Budget Options For New York City

City Workforce & Retirees

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Budget Option

Bring Civil Service Test Fees in Line with Costs

Revenue: $14 million annually

New York State's civil service system was implemented in 1883 in the wake of President Garfield's assassination by a disgruntled patronage seeker. The system, enshrined in the State Constitution, serves as a bulwark against the temptation by elected officials to use their office to enrich supporters. According to the Department of Citywide Administrative Services (DCAS), 80 percent of the City's job openings are currently filled through competitive civil service exams. Potential employees are hired from merit-based lists established through exams that are either open to the public or taken by civil servants seeking promotions. Each public-sector civil service exam has an application fee that the applicant must pay to DCAS. According to the 2023 Mayor's Management Report, DCAS received an average of 104,374 applications for civil service exams over the prior five years.

Legal precedent in New York has authorized municipal governments to charge fees for services, so long as the fees do not exceed the cost of administering the program or service for which the fee is applied. Over the past five years, the City spent $13 million annually on average for exam development and administration while only collecting an average of $6 million annually in fee revenue. Currently, $14 million is budgeted for developing and administering civil service exams in fiscal year 2024. Under this option, civil service exam fees would increase, aligning the fee schedule with the current cost of developing and administering the City's civil service exams. This option would require amending the State Civil Service Law.

New York City's civil service exam fees are determined by the minimum of the salary range of the title for which the exam is given. The current fee schedule includes differing fees across 11 salary ranges. As a result, the annual revenue derived from civil service exam fees varies from year to year based upon what type of exams are given and the salary ranges for those positions. The current average exam payment is $74; under this option the average payment would increase to $130.

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

Opponents might argue that the City's civil service system is difficult to navigate and understand for many job seekers. The process often takes many months, if not years, and can be a deterrent for many applicants. Increasing exam fees would be another barrier that restricts the pool of applicants; in fact, the State has waived its civil service exam fees until December 2025 to promote equity. Increased exam fees would remove incentives for the City to become more cost effective and efficient in the exam delivery process.

Prepared by Zachary Herman

Budget Option

Consolidate Building, Housing, and Fire Inspections

Savings: $21 million annually

Several agencies are charged with inspecting the safety of city buildings. The Department of Buildings (DOB) inspects building use, construction, boilers, and elevators under its mandate to enforce the City's building, electrical, and zoning codes. The Department of Housing Preservation and Development (HPD) inspects multifamily residences to ensure they meet safety, sanitary, and occupancy standards set forth in the housing code. Fire Department (FDNY) inspectors evaluate buildings' standpipe, sprinkler, ventilation, and air-conditioning systems as part of their duties to enforce fire safety requirements. (IBO limits its estimate to DOB, HPD, and FDNY inspectors, but recognizes other agencies like the Department of Environmental Protection also conduct building inspections.)

All together DOB, HPD, and FDNY currently employ over 1,300 inspectors at a cost of $93 million in salaries (excluding overtime, fringe benefit, and pension expenses) to ensure that building owners and construction crews are meeting safety requirements. In fiscal year 2023, inspectors from these agencies inspected at least 200,000 properties. While inspectors at each agency are trained to check for different violations under their respective codes, there are areas—inspections of illegally converted dwelling units or the conversion of office buildings to residential uses, for example—where responsibilities overlap.

Under this option, the City would consolidate inspection functions now housed in DOB, HPD, and FDNY into a new inspection agency while existing agencies' other functions would remain unchanged. This option would require changes to local law, regulations and rules, and require collective bargaining with the relevant unions.

Because inspectors from each agency currently visit some of the same buildings, there would be efficiency gains by training inspectors to look for violations under multiple codes during the same visit, although some more specialized inspections would still require dedicated inspectors. If the City were to eliminate duplicate inspection visits, the annual savings would be $21 million. Additional savings may be found by consolidating administrative and other support services.

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

Opponents might argue that inspections and code enforcement are too closely linked with each of the agencies' missions, making consolidation into a single agency difficult. There is also a limit to efficiency gains because some inspections, such as elevator inspections, are highly technical and would still require specialized staff.

Budget Option

Consolidate the Administration of Supplemental Health and Welfare Benefit Funds

Savings: $19 million annually

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

Consolidating these 60 supplemental health and welfare benefit funds into a single fund serving all union members would yield savings from economies of scale in administration and, perhaps, enhanced bargaining power when negotiating prices for services with benefit providers and administrative contractors. Many of these funds serve fewer than 2,000 members and spend an average of 18 percent of annual revenue on administrative costs. In contrast, District Council 37 (DC 37), a union representing over 150,000 members with diverse job functions and benefits spends about 7 percent of its revenue on administration. Although the specific benefit packages offered to some members may change, IBO assumes no overall benefit reduction would be required because of the consolidation of the funds.

Using data from the October 2020 Comptroller's audit of the union benefit funds, IBO estimates that fund consolidation could save about $19 million annually. Our main assumption is that fund consolidation could allow annual administrative expenses for the 60 welfare funds to be reduced from their current average of almost $184 per member to $153 per member, the rate of administrative spending for DC 37, in 2022 dollars. IBO also assumes some savings from third party insurance providers through enhanced bargaining power.

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

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

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

Budget Option

Eliminate Additional Pay for Workers on Two-Person Sanitation Trucks

Savings: $51 million in the first year

Currently, Department of Sanitation employees receive additional pay for productivity enhancing work, including the operation of two-person sanitation trucks. Two-person productivity pay began 40 years ago when the number of workers assigned to sanitation trucks was reduced from three to two and the Uniformed Sanitationmens' Association negotiated additional pay to compensate workers for this change. In addition, certain Department of Sanitation employees also receive additional pay for operating the roll-on/roll-off container vehicles. These container vehicles are operated by a single person instead of two people. These container vehicles are used primarily at large residential complexes, such as Lefrak City and New York City Housing Authority developments.

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

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

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

Budget Option

Eliminate Longevity Payments to City Employees

Savings: $641 million annually

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

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

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

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

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

Prepared by Sarah Parker

Budget Option

End City Contributions to Union Annuity Funds

Savings: $141 million annually

In addition to a City pension, some City employees are eligible to receive an annuity payment from their union, or in the case of teachers through the Teacher's Retirement System (TRS), upon retirement, death, termination of employment, or other eligible types of exits from City service. Virtually all these unions offer lump-sum payments, though some also offer the choice of periodic payments, the form of payment available to eligible TRS members. Aside from members of United Federation of Teachers and Council of Supervisors and Administrators enrolled in TRS, most eligible employees are members of either the uniformed service unions or Section 220 craft unions representing skilled trade workers (such as electricians, plumbers, and carpenters).

The City makes monthly contributions to unions' or TRS annuity funds, with per member contributions varying by union, hours worked during the month, and in some cases, tenure. The value of these annuity payments depends on the total amount of City contributions and the investment performance of the annuity funds. This option would end the City's contributions on behalf of current workers to union annuity funds and the TRS. If adopted, this option would effectively eliminate the benefit for future employees and limit it for current employees. Current eligible employees would receive their annuity upon retirement, but its value would be limited to the City's contributions prior to enactment of this option plus investment returns. The annuities of current retirees would not be affected. In fiscal year 2021, the City made approximately $110 million in union annuity contributions and $31 million to TRS. Annual savings from this option would be comparable. Implementation of this option would require collective bargaining.

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

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

Budget Option

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

Revenue: $165 million annually

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

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

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

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

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

Prepared by Cole Rakow

Budget Option

Make City Marshals City Employees

Revenue: $8 million annually

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

Although privately employed, City Marshals carry badges and are empowered to seize bank accounts, garnish wages, and sell personal property. Marshals collect fees according to a schedule set in New York State law and, additionally, collect 5 percent of the total amount collected for services known as "poundage." In turn, Marshals are required annually to give $1,500 plus 4.5 percent of their gross income to the City. From 2020 to 2022, the annual gross income of a City Marshal averaged $590,000, with the City collecting fees averaging $28,000 per marshal. On average, Marshals generate $200,000 in net income from their work each year.

In many other U.S. cities, such tasks instead are performed within the Sheriff's Office. In New York City, the Sheriff's Office similarly enforces court mandates and processes for state courts; it is staffed by City employees. Currently, there are 29 Marshals in New York City and some Marshals may employ additional support staff. If each marshal were replaced by 1.25 City employees earning the average annual salary of a deputy sheriff (about $74,000), the City would collect about $8 million in net additional revenue. This assumes that the current poundage and fee collections continue, but as revenue to the City and not to individual Marshals. IBO's estimate of City revenue assumes poundage and fee collections would decrease by a third because there would no longer be a financial incentive for collecting on judgments. This change would require state legislation to amend Article 16 of the New York City Civil Court Act.

Proponents might argue that the broad powers granted to City Marshals should be left to a neutral party that does not rely on a political reappointment or have a financial incentive to enforce judgments. Other cities employ salaried Sheriff's Office staff to perform similar tasks, and employees of the New York City Sheriff's Office currently earn significantly less than Marshals for performing similar work. Creating marshal positions akin to sheriff deputies would streamline overhead, increase the City's oversight capacity, and reduce the potential abuse of power. Additionally, the political appointments process for the Marshals has resulted in several families controlling multiple marshal badges while operating from the same addresses, creating a family business out of the City's civil court collections.

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

Budget Option

Merge Administrative Functions of City Employee Pension Systems

Savings: Growing to $28 million annually after two years

New York City currently maintains five retirement systems: the New York City Employees' Retirement System (NYCERS), the New York City Teachers' Retirement System (TRS), the Board of Education Retirement System (BERS), the Police Pension Fund (PPF), and the Fire Pension Fund (FPF). This option would merge the administrative functions of the retirement systems, resulting in three administrative systems—the same number that New York State maintains—by merging the City's Police and Fire Pension Funds into one system for uniformed police and fire personnel, and by transferring employees currently covered by BERS to either NYCERS or TRS, though a move to NYCERS would achieve larger savings. The Police and Fire Pension Funds have very similar retirement plans. BERS covers civilian, non-pedagogical personnel employed by the Department of Education and the School Construction Authority, plus a small cohort of other personnel, such as education analysts, therapists, and substitute teachers, represented by the United Federation of Teachers (UFT).

The estimated savings from merging pension systems without modifying existing benefits, which would require approval of the governing boards of all affected pension systems and State legislation, would come from reduced staffing made possible by greater administrative efficiencies. Administrative overhead costs for both FPF and BERS are notably higher than the other plans on both a per member and per employee basis. There would be sizable one-time costs of moving offices, portfolio rebalancing, and other transition expenses if this option were implemented. The first year would start to bring savings from staffing attrition; at current rates of separation, a yearlong hiring freeze at all affected plans would bring the merged staffing levels into alignment with the more efficient plans. IBO estimates the consolidation of administrative functions to save around $28 million annually two years after implementation. Additional savings could result from consolidation of investment expenses.

Proponents might argue that given the broad overlap in the functions of the systems, it is wasteful to maintain separate administrative staffs in separate office spaces. Proponents could point out that the main differences between the police and fire pension systems relate only to actuarial assumptions and a few plan provisions. They could also note that 2012 pension reforms (Chapter 18) have placed almost all new BERS and NYCERS employees in the same retirement plan, thus facilitating any merger. Moreover, for BERS members who joined the pension plan prior to Chapter 18, there are plans in TRS and NYCERS with little, if any, differences regarding eligibility determination, benefit calculation, or credit for service time. Finally, one might argue that this option would achieve pension reform savings without adversely affecting retirement system members.

Opponents might argue that differences among plans would complicate implementation of the option. Non-UFT members of BERS currently qualify for an attractive tax-deferred annuity benefit, which NYCERS does not presently offer. Future school-based, part-time employees now in BERS would have to work about 25 percent more hours to obtain one year of credited service under NYCERS rules. Some would argue that there are occupational and cultural differences between the police and fire departments that warrant separate pension systems. Opponents might also note that the City has in the past proposed merging together pension systems but was subsequently dropped due to union opposition.

Budget Option

Reduce City Reimbursements to Retirees for Standard Medicare Part B Premiums

Savings: $253 million in the first year

Eligible City retirees and their spouses or domestic partners are currently entitled to three types of retiree health benefits: retiree health insurance, retiree welfare fund benefits, and reimbursement of Medicare Part B premiums. Medicare Part B covers approved doctors' services, outpatient care, home health services, and some preventive services. As of 2021, the standard Part B premium paid to Medicare by enrolled City retirees is about $170 per month, which translates to $2,041 per year or $4,082 per year for couples. The City at present fully reimburses all such premium payments, with a lag of about one year. Under this option, New York City would reduce standard Medicare Part B premium reimbursements by 50 percent, which would affect all enrolled City retirees and save the City $253 million in the first year. Implementation of this option would require amending the City's Administrative Code.

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

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

Budget Option

Require a Health Insurance Contribution By Current City Employees

Revenue: $785 million annually

City expenditures on employee health insurance have increased over the past decade and are expected to continue increasing in the future. The Health Insurance Plan of New York (HIP) base rate has increased by 3 percent annually since 2020. About 95 percent of active City employees are enrolled either in General Health Incorporated (GHI) or HIP health plans, with the City bearing the entire cost of premiums for these workers. Savings could be achieved by requiring all City workers to contribute a share of the cost now borne by the City for their health insurance. This option would require active employees to make a graduated contribution based upon their salary.

Under this option, City employees making under $50,000 would contribute 5 percent of the HIP base rate ($520 a year for individuals and $1,280 for families), those earning between $50,000 and $100,000 would contribute 10 percent ($1,045 and $2,560), those earning between $100,000 and $150,000 would contribute 17.5 percent ($1,825 and $4,475) those earning between $150,000 and $200,000 would contribute 25 percent ($2,610 and $6,390), and those earning over $200,000 would contribute 30 percent ($3,130 and $7,670). The City's savings for a proposal with these contribution rates would be $785 million in 2025. Other alternatives could use a single rate for all employees or some variation of the proposed rate structure that would, in turn, generate a different level of savings.

Employee health insurance premium contributions would be deducted from salaries on a pretax basis. This would reduce the amount of federal income and Social Security taxes owed and therefore partially offset the cost to employees of the premium contributions. The City would also avoid some of its share of payroll taxes. Implementation of this proposal would require negotiations with the municipal unions and the applicable provisions of the City's Administrative Code, including section 12-126, would need amendment.

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

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

Budget Option

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

Revenue: $11 million in the first year and growing in subsequent years

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

Under this option, new DOE employees would be subject to the same residency requirements that other City workers face and be required to make Section 1127 payments if they move out of the city. IBO estimates that imposing residency restrictions and Section 1127 payments on new DOE employees, based on 2023 data, would have impacted 2,140 new hires and generated $11 million. Revenue from this option would continue growing as newly hired employees, some of whom will choose to live outside the city, replace current nonresident employees who retire. Also, as these new employees move up the wage ladder, revenue from Section 1127 payments would increase. Enacting this option would require amending the State's Public Officers Law.

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

Opponents might argue that this option would restrict DOE's ability to recruit and retain highly educated and skilled teachers, administrators, and other professionals. They could argue that it would be unfair to impose residency restrictions or payments in lieu of taxes as a condition of employment when similarly situated counterparts in the private sector or city suburbs face none. Opponents would point out that the majority of major U.S. cities do not have residency requirements for their public school employees.