New York City Independent Budget Office

February 2024

Budget Options For New York City

Health

New York City
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Budget Option

Collect PILOTS From Private Higher Education Institutions and Hospitals

Revenue: $165 million annually if applied to student, faculty, and staff housing

Under New York State law, real property owned or used by private higher education institutions and hospitals is exempt from the City's real property tax. In fiscal year 2024, these exemptions cost the City $1.5 billion—a $695 million tax expenditure for higher education and a $806 million one for hospitals. At universities and hospitals, exemptions for student, faculty, or staff housing represented 17 percent ($250 million) of the total. Under this option, nonprofit colleges, universities, and hospitals in the city would make payments in lieu of taxes (PILOTs), either voluntarily or through legislation.

There are many example universities paying PILOTs to municipalities. Brown University has agreed to pay the City of Providence $175 million over 20 years. Princeton University contributed $10 million to its town in 2020. In Boston, private universities and hospitals are required to make PILOTs equal to 25 percent of what their property taxes would have been.

Based on fiscal year 2024 tax assessments, if New York City universities and hospitals were to make PILOTs equal to 66 percent of the exempted tax liability for student, faculty, and staff housing properties, the City would receive $165 million in PILOT revenue—$51 million from hospital housing, $54 million from student dormitories, and $60 million from other higher education student or faculty housing. (If the PILOTs were calculated as 66 percent of tax exemptions on all of their properties, university and hospital PILOTs would boost revenue to the City by $990 million.)

Because university and hospital properties are tax-exempt, currently there is little incentive for the Department of Finance (DOF) to devote resources to assessing their value as accurately as possible. If these institutions were required to pay PILOTs, greater attention to these properties could change assessed values and estimates of additional City revenue. This option would require an amendment to the New York State Real Property Tax Law.

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

Opponents might argue that colleges and universities already contribute to the city: provide employment opportunities, purchase goods and services from city businesses, provide an educated workforce, and enhance the community through research, cultural events, and other programs and services. Opponents also could argue that the tax exemption on faculty and staff housing encourages residence and consumption of local goods and services, thereby generating income tax and sales tax revenue.

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
Expand and Increase City Alcohol Taxes

Revenue: $222 million annually

Many of the laws related to taxation of alcoholic beverages in New York City have remained unchanged since 1980. In New York City, alcohol is taxed by excise taxes on the wholesale sales and general sales taxes on retail sales. This budget option explores the impacts of three potential changes to the City's approach to taxing alcohol.

Levy an additional 3 percent City sales tax on alcohol. Sales of alcoholic beverages in New York City are subject to a general sales tax rate of 8.875 percent, which includes City, State, and MTA-district taxes. This option would increase the City sales tax for the purchase of alcoholic beverages to a combined rate of 11.875 percent. This change would raise additional City revenue by an estimated $191 million annually.

Adjust the alcohol excise tax to account partially for inflation since 1980. Current tax rates for wholesale distribution of alcohol have been constant at 12 cents per gallon for beer and one dollar per gallon of liquor (with alcohol content greater than 24 percent) since 1980. This option would double these excise tax rates, bringing them to 24 cents per gallon of beer and two dollars per gallon of liquor, generating an estimated $27 million in additional revenue.

Expand the alcohol excise tax to include wine and low-alcohol-content liquor. The City's alcohol tax currently only applies to beverages with alcohol content above 24 percent. This option would extend the City's alcohol tax to beer, wine, and liquor with alcohol content below 24 percent, which would yield an estimated $4 million in additional revenue.

These three changes together would increase revenue by a combined $222 million, accounting for anticipated reductions in consumption of alcohol because of the tax increase. These changes would require amendment of New York State Tax Law, Articles 18 and 28.

Proponents might argue that first two of these changes would streamline and simplify alcohol tax laws. They might also argue that since the tax has eroded in real (inflation-adjusted) terms over time, this approach would restore a portion of the real value of the tax to City coffers. A potential benefit of the first approach is that, since sales taxes are based on a percentage of the price the consumer pays, increasing the sales tax on alcoholic products would not lose effectiveness over time due to inflation. Overall, proponents might say, increasing alcohol taxes could serve to discourage excessive consumption of alcohol, which often has negative health-related and economic consequences for individuals, households, and communities. Moreover, they might argue that additional revenue from tax increases could be used to fund treatment and prevention programs to directly address these problems.

Opponents might argue that given that alcohol taxes account for a small proportion of the price of alcohol, even doubling the tax is unlikely to substantially reduce alcohol consumption. They might also argue that the alcohol tax is regressive compared with the City's other revenue sources, for two reasons. First, alcohol expenditures, like consumption expenditures generally, are a larger share of income for low-income consumers. Second, since the tax is levied on quantity, instead of price, the tax paid (as a percentage of price) is higher for the less costly products lower-income New Yorkers are most likely to purchase. Opponents might also argue that instituting a higher tax rate on alcohol would greatly harm restaurants and bars, where profits disproportionately come from the sale of alcohol. They might point out that such establishments support tourism and nightlife, local industries that are major employers and important sources of City tax revenue.

Prepared by Eric Mosher

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.

Prepared by Jacob Berman

Budget Option

Require a Health Insurance Contribution By Current City Employees

Savings: $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.