather than requiring voters to vote solely for the one candidate they most prefer. The IRV algorithm used to determine the winning candidate essentially measures both the depth and breadth of each candidate's support. Perhaps most significantly, the winner will therefore not necessarily be the candidate with the most first choice votes, particularly if he or she is also among the least favored candidates in the eyes of a sufficient number of other voters.

In an election that uses instant run-off voting, primary voters would indicate their top choices of candidates for an office by ranking them first, second, third, etc. If no candidate receives 50 percent of the first choice votes, then the candidate receiving the fewest first choice votes is eliminated. Individuals who voted for the eliminated candidate would have their votes shift to their second choice. This process continues until one candidate has received 50 percent of the vote.

PROPOSERS MIGHT ARGUE that implementation of instant run-off voting would not only yield budgetary savings for the city but also be more democratic. The preference of more voters would be taken into account using instant run-off voting because turnout on Primary Day is usually a good deal higher than turnout for run-off elections two weeks later.

OPPONENTS MIGHT ARGUE that it is unrealistically burdensome to expect voters to not only choose their most desirable candidate in a primary but to also rank other candidates in order of preference. They might also argue that the current system is more desirable in that the voters who make the effort to turn out for run-offs are precisely those most motivated and most informed about candidates' relative merits.

OPTION:

Eliminate Youth Connect

Savings: \$255,000 annually

This option would eliminate the Department of Youth and Community Development's (DYCD) Youth Connect (formerly known as Youth Line). Youth Connect, an information and referral service for youth, families, and communities, provides a toll free hotline Monday through Friday from 9:00 a.m. to 7:00 p.m. Operators connect callers to an array of local services and resources, which relay employment opportunities and offer education and training programs, including Out-of-School Time programs, runaway and homeless youth services, immigrant services, and Beacon Community Centers.

In October 2008, DYCD added an online component to its Youth Line call center and changed the program's name to Youth Connect. The online component allows young people to stay connected through e-mail, text messaging, and social networking Web sites, such as Facebook, Twitter, and YouTube. They can also get news about youth services through the Youth Connect e-mail blast, an informational service that currently serves nearly 12,000 e-mail subscribers.

According to the Mayor's Management Report, Youth Connect received roughly 53,000 calls in fiscal year 2012, an increase from 41,621 in 2011. Youth Connect's operating expenses for 2012 totaled about \$255,000. The budget for the current year is \$255,000.

PROponents MIGHT ARGUE that the creation of 311 and Enhanced 311—the human services referral service—have made this hotline redundant. Furthermore, unlike the Youth Connect hotline, 311 is available 24 hours a day. Calls are already referred to 311 when the hotline is not in service.

OPponents MIGHT ARGUE that the hotline receives a large and rising number of calls for services. Moreover, the Youth Connect e-mail blast provides additional services that are not available from either 311 or Enhanced 311.

OPTION:

Impose a One-Year Hiatus on the Creation of New Small Schools

Savings: \$14 million

The creation of new small schools has been a hallmark of the Children First initiative since its inception. New small schools are part of the public school system and are distinct from charter schools, which are publicly funded, but independent of the system.

In each of the last three school years (2010–2011, 2011–2012, and 2012–2013), the school system has opened an average of 29 new schools. These schools typically open with just one grade and then are allowed to grow by one grade each year until they reach their full complement. As such, they begin with a small number of students. The most common size of a first year school is 108 students. At their opening, these schools are provided with a start-up grant of about \$100,000 to purchase books, supplies, and office and instructional equipment. In addition, in their first years, the administrative overhead of these schools is much higher on a per-pupil basis—as the salaries of the principal and other administrative staff are spread over a much smaller number of students.

If the school system were to cease opening new schools for one year, these additional costs would not be incurred. The students who would have attended these new schools would be absorbed into other schools without the addition of the 29 or so principals, other administrative staff, and start up costs. Based on fall school-level budgets for 2010 through 2012, new small schools spend an average of \$365,632 on their administrative staff and office. Assuming 29 schools would not be opened, the one-year savings would amount to \$10.6 million. Adding in the \$2.9 million that the system provides as start up costs, the total one-year savings would be \$13.5 million. Additional savings are also likely in the school system’s central administration.

PROponents MIGHT ARGUE that with over 300 new schools opened since 2002, there are sufficient choices available to families seeking alternatives to large schools, even if the process were paused for one year. Proponents might also point to the sometimes contentious debates over the co-location of these new schools within existing buildings and argue that a one-year hiatus might allow for more careful planning and consultation in the location process. Finally, proponents might argue that scarce resources should be dedicated to existing schools rather than being diverted to new, experimental schools.

OPponents MIGHT ARGUE that small schools remain a critical part of the system’s improvement efforts and that the need for new schools remains as long as the system has failing schools which need to be replaced. Opponents might also argue that many of these schools have demonstrated academic success and represent a good investment of scarce dollars. Finally, opponents might argue that interest in opening these schools remains strong and the entrepreneurial educators and community members who are willing to take on this difficult process should be encouraged, not delayed.

OPTION:

Replace Late-Night Service on the Staten Island Ferry With Buses

Savings: \$4 million annually

This option would eliminate late-night service on the Staten Island Ferry. Service would end at midnight on weekdays, and 1 a.m. on weekends, and would resume at 5 a.m. In place of ferry service, buses would carry passengers between the Manhattan and Staten Island terminals.

The Staten Island Ferry is operated by the city Department of Transportation (DOT). In July 1997 the passenger fare was eliminated, and since the attacks of Sept. 11, no vehicles have been allowed on the ferry.

Average daily ridership on the ferry is around 60,800 passengers. On a typical weekday only 2 percent to 3 percent of these passengers travel after midnight and before 5:00 a.m. On weekdays there are five trips that leave Staten Island and six trips that leave Manhattan between 12:01 a.m. and 4:59 a.m. Express bus service between Manhattan and Staten Island is very limited during these hours.

The smallest ferry boats operated by DOT have a capacity of 1,107 passengers, and require a crew of nine plus one attendant. This capacity is far beyond what is needed during late nights. For several years DOT was planning to contract out its late-night ferry service to private companies in order to take advantage of these companies' smaller boats. DOT expected contracting out for smaller boats to save \$1.5 million a year. However, the city continually postponed this action, and the current financial plan assumes that there will be no contracting out, at least through 2016.

The operating expenses of the Staten Island ferry are roughly \$100 million per year. Late-night trips are around 11 percent of the total number of trips. Assuming that terminating late-night service would reduce operating expenses by 7 percent, the annual savings would be about \$7.0 million. Based on Federal Transit Administration data for the MTA Bus Company, which provides a mix of local and express service in New York City, the operating expense of a bus trip between Manhattan and Staten Island would be around \$286 per trip. The annual cost of providing bus service every 20 minutes to 30 minutes between midnight and 5:00 a.m. would be about \$2.7 million, giving a net savings of \$4.3 million. We assume the buses would not charge a fare, as they would replace a fare-free service.

PROPOSERS MIGHT ARGUE that due to the low number of riders on the Staten Island Ferry during the late night period, even small ferry boats are an inefficient use of resources. Using buses instead of ferries to transport passengers would allow for more frequent service at a lower cost. With time, bus service could potentially be extended to serve the neighborhoods of Staten Island directly, and not just the St. George Terminal.

OPPONENTS MIGHT ARGUE that using buses instead of ferries will mean a longer, less comfortable ride for passengers, as well as potentially longer waits if buses are full. In addition, shutting down the ferry late at night might be seen as a precedent for other reductions in transit service. Finally, allowing bus passengers to wait inside the ferry terminals would reduce the cost savings and delay the boarding process, but forcing passengers to wait outside raises safety and comfort concerns.

OPTION:

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

Savings: \$200,000 and up annually

Each year individual city agencies purchase or pay a fee to maintain a variety of computer software licenses. Many open-source alternatives to traditional software packages are available at no cost. This option proposes that the city reduce its use of licensed software by switching to open-source software where practical.

For example, many city agencies have licenses for statistical software such as SAS, SPSS, or Stata. These packages are used for evaluation, policy analysis, and management. One open-source option is R, an alternative that is popular with academic institutions and used at a variety of large corporations like Merck and Bank of America. A city agency with 20 licenses for statistical packages would spend about \$20,000 a year to maintain the licenses (there are volume discounts, so as an agency purchases more licenses, the per license cost decreases; prices also vary depending on modules installed). If 10 agencies of roughly that size switched from a commercial package to R, the city could achieve savings of about \$200,000 per year.

Initially, the agencies would need to invest in training staff on how to use the new software and on information technology costs related to installing it, though some of these costs would be offset by current spending on training for existing software. Additionally, these costs would be recouped as the software requires no annual maintenance fees and costs nothing to obtain. Furthermore, some city workers may be able to learn the new applications through free online tutorials and other resources that are available.

Agencies may opt to continue to have one license of their current applications in order to use existing code (programs written by staff to complete specific analyses), but even a reduction in the number of licenses would save the city money as each additional license comes at a cost.

Beyond statistical software, there are open-source versions of common applications. For example, additional savings could be achieved by using OpenOffice, a free alternative to Microsoft Office, especially for staff who use computers for limited word processing or spreadsheet functions.

PROPOSERS MIGHT ARGUE that open-source software is comparable or superior to licensed software, especially as open-source software becomes more common in academia and the private sector. Switching to software like R will become easier as more university graduates and employees in other sectors learn to use the software prior to working for the city. Furthermore, open-source software like R is constantly being improved by users whereas the licensed software may take longer to improve and improvements are often only available through expensive updates.

OPPOSERS 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. Furthermore, they may have developed code that is specific to a program and switching to new software may result in decreased productivity as agencies rewrite existing code. Finally, new software may not interface as well with the licensed software used by other government agencies or firms.

OPTION:

Collect Debt Service on Supportive Housing Loans

Savings: \$2 million in 2013; \$4 million in 2014; \$6 million in 2015; \$9 million in 2016

The Department of Housing Preservation and Development (HPD) makes loans to nonprofit developers building supportive housing for homeless and low-income single adults with disabilities through the Supportive Housing Loan Program. Borrowers are charged 1 percent interest on the funds, but as long as the housing is occupied by the target population, HPD does not collect additional debt service—either principal or interest—in effect making the loan a grant.

Collecting both principal and interest on new loans, which have averaged \$56.9 million annually over the last five years, would yield \$2.2 million in revenue in the first year and revenue would grow with increases in the total volume of outstanding loans. We assume the loans are made for a 30-year term. Collecting only the interest, while forgiving the principal, would yield less revenue, beginning with about \$569,500 in the first year, growing to \$2.1 million per year by 2017. Collecting only the principal would generate \$1.9 million in 2014, rising to \$7.6 million by 2017.

PROponents MIGHT ARGUE that the Supportive Housing Loan Program is the main HPD loan program in which debt service is not collected. Recouping these loan funds would allow HPD to stretch its available funds to support more housing development. Because the interest rate is very low, the supportive loan program would still provide a significant subsidy to the nonprofit developers, particularly if only the interest were collected.

OPponents MIGHT ARGUE that because the loan program projects serve extremely low-income clients, nonprofit developers simply do not have the rent rolls necessary to support debt service, even on very low-interest loans. Significantly less housing would be built for a particularly vulnerable population. The result could be more people living on the streets or in the city's costly emergency shelter system. They might argue that even a deep subsidy for permanent housing is more cost-effective—and humane—than relying on the shelter system.

OPTION:

Establish Copayments for the Early Intervention Program

Savings: \$24 million annually

The Early Intervention program (EI) provides developmentally disabled children age 3 or younger with services through nonprofit agencies that contract with the state Department of Health. Eligibility does not depend on family income. With about 37,000 children participating at a time and a total cost of \$417 million, the program accounts for 27 percent of the total city Department of Health and Mental Hygiene budget.

EI is funded from a mix of private, city, state, and federal sources. For children with private health insurance, payment from the insurer is sought first, but relatively few such claims are paid; just \$9 million came from private insurance in 2010. Medicaid pays the full cost for enrolled children, with \$245 million coming from this source in 2010. The remaining costs are split approximately equally between the city and the state. In recent years, the city has successfully increased the share of the program paid by Medicaid. As a result, the net cost of EI to New York City has declined from \$129 million in 2005 to \$116 million in 2010.

Under this option, the city would seek to further reduce these costs through the establishment of a 20 percent copayment for unreimbursed service costs to families that have private health insurance and incomes above 200 percent of the federal poverty level. In addition to raising revenue directly from the estimated 33 percent of EI families that fall into this category, this could increase payments from private insurers by giving participants an incentive to assist providers in submitting claims. The burden of cost-sharing would also reduce the number of families participating in EI; it is assumed here that one-fifth of affected families would leave the program. Institution of this copayment requirement would require approval from the state Legislature; state savings would be somewhat greater than city savings because there would also be a reduction in Medicaid spending. (Note that this only includes EI services in New York City; there would be additional savings for the state and for counties elsewhere in the state if adopted statewide.)

PROponents MIGHT ARGUE that establishing copayments could alleviate some of the strain the EI program places on the city budget without reducing the range of service provision. In particular, they might note that since the current structure gives participating families no incentive to provide insurance information to the city or to providers, public funds are paying for EI services for many children with private health coverage. Instituting copayments would provide these families with the incentive to seek payments from their insurers for EI services. Finally, they might note that cost-sharing is used in many other states.

OPponents MIGHT ARGUE that the institution of a 20 percent copayment for EI services could lead to interruptions in service provision for children of families that, to reduce their out-of-pocket expenses, opt to move their children to less expensive service providers or out of EI altogether. They might further note that it is most efficient to seek savings in programs where the city pays a large share of costs; since the city pays for only a quarter of EI, savings here do relatively little for the city budget. Opponents might also argue that the creation of a copayment may be more expensive for the city in the long run, as children who do not receive EI services could require more costly services later in life.

OPTION:

Pay-As-You-Throw

Savings: \$275 million annually

Under a so-called “pay-as-you-throw” (PAYT) program, households would be charged for waste disposal based on the amount of waste they throw away other than recyclable material in separate containers—in much the same way that they are charged for water, electricity, and other utilities. The city would continue to bear the cost of collection, recycling, and other sanitation department services funded by city taxes.

PAYT programs are currently in place in cities such as San Francisco and Seattle, and more than 7,000 communities across the country. PAYT programs, also called unit-based or variable-rate pricing, provide a direct economic incentive for residents to reduce waste: If a household throws away less, it pays less. Experience in other parts of the country suggests that PAYT programs may achieve reductions of 14 percent to 27 percent in the amount of waste put out for collection. There are a variety of different forms of PAYT programs using bags, tags, or cans in order to measure the amount of waste put out by a resident. Residents purchase either specially embossed bags or stickers to put on bags or containers put out for collection.

Based on sanitation department projections of annual refuse tonnage and waste disposal costs, each residential unit would pay an average of \$81 a year for waste disposal in order to cover the cost of waste export, achieving a net savings of \$275 million. A 14 percent reduction in waste would bring the average cost per household down to \$69 and a 20 percent reduction would further lower the average cost to \$65 per residential unit.

Alternatively, implementation could begin with Class 1 residential properties (one-, two-, and three-family homes) where administration challenges would be fewer than in large, multifamily buildings. This would provide an opportunity to test the system while achieving estimated savings of \$88 million, assuming no decline in the amount of waste thrown away.

PROPOSERS MIGHT ARGUE that by making the end-user more cost-conscious the amount of waste requiring disposal will decrease, and in all likelihood the amount of material recycled would increase. They may also point to the city’s implementation of metered billing for water and sewer services as evidence that such a program could be successfully implemented. To ease the cost burden on lower-income residents, about 10 percent of cities with PAYT programs have also implemented subsidy programs, which partially defray the cost while keeping some incentive to reduce waste. They also might argue that illegal dumping in other localities with PAYT programs has mostly been commercial, not residential, and that any needed increase in enforcement would pay for itself through the savings achieved.

OPPONENTS MIGHT ARGUE that pay-as-you-throw is inequitable, creating a system that would shift more of the cost burden toward low-income residents. Many also wonder about the feasibility of implementing PAYT in New York City. Roughly two-thirds of New York City residents live in multifamily buildings with more than three units. In such buildings, waste is more commonly collected in communal bins, which could make it more difficult to administer a PAYT system, as well as lessen the incentive for waste reduction. Increased illegal dumping is another concern, which might require increases in enforcement, offsetting some of the savings.

OPTION:

Consolidate Building, Fire, and Housing Inspections

Savings: \$10 million annually

Several agencies are charged with inspecting the safety of city buildings. The Department of Buildings (DOB) inspects building use, construction, boilers, and elevators under its mandate to enforce the city's building, electrical, and zoning codes. The Department of Housing Preservation and Development (HPD) inspects multifamily residences to ensure that they meet safety, sanitary, and occupancy standards such as adequate heat and hot water, lead paint abatement, and pest control, which are outlined in the housing maintenance code. Fire department (FDNY) inspectors evaluate buildings' standpipe, sprinkler, ventilation, and air-conditioning systems as part of their duties to enforce fire safety requirements.

All together DOB, HPD, and FDNY employ more than 1,300 inspectors and support staff at a cost this year of \$75 million in salaries (excluding fringe benefit and pension expenses) to ensure that building owners are meeting safety requirements. In fiscal year 2012, inspectors from these agencies performed slightly over 1 million inspections. While inspectors at each agency are trained to check for different violations under their respective codes, there are areas that overlap. For example, when the city recently decided to target illegally converted dwelling units—which falls mainly under DOB's jurisdiction—a task force was created that included input from HPD and FDNY because illegal conversions also violate the housing and fire codes.

Under this option, the city would consolidate inspections now performed by DOB, HPD, and FDNY into a new inspection agency. The agencies' other functions would remain unchanged. This option would require legislative changes to the city's Administrative Code and Charter.

Because inspectors from each agency currently visit some of the same buildings, there would be efficiency gains by training inspectors to look for violations under multiple codes during the same visit, although some more specialized inspections would still require dedicated inspectors. If the city were able to reduce the number of inspections by 15 percent through consolidation, the savings—after accounting for additional management and administrative staff—would be about \$10 million.

PROPOSERS MIGHT ARGUE that consolidating inspections would streamline city resources and increase the consistency of inspections while allowing DOB, HPD, and FDNY to focus on the other aspects of their missions. They could point out that some other major cities, including Chicago and Philadelphia, centralize building inspections in one agency. Also, most of HPD's inspections are funded through a federal grant, which has been cut repeatedly in recent years. Increasing efficiency, therefore, is especially important as fewer federal dollars are likely to be available for housing code inspections.

OPPOSERS MIGHT ARGUE that inspections and code enforcement are too closely linked with each of the agencies' missions and that separating them would be difficult and require too much interagency coordination. There is also a limit to efficiency gains because many inspections, such as elevator inspections, are highly technical and would still require specialized staff. Because of the need to prioritize the use of scarce resources, inspections for less dangerous conditions may routinely be deferred. Some interagency Memoranda of Understanding already allow for one agency to issue certain violations for another.

OPTION:

Alter Staffing Pattern in Emergency Medical Service Advanced Life Support Ambulances

Savings: \$6 million annually

The fire department's Emergency Medical Service (EMS) currently staffs about 210 Advanced Life Support (ALS) and 415 Basic Life Support (BLS) ambulance tours each day. The latter are staffed with two emergency medical technicians (EMTs); in contrast, two higher-skilled and more highly paid paramedics are deployed in ALS ambulance units. This option proposes staffing ALS units operated by the fire department with one paramedic and one EMT as opposed to two paramedics. Budgetary savings would result from lower personnel costs as the number of fire department paramedics is allowed to decline by attrition while hiring additional EMTs to take their place.

New York City is the only jurisdiction in the state where Advanced Life Support ambulances are required to have two paramedics. Regulations governing ambulance staffing in New York State are issued by entities known as regional emergency medical services councils. The membership of each council consists of physicians from public and private hospitals as well as local emergency medical services providers. There is a council with responsibility solely for New York City, the New York City Regional Emergency Medical Advisory Council (NYC-REMSCO).

In 2005, the city unsuccessfully petitioned NYC-REMSCO for permission to staff ALS ambulance units with one paramedic and one EMT, with the city contending "there is no published data that shows improved clinical effectiveness by ALS ambulances that are staffed with two paramedics." In January 2009, the Bloomberg Administration again expressed its intention to approach NYC-REMSCO with a similar request, but thus far the double-paramedic staffing policy applicable to the city remains in place.

PROPOSERS MIGHT ARGUE as the fire department did in 2005 that staffing ALS ambulances with one paramedic (accompanied by an EMT) would not jeopardize public safety. They might also argue that rather than seeking to attain the full budgetary savings associated with allowing paramedic staffing to decline, the fire department could instead take advantage of having the flexibility to staff ALS ambulances with only one paramedic and thereby boost the total number of ambulances staffed with at least one paramedic without requiring the hiring of additional paramedics. This in turn would enhance the agency's ability to deploy paramedics more widely across the city and improve response times for paramedic-staffed ambulances to ALS incidents. In 2011, only 81 percent of ALS incidents were responded to within 10 minutes by a paramedic.

OPPOSERS MIGHT ARGUE that the city should not risk the diminished medical expertise that could result from the removal of one of the two paramedics currently assigned to ALS units. They might also argue that a more appropriate solution to the city's desire to deploy paramedics in a more widespread manner would be to increase their pay and improve working conditions, thereby enhancing the city's ability to recruit and retain such highly skilled emergency medical personnel.

OPTION:

Eliminate City Dollars and Contracts for Excellence Funds for Teacher Coaches

Savings: \$27 million

Coaches work to improve teachers' knowledge of academic subjects and help educators become better pedagogues. Instructional expertise is an important goal because research indicates that of all factors under a school's control, teacher quality has the greatest effect on student achievement. When coaches are successful, they give teachers the ability to help students meet challenging academic standards and they also give teachers better classroom management skills. Under this option the Department of Education (DOE) would essentially eliminate city and unrestricted state funding for teacher coaches and rely instead on other professional development programs to help teachers improve their performance.

Coaches are one piece in a large array of ongoing professional development programs in the city's schools. The DOE provides a variety of opportunities to teachers at all levels including mentoring, lead teachers, after school "in-service" courses, and (online) staff development. DOE is currently working to align teacher support and supervision with the demands of the new Common Core curriculum and also to use technology (ARIS Learn) to support teacher effectiveness. Some professional development activities are school-based while others are administered citywide.

This year \$49 million from a variety of funding sources (down from \$56 million last year) is expected to be spent on math, literacy, and special education coaches. Thirty-three percent (\$15.7 million) of these expenditures are funded with city dollars. There is also another \$11 million in state Contracts for Excellence money dedicated to coaches. Under this option, city funding for teacher coaches would be eliminated and the state's \$11 million in unrestricted aid would be used elsewhere.

PROPOSERS MIGHT ARGUE that city funding for teacher coaches is not necessary given the DOE's myriad professional development offerings and funding from federal grants like Title II which is specifically for professional development. Similarly, they could point out that the federal government requires that 15 percent of a school's Title I allocation go towards teacher professional development—funds which could be used to support coaching positions.

OPPOSERS MIGHT ARGUE that if professional development is a priority then it should be supported with adequate city funding. Opponents can also argue that reliance on grants could put these positions in jeopardy if the funding disappears over time. They can also say that the schools are supposed to have a high level of autonomy and should have many options for how to provide professional development to their teaching staff.

OPTION:

Eliminate Hiring Exception for New Schools

Savings: \$12 million

Since May 2009, Department of Education (DOE) hiring policy has required that principals hire teachers (and other school-based staff) from the Absent Teacher Reserve (ATR) pool made up of teachers excessed from schools that were closed or that had shed teachers due to lower funding. However, an exception is made for new schools, which are allowed to fill up to 40 percent of their vacancies with new hires from outside the DOE system. This policy is designed to help new schools act autonomously to nurture their own culture and also to hire teachers at lower cost.

Prior to 2005, the teachers' contract gave more senior teachers special privileges, including the ability to "bump" more junior teachers from desirable assignments. The contract also allowed the DOE to unilaterally place unassigned teachers in vacant positions. The 2005 contract ushered in a "mutual consent" system allowing teachers and principals to agree on school placement assignments. There are no longer forced assignments; instead excessed employees are sent for interviews when openings occur and principals can ignore seniority when filling positions.

If the new schools were staffed entirely from the ATR pool the number of excessed teachers drawing full salaries would be reduced. In the 2012-2013 school year the DOE opened 31 new schools with a combined projected register of 3,896. Based on actual fair student funding allocations and taking into account student grade levels and academic needs at each school, IBO estimates that funding for at least 339 teachers was allocated to staff these new schools. If all 339 positions had been filled from the ATR pool rather than the roughly 203 required under current rules, the city would have saved \$12 million on wages and fringe benefits. These savings would diminish if the ATR pool is depleted as a result of faster hiring from the pool.

PROponents MIGHT ARGUE that from a budget perspective the DOE cannot afford to pay for new teachers while also paying wages and benefits for teachers without classroom assignments in the ATR pool. They might also argue that new schools should not be treated any differently from existing schools that have to hire from within the system. Additionally they might argue that new schools would actually benefit from hiring seasoned DOE employees.

OPponents MIGHT ARGUE that principals in new schools who do not know the ropes will be at a disadvantage when trying to negotiate for the best teachers from the ATR pool. They might also argue that the ending of the hiring exception for new schools reduces the principal's power and control over staff. Additionally, they could argue that the best teachers would not be found in the pool to begin with and the new schools should not be over-burdened to solve the unrelated problem of excessed teachers. Finally, they could point out that budgets of new schools tend to be very slim so these schools rely on the savings associated with hiring less experienced and therefore less expensive staff.

OPTION:

Eliminate the 20-Minute “Banking Time” For Certain Education Department Staff

Savings: \$1 million annually

About 3,400 Department of Education (DOE) nonpedagogical administrative employees covered under collective bargaining agreements receive a 20-minute extension of their lunch period each payday (every two weeks) to transact banking business. Unlike lunch, however, the extra 20 minutes is paid time, whether or not it is devoted, as presumed, to banking transactions. Only administrative employees who work in DOE’s central or district offices and not in specific schools—about a third of the department’s administrative staff—receive this benefit.

By eliminating this benefit to eligible DOE employees, productivity savings would accrue, as these employees would now work seven hours on paydays instead of six hours, 40 minutes. On a yearly basis, eliminating subsidized banking time on paydays would yield approximately 8.7 hours of additional productive labor per employee, saving approximately \$1 million annually.

Implementing this option would require a change in the DOE Rules and Regulations Governing Nonpedagogical Administrative Employees and may also require negotiations with the respective unions.

PROponents MIGHT ARGUE that no other city agency grants this benefit, as most city full-time employees work a full seven hours on paydays as on other workdays. Moreover, this benefit is virtually unheard of in the private sector. The availability and increasing popularity in recent years of direct deposit, automated teller machines, online banking, and other forms of electronic funds transfer have minimized the need for city employees to visit banks in order to make banking transactions, making this benefit of banking time obsolete. In most cases the benefit simply extends lunch on payday. Finally, granting a 20-minute extension of the lunch hour to some DOE employees—only those unionized, those in administrative positions, and those who do not work for a specific school—but not others is inherently unfair.

OPponents MIGHT ARGUE that this benefit is needed because not all eligible employees have bank accounts for automated deposits, and thus, some need this time to conduct business at other nonbank locations, such as check cashing stores. Moreover, even for those who have bank accounts, the 20 minutes allotted for banking may be needed for transactions other than check deposits. Cash withdrawals may be needed by the employee, and the extra 20 minutes allows employees to go to their own bank and escape ATM fees charged by other banks to those without accounts. Finally, it could be argued that this paid time was accrued as an employee benefit and thus, with the consent of the applicable unions, was used as a trade off for other givebacks. Thus, if one were to eliminate this benefit, it should be offset by providing another city benefit to eligible workers.

OPTION:

Eliminate the Parent Coordinator Position

Savings: \$91 million

In the 2003–2004 school year, each school was provided funding for a parent coordinator position, created to foster parent engagement and to provide parents with tools to better participate in their childrens’ education. The coordinators were to help facilitate communication between parents, administrators, and teachers.

Prior to 2003–2004, parental involvement and communication was a shared responsibility of a school’s entire administrative team rather than assigned to one person. Today, the job of parent coordinator is a relatively low-level position in a school’s hierarchy.

Despite the existence of parent coordinators in schools for the last eight years, lack of communication between schools and parents is an oft-heard complaint. Controversy about the role of parent coordinators arose in 2010-2011 when it appeared that central administrators at the Department of Education (DOE) were asking parent coordinators to rally parental support for a policy change that the administration was seeking in the state Legislature.

In the first year of the program, about 1,270 positions were budgeted at an annual salary of \$34,000 plus fringe benefits for a total cost of almost \$50 million. For the 2012–2013 school year, \$65 million is allocated to schools for parent coordinators, enough to fund 1,544 positions at a citywide average salary of \$41,512. We estimate that pension, health, and other fringe benefits add another \$26 million to spending on the coordinators, bringing the total cost this school year to \$91 million. In recent years budget constraints have led the DOE to drop funding for the parent coordinators at some schools. This year’s budget allowed the department to once again mandate coordinators for all schools.

PROPOSERS MIGHT ARGUE that the lack of specific responsibilities with measurable outcomes for parent coordinators raises questions about their efficacy. Proponents can also suggest that because these positions are not integral to operating a school, limited school resources are better used for direct services to students. Also, schools in which parent involvement is already strong do not need an additional full-time, paid position to encourage participation of parents. They could argue that parental involvement is supported through other means, including parent/teacher associations, school leadership teams, 32 community education councils, and district family advocates under the Office of Family Information and Action. Finally, proponents might argue that by delegating the important function of parental engagement to a single, modestly paid staff member has let principals “off the hook” and given interaction with parents lower priority.

OPPOSERS MIGHT ARGUE that research indicates there is a positive relationship between parental involvement and academic outcomes and that having a full-time parent coordinator in every school helps to strengthen the parents’ role. Opponents may also argue that eliminating the position in all schools is unnecessary and a better approach would be to require Title I schools to maintain parent coordinators, since they are already required to spend 1 percent of their federal Title I allocation on parent involvement. Finally, opponents might argue that the entire thrust of the Children First reforms was to give principals and other school administrators a huge increase in responsibility so that having an additional staff person dedicated to parental communication and engagement can make sure parents’ needs continue to receive attention.

OPTION:

Encourage Classroom Teachers to Serve Jury Duty During Noninstructional Summer Months

Savings: \$2 million annually

Under this option teachers who are not expected to teach summer school would be encouraged to defer jury duty service until the summer when regular school is not in session. Use of per diem substitutes would decline, producing savings for the education department. Despite the well-publicized use of teachers from the Absent Teacher Reserve—the ATR pool—for temporary assignments, schools continue to use and pay for per-diem substitutes. In the current school year, school budgets include \$69 million for per-diem teachers.

Over the course of one year 600,000 people serve jury duty in New York. On any given day, civil and criminal courts in Manhattan alone require anywhere between 1,800 to 2,000 jurors. In the Department of Education, time away on jury duty has special classification as a nonattendance day although it is an excusable absence. The Department of Education is required to cover every teacher absence with an appropriate substitute. Under current law any person who is summoned to serve as a juror has the right to be absent from work. Under current collective bargaining agreements, teachers who are required to serve jury duty receive full salary during the period of their service, and are required to remit an amount equal to the compensation paid to them for jury duty. If service is performed over the summer, jury duty checks may be kept if employees are not working.

Over the last four school years (2008-2009 through 2011-2012), an average of about 15,000 teacher absences a year occurred due to jury service. If this number of teachers were called for service each year but deferred to the summer, the reduction in substitute teacher costs would yield average annual savings of \$2.3 million, based on the current per diem rate of \$155 per day.

PROPOSERS MIGHT ARGUE that above and beyond financial savings, the greatest benefit is for the school children who would no longer lose days of instruction while the classroom teacher is at the court house. The education department's own substitute teacher handbook points out that, especially for short-term substitutes, time will be spent on establishing authority in addition to actual instruction. Moreover, many schools have difficulty in getting substitute teachers to come in. Jury duty absences may place avoidable stress on school administrators and other school-based staff as they attempt to work out class coverage issues.

OPPOSERS MIGHT ARGUE that teachers need to be able to fully relax and recharge during the summer "off" months. Deferral of jury duty might otherwise hinder well laid-out family vacation plans. Opponents could also argue that the policy would unfairly play one form of civil service against another, encouraging others to defer. Given the size of the education department's teaching force, it is also possible that deferral of all teacher jury service to the summer could result in concentrations of teachers in the jury pools in July and August.

OPTION:

Establish a Four-Day Workweek For Some City Employees

Savings: \$18 million in 2014; \$37 million in 2015; and \$58 million in 2016

Most of the city's civilian employees work seven hours a day for five days—a total of 35 hours—each week. Under this proposal, city employees in certain agencies would work nine hours a day for four days (a total of 36 hours) each week with no additional compensation, which in turn would result in an increase in productivity per employee. As a result, the city would be able to accomplish a reduction in staffing without decreased output, thereby generating savings.

Employees at city agencies involved in public safety, transportation, code enforcement, and other critical operations would retain the current five-day workweek, as would all employees of schools and hospitals. Additionally, this option would not apply to small city agencies where a reduction in staffing would be extremely difficult to do. Under these assumptions the change would apply to agencies with a total of about 24,200 employees currently working a 35 hour week. If these employees were required to work one additional hour per week, 650 fewer employees would be needed. We assume that the reduction in staffing would take place over three years through attrition and redeployment of personnel to fill vacancies in other agencies.

This proposed option requires the consent of the affected unions.

PROPOSERS MIGHT ARGUE that workers would welcome the opportunity to work one additional hour per week without additional compensation because of the desirability of commuting to work only four days a week instead of five. Although affected city offices would be closed one weekday, they would be open two hours longer on the remaining four days of the week thereby allowing for more convenient access by the public. Although not factored into our projection of potential savings, keeping city offices open just four days a week is also likely to reduce utility, energy, and other costs. Lower energy consumption would support the sustainability goals of the Mayor's PlaNYC initiative.

OPPOSERS MIGHT ARGUE that adding an additional hour to the workweek without additional compensation is equivalent to a 2.8 percent wage cut. They might further note that many employees have commitments, such as parenting, that would make a 10-hour workday difficult (nine work hours plus the customary lunch hour). Opponents might also argue that predicted productivity savings are too optimistic for several reasons. First, workers' hourly productivity is likely to be lower when the workday is extended by two hours. Second, when employees are ill and use a sick day, it would cost the city nine hours of lost output as opposed to only seven under the current rules.

OPTION:

Have the Metropolitan Transportation Authority Administer Certain Civil Service Exams

Savings: \$4 million annually

This option, modeled on a recommendation included in the January 2011 report of the NYC Workforce Reform Task Force, involves giving the Metropolitan Transportation Authority (MTA) responsibility for developing and administering their own civil service exams for two affiliates: NYC Transit (NYCT) and MTA Bridges and Tunnels. Currently the city has responsibility for civil service administration for about 200,000 employees, including around 40,000 who actually work for these two units of the MTA. Transferring responsibility for the civil service exams to the MTA would require a change in state law.

The city's Department of Citywide Administrative Services develops and administers civil service exams for these two units of the MTA, with some assistance from the transportation entities themselves. The Bloomberg Administration estimates that it costs about \$4 million per year to develop and administer the tests. The MTA is willing to absorb this cost, if given full control over the exams. The New York State Civil Service Commission would continue to have ultimate jurisdiction over these employees.

Before the MTA was created, NYCT and MTA Bridges and Tunnels (then known as the Triborough Bridge & Tunnel Authority) were operated by the city. Both entities became part of the MTA, a state public authority, in 1968. However, state law currently stipulates that the city maintain civil service jurisdiction over these transportation providers because of their original establishment as city agencies.

PROPOSERS MIGHT ARGUE that because NYCT and MTA Bridges and Tunnels are not city agencies, the city should not be in charge of the authority's civil service exams. The MTA is well-equipped to develop and administer the exams, something it already does for its other affiliates.

The MTA also argues that if it controlled the process, it could fill vacant positions at NYCT and MTA Bridges and Tunnels more quickly because it would have greater incentive to process the exams promptly.

OPPOSERS MIGHT ARGUE that having a third party, in this case the city, develop and administer the civil service exams keeps the process more impartial. Some union representatives and state legislators have expressed support for the current arrangement given the often-contentious state of labor-management relations at the MTA. Opponents are concerned that giving the MTA more administrative responsibility for civil service at these two units could make it easier for the MTA to move titles into "noncompetitive" status, which offers no statutory protection against layoffs.

OPTION:

Increase the Workweek for Municipal Employees to 40 Hours

Savings: \$180 million in 2014; \$369 million in 2015; \$581 million in 2016

This proposal would increase to 40 the number of hours worked by roughly 64,900 nonmanagerial, nonschool based, full-time civilian employees, currently scheduled to work either 35 hours or 37.5 hours per week. Uniformed employees and school-based employees at the Department of Education and the City University of New York would be excluded. With city employees working a longer week, agencies could generate the same output with fewer employees and thus save on wages, payroll taxes, pension costs, and fringe benefits.

If all employees who currently work 35 hours a week instead work 40 hours, the city would require 12.5 percent fewer workers to cover the same number of hours. Similarly, increasing the hours of all employees who currently work 37.5 hours per week to 40 hours would allow the city to use 6.3 percent fewer workers. Controlling for the exclusion of small city agencies as well as work units or locations that would have a hard time producing the same output with fewer employees, IBO estimates that 6,722 positions could be eliminated if this proposal were implemented—or 10.4 percent of nonmanagerial, nonschool-based, full-time civilian positions.

Assuming that the city would gradually achieve the potential staff reductions under this proposal by attrition as opposed to layoffs, savings in the first year could be \$180.3 million, increasing to \$580.6 million annually by 2016.

This proposal would require collective bargaining.

PROponents MIGHT ARGUE that the fiscal challenges facing the city justify implementation of this proposal calling for increased productivity on the part of thousands of city workers. They might also argue that many private-sector employers require 40 hour work weeks as does the federal government and numerous other public-sector jurisdictions. They also could point out that, on a smaller scale, there already is precedent in New York City government for this option. Since August 2004, newly hired probation officers now work 40 hours per week instead of the usual and customary 37.5 hours per week, with no additional pay—a provision agreed to in collective bargaining with the United Probation Officer's Association.

OPponents MIGHT ARGUE that requiring city workers to work an increased number of hours per week without additional compensation—equivalent to reduced pay per hour—would simply be unfair. They might also argue that lower productivity could result from worker fatigue, which, in turn, would keep the city from achieving the full savings projected from implementation of this option.

OPTION:

Institute Time Limits for Excessed Teachers In the Absent Teacher Reserve Pool

Savings: \$73 million

Excessed teachers are teachers who have no full-time teaching position in their current school. Teachers in the Absent Teacher Reserve (ATR) pool are teachers who were excessed and did not find a permanent position in any school by the time the new school year began. Currently, ATR pool members are placed, by seniority order, into schools by the education department. Once placed, ATRs perform day-to-day substitute classroom coverage while seeking a permanent assignment. Under this option teachers would be dismissed after a year in the ATR pool without a permanent position. This year the city spent \$146 million on roughly 1,850 excessed teachers and within this group about 883 teachers have been in the pool from last year at a cost to the city of \$73 million in salary and fringe benefits.

Under a June 2011 agreement between the Department of Education (DOE) and the United Federation of Teachers, several new provisions concerning the ATR were put in place. All excessed teachers are required to register in the DOE Open Market System to facilitate their obtaining another position in a school and financial savings are produced by using teachers in the ATR for short- and long-term vacancies that might otherwise be filled with substitute teachers. Previously, ATRs were assigned to one school for the entire school year but now they can be sent to different schools on a weekly basis.

From a budgetary perspective the agreement has some weaknesses. Principals only have to consider up to two candidates from the ATR for any given vacancy in a school term, before hiring from outside the pool. Additionally, there is no minimum amount of time that a teacher from the ATR may remain in an assignment and the principal has the power to remove an ATR teacher at any time. Any further changes to the ATR policy would likely need to be collectively bargained.

If teachers are dismissed after a year in the ATR pool, the pool would shrink. Moreover, some teachers in the pool would be more aggressive in seeking permanent positions. Our estimated savings account for the extra costs that would be incurred by schools using per diem substitutes due to the lower number of teachers in the ATR pool.

PROPOSERS MIGHT ARGUE that the DOE can no longer afford to keep teachers on the payroll who are not assigned to the classroom. They can also argue that an agreement to go on interviews while drawing a paycheck does not create the same urgency to find a permanent position as does the possibility of losing employment if not rehired within a specific time frame.

OPPOSERS MIGHT ARGUE that under the latest agreement teachers are no longer sitting idle—they are being used as substitutes. They can also argue that being excessed is not their fault and they should not have to be further penalized with time limits because ATR teachers have little control over how quickly they can find a new position. Opponents can also state that ATR teachers are distracted from seeking permanent positions because they are forced to work as fill-in substitutes and clerks. Additionally, they can argue that more experienced teachers are at a disadvantage in seeking new positions because they earn higher salaries which must be paid out of the principal's school budget.

OPTION:

Replace 500 NYPD Police Officer Positions With Less Costly Civilian Personnel

Savings: \$17 million annually

The New York City Police Department (NYPD) has a long-standing practice of using varying numbers of police officers to perform administrative and other support functions which do not require law enforcement expertise. The department recently acknowledged that as of September 2012 there were 530 fully capable police officers (personnel not restricted to light duty) performing such “civilianizable” functions.

Moreover, the city’s November 2012 Financial Plan calls for full-time NYPD civilian staffing (staff who are not police officers) to continue to shrink to about 14,200 by the end of next fiscal year (June 2014), a decline of about 800 civilian staff since June 2009. This has led to a concern that an even greater number of police officers will need to spend time performing functions which could instead be performed by less costly civilian personnel.

This option proposes that 500 positions which the NYPD reports are currently being staffed with full-duty police officers instead be staffed with newly hired civilian police personnel. The police officers currently in these positions would be redeployed to direct law enforcement activities, which in turn would allow police officer staffing to eventually decline by 500 positions through attrition without a loss in enforcement strength. Net annual savings of \$16.5 million, including fringe benefit savings, would be generated as a result of the lower costs associated with civilian—as opposed to uniformed—staffing.

PROPOSERS MIGHT ARGUE that while this option would reduce the overall number of uniformed personnel within the police department, it does so without reducing the current level of personnel delivering direct law enforcement services, thus increasing the overall efficiency of the city’s spending for policing services.

OPPONENTS MIGHT ARGUE that while assigning trained law enforcement personnel to general activities may at times be inefficient, replacing police officers with civilian personnel would result in a reduction in the agency’s overall law enforcement and emergency response capabilities. This is because uniformed personnel currently working in support positions are available to be redeployed, sometimes at a moment’s notice, to incidents such as demonstrations, special events, and public safety emergencies.

OPTION:

Require Police Officers to Work 10 Additional Tours Annually by Reducing Paid “Muster” Time

Savings: \$131 million annually

Police officers are contractually required to be scheduled to work a specific number of hours each year before subtracting vacation days, personal leave, and other excused absences. At present, police officers work shifts that are 8 hours and 35 minutes long. The paid 35 minute period added to each otherwise 8-hour shift, often referred to as muster time, essentially provides operational overlap—including time for debriefing and wash up—as officers concluding one tour are relieved by officers coming in to work the next tour.

This budget option proposes that only 15 minutes at the end of each tour be reserved for muster time, thereby allowing the police department to schedule officers for an additional 10 tours of duty per year. This in turn would result in the department being able to preserve existing enforcement strength with roughly 1,050 fewer officers, generating annual budget savings of about \$131 million. This option would require collective bargaining.

PROponents MIGHT ARGUE that the current 35 minutes allotted for muster time is excessive. Scaling this period back to 15 minutes would allow the police department to generate budget savings for the city by requiring police officers to work what would amount to only a relatively small number of additional tours each year.

OPponents MIGHT ARGUE that the current allotment of 35 minutes for debriefing and changing clothes is legitimate. They might also argue that a reduction in this period of paid duty would reduce police force cohesiveness and morale.

OPTION:

Stop Including Overtime Pay When Calculating City Employee Pensions

Savings: \$11 million in 2016, \$21 million in 2017, and \$31 million in 2018

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 2014, pension savings would start to accrue to the city in 2016 when they would equal \$11 million. In subsequent years, the savings would increase by about \$10 million a 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.

PROPOSERS 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.

OPPOSERS 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.

OPTION: End City Contributions to Union Annuity Funds

Savings: \$138 million annually

In addition to a city pension, some city employees are eligible to receive an annuity payment from their union upon retirement, death, termination of employment, or another eligible withdrawal from city service. Virtually all of these unions offer lump-sum payments though some also offer the choice of periodic payments. 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), though members of several civilian unions are also entitled to city annuity payments. Unlike city pensions, these annuity payments are administered by the unions, not by the city. The city makes monthly contributions to unions' 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. 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 2012, the city made approximately \$138 million in union annuity contributions and annual savings from this option would be comparable. Implementation of this option would require the consent of the affected unions.

PROPOSERS 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.

OPPOSERS 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 creditable city employment.

OPTION:

Merge Separate City Employee Pension Systems

Savings: \$21 million in 2014, \$32 million in 2015, and \$34 million in 2016

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 system 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 covered under BERS eligible employees 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, and portfolio rebalancing if this option were implemented. Allowing for these first year costs, the option would realize \$21 million in savings in 2014 and increase in the following years to \$32 million and \$34 million in 2015 and 2016, respectively.

PROPOSERS 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 last year's 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 would advocate for this option because it achieves pension reform savings without adversely affecting retirement system members.

OPPOSERS 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.

OPTION:

Peg Health Insurance Reimbursement To the Lowest Cost Carrier

Savings: \$322 million in 2014, \$316 million in 2015, and \$311 million in 2016

The cost to the city of providing health insurance is dictated by the city's Administrative Code and collective bargaining agreements. Under the Administrative Code, 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, the city budgets for health insurance at the HIP rate and contributes the excess over the costs 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's basic budget for employee health insurance would become pegged to the lowest cost health care 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 \$322 million next fiscal year and slightly smaller amounts in following years. IBO's estimates take into account projected headcounts and an expected narrowing of the difference between GHI and HIP premiums in the coming years. This option would require changes to the city's Administrative Code and union contracts.

PROPOSERS 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 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.

OPPOSERS 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-free 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.

OPTION:

Bonus Pay to Reduce Sick Leave Usage Among Correction Officers

Savings: \$6 million annually

At present, uniformed police, fire, correction, and sanitation personnel are contractually entitled to unlimited sick leave. This proposal would have the Department of Correction make bonus payments to correction officers who use three or fewer sick days in a six-month period. The goal would be to induce a reduction in the costly use of sick leave, thereby resulting in net financial savings.

The sick leave rate for uniformed correction personnel has been higher than that of their sanitation, police, and fire counterparts each year since 1990. The costliness of sick leave usage by correction officers stems from the fact that the city's jails contain numerous "fixed" posts that must be staffed at all times. As a result, additional staff is scheduled to work in each jail in anticipation that some staff will call in sick. Also, officers completing their scheduled shift are frequently required to work a second shift on overtime to fill a post left unstaffed as a result of colleagues calling in sick.

This proposal, which would require collective bargaining, would reward correction officers who use no sick days in a six-month period with a bonus equal to 0.5 percent of annual base salary. Officers who use one, two, or three sick days would receive bonuses equal to 0.375 percent, 0.250 percent, and 0.125 percent of base salary, respectively. Although use of four or more sick days would result in forfeiture of bonus pay for that period, all officers would be entitled to start with a clean slate at the beginning of the next six-month period.

The average base salary for correction officers is currently \$67,169. Therefore, the bonus for an officer who uses no sick days in a six-month period would be \$335 and drop to \$84 for an officer using three days. To achieve net savings, the proposal would need to reduce the costliness of sick leave usage by an amount greater than the sum paid out in bonus pay.

IBO's net annual savings estimate of \$6.2 million, based on actual sick leave usage by correction officers, assumes that all officers currently using 10 or fewer sick days per year would respond to the incentive by reducing their annual sick leave usage by three days. We also assume that officers already using no more than three sick days per year would respond to the incentive by taking no sick days, and thereby qualify for maximum bonus pay.

PROPOSERS MIGHT ARGUE that numerous state and local governments reap savings by monetarily rewarding personnel (including law enforcement personnel) who limit their usage of sick leave. Proponents also might argue that even if the proposal resulted in only minimal net savings, the payment of a bonus to officers who demonstrate very high rates of attendance would rightly offer them a tangible reward they deserve.

OPPONENTS MIGHT ARGUE that city employees should refrain from abusing their sick leave privileges without a reward system enticing them to do so. On practical grounds, opponents might argue that some correction officers may report to work on days on which they are truly ill so as to not lose bonus pay, thereby potentially jeopardizing the safety and health of inmates and fellow officers. They also might argue that officers whose assignments expose them to greater stress and risk of getting sick would end up unfairly losing bonus pay as a result of legitimate sick leave usage.

OPTION:

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds

Savings: \$9 million annually

New York City currently spends approximately \$1 billion annually on supplemental employee benefits. These expenditures take the form of city contributions to numerous union administered 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, District Council 37's welfare fund membership exceeds 156,000. 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 2012 Comptroller's audit of the union benefit funds, IBO estimates that fund consolidation could save about \$9 million annually. Our main assumption is that fund consolidation could allow annual administrative expenses for 60 welfare funds to be reduced from their current average of \$140 per member to \$122 per member, the cost of administering the District Council 37 fund in 2009 dollars.

Implementing the proposed consolidation of the benefit funds would require the approval of unions through collective bargaining.

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 will not respond to workers' varied needs as well as would individual union administrators.

OPTION:

Eliminate Additional Pay for Workers On Two-Person Sanitation Trucks

Savings: \$40 million in 2014, increasing to \$46 million in 2016

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 Sanitationmen's Association negotiated additional pay to compensate workers for their greater productivity and increased work effort. Under this option, two-person productivity payments would cease, as assigning two workers to sanitation trucks is now considered the norm.

In 2012, 5,505 sanitation workers received a total of \$35.5 million in two-person productivity pay—\$6,456 per worker on average. Eliminating this type of productivity pay would reduce personnel expenses in the sanitation department by an estimated \$40.1 million and \$40.9 million in 2014 and 2015, respectively. 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 by 2016 (the delay is due to the lag methodology used in pension valuation), and the estimated savings jumps to \$45.9 million.

This option would require the consent of the Uniformed Sanitationmen's Association.

PROPOSERS 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.

OPPOSERS 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.

OPTION:

Health Insurance Contribution by City Employees and Retirees

Savings: \$489 million in 2014; \$535 million in 2015; and \$587 million in 2016

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—by an estimated 9.2 percent annually from 2015 through 2017. More than 90 percent of city employees are enrolled either in General Health Incorporated (GHI) or Health Insurance Plan of New York (HIP), 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.

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 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 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 contract, particularly for retired workers who have few options to adjust if a benefit they were counting on becomes more expensive.

OPTION:

Increase the Service Requirements For Retiree Health Insurance

Savings: \$8 million in 2024; \$17 million in 2025; and \$27 million in 2026

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 five 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 recent 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 2014, the savings would begin in 2024—an estimated \$8 million in the first year—and increase to \$27 million in 2026. 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.

PROPOSERS 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.

OPPOSERS MIGHT ARGUE 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.

OPTION:

Reduce City Reimbursements to Retirees For Medicare Part B Premiums

Savings: \$151 million in 2014, \$166 million in 2015, \$182 million in 2016

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. In fiscal year 2012, the city paid out approximately \$252 million in Medicare Part B premium reimbursements.

As of this year, the standard Part B premium paid to Medicare by all enrolled retirees will be \$1,259 per year or \$2,518 per year for couples. Since 2007, single retirees with annual incomes above \$85,000 and married couples with incomes above \$170,000 are required to make additional annual premium payments ranging from \$504 to \$2,770 per enrollee, depending upon total income.

The city fully reimburses both the standard Medicare Part B premiums as well as the additional premiums paid by higher-income retirees. Under this option, New York City would reduce Medicare Part B reimbursements to 50 percent of standard premium costs, which would affect all city retirees enrolled in Medicare Part B and would save \$142 million next year, \$156 million in 2015, and \$172 million in 2016. Additional savings of \$9.0 million in 2014 could be achieved by ending all reimbursement of the additional premiums paid by higher-income retirees, a change which would affect only about 4 percent of city retirees. Savings from eliminating these additional premium payments would grow to \$9.6 million in 2015 and \$10.2 million in 2016.

Unlike other pension and health insurance benefit reforms, 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 most 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. Lastly, proponents could argue that the city should not reimburse any portion of the additional premium payments required only of higher-income retirees given these individuals are by definition more financially secure.

OPponents MIGHT ARGUE that reducing the reimbursement rate for standard Medicare Part B premiums could adversely affect lower-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 retirees who would at least have more time to make adjustments to their plans for financing retirement.

OPTION:

State Reimbursement for Inmates in City Jails Awaiting Trial for More Than One Year**Savings: \$108 million annually**

At any given time two-thirds of the inmates in Department of Correction (DOC) custody are pretrial detainees. A major determinant of the agency's workload and spending is therefore the swiftness with which the state court system processes criminal cases. Throughout the adjudication process, detention costs are almost exclusively borne by the city regardless of the length of time it takes criminal cases to reach disposition. The majority of long-term DOC detainees are eventually convicted and sentenced to multiyear terms in the state correctional system, with their period of incarceration upstate (at the state's expense) shortened by that period of time already spent in local jail custody at the city's expense. Consequently, the quicker the adjudication of court cases involving defendants detained in city jails and ultimately destined for state prison, the smaller the city's share of total incarceration costs.

Existing state court standards call for no felony cases in New York State to be pending in Supreme Court for more than six months at the time of disposition. In calendar year 2011, however, 1,736 convicted prisoners from the city had already spent more than a year in city jails as pretrial detainees.

If the state reimbursed the city only for local jail time in excess of one year at the city's average cost of \$232 per day, the city would realize annual revenue of about \$108 million. It should be stressed that the reimbursement being proposed in this option is separate from what the city has been seeking for several years from the state for other categories of already-convicted state inmates, such as parole violators, temporarily held in city jails. The reimbursement sought with this option is associated with excessive *pretrial* detention time served by inmates who are later convicted and sentenced to multiyear terms in the state prison system.

PROponents MIGHT ARGUE that the city is unfairly bearing a cost that should be the state's, and that the city has little ability to affect the speedy adjudication of cases in the state court system. They could add that imposing what would amount to a penalty on the state for failure to meet state court guidelines might push the state to improve the speed with which cases are processed. In addition, the fact that pretrial detention time spent in city jails is ultimately subtracted from upstate prison sentences means that under the existing arrangement the state effectively saves money at the city's expense.

OPponents MIGHT ARGUE THAT many of the causes of delay in processing criminal cases are due to factors out of the state court's direct control, including the speed with which local district attorneys bring cases and the availability of defense attorneys. Furthermore, given that a disproportionate number of state prisoners are from New York City, calling upon the city to bear the costs associated with long-term detention constitutes an appropriate shifting of costs from the state to the city.

Revenue Options

OPTION:

Cap Personal Income Tax Credit at \$10,000 for Payers of the Unincorporated Business Tax

Revenue: \$48 million

In 1966, New York City established the unincorporated business tax (UBT) to tax unincorporated business income of proprietors and partners. Since fiscal year 1997 New York City residents with positive UBT liability have been able to claim a credit against their city personal income tax (PIT) liability for some or all of the UBT they pay. The credit was created to minimize double taxation of residents paying both the UBT and the PIT on the same income. This option would cap the credit at \$10,000 and would require state legislation.

The current PIT credit for UBT paid is designed to be progressive. New York City residents with taxable personal income of \$42,000 or less receive a credit equal to 100 percent of their UBT liability. This percentage decreases gradually for taxpayers with higher incomes until it reaches 23 percent for taxpayers with incomes of \$142,000 or more. Data from the city's Department of Finance on receipt of the credit by income group shows that in 2010, more than 4,800 city resident taxpayers with federal adjusted gross income (AGI) above \$1 million received an average credit of over \$20,000. Capping the UBT credit at \$10,000 would provide an estimated \$48 million annually. This option would not affect commuters, as they do not pay city personal income tax. Since the elimination of the commuter PIT in 1999, the UBT has been the only city tax on commuters' unincorporated business income earned in the city.

PROPOSERS MIGHT ARGUE that the progressive scale of the PIT credit for UBT paid is not sufficiently steep and that capping the credit is a good way to control the cost of the credit to the city. They might also argue that the cap would only affect a relatively small number of taxpayers, generally those with more than \$1 million in federal AGI, who would be able afford the tax increase.

OPPOSERS MIGHT ARGUE that the progressive scale of the PIT credit for UBT paid means that resident taxpayers with taxable incomes over \$42,000 already face some double taxation of the same income, and that double taxation would increase under the proposal. They might also argue that a better alternative would be to increase the rate on the UBT while simultaneously increasing the PIT credit for city residents' UBT liability, thereby having more of the tax increase fall on nonresidents who are not subject to double taxation on the same income. As with any option to increase the effective tax on city businesses, there is some risk that proprietors and partners will move their businesses out of the city in response to the credit cap.

OPTION:

Commuter Tax Restoration

Revenue: \$802 million in 2014

One option to increase city revenues would be to restore the nonresident earnings component of the personal income tax (PIT), known more commonly as the commuter tax. From the time it was established in 1971, the tax had equaled 0.45 percent of wages and salaries earned in the city by commuters and 0.65 percent of income from self-employment. Thirteen years ago the New York State Legislature repealed the tax, effective July 1, 1999. If the Legislature were to restore the commuter tax at its former rates effective on July 1 of this year, the city's PIT collections would increase by an estimated \$802 million in 2014.

PROPOSERS MIGHT ARGUE that people who work in the city, whether residents or not, rely on police, fire, sanitation, transportation, and other city services and thus should assume some of the cost of providing these services. If New York City were to tax commuters, it would hardly be unusual: New York State and many other states, including New Jersey and Connecticut, tax nonresidents who earn income within their borders. Moreover, with tax rates between roughly a fourth and an eighth of PIT rates facing residents, it would not unduly burden most commuters. Census Bureau data for 2011 indicate that among those working full-time in the city, the median earnings of commuters was \$78,000, compared with \$43,800 for city residents. Also, by lessening the disparity of the respective income tax burdens facing residents and nonresidents, reestablishing the commuter tax would reduce the incentive for current residents working in the city to move to surrounding jurisdictions. Finally, some might argue for reinstating the commuter tax on the grounds that the political process which led to its elimination was inherently unfair despite court rulings upholding the legality of the elimination. By repealing the tax without input from or approval of either the City Council or then-Mayor Giuliani, the state Legislature unilaterally eliminated a significant source of city revenue.

OPPOSERS MIGHT ARGUE that reinstating the commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. By creating disincentives to work in the city, the commuter tax would cause more nonresidents to prefer holding jobs outside of the city. If, in turn, businesses that find it difficult to attract the best employees for city-based jobs or self-employed commuters (including those holding lucrative financial, legal, and other partnerships) are induced to leave the city, the employment base and number of businesses would shrink. The tax would also make the New York region a relatively less attractive place for businesses to locate, thus constraining growth of the city's economy and tax base. Another argument against the commuter tax is that the companies that commuters work for already pay relatively high business income and commercial property taxes, which should provide the city enough revenue to pay for the services that commuters use. Finally, with the advent of the mobility payroll tax to support the Metropolitan Transportation Authority, suburban legislators could argue that suburban households (and firms) are already helping to finance the city's transportation infrastructure.

OPTION:

Establish a Progressive Commuter Tax

Revenue: \$1.5 billion in 2014

Another option to increase city revenues would be to establish a progressive commuter tax—one in which commuters with higher incomes are taxed at higher rates, similar to how city residents are taxed though at only one-third the resident rates. Regardless of where it is earned, the commuter's entire taxable income would be subject to a progressively structured tax, though the resulting liability would then be reduced in proportion to the share of total income actually earned in New York—this is similar to how New York State taxes nonresidents who earn some or all of their income within its borders. Mayor Bloomberg proposed such a tax in November 2002, but he called for taxing city residents and commuters at the same rates. Enacting this proposal requires state approval. If a progressive commuter tax at one-third the rates of the resident tax (0.97 percent in the lowest tax bracket to 1.29 percent in the highest) were to begin on July 1, 2012, the boost to city revenues would be substantial: \$1.5 billion in 2014.

PROPOSERS MIGHT ARGUE that people who work here, whether residents or not, rely on basic city services, so commuters should bear some portion of the cost of providing these services. Because it would tax upper-income families at higher rates than it would moderate-income families, a progressive commuter tax would be fairer than the former commuter tax, which taxed income earned in the city at flat rates (0.45 percent of wages and salaries and 0.65 percent of income from those who are self-employed). For calendar year 2013, IBO estimates that 55.4 percent of all commuters will have annual incomes above \$125,000 (compared with 14.6 percent of all city resident taxpayers); this group would also be responsible for 95.6 percent of the commuter tax liability, so the tax would primarily be borne by the households that can best afford it. Moreover, commuters from New Jersey and Connecticut, who constitute most out-of-state commuters, would be able to receive a credit against their state personal income tax for a portion of their commuter tax liability, thus offsetting some of their additional tax burden. To a greater extent than just restoring the old tax, a progressive commuter tax would lessen the disparity between the income tax burdens facing residents and nonresidents and thus reduce the incentive for current residents working in the city to move out.

OPPOSERS MIGHT ARGUE that any commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. The adverse economic effects of the proposed progressive tax would be worse than those of the former commuter tax because the progressive tax's rate would be higher; average liability for calendar year 2013 would be an estimated \$2,030, compared with \$990 if the original commuter tax was restored. By creating disincentives to work in the city, the commuter tax would cause more nonresidents to prefer holding jobs outside of the city. If, in turn, businesses that find it difficult to attract the best employees for city-based jobs or self-employed commuters (including those holding lucrative financial, legal, and other partnerships) are induced to leave the city, the employment base and number of businesses would shrink. The tax would also make the New York region a relatively less attractive place for new businesses to locate. Another possible argument against the commuter tax is that the companies that commuters typically work for already pay relatively high business income taxes and high commercial property taxes, which should provide the city enough revenue to pay for the services that commuters use.

OPTION:

Personal Income Tax Increase For High-Income Residents

Revenue: \$462 million in 2014

Under this option the marginal personal income tax rates of high-income New Yorkers would be increased. Currently, there are five personal income tax (PIT) brackets. The fourth (next-to-top) bracket begins at \$50,000 of taxable income for single filers, \$90,000 of taxable income for joint filers and \$60,000 for heads of households, and its effective marginal tax rate is 3.65 percent (the 3.2 percent base rate multiplied by the 14 percent surcharge). A fifth bracket was established in 2010 when the state Legislature eliminated STAR-related PIT benefits for all filers with taxable income above \$500,000, and its marginal rate is 3.876 percent.

This option would increase current marginal tax rates by a tenth for single filers with taxable incomes above \$200,000, for joint filers with incomes above \$250,000, and for heads of household with incomes above \$225,000. The change would effectively add a bracket in which income above these thresholds up to \$500,000 would be taxed at the rate of 4.013 percent. The top bracket marginal rate would become 4.264 percent.

This option is similar in structure to the 2003–2005 PIT increase that raised upper-income tax burdens, but the rate increases kick in at higher income levels and the rates are lower than they were under the 2003–2005 increase. This option also differs from the 2003–2005 increases in that it does not include a “recapture provision” under which some or all of taxable income not in the highest brackets were taxed at the highest marginal rates. If this option were in effect for fiscal year 2014, PIT revenue would increase by \$462 million. This tax change would require approval by the state Legislature.

PROponents MIGHT ARGUE that a PIT increase for high income households would provide a substantial boost to city revenues without affecting the vast majority of city residents. Only 6.0 percent of all city resident taxpayers in calendar year 2014 would pay more under this proposal; all of them would have adjusted gross incomes above \$200,000. There is no evidence that these affluent New Yorkers left the city in response to 2003–2005 tax increase, even with a larger state income tax increase also enacted at the same time. Also, this proposal avoids burdensome recapture provisions and features far smaller tax increases than those enacted from 2003 through 2005, so most of the affected taxpayers would bear less of a tax increase than they did previously. Finally, for taxpayers who do not pay the alternative minimum tax and are able to itemize deductions, increases in city PIT burdens would be partially offset by reductions in federal income tax liability, lessening incentives for the most affluent to move from the city.

OPponents MIGHT ARGUE that New Yorkers are already among the most heavily taxed in the nation and a further increase in their tax burden is likely to induce movement out of the city. New York is one of only three among the largest U.S. cities to impose a personal income tax, and its PIT burden is second only to Philadelphia’s. Tax increases only exacerbate the city’s competitive disadvantage with respect to other areas of the country. Even if less burdensome than the 2003–2005 increase, city residents earning more than \$500,000 would pay, on average, an additional \$8,400 in income taxes in calendar year 2014. With the option, these taxpayers are projected to account for virtually half—49.2 percent—of the city’s PIT revenue. If 5 percent of them were to leave the city in response to higher taxes, this option would yield \$250 million less PIT revenue per year (assuming those moving had average tax liabilities for the group).

OPTION:

Restructure Personal Income Tax Rates To Create a More Progressive Tax

Revenue: \$326 million in 2014

This option would create a more progressive structure of personal income tax (PIT) rates by reducing marginal rates in the bottom income brackets and raising marginal rates for high-income filers. This option would provide tax cuts to most resident tax filers and a lasting boost to city tax collections.

Seven tax brackets would replace the current five brackets, with the following effective marginal rates (including the 14 percent surcharge). The income ranges of the two lowest brackets would remain the same but their marginal rates would be reduced—from 2.91 percent and 3.53 percent to, respectively, 2.33 percent and 3.18 percent. The rates and income range of the third bracket would remain the same (3.59 percent). The fourth marginal rate would remain 3.65 percent but the bracket would end at taxable incomes of \$200,000 for single filers, \$250,000 for joint filers, and \$225,000 for heads of households. The fifth bracket would have a marginal rate of 4.01 percent for all filers with incomes up to \$500,000. The current top bracket, for incomes above \$500,000 would become two brackets, with a 4.26 percent marginal rate for those with incomes up to \$1 million, and a 4.48 percent rate on higher incomes—increases of 0.39 and 0.60 percentage points, respectively over the current top rate. This option does not include “recapture provisions,” so taxpayers in the top brackets would continue to benefit from the marginal rates in the lower brackets of the tax table.

If the new rates were approved by the state and went into effect at the beginning of fiscal year 2014, the city would receive an additional \$326 million in PIT revenue in 2014.

PROPOSERS MIGHT ARGUE that a progressive restructuring of PIT base rates would simultaneously achieve several desirable outcomes: a lasting increase in city tax revenue, a tax cut for the majority of filers, and a more progressive tax rate structure. Under this restructuring option, a projected 66.8 percent of all tax filers would receive a tax cut in calendar year 2014. Restructuring would significantly heighten the progressivity of the PIT, which had become less progressive in 1996 when the number of tax brackets was reduced. Finally, for taxpayers who do not pay the alternative minimum tax and who itemize deductions on their federal returns, increases in city PIT burdens would be partially offset by reductions in federal income tax liability.

OPPONENTS MIGHT ARGUE that if the principal goal of altering the PIT is to raise revenue, this option is very inefficient. For 2014, the reductions in marginal rates in the bottom two tax brackets decrease the revenue-raising potential of the higher marginal rates in the upper brackets by about \$309 million. The tax increases in this option would be on top of the 2010 tax increase on filers with incomes above \$500,000 due to New York State’s elimination of STAR PIT rate cuts. Filers with incomes above \$1 million would see their PIT liabilities rise on average by an estimated \$26,600 in calendar year 2014. This large an increase could cause at least some of the most affluent to leave the city. If only 5 percent of “average” millionaires (about 1,050 filers) were to leave town, this option would yield \$222 million less in PIT revenue per year, and over time this revenue loss would be further compounded by reductions in other city tax sources.

OPTION:

Extend the Mortgage Recording Tax

Revenue: \$95 million in 2014; \$105 million in 2015; and \$115 million in 2016

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 is 1.0 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 the Mayor subsequently included in his Preliminary Budget the additional revenue that would have flowed into the city's general fund had the proposal been enacted; ultimately, the proposal was not enacted. IBO estimates that extending the city MRT to coops would raise \$95 million in 2014, increasing to \$105 million in 2015, and \$115 million in 2016, as the residential real estate market continues to recover. 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.

OPTION:

Raise Cap on Property Tax Assessment Increases

Revenue: \$100 million in first year and at least \$300 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 \$100 million in the first fiscal year (with the tentative assessment roll for fiscal year 2014 already complete, 2015 is the first year the option could be in effect) and \$300 million to \$455 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 \$105.

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.

PROPOSERS 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 inter-class inequities in the city's property tax system would be reduced.

OPPOSERS 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.

OPTION:

Tax Vacant Residential Property the Same as Commercial Property

Revenue: \$37 million in 2014, rising to \$219 million annually when fully phased in

Under New York State law, a vacant property in New York City (but outside of Manhattan), which 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 2013, there were about 24,300 such vacant properties. 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 2013, the median ratio of assessed value to full market value was 2.4 percent for these properties.

Under this option, which would require state approval, each vacant lot 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. About 13,300 lots would be reclassified. Phasing in the increase in assessed value evenly over five years would generate \$37.0 million in additional property tax revenue in the first year, and the total increment would grow by \$45.5 million in each of the next four years. Assuming that tax rates remain at their 2013 levels, property tax revenue in the fifth and final year of the phase in would be \$218.8 million higher than without this option.

PROPOSERS MIGHT ARGUE that vacant property should not enjoy the low assessment benefits of Class 1 that are meant for housing. They might also argue that this special tax treatment of vacant land discourages residential development, an unwise policy in a city with a critical housing shortage. 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.

OPPOSERS MIGHT ARGUE that the current tax treatment of this vacant land serves to preserve open space in residential areas in a city with far too little open space. Opponents also might have less faith in the power of existing zoning and land use policies to adequately restrict development in residential areas.

OPTION:

Eliminate Carryback Option for Net Operating Loss Deductions

Revenue: Up to \$5 million

This option would eliminate the ability of companies subject to the general corporation tax (GCT) or unincorporated business tax (UBT) to carry back up to \$10,000 of any year's net operating losses (NOLs) to retroactively reduce taxable income of the two prior years. (The carryback provision is not available to corporations paying the banking corporation tax.) Companies that carry back NOLs then receive refunds for the resulting reductions in prior-year GCT or UBT liabilities. This proposal would not affect companies' ability to carry forward NOLs to offset future income and tax liability.

Based on analysis of business tax refunds across business cycles, this option would save the city up to approximately \$5 million per year, though some reductions in GCT and UBT refunds in any year would be offset by future reductions in liabilities, as the limit on carrybacks would increase the amount of NOLs available to carry forward. The savings would be greatest during years of an economic downturn when more businesses are likely to realize NOLs, carry them back, and receive prior-year refunds.

The GCT and UBT net operating loss provisions established in the city's Administrative Code generally follow the Internal Revenue Service's federal tax provisions except that the city caps the amount that can be carried back to \$10,000 and limits it to the federal NOL deduction for the same tax year. Implementing this option would require state legislative approval as well as a change in the Administrative Code.

PROPOSERS MIGHT ARGUE that during difficult economic times, states and other business-taxing entities should not further shrink their already depressed levels of revenue by offering corporations tax refunds for prior years in which they were profitable. The loss of tax revenue during downturns strains governments and contributes to the need for cuts in public services, government employee layoffs, tax increases and/or the tapping of reserves. They might also argue that carryforward deductions have the same income averaging effects as carrybacks benefitting businesses, but with the big advantage that they are more likely to shift the fiscal cost to times when more businesses are profitable and governments in turn can better afford the loss of revenue.

OPPOSERS MIGHT ARGUE that the reason for the carryback is to smooth income fluctuations for local businesses and that eliminating the carryback of NOLs puts more of the financial burden of economic downturns on businesses as opposed to the government. Though carryforwards offer the same income-averaging benefits as carrybacks, carrybacks provide funds during the year in which the operating loss took place, which may help keep businesses afloat during times of economic hardship. If businesses are forced to close, it may have a more lasting negative effect on tax revenue collections than would a refund resulting from a NOL carryback deduction.

OPTION:

Eliminate the Cap on the Capital Tax Base Of the General Corporation Tax

Revenue: \$320 million

Corporations subject to the general corporation tax (GCT) must pay the largest of four basic calculations of liability: (1) 8.85 percent of net income allocated to New York City; (2) 0.15 percent of business and investment capital allocated to New York City, subject to a cap of \$1 million in liability; (3) 8.85 percent of an alternative tax base of 15 percent of net income plus the amount of salaries or other compensation paid to anyone who owns more than 5 percent of the corporation's stock; and (4) a fixed dollar minimum tax that increases with New York City receipts and whose maximum is \$5,000 for corporations with receipts over \$25 million. This option would eliminate the \$1 million cap of potential liability under the allocated capital base calculation (number 2, above)—a cap which has been in effect since tax year 2009.

The current cap effectively reduces the GCT liability of corporations that have allocated business and investment capital greater than approximately \$666.7 million—the tax base that yields \$1 million of potential liability—while also having less than \$11.3 million of both the allocated net income base (number 1, above) and the alternative base (number 3, above). The firms that would be affected are highly capitalized businesses with relatively low cash flows. According to the Department of Finance's 2013 Tax Expenditure Report, there were 32 such corporations in New York City in tax year 2010, each saving on average \$10 million in GCT taxes due to the cap. Thus, eliminating the cap could generate \$320 million of additional GCT revenue assuming no firms leave in response to the change. Enacting this option would require state legislation.

PROPOSERS MIGHT ARGUE that some firms have low net income in the current year because previous net operating losses are carried forward, not because of current financial difficulties. The capital tax base was established to insure that such firms do not avoid corporation taxes. The cap on capital tax base liability undermines the city's ability to limit such avoidance. Alternatively, if the cap is retained, tightening restrictions on the use of tax preferences in calculating business and investment capital liability would make it less likely that the city is providing tax breaks to corporations when they do not really need them.

OPPOSERS MIGHT ARGUE that the recipients of this tax break (firms with large assets relative to income) tend to be manufacturing firms, and these include firms that truly are cash poor. Given the precarious position of manufacturers in New York City, the capital base liability cap may serve to slow the erosion of manufacturing jobs here. They might also argue that in the absence of the cap, firms that have invested heavily in New York City, as reflected in large business and investment capital, would be especially burdened by income tax liability in years of low net income. Moreover, any attenuation of New York City's heavy local business tax burdens lessens the competitive tax disadvantage of firms operating in the city.

OPTION:

Collect PILOTs for Property Tax Exemption For Hospital Staff Housing

Revenue: \$32 million annually

Under New York State law, all properties used by nonprofit hospitals to support their work are exempt from the city's real property tax. In 2013, the total cost to the city of these exemptions was \$513.7 million.¹ Housing for staff, rather than hospital buildings, accounts for roughly 12 percent of the tax expenditure (or amount of foregone taxes). In 2013, the tax expenditure associated with the exemption for hospital staff housing was \$63.3 million. Under this option, the hospitals would make payments in lieu of taxes (PILOTs), either voluntarily or through state legislation. A PILOT for half the tax expenditure for staff housing would generate \$31.6 million for the city.

While many hospitals save less than \$500,000 in property taxes through the exemption, some of the city's largest, best-known hospitals receive significant tax savings. Based on ownership recorded on the city's assessment roll, the tax expenditure for hospital housing in 2013 totaled \$24.6 million for New York-Presbyterian Hospital, Columbia University and Weill Cornell Medical Centers, \$7.3 million for Memorial Sloan-Kettering Cancer Center, \$4.3 million for Mount Sinai Medical Center, \$2.5 million for Maimonides Medical Center, \$2.5 million for St. Luke's-Roosevelt Hospital Center, \$2.4 million for Lutheran Medical Center, \$1.4 million for Beth Israel Medical Center, and \$1.3 million for Montefiore Medical Center.

Many hospitals restrict staff housing to physicians serving their residencies. The size of units is determined by family size and the residents pay rent, presumably lower than comparable market-rate units. Hospitals often do not have enough units for all house staff.

PROponents MIGHT ARGUE that housing for staff is not directly related to providing medical services, but rather a service that some hospitals choose to provide their staff. Housing is not offered by all hospitals, nor to all staff at a hospital. Additionally, staff members are compensated for their work and should be able to secure housing in the market like other professionals in the city.

OPponents MIGHT ARGUE that the long hours typically worked by residents and the benefit of having staff live near the hospital makes providing housing a good policy choice. Additionally, the rents paid by residents are presumably lower than comparable market rate rents, in which case some of the tax savings are being passed on to doctors in training in the form of a partial housing subsidy as a substitute for higher cash compensation. They could note that hospitals that continue to provide housing would face higher costs and would seek to shift that burden to hospital employees, patients, and/or government.

¹At present, there is little incentive for either the city or the hospitals to obtain the most accurate assessment possible. If as a result of this option, payments began to be based on better assessments of hospital property, the assessed values might change significantly.

OPTION:

Eliminate the Property Tax Exemption For Madison Square Garden

Revenue: \$17 million in 2014

This option would eliminate the real property tax exemption for Madison Square Garden (MSG or the Garden). For three decades, the Garden has enjoyed a full exemption from its tax liability for the property it uses for sports, entertainment, expositions, conventions, and trade shows. In fiscal year 2014, the tax expenditure, or amount of foregone taxes, is expected to be \$17.3 million. Under Article 4, Section 429 of New York State Real Property Tax law, the exemption is contingent upon the continued use of Madison Square Garden by professional major league hockey and basketball teams for their home games.

When enacted, the exemption was intended to ensure the viability of professional major league sports teams in New York City. Legislators determined that the “operating expenses of sports arenas serving as the home of such teams have made it economically disadvantageous for the teams to continue their operations; that unless action is taken, including real property tax relief and the provision of economical power and energy, the loss of the teams is likely...” (Section 1 of L.1982, c.459). Eliminating this exemption would require the state to amend this section of the law.

PROPOSERS MIGHT ARGUE that tax incentives are now unnecessary because the operation of Madison Square Garden is almost certainly profitable. Because Madison Square Garden, L.P., owns the Knicks and Rangers teams, and the Madison Square Garden Network and Fox Sports New York, it receives game-related revenue from tickets, concessions, and cable broadcast advertising. Additionally, the Garden hosts many events, including concerts and circus shows in its arena and theater from which it collects both rent and concession revenue. Proponents also might note that privately owned sports arenas built in recent years in other major cities such as Boston and Chicago, generally do pay real property taxes—as did MSG from 1968 when it opened until 1982—although some have received other government subsidies such as access to tax-exempt financing and public investment in related infrastructure projects. In the case of MSG, the continuing subsidy, long after the construction costs have been recouped, is at odds with the philosophy that guides economic development tax expenditure policy.

OPPOSERS MIGHT ARGUE that the presence of the teams continues to benefit the city economically and that foregoing \$17.3 million is reasonable compared with the risk that the teams might leave the city. Some also might contend that reneging on the tax exemption would add to the impression that the city is not business-friendly. In recent years the city has entered into agreements with the Nets, Mets, and Yankees to subsidize new facilities for each of these teams. These agreements have leveled the playing field in terms of public subsidies for our major league teams. Eliminating the property tax exemption now for Madison Square Garden would be unfair.

OPTION:

Eliminate the Manhattan Resident Parking Tax Abatement

Revenue: \$12 million annually

The city imposes a tax of 18.375 percent on garage parking in Manhattan. Manhattan residents who park a car long term are eligible to have a portion of this tax abated, effectively reducing their tax to 10.375 percent. By eliminating this abatement, which requires state approval, the city would generate an additional \$12 million annually.

PROPOSERS MIGHT ARGUE that having a car in Manhattan is a luxury. Drivers who can afford to own a car and lease a long-term parking space can afford to pay a premium for garage space, which is in short supply in Manhattan. Car owners contribute to the city's congestion, poor air quality, and wear and tear on streets. Elimination of the parking tax abatement would force Manhattan car owners to pay a greater share of the costs of their choice to drive.

They might also point out that the additional tax would be a small cost relative to the overall expense of owning and parking a car in Manhattan. The median monthly cost to park is \$533 in downtown Manhattan, and \$562 in midtown. The tax increase would be about \$43 a month in downtown, \$45 a month in midtown, and lower in residential neighborhoods with less expensive parking. This relatively modest increase is unlikely to significantly influence car owners' choices about where to park.

OPPOSERS MIGHT ARGUE that the tax abatement is necessary to encourage Manhattan residents to park in garages, thereby reducing demand for the very limited supply of street parking. Furthermore, cars are scarcely a luxury good for the many Manhattan residents who work outside the borough and rely on their cars to commute. Finally, they could argue that, at least in certain neighborhoods, residents are already paying premium rates charged to commuters from outside the city, which are higher than those charged in predominantly residential areas.

OPTION:

Establish an Unrelated Business Income Tax

Revenue: \$8 million annually

This option would tax the “unrelated business income” of tax-exempt organizations in New York City—income from a regularly conducted business of a tax-exempt organization that is not substantially related to the principal exempt purpose of the organization. For example, a tax-exempt child care provider that rents its parking lot every weekend to a nearby sports stadium would be taxed on this rental income because it is regularly earned but unrelated to the organization’s primary mission of providing child care.

Unrelated business income has been taxed for over two decades by both the federal government and New York State, but it is not taxed by New York City. Based on Internal Revenue Service data on federal unrelated business income tax revenue in 2011 and local earnings data, an unrelated business income tax for tax-exempt entities in New York City having the same 8.85 percent tax rate as the city’s general corporation tax would generate an additional \$8.5 million annually. Establishing a city unrelated business income tax (UBIT) would require the approval of the state Legislature in Albany.

PROponents MIGHT ARGUE that a UBIT would create a more level playing field when nonprofits earning income from untaxed ancillary activities compete with taxpaying businesses. Also, because a UBIT taxes only ancillary income of organizations, its burden on tax-exempt organizations is limited. Finally, because unrelated business income is already taxed at the federal and state levels, there would be few additional administrative costs for either the city or organizations subject to a city UBIT. The city would be able to use the same definition of unrelated business income as the Internal Revenue Service and offer many of the same deductions and credits.

OPponents MIGHT ARGUE that many nonprofit organizations are exempt from taxes in recognition that the services they provide would otherwise need to be provided by the federal, state, or local government. Taxes paid on unrelated business income would reduce the amount of money that nonprofits can spend on the provision of services—an outcome at odds with the intent of supporting a group’s services through tax-exempt status. Reducing the amount of money spent on the services provided by tax-exempt groups is particularly unwise when economic growth is slow because the need for services provided by many tax-exempt organizations increases during difficult times.

OPTION:

Extend the General Corporation Tax to Insurance Company Business Income

Revenue: \$365 million annually

Insurance companies are the only large category of businesses that are currently exempt from New York City business taxes; the city's insurance corporation tax was eliminated in 1974. The Department of Finance estimated the insurance company exemption from business income tax cost the city \$365 million in 2013. Insurance companies are subject to federal and state taxation. In New York State, life and health insurers pay a 7.1 percent state tax on net income (or alternatively, a 9.0 percent tax on net income plus officers' compensation, or a 0.16 percent tax on capital) plus a 1.5 percent tax on premiums; nonlife insurers covering accident and health premiums pay a 1.75 percent state tax on premiums; all other nonlife insurers pay a 2.0 percent tax on premiums.

In addition to benefitting directly from the city's tax exemption, New York City insurance companies benefit indirectly from the absence of corresponding retaliatory taxes. Almost all states with insurance taxes provide for retaliatory taxation, under which an increase in State A's tax on the business conducted in A by insurance companies headquartered in State B will automatically trigger an increase in State B's tax on the business conducted in B by companies headquartered in State A.

PROponents MIGHT ARGUE that much of the tax benefit resulting from the insurance company exemption is exported to out-of-city insurance companies that are collecting premiums from New York City residents. The exemption is contrary to two principles of good tax policy. First, it is desirable to export tax to the fullest extent possible, such that residents have less of a tax burden. Second, tax credits, deductions, and exemptions should be designed to attract business that would not otherwise locate in New York City. The insurance company exemption does not do much to attract business because companies located elsewhere also benefit from the exemption. Taxing insurance companies would put them on more equal footing with other incorporated businesses in New York City.

Retaliatory taxes would probably be imposed only by the states that retaliate against general corporate income taxation of insurance companies, avoiding the more widespread retaliation that would be triggered specifically by a separate insurance corporation tax. New York City could also adopt a tax credit for retaliatory taxes in its general corporation tax to provide targeted relief for its insurance companies.

OPponents MIGHT ARGUE that other states' retaliation triggered by the city's reinstatement of tax on insurance companies, combined with one of the highest tax rates (state and city) in the country, would be enough to drive the industry out of New York City. Moreover, the incidence of the insurance corporation tax is unclear. To the extent that insurance companies can pass additional tax on to their customers in the form of higher premiums, this tax would indirectly increase the tax burden of New York City residents, which is already high relative to the remainder of the country.

OPTION:

Repeal Special Allocation Rule for Regulated Investment Company Fees

Revenue: \$37 million annually

This option would repeal the special rule allocating income for tax purposes of New York City-based regulated investment companies (RICs), most of which are mutual funds. Currently, mutual fund managers' receipts from management, administration, and distribution services are allocated for tax purposes to New York City based on the percentage of the funds' shares owned by city residents. Under city law, other types of businesses—including others in the financial industry—allocate business receipts to the location where services are performed. In the absence of the special allocation rule, RICs would be required to source much more of their operational revenue to New York City.

The special allocation rule was enacted in 1987 after the Dreyfus Corporation considered moving its headquarters to New Jersey. To prevent that outcome, the special allocation rule was added to both the city and state business income tax laws. The rule was estimated to cost the city \$37 million in 2013. Repeal of the special allocation rule would require the approval of the state Legislature.

PROponents MIGHT ARGUE that the special allocation rule for mutual funds creates an unfair advantage for the targeted companies. Tax incentives are ideally used to attract businesses that would not otherwise locate in New York City and to encourage them to invest long-term. Offering incentives to companies already established in the city runs counter to this principal, particularly given that New York City has advantages to offer businesses, such as a well-educated labor force and proximity to other businesses to facilitate knowledge transfer and to supply necessary services and goods. They would argue that the advantage provided by the special allocation rule can be viewed as unnecessary.

OPponents MIGHT ARGUE that in the absence of the special allocation rule, it is not clear whether the mutual funds based in New York City would remain here. If RICs relocated elsewhere, this option would lead to a loss of high-wage jobs and tax revenue in the city. The two industry subsectors that include mutual funds—Open-End Investment Funds and Other Financial Vehicles—employ approximately 1,000 people in New York City, with an average annual wage of more than \$500,000. Moreover, future tax incentives may be less successful in attracting businesses, as implementing this option may cause uncertainty regarding the city's follow-through on tax incentive commitments. They could also argue that repealing the rule would break conformity between the state and city on the tax treatment of RICs, countering efforts to enhance conformity between the two tax structures. They could also point out that with the city already committed to phasing in similar allocation rules (single sales factor) for all taxpayers over the next five years, there is little reason to alter this provision now.

OPTION:

Repeal the Tax Exemption for Vacant Lots Under 420-a and 420-b

Revenue: \$8 million annually

Sections 420-a and 420-b of the New York State Real Property Tax Law provide for full property tax exemptions for religious, charitable, medical, educational, and cultural institutions. In 2013, the city issued exemptions for about 12,000 parcels with a total market value of \$43.3 billion. Of these parcels, 57.1 percent were owned by religious organizations, 20.5 percent by charitable organizations, 9.4 percent by medical organizations, 8.8 percent by educational institutions, 2.5 percent were being considered for nonprofit use, and the remaining 1.6 percent were owned by benevolent, cultural, or historical organizations.

Included among the exemptions are around 830 vacant lots with a total market value of \$554.8 million. The cost to the city for exempting the vacant lots is \$8.4 million in 2013 and the median tax savings is \$1,489. More than a quarter of the vacant lots are exempt due to ownership by a charitable institution and 13.2 percent are being considered for nonprofit use. Just under a third of the vacant lots are small, less than 2,500 square feet. The median tax expenditure (amount of taxes foregone) for small vacant lots is \$458, compared with \$2,407 for larger vacant lots.

This option, which would require a change in state law, would repeal the exemption under Sections 420-a and 420-b for vacant land. Since small parcels may be unsuitable for development, the exemption would be retained for vacant lots less than 2,500 square feet. Ending the exemption for vacant lots 2,500 square feet or larger owned by organizations that qualify under the existing law would generate \$7.6 million for the city.

PROPOSERS MIGHT ARGUE that since the land is undeveloped, it is not being used in active support of the missions of these organizations, which is the rationale for providing the exemption. The tax would provide organizations with an incentive to develop their lots—expanding the services and benefits they bring to the communities. Additionally, the tax that would be levied on any one lot would be relatively small, though organizations with larger, more valuable lots would face greater costs and greater incentive to develop their lots. By excluding small lots, the option would not penalize agencies for owning difficult-to-develop parcels. Lastly, a further exception could be made for small organizations by allowing vacant land owned by organizations with annual revenues below a certain threshold to remain exempt.

OPPOSERS MIGHT ARGUE that repealing the exemption would place additional fiscal burdens on organizations that are already stretched to provide critical services in their communities. Additionally, the opponents might argue against providing incentives for development of vacant land. While technically vacant, the lots may serve a useful purpose for the organizations and surrounding neighborhoods, such as playgrounds or community gardens.

OPTION:

Revise Coop/Condo Property Tax Abatement Program

Revenue: \$108 annually

Recognizing that most apartment owners had a higher property tax burden than owners of Class 1 (one-, two-, and three-family) homes, in 1997 the Mayor and City Council enacted a property tax abatement program billed as a first step towards the goal of equal tax treatment for all owner-occupied housing. But some apartment owners—particularly those residing east and west of Central Park and in northern Brooklyn—already had low property tax burdens. IBO has found that 45 percent of the abatement program’s benefits are going to apartment owners whose tax burdens were already as low, or lower, than that of Class 1 homeowners.

The abatement has been renewed five times, most recently in January 2013. The latest extension, covering 2013 through 2015 also made changes to the program, restricting the abatement to primary residents with most of them seeing a higher share of their tax bills abated. Both changes are being phased in. Owners whose units are not their primary residences will see their abatement completely eliminated by 2015. The share of taxes abated will gradually increase for most primary resident owners from 2013 through 2015. The changes being implemented will not alter the overall inefficiency of the abatement, with \$181 million still being “wasted” in 2015.

Under the option outlined here, the city could reduce the inefficiency that remains in the abatement program even after the latest changes by restricting it either geographically or by value. For example, certain neighborhoods could be denied eligibility for the program, or buildings with high average assessed value per apartment could be prohibited from participating. Another option would be to exclude very high-valued apartments in particular neighborhoods from the program. State approval is necessary for any of these options.

The additional revenue would vary depending on precisely how the exclusion was defined. While it is unlikely that an exclusion like the ones discussed above could eliminate all of the inefficiency, it should be possible to reduce the waste by at least 60 percent.

PROPOSERS MIGHT ARGUE that such inefficiency in the tax system should never be tolerated, particularly at a time when the city faces budget gaps. Furthermore, these unnecessary expenditures are concentrated in neighborhoods where the average household incomes are among the highest in the city. Since city resources are always limited, it is important to avoid giving benefits that are greater than were intended to some of the city’s wealthiest residents.

OPPOSERS MIGHT ARGUE that even if the abatement were changed in the name of efficiency, the result would be to increase some apartment owners’ property taxes at a time when the city faces pressure to reduce or at least constrain its very high overall tax burden. In addition, those who are benefiting did nothing wrong by participating in the program and should not be “punished” by having their taxes raised. The abatement was supposed to be a stopgap and had acknowledged flaws from the beginning. The city has had 15 years to come up with reforms to the underlying assessment system, but so far has failed to do so. The change this year will reduce the dollar amount being wasted, but is not the comprehensive reform that the city committed to implement.

OPTION:

Secure Payments in Lieu of Taxes From Colleges and Universities

Revenue: \$86 million annually

Under New York state law, real property owned by colleges and universities used in supporting their educational purpose is exempt from the city's real property tax. This exemption will cost the city \$344.3 million in 2013 in foregone property tax revenue (often called a "tax expenditure").¹ Exemptions for student dormitories and additional student and faculty housing represent 27.0 percent (\$93.0 million) of this total. Under this option, private colleges and universities in the city would make payments in lieu of taxes (PILOTs), either voluntarily or through legislation. A PILOT of 25 percent of the total tax expenditure would equal \$86.1 million.

As an alternative, New York State could make the PILOT payments to New York City for the colleges and universities. The exempt institutions would continue to pay nothing. For example, the state of Connecticut is supposed to reimburse local governments for 77 percent of the tax revenue foregone on tax-exempt property owned by colleges, universities, and hospitals; however, due to budget constraints, localities were reimbursed for just 45 percent of foregone revenue in fiscal year 2010. Rhode Island has a similar provision, reimbursing localities for 27 percent of foregone property taxes from a broader group of nonprofit organizations.

In 2009, Boston Mayor Menino established a task force on his city's PILOTs. Recommendations in the December 2010 final report include expanding the PILOTs to all nonprofits while keeping them voluntary, calculating the PILOTs based on assessed value rather than the cost of certain city services, phasing in the PILOTs, and allowing institutions credits for community benefits. In 2012, Boston is estimated to have received \$19.4 million in PILOT revenue from 33 institutions.

Recent research by the Lincoln Institute for Land Policy found that nationwide, about 220 localities received PILOT payments for 420 institutions, totaling \$92.7 million. PILOTs are concentrated in the Northeast, with 73 percent of institutions and 83 percent of PILOT revenue coming from that region. Additionally, PILOTs are most likely to be paid by educational and medical institutions, 68 percent and 25 percent of PILOT revenue, respectively.

PROPOSERS MIGHT ARGUE that colleges and universities consume valuable city services, including police and fire protection, without paying their share of the property tax burden. They also could contend that private colleges and universities generally serve a wider community beyond the city and that it is appropriate to shift some of the burden of city services to that broader community. Finally, they might point to several other cities with large private educational institutions that collect PILOT payments, including large cities (such as Boston, Philadelphia, Providence, New Haven, and Hartford) and smaller cities (such as Cambridge and Ithaca).

OPPOSERS MIGHT ARGUE that colleges and universities provide employment opportunities, purchase goods and services from city businesses, provide an educated workforce, and enhance the community through research, public policy analysis, cultural events, and other programs and services. Opponents also could argue that the tax exemption on faculty housing encourages faculty to live in the city and consume local goods and services, thereby generating income tax and sales tax revenues.

¹At present, there is little incentive for either the city or the academic institutions to obtain the most accurate assessment possible. If as a result of this option, payments began to be based on better assessments of university property, the assessed values might change significantly.

OPTION:

Tax the Variable Supplemental Funds

Revenue: \$3 million annually

Variable Supplemental Funds (VSFs) originated in contract negotiations between the city and the uniformed police and fire unions. In 1968, management and labor jointly proposed legislation allowing the Police and Fire Pension Funds, whose investments were limited at the time to fixed-income instruments, to place some resources in riskier assets, such as common stock, with the expectation that investment earnings would increase. The city hoped that the higher returns could offset some of its pension fund obligations, and if returns were sufficient, some of the gains were to be shared with retired police and firefighters.

The VSF—which no longer vary—are currently fixed at \$12,000 per annum payable on or about December 15 of each year. This amount is reduced by any cost-of-living adjustment received in the same calendar year until age 62. Members of the Police and Fire Pension Funds are eligible for VSF payments if they retire after 20 or more years of service and are not going out on any type of disability retirement. In addition, the New York City Employees Retirement System (NYCERS) administers the VSFs for retired housing and transit police officers. Although correction officers also have a VSF administered by NYCERS, that fund is insufficient and the annual \$12,000 VSF are not being paid. Beginning in 2019, however, payments to correction officers will be guaranteed regardless of fund performance.

Currently, VSF payments are exempt from state and local income taxes much as regular public pensions. Since the applicable provisions of the city's Administrative Code specifically states that VSF payments are not a pension, and the respective VSF funds considered are not pension funds, taxing these funds would not violate Article 16, Section 5 or Article V, Section 7 of the state Constitution. Under this option, which would require state approval, VSF payments would be taxed and treated as any other earnings. Regular pension payments would not be affected by this option. Based on data through December 31, 2012, 30.2 percent and 27.5 percent of the VSF recipients in the Police and Fire Pension Funds, respectively, were city residents and thus would pay more local personal income tax under this option.

PROPOSERS MIGHT ARGUE that since the Administrative Code plainly states that these payments are not pension payments, it is inconsistent to give VSF payments the same tax treatment as municipal pensions. Additionally, since these payments are only offered to uniformed service workers who typically enter city service in their 20s and leave city service while still in their 40s, most of these employees work at other jobs once they retire from the city and thus, any taxation of these benefits would have only a small impact on the retirees' after-tax income. Finally, while some may argue that the estimated tax revenue is not that big now, it would grow as current employees retire and live longer, and as the VSF payments for uniformed correction officers resume in 2019.

OPPOSERS MIGHT ARGUE that the taxation of these benefits could encourage retirees to move out of the city or state. Others may argue that since the uniformed unions allowed the city to invest in riskier, but higher yielding asset classes, that they should be able to enjoy a share of the resulting higher rates of returns without being subject to taxation, which would reduce the extent of gain sharing. They might also argue that for those retirees who do not get other jobs the tax could have a significant impact on their retiree income. Finally, others might argue that the revenue generated by this option would be relatively small in comparison with the additional cost to implement this option.

OPTION:

Taxing Carried Interest Under the Unincorporated Business Tax

Revenue: \$200 million annually

New York City's unincorporated business tax (UBT) distinguishes between ordinary business income, which is taxable, and income or gains from assets held for investment purposes, which are not taxable. Some have proposed reclassifying the portion of gains allocated to investment fund managers—also known as “carried interest”—as taxable business income.

New York City currently reaps a substantial amount of tax revenue from managing partners of investment funds—perhaps upward of \$500 million a year, including both UBT and personal income tax (PIT) revenue from managing partner fees (which are based on the size of the assets under management rather than investment gains) and additional PIT from carried interest earned by city residents.

Were the city to reclassify all carried interest as ordinary business income (exempting only businesses with less than \$10 million in assets under management), IBO estimates that annual UBT revenues would rise by approximately \$217 million and PIT revenues fall by around \$17 million (personal income taxes already being paid on carried interest would be reduced by the PIT credit for UBT taxes paid by residents), yielding a net revenue gain of about \$200 million. This is an average of what we could expect to be a highly volatile flow of revenue. The reclassification of carried interest would require a change in state law.

PROPOSERS MIGHT ARGUE that because carried interest payments often far exceed the return on the managing partner's own (generally small) capital stake in the investment fund, the income in question is better characterized as a payment for services—which should be taxed as ordinary income—than as a return to ownership. Inducement to avoid the tax would be much smaller than under reclassification for federal income tax purposes. (The latter would raise the federal tax rate on carried interest from 20.0 percent to 39.6 percent for most managing partners. The city UBT rate is 4.0 percent, but personal income tax deductibility would lower the average impact closer to 2.2 percent.)

OPPOSERS MIGHT ARGUE that it is the riskiness of the income (meaning how directly it is tied to changes in asset value) that determines whether it is taxed as ordinary income or as capital gains, not whether the income is from capital or labor services. Thus we have income from capital (most dividends, interest, and rent) that is taxed as ordinary income, as well as income from labor services (for example, labor put into renovating a house) that is taxed as gains. By this criterion, most carried interest should continue to be taxed (or in the case of the UBT, exempted) as capital gains when it is a distribution from long-term investment fund gains. It may also be objected that New York City is already an outlier in its entity-level taxation of partnerships (neither the state nor the federal government do this), and any move to further enlarge the city business tax base ought to be offset by a reduction in the overall UBT rate. In this way, negative impacts on the scale of future investment company activity in the city might be mitigated by positive impacts on the scale of other business activities.

OPTION:

Collect Sales Tax on Capital Improvement Installation Services

Revenue: \$250 million in 2014, \$285 million by 2017

Currently both the city and state sales taxes in New York exclude charges for improvements that will 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 would increase city revenues by an estimated \$250 million next fiscal year and greater amounts in subsequent years.

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 revenues 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.

OPTION:

Extend Tax on Cosmetic Surgical and Nonsurgical Procedures

Revenue: \$13 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 estimates that at least \$300 million will be spent on currently exempt cosmetic procedures in New York City in 2013. Assuming some impact of taxation on baseline expenditures, extending the sales tax to cover all cosmetic procedures would generate an average of about \$13 million per year for New York City from 2014 through 2017.

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.

OPTION:

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

Revenue: \$77 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 Transportation Authority (MTA) district sales tax. IBO estimates that in 2012 these businesses generated more than \$1.8 billion in revenue, 64.5 percent 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 \$77 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.

PROPOSERS 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.

OPPOSERS 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 residents substitute a DVD rental or video streaming 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 transportation authority tax).

OPTION:

Tax Laundering, Dry Cleaning, and Similar Services

Revenue: \$47 million annually

Currently, receipts from laundering, dry cleaning, tailoring, shoe repairing, and shoe shining services are excluded from the 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 revenue of about \$46.5 million annually and would require state legislation.

PROPOSERS 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. In addition, a municipal sales tax base should generally reflect the levels of demand for tangible goods and services produced by the local economy. Since service-based industries have become a much larger segment of the city's economy over the past several decades, the sales tax base should reflect this shift in consumer demand. By including laundering, dry cleaning, and other services in the sales tax base the city would decrease the economic inefficiency created by differences in tax treatment. Much of the additional revenue would come from more affluent consumers who use such services more frequently. 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 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 because a portion of laundering and dry cleaning receipts are actually paid by businesses (i.e. hotels and restaurants), bringing those services into the sales tax base would increase the incentive to develop their own laundering services, which would have a detrimental effect on the businesses that formerly provided the service. They could also point out that even in the absence of this vertical integration, a portion of the additional cost associated with taxing an intermediate service would be shifted to the consumer through an increase in the price of the good.

OPTION:

Tax Single-Use Disposable Plastic Bags

Revenue: \$104 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 2.9 percent, or 84,000 tons, of New York City's residential waste stream, according to the Department of Sanitation. In 2012, the city spent approximately \$7.7 million to export and landfill plastic bags. Once in a landfill, it can take 10 years for plastic bags to fully break down—and for some plastics it can take significantly 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 often 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. In the city, retailers purchase plastic bags in bulk for about 2 cents to 5 cents per bag. Although there is no separate charge for the bags, their cost is part of the retailers' general overhead which is passed on to consumers.

This option, which would institute a tax of 6 cents per bag, would generate \$103.9 million in revenue in the first year. In November 2008, the Bloomberg Administration proposed a tax on plastic bags as part of its budget, but the proposal was not enacted. Institution of this tax would require approval from the state Legislature.

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 a 20 percent reduction in the use of plastic bags in response to the tax, administrative and enforcement costs that would amount to 10 percent of total revenue generated, and a \$1.6 million reduction in waste export costs due to fewer bags being thrown out. Over time, as consumers reduce their use of plastic bags, annual revenue would decline. City revenue from the tax would drop to \$80.0 million if the use of plastic bags declined by 40 percent.

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. They also might be concerned about increased costs to the consumer, potential effects on customer convenience, as well as compatibility of the tax with the current recycling program.

OPTION:

Tax Sugar-Sweetened Beverages

Revenue: \$242 million annually

New York City residents consume over 420 million gallons of sugar-sweetened beverages each year, including soft drinks, fruit beverages, sports drinks, and others. Although these liquids have little nutritional value, sugar-sweetened beverages have become a staple of our modern food supply thanks to their low cost and extensive marketing. 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: 35 percent of adults are overweight and another 23 percent are obese.

A recent regulatory change approved by the Board of Health, which has been put on hold pending the outcome of a lawsuit, would limit the size of sugar-sweetened beverages available in the city's food service establishments to 16 ounces or less. This new regulation would not limit the number of portions people may purchase, however, nor would it apply to beverages sold in supermarkets or convenience stores. A tax on sugar-sweetened beverages could more effectively discourage consumption of high calorie drinks and raise revenue at the same time. An excise tax of half a cent per ounce levied on beverages with any added caloric sweetener could generate \$242 million in revenue for the city, equivalent to 15 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.

New York State currently imposes an added sales tax of 4 percent on soft drinks sold in vending machines and grocery stores, equal to about 4 cents or 5 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 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 the combined impact of the new size limit on sugary beverages and the excise tax will decrease consumption by approximately 10 percent. If the consumption of sugar-sweetened beverages were to decline further, then the revenue generated by this option would also decrease.

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. 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 fall as consumption declines.

OPTION:

Impose Development Impact Fees On Construction Projects

Revenue: \$35 million to \$70 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 an ad hoc \$19 million exaction from the owners of Chelsea Market as part of the approval of their planned expansion.

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, between 2001 and 2011, an average of 9.9 million square feet a year of new buildings over 25,000 square feet was constructed in Manhattan south of 96th Street. The new development was split roughly in half between commercial and residential projects. Some of those buildings include affordable housing, community facilities, and other uses that would likely 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 2001-2011 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 \$70 million a year. If it imposed the same fee only on commercial developments, revenues would have averaged \$35 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.

PROPOSERS 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.

OPPOSERS 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.

OPTION:

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 2013 the city expects to collect about \$1.7 million in multiple dwelling registration fees. Converting the flat fee to a \$2 per unit fee would increase the revenue collected by HPD by \$2.4 million annually (assuming a 90 percent collection rate).

PROponents MIGHT ARGUE that much of HPD's regulatory and enforcement activities take place at the unit, rather than 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 would 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 properties subject to the fee.

OPTION:

Expand the Department of Transportation's PARK Smart Program

Revenue: \$22 million annually

This option would expand a program which prices certain New York City parking spaces at variable rates depending on the time of day. Pilot programs ran in Greenwich Village in fall 2008, Park Slope in spring 2009, and the Upper East Side in summer 2010.

Under this option, the program would be expanded to 24,900 additional spaces in Manhattan below 96th Street, including new spaces created in lower Manhattan following the conversion of loading zones into parking spots. Based on the recent increase in parking fees, the implementation of variable-rate pricing would raise an additional \$21.9 million annually.

Hourly rates for these spaces would be set at \$4.50 between noon and 4 p.m., Monday through Saturday—the period identified as the peak usage period in each of the three pilot programs. At other times of day a base rate of \$3.50 an hour would be charged. In 2010, after consultation with the community, the Greenwich Village program was adjusted, with 6 p.m. to 10 p.m. now being the higher-rate period. Similar adjustments may be made in other neighborhoods, but for now we assume a uniform, initial time period. The occupancy rate for the spaces is assumed to be 70 percent, roughly the peak period occupancy in the Greenwich Village study area following program implementation.

In the past, Department of Transportation officials have proposed introducing a sensor-based variable-rate parking system, akin to San Francisco's SFPark system. This more sophisticated program could replace the PARK Smart program as currently implemented, and potentially preclude expansion of the program proposed in this option.

PROponents MIGHT ARGUE that inexpensive on-street parking encourages additional driving, with the related environmental costs and economic costs of lost productivity caused by congestion. They may also argue that efficiencies can be gained by promoting greater parking turnover, affording more motorists throughout the day the chance to park at high-demand destinations (albeit for shorter periods), as seen in evaluations of the Park Slope and Greenwich Village pilots. They could also argue that there are safety benefits from reducing the number of drivers circling for parking. Finally, proponents may argue that raising the cost of on-street parking would mean that drivers pay a higher share of the social costs of their choice to drive.

OPponents MIGHT ARGUE that drivers will change their shopping habits, preferring shopping venues that provide free or less expensive parking, such as large supermarkets, big box retailers, and department stores. Although some of the venues are in the city, others are in suburban shopping malls, decreasing sales (and sales tax revenues) at small neighborhood retailers and promoting even more driving. Finally, opponents may argue that drivers are already paying their share of the cost of the choice to drive through tolls, car registration fees, and fuel taxes.

OPTION:

Increase Collection of Fines for Failure to Correct Violations of the Housing Maintenance Code

Revenue: \$118 million annually by 2016

The Housing Maintenance Code provides health and safety standards for privately operated apartment buildings. Penalties for failure to correct most housing code violations are collected only if the city or a tenant brings the landlord to housing court—a time consuming and costly procedure. (In June 2012, the city implemented a different process for heat and hot water violations; if they are corrected in 24 hours and if there were no violations of the same code in the prior year, then the landlords can pay a flat fine instead of facing housing court.) In nearly all other agencies code violations are adjudicated by administrative law judges through the Environmental Control Board (ECB) rather than in civil court. This option would put housing code violations under ECB's oversight as well.

Although housing court cases often involve more than one violation, many uncorrected housing code violations are not litigated and, therefore, fines are never collected. In calendar year 2011, 12,790 cases were brought for housing code violations. During that same time period, the housing department issued about 480,000 violations, with only 11 percent corrected by the deadlines specified in the Housing Maintenance Code, although the housing department can grant extensions.

Generally when an agency issues a Notice of Violation, ECB processes the violation, holds hearings, issues orders to correct, and imposes fines. Unlike violations with a set fine, the housing code allows for a daily fine for most violations as long as the violation remains uncorrected, with higher fines for more hazardous violations and larger buildings. Ensuring correction of the violation is left up to the issuing agency, while the Department of Finance is charged with collecting the fines.

By the end of a two-year transition, the city could collect \$118 million per year in fines if they were adjudicated through ECB. This would require state legislation. IBO's estimate assumes the greater threat of fines would increase compliance rates to 50 percent and decrease the time to correct overdue violations by half. Based on rates for the buildings department, IBO assumes that 77 percent of the remaining violations are upheld by ECB and that 25 percent of levied fines are collected. The estimate incorporates an increase in ECB costs and increased costs at the housing department for inspectors to certify that violations have been corrected.

PROPOSERS MIGHT ARGUE that adjudication of housing code violations through ECB is more consistent policy and creates economies of scale. Landlords would have more incentive to maintain their buildings, which would improve the city's housing stock and reduce the cost of the city's code enforcement programs. They could also argue that removing violations cases from housing court would allow judges to focus on eviction proceedings and other disputes.

OPPOSERS MIGHT ARGUE that funds spent to pay penalties may reduce the money landlords have available to make repairs, which could lead to a decline in building quality. Opponents might also argue that housing court litigation plays an important role in ensuring that repairs are made (in those cases that make it to housing court), and that adjudicating violations without the courts may decrease the likelihood that some repairs are completed.

OPTION:

Increase Fees for Birth and Death Certificates to \$30

Revenue: \$8 million annually

Residents of New York State are entitled to original birth and death certificates at no cost, but both the state and the city charge a fee for duplicate copies. The city's Department of Health and Mental Hygiene issued nearly 618,000 duplicate certificates in 2012.

A provision of the state public health law sets the fee New York City charges for duplicate 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 \$30 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 doubling the charge to \$30 would reduce the number of certificates requested by 5 percent, yielding a net revenue increase of \$8.3 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 health department.

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 doubled. 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.

OPTION:

Increase Fees for Civil Marriage Ceremonies

Revenue: \$1 million annually

In 2012, about 70,000 people in New York City applied for a marriage license for a total of about \$2.4 million in revenue. About 40,000 of those who applied for a marriage license also had a civil ceremony at one of the County Clerk offices which generated an additional \$1 million in revenue.

This option would increase the fee for marriage ceremonies from the current \$25 to \$50 per couple. This increase would bring in an additional \$1 million in revenue to the city annually.

PROPOSERS MIGHT ARGUE that New York City is considered a popular location to get married. They may also argue that \$50 is a reasonable price to pay for a civil ceremony considering how expensive traditional weddings are and that fees in several other large cities already exceed \$50. They could also point out that in recent years the city invested \$9.7 million to upgrade the Manhattan Marriage Bureau from the cramped, poorly lit space in the Municipal Building to a brand new 24,000 square foot facility at 80 Centre Street.

OPPOSERS MIGHT ARGUE that other counties in New York State do not charge for having a civil ceremony in their County Clerk offices. The higher fee could deter some couples from holding their wedding ceremonies at the clerks' offices so that the increase in revenues could be less than expected.

OPTION:**Increase Food Service Permit Fees to \$700**

Revenue: \$10 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 2012, the department processed 4,699 new food service establishment applications and 21,758 renewals, for a total of 26,457 permits. About 9 percent of these permits were for school cafeterias and other noncommercial establishments, which are exempt from fees.

In 2013, total costs for processing these permits, including the cost of inspections and enforcement, are budgeted at approximately \$18.5 million for commercial establishments. But the department collected only between \$6.8 million and \$7.4 million from restaurant permits during the last fiscal year. Thus, fees cover only about 38 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 into line with permit costs and raise \$10.2 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.

PROPOSERS 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.

OPPOSERS MIGHT ARGUE that while in the long run fees should cover the cost of permits, an immediate increase would be a burden on a sector that is slowly recovering from the recent economic downturn. They might also 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.

OPTION:

Increase the Cigarette Retail Dealer License Fee to \$340

Revenue: \$1 million annually

The Department of Consumer Affairs (DCA) currently regulates and issues licenses to 55 different categories of business operating in New York City. The fees associated with obtaining a license vary widely, and range from \$20 every two years for a locksmith apprentice to up to \$5,010 every year for a commercial lessor of space for bingo or games of chance. One of the most commonly issued licenses, with 6,122 given out in 2012, is for retail dealers of cigarettes. However, the fee for this license, at \$110 every two years, is lower than the fees for many other, similar business categories. For example, electronics store, gaming café, and laundry licenses all require biennial fees of \$340 (or more in the case of laundries with more than five employees). A general vendor license is even more costly at \$200 per year.

Increasing the cigarette retail dealer license fee to \$340 every two years would bring it in line with licensing fees charged for other, comparable business categories. This would also raise \$1.4 million in new revenue annually to support DCA's enforcement activities, assuming the number of licenses requested stays constant. If the number of licenses declines as a result of the \$230 hike in fees, this would lower the amount of additional revenue generated.

PROponents MIGHT ARGUE that cigarette retail dealers should pay DCA licensing fees that are comparable to those charged to other, similar businesses. Furthermore, given the carcinogenic nature of the product sold and its impact on public health care costs, these vendors are generating significant negative externalities for which they are not adequately compensating tax payers. For example, the New York State Department of Health estimates that tobacco use is responsible for \$5.5 billion in annual Medicaid costs statewide. Finally, they might argue that if an increased licensing fee causes some vendors to either stop selling cigarettes or increase their prices this could positively impact public health by making cigarettes more difficult or costly to obtain.

OPponents MIGHT ARGUE that cigarette retail dealers are more highly regulated than other business categories and incur a number of additional fees that justify a lower DCA licensing fee. Unlike electronics stores, general secondhand dealers, gaming cafés, laundries, and general vendors, retail vendors selling cigarettes must also pay a \$300 annual fee to register with the New York State Department of Taxation and Finance. In addition, they might argue that a fee increase would have a disproportionate effect on small business owners, who sell fewer cigarettes per license than large chains. Finally, the purpose of licensing fees is to fund DCA's enforcement activities—if the true goal of a higher fee is to raise revenue or even decrease the consumption of cigarettes, there are other, more appropriate, mechanisms policymakers can utilize to do so, such as increasing cigarette excise taxes.

OPTION:

Institute a Residential Permit Parking Program

Revenue: \$2 million in 2014; \$4 million in 2015; and \$6 million in 2016

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. Often these residents have few or no off-street parking options. Areas adjacent to commercial districts, educational institutions, 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. The most commonly used mechanism is a neighborhood parking permit. 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. In November 2011, the City Council approved a home-rule message in support of a bill introduced by Senator Squadron and Assemblywoman Millman that would have allowed the city to establish residential parking permits in certain neighborhoods; the legislation was never enacted, however.

Under the proposal, permit parking zones would be created in selected areas of the city. Within these zones, only permit holders would be eligible for nonmetered on-street parking for more than a few hours at a time. Permits would be sold primarily to neighborhood residents, although they might also be made available to nonresidents and to local businesses. IBO has assumed an annual charge of \$100, with administrative costs equal to 20 percent of revenue.

PROPOSERS MIGHT ARGUE that residential permit parking has a proven track record in other cities, and that the benefits to neighborhood residents of easier parking would far outweigh the fees. Neighborhoods chosen for the program would be those with ample public transportation options and, in many cases, paid off-street parking available as well; these alternatives, coupled with limited-time on-street parking, should allow sufficient traffic to maintain local business district activity. Indeed, they could argue, one of the principal reasons for limiting parking times in commercial districts is to facilitate access to local businesses for drivers by ensuring turnover in parking spaces.

OPPOSERS 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. The Department of Transportation's latest report on parking conditions around Yankee Stadium and Atlantic Yards 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. Some opponents may note that in cities and towns that already have residential permits, it appears to have worked best in neighborhoods where single-family homes predominate.

OPTION:

Institute Competitive Bidding for Mobile Food Vending Permits

Revenue: \$50 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). The fees charged for these permits range from \$15 to \$200, and vary based on whether the vendor operates seasonally or year-round, whether food is processed on-site, and whether the permit is new or a renewal. Local law limits the number of mobile food vending permits that may be issued for use on public space to 3,100 for year-round permits (good for two years); 1,000 for seasonal permits (good for seven months), and there are an additional 1,000 permits available for vendors selling fresh fruit and vegetables. Demand for permits greatly exceeds the number available and there are waiting lists totaling 3,813 individuals as of November 2012. In 2012, DOHMH issued 3,546 permits, 85 percent of them renewals, and raised \$399,450 in revenue.

Food carts or trucks that operate on private, commercially zoned property, or in city parks, are exempt from limits placed on the number of 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 for five years, are in effect year-round, and in 2012 ranged in price from \$750 to \$223,000 per year, depending on location. In 2012, 310 parks department mobile food vending concessions generated a total of \$5.5 million in revenues for the city, or an average of \$17,742 per concession. In contrast, health department-issued permits on average brought in only \$113 per permit.

If DOHMH were to institute a competitive bidding process for its food cart permits, it could increase revenues by \$56.2 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 11 percent of revenues, reducing net revenue to \$50.2 million. Since 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.

PROPOSERS 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 foregone revenue over three years.

OPTION:

Charge a Fee for Curbside Collection Of Nonrecyclable Bulk Items

Revenue: \$59 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 95,000 tons, of New York City's residential refuse stream (61 bulk items per ton, in an average year). In 2012, the city spent \$8.6 million to export and landfill these items.

This option, which would require state legislation, would have DSNY institute a \$15 fee for every nonrecyclable bulk item that they collect, generating \$59.4 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 Web site. 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 10 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 \$900,000 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. Additionally, 10 percent of the bulk items are assumed to be picked up erroneously, not having paid the fee. 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 currently allowed to be discarded as garbage, but will be banned from disposal in 2015 and handled through 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.

OPTION:

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

Revenue: \$943,000 annually

New York City has 67 Business Improvement Districts (BIDs)—organizations of property and business owners which 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 revenues (78.6 percent in 2009) 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 2012, the city billed \$88.1 million on behalf of BIDs. In 2013, collections will rise to \$94.3 million. Under this option, the city would levy a 1.0 percent fee for the collection and distribution of BID charges by the Department of Finance, resulting in about \$943,000 in revenue. BID assessments vary greatly, so that the fee would range from about \$500 for a small BID in Queens to more than \$100,000 for the largest BIDs in Manhattan.

About one-third of the BIDs reporting to the city in 2009 had revenues of less than \$250,000 and were especially dependent on assessments for their revenue. The effect of an administration fee would be relatively greater for these BIDs, where assessments constitute an average of 94 percent of revenues, as compared with 79 percent of revenues for all BIDs. BIDs also differ in the share of administrative costs in their budgets, accounting for 45 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. Such a change would lower the potential revenue to the city.

PROPOSERS 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.

OPPOSERS 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.

OPTION:

Charge for Freon/CFC Recovery

Revenue: \$1 million annually

Chlorofluorocarbon (CFC) gas, also known as Freon, is considered a major contributor to the deterioration of the earth's ozone layer and climate change. Before discarding any freezer, refrigerator, water cooler, dehumidifier, air conditioner, or other type of appliance containing CFC, city residents are required to schedule an appointment for the recovery of the CFC. There is no charge for this service, although it must be completed in order to have the appliance removed by the city's Department of Sanitation on a regular recycling collection day—an item that has had the CFC recovered is “tagged” to indicate that it is ready for collection and disposal. In most other large municipalities, residents are charged between \$25 and \$100 for CFC removal.

The CFC recovery is done by sanitation workers who have completed CFC recovery certification. There are currently 10 certified CFC recovery uniformed workers and two civilian mechanics who maintain the vehicles used by the recovery workers, as well as two clerical aides responsible for setting up the recovery appointments. According to sanitation department records, out of 44,558 scheduled appointments in 2012, 20,926 appliances were tagged for CFC recovery and 23,632 appliances were missing or inaccessible to sanitation workers. Charging \$25 per appointment would garner the city roughly \$1.1 million annually. This estimate assumes no change in the number of CFC recovery appointments, although it might decline if a fee were imposed.

PROPOSERS MIGHT ARGUE that charging a fee for CFC recovery is appropriate because it is a service rendered directly to the resident or business. They could note that most other municipalities charge for CFC recovery.

OPPOSERS MIGHT ARGUE that charging for CFC removal might lead to illegal dumping, which would virtually eliminate the possibility of recovering the CFC from the appliance. In addition, they might express concern about the burden of mandatory charges on low-income households.

OPTION:

Charge Rent to Charter Schools in Shared Facilities

Revenue: \$74 million

About 100 charter schools currently operate in buildings owned by the Department of Education (DOE). These “co-located” schools do not contribute to the costs of operating the building. Under this option, the city would charge a per pupil usage fee to these schools.

The Department of Education’s co-location policy allows a charter or additional public school to be housed in a school building with excess capacity. Typically, the co-located schools share common spaces such as the cafeteria, gymnasium, and library. Before co-location can occur, the Department of Education must follow a series of formal steps outlined by New York State education law 2590-h (2-a) and the Chancellor’s Regulation A-190. First, the DOE alerts the public to the co-location proposal, issuing an educational impact statement which outlines and evaluates the implications of the arrangement. About 45 days later, the public can comment on the proposal at a Panel for Education Policy (PEP) hearing. Afterward, the 13 members of the PEP vote on the plan.

About \$2.4 billion dollars in the fiscal year 2013 Adopted Budget are allocated to public school buildings. These allocations cover the utilities, facilities, safety, and debt service of city schools which serve approximately 1 million traditional public school students plus another 30,228 charter school students whose schools are co-located in public school buildings. This brings the building-related cost per student to about \$2,454. If the DOE were to charge co-located charters this per capita fee for shared space, revenues would be about \$74 million in fiscal year 2013. Given that charter school enrollment is expected to increase, if the DOE continues the practice of co-location, these revenues could rise annually.

PROPOSERS MIGHT ARGUE that across the country, charter schools typically have to spend their own money on private spaces. With New York City’s co-location arrangement, the DOE is effectively providing subsidies for charter students that go above and beyond the per pupil allocation mandated by New York State education law intended to cover basic operating costs. Additionally, the DOE is treating one type of charter school—those in co-locations—much more favorably than those in private space which must cover their capital costs on their own.

OPPOSERS MIGHT ARGUE that New York City charter schools face a unique real estate market with expensive rents and scarce space. They might also argue that the space being assigned to charter schools had previously been unused or under-utilized and that the DOE incurs no additional building costs when the charter schools occupy the space. If the city did not offer shared spaces at no cost, many charters would be unable to open in the first place, thereby limiting school choice.

OPTION:

Provide Secure Fee-Based Bicycle Storage

Revenue: \$4 million annually

According to the city's Department of Transportation 19,000 people rode their bicycles to work on a daily basis in 2011, double the number from 2007 and a nearly threefold increase from 10 years ago. As the city provides more amenities to promote bicycling, including bicycle lanes and the bicycle sharing program, the number of bicyclists is likely to increase.

Responding to the growing demand for bicycle parking, the transportation department has installed more than 13,000 free sidewalk bicycle racks and 20 sheltered parking structures. At outdoor bike parking, however, theft and vandalism continue to be ongoing concerns. While the city also enacted a law requiring bicycle parking in commercial office buildings and in private parking lots and garages, not all bicyclists have access to a commercial building and the number of spaces available in private lots and garages is limited. This option would generate revenue for the city by providing secure bicycle storage on city-owned property near mass transit and commercial districts for a modest membership fee, while also encouraging multimodal transportation trips. Similar to the city's bicycle sharing program, a private vendor would be selected to build and manage the bicycle storage units in exchange for a share of the revenue, including revenue from advertising posted on the units.

Based on information from Bikestation, a company that operates bike storage systems in other U.S. cities, IBO estimates that the city could see revenue of \$4.1 million a year. Our estimate assumes beginning with 150 storage facilities, split evenly between small storage facilities with space for 12 bicycles and medium storage facilities which have space for about 30 bicycles. Overall, there would be space for 3,150 bicycles. IBO assumes that memberships at \$100 per year for unlimited bicycle parking could be sold to up to 5,350 members. After subtracting operating costs, revenue from membership fees and advertising would generate a net profit of \$13.6 million a year. We assume the city would receive 30 percent of the profit. Revenue would grow if demand is sufficient to allow the program to expand.

PROPOSERS MIGHT ARGUE that as bicycle infrastructure expands on city land and resources, it is appropriate to charge bicyclists for parking. They may also argue that providing a secure place to lock bicycles will encourage use of bicycles, thereby reducing congestion on roadways and mass transit, while improving air quality.

OPPOSERS MIGHT ARGUE that given the combination of free on-street parking provided by the city and fee-based private bicycle parking available in garages, there is no need to provide additional public storage for bikes. They may also note that the new bike share program currently being implemented may reduce the number of bicyclists using their own bikes to commute to work, which would lessen the need for bicycle parking. Opponents might also argue that given the environmental and health benefits of bicycling to work, the city should not discourage the behavior by charging for bike parking. Lastly, some New Yorkers see the ever-increasing use of outdoor advertising as visual blight that diminishes the quality of life.

OPTION:

Toll the East River and Harlem River Bridges

Revenue: \$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 twice the 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 \$10.66, 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 \$4.88, 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. The Ravitch Commission made a similar proposal in 2008.

Estimated annual toll revenue would be \$730 million for the East River bridges and \$275 million for the Harlem River bridges, for a total of just over \$1 billion. 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 \$455 million.

PROPOSERS 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. Transportation advocates argue 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 transportation advocacy groups have promoted tolls not only 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. Finally, proponents might note that city residents or businesses could be charged at a lower rate than nonresidents to address local concerns.

OPPOSERS 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. Finally, opponents might argue that even with E-ZPass technology, tolling could lead to traffic backups on local streets and increased air pollution.

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