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BUDGET OPTIONS
FOR NEW YORK CITY

IBO
New York City
Independent Budget Office

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Introduction

This is the Independent Budget Office's third annual volume of Budget Options for New York City. Since we released the first one in April 2002, the annual options report has become one of IBO's most frequently requested and referenced publications. Several of the options presented in last year's edition were adopted by the city, such as the merger of the Department of Employment into the Department of Small Business Services, the elimination of the police department's Operation Condor, and the personal income tax surcharge on higher income residents.

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 of the savings options would improve the city's delivery of services. A number of the revenue options in this volume would have the effect of increasing the equity or efficiency of the city's tax system. Moreover, even in the best of times, the city's budget reflects difficult tradeoffs among competing spending and revenue priorities. The alternatives outlined in this volume are designed to help elected officials and the public make these critical choices.

In this latest edition, we examine nearly 70 options and make objective calculations of the anticipated savings or revenue from each of the measures. Over 20 options are new or 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.

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.

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

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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 policy and budget analysts. Regardless of its source, each budget option underwent the same thorough and impartial analysis.

Where there is some overlap in the options included here and in proposals presented in the Mayor's Preliminary Budget, it is our intent to provide further explanation and advance public consideration of the measures. Finally, some interesting options were not included in this volume because we did not have the information or resources to analyze them in the time available.

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.

Revenue Options

OPTION: Restore the Former Commuter Tax

Revenue:

\$443 million in 2005, \$550 million
by 2008

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 \$443 million in 2005, \$481 million in 2006, \$516 in 2007, and \$550 in 2008.

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 44 percent of all filers who would pay the commuter tax in 2004 have annual incomes above \$100,000, compared with 7.4 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 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 at One-Third of Resident Rates

Revenue:

\$914 million in 2005, \$1.172 billion by 2008

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, excluding the two highest brackets temporarily created for calendar years 2003 through 2005. 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, 2004, the boost to city revenues would be substantial: \$914 million in 2005, \$1.003 billion in 2006, \$1.086 billion in 2007, and \$1.172 billion in 2008.

PROPONENTS MIGHT ARGUE that people who work here, whether a resident or not, rely on basic city services, so commuters should bear some portion of the cost of providing these services. Because it would tax upper-income families at higher rates than it would moderate-income families, a progressive commuter tax would be fairer than the former tax, which taxed income earned in the city at flat rates (0.45 percent of wages and salaries and 0.65 percent of self-employed income). As estimated for calendar year 2004, 44 percent of all commuters will have annual incomes above \$100,000 (compared with 7.4 percent of all city resident filers); this group would also be responsible for 84.4 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.

OPPONENTS MIGHT ARGUE that any commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. The adverse economic effects of the proposed progressive tax would be worse than those of the former commuter tax because the progressive tax's rate would be higher; average tax liability in 2005 would be an estimated \$1,163. 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:

\$160 million in 2006, \$379 million by 2008

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. Under this option when the current surcharge expires 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. Unlike the current surcharge, 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. The full revenue-raising effect of this proposal would not be evident until the current surcharge ends in December 2005.

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: most filers with gross incomes below \$125,000—a projected 94.1 percent of all filers in tax (calendar) year 2006—would either receive a tax cut and/or not owe any PIT. 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 2006, the reductions in base rates in the bottom two tax brackets decrease the revenue-raising potential of the accompanying increases by at least \$111 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 \$23,700 in 2006, 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 640 filers) were to leave town, the city would lose roughly \$15.2 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: Tax Vacant Residential Property the Same as Commercial Property

Revenue:
\$10.8 million in 2005, rising to
\$66.6 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 Tax Class 1 residential property. In fiscal year 2004, there are roughly 31,000 such vacant properties. As Tax Class 1 property, these vacant lots are assessed at no more than 8 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 2004, the median ratio of assessed value to full market value is 6.6 percent for these properties.

Under this option, each vacant lot with an area of 2,500 square feet or more would be taxed as Tax Class 4, or commercial property, which is assessed at 45 percent of full market value and has no caps on annual assessment growth. About 16,750 lots would be reclassified. Phasing in the increase in assessed value evenly over five years would generate \$10.8 million in additional property tax revenue in the first year, and the total increment would grow by \$13.9 million in each of the next four years. Property tax revenue in the fifth and final year of the phase-in would be \$66.6 million higher than without this option.¹

PROPONENTS MIGHT ARGUE that vacant property should not enjoy the low assessment benefits of Tax Class 1 which 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 Tax 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 2004 levels, and the aggregate full market value of vacant residential properties is assumed to be unchanged.

OPTION: Eliminate Property Tax Exemption for Madison Square Garden

Revenue:
\$11.7 million in 2004

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 2004, the tax expenditure, or amount of foregone taxes, is \$11.7 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 now exceeds \$200 million.

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).

PROPOSERS 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 all 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.

OPPOSERS MIGHT ARGUE that the presence of the teams continues to economically benefit the city and that foregoing \$11.7 million is reasonable compared to the risk that the teams might leave the city.

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

Savings:

\$26.8 million in 2005, \$51.9 million in 2006, \$72.9 million in 2007, and \$92.6 million in 2008

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 four years, there has been an average of 1,030 units with 10-year exemptions and 1,111 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 give-away 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: Secure Payments in Lieu of Taxes from Colleges and Universities Equal to 25 Percent of the Value of Their Current Exemption

Revenue:
\$53.5 million annually

Under New York State law, real property owned by colleges and universities used in supporting their educational purpose is exempt from the city's real property tax. This exemption will cost the city \$214.1 million in 2004 in foregone property tax revenue (often called a "tax expenditure"). Exemptions for student dormitories and additional student and faculty housing will represent 22.6 percent (\$48.3 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 \$53.5 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).

OPPONENTS MIGHT ARGUE that colleges and universities provide employment opportunities, purchase goods and services from city businesses, provide an educated workforce, and enhance the community through research, public policy analysis, cultural events, and other programs and services. Opponents also could argue that the tax exemption on faculty housing encourages faculty to live in the city, 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: Revise Coop/Condo Property Tax Abatement Program

Savings:
\$54 million in 2005, rising to \$61 million
in 2008

Recognizing that most apartment owners had a higher property tax burden than owners of Class 1 (one-, two-, and three-family) homes, in 1997 the Mayor and City Council enacted a property tax abatement program billed as a first step towards the goal of equal tax treatment for all owner-occupied housing. A problem with this stopgap measure, which has subsequently been renewed twice, is that some apartment owners—particularly those residing east and west of Central Park—already had low property tax burdens. A 1998 IBO study found that 13 percent of the abatement program's benefits went 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. With the recently enacted property tax rate increase, the cost of the abatement and the amount being wasted has risen proportionately.

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 \$90 million in 2005 and will grow to \$104 million by 2008. While it is unlikely that a 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.

PROPOSERS 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.

OPPOSERS 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:

Raise Cap on Property Tax Assessment Increases

Revenue:
\$12 million in first year and
\$87 million to \$120 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 units. 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 \$12 million 2006 (with the assessment roll for 2005 already largely complete, 2006 is the first year the option could be in effect) and \$87 million to \$120 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 \$1 and would grow to \$16 by the fifth year.

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, inter-class 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 inter-class 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:

Impose Sales Tax on Cosmetic Surgical and Nonsurgical Procedures

Revenue:

\$62 million in 2005, \$68 million in 2006, \$75 million 2007, and \$83 million in 2008

Fees for medical procedures are currently not subject to state or city sales tax. Under this option, cosmetic procedures would be subject to the sales tax. The business of cosmetic enhancements, including both surgical and nonsurgical procedures, is one of the fastest-growing industries in the United States. Between 1997 and 2001 the number of procedures more than quadrupled. The greatest expansion has been in nonsurgical procedures, notably botulin toxin injections, collagen injections, and laser treatments. Breast surgery and lipoplasty have also become much more common. Although the demand for some nonsurgical procedures slumped in 2002 in the wake of the recession and 9/11, resumed industry growth is forecast in 2004 and beyond, in part driven by aggressive marketing on the Internet of both established and novel procedures aimed at both women and men, old and (increasingly) young.

Cosmetic procedures by board-certified physicians yielded \$7 billion in fee payments in 2002, nationwide. (This total did not include third-party reimbursed breast reductions, which, as explained below, are reconstructive rather than cosmetic procedures. Nor did it include fees for facilities, anesthesia, medical tests, prescriptions, and other ancillaries.) We estimate that close to \$1.2 billion was generated in New York City. By 2007, this figure could approach \$2 billion. The amount of additional revenue generated in the city by noncertified cosmeticians or "facialists" for procedures such as dermabrasions and chemical peels is unknown.

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 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.

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 people 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.

OPTION: Eliminate the Cap on the Capital Tax Base in the General Corporation Tax

Revenue:
approximately \$75 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 40 such corporations in New York City, and they saved an average of just under \$1.9 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.

OPPOSERS 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: Latte Tax

Revenue:
\$12 million annually

New Yorkers and visitors to the city increasingly consume more "high-end" coffee drinks and the city has developed its own coffeehouse culture. Seattle residents recently voted on (and rejected) a 10 cents per cup tax on café lattes and other coffee drinks to fund programs for children. Assuming a consumption rate equal to about half that of Seattle's, New York City could earn annual revenue of roughly \$12 million.

PROponents MIGHT ARGUE that this specialized tax has attractive equity features, in that most regular consumers of high-end coffee drinks, which typically cost \$2.50 and more, are relatively affluent. Proponents might further note that most people who order such drinks would be relatively insensitive to an extra 10 cents per cup, which means the tax could probably be levied with minimal effect on sales. Moreover, the tax could be avoided by simply drinking a regular coffee, which would not be subject to the tax.

OPponents MIGHT ARGUE that recent tax increases and economic difficulties in the city make additional taxes of any type unacceptable. Latte drinkers might object on the grounds that they would be bearing a disproportionate burden simply because of their tastes. Opponents also might be concerned about the possible impact on jobs and incomes of coffeehouse employees.

OPTION: Increase the Auto Use Tax

Revenue:
\$32 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 currently receives \$34 million per year from the auto use tax. 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 has increased by 278 percent, while the average price of a subway or bus ride has risen 246 percent (from 35 cents to \$1.21, 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 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: Restaurant Tax

Revenue:
\$18 million to \$97 million annually,
depending on rate

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 revenue 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 has recently proposed an additional quarter of a percent tax on restaurant meals that would be dedicated to tourism-related activities.

In New York City, restaurant revenue in 2000 came to \$7.5 billion. Under the current city sales tax of 4.125 percent, roughly \$300 million is collected (the state imposes an additional 4.75 percent). Imposing an additional quarter of a percent increase, bringing the total tax to 8.875 percent, would bring in roughly \$18 million; an increase to a combined total rate of 10 percent would bring in \$97 million. In both cases, we assume a slight decrease in the sales base (2 percent and 5 percent, respectively).

This would require state legislation to enact.

PROponents 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: Restore the Stock Transfer Tax at One-Half of Its Original Rate

Revenue:

\$4 billion in 2005, \$4.2 billion in 2006,
and \$4.4 billion in 2007

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 imposed at a graduated rate rising to five cents per share on stocks selling for \$20 or more, up to a maximum of \$350 per sale. The 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.

When the decision was made to phase out the STT in 1978, city collections were \$290 million. Over the past 25 years there has been an explosion in the volume of trading activity on the New York exchanges. In 2003, the tax's nominal city revenue potential—that is, the amount of the STT rebate—was \$9.5 billion, and it continues to climb.

Since the old STT was phased out, competitive pressures on Wall Street have dramatically lowered transaction costs relative to traded value. In recognition of the increased competition, advocates of an STT have called for restoring the tax at only half of its old rate, that is, up to a maximum of 2.5 cents per share.

PROPOSERS MIGHT ARGUE that a partial restoration of the STT would lighten the burden of the tax enough to enable brokerages to still operate competitively in New York City, while generating huge windfalls for the city budget. Moreover, because the tax would be half the old rate, it would have a modest impact on securities employment and on the broader city economy. Finally, the tax is attractive because it would fall largely on income from wealth rather than income from labor, and would be much more progressive than any alternative means of raising a large amount of revenue for the city.

OPPOSERS MIGHT ARGUE that even a half-restoration of the tax would impact the cost of stock trading much more severely than the old STT did. In 1978, the old five cents a share STT raised transaction costs (as a percentage of traded value) by about 12.5 percent. The proposed new 2.5 cents a share STT would raise transaction costs by 25 percent. This would result in a large decline in trade volume (and a smaller decline in stock value) thereby reducing projected STT revenue by \$1.3 billion per year. (This reduction is reflected in the STT revenue forecast values given above.) Because securities-industry employment is highly sensitive to trading volume, other city (and state) tax collections would fall as well. Under a best-case scenario—in which trading activity slows but does not migrate out of New York City to avoid the tax—an STT half-restoration could reduce overall private-sector employment in the city by 60,000, lower receipts from other city taxes by \$700 million per year, and shrink state aid to the city by over \$300 million. Relaxing the assumption that investors do not flee Wall Street, the economic losses from the STT mount as city revenue gains decline.

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.

Re-imposing 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.

PROPOSERS 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: Extend Mortgage Recording Tax to Coops

Revenue:

\$77 million in 2005, \$86 million in 2006,
\$99 million in 2007

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 tax rate is 1.5 percent of the value of the mortgage if the amount of the loan is under \$500,000, and 1.625 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 \$77 million in 2005, \$86 million in 2006, and \$99 million in 2007.

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.

OPPOSERS 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:

\$24 million in 2005, \$26 million in 2006,
\$28 million in 2007

This proposal would impose a tax on the owner of a residential dwelling unit renting for more than \$2,500 per month. A 1 percent tax on the estimated 57,000 apartments renting for \$2,500 or more—which have an average rent of \$3,500 per month—would raise approximately \$24 million in 2005, rising as rents increase and the number of units renting for above \$2,500 grows. For apartments not under rent regulation, 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. For rent-regulated units the tax could be taken into consideration when the Rent Guidelines Board sets allowable rent increases.

PROponents MIGHT ARGUE that the \$2,500 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 \$35 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.

OPponents MIGHT ARGUE that the property tax already tends to fall disproportionately on rental buildings, compared to either single-family homes or co-op and condo buildings. An additional "luxury" surcharge would fall on many renters who, due to a lack of affordable housing in the city, pay \$2,500 or more but for whom this represents a significant financial burden. More than 25 percent of the tenants living in units renting for \$2,500 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 17 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 on the heels of the recent 18.5 percent increase in property tax rates.

OPTION: Institute a Residential Permit Parking Program

Revenue:

\$2 million in 2005, \$4 million in 2006, and \$6 million in 2007

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 non-residents and to local businesses. IBO has assumed an annual charge of \$75.

PROPOSERS 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.

OPPOSERS 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.

OPTION: Introduce Corporate Sponsorship of Programming On NYC TV

Revenue:
\$1 million annually

NYC TV, comprised of five television channels, is the City of New York's official television network. Broadcast on basic cable throughout the five boroughs, NYC TV is available in over 1.8 million households, with a potential viewership of more than 4 million people. NYC TV features coverage of the Mayor and City Council, information on city services and cultural events, educational programming, and off-track betting reports.

The introduction of corporate sponsorship of NYC TV, in which businesses and other organizations and/or individuals would provide financial support for the network's programming, could raise \$1 million annually. Following the corporate giving model used by local public broadcasting corporations, NYC TV sponsors would receive on-air recognition for their support, the frequency of which would be dependent upon the corporation's level of giving. If, for example, NYC TV provided corporations with monthly acknowledgment for annual donations of \$600 or more, weekly acknowledgement for donations of \$1,200 or more, and daily acknowledgement for donations of \$2,000 or more, the city would need to attract 600 corporations at the \$600 level, 300 at the \$1,200 level, and 140 at the \$2,000 level to raise \$1 million.

PROponents MIGHT ARGUE that corporate sponsorship of programming on NYC TV would free up city resources that could be used elsewhere without reducing programming services, or alternately, could provide the resources to enhance programming without incurring additional costs to the city. In addition, sponsorship could be made more attractive to local corporations at no additional cost to the city through the creation of a 501(c)3 organization aimed at raising operating funds for the network. (All donations to NYC TV made through the 501(c)3 would be tax deductible under federal law.)

OPponents MIGHT ARGUE that this option could open the door for corporations providing sponsorship funds to unduly influence the content of NYC TV. In addition, the five stations comprising NYC TV are considered Public, Educational, or Government (PEG) access channels by the Federal Communications Commission. As a result, cable providers are required to provide airtime to NYC TV free of charge. While it does not appear that there are any regulations specifically forbidding PEGs from seeking corporate sponsorship, such an action by the city may prompt cable providers to challenge its right to free airtime.

OPTION:

Toll the East River and Harlem River Bridges

Revenue:
\$690 million annually

This proposal, analyzed in more detail in a recent 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 \$7, 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, 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 \$500 million for the East River bridges and \$190 million for the Harlem River bridges, for a total of \$690 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 \$308 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 non-residents 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: Initiate the Sale of Radio Cab Medallions

Revenue:
\$250 million per year in 2005, 2006, and 2007

This proposal envisions the sale of 1,000 radio cab medallions per year over the next three fiscal years. Radio cabs would be a new class of service, similar to the black car industry in quality of vehicles, but with metered service and the ability to respond to both street hails and telephoned requests for pickup from customers. The cars used would provide a higher level of comfort (including substituting security cameras for plastic partitions) than current city taxicabs. In providing more comfort, they would probably be somewhat more expensive than the estimated \$24,000 purchase price of new Ford cabs.

Allowable fares would be higher than the existing yellow cab fare structure by a predetermined amount, with a lighted sign on the roof indicating whether the vehicle is available for street hail.

Estimated revenue is based on a current reported average sale price of \$250,000 per medallion; the exact price is likely to vary from this amount. Although the sale of additional medallions would tend to drive down the price, the higher level of revenue per vehicle would tend to have the opposite effect. Ease of implementation of the sale might require that purchasers buy a set minimum number of medallions, which could then be leased to qualified drivers licensed by the Taxi and Limousine Commission.

PROponents MIGHT ARGUE that the sale of radio cab medallions would both provide revenue and improve cab service. Many customers are unhappy with the cramped back seats of Ford cabs, where legroom is reduced and the plastic partition is a hazard in short stops. Many customers also find that seats in typical cabs are not comfortable for anything but relatively short rides. They would welcome a more comfortable ride, as well as the ability to telephone for a cab to their current location, and would be willing to pay a premium to do so. The additional cabs would be particularly welcome at peak times like the morning and evening rush, and after Lincoln Center events and Broadway plays let out in the evenings. They might also lead to a gradual shift so that all cabs are available for radio calls, as is the case in many cities.

OPponents MIGHT ARGUE that the additional cabs might harm the income of existing drivers of both yellow and black car industry vehicles, that existing driver income is already too low, and that the current supply of vehicles is sufficient to meet demand. They would note that new Ford cabs providing more legroom are gradually being introduced over the next five years. Finally, they might note that the addition of more cabs to Manhattan would only increase congestion, slow the speed of traffic at peak times, and increase cumulative auto emissions.

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 2004. 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 2003 had 19.2 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 \$4.5 million per year. Assuming collection costs equal to 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 \$4.00 (charged going into the borough only) using E-ZPass, or \$5.60 using tokens. Residents traveling in vehicles with three or more occupants have the option of using prepaid coupons costing \$1.75 per crossing (also paid only going into Staten Island). Express bus riders traveling from Staten Island to Manhattan pay a \$4.00 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.

PROPOSERS MIGHT ARGUE that ferry riders should be expected to pay at least a nominal share of the service costs. According to the Mayor's Management Report for fiscal year 2003, the operating expense per passenger for the Staten Island ferry was \$2.89. 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 NYC Transit subways and buses cover over half of operating expenses.

OPPOSERS 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: Hotel Tax Increase Dedicated for Cultural Affairs

Revenue:

\$37.5 million in 2005, \$40.7 million in 2006, \$43.3 million in 2007, and \$45.7 million in 2008

Between 1990 and 1994, New York City earmarked one-quarter of a 1 percentage point hotel tax increase toward the development of tourism—eliminated, along with a 5 percent New York State tax, in 1995. This proposal would increase the current hotel tax by 1 percentage point—to 6 percent—and earmark the incremental revenue for the Department of Cultural Affairs.

Currently, guests at New York City's hotels pay \$2 per room per night, 8.625 percent sales tax, plus a 5 percent hotel tax. Altogether, this is projected to generate \$206 million in 2004. An increase to 6 percent would raise \$37.5 million in 2005¹. This revenue could be earmarked toward funding members of the Cultural Institutions Group (34 museums, theaters, zoos, and botanical gardens with historic ties to the city, including being based in city-owned buildings), or to cultural organizations not part of the group.

PROPOSERS MIGHT ARGUE that a hotel tax surcharge to fund cultural organizations would be appropriate because it taxes mostly out-of-town visitors, many of whom come to the city precisely because of its cultural offerings. They argue that this nominal tax increase would help sustain the museums, theaters, and other attractions that drive New York's \$11 billion annual tourism business. They say this relatively modest increase is unlikely to have much effect on the number of tourists and business visitors.

OPPOSERS MIGHT ARGUE that raising the hotel tax may deter tourism by making hotel stays more expensive. Economic analysis indicates that a hotel tax increase would reduce the number of hotel stays, thus reducing revenues from both sales and hotel occupancy taxes. Finally, a dedicated tax protects one agency at the expense of others when budgets must be cut, and shifts the burden of cuts onto other agencies that may provide services equally deserving of funding.

¹This estimate does not take into account any effect a tax increase might have on hotel stays, and hence on hotel tax receipts as well as associated sales tax receipts. At most, the impact might reduce total tax receipts by 50 percent, so that the hotel tax increase would gain the city roughly \$17 million in 2003, \$18 million in 2004, etc. See IBO, *Tax Cut Returns*, July 1997.

OPTION:

Sell a Limited Number of Smoking Licenses to Eating and Drinking Establishments

Revenue:
\$2.5 million annually

New York City is home to more than 19,000 licensed eating and drinking establishments, including bars, cafes, restaurants, fast food establishments, and nightclubs. Recently enacted legislation bans smoking from the vast majority of these places. To accommodate the city's population of smokers, a limited number of these establishments could be allowed to purchase a license that would allow smoking. Allowing smoking in 1,000 bars, cafes, restaurants, and clubs (roughly 5 percent of the total) that pay \$2,500 per year for a smoking license would raise \$2.5 million annually. The number of licenses and the license fee could be increased or decreased in future years based on demand. Alternatively, licenses could be auctioned through a bidding process.

PROPOSERS MIGHT ARGUE that this would allow people to have the choice of being in a smoking or nonsmoking atmosphere, while still banning smoking in the majority of the city's restaurants and bars. Some businesses that are at risk of losing substantial revenues as a result of the ban could remain open and profitable. They also could assert that the license fee would easily pay for itself by attracting smoking customers who might have previously gone elsewhere.

OPPONENTS MIGHT ARGUE that the public health purpose of the ban would be undermined, because workers would still be exposed to second-hand smoke. In addition, to the extent that establishments might raise prices to pay for the license, this is effectively another tax on smoking, which tends to disproportionately fall on lower-income individuals. The success of the proposal would require effective regulation of the smoking ban in nonsmoking establishments. They also could argue that the fee is a costly annual expense that many smaller establishments could not afford, harming small businesses in favor of larger establishments.

OPTION: Charge \$1 Video Rental Fee at Libraries

Revenue:
\$6 million annually

In fiscal year 2002, 7 million videos circulated in New York City's three library systems. Currently, video rentals at libraries are free and are borrowed for one-week periods. The introduction of a \$1 fee per video rental would supplement the revenue stream while still providing a cheaper alternative to private video rentals, which range from \$2 to \$5 and generally must be returned within one to three days. We assume a drop-off in circulation of 15 percent as a result of imposing the fee.

Implementing this option would be at the discretion of individual library system boards; the city cannot impose the charge. The city could lower its subsidy to the libraries by an amount equal to the revenue from video rental fees.

PROponents 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, the fee would still be far lower than that of private video rental services, and the borrowing time would still 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 million annually

New York City is a very popular site for shooting movies, television shows, commercials, music videos, etc. With the exception of 2001, there have been over 20,000 location shooting days each year since 1995 (the number of shooting days in 2001 was lower—18,096—because of the threat of a strike which speeded up production schedules, and the September 11th terrorist attacks.) The winter 2001 issue of *MovieMaker Magazine* labeled New York the number one filming location for independent moviemaking. The Mayor's Office of Film, Theater, 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 (and in addition are exempted from state and most local sales taxes). Assuming 20,000 shooting days per year, the city would stand to gain \$5 million annually from a \$250 per day permit fee.

PROponents 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 the number two city, Vancouver (Canada) does 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.

OPponents 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, Theater 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:
\$2.4 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 2004, 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 \$2.4 million annually (assuming a 90 percent collection rate).

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

OPponents might argue that, by law, fees and charges must be reasonably related to the services provided, and not simply a revenue generating tool. Simply registering a building should not be a costly activity for the city. They also might express concern about adding further financial burdens on building owners, particularly after the recent 18.5 percent property tax increase.

OPTION:

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

Revenue:
\$67 million to \$124 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 \$43 million to \$100 million under the current bottle bill. With the proposed expansion, the potential revenue increases to between \$67 million and \$124 million.

PROPOSERS 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.

OPPOSERS 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 Fees for Assessment Appeals at the Tax Commission

Revenue:
\$2.7 million annually

The Tax Commission serves as the city's administrative review body for property tax assessments set by the Department of Finance. In 2001, 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 service¹, and is currently budgeted at about \$2 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 44 percent of all applicants reach the hearing stage.

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.

¹ The Bloomberg Administration has proposed a fee beginning in 2005.

OPTION: Charging for CFC/Freon Recovery

Revenue:
\$3.3 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, 130,910 appliances were tagged for CFC recovery in 2003. The CFC recovery is done by sanitation workers who have completed CFC recovery certification. There are currently 36 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 \$3.3 million annually, approximately the personnel costs for the CFC recovery program. At \$75 per appointment, the city could collect about \$9.8 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: Add More Park Cafe and Restaurant Concessions

Revenue:
\$1.2 million annually

In fiscal year 2003, snack bars and restaurant concessions in public parks added \$7.7 million to the city's revenue stream. The median snack bar paid \$13,000 for a concession and restaurant concessions contributed a median of \$183,500 each. At these rates, the addition of five restaurants and 20 snack bars in parks around the city could generate an extra \$1.2 million per year.

PROPOSERS 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.

OPTION: Add Cafes to Library Reading Rooms

Revenue:
\$1 million annually

The three New York City library systems are home to 212 libraries. If 125 libraries set aside a corner for cafes, the systems could raise at least \$1 million per year. While it is difficult to estimate the bids and revenue, one possible model is the parks department snack bar concessions, which generate a median of \$14,500 per year. Library cafes could operate year-round, while the parks concessions close in winter; library concessions would be limited to beverages and very limited food, however, while parks concessions include food. We use a conservative estimate of library cafe concession bids of \$8,000.

PROPOSERS MIGHT ARGUE that the addition of cafe concessions would provide an additional service to libraries while generating revenue. Cafes are already becoming a staple in private bookstores, which attract patrons through the combination of reading and drinking. Brooklyn's Central Library has had a positive experience with its cafe, and has recently opened a restaurant.

OPPONENTS MIGHT ARGUE that valuable library space will be taken up by the cafes. In many cases, structural changes would be needed, requiring capital investments. Library patrons may also dislike the incursion of private ventures onto public property. Opponents also worry about potential damage to library books and other materials.

Savings Options

OPTION: Eliminate Public Funding of Transportation for Private School Students

Savings:
\$26.5 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 provides several different types of transportation benefits including yellow bus service, full- and reduced-fare MetroCards, and private or franchise bus services. In the 2002-2003 school year, 21 percent of general education students receiving full- or reduced-fare MetroCards attended private schools (approximately 114,000 children). In the same year, 22 percent of general education students using yellow or franchise bus service attended private schools (approximately 30,000 children).

The city spends \$200 million on the MetroCard program and yellow or franchise 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. Yellow buses are funded by a close to even split of city funds and state aid; the total expense for yellow bus services for the 2002-2003 school year was \$155 million.

By eliminating the private school benefit of these programs, city funding could be reduced by \$26.5 million—\$9.5 million for MetroCards (21 percent of the city's \$45 million expense) and \$17 million for yellow and franchise bus service (22 percent of city expense).

PROPOSERS 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.

OPPOSERS 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 state 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:
\$11 million annually

New York State provides \$57.30 per student to all school districts for the purchase of textbooks; \$15.00 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. The books are purchased by the district offices and then loaned to all of the schools as requested for the school year. In fall 2001, over 493,000 students attended private schools in New York State, including 275,600 in New York City. The state spent \$28 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 an additional \$11 million in textbook funds. For the 2001-2002 school year, the city spent an additional \$26 per public school student (\$28 million) on textbooks. Reallocating the non-public school portion of the textbook benefit could offset the city's contribution by \$11 million or 39 percent.

PROPOSERS 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.

OPPOSERS 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: Establish Co-Payments for the Early Intervention Program

Savings:
\$14 million annually

The Early Intervention Program provides services to children up to the age of 3 with developmental disabilities through non-profit 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 2003, early intervention accounted for 34 percent of the entire Department of Health and Mental Hygiene budget. The program has historically been funded 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. For those children ineligible for Medicaid, the state reimburses localities for 50 percent of their early intervention costs; localities are responsible for the remaining 50 percent.¹

In fiscal year 2002, the average cost to New York City of providing early intervention services was just under \$9,000 per child. Establishing a 20 percent co-payment for services to families earning more than 160 percent of the federal poverty level would save the city more than \$14 million annually.² Moreover, if current growth rates in both enrollment and expenditures hold steady, savings to the city from such a co-payment could reach \$28 million in fiscal year 2008. Because the institution of a statewide co-payment would require the legislature's approval, the state government and other localities would also benefit from the action, with the state saving more than \$40 million annually.

PROPOSERS MIGHT ARGUE that establishing co-payments would alleviate some of the strain early intervention 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 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 co-payments, however, provides these families with the incentive to look to their private insurers for assistance in paying for the services. Finally, if a statewide co-payment for early intervention 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 co-payment for early intervention 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 the program altogether. Opponents might also argue that the creation of a co-payment may be more expensive for the city in the long-run, as children who do not receive early intervention services could require more costly intervention services later in life. Finally, this option may be difficult to implement, as the creation of a co-payment would require state approval and will likely encounter strong political opposition.

¹ For those children eligible for Medicaid, the state and localities each contribute 25 percent of the cost of service provision while the federal government is responsible for the remaining 50 percent.

² Assumes one child in early intervention services per family. Federal poverty level for a family of four was \$18,400 in 2003.

OPTION: Increase Use of Variable-Rate Financing

Savings:
\$2 million in 2005, \$6 million in 2006,
\$10 million in 2007

This option proposes gradually increasing the city's use of variable-rate bonds as part of its overall debt portfolio. Eighteen percent of the city's general obligation and Transitional Finance Authority debt is now in the form of variable-rate instruments. The city has authority under state law to increase that ratio to 25 percent.

Historically, interest rates on the city's variable rate bonds are roughly 1.75 to 2 percentage points lower than those on its fixed-rate bonds. Increasing the city's variable debt portfolio to 25 percent would result in approximately \$2 million in savings on each year's bond issuance.

Variable-rate financing carries some risks, however, because unexpected changes in short-term rates could lead to higher debt service costs. One way to mitigate the risk of future volatility would be to set aside a reserve fund exclusively for variable interest payments when rates exceed a specified threshold, such as 6.00 percent. Establishing a reserve fund would eliminate short-term savings, but after the fund was established, the city could still expect an average yearly savings that would reach \$10 million by 2007 and continue to grow thereafter.

PROPONENTS MIGHT ARGUE that the city ought to use forms of debt that impose the lowest expected interest payments consistent with a conservative approach to risk. They would argue that the city has the capacity to undertake the risk associated with variable interest rate payments. Moreover, higher short-term interest rates tend to occur in times of economic growth, which in turn means higher city tax revenues—therefore, any increases in debt service payments would occur when the city was best able to absorb them. Establishing a reserve fund would allow the city to smooth out the impact of increased interest rates. The city could also use derivatives—such as interest rate caps or collars—to guard against interest rate risk. Derivatives would reduce the risks inherent in variable-rate financing (while also reducing the potential savings).

OPPONENTS MIGHT ARGUE that the market will not support such a policy change by the city due to the fact that variable-rate bonds have a demand feature, meaning that the investor can demand repayment when the rates are reset (usually daily or weekly). This feature makes variable-rate debt a liquid asset, which by its nature is more risky to the issuer. They might also argue that with long-term fixed rates currently lower than their historical average, the city would be better off sticking to standard fixed-rate long-term debt. Some would argue that increasing reliance on variable-rate debt is irresponsible in light of essential service needs that might face cuts if interest costs were to rise.

OPTION: Eviction Insurance Pilot Program

Savings:
\$300,000 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 \$10.39, 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 \$7.76, and annual savings to the city in avoided shelter costs would be \$2.9 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. Overcoming landlords' reluctance to rent to low-income households could reduce the need for Emergency Assistance Rehousing Program (EARP) and other landlord bonuses. (These potential savings are not included in the estimates above.) 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: Provide Assistance to Homeless Shelter Residents to Leave Shelter System

Savings:
\$10.6 million annually

The average length of stay for a family in the Department of Homeless Services emergency shelter system is about 10 months, and the average single adult stays over three months. The longer a household remains in the shelter system, the more expensive it is for the city. Giving one-time assistance to families or individuals who leave the shelter system faster—for example, within three months for families and one month for single adults—could save the city money.

Assuming a maximum grant of \$2,000 for families and \$1,000 for adults, there are significant savings to the city even with a relatively high level of claims by residents who would have left emergency shelter within the timeframe anyway and without the assistance. Assistance could be paid directly to landlords, movers, utility companies, or other service providers—as has been done in Suffolk County—to reduce the incentive to repeatedly circulate in and out of the shelter system to get multiple bonuses, and to limit payments to what is actually needed.

PROponents MIGHT ARGUE that the shelter system is frequently abused by residents who refuse to look for permanent housing or who reject an available and adequate apartment. In their view, this is a much more generous and gentle approach than the recent policy that allows the city to evict households from the shelters if they refuse a "suitable" apartment. Proponents also might argue that the city should do everything possible to shorten time in shelters as much as possible, both on cost grounds, and because shelter residents should be induced to regularize their situation as quickly as possible.

OPponents MIGHT ARGUE that there are not enough adequate affordable housing opportunities available for homeless families and single adults without a significant increase in public investment. They fear that the assistance could serve as an incentive to move into unsafe or overcrowded housing.

OPTION: Reduce Emergency Homeless Shelter Costs through Diversion Assistance

Savings:
\$33.8 million annually

In fiscal year 2003, 7,087 families and 10,758 single adults entered the Department of Homeless Services (DHS) shelter system for the first time. Families stay in the shelter system about 10 months on average, and single adults over three months. The average cost of an emergency shelter stay is about \$25,000 for families and \$5,300 for adults. Some of these households might be able to avoid homelessness if they were given a cash grant that would allow them to stave off the threat of eviction or obtain an apartment. The city's Human Resources Administration currently provides diversion assistance to some households. In its June 2002 Strategic Plan, DHS indicated that it was considering expanding diversion assistance to reduce the shelter population.

Diversion payments would be based on need and could be capped both in dollar amount and in the total number of times a family or individual could receive a payment. In this estimate we assume a payment capped at \$2,400 for families and \$1,200 for individuals. The average payment would be lower. But because the cost of providing emergency shelter is so high, there would be savings to the city even with a payment this high and with a share of payments made to persons who would not actually have become homeless in the absence of diversion assistance.

PROPOSERS MIGHT ARGUE that, rather than spend the more than \$500 million it costs the city to provide emergency shelter, a small emergency grant would allow at least some families and individuals who face the imminent threat of homelessness to remain in their homes. Homelessness has serious consequences for the people who experience it, particularly children, who account for more than half the shelter population. Preventing at least some cases of homelessness would save the city money and avoid the detrimental effects of homelessness.

OPPONENTS MIGHT ARGUE that nationally and in New York City the evidence of the cost-effectiveness of diversion assistance is mixed, because it is impossible to know how many households would have become homeless in the absence of the program. They fear the opportunity for abuse of a government program through fraudulent applications. In addition, they might note that there would be additional administrative costs associated with reviewing claims for diversion assistance, which would reduce the total savings.

OPTION:

Collect Debt Service on Supportive Housing Loans

Savings:

\$1.5 million in 2005, \$3.0 million in 2006,
\$4.5 million in 2007, \$6.0 million in 2008

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 \$39 million per year over the last six years, would yield \$1.5 million in revenue in the first year, and grows 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 \$1.5 million per year by 2007.

PROPOSERS 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:

Reduce the City Subsidy to Private Bus Companies

Savings:
up to \$150 million annually

This option involves reducing the operating subsidies that the city pays to seven private bus companies that provide local service in Queens and Brooklyn, and express service to Manhattan from the other four boroughs. The companies currently receive about \$150 million per year in operating assistance from the city, and \$50 million from the state. The city's direct subsidy to the private bus companies represents around half of their total operating costs. The city is currently trying to divest itself of making subsidy payments by negotiating with MTA/NYC Transit for a takeover of the bus routes. However, the transportation authority is reluctant to take on these routes without a commensurate increase in subsidies. Another option for the city would be to terminate the current franchise agreements, and to re-bid the contracts in an effort to reduce the amount of subsidy.

PROPOSERS MIGHT ARGUE that eliminating or reducing the subsidy would bring city funding of these bus routes more in line with what the city gives to NYC Transit. City operating assistance to NYC Transit (matched by the state) currently makes up only a little over 4 percent of total NYC Transit revenues.

Advocates of a takeover of the private bus lines argue that by having all city bus routes under one system, overall cost savings could be achieved from lower overhead and a reorganization of routes and schedules. Proponents of re-bidding the contracts, on the other hand, argue that competitive bidding is a more promising strategy for improving service at a lower cost to taxpayers. A study by the Manhattan Institute concluded that competitive contracting of bus service in New York City would reduce the cost of providing the service by at least 20 percent. A reduction of this magnitude would translate into a savings of over \$50 million annually for the private bus service, and could thus reduce the need for a city subsidy by as much as one-third.

OPPOSERS MIGHT ARGUE that eliminating or reducing the city subsidy to private bus companies without providing new revenue sources would result in drastic service cuts and perhaps higher fares. Transferring the routes to NYC Transit, in addition to requiring state legislative action, would mean that the existing pot of transportation subsidies would have to be stretched further, and would ultimately require either an increase in city funding to the Metropolitan Transportation Authority or an increase in fares. Opponents of competitive bidding are concerned about the impact on service quality, and on the welfare of existing bus company employees. Some who oppose competitive bidding suggest that better service and lower costs could be achieved through contractual changes.

OPTION:

Pay-As-You-Throw

Savings:
\$263 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 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 current waste disposal costs and volume and recycling diversion rates before the recycling program was suspended, IBO estimates that each residential unit would pay an average of \$81.44 a year for waste disposal in order to cover the cost of waste export, achieving a net savings of \$262.7 million. A 14 percent reduction in waste would bring the average cost per household down to \$70.04 and a 20 percent reduction would further lower the average cost to \$65.16 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 \$87 million. They also might argue that illegal dumping in other localities with PAYT programs has mostly been commercial, not residential, and that any needed increase in enforcement would pay for itself through the savings achieved.

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

OPTION: Eliminate Grass Clippings from Trash Collection

Savings:
\$5 million annually

Currently, the Department of Sanitation (DOS) collects bagged grass clippings from residential yards around the city. Grass clippings are not included in the citywide composting program (which is temporarily suspended due to budget cuts) 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, DOS 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. DOS 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 \$5 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 \$69 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: Redeploy Police Officers Currently Assigned to the Drug Abuse Resistance Education (DARE) Program

Savings:
\$2.5 million annually

About 85 uniformed personnel are currently assigned to the youth services section of the police department. One of the principal responsibilities of this unit (which operates under the direction of the Deputy Commissioner for Community Affairs) is to teach the Drug Abuse Resistance Education (DARE) curriculum within city schools.

Recent studies, including studies sponsored by the U.S. Department of Justice and the General Accounting Office, have raised serious questions about DARE's effectiveness in reducing adolescent drug use. For this reason, and because of the costly involvement of trained law enforcement personnel, a number of cities in recent years have dropped DARE programs in their schools. Assuming that elimination of the DARE program in New York City schools would allow for the redeployment of roughly half (or 42) of the police officers now assigned to the department's youth services section, annual savings of about \$2.5 million would result.

PROPOSERS MIGHT ARGUE that although DARE is obviously a well-intentioned program, the reduction of average staffing in the police department from a high of over 40,000 officers just three years ago to roughly 36,300 this year makes it all the more critical that the agency deploy its personnel in such a way as to maximize the number of officers providing street patrol and other law enforcement activities for which they are specially trained. Moreover, were the DARE program eliminated, the city's Department of Education could rely on its existing staff of certified drug-abuse counselors and teachers to instruct students on the hazards of drug use.

OPPOSERS MIGHT ARGUE that even if DARE's long-term impact on drug usage has been overstated (a concession many are not willing to make), the program is invaluable because it provides school children with opportunities to interact positively with uniformed police personnel.

OPTION: Reduce Discretionary Funding to Cultural Organizations

Savings:
\$27.7 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 Staten Island Historical Society to the Brooklyn Children's Museum—receive operating support for energy costs and health insurance for union workers under their contracts with the city. Beyond the contracted payments, which are budgeted at \$28.4 million in 2004, the CIGs are scheduled to receive an additional \$69.1 million in discretionary funding. The city could reduce discretionary funding to the CIGs by 40 percent, saving \$27.7 million, and retain the \$41 million difference to allow for new non-discretionary needs and some competitively awarded grants.

PROPOSERS MIGHT ARGUE that the 34 members of the Cultural Institutions Group receive a far larger amount of city funding than do the roughly 200 cultural programs not on city-owned land that annually receive some city funding. Even with the elimination of discretionary funding, the CIGs would still receive an average of \$2.1 million each, vastly eclipsing the amount spent on other cultural programs, which are scheduled to receive \$95,000 on average in 2004.

OPPONENTS MIGHT ARGUE that these institutions have high operating costs and have historically depended on city support. They also tend to serve larger populations than do the majority of cultural program groups. The eliminated city funds probably could not easily be raised privately, especially in a difficult economic climate. Suggested admission prices are already high at many institutions, and might have to rise further to cover costs, 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: Increase Public School Class Sizes by Two Students

Savings:
\$195 million annually

This proposal involves reducing teacher headcount by increasing class sizes in kindergarten through eighth grades. Increasing class sizes in K-8 by two students would raise pupil-to-teacher ratios in the community school districts by 7 percent and eliminate 2,200 teaching positions. Increasing special education pupil-teacher ratios proportionately would eliminate another 570 positions, for a total staff reduction of close to 2,800 teachers. The estimated annual savings of \$195 million is based on current salaries and benefits with no allowance for future raises. The Department of Education is currently prohibited from raising class sizes in grades K-3 under the terms of a state categorical grant. One potential obstacle is the provision in the teacher's contract that prescribes maximum class sizes.

PROPOSERS MIGHT ARGUE that the city cannot afford to sustain the recent expansion of the teaching force that has added roughly 10,000 teachers over the past five years. Coupled with the salary increases in the most recent teachers' contract, even more money is needed for the expanding workforce. They might say that small increases in class size would have minimal impact on academic achievement. They could cite scholarly research indicating that the evidence linking smaller class size with academic performance is ambiguous, particularly in the middle grades. Scaling back the size of the teaching force would make it easier for the education department to recruit sufficient numbers of qualified pedagogues.

OPPONENTS MIGHT ARGUE that class sizes in New York City are already among the highest in the state and that making them any larger would be counterproductive. Opponents may also point out that the city, state, and federal governments have made large efforts to reduce class size in recent years and this proposal would reverse these efforts. Opponents might cite academic research linking smaller class sizes to stronger student performance, particularly in the early grades. They also might cite the desire of parents to have their children receive individualized attention. Finally, they are concerned about the potential for a heavier teaching load to drive qualified teachers out of the system.

OPTION: Phase Out the Vallone Scholarship Program for CUNY Students

**Savings:
\$1.0 million in 2005, \$5.5 million by 2008**

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 2004, 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 \$5.5 million savings from eliminating the program in 2005. However, five 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 with 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. Opponents also might note that the Vallone program has already been reduced from \$7.0 million per year to \$5.5 million and further reductions would be unfair to students who entered CUNY with expectations of ongoing scholarship support.

OPTION:

Reduce Optional Medicaid Benefits for Dental Care and Transportation

Savings:

\$39 million in 2005, \$41 million in 2006, \$43 million in 2007, and \$45 million in 2008

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.

PROPOSERS MIGHT ARGUE that it is critical for the city to begin to limit its Medicaid costs. The city's January 2004 financial plan projects that combined city-funded Medicaid expenditures at the Human Resources Administration and the Health and Hospitals Corporation (HHC) will be nearly \$4 billion in fiscal year 2004 and rise each year through 2007. 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 2.442 million by March 2003. 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 HHC.

OPTION: Reduce Supplemental Welfare Contributions for City Workers by 10 percent

Savings:
\$77 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 \$774 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 \$77 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.

PROPOSERS 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.

OPPOSERS 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:
\$8 million in 2005, \$43 million in 2006,
\$85 million in 2007

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 2005. 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.

PROPOSERS 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.

OPPOSERS 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: Trade a Portion of the City's Pension Burden for an Additional Floating Holiday

Savings:
\$62 million in 2005

New York City is scheduled to contribute \$3 billion to the city's pension funds in 2005, \$610 million more than was contributed in 2004. As noted in a recent IBO report, a combination of factors, including wage and salary growth, investment losses and enhancement of pension benefits, is driving sharp growth in pension costs in general. These fast rising costs are especially felt in the city's earmarked contributions to its police, fire and teacher pensions. Together these three groups absorb the lion's share of pension contributions by the city, although they represent less than 60 percent of the city's employees. Employees in these groups typically retire substantially earlier than other municipal employees and thus require proportionately more in pension benefits per retiree.

Under this proposal, all city employees who participate in the pension system, other than teachers or principals in the Department of Education, would be asked to take a salary cut of 0.75 percent in 2005, in return for one additional floating holiday. Teachers and principals have a work schedule too dependent on the school year to have the flexibility of a floating holiday as proposed here. For all other city employees who do participate, contributions would be computed as a percentage of salary, so that lower paid employees would pay less than the average. San Francisco employees agreed recently to take a 7.5 percent reduction in pay for one year to fund city pension costs and as a way to avoid further layoffs. They received five additional personal days for the year as part of that deal, essentially forfeiting 1.5 percent of pay for each additional floating holiday.

PROPOSERS MIGHT ARGUE that the additional pension contributions are one way for the unions to at least partially achieve the Mayor's stated goal of \$600 million in reduced labor costs. The city would still be footing a very large share of the bill, and in fact its contribution would still rise over the current year. Moreover, the concession that the unions would make would be for one time, not a permanent change.

OPPONENTS MIGHT ARGUE that the unions negotiated this set of pension benefits and it is unfair for the city to ask for givebacks, even temporary ones. Moreover, the one-time reduction in pay may be a strain for employees who already struggle with tight personal budgets, and would further demoralize a workforce that is currently working without contracts. Finally, pay cuts to them would primarily fund benefits to current retirees and would not directly benefit the employees being asked to sacrifice. Opponents could also argue that the one-day reduction in output would impact city services.

OPTION: Perform All Housing Code Inspections with One Inspector

Savings:
\$5 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 2003, the agency completed almost 500,000 inspections. Roughly 60 percent of these inspections were 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 96 fewer inspectors to handle its current workload, for a savings of \$5 million annually. Even if each inspection took twice as long with only one inspector, the housing department would still need 57 fewer inspectors and would save more than \$3 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 Firefighter Workweek

Savings:

\$8.4 million in 2005, \$30 million in 2006,
\$40.2 million in 2006 and 2007

Firefighters currently work a series of four short and long shifts (either 9 hours or 15 hours long) every eight days, to yield a total of 48 hours. Under this proposal, firefighters would work two 24-hour shifts each week, so that their total hours worked per year would rise by about 14 percent. It would allow for savings of 1,000 firefighters required to staff the city's firehouses around the clock, without causing any change to existing staffing patterns under the firefighters' now expired contract. Thirty percent of the savings from the increased workweek would be returned to the firefighters in increased pay. Such pay could be structured on a per shift worked basis to increase the likelihood that absenteeism stays within acceptable limits. Firefighters currently receive unlimited sick leave.

PROPOSERS MIGHT ARGUE that other localities pay for a more expanded firefighter work schedule than what is customary in the city's fire department. Milwaukee and Louisville firefighters work 56-hour weeks. San Francisco and Washington, D.C. firefighters work 48-hour weeks. The additional work hours would produce not only increased pay for firefighters; an agreement might also be crafted with a no layoff clause that also increases the job security of firefighters.

OPPONENTS MIGHT ARGUE that the existing work demands on firefighters are greater than for civilian employees. In addition, they would point out that firefighting can be dangerous to those doing the work, and that increasing work schedules in effect puts them in harm's way a greater percentage of their working lives. Union officials might argue that the way to compensate firefighters is to give them increased pay for the work that they are already doing without a new contract, rather than squeezing more from them and having the city budget reap the benefit.

OPTION:

Increase the Workweek for Municipal Workers from 35 to 40 Hours

Savings:
\$80 million in 2005; \$160 million in 2006;
and \$240 million in 2007

This proposal would increase the workweek for civilian, non-uniformed, non-pedagogical workers from 35 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 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 10 percent of the approximately 64,000 non-managerial, 35-hour per week city positions were eliminated, the city could ultimately save \$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.

PROPOSERS 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.

OPPOSERS 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: Two Hour Reduction in Municipal Employee Workweek

Savings:

\$154 million in 2005, \$158 million in 2006, \$161 million in 2007

This proposal uses an alternative work schedule in order to reduce payroll costs. Employees would leave early once a week (or once every two weeks for half of the savings). The work week would be reduced by two hours to 33 hours a week. School teachers, emergency workers, or agencies that are facing serious staff shortages would be exempt from the program. For purposes of calculation, we exclude all the uniformed employees, the Department of Education, and the Administration for Children's Services. The program would produce a 5.7 percent annual reduction in wage costs in affected agencies. Employees would be rotated and scheduled in a manner that would minimize service disruption. The city would have to bargain over the impact and implementation of the program with its unions.

PROponents MIGHT ARGUE that by avoiding layoffs, the city and its workforce can return to normal operations without the expense of hiring and training new employees when the city's fiscal problems abate. Private- and public-sector employers have instituted reduced work schedules in lieu of layoffs or some variation of this measure in many localities across the country as a way of lowering payroll costs while maintaining an experienced workforce. Other supporters might argue that reduced pay would be better for employee morale than layoffs. Proponents also say that service delivery can be maintained if agencies adjust work schedules.

OPponents MIGHT ARGUE that reduced pay would have an adverse effect on employee morale and result in lower productivity. Additionally, at a time when the city is already seeking cooperation from unions to reduce labor costs, municipal employees could argue that the city is asking them for more than their fair share of give backs. Opponents also might argue that reducing the workweek could lead skilled and experienced employees to leave city employment. Finally, some also believe it would be difficult to adjust workloads and schedules to preserve current levels of city services.

OPTION:

Reduce the Number of Paid Holidays for City Workers

Savings:
\$26 million annually

New York City employees are eligible for 12 paid holidays, two more than the average for many other public- and private-sector workers. City workers who must work on holidays are paid a holiday bonus (emergency employees required to work on scheduled holidays such as police officers and firefighters are eligible for 11 paid holidays in addition to their yearly base salary). Under this proposal, the city would eliminate one holiday to save approximately \$26 million annually in holiday pay or two holidays for twice the savings.

To the extent that the city has the flexibility to reallocate workers and share tasks in certain agencies, the resulting productivity increase may enable the city to reduce the civilian workforce for additional savings. Implementation of this proposal is subject to collective bargaining.

PROponents MIGHT ARGUE that the city should not provide its employees with more paid holidays than other public- and private-sector workers typically receive. Proponents also might note that this proposal could provide savings to the city while avoiding more drastic measures such as layoffs or involuntary, unpaid furloughs. Finally, the proposal also has the potential to generate additional savings.

OPponents MIGHT ARGUE that the city must provide a generous benefits package in order to recruit a quality workforce, given that city salaries may often be below comparable private-sector jobs.

OPTION: Wage Deferral for Municipal Workers

Savings:
\$219 million in 2005

Under this option the city would withhold the equivalent of one week's pay from all city workers, reducing payroll costs by just under 2 percent. Employees would receive the deferred pay upon leaving city service. Implementation of this proposal would have to be negotiated with municipal unions.

Other localities, notably Nassau County, have instituted a "payroll lag" in agreement with its unions in order to avoid layoffs. Workers agreed to receive 10 days pay for each 11-day work period. A one-week lag was also adopted by New York State in 1990 as part of a larger package to address a \$900 million state deficit.

PROPOSERS MIGHT ARGUE that this proposal generates savings while sparing employees the hardships of layoffs—in effect, spreading the pain associated with layoffs over the much larger population of all city employees. The city would be able to generate savings while maintaining services at current levels. Additionally, unlike no-work/no-pay strategies, employees would recover deferred pay in a lump sum when they retire or leave city service. Proponents also note that the proposal would be more appealing to unions if the city, in addition to agreeing to a no-layoff policy, would also agree to pay all deferred wages when its fiscal condition improves.

OPPOSERS MIGHT ARGUE that a reduced salary would impose financial hardship on many city workers. Additionally, opponents also say that any wage deferral would have an adverse effect on employee morale and result in lower productivity. Opponents also might argue that a wage deferral may encourage the city's most skilled workers to leave city employment. Finally, critics also note that this proposal does not generate recurring savings to the city.

OPTION: Managerial Bonus Pay

Savings:
\$520 million annually

Under this option, managers across city government agencies would be eligible to earn bonuses of \$10,000 each beginning in 2005. They would earn this bonus if their agencies were successful in reducing spending of city funds by at least 5 percent over planned levels, by leveraging efficiencies rather than through service cuts. The city funded expenditures in agencies, excluding mandatory items such as debt service and pension contributions, are in the range of \$18 billion. A 5 percent reduction across the board would produce savings of \$900 million. Assuming a 60 percent success rate in achieving these targets across city agencies, the savings would be reduced to \$540 million. With perhaps as many as 2,000 managers working in the successful agencies and potentially eligible for a bonus, the net savings would still be \$520 million. Only managers with direct supervisory responsibility would be eligible to participate in each agency.

PROponents MIGHT ARGUE that paying managers for measurable performance in reducing costs and promoting efficiency makes very good sense. Managers need not be paid at equivalent levels if their performance varies, and the private sector often ties bonus pay to performance in achieving stated goals. Bonus pay reverses the incentives that usually exist in city government to spend a department's full allocation, based on the fear that lower spending will give budget officials in the administration and the City Council a green light to reduce the agency's budget in future years.

OPponents MIGHT ARGUE that in a time of fiscal scarcity, it sends the wrong signal to city managers to allow for pay increases, even if linked to goals of overall budget savings. Moreover, some opponents fear that the savings will not be achieved by true efficiencies and doing more with less, but with outright service reductions that harms the public. Opponents also might argue that it makes no sense for city managers to be rewarded if the quality and quantity of government services deteriorates, and fear that the bonuses will be paid as long as budget goals alone are achieved.

OPTION: Health Insurance Co-Payment by City Employees

Savings:

\$202 million in 2005, \$218 million in 2006, \$236 million in 2007, \$255 million in 2008

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 co-payment 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 co-payment 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: Managed Competition for Refuse and Recycling Collection

Savings:
\$15.9 million in 2005, \$31.8 million in 2006, and \$63.5 million in 2007

This proposal would allow the Department of Sanitation to do a phased managed competition initiative, where private-sector companies and city workers are bidding side by side to provide regular and recycling pickups at the lowest cost. Implementation would be gradual, with 6 of 59 districts participating in 2005. In 2006, the program would double to 12 districts, and in 2007 it would stabilize at 24 districts. It is possible that the expansion of the program also would eventually create similar efficiencies in the unaffected districts as labor contracts are renegotiated, but the only savings accounted for here are from the directly participating districts. These districts would be selected by the sanitation department and identified in the bidding process, and might be sensibly grouped together so that bidders could capture economies of scale.

Other localities, notably Phoenix, have embarked on managed competition initiatives with good results. In Phoenix, private companies initially won the bids. Ultimately public-sector workers won these contracts back by bidding more aggressively and creating significant collection efficiencies, which are typically measured in tons collected per truck shift. In one IBO study, Phoenix was collecting more than twice the refuse per truck shift than did New York. Other localities have also relied on private-sector provision of their municipal refuse services. Typical savings in other cities from solicitation of bids are about 25 percent of current costs, which is what is assumed here. Actual savings could be more or less depending on the winning bids in New York.

PROPOSERS MIGHT ARGUE that it is essential for the city's tax dollars to be spent as efficiently as possible and that sanitation represents a clear opportunity for greater efficiencies. They could note that data on refuse collected per truck shift show relatively constant numbers over the years, a sign that efficiencies are not being aggressively pursued. Managed competition will produce savings that would otherwise not be available for other city services or gap closing, and can also be used to help finance the increasing costs of waste export. Contracts could specify that in the event that private companies win the contract, current sanitation workers would be hired preferentially. Moreover, nonparticipating districts are likely to significantly improve their efficiency as the program expands, generating additional savings.

OPPOSERS MIGHT ARGUE that it would be dangerous to contract out a core city service like sanitation to a small group of major players in the refuse industry, as the city is already working with the same group of companies in their bids for waste export contracts. They also contend that municipal workers would fear for their job security and city health and pension benefits if an initiative like this one is implemented. They also could argue that the sanitation department's municipal workers do double duty in snow removal, and that the private companies would have to gear up for this part of the sanitation department's current mission.

OPTION:

Increase Workload for Public School Teachers by One Classroom Period per Day in Exchange for a Modest Raise

Savings:

\$470 million annually

This proposal involves reaching an agreement with the United Federation of Teachers to increase teacher workload in the public schools by one classroom period per day. Under the current teachers' contract, classroom instructors officially work 6.66 hours per day, including a lunch break and a preparation period. This proposal would eliminate the preparation period, effectively increasing the number of daily periods each teacher spends instructing students from five to six. Having teachers spend six periods per day in the classroom would enable the Department of Education to sharply reduce headcount by decreasing the number of "coverage teachers" assigned to cover classes for colleagues during their prep periods. In exchange for a heavier workload, the city could return 30 percent of the gross savings to the teachers through a pay increase.

The education department spent \$5 billion in the 2001-2002 school year to compensate classroom instructors. Because nearly one-fifth of these teaching positions were reimbursed through federal and state categorical grants, the estimated net cost to the city was \$4 billion. IBO estimates that increasing teacher workload by one period per day would eliminate the need for 9,000 positions (excluding reimbursable programs) and generate \$670 million in gross savings, less \$200 million that would fund additional teacher compensation.

PROponents MIGHT ARGUE that it is reasonable to expect the city's public school teachers to prepare lesson plans and grade papers on their own time since teachers have shorter workdays than other municipal employees and shorter workdays than teachers in some surrounding districts. They might emphasize that the burden of a having a heavy teaching load is mitigated by the benefit of having 12 weeks paid vacation per year. Proponents also might point out that the proposal would finance annual raises of around \$3,500 per teacher.

OPponents MIGHT ARGUE that increasing teacher workloads would weaken the city's position in the labor market for teachers, making it more difficult to attract and retain qualified pedagogues. The education department already faces a major challenge in complying with state and federal mandates to upgrade staff quality. Effective September 2003, state regulations prohibit the hiring of uncertified teachers. A new federal mandate requires that school districts employ "highly qualified" teachers in all classes supported by Title I funding. Opponents also might emphasize that the current workday is 20 minutes longer than under the prior teachers' contract, that teaching five periods per day is arduous, and that many teachers already spend extra hours preparing lesson plans and grading papers outside the official workday. Finally, opponents also might be concerned about the potential for a heavier teaching load to cause burnout.

OPTION:

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

Savings:
\$7 million annually

Between 1997 and 2003, annual overtime spending for police officers tripled, from \$110 million to \$334 million (excluding World Trade Center-related overtime). The marked increase in so-called "events" overtime—which rose from \$36 million in 1998 to \$118 million in 2003—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 one-time 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. In the past year, anti-terrorism spending has comprised a significant portion of unplanned events spending. For example, \$26 million in police overtime expenditures were incurred in the last four months of fiscal year 2003 on Operation Atlas, an initiative designed to guard against the possibility of terrorist activity in the aftermath of the March 2003 invasion of Iraq.

If all smaller planned events (less than \$100,000 in overtime spending—equivalent to about 300 overtime tours), and the first 300 tours of major planned events were staffed by redeploying officers on their regular tours, the city could expect to save about \$7 million annually. This would involve redeploying no more 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 three years ago to roughly 36,300 this year.

OPTION:

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

Savings:
\$70 million annually

Police officers are currently scheduled to work a total of 242 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 \$70 million per year.

PROPOSERS 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 Police Staffing by Using One-Person Patrol Cars

Savings:

\$5 million in 2005, \$50 million in 2006, \$128 million in 2007, and \$188 million in 2008

This proposal envisions a phase in of one-person patrol cars in lower crime precincts. Over the next four years, the New York Police Department (NYPD) is expected to lose about 2,400 annually of its 36,300 police officers through attrition. Under this option, 1,250 police officers of those leaving NYPD each year would not be replaced; instead, remaining officers would be redeployed in one-person patrol units. Since the department is fielding approximately 6,000 posts on the day shift, and three times that many across each full day, ample opportunity would exist to choose specific shifts and locations for this program. Over four years, 5,000 police officers would participate in the program—more than 15 percent of the entire police officer headcount by 2008 under this scenario. Police officers could ask for additional assistance in responding to any call for service, similar to their current discretion while on patrol. In addition, police officers participating in one-person patrol would be eligible to receive a substantial bonus per day for every shift worked. This would both create a financial incentive in general to participate in the program and provide some additional incentive to reduce the use of unlimited sick leave.

For the purposes of this analysis, we assume that participation in the program leads to a 30 percent increase in the incomes of this specific group of police officers. This assumption limits the savings, as detailed above, to a more conservative amount than would be the case if the bonus were a smaller percentage of existing salaries. In any case, the amount of the bonus would be the subject of collective bargaining between the police officers' union and city labor relations negotiators.

PROponents MIGHT ARGUE that this would provide benefits to both the city and the police. While the city saves money, and reduces its police headcount, it does so without reducing the number of patrol cars in the field. Moreover, most of the success of the police in recent years was due to strategy, management, and mobilization where the problems were greatest, rather than raw numbers of police on patrol. Proponents also might cite past police union complaints about low pay relative to some suburban police departments, and explain that this would be an opportunity to close that gap while doubling police productivity in return, and the opportunity to increase foot patrols on the streets and subways. Many departments across the country function with one-officer patrol cars, and as crime rates have declined significantly in New York, the arguments that New York is always different than the rest of the country have lost some strength.

OPponents MIGHT ARGUE that the success of NYPD from the mid-1990s to date means that the existing approaches work and should be left as is. They question whether police officer safety is being sacrificed for the demands of the budget, and whether public safety will be compromised as well. They contend the public and the department are best served by two-person patrols, and if the costs are higher, that is the price of an excellent police department serving the nation's largest city.

OPTION:

Reduce Fire Department Personnel by 1,600 through Attrition and Flexible Staffing

Savings:

\$7 million in 2005, \$25 million in 2006,
\$44 million in 2007, and \$65 million in 2008

New York City and the New York Fire Department (FDNY) lost some of its most experienced and highly trained firefighters on September 11, 2001. This skill and knowledge cannot be simply replaced by hiring more recruits. It comes, in part, from knowledge gained through years on the job.

While the fire department has maintained its complement of firefighters in the current fiscal year, this proposal allows for a gradual reduction in staffing: a total of 1,600 over the next four years through attrition. In most years FDNY loses about 500 firefighters, and under this proposal, 400 of these 500 would not be replaced. Instead, two strategies could be considered, neither of which would entail the permanent closing of firehouses. One strategy would modify the constant staffing provision of the existing contract to allow for flexible staffing of firehouses. The number of fire emergencies varies by location and especially by time of day, with fewer fires occurring in the hours when most people are sleeping. Under flexible staffing, where resources would be pooled with other nearby facilities, some firehouses could close for these less busy shifts. Firefighters would have to agree to a different shift pattern than has been standard, where the long 15-hour shift begins at 6 p.m. and continues until the next morning. Instead, the shorter shift would begin at midnight and end at 9 a.m. This short shift would be the place to institute significant changes to staffing at firehouses, when emergencies are least common and resources may exceed requirements.

Staff attrition could be absorbed through the substitution of new equipment that requires smaller crew size. Some cities have implemented the use of quints, fire trucks that are multipurpose and typically lead to reductions in staffing without apparent harm to firefighting ability. Crew size for quints varies but reductions in staffing seem possible under scenarios where they replace engine and ladder functions.

PROPOSERS MIGHT ARGUE that it makes little sense, other than as a contractual protection, to staff all firehouses in the city around the clock with exactly the same crew size. The reduced level of fire emergencies at night presents an opportunity to use staffing more sparingly and efficiently. Moreover, the experience of other cities with quints suggests that they work well in at least some urban settings and could be implemented here on a phased basis in some neighborhoods on all shifts. Proponents of change also might contend that if such solutions are implemented, a major portion of the savings could be shared with the firefighters through labor negotiations. IBO's estimates assume that the fire department earmarks 30 percent of the savings for enhanced salaries or perhaps bonuses linked directly to the timing and location of specific initiatives.

OPPOSERS MIGHT ARGUE that the fire department should not modify the existing around-the-clock roster staffing of firehouses, as closing down some shifts will only increase response time if an emergency does occur. They also might oppose the use of quints because their use is unproven in New York City and the FDNY is already well trained for the existing equipment. Use of quints would present new challenges to the department's training that are viewed as unwelcome, and might provide less fire protection than the current combination of engine and ladder companies.

OPTION: Create a Subsidiary Insurance Company for the Health and Hospitals Corporation and Enable Access To State Malpractice Funds

Savings:
\$25 million annually

The New York State Excess Medical Liability Insurance Program offers additional insurance coverage to physicians who already have a primary layer of malpractice insurance coverage. The medical malpractice pool offers physicians up to \$1 million in additional coverage for malpractice settlements and judgments exceeding \$1.3 million. This secondary layer of coverage is provided at no extra cost to the physician, as it is funded by New York State, and it is available only to physicians covered by insurance companies authorized to write malpractice insurance in the state.

With its 11 acute care hospitals, four long-term care facilities, six trauma centers, and more than 80 ambulatory care centers, the Health and Hospitals Corporation (HHC) is the nation's largest municipal health care system. Currently, the city serves as the sole source of medical malpractice indemnification for HHC and its physicians. Because HHC is indemnified by the city and not by a private insurer, the corporation does not have access to the state's excess liability funds and must therefore pay the full value of the malpractice settlements and judgments levied against its physicians. The creation of a subsidiary insurance company of the Health and Hospitals Corporation would allow the corporation's physicians to access this additional layer of malpractice coverage, which, after expenses, would save HHC approximately \$25 million annually. That savings can then be used to reduce the amount of funds the city owes HHC for various health services the corporation provides under contracts with municipal agencies.

PROponents MIGHT ARGUE that the creation of an insurance subsidiary, also known as a captive, would allow HHC to reduce its medical malpractice costs by tapping the state pool which spreads the risks more widely.

OPponents MIGHT ARGUE that creating a captive is an inefficient way to reduce malpractice costs, as it does not address the factors contributing to malpractice. In addition, this option may be difficult to implement, as the creation of a captive would require state approval. Since the \$25 million in annual savings would be borne entirely by the state, political opposition to the proposal is likely on the state level.

OPTION:

Swap Local Medicaid Burden for a Portion of Local Sales Tax

Savings:
\$2.5 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. Under this option, the state would absorb the local Medicaid costs from all counties (the city is treated like a single county for Medicaid purposes) across the state. 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. (Legislation to shift a portion of the city's sales tax would have to be carefully drawn to avoid interfering with the Municipal Assistance Corporation bond covenants.) 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 \$6.2 billion to state expenditures in 2005—a new burden that would grow to over \$6.8 billion by 2007. Shifting roughly 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 \$3.8 billion in new revenue in 2005 and almost \$4 billion by 2007. The net increase in state expenditures would be \$2.4 billion in 2005 and more than \$2.8 billion by 2007. The swap would save the city over \$2.5 billion per year. Outside the city some counties also would benefit immediately, but in the aggregate, counties elsewhere in the state would be net losers, meaning that they would give up more in sales tax revenues than they would save by shifting Medicaid costs to the state government. The other counties would have a net loss of nearly \$200 million in 2005, although this would narrow to \$20 million by 2007.

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 state accountability. Finally, proponents might argue that all counties will likely be net gainers under the option because the long-term growth rate of Medicaid costs is faster than the growth in sales tax revenue.

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:
\$78 million annually

At any given time about two-thirds of the inmates in Department of Correction (DOC) custody are pre-trial 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 currently 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, with disciplinary action possible for failure to comply with timeliness standards. In 2002, however, over 1,400 convicted prisoners from the city had already spent a year or more in city jails as pre-trial detainees.

If the state reimbursed the city only for local jail time in excess of one year at the city's cost of \$252 per day, the city would realize annual revenue of approximately \$78 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 pre-trial detention time served by inmates who are later convicted and sentenced to multi-year terms in the prison system.

PROPOSERS 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 pre-trial 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.

OPPOSERS 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. If the fairness sought by proponents were applied to reality, the state would not reimburse the city for these expenses.

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