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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
e-mail: ibo@ibo.nyc.ny.us • <http://www.ibo.nyc.ny.us>

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Introduction

One of the axioms of government is that no matter how flush the budget appears to be, there is never enough funding to meet all the competing needs and to put money aside for a rainy day. New York City ended last fiscal year with a record surplus of more than \$3.5 billion and the Mayor estimates we will end this year with a \$3.3 billion surplus. Even if such surpluses are not fleeting—shortfalls are projected for 2008 and on—the boom-and-bust cycle of the economy as well as competing public demands for more spending on services or calls for tax cuts would quickly erase the "extra" funds.

The fleeting nature of surpluses means that even in the best of times the city's resources remain scarce. And this scarcity requires that funds be collected and used as fairly and effectively as possible. The spending and revenue alternatives outlined in this volume are designed to help elected officials and the public make critical choices about taxation and spending by the city.

Since we released the first *Budget Options for New York City* in April 2002, the annual volume has become one of our most frequently requested publications and has quickly proven its value as a reference guide that outlines the pros and cons of various budget savings and revenue raising measures for the city. A number of options presented in prior years have been adopted by the city such as the merger of the Department of Employment into the Department of Small Business Services, the redeployment of police officers who had been assigned to the Drug Abuse Resistance Education Program, the extension of the teacher workday, the creation of a subsidiary insurance company for the Health and Hospitals Corporation, and the replacement of some city tax money by changing the uses of other federal funding sources.

While presenting options for savings or generating revenue to help close the city's budget shortfall is the primary reason for issuing this report, many of the measures examined here also have other potential merits. Some options would improve the city's delivery of services or quality of life and some other options would have the effect of increasing the equity or efficiency of the city's tax system. For example:

- Instituting a residential permit parking program could ensure that neighborhood residents have access to parking near their homes.
- Expanding the "bottle bill" could help reduce litter on city streets and in parks.
- Restructuring of the city's personal income tax could make the tax more progressive and reduce the burden of many lower-and middle-income taxpayers.
- Taxing vacant residential land at the same rate as commercial property could discourage speculation and encourage housing construction.

In this latest edition, we examine more than 60 options and make objective calculations of the anticipated savings or revenue from each of the measures. Six of the options are new and some others are substantially revised. For the options that are repeated from last year, we provide updated fiscal calculations and in some cases additional policy considerations as well. **And for all the options discussed, IBO presents a set of arguments for and against implementing the measures.**

Many of the options included in this volume have been in the public domain for some time, raised by fiscal- or policy-oriented organizations such as the Citizens Budget Commission, City Project, Fiscal Policy Institute, and Manhattan Institute, or by current or former public officials. Other options are here because we have been asked by elected officials, civic leaders, or advocates to estimate their cost-savings or revenue potential. There are also some options included here developed out of the knowledge and insight of IBO's own analysts. 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. Like the Congressional Budget Office, which develops a similar volume for the federal government, **our role is to analyze, not endorse.**

Not all the options included here can be implemented solely at the discretion of the city. All of the options involving tax changes, including the elimination of tax exemptions or abatements, require state approval. Many of the options involving work hours, staffing, and benefits for the city's workforce require negotiations with municipal unions.

In subsequent volumes IBO intends to cover many more options. 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:
\$41 million annually

NEW YORK STATE LAW requires that transportation be provided for public and non-public school students to and from school. Students in kindergarten through 2nd grade must live more than a half mile from the school to qualify, and as children age, the minimum distance increases to 1.5 miles. The Department of Education (DOE) provides several different types of transportation benefits including yellow bus service, full- and reduced-fare MetroCards, and private or franchise bus services. In the 2004-2005 school year, 22 percent of general education students receiving full- or reduced-fare MetroCards attended private schools (nearly 130,000 children). In the same year, 40 percent of general education students using yellow bus service attended private schools (approximately 46,000 children).

DOE spends over \$200 million on the MetroCard program and yellow bus services for general education students. The MetroCard program is financed by the state, the city, and the Metropolitan Transportation Authority (MTA)—each entity contributes \$45 million. However, it is likely that the program costs the MTA more than the \$135 million sum of the contributions. Public transportation is funded by a 45/55 split of city funds and state aid, respectively; the total expense for yellow bus services for the 2004-2005 school year was \$188 million, making the city's portion roughly \$78 million.

By eliminating the private school benefit of these programs, city funding could be reduced by \$41 million—\$10 million for MetroCards (22 percent of the city's \$45 million expense) and \$31 million for yellow bus service (40 percent of city expense).

PROponents MIGHT ARGUE that there is no reason for the city to pay the way for students to get to private schools, except for those attending private special education programs. If families make a decision to educate their children outside of the public school system, the families are responsible for providing for all aspects of this education. Proponents concerned about the 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 benefit the MTA even more than the city and state as the program costs are believed to be greater than the amount of funding.

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

OPTION: Eliminate Public Funding of Textbooks for Private School Students

Savings:
\$10.4 million annually

NEW YORK STATE provides \$57.30 per student to all school districts for the purchase of textbooks; \$15 of this amount is funded by the New York State Lottery. The total allocation to any school district is based on its public and non-public school enrollment. Both public and non-public schools submit requests to the district (or other administrative authority) for the purchase of books up to the per student amount. A district purchases the books and loans them to all the schools for the school year. In fall 2003, over 476,000 students attended private schools in New York State, with more than half in New York City. The state spent \$27 million on textbooks for these private school students.

As this is a statewide program and it is not funded with city dollars, eliminating non-public schools from the program would not result in direct savings to the city budget. However, if these funds were redirected to public school students throughout the state, the textbook allocation would rise by almost \$10 per public school student, providing city students with more than \$10 million in textbook funds. For the 2003-2004 school year, the city spent an additional \$59 per public school student (\$63.8 million) on textbooks. Reallocating the non-public school portion of the textbook benefit could offset the city's contribution by \$10.4 million or 16.4 percent.

PROPONENTS MIGHT ARGUE that the state should be using all of its education funds for public schools and should not subsidize religious and independent schools. At a time when education dollars are at a premium, it is difficult to justify the support of private schools, particularly well-funded independent schools, while many public schools operate with severely limited resources. Given the high income of many independent school families, the additional cost of less than \$60 per student seems relatively minor for these schools and families. Some may also argue that since it costs the city money to administer the grants to independent schools, cutting the program would save these administrative expenses.

OPPONENTS MIGHT ARGUE that private schools are subject to the same academic standards and testing requirements as public schools, and therefore the state has some obligation to support these schools' curriculum. They also might argue that parents of private school students support the public schools through tax dollars and are therefore entitled to some state services. Opponents could demonstrate that the majority of private school students in New York attend religious schools rather than independent prep schools. Families using such schools are not, on average, much wealthier than those in public schools and the increased cost would be a burden in some cases. Furthermore, if these students were to enter public schools, due to increased tuition at private schools, already overcrowded public schools would have to serve even more students.

OPTION:

Reduce Operational Subsidy to Cultural Institutions Groups Receiving Subsidies of \$1 Million or More

Savings:
\$25.7 million annually

THE 34 MEMBERS OF THE CULTURAL INSTITUTIONS GROUP (CIGs) mostly operate on land owned by the city. These institutions—ranging from the Metropolitan Museum of Art to the Brooklyn Museum—receive operating support for energy costs under their contracts with the city. Beyond the energy payments, which IBO estimates will total \$32.6 million—15 percent higher than last year—the CIGs are scheduled to receive an additional \$75.2 million in operational subsidies.

This option is a one-time adjustment that would reduce operational subsidies to some CIGs based upon the amount of money the institutions currently receive. The option would divide the CIGs into three separate groups for operating subsidy reduction: the three CIGs that currently receive subsidies of greater than \$10 million (Tier I) would have their subsidy reduced by 50 percent; the 18 CIGs that currently receive between \$1 million and \$10 million (Tier II) would get a reduction of 25 percent; finally, the 13 CIGs receiving under \$1 million (Tier III) would have no cuts in their funding.

The operational funding to the CIGs would decrease by a total of 34.2 percent, saving the city \$25.7 million. These reduced subsidies would then be maintained in subsequent years.

PROPOSERS MIGHT ARGUE that although few people advocate a reduction in cultural funding, with the city facing projected budget shortfalls in the coming years cuts will be unavoidable in many city-funded programs. This type of cut is more progressive than other proposals as it places the strain of the overall reduction in funding on the wealthiest CIGs while leaving the majority of the institutions with no decreases in funding. The wealthier Tier I and Tier II CIGs are more likely to have substantial fundraising capabilities and would be better able to withstand the overall reductions to their operational funding than the smaller CIGs and the cultural groups that are also funded by the city. Even with the 50 percent reduction, the Tier I CIGs would still receive an average of \$6 million each in discretionary funds.

OPPOSERS MIGHT ARGUE that given their size, Tier I and II institutions have large fixed costs and have historically depended on city support. Even if private donations eventually make up for the lost subsidy, this is unlikely to occur immediately, leaving some disruptions in programs, at least for the short term. They also tend to serve far larger populations than do the majority of the other CIGs and cultural program groups, so that measured on a per visitor basis there may be less difference between CIGs than when compared simply on size of subsidy. In addition, suggested admission prices are already high at many of these institutions, and might have to rise further to cover the subsidy reduction, deterring some potential visitors. Finally, many of the city's cultural institutions have been credited with drawing out-of-town visitors to New York. If services are cut or admission prices increased, tourism and its accompanying spending on restaurants, hotels, and shopping could be curtailed.

OPTION: Privatize the Remaining Tax-Foreclosed, City-Owned Housing

Savings:
\$15 million annually

IN THE 1970s AND 1980s, the city took ownership of thousands of units of distressed, tax-delinquent housing. The city has now rehabilitated and returned 95 percent of these units to private ownership. There are three primary programs now used to privatize the city-owned units. The Neighborhood Entrepreneurs Program (NEP) sells the buildings to locally based for-profit real estate developers. The Neighborhood Redevelopment Program (NRP) sells them to community-based nonprofits, and the Tenant Interim Lease (TIL) program converts the buildings to tenant-owned cooperatives.

As of September 2005, HPD still owned more than 2,300 units of housing. Almost 80 percent of the capital funding allocated to privatization of these units over the next six years is channeled through TIL. TIL has significantly higher operating costs than NRP and NEP because tenants must be trained in order to manage their own buildings. Privatizing all the buildings through NEP and NRP would allow the city to save about \$15 million annually in TIL program costs. TIL is largely funded with Community Development Block Grant (CDBG) funds. Although CDBG is a federal funding stream and cannot be used to close the budget gap, it is a very flexible source of funds. The city could swap CDBG funds for tax-levy spending elsewhere, thereby achieving the savings.

However, NEP and NRP have higher capital costs than TIL; under NEP and NRP, units receive a \$120,000 subsidy, while the maximum per unit capital contribution for TIL is \$95,000. As a result, ending the TIL program would cost about \$7.4 million in total additional capital funds over the next six years. This would ultimately add about \$500,000 in annual debt service costs over a 20- to 30-year period.

PROponents MIGHT ARGUE that using just the NEP and NRP programs, the city could rehabilitate the remaining units and ensure that they were placed under responsible ownership, while still freeing up resources for other—perhaps more critical—needs. It is a responsible use of public funds to opt for the most cost-efficient use of limited resources. Proponents might also point out that under both NEP and NRP, rents are structured to be affordable to existing tenants, and depending on the rehabilitation financing used, may have rent ceilings for new tenants as well.

OPponents MIGHT ARGUE that tenant-owned cooperatives are an important tool for low-income households to build wealth, and to avoid displacement as real estate prices climb. They might also point out that the city would have to pay debt service on the increased capital spending long after all the remaining units were privatized and all the expense budget savings were realized.

OPTION: Replace Late-Night Service on the Staten Island Ferry with Buses

Savings:
\$2.4 million annually

THIS OPTION WOULD ELIMINATE late-night service on the Staten Island Ferry. Service would end at midnight on weekdays, and 1 a.m. on weekends, and would resume at 5 a.m. In place of ferry service, buses would carry passengers between 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 September 2001 no vehicles have been allowed on the ferry.

Average daily ridership on the ferry is around 50,000 passengers. On a typical weekday only 2 percent to 3 percent of these passengers travel after midnight and before 5 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. DOT has been planning to contract out its late-night ferry service to private companies in order to take advantage of these companies' smaller boats. The city projects that this action would save \$1.1 million per year.

The operating expenses of the Staten Island ferry are roughly \$43 million per year. Late-night trips are around 10 percent of the total number of trips. Assuming that terminating late-night service would reduce operating expenses by 8 percent, the annual savings would be \$3.4 million. Based on Federal Transit Administration data for express bus service in New York City, the operating expense of a bus trip between Manhattan and Staten Island would be around \$100 per trip. The annual cost of providing bus service every 20 minutes to 30 minutes between midnight and 5:00 a.m. would be around \$1 million, giving a net savings of \$2.4 million. We assume the buses would not charge a fare, as they would replace a fare-free service.

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

OPPOSERS 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: Shift 10 Percent of the Children in Congregate Care to Family-Based Home Care

Savings:
\$3.2 million annually.

BOTH CONGREGATE CARE AND FAMILY-BASED HOME CARE (FBH) are types of foster care provided through contracts with the Administration for Children's Services (ACS). The types of care differ in where the foster children live, the characteristics of the children typically served in each setting, and the cost per child. There has been a long-term decline in the FBH population, leaving some unused capacity that could accommodate the shift of a small portion of the children from the more expensive congregate care setting.

In FBH programs, youth are placed with foster care families, who offer their residences to house foster children in return for a stipend to cover child care expenses. The average daily rate to FBH providers is \$49.11 for per diem care and maintenance, which is split between the foster parents and the agencies overseeing and coordinating the foster placements. These monies cover costs such as: food, clothing, shelter, daily supervision, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel arrangements.

In congregate care, children are placed in facilities such as agency-operated boarding homes, group homes and residences, and institutional settings. Adolescents are overrepresented in congregate care programs and generally are the most difficult of all foster youth to place due to their age, service needs, and behavioral issues. Congregate care is the smallest type of contract foster care in terms of population, but by far the most expensive, with an average daily rate per child of \$167.82. Congregate care is more costly than family-based care because children are housed within an institutional setting. Heat and lighting, salaries and benefits of the staff, as well as the general cost of maintaining the residential structures all factor into the cost of congregate care, but are not fully reflected in FBH rates.

Because of its expense, even minor reductions in the congregate care population can generate significant savings. A one-time shift of 10 percent of the congregate population to family-based home care would generate an initial savings for the city of \$4 million. To increase the incentive to foster parents to house congregate care children, a family could be given a subsidy that is 15 percent greater than the typical FBH rate along with training to accommodate the greater challenges that many congregate care children will bring to bear on a household. Under existing funding arrangements the city would have to fully shoulder any costs above the current subsidy at a cost of approximately \$700,000 annually, reducing the city's net annual savings to \$3.2 million.

PROponents MIGHT ARGUE that shifting children from congregate care to family-based home care will not only save the city money but place them in a type of care that many experts have concluded is healthier for children's emotional and mental development.

OPponents MIGHT ARGUE that potential foster parents might seek to take advantage of the higher rate and take in congregate care children but be unprepared for the behavioral challenges that many children within this population face. Given the challenges faced by many of the children in congregate care, family placements that turn out poorly could result in emotional setbacks for the children. Opponents might also say the 15 percent bonus is too low to create sufficient incentive to attract foster families willing to take in former congregate care children. If participation is low there might be no net savings for the city.

OPTION: Consolidate Senior Centers

Savings:
\$3 million annually

THE DEPARTMENT FOR THE AGING OVERSEES 328 senior centers, places for seniors to congregate and obtain services. Senior centers provide a broad range of services, including breakfasts and lunches, recreational activities, and information sessions about benefits and services available to seniors. Senior center utilization rates are declining, however. According to the Mayor's Management Report, the percentage of senior centers operating at 90 percent of program capacity declined to 70 percent in 2005 from a peak of 81 percent in 2002. The average number of senior center lunches served daily—a statistic that determines citywide center utilization rates—decreased by 2.4 percent from 29,354 in 2002 to 28,655 in 2005. This budget option calls for the elimination of nine senior centers operating below 60 percent of congregate lunch capacity (based on agency planned and actual utilization rates for 2005) for an annual savings of \$3 million.

PROPOSERS MIGHT ARGUE that the needs of the city's elderly population are changing. According to the 2000 census the city's elderly, frail population aged 85 and over grew by nearly 20 percent over the last decade. Between fiscal years 2000 and 2005 the average number of home-delivered meals served per day grew by 4.4 percent. These data suggest that the need for center-based or congregate services may be waning and that in the upcoming years more home-based services may be required. Further, seniors who are displaced due to this proposal and who require critical services such as meals and case management and assistance can travel to or contact other centers in their neighborhood to access these services.

OPPONENTS MIGHT ARGUE that seniors may not be able or willing to travel a few extra blocks to a different center. Seniors also may have developed strong emotional ties to their neighborhood center and program staff. Individual centers have made an effort to develop programs and services that cater to specific cultural/ethnic groups. Therefore, if seniors are displaced from one center they may be reluctant to participate in congregate services at a different center, even if it is relatively close by. As a result, some seniors who had previously benefited from the socialization opportunities provided at senior centers may no longer do so.

OPTION: Eviction Insurance Pilot Program

Savings:
\$458,000 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 \$9.83, which would make the program fully self-sustaining, including the salary of one full-time staff person to administer it. In addition, the city would generate savings from avoided emergency shelter costs. 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 \$7.21, and annual savings to the city in avoided shelter costs would be \$4.5 million.

PROPOSERS 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.

OPPOSERS 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: Reduce Gasoline Pump and Fuel Truck Inspections

**Savings:
\$425,000 annually**

THE DEPARTMENT OF CONSUMER AFFAIRS currently inspects virtually all gasoline pumps and fuel trucks in New York City annually to ensure that pumps are calibrated accurately. IBO estimates that 10 of DCA's 50 inspectors, and 2 of the 19 associate inspectors are devoted to gas and fuel truck inspections.

If DCA reduced the annual pump and truck inspections by 75 percent, about eight inspectors and two associate inspectors would no longer be needed. Their salaries, including fringe benefits, total about \$425,000 annually. If the number of inspections was reduced by only 50 percent, the savings would be about \$283,000 annually.

PROPOSERS MIGHT ARGUE that, as stated in the 2005 Mayor's Management Report, current technologies "make it difficult to tamper with meters." As a result, compliance rates are typically close to 100 percent. There is no need to inspect all gas pumps and fuel pumps on an annual basis when it is relatively unlikely that such inspections will find fraudulent tampering.

OPPONENTS MIGHT ARGUE that without regular inspections and enforcement, gas station and fuel truck operators could find ways to tamper with even the most technologically sophisticated meters. DCA must protect consumers against fraud, and should therefore continue inspecting all gas pumps and fuel trucks.

OPTION:

Use Fewer Police Officers on Overtime to Staff Parades and Other Planned Events

Savings:
\$8 million annually

BETWEEN 1997 AND 2005, annual overtime spending for police officers nearly quadrupled, from \$111 million to \$401 million (excluding World Trade Center-related overtime). The marked increase in so-called "planned events" overtime—which rose from \$9 million in 1997 to \$36 million in 2005—has been one contributing factor.

The police department categorizes events into planned and unplanned. Planned events include large annual functions such as the St. Patrick's Day parade, Thanksgiving Day parade, and New Year's Eve celebration in Times Square, as well as numerous other recurring and onetime festivals, celebrations, street fairs, and the like. "Unplanned" events include street protests or demonstrations, extra security for events such as the 2002 World Economic Forum, weather emergencies, special parades (for World Series championships for instance), and similar activities.

If all smaller planned events (less than \$100,000 in overtime spending—equivalent to about 260 overtime tours), and the first 260 tours of major planned events were staffed by redeploying officers on their regular tours, the city could expect to save about \$8 million annually. This would involve redeploying fewer than 5 percent of the roughly 6,000 officers on duty at any given time.

PROponents MIGHT ARGUE that the need to reduce police department spending and cut back on overtime will require more flexibility in the use of officers on straight time. They argue that the use of officers on overtime should be limited to essential needs. They believe there is adequate daily coverage in precincts and other duty tours each day to allow some selective redeployments to staff planned events.

OPponents MIGHT ARGUE that a decision by the police department to staff events with officers on overtime allows the agency to maintain critical baseline police staffing elsewhere throughout the city. They fear that a reduction in daily precinct operational strength puts basic protection of public safety at risk. Opponents also might argue that periodic redeployments will be increasingly difficult to implement given the reduction in the overall size of the police force from 40,000 just four years ago to an average of roughly 36,000 this year.

OPTION:

Reduce Optional Medicaid Benefits for Dental Care and Transportation

Savings:

\$57 million in 2007, \$59 million in 2008, \$60 million in 2009, and \$61 million in 2010

THIS PROPOSAL WOULD REDUCE THE SCOPE of dental care and transportation services provided to Medicaid recipients in New York. Both dental care and transportation are among a wide variety of optional benefits under federal Medicaid law that New York State has chosen to include in its Medicaid program. The federal government funds 50 percent of the cost of these services, with the state and city each responsible for 25 percent. Under this proposal Medicaid administrators would cut the cost of these services in half by reducing the mix of specific dental and transportation services available to Medicaid recipients. Those specific services judged to be the least necessary would be limited or eliminated. Implementation of the proposal would require the approval of state officials and might have to be done on a statewide basis. Both the state and federal governments would share in any savings.

PROPOSAL MIGHT ARGUE that it is critical for the city to begin to limit its Medicaid costs. The city's June 2006 Financial Plan projects that combined city-funded Medicaid expenditures at the Human Resources Administration and the Health and Hospitals Corporation will be \$4.8 billion in fiscal year 2006 and rise each year through 2009. Reducing Medicaid spending would require either decreasing Medicaid enrollment or reducing the cost per recipient. Due largely to welfare reform policies, the number of city residents enrolled in Medicaid decreased from 2.008 million in March 1995 to 1.757 million in January 2000. Concerns about the rising number of uninsured New Yorkers then led city officials to implement enhanced Medicaid outreach and recruitment efforts, and by September 2001 the number of individuals enrolled in Medicaid had increased to 1.860 million. The implementation of Disaster Relief Medicaid after the September 11 attacks and the creation of the Family Health Plus program pushed the Medicaid rolls to 2.765 million by June 2005. These recent increases in Medicaid enrollment make it all the more important that the city find ways to decrease its cost per recipient.

OPPOSERS MIGHT ARGUE that this proposal would deny vital health services to low-income New Yorkers, who would otherwise be unable to afford these services. Medicaid transportation services are generally provided to recipients who are too ill or incapacitated to use public transportation to and from their health care providers. For many, the cost of private car or van services could be prohibitive. Similarly, Medicaid recipients often lack the resources to pay for their own dental care. In addition, the city could end up indirectly paying for dental services as Medicaid enrollees who are denied access to their usual providers begin making use of the dental clinics at the public hospitals.

OPTION: Reduce City Funding for Central Park

Savings:
\$2 million annually

CENTRAL PARK IS MANAGED AND MAINTAINED through a public/private partnership between the city Department of Parks and Recreation (DPR) and the Central Park Conservancy, a private, not-for-profit corporation founded in 1980. DPR entered into an eight-year contract with the conservancy in 1998. Under this contract, the city holds control and policy responsibility for the park, but the conservancy manages its day-to-day operations and upkeep.

The Central Park Conservancy is a highly successful fundraising organization, with an endowment of over \$90 million. The conservancy raises approximately \$17 million of their \$20 million annual operating budget through donations from individuals, foundations, and corporations. The remaining \$3 million is provided by the city. In addition, 29 full-time DPR employees work alongside conservancy workers in the park. DPR also places seasonal employees, such as lifeguards, in Central Park.

In fiscal year 2004, as a gap-closing measure, the city's contribution to the Central Park operating budget was reduced from \$3 million to \$1 million, with the expectation that the difference could be made up through increased private donations. The city restored the full \$3 million in funding for 2005, in order to honor its contractual obligations. Affirmation of the city's commitment to a thriving Central Park could continue through a \$2 million contribution, in addition to the ongoing contributions of DPR employees in the park.

PROponents MIGHT ARGUE that the Central Park Conservancy has proven itself to be so competent at fundraising that it should easily be able to make up the extra \$1 million. Because the current contract between the conservancy and the city is up for renewal this year, this is the appropriate time to rethink the partnership between the two, and to adjust the contract agreements accordingly. They might note that the conservancy receives up to \$2 million annually in additional revenue from concessions under an agreement with the parks department, as well as capital funding, which has totaled at least \$8 million since 1998.

OPponents MIGHT ARGUE that the city's contribution, however small a percentage of Central Park's total operating costs, carries symbolic significance, and that a reduction would diminish the city's policy control over Central Park. They might point out that overtime the city's contribution has constituted a diminishing share of the park's operating costs. Some may object to the further privatization of this crown jewel of the city's park system. Additionally, there exists the possibility that the park's condition could deteriorate if the conservancy finds it difficult to raise additional funds, reversing many years of progress and improvement.

OPTION: Eliminate Outreach Services to the Homeless

Savings:
\$11.7 million

THE DEPARTMENT OF HOMELESS SERVICES (DHS) CONDUCTS OUTREACH to help bring homeless individuals living on the streets, in parks, or in other public places into the shelter system and permanent housing. In fiscal year 2005, DHS spent about \$24.6 million on outreach activities, and made a total of 118,628 contacts. About 5 percent of these contacts resulted in placements in shelter.

If DHS eliminated the outreach program, it would save about \$11.7 million in city funds. The rest of the funding for the outreach program comes from the state and federal governments, and therefore would not help close the city budget gap.

PROPOSERS MIGHT ARGUE that the outreach services have a relatively low success rate. Only 5 percent of contacts result in a placement into temporary housing. It may be that these resources can be used more efficiently elsewhere. Unlike most of DHS's programs, the agency is not required to provide outreach services. This is one of the few DHS program areas which can be eliminated at the city's discretion.

OPPOSERS MIGHT ARGUE that the individuals served through outreach programs are both those most in need of assistance, and the most likely to contribute to quality-of-life problems such as aggressive panhandling. Therefore it is in the interests of both the individuals and the city as a whole to bring these people into the shelter system. In addition, outreach can benefit homeless people even if a shelter placement is not made; for example, an outreach worker can spot medical or other emergencies and help people access health care, food, and other services.

Additionally, Mayor Bloomberg recently introduced an ambitious plan to end chronic homelessness in New York City, which calls for reconfiguring and expanding outreach services over the next year and a half. DHS estimated that as of March 2005, there were almost 4,395 people living on the streets and in the subway system. The city hopes that by improving outreach services, it will be able to reduce street homelessness to fewer than 1,000 individuals by the fifth year of the plan's implementation. Although reconfiguring and expanding outreach are only part of the overall effort to reduce the number of street homeless people, eliminating outreach services could make it harder to reach this goal.

OPTION: Eliminate Grass Clippings from Trash Collection

Savings:
\$6.2 million annually

CURRENTLY, THE DEPARTMENT OF SANITATION (DSNY) collects bagged grass clippings from residential yards around the city. Grass clippings are not included in the citywide composting program because they cannot be composted on such a large scale. Potential odor problems associated with this material would affect communities near the compost sites. Instead, they join the regular stream of refuse exported from the city.

Grass clippings represent 78,000 of the 100,000 tons of yard waste the city collects every year but cannot recycle. To reduce this portion of refuse tonnage, DSNY has encouraged residents and institutions not to bag grass clippings and place them out for collection. Instead, residents are urged to let grass clippings decompose naturally on their lawns. DSNY has published a brochure to encourage such practice entitled, "Leave it on the lawn: A guide to mulch-mowing."

If the city eliminates grass clipping collection entirely, approximately \$6.2 million would be saved annually. This represents the export cost of 78,000 tons of garbage, based on the average cost of the four boroughs' (excluding Manhattan) export contracts with commercial haulers.

PROPOSERS MIGHT ARGUE that eliminating the collection of grass clippings from residences would significantly decrease export tonnages of New York City garbage. Export currently costs the city an average of \$77 per ton of trash. In addition, grass clippings provide natural fertilizer for lawns. This decreases pollutants in our wastewater stream, as well as providing cost savings to residents.

OPPOSERS MIGHT ARGUE that grass clippings left on lawns are a nuisance to residents, and can damage lawns. Using mulching mowers is ideal to grind the clippings down to the appropriate size for fertilizing. However, these mowers would represent an added cost to residents and only a small segment of the city's residents would bear the burden of this citywide savings.

OPTION: Phase Out the Vallone Scholarship Program for CUNY Students

**Savings:
\$1.0 million in 2007, \$11.4 million by 2010**

THIS OPTION WOULD PHASE OUT a City Council initiative that provides merit scholarships to City University of New York (CUNY) students who are graduates of New York City public, private, and parochial schools. While no new scholarships would be granted beginning in 2006-2007, scholarships would continue to be paid for students currently receiving them while they remain at CUNY. The Peter F. Vallone Academic Scholarship program rewards students who graduate from high school with a B average or better and maintain a B average or better in bachelor and associate degree programs. Vallone Academic Scholars receive grants of \$1,000 per year, which covers 25 percent of senior college tuition or 36 percent of community college tuition.

The city Financial Plan includes the \$11.4 million savings from eliminating the program in 2007. However, several previous efforts by the Giuliani and Bloomberg Administrations to eliminate the program have failed, with the City Council restoring funding each year.

PROPOSERS MIGHT ARGUE that eliminating the scholarship would impose minimal hardship on students because of the widespread availability of need-based financial aid. Government-sponsored aid includes the state Tuition Assistance Program and federal Pell Grants as well as guaranteed student loans and tax credits. Unlike these programs, the Vallone scholarships are not based on need. As a result some city resources are benefiting students who have little need for the assistance. Proponents also might point out that a CUNY education is already highly subsidized with annual tuition charges of \$2,800-\$4,000, compared with tuition of \$20,000 per year or more at many local private universities. Some recipients are not city residents because they have moved to surrounding areas after graduating from high school.

OPPOSERS MIGHT ARGUE that given the recent 25 percent increase in tuition, eliminating the Vallone scholarship compounds the increased financial burden facing students. Additionally, eliminating the Vallone scholarships would discourage high-school students with strong academic records from matriculating at CUNY, especially in light of recent tuition increases, and therefore harm efforts to improve the university's reputation. CUNY has been concentrating recently on raising the academic standing of its incoming students, including inaugurating an Honors College and tightening admissions criteria at the senior colleges.

OPTION: Pay-As-You-Throw

Savings:
\$289 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, as well as, over 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 2007 waste disposal costs (IBO projection) and volume and recycling diversion rates projected by the sanitation department, IBO estimates that each residential unit would pay an average of \$89.73 a year for waste disposal in order to cover the cost of waste export, achieving a net savings of \$289 million. A 14 percent reduction in waste would bring the average cost per household down to \$77.17 and a 20 percent reduction would further lower the average cost to \$71.78 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 \$95 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: Collect Debt Service on Supportive Housing Loans

Savings:

\$1.5 million in 2007, \$3.0 million in 2008,
\$4.4 million in 2009, \$5.9 million in 2010

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 debt service—either principal or interest—in effect making the loan a grant.

Collecting both principal and interest on new loans, which have averaged \$38 million per year over the last five years, would yield \$1.5 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 \$400,000 in the first year, growing to \$1.4 million per year by 2010. Collecting only the principal would generate \$1.3 million in 2007, rising to \$5.1 million by 2010.

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 was 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 would 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:
\$9 million annually

THE EARLY INTERVENTION PROGRAM (EI) provides services regardless of family income to children up to the age of 3 with developmental disabilities through nonprofit agencies that contract with the Department of Health and Mental Hygiene. The costs of the Early Intervention Program have grown substantially in the past four years; in fiscal year 2005, EI accounted for 35.5 percent of the entire Department of Health and Mental Hygiene budget. The EI program has historically been funded almost entirely by the state and local governments, but recently, efforts have been made to shift some of the financial burden to the federal government through Medicaid, which pays 50 percent of Medicaid expenses. For those children ineligible for Medicaid, the state reimburses localities for 50 percent of their EI costs; localities are responsible for the remaining 50 percent.

In fiscal year 2004, the average cost to New York City of providing Early Intervention services was approximately \$10,424 per child. Establishing a 20 percent copayment for services to families with private health insurance earning more than 200 percent of the federal poverty level (for a family of four the threshold would be \$38,700, or two times the poverty level of \$19,350), would save the city more than \$9 million annually. Moreover, if current growth rates in both enrollment and expenditures hold steady, savings to the city from such a copayment could reach \$13 million in fiscal year 2010. Because the institution of a statewide copayment would require the state Legislature's approval, the state government and other localities would also benefit from the action, with the state saving almost \$13 million annually.

PROPOSERS MIGHT ARGUE that establishing copayments would alleviate some of the strain the EI program places on the city budget without reducing the level of service provision. In addition, because the state and local governments are currently responsible for the entire cost of the EI program (with the exception of some federal funding received through Medicaid payments), families with private insurance have no incentive to access Early Intervention-type services through their private insurer. The institution of copayments, however, provides these families with the incentive to look to their private insurers for assistance in paying for EI services. Finally, if a statewide copayment for EI services were enacted, it would generate savings not only for the city, but for the state and other local governments as well.

OPPOSERS 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. 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 intervention services later in life. Finally, this option may be difficult to implement, as the creation of a copayment would require state approval and will likely encounter strong political opposition.

OPTION: Fire Department Needs-Based Staffing

Savings:
\$20.1 million annually

THE NEW YORK FIRE DEPARTMENT HAS TWO SHIFTS—a nine-hour day shift from 9 a.m. to 6 p.m. and a 15-hour night shift from 6 p.m. to 9 a.m. Both shifts are staffed by the same number of uniformed officers: 2,115. But based on hourly incident data, however, the longer 15-hour night shift experiences fewer calls per hour than the shorter nine-hour day shift.

In order to establish a staffing ratio more reflective of need, the 15-hour evening shift would be reduced by the equivalent of 315 uniformed officers. This reduction could be attained by selectively closing less active firehouses during the night shift. To address the fact that the shift change occurs during a period of peak activity, it also could be possible to adjust schedules to fully staff the first four to five hours of the evening shift, selectively reducing staffing after that.

This initiative would save the department \$20.1 million annually.

PROPOSERS MIGHT ARGUE that because the night shift has far fewer calls on average than the day shift, equal staffing is unnecessary. Furthermore, with reduced vehicular traffic in most neighborhoods at night, units are able to respond to emergencies more promptly than under normal daytime conditions.

OPPOSERS MIGHT ARGUE that as first responders in many emergency situations, the fire department should be fully staffed during all shifts because catastrophic emergencies may occur at any time. In addition, fires tend to go unreported longer at night, meaning that the fastest possible response is necessary to protect life and property. Furthermore, the current 6 p.m. shift change falls during the early evening period when the number of fires is at its peak; it would be dangerous and counterproductive to suddenly cut staffing at this point.

OPTION:

Make Parent Coordinators Part Time in Schools With Fewer Than 500 Students

Savings:
\$12.8 million

In the 2003-2004 school year, as part of the Department of Education's Children First reforms, each school was provided funding for a parent coordinator. This new position was developed to help schools foster stronger relationships with parents through improved communications and by encouraging parental involvement.

In the first year of the program, approximately, 1,270 positions were budgeted at an annual salary of \$34,000 plus benefits. The total cost for the new positions was almost \$50 million. For this school year, approximately 1,360 positions were budgeted at an annual salary of \$35,720 plus benefits for a total cost of \$57.5 million. Parent coordinators and their school principals negotiate the coordinator's schedules and availability. Ideally, each parent coordinator is available to parents some evening and weekend hours.

In 2005-2006, 613 schools with full-time parent coordinators have enrollments of less than 500 students. If the parent coordinator positions at these schools were converted to half-time positions, the Department of Education would save approximately \$12.8 million.

PROPOSERS MIGHT ARGUE that the lack of concrete responsibilities and measurable outcomes from the new positions raise questions about the use of the funds. It is likely that those schools where parent involvement was already strong did not need an additional full-time, paid position to encourage participation of parents. Conversely, at those schools where parent involvement is minimal, more resources than a single new position may be required to foster parent participation. Finally, proponents may also contend that limited school resources are best used for classroom instruction.

OPPOSERS MIGHT ARGUE the program is young and has not yet reached its potential and should therefore be maintained at its current level for at least a few years. Opponents would also argue that parental involvement is an important element in a child's academic success, therefore parent coordinators play a vital role in the academic success of a school. Opponents may also argue that reducing the position to half time is arbitrary and a better approach would be to allow principals to choose to have the position or use the funds for other purposes.

OPTION: Perform All Housing Code Inspections with One Inspector

Savings:
\$6.7 million annually

THE DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT inspects apartments in multifamily buildings in response to complaints about violations of the Housing Maintenance Code. In fiscal year 2005, the agency completed more than 575,000 inspections. Roughly 60 percent of inspections are done by two-person teams of inspectors. The housing agency could send individual inspectors—rather than teams—to respond to all complaints. Inspecting an apartment will presumably take more time if there is only one inspector. Assuming that each inspection takes one-and-a-half times as long as it currently does, the agency would need 123 fewer inspectors to handle its current workload, for a savings of \$6.7 million annually. Even if each inspection took twice as long with only one inspector, the housing department would still need 67 fewer inspectors and would save more than \$3.7 million annually.

PROponents MIGHT ARGUE that sending individual inspectors to respond to housing complaints represents a classic example of "doing more with less." The housing department would be able to inspect the same number of apartments each year, while reducing spending. The bulk of the savings comes from reducing the amount of time spent traveling between inspection sites. While travel is an unavoidable cost of the inspection process, it is essentially "down time" that adds nothing to the inspection quality. Reducing travel time is a straight efficiency gain.

OPponents MIGHT ARGUE that the quality of inspections could fall without two independent observers. A single inspector might be more likely to miss a violation that would be noticed by a team of two inspectors. In the short run, the housing agency's ability to deploy single inspectors could be limited by the number of vehicles available for inspectors' use, or the city would have to purchase vehicles, which would reduce savings in the first years. Switching from two-person inspection teams to single inspectors would likely require union cooperation. Finally, many opponents would argue that any efficiency gains should be directed to doing more inspections, rather than reducing spending.

OPTION: Increase the Workweek for Municipal Employees from 35 Hours to 40 Hours

**Savings:
\$93 million in 2007; \$188 million in 2008;
and \$287 million in 2009**

THIS PROPOSAL WOULD INCREASE the workweek for civilian, non-uniformed, non-pedagogical workers from 35 hours to 40 hours. With the exception of uniformed members of the police, fire, correction and sanitation departments, and the pedagogical staff of the City University of New York and the Department of Education, most city employees work a 35-hour week. With city employees working a longer workweek, agencies could perform the same tasks with fewer workers, saving wage, benefit, and eventually other, non-labor costs.

Because no layoffs would be involved, savings would be achieved over time through attrition. In theory, if all positions could be increased from 35 hours to 40 hours, the city would require 12.5 percent fewer workers. In practice, because there are many job titles that are held by fewer than eight employees, and because some city workers work at locations with very few workers, the number of positions that could be eliminated is less than 12.5 percent. If almost 10 percent of the approximately 64,000 nonmanagerial, 35-hour per week city positions were eliminated, the city could ultimately save roughly \$240 million annually in wage and benefit costs (excluding state and federal grant-funded positions). Given the 10 percent annual attrition rate for city workers, it is reasonable to assume that this number of positions could be eliminated over three fiscal years.

PROPOSONENTS MIGHT ARGUE that the city is unusual in having a 35-hour workweek, and most full-time private-sector employees in the New York area work 40 or more hours per week. The federal government, along with many state and municipal governments, also has a 40-hour workweek.

OPPOSONENTS MIGHT ARGUE that city workers earn substantially less than comparable workers in the private sector and are compensated accordingly by having a shorter workweek. Opponents also might argue that requiring city workers to work an additional five hours per week without a commensurate increase in salary would be unduly burdensome to workers, who would be suffering effectively a 12.5 percent pay cut. Opponents also might argue that city agencies will not be able to achieve 10 percent productivity savings with the increased workweek, and the anticipated savings is unrealistic.

OPTION:

Increase the Number of Tours Worked by Police Officers by Eliminating 20 Minutes of Paid "Wash Up" Time

Savings:
\$86 million annually

POLICE OFFICERS ARE CURRENTLY SCHEDULED to work a total of 243 tours each year before subtracting out vacation, personal leave, and other excused absences. Each tour worked is 8 hours and 35 minutes in length, with the last 35 minutes reserved for engaging in debriefing activities at precincts as well as for "washing up" and changing clothes before heading home.

Many observers have argued that since the 35 minutes allotted for police officers after coming off patrol is more than required for debriefings and other "agency" business, the length of each tour should be reduced to 8 hours and 15 minutes.

Due to a state law requiring that police officers be scheduled to work a minimum number of hours each year, shortening tours by 20 minutes would allow the police department to increase by 10 the number of tours for which officers must report in a 12-month period. This would allow the department to maintain the same daily police coverage with about 1,000 fewer officers, generating annual savings of roughly \$86 million per year.

PROponents MIGHT ARGUE that the extra 35 minutes of wash-up time is more than is needed. They note that, although the number of tours would increase, the number of hours worked by a police officer each year would not change.

OPponents MIGHT ARGUE that the time spent debriefing the next shift of officers is crucial to effective policing. They also argue that officers have a legitimate need for extra time to put on and remove their uniforms and equipment. Finally, they worry that requiring police officers to work more shifts each year would exacerbate difficulties in recruiting new hires.

OPTION: Reduce Staffing in 10 Percent of Police Patrol Cars

Savings:
\$40 million annually

THIS PROPOSAL ENVISIONS REMOVING ONE OFFICER from 10 percent of the city's fleet of about 950 two-officer radio motor patrol cars. Police department uniformed personnel currently assigned in pairs to patrol cars are primarily charged with responding to "radio runs" generated via the 911 emergency response network. The 10 percent of cars selected for reduction from two officers to one could be those in sections of the city with relatively low levels of reported crime and/or radio run activity.

There would be no reduction in the total number of patrol cars on duty, and the remaining 90 percent of the fleet would still be staffed by two officers. Those police officers riding solo in patrol cars could request (or be required to wait for) back-up before responding to radio runs that give indication of being particularly dangerous, such as those runs coded as "crimes in progress."

Implementation of this proposal could allow the city to redeploy 95 officers per tour to other law enforcement activities. IBO's savings estimates is based on the assumption that these officers would be reassigned to activities that are currently staffed on overtime. In fiscal year 2005, there were on average about 950 officers working on overtime each tour, earning an average of about \$385 for each overtime tour worked. Assuming that the officers redeployed under this proposal could be used to prevent the need for 95 of the current average of 950 overtime shifts per tour, the agency would realize savings of about \$40 million per year.

PROPONENTS MIGHT ARGUE that converting 10 percent of the radio motor patrol fleet to solo-officer patrol units in low-crime areas would generate financial savings with minimal or no threat to the safety of either the general public or police personnel. They may also point to the fact that many departments across the country function with patrol car fleets made up mostly, and in some cases almost entirely, with solo-officer patrol units.

OPPONENTS MIGHT ARGUE that such a proposal could jeopardize public safety by slowing police response to calls for assistance in those cases in which a solo-officer patrol unit chooses (or is required) to wait for a back-up before responding to a call. They also may argue that the typical procedure in other cities is to send at least two solo-officer units (and therefore at least two officers) to nearly every call for assistance. Opponents also might argue that it is often very difficult to gauge in advance the level of danger at a location to which police assistance has been summoned, and that it would only be a matter of time before an officer in a solo-officer patrol unit would bravely but mistakenly choose to respond alone to an unexpectedly dangerous call.

OPTION:

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

Savings:
\$18 million annually

SINCE 1971, NEW YORK CITY HAS PROVIDED FUNDS to the various unions representing city employees to supplement their health benefits. These benefit funds are administered by the unions and offer members a range of benefits not covered by the general health insurance plans, including dental and vision coverage. Consolidating the 74 supplemental health and welfare benefit funds currently receiving city contributions into a single fund serving all employees would yield savings by eliminating duplication and giving the enhanced fund greater pricing power when contracting to provide benefits to its members. While the specific benefits package offered to some members may change based on this greater contracting power, it is expected that, on the whole, benefit levels after consolidation will remain unchanged.

In 2003, the last year for which data is available, the Comptroller estimates that the city contributed approximately \$771 million to the 74 supplemental benefit funds, of which more than \$64 million, or 8.3 percent of the total city contribution, was used to cover administrative expenses. Because the supplemental benefit funds are managed by each individual union, the administrative expenses per employee vary greatly by benefit fund. Administrative costs in the various unions ranged from \$20 per benefit fund member to almost \$431 per member in 2003.

District Council 37's benefit fund, which has the largest number of members, spent approximately \$81 per member on administration in 2003. If the consolidated benefits fund had District Council 37's administrative cost per member, the city could save almost \$18 million annually, without reducing the level of city contributions for benefit services. Enacting such a consolidation would, however, require the approval of the unions, most likely through collective bargaining negotiations.

PROponents MIGHT ARGUE that consolidating the administration of the supplemental benefit funds would produce savings for the city without reducing benefit levels or other city services. They could also contend that a centralized staff dedicated solely to benefit administration could improve the quality of service provided to those members whose funds do not currently employ full-time benefit administrators.

OPponents MIGHT ARGUE that because the type of supplemental benefits offered to members is determined separately by each fund, members could be worse off if the benefit package changes as a result of consolidation. In addition, opponents may assert that individual unions are the most knowledgeable about the specific needs of their members and that a consolidated fund administrator may not be as responsive to these needs as a union administrator.

OPTION:

Bonus Pay to Reduce Sick Leave Usage Among Correction Officers

Savings:
\$3 million annually

AT PRESENT, UNIFORMED POLICE, fire, corrections, and sanitation personnel are contractually entitled to unlimited sick leave. This proposal would have the Department of Correction (DOC) 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 utilization of sick leave, thereby resulting in net financial savings. If successful, such an incentive program could be adopted by the city's other uniformed agencies.

The sick leave rate for uniformed correctional personnel has been higher than that of their sanitation, police, and fire counterparts each year since 1990. According to the agency, the average of 14 sick days utilized by DOC's roughly 8,500 correction officers in fiscal year 2004 cost the city a total of about \$60 million, or about \$504 per occurrence. 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 every day.

This proposal, which would require collective bargaining, would reward correction officers who use no sick days in a six-month period (January-June or July-December) with a bonus equal to 1 percent of base salary. Officers who use one, two, or three sick days would receive bonuses equal to 0.75 percent, 0.50 percent, and 0.25 percent of annual base salary, respectively. Although utilization 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 about \$51,000. Therefore, the bonus for an officer who uses no sick days in a six month period would be \$510.00 and drop to \$127.50 for an officer using three days.

To achieve savings the proposal will have to lower the usage of sick leave by more than the amount paid out. About half of all corrections officers already average three or fewer sick days per six-month period. In 2003, they would have received a total of \$2.6 million in bonus pay. About 4,700 correction officers utilized between three and nine sick days in 2003. If the bonus plan led these officers to use three fewer sick days annually, the city would reap net savings of \$3.3 million. In order to determine the bonus plan that will yield maximum net savings the city could vary the bonus schedule over time.

PROPOSERS MIGHT ARGUE that numerous state and local governments reap savings by monetarily rewarding personnel (including law enforcement personnel) that limit 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: Reduce Supplemental Welfare Contributions for City Workers by 10 Percent

Savings:
\$87 million annually

THE CITY'S BENEFIT COSTS have increased sharply over the past decade. Savings could be achieved by renegotiating municipal workers' benefit package to reduce the city's payments for Supplemental Welfare Benefits. Specifically, the city would reduce its contribution 10 percent towards the union-sponsored Supplemental Welfare Benefits plans. Implementation of this proposal would have to be negotiated with municipal unions.

The city provides approximately \$870 million per year to unions to provide dental, vision, prescription drugs, and other benefits to supplement the city's health insurance plan. This proposal would reduce these payments by 10 percent, or \$87 million per year.

The 83 welfare benefit plans to which the city contributes funds are managed by their respective unions. A City Comptroller's office audit of these funds for fiscal year 2001 found that administrative expenses averaged 9.6 percent of plan benefits, with higher administrative expenses for the smaller plans with the fewest members.

PROponents MIGHT ARGUE that city workers already have benefits that are more generous than those in the private sector. In addition, city health insurance costs have risen substantially in recent years. Proponents also argue that the funds could offer nearly the same level of benefits with 10 percent less in funding by consolidating individual unions' welfare funds into a smaller number of plans in order to reduce administrative expenses and negotiate volume prices with benefits providers.

OPponents MIGHT ARGUE that municipal workers are paid less than similar workers in the private sector, and that the supplemental welfare benefits provide valuable benefits to workers. They also could argue that the welfare funds provide benefits that are uniquely tailored to each of the respective unions. If the city were to consolidate the supplemental welfare funds into fewer plans, this diverse range of benefits could shrink.

OPTION: Institute a New Defined-Contribution Pension Plan for Civilian Workers

Savings:

**\$7 million in 2007, \$33 million in 2008,
\$58 million in 2009, \$70 million in 2010**

MOST FULL-TIME NEW YORK CITY CIVILIAN NON-PEDAGOGICAL EMPLOYEES are members of the New York City Employees Retirement System (NYCERS), the city's "defined-benefit" retirement plan for civilian workers. Employees are eligible to receive full benefits at age 62, provided they have at least five years of credited city service. Benefits are accrued as a function of final average salary and the number of years of city service.

This proposal would establish a new, defined-contribution pension plan to replace the NYCERS defined-benefit plan for all civilian employees hired beginning in 2006. The city would contribute 7 percent of each employee's salary into a 401(k) or 457 account, the investment choices of which would be determined by each employee. Employees could make additional tax-deferred contributions to their accounts, similar to the existing Deferred Compensation Plan for certain managerial and sub-managerial civilian employees. The savings arise because the NYCERS contribution rate as a percentage of covered payroll exceeds 7 percent in 2005, and grows rapidly thereafter.

PROponents MIGHT ARGUE that this proposal would provide significant savings to the city while giving city workers additional flexibility and portability in their retirement savings. Proponents also argue that since workers who leave city service can roll over their 401(k) balances into an Individual Retirement Account or another employer's plan, this proposal provides more benefits and makes city employment more attractive to younger and more mobile workers. This proposal also protects the city from the risk of stock market losses and limits the fiscal impact to the city from future pension legislation in Albany.

OPponents MIGHT ARGUE that a defined-contribution plan unfairly transfers stock market risk from the city to its workers. They might also argue it provides lower levels of benefits to workers who remain with the city for their entire careers in contrast to the current defined-benefit system, which provides generous benefits to long-term employees and little or no benefits to employees who leave city service early. Opponents also might argue that workers may not be able to make good investment choices, and that many workers may spend rather than roll over their retirement balances when they change jobs, leaving them with inadequate retirement savings. Finally, opponents could argue that because of market risk, individual workers who happen to retire after a market downturn will have significantly lower retirement savings on which to live.

OPTION:

Health Insurance Copayment by City Employees

Savings:

\$307 million in 2007, \$332 million in 2008, \$358 million in 2009, \$387 million in 2010

THE CITY'S HEALTH INSURANCE COSTS have increased sharply over the past decade. Savings could be achieved by renegotiating municipal workers' health benefit package to shift a portion of health insurance premium costs to active employees and retirees. Specifically, employees and retirees would contribute 10 percent towards their health insurance premiums for individual and family coverage. Implementation of this proposal would have to be negotiated with municipal unions.

The majority of public- and private-sector employers require some copayment towards health insurance premiums. New York State employees are required to pay 10 percent towards the cost of individual coverage and 25 percent of the additional costs of family coverage.

PROponents MIGHT ARGUE that this proposal generates recurring savings for the city and potential additional savings by giving city employees the incentive to become more cost conscious and work with the city to seek lower premiums. Proponents also might say that given the dramatic increase in health insurance costs, premium cost sharing could prevent a reduction in the level of benefits. Additionally, proponents could argue that contributing a share of the costs in a defined-benefit plan would be preferable to shifting to a defined-contribution plan where the city gives the employee a fixed amount of money to purchase health insurance plans. Finally, they could note that employee copayment of health insurance premiums is common practice in the private sector, and increasingly in public employment as well.

OPponents MIGHT ARGUE that requiring employee contributions for health insurance would be a burden, particularly for low-wage employees. Critics could argue that cost sharing would merely shift the burden of rising premiums onto employees, with no guarantee that slower premium growth would result. Also, opponents fear that once cost sharing is in place, the city would be more likely to ask employees to take up an ever bigger share of the costs if health insurance premiums continue to rise. Finally, critics might say that cost-shifting measures could impact the city's effort to attract or retain talented employees in the long run.

OPTION: Swap Local Medicaid Burden for a Portion of Local Sales Tax

Savings:
\$2.9 billion annually

ONLY ABOUT A QUARTER OF THE STATES require local sharing of the state's Medicaid obligations. New York is one of these states, and the required local share here is by far the largest in the country. Beginning in 2006, New York has implemented a cap on the annual increase in local Medicaid spending, with the state absorbing additional costs above the cap. Under this option, the state would absorb the entire local Medicaid costs from all counties (the city is treated like a single county for Medicaid purposes) across the state, not just the costs exceeding the cap. To help the state fund its much larger obligations, a portion of the county share of the local sales tax would be shifted to the state treasury. Thus, the cost of providing medical assistance to low-income residents would be spread across the entire state, rather than concentrated in counties with disproportionate numbers of poor people.

Shifting the burden for all locally financed Medicaid to the state government would add an estimated \$6.9 billion to state expenditures in 2007—a new burden that would grow to almost \$7.3 billion by 2009. Shifting half of the city's sales tax revenue to the state and 1 percentage point of the county sales tax rates elsewhere in the state, would yield the state government \$3.7 billion in new revenue in 2007 and almost \$4.1 billion by 2009. The net increase in state expenditures would be approximately \$3.2 billion per year. The swap would save the city over \$2.9 billion per year. Outside the city, counties would also save by shifting Medicaid costs to the state government. The other counties would have a net gain of about \$280 million in 2007, although this would narrow slightly to savings of \$260 million by 2009.

PROPOSERS MIGHT ARGUE that the nonfederal portion of Medicaid is most properly borne equally across the state. Forcing localities to bear a substantial portion of what in most other states is a state-level burden results in higher local taxes in localities with concentrations of Medicaid-eligible residents, which can result in punishing competitive disadvantages for those counties. Proponents might further argue that the state's current system diminishes accountability for managing the program. The localities are forced to support and administer a program with virtually no role in setting policies and priorities that are largely determined in Albany. Conversely, because a significant portion of costs resulting from decisions by policymakers in Albany are automatically shifted to the localities, there is less fiscal discipline on the decisionmakers. Shifting the full nonfederal cost to the state would result in more accountability at the state level.

OPPOSERS MIGHT ARGUE that it is appropriate that a share of the Medicaid burden be borne by localities because the concentration of eligible residents in particular localities is due, at least in part, to local policies. Further, grabbing a piece of the counties' tax revenues could undermine their fiscal stability. The need to raid the counties could be reduced at the cost of adding to the increased state burden that will have to be funded using general state resources. Finally, opponents could argue that with the state government facing significant fiscal difficulties, it may not be in a position to take on any increased Medicaid burden, even if the size of the new burden is reduced by using some of the localities' sales tax revenue.

OPTION: State Reimbursement for Inmates in City Jails Awaiting Trial Over One Year

Savings:
\$75 million annually

AT ANY GIVEN TIME about 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 multi-year 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. Therefore, 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 2004, however, almost 1,400 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 cost of \$262 per day, the city would realize annual revenue of approximately \$75 million. It should be stressed that the reimbursement being sought 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 multi-year terms in the prison system.

PROponents MIGHT ARGUE that the city is unfairly bearing a cost that is properly the state's, and that the city has little ability to effect 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 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, among other things. Furthermore, a disproportionate number of state prisoners are from New York City.

Revenue Options

OPTION:

Renew 2003-2005 Personal Income Tax Increases, Without Recapture Provisions

Revenue:

\$476 million in 2007, \$584 million by 2010

UNDER THIS OPTION, THE PERSONAL INCOME TAX (PIT) INCREASE paid by high-income New Yorkers from 2003 to 2005 would be renewed, except for the "recapture" provisions that rendered the income tax a flat tax for many high-income filers. Prior to 2003, the highest bracket of the personal income tax began at \$50,000 to \$90,000 of taxable income, depending on filing status, and had a marginal tax rate of 3.648 percent. The three-year increase created two additional tax brackets at the top: a fifth bracket, starting at taxable incomes of \$100,000 for single filers (and more for others), with a marginal rate of 4.05 percent in 2005, and a top bracket with a marginal rate of 4.45 percent for all filers with incomes of \$500,000 or more. Most of those paying the higher rates were further affected by the recapture provisions that were also enacted. Under these provisions some or all of taxable incomes not in the new brackets were taxed at the new, higher marginal rates. The recapture provisions, higher brackets, and higher rates all expired at the end of 2005. This option would renew the higher brackets and rates without the recapture provisions, and if it were done by the start of the next fiscal year would increase revenues by \$476 million in 2007, \$508 million in 2008, \$543 million in 2009, and \$584 million in 2010.

PROPOSERS MIGHT ARGUE that continuing the recent PIT increases would provide a substantial boost to city revenues without affecting the vast majority of city residents. Almost all of those filers who would pay more under this proposal have adjusted gross incomes above \$125,000—an estimated 8.3 percent of all filers and 11.4 percent of all taxpayers in 2007. There is no evidence that these affluent New Yorkers have moved out of the city in response to the tax increases of the last three years, even with a larger New York State PIT increase also enacted at the same time. This proposal also would avoid the recapture provisions of the 2003-2005 increase, which created large jumps in tax liability when income exceeded certain thresholds, so the additional tax burden borne by most affected taxpayers would be smaller than the 2003-2005 increases. Finally, for taxpayers who do not pay the federal 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 disincentives for the most affluent to remain city residents.

OPPOSERS MIGHT ARGUE that New Yorkers are already among the most heavily taxed in the nation and a further tax increase is likely to induce movement out of the city. New York is one of only three large U.S. cities to impose a personal income tax. Tax increases only exacerbate the city's competitive disadvantage with respect to other areas of the country, and this proposal would be especially damaging. For over a decade the city repeatedly renewed both the current, 14-percent surcharge and another PIT surcharge that had been in effect from 1990 to 1998, in spite of both increases initially being labeled "temporary." Renewing a tax increase the public expected to last only three years would fuel skepticism about temporary taxes. Renewing the 2003-2005 increase, even without its recapture provisions, would especially tax high-income New Yorkers, who account for a disproportionately large share of PIT revenue. City taxpayers earning over \$250,000 a year would account for over half of the revenue under this option, and if 5 percent of them were to leave the city in response to higher taxes, PIT revenue would decline by \$171 million (assuming those moving had average tax liabilities for the group). Over time the revenue loss would be further compounded by reductions in other city tax sources, such as business income taxes, the sales tax, and the property tax.

OPTION: Restore the Former Commuter Tax

Revenue:

\$583 million in 2007, \$692 million
by 2010

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. Since 1971 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. Four years ago the New York State Legislature repealed the tax, effective July 1, 1999. If a commuter tax were to be restored at its former rates effective on July 1 of this year, the city's PIT collections would increase by \$583 million in 2007, \$618 million in 2008, \$652 million in 2009, and \$692 million in 2010.

PROPOSERS 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. An estimated 49 percent of all filers who would pay the commuter tax in 2005 have annual incomes above \$100,000, compared with 9.3 percent of city residents filing tax returns. Also, by lessening the disparity of the respective income tax burdens facing residents and nonresidents, reestablishing the commuter tax reduces 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 created an unexpected shortfall of tax revenue that the city can ill afford, especially given recently projected budget gaps in spite of an improving economy.

OPPOSERS MIGHT ARGUE that reinstating the commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. By creating disincentives to work in the city, the commuter tax would cause more nonresidents to prefer holding jobs outside of the city. If, in turn, businesses 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 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 benefited greatly from the elimination of the 12.5 percent ("criminal justice") surcharge, which in terms of absolute dollar amounts (though not percentage terms) is about two-thirds greater than the nonresident tax that was repealed.

OPTION: Establish a Progressive Commuter Tax

Revenue:
\$1.2 billion in 2007, \$1.5 billion by 2010

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 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. Several key state leaders responded negatively to the proposal. If a progressive commuter tax at one-third the rates of the resident tax (0.97 percent in the lowest tax bracket to 1.22 percent in the highest) were to begin on July 1, 2006, the boost to city revenues would be substantial: \$1.234 billion in 2007, \$1.325 billion in 2008, \$1.407 billion in 2009, and \$1.281 billion in 2010.

PROPOSERS 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 2006, 52.7 percent of all commuters will have annual incomes above \$100,000 (compared with 9.3 percent of all city resident filers); this group would also be responsible for 87.9 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 comprise 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 a portion 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.

OPPOSERS MIGHT ARGUE that any commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. The adverse economic effects of the proposed progressive tax would be worse than those of the former commuter tax because the progressive tax's rate would be higher; average tax liability in 2007 would be an estimated \$1,400. 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: Restructure Personal Income Tax Rates to Create a More Progressive Tax

Revenue:

\$176 million in 2007, \$453 million by 2010

THIS OPTION WOULD CREATE A MORE PROGRESSIVE STRUCTURE of the personal income tax's (PIT) rates by reducing marginal rates in the bottom income brackets and raising marginal rates at the top. Unlike the 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.

The base tax rates would become as follows: The lowest marginal rate would be reduced to 2.35 percent, and the next highest rate would be reduced to 2.95 percent. The rates and income range of the third bracket would remain the same but the top bracket would now become divided into three groups. A new fourth bracket with a slightly increased base rate of 3.35 percent would end at incomes of \$100,000 for single filers, \$180,000 for joint filers, and \$120,000 for heads of households (single parents). The next bracket would have a marginal rate of 3.5 percent for incomes up to \$200,000, \$360,000, and \$240,000 for single, joint, and head of household filers, respectively. The marginal rate in the new top bracket would be 3.80 percent, a 0.60 percentage point increase over the top rate prior to the temporary increase. 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 went into effect at the beginning of calendar year 2007, their full revenue-raising effect would not be evident until fiscal year 2008.

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 numbers of filers: almost all (95.5 percent) taxpayers with gross incomes below \$125,000—a projected 89 percent of all taxpayers in tax (calendar) year 2007—would receive a tax cut. This proposal also would avoid the burdensome recapture provisions of the 2003-2005 increase. Finally, for many taxpayers who itemize deductions 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 help address long-term gaps, this option is somewhat inefficient. For tax year 2007, the reductions in base rates in the bottom two tax brackets decrease the revenue-raising potential of the accompanying increases by at least \$127 million. Furthermore, while many non-affluent filers would receive tax cuts under restructuring, filers with incomes above \$1 million would still see their PIT liabilities rise on average by an estimated \$21,600 in 2007, compared to what they would be after the current temporary increase expires. 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 750 filers) were to leave town, the city would lose roughly \$16.3 million annually in PIT revenue, and over time this revenue loss would be further compounded by reductions in other city tax sources. Finally, in the coming years more New Yorkers will become subject to the federal alternative minimum tax, which does not allow taxpayers to deduct state and local tax liabilities, so many who would pay higher taxes under this option will bear the entire additional tax burden.

OPTION: Raise Cap on Property Tax Assessment Increases

Revenue:

**\$19 million in first year and
\$120 million to \$150 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 four 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 \$19 million for 2008 (with the assessment roll for 2007 already largely complete, 2008 is the first year the option could be in effect) and \$120 million to \$150 million annually after five years. 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 approximately \$60.

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

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

OPPOSERS MIGHT ARGUE that increasing the burden on homeowners would undermine the city's goals of encouraging homeownership and discouraging the flight of middle-class taxpayers to the suburbs. Other opponents 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:

\$24.7 million in 2006, rising to
\$140.2 million per year when fully phased in

UNDER NEW YORK STATE LAW, a vacant property in New York City (outside the area south of 110th Street in 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 2007, there are roughly 29,400 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 2007, the median ratio of assessed value to full market value is expected to be 4.4 percent for these properties.

Under this option, 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 13,900 lots would be reclassified. Phasing in the increase in assessed value evenly over five years would generate \$24.7 million in additional property tax revenue in the first year, and the total increment would grow by \$28.9 million in each of the next four years. Property tax revenue in the fifth and final year of the phase-in would be \$140.2 million higher than without this option.¹

PROPONENTS MIGHT ARGUE that vacant property should not enjoy the low assessment benefits of Class 1 that is 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 non-vacant 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.

¹ In this calculation, property tax rates are kept at their fiscal year 2006 levels, and the aggregate full market value of vacant residential properties is assumed to be unchanged.

OPTION: Extend the Mortgage Recording Tax

Revenue:

\$121 million in 2007, \$96 million in 2008,
\$100 million in 2009

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 MRT rate is 1.0 percent of the value of the mortgage if the amount of the loan is under \$500,000, and 1.25 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 broadening 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. IBO estimates that extending the MRT would raise \$121 million in 2007. Due to a projected decline in real estate activity, IBO estimates that the amount raised would fall to \$96 million in 2008, and then rise to \$100 million in 2009.

PROPOSERS 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, resulting in depressed sales prices and ultimately lower market values.

OPTION: Luxury Apartment Rental Tax

Revenue:

\$21.6 million in 2007, \$22.5 million in 2008, \$24.6 million in 2009

THIS PROPOSAL WOULD IMPOSE A TAX on the owner of a residential dwelling unit renting for more than \$3,000 per month. A 1 percent tax on the estimated 44,000 apartments renting for \$3,000 or more—which have an average rent of \$4,100 per month—would raise approximately \$22 million in 2007, rising as rents increase and the number of units renting for above \$3,000 grows. The increase could be passed on to tenants in whole or in part (depending on market conditions) when leases are renewed or units become vacant.

PROPOSERS MIGHT ARGUE that the \$3,000 threshold for this tax is above \$2,000—the point at which apartments are removed from rent regulation. Therefore the tax will not affect the city's stock of affordable housing. It is likely that this proportionately small tax would fall largely on the city's well-to-do, who could easily afford to pay an average of \$36 more per month. They also could argue that vacancy decontrol for rent-regulated apartments renting for \$2,000 or more has yielded significant profits to building owners, who can thus afford to pay this modest tax.

OPPOSERS MIGHT ARGUE that the property tax already tends to fall disproportionately on rental buildings, compared to either single-family homes or coop and condo buildings. An additional "luxury" surcharge would fall on many renters who, due to a lack of affordable housing in the city, pay \$3,000 or more but for whom this represents a significant financial burden. More than 44 percent of the tenants living in units renting for \$3,000 or more per month are paying more than one-third of their income in rent, according to the most recent Housing and Vacancy Survey. More than 27 percent of these tenants are paying more than 50 percent of their income in rent. Even a small increase in rent would be difficult for these tenants to afford. Finally, opponents might argue that the tax would at least initially fall on building owners, who may or may not be able to afford the increase—especially following the recent 18.5 percent increase in property tax rates.

OPTION: Eliminate the Manhattan Resident Parking Tax Abatement

Revenue:
\$3 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, the city would generate an additional \$3 million annually.

PROPOSERS MIGHT ARGUE that having a car in Manhattan is a luxury. Drivers who can afford to own a car and lease a long-term parking space can afford to pay a premium for garage space, which is in short supply in Manhattan. Manhattan car owners contribute to the city's congestion, poor air quality, and wear and tear on streets. In turn, they should pay the tax to pay for necessary city services.

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 \$444 in downtown Manhattan, and \$492 in midtown. The tax increase would therefore range from \$36 to \$39 per month—less in residential neighborhoods with less expensive parking. This relatively modest increase is unlikely to significantly influence car owners' choices about where to park.

OPPOSERS MIGHT ARGUE that the tax abatement is necessary to encourage Manhattan residents to park in garages, thereby reducing demand for the very limited supply of street parking. Furthermore, cars are scarcely a luxury good for many of the 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: Eliminate Property Tax Exemption for Madison Square Garden

Revenue:
\$11.6 million in 2007

THIS OPTION WOULD ELIMINATE THE REAL PROPERTY TAX EXEMPTION for Madison Square Garden (MSG). For more than two decades, Madison Square 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 2006, the tax expenditure, or amount of foregone taxes, is \$11.6 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. Adjusted for inflation, the cumulative value of the exemption since it was enacted in 1982 reached \$256.2 million in 2006.

When enacted, the exemption was intended to ensure the viability of professional major league sports teams in New York City. Legislators determined that "operating expenses of sports arenas serving as the home of such teams have made it economically disadvantageous for said 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).

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 MSG Network and Fox Sports New York, it receives game-related revenue from tickets, concessions, and cable broadcast advertising. In addition, Madison Square Garden hosts concerts, theatrical productions, ice shows, the circus, and much more in its arena and theater, and it collects both rent and concession revenue on these events. 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 economically benefit the city and that foregoing \$12 million is reasonable compared to the risk that the teams might leave the city. Some also might contend that renegeing on the tax exemption would add to the impression that the city is not business-friendly.

OPTION: Eliminate 10- and 20-Year 421-a Tax Exemptions

Revenue:

\$52.6 million in 2007, \$101.9 million in 2008, \$142.2 million in 2009, and \$180 million in 2010

NEW RESIDENTIAL CONSTRUCTION IN MANHATTAN south of 110th Street may under certain circumstances be eligible for an exemption from real property taxes for a period of either 10 or 20 years. Developers who purchase certificates from affordable housing developers receive 10-year exemptions; 20-year exemptions are granted to projects in which at least 20 percent of the units are affordable to low- and moderate-income households. Over the last five years, there has been an average of about 2,300 units with 10-year exemptions and 2,000 units with 20-year exemptions added annually. IBO estimates that the full cost in foregone property tax revenues of a 10-year exemption is about \$22,000 per unit; for a 20-year exemption the full cost per unit is about \$91,000. Revenue is only foregone if the project would have been built even without the tax exemption.

PROPOSERS MIGHT ARGUE that these tax exemptions are a giveaway to developers of high-end luxury housing in Manhattan that do not require a subsidy to be economically viable. These exemptions in Manhattan south of 110th Street are costly and inefficient. Many new residential projects have been built without 421-a exemptions, usually because they do not meet the eligibility requirements. Finally, the benefits of the exemption may primarily accrue to landowners, who can sell land to developers for a higher price if the site is eligible for a 421-a exemption.

OPPOSERS MIGHT ARGUE that without these exemptions housing production in New York would be curtailed, and the remaining construction would occur mostly outside of Manhattan or above 110th Street. They might argue that the very high cost of construction, particularly in core Manhattan, makes some form of subsidy imperative if housing is to be affordable to more than a small minority of well-to-do households. Opponents also could note that the 421-a program is now deeply embedded in New York's residential housing market and feel that removing it would cause serious disruption. In addition, a tax subsidy is an efficient mechanism because it lets market participants choose whether or not to build rather than relying on a bid and review process. Many housing advocates also view the 421-a program as an important source of financing for affordable housing construction that also ensures the construction of some mixed-income developments south of 110th Street.

OPTION: Revise Coop/Condo Property Tax Abatement Program

Revenue:
\$58 million in 2006, rising to \$69 million
in 2009

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. In updating a 1998 IBO study we found that 31 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. Another 7 percent gave other apartment owners benefits beyond the Class 1 level.

Under the option proposed 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.

The additional revenue would vary depending on precisely how the exclusion was defined. The current waste in the program is estimated at \$96 million in 2006 and will grow to \$115 million by 2009. 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. At a time when many city services for middle- and lower-income households have been curtailed, it is particularly appropriate to avoid giving benefits that are greater than were intended to some of the city 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 over six 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:
\$67.4 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 is expected to cost the city \$269.5 million¹ in foregone property tax revenue (often called a "tax expenditure"). Exemptions for student dormitories and additional student and faculty housing will represent 24.6 percent (\$66.2 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 \$67.4 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. Rhode Island also reimburses local governments, though at a lower percentage.

PROPOSERS MIGHT ARGUE that colleges and universities consume valuable city services, including police and fire protection, without paying their share of the property tax burden, while for-profit employers and residents must pay the bill. 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 supporting universities and colleges to that broader community. Finally, they might point to several other cities with large private educational institutions that collect PILOT payments, either directly from the institutions or from their state governments. These include large cities (such as Boston, Philadelphia, Providence, New Haven, and Hartford) and smaller cities (such as Cambridge and Ithaca).

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

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

OPTION:

Extend the General Corporation Tax to Insurance Company Business Income

Revenue:
\$200 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; non-life insurers covering accident and health premiums pay a 1.75 percent tax on premiums; all other non-life 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 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: Eliminate the Cap on the Capital Tax Base in the General Corporation Tax

Revenue:
approximately \$82 million annually

CORPORATIONS SUBJECT TO THE GENERAL CORPORATION TAX (GCT) must pay the largest of four basic calculations of liability: (1) 8.85 percent of net income allocated to New York City; (2) 2.655 percent of net income plus compensation paid to major individual shareholders allocated to New York City; (3) 0.15 percent of business and investment capital allocated to New York City; and (4) a \$300 alternative minimum tax.

In 1988, a corporation's allocated capital base was capped, for tax purposes, at a level limiting the amount of liability under alternative (3) to \$350,000. This cap affects all corporations with allocated net income less than approximately \$4.0 million, allocated net income plus compensation less than approximately \$13.2 million, and allocated business and investment capital greater than approximately \$233.3 million. In short, the affected firms are highly capitalized businesses with relatively low cash flows. By the Department of Finance's most recent published calculation, there were 46 such corporations in New York City, and they saved an average of just under \$1.8 million in GCT taxes each due to the cap.

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

OPPONENTS MIGHT ARGUE that the recipients of this tax break (firms with large assets relative to income) tend to be manufacturing firms, and these include firms that truly are cash poor. Given the precarious position of manufacturers in New York City, the capital liability cap may serve to slow the erosion of manufacturing jobs here, easing the transition to the "New Economy." Moreover, any attenuation of New York City's uniquely heavy local business tax burdens lessens the competitive tax disadvantage of firms operating in the city.

OPTION: Tax Laundering, Dry Cleaning, and Similar Services

Revenue:
\$38 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 \$38 million annually.

PROPOSERS MIGHT ARGUE that laundering, tailoring, shoe repair, and similar services should not be treated differently from other goods and services that are presently being taxed. 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, decreasing slightly the regressive nature of the sales tax. The city's commitment to a cleaner environment, which is reflected in the various city policies that regulate laundering and dry-cleaning services, further justifies inclusion of these services in the sales tax base.

OPPOSERS MIGHT ARGUE that laundering, tailoring, shoe repair and similar services are provided by the self-employed and small businesses, and these operators may not have 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 might point out that ideally, sales taxes should only be imposed on the final sale to a consumer; sales taxes on business-to-business transactions could result in shifting the burden of the tax to consumers through an increase in the price of the good.

OPTION: Impose Sales Tax on Capital Improvements

Revenue:
\$253 million annually

THIS OPTION WOULD INCREASE CITY REVENUES by broadening the sales tax base to include capital improvement installation services. In New York, many services, including landscaping, are taxed but other services that 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 \$253 million.

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 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 increase the number of business-to-business transactions subject to the tax, further undermining the ideal that sales taxes should only be imposed on the final sale to a consumer. With higher costs, businesses would in turn try to shift the burden of the tax onto consumers by increasing prices.

OPTION:

Tax on Cosmetic Surgical and Nonsurgical Procedures

Revenue:

\$95 million in 2007, \$117 million in 2008, \$143 million in 2009, and \$173 million in 2010

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 part driven by aggressive marketing on the Internet, the business of cosmetic enhancements is one of the fastest-growing industries in the United States. Between calendar years 1997 and 2004 the number of procedures increased close to 600 percent nationwide. In the latter year cosmetic procedures by board-certified physicians yielded \$11.7 billion in fee payments. (This total did not include reconstructive rather than cosmetic procedures. Nor did it include fees for facilities, anesthesia, medical tests, prescriptions, and other ancillaries.) We estimate that over \$1.4 billion was generated in New York City. That figure could almost double by 2007. 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 estimates provided above.

PROPOSERS 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 (AMA) 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," and recommends that the latter, but not the former, be included in standard health benefits packages. For tax purposes, there is no reason to treat cosmetic enhancements differently than cosmetic products. Given the earnings profiles of those electing to get cosmetic surgery, injections, or other procedures, a sales tax on all these procedures would be (unusual for a consumption tax) progressive.

In 2004 New Jersey instituted a tax on cosmetic procedures, distinguishing these from reconstructive surgery using AMA guidelines. This both establishes a precedent for restricting sales tax exemptions to medically necessary procedures and limits the potential border tax effects (tax-driven shifts in economic activity) from instituting a similar tax in New York City.

OPPOSERS MIGHT ARGUE that rather than seeing cosmetic procedures as luxuries, many people regard them as vital to improving self-esteem and general quality of life. Increasingly, as the purview of medicine extends to not just curing illness, but promoting wellness, quality-of-life improvements are being considered health necessities. 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. Furthermore, market surveys indicate that cosmetic surgical and nonsurgical procedures are sought by persons at all income levels. The imposition of a tax would be a disproportionate burden on budget-constrained individuals, and would make advanced medical and surgical options somewhat more expensive to the average New Yorker. Moreover, because it would likely reduce the volume of cosmetic procedures done in New York City, the tax would have a negative impact on local economy.

OPTION: Restaurant Tax

Revenue:
\$15 million to \$125 million annually,
depending on rate and base

SEVERAL STATES AND CITIES (including Washington DC, Dallas, Mississippi, Utah, North Dakota, and Minnesota) impose an additional tax on food and beverage sales made by restaurants. The revenues from these taxes are often dedicated to tourism and economic development projects, although recently there has been some movement to use the receipts to fund general budget needs. The structure of the "restaurant tax" varies widely from a tax on all food and drink prepared in restaurants for consumption on the premises, to a combination "meals and lodging" tax computed on the basis of hotel charges, covering meals in hotel restaurants. Chicago, for instance, imposes an additional one-quarter of a percent tax on restaurant meals that is dedicated to tourism-related activities.

In New York City, restaurant revenue is projected to reach \$9.5 billion in 2006. Under the current city sales tax rate of 4 percent, roughly \$380 million in revenue is collected for the city (combined with the state and the Metropolitan Transportation Authority taxes, the total sales tax in the city is 8.375). Imposing an additional one-quarter of a percent on restaurant sales would bring in roughly \$15 million; an increase of 1.625 percent (making a combined total rate of 10 percent) would bring in \$125 million. In both cases, we assume a slight decrease in the sales base (2 percent and 5 percent, respectively) as customers adjust their dining habits in response to the higher final price. This would require state legislation to enact.

PROPOSERS MIGHT ARGUE that imposing a small increase in the sales tax for restaurant meals would mean substantial revenue with only minimal economic disruption. By only taxing food prepared in restaurants, the tax would affect only those choosing to eat at restaurants—the tax could be avoided. In addition, with the large number of visitors and commuters, not all the additional revenue would be extracted from the pockets of city residents.

OPPONENTS MIGHT ARGUE that imposing a higher tax rate on restaurant food and drink would directly harm this extensive part of the city's service sector, especially its many low-wage workers. It could cause further indirect harm by making New York City somewhat less desirable as a tourist destination, further shrinking the food service and lodging sector. In addition, eating out may not be the "luxury" it may have been in the past, and is more common in New York than in many other parts of the country.

OPTION: Partially Restore the Stock Transfer Tax

Revenue:
roughly \$800 million annually

NEW YORK STATE INSTITUTED A TAX on transfers of shares or certificates of stock in 1909, and shifted the tax to New York City in 1966. The stock transfer tax (STT) was phased out between 1979 and 1981, although it is still nominally paid to the state; in actuality the money is immediately rebated back to the payer. In fiscal year 2005, the STT rebate was \$10.7 billion, an amount IBO projects to rise to nearly \$15 billion by 2010.

But the actual revenue potential of a city stock transfer tax today would be much lower. Stock trading has been transformed over the past three decades, with basic (nontax) trading costs falling to only a tenth of what they were before the STT was eliminated. As a result, while the original five cents per share STT added about 10 percent to 12 percent to transaction costs in 1977, the same charge today would raise costs by (depending on the measure of basic costs) 55 percent to 70 percent. This order of increase would produce a precipitous drop in Wall Street trading volume—and a steep reduction in transfers subject to the STT.

Securities industry employment and profits are sensitive to volume and since these are major drivers of the New York City economy, revenues from other city (and state and Metropolitan Transportation Authority, or MTA) taxes would be adversely affected by an STT restoration as well. A full restoration of the stock transfer tax would net about \$5.4 billion in STT revenue (this, and the numbers that follow, is an average of IBO's high and low estimates) while eventually costing the city approximately 180,000 private-sector jobs and reducing revenues from other city, state, and MTA taxes by over \$5.3 billion—in other words, generating an overall net revenue gain of nearly zero.

Partial rather than full restoration of the STT would yield smaller losses in city jobs and in other tax collections—and, up to a point, greater STT revenues as well. Overall tax revenues would be maximized with an STT restored to approximately half of its old nominal rate: at that level STT revenue would be close to \$4.8 billion and other city/state/MTA tax losses nearly \$2.5 billion, resulting in an overall net revenue gain of about \$2.25 billion. This gain, however, would be accompanied by a loss of over 85,000 private-sector jobs in New York City.

For the recently proposed temporary restoration of the STT at one-tenth its old rate, IBO estimates \$1.275 billion in STT revenue offset by losses of close to \$475 million in other tax revenues, for a net revenue gain of about \$800 million. Private employment would fall by approximately 16,500.

PROPOSERS MIGHT ARGUE that a partial restoration of the STT would lighten the burden of the tax enough to enable brokers to still trade competitively in New York City, and that deleterious impacts on Wall Street and overall city employment (and thus on current city and state taxes) would be averted by making a restoration temporary.

OPPONENTS MIGHT ARGUE that relentless pressures on costs and rising competition from electronic exchanges have put the future of the New York Stock Exchange's trading floor in doubt even without a stock transfer tax restoration; that a commitment to restore the STT only temporarily would not be credible, and tax-induced shifts to offsite exchanges would in any case be irreversible; and that an STT would thus be economically destructive however conceived.

OPTION: Increase the Fine for Recycling Violations

Revenue:
\$2.2 million to \$5.2 million annually

IN 2005, THERE WERE 125,861 CITATIONS GIVEN TO CITY RESIDENTS AND BUSINESSES for violating city recycling rules. Approximately 85 percent of those deemed valid were paid in full. This is a very high yield rate compared to those of other city violations. But the size of a recycling violation fine is one of the city's lowest. At \$25, the fine for a first violation has not increased since it was set in Local Law 19 of 1989. While the fine's low cost undoubtedly contributes to its high payment rate, it may not deter future violations as well as a higher fine might.

An increase in the recycling fine from \$25 to \$50 was proposed for fiscal year 2003, but it never received City Council approval. It was thought that an increase would be unfair to residents confronting changes in the recycling program that year, as glass and plastics recycling was temporarily suspended from the program. The base fine for all other sanitation violations increased from \$50 to \$100 in 2004.

If the base fine for recycling violations was doubled to \$50, revenue would likely grow by \$2.2 million. If the base fine was raised to the current level of other sanitation fines (\$100), the city could expect an additional \$5.2 million in revenue. (These estimates assume that current payment rates would decline as the fine amount increased.)

PROPONENTS MIGHT ARGUE that because a \$25 fine brings little in the way of deterrence to city residents who violate recycling rules, an increase would give added force to the recycling program at a time when New Yorkers may be questioning the city's commitment to recycling. Aside from obvious environmental benefits, a recent IBO analysis also found that more recycling would lower the city's cost per ton for collecting recyclables curbside.

OPPONENTS MIGHT ARGUE that a higher fine would place an undue burden on landlords and building owners because it is difficult to single out violators within large apartment buildings. Without individual accountability for recycling, any increase to the fine would do little to deter violations. Furthermore, many violations may be attributed not to building residents at all, but to those who break open bags looking for redeemable bottles and cans. Lastly, opponents might argue, the recent and multiple changes to the recycling program have confused residents and an increase at this time would unfairly capitalize on this confusion.

OPTION: 'On the Spot' Misdemeanor Penalties

Revenue:
\$32.6 million annually

'ON-THE-SPOT' PENALTIES ticket misdemeanor lawbreakers over the age of 18, in lieu of arrest or court appearances. When on-the-spot penalties were tested in a pilot program in London, nearly 70 percent of tickets were paid, the number of prosecutions dropped, and police time on paperwork was reduced by 1.5 hours to 2.5 hours per ticketed case.

The program would have a dual-level fine structure for different quality-of-life violations: \$125 for harassment and alarm (such as noise complaints), and \$250 for public drunkenness and disorderly conduct. Recipients of the ticket have 21 days to pay the fine or request a court hearing. Failure to respond would result in a fine of the original amount plus 50 percent.

In 2004, 708,349 quality-of-life violations summons were given. If 35 percent of quality-of-life violations were included in an on-the-spot program, roughly 250,000 tickets would be issued annually. Assuming the above fee structure and a compliance rate of 70 percent, the city would have earned \$32.6 million in 2004.

PROponents MIGHT ARGUE that penalties would act as a deterrent while reducing the caseloads of courts and police officers. Furthermore, if the accused fails to pay, jail time might still be served. Additional savings could result from a reduction in police overtime arising from processing arrests, and free police, district attorney, court, and public defender resources for more important cases.

OPponents MIGHT ARGUE that the most successful deterrent is the threat of jail time, and that fines are an unsuitable replacement. Furthermore, the 'quality-of-life' campaign is based on the premise of ending antisocial behavior by sending clear messages. Treating quality-of-life violations essentially like parking tickets may not send as firm a message; only jail time or a lengthy court process will change behavior.

OPTION: Increase the Auto Use Tax

Revenue:
\$26 million annually

THE AUTO USE TAX is a city tax on privately owned passenger vehicles. The state Department of Motor Vehicles collects the tax along with registration fees, and then remits payment to the city. The auto use tax is levied in the five boroughs of New York City and in 17 other counties of New York State. The tax in New York City is \$30, paid every other year, and has remained at that level since it was first instituted in 1974. The other counties charge either \$10 or \$20 biannually. The state Legislature would need to act to increase the tax.

The city received \$28 million per year from the auto use tax in fiscal year 2005. IBO estimates that doubling the tax would provide \$32 million in additional annual revenue. IBO's estimate assumes a 6 percent reduction in vehicle registrations in response to the tax increase. The actual decline may be less, as the city's Department of Finance is increasing its efforts to track down residents who register their vehicles outside the city.

PROPOSERS MIGHT ARGUE that it is an effective way to charge motorists for some of the direct costs that they impose on the city budget—costs that include street and signal maintenance, traffic enforcement, and public health expenditures arising from air pollution. Revenue from the tax could also be considered as compensation for indirect costs that private motorists impose on the rest of society—costs such as repairs and medical expenses due to accidents, and time lost due to congestion. Finally, proponents could point out that the auto use tax in New York City has remained at \$15 per vehicle per year since 1974. During the same period the Consumer Price Index for the New York Metropolitan area has increased by 294 percent.

During the same period, the average price of a subway or bus ride has risen 271 percent (from 35 cents to \$1.30, taking free transfers and discounts into account).

OPPOSERS MIGHT ARGUE that private motorists already pay a hefty price to drive in New York City. Parking fees, auto insurance, and fuel prices are among the highest in the United States. Opponents also could point out that despite its name, the auto use tax is actually a tax on auto ownership. Raising the tax from \$15 to \$30 annually may lead more motorists to register their vehicles outside the city, but is less likely to cause a significant reduction in the number of accidents, the amount of pollution, or the level of congestion in the city.

OPTION: Institute a Residential Permit Parking Program

Revenue:

\$2 million in 2007, \$4 million in 2008, and \$6 million in 2009

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.

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 \$75.

PROONENTS 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.

OPONENTS 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: Charge \$1 Video Rental Fee at Libraries

Revenue:
\$2.9 million annually

IN FISCAL YEAR 2004, 6.85 million videos were borrowed from New York City's three library systems. Currently, video rentals at libraries are free and are generally borrowed for three-weeks. The introduction of a \$1 fee per video rental would supplement the libraries' revenue stream while still providing a far cheaper alternative to private video rentals, which currently range from \$2.50 to \$5 and generally must be returned within one to three days. An assumption of a 15 percent drop-off in circulation due to the fee has been factored into our calculations.

Implementing this option would come at the discretion of individual library system boards; the city cannot impose this fee. To share the gains from imposing the fee between the libraries and the city, the city would reduce the library subsidy payment by an amount equal to half of the anticipated \$5.8 million revenue, resulting in savings to the city budget of \$2.9 million. The libraries would keep the remaining additional revenue as a supplement to their budgets.

PROPOSERS MIGHT ARGUE that video rentals are not the libraries' primary mission, which is to provide free opportunities for reading. Rather, the libraries are using city subsidies to provide a free service that is already being provided by the private sector. At \$1 per rental, this fee would still be considerably lower than that of private-sector rental services and the borrowing time will continue to exceed that of private alternatives.

OPPONENTS MIGHT ARGUE that the implementation of a fee would eliminate the only free video rentals in the city, potentially making the service unaffordable for lower-income households.

OPTION: Charge for Film and Television Permits

Revenue:
\$5.1 million annually

NEW YORK CITY IS A VERY POPULAR site for shooting movies, television shows, commercials, music videos, etc. Between 1995 and 2004 there have been an average of over 20,000 location shooting days each year in New York City. The winter 2004 issue of *MovieMaker Magazine* labeled New York the number one filming location for independent moviemaking. The Mayor's Office of Film, Theatre, and Broadcasting coordinates all filming in New York City, and serves as a "one-stop-shop" for permits and logistical assistance. Filmmakers are not charged for these film permits. In addition, they are exempted from state and most local sales taxes and the city and state recently adopted tax credit for film and television production. Assuming 20,000 shooting days per year, the city would stand to gain \$5 million annually from a \$250 per day permit fee.

PROPOSERS MIGHT ARGUE that filmmaking consumes city services such as police and sanitation, uses city property, and disrupts neighborhoods. Charging a fee for filming permits will compensate the city for some of the expenses it incurs. There are no substitutes for New York City, they argue: Filmmakers who want to include images of the city's skyline and landmarks must film in the city, so imposing a fee will likely have a limited effect on the number of location shooting days in New York City. They note that other major filming locations, such as, Vancouver (Canada) do charge permit fees, as well as park fees, police fees, fire department fees, electrical permit fees, and hydrant permit fees. Even with a moderate permit fee, New York would still be providing a valuable service to filmmakers through its "one-stop-shop" permitting process, for a fee well below the cost of city services. The modest fee would not materially affect the costs of production.

OPPOSERS MIGHT ARGUE that New York City is already facing an exodus of filmmakers to other, cheaper locations, and that the imposition of any fee will exacerbate this. According to the Mayor's Office of Film, Theatre and Broadcasting, the film industry adds over \$5 billion and 70,000 jobs to the city economy annually. If filmmakers leave the city in favor of other locations, it will have a ripple effect on the overall economy. The Canadian government rebates 22 percent of labor costs directly to filmmakers. Combined with the favorable exchange rate, this policy has encouraged more and more filmmakers to work in Canada. New York City cannot afford to lose further films to Canada or other locations.

OPTION: Convert Multiple Dwelling Registration Flat Fee to Per Unit Fee

Revenue:
\$3.3 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 2006, the city expects to collect \$1.6 million in multiple dwelling registration fees. Converting the flat fee to a \$2 per unit fee would increase the revenue collected by HPD by \$3.3 million annually (assuming a 90 percent collection rate).

PROPOSERS 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.

OPPOSERS 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 recent 18.5 percent property tax increase.

OPTION:

Expansion of the Bottle Bill and Return of Unclaimed Deposits to Municipalities

Revenue:
\$65 million to \$123 million annually

THIS PROPOSAL INVOLVES TWO SEPARATE ACTIONS, both included in proposed state legislation. First, the state's bottle bill, which requires a 5 cent deposit on certain beverage containers, would be expanded to include all carbonated and noncarbonated beverages, except milk and those alcoholic beverages not already included. Second, instead of the beverage distributor retaining the unredeemed deposits, they would be returned to local jurisdictions in proportion to local sales.

Currently, New York State's bottle bill covers beer and other malt beverages; carbonated soft drinks; mineral and soda water; and wine coolers sold in glass, metal, or plastic containers of up to 1 gallon. Under the current deposit system, a minimum of 5 cents deposit is collected by the distributor for each filled container sold. The retailer, in turn, charges the consumer 5 cents. When the consumer brings a bottle in for redemption, the consumer receives the 5 cents back from the retailer and the retailer is reimbursed the 5 cents from the distributor for the empty container. However, if more containers are sold than redeemed, there is a balance of deposits left with the distributor. Under the current bottle bill the unredeemed deposits are not required to be returned to the state or municipality and therefore are simply retained by the distributor.

Recently, several amendments have been added to the proposed state legislation. These include several provisions that would help New York City residents and businesses to comply with the law. First, the new legislation would allow dealers in New York City to limit the number of containers they accept to 72 per person per day—rather than the current limit of 240—under certain conditions. Second, municipalities and nonprofits operating redemption centers would be allowed to be reimbursed their costs by a state funding stream for recycling projects.

Estimates of the number of containers sold in New York City vary. Depending on the number of containers sold, the city could receive anywhere from \$45 million to \$100 million under the current bottle bill. With the proposed expansion, the potential revenue increases to between \$65 million and \$123 million. Cost savings would likely result as well as additional materials are diverted from city-managed refuse and recycling collection and disposal.

PROponents MIGHT ARGUE that such a change in the current legislation would help the environment by reducing waste, and could provide a source of funding for the city's recycling and waste reduction programs. In addition, expansion of the types of beverage containers covered would provide additional income to the city's cottage industry of bottle redeemers and reduce litter on city streets and parks. Finally, proponents might argue that the diversion of additional materials from the waste stream managed by the Department of Sanitation would lower expenditures on collection and disposal operations.

OPponents MIGHT ARGUE the cost to consumers for these products would increase because bottlers and distributors would not be able to offset their additional recycling, handling, and processing costs with unredeemed deposits. Bottlers also worry about potential fraud with "border crossers"—people in neighboring states without deposits will bring their containers to New York to redeem the deposit, even though they were not purchased in New York. Finally, New York City retailers—especially small bodegas and delis—argue that they already lack sufficient space to handle and store returned containers. Many refuse to redeem containers now.

OPTION: Charge for Freon/CFC Recovery

Revenue:
\$4.1 million annually

CHLOROFLUOROCARBON (CFC) gas, also known as Freon, is considered a major contributor to deterioration of the earth's ozone layer and global warming. 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.

According to sanitation department records, 162,774 appliances were tagged for CFC recovery in 2005. The CFC recovery is done by sanitation workers who have completed CFC recovery certification. There are currently 43 certified CFC recovery uniformed workers and eight civilian mechanics who maintain the vehicles used by the recovery workers, as well as several clerical aides responsible for setting up the recovery appointments. Charging \$25 per appointment would garner the city roughly \$4.1 million annually, approximately the personnel costs for the CFC recovery program. At \$75 per appointment, the city could collect about \$12.2 million, easily covering the personnel and capital costs for the CFC recovery program and providing a funding stream for other programs.

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

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

OPTION: Charge Fees for Assessment Appeals at the Tax Commission

Revenue:
\$2.8 million annually

THE TAX COMMISSION serves as the city's administrative review body for property tax assessments set by the Department of Finance. In 2004, the Tax Commission received about 43,000 appeals applications. These applications were a small percentage of the total number of properties in the city, but were disproportionately filed by owners of apartment buildings and commercial properties, especially in Manhattan. The Tax Commission charges no fees at present for this service, and is currently budgeted at about \$2.3 million, an amount that is about the same in nominal dollars as was budgeted in 1993. This proposal would institute a filing fee of \$40 per applicant, and an additional \$50 fee for applicants who proceed to a hearing before Tax Commission members. Approximately 50 percent of all applicants reach the hearing stage in 2004.

PROPONENTS MIGHT ARGUE that this service is heavily used by owners of real property who would find these nominal fees far from onerous. Moreover, the initiation of fees might appropriately reduce the Tax Commission's workload and eliminate those who appeal "because they have nothing to lose," i.e. the appeals are free and the Tax Commission has no power to raise assessments, only to lower them. The presence of fees might act to reduce both the sheer number of applicants and the numbers requesting a formal hearing, which is optional. Moreover, other cities, for example San Francisco, charge separate fees for filing, hearing appeals, and even for receiving written findings from the hearing. A share of the funds generated from fees could be used for on going operations or to provide support for desired improvements.

OPPONENTS MIGHT ARGUE that the Tax Commission has historically provided this service at no cost and should continue to do so, and that a property owner has a fundamental right to pursue claims of over assessment without the hurdle of application fees every year. They also might argue that the fees might drive away property owners who legitimately feel that they have been over assessed by the Department of Finance, but who do not want to spend money pursuing their claim. That would undercut the Tax Commission's role as a check on maintaining the fair distribution of existing property tax burdens.

OPTION: Sell the Remaining City-Owned Housing Stock at Market Rates

Revenue:
\$69 million, one-time only
Expense Budget Savings: \$38 million, one-time only
Capital Budget Savings: \$268 million

IN THE 1970S AND 1980S, the city took ownership of thousands of units of distressed, tax-delinquent housing. The city has now rehabilitated and returned 95 percent of these units to private ownership. Rent ceilings and operating subsidies have kept the housing affordable to existing tenants, and in some cases—depending on the federal funding streams used to finance the rehabilitation—for new tenants as well.

The Department of Housing Preservation and Development (HPD) sells these buildings to new owners at a deeply subsidized rate. In 2004, HPD sold a total of 1,934 units for \$23.2 million, or an average of \$12,000 per unit. As of September, 2005, the city still owned over 2,300 units of housing. If these units were sold at market rates—an estimated \$41,400 per unit—the city could generate almost \$69 million more than if these units were sold under the existing rehabilitation programs.

In addition, the city would save both operating and capital funds associated with the maintenance and rehabilitation of the city-owned housing stock. For fiscal year 2006, HPD has budgeted \$42 million for maintenance and operation of these buildings, and \$23 million for costs associated with privatization. IBO has estimated that the city could save about \$38 million of this total, of which almost \$25 million is federal Community Development Block Grant funding that could be reallocated to other housing programs. In addition, the city would save all of the capital funds that would otherwise be spent on rehabilitation, which we estimate at about \$268 million, assuming that the units would otherwise have been sold to tenants, nonprofits, and for-profit companies in about the same proportion as in recent years.

PROponents MIGHT ARGUE that when selling assets, it is the city's responsibility to seek the highest possible price, thereby generating the largest benefit for taxpayers. In the still relatively strong real estate market, the city can raise more per unit than it has in the past. In addition, there would almost certainly be real estate developers who would be willing to pay for rehabilitation of the units, given the relatively low sale price and opportunities for future profit. Selling these units could encourage market rate development in some of the city's lowest income neighborhoods, thereby reducing concentration of poverty.

OPponents MIGHT ARGUE that in light of the city's affordable housing shortage, the city should ensure that these units remain affordable by subsidizing their rehabilitation and sale. The city-owned housing stock has been the backbone of HPD's affordable housing strategy for the last decade, and the city should conserve this scarce resource as long as possible. About half the remaining units are occupied by families who have already spent years living in poor conditions. If these units were sold at market rates without city-sponsored rehabilitation, these households could be left in deplorable housing, or evicted if rents rose rapidly.

OPTION: Restore the Fare on the Staten Island Ferry

Revenue:
\$4 million annually

THIS OPTION WOULD RESTORE THE FARE charged to passengers who board the Staten Island Ferry as pedestrians, beginning in July 2005. 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. Fares are still in place for vehicles (\$3 regular fare, \$2 for carpools, and \$1.50 for senior citizen drivers, all collected each way), but 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 2004 had around 19.6 million riders. If and when vehicles are allowed back on the ferry, pedestrians will still make up the vast majority of passengers—probably over 95 percent. Gross revenue from a 50 cent round-trip fare would be about \$4.6 million per year. Assuming collection costs just over 10 percent of fares, net revenue would be roughly \$4 million annually.

Staten Island residents who use the Verrazano Narrows Bridge pay a toll of \$4.80 (charged going into the borough only) using E-ZPass, or \$6.40 using tokens. Residents traveling in vehicles with three or more occupants have the option of using prepaid coupons costing \$2.25 per crossing (also paid only going into Staten Island). Express bus riders traveling from Staten Island to Manhattan pay a \$5 cash fare each way, with discounts available using 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, in fiscal year 2005, the operating expense per passenger was \$3.66, an increase of 24 percent over 2004. If the 25 cent fare were restored, passengers would still be paying less than 10 percent of the cost of a ride. In contrast, fares on New York City Transit subways and buses cover over 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:
\$790 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 \$8, equal to twice the one-way E-ZPass toll in the MTA-owned Brooklyn-Battery and Queens-Midtown Tunnels. The automobile toll on the eight Harlem River bridges would be \$3.50, equal to twice the one-way E-ZPass toll on the MTA's Henry Hudson Bridge. A ninth Harlem River bridge, Willis Avenue, would not be tolled since it carries only traffic leaving Manhattan.

Estimated annual toll revenue would be \$570 million for the East River bridges and \$220 million for the Harlem River bridges, for a total of \$790 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 revenues by more than half, to just \$357 million.

PROPOSERS MIGHT ARGUE that the tolls would provide a stable revenue source for the operating and capital budgets of the city Department of Transportation. Many proponents could argue that it is appropriate to charge a user fee to drivers to compensate the city for the expense of maintaining the bridges, rather than paying for it out of general taxes borne by bridge users and non-user 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 non-rush hours) is an option that could further this goal. If more drivers switch to public transit, people who continue to drive would benefit from reduced congestion and shorter travel times. A portion of the toll revenue could potentially be used to support improved public transportation alternatives. Finally, proponents might note that city residents or businesses could be charged at a lower rate than nonresidents to address local concerns.

OPPOSERS MIGHT ARGUE that motorists who drive to Manhattan already pay steep parking fees, and that many drivers who use the free bridges to pass through Manhattan already pay tolls on other bridges and tunnels. Many toll opponents 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 is the impact on small businesses. Finally, opponents are concerned that even with E-ZPass technology, tolling could lead to traffic backups on local streets and increased air pollution.

OPTION: Add More Park Café and Restaurant Concessions

Revenue:
\$1.7 million annually

IN FISCAL YEAR 2004, snack bars and restaurant concessions in public parks added \$8.3 million to the city's revenue stream. The median snack bar paid \$15,500 for a concession and restaurant concessions contributed a median of \$234,000 each. At these rates, the addition of six restaurants and 20 snack bars in parks around the city could generate an extra \$1.7 million per year.

PROponents MIGHT ARGUE that adding restaurant and cafe concessions would provide increased park use and enjoyment. Park cafes and restaurants have been a successful draw elsewhere, encouraging the use of parks for social as well as recreational purposes. Concessions can be affordable and take up little space. Concession benches and tables can be public domain and thus not interfere with regular park use. Concessions can also help reduce crime by populating parks in evening hours.

OPponents MIGHT ARGUE that cafes and other franchises encroach on parks property and on the public's enjoyment of parks resources. They object to the introduction of more commercial ventures on public property. They also might express concern about increased litter, particularly as the parks department's full-time staffing level continues to decline.

This Report Prepared By:

Coordinators:

Preston Niblack and George Sweeting

Analysts:

David Belkin, Eldar Beiseitov, Rachelle Celebrezze, Theresa Devine, Elisabeth Franklin, Darnell Grisby, Michael Jacobs, Joel Kraf, Paul Lopatto, Bernard O'Brien, Molly Wasow Park, Adira Siman, Alan Treffeisen, and Ana Ventura

Production:

Nashla Rivas-Salas (Coordinator), Doug Turetsky, and Rebecca Wenstrom



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

e-mail: ibo@ibo.nyc.ny.us • <http://www.ibo.nyc.ny.us>