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Budget Options

For New York City



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New Options

Ban Property Owners from Charging Broker Fees to Renters

Savings: \$22 million per year

New York City is one of the only cities in the United States where it is common practice for a prospective tenant to pay for the services of the property owner's real estate broker. While no-fee apartments do exist, many renters are required to pay for the property owner's broker as part of leasing. The cost of the broker fee—which can be upwards of 15 percent of the yearly gross rent—must be paid on top of other upfront costs, usually the first month's rent and a security deposit. In Manhattan, where the average market-rate apartment rent now tops \$5,000, that can mean \$10,000 to \$20,000 in upfront costs to move into a new apartment.

For both the One Shot Deal and the CityFHEPS rental housing programs, the city pays broker fees on behalf of clients. The One Shot Deal program provides grants and loans to families facing housing instability while the CityFHEPS program provides rental assistance to households facing homelessness. The city also employs housing navigators to assist clients in finding apartments and navigating the rental process. With renter-paid broker fees the norm, were the city to cease to pay for broker fees, One Shot Deal or CityFHEPS clients would have to pay broker fees some other way or be limited to no-fee apartments. This would likely result in fewer housing placements. Due to discrimination based on a prospective tenants' source of income by some landlords and a tight rental market for lower-priced apartments, clients of city housing programs already struggle to find apartments, even with the city currently paying full broker fees.

Under this option, which would require state approval, the city would ban property owners from charging renters for the cost of their real estate brokers. This change, which would impact all renters seeking a new apartment, would save the city \$22 million per year for the broker fees it pays the One Shot Deal and CityFHEPS programs based on the yearly average the city paid since 2020, while not impacting the competitiveness of renters participating in these programs.

Proponents might argue that broker fees contribute to the unaffordability of New York City's notoriously expensive housing market by adding a large upfront cost to renting an apartment, reducing the wealth of renters, and making it more expensive to switch apartments. Furthermore, the cost of broker fees is likely inflated because, while the property owner hires the broker, they do not pay the fee. Were property owners forced to pay their own brokers, they would have an incentive to negotiate broker fees down, list apartments themselves, or hire a dedicated leasing agent. Property owners could still try to pass the costs of broker fees on to tenants through higher rents, but they would be competing with other property owners who may have negotiated more effectively or found another way to list apartments without hiring a broker. In the case of the One Shot Deals and CityFHEPS programs, the city is already paying housing navigators to serve prospective renters, so prospective renters would lose little, if any, of the benefits from working with the property owner's broker.

Opponents might argue that property owners would likely still pass the entire cost of the broker fee onto tenants in the form of higher rents, which over time may be a larger dollar cost to the renter than if paid as an upfront broker fee. They may also argue that real estate brokers depend on renter-paid broker fees for their incomes and—were the city to ban this practice—fewer real estate brokers would be employed. Finally, they might argue that policymakers should instead seek to increase housing supply to reduce the leverage property owners have in lease transactions.

Create a Police Liability Fund to Offset Misconduct Claim Payouts

Savings: \$45 million annually

Total tort settlements and judgements involving the New York City Police Department (NYPD) cost the city an average of \$241 million per year, including claims settled pre-litigation. Among litigated misconduct cases against individual police officers, officers named in two or more cases accounted for about 60 percent of payout costs, despite representing only one third of litigated cases. This suggests that officers repeatedly charged with misconduct are associated with a higher average payout per case.

A police liability fund, financed by police officer paycheck reductions, would offset city spending on misconduct. For this budget option, an officer's potential paycheck reduction amount would be determined by the total complaints filed against them. Complaints are the metric—rather than substantiated complaints or lawsuits—under this option for two reasons. First, misconduct investigations and lawsuits are often protracted; paycheck reductions tied to those metrics would begin after a substantial amount of time elapsed, decreasing their effectiveness as a misconduct-reduction tool. Second, while one-off complaints may occur over the course of an officer's career, multiple complaints are atypical and may indicate a pattern of misconduct. Complaint data support this: Civilian Complaint Review Board (CCRB) data indicate 73 percent of active NYPD officers have a record of zero to two CCRB complaints. The remaining officers received between 3 and 43 complaints—22 percent of all active officers have three to eight complaints. To file a complaint with the CCRB, individuals must complete a form detailing the allegations and appear for an in-person interview with a CCRB investigator.

Under this option, officers with three or more complaints filed against them would pay into the police liability fund at escalating levels based on the number of complaints, starting at \$150 per paycheck for three complaints and increasing by \$60 for each additional complaint. Officers with zero, one, or two complaints would not pay into the fund. Such a fee structure would offset misconduct payments by approximately \$45 million per fiscal year. Procedures could also be put into place to remove a complaint from an officer's record under certain conditions. Funds collected would only be used to offset NYPD tort claims and settlements. The implementation of this option would have to be negotiated as part of a collective bargaining agreement between the city and the police labor unions.

Proponents might argue that an officer-funded liability pool would increase accountability in a system with few financial or disciplinary repercussions for officers accused of misconduct. This system is therefore likely to both reduce city spending on misconduct payouts and to over time reduce misconduct itself, leading potentially to even larger savings. They would argue that this option does not penalize officers who do not receive complaints, which should be the standard. The opportunity to incentivize positive behavior through fee reductions could also create buy-in among officers for improved training and policy revisions to further reduce inappropriate behavior. Even if misconduct rates remain the same, the city's savings would be substantial.

Opponents might argue that an officer-funded liability pool could discourage compliance with other policies intended to reduce police misconduct, such as body-worn cameras, or even reduce officer willingness to engage with the public for fear of incurring complaints. Depending on the policy's structure, misconduct reductions could unfairly target officers in "high-touch" positions, who are more likely to receive complaints even if unsubstantiated. Because this is a novel approach to reducing police misconduct, there is no evidence from other jurisdictions that it would change police behavior, and it would unfairly increase the financial burden of an inherently high-risk profession.

End the Requirement To Give Rental Assistance To Charter Schools

Savings: \$75 million annually

In 2014, New York State passed a law that for any new or expanding charter schools in New York City, the city must either provide classroom space in existing Department of Education public school buildings or reimburse schools for rental costs in private spaces for those schools that request such space. Currently New York City is reimbursed annually for 60 percent of charter rental expenses under state law. These payments are known as charter rental assistance payments, lease aid, or facilities aid. This option requires a change in New York State education law to generate savings.

Charter schools authorized and operating after April 1, 2014, or charter schools that began operating prior to April 1, 2014, but that have since expanded, are eligible for rental assistance. During the 2020-2021 school year there were 158 charter schools that received such assistance. The amount of rental assistance for a charter school is calculated as the lesser of 30 percent of the state's per-pupil charter school payment for New York City multiplied by the number of students enrolled, or total rental costs. After accounting for state reimbursement, IBO estimates that the city will spend \$75 million in charter rental payments in fiscal year 2023. This option would eliminate these payments.

Over the next year, IBO currently expects three new charter schools to become eligible for lease aid, a slowdown of prior year growth as New York City reached its statutory limit on the number of charter schools. Governor Hochul has proposed lifting the city's charter cap in the her executive budget, however, it is unclear if that proposal will be included in the state's adopted budget and IBO has not included the impact of lifting the cap in this option. Even without the change, it is likely, however, that rental assistance payments will continue to grow somewhat in coming years as existing charter schools expand by adding new grade levels and eliminating the payment could produce somewhat larger savings as this cost grows in future years.

Proponents might argue that requirement creates an unfair burden on New York City, which is the only jurisdiction in the state required to help pay for charter school rent. Additionally, many charter schools opened prior to April 1, 2014 and are able to operate without rental assistance. Furthermore, there are instances in which this aid is redundant because some charter schools use the rental payments for buildings owned by an affiliated organization, such as a Charter Management Organization.

Opponents might argue that charter schools are public schools and should be compensated for out-of-pocket rental costs if they are not provided public school space as these are costs traditional public schools do not have to bear. Alternatively, New York City public schools could avoid this expense altogether by providing charter schools with appropriate co-location in public schools. Finally, removing this financial support from charter schools currently receiving facilities aid could be disruptive to their school budgets.

Create a Civilian Complaint Program for Bike Lane Violations

Revenue: \$3 million in the first year, \$6 million annually thereafter

According to the New York City Department of Transportation (DOT), 30 percent of adult New Yorkers ride a bike, and over 550,000 bike trips were made each day in New York City in 2021. That same year, 311 received more than 13,000 complaints regarding blocked bike lanes, and the Department of Finance's Parking Violations Bureau adjudicated over 77,000 summonses for vehicles stopping, standing, or parking in a marked bike lane, a violation that carries a \$115 fine.

In 2022, legislation was introduced at the City Council that would create a new violation for vehicles obstructing, among other infrastructure, bike lanes near schools. This legislation, which has not yet been heard in committee, also proposed a program for civilians (i.e., individuals who are not city employees empowered to issue summonses) to submit complaints and supporting evidence for alleged violations to DOT and receive a reward of 25 percent of any fines collected. This is similar to the city's Citizens Air Complaint Program, which allows for citizen documenting and submitting of complaints about idling vehicles, also with a 25 percent reward.

If the city were to introduce such a civilian complaint program, but instead apply it beyond just school zones to all violations of stopping, standing, or parking in bike lanes throughout the city, IBO estimates this would generate \$3 million in additional fine revenues in its first year, after netting out the \$1 million the city would award to civilian reporters. In subsequent years, as the city improves reporting systems and public knowledge of the program grows, IBO estimates the program would yield \$6 million in fine revenues annually, after netting out \$2 million in rewards. This estimate could decrease as behavior improves in response to increased enforcement.

To arrive at this estimate, IBO assumes the program would double the number of bike lane violations, as the city saw a dramatic increase in idling violations after the introduction of the city's Citizens Air Complaint Program in early 2018. We also assume the Parking Violation Bureau will continue to adjudicate bike lane violation summonses and collect fines and will maintain its current collection rate for bike lane violation fines (about 92 percent of such fines are collected within three years).

Proponents might argue that a civilian complaint program for bike lane violations is necessary, because many 311 complaints do not result in a summons since violators have often moved on before city officials arrive to investigate. They may also argue that if this program discourages drivers from blocking bike lanes it will improve safety for bicyclists who face greater risks when they veer into the motor vehicle lanes to get around obstructions in the bike lane. Rider safety would also benefit if the revenue from these fines was used for further improvements to street safety.

Opponents might argue that a civilian complaint program inappropriately places the city's responsibility to enforce its laws on civilians, rather than agencies like the New York City Police Department, which are already responsible for and funded to enforce bike lane laws. They may also argue that encouraging civilians to participate in bike lane enforcement could lead to confrontations between drivers and reporters as they collect evidence of violations.

Establish a Stormwater Utility Fee

Revenue: \$120 million annually for investment in the city's water and sewer system

In New York City, over 60 percent of the city has a combined sewer system, where stormwater and wastewater run into the same channel. To avoid overloading the sewage system during heavy rain or storms, the city discharges untreated sewage into local waterways. This has harmful environmental and public health impacts. In 2012, the city signed an agreement with the state to reduce combined sewer overflows or CSOs. In the city's fiscal year 2023 Adopted Capital Commitment Plan, \$3.2 billion is planned for mandated projects to reduce CSOs over the next eight years.

The operation and maintenance of the city's water system, as well as the debt service on its capital infrastructure, is paid for through water and sewer fees. These fees are collected by the New York City Water Board. Water fee revenues are not available for general operating purposes as they must be used for reinvestment into the city's water system. Currently, water fees are collected based on the consumption of water, and not on the quantity of stormwater runoff generated by a property's impervious surface area. The Water Board has the authority to set utility rates to cover the cost of operating and capital improvements for the water and sewer system; pending legislation in Albany would further clarify the scope of the Water Board's rate-setting authority.

In this option, the Water Board would add a stormwater utility fee to each property's water bill based on the square footage of impervious surface on their lot. (IBO assumes public roads would not be charged for impervious area.) The fee would be set to \$2.67 per 1,000 impervious square feet each month. This is what Washington D.C. charges—the lowest rate among cities with stormwater charges reported in an ongoing study by the city's Department of Environmental Protection. IBO estimates that a stormwater fee could generate \$120 million annually in revenue, based on impervious surfaces measured by the city in 2020. This revenue would be dedicated to maintenance of the city's water and sewer infrastructure. Because a stormwater fee would likely be accompanied by a credit program for residents who install green infrastructure, the total revenue generated from this fee may decrease over time as drainage improvements are made by property owners.

Proponents might argue that implementation of stormwater fees would provide incentives for property owners to reduce runoff, making the sewer system better able to handle demand during rainy periods and reducing pollution in local waterways. Because properties such as parking lots which contribute a substantial amount of runoff into the city's stormwater system are not necessarily the properties paying the current fees based on water usage, the Water Board could use stormwater fee revenue to offset existing or future water rate increases, improving equity across properties. Stormwater fees can also be designed to fit the needs of a community through credits, discounts, and grant programs that enhance equity and encourage green infrastructure.

Opponents might argue that adding a stormwater fee would place a financial burden on property owners that currently do not have buildings using water. The data required to accurately measure impervious surface and charge properties could be costly to keep up-to-date and is still only an estimate that property owners may dispute, potentially adding to city administrative costs. Lastly, if the credits and discounts are popular, the total revenue produced by a stormwater fee could be much smaller than IBO's estimate.

Increase the Number of Tax Auditors in the City's Department of Finance

Revenue: \$165 million annually

Tax audits conducted by the city's Department of Finance (DOF) typically bring in over \$1 billion in city tax revenue in most years. The amount of revenue collected is sensitive to the Department of Finance's auditing efforts. The number of auditors on the DOF's payroll has been declining in recent years. After peaking in 2019 at more than 350 auditors, by 2022 headcount fell to about 75 percent of the peak, to a level not seen since at least 2013. Concurrently, audit revenue has generally declined, from a high of \$1.3 billion in 2018 to \$849 million in 2022.

Audits of the city's business income taxes—the corporation taxes and the unincorporated business tax—account for the vast majority of DOF audit revenue, about 82 percent on average in recent years. From 2014 through 2016, DOF made large investments in information technology within the audit unit in order to design and maintain systems that would more effectively identify those potential audits most likely to generate large amounts of revenue.

By comparing the historical relationship between the number of city auditors on the Department of Finance's payroll and the amount of tax audit revenue collected, IBO calculated average net revenue (audit collections minus salary and benefits) generated per auditor from 2017 through 2022, a starting year that captures the impact of newly employed information technologies on revenue. If the city were to hire 50 auditors, restoring staffing levels to their pre-pandemic average, IBO estimates that this could yield \$165 million in additional tax revenue annually.

Proponents might argue that tax audit revenue represents money that is owed to the city under existing tax law; it should have been already paid and is not a new or additional burden on the businesses or individuals who are audited. The amount of revenue that can be brought in exceeds the labor costs of conducting more audits, making this a sound financial decision for the city. They might also argue that as total tax revenue has continued to grow, in the long run, more effort should be made to ensure that the city is not losing out on revenue due to noncompliance, a sum which could be correspondingly growing as well.

Opponents might argue that audit revenue is a small percentage of total city tax revenue and that efforts to raise additional revenue should be focused elsewhere. They might also argue that since most audit revenue comes from the business income taxes, which are already very high in the city compared to other localities, increased compliance efforts and the costs incurred by businesses during the auditing process may deter business activity in the city. Finally, there would be diminishing returns to hiring additional auditors, because it is likely that the current system prioritizes audits that maximize revenues, and because the city would have to offer higher salaries to new hires in order to compete with the private sector.

Increase Film Permit Fees

Revenue: \$4 million annually

New York City long has been regarded as one of the most sought-after filming locations. For many years, it also was fairly unique in providing free permits and other perks to attract projects to shoot in the city. However, in 2010, citing budget constraints due to the Great Recession, then-Mayor Bloomberg implemented a production fee with the intention of offsetting the city's administrative costs, an action that was in line with fees that were collected in other major cities.

Under the current structure, the city has two sets of permits: required permits cost \$300 per production and optional permits are free. Required permits are needed for productions with filming equipment, prop weapons, prop vehicles, and actors in police uniform. Optional permits are for hand-held camera productions only, but by getting a permit (optional or required), producers receive access to parking, the police department's Movie & TV Unit, and other services. From 2012 through 2019, the city issued an annual average of 11,000 filming permits annually according to the Mayor's Office of Media and Entertainment, and during fiscal year 2022 around 7,150 permits were issued.

When the permit fee was introduced in 2010, it was set at \$300 to offset costs associated with administering city services for filming productions. In this option, the city would instead implement a \$30 application processing fee and increase the film permit fee to \$400. This change would allow New York City to account for inflation costs, but also bring the fee structure in line with what other cities, such as Chicago, Washington, DC, and Barcelona, are charging on a per production basis.

Because of Covid-19, the number of films produced in the city has yet to come back to pre-pandemic levels, but a recovery is expected in this industry in the coming years. Based upon pre-pandemic permit levels, under the new fee structure, application and production fee revenue would be just under \$5 million annually, a net revenue increase of about \$4 million per year compared with the \$1 million in permit fees the city received in fiscal year 2022.

Proponents might argue that fee increases are a natural occurrence in local governments that happen every few years, so this change is essentially playing catch up to match the cost to the city of providing services to film shoots. Residents and businesses can have their daily lives interrupted by film productions, and film production companies—not taxpayers—should be bearing the costs of the services provided by the city. Also, proponents might argue that New York City is a premier filming location, so producers will continue to choose the city for filming locations even with a permit fee increase.

Opponents might argue that if filming permits become too expensive, particularly for independent producers and low budget films, productions will relocate to another city while potentially replicating a New York City background. Not only would this cause the city to lose out on productions but may lower the number of film crew jobs and other film-related employment. Opponents would also argue that the media and entertainment industry took a massive hit during the Covid-19 pandemic so trying to enforce a fee hike would make this recovery period more difficult for the whole industry.

Issue Financial Penalties Against Property Owners Who Fail to Give Access for Buildings Inspections

Revenue: \$13 million annually

Inspections made by the Department of Buildings (DOB) often stem from 311 complaints. However, a DOB inspector cannot inspect a building without being allowed into the building or onto the construction site; if the inspector is refused access, or no one is there to allow the inspector to enter after two attempts, DOB often closes the complaint without any violation being issued. Nearly 20 percent of complaints forwarded to DOB by 311—representing about 50,000 complaints—end in this way each year. While DOB can pursue an access warrant to gain entry, this process is onerous, requiring DOB to coordinate with the Law Department and other city agencies before petitioning in court to justify an access warrant, and so is rarely pursued.

DOB violations can carry financial penalties, which are enforced and collected by the city's Office of Administrative Trials and Hearings (OATH). When inspectors are denied access to properties, this means fewer violations and so fewer penalties. Property owners who know they are likely in violation of DOB rules have reasons to refuse access to DOB inspectors. After all, violations not only carry financial penalties, but an open DOB violation on a property can prevent it from receiving construction permits, or even temporarily halt construction work altogether. Currently, other than an access warrant, there is no mechanism to compel or incentivize property owners to allow DOB inspections.

Under this option, DOB inspectors would be able to impose a \$500 penalty when they are unable to gain access to a property. Property owners could get the penalty dropped by permitting access at a subsequent inspection. Were the threat of these penalties sufficient to reduce the number of properties where a DOB inspector were unable to gain access by one third, thereby boosting the number of OATH summons issued by DOB, IBO estimates that the combined revenue from these no-access penalties, plus the additional OATH penalties collected for violations found, would result in an additional \$13 million in revenue per year, in addition to the benefit of safer buildings and construction sites.

Proponents might argue that the current system presents a moral hazard—property owners who know they are likely in violation of DOB rules are more likely to refuse access to DOB inspectors. With limited ways to disincentivize property owners from refusing to access to DOB inspectors, some unsafe conditions and unlawful activities, such as illegal conversions of apartments, likely remain unaddressed, leading to buildings that are less safe for city residents.

Opponents might argue that the process to get an access warrant, through the court system, is a sufficient and fair way to decide whether DOB should be allowed to enter a property. The argument that the bureaucratic process of obtaining access warrants through the court system is too cumbersome does not justify that the city should instead use financial penalties to coerce property owners who do not elect to provide that access freely.

Make All DOB Penalties Lienable Charges And Add Unpaid Penalties to Property Tax Bills

Revenue: \$100 million annually

The city's Department of Buildings (DOB) issues violations for various issues that occur at a property: fire safety, façade violations, issues with elevators and boilers, and unsafe working conditions during ongoing construction. For some of these violations, DOB inspectors issue summonses to the city's Office of Administrative Trials and Hearings (OATH). If the violations are upheld, the respondent is required to pay penalties. However, only a fraction of the penalties owed to DOB are actually collected. For DOB violations issued in fiscal year 2021, for example, \$234 million in penalties were owed to DOB, yet of that only \$65 million—just 28 percent—has so far been paid in penalties as of November 2022. Currently, after a hearing is held at OATH and a decision rendered, the respondent has 60 days to pay the penalty imposed. After that, the debt is docketed and handed over to the city's Department of Finance (DOF), which uses collections agencies to attempt to collect penalties from respondents.

Unpaid DOB violations sit on the city's books for years. Currently, the city is owed \$777 million in unpaid DOB penalties stretching back to the 2010 fiscal year, while a further \$300 million in unpaid DOB penalties have been written off over that period. In contrast to DOB violations, the city collects a much higher percentage of the payments owed on water and sewer charges—with about 80 percent collected 180 days after the billing date in fiscal year 2022. Property owners have a strong incentive to pay their water and sewer bills because after a year, an unpaid bill results in a lien being placed against the property. Liens can make it more difficult for owners to secure financing and complicate the sale of a property, which provides an incentive for property owners to complete payments and clear the lien. (The city's authority to hold lien sales recently expired, with discussions about a replacement or revised program ongoing among policy makers. However, liens for water and sewer debt were already excluded from the most recent sale held during fiscal year 2022.)

While the city's administrative code currently allows DOB to place liens against properties for certain types of DOB violations, this option would expand that to all DOB violations, so that the consequences for delinquency on DOB penalties would be the same as for delinquency for other property-based charges. This change would likely require Albany approval. Were the city to add unpaid DOB penalties to property tax bills, IBO estimates the city would collect an additional \$100 million on issued penalties annually, assuming a similar collection rate for penalties as for water and sewer bills in fiscal year 2022.

Proponents might argue that the current system, which allows many property owners to avoid paying DOB penalties for years, is arbitrary and unfair. Unless financial penalties are actually enforced, property owners will have little incentive to follow city rules and avoid DOB violations. Were this option to be adopted, property owners would have a greater incentive to comply with the city's building code and avoid DOB penalties, resulting in safer buildings for city residents.

Opponents might argue that the primary purpose of DOB violations is to ensure that buildings are safe and in compliance with the law, not so that the city can collect fine revenue. Although DOB's Homeowner Relief Program shields some small property owners from receiving DOB penalties, this option would still likely lead to more small property owners—who are less likely to be able to afford penalties—to have liens on their properties because of unpaid penalties.

Repeal the Tax Exemption for Clergy-Owned Property

Revenue: \$380,000 annually

New York State Property Tax Law allows members of the clergy who own real property to claim a \$1,500 property tax exemption against the assessed value of their homes. This exemption can be claimed by clergy members who are actively involved in full-time ministerial work or who are retired and 70 years or older. Additionally, clergy members' surviving spouses can claim the exemption, so long as the spouse remains unmarried.

The number of clergy exemptions claimed in New York City has been small in recent years; there is a limited pool of individuals who are simultaneously property owners, current or former clergy members, and ineligible for other, deeper exemptions to the city's property tax available through state's real property tax law. Nevertheless, from fiscal year 2018 through 2022, on average, 1,232 homeowners claimed the clergy exemption annually, which costs the city about \$380,000 in forgone tax revenue per year. Notably a large proportion of clergy exemptions claimed in recent years, have been concentrated in Brooklyn and Queens. Over the five-year period analyzed, 52 percent of all clergy exemptions were claimed in Brooklyn, followed by 35 percent in Queens, in contrast to only 1 percent in Manhattan. This option would repeal the exemption, which would require approval by the state legislature.

Proponents might argue that the city should not subsidize property owners based specifically on their occupation as clergy, as this represents a preference for religiously affiliated individuals in New York City. They might also argue that clergy are already indirectly subsidized in the property tax code through available exemptions for religious-institution-owned properties. Additionally, clergy members who are renters cannot benefit from this exemption. Finally, the proliferation of small exemptions in the law contributes to an unnecessarily complicated property tax system that can be difficult for everyday residents to navigate and make it difficult to evaluate the equity and efficiency impacts of the overall property tax system.

Opponents might argue that the clergy tax exemption represents an extremely small tax expenditure when compared to larger abatements and exemptions available to many property owners, for example those for condo and co-op owners. If policymakers want to reduce subsidies, they should consider amending or repealing larger tax expenditures, which have the potential to better ameliorate well-documented imbalances in the city's property tax system. They would further argue that pursuing a career in religious service is not known for being highly lucrative and repealing this exemption may hurt clergy homeowners who made financial decisions that accounted for this exemption in place.

Repeal the Cap on Mobile Food Vendor Permits

Revenue: \$10 million annually

Since 1983, the city has capped mobile food vendor permits at 5,100, despite growth in the number of city residents and workers in the past 40 years. Permits are issued for specific mobile food vending units and are separate from the food vending and supervisory licenses, which are issued to the workers and operators of the mobile food unit. Despite the 2021 passage of Local Law 18, set to approximately double the permit cap by 2032, the outpaced demand for a limited supply of mobile food vendor permits has led to a surge in illicit leasing of permits and long waiting lists for the existing permits.

This option proposes eliminating the cap on mobile food vending permits. IBO estimates this change would yield an additional \$10 million per year in sales tax revenue to the city.¹ IBO's estimate does not account for future changes planned under Local Law 18. We assume that without the cap, permits would increase by 6,250, which is a midpoint between the current permit waitlist and the longer list of interested parties kept by the Department of Health and Mental Hygiene, for a total of 11,350 permits. IBO recognizes some of the sales tax revenue collected from an expansion in mobile food vending sales could reduce sales tax collections from brick-and-mortar restaurants if customers shift purchases from restaurants to vendors. However, new sales tax revenue would also be expected from the legalization of thousands of mobile food vendors that are already operating without permits and not currently remitting state and local sales tax. IBO's estimate does not assume additional administrative or staffing costs, which we believe would be covered by proportional changes to licensing and permitting fees.

Proponents might argue that lifting the mobile food vendor permit cap is prudent in stemming illicit market activity, protecting consumers, and supporting the city's smallest business owners. (Most are classified as microbusinesses, employing less than 10 people.) Currently many vendors simply sell without proper licensing and permitting, which has led to police involvement that poses an unnecessary risk and liability to the city as well as the vendors themselves. Street vending has a low barrier of entry when it comes to capital and educational requirements compared with other industries. The scarcity of permits is a hurdle in an industry that is otherwise an accessible small business opportunity for lower-income or foreign-born New Yorkers. Allowing vendors to legalize can help them to access small business support services that many brick-and-mortar businesses are able to access.

Opponents might argue that the cap would lead to a proliferation of mobile food vending which could clog streets. There is also a shortage of commissary space, health department-licensed storage and prep spaces that most vendors are required to use to store their pushcarts or trucks and prepare food when not out on the streets. This may lead current commissary space to up-charge permit holders or lead to more vendors illegally storing their mobile food vending equipment in non-commissary locations (outdoors or at their places of residence). The expansion of mobile food vending is generally unpopular amongst the brick-and-mortar restaurant sector, since mobile vendors often have a lower cost of business and can charge less, which could negatively impact storefront restaurants. Lastly, not all vendors may remit the required sales tax, which would reduce projected revenues.

¹IBO analysis of vendor income and expenses from the Street Vendor Census Survey, 2021. Completed by the Street Vendor Project through the Urban Justice Center.

Revising or Eliminating Programs

Create a Pilot Rental Assistance Program for Individuals Exiting Jail or Prison at Risk for Homelessness

Savings: \$106 million over a two-year period

There is strong link between incarceration and homelessness. Research shows that individuals exiting jail or prison are as much as 10 times more likely than the general public to become homeless. At a December 2021 City Council hearing, the de Blasio Administration testified that about 28 percent of the recent growth in the city's single adult shelter population resulted from individuals who had been involved in the criminal-legal system. Furthermore, studies show that a lack of stable housing is correlated with increased rates of recidivism and returning to jail for technical parole violations. Both the city jail and homeless shelter systems are a substantial cost to the city, with direct per person costs averaging around \$600 and \$130 per day, respectively, in 2020. While the number of people in jail and prison have decreased in recent years, at least temporarily, due to the policies to reduce crowding during the pandemic and an ongoing push for jail reform; this has brought to the forefront the lack of housing for many of the recently-released individuals.

Under this option, the city would create a pilot rental assistance voucher program for individuals exiting incarceration who demonstrate a lack of stable housing options. Vouchers would pay an amount equivalent to the federal Section 8 and local CityFHEPS rates (the latter is a city-funded housing voucher program for households exiting homeless shelters) around \$1,900 monthly for a studio or one-bedroom apartment, and be time-limited to a two-year period—the period following release from incarceration when recidivism is most likely to occur. The vouchers are not intended for those with serious mental illnesses (distinguishing this option from supportive housing models), and could be limited to only those convicted of non-violent offenses.

The cost of the two-year voucher would average \$46,000 per person, or \$63 per day, which includes costs associated with administrative and housing placement services. Factoring in that some in the pilot program will wind up back interacting with either the jail or homeless system, the voucher cost would still be more than offset by shelter and jail savings. IBO estimates the potential savings on avoided shelter and jail stays at \$73,000 per person. If the city were to make a total of 4,000 voucher placements through such a program, we estimate there would be net \$106 million in savings for the city over a two-year period; if individuals are able to avoid state or federal prisons through the housing voucher option, there may be savings at other levels of government as well.

Proponents might argue that involvement with the criminal-legal system creates many barriers to reentry, including employment and housing prospects. Both homelessness and incarceration disproportionately affect Black and Hispanic New Yorkers, making this also a racial equity problem. Providing housing stability for a two-year period allows individuals a greater chance at finding regular employment and allows them time to reconnect with their family and communities. While supportive housing for formerly incarcerated individuals already exists in the city, those housing units are generally intended to serve individuals with greater clinical needs and are vastly oversubscribed.

Opponents might argue that housing discrimination is rampant, despite being illegal, and individuals with these vouchers will struggle to find landlords willing to accept them. They might also say it rewards bad behavior, while so many other New Yorkers without a history in the criminal-legal system struggle to find and pay for housing, especially those at the lowest income levels. Others might argue that the city would be taking a financial gamble paying for vouchers on the premise that subsequent savings would materialize—if the city does a poor job identifying individuals to provide the housing vouchers to, the city will wind up spending more rather than less.

Eliminate “Specialized Academic” Bonus to 13 Screened and Specialized High Schools

Savings: \$20 million annually

Every year, the New York City Department of Education allocates additional funding to 13 public high schools with “supplementary instruction and assessments, including higher course/credit loads and AP courses.” These 13 schools include the eight specialized high schools where students are admitted based on the results of the Specialized High School Admissions Test (SHSAT): The Bronx High School of Science, The Brooklyn Latin School, Brooklyn Technical High School, High School for Mathematics, Science and Engineering at City College of New York, High School of American Studies at Lehman College, Queens High School for the Sciences at York College, Staten Island Technical High School, and Stuyvesant High School. The remaining five high schools receiving this allocation use other academic screens to admit students selectively: Bard High School Early College, NYC iSchool, Millennium Brooklyn High School, Bard High School Early College Queens, and Townsend Harris High School.

This “Specialized Academic” allocation is a component of the Fair Student Funding (FSF) formula, which funds schools based on a weighted per-pupil basis designed to provide additional funding to students with greater need and is the largest source of discretionary dollars for schools. Through the FSF formula, the 13 schools listed above are set to receive an additional \$1,055 per student for the 2021-2022 school year (the amount is the same at all 13 schools). Typically, this allocation represents about 16 percent of the total FSF allocations received by the 13 schools.

Based on school enrollment from the 2020-2021 school year, the total amount these schools would receive for the current school year is just over \$20 million, ranging from \$6 million for Brooklyn Tech to \$400,000 for the High School of American Studies at Lehman College. The value of the academic bonus has been relatively stable over the years, with per-student allocations increasing slightly from \$1,021 in the 2017-2018 school year to \$1,055 in 2021-2022. Total enrollment at the 13 eligible high schools has grown by an average of 1.0 percent annually between 2016-2017 and 2020-2021, with 19,471 students enrolled in 2020-2021.

Proponents might argue that most of these schools are already well-resourced, having experienced teachers and well-connected parents and alumni. Some, like Brooklyn Tech, Bronx Science and Stuyvesant, boast significant endowments to help fund extracurricular activities. Given that these 13 high schools are not the only schools which educate/enroll academically well-prepared students with advanced curricula and/or AP courses, this is an inequitable use of funds. Proponents might also argue that this allocation is inequitable because of the disproportionately low number of Black students and Hispanic students enrolled in these 13 schools. Further, this funding is for supplemental enrichment rather than student need, although the latter is the primary focus of FSF.

Opponents might argue that these schools, admitting many of the most academically advanced students in the city, need these extra resources for supplementary instruction and assessments including higher course/credit loads and AP courses. Also, because the schools have historically received this money, removing this allocation from school budgets would be disruptive to these schools.

Make Organics Collection Mandatory Citywide

Savings: \$33 million annually after first five years

New York City has operated some sort of voluntary organics program through the Department of Sanitation (DSNY) for many years. It began as a seasonal yard waste collection program in the 1990s, later expanded to food scrap drop-off sites, and in 2013 a voluntary curbside collection program was established in select neighborhoods. The organics program was suspended in 2020 due to the pandemic, and while it resumed in 2021 it was under an opt-in model—if enough buildings in a neighborhood sign up, DSNY would pick up organics. The Mayor, however, has proposed suspending even the expansion of this model. Thus, the curbside organics has yet to grow into a citywide program and the city has never managed to divert more than about 1.4 percent of its waste from landfills to organics collection. (Around 46 percent of what goes in the city's refuse stream is compostable material.) With relatively low tonnage of organic waste being collected, DSNY has been unable to design efficient organics truck runs or negotiate cheaper compost processing costs, leading to considerably higher costs for organics on a per ton basis than refuse or metal, glass, plastic, and paper recycling.

If the city were to make the sorting of organic waste mandatory citywide, as it is for metal, glass, plastic, and paper materials, organics tonnage would increase. This would allow for the fixed cost of a truck run shift to be spread over more tons of collection, and simultaneously reduce the number of refuse truck runs needed as organics is diverted out of the refuse stream. (See IBO report on organics for further details). Beyond collection costs, the city would be in a better position to negotiate lower costs for organics processing—currently \$132 per ton—if it were at a larger scale, as cities like San Francisco have done.

In 2019, DSNY spent around \$775 million in total collecting and disposing of the refuse, recycling, and organics waste streams. In the near term, if organics collection ramps up, collection and composting costs would initially rise by about \$39 million in total over the first three years. IBO estimates the expansion of organics would begin to yield savings roughly four years out, and cumulative savings would offset the initial cost increases by year five. This assumes the city is able to increase organics participation to match recycling rates through public advertising and enforcement, and that recycling sorting would also slightly improve as a result of increased sorting overall. In future years, diverting organics would save around \$33 million annually relative to current waste collection and disposal costs. IBO's cost modelling is based upon the current volume and composition of waste being collected by DSNY, and the current DSNY fleet of single and dual-bin trucks.

Proponents might argue that the environmental benefits of composting over landfilling is a huge benefit for a city facing climate change, and that shifting DSNY priorities away from garbage collection towards recycling and organics signals the city's commitment to broader environmental efforts. Separating out compost from other waste and putting it in sealed collection bins would reduce the amount of food source for vermin in buildings and on city sidewalks. Proponents would also say that New Yorkers already learned how to sort recycling and organics sorting is no more difficult than that.

Opponents might argue that increasing the volume of organics would require more trucks on city streets at least in the short-run, adding street congestion and local pollution. Residents would have to figure out a way to sort out and store compost in their buildings before it goes to curbside collection. They may say that despite years of a mandatory recycling program, New Yorkers still do not perfectly sort their recycling and it may take many years for city residents to sort enough organics to increase tonnage sufficiently. Expanding the organics program increases overall DSNY costs in the near term, and if expected growth in organics collections does not materialize, neither will the future savings.

Switch to Digital Textbooks for High School Students

Savings: \$16 million annually beginning in year four

Digital textbooks, also known as e-textbooks or e-book readers, are small portable devices that display text on a screen. In addition to traditional textbooks, NYC public school syllabi now use the Google Classroom platform for selected assignments. Under this option, high school students would switch to using digital text books exclusively. This option assumes a year-to-year phase in starting with an initial cohort of ninth grade students with each new ninth grade cohort added annually until all high school students are using digital textbooks. Savings would be generated as high school students use the same e-reader over four years. However, savings are not generated until year three of the phase-in when the cost of using digital textbooks in 9th, 10th, and 11th grade would exceed the cost of purchasing hardcopy high school textbooks for the same number of students in that year. Beginning in the fourth year, savings stabilize, growing only by the general upward trend in textbook prices.

In the 2021-2022 school year, the DOE expects to spend over \$116 million on textbooks. Some of that expense is offset with revenue from state aid for textbooks under the New York State Textbook Law, which also reimburses costs for software, hardware, and library materials. This option assumes that electronic instructional materials is an allowable purchase with state aid.

The cost for e-textbooks can be separated into two costs: the one-time cost of purchasing an e-book reader device for each high school student as they enter 9th grade to be used over the course of their high school career, and the annual cost of downloading instructional materials associated with the student's courses.

Based on current average retail prices, standard e-book readers for all high school students would cost \$46 million. Based on a prior proposed Department of Education contract with a vendor to provide a web-based storefront for all e-books and other electronic content IBO estimates annual contractual costs to be roughly \$10 million. Under a four year phase-in that takes into account enrollment changes for each grade cohort, savings would first be realized in the third year of the phase-in and more than double to \$16 million in the fourth year.

Proponents might argue that e-readers have the capability to hold the entire school year curriculum in the form of digital text that is downloaded from computers or websites and that the size of e-books reduces the size and weight of student backpacks. They may also say that digital textbooks reduce refuse and recycling costs for the city and reduce the need for photocopying when textbooks are in short supply. Finally, proponents might argue that as older versions of textbooks become obsolete, updated versions in the online format can be more easily and quickly distributed to students and that electronic copies are cheaper to produce than printed texts and therefore bulk purchase is more feasible if needed. In fact, Amazon now offers many literature classics for the Kindle e-reader for free.

Opponents might argue that although today's students are digitally savvy, a hard bound book will never exhaust its battery and become unavailable to the reader. Opponents may also argue that the burden of replacing a lost, stolen, or damaged e-reader might outweigh the usefulness of the product. It is not clear who would pay these replacement cost, or how many devices would need replacement in any given year. Opponents could also argue that many curriculum texts are not yet even offered in the e-reader format. Additionally, they could say that digital textbooks do not have the functional ease for non-sequential learning that actual physical books do.

Reduce Hours of Operation for 311 Call Services

Savings: \$6 million annually

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

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

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

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

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

Savings: \$7 million annually

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

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

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

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

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

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

Savings: \$21 million annually

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

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

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

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

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

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

Require Landlords of Rental Buildings To Obtain Operating Permits

Savings: \$20 million annually

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

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

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

The city would charge an annual fee based on a building's apartment count to obtain a permit, which would cover the annual inspection and training costs. The fee would be about \$700 for a 24-unit building (using current inspection costs adjusted for the economies of scale created by performing many inspections in one building at once). Because of these routine inspections, complaint-based inspections would decrease, generating savings for the city. Most of the costs to perform a complaint-based inspection are borne by the city, not the landlord. If complaint-based inspections were to drop by half, the city would save \$20 million annually.

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

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

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

Savings: \$36 million annually

Each year the city pays fees to maintain a variety of computer software licenses. Many open-source alternatives to traditional software packages are available at no cost for the software. Several cities have transitioned to using open-source software for such functions. For example, Munich, Germany switched from Microsoft to use the open-source systems of Linux and LibreOffice, creating its own "LiMux" system. Under this option the city would reduce its use of licensed software by switching to open-source software.

Initially, the city would need to invest funds to hire developers to create and install the programs, as well as new applications for specialized city programs that would be compatible with the new systems. Staff would need retraining, though some of these costs would be offset by reducing current spending on training for existing software. In recent years, the city has spent an average of \$36 million to maintain its Microsoft licenses, which includes email, server technology, and desktop programs for city employees. If the city were to switch from Microsoft to open-source software and reduce what it is now spending on licenses by one-third as it developed the new programs, the initial savings would be around \$12 million. In several years, as the city completed the development of its open-source system, the savings could increase to the full cost of the Microsoft licenses.

The city also pays for licenses for other software programs that it uses on a smaller scale, which might be more easily transitioned to open-source software, although city savings would also be much less. For example, many city agencies have individual licenses for analytical software such as SAS and ArcGIS, software that has open-source alternatives such as R and QGIS that could instead be adopted. A city agency with 20 licenses for licensed analytical packages would spend about \$27,000 a year to maintain the licenses. If 10 agencies of roughly that size switched from a commercial package to open-source, the city could achieve savings of about \$270,000 per year.

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

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

Reducing Subsidies

End the Requirement To Give Rental Assistance To Charter Schools

Savings: \$75 million annually

In 2014, New York State passed a law that for any new or expanding charter schools in New York City, the city must either provide classroom space in existing Department of Education public school buildings or reimburse schools for rental costs in private spaces for those schools that request such space. Currently New York City is reimbursed annually for 60 percent of charter rental expenses under state law. These payments are known as charter rental assistance payments, lease aid, or facilities aid. This option requires a change in New York State education law to generate savings.

Charter schools authorized and operating after April 1, 2014, or charter schools that began operating prior to April 1, 2014, but that have since expanded, are eligible for rental assistance. During the 2020-2021 school year there were 158 charter schools that received such assistance. The amount of rental assistance for a charter school is calculated as the lesser of 30 percent of the state's per-pupil charter school payment for New York City multiplied by the number of students enrolled, or total rental costs. After accounting for state reimbursement, IBO estimates that the city will spend \$75 million in charter rental payments in fiscal year 2023. This option would eliminate these payments.

Over the next year, IBO currently expects three new charter schools to become eligible for lease aid, a slowdown of prior year growth as New York City reached its statutory limit on the number of charter schools. Governor Hochul has proposed lifting the city's charter cap in the her executive budget, however, it is unclear if that proposal will be included in the state's adopted budget and IBO has not included the impact of lifting the cap in this option. Even without the change, it is likely, however, that rental assistance payments will continue to grow somewhat in coming years as existing charter schools expand by adding new grade levels and eliminating the payment could produce somewhat larger savings as this cost grows in future years.

Proponents might argue that requirement creates an unfair burden on New York City, which is the only jurisdiction in the state required to help pay for charter school rent. Additionally, many charter schools opened prior to April 1, 2014 and are able to operate without rental assistance. Furthermore, there are instances in which this aid is redundant because some charter schools use the rental payments for buildings owned by an affiliated organization, such as a Charter Management Organization.

Opponents might argue that charter schools are public schools and should be compensated for out-of-pocket rental costs if they are not provided public school space as these are costs traditional public schools do not have to bear. Alternatively, New York City public schools could avoid this expense altogether by providing charter schools with appropriate co-location in public schools. Finally, removing this financial support from charter schools currently receiving facilities aid could be disruptive to their school budgets.

Eliminate City Funding for Nonpublic Schools

Savings: \$70 million annually

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

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

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

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

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

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

Savings: \$60 million annually

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

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

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

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

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

Raise Paratransit Fare to Maximum Level Allowed Under Federal Regulations

Savings: \$15 million annually

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

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

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

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

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

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

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

Savings: \$26 million annually

The MTA Bus Company (MTA Bus) was created in 2004 as a subsidiary of the Metropolitan Transportation Authority (MTA). MTA Bus operates local bus service, mostly in the borough of Queens, and express service to and from Manhattan. This bus service was formerly operated by private companies under franchise agreements with New York City. The companies received subsidies administered through the city's Department of Transportation. The MTA agreed to take over the bus routes under the condition that the city would reimburse the MTA for operating expenses net of fare revenues and certain other subsidies. The cost to the city of reimbursing the MTA has grown steadily over time, reaching \$570 million in 2019. Although the Covid-19 pandemic caused MTA Bus to temporarily reduce service in 2020, full service has since been restored and as of November 2021 the City's subsidy is projected to reach \$724 million as fare revenues recover slowly.

The MTA Bus Company reported operating expenses of \$854 million in 2019, equivalent to \$259 per vehicle revenue hour (the cost of maintaining one bus in service for one hour). This figure is higher than the \$220 cost per vehicle revenue hour for New York City Transit buses.

This option would reduce the city's reimbursement to MTA Bus by instituting a pilot project that would replace service on lightly traveled local bus runs in Queens with taxi service. In conjunction with the MTA, the city would identify 10 percent of bus runs with low passenger counts that could be replaced with taxis that agree to "cruise" the pilot routes. After accounting for administrative costs, including possible payments to both the MTA and taxi owners or operators as an inducement to participate in the pilot, IBO estimates the city could reduce its subsidy payment to the MTA by \$26 million per year.

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

Based on average fare revenue for green taxis, IBO estimates that an hourly rate of \$25 per hour would be sufficient to attract drivers to participate, relative to what they would earn for street hail pick-ups. This means that they would need to pick up at least nine passengers per hour along the bus route at the current \$2.75 fare.

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

Opponents might argue that the inability to pay with a MetroCard or OMNY penalizes riders, particularly those with unlimited MetroCards who would be charged a cash fare when the trip would otherwise be covered with their unlimited card. With the introduction of weekly fare-capping for OMNY riders in 2022, in which riders will enjoy free trips after reaching \$33 in trips in a seven-day period, riders may stand to miss savings if taxi trips are not counted toward weekly totals. In addition, some users may prefer riding a bus to sharing a taxi in close proximity with strangers, especially as the Covid-19 pandemic continues. Others might argue that this change could lead to job losses for the MTA employees currently staffing these bus lines.

Charging for Services

Pay-As-You-Throw

Savings: \$400 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—and the city hired consultants to study it here in 2018. 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 up to 35 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 \$114 a year for waste disposal in order to cover the cost of waste export, achieving a savings of \$400 million. A 15 percent reduction in waste would bring the average cost per household down to \$97 and a 30 percent reduction would further lower the average cost to \$80 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 \$118 million, assuming no decline in the amount of waste thrown away.

Proponents might argue that by making the end-user more cost-conscious, the amount of waste requiring disposal will decrease, and the amount of material recycled would likely increase. They may also point to the city's implementation of metered billing for water and sewer services as evidence that similar programs have been successfully implemented. To ease the cost burden on lower-income residents, about 10 percent of cities with PAYT programs have implemented subsidy programs, which partially defray the cost while keeping some incentive to reduce waste. They might also 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.

*City Workforce Staffing,
Funding, and Work Rule
Changes*

Create a Police Liability Fund to Offset Misconduct Claim Payouts

Savings: \$45 million annually

Total tort settlements and judgements involving the New York City Police Department (NYPD) cost the city an average of \$241 million per year, including claims settled pre-litigation. Among litigated misconduct cases against individual police officers, officers named in two or more cases accounted for about 60 percent of payout costs, despite representing only one third of litigated cases. This suggests that officers repeatedly charged with misconduct are associated with a higher average payout per case.

A police liability fund, financed by police officer paycheck reductions, would offset city spending on misconduct. For this budget option, an officer's potential paycheck reduction amount would be determined by the total complaints filed against them. Complaints are the metric—rather than substantiated complaints or lawsuits—under this option for two reasons. First, misconduct investigations and lawsuits are often protracted; paycheck reductions tied to those metrics would begin after a substantial amount of time elapsed, decreasing their effectiveness as a misconduct-reduction tool. Second, while one-off complaints may occur over the course of an officer's career, multiple complaints are atypical and may indicate a pattern of misconduct. Complaint data support this: Civilian Complaint Review Board (CCRB) data indicate 73 percent of active NYPD officers have a record of zero to two CCRB complaints. The remaining officers received between 3 and 43 complaints—22 percent of all active officers have three to eight complaints. To file a complaint with the CCRB, individuals must complete a form detailing the allegations and appear for an in-person interview with a CCRB investigator.

Under this option, officers with three or more complaints filed against them would pay into the police liability fund at escalating levels based on the number of complaints, starting at \$150 per paycheck for three complaints and increasing by \$60 for each additional complaint. Officers with zero, one, or two complaints would not pay into the fund. Such a fee structure would offset misconduct payments by approximately \$45 million per fiscal year. Procedures could also be put into place to remove a complaint from an officer's record under certain conditions. Funds collected would only be used to offset NYPD tort claims and settlements. The implementation of this option would have to be negotiated as part of a collective bargaining agreement between the city and the police labor unions.

Proponents might argue that an officer-funded liability pool would increase accountability in a system with few financial or disciplinary repercussions for officers accused of misconduct. This system is therefore likely to both reduce city spending on misconduct payouts and to over time reduce misconduct itself, leading potentially to even larger savings. They would argue that this option does not penalize officers who do not receive complaints, which should be the standard. The opportunity to incentivize positive behavior through fee reductions could also create buy-in among officers for improved training and policy revisions to further reduce inappropriate behavior. Even if misconduct rates remain the same, the city's savings would be substantial.

Opponents might argue that an officer-funded liability pool could discourage compliance with other policies intended to reduce police misconduct, such as body-worn cameras, or even reduce officer willingness to engage with the public for fear of incurring complaints. Depending on the policy's structure, misconduct reductions could unfairly target officers in "high-touch" positions, who are more likely to receive complaints even if unsubstantiated. Because this is a novel approach to reducing police misconduct, there is no evidence from other jurisdictions that it would change police behavior, and it would unfairly increase the financial burden of an inherently high-risk profession.

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 199 Advanced Life Support (ALS) and 544 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.

Proponents 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. During the first six months of calendar year 2021, 48 percent of ALS incidents were responded to within 10 minutes by a paramedic.

Opponents might argue that 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.

Consolidate Building, Fire, Environmental Protection, and Housing Inspections

Savings: \$25 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 they meet safety, sanitary, and occupancy standards set forth in the housing code. Fire department (FDNY) inspectors evaluate buildings' standpipe, sprinkler, ventilation, and air-conditioning systems as part of their duties to enforce fire safety requirements. The Department of Environmental Protection (DEP) inspects sites where construction work might disturb asbestos-containing materials to ensure air quality standards are maintained.

All together DOB, HPD, FDNY, and DEP currently employ over 1,400 inspectors at a cost of \$95 million in salaries (excluding overtime, fringe benefit, and pension expenses) to ensure that building owners and construction crews are meeting safety requirements. In fiscal year 2019, inspectors from these agencies performed almost 1.4 million inspections. While inspectors at each agency are trained to check for different violations under their respective codes, there are areas—inspections of illegally converted dwelling units or the demolition of buildings with asbestos containing materials, for example—where responsibilities overlap.

Under this option, the city would consolidate the various inspection functions now housed in DOB, HPD, FDNY, and DEP into a new inspection agency while existing 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 to reduce the number of inspection visits by 25 percent, the annual savings—after accounting for additional executive and management staff required for a new agency—would be about \$25 million.

Proponents might argue that consolidating inspections would streamline city resources and increase the consistency of inspections while allowing DOB, HPD, FDNY, and DEP to focus on the other aspects of their missions. They could point out that other major cities, including Chicago and Philadelphia, centralize building inspections in one agency. They might also argue that public safety may be improved by eliminating the need for cross-agency coordination. 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 in the future.

Opponents might argue that inspections and code enforcement are too closely linked with each of the agencies' missions, making separation into a single agency difficult. There is also a limit to efficiency gains because some inspections, such as elevator inspections, are highly technical and would still require specialized staff. Some interagency memoranda of understanding already allow for one agency to issue certain violations for another.

Eliminate City Dollars and Contracts for Excellence Funds For Teacher Coaches

Savings: \$12 million annually

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 "model" and "master" teachers, lead teachers, after school "in-service" courses, and (online) staff development. DOE continues to work to align teacher support and supervision with the demands of the new Common Core curriculum and also to use technology to support teacher effectiveness. Some professional development activities are school-based while others are administered citywide.

In 2021, \$14 million from a variety of funding sources (down significantly from \$32 million in 2016) is expected to be spent on math, literacy, and special education coaches. Fifty-seven percent (\$8 million) of these expenditures are funded with city dollars. There is also nearly \$4 million in state Contracts for Excellence money dedicated to coaches which can be redirected for other school needs.

Proponents 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 Elementary and Secondary Education Act Title II—Improving Teacher Quality, which is intended for professional development. Similarly, they could point out that although in New York State the federal government has waived the specific set-asides from a school's Title I allocation for teacher development, those funds can still be used to support coaching positions.

Opponents 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 providing professional development to their teaching staff.

Eliminate City Paid Union Release Time

Savings: \$30 million in the first year

Most, if not all, of New York City's collective bargaining agreements contain provisions relating to union release time. In most cases they mandate that Executive Order 75, issued in March 1973, governs the conduct of labor relations by union officials and representatives. The Executive Order delineates union activities eligible for paid union leave (such as investigation of grievances and negotiations with the Office of Labor Relations) and other union activities eligible only for unpaid leave. The Office of Labor Relations determines who is eligible for paid union release time. In 2018, approximately 193 employees of city agencies were on paid full-time union release, such as unions' presidents and vice presidents. Another 55 were scheduled for part-time paid union release. In 2018, 2,062 additional employees were approved to take paid union leave on an occasional basis. By far, the New York City Police Department had the most employees on preapproved union leave with 51 on full-time and 16 on part-time city paid union leave.

Under this option, the city would no longer pay for union release time. Union release time will be granted, but without pay. If this option were to be adopted, unions would have to decide whether to compensate their members who take union release time. This option would save the city \$29.7 million in 2019, with the savings increasing by about \$700,000 each year thereafter. Implementation would require collective bargaining with the municipal unions, an amendment to Executive Order 75, and a change in the Administrative Code. Changes to the state's Taylor Law might also be necessary.

Proponents might argue that the city should not subsidize work performed by its employees for any private entity, including a labor union. Others might argue that it is inappropriate to ask city taxpayers to fund paid union leave because some activities of those on leave, such as political organizing, may not serve the public interest. Some might argue that forcing unions to bear the costs of their activities would motivate unions to make their operations more efficient, benefiting union members, in addition to the city. Finally, some might argue that it is unfair for the city to pay for union leave time when nonunion employees do not have city-funded individuals to address their grievances and concerns.

Opponents might argue that the 40-year tradition of granting paid leave to union officials has been an efficient arrangement for addressing union members' concerns and conflicts with management—less costly and less time-consuming than formal grievance arbitration. They might argue that if unions were to compensate those on union leave in lieu of city pay, this option would result in higher costs to union members through increased union dues. Finally, others might argue that eliminating city-paid union leave time would undermine the union's effectiveness in responding to grievances and in bargaining matters, which in turn would hurt worker morale, reduce productivity, and add other costs to unions' operations.

*Lowering Wage and
Benefits Costs
Of City Employees*

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds

Savings: \$16 million annually

New York City is expected to spend approximately \$1.5 billion annually on supplemental employee benefits. These expenditures take the form of city contributions to numerous union administered welfare funds that supplement benefits provided by the city to over 618,000 employees and retirees. Dental care, optical care, and prescription drug coverage are examples of supplemental benefits.

Consolidating these 60 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. A majority of these funds serve fewer than 2,000 members and spend an average of 18 percent of annual revenue on administrative costs. In contrast, District Council 37 (DC 37), a union representing over 150,000 members with diverse job functions and benefits spends about 7 percent of its revenue on administration. Although the specific benefit packages offered to some members may change, IBO assumes no overall benefit reduction would be required because of the consolidation of the funds.

Using data from the October 2020 Comptroller's audit of the union benefit funds, IBO estimates that fund consolidation could save about \$16 million annually. Our main assumption is that fund consolidation could allow annual administrative expenses for the 60 welfare funds to be reduced from their current average of almost \$158 per member to \$131 per member, the rate of administrative spending for DC 37, in 2018 dollars. IBO also assumes some savings from third party insurance providers through enhanced bargaining power.

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

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

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

Citywide Pay Freeze

Savings: Over \$1 billion in 2021

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

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

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

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

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

Cut Managerial Pay on a Graduated Basis

Savings: \$25 million in 2021

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

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

The salary reductions could be structured like a graduated income tax, with deeper reductions in earnings for managers whose salaries are higher. To take one example, salaries of managers earning less than \$100,000 a year would not be affected, earnings from \$100,000 to \$150,000 would be reduced by 5 percent, earnings from \$150,000 to \$200,000 would be cut by 10 percent, and any earnings over \$200,000 would be reduced by 20 percent. Under this example, a manager earning \$220,000 a year would see their salary reduced to \$208,500 $[(\$50,000 \times 0.95) + (\$50,000 \times 0.9) + (\$20,000 \times 0.8)]$. The average reduction in managerial pay would be about \$2,500. A one-time graduated reduction in salary for the 7,000 current managerial employees earning over \$100,000 would generate \$25.2 million of savings for the city, \$20.4 million in salaries and \$4.8 million in associated fringe benefits. If these lower salaries become permanent, then the savings would recur in subsequent years.

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

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

Double the Incentive Payments for the Health Benefit Waiver Program

Savings: \$12 million in 2022, growing annually in the following years

New York City has experienced a dramatic rise in the cost of providing health care to its workforce. From 2008 through 2021, individual and family premiums have risen more than 125 percent, from \$4,090 to \$9,312 and \$10,021 to \$22,814, respectively. One strategy the city employs to reduce medical expenses is the Medical Spending Conversion Health Benefits Buy-Out Waiver Program. Employees who are covered by another health plan (either through their spouse/partner, parents, or outside employment) are eligible to receive an annual buyout from the city—\$500 for waiving individual coverage and \$1,000 for family coverage.

With one exception, the buyout waivers have remained at \$500 and \$1,000 since they doubled in 2008. With waiver payments remaining constant in nominal terms and declining in inflation-adjusted terms, participation in the waiver program gradually declined from 2010 through 2015. In 2016 the city briefly tripled the waiver payments, increasing the number of participants by over 1,000, or 24 percent. In 2017 the city returned the buyout amounts to \$500 and \$1,000. Participation in the program has since returned to its gradual decline and as of 2021 is down nearly 30 percent from its 2016 peak.

Under this option the city would double the health waiver benefit payments to roughly reflect the increase in premium costs over the last decade, providing a greater incentive for employees to join the program. Assuming an increase in the waiver participation rate rather than the declines seen in past years where payments stayed flat, IBO estimates that doubling the current payment levels would save the city an additional \$12.0 million in the first year. Savings will continue to grow as health insurance premium costs continue to rise, outpacing the impact of possible future declines in waiver program participation.

Proponents might argue that the amount of the waiver has not been permanently increased in 13 years while the city's premium costs have more than doubled. Moreover, proponents could argue that an increase need not be as large as in 2016 when the city tripled the waiver payments and program signups spiked, but the net savings grew by a relatively modest 9.2 percent. Even a more modest increase would be sufficient to generate savings. Proponents also might contend that a regular calibration of the real value of the waiver payment to the increase in health care premium costs would enable the city to achieve a more balanced incentive and attract a greater pool of participants.

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

Eliminate Additional Pay for Workers on Two-Person Sanitation Trucks

Savings: \$46 million in the first year

Currently, Department of Sanitation employees receive additional pay for productivity enhancing work, including the operation of two-person sanitation trucks. Two-person productivity pay began approximately 30 years ago when the number of workers assigned to sanitation trucks was reduced from three to two and the Uniformed Sanitationmen's Association negotiated additional pay to compensate workers for their greater productivity and increased work effort. In addition, certain Department of Sanitation employees also receive additional pay for operating the roll-on/roll-off container vehicles. These container vehicles are operated by a single person instead of two people. These container vehicles are used primarily at large residential complexes, such as Lefrak City and New York City Housing Authority developments.

Under this option, two-person productivity payments would cease, as assigning two workers to sanitation trucks is now considered the norm. Moreover, the one person roll-on/roll-off container differential would be eliminated. In 2020, 5,857 sanitation workers earned a total of \$49.1 million in two-person productivity pay—\$8,382 per worker on average. In 2020, 168 sanitation workers accrued \$1.6 million in one person roll-on/roll-off container differential pay, averaging out to \$9,275 per sanitation worker. Eliminating these types of productivity pay would reduce salaries and associated payroll taxes in the sanitation department by about \$51 million in the first year. Because productivity pay is included in the final average salary calculation for pension purposes, the city would also begin to save from reduced pension costs two years after implementation (the delay is due to the lag methodology used in pension valuation), and the estimated savings jumps to nearly \$68 million. This option would require the consent of the Uniformed Sanitationmen's Association.

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

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

Eliminate Longevity Payments to City Employees

Savings: \$641 million annually

New York City provides a variety of compensation to its employees to keep them motivated and engaged in their work. In calendar year 2021, nearly 103,000 city employees received payments for achieving certain milestones in the number of years they have been employed. These bonuses for longevity are awarded to employees who work for the city for a certain amount of time. For example, an employee may receive a bonus after achieving 10 years of service, and this payment is made each year until the employee's 15th year at, which time the increment increases. The purpose of this bonus structure is to award senior employees for their years of city service, increasing retention of more experienced workers. Because longevity bonuses are set forth in contracts between the city and the various labor unions, eliminating them would have to be collectively bargained with the city's municipal unions.

In 2021, the city paid an additional \$415 million in wages for longevity bonuses. As with most wages the city pays, there are additional costs to the city of providing these bonuses outside of the total amount paid to the employees in their paychecks. IBO estimates that the longevity bonus payments increased the city's pension costs in 2021 by \$183 million and the city's payroll tax and workers compensation payments by \$43 million. IBO estimates the city's total cost of providing longevity benefits in calendar year 2021 was \$641 million.

Longevity payments can be a significant portion of an employee's total wages. In 2021, over 1,000 city employees received longevity payments that exceeded \$10,000. In the most extreme cases, some city employees received longevity payments that increased their total wages by one-third for the year. The average payment was approximately \$4,000 for the 103,000 city employee receiving a longevity payment in 2021. Certain labor unions, such as those representing teachers, negotiate a salary structure that includes step increases. Under the terms of these contracts employees are provided salary increases with each additional year of service. This option does not include the elimination of these types of salary increases.

Proponents might argue that most city employees already get a variety of increases in their annual salary. Unions typically secure annual salary increases that provide additional wages to all of their members regardless of number of years employed. Collectively bargained increases, along with other benefits the city offers to employees such as low cost health insurance and a pension plans that are generous in comparison with the private sector, should be enough to retain city employees without the need for additional longevity payments.

Opponents might argue that these benefits allow the city to retain their most experienced employees, reducing the costs associated with high attrition rates. Additionally they may argue that the cost of longevity payments have been included in a package of benefits agreed to through the collective bargaining process. If the city were to unilaterally eliminate these types of benefits then it should be prepared to provide the unions with another benefit equal in cost. They would argue that if the elimination of longevity payments were offset by concessions elsewhere, the agreement might result in little or no real savings to the city.

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

Savings: \$35 million to \$70 million in 2022

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

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

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

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

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

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

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

End City Contributions to Union Annuity Funds

Savings: \$141 million annually

In addition to a city pension, some city employees are eligible to receive an annuity payment from their union, or in the case of teachers through the Teacher's Retirement System (TRS), upon retirement, death, termination of employment, or other eligible types of exit from city service. Virtually all of these unions offer lump-sum payments, though some also offer the choice of periodic payments, the form of payment available to eligible TRS members. Aside from members of United Federation of Teachers and Council of Supervisors and Administrators enrolled in TRS, most eligible employees are members of either the uniformed service unions or Section 220 craft unions representing skilled trade workers (such as electricians, plumbers, and carpenters). The city makes monthly contributions to unions' or TRS annuity funds, with per member contributions varying by union, hours worked during the month, and in some cases, tenure. The value of these annuity payments depends on the total amount of city contributions and the investment performance of the annuity funds. This option would end the city's contributions on behalf of current workers to union annuity funds and the TRS. If adopted, this option would effectively eliminate the benefit for future employees and limit it for current employees. Current eligible employees would receive their annuity upon retirement, but its value would be limited to the city's contributions prior to enactment of this option plus investment returns. The annuities of current retirees would not be affected. In fiscal year 2021, the city made approximately \$110 million in union annuity contributions and \$31 million to TRS. Annual savings from this option would be comparable. Implementation of this option would require the consent of the affected unions.

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

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

Merge Separate City Employee Pension Systems

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

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

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

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

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

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

Require a Health Insurance Contribution by Current City Employees

Savings: \$584 million in 2022

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

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

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

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

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

Reduce City Reimbursements to Retirees For Standard Medicare Part B Premiums

Savings: \$253 million in the first year

Eligible city retirees and their spouses/domestic partners are currently entitled to three types of retiree health benefits: retiree health insurance, retiree welfare fund benefits, and reimbursement of Medicare Part B premiums. Medicare Part B covers approved doctors' services, outpatient care, home health services, and some preventive services. As of 2021, the standard Part B premium paid to Medicare by enrolled city retirees is about \$170 per month, which translates to \$2,041 per year or \$4,082 per year for couples. The city at present fully reimburses all such premium payments, with a lag of about one year. Under this option, New York City would reduce standard Medicare Part B premium reimbursements by 50 percent, which would affect all enrolled city retirees and save the city \$253 million in the first year. Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented directly through City Council legislation.

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

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

Require Retirees to Use Direct Deposit to Receive Pension Payments

Savings: \$1 million annually

The five pension systems covering retired New York City employees make payments to 337,000 retired city workers and their beneficiaries. Today, retirees and beneficiaries can elect to receive their pension payments through direct deposit into a bank account, or to receive paper checks—either mailed to their homes or available for pickup from city offices. Paper checks are printed on behalf of the pension systems by the city's Financial Information Services Agency – Office of Payroll Administration (FISA-OPA). The administrative and postage costs related to printing and mailing these physical checks, along with quarterly statements, are neither covered directly nor reimbursed by the pension system, but are borne entirely by the city through FISA-OPA.

Most retirees receive funds through direct deposit; only 9 percent of retirees elect to receive physical checks. In fiscal year 2021, the city cut 374,000 checks on behalf of the pension system, mailing 361,000 checks to retirees and holding 13,000 checks for pick-up, in contrast to just 55,000 paper checks for current city employees in that year. Were the city to require retirees to use direct deposit to receive pension payments, FISA-OPA would save \$775,000 in postage costs and at least \$400,000 in administrative costs each year, for a total savings of around \$1 million annually.

Proponents might argue that paper checks for regularly occurring payments are obsolete. Retirees can receive payments via direct deposit for free with a bank account, so this option would reduce costs for the city without pushing those costs onto retirees. Direct deposit is also considered more secure than mailing paper checks, and allows for more timely payments. Few city employees take advantage of the option to receive paper checks, so the city should not devote time and taxpayer dollars to provide the choice to retirees.

Opponents might argue that state law bans employers from requiring direct deposit for earned wages and that retirees should receive the same option. Some retirees also may have difficulty signing up for direct deposit either over the phone or on the internet. Finally, this option would force any unbanked retirees to open bank accounts in order to receive their checks.

Shift Payment of All Fees for Commuter Benefit Plans to Employees

Savings: \$700,000 annually

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

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

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

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

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

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

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

Savings: \$32 million annually

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

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

If neighborhoods with a density of under 30,000 residents per square mile were converted to auto-loading pickup, about 32 percent of city curbside refuse, or 815,000 tons per year, could be collected on single-worker routes, achieving annual savings of about \$32 million. This would require purchasing around 700 new side-loading trucks, which cost around \$50,000 more per truck than regular sanitation trucks, and supplying participating households with truck-compatible bins at \$50 apiece. The new trucks would be expected to last roughly as long as the city's current trucks, but would likely have higher maintenance costs, estimated at \$8.1 million per year. The estimated \$32 million in annual savings is net of these costs.

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

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

*Shifting State
And Local Burdens*

Ban Property Owners from Charging Broker Fees to Renters

Savings: \$22 million per year

New York City is one of the only cities in the United States where it is common practice for a prospective tenant to pay for the services of the property owner's real estate broker. While no-fee apartments do exist, many renters are required to pay for the property owner's broker as part of leasing. The cost of the broker fee—which can be upwards of 15 percent of the yearly gross rent—must be paid on top of other upfront costs, usually the first month's rent and a security deposit. In Manhattan, where the average market-rate apartment rent now tops \$5,000, that can mean \$10,000 to \$20,000 in upfront costs to move into a new apartment.

For both the One Shot Deal and the CityFHEPS rental housing programs, the city pays broker fees on behalf of clients. The One Shot Deal program provides grants and loans to families facing housing instability while the CityFHEPS program provides rental assistance to households facing homelessness. The city also employs housing navigators to assist clients in finding apartments and navigating the rental process. With renter-paid broker fees the norm, were the city to cease to pay for broker fees, One Shot Deal or CityFHEPS clients would have to pay broker fees some other way or be limited to no-fee apartments. This would likely result in fewer housing placements. Due to discrimination based on a prospective tenants' source of income by some landlords and a tight rental market for lower-priced apartments, clients of city housing programs already struggle to find apartments, even with the city currently paying full broker fees.

Under this option, which would require state approval, the city would ban property owners from charging renters for the cost of their real estate brokers. This change, which would impact all renters seeking a new apartment, would save the city \$22 million per year for the broker fees it pays the One Shot Deal and CityFHEPS programs based on the yearly average the city paid since 2020, while not impacting the competitiveness of renters participating in these programs.

Proponents might argue that broker fees contribute to the unaffordability of New York City's notoriously expensive housing market by adding a large upfront cost to renting an apartment, reducing the wealth of renters, and making it more expensive to switch apartments. Furthermore, the cost of broker fees is likely inflated because, while the property owner hires the broker, they do not pay the fee. Were property owners forced to pay their own brokers, they would have an incentive to negotiate broker fees down, list apartments themselves, or hire a dedicated leasing agent. Property owners could still try to pass the costs of broker fees on to tenants through higher rents, but they would be competing with other property owners who may have negotiated more effectively or found another way to list apartments without hiring a broker. In the case of the One Shot Deals and CityFHEPS programs, the city is already paying housing navigators to serve prospective renters, so prospective renters would lose little, if any, of the benefits from working with the property owner's broker.

Opponents might argue that property owners would likely still pass the entire cost of the broker fee onto tenants in the form of higher rents, which over time may be a larger dollar cost to the renter than if paid as an upfront broker fee. They may also argue that real estate brokers depend on renter-paid broker fees for their incomes and—were the city to ban this practice—fewer real estate brokers would be employed. Finally, they might argue that policymakers should instead seek to increase housing supply to reduce the leverage property owners have in lease transactions.

State Reimbursement for Inmates in City Jails Awaiting Trial for More Than One Year

Savings: \$347 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 felony cases in New York State to be pending in Supreme Court for no more than six months at the time of disposition. In calendar year 2017, however, 1,577 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 \$733 per day, the city would realize annual revenue of about \$347 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.

Resumption of State Reimbursement for the Cost of Temporarily Housing Alleged Technical Parole Violators in City Jails

Savings: \$104 million annually

About 4 percent of individuals incarcerated in city jails on an average day last year were alleged technical parole violators. These individuals, an average of 214 a day in fiscal year 2021, had previously been released on parole from state prison but subsequently ordered detained in the city jail system for alleged noncriminal violations of their state-imposed parole conditions, such as by being late for curfew or testing positive for drugs. Technical parole violators spend an average of about 87 days in the city's jails while state officials determine whether to revoke parole, in which case the individual is sent back to state prison.

Under this option, New York State would resume providing reimbursement to the city for the cost of temporarily housing alleged technical parole violators in city jails, which was the practice until about 10 years ago. The average cost to the city of holding a person in custody in the city jail system is currently \$1,325 per day. Full reimbursement of the cost of jailing alleged parole violators in city jails during state parole revocation proceedings could generate annual savings for the city of roughly \$104 million depending on the number housed in future years.

Proponents might argue that state reimbursement is warranted given that alleged parole violators are essentially state inmates who had previously been sentenced to time in state prison and then released by state officials. Requiring localities to bear the cost of housing these individuals while the state determines whether to revoke parole is burdensome and unjust. They might also argue that shifting costs to the state could incentivize state officials to institute needed reforms, such as ending mandatory jail time for technical parole violations and speeding up parole violation hearings so individuals do not spend weeks or months in a local jail before state officials decide whether to return them to state prison.

Opponents might argue that because local public safety is enhanced when individuals alleged to have not fully complied with parole conditions are at least temporarily incarcerated, it is not unreasonable to look to localities to shoulder the cost of incarceration. They might also argue that shifting to localities the full cost of temporarily incarcerating alleged technical parole violators is justified given the state's responsibility for bearing the cost of incarcerating individuals sentenced to multiyear prison terms from jurisdictions across the state.

Adjusting the Personal Income Tax

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

Revenue: \$75 million annually

In 1966, New York City established the Unincorporated Business Tax (UBT) to tax business income from unincorporated sole proprietorships and partnerships. 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 the same income to the same individual. 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 on the UBT credits from the city's Department of Finance by income groups shows that for tax year 2019, a total of \$144 million in credits was provided to over 24,000 city resident tax filers. Of those recipients, more than 7,500 with federal adjusted gross income (AGI) of \$1 million and above received an average credit of approximately \$14,421. Capping the UBT credit at \$10,000 would increase PIT revenue by an estimated \$75 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 incomes earned in the city.

Proponents might argue that the progressive scale of the PIT credit for UBT paid is not sufficiently steep, especially at higher income levels, 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 (12 percent of all UBT credit recipients), with 79 percent of those with incomes more than \$2 million in New York AGI, who would be able to afford the tax increase. There would be no reduction in the personal income tax credit provided to the other unincorporated business owners.

Opponents 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 by the city. 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.

Commuter Tax Restoration

Revenue: \$880 million annually

One option to increase city revenue 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. Sixteen 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, 2019, estimates that the city's PIT collections would increase by \$880 million in 2020.

Proponents 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 2017 indicate that among those working full-time in the city, the median earnings of commuters was \$86,000, compared with \$50,000 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.

Opponents 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.

Personal Income Tax Increase for High-Income Residents

Revenue: \$543 million in 2023, growing annually in the following years

Under this option the marginal personal income tax (PIT) rates of high-income New Yorkers would be increased. With the state STAR program no longer providing city residents PIT credits and rate reductions, the city personal income tax now has four tax brackets. The 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 3.876 percent (the 3.4 percent base rate plus a 14 percent surcharge).

This option would add three higher income brackets with higher rates. A fifth bracket with a marginal tax rate of 4.0 percent would be levied on taxable incomes ranging from: \$250,000 to \$500,000 for single filers; \$350,000 to \$700,000 for joint filers; and \$300,000 to \$600,000 for heads of household. A sixth bracket would tax incomes up to \$1 million, \$1.5 million, and \$1.25 million for single, joint, and head of household filers, respectively, at a marginal rate of 4.128 percent. A top marginal rate of 4.264 percent would be levied on incomes greater than \$1 million. The proposed top rate is 10 percent higher than the current top rate, although lower than 4.45 percent marginal rate for New Yorkers with incomes over \$500,000 that was in effect from 2003 through 2005. Unlike the state's personal income tax, there would be no "recapture provisions" 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 2023, PIT revenue would have increased by \$543 million. This tax change would require approval by the State Legislature.

Proponents might argue that PIT increase for high-income households would provide a substantial boost to city revenues without affecting the vast majority of city residents. Had this option been in place for the entire calendar year 2022, only 4.4 percent of all city resident taxpayers would have paid more tax, all of whom with adjusted gross incomes above \$250,000. Almost all of the additional tax burden (89 percent) would be borne by the roughly 38,000 taxpayers whose incomes are above \$1 million. Finally, they could claim that there is no evidence that many affluent New Yorkers left the city in response to the 2003-2005 tax increase, even with a larger state income tax increase also enacted at the same time.

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 now more likely to induce relocation out of the city. Tax increases only exacerbate the city's competitive disadvantage with respect to other areas of the country. Because of the \$10,000 cap on state and local tax (SALT) deductions that was imposed in 2017, taxpayers affected by the proposed increase would not be able to claim the entire amount of their SALT as an itemized deduction from their federal tax, so the burden of city tax increase is greater than it would have been in the past. Even if less burdensome than the 2003-2005 increase, city residents earning more than \$5 million would pay, on average, an additional \$62,950 in income taxes for calendar year 2022, accounting for 23 percent of total PIT liability. If 5 percent of them were to leave the city in response to higher taxes, this option would yield \$186 million less PIT revenue per year (assuming those moving had average tax liabilities for the group).

Restructure Personal Income Tax Rates to Create a More Progressive Tax

Revenue: \$186 million in 2023, growing annually in the following years

This option would create a more progressive rate structure for the city's personal income tax (PIT) 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 four brackets, with the following effective marginal rates (including the 14 percent surcharge). The income ranges of the three lowest brackets would remain the same but their marginal rates would be reduced—from 3.078 percent, 3.762 percent, and 3.819 percent to, respectively, 2.907 percent, 3.306 percent, and 3.648 percent. The marginal rate of the fourth bracket would remain the same (3.876 percent), but would end at taxable income levels of \$250,000, \$350,000, and \$300,000, respectively, for single, joint, and head of household filers. A fifth bracket with a marginal tax rate of 4.000 percent would be levied on taxable incomes from \$250,000 to \$500,000 for single filers; \$350,000 to \$700,000 for joint filers; and \$300,000 to \$600,000 for heads of household. A sixth bracket would tax incomes up to \$1 million, \$1.5 million, and \$1.25 million for single, joint, and head of household filers, respectively, at a marginal rate of 4.128 percent. Finally, a top marginal rate of 4.264 percent would be levied on incomes above the top of the sixth bracket. This option, which requires state approval, 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 in effect for all of calendar year 2022, the city would have received an additional \$186 million in PIT revenue in fiscal year 2023.

Proponents might argue that 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, about 81.0 percent of all city resident tax filers would receive a tax cut in calendar year 2022. Only 2.6 percent of all city resident taxpayers in calendar year 2022 would pay more under this proposal, all with adjusted gross incomes above \$350,000. Restructuring would significantly heighten the progressivity of the PIT. Under this option, the difference between the highest and lowest marginal rates increases from 0.8 percentage points to 1.4 percentage points.

Opponents might argue that if the principal goal of altering the PIT is to raise revenue, this option is inefficient. For 2023, the reductions in marginal rates in the bottom three tax brackets would decrease the revenue-raising potential of PIT by about \$205 million. Filers with incomes above \$1 million would see their PIT liabilities rise on average by an estimated \$12,500 in calendar year 2022, and might be spurred to move to a lower tax state, particularly given the cap on federal deductibility of state and local taxes. If 1 percent of “average” millionaires (382 filers) were to leave town, this option would yield \$61 million less in PIT revenue per year, and over time this revenue loss would be further compounded by reductions in other city tax sources.

Revising the Property And Related Taxes

Make All DOB Penalties Lienable Charges And Add Unpaid Penalties to Property Tax Bills

Revenue: \$100 million annually

The city's Department of Buildings (DOB) issues violations for various issues that occur at a property: fire safety, façade violations, issues with elevators and boilers, and unsafe working conditions during ongoing construction. For some of these violations, DOB inspectors issue summonses to the city's Office of Administrative Trials and Hearings (OATH). If the violations are upheld, the respondent is required to pay penalties. However, only a fraction of the penalties owed to DOB are actually collected. For DOB violations issued in fiscal year 2021, for example, \$234 million in penalties were owed to DOB, yet of that only \$65 million—just 28 percent—has so far been paid in penalties as of November 2022. Currently, after a hearing is held at OATH and a decision rendered, the respondent has 60 days to pay the penalty imposed. After that, the debt is docketed and handed over to the city's Department of Finance (DOF), which uses collections agencies to attempt to collect penalties from respondents.

Unpaid DOB violations sit on the city's books for years. Currently, the city is owed \$777 million in unpaid DOB penalties stretching back to the 2010 fiscal year, while a further \$300 million in unpaid DOB penalties have been written off over that period. In contrast to DOB violations, the city collects a much higher percentage of the payments owed on water and sewer charges—with about 80 percent collected 180 days after the billing date in fiscal year 2022. Property owners have a strong incentive to pay their water and sewer bills because after a year, an unpaid bill results in a lien being placed against the property. Liens can make it more difficult for owners to secure financing and complicate the sale of a property, which provides an incentive for property owners to complete payments and clear the lien. (The city's authority to hold lien sales recently expired, with discussions about a replacement or revised program ongoing among policy makers. However, liens for water and sewer debt were already excluded from the most recent sale held during fiscal year 2022.)

While the city's administrative code currently allows DOB to place liens against properties for certain types of DOB violations, this option would expand that to all DOB violations, so that the consequences for delinquency on DOB penalties would be the same as for delinquency for other property-based charges. This change would likely require Albany approval. Were the city to add unpaid DOB penalties to property tax bills, IBO estimates the city would collect an additional \$100 million on issued penalties annually, assuming a similar collection rate for penalties as for water and sewer bills in fiscal year 2022.

Proponents might argue that the current system, which allows many property owners to avoid paying DOB penalties for years, is arbitrary and unfair. Unless financial penalties are actually enforced, property owners will have little incentive to follow city rules and avoid DOB violations. Were this option to be adopted, property owners would have a greater incentive to comply with the city's building code and avoid DOB penalties, resulting in safer buildings for city residents.

Opponents might argue that the primary purpose of DOB violations is to ensure that buildings are safe and in compliance with the law, not so that the city can collect fine revenue. Although DOB's Homeowner Relief Program shields some small property owners from receiving DOB penalties, this option would still likely lead to more small property owners—who are less likely to be able to afford penalties—to have liens on their properties because of unpaid penalties.

Repeal the Tax Exemption for Clergy-Owned Property

Revenue: \$380,000 annually

New York State Property Tax Law allows members of the clergy who own real property to claim a \$1,500 property tax exemption against the assessed value of their homes. This exemption can be claimed by clergy members who are actively involved in full-time ministerial work or who are retired and 70 years or older. Additionally, clergy members' surviving spouses can claim the exemption, so long as the spouse remains unmarried.

The number of clergy exemptions claimed in New York City has been small in recent years; there is a limited pool of individuals who are simultaneously property owners, current or former clergy members, *and* ineligible for other, deeper exemptions to the city's property tax available through state's real property tax law. Nevertheless, from fiscal year 2018 through 2022, on average, 1,232 homeowners claimed the clergy exemption annually, which costs the city about \$380,000 in forgone tax revenue per year. Notably a large proportion of clergy exemptions claimed in recent years, have been concentrated in Brooklyn and Queens. Over the five-year period analyzed, 52 percent of all clergy exemptions were claimed in Brooklyn, followed by 35 percent in Queens, in contrast to only 1 percent in Manhattan. This option would repeal the exemption, which would require approval by the state legislature.

Proponents might argue that the city should not subsidize property owners based specifically on their occupation as clergy, as this represents a preference for religiously affiliated individuals in New York City. They might also argue that clergy are already indirectly subsidized in the property tax code through available exemptions for religious-institution-owned properties. Additionally, clergy members who are renters cannot benefit from this exemption. Finally, the proliferation of small exemptions in the law contributes to an unnecessarily complicated property tax system that can be difficult for everyday residents to navigate and make it difficult to evaluate the equity and efficiency impacts of the overall property tax system.

Opponents might argue that the clergy tax exemption represents an extremely small tax expenditure when compared to larger abatements and exemptions available to many property owners, for example those for condo and co-op owners. If policymakers want to reduce subsidies, they should consider amending or repealing larger tax expenditures, which have the potential to better ameliorate well-documented imbalances in the city's property tax system. They would further argue that pursuing a career in religious service is not known for being highly lucrative and repealing this exemption may hurt clergy homeowners who made financial decisions that accounted for this exemption in place.

Add a Surcharge to Purchase Price on HDFC Units Sold Above Local Median Prices

Revenue: \$23 million over 10 years

During the economic and fiscal turmoil of the 1970s, New York City acquired thousands of derelict housing units in buildings that had been abandoned by their owners. The Department of Housing Preservation and Development (HPD) invested in rehabilitating these buildings, but since maintenance costs were burdensome for the city, HPD gradually allowed some tenants to buy their apartments and become shareholders in limited-equity cooperatives organized as Housing Development Fund Corporation (HDFC) cooperatives. The purchase of an HDFC co-op was and still is limited to buyers whose incomes do not exceed income caps, which are defined either by area median income or each HDFC co-op's governing documents. To keep HDFC units affordable, the city provides them with significant property tax exemptions under the Division of Alternative Management Programs (DAMP).

The original goal of this program was to enable low-income New Yorkers to live long-term in their own homes. More recently, many HDFC units have been sold to buyers whose incomes are lower than the caps, but own or have access to sizable liquid assets, such as young adults with affluent parents or foreign nationals with no stable income in the U.S. Many are able to buy the units upfront, without need for financing, while enjoying low property taxes for up to 40 years. Because the tax breaks are structured as a cap on the assessment subject to tax, they are greatest for the most expensive units. This makes HDFC units in areas where housing prices are appreciating rapidly particularly attractive, and wealthy buyers may offer higher purchasing prices in return for tax benefits over many years.

If buyers of HDFC co-ops at prices above the neighborhood median sales price of all coop units were to pay a surcharge on the real property transfer tax (RPTT) at 5.0 percent of the purchase price, IBO estimates the city would earn an additional revenue of \$23 million over a decade. This estimate is based on the number of HDFC sales at prices above the local median—about 1,100—over the last 10 fiscal years—or just over a third of all sales of HDFC coop apartments during the period. The RPTT surcharge is levied even if the property is fully or partially exempt from RPTT, and would require legislative approval from the state.

Proponents might argue that the surcharge is progressive because those who enjoy the largest tax breaks—buyers of most expensive units—would also face the largest surcharges. The surcharge allows wealthy buyers of HDFC units to compensate the city for the property tax benefits they enjoy, while not reducing the size of the city's affordable housing stock. By limiting the option to only units that are sold (as opposed to all existing HDFC units), low-income families who continue to live in HDFC units would still benefit from the current exemptions.

Opponents might argue that this option would make HDFC units generally less affordable to buyers with low incomes because it adds to their housing costs. It also makes homeownership less affordable for families with relatively sizable assets but limited or fixed incomes, such as retirees, who may find it more difficult to afford the ongoing maintenance costs associated with other co-op units. It also could worsen the spatial segregation of city neighborhoods by further discouraging low-income families from buying HDFC units in higher-price neighborhoods.

Establish a Pied-A-Terre Tax

Revenue: \$232 million annually

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

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

Under S44-B, the city's finance commissioner would be responsible for defining brackets for the tax. For coops and condos the tax rates would range from 10.0 percent to 13.5 percent of assessed value in excess of \$300,000. For Class 1 homes with market value in excess of \$5 million, the rates would range from 0.5 percent to 4.0 percent of market value. IBO's estimate of the additional revenue that would be raised by a pied-a-terre tax—\$232 million annually—is based on the progressive schedule of tax rates specified in a prior version of the bill for Class 1 homes, and a similar rate schedule developed by IBO for apartments. Instituting such a tax in New York City would require state legislation. Department of Finance data that can be used to indicate whether a property is used as a primary residence and this year's assessment roll were used to determine which residences would likely be subject to the tax

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

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

Establish a Retail Storefront Vacancy Tax Surcharge

Revenue: \$170 million annually

Unique, independent businesses are often cited as a feature of attractive New York City neighborhoods, but rising commercial rents have made the city increasingly unaffordable to small businesses. As businesses close, the storefronts left behind can then remain empty for years. In 2019, the city's Comptroller's Office found that vacant retail space in the city had doubled from 2007 through 2017. According to data from 2019, gathered by the Department of Finance under Local Law 157, the city had 69,654 storefronts. Of these storefronts, 5,511, or about 8 percent, were listed as vacant, for an average length of 1.5 years.

Property owners have various incentives to hold retail spaces vacant rather than lowering the asking rent. The longer terms of commercial leases—usually five to ten years—means that property owners may be reluctant to lock in leases in periods of economic downturn. Owners can also write off operating expenses from vacant storefronts against profits from other properties they own for income tax purposes. Commercial mortgages held by the property owner are sometimes structured so that if the rent falls below a certain threshold, the bank can demand more collateral—something that can be avoided if the storefront sits empty. Building owners may also be choosy about which businesses they rent to, often preferring national chains, which can afford higher rents and provide greater certainty that future rents will be paid compared with small independent businesses.

Too much vacant retail space represents a potential market inefficiency. While property owners have the right to hold their storefronts vacant, those storefronts could instead be occupied by businesses that would provide additional jobs and services in the neighborhood. Furthermore, when storefronts sit empty, they can impose negative externalities on the neighborhood surrounding them. Vacant storefronts mean less vibrant neighborhoods and fewer local amenities. Vacant storefronts also mean fewer “eyes on the street,” which can contribute to making an area appear more prone to crime.

A property tax surcharge on vacant retail storefronts would penalize property owners for leaving them vacant for long periods, with the intention of discouraging this behavior. Many proposals have been raised at the state and city levels to establish a retail vacancy tax based on square footage or based on property values. For this option, a property tax surcharge would be placed at 1 percent of the assessed value of the property in which the storefront is located, if the storefront remains vacant for longer than six months (a storefront would be considered no longer vacant once a new lease is signed or when construction for the new tenant has started). Assuming the incentive to avoid the tax surcharge lowered the number of vacant storefronts by half, IBO estimates that the city would raise about \$170 million per year.

Proponents might argue that retail vacancy tax surcharge would mean more pressure on property owners to adjust rents downwards in bad times—which could mean lower commercial rents across the city—rather than holding out for a more favorable conditions to materialize. It might make it easier for local businesses to afford commercial rents, and deter property owners from pushing out tenants who cannot afford an increase without a new tenant lined up. A retail vacancy tax surcharge would likely mean fewer vacant storefronts across the city, leading to more vibrant neighborhoods.

Opponents might argue that storefronts are the owner's property, to do with as they like. While they can write off operating costs, owners lose money on vacant storefronts, and it would be unfair to penalize them. Most commercial leases in the city are triple net, where tenants share increases in property taxes. This could mean that owners pass on the surcharge to tenants. Exemptions for owner-occupied storefronts could encourage property owners to “occupy” them to avoid the surcharge. As the current storefront registry is self-reported, there would be an incentive for owners to lie, creating a need for enforcement inspections.

Eliminate Commercial Rent Tax Exemptions for Retail Tenants in Lower Manhattan

Revenue: \$9 million annually

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

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

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

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

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

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

Revenue: \$11 million annually

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

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

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

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

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

Extend the Mortgage Recording Tax to Coops

Revenue: Over \$95 million annually

The mortgage recording tax (MRT) is levied on the amount of the mortgage used to finance the purchase of houses, condo apartments, and all commercial property. It is also levied when mortgages on such properties are refinanced. The city's residential MRT tax rate 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 Mayor Bloomberg subsequently included in his preliminary budget for 2011 the additional revenue that would have flowed into the city's general fund had the proposal been enacted; ultimately, it was not adopted. IBO estimates that extending the city MRT to coops would raise over \$95 million per year. If the state MRT were also extended to coops, the additional revenue to the city would be around 50 percent greater.

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

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

Impose a City “Mansion Tax”

Revenue: \$270 million annually

Sales of real property in New York City are subject to a Real Property Transfer Tax (RPTT). The combined city and state tax rates for residential properties are 1.4 percent when the sales price is \$500,000 or less, and 1.825 percent when the price is above \$500,000 but less than \$1 million. Residential properties that sell for \$1 million or more are subject to an additional state tax, often referred to as a “mansion tax”. This tax was formerly 1.0 percent, but beginning in fiscal year 2020 is on a sliding scale, beginning at 1.0 for residential properties sold for between \$1 million and \$2 million, and reaching 3.9 percent for residences sold for \$25 million or more. The additional funds raised through the increase in the state mansion tax are intended to support the Metropolitan Transportation Authority (MTA) capital program. While technically the RPTT is paid by the seller, economic theory suggests that the burden of the tax will be shared (not necessarily equally) between buyers and sellers.

Under the option proposed here, a city version of the mansion tax would be levied on residential properties selling for \$2 million or more. The tax would have three rates: 1.0 percent on sales of \$2 million to just under \$5 million, 1.5 percent on sales from \$5 million to just under \$10 million, and 2.0 percent on sales of \$10 million and above. This tax would be in addition to the existing city and state rates. If levied on the entire value of the property, IBO estimates that the tax would generate around \$270 million in annual city revenue. If the tax were applied only to the value over \$2 million, IBO estimates that revenue collected would decrease to \$165 million, unless the exemption for the first \$2 million in sales price were coupled with substantial increases in the tax rate on the value above \$2 million.

This option, which would require state legislative approval, is adapted from a proposal that the de Blasio Administration presented as part of the 2016 executive budget, but which the State Legislature did not act on.

Proponents might argue that the tax would raise a considerable amount of revenue while affecting a relatively small number of buyers and sellers; for example, only 24 percent of residential sales in fiscal year 2019 would have been subject to the new tax. The burden of the tax would be shared by sellers and buyers. Many buyers of luxury residences in New York City do not pay the mortgage recording tax (MRT) because they make all-cash purchases, or because they obtain financing overseas, or because they purchase coops, which are not subject to the tax. Even with an increase in the city RPTT for high-priced properties, in many cases the buyers of these properties would face a lower tax burden than purchasers of lower-priced residences who pay both RPTT and MRT.

Opponents might argue that the new state tax, luxury residential real estate is already subject to a high RPTT rate, ranging from 2.825 percent on sales from \$1 million to just below \$2 million, all the way up to 5.975 percent on properties sold for \$25 million or more. The top rates are well above the RPTT rate imposed on commercial sales, which after a recent increase in the state rate, reaches 3.275 percent on properties sold for \$2 million or more. Opponents might also point out that taxes on economic activity reduce the level of that activity, meaning that the new tax would lead to fewer residential sales and lower prices net of taxes. This downward pressure on the housing market would come on top of changes to federal tax law that have already reduced the fiscal benefits of home ownership for many households. Opponents might also note a market distortion under this proposal because the higher tax rate would apply to the entire value of the property. As soon as the sales price reached \$2 million there would be a jump of \$20,000 in city RPTT liability, while at \$5 million the lax levy would increase by \$25,000, and at \$10 million it would rise by \$50,000. As a result of these “cliffs”, we would expect a “bunching” of sales just below \$2 million, \$5 million, and \$10 million.

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

Revenue: \$1 million annually

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

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

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

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

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

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

Revenue: \$36 million annually

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

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

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

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

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

Parks Districts Fees

Revenue: \$44 million annually

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

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

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

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

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

Property Tax Surcharge on Vacant Residential Property

Revenue: \$46 million annually

Over the last 10 years, concerns over the scarcity of housing have led city and state policymakers to propose a variety of additional taxes on housing not serving as owner-occupied primary residences, including a recently proposed pied-à-terre surcharge on non-primary residences selling for \$5.0 million or more as well as a surcharge on one-, two-, and three-family homes (Class 1 properties) where the owner does not use it as a primary residence.

Another option would be for the city to levy an annual property tax surcharge on vacant residences regardless of the property's value, its use as rental property, or the owner's residency status. The surcharge, which would require state approval, would be added to the property's tax rate and prorated monthly for residences unoccupied for less than the full year. Policymakers could adjust the surcharge to exempt residences that are vacant for specific reasons such as those pending demolition.

Based on data from the 2017 Housing and Vacancy Survey, IBO estimates that 8.1 percent of the city's 3.5 million residential units would be subject to such a tax. If the city imposed an annual 5.0 percentage point surcharge on each of these properties, IBO estimates the tax would raise about \$46 million, or roughly \$163 per vacant residence. (These estimates include the allowance for prorating the surcharge for properties that are vacant only part of the year.) About half of this would be paid by condominium and cooperative owners, a fourth by landlords of Class 2 rentals, and the balance by Class 1 property owners.

Proponents might argue that a tax on vacant residences could increase the availability of housing by providing an incentive to more quickly rent or sell and by discouraging property owners from keeping residences vacant. In addition, since much of surcharge revenue would be paid by owners of houses and coop or condo apartments which have already low taxable assessed values relative to their market values, at the proposed rate the tax would have little impact on residences' effective tax rates, thereby ensuring their tax burdens are kept low relative to nonresidential property.

Opponents might argue that the tax would add an undue burden on property owners. At current rates, with homes taking on average about five months to sell citywide, the additional tax would increase the average tax paid by a vacant Class 1 property by 3.5% and 1.5% for condominium and cooperative property owners. Moreover, for owners of rental properties, the tax would increase a building's operating cost, thereby reducing the incentive to build or maintain housing in neighborhoods where it takes longer to find buyers and renters. This option would be difficult and costly to administer since it would require the Department of Finance to keep track of vacant residential units each month.

Reacquire Battery Park City

Revenue: \$70 million annually after two years

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

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

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

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

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

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

Tax Vacant Residential Land the Same as Commercial Property

Revenue: \$20 million in the first year, rising to \$130 million annually when fully phased in

Under New York State law, a residentially zoned vacant lot or a commercially zoned lot that is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and has an area of no more than 10,000 square feet is currently taxed as Class 1 residential property. All other vacant land is taxed as commercial property. In fiscal year 2023, there are 14,205 vacant properties not owned by government. As Class 1 property, these vacant lots are assessed at no more than 6 percent of full market value, with increases in assessed value due to appreciation capped at 6 percent per year and 20 percent over five years. In 2023, the median ratio of assessed value to full market value was 3.2 percent for these properties.

Under this option, which would require state approval, vacant lots not owned by a government entity with an area of 2,500 square feet (the median lot size for Class 1 properties with buildings on them in New York City) or more would be taxed as Class 4, or commercial property, which is assessed at 45 percent of full market value and has no caps on annual assessment growth; 7,080 lots would be reclassified. Phasing in the assessment increase evenly over five years would generate \$20.0 million in additional property tax revenue in the first year, and the total increment would grow by \$27.9 million in each of the next four years. Assuming that tax rates remain at their 2023 levels, the total property tax revenue generated by the reclassification upon completion of the phase-in would be \$130.1 million.

Proponents might argue that vacant property could be better utilized and awarding it preferential treatment further encourages its underdevelopment. The intention of the lower assessment rate, they could argue, is to incentivize development of Class 1 property. Vacant land zoned for residential use that is not being developed for its intended purposes may thus be an unwise policy at a time in which the city is experiencing a shortage of affordable housing. At the same time, the minimum lot size requirement would allow very small lots to remain vacant and the along with the city's zoning laws and land use review process provide a safeguard against inappropriate development in residential areas.

Opponents 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 might also argue that zoning policies are less effective at restricting development in residential areas than the preferential tax treatment because the latter is codified in real property tax law. Furthermore, opponents might also point out that the 7,080 vacant lots have a median land area of 4,000 square feet while the median area of existing Class 1A, 1C, and Class 2 property with at least 2,500 square feet is 11,247 square feet. Thus, many of the vacant residential lots would be too small to develop for housing and would sit vacant even if reclassified.

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

Revenue: \$10 million annually

Gramercy Park, which was established in the 19th 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 2021.¹

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.

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

Eliminating or Reducing Tax Breaks

Allow the Relocation and Employment Assistance Program to Expire

Revenue: \$3 million in 2021, increasing gradually to \$33 million in 2033.

The Relocation and Employment Assistance Program (REAP) provides city tax credits to businesses that relocate jobs from outside New York City or from Houston Street to 96th Street to the boroughs outside Manhattan or to eligible locations in Manhattan (below Houston Street or north of 96th Street). Currently, firms receiving REAP benefits get credits for 12 years against their business income and utility taxes; REAP tax credits are refundable for the year of relocation and the next four years. The credits are either \$3,000 per qualified employee for businesses relocating to eligible areas also designated as revitalization zones or \$1,000 per employee for firms moving to areas outside of revitalization zones.

Originally enacted in 1987, the program has been renewed several times. The amount and duration of credits and areas of the city that are eligible have also changed over the years. REAP is currently set to expire on June 30, 2020 and state legislation is required for the program to be reauthorized. The program, however, has never been evaluated to make sure that it is achieving its stated objective: expanding employment outside of the Manhattan business core, particularly by attracting new firms to the city. The Department of Finance estimates that REAP credits cost the city \$33 million of foregone tax revenue in 2019, with around 200 firms receiving the credit. If REAP were allowed to expire this year, the cost of the program would phase out gradually over 12 years as firms currently receiving the credit would continue to do so until their eligibility ended. Savings in the first year would be about \$3 million, growing to \$33 million in 2033.

Proponents might argue that although REAP helps companies reduce the cost of relocating to eligible areas of New York City, it likely does not play a vital role in companies' decisions to relocate employees. Businesses considering a move to New York City are more concerned with access to markets, a highly skilled labor force, and other amenities the city has to offer. As of fiscal year 2019, only 197 firms out of the hundreds of thousands of firms operating in the city benefited from this program. Proponents might also point out that businesses that become eligible for REAP by simply relocating from one location in the city to another do not increase the city's employment base.

Opponents might argue that because the cost of doing business in New York City is already so high, any program that provides a financial incentive for companies to relocate their employees here would be beneficial to the city in the long run. REAP also helps efforts to promote the city as business friendly. Finally, opponents might argue that REAP benefits help businesses already in the city remain here by reducing the cost of relocating to less expensive areas.

Collect PILOTS From Private Higher Education Institutions And Hospitals

Revenue: \$147 million annually if applied to student, faculty, and staff housing

Under New York state law, real property owned or used by private higher education institutions and hospitals is exempt from the city's real property tax. In fiscal year 2019, these exemptions cost the city \$1.3 billion—a \$582 million tax expenditure for higher education and a \$694 million one for hospitals.¹ At universities and hospitals, exemptions for student, faculty, or staff housing represented 18 percent (\$223 million) of the total. Under this option, private colleges and universities in the city would make payments in lieu of taxes (PILOTS), either voluntarily or through legislation.

There are various ways a PILOT system could be structured based on experiences in other jurisdictions. In Boston, private universities and hospitals make voluntary PILOTS. In contrast, Connecticut law mandates that the state provide PILOTS to municipalities up to 77 percent of private universities' and hospitals' exempt value. A third alternative is a "reverse PILOT," which the Connecticut legislature debated in 2014 but did not implement. Under this proposal, the organizations' property tax exemptions would be eliminated, and they would have to apply to the state for reimbursement. If universities and hospitals made PILOTS equal to 66 percent of their liability, the city would receive \$842 million for all exemptions, or \$147 million if applied only to housing for students, faculty, and staff.

Proponents might argue that colleges and universities consume city services without paying their share of the property tax burden. With respect to housing facilities specifically, proponents could contend that housing is not directly related to providing education or medical services. Instead, housing is an optional service organizations elect to provide. Finally, proponents might point to several other cities that collect PILOTS, including large cities such as Boston, Philadelphia, New Haven, and Hartford and smaller cities such as Cambridge and Ithaca.

Opponents 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 and staff housing encourages residence and consumption of local goods and services, thereby generating income tax and sales tax revenue.

¹There is little incentive to assess exempt properties as accurately as possible. If these options are implemented and payments are based on assessed value, the estimated PILOTS might change significantly.

Eliminate the Property Tax Exemption For Madison Square Garden

Revenue: \$42 million in 2023

This option would eliminate the property tax exemption for Madison Square Garden (MSG or the Garden). Since 1982, the Garden has received a full exemption from property tax liability for its sports, entertainment, and exposition property. Under Article 4, Section 429 of New York State Real Property Tax law, the exemption is contingent upon the continued use of MSG by professional major league hockey and basketball teams for their home games. In 2013, the Garden's owners completed a \$1 billion renovation of the facility, and as a result the tax expenditure for the exemption increased from \$17.3 million in 2014 to \$41.5 million for 2019 fiscal year.

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.

Proponents might argue that the city has many fiscal needs that are more pressing than sports and entertainment, and thus the exemption is a poor allocation of scarce public dollars. Moreover, proponents could argue that the historical motivation for the exemption likely no longer applies. MSG Company and the teams playing in the Garden are no longer economically disadvantaged to warrant a subsidy, which has amounted to \$372.8 million from fiscal years 2015 to 2023. According to Forbes, the Knick's market value in 2021 is \$5.8 billion (the most valuable team in the NBA); while the Ranger's value in 2021 was \$2.0 billion (the most valuable team in the NHL). For fiscal year 2021, MSG Company also reported revenue of \$647.5 million. They could also argue that the threat of relocation is much less credible today than in 1982, not only because of the arena's recent renovation, but also because team revenue is boosted from operating in the nation's largest media market. Thus, relocating would likely cost the Garden more in revenue than it saves through the tax exemption.

Opponents might argue that the presence of the teams continues to benefit the city economically and that foregoing \$42 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.

Eliminate the School Bus Operation Deduction

Revenue: \$2 million annually

Income derived from the operation of school buses serving public schools and nonprofit religious, charitable, and educational organizations, either within or outside the city, is not currently taxable for the purposes of the city's business corporation tax. This option would make this income taxable, thereby increasing corporate tax revenue by an estimated \$2 million per year. Eliminating this tax break requires state legislation.

Proponents might argue that in addition to raising revenue that would offset a small part of the city's costly bill for school bus services, this option would eliminate an unfair tax break to school bus contractors. They would point out that the majority of private companies providing goods and services to public schools and nonprofits pay taxes on the income derived from sales to these entities. They might also argue that the number of school bus companies providing services would not be adversely affected by the elimination of the tax break because New York City's demand for school buses is strong enough to attract multiple competitors when contracts are bid. Finally, they might argue that there is no need for New York City to provide a tax break to companies serving public school districts and nonprofits outside of the city.

Opponents might argue that school buses are required by many schools and nonprofits to conduct their operations and, therefore, companies providing bus service should be treated like a government or nonprofit entity for tax purposes. They might also argue that the tax placed on this income will be paid, at least in part, by the government or nonprofit customer, depending on the extent to which school bus operators are able to pass the tax onto their customers in the form of higher prices. If the city has to pay more for bus service, this option might have only a minimal effect on net city revenue (tax revenue less government spending). Operating costs for nonprofits may also increase, which would work against the public policy of supporting these entities through their tax-exempt status.

Eliminate the Manhattan Resident Parking Tax Abatement

Revenue: \$19 million annually

The city imposes a sales tax of 18.375 percent on garage parking in Manhattan. Manhattan residents who park a car in a long term rented space for a month or more are eligible to have a portion of this tax abated, effectively reducing their tax to 10.375 percent. Currently, nearly 200,000 vehicles belong to Manhattan residents. If 1 out of every 5 of these vehicles receives the monthly parking abatement, eliminating this abatement would generate an additional \$19 million annually in city sales tax. The elimination of the abatement would require state approval.

Proponents might argue that having a car in Manhattan is a luxury and that drivers who can afford to own a car and lease a long term parking space can also afford to pay a premium for garage space. Car owners contribute to the city's congestion, poor air quality, carbon emissions, 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 average pre-tax monthly cost to park is \$649 in downtown Manhattan, and \$500 in midtown. The tax increase would be about \$52 a month in downtown, \$40 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.

Opponents might argue that the tax abatement is necessary to encourage Manhattan residents to park in garages, thereby reducing demand for the finite 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.

Establish an Unrelated Business Income Tax

Revenue: \$12 million annually

This option would tax the “unrelated business income” of tax-exempt organizations in New York City—income from the regularly conducted business of a tax-exempt organization that is not substantially related to the principal purpose of the organization which qualified it to receive the exemption. 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 (IRS) data on federal unrelated business income tax revenue in 2013 and local nonprofit earnings data, an unrelated business income tax (UBIT) for tax-exempt entities in New York City at the same 8.85 percent tax rate as the city’s general corporation tax would generate an additional \$12 million annually. Establishing a city 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 would apply only to income from ancillary activities, 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 incurred by either the city or the organizations subject to a city UBIT. The city would be able to use the same definition of unrelated business income as the IRS 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 given how many New Yorkers have been left behind in the economic recovery from the Great Recession.

Extend the General Corporation Tax to Insurance Company Business Income

Revenue: \$510 million annually

Since the city's insurance corporation tax was eliminated in 1974 as part of state insurance tax reform, insurance companies are the only large category of businesses that are currently exempt from New York City business taxes. New York City had taxed insurance companies at a rate of 0.4 percent on premiums received in the insurance of risks located in the city. This option would restore the taxation of insurance companies in a different form, by simply extending the jurisdiction of the general corporation tax, a tax on corporate profits, to include these companies.

Using past estimates from the Department of Finance and taking into account recent trends in the collection of the city's other corporate taxes as well as the effect of recent federal tax changes that include several provisions expected to increase the taxable profits of insurance corporations, IBO estimates that the insurance company exemption will cost the city \$510 million in fiscal year 2018. The impact of the federal changes is fairly limited in 2018 but expected to grow larger over time, meaning the potential revenue from the taxation of insurance companies could be even greater in the future.

Insurance companies are subject to federal and state taxation. In New York State, life and health insurers pay a net income-based tax. In addition, life insurers pay a 0.7 percent tax on premiums, nonlife insurers covering accident and health premiums pay a 1.75 percent tax, and all other nonlife insurers pay a 2.0 percent tax on premiums. Almost all states with insurance taxes provide for retaliatory taxation. For example, an increase in New York's tax on business conducted in New York by insurance companies headquartered in Connecticut may trigger an increase in Connecticut's tax on the business conducted in Connecticut by companies headquartered in New York. This option assumes that by extending the city's general corporation tax to include insurance premium income rather than creating a new and separate insurance tax in the city, at least some of these retaliatory taxes would not be triggered, although that would likely be determined on a case-by-case basis. Extending the corporate tax to insurance companies would require approval in Albany.

Proponents might argue that much of the tax benefit resulting from the insurance company exemption is exported to out-of-city insurance companies that collect health and life insurance premiums from New York City residents and businesses. They might claim this tax would put the insurance industry on a more equal footing with other industries in New York City, removing its unfair advantage over businesses in other sectors. Insurance companies located here avail themselves of public goods provided by the city and thus should pay city taxes to offset these costs. Finally, if other states impose retaliatory taxes, the city could adopt a credit against insurance firms' general corporation tax liability, although this would reduce the revenue raised under the option.

Opponents might argue that with one of the highest tax rates (combined city and state) in the country, plus other states' retaliatory taxes that might be triggered if the city reinstituted the taxation of insurance companies, the additional burden could be enough to drive insurance firms with large offices and staffs here out of New York City. Moreover, the incidence of the insurance corporation tax is unclear. To the extent that insurance companies can pass the additional tax on to their customers in the form of higher premiums, this tax would indirectly increase the tax burden borne by New York City residents.

Repeal the Commercial Revitalization and Commercial Expansion Programs

Revenue: \$Minimal in 2022, growing to \$22 million in 2031 when savings are fully phased in

The New York State Legislature enacted the Commercial Revitalization Program (CRP) in 1995 to increase occupancy of older office and retail spaces in Lower Manhattan by offering incentives to spur improvements in buildings constructed before 1975. The Legislature enacted the Commercial Expansion Program (CEP) in 2000 using the same approach to help promote the development of commercial, manufacturing, and industrial areas in the outer boroughs. Building owners who participate in either of these programs are required to spend a minimum amount on renovations and other improvement of their property. To offset property tax increases resulting from the improvements, owners receive tax abatements, for a period of 3 years to 10 years, depending on the type of space improved. Tenants renting these renovated spaces can also receive a reduction in their commercial rent tax (CRT) liability. In 2005, the area eligible for the CRT benefit was expanded to cover more of Lower Manhattan.

The Department of Finance estimates that these programs cost the city \$22.2 million of forgone tax revenue in 2020—\$14.2 million from property tax abatements and \$8.0 million from CRT reductions. If the State Legislature repealed the CRP and CEP programs and no new benefits are granted after fiscal year 2021, the cost of the programs would phase out gradually over the next 10 years as previously granted benefits expire. Savings will grow every year and reach \$22.2 million in 2031.

Proponents might argue that these programs were enacted when the city needed them, but are not necessary now. The CRP eligibility zone encompasses the Financial District and other Lower Manhattan areas that since the 1990s have become desirable mixed-use neighborhoods, providing owners of older buildings plenty of reasons to upgrade their buildings even without offering city tax breaks. IBO found that property owners who upgrade their buildings generally spend more than the minimum required under CRP and CEP, suggesting that the tax benefit offered only limited inducement for investment, and it concluded that the programs have had little influence on vacancy and employment rates compared with rates in areas not eligible for the

Opponents might argue that the CRP and CEP help property owners defray the cost of renovating their properties to compete with the new commercial properties built in the eligible areas the last several years. They may also argue that given that New York City continues to work to attract and maintain manufacturing and industrial jobs, the CEP helps incentivize such firms to sign long-term leases and encourage these companies to undertake the necessary upgrades of their facilities.

Repeal the Tax Exemption for Vacant Lots Owned by Nonprofits

Revenue: \$13 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 fiscal year 2023, the city issued exemptions for 12,170 parcels owned by nonprofits with a total market value of \$60 billion. Of these parcels, 57 percent were owned by religious organizations; 21 percent by charitable organizations; 8 percent by medical organizations; 10 percent by educational institutions; 2 percent were being considered for nonprofit use; and the remaining 2 percent were owned by benevolent, cultural, or historical organizations.

Included among the exemptions were around 747 vacant lots with a total market value of \$619 million. The cost to the city for exempting the vacant lots was \$15 million in 2023 and the median tax savings was \$4,984 per parcel. About 80 percent of all vacant lots held by nonprofits were owned by charitable and religious organizations. About 32 percent of the vacant lots were small, less than 2,500 square feet. The median tax expenditure (amount of taxes forgone) for small vacant lots was \$2,364 and \$7,090 for larger ones.

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 \$13 million for the city.

Proponents might argue that since vacant land is undeveloped, it is not being actively used to support the organizations' mission, which is the rationale for providing the exemption. The tax would provide nonprofits with an incentive to develop their lots—expanding the services and benefits they bring to their communities. Additionally, because tax liability would increase with lot value, the incentive to develop would be larger for those properties with better alternative uses. By excluding small lots, the option would not penalize organizations for owning difficult-to-develop parcels. Lastly, to ensure eliminating the exemption is not deleterious to small nonprofits, lots owned by organizations with annual revenues below a threshold could remain exempt.

Opponents might argue that repealing the exemption would place additional financial strain on nonprofits that are already stretched to provide critical services in their communities. Organizations may be holding on to the land with the goal of developing or selling it later. Thus, eliminating the exemption could force many organizations to forgo the lots' future community or fiscal benefits. Additionally, opponents might argue that while the lots are underutilized from a development standpoint, they may nonetheless serve useful community purposes such as hosting playgrounds or gardens.

Revise the Coop/Condo Property Tax Abatement Program

Revenue: \$194 million

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 June 2015 and extended through 2019. The prior extension, covering 2013 through 2015, included a provision to phase out the abatement for nonprimary residences by 2015. In 2019 the citywide total cost of the abatement is \$571.1 million, with cooperatives and condominiums in Manhattan accounting for \$432.5 million of the total cost.

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, buildings located in neighborhoods with a concentration of very high-valued apartments could be denied eligibility for the program, or buildings with high average assessed value per apartment could be prohibited from participating.

The option modeled here is one in which the abatement program excludes residences where the average assessed value per apartment is greater than \$150,000. IBO estimates that had this exclusion been adopted for 2019, the city would have saved \$194 million. The \$150,000 threshold would eliminate the abatement for about 20 percent of cooperative and condominium apartments with high assessed values, most of which are located in high-income city neighborhoods.

Proponents might argue that such inefficiency in the tax system should never be tolerated, particularly at times 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.

Opponents 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 about 20 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.

Tax Carried Interest Under the Unincorporated Business Tax

Revenue: \$160 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 \$350 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 revenue would rise by approximately \$175 million and PIT revenue fall by around \$15 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 \$160 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.

Proponents 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. Federal deductibility of at least some local personal income tax would soften the effect of taxing carried interest as ordinary income.

Opponents 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.

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 VSFs—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. The New York City Employees Retirement System (NYCERS) administers the VSFs for retired housing and transit police officers. Correction officers also have a VSF administered by NYCERS. Until recently, there were not sufficient funds to allow payment of the annual \$12,000 VSF to otherwise eligible uniformed correction officer retirees; however, these retirees received their full VSF payment last year and will again receive it this year. Beginning in 2019, VSF 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 are not considered pension funds, taxing these funds would not violate 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 July 15, 2018, 35.5 percent, 23.5 percent, and 45.6 percent of the VSF recipients in the Police, Fire, and NYCERS (uniformed correction) Pension Funds, respectively, were city residents who thus would pay more local personal income tax under this option.

Proponents 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 annual VSF payments for uniformed correction officers become guaranteed in 2019.

Opponents 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.

*Broadening the
Tax on Sales
And Services*

Adjust the Alcohol Tax to Partially Account for Inflation Since 1980

Revenue: \$25 million annually

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

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

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

Levy an Additional 3 Percent Sales Tax on Alcohol

Revenue: \$150 million annually

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

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

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

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

Revenue: \$6 million annually

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

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

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

Collect Sales Tax on Capital Improvement Installation Services

Revenue: \$275 million annually

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

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

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

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

Extend Tax on Cosmetic Surgical and Nonsurgical Procedures

Revenue: \$30 million annually

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

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

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

Implement a Carbon Tax and Dividend

Revenue: \$264 million annually

New York City has made some progress in reducing carbon emissions: city residents, businesses, and visitors were responsible for the emission of 55 million tons of carbon in 2019, 15 percent below the baseline metric established in 2005. Despite this progress, additional action will be required to meet the city's goal of an 80 percent reduction by 2050. Fees or taxes on the emission of greenhouse gases are regarded by economists as an economically efficient way to reduce emissions, which can help to slow the pace of global warming and rising sea-levels, while also providing revenue. Under this option, a tax would be collected by electric, gas, and heating oil companies and would be assessed on energy from each provider according to the carbon intensity of their energy mix. Customers could lower their tax by using less energy or choosing a less socially costly source of energy. The city's ability to collect the tax from a few points in the energy delivery chain with existing collection processes would reduce overhead costs and simplify compliance.

This option, which would institute an initial charge equivalent to \$2 per ton, rising to \$15 per ton over five years, would generate \$690 million annually at the full rate, and cover emissions associated with electricity, natural gas, steam, and heating oil use. In New York, a \$15 per ton carbon tax would add approximately 4 cents per kilowatt hour, or around 2 percent, to the residential cost of electricity, around half the rate of some recently imposed local carbon taxes. IBO's estimate assumes that emissions would decline 10 percent in the short run. In the long run, these declines would likely be larger, as building efficiency increases and the market demands cleaner sources of electricity.

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

Instituting a dividend would reduce the new revenue from \$690 million to \$264 million per year, with the balance refunded to households.

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

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

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

Revenue: \$34 million annually

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

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

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

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

Revenue: \$98 million annually

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

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

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

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

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

Revenue: \$20 million annually

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

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

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

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

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

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

Tax Laundering, Dry Cleaning, and Similar Services

Revenue: \$33 million annually

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

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

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

Tax Parking Placards as a Fringe Benefit

Revenue: \$13 million annually

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

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

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

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

Opponents might argue that parking placards are a necessity rather than a perk. Taxing placards would do little to address the problem of illegal parking by public employees, which is really an enforcement issue. In addition, the benefit would need to be renegotiated in future collective bargaining agreements.

Tax Sugar-Sweetened Beverages

Revenue: \$288 million annually

Around 23 percent of New York City residents drink per day on average one or more 12 oz. sugar sweetened beverages and 32 percent drink less than one. Sugar sweetened beverages—including soda, energy drinks, and fruit beverages—have little nutritional value, but extensive marketing and low costs have made them popular consumer choices. Scientific evidence suggests that drinking such beverages can increase the risk of obesity and related conditions like diabetes, heart disease, stroke, arthritis, and cavities. Being overweight and obesity are also linked to many chronic conditions such as high blood pressure and cancer. Many New Yorkers already suffer from these conditions: 32 percent of adults are overweight and another 25 percent are obese.

A tax on sugar-sweetened beverages, which would require state approval, could discourage consumption of high calorie drinks and raise revenue. An excise tax of one cent per ounce, levied on beverages with any added caloric sweetener could generate \$288 million in revenue for the city, equivalent to 9.6 percent of the Department of Health and Mental Hygiene's total budget in city fiscal year 2022. Diet beverages or those sweetened with non-caloric sugar substitutes would not be subject to the tax.

Unlike many other food and beverage items, soft drinks are already subject to the combined New York State and local sales tax of 8.875 percent, or about 13 cents per 20-ounce bottle. That amount may be too low to affect sugary drink purchases. The proposed excise tax would increase the cost of 20 ounce beverages to a total of 11 percent on average, which might incentivize consumers to choose water, milk, or another unsweetened drink for refreshment. In addition, the excise tax could discourage consumers from choosing larger portions to maximize value, as the tax would be proportional to the size rather than the price of a drink.

IBO's revenue estimate is based on the assumption that there would be full compliance, that the tax would be partially reflected in the retail price, and that a 10 percent increase in price yields a 10 percent reduction in purchases.

Proponents might argue that soda is not necessary for survival and offers no nutritional value. A tax-induced price increase could encourage consumers to reduce consumption or 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. In 2015, Berkeley, California implemented a 1 cent per ounce tax on sugar-sweetened beverages and a study show that one year after the tax sugary beverage sales declined 9.6 percent compared to estimates if the tax were not in place. The study also found that sales of untaxed beverages rose 3.5 percent, and water sales rose by 15.6 percent. A 2020 study in Cook County, Illinois, which had a 1 cent per ounce tax that was repealed, found that following the tax repeal in 2017 volume sold increased by 30.5 percent.

Opponents might argue that tax on sugar-sweetened beverages would disproportionately affect some consumers, may not lead to weight reduction. Such a tax is regressive, falling more heavily on low-income and Black and Hispanic consumers. In addition, soft drink consumption is a relatively small part of the diet for overweight people and food and drinks that serve as substitutes for sugar-sweetened sodas may also be highly caloric, reducing the tax's impact on weight loss. Furthermore, it would adversely affect local retailers and producers who will see sales and/or profits fall as consumption declines. Reports on Berkeley, California's 1 cent per ounce tax on sugar-sweetened beverages show that the tax was mostly, though not uniformly, passed through to consumers.

Raising Fees And Fines

Create a Civilian Complaint Program for Bike Lane Violations

Revenue: \$3 million in the first year, \$6 million annually thereafter

According to the New York City Department of Transportation (DOT), 30 percent of adult New Yorkers ride a bike, and over 550,000 bike trips were made each day in New York City in 2021. That same year, 311 received more than 13,000 complaints regarding blocked bike lanes, and the Department of Finance's Parking Violations Bureau adjudicated over 77,000 summonses for vehicles stopping, standing, or parking in a marked bike lane, a violation that carries a \$115 fine.

In 2022, legislation was introduced at the City Council that would create a new violation for vehicles obstructing, among other infrastructure, bike lanes near schools. This legislation, which has not yet been heard in committee, also proposed a program for civilians (i.e., individuals who are not city employees empowered to issue summonses) to submit complaints and supporting evidence for alleged violations to DOT and receive a reward of 25 percent of any fines collected. This is similar to the city's Citizens Air Complaint Program, which allows for citizen documenting and submitting of complaints about idling vehicles, also with a 25 percent reward.

If the city were to introduce such a civilian complaint program, but instead apply it beyond just school zones to all violations of stopping, standing, or parking in bike lanes throughout the city, IBO estimates this would generate \$3 million in additional fine revenues in its first year, after netting out the \$1 million the city would award to civilian reporters. In subsequent years, as the city improves reporting systems and public knowledge of the program grows, IBO estimates the program would yield \$6 million in fine revenues annually, after netting out \$2 million in rewards. This estimate could decrease as behavior improves in response to increased enforcement.

To arrive at this estimate, IBO assumes the program would double the number of bike lane violations, as the city saw a dramatic increase in idling violations after the introduction of the city's Citizens Air Complaint Program in early 2018. We also assume the Parking Violation Bureau will continue to adjudicate bike lane violation summonses and collect fines and will maintain its current collection rate for bike lane violation fines (about 92 percent of such fines are collected within three years).

Proponents might argue that a civilian complaint program for bike lane violations is necessary, because many 311 complaints do not result in a summons since violators have often moved on before city officials arrive to investigate. They may also argue that if this program discourages drivers from blocking bike lanes it will improve safety for bicyclists who face greater risks when they veer into the motor vehicle lanes to get around obstructions in the bike lane. Rider safety would also benefit if the revenue from these fines was used for further improvements to street safety.

Opponents might argue that a civilian complaint program inappropriately places the city's responsibility to enforce its laws on civilians, rather than agencies like the New York City Police Department, which are already responsible for and funded to enforce bike lane laws. They may also argue that encouraging civilians to participate in bike lane enforcement could lead to confrontations between drivers and reporters as they collect evidence of violations.

Establish a Stormwater Utility Fee

Revenue: \$120 million annually for investment in the city's water and sewer system

In New York City, over 60 percent of the city has a combined sewer system, where stormwater and wastewater run into the same channel. To avoid overloading the sewage system during heavy rain or storms, the city discharges untreated sewage into local waterways. This has harmful environmental and public health impacts. In 2012, the city signed an agreement with the state to reduce combined sewer overflows or CSOs. In the city's fiscal year 2023 Adopted Capital Commitment Plan, \$3.2 billion is planned for mandated projects to reduce CSOs over the next eight years.

The operation and maintenance of the city's water system, as well as the debt service on its capital infrastructure, is paid for through water and sewer fees. These fees are collected by the New York City Water Board. Water fee revenues are not available for general operating purposes as they must be used for reinvestment into the city's water system. Currently, water fees are collected based on the consumption of water, and not on the quantity of stormwater runoff generated by a property's impervious surface area. The Water Board has the authority to set utility rates to cover the cost of operating and capital improvements for the water and sewer system; pending legislation in Albany would further clarify the scope of the Water Board's rate-setting authority.

In this option, the Water Board would add a stormwater utility fee to each property's water bill based on the square footage of impervious surface on their lot. (IBO assumes public roads would not be charged for impervious area.) The fee would be set to \$2.67 per 1,000 impervious square feet each month. This is what Washington D.C. charges—the lowest rate among cities with stormwater charges reported in an ongoing study by the city's Department of Environmental Protection. IBO estimates that a stormwater fee could generate \$120 million annually in revenue, based on impervious surfaces measured by the city in 2020. This revenue would be dedicated to maintenance of the city's water and sewer infrastructure. Because a stormwater fee would likely be accompanied by a credit program for residents who install green infrastructure, the total revenue generated from this fee may decrease over time as drainage improvements are made by property owners.

Proponents might argue that implementation of stormwater fees would provide incentives for property owners to reduce runoff, making the sewer system better able to handle demand during rainy periods and reducing pollution in local waterways. Because properties such as parking lots which contribute a substantial amount of runoff into the city's stormwater system are not necessarily the properties paying the current fees based on water usage, the Water Board could use stormwater fee revenue to offset existing or future water rate increases, improving equity across properties. Stormwater fees can also be designed to fit the needs of a community through credits, discounts, and grant programs that enhance equity and encourage green infrastructure.

Opponents might argue that adding a stormwater fee would place a financial burden on property owners that currently do not have buildings using water. The data required to accurately measure impervious surface and charge properties could be costly to keep up-to-date and is still only an estimate that property owners may dispute, potentially adding to city administrative costs. Lastly, if the credits and discounts are popular, the total revenue produced by a stormwater fee could be much smaller than IBO's estimate.

Increase Film Permit Fees

Revenue: \$4 million annually

New York City long has been regarded as one of the most sought-after filming locations. For many years, it also was fairly unique in providing free permits and other perks to attract projects to shoot in the city. However, in 2010, citing budget constraints due to the Great Recession, then-Mayor Bloomberg implemented a production fee with the intention of offsetting the city's administrative costs, an action that was in line with fees that were collected in other major cities.

Under the current structure, the city has two sets of permits: required permits cost \$300 per production and optional permits are free. Required permits are needed for productions with filming equipment, prop weapons, prop vehicles, and actors in police uniform. Optional permits are for hand-held camera productions only, but by getting a permit (optional or required), producers receive access to parking, the police department's Movie & TV Unit, and other services. From 2012 through 2019, the city issued an annual average of 11,000 filming permits annually according to the Mayor's Office of Media and Entertainment, and during fiscal year 2022 around 7,150 permits were issued.

When the permit fee was introduced in 2010, it was set at \$300 to offset costs associated with administering city services for filming productions. In this option, the city would instead implement a \$30 application processing fee and increase the film permit fee to \$400. This change would allow New York City to account for inflation costs, but also bring the fee structure in line with what other cities, such as Chicago, Washington, DC, and Barcelona, are charging on a per production basis.

Because of Covid-19, the number of films produced in the city has yet to come back to pre-pandemic levels, but a recovery is expected in this industry in the coming years. Based upon pre-pandemic permit levels, under the new fee structure, application and production fee revenue would be just under \$5 million annually, a net revenue increase of about \$4 million per year compared with the \$1 million in permit fees the city received in fiscal year 2022.

Proponents might argue that fee increases are a natural occurrence in local governments that happen every few years, so this change is essentially playing catch up to match the cost to the city of providing services to film shoots. Residents and businesses can have their daily lives interrupted by film productions, and film production companies—not taxpayers—should be bearing the costs of the services provided by the city. Also, proponents might argue that New York City is a premier filming location, so producers will continue to choose the city for filming locations even with a permit fee increase.

Opponents might argue that if filming permits become too expensive, particularly for independent producers and low budget films, productions will relocate to another city while potentially replicating a New York City background. Not only would this cause the city to lose out on productions but may lower the number of film crew jobs and other film-related employment. Opponents would also argue that the media and entertainment industry took a massive hit during the Covid-19 pandemic so trying to enforce a fee hike would make this recovery period more difficult for the whole industry.

Issue Financial Penalties Against Property Owners Who Fail to Give Access for Buildings Inspections

Revenue: \$13 million annually

Inspections made by the Department of Buildings (DOB) often stem from 311 complaints. However, a DOB inspector cannot inspect a building without being allowed into the building or onto the construction site; if the inspector is refused access, or no one is there to allow the inspector to enter after two attempts, DOB often closes the complaint without any violation being issued. Nearly 20 percent of complaints forwarded to DOB by 311—representing about 50,000 complaints—end in this way each year. While DOB can pursue an access warrant to gain entry, this process is onerous, requiring DOB to coordinate with the Law Department and other city agencies before petitioning in court to justify an access warrant, and so is rarely pursued.

DOB violations can carry financial penalties, which are enforced and collected by the city's Office of Administrative Trials and Hearings (OATH). When inspectors are denied access to properties, this means fewer violations and so fewer penalties. Property owners who know they are likely in violation of DOB rules have reasons to refuse access to DOB inspectors. After all, violations not only carry financial penalties, but an open DOB violation on a property can prevent it from receiving construction permits, or even temporarily halt construction work altogether. Currently, other than an access warrant, there is no mechanism to compel or incentivize property owners to allow DOB inspections.

Under this option, DOB inspectors would be able to impose a \$500 penalty when they are unable to gain access to a property. Property owners could get the penalty dropped by permitting access at a subsequent inspection. Were the threat of these penalties sufficient to reduce the number of properties where a DOB inspector were unable to gain access by one third, thereby boosting the number of OATH summons issued by DOB, IBO estimates that the combined revenue from these no-access penalties, plus the additional OATH penalties collected for violations found, would result in an additional \$13 million in revenue per year, in addition to the benefit of safer buildings and construction sites.

Proponents might argue that the current system presents a moral hazard—property owners who know they are likely in violation of DOB rules are more likely to refuse access to DOB inspectors. With limited ways to disincentivize property owners from refusing to access to DOB inspectors, some unsafe conditions and unlawful activities, such as illegal conversions of apartments, likely remain unaddressed, leading to buildings that are less safe for city residents.

Opponents might argue that the process to get an access warrant, through the court system, is a sufficient and fair way to decide whether DOB should be allowed to enter a property. The argument that the bureaucratic process of obtaining access warrants through the court system is too cumbersome does not justify that the city should instead use financial penalties to coerce property owners who do not elect to provide that access freely.

Repeal the Cap on Mobile Food Vendor Permits

Revenue: \$10 million annually

Since 1983, the city has capped mobile food vendor permits at 5,100, despite growth in the number of city residents and workers in the past 40 years. Permits are issued for specific mobile food vending units and are separate from the food vending and supervisory licenses, which are issued to the workers and operators of the mobile food unit. Despite the 2021 passage of Local Law 18, set to approximately double the permit cap by 2032, the outpaced demand for a limited supply of mobile food vendor permits has led to a surge in illicit leasing of permits and long waiting lists for the existing permits.

This option proposes eliminating the cap on mobile food vending permits. IBO estimates this change would yield an additional \$10 million per year in sales tax revenue to the city.¹ IBO's estimate does not account for future changes planned under Local Law 18. We assume that without the cap, permits would increase by 6,250, which is a midpoint between the current permit waitlist and the longer list of interested parties kept by the Department of Health and Mental Hygiene, for a total of 11,350 permits. IBO recognizes some of the sales tax revenue collected from an expansion in mobile food vending sales could reduce sales tax collections from brick-and-mortar restaurants if customers shift purchases from restaurants to vendors. However, new sales tax revenue would also be expected from the legalization of thousands of mobile food vendors that are already operating without permits and not currently remitting state and local sales tax. IBO's estimate does not assume additional administrative or staffing costs, which we believe would be covered by proportional changes to licensing and permitting fees.

Proponents might argue that lifting the mobile food vendor permit cap is prudent in stemming illicit market activity, protecting consumers, and supporting the city's smallest business owners. (Most are classified as microbusinesses, employing less than 10 people.) Currently many vendors simply sell without proper licensing and permitting, which has led to police involvement that poses an unnecessary risk and liability to the city as well as the vendors themselves. Street vending has a low barrier of entry when it comes to capital and educational requirements compared with other industries. The scarcity of permits is a hurdle in an industry that is otherwise an accessible small business opportunity for lower-income or foreign-born New Yorkers. Allowing vendors to legalize can help them to access small business support services that many brick-and-mortar businesses are able to access.

Opponents might argue that the cap would lead to a proliferation of mobile food vending which could clog streets. There is also a shortage of commissary space, health department-licensed storage and prep spaces that most vendors are required to use to store their pushcarts or trucks and prepare food when not out on the streets. This may lead current commissary space to up-charge permit holders or lead to more vendors illegally storing their mobile food vending equipment in non-commissary locations (outdoors or at their places of residence). The expansion of mobile food vending is generally unpopular amongst the brick-and-mortar restaurant sector, since mobile vendors often have a lower cost of business and can charge less, which could negatively impact storefront restaurants. Lastly, not all vendors may remit the required sales tax, which would reduce projected revenues.

¹Data on street vendor income and expenses from the Street Vendor Census Survey, 2021. Completed by the Street Vendor Project through the Urban Justice Center.

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

Revenue: \$1 million annually

New York City has 76 Business Improvement Districts (BIDs)—organizations of property and business owners which provide services (primarily sanitation, marketing/public events, and public safety) in defined commercial districts. These organizations receive a combination of public and private financing, with most of their revenues (81 percent in 2021) coming from additional assessments levied on property owners in the districts and typically passed on to tenants.

This assessment is billed and collected by the Department of Finance, which disburses funds to the District Management Associations, which in turn deliver the services. The city also provides some additional services such as assistance forming BIDs and liaison and reporting services from the Department of Small Business Services. The city does not currently charge or collect any fee for providing this administrative service. In fiscal year 2021, the city collected \$142 million on behalf of BIDs. Under this option, the city would levy a 1 percent fee for the collection and distribution of BID charges by the Department of Finance, resulting in over \$1 million in revenue. BID assessments vary greatly, so that the fee would range from about \$750 for the smallest BID (86th Street Bay Ridge BID in Brooklyn) to nearly \$204,000 for the largest BID (Hudson Yards Hell's Kitchen BID in Manhattan).

Smaller BIDs tend to rely more heavily on the BID assessment revenue to make up the majority of their budgets, while larger BIDs supplement to a greater extent with private funding and grants. In fiscal year 2021, smaller BIDs—with yearly budget of less than \$250,000—received on average 93 percent of their revenue from the city's assessment. In contrast, the largest group of BIDs—with yearly budgets greater than \$8 million—received only 75 percent on average of their annual revenue from the city's assessment. This disparity in access to outside revenue sources would make the effect of an administration fee greater for smaller BIDs. One option to address this problem would be to exempt some BIDs based on criteria such as low annual revenue or eligibility for the new BID Express program, which targets smaller neighborhoods in the city. Such a change would lower the estimated potential revenue to the city.

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

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

Convert Multiple Dwelling Registration Flat Fee to Per Unit Fee

Revenue: \$2 million annually

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

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

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

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 (NOx) and fine particulate matter (known as PM2.5)—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 NOx and PM2.5 pollutants. Cars, trucks, and buses emit NOx and PM2.5 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 NOx and \$540,000 per ton for PM2.5 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.

Proponents might argue that charging tolls for NOx and PM2.5 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 NOx and PM2.5 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.

Impose Penalties for Failed Façade Inspections and Increase Penalties for Outstanding Façade Repairs

Revenue: \$150 million annually

The Department of Buildings (DOB) Façade Inspection Safety Program, also referred to as Local Law 11, is designed to protect pedestrians from falling debris from unstable building façades. Under Local Law 11, buildings that are six stories or taller are required to undergo façade inspections every five years. If the building fails the inspection, the building owner must erect a sidewalk shed and make repairs within 90 days, although this timeframe may be extended by DOB. Beyond that period, if repairs are not addressed, the building owner incurs a civil penalty of \$1,000 per month, with additional penalties that increase after the first year.

Over the past two decades, the number of sidewalk sheds on city streets erected after a failed façade inspection more than tripled, from 1,100 in 2000 to 3,400 in 2021. Many of the buildings that fail a façade inspection are not repaired in the year following the failed inspection. In 2021, 57 percent of sidewalk sheds erected after a failed façade inspection were up longer than a year; 7 percent of these sheds were older than four years. Sidewalk sheds can be a nuisance to pedestrians, residents, and business owners; they block light, collect trash, narrow sidewalks, and interrupt the streetscape. Furthermore, sidewalk sheds that remain up for years after a failed façade inspection represent long-uncorrected unsafe conditions.

This option would impose a penalty for buildings that fail a façade inspection in an effort to encourage more preventive maintenance and improve the timeliness of repairs when problems are identified through Local Law 11. The penalty would be equal to 1 percent of the building's assessed value, with a cap at \$150,000, upon failure of an inspection. An additional penalty of the same amount would be added on for each additional year the façade repairs are not completed. The median annual penalty for failing a façade inspection under this option is estimated at \$48,000. IBO estimates that the city would collect an additional \$150 million per year were this option to be adopted, assuming the number of buildings with outstanding façade repairs fell by 20 percent in response to the new penalties.

Proponents might argue that current penalties do little to ensure that building owners proactively maintain their façades, let alone encourage timely repairs for problems identified through Local Law 11 inspections. That incentive is particularly low for owners of high-value properties, for which the \$1,000 per month penalty pales in comparison to other expenses. Proponents might say building owners may be more likely to undertake proactive repairs on their façades, rather than waiting until they fail a façade inspection to identify and address issues. When building owners drag their feet in making façade repairs, the sidewalk sheds clutter the sidewalks and create inconvenience for building occupants and their neighbors for years. The additional penalties that would accrue annually after a year would encourage building owners to resolve façade issues more quickly. Proponents might also argue that the current penalties are regressive, since the law currently penalizes owners of low-value buildings the same as high-value buildings.

Opponents might argue that the cost to fix a building's façade in a short time frame may be more than some building owners are able to afford. Were this option to be adopted, some building owners might be pushed to sell their building due to the increased penalties. Furthermore, older buildings often feature ornate stone façades that are more expensive to maintain. This option could make it more likely for building owners to raze older buildings in favor of new construction, or to replace ornate façades with plainer façades that are easier to maintain.

Impose Development Impact Fees On Construction Projects

Revenue: \$26 million to \$63 million annually

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

Under this option, the city would introduce development fees that would impose a standard fee schedule on all projects to mitigate their impacts on city services and infrastructure. Development fees in other cities are usually limited to specific types of development or to specific geographic areas. Based on the Department of City Planning's PLUTO database, from 2000 through 2019, developers constructed an average of 7.8 million square feet a year of new buildings in Manhattan south of 96th Street, of which 60 percent was residential and the remainder commercial. 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 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 \$63 million a year. If it imposed the same fee only on commercial developments, revenues would have averaged \$26 million a year. This revenue would be offset in part by the cost to administer the fee and to track its use. Depending upon how the impact fees are structured, state approval may be needed.

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

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

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

Increase Certain Vehicle Fines for Multiple Violations in the Same Year

Revenue: \$119 million in 2022

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

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

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

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

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

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

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

Increase Fees for Birth and Death Certificates to \$45

Revenue: \$24 million annually

Residents of New York State are entitled to original birth certificates at no cost, but both the state and the city charge a fee for duplicate copies of birth certificates and for all death certificates. The city's Department of Health and Mental Hygiene issued 860,270 paid birth and death certificates in city fiscal year 2021.

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

Raising the city fee to the state level would presumably have little effect on the number of certificates purchased, since people require them for legal or employment reasons. IBO assumes that increasing the charge to \$45 would reduce the number of certificates requested by 5 percent, yielding a net revenue increase of \$24 million.

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

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

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

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

Revenue: \$4 million annually

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

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

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

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

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

Institute a Residential Permit Parking Program

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

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

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

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

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

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

Introduce Fees to Apply for and Operate Open Restaurants

Revenue: \$170 million annually

At the onset of New York City's Covid-19 emergency in March 2020, state shutdown restrictions limited restaurants and bars to takeout and delivery services only, temporarily shuttering all types of onsite dining. In June 2020, the city launched the emergency Open Restaurants program, which provided for the emergency suspension of rules relating to outdoor dining and liquor service. Open Restaurants enabled food service establishments to expand service outdoors to sidewalks and street parking spaces immediately adjacent to their property. The program also extended outdoor dining to areas of the city beyond the limited districts zoned for sidewalk café use. Since Open Restaurants launched, approximately 12,000 establishments have applied and self-certified to join the emergency program—paying no fees to apply or to use public space.

In response to the popularity of the emergency program, the NYC Department of Transportation (DOT) is designing a permanent version of Open Restaurants planned to launch in 2023. Although program rules are still being determined, DOT has said in a City Council hearing on this program that it will include additional administrative costs, such as the hiring of dedicated inspection staff as well as a plan review and public hearing process for each application. To help offset these costs and generate revenue from the private use of public space, DOT hopes to introduce licensing fees and revocable consent fees to operate Open Restaurants. This option estimates revenues from such fees, modeled on the pre-pandemic sidewalk café program.

Under the now-defunct sidewalk café program, restaurants were charged annual revocable consent fees for the use of public sidewalk space. These fees increased with the square footage of the space, and higher fee schedules were applied to cafes with sidewalk enclosures and to those located in Manhattan below 96th Street. Separate application fees ranged from \$310 for small, unenclosed cafes to a minimum of \$1,350 for enclosed cafes. Fees were adjusted annually to grow with the Consumer Price Index.

Under this option, DOT would adopt an inflation-adjusted sidewalk café annual fee schedule (using the lower fee schedule for upper Manhattan and other boroughs), and apply the pre-pandemic fee for enclosed sidewalk cafes to roadway seating and unenclosed café fees to sidewalk seating. A separate \$1,050 licensing fee would be charged to an estimated 1,000 new applicants a year, with a license renewal fee of \$525 assessed every two years. These revocable consent fees and licensing fees would generate annual revenues of around \$170 million.

This estimate assumes virtually all 12,000 Open Restaurant establishments will continue under the permanent program, with little or no growth in the number, at least for the next few years. We use the self-reported seating types and square footage in DOT's Open Restaurant application data, conservatively capping the size estimates at 600 square feet to account for measurement errors.

Proponents might argue that evocable consent fees are standard for other private structures on public street spaces, such as planters and kiosks, and it would be fair to include open restaurant seating. Revenues from consent fees and application fees could help offset the costs of hiring new DOT inspectors and staff to review permits, and would support the agency coordination necessary for enforcement of program health and safety standards.

Opponents might argue that these fees place an unfair burden on restaurants and bars, business which continue to be harmed by the pandemic to a greater degree than other retail establishments. They might also argue that such fees could preclude new or smaller restaurants from participating in the program, and may leave them more vulnerable if future emergencies once again limit indoor dining.

Open Outdoor Municipal Lots for Overnight Parking

Revenue: \$2 million annually

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

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

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

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

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

Revenue: \$36 million annually

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

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

Since residents register their passenger vehicles every two years, it is assumed that half of the 1.9 million registered vehicles would renew each year. Under the current \$30 biennial auto use tax, New York City collected \$33.6 million in revenue in 2021. Based on registration data by vehicle weight for New York City, 44 percent of city auto use payers would pay the \$40 fee and 56 percent would pay the \$100 fee, resulting in \$36 million in additional annual revenue.

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

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

Fares, Tolls, and Other Revenue Generators

Increase the Number of Tax Auditors in the City's Department of Finance

Revenue: \$165 million annually

Tax audits conducted by the city's Department of Finance (DOF) typically bring in over \$1 billion in city tax revenue in most years. The amount of revenue collected is sensitive to the Department of Finance's auditing efforts. The number of auditors on the DOF's payroll has been declining in recent years. After peaking in 2019 at more than 350 auditors, by 2022 headcount fell to about 75 percent of the peak, to a level not seen since at least 2013. Concurrently, audit revenue has generally declined, from a high of \$1.3 billion in 2018 to \$849 million in 2022.

Audits of the city's business income taxes—the corporation taxes and the unincorporated business tax—account for the vast majority of DOF audit revenue, about 82 percent on average in recent years. From 2014 through 2016, DOF made large investments in information technology within the audit unit in order to design and maintain systems that would more effectively identify those potential audits most likely to generate large amounts of revenue.

By comparing the historical relationship between the number of city auditors on the Department of Finance's payroll and the amount of tax audit revenue collected, IBO calculated average net revenue (audit collections minus salary and benefits) generated per auditor from 2017 through 2022, a starting year that captures the impact of newly employed information technologies on revenue. If the city were to hire 50 auditors, restoring staffing levels to their pre-pandemic average, IBO estimates that this could yield \$165 million in additional tax revenue annually.

Proponents might argue that tax audit revenue represents money that is owed to the city under existing tax law; it should have been already paid and is not a new or additional burden on the businesses or individuals who are audited. The amount of revenue that can be brought in exceeds the labor costs of conducting more audits, making this a sound financial decision for the city. They might also argue that as total tax revenue has continued to grow, in the long run, more effort should be made to ensure that the city is not losing out on revenue due to noncompliance, a sum which could be correspondingly growing as well.

Opponents might argue that audit revenue is a small percentage of total city tax revenue and that efforts to raise additional revenue should be focused elsewhere. They might also argue that since most audit revenue comes from the business income taxes, which are already very high in the city compared to other localities, increased compliance efforts and the costs incurred by businesses during the auditing process may deter business activity in the city. Finally, there would be diminishing returns to hiring additional auditors, because it is likely that the current system prioritizes audits that maximize revenues, and because the city would have to offer higher salaries to new hires in order to compete with the private sector.

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.

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.

Charge a Fee for Curbside Collection of Nonrecyclable Bulk Items

Revenue: \$44 million annually

The Department of Sanitation (DSNY) currently provides free removal of large items that do not fit in a bag or container as part of its residential curbside collection service. Bulk items that are predominantly or entirely metal, including washers, dryers, refrigerators, and air conditioners are collected as recycling, while all other bulk items are collected as refuse. Nonrecyclable bulk items, including mattresses, couches, carpet, and wood furniture, make up about 3.2 percent, or 93,000 tons, of New York City's residential refuse stream (61 bulk items per ton, in an average year). In 2020, the city spent \$12.9 million to export and landfill these items.

This option would have DSNY institute a \$15 fee for every nonrecyclable bulk item that they collect, generating around \$44 million in revenue in the first year. The fee could be paid through the purchase of a sticker or tag at various retailers, such as grocery and convenience stores, or directly from DSNY's website. The sticker or tag would be attached to the bulk item, once it is placed at the curb, making proof of payment easy for sanitation workers to see. Items would continue to be collected on regular trash days.

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

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

Opponents might argue that this fee would be difficult to implement and enforce in a large, dense city such as New York. Instituting a fee for what was previously a free service could increase illegal dumping of bulk items, which could require increased spending on enforcement and be a nuisance to nearby residents. Multifamily buildings, which often gather all residents' garbage in common areas, could face more difficulties with this new charge, as the building owners would be responsible for their tenants' behavior. They could be burdened with untraceable items and forced to pay the fee on their tenants' behalf. Opponents could also argue that the 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.

Establish a User Fee for Some Child Support Cases

Revenue: \$3 million annually

The New York City Office of Child Support Services (OCSS) offers a wide spectrum of services to custodial parents of children under 21 looking to collect child support, including locating the noncustodial parent and serving a summons, establishing paternity, securing child support orders, and collecting child support payments. In fiscal year 2021, OCSE collected \$858 million from noncustodial parents, continuing a significant upward trend in child support collections. Over 90 percent of the funds collected went to families, providing a vital source of financial support to thousands of custodial parents and children. The remainder went to reimburse the city for some of the cost of public assistance grants paid to OCSS clients who were also receiving cash assistance.

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

OCSS does not currently charge its clients for the child support services it provides. (New York State charges a fee of \$35 per year to custodial parents who have never been on cash assistance and receive over \$550 per year in child support.) Under this option, OCSS would charge custodial parents who have never been on cash assistance an annual fee equal to 1 percent of the child support collections they actually receive. IBO assumes that such a modest fee would not reduce the number of child support cases. Annual revenue from the new fee would total \$3 million. This option would require state legislation.

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

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

Make City Marshals City Employees

Revenue: \$11 million annually

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

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

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

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

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

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

Revenue: \$6 million in the first year

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

Under this option, new DOE employees starting work after June 30, 2022 would be subject to the same residency requirements that other city workers face and be required to make Section 1127 payments if they move out of the city. IBO estimates that imposing residency restrictions and Section 1127 payments on new DOE employees would have generated \$6 million in 2020 on 1,464 new hires residing outside the city. Revenue from this option would continue growing as newly hired employees, some of whom would choose to live outside the city, replace current nonresident employees who retire. Also, as these new employees move up the wage ladder, revenue from Section 1127 payments would increase. Enacting this option would require state legislation and a change in the city's Administrative Code.

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

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

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

Revenue: \$67 million per year for three years, \$25 million annually in subsequent years

Economic development programs in New York City are administered by the Economic Development Corporation (EDC), a nonprofit organization, under contract with the city. EDC operates and maintains city-owned real estate and can retain surplus revenue to fund its own initiatives, in addition to grant money that it receives from the city and other sources. Because EDC is a non-profit acting on behalf of the city, this spending does not appear in the city's budget.

EDC's real estate operations are extremely profitable. Since 2019, EDC earned an average of \$275 million in gross operating revenue each year from sources such as rental income from city-owned properties, income from the sale of city-owned assets, and developer and tenant fees. Related expenses have averaged \$121 million per year, leaving an average annual net operating income of \$154 million—a 56 percent profit margin.

EDC must remit some of this net income to the city, though the amount is subject to annual negotiations with the Mayor and the Comptroller. Over the past three years, EDC has paid the city an average of \$38 million a year. EDC is allowed to retain the rest of its net operating income—\$116 million on average—to pay for its own activities. These funds are in addition to grants it receives from the city and other sources, such as federal community development grants and capital project funds.

EDC retains surpluses and build up substantial cash reserves. At the end of 2021, EDC held \$108 million in unrestricted cash and investments. The Industrial Development Agency and Build NYC, two affiliated organization staffed by EDC employees, had additional unrestricted investments worth \$21 million.

This option would require EDC and its affiliates to remit their net operating income from real estate asset management activities to the city at the end of each fiscal year. Assuming EDC's recent staffing levels and programmatic spending are maintained, the transfer would net about \$25 million in city revenue, in addition to the funds the city currently receives from EDC. If the city were to sweep EDC's current unrestricted cash and investments over a three-year period, this would result in the transfer of another \$43 million per year for three years.

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

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

Resume Water Board Rental Payments

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

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

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

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

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

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

Surcharge on Gas-Inefficient Personal Vehicles

Revenue: \$22 million annually

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

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

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

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