



Ronnie Lowenstein
DIRECTOR

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Ruben Diaz Jr.
Bronx Borough President
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THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
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Dear Borough President Diaz:

You asked the New York City Independent Budget Office (IBO) to estimate the cost of establishing an inspection system for nail salons and other personal care facilities such as barber shops and beauty salons modelled on the existing restaurant inspection system run by the city's Department of Health and Mental Hygiene (DOHMH). While the ultimate cost will depend on the specific changes to the city's health code and the number of facilities to be covered under such an inspection system, our review indicates that the annual expense could range from \$2.4 million to about \$7.2 million, probably towards the higher end of the range.

DOHMH Restaurant Inspections. The Health Department inspects each of the city's 24,000 restaurants at least once a year. Inspections are unannounced and check for compliance in food handling, food temperature, personal hygiene, and vermin control. Health regulation violations are assigned a minimum number of points depending on the health risk they pose to the public. Inspectors assign additional points to reflect the extent of the violation. A violation's condition level can range from 1 (least extensive) to 5 (most extensive). For example, the presence of one contaminated food item is a condition level 1 violation, generating 7 points. Four or more contaminated food items is a condition level 4 violation, resulting in 10 points.

At the end of the inspection, the inspector totals the points and this number is the restaurant's inspection score. Since July 2010, DOHMH has required restaurants to post letter grades showing sanitary inspection results. Restaurants with a score between 0 points and 13 points earn an A, those with 14 points to 27 points receive a B, and those with 28 points or more a C. In addition to the letter grade, inspection results are posted on the health department's website.

If a restaurant doesn't earn an A during its first inspection, the score is recorded although no letter grade is assigned. In that case an inspector returns to the restaurant unannounced, typically within a month, to inspect it again and this time the inspection score is graded regardless of the result.

If the grade after reinspection is a B or C, the restaurant owner can appeal to the Office of Administrative Trials and Hearings Health Tribunal to have some of the violations reversed and the grade raised. If a restaurant performs very poorly on its reinspection, DOHMH may continue to inspect the restaurant roughly once a month until it receives at least a B grade (a score below 28) or the department closes it for serious and persistent violations.

Restaurants are also subject to fines for violations. Fines for sanitary violations generally range between \$200 and \$600 depending on the health risk category and condition level. Restaurants with multiple violations can face multiple fines. Restaurants that receive an A grade on the first inspection will not be

cited or fined for any violations found. Those that fail to achieve an A grade on the first inspection must pay the fines for all violations found, unless they are dismissed by the Health Tribunal.

Cost of Expanding the Inspection System. In order to estimate the cost of an inspection and grading system for nail salons and other personal care facilities, we assumed that the city would simply expand DOHMH's current restaurant inspection system to cover the additional establishments.

Our first step was to estimate the cost per inspection. Food inspections are conducted by DOHMH's Bureau of Food Safety and Community Sanitation, which spent about \$18 million in fiscal year 2014 and conducted 81,689 inspections. Thus, the cost per inspection is about \$220. Over 90 percent of the spending is for personal services costs, as one might expect given that this is a very labor intensive activity.

IBO assumed there would be two inspections per year per for each personal care establishment, which is lower than the roughly three per year for restaurants—this figure includes necessary follow-up inspections. The health code currently only includes sanitary regulations for barber shops, and for those shops there are fewer regulations than for restaurants. While a new inspection system will presumably include additional standards in the health code for other types of personal care businesses, our cost estimate assumes that the number of potential violations will continue to be smaller than in the case of restaurants and therefore, the average number of inspections will be lower for personal care establishments.

We derived estimates of the number of personal care businesses in New York City using data from the New York State Department of Labor. The Quarterly Census of Employment and Wages indicates that as of the last quarter of calendar year 2013 there were 1,747 nail salons, 339 barber shops, 2,654 beauty salons, and 647 other personal care facilities, for a total of 5,387 establishments. At \$220 per inspection and two inspections per year, this would result in an annual cost of about \$2.4 million to perform the new inspections.

That estimate probably understates the true number of establishments and therefore the number of inspections. The labor department data only includes firms that pay into the state's unemployment insurance system. While all employers are legally required to pay into the unemployment system, there are probably some small personal care businesses that pay their employees off the books and are unknown to the labor department. We can therefore view the \$2.4 million estimate as a low-end estimate.

To benchmark our cost estimate we looked at licensing data, which comes from the New York Secretary of State. This data indicates that in 2014 there were 200,000 active licenses for barbers and cosmetologists (which includes activities such as hair styling, nail care, and waxing) in New York State. Given the concentration of higher income households in the city relative to the state as a whole, with more income available for discretionary spending on some of the services offered in beauty salons and spas, it is likely that the city's share of personal service providers exceeds its share of statewide population. We assume that 45 percent of these licensed individuals (90,000) are in New York City and of those, 75,000 are working at any one time. As we noted above, however, the state unemployment insurance system indicates that late in 2013 there were 25,614 individuals employed in the city's 5,387 personal care facilities.

If the number of personal care services workers is closer to 75,000 than 25,600, this suggests that the number of personal care establishments could be up to three times higher than the figure suggested by the unemployment system data. Therefore, our high-end estimate of the annual cost of inspecting all of these facilities is three times our \$2.4 million low-end estimate, or \$7.2 million. Given the uncertainties regarding the number of establishments that would be subject to the new inspections and the number

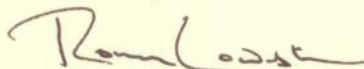
of inspections that would be required as new regulations are added to the health code, it is likely that the cost will be closer to the high-end estimate.

Possible Additional Costs. As discussed earlier, restaurant owners with a grade B or C can appeal to the Office of Administrative Trials and Hearings Health Tribunal to have some of the violations reversed and their grades raised. In addition, owners can avoid paying the fines for any violations that are dismissed by the Health Tribunal. For these reasons it is not surprising that many restaurant owners take advantage of their right to appeal. In fiscal year 2014 the Health Tribunal conducted nearly 38,000 hearings, with over 90 percent restaurant-related.

Extending the DOHMH restaurant inspection system to personal care facilities would likely result in an increase in appeals to the Health Tribunal. Depending on how much its workload rises, the Health Tribunal could require an increase in its budget, which is currently \$5.7 million. The number of additional appeals would likely depend on whether the new personal care inspection system is limited to assigning grades, or also includes punitive fines as in the restaurant inspection system.

If you have further questions regarding this request, please do not hesitate to contact me at 212-442-0225, or IBO's Supervising Analyst for Social and Community Services, Paul Lopatto at 212-341-6054.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronnie Lowenstein". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ronnie Lowenstein