New York City Independent Budget Office

April 2011

Budget Options

For New York City

IBO

New York City
Independent Budget Office
Ronnie Lowenstein, Director

110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632

Fax (212) 442-0350
iboenews@ibo.nyc.ny.us
www.ibo.nyc.ny.us

Contents

*denotes new option

Revenue Options

*denotes new option

*denotes new option

Introduction

Although New York City weathered the recession better than many other U.S. cities—and certainly better than most observers expected it to—the downturn still exacted a significant fiscal toll on the city. Facing up to the economic storm required repeated rounds of budget cuts by City Hall. Federal stimulus funds helped counter some of the potential consequences of the downturn. But the stimulus funds have largely been used and there is no reason to believe more help from Washington is on the horizon. And New York State's own fiscal problems have led to a cut of about $1 billion in anticipated aid from Albany for the coming fiscal year.

Along with the loss of a significant amount of state aid—and likely federal cutbacks to come—growing pension and health expenditures, debt service, and other costs continue to present the city with significant challenges. Can and should savings be found? Can and should tax or other local revenues be increased?

It is against this backdrop of tough fiscal decisions that IBO presents the 10th annual edition of its volume of *Budget Options for New York City*. This latest edition includes 62 options, including nine new ones, and many others that have been substantially reworked. Revisions include updates to our projections of the fiscal effects of the options as well as additional policy considerations. And if you have skimmed through the body of the report, you may have already noticed that it has been redesigned to make it easier to read.

IBO presents a set of arguments for and against implementing each of the measures presented here.

But while the look may have changed, the volume's basic framework remains the same. Our budget options report is designed to help policymakers and the public make informed choices about cutting spending or raising revenue. To do this we provide objective information and a synopsis of the pros and cons of numerous expenditure and tax measures. While IBO presents these measures as viable alternatives, we take no position on whether they should be implemented.

Like the Congressional Budget Office, which develops a similar volume for the federal government, our role is to analyze, not endorse.

Over the past decade a number of options presented in prior editions have been adopted such as the shifting of children from the child welfare system's congregate care facilities to family-based home care and the merging of the Department of Employment with the Department of Small Business Services. Most recently, the Tax Commission has adopted a fee for appealing assessments on properties valued at $2 million or more. We have not included a Tier V pension option in this edition because the Mayor has already budgeted for it in his financial plan.

The sources of the options considered in this volume are varied. Some options appear here because we have been asked by elected officials, civic leaders, or advocates to estimate their cost-savings or revenue potential. There are other options that developed out of the knowledge and insight of IBO's own budget analysts and economists. Regardless of its source, each budget option underwent the same thorough and impartial analysis.

The options presented here are by no means exhaustive. In no way does the report's inclusion—or omission—of specific budget options reflect an assessment of their viability or desirability.

We welcome your suggestions for inclusion in future budget options as well as comments on this new installment.

Savings Options

OPTION:

Eliminate Public Funding of Transportation For Private School Students

Savings: $37 million annually

New York State law requires that if city school districts provide transportation for students who are not disabled, the district must also provide equivalent transportation to private school students in like circumstances. Under Department of Education (DOE) regulations, students in kindergarten through 2nd grade must live more than a half mile from the school to qualify for free transportation; for students in the upper grades the minimum distance increases to 1.5 miles. The DOE provides several different types of transportation benefits including yellow bus service and full- and reduced-fare MetroCards.

DOE spends more than $262 million on the combined MetroCard and yellow bus service for general education students. In the 2009–2010 school year, 23 percent of general education students receiving full- or reduced-fare MetroCards attended private schools (roughly 134,000 children). In the same year, about 33 percent of general education students using yellow bus service attended private schools (about 28,000 children).

The MetroCard program is financed by the state, the city, and the Metropolitan Transportation Authority (MTA). The city's contribution has been $45 million for a number of years and this year the state is contributing $25 million; the MTA absorbs the remaining costs. Spending on yellow bus service in the current school year is expected to total $217 million, of which the city pays roughly $80 million, based on a 37 percent share of expenditures.

Elimination of the private school benefit, which would require a change in state law, could reduce city funding by roughly $37 million—$10 million for MetroCards (23 percent of the city's $45 million expense) and $26 million for yellow bus service.

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

Opponents might argue that the majority of private school students in New York attend religious schools rather than independent schools. Families using such schools are not on average much wealthier than those in public schools and the increased cost would be a burden in many cases. Additionally, the parochial schools enroll a large number of students and serve as a safety valve for already crowded public schools. If the elimination of the transportation benefit led many students to transfer into the public schools, the system would have difficulty accommodating them. Opponents also might argue that because parents of private school students support the public schools through tax dollars, they are entitled to some government services.

OPTION:

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

Savings: $46 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 professions. Originally, it was a two-year community college, but in the 1970's FIT began to confer bachelor's and master's degrees. Today the school has 23 bachelor degree programs along with six graduate programs, which account for nearly half its enrollment. Admission to FIT is selective, with fewer than half of applicants accepted; a large majority of its students are full-time and a substantial fraction are from out of state. Thus the school is a community college in name only; functionally, it is a four-year college.

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. Community colleges receive one-third of funding from state support, one-third from student tuition, and one-third from a "local sponsor." If FIT changes to a four-year SUNY college, it would have to rely more heavily on tuition, state aid, its own endowment or that of the state university system, 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 campus, it should be funded like any other SUNY campus. They might also argue that because New York City is a major fashion capitol, there are good prospects for philanthropic and industry support to make up for loss of local sponsorship. They might also say 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 state that the current economic downturn will lead to more students seeking higher education–especially affordable, well-regarded institutions like FIT–so tuition will remain strong revenue source, softening the blow of the loss of city funds.

Opponents might argue that the state has never met its current mandate for 40 percent 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 is there a guarantee that the funds would be available for other education department spending. And finally, they can say that other funding sources such as contributions from the business community are too unstable because they rely on the prevailing state of the economy.

OPTION:

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

Savings: $29 million annually beginning in 2019

Waste-to-energy (WTE) facilities generate electricity by burning nonrecyclable refuse. About 17 percent of garbage generated in the U.S. is converted into energy at 89 modern waste-to-energy facilities, although none exist in New York City. Modern plants produce fewer emissions than allowed under federal regulations and shrink the volume of waste they handle by 70 percent while generating electricity. A city-built WTE facility would also reduce pollution caused by exporting much of our waste to out-of-state landfills.

Currently, the city exports about 11,000 tons of waste per day. Most of it is transported to landfills as far away as Georgia and North Carolina. In 2010 the city's average cost to export waste to a landfill was $92 a ton. About 13 percent of the city's exported waste is processed in privately owned WTE plants in New Jersey, at a cost of about $70 per ton. The city is continuing the implementation of its Solid Waste Management Plan, which involves development of city-owned marine transfer stations to containerize waste and ship it by barge or rail, rather than trucks. Despite investments in the transfer stations, greater export distances, rising fuel costs, and a decreasing supply of landfill space will continue to drive up the city's future waste disposal costs. Total waste export costs reached $307 million in 2010 and are projected to grow substantially, at more than 6 percent a year on average through 2014.

If the city built its own WTE plant, equivalent to the size and capacity of an existing advanced technology plant, an additional 900,000 tons of refuse, about 27 percent of the city's annual waste exports, could be diverted from export and landfill. IBO estimates that the city would save $29 million annually on waste disposal once the WTE plant is up and running. The estimate is very sensitive to assumptions about waste export costs, as only a $10 increase in per ton export cost would raise the annual estimated savings to $37 million.

The estimate assumes the plant would cost $681 million, take three years to complete, and be financed with 30-year bonds at an interest rate of 6 percent a year. Site acquisition and securing the required permits from the state would take a considerable amount of time prior to construction. Once built, the cost of running the plant is assumed to be in line with comparable plants, while electricity generated is expected to bring in revenues of $0.11 per kilowatt hour, and the averted export costs are projected to reach approximately $140 per ton in 2019.

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

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

OPTION:

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

Savings: $15.1 million

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

In each of the last three school years (2008–2009, 2009–2010, and 2010–2011), the school system has opened an average of 29 new schools. These schools typically open with just one grade and then are allowed to grow by one grade each year until they reach their full complement. As such, they begin with a small number of students. The most common size of a first year school is 108 students. At their opening, these schools are provided with a start-up grant of about $100,000 to purchase books, supplies, and office and instructional equipment. In addition, in their first years, the administrative overhead of these schools is much higher on a per-pupil basis—as the salaries of the principal and general office are spread over a much smaller number of students.

If the school system were to cease opening new schools for one year, these additional costs would not be incurred. The students who would have attended these new schools would be absorbed into other schools without the addition of the 29 or so principals, other administrative staff, and start up costs. According to the 2009 School Based Expenditure Report, new small schools spend an average of $422,253 on their administrative staff and office. Assuming 29 schools would not be opened the one-year savings would amount to $12.2 million. Adding in the $2.9 million that the system provides as start up costs, the total one-year savings would be $15.1 million. Presumably, additional savings would also arise in the school system's central administration budget.

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

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

OPTION:

Eliminate Need for Citywide "Run-Off" Elections

Savings: $15 million (Represents potential savings every four years, beginning in fiscal year 2014.)

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

Eligible candidates competing in run-off elections receive an additional allocation of taxpayer-generated funds from the city's Campaign Finance Board. There are other costs such as for staffing polling sites with per diem employees for an additional day, printing ballots, trucking costs associated with transporting voting machines, and overtime for police officers assigned to each polling site. At present the staging of a citywide run-off election costs about $15 million, depending on the amount of matching funds for which candidates are eligible.

This option would save money by eliminating the need for run-off elections through the implementation of instant run-off voting (IRV). IRV has been implemented in a number of large cities across the country such as San Francisco, Memphis, Minneapolis, and Oakland. The New York State Senate passed a bill last year authorizing a three-year test of instant run-off voting.

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

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

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

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

OPTION:

Make Greater Use of Alternatives To Placement for Juveniles

Savings: $12 million annually

Since 2008, the city has sent an average of 1,380 juveniles annually to placement facilities in upstate New York. The total average annual cost for placement is close to $200 million. About 835 youth are placed in prison-like facilities run by the state's Office of Children and Family Services (OCFS), and about 545 youth—although not considered high risk but whose foster care status and lack of parental support and supervision necessitate the need for placement—are placed in nonprofit facilities under contract with the city's Administration for Children's Services.

The city reimburses OCFS for 50 percent of the nonfederal share of the cost of care for youth at state facilities and about 45 percent of the costs for placements in private facilities. Taking into account the number of placements in each type of facility, the weighted average of the annual cost to the city for a juvenile placement is about $65,000.

The city currently offers two community-based alternatives to placement programs: Esperanza, launched in 2003, a demonstration project of the nonprofit Vera Institute of Justice, and the Enhanced Supervision Program, created in 2005 by the Department of Probation. Each year, roughly 700 youth are served by these programs at a combined annual average cost to the city of about $6,000 per youth.

Under this option the city would divert an additional 200 juveniles each year from placement to alternative to placement programs. Department of Probation officials could choose the most appropriate candidates for these alternative programs based on the Probation Assessment Tool, an instrument created by the Department of Probation to aid in determining sentencing decisions. Diverting 200 juveniles would save the city about $12 million annually. This assumes that the state will not counter the reduction in the number of juvenile placements by increasing the per diem rate charged to the city.

Proponents might argue that it makes no sense to send troubled youth unnecessarily to more costly detention facilities when they can be better served by alternative programs. Preliminary data show that youth who participate and complete an alternative to placement program have a recidivism rate of 16 percent, compared with 50 percent for youth released from an OCFS facility. Therefore, the alternative programs may save even more money in the long run.

Opponents might argue that these programs are still in their early development and not enough data is available yet to determine how effective they are. They might also argue that requiring probation officials to reduce the number of juvenile delinquents sent to detention facilities could result in more dangerous offenders being allowed to remain on the streets of New York.

OPTION:

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

Savings: $250,000 and up annually

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

For example, many city agencies have licenses for statistical software such as SAS, SPSS, or Stata. These packages are used for evaluation, policy analysis, and management. One open-source option is R, an alternative that is popular with academic institutions and used at a variety of large corporations like IBM and Bank of America. A city agency with 20 SAS licenses would spend about $25,000 a year to maintain the licenses (there are volume discounts, so as an agency purchases more licenses, the per license cost decreases). If 10 agencies of roughly that size switched from SAS to R, the city could achieve savings of about $250,000 per year.

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

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

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

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

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

OPTION:
Citywide "Vote-by-Mail"

Savings: $7 million annually

Election Day poll sites no longer exist in Oregon or in all but one of 39 counties within the state of Washington. Instead, all registered voters in those jurisdictions receive their ballots in the mail three weeks before each election and then have the option of returning their completed ballots either by regular mail or by personally dropping them off at specially designated collection sites. Many counties and cities within Colorado, Arizona, and North Dakota have also discontinued poll site operations at least for off-year or primary elections and have instead adopted vote-by-mail.

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

Securing permission to institute vote-by-mail in New York City would result in annual savings of about $7 million, which would be attained largely from reduced personnel needs. On average, $18.0 million is spent annually by the city on about 30,000 per diem workers needed to staff elections at roughly 1,350 poll sites across the five boroughs. The city also spends about $2.5 million each year to transport voting machines to and from poll sites citywide and roughly $1 million on police overtime for officers assigned to polling places. Savings to the city from vote-by-mail would be even higher in those years (such as most recently 2009 and 2001) in which all poll sites needed to be open and staffed in late September for "run-off" elections required to decide party primaries.

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

Opponents might argue that poll sites have long been places of civic community and that the gathering of citizens at Election Day polling places is a venerable tradition that should be preserved. Opponents would also argue, notwithstanding claims to the contrary by officials in jurisdictions that have adopted vote-by-mail systems, that such a process would almost certainly increase the risk of fraud or abuse. For example, given the loss of the privacy enjoyed once one closes the curtain at a poll site, voters who have received their ballots in the mail could conceivably be either monetarily enticed or intimidated into filling out their ballots in a certain manner.

OPTION:

Eliminate Youth Connect

Savings: $255,000 annually

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

According to the Mayor's Management Report, Youth Connect received 46,685 calls in fiscal year 2010, down from 48,469 in 2009. Youth Connect's operating expenses for 2010 totaled about $255,000. The budget for the current year is $255,000.

Proponents might argue that the creation of 311 and Enhanced 311—the human services referral service—have made this hotline redundant. In fiscal year 2009, 311 received about 42,000 DYCD-related inquiries of the kind handled by Youth Connect. Furthermore, unlike the Youth Connect hotline, 311 is available 24 hours a day. Calls are referred to 311 when the hotline is not in service.

Opponents might argue that the hotline receives a large number of calls for services. In October of 2008, DYCD relaunched Youth Line as Youth Connect, an online expansion of its Youth Line call center. Currently, young people can stay connected through e-mail, text messaging, and social networking Web sites. They can also get news about youth services through the Youth Connect e-mail blast, an informational e-mail sent to multiple users, a service that is not available from 311.

OPTION:
Eviction Insurance Pilot Program

Savings: $219,000 annually and up

Beginning as a pilot program, the city would offer "eviction insurance" to households that are potentially at risk of homelessness. Participating households would pay a small monthly premium, and if faced with eviction, would receive funds to pay for back rent or legal fees. Since some of the households that would have been evicted in the absence of the program would have become homeless, by preventing the eviction, the city will save on emergency shelter expenditures.

IBO has assumed that the pilot program would include 1,000 households. At this size, the monthly premium would be $9.37, which would make the program fully self-sustaining, including the salary of one full-time staff person to administer it. The city's savings would come from reductions in the cost of emergency shelter. As the program is expanded, the monthly premium for individual households will fall, and the total savings to the city will rise. For example, if the program grew to 10,000 households, the monthly premium would be $6.74, and annual savings to the city in avoided shelter costs would be $2.2 million.

Proponents might argue that preventing homelessness is both less expensive and more humane than emergency shelter. Eviction insurance would be essentially self-supporting, so any reduction in shelter use represents a net gain for the city. An eviction insurance program would complement the existing system of emergency grants and loans that the city offers, but would be more consistent with the ethic of personal responsibility that underlies current welfare policy. (These grant and loan programs could be more narrowly targeted in order to promote participation in an insurance program.) Landlords might be more willing to rent to low-income households with eviction insurance, because it reduces their risk—both real and perceived. The city could require six months or more of premium payments before households would be eligible for insurance coverage, to prevent last-minute enrollments by those facing imminent eviction.

Opponents might argue that low-income households do not have the resources to pay even a modest premium. Particularly given that the city already offers grants and loans to prevent homelessness, it is not clear that there would be enough households willing and able to participate in an eviction insurance program to make it feasible. The existence of insurance protection could create a "moral hazard"—that is, by providing a safety net, it could undermine the normal incentive to pay rent. Moreover, if only those households facing imminent eviction take advantage of the program, the costs are likely to greatly outweigh the premium payments unless the latter are prohibitively high. Finally, it is not clear that eviction is a good predictor of future homelessness. If few of the participating households would have become homeless, savings will be limited.

OPTION:

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

Savings: $3.7 million annually

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

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

Average daily ridership on the ferry is around 59,000 passengers. On a typical weekday only 2 percent to 3 percent of these passengers travel after midnight and before 5:00 a.m. On weekdays there are five trips that leave Staten Island and six trips that leave Manhattan between 12:01 a.m. and 4:59 a.m. Express bus service between Manhattan and Staten Island is very limited during these hours.

The smallest ferry boats operated by DOT have a capacity of 1,280 passengers, and require a crew of nine plus one attendant. This capacity is far beyond what is needed during late nights. For several years DOT was planning to contract out its late-night ferry service to private companies in order to take advantage of these companies' smaller boats. DOT expected contracting out for smaller boats to save $1.5 million a year. However, the city continually postponed this action, and the current financial plan assumes that there will be no contracting out, at least through 2015.

The operating expenses of the Staten Island ferry are roughly $90 million per year. Late-night trips are around 11 percent of the total number of trips. Assuming that terminating late-night service would reduce operating expenses by 7 percent, the annual savings would be about $6.2 million. Based on Federal Transit Administration data for the MTA Bus Company, which provides a mix of local and express service in New York City, the operating expense of a bus trip between Manhattan and Staten Island would be around $260 per trip. The annual cost of providing bus service every 20 minutes to 30 minutes between midnight and 5:00 a.m. would be just under $2.5 million, giving a net savings of $3.7 million. We assume the buses would not charge a fare, as they would replace a fare-free service.

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

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

OPTION:

Collect Debt Service on Supportive Housing Loans

Savings:$2 million in 2012; $4 million in 2013; $6 million in 2014; $7.9 million in 2015

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

Collecting both principal and interest on new loans, which have averaged $51 million per year over the last five years, would yield $2.0 million in revenue in the first year, and grow as the total volume of outstanding loans grows. We assume the loans are made for a 30-year term. Collecting only the interest, while forgiving the principal, would yield less revenue, beginning with about $513,000 in the first year, growing to $1.9 million per year by 2015. Collecting only the principal would generate $1.7 million in 2012, rising to $6.8 million by 2015.

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

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

OPTION:

Establish Copayments for the Early Intervention Program

Savings: $5.5 million annually

The Early Intervention program (EI) provides developmentally disabled children up to the age of 3 with services through nonprofit agencies that contract with the Department of Health and Mental Hygiene (DOHMH). Eligibility does not depend on family income. With about 17,000 children participating at a time and a total cost of $490 million, the program accounts for more than a quarter of the total DOHMH budget.

EI is funded from a mix of private, city, state, and federal sources. For children with private health insurance, payment from the insurer is sought first, but relatively few such claims are paid; less than $19 million came from private insurance in 2010. Medicaid and Child Health Plus pay the full cost for children enrolled in those programs, with $253 million coming from those sources in 2010. The remaining costs are split equally between the city and the state. In recent years, the city has successfully increased the share of the program paid by Medicaid. As a result, the net cost of EI to New York City has declined from $129 million in 2006 to $104 million in 2010.

Under this option, the city would seek to further reduce these costs through the establishment of a 20 percent copayment for services to families that have private health insurance and incomes above 200 percent of the federal poverty level. In addition to raising revenue directly from the estimated 20 percent of EI families that fall into this category, this could increase payments from private insurers by giving participants an incentive to assist DOHMH in submitting claims. Cost-sharing would also reduce the number of families participating in EI; it is assumed here that one-fifth of affected families would leave the program. Institution of this cap would require approval from the state Legislature; state savings would be slightly greater than city savings—about $6 million—because there would also be a slight reduction in Medicaid spending. (Note that this only includes EI services in New York City; there would be additional savings for the state and for counties from services elsewhere in the state.)

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

Opponents might argue that the institution of a 20 percent copayment for EI services could lead to interruptions in service provision for children of families that, to reduce their out-of-pocket expenses, opt to move their children to less expensive service providers or out of EI altogether. They might further note that it is most efficient to seek savings in programs where the city pays a large share of costs; since the city pays for only a quarter of EI, savings here do relatively little for the city budget. Opponents might also argue that the creation of a copayment may be more expensive for the city in the long run, as children who do not receive EI services could require more costly services later in life. Finally, opponents might note that enrollment in the program has been stable since 2004, suggesting that the city should not be creating any new barriers to enrollment.

OPTION:
Pay-As-You-Throw

Savings: $252 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—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 6,000 communities across the country. PAYT programs, also called unit-based or variable-rate pricing, provide a direct economic incentive for residents to reduce waste: If a household throws away less, it pays less. Experience in other parts of the country suggests that PAYT programs may achieve reductions of 14 percent to 27 percent in the amount of waste put out for collection. There are a variety of different forms of PAYT programs using bags, tags, or cans in order to measure the amount of waste put out by a resident. Residents purchase either specially embossed bags or stickers to put on bags or containers put out for collection.

Based on sanitation department projections of annual refuse tonnage and waste disposal costs, each residential unit would pay an average of $74 a year for waste disposal in order to cover the cost of waste export, achieving a net savings of $252 million. A 14 percent reduction in waste would bring the average cost per household down to $64 and a 20 percent reduction would further lower the average cost to $59 per residential unit.

Proponents might argue that by making the end-user more cost-conscious the amount of waste requiring disposal will decrease, and in all likelihood the amount of material recycled would increase. They also point to the city’s implementation of metered billing for water and sewer services as evidence that such a program could be successfully implemented. To ease the cost burden on lower-income residents, about 10 percent of cities with PAYT programs have also implemented subsidy programs, which partially defray the cost while keeping some incentive to reduce waste. Proponents also suggest that starting implementation with Class 1 residential properties (one-, two-, and three-family homes) could help equalize the disparate tax rates between Class 1 and Class 2 residential buildings while achieving savings of $115 million. They also might argue that illegal dumping in other localities with PAYT programs has mostly been commercial, not residential, and that any needed increase in enforcement would pay for itself through the savings achieved.

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

OPTION:

Eliminate the Parent Coordinator Position

Savings: $86.7 million

In the 2003-2004 school year, as part of the Department of Education's (DOE) Children First reforms, each school was provided funding for a parent coordinator position. The position was created to foster parent engagement and to provide parents with tools to better participate in their childrens' education. The coordinators were to help facilitate communication between parents, administrators, and teachers.

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

Despite the existence of parent coordinators in schools for the last seven years, lack of communication between schools and parents is an oft-heard complaint. Former Chancellor Joel Klein, who instituted the parent coordinator position, has acknowledged that the DOE could have done a better job of communicating to parents the changes that came with his administration's efforts.

In the first year of the program, about 1,270 positions were budgeted at an annual salary of $34,000 plus fringe benefits. The total cost for these positions at that time was almost $50 million. For the 2010-2011 school year, 1,509 positions are budgeted at a citywide average salary of $41,512 along with an additional $500 allocation for supplies. The positions are now funded entirely with tax-levy dollars for a total cost of $86.7 million, including fringe benefits.

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

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

OPTION:

Have the Metropolitan Transportation Authority Administer Certain Civil Service Exams

Savings: $4 million annually

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

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

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

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

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

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

OPTION:

Replace 500 NYPD Police Officer Positions with Less Costly Civilian Personnel

Savings: $16.5 million annually

The New York City Police Department (NYPD) has a long-standing practice of using varying numbers of police officers to perform administrative and other support functions which do not require law enforcement expertise. In fact, the department acknowledged that as of September 2010 there were 621 fully capable police officers (personnel not restricted to light duty) performing such "civilianizable" functions.

Moreover, the city's February 2011 Financial Plan calls for full-time civilian or nonuniformed staffing within the department to decline by over 350 through attrition. This has led to a concern that an even greater number of police officers will need to spend time performing functions which could instead be performed by less costly civilian personnel.

This option proposes that 500 of the 621 positions which the NYPD reports are currently being staffed with full-duty police officers instead be staffed with newly hired civilian police personnel. The police officers currently in such positions would be redeployed to direct law enforcement activities, which in turn would allow for police officer staffing to eventually decline by 500 positions through attrition without a loss in enforcement strength. Net annual savings of $16.5 million would be generated as a result of lower costs associated with civilian as opposed to uniformed staffing.

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

Opponents might argue that while assigning trained law enforcement personnel to civilianizable activities may at times and to some extent be inefficient, replacing police officers with civilian personnel would result in a reduction in the agency's overall law enforcement and emergency response capabilities. This is because uniformed personnel currently working in support positions are—according to the police department—often redeployed at least temporarily, and sometimes at a moment's notice, to incidents such as demonstrations, special events, and public safety emergencies.

OPTION:

Allow Police Officers to Work Fewer but Longer Tours and Eliminate Some Paid "Wash Up" Time

Savings: $131 million annually

Police officers are contractually required to be scheduled to work a set number of hours each year before subtracting out vacation days, personal leave, and other excused absences. Each scheduled tour of duty currently lasts 8 hours and 35 minutes, with the final 35 minutes reserved for debriefing activities as well as for "washing up" and changing clothes before heading home.

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

Proponents might argue that the current amount of 35 minutes for debriefing and wash-up is excessive. Scaling this period back to 15 minutes would allow the police department to generate badly needed budget savings for the city by requiring police officers to work only a relative handful of additional tours each year.

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

OPTION:

Alter Staffing Pattern in EMS Advanced Life Support Ambulances

Savings: $4.2 million annually

The fire department's Emergency Medical Service (EMS) currently includes the staffing each day of about 150 Advanced Life Support (ALS) and some 400 Basic Life Support ambulance tours. 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.

New York City is the only jurisdiction in the entire 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 physician representatives 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 Committee (NYC-REMAC).

In 2005 the city unsuccessfully petitioned NYC-REMAC for permission to staff ALS ambulance units with only one paramedic, 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-REMAC for similar permission but thus far the double-paramedic staffing policy applicable to the city remains in place.

Proponents might argue as did the fire department in 2005, that the agency's ability to meet its internal performance objectives related to ALS response time necessitates the deployment of additional ALS ambulance units. Under existing staffing protocols, however, this would require hiring more paramedics which the agency has argued is exceedingly difficult given the shortage of paramedics in the labor market. Also, New York City is the only jurisdiction within the state where ALS units are required to be staffed with two paramedics.

Opponents might argue that the city should not risk the diminished medical expertise that could result from the removal of one of the two paramedics currently assigned to ALS units. A more appropriate solution to the city's desire to deploy more ALS units would instead be an increase in pay for paramedics, thereby improving our ability to recruit and retain such highly skilled emergency medical personnel.

OPTION:

Encourage Classroom Teachers to Serve Jury Duty During Noninstructional Summer Months

Savings: $2.4 million annually

Under this option teachers who are not expected to teach summer school would be encouraged to defer jury duty service until the summer when regular school is not in session. Use of per diem substitutes would decline, which would produce savings by reducing the budget to cover absences. Savings would be equal to the number of teachers who serve jury duty when school is in session (5,160) times the average duration of jury duty (three days) times the per diem rate for substitutes ($155).

Over the course of one year, 600,000 people serve jury duty in New York. On any given day, civil and criminal courts in Manhattan alone require anywhere between 1,800 to 2,000 jurors. Under current law any person who is summoned to serve as a juror has the right to be absent from work and the Department of Education is required to cover every teacher absence with an appropriate substitute.

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

Opponents might argue that teachers need to be able to fully relax and recharge during the summer months. Deferral of jury duty might otherwise hinder family vacation plans. Given the size of the education department's teaching force, it is also possible that deferral of all teacher jury service to the summer could result in concentrations of teachers in the jury pools over the summer.

OPTION:

Establish a Four-Day Work Week For Some City Employees

Savings: $25.1 million in 2012; $50.2 million in 2013; and $75.2 million in 2014

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

Employees at city agencies involved in public safety, transportation, code enforcement, and other critical operations would retain the current five-day workweek, as would all employees of schools and hospitals. Under these assumptions the change would apply to agencies with a total of about 31,500 employees currently working a 35 hour week. If these employees were required to work one additional hour per week, 875 fewer employees would be needed. We assume that the reduction in staffing would take place over three years through attrition and redeployment of personnel to fill vacancies in other agencies.

This proposed option requires the consent of the affected unions.

Proponents might argue that workers would welcome the opportunity to work one additional hour per week without additional compensation because of the desirability of commuting to work only four days a week instead of five. Although affected city offices would be closed one weekday, they would be open two hours longer on the remaining four days of the week thereby allowing for more convenient access by the public. Although not factored into our projection of potential savings, keeping city offices open just four days a week is likely to result in reduced utility, energy, and other costs.

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

OPTION:

Increase the Workweek for Municipal Employees to 40 Hours

Savings: $156.0 million in 2012; $321.4 million in 2013; $496.6 million in 2014

This proposal would increase to 40 the number of hours worked by roughly 63,000 nonmanagerial city employees currently scheduled to work 35 hours or 37.5 hours per week. Uniformed employees and teachers at the Department of Education and the City University of New York would be excluded. With city employees working a longer week, agencies could generate the same output with fewer employees and thus save on wages and benefits.

If employees who currently work 35 hours a week instead work 40 hours, the city would require 12.5 percent fewer workers to cover the same number of hours. Similarly, increasing the hours of employees who currently work 37.5 hours per week to 40 hours would allow the city to use 6.25 percent fewer workers. IBO estimates that some 7,600 positions could be eliminated if this proposal were implemented—or about 12 percent of nonmanagerial, nonpedagogical civilian positions.

Assuming that the city would achieve the staff reductions called for through this proposal gradually by attrition as opposed to layoffs, savings in the first year could be $156.0 million, increasing to $496.6 million annually by 2014.

This proposal would require collective bargaining.

Proponents might argue that the serious fiscal challenges facing the city justify implementation of this proposal calling for increased productivity on the part of thousands of city workers. They might also argue that many private-sector employers require 40-hour workweeks, as does the federal government and numerous other public-sector jurisdictions.

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

OPTION:

Change the Formula for Determining Pension Benefits for Newly Hired Civilians

Savings: $8.7 million in 2014; $18.5 million in 2015; $29.3 in 2016; increasing in later years

Under state law, most civilian city employees retiring at age 57 or above and with less than 20 years of service receive pensions equal to 1.67 percent times years of service times final average salary. For those with 20 years to 30 years of service, the formula is 2.0 percent times years of service times final average salary, so earning a pension equal to 50 percent of final average salary requires 25 years of creditable service.

Under this option, the new defined-benefit formula for workers in the New York City Employees' Retirement System and Board of Education Retirement System with 20 years to 30 years of service would be 1.85 percent times years of service times final average salary. With the 1.85 percent multiplier, a pension equal to 50 percent of final average salary would require 27 years of creditable service.

There would be no change for those who retire with less than 20 years of service. As with other pension changes, this option would only apply to new employees and would require state legislation. Savings would begin three years after enactment, and then grow steadily for many years as the share of employees subject to the new rules increased.

Proponents might argue that because defined-benefit pension plans are increasingly rare, the city can make cost-saving changes to its defined-benefit plans with minimal effect on its ability to recruit workers. They might also note that some other public pension systems have pension multiplier factors lower than New York's. The pension multiplier in New Jersey is 1.82 percent. They might also argue that this change could help with retention, because employees might stay for an additional two years to get a full 50 percent. Finally, they might note that by encouraging workers to delay retirement, this proposal would eventually produce savings on retiree health benefits; these savings would not be realized for many years, however, since retiree health benefits, unlike pensions, are funded on a pay-as-you-go basis.

Opponents might argue that New York City will have difficulty recruiting a strong workforce if pension benefits are eroded because the relatively generous city benefits package has compensated for the lower wages offered by the city, as compared with the private sector. They also might argue that creation of a new pension tier would result in workers in the same job title getting different pension benefits depending only on the date they began employment, which in turn could lead to discord among the city workforce and reduce productivity—a common problem in systems with multiple benefit tiers.

OPTION:

Institute a Defined-Contribution Pension Plan for New Civilian Workers

Savings: $13.5 million in 2014 and $27.7 million in 2015; increasing in later years

Most full-time city nonpedagogical employees are members of either the New York City Employees' Retirement System (NYCERS) or the Board of Education Retirement System (BERS). Both pension plans provide defined benefits, meaning that benefit levels are determined under state law by a formula that takes into account years of service and earnings history. Employees contribute a fixed percentage of earnings for a specified period, and the city contributes the amount necessary to ensure that the expected benefits will be paid. Most new employees are eligible to retire with benefits at age 57, provided they have at least five years of creditable NYCERS or BERS service.

This proposal would establish a new defined-contribution pension plan to replace the current NYCERS and BERS defined-benefit plans for newly hired nonpedagogical civilian workers. The city would contribute 7 percent of each employee's salary to a 457-type account, and the employee could make additional tax-deferred contributions up to the legal limit. Employees would control their individual portfolios, given a menu of investment options. Workers and retirees under the older pension rules would not be affected by these changes.

Savings for the city would depend on both the city's specific contribution rate defined in the new system and the amount the city would have contributed to existing defined-benefit funds. The latter depends on expected investment returns on pension funds, employees' work and salary histories, retiree longevity, and provisions of the pension plans under state law. IBO estimates that pension costs for new employees would initially decline about $12.8 million for NYCERS and about $700,000 for BERS. Assuming no significant change in the city's contribution rate under the defined-benefit plan, the savings would rise gradually over time as the share of workers in the defined-contribution plan and their average tenure rose. However, the savings from a shift to defined-contribution pensions could vary greatly over time because all of the variables that determine the city contribution to the defined-benefit plan can change significantly. For example, market earnings on investments can rise or fall, large numbers of workers can retire earlier or later than expected, and retirees can live longer than assumed.

Proponents might argue that this proposal would provide significant savings to the city while giving city workers additional flexibility in their retirement savings because workers who leave city service could roll their defined-contribution plan balances into Individual Retirement Accounts or other employer plans, a particularly attractive feature for younger and more mobile workers. If there is concern about workers leaving city employment too quickly with the city's contribution, the plan might be modified to require a minimum number of years of service before the city's contribution and accumulated earnings on that contribution would become portable.

Opponents might argue that a switch to a defined-contribution plan would transfer market risk from the city to its workforce. They could point out that some workers might have lower benefit levels than provided by the current plan, particularly if they retire shortly after a market downturn. Additionally, retention could be hurt by the switch because the current defined-benefit plan rewards long-term service by eliminating workers' 3 percent contribution at 10 years and significantly increasing benefits per year of service at 20 years; the proposed plan would not have comparable thresholds. Opponents might also note that defined-contribution plans do not protect workers who become disabled before retirement, unlike traditional pension plans which offer disability benefits.

OPTION:

Bonus Pay to Reduce Sick Leave Usage Among Correction Officers

Savings: $6.6 million annually

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

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

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

The average base salary for correction officers is currently $66,847. Therefore, the bonus for an officer who uses no sick days in a six-month period would be $334 and drop to $84 for an officer using three days. To achieve net savings, the proposal would need to reduce the costliness of sick leave usage by an amount greater than the sum paid out in bonus pay.

IBO's net annual savings estimate of $6.6 million, based on actual sick leave usage by correction officers, assumes that all officers currently using 10 or fewer sick days per year would respond to the incentive by reducing their annual sick leave usage by three days. We assume that officers already using no more than three sick days per year would respond to the incentive by taking no sick days, and thereby qualify for maximum bonus pay.

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

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

OPTION:

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds for City Employees

Savings: About $9.7 million annually

New York City spends more than $1.1 billion annually on “supplemental employee benefits.” These expenditures take the form of city contributions to numerous union-administered funds which supplement benefits provided by the city to employees and retirees. Dental care, optical care, and prescription drug coverage are examples of supplemental benefits.

Consolidating these supplemental health and welfare benefit funds into a single fund serving all union members would yield savings because of economies of scale in administration and perhaps enhanced bargaining power when negotiating prices for services with contractors. Many small funds currently represent fewer than 5,000 members. In contrast, District Council 37’s welfare fund membership exceeds 158,000. Although the specific benefits packages offered to some members may change, IBO assumes no overall benefit reduction would be required because of consolidation of the funds.

Using data from the December 2010 Comptroller’s audit of the union benefit funds, IBO estimates that fund consolidation could save about $9.7 million annually. Our main assumption is that fund consolidation could allow annual administrative expenses for 62 relatively small funds to be reduced from their current average of $137 per member to $115 per member, the cost of administering the District Council 37 fund.

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

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

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

OPTION:

Health Insurance Contribution by City Employees and Retirees

Savings: $496 million in 2012; $543 million in 2013; and $595 million in 2014

City expenditures on employee and retiree health insurance have increased sharply over the past decade. Furthermore, the Mayor's office projects that health insurance premiums paid by the city will increase by 11.5 percent in 2012 and by 9.5 percent annually in each of the subsequent two years.

Savings could be achieved by requiring all city workers and those retirees not yet on Medicare to contribute 10 percent of the cost now borne by the city for their health insurance. At present, more than 90 percent of city employees are enrolled either in General Health Incorporated (GHI) or Health Insurance Plan of New York (HIP) and therefore pay no premiums.

Implementation of this proposal would need to be negotiated with the respective municipal unions.

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

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

OPTION:

Increase Private Insurance Payments For Early Intervention

Savings: $11 million annually

About 25 percent of children enrolled in the Early Intervention (EI) program have private insurance. By law, the city is supposed to bill these insurers for EI services, then bill Medicaid for services for Medicaid-eligible children; costs paid neither by private insurance nor by Medicaid are divided equally between the city and the state. But while the city has successfully increased the share of costs paid by Medicaid, the fraction paid by private insurance is still extremely low—less than 4 percent in 2010.

A bill recently introduced in the state Legislature and supported by Governor Cuomo, A.384, would increase insurance payments for EI by requiring insurers to cover EI services and by prohibiting denial of EI claims on the grounds that the claims were not preauthorized, not medically necessary or not eligible given the duration of a child's condition, not referred by the child's primary care physician, or because medical care had been provided by an out-of-network provider. Since the majority of denials of EI claims by insurers are for reasons covered by A.384, this has the potential to significantly increase private insurance revenue for the program. In states with similar laws, such as New Jersey, Connecticut, and Massachusetts, the fraction of EI costs covered by private insurance ranges from 10 percent to 60 percent.

The share of EI costs covered by private insurance is likely to be lower in New York than in other states because in New York—unlike New Jersey, Connecticut, and Massachusetts—the majority of EI families do not have private insurance. Under the proposed legislation, IBO projects that at least 17 percent of the 317,000 annual claims denied by private insurers would be paid, yielding an estimated $21 million in revenue, divided equally between city and state. Additional administrative costs would be modest because the city already submits claims for all children for whom private insurance information is available.

Proponents might argue that it is appropriate for private health insurers to pay for Early Intervention, given the program's clear health benefits. They might further argue that given the incentives facing insurers, they will inevitably seek to shift costs to taxpayers, so proactive measures such as this are needed to preserve an appropriate balance of costs between the private and public sectors. They might also contend that the city's success in increasing Medicaid payments for EI, and the effectiveness of similar laws in other states, demonstrates the potential of improved claiming as a way of offsetting costs for this valuable but costly program. Governor Andrew Cuomo's state budget includes the expectation of increased payments by private insurers.

Opponents might argue that taking advantage of the new law would require more aggressive claiming, the cost of which could offset much of the savings, and that insurers will simply find new grounds not explicitly prohibited on which to deny claims. In addition, they might argue that the city should be seeking genuine cost reductions in the program, rather than simply shifting costs to insurers, especially since insurers will likely try to pass them on in the form of higher premiums.

OPTION:

Increase State Reimbursement for Certain Criminal Justice Costs

Savings: $28 million annually

Under current state law, certain criminal justice costs are shared between localities and the state. Over time, the state's reimbursement for probation services has declined; this option would raise the state's share for probation services to 50 percent. In addition the cost of new city-funded alternative programs with the potential to avoid costly placement of juvenile delinquents would be shared equally—potentially generating savings for both the city and the state, which bears the full cost of incarceration of adult felons, and half the cost of placement of juvenile delinquents.

Under New York State's Executive Law 246, the state reimburses up to 50 percent of eligible local probation services costs. As recently as 1986, New York State reimbursed county probation departments for nearly 47 percent of their total budgets. However, the amount of state funding has dropped significantly over the years, and recently has reimbursed the city for only about 19 percent of approved expenditures. Yet the responsibilities of the city's Department of Probation have increased in areas such as DNA testing and sex-offender registration.

The Department of Probation also operates or oversees several programs designed to provide eligible alleged juvenile delinquents with an alternative to detention in the city's detention facilities, and to provide juveniles found to be delinquent with an alternative to placement in state custody. To the extent that these programs divert youth from detention and placement, these alternatives—which are far less expensive—save both the city and state money, although they are primarily funded by the city.

Restoring the state's contribution to 50 percent would provide $24 million each year for New York City probation services, and making alternative programs eligible for reimbursement would save the city another $4 million. The support of New York's Governor and Legislature would be required to implement this proposal.

Proponents might argue that historically the state has been a more equal partner in funding local probation services. If state funding for probation continues to erode, the quality of probation services may suffer, especially given that the city's probation department supervises roughly 39 percent of all probationers and 51 percent of all felons on probation in the state. As probation is an alternative to incarceration, the state benefits directly when felons are placed under probation rather than incarcerated in prisons, for which the state bears the bulk of the cost. Similarly, the costs of alternative programs should be shared because both the city and state benefit from avoiding the higher costs of detention and placement. Moreover, alternatives allow youth to remain in the community and schools, potentially decreasing recidivism by avoiding difficult transitions from detention or placement back into the community.

Opponents might argue that New York State Executive Law 246 allows for a statutory cap but does not require a minimum contribution for local probation services. They might also argue that the alternative programs developed by the city may serve youth who would have otherwise been released to their families pre-adjudication, or placed under supervision post-adjudication, and, therefore, would not yield the expected savings.

OPTION:

Reduce Medicare Part B Reimbursement By 50 Percent for Retirees

Savings: $126 million in 2012; $140 million in 2013; and $156 million in 2014

Eligible city retirees are currently entitled to three types of retiree fringe benefits: retiree health insurance, retiree welfare fund benefits, and reimbursement of Medicare Part B premiums. Medicare Part B helps cover medically necessary doctors' services, outpatient care, home health services, and some preventive services.

At present, New York City fully reimburses standard Medicare Part B premiums paid by retirees, currently $1,326 per year for individuals and $2,652 per year for couples. The city also fully reimburses the higher Medicare Part B premiums paid by individuals with annual income above $85,000 and couples with income above $170,000.

Starting during the Koch Administration, the Medicare Part B reimbursement rate, which had been 100 percent, was reduced several times. In 2001, however, the City Council restored the current 100 percent reimbursement rate over the veto of Mayor Giuliani.

Under this option, New York City would reduce Medicare Part B reimbursements to 50 percent of premium cost. Implementation of this option would require neither state legislation nor collective bargaining, but could instead be implemented through City Council legislation.

Proponents might argue that this change is warranted during these difficult fiscal times, particularly because the city already provides its retirees with more than ample pension and health care benefits. Proponents might also note that many employers do not offer Medicare Part B reimbursements as part of retiree fringe benefit packages at all, and those who do typically offer only partial rather than full reimbursement. Boston, for example, has a 50 percent Medicare Part B reimbursement program for eligible city retirees.

Opponents might argue that this reduction in the Medicare Part B reimbursement rate would have a disproportionate impact on lower-income retirees, many of whom struggle to survive on their pension and Social Security checks. They might argue that if any reduction is to take place, reimbursement levels should be reduced only for high-income retirees or for future retirees who would at least have more time to adjust.

OPTION:

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

Savings: $91 million annually

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

Existing state court standards call for no felony cases in New York State to be pending in Supreme Court for more than six months at the time of disposition. In calendar year 2009, however, more than 1,700 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 $209 per day, the city would realize annual revenue of about $91 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 for other categories of already convicted state inmates temporarily held in city jails for a number of reasons (e.g., parole violations and newly sentenced "state readies"). The reimbursement sought with this option is associated with long-term pretrial detention time served by inmates who are later convicted and sentenced to multiyear terms in the prison system.

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

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

Revenue Options

OPTION:
Commuter Tax Restoration

Revenue: $735 million in 2012

One option to increase city revenues would be to restore the nonresident earnings component of the personal income tax (PIT), known more commonly as the commuter tax. Beginning in 1971, when it was established, the tax had equaled 0.45 percent of wages and salaries earned in the city by commuters and 0.65 percent of self-employment income. Twelve years ago the New York State Legislature repealed the tax, effective July 1, 1999. If the Legislature were to restore the commuter tax at its former rates effective on July 1 of this year, the city's PIT collections would increase by an estimated $735 million in 2012 and increasing amounts in later years.

Proponents might argue that people who work in the city, whether a resident or not, rely on police, fire, sanitation, transportation, and other city services and thus should assume some of the cost of providing these services. Revenue from the tax could be dedicated to specific uses that are likely to benefit commuters, such as transportation infrastructure or police, fire, and sanitation in business districts. 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 2008 indicate that among those working full-time in the city, the median earnings of commuters was $75,000, compared with $41,000 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 out. Finally, some might argue for reinstating the commuter tax on the grounds that the political process which led to its elimination was inherently unfair in spite of various 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 find it difficult to attract the best employees for city-based jobs or self-employed commuters (including those holding lucrative financial, legal, advertising, 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 dampening the city's economic growth 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, at the time that the state Legislature repealed the commuter tax, suburban legislators argued that it was fair to provide commuters with a tax cut because city residents had benefited greatly from the elimination of the 12.5 percent ("criminal justice") surcharge, which in terms of absolute dollar amounts (though not percentage terms) was about one-third greater than the nonresident tax that was repealed.

OPTION:

Establish a Progressive Commuter Tax

Revenue: $1.3 billion in 2012

Another option to increase city revenues would be to establish a progressive commuter tax—one in which commuters with higher incomes are taxed at higher rates, similar to how city residents are taxed though at only one-third the resident rates. Regardless of where it is earned, the commuter's entire taxable income would be subject to a progressively structured tax, though the resulting liability would then be reduced in proportion to the share of total income actually earned in New York—comparable to how New York State taxes nonresidents who earn some or all of their income within its borders. Mayor Bloomberg proposed such a tax in November 2002, but he called for taxing city residents and commuters at the same rates. Enacting this proposal requires state approval. If a progressive commuter tax at one-third the rates of the resident tax (0.97 percent in the lowest tax bracket to 1.29 percent in the highest) were to begin on July 1, 2011, the boost to city revenues would be substantial: $1.3 billion in 2012 and increasing amounts in later years.

Proponents might argue that people who work here, whether a resident or not, rely on basic city services, so commuters should bear some portion of the cost of providing these services. Because it would tax upper-income families at higher rates than it would moderate-income families, a progressive commuter tax would be fairer than the former tax, which taxed income earned in the city at flat rates (0.45 percent of wages and salaries and 0.65 percent of self-employed income). As estimated for calendar year 2011, 51.0 percent of all commuters will have annual incomes above $125,000 (compared with 9.5 percent of all city resident filers); this group would also be responsible for about 87.8 percent of the commuter tax liability, so the tax would primarily be borne by households who can best afford it. Moreover, residents of New Jersey and Connecticut, who constitute most out-of-state commuters and tend to have higher city-based incomes than do in-state commuters, would be able to receive a credit against their state personal income tax for a portion of their commuter tax liability, thus offsetting some of their additional tax burden. To a greater extent than just restoring the old tax, a progressive commuter tax would lessen the disparity of the respective income tax burdens facing residents and nonresidents and thus reduce the incentive for current residents working in the city to move out.

Opponents might argue that any commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. The adverse economic effects of the proposed progressive tax would be worse than those of the former commuter tax because the progressive tax's rate would be higher; average tax liability in 2011 would be an estimated $1,578. 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, advertising, and other partnerships) are induced to leave the city, the employment base and number of businesses would shrink. The tax would also make the New York region a relatively less attractive place for new businesses to relocate. Another possible argument against the commuter tax is that the companies that commuters typically work for already pay relatively high business income taxes and high commercial property taxes, which should provide the city enough revenue to pay for the services that commuters use.

OPTION:

Personal Income Tax Increase For High-Income Residents

Revenue: $450 million in 2012; increasing in subsequent years

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

This option would increase current marginal tax rates by a tenth for single filers with taxable incomes above $150,000, for joint filers with incomes above $200,000, and for heads of household with incomes above $175,000. The change would effectively add a bracket in which income above these thresholds up to $500,000 would be taxed at the rate of 4.013 percent. The top bracket marginal rate would become 4.264 percent.

This option is similar in structure to the 2003–2005 PIT increase that raised upper-income tax burdens, but the rate increases kick in at higher income levels and are between 0.5 percentage point and 0.7 percentage point lower than the 2003-2005 increases. This option also differs in that it does not include the 2003–2005 “recapture provisions” under which some or all of taxable incomes not in the highest brackets were taxed at the highest marginal rates. If the higher rates of this proposal went into effect at the beginning of fiscal year 2012, the city would receive an additional $450 million of PIT revenue in 2012 and more each subsequent year. This tax change would require approval by the state Legislature.

Proponents might argue that the recent PIT increases would provide a substantial boost to city revenues without affecting the vast majority of city residents. Only 7.8 percent of all city resident tax filers in 2012 would pay more under this proposal; all of them would have adjusted gross incomes above $175,000. There is no evidence that these affluent New Yorkers left the city in response to the recent three-year tax increase, even with a larger state income tax increase also enacted at the same time. Also, this proposal avoids burdensome recapture provisions and features far smaller tax increases than those enacted from 2003 through 2005, so most of the affected taxpayers would bear less of a tax increase than they did previously. Finally, for taxpayers who do not pay the alternative minimum tax and are able to itemize deductions, increases in city PIT burdens would be partially offset by reductions in federal income tax liability, lessening incentives for the most affluent to move from the city.

Opponents might argue New Yorkers are already among the most heavily taxed in the nation and a further increase in their tax burden is likely to induce movement out of the city. New York is one of only three among the largest U.S. cities to impose a personal income tax, and its PIT burden is second only to Philadelphia’s. Tax increases only exacerbate the city’s competitive disadvantage with respect to other areas of the country. Even if less burdensome than the 2003-2005 increase, city residents earning more than $500,000 would pay, on average, an additional $8,500 in income taxes in calendar year 2012. These taxpayers are projected to account for 53.0 percent of the city’s PIT revenue in that year, were the option to be enacted. If 5 percent of them were to leave the city in response to higher taxes, this option would yield $212 million less PIT revenue per year (assuming those moving had average tax liabilities for the group).

OPTION:

Restructure Personal Income Tax Rates To Create a More Progressive Tax

Revenue: $305 million in 2012; increasing in subsequent years

This option would create a more progressive structure of personal income tax (PIT) rates by reducing marginal rates in the bottom income brackets and raising marginal rates for high-income filers. Unlike the temporary 2003-2005 PIT increase affecting upper-income filers, this option would provide both tax cuts to most resident tax filers and a lasting boost to city tax collections.

Under this option, there would be six tax brackets with the following effective marginal rates (including the 14 percent surcharge): The income ranges of the two lowest brackets would remain the same but their marginal rates would be reduced—from 2.91 percent and 3.53 percent to, respectively, 2.68 percent and 3.36 percent. The rates and income range of the third bracket would remain the same (3.59 percent) but what are now the two top brackets would become three. The fourth marginal rate would remain 3.65 percent but the bracket would end at taxable incomes of $175,000 for single filers, $225,000 for joint filers, and $150,000 for heads of households—lower than the current level of $500,000. The fifth bracket would have a marginal rate of 3.92 percent for all filers with incomes up to $500,000 while the marginal rate on higher incomes would rise to 4.26 percent, a 0.39 percentage point increase over the current top rate. This option does not include “recapture provisions,” so taxpayers in the top brackets would again benefit from the marginal rates in the lower brackets of the tax table.

If the new rates were approved by the state and went into effect at the beginning of fiscal year 2012, the city would receive an additional $305 million in PIT revenue in 2012 and increasing amounts in subsequent years.

Proponents might argue that a progressive restructuring of PIT base rates would simultaneously achieve several desirable outcomes: a lasting increase in city tax revenue, a tax cut for the majority of filers, and a more progressive tax rate structure. Restructuring would significantly heighten the progressivity of the PIT, which had been made less so in 1996 when the number of tax brackets was reduced. Restructuring has the advantage of providing tax cuts to and raising the disposable incomes of a large number of filers. A projected 73 percent of all tax filers would receive a tax cut in calendar year 2012. Finally, for taxpayers who do not pay the alternative minimum tax and who itemize deductions on their federal returns, increases in city PIT burdens would be partially offset by reductions in federal income tax liability, lessening disincentives for the most affluent to remain city residents.

Opponents might argue that if the principal goal of altering the PIT is to raise revenue, this option is somewhat inefficient. For 2012, the reductions in base rates in the bottom two tax brackets decrease the revenue-raising potential of the accompanying increases by about $145 million. This option would compound last year’s tax increase on filers with incomes above $500,000 due to New York State’s elimination of STAR PIT rate cuts for these filers. Filers with incomes above $1 million would still see their PIT liabilities rise on average by an estimated $16,500 in 2012. This large an increase could cause at least some of the most affluent to leave the city. If only 5 percent of “average” millionaires (about 1,100 filers) were to leave town, this option would yield $181 million less in PIT revenue per year, and over time this revenue loss would be further compounded by reductions in other city tax sources.

OPTION:

Extend the Mortgage Recording Tax

Revenue: $65 million in 2012; $75 million in 2013; and $85 million in 2014

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 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. Currently, sales of coop apartments are not subject to the MRT, since coop financing 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. Last year, Governor Paterson included this proposal in the budget he proposed in January and the Mayor subsequently included it in his Preliminary Budget as well. IBO estimates that extending the MRT would raise $65 million in 2012, increasing to $75 million in 2013, and $85 million in 2014, as the residential real estate market slowly recovers.

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

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

OPTION:

Raise Cap on Property Tax Assessment Increases

Revenue: $100 million in first year and $275 million to $400 million in fifth year

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

This change would bring in $100 million for fiscal year 2013 (with the assessment roll for fiscal year 2012 already largely complete, 2013 is the first year the option could be in effect) and $275 million to $400 million annually by the fifth year. These revenue estimates are highly sensitive to assumptions about changes in market values. The average property tax increase in the first year for Class 1 properties would be about $110.

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

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

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

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

OPTION:

Tax Vacant Residential Property the Same as Commercial Property

Revenue: $45.5 million in 2012, rising to $260.7 million per year when fully phased in

Under New York State law, a vacant property in New York City (but outside of Manhattan), which is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and has an area of no more than 10,000 square feet is currently taxed as Class 1 residential property. In fiscal year 2012, there are about 24,500 such vacant properties. As Class 1 property, these vacant lots are assessed at no more than 6 percent of full market value, with increases in assessed value due to appreciation capped at 6 percent per year and 20 percent over five years. In 2012 the median ratio of assessed value to full market value is expected to be 1.9 percent for these properties.

Under this option, which would require state approval, each vacant lot with an area of 2,500 square feet or more would be taxed as Class 4, or commercial property, which is assessed at 45 percent of full market value and has no caps on annual assessment growth. About 13,200 lots would be reclassified. Phasing in the increase in assessed value evenly over five years would generate $45.5 million in additional property tax revenue in the first year, and the total increment would grow by $53.8 million in each of the next four years. Assuming that rates remain at their 2012 levels, property tax revenue in the fifth and final year of the phase in would be $260.7 million higher than without this option.

Proponents might argue that vacant property should not enjoy the low assessment benefits of Class 1 that are meant for housing. They might also argue that this special tax treatment of vacant land discourages residential development, an unwise policy in a city with a critical housing shortage. Proponents might further note that the lot size restriction of 2,500 square feet (the median lot size for nonvacant Class 1 properties in New York City) would not create incentives to develop very small lots, and the city's zoning laws and land use review process also provide a safeguard against inappropriate development in residential areas.

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

OPTION:
Taxing Carried Interest Under the Unincorporated Business Tax

Revenue: $200 million per year (2012–2015 average)

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

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

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

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. Inducement to avoid the tax would be much smaller than under reclassification for federal income tax purposes. (The latter would raise the federal tax rate on carried interest from 15.0 percent to 37.9 percent. The city UBT rate is 4.0 percent, but personal income tax deductibility would lower the average impact closer to 2.2 percent.)

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 (such as dividends, interest, and rent) that is taxed as ordinary income, as well as income from labor services (for example, labor put into renovating a house) that is taxed as gains. By this criterion, most carried interest should continue to be taxed (or in the case of the UBT, exempted) as capital gains when it is a distribution from long-term investment fund gains. It may also be objected that New York City is already an outlier in its entity-level taxation of partnerships (neither the state nor the federal government do this), and any move to further enlarge the city business tax base ought to be offset by a reduction in the overall UBT rate. In this way, negative impacts on the scale of future investment company activity in the city might be mitigated by positive impacts on the scale of other business activities.

OPTION:

Collect PILOTs for Property Tax Exemption For Hospital Staff Housing

Revenue: $30 million annually

Under New York State law, all properties used by nonprofit hospitals to support their work are exempt from the city's real property tax. In 2012, according to the tentative assessment roll, the total cost to the city of these exemptions is expected to be $516 million.[1] Housing for staff, rather than hospital buildings, accounts for roughly 12 percent of the tax expenditure. In 2012 the tax expenditure associated with the exemption for hospital staff housing will be $60 million. The hospitals would make payments in lieu of taxes (PILOTs), either voluntarily or through state legislation. A PILOT for half the tax expenditure would generate $30 million for the city.

While many hospitals save less than $500,000 in property taxes through the exemption, some of the city's largest, best-known hospitals receive significant tax savings. Based on ownership recorded on the city's assessment roll, the tax expenditure for hospital housing in 2012 is projected to total $24.2 million for New York-Presbyterian Hospital, Columbia University and Weill Cornell Medical Centers, $7.4 million for Memorial Sloan-Kettering Cancer Center, $4.4 million for Mount Sinai Medical Center, $2.6 million for Maimondes Medical Center, $2.5 million for St. Luke's-Roosevelt Hospital Center, $2.4 million for Lutheran Medical Center, $1.4 million for Beth Israel Medical Center, and $1.4 million for Montefiore Medical Center.

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

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

Opponents might argue that the long hours typically worked by house staff and the benefit of having staff live near the hospital makes providing hospital staff housing a good policy choice. Additionally, the rents paid by house staff are presumably lower than comparable market rate rents, in which case some of the tax savings are being passed on to doctors in training in the form of a partial housing subsidy. They could note that hospitals facing higher costs when providing housing would seek to shift that burden to the hospital employees, patients, and/or government.

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

OPTION:

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

Revenue: $11.1 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 2010, the city issued exemptions to about 12,750 parcels with a total market value of $41.8 billion. Of these parcels, 57.5 percent were owned by religious organizations, 20.0 percent by charitable organizations, 9.0 percent by medical organizations, 8.7 percent by educational institutions, 3.1 percent were being considered for nonprofit use, and the remaining 1.7 percent were owned by benevolent, cultural, or historical organizations.

Included among the exemptions were around 1,050 vacant lots with a total market value of $707 million. The cost to the city for exempting the vacant lots is $12.6 million in 2011 and the median tax savings is $1,971. More than a quarter of the vacant lots are exempt due to ownership by a charitable institution and 11.4 percent are being considered for nonprofit use. Just under a third of the vacant lots are small, less than 2,500 square feet. The median tax expenditure (amount of taxes foregone) for a small vacant lot is $500, compared with $2,597 for a larger vacant lot.

This option, which would require a change in state law, would repeal the exemption 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 $11.1 million for the city.

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

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

OPTION:

Eliminate Property Tax Exemption for Madison Square Garden

Revenue: $15.4 million in 2012

This option would eliminate the real property tax exemption for Madison Square Garden (MSG or the Garden). For nearly three decades, the Garden has enjoyed a full exemption from its tax liability for the property it uses for sports, entertainment, expositions, conventions, and trade shows. In fiscal year 2012, the tax expenditure, or amount of foregone taxes, is expected to be $15.4 million. Under Article 4, Section 429 of the Real Property Tax law, the exemption is contingent upon the continued use of Madison Square Garden by professional major league hockey and basketball teams for their home games.

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

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

Opponents might argue that the presence of the teams continues to benefit the city economically and that foregoing $15.4 million is reasonable compared with the risk that the teams might leave the city. Some also might contend that reneging on the tax exemption would add to the impression that the city is not business-friendly. In recent years the city has entered into agreements with the Nets, Mets, and Yankees to subsidize new facilities for each of these teams. These agreements have leveled the playing field in terms of public subsidies for our major league teams. Eliminating the property tax exemption now for Madison Square Garden would be unfair.

OPTION:

Eliminate the Manhattan Resident Parking Tax Abatement

Revenue: $12 million annually

The city imposes a tax of 18.5 percent on garage parking in Manhattan. Manhattan residents who park a car long term are eligible to have a portion of this tax abated, and are instead charged a 10.5 percent tax. By eliminating this abatement, which requires state approval, the city would generate an additional $12 million annually.

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

They might also point out that the additional tax would be a small cost relative to the overall expense of owning and parking a car in Manhattan. The median monthly cost to park is $529 in downtown Manhattan, and $538 in midtown. The tax increase would be about $43 per month in midtown and downtown 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 very limited supply of street parking. Furthermore, cars are scarcely a luxury good for the many Manhattan residents who work outside the borough and rely on their cars to commute. Eliminating the tax abatement could push these households to leave the city altogether. Finally, they could argue that, at least in certain neighborhoods, residents are essentially forced to pay the same premium rates charged to commuters from outside the city, which are higher than those charged in predominantly residential areas.

OPTION:

Extend the General Corporation Tax to Insurance Company Business Income

Revenue: $300 million annually

Insurance companies are the only large category of businesses that are currently exempt from New York City business taxes; the city's insurance corporation tax was eliminated in 1974. Insurance companies are subject to federal and state taxation. In New York State, life and health insurers pay a 7.5 percent tax on net income (or alternatively, a 9.0 percent tax on net income plus officers' compensation, or a 0.16 percent tax on capital) plus a 1.5 percent tax on premiums; nonlife insurers covering accident and health premiums pay a 1.75 percent tax on premiums; all other nonlife insurers pay a 2.0 percent tax on premiums.

Almost all states with insurance taxes provide for retaliatory taxation, under which an increase in State A's tax on the business conducted in A by insurance companies headquartered in State B will automatically trigger an increase in State B's tax on the business conducted in B by companies headquartered in State A. Like other states, New York includes a credit for retaliatory taxes in its insurance tax.

Reimposing the New York City tax on insurance companies would raise the combined state and local insurance tax rate in New York substantially above the national average and trigger widespread tax retaliation. However, the Department of Finance has suggested in its tax expenditure reports that extending the city's general corporation tax to insurance companies—that is, taxing the net income they earn in the city but not the premiums they are paid—could result in a less adverse retaliatory impact.

Proponents might argue that this tax would put insurance companies on more equal footing with other incorporated businesses in New York City. Retaliatory taxes would probably be imposed only by the states that retaliate against general corporate income taxation of insurance companies, avoiding the more widespread retaliation that would be triggered by a separate insurance corporation tax.

Opponents might argue that enough states base retaliation on total taxes and fees paid by insurers to make retaliation to a city general corporation tax on insurance companies a serious problem. More broadly, any extension of business income taxes would make New York City's tax structure even less "city-like": New York is one of the few American cities with business and personal income taxes, and these are on top of the more typical property and sales taxes also levied here. The additional taxes are often the focus of complaints that New York City is overtaxed and not "business-friendly."

OPTION:

Revise Coop/Condo Property Tax Abatement Program

Revenue: $132 million in 2012

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. A problem with this stopgap measure, which has subsequently been renewed twice, is that some apartment owners—particularly those residing east and west of Central Park—already had low property tax burdens. A December 2006 IBO study found that 40 percent of the abatement program's benefits go to apartment owners whose tax burdens were already as low, or lower, than that of Class 1 homeowners.

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

The additional revenue would vary depending on precisely how the exclusion was defined. The current "waste" in the program is estimated at $220 million in 2012 and will grow to $226 million by 2014. While it is unlikely that an exclusion like the ones discussed above could eliminate all of the inefficiency, it should be possible to reduce the waste by at least 60 percent.

Proponents might argue that such inefficiency in the tax system should never be tolerated, particularly at a time when the city faces significant 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 more than 10 years to come up with a revised program, but so far has failed to do so.

OPTION:

Secure Payments in Lieu of Taxes From Colleges and Universities

Revenue: $87 million annually

Under New York state law, real property owned by colleges and universities used in supporting their educational purpose is exempt from the city's real property tax. This exemption will cost the city $348.1 million in 2011 in foregone property tax revenue (often called a "tax expenditure").[1] Exemptions for student dormitories and additional student and faculty housing represent 24.7 percent ($85.9 million) of this total. Under this option, private colleges and universities in the city would make payments in lieu of taxes (PILOTs), either voluntarily or through legislation. A PILOT of 25 percent of the total tax expenditure would equal $87 million.

As an alternative, New York State could make the PILOT payments to New York City for the colleges and universities. The exempt institutions would continue to pay nothing. This fiscal year, the state of Connecticut will reimburse local governments for 77 percent of the tax revenue foregone on tax-exempt property owned by colleges, universities, and hospitals.

In 2009, Boston Mayor Menino established a task force on the city's PILOTs. Preliminary recommendations discussed in April 2010 include expanding the PILOTs to all nonprofits while keeping them voluntary, calculating the PILOTs based on assessed value rather than the cost of certain city services, phasing in the PILOTs, and allowing institutions credits for community benefits.

Other types of proposals to secure additional revenue from college and university students had been put forth in Pittsburgh and Rhode Island. The Mayor of Pittsburgh proposed a 1 percent tax on tuition in 2009, which was averted when two universities and a nonprofit organization agreed to contribute about $5 million a year to the city. Rhode Island considered but did not enact a proposal that would have allowed localities to assess colleges and universities a $150 per semester full-time nonresident student impact fee.

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

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 housing encourages faculty to live in the city and consume local goods and services, thereby paying income and sales taxes.

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

OPTION:
Tax Single-Use Disposable Plastic Bags

Revenue: $94 million annually

Single-use disposable plastic bags (such as those used in supermarkets and drug stores) are made of thin, lightweight film, typically from polyethylene, a petroleum-based material. Although plastic bags are a convenient way to transport purchased goods, they make up a significant part of the city's waste; in fact, plastic bags represent the largest share of plastic in the city's waste stream. Plastic bags make up about 2.9 percent, or 80,000 tons, of New York City's residential waste stream, according to the Department of Sanitation. In 2010, the city spent approximately $6.4 million to export and landfill plastic bags. Once in a landfill, it can take as long as 10 years to fully break down, though for some plastics it can take significantly longer.

Even if disposed of properly, single-use bags are often a source of litter in the city. Due to their light weight, plastic bags are often carried by wind into the surrounding environment where they degrade aesthetics, pollute waterways, and harm marine life. The city devotes considerable resources to collecting plastic bags, as well as cleaning up streets, catch basins, and surrounding waters. In the city, retailers purchase plastic bags in bulk for about 2 cents to 5 cents per bag. Although there is no separate charge for the bags, their cost is part of the retailers' general overhead which is passed on to consumers.

This option, which would institute a 6 cents per bag tax, would generate $94 million in revenue in the first year. In November 2008, the Bloomberg Administration proposed a tax on plastic bags as part of its budget, but the proposal was not enacted. Institution of this tax would require approval from the state Legislature.

IBO's estimate assumes that the tax would be collected along with the general sales tax at grocery, liquor, and drug stores throughout the city. Of the 6 cents, 4 cents would go to the city while 2 cents would be transferred to the retailer as an incentive for compliance. This estimate assumes a 20 percent reduction in the use of plastic bags in response to the tax, administrative and enforcement costs that would amount to 10 percent of total revenue generated, and a $1.4 million reduction in waste export costs due to fewer bags being thrown out. Over time, as consumers reduce their use of plastic bags, annual revenue would decline. City revenue would drop to $72 million if the use of plastic bags declined by 40 percent.

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

Opponents might argue that the tax may encourage city residents to shop in surrounding communities. They also might be concerned about increased costs to the consumer, potential effects on customer convenience, as well as compatibility of the tax with the current recycling program.

OPTION:

Tax Sugar-Sweetened Beverages

Revenue: $215 million annually

New York City residents consume nearly 400 million gallons of sugar-sweetened beverages each year, including soft drinks, fruit beverages, sports drinks, and others. Although these liquids have little nutritional value, sugar-sweetened beverages have become a staple of our modern food supply thanks to their low cost and extensive marketing. Scientific evidence suggests that drinking such beverages can increase the risk of obesity and related conditions like diabetes, heart disease, stroke, arthritis, and cancer. Many New Yorkers already suffer from these conditions: 35 percent of adults are overweight and another 22 percent are obese.

A tax on sugar-sweetened beverages could discourage consumption of high calorie drinks. An excise tax of half a cent per ounce levied on beverages with any added caloric sweetener could generate $215 million in additional revenue for the city, equivalent to 13 percent of the Department of Health and Mental Hygiene's total budget. Diet beverages or those sweetened with noncaloric sugar substitutes would not be subject to the tax.

New York State currently imposes an added sales tax of 4 percent on soft drinks sold in vending machines and grocery stores, equal to about 4 cents or 5 cents per 20-ounce bottle. That amount may be too low to affect consumption. The proposed excise tax would increase the cost of beverages by 7 percent on average, providing moderate incentive for consumers to choose water, milk, or another unsweetened drink for refreshment. In addition, the excise tax would discourage consumers from choosing larger portions to maximize value, as the tax would be proportional to the size rather than the price of a drink.

Proponents might argue that soda is not necessary for survival and offers no nutritional value. A tax-induced price increase would encourage consumers to substitute other beverages that have few if any negative health consequences such as milk or water. Additionally, soda is associated with costly conditions like obesity and diabetes which are often treated with public funds through Medicaid. A 2008 poll of New York State residents showed that 72 percent of those surveyed were in favor of a tax on sugary beverages if the revenue is used for obesity prevention and health promotion programs.

Opponents might argue that tax on sugar-sweetened beverages would disproportionately affect some consumers and may not lead to weight reduction. Such a tax is regressive, falling more heavily on low-income consumers. In addition, soft drink consumption is a relatively small part of the diet for overweight people and drinks that serve as substitutes for sugar-sweetened sodas may also be highly caloric, reducing the tax's impact on weight loss. Furthermore, it would adversely affect local retailers and producers who will see sales fall as consumption declines.

OPTION:

Impose Sales Tax on Capital Improvements

Revenue: $280 million annually

This option would increase city revenues by broadening the sales tax base to include capital improvement installation services. In New York, services such as landscaping and auto repair are taxed but other services to improve buildings or property such as the installation of central air systems, refinishing floors, and upgrading electrical wiring are not subject to sales tax. If New York City taxed capital improvements, it could collect an additional $280 million each year.

Proponents might argue that there is no economic distinction between capital improvements and other services and goods that are currently taxed: broadening the base would ensure a more neutral tax structure and decrease differential tax treatment. The present tax structure creates consumption distortions, which this proposal would diminish. It also might be argued that the sales tax as a whole would become less regressive since expenditures on capital improvement services rise as income rises.

Opponents might argue that this proposal could reduce the number of people employed in the capital improvement services. Small independent contractors and small firms, burdened by additional taxation, might leave the business or attempt to evade the tax. The tax would also produce a small disincentive to improve real property. They also could argue that because a portion of capital improvements are directed at improvement of business property, bringing those services into the sales tax base would further increase the number of business-to-business transactions subject to the tax, and businesses would in turn shift the burden of the tax onto consumers by increasing prices. They would point out that, ideally, sales taxes should only be imposed on the final sale to a consumer.

OPTION:

Tax Laundering, Dry Cleaning, And Similar Services

Revenue: $39 million annually

Currently, receipts from laundering, dry cleaning, tailoring, shoe repairing, and shoe shining services are excluded from the city and state sales tax. This option would lift the exemption, broadening the sales tax base to include these services. It would result in additional revenue of about $39 million annually.

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. Existing tax distortions create economic bias toward consumption of these services. By including laundering, dry cleaning, and other services in the sales tax base the city would decrease the economic inefficiency created by differences in tax treatment. The bulk of taxes would be paid by more affluent consumers who use such services more frequently, slightly decreasing the regressive nature of the sales tax.

Opponents might argue that laundering, tailoring, shoe repair, and similar services tend to be provided by the self-employed and small businesses, and these operators may not have accounting or bookkeeping skills and could have difficulties in collecting the tax. Some individuals and firms might be forced out of business. They could also argue that because a portion of laundering and dry cleaning receipts are actually paid by businesses (i.e. hotels and restaurants), bringing those services into the sales tax base would further increase the number of business-to-business transactions subject to the tax. They would point out that ideally, sales taxes should only be imposed on the final sale to a consumer; this is because when business-to-business transactions are taxed, the burden of the tax is shifted onto the consumer through an increase in the price of the good.

OPTION:
Tax on Cosmetic Surgical and Nonsurgical Procedures

Revenue: $50 million annually

The fees for medical procedures are currently not subject to state or city sales tax. Under this option, both surgical and nonsurgical cosmetic procedures would be subject to the city sales tax. In 2009 cosmetic procedures by board-certified physicians yielded nearly $10.0 billion in fee payments nationwide. (This total did not include third-party reimbursed reconstructive rather than cosmetic procedures. Nor did it include fees for facilities, anesthesia, medical tests, prescriptions, and other ancillaries.) IBO estimates that about $1.2 billion was generated in New York City. The amount of additional revenues generated in the city by fees for facilities and other ancillaries, as well as by noncertified cosmeticians or "facialists" for procedures such as dermabrasions and chemical peels, is unknown, and is not factored into the tax revenue estimate provided above.

Proponents might argue that this is a lucrative fee-for-service industry. While medical training and certification is required to perform all of the surgical and most of the nonsurgical procedures, the procedures themselves have primarily aesthetic rather than medical rationales. The American Medical Association distinguishes cosmetic surgery, which is "performed to reshape normal structures of the body in order to improve the patient's appearance and self-esteem," from reconstructive surgery, which is "performed on abnormal structures of the body… generally… to improve function, but [it] may also be done to approximate normal appearance." It recommends that the latter, but not the former, be included in standard health benefits packages. 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. For tax purposes, there is no reason to treat cosmetic enhancements differently than cosmetic products.

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

OPTION:

Expand the Department of Transportation's PARK Smart Program

Revenue: $13.8 million annually

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

Under this option, the program would be expanded to 21,000 additional spaces in Manhattan below 86th Street. The hourly rate on these spaces is currently $2.50. Mayor Bloomberg's November 2010 budget proposed raising rates on these spaces to $3.00. Under the option, hourly rates for those spaces would be set at $3.75 between noon and 4 p.m., Monday through Saturday—the peak usage period in each of the three pilot programs. The higher rate is projected to generate $13.8 million in revenue, assuming implementation of the proposed increase to $3.00 per hour. The occupancy rate for the spaces is assumed to be 70 percent, roughly the peak period occupancy in the Greenwich Village study area following program implementation.

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

Opponents might argue that drivers will change their shopping habits, preferring shopping venues that provide free or less expensive parking, such as large supermarkets, big box retailers, and department stores, either in the city, or in suburban malls, resulting in even more driving while costing small neighborhood retailers business. Finally, opponents may argue that drivers are already paying an outsized share of the cost of their choice to drive through tolls, car registration fees, and fuel taxes.

OPTION:

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

Revenue: $66 million annually by 2014

The New York City Housing Maintenance Code provides basic standards for health, safety, and maintenance in privately operated apartment buildings. Under current law, penalties for failure to correct housing code violations are collected only if the city or a tenant brings the landlord to housing court—an often time consuming and costly procedure. In nearly all other agencies, including the departments of Buildings, Sanitation, and Transportation, health and safety violations are adjudicated by administrative law judges through the Environmental Control Board (ECB) rather than in the civil court system.

Although housing court cases often involve more than one violation, many uncorrected housing code violations are not litigated and, therefore, fines are never collected. In calendar year 2009, 13,330 cases were brought in New York City Civil Court for housing code violations. During that same time period, the housing department issued about 504,000 housing code violations, with only 5 percent corrected by the deadlines specified in the Housing Maintenance Code, although the housing department can grant extensions.

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

By the end of a two-year transition, the city could collect $66 million per year in fines if they were adjudicated through ECB. This would require state legislation. IBO's estimate assumes that the greater threat of fines would increase compliance rates to 50 percent and decrease the time to correct overdue violations by 50 percent. Based on rates for the buildings department, IBO assumes that 27 percent of the remaining violations are upheld by ECB and that 25 percent of levied fines are collected. It also accounts for an increase in ECB administrative costs, as well as the increased costs at the housing department for inspectors to certify that violations have been corrected.

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

Opponents might argue that funds spent to pay fines may reduce the money landlords have available to make repairs, which could actually lead to a decline in building quality. In addition, opponents may argue that housing court plays an important part in tenant landlord relations and that adjudicating violations through ECB may diminish the role of the courts in housing issues.

OPTION:
Increase Fees for Civil Marriage Ceremonies

Revenue: $1 million annually

Last year about 70,00 people in New York City applied for a marriage license for a total of about $2.4 million in revenue. About 40,000 of those who applied for a marriage license also had a civil ceremony at one of the County Clerk offices which generated an additional $1 million in revenue.

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

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

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

OPTION:

Charge for Freon/CFC Recovery

Revenue: $1.9 million annually

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

The CFC recovery is done by sanitation workers who have completed CFC recovery certification. There are currently 14 certified CFC recovery uniformed workers and two civilian mechanics who maintain the vehicles used by the recovery workers, as well as two clerical aides responsible for setting up the recovery appointments. According to sanitation department records, out of 74,086 scheduled appointments in 2010, 41,062 appliances were tagged for CFC recovery and 33,024 appliances were missing or inaccessible to sanitation workers. Charging $25 per appointment would garner the city roughly $1.9 million annually. This estimate assumes no change in the number of CFC recovery appointments, although it might decline if a fee were imposed.

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

Opponents might argue that charging for CFC removal might lead to illegal dumping. In addition, they might express concern about the burden of mandatory charges on low-income households.

OPTION:

Convert Multiple Dwelling Registration Flat Fee to Per Unit Fee

Revenue: $2.9 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 2011 the city expects to collect $1.3 million in multiple dwelling registration fees. Converting the flat fee to a $2 per unit fee would increase the revenue collected by HPD by $2.9 million annually (assuming a 90 percent collection rate).

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

Opponents might argue that, by law, fees and charges must be reasonably related to the services provided, and not simply a revenue generating tool. Simply registering a building should not be a costly activity for the city. They also might express concern about adding further financial burdens on building owners, particularly after the property tax rate increase in 2009.

OPTION:
Institute a Residential Permit Parking Program

Revenue: $2 million in 2012; $4 million in 2013; and $6 million in 2014

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

On-street parking has become increasingly difficult for residents of many New York City neighborhoods. Often these residents have few or no off-street parking options. Areas adjacent to commercial districts, educational institutions, and major employment centers attract large numbers of outside vehicles. These vehicles compete with those of residents for a limited number of parking spaces. Many cities, faced with similar situations, have decided to give preferential parking access to local residents. The most commonly used mechanism is a neighborhood parking permit. The permit itself does not guarantee a parking space, but by preventing all or most outside vehicles from using on-street spaces for more than a limited period of time, permit programs can make parking easier for residents. As part of PlaNYC, Mayor Bloomberg proposed instituting resident permit parking in neighborhoods adjacent to the proposed congestion pricing zone. However, because the state Legislature did not approve congestion pricing, the permit plan has not moved forward.

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

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

Opponents might argue that it is inherently 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 adjacent to permit zones may experience a loss of clientele, particularly from outside the neighborhood, because more residents would take advantage of on-street parking. Some opponents may note that in cities and towns that already have residential permits, it appears to have worked best in neighborhoods where single-family homes predominate.

OPTION:

Increase Fees for Birth and Death Certificates to $30

Revenue: $8.9 million annually

Residents of New York are entitled to original birth and death certificates at no cost, but the Department of Health and Mental Hygiene charges a fee for duplicate copies. The department issued more than 660,000 duplicate certificates in 2010.

A provision of the state public health law sets the fee New York City charges for such certificates to $15. Municipalities elsewhere in the state are subject to different limits; some are required to charge only $10, while in others the local health department is free to set any fee equal to or less than the fee charged by the state. The New York State Department of Health charges $30 for duplicate birth and death certificates.

Raising the city fee to the state level would presumably have little effect on demand for certificates, since people require them for legal or employment reasons. IBO assumes that doubling the charge to $30 would reduce the number of certificates requested by 5 percent, yielding net revenue of $8.9 million.

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

Proponents might argue that there is no reason the city should charge less than the state for the identical service. They might further argue that a state law specifically limiting fees in New York City is arbitrary and does not serve any legitimate policy goal; such fees should either be consistent statewide or set by local elected officials. Proponents might also argue that given the highly inelastic demand for birth and death certificates, such an increase will have a much smaller economic impact than most other fee increases.

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

OPTION:

Increase Food Service Permit Fees to $450

Revenue: $4 million annually

Restaurants and other food service establishments in New York require a license from the Department of Health and Mental Hygiene to operate, which must be renewed annually. Fees for these licenses are currently set at $280, plus $25 if the establishment serves frozen desserts. In 2010 the department processed 4,785 new food service establishment applications and 21,048 renewals, for a total of 25,833 permits. About 9 percent of these permits were for school cafeterias and other noncommercial establishments, which are exempt from fees.

In 2011 total costs for processing these permits, including the cost of inspections and enforcement, are budgeted at $10.9 million for commercial establishments. But the department collected only between $6.6 million and $7.2 million from restaurant permits during the last fiscal year. Thus, fees cover only about 60 percent of the full costs associated with restaurant permits. Increasing the application fee from $280 to $450 (leaving the frozen dessert charge unchanged) would bring permit fees into line with permit costs and raise $4.0 million in revenue.

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

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

Opponents might argue that while in the long run fees should cover the cost of permits, an immediate increase would be a burden on a sector that is already disproportionately affected by the economic downturn. They might also argue that while paying an additional $170 would be trivial for a large restaurant, many restaurants are very small and operate on thin profit margins. In addition, they might argue that if the real goal of the option is simply to raise revenue, economists generally agree that broad-based taxes are preferable to charges focused on particular industries.

OPTION:

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

Revenue: $800,000 annually

New York City has 64 Business Improvement Districts (BIDs)—organizations of property and business owners which provide services (primarily sanitation, security, and marketing) in defined commercial districts. These organizations receive a combination of public and private financing, with the majority of their revenues (78.6 percent in 2009) coming from additional assessments levied on property owners in the districts and often 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 2010, the city collected $80.7 million on behalf of BIDs. Under this option, the city would levy a 1.0 percent fee for the collection and distribution of BID charges by the Department of Finance, resulting in about $800,000 in revenue. BID assessments vary greatly, so that the fee would range from about $500 for a small BID in Queens to more than $100,000 for the large BIDs in midtown Manhattan.

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

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

About one-third of the BIDs reporting to the city in 2009 had revenues of less than $250,000 and were especially dependent on assessments for their revenue. The relative effect of an administration fee would be greater for these BIDs, where assessments constitute 94 percent of revenues, as compared with 79 percent of revenues for all BIDs. One option to address this problem would be to exempt some BIDs based on criteria such as low annual revenue. Such a change would lower the potential revenue to the city.

OPTION:
Restore the Fare on the Staten Island Ferry

Revenue: $4.8 million annually

This option would restore the fare charged to passengers who board the Staten Island Ferry as pedestrians, beginning in July 2011. Until July 4, 1997, pedestrians paid a round-trip fare of 50 cents. As part of the state and city's efforts to promote a "one city, one fare" policy, fares were abolished at the same time that free MetroCard subway and bus transfers were instituted. Vehicle service has been suspended since the attacks of September 11, 2001.

The Staten Island Ferry is operated by the city Department of Transportation, and in 2010 had around 21.5 million riders. If and when vehicles are allowed back on the ferry, pedestrians will still make up the vast majority of passengers. Gross revenues from a 50 cent round-trip fare would be around $5.4 million per year. Assuming collection costs equal to 10 percent of fares, net revenue would be roughly $4.8 million annually.

Currently Staten Island residents who use the Verrazano Narrows Bridge pay a toll of $5.76 (charged going into the borough only) using E-ZPass, $7.72 using tokens, or $13.00 using cash. Residents traveling in vehicles with three or more occupants have the option of using prepaid coupons costing $2.68 per crossing (also paid only going into Staten Island). Express bus riders traveling from Staten Island to Manhattan pay a $5.50 cash fare each way, with discounts available using a MetroCard. Finally, travelers who take local buses over the Verrazano Narrows Bridge to Brooklyn pay a cash or MetroCard fare. While these riders can then transfer free of charge to a bus or subway, for travel to Manhattan this is a very time-consuming option.

Proponents might argue that ferry riders should be expected to pay at least a nominal share of the service costs. The Staten Island Ferry's operating expenses have increased dramatically in recent years, due to additional safety and antiterrorist measures. According to the Mayor's Management Report for fiscal year 2010, the operating expense per passenger for the Staten Island Ferry was $5.32. If the 25 cent fare were restored, passengers would be paying under 5 percent of the cost of a ride. In contrast, fares on New York City Transit subways and buses cover more than half of operating expenses.

Opponents might argue that charging ferry riders would contradict the "one city, one fare" policy started by the Giuliani Administration. Once MetroCard readers were installed through the transit system, free transfers between buses and subways were instituted. As a result, a majority of transit users in New York City can now make their trips with only one fare. However, according to an analysis by IBO of data from the Regional Transportation-Household Interview Survey, a majority of Staten Island residents who use the ferry to travel to Manhattan still pay more than one fare to get to their final destination. In addition, ferry riders are on average less affluent than express bus riders, and face longer total travel times.

OPTION:

Toll the East River and Harlem River Bridges

Revenue: $970 million annually

This proposal, analyzed in more detail in the IBO report *Bridge Tolls: Who Would Pay? And How Much*? involves placing tolls on 12 city-owned bridges between Manhattan and Queens, Brooklyn, and the Bronx. In order to minimize backups and avoid the expense of installing toll booths or transponder readers at both ends of the bridges, a toll equivalent to twice the one-way toll on adjacent Metropolitan Transportation Authority (MTA) facilities would be charged to vehicles entering Manhattan, and no toll would be charged leaving Manhattan. The automobile toll on the four East River bridges would be $9.60, equal to twice the one-way E-ZPass toll for the MTA-owned Brooklyn-Battery and Queens-Midtown Tunnels. The automobile toll on the eight Harlem River bridges would be $4.40, equal to twice the one-way E-ZPass toll for the MTA's Henry Hudson Bridge. A ninth Harlem River bridge, Willis Avenue, would not be tolled since it carries only traffic leaving Manhattan. The Ravitch Commission made a similar proposal in 2008.

Estimated annual toll revenue would be $690 million for the East River bridges and $280 million for the Harlem River bridges, for a total of $970 million. On all of the tolled bridges, buses would be exempt from payment. IBO's revenue estimates assume that trucks pay the same tolls as automobiles. If trucks paid more, as they do on bridges and tunnels that are currently tolled, there would be a corresponding increase in total revenue. IBO estimates that exempting all city residents from tolls would reduce revenue by more than half, to $440 million.

Proponents might argue that the tolls would provide a stable revenue source for the operating and capital budgets of the city Department of Transportation. Many proponents could argue that it is appropriate to charge a user fee to drivers to compensate the city for the expense of maintaining the bridges, rather than paying for it out of general taxes borne by bridge users and nonusers alike. Transportation advocates argue that, although tolls represent an additional expense for drivers, they can make drivers better off by guaranteeing that roads, bridges, tunnels, and highways receive adequate funding. Some transportation advocacy groups have promoted tolls not only to generate revenue, but also as a tool to reduce traffic congestion and encourage greater transit use. Peak-load pricing (higher fares at rush hours than at nonrush hours) is an option that could further this goal. If more drivers switch to public transit, people who continue to drive would benefit from reduced congestion and shorter travel times. A portion of the toll revenue could potentially be used to support improved public transportation alternatives. Finally, proponents might note that city residents or businesses could be charged at a lower rate than nonresidents to address local concerns.

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

This Report Prepared By:

Contributors:

Eric Anderson, David Belkin, Elizabeth Brown, Yevgeniya Bukshpun, Ana Champeny, Theresa Devine, Christina Fiorentini, Michael Jacobs, Andrew Liebowitz, Paul Lopatto, Kathleen Maher, Bernard O'Brien, Nashla Rivas Salas, Yolanda Smith, and Alan Treffeisen

Under the supervision of George Sweeting

Editorial:

Eddie Vega

Production Coordinator:

Tara Swanson

New York City

Independent Budget Office

Ronnie Lowenstein, Director

110 William St., 14th Floor • New York, NY 10038

Tel. (212) 442-0632 • Fax (212) 442-0350

e-mail: iboenews@ibo.nyc.ny.us • http://www.ibo.nyc.ny.us • Twitter • RSS