

# Require Continued New York Area Residency for Retiree Health Benefits

Savings: \$416 million in 2022

After 10 years of service, most New York City employees become eligible for city-paid health benefits for the years from their retirement to when they become eligible for Medicare, as well as having the city pay their Medicare Part B premium once they move onto Medicare. In fiscal year 2020, the city spent \$2.7 billion on health insurance and Part B premiums and other Medicare supplements for retired city employees and their families. According to the City Comptroller's annual report, future retiree health benefits currently represent a \$109.5 billion unfunded liability to the city. This liability has more than doubled since the city began reporting the figure in fiscal year 2005. While the city is constitutionally obligated to fund actuarially determined pension benefits for vested retirees, retiree health benefits do not have such protection and could be adjusted through collective bargaining or state and local law, depending on the particular benefit.

As of December 2020, 34 percent of retired city employees who faced a residency requirement while they worked for the city now reside outside of New York City and the six counties that satisfy residency requirements for active employees. This figure excludes those who retired from the Department of Education, city university system, public housing authority, and NYC Transit, and a number of other smaller agencies who did not face a residency requirement when working for the city. This option would only cover retirees who had been required to live in the city or in the six suburban New York counties as a condition of employment.

Retirees residing outside the New York City area tend to have been retired for longer than their counterparts residing in the area, and are therefore more likely to have shifted from a city-sponsored health insurance plan to Medicare. As retirees shift to Medicare, the costs of their city-sponsored health insurance plans ends, but the city still offers some less costly benefits such as Medicare wraparound services and reimbursements for Medicare Part B premiums. Under this option, retirees would need to continue to meet the residency requirements for active employees to qualify for pre-Medicare health insurance coverage supplemental Medicare benefits once they shift to Medicare.

In 2020, non-Medicare retiree health premiums cost the city about \$9,000 per individual, and \$23,000 per covered family. The combined costs of Medicare Part B and SeniorCare were approximately \$4,000 per individual and \$8,000 per family. Assuming that roughly the same number of retirees continue to maintain their primary residence outside of the city and its surrounding counties, eliminating pre-Medicare coverage for nonresident city retirees would save the city \$202 million annually; if the Medicare supplemental coverage were also eliminated for nonresidents, total savings would reach \$416 million.

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**Proponents might argue** that retiree health benefit liabilities are a looming crisis for the city and governments across the country. The city asserts that it has no long-term obligation to provide retiree health benefits at current levels and therefore the health insurance liability is not comparable to a pension liability. This option eases a considerable burden on future taxpayers and preserves access to health insurance benefits at more sustainable levels. This policy also underscores the idea that municipal wages and benefits, should be provided to people who reside in the city or the vicinity and support the local economy.

**Opponents might argue** that this option restricts access to benefits that employees earned after at least 10 years—and often decades—of service to New York City. Many retirees leave New York because their pensions and retirement savings are inadequate to allow them to continue to reside in our relatively high-cost area; this option could compel these retirees to choose between affordable health insurance and access to affordable housing and other non-health necessities. The retiree benefit crisis should instead be solved with stronger fiscal discipline by the city rather than at the expense of retirees.

## Bring Civil Service Test Fees in Line With Costs

Revenue: \$14 million annually

New York State's civil service system was implemented in 1883 in the wake of President Garfield's assassination by a disgruntled patronage seeker. The system, enshrined in the state constitution, serves as a bulwark against the temptation by elected officials to use their office to enrich supporters. According to the Department of Citywide Administrative Services (DCAS), 80 percent of the city's job openings are currently filled through competitive civil service exams. Potential employees are hired from merit-based lists that are established through exams that are either open to the public or taken by civil servants seeking promotions. Each public-sector civil service exam has an application fee that the applicant must pay to DCAS. According to the 2021 Mayor's Management Report, DCAS received an average of 106,000 applications for civil service exams over the prior five years.

Legal precedent in New York has authorized municipal governments to charge fees for services, so long as the fees do not exceed the cost of administering the program or service for which the fee is applied. New York City's civil service exam fee schedule was last updated in 2011; even after this update, the city spent \$18.1 million on average each year on exam development and administration while collecting \$7.5 million in fee revenue. Based on projections in the April 2021 Financial Plan, it is estimated that the city will spend \$14 million more annually on exam development and administration than it collects in exam fee revenue. Under this option, civil service exam fees would increase, aligning the fee schedule with the current cost of developing and administering the city's civil service exams.

New York City's civil service exam fees are determined by the minimum of the salary range of the title for which the exam is given. The current fee schedule includes differing fees across 11 salary ranges. As a result, the annual revenue derived from civil service exam fees varies from year to year based upon what type of exams are given and the salary ranges for those positions. The average exam payment has been approximately \$59 since 2012; under this option the average payment would increase to \$192.

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**Proponents might argue** that permanent civil service appointments provide access to benefits and job protections that are unique to public-sector employment. Increased civil service exam fees would enable DCAS to devote resources to alternative recruitment, retention, and human capital projects to continue modernizing city hiring. In addition, supporters could point out that the exam fee schedule has not been updated in nearly a decade while the city's cost of developing and administering the exams have continually risen.

**Opponents might argue** that the city's civil service system is difficult to navigate and understand for many job seekers. The process often takes many months if not years and can be a deterrent for many applicants. Increasing exam fees would be another barrier that restricts the pool of applicants. Increased exam fees would remove incentives for the city to become more cost effective and efficient in the exam delivery process.

## Impose Fee on Nitrous Oxides and Fine Particulate Matter Emissions

Revenue: \$596 million annually

Even though air quality and emissions are regulated at the federal, state, and local level, pollutants in parts of New York City are still above safe limits. Midtown is often in violation of Environmental Protection Agency air quality regulations, and 12 other neighborhoods are above World Health Organization guidelines. Poor air quality contributes to instances of asthma, heart disease, and lung cancer every year. The primary pollutants responsible—nitrous oxides (NO<sub>x</sub>) and fine particulate matter (known as PM<sub>2.5</sub>)—are emitted from cars, trucks, electricity generation, buildings, and small internal combustion engines. These pollutants tend to be generated locally, meaning that New York City has direct jurisdiction over many of the emitters and most of the health benefits of abatement would accrue to local residents and businesses.

This option would impose an emissions toll on traffic sufficient to offset the social cost of NO<sub>x</sub> and PM<sub>2.5</sub> pollutants. Cars, trucks, and buses emit NO<sub>x</sub> and PM<sub>2.5</sub> from their exhaust as well as from brake and tire wear. The Environmental Protection Agency has estimated the social cost of these pollutants using their Benefits Mapping and Analysis Program. Using a social cost of \$7,800 per ton for NO<sub>x</sub> and \$540,000 per ton for PM<sub>2.5</sub> yields an average social cost of driving in New York City of \$4.98 per vehicle per day. The toll would be assessed at existing bridge and tunnel crossings. Since vehicles can drive through multiple tolling locations per day, the toll would be set at half the social cost, \$2.49. An emissions toll of \$2.49 at all existing bridge and tunnel tolling locations would raise \$596 million a year. If the Metropolitan Transportation Authority's congestion pricing system is established, it would provide additional locations for imposing the emission toll.

Similar calculations can be made for buildings, electricity generation, and other activities, which would further increase revenue. To the extent that pollution tolls change behavior, improved health outcomes could reduce the city's share of health care costs, offsetting some of the toll revenue lost due to the reduction in driving. Imposing a pollution toll would require state approval.

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**Proponents might argue** that charging tolls for NO<sub>x</sub> and PM<sub>2.5</sub> would send a price signal to drivers and might motivate behavior change and create environmental benefits. They could also note that the city benefits from this fee—regardless of whether drivers switch to cleaner modes of transportation—either through improved air quality or increased funding for local services. The toll is also fair since it falls more heavily on those who drive more, and much of the tolling infrastructure is already in place. If city residents were tolled at a lower rate, it also might cut down on the practice of city residents registering cars in other states, since vehicles with out-of-state plates would be assumed to be passing through and charged the higher rate.

**Opponents might argue** that the toll structure in the city is already unequal, charging some drivers whose regular movements include tolled crossings while other drivers scarcely ever encounter a toll. Although congestion pricing could mitigate this issue, no tolling scheme can be completely fair. Adding a fee for NO<sub>x</sub> and PM<sub>2.5</sub> emissions may also increase congestion in areas that do not currently have tolls as drivers seek out un-tolled routes. They might also note that since trucks are major polluters, much of the burden would fall on businesses that rely on truck shipments and consumers who purchase the products being shipped. They might also say that because demand for driving into Manhattan is very inelastic, increases in tolls are likely to deter very few cars and trucks and therefore have little impact on air quality.

# Value Gramercy Park as Its Own Lot Instead of Reflecting The Value in Surrounding Buildings

Revenue: \$10 million

Gramercy Park, which was established in the 19<sup>th</sup> century, is a private park. The park is fenced and only individuals who have a key to the park can enjoy its tranquil atmosphere. Keys are only available to residents of some—but not all—of the buildings immediately surrounding the park. According to Department of Finance property tax records, the park currently has a market value of zero. In theory, the value of park is instead reflected in the properties that have keys to the park. The finance department has not provided any documentation, however, to show how the value of the park is apportioned to these buildings. Based on information from the department on which buildings have keys to the park, IBO compared property values of residential coop buildings with keys to the values of similar nearby coop apartment buildings without keys. This comparison cannot be made for residential condo properties because in determining the value of these properties, the finance department does not distinguish buildings with access to the park from those without access. We found no significant differences in market values, assessed values, and property tax per square foot between the two groups of buildings. In some cases, the median per square foot market values of properties with no keys to the park are even higher than comparable properties with keys to the park.

If the finance department instead were to value the park as an independent lot based on the median land value of the Class 1 properties surrounding the park, IBO estimates that the park would have a market value of \$197.3 million and property tax liability of \$9.5 million for fiscal year 2021.<sup>1</sup>

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**Proponents might argue** that an assessment method that depends on capturing value “reflected” in other properties rather than directly taxing the value of the park can only generate the appropriate tax revenue if the assessments of the surrounding properties indeed include some of the value of the park. If the park’s value is not fully reflected in other properties, then the owners with access to the park are shifting the tax burden on this private property to the rest of the city, a particularly unfair outcome given the relative affluence of the Gramercy Park neighborhood. They might also point out that directly taxing the value of the private park is a more transparent and efficient way of ensuring that those who are allowed to enjoy the park pay their appropriate share for the privilege.

**Opponents might argue** that although properties with access to the park may not pay higher property taxes than similar properties around the park, they pay higher real property transfer and mortgage recording taxes because they tend to be more expensive. Over time these taxes make up for some of the property taxes foregone from the park. Moreover, the park and surrounding streets are also well maintained by the Gramercy Park Block Association on behalf of the park trustees, which contributes to making the neighborhood beautiful and attracting more visitors to enjoy the local amenities.

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<sup>1</sup>The value of land assigned to Class 2 properties is not based on market values.